



## PAPER – 6: FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

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### 6A: FINANCIAL MANAGEMENT



#### QUESTIONS

##### Case Scenarios

1. PPW Ltd is a mid-sized manufacturing company producing household appliances for the Indian market. With competition heating up, the company's management is becoming increasingly conscious about liquidity management and efficient use of working capital.

During the last financial year, the company recorded annual sales of ₹ 48,00,000, offering its customers a 3-month credit period to encourage bulk orders. While this has boosted sales, it has also tied up significant funds in debtors.

On the production side, the company incurs the following annual costs:

- **Materials consumed:** ₹ 12,00,000 (suppliers allow 2 months' credit)
- **Wages:** ₹ 9,60,000 (paid with a 1-month lag)
- **Cash manufacturing expenses:** ₹ 12,00,000 (settled 1 month in arrears)
- **Administrative expenses:** ₹ 3,60,000 (paid with a 1-month lag)
- **Sales promotion expenses:** ₹ 1,20,000 (paid monthly in advance to agencies)

The company sells its products at a gross profit margin of 20%. It also maintains 2 months' stock of raw materials and 2 months' stock of finished goods to ensure smooth production and timely delivery to distributors.

Further, depreciation is considered part of the cost of production, but since it does not require a cash outflow, management wants to ignore it while assessing the cash cost basis of working capital. A minimum cash balance of ₹ 1,00,000 is always retained for contingencies.

Now, the Board of Directors has asked the finance team to answer the following 5 questions:

- (i) What will be the gross working capital of the company on cash cost basis?
  - (A) ₹ 16,00,000
  - (B) ₹ 17,20,000
  - (C) ₹ 18,30,000
  - (D) ₹ 19,60,000
- (ii) PPW Ltd wants to compute its working capital requirement on a cash cost basis (ignoring WIP), assuming a 15% margin. Based on the given financial data, what will be the working capital requirement?
  - (A) ₹ 16,33,000
  - (B) ₹ 10,20,000
  - (C) ₹ 20,40,000
  - (D) ₹ 9,60,000
- (iii) Excluding the 15% margin, what is the Current Ratio of PPW Ltd?
  - (A) 4.46 : 1
  - (B) 3.8 : 1
  - (C) 2.0 : 1
  - (D) 2.2 : 1

- (iv) What is the Quick Ratio of PPW Ltd (excluding the 15% margin)?
- (A) 2.92 : 1  
(B) 1.05 : 1  
(C) 2.59 : 1  
(D) 1.85 : 1
- (v) What is the Working Capital Turnover Ratio based on cash cost of sales?
- (A) 4 times  
(B) 3.38 times  
(C) 6.2 times  
(D) 2.7 times

2. Please consider the following data:

Project	NPV (₹ '000)	I (₹ '000)
A	15	60
B	20	100
C	25	150

Given that  $NPV = PV - I$  and  $PI = PV / I$ , where PV is the present value of future net cash inflows and I is the initial investment on a project. Based on the data furnished above, which one of the following statements is correct?

- (A) Project A is recommended based on PI criterion  
(B) Project B is recommended based on NPV criterion  
(C) Project C is recommended based on PI criterion  
(D) Project A is recommended based on NPV criterion
3. As per extended Du Pont analysis:  
 $ROE = NPM \times TATR \times x/y$

Where, ROE = Return on Equity

NPM = Net Profit Margin

TATR = Total Asset Turnover Ratio

Here, x/y represents:

- (A) Debt / Equity
  - (B) Total Assets / Sales
  - (C) Total Assets / Equity
  - (D) Equity / Debt
4. If Degree of Financial Leverage (DFL) = 5/4, which one of the following will be the interest coverage ratio?
- (A) 5
  - (B) 4
  - (C) 3/4
  - (D) 1.33

**Ratio Analysis**

5. ABC Industries Ltd, a listed company, is a renowned player in the pharmaceutical sector. The company has availed various credit facilities from X bank, namely, Cash Credit Facility, Term Loan(s), Working Capital Demand Loan, Bank Guarantee(s) / Letter of Credit. This strategic mix of various credit facilities showcases the company's balanced approach to leveraging and risk management. The company has totally 1 Lakh Equity Shares of ₹ 10 each outstanding. The company's shares are traded at a premium of 20%. The company's capital yields a healthy return rate, indicative of its operational efficiency and market competitiveness. However, it operates in a high-tax environment with an income-tax rate of 50%, which significantly impacts its net earnings and available reinvestment capital.

At the beginning of the year 2024-25, the company went in for re-organisation of capital structure, with share capital remaining the same as follows:

- (a) Share capital - 40%,
- (b) 12% Preference Share Capital – 10%
- (c) Other Shareholders' funds - 15%
- (d) 15% Term Loan - 10%
- (e) Current Liabilities - 25%

Term Loan is repayable in 5 instalments starting from 31.03.2025. Since the first instalment is not yet paid, as part of periodic review by the Bank and in order to ensure compliance with their internal and regulatory requirements, the Bank requested the company to furnish a Financial Soundness Report duly certified by your Chartered Accountant/Auditor. The report should inter alia cover various Ratios that:

- 1. estimates whether the business can pay short term debts.
- 2. measures the ability to meet current debt immediately.
- 3. measures the ability to meet the commitment of various debt services like interest, instalment etc.
- 4. measures the ability of business to meet the interest obligations.
- 5. measures the ability of business to pay the preference dividend.
- 6. shows how many times the cash flow before interest and taxes covers all fixed financing charges.

