2K19/EP/005

Aditya Singh

FOM - CT-2

[I] Porter's five forces help to Identify where power lies in a business situation.

Five forces are:

① Supplier Power → driven by no. of suppliers of each essential input, uniqueness of the product and cost of switching.

② Buyer Power → driven by no. of buyers, importance of an individual to organisation, cost to buyer of switching from suppliers.

③ Competitive Rivalry → number and capability of competitors in the market drives it. Many competitors, offering undifferentiated products and services, reduce market.

④ Threat of Substitution → it increases the likelihood of customers switching to alternative in response to price increases. This reduces both power of suppliers and market attractiveness.

⑤ Threat of New Entry → profitable markets attract new entrants, which erodes profitability. ~~et~~ declines to a competitive rate unless incumbents have strong and durable barriers.

(2) Capital budgeting can be evaluated by :

a) Urgency Method → It provides suggestions about ad-hoc decisions. There are some projects or tasks that require immediate decisions, whereas others are postponed.

b) Payback-Period Method → also known as replacement-period method, where a number of years are required to cover the original investment, based on capital expenditure paying itself back.

$$\text{Payback period} = \frac{\text{original investment}}{\text{Annual cash inflow}}$$

c) ~~Uniform Cash Flow~~ →

(ARR)

Unadjusted Rate of Return Method → accounting investments are used to measure project profitability. various proposals are ranked in order of their earnings, project with higher rate of return is selected.

d) Time-Adjusted Method → or cash-flow methods, take into account both profitability and the time value of money.

(NPV)

↳ net-present (on different investments)

↳ internal rate of return (profitability)

↳ profitability index

$$= \frac{\text{Present value of future cashflow}}{\text{initial investment}}.$$