TEXTBOOK QUESTIONS SOLVED

Question 1. Answer each of these questions in about 15 words:
(i) Define 'Strategy'.
(ii) Give another name for "Market Expansion Grid".
Answer:
(i) Strategy represents the set of decisions, actions and reactions that first generates and then exploit over time, a new entry in a way that maximizes the benefits of newness with minimizing its cost.
(ii) Ansoffs Product Grid.

Question 2. Answer each of these questions in about 50 words:
(i) Changing environment needs a strategic planning on part of business enterprises. What should their plan contain?
(ii) Enlist the options available to a business enterprise in this fast changing environment.
(iii) State the categories into which a corporate strategies can be divided.
Answer:
(i) Such plan should contain:
(a) Sharper, focused, competitive strategies to face the new competition.
(b) Tone up the existing strength and leverage the first mover advantage.
(c) Realize the need for growth of business enterprises.
(ii) Options available are as follows:
(a) Withdraw: It means coming out of competition and allowing the competitors to dominate and take lead. It also means stopping the production or closing down the firm.
(b) Fight: It means changing to the changing scenario and gaining an edge over the competitors.
(iii) Categories into which a corporate strategies can be divided are:
(a) Stability maintain strategies
(b) Expansion - growth strategies
(c) Retrenchment/Divestment strategies
(d) Combination strategies

Question 3. Answer each of these questions in about 75 words:
(i) When an entrepreneur selects to follow stability strategies?
(ii) When does a firm opt to pursue expansion strategy?
(iii) Define diversification strategy with help of an example.
Answer:
(i) "STABILITY" is what the entrepreneur is looking for in the beginning as stability strategy is less risky, easier and comfortable, unconsciously pursued, defensive and satisfactory and also enhances functional efficiencies.
A firm is said to follow stability/consolidation strategy if:
(a) It decides to serve the same markets with the same products.
(b) It continues to pursue the same objectives.
(c) It concentrates its resources in a narrow product-market sphere for developing a meaningful competitive advantage.
(ii) An expansion strategy is a strategy that a firm pursues when—
(1) Additional Product: It serves the public in additional product or service or adds markets of functions to its definitions.
(2) Growth: The growth is fast in the market in which their products are sold.

(3) More profit margin: They tend to have larger than average profit margins.
(4) Stretch: A stretch rather than a fit strategy is pursued.
(5) New users etc: New markets, new products, new processes and new usage for old products are regularly developed.
(6) Expansion: Internal expansions, mergers and acquisitions are used to achieve expansion.
(7) Globalisation: Shifting from local to global markets is an expansion sign.
(iii) Diversification means adding new lines of business. These new lines of business may be related to the current business or may be quite unrelated. If the new lines added, make use of the firm's existing technology, production facilities or distribution channels or it amounts to backward or forward integration, it may regarded as related diversification. For example, Wipro which is in the business of edible oils and soaps, has also diversified its business segments in information technology, etc.

Question 4. Answer each of these questions in about 150 words:
(i) "Desire to grow and expand comes naturally to an entrepreneur". Do you agree? Give reasons for your answer.
(ii) What is intensive expansion? Explain with help of an example.
(iii) Differentiate between Backward Integration and Forward Integration.
Answer:
(i) It is desirous for a firm to grow and expand because of the following reasons:
(a) Natural desire: A healthy firm normally has a natural desire for growth for its goodwill and other reasons.
(b) Survival: Growth is essential for survival because if a firm does not grow when competitor firms are growing, then it might lose its competitiveness.
(c) Market share: A company needs growth to increase its market share so as to capture more number of customers.
(d) Market leader: Market leadership is an objective of growth for several companies and they want to dominate the other firms.
(e) Avoidance of risks: A company needs to diversify its business to minimize risks. By it profit earned by one product can be used for compensating for the losses of other product.
(f) Full utilization: Growth becomes essential for full utilization of the existing resources of the company. Profit can only be maximized in the presence of full utilization of resources.
(g) Raising profit: To increase profits is the most obvious objectives of growth. More is the sale more is the profit margin.
(h) Motivation for employees: People working in the organisation will be motivated only if there are challenges, opportunities and growth in the enterprise. More job satisfaction is obtained in this way.
(ii) It is a strategy of expansion under which growth is achieved by expanding the scale of operations. It involves expansion of firm's product range and market. Three alternative strategies in this regard are as follows:
(a) Market Penetration: This strategy aims to seek increased sales of the present products in the present markets through more aggressive promotion and distribution. The firms tries to penetrate deeper into the market to increase its market share. More money is spent on advertising and sale promotion to increase sale volume,
(b) Market Development: This strategy aims to increase sales volume by selling the present products into new markets
(c) Product Development: Under this strategy, a business seeks to grow by developing improved products for the present markets.
(iii) Differences between Backward Integration and Forward Integration:

Backward Integration	Forward Integration
It is a step back on the value-added chain towards the raw materials, by which the producer also becomes a raw materials wholesaler.	It refers to taking a step forward on the value added chain towards the customers by which the firm also becomes a finished goods wholesaler.
Firm becomes its own supplier.	Firm becomes its own buyer.