The Chief Executive officer asked the Statutory auditor to prepare a reply letter quoting the proper ratio that covers the issues raised by the bank in this format –

Issue	Ratio	Numerator	Denominator	Ideal Ratio/Range	Ratio of the Company	Favourable/Adverse

Closing fixed assets after providing 20% Depreciation constituted 60% of the total assets. Current assets comprises Inventories, Advance Tax, Prepaid Insurance and Receivables. The receivables (one-fifth of the current assets) to sales ratio revealed a credit period of 2 months. There were no cash sales. Operating profit margin being 15%. Also find out the ratios that

1. indicates composition of capital structure in terms of debt and equity
2. measures overall profits generated for each share in existence.
3. indicates market response of the equity shareholders' investment.
4. Indicates expectations of the equity investors about the earnings of the firm.

#### Cost of Capital

6. The capital structure of Shine Ltd. as on 31.03.2024 is as under:

Particulars	Amount (₹)
Equity share capital of ₹ 10 each	45,00,000
15% Preference share capital of ₹ 100 each	36,00,000
Retained earnings	32,00,000
13% Convertible Debenture of ₹ 100 each	67,00,000
11 % Term Loan	20,00,000
Total	2,00,00,000

#### Additional information:

- (A) Company issued 13% Convertible Debentures of ₹ 100 each on 01.04.2023 with a maturity period of 6 years. At maturity, the debenture holders will have an option to convert the debentures into equity shares of the company in the ratio of 1 : 4 (4 shares for each debenture). The market price of the equity share is ₹ 25 each as on 31.03.2024 and the growth rate of the share is 6% per annum.

- (B) Preference stock, redeemable after eight years at par, is currently selling at ₹ 150 per share.
- (C) The prevailing default-risk free interest rate on 10-year GOI treasury bonds is 6%. The average market risk premium is 8% and the Beta ( $\beta$ ) of the company is 1.54.

Corporate tax rate is 25%.

You are required to calculate the cost of:

- (i) Equity Share Capital
- (ii) Preference Share Capital
- (iii) Convertible Debenture
- (iv) Retained Earnings
- (v) Term Loan

### **Capital Structure**

7. J Ltd. is an all equity financed company with a market value of ₹ 25,00,000 and cost of equity ( $K_e$ ) 21%. The company wants to buyback equity shares worth ₹ 5,00,000 by issuing and raising 15% perpetual debt of the same amount. Rate of tax may be taken as 30%. After the capital restructuring and applying MM Model (with taxes), you are required to calculate:
- (i) Market value of J Ltd.
  - (ii) Cost of Equity ( $K_e$ )
  - (iii) Weighted average cost of capital (using market weights) and comment on it.

### **Leverage**

8. Following Balance Sheet and Income Statement have been obtained from the books of accounts of Pinaca Pvt. Ltd.

Balance Sheet as on March 31<sup>st</sup> 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Capital (₹ 10 per share)	80,00,000	Net Fixed Assets	1,00,00,000
10% Debt	60,00,000	Current Assets	90,00,000
Retained Earnings	35,00,000		
Current Liabilities	15,00,000		
	1,90,00,000		1,90,00,000

Income Statement for the year ending March 31<sup>st</sup> 2025

Particulars	Amount (₹)
Sales	34,00,000
Less: Operating expenses (including ₹ 6,00,000 depreciation)	(12,00,000)
EBIT	22,00,000
Less: Interest	(6,00,000)
Earnings before tax	16,00,000

The tax rate applicable to the company is 35 percent.

- (i) DETERMINE the degree of operating, financial and combined leverages at the current sales level, if all operating expenses, other than depreciation, are variable costs.
- (ii) If total assets remain at the same level, but sales (i) increase by 20 percent and (ii) decrease by 20 percent, COMPUTE the earnings per share at the new sales level?

Investment Decision

9. ABC Manufacturing Ltd is a mid-sized engineering and fabrication company that supplies precision components to the automobile and heavy machinery sectors. In order to maintain competitiveness and

expand its market share, the company has proposed a new capital investment project involving the purchase and installation of advanced Computer Numerical Control (CNC) machines and automated assembly lines.

The estimated cost of the project is to be financed partly through internal accruals and largely through term loans from XYZ Bank. ABC Manufacturing has approached the bank requesting project financing of the initial outlay, citing strong growth potential in demand for precision-engineered products over the next decade.

**Financial Projections Provided by ABC Manufacturing Ltd.**

The company's feasibility report outlines the following:

- The simple payback period is estimated at 5 years, assuming cumulative cash inflows cover the initial investment within that timeframe without considering the time value of money.
- The discounted payback period is calculated at 7 years, after discounting projected cash inflows at the weighted average cost of capital (WACC).
- The project's Modified Internal Rate of Return (MIRR) is projected at 10.9%, which is much lower than the incremental borrowing rate.
- Terminal Value of the annual cash inflows reinvested at the rate of 10% is ₹ 11,43,589.
- Cash inflows are expected to be received equally and steadily at the end of every year over the life of the assets. However, the same Cash inflows are expected to be received even after the simple payback period due to efficiency gains, market expansion, and economies of scale.

**(Note:** Round off Initial investment to nearest Lakhs).

**Management’s Position**

ABC Manufacturing argues that:

1. The project is strategically essential for long-term survival in a competitive industry.
2. The simple payback of 5 years indicates that the investment risk is acceptable.
3. Although the discounted payback of 7 years is relatively long, the project will continue to generate positive inflows 1 year beyond this period.
4. MIRR of 10.9% should be interpreted in light of industry cyclicality, expected market growth, and non-financial benefits such as improved brand reputation and quality standards.

**Bank’s Concerns**

The credit appraisal team at XYZ Bank has raised several concerns:

- Reliance on payback methods alone ignores long-term profitability, and risk factors.
- Industry volatility, competition, and technological obsolescence may affect the reliability of projected cash flows.

The credit team must now prepare a recommendation on whether to finance the project and, if so, under what conditions. Assuming you were the credit analyst, prepare justification report with a reasoned argument based on other financial considerations namely, PI, NPV, IRR & ARR in the following format.

Appraisal technic	Acceptable range	Outcome for this asset	Recommendation
NPV			
MIRR			
Simple payback			

Discount payback			
ARR			
PI			

**Note:** For ARR, use the formula Profit after tax

**Consider the following PVAF:**

PVAF @ 9% for 7 years = 5 & PVAF @ 9% for 8 years = 5.535

### Dividend Decisions

10. For the year ending 31.03.2025, ABC Industries Ltd declared 40% dividend. The current market price of the share is quoted at ₹ 57.50. If the retention ratio is reduced by 20 percent, the market price dropped by ₹ 2.50. Face value of the shares is ₹ 10 per share.
1. Find the return on investment and cost of equity using walter's model.
  2. Comment on the dividend policy adopted by the company.
  3. Find the limiting value of shares using walter's model.
  4. Also find the intrinsic value of the shares under Gordon's Model.
  5. Mr. X, the chief financial officer of the company, opines that the return on investment of the company is not having direct / indirect effect on the intrinsic value of the shares under Gordon's Model. Only cost of equity will be considered for the computation of the intrinsic value of the shares under Gordon's Model.

### Miscellaneous

11. (a) Write the main features of Bulldog Bond.
- (b) What do you understand by Spontaneous Sources of finance and explain its sources of finance?
- (c) What are the causes of over-capitalization?
- (d) What are disadvantages of Profit Maximization?



**SUGGESTED ANSWERS/HINTS**

1. (i) (C) ₹18,30,000  
 (ii) (A) ₹16,33,000

**Working Notes:**

(i) Computation of Annual Cash Cost of Production	(₹)
Material consumed	12,00,000
Wages	9,60,000
Manufacturing expenses	12,00,000
Total cash cost of production	<b>33,60,000</b>
(ii) Computation of Annual Cash Cost of Sales:	(₹)
Total Cash cost of production as in (i) above	33,60,000
Administrative Expenses	3,60,000
Sales promotion expenses	1,20,000
Total cash cost of sales	<b>38,40,000</b>
Add: Gross Profit @ 20% on sales (25% on cost of sales)	9,60,000
Sales Value	<b>48,00,000</b>

**Statement of Working Capital requirements (cash cost basis)**

	(₹)	(₹)
<b>A. Current Assets</b>		
Inventory:		
- Raw materials $\left( \frac{₹ 12,00,000}{12\text{months}} \times 2 \text{ months} \right)$	2,00,000	
- Finished Goods $\left( \frac{₹ 33,60,000}{12\text{months}} \times 2 \text{ months} \right)$	5,60,000	

Receivables (Debtors) $\left( \frac{₹ 38,40,000}{12\text{months}} \times 3 \text{ months} \right)$	9,60,000	
Sales Promotion expenses paid in advance $\left( \frac{₹ 1,20,000}{12 \text{ months}} \times 1 \text{ month} \right)$	10,000	
Cash balance	1,00,000	18,30,000
Gross Working Capital		18,30,000
<b>B. Current Liabilities:</b>		
Payables:		
-Creditors for materials $\left( \frac{₹ 12,00,000}{12\text{months}} \times 2 \text{ months} \right)$	2,00,000	
Wages outstanding $\left( \frac{₹ 9,60,000}{12\text{months}} \times 1 \text{ month} \right)$	80,000	
Manufacturing expenses outstanding $\left( \frac{₹ 12,00,000}{12\text{months}} \times 1 \text{ month} \right)$	1,00,000	
Administrative expenses outstanding $\left( \frac{₹ 3,60,000}{12\text{months}} \times 1 \text{ month} \right)$	30,000	4,10,000
Net working capital (A - B)		14,20,000
Add: Safety margin @ 15%		2,13,000
Total Working Capital requirements		16,33,000

(iii) (A) **4.46 : 1**

$$\begin{aligned} \text{Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ &= \frac{18,30,000}{4,10,000} = 4.46 \end{aligned}$$

(iv) (C) 2.59 : 1

$$\text{Quick Ratio or Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\text{Quick Assets} = \text{Current Assets} - \text{Inventories} - \text{Prepaid expenses}$$

$$\text{Quick Ratio} = \frac{9,60,000 + 1,00,000}{4,10,000}$$

Or,

$$= \frac{18,30,000 - 2,00,000 - 5,60,000 - 10,000}{4,10,000}$$

$$= 2.59$$

(v) (D) 2.7 times

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales / Cost of Goods Sold}}{\text{Working Capital excluding Margin}}$$

$$= \frac{38,40,000}{14,20,000}$$

$$= 2.70$$

2. (A) Project A is recommended based on PI criterion

$$\text{Project A: PV} = 15 + 60 = 75$$

$$\text{Project B: PV} = 20 + 100 = 120$$

$$\text{Project C: PV} = 25 + 150 = 175$$

$$\text{PI} = \text{PV} / \text{I}$$

$$\text{Project A: PI} = 75/60 = 1.25$$

$$\text{Project B: PI} = 120/100 = 1.20$$

$$\text{Project C: PI} = 175/150 \approx 1.167$$

3. (C) Total Assets / Equity

4. (A) 5

$$DFL = EBIT / (EBIT - I) = 5/4$$

$$4EBIT = 5EBIT - 5I$$

$$EBIT = 5I$$

$$\text{Interest Coverage Ratio} = EBIT / \text{Interest}$$

$$= 5I / I = 5$$

5.