Question 5. Answer each of these questions in about 250 words:
(i) List the different forms of Intensive Expansion. Explain the forms of penetration strategies available to the firm.
(ii) Discuss the forms available to an entrepreneur to go in for integrative expansion along with examples.
(iii) What is 'Market Development Strategy'? How can the same be applied by the entrepreneur?
(iv) How can an entrepreneur enter a foreign market?
Answer:
(i) Various forms of intensive expansion are:
(a) Penetration Strategies
(b) Market Development Strategy
(c) Product Development Strategies.
A profit market expansion can assume following forms:
Penetration Strategies: This is a strategy to grow by encouraging existing customers to buy more of the firm's existing product. Here, the enterprise tries and attempts to increase the sale of the current products in the current markets by following approaches:
(a) Encourage frequency of use of the product.
(b) Attract new clientele using sales promotion techniques like Advertising, Personal selling, Discounts, Coupons, etc.
(c) Attract Competitors Customers by using persuasive techniques.
(ii) Two firms are available to an entrepreneur to go in for integrative expansion, they are Vertical Expansion and Horizontal Integration.
(a) Vertical expansion refers to any of the activities or functions, previously performed by the firm right from sourcing of raw material to supply of finished goods, through external agencies will now be performed by the firm itself. It is done through:
1. Backward Integration: It is a step back on the value-added chain towards the raw materials, by which the producer also becomes a raw materials wholesaler. For example: For manufacturing of 'Nirma' detergent an important raw material used 'Linear Alkaline Benzyne' (LAB) which was earlier purchased is now manufactured by Nirma itself.
2. Forward Integration: It refers to taking a step forward on the value added chain towards the customers by which the firm also becomes a finished goods wholesaler.
(b) Horizontal integration occurs at the same level of the value added chain but . involves a complementary, value added chain. It may involve acquisition of one
or more competitors at the same level of business.
For example: Hindustan Lever Ltd. has ensured for itself a presence in all segments using new brand launches and by strategic moves such as the acquisition of TOMCO.
The acquisition of TOMCO enhanced HLL's market share like it bought Hamam, 501, Moti, Jai and OK into HLL's brands, with already having Lifebuoy, Liril, Lux, Rexona, Dove, LeSancy as its powerful line extensions.
(iii) Market development strategies refers to selling the firm's existing products to new groups of customers, i.e. exploring new markets for the existing product at national as well as at international level.
(a) New Demographic Market: By studying demographic characteristics like Income, Marital status, Standard of living, Education, Age and sex of the customers enterprise can offer the same product to a different demographic group.
For example: Tata Nano caters to a segment of middle income group.

(b) New Product use: Entrepreneur can find out that people use its product in a way that was not expected. This new knowledge of product use provides insight into how the product may be valuable to a new group of buyers. For example: Aspirin, a pain killer, has been found good for heart too.
(c) New Geographical Market: This means selling the existing products in the new locations and new markets. This has the potential of increasing sales of the product by offering the product to customers who have not previously had the chance to purchase its products. This is based on Customers' preferences, Language, Legal requirements, etc.
(iv) A firm can enter foreign market through: (a) Indirect Export. (b) Direct Export (c) Licensing, (d) Contract Manufacturing, (e) Joint Ventures. (f) Direct Investment.
(a) Indirect Export: It is an occasional exporting which is a passive level of involvement where the company exports from time to time:
1. On its own initiative,
2. By getting work through independent middlemen.
3. In response to occasional or unsolicited orders from abroad.
For this the company makes commitment to expand through exports,or the least change in the company's product lines.
(b) Direct Export: It is a type of export in which firms decide to handle their own exports. Through this strategy of entering global market, the enterprise takes greater risk and investment, but so the potential return are more. Direct export can be done by a firm through:

- Domestically based Export Division or Department
- Overseas Sales Branch or Subsidiary Establishment.
- Nominations Foreign based agents or distributors to sell the goods on behalf of the company.

(c) Licensing: The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty.
By this the licensor safely and easily can gain entry into the foreign market at little risk and the licensee gaining production expertise or well-known product or name without having to start from zero.
(d) Contract Manufacturing: It is a method for a local firm to go global. Here, the firm engages local manufacturers to produce the product for them.
When SEARS opened departmental stores in Mexico and Spain and found it convenient.
Contract manufacturing offers the company a chance to start faster and with lesser risk.
(e) Joint Ventures: A joint venture is a restricted or a temporary partnership between two or more firms to undertake jointly to complete a specific venture. Here both the parties participate in the equality and operations of the business, sharing profits or losses in the agreed ratio. This method is useful for going global when one wants to take limited, calculated risk.
(f) Direct Investment: It refers to the through direct ownership of foreign-based manufacturing facilities. Here, the firm exposes its large investment to risks by buying partly or full interest in a local company or by building its own enterprise.

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