Equity Share Capital	40% of Total = Given	10,00,000
Total Liabilities	10,00,000 / 40%	25,00,000
Preference Share Capital	25,00,000 x 10%	2,50,000
Other Shareholders' funds	25,00,000 x 15%	3,75,000
15% Term Loan	25,00,000 x 10%	2,50,000
Current Liabilities	25,00,000 x 25%	6,25,000
Total Assets	Total Liabilities	25,00,000
Fixed Assets	60% of Total	15,00,000
Depreciation	$\frac{15,00,000}{80\%} \times 20\%$	3,75,000
Current Assets	40% of Total	10,00,000
Receivables	1/5 <sup>th</sup> of Current Assets	2,00,000
Stock, Advance Tax & Prepaid Insurance	Balance	8,00,000
Quick Assets	Only Receivables	2,00,000
Total Sales	$\frac{\text{Receivables}}{2} \times 12$	12,00,000
EBIT	12,00,000 x 15%	1,80,000
Interest	2,50,000 x 15%	37,500
EBT		1,42,500
PAT	1,42,500 x 50%	71,250

Preference dividend	$2,50,000 \times 12\%$	30,000
PAES		41,250
EPS (ratio measures overall profits generated for each share in existence)	$41,250 / 1,00,000$	0.41
Debt Equity ratio (indicates composition of capital structure in terms of debt and equity)	$2,50,000 / 16,25,000$	0.15
MPS	FV 10 + 20% Premium	12
Market value to Book value (indicates market response of the equity shareholders' investment)	$12 \text{ Lakhs} / 13.75 \text{ Lakhs}$	0.87
PE Ratio (indicates expectations of the equity investors about the earnings of the firm)	$12/0.41$	29.27 times

Issue	Ratio	Numerator	Denominator	Ideal Ratio/Range	Ratio of the Company	Favourable/Adverse
1	Current Ratio	Current Assets	Current Liabilities	2	1.6	Adverse
2	Quick Ratio	Quick Assets	Current Liabilities	1	0.32	Adverse
3	DSCR	Earnings available for Debt services	Interest & Instalments	2	6.1	Favourable
4	Interest coverage ratio	EBIT	Interest	> 1	4.8	Favourable
5	Preference Dividend coverage ratio	PAT	Preference dividend	> 1	2.375	Favourable
6	Fixed charges coverage ratio	EBIT + Depn	Interest + Repayment of loan	> 1	6.34	Favourable

7	Debt equity ratio	Debt	Equity	Not applicable	0.15	
8	EPS	Profit available for equity holders	No. of Equity Shares	Not applicable	0.41	
9	MV/BV	MV of Equity Shares	BV of Equity Shares	Not applicable	0.87	

Earnings available for Debt services = PAT + Interest + Depreciation + Instalments

$$= 71,250 + 37,500 + 3,75,000 + 50,000 = 5,33,750$$

**6. (i) Cost of Equity Share capital**

$$\text{As per CAPM Model } K_e = R_f + \beta (R_m - R_f)$$

$$R_f = 6\%$$

$$\beta = 1.54$$

$$R_m - R_f = 8\%$$

$$K_e = 6\% + 1.54(8\%)$$

$$K_e = \mathbf{18.32\%}$$

**(ii) Cost of Preference Share capital**

$$n = 8$$

$$\text{Net Proceeds (NP)} = 150$$

$$\text{Redemption Value (RV)} = 100$$

$$\text{Preference Dividend (PD)} = 15$$

$$K_p = \frac{PD + \frac{(RV - NP)}{n}}{\frac{(RV + NP)}{2}}$$

$$K_p = \frac{15 + \left(\frac{100 - 150}{8}\right)}{\left(\frac{100 + 150}{2}\right)}$$

$$K_p = 7\%$$

**(iii) Cost of convertible debenture**

Cash Redemption Value (RV) = 100

Share Redemption Value (RV):

Value of share after 5 years =  $25 \times (1.06)^5 = 33.455$

Share Redemption Value (RV) =  $33.455 \times 4 = 133.82$

Therefore, investor will choose share redemption.

Redemption Value (RV) = 133.82

Net Proceeds (NP) = 100

n = 5

Interest (I) = 13

Tax (t) = 25%

$$K_d = \frac{I(1-t) + \frac{(RV-NP)}{n}}{\frac{(RV+NP)}{2}}$$

$$= \frac{13(1-0.25) + \frac{(133.82-100)}{5}}{\frac{(133.82+100)}{2}}$$

$$K_d = 14.13\%$$

**(iv) Cost of Retained Earnings**

$$K_r = K_e = 18.32\%$$

**(v) Cost of Term Loan**

$$= 11\% \times (1-0.25) = \mathbf{8.25\%}$$

7. Market Value of Equity = ₹ 25,00,000

$K_e = 21\%$

$$\frac{\text{Net income (NI) for equity - holders}}{K_e} = \text{Market Value of Equity}$$

$$\frac{\text{Net income (NI) for equity holders}}{0.21} = 25,00,000$$

Net income for equity holders = 5,25,000

EBIT = 5,25,000/0.7 = 7,50,000

	<b>All Equity</b>	<b>Debt and Equity</b>
EBIT	7,50,000	7,50,000
Interest to debt-holders	-	(75,000)
EBT	7,50,000	6,75,000
Taxes (30%)	(2,25,000)	(2,02,500)
Income available to equity shareholders	5,25,000	4,72,500
Income to debt holders plus income available to shareholders	5,25,000	5,47,500

Present value of tax-shield benefits = ₹ 5,00,000 × 0.30 = ₹ 1,50,000

**(i) Value of Restructured firm**

$$= ₹ 25,00,000 + ₹ 1,50,000 = ₹ 26,50,000$$

**(ii) Cost of Equity ( $K_e$ )**

Total Value = ₹ 26,50,000

Less: Value of Debt = ₹ 5,00,000

Value of Equity = ₹ 21,50,000

$$K_e = \frac{4,72,500}{21,50,000} = 0.219 = 21.98\%$$

**(iii) WACC (on market value weight)**

Cost of Debt (after tax) = 15% (1- 0.3) = 0.15 (0.70) = 0.105  
= 10.5%

Components of Costs	Amount	Cost of Capital (%)	Weight	WACC (%)
Equity	21,50,000	21.98	0.81	17.80
Debt	5,00,000	10.50	0.19	2.00
	26,50,000			19.80

**Comment:** At present the company is all equity financed. So,  $K_e = K_o$  i.e. 21%. However, after restructuring, the  $K_o$  would be reduced to 19.80% and  $K_e$  would increase from 21% to 21.98%.

**8. (i) Degree of operating, financial and combined leverages at the current sales level-**

$$\begin{aligned} \text{DOL} &= \frac{\text{Contribution}}{\text{EBIT}} \\ &= \frac{\text{₹ } 34,00,000 - \text{₹ } 6,00,000}{\text{₹ } 22,00,000} = 1.27 \end{aligned}$$

$$\begin{aligned} \text{DFL} &= \frac{\text{EBIT}}{\text{EBT}} \\ &= \frac{\text{₹ } 22,00,000}{\text{₹ } 16,00,000} = 1.375 \end{aligned}$$

$$\text{DCL} = \text{DOL} \times \text{DFL} = 1.27 \times 1.38 = 1.75$$

**(ii) Earnings per share at the new sales level (Amount in ₹)**

Particulars	Increase by 20%	Decrease by 20%
Sales level	40,80,000	27,20,000
Less: Variable expenses	7,20,000	4,80,000
Less: Fixed cost	6,00,000	6,00,000

Earnings before interest and taxes	27,60,000	16,40,000
Less: Interest	6,00,000	6,00,000
Earnings before taxes	21,60,000	10,40,000
Less: Taxes @35%	7,56,000	3,64,000
Earnings after taxes (EAT)	14,04,000	6,76,000
Number of equity shares	8,00,000	8,00,000
EPS	1.76	0.85

**Working Notes:**

Variable Costs = ₹ 6,00,000 (total cost - depreciation)

Variable Costs at:

(i) Sales level, ₹ 40,80,000 = ₹ 7,20,000 (increase by 20%)

(ii) Sales level, ₹ 27,20,000 = ₹ 4,80,000 (decrease by 20%)

- 9.** Under MIRR, if the cash flows are equal over the life of the asset

$$\text{Initial investment} \times (1 + \text{MIRR})^n = \text{CFAT} \times \text{FVAF}$$

$$\text{Terminal Value (CFAT} \times \text{FVAF)} = ₹ 11,43,589$$

$$\text{Initial investment} \times (1 + 10.9\%)^8 = ₹ 11,43,589$$

Initial investment =  $11,43,589 / (1 + 10.9\%)^8 = 5,00,000$  (rounded off to nearest lakh)

Under simple payback period, if the cash flows are equal over the life of the asset

$$\text{Payback Period} = \frac{\text{Total initial capital investment}}{\text{Annual expected after-tax net cash flow}}$$

$$\text{Initial investment} = \text{CFAT} \times \text{Simple payback period in years}$$

$$5,00,000 = 5 \times \text{CFAT}$$

$$\text{CFAT} = 1,00,000$$

Under Discounted payback period, if the cash flows are equal over the life of the asset

$$\text{PVAF} = \frac{\text{Total initial capital investment}}{\text{Annual expected after-tax net cash flow}}$$

$$\text{Initial investment} = \text{CFAT} \times \text{PVAF @ WACC\% for 7 years}$$

$$5,00,000 = 1,00,000 \times \text{PVAF @ WACC\% for 7 years}$$

$$\text{PVAF @ WACC\% for 7 years} = 5$$

$$\text{So, WACC} = 9\%$$

$$\text{NPV} = \text{Sum of Present Values of Cash inflows} - \text{Cost of the Project}$$

$$= 1,00,000 \times 5.535 - 5,00,000 = 53,500$$

$$\text{Profitability Index} = \frac{\text{Sum of present value of net cash inflow}}{\text{Initial cash outflow}}$$

$$= \frac{\text{₹}5,53,500}{\text{₹}5,00,000} = 1.107$$

$$\text{PAT} = \text{CFAT} - \text{Depreciation}$$

$$= 1,00,000 - \frac{5,00,000}{8} = 37,500$$

$$\text{ARR} = \frac{\text{Profit after Depreciation}}{\text{Investment in the beginning of the year}} \times 100$$

$$= \frac{37,500}{5,00,000} = 7.5\%$$

Appraisal technic	Acceptable range	Outcome for this asset	Recommendation
NPV	> 0	53,500	Accept
MIRR	MIRR > WACC	10.9% > 9%	Accept
Simple payback	Payback < Life	5 < 8	Accept
Discount payback	Payback < Life	7 < 8	Accept
ARR	ARR > WACC	7.5% < 9%	Reject
PI	> 1	1.107	Accept

10. 1. **Price under Walter's Model (P)** 
$$= \frac{D + \frac{r}{K_e}(E - D)}{K_e}$$

	Situation 1	Situation 2
1. DP Ratio	40%	60%
2. Retention Ratio	60%	60% - 20% = 40%
3. Dividend per share = D	₹ 4	₹ 6
4. Retention per share = (E-D)	₹ 6	₹ 4
5. Market price per share = MPS	₹ 57.50	₹ 57.50 - ₹ 2.50 = ₹ 55
6. Equation = Let r/ke be y & Ke be x.	$4 + 6y = 57.50x$	$6 + 4y = 55x$
7. Equation for solving	$57.50x - 6y = 4$	$55x - 4y = 6$

Equation 1 \* 4 =  $230x - 24y = 16$  .....(1)

Equation 2 \* 6 =  $330x - 24y = 36$  .....(2)

By solving, we get x = 20% and y = 1.25.

$$y = \frac{r}{K_e} = 1.25$$

$$\frac{r}{20\%} = 1.25.$$

Hence, r = 25%

2. Since r 25% > ke 20%, the company should retain 100%. Since the company pays 40% Dividend, the company is not following optimum dividend policy.

3.

	Situation 1	Situation 2
1. DP Ratio	0%	100%
2. Retention Ratio	100%	0%
3. Dividend per share = D	₹ 0	₹ 10
4. Retention per share = (E-D)	₹ 10	₹ 0

5. Market price per share = MPS	$\frac{10 \times 1.25}{0.2} = 62.50$	$\frac{10}{0.2} = 50$
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4. Price under Gordon's Model

$$\text{Market price per share}(P_0) = \left[ \frac{D_0(1+g)}{K_e - g} \right]$$

	Situation 1	Situation 2
1. Dividend paid	₹ 4	₹ 6
2. Retention Ratio (b)	60%	40%
3. Return on investment (r)	25%	25%
4. Growth = g = br	15%	10%
5. Market price per share = MPS	$\frac{4(1+0.15)}{0.2-0.15} = ₹ 92$	$\frac{6(1+0.10)}{0.2-0.1} = ₹ 66$

5. Since, return on investment is used for computing growth rate, both cost of equity and return on investment are considered for computing price under Gordons model. Hence, the opinion of the chief financial officer is not valid.

**11. (a) Features of Bulldog Bond**

- It is denominated in Bulldog Pound Sterling/Great Britain Pound (GBP)
- Issued in London
- Issuer Non- UK Company
- Regulations: Great Britain
- Purpose: Access of capital available in UK market
- Issue proceeds can be used to fund UK operation
- Issue proceeds can be used to fund a company's local opportunities

(b) Spontaneous sources of finance are those which naturally arise in the course of business operations. Trade credit, credit from employees, credit from suppliers of services, etc. are some of the examples which may be quoted in this respect.

**Spontaneous Sources of Finance**

- (i) **Trade Credit:** Trade credit is a spontaneous source of finance which is normally extended to the purchaser organization by the sellers or services providers. It contributes to about one-third of the total short-term requirements.
  - (ii) **Bills Payable:** In the case of "Bills Payable" the purchaser will have to give a written promise to pay the amount of the bill/invoice either on demand or at a fixed future date to the seller or the bearer of the note.
  - (iii) **Accrued Expenses:** The accrued expenses refer to the services availed by the firm, but the payment for which has yet to be made. It is a built in and an automatic source of finance as most of the services like wages, salaries, taxes, duties etc., are paid at the end of the period.
- (c) **Over-capitalisation arises due to following reasons:**
- (i) Raising more money through issue of shares or debentures than company can employ profitably.
  - (ii) Borrowing huge amount at higher rate than rate at which company can earn.
  - (iii) Excessive payment for the acquisition of fictitious assets such as goodwill etc.
  - (iv) Improper provision for depreciation, replacement of assets and distribution of dividends at a higher rate.
  - (v) Wrong estimation of earnings and capitalization
- (d) **Disadvantages of Profit Maximisation objective of financial management.**
- (i) Emphasizes the short-term gains
  - (ii) Ignores risk or uncertainty
  - (iii) Ignores the timing of returns
  - (iv) Requires immediate resources.

## **6B: STRATEGIC MANAGEMENT**



### **QUESTIONS**

#### **Multiple Choice Questions**

1. “The world needs to move fast, at a speed of innovation that makes 6 months look like 60 years” - Jayanta R., the founder of Hepha.io, while speaking at a technology vision conference at Hyderabad.

In 2009, Jayanta was working as a machine learning research scholar at a US college, when he struck upon an idea of technological research being automated. He thought - what could happen if computers could innovate themselves. The world will change forever. His idea took shape of a boutique AI consultancy in 2020, Hepha.io.

Hepha.io had one vision, to speed up innovation. And for this they hired the most affluent research scholars from across the globe - all virtually, all paid in equity, with no real organizational structure. The offering to customers was simple - it was futuristic, high value added to existing operations and could be applied to a lot of other processes.

The company was doing great in terms of customer acquisition and profitability, about 150 of Fortune 500 companies had relations with Hepha.io, bringing in about \$12 million in earnings. But the company was disappointed by their own speed of growth, which was contrary to their vision and thereby a joke at many conferences that hurt Jayanta immensely. Hepha.io had by now been seen in the west, as an aggressive, crazy company that wanted to change the world with computers, without caring much about the harms of massive heat generating servers being built on agricultural land, damaging crops, weather and even harming social setups by shattering employment. To move away from west and speed things up internally, they moved their focus to India, the land of technically skilled labor force with ease of doing business.

Entering India helped them dodge environmental concerns, but future scare of unemployment was a great threat. Jayanta met many political influencers and industrialists but could not attract much attention. Until Harsh G., the young scientist of LifeMind Technologies, met him in Mumbai, and offered to help.

LifeMind Tech, had a long running reputation of being a socially awake enterprise, which reinvested its earnings in developing India. Jayanta could not have asked for a better partner in India. This partnership helped Hepha.io to overcome a lot of political backlash and even the sharpest minds in the Indian tech space seemed to join the company without any employment apprehensions. What also helped Jayanta realize under Harsh's guidance was that innovation is necessary to enter the future but not at the cost of destroying the present. Hepha.io has since then opted for India as its Asia headquarters, driven by the purpose of holistic innovation.

**Based on the above Case Scenario, answer the Multiple Choice Questions.**

- (i) After the move to India, Hepha.io decided to align innovation with sustainability under the theme of "Holistic Innovation." Which level of strategy does this shift primarily represent?
  - (a) Corporate level strategy
  - (b) Business level strategy
  - (c) Functional level strategy
  - (d) Operational level strategy
  
- (ii) The strategic move by Hepha.io to shift its existing AI services into the new Indian geographical market is a clear application of which Grand Strategy?
  - (a) Market Penetration
  - (b) Market Development
  - (c) Product Development
  - (d) Retrenchment

- (iii) Hepha.io's initial structure, characterized by a highly dispersed team of scholars, relies heavily on coordination through technology and contracts. This structural design is most accurately identified as:
- (a) Divisional Structure
  - (b) Matrix Structure
  - (c) Network Structure
  - (d) Strategic Business Unit (SBU) Structure
- (iv) The public perception and ethical backlash concerning environmental damage and technological unemployment, which severely impacted Hepha.io's operations in the West, are analysed under which factor of the PESTLE analysis?
- (a) Political
  - (b) Technological
  - (c) Economic
  - (d) Socio-Cultural
- (v) Hepha.io's founding premise of offering "futuristic, high value add" AI solutions as its primary client appeal is an example of establishing a Competitive Advantage through:
- (a) Cost Leadership, by optimising production costs.
  - (b) Differentiation, by providing a uniquely valuable product.
  - (c) Focused Cost Leadership, by targeting a narrow segment with the lowest price.
  - (d) Core Values, by adhering to ethical standards.
2. A mid-sized electronics firm notices a rapid increase in demand for smart home devices. It has decided to redesign its product line to cater specifically to this trend while competitors are still hesitant. Which strategic approach is the firm using?
- (a) Reactive strategy
  - (b) Proactive strategy

- (c) Retrenchment strategy
  - (d) Stability strategy
3. EcoRide Motors, an Indian electric scooter company, faces rising competition from new EV start-ups offering affordable models. Battery suppliers have raised costs due to global shortages, while customers now compare multiple brands online before purchase. Traditional petrol scooter manufacturers are also entering the EV segment. EcoRide struggles to maintain profitability despite growing market demand. Which force poses the greatest threat to EcoRide's profitability?
- (a) Threat of Substitutes
  - (b) Bargaining Power of Suppliers
  - (c) Rivalry among Existing Competitors
  - (d) Bargaining Power of Buyers
4. A financial services company wants to launch a mobile-first platform. The strategy is clearly defined and systems for operations are automated. However, employees are unfamiliar with the technology, and the leadership style emphasizes strict hierarchy, slowing down decision-making. Management wants to ensure the new digital initiative succeeds without resistance or delays. Which 7S elements need urgent alignment?
- (a) Skills and Style
  - (b) Structure and Staff
  - (c) Shared Values and Systems
  - (d) Strategy and Structure
5. In the Indian automobile industry, firms like Speedo Motors and Turbo Auto compete in the mid-range car segment, focusing on fuel efficiency. Meanwhile, LuxeDrive and Elite Motors dominate the premium segment, emphasizing luxury and advanced technology. Each group follows distinct pricing and marketing strategies and movement between these segments is limited due to brand perception and R&D costs. What does this scenario best illustrate?
- (a) Strategic Alliances

- (b) Strategic Group Mapping
  - (c) Value Chain Analysis
  - (d) Core Competence Identification
6. TechNova Inc., a leading U.S. robotics company, partners with Mechtron India Pvt. Ltd. to jointly design and manufacture affordable industrial robots for the South Asian market. Both companies agree to share technology, production facilities and marketing channels to accelerate market entry and reduce costs. What type of strategy is TechNova implementing?
- (a) Joint Venture
  - (b) Market Penetration
  - (c) Strategic Alliance
  - (d) Diversification

**Descriptive Questions**

**Chapter 1-Introduction to Strategic Management**

7. **AquaPure Beverages** is a reputed bottled water and healthy drinks company facing fierce competition from new entrants offering organic, flavoured and eco-friendly alternatives. This has made it challenging to retain customers as established soft drink brands are also launching their own health-focused beverage lines. The company has appointed Ms. Somya to lead the company forward as the Sales & Marketing Manager. Ms. Somya needs to design creative and innovative advertising campaigns to gain a competitive edge, engage the public and capture the market.
- Identify the strategic level that represents Somya's role at AquaPure Beverages. As a strategic advisor, highlight the various benefits of strategic management in overcoming different challenges to Ms. Somya.
8. 'A company's mission statement is typically focused on its present business scope.' Explain the significance of a mission statement.

**Chapter 2-Strategic Analysis: External Environment**

9. **Riya Sharma** owns a confectionery business in Jaipur, specializing in homemade chocolates and candies. Despite holding a substantial market share in the central region, her business has experienced declining sales of these products over the last few years. Concerned about the market dynamics, Riya consults a management expert for guidance. The consultant recommends a comprehensive understanding of the competitive landscape. Explain the steps to be followed by Riya Sharma to understand the competitive landscape to address the sales decline.
10. As per Michael Porter's Five Forces Model of Competition, intense rivalry among existing competitors reduces the overall attractiveness and profitability of an industry. In this context, explain the situations in which competition among firms becomes cut-throat, leading to lower industry profitability.

**Chapter 3-Strategic Analysis: Internal Environment**

11. **EcoBuild Constructions**, a leading infrastructure development company, is planning to launch a large-scale smart city project. The project involves multiple stakeholders, including government bodies, investors, suppliers, local communities and environmental groups — each with varying levels of influence and interest. To ensure smooth project execution and stakeholder cooperation, the management wants to analyze and manage these stakeholders effectively. How can EcoBuild Constructions use Mendelow's Matrix to analyze and manage stakeholders in this project?
12. Write a short note on the key strategic drivers of an organization.

**Chapter 4-Strategic Choices**

13. **ReInnovate Electronics Ltd.**, a company engaged in the manufacture of consumer electronic appliances since 2010, had been performing well until 2022. However, thereafter its market share began to decline steadily. The company started incurring accumulated losses which adversely affected its cash flow position. Consequently, employee morale also deteriorated. The Board of Directors (BoD) of the company

decided to continue its operations by focusing on improving internal efficiency. To achieve this, the BoD is formulating a practical action plan aimed at bringing about a radical change in strategic direction including a revamp of the top management team. Which strategy should the company adopt in this situation? Also, outline the stages involved in the action plan for implementing this strategy.

14. Explain the 'product market growth matrix' as propagated by Igor Ansoff as a device for identifying growth opportunities for the future.

#### Chapter 5-Strategy Implementation and Evaluation

15. **BrightWave Solutions**, a small and medium-sized company in the renewable energy sector, wants to adopt the latest digital technologies to improve its operational processes and product offerings. The company aims to gain a competitive edge in the rapidly evolving renewable energy market through digital transformation. BrightWave Solutions also seeks to manage continuous changes effectively while transforming its management practices and workflows. Identify the strategy required for successful digital transformation. Also, state the most preferred practices that the company should follow.
16. Explain how organizations can effectively manage strategic uncertainties in a rapidly changing business environment.



#### SUGGESTED ANSWERS/HINTS

1. (i) (a) (ii) (b) (iii) (c) (iv) (d) (v) (b)
2. (b)
3. (c)
4. (a)
5. (b)
6. (c)

7. Somya's role at AquaPure Beverages represents the **Functional level of strategy**. As the sales and marketing manager, her responsibilities are focused on specific areas within the company, particularly on crafting and executing marketing and sales strategies that drive customer engagement and competitive positioning.

**Benefits of Strategic Management for Ms. Somya at AquaPure Beverages**

Strategic management can provide several benefits to Somya in addressing the competitive and consumer challenges faced by AquaPure Beverages:

- Strategic management helps AquaPure Beverages define its goals and mission, providing clear **direction for future initiatives**. This ensures that all marketing efforts are aligned with the company's overall vision. It allows Somya to **set realistic and achievable objectives** that support the company's **long-term goals** ensuring that marketing strategies are both ambitious and attainable.
- Through strategic management, Somya can **proactively shape the future** of AquaPure Beverages rather than merely reacting to market changes. This allows the company to **anticipate trends and act accordingly**. A proactive approach enables AquaPure Beverages to better manage environmental uncertainties and stay ahead of competitors, ensuring a more controlled and predictable business environment.
- Strategic management provides a robust **framework for making critical decisions** regarding marketing strategies, target markets and resource allocation. This ensures that all major decisions are well-informed and strategically sound. It ensures **coherence and consistency in decision-making** across the organization, aligning marketing strategies with overall business objectives.
- **Strategic management helps identify and exploit new business opportunities**, allowing Somya to craft campaigns that resonate with emerging consumer preferences and market trends. By recognizing and capitalizing on these opportunities, AquaPure

Beverages can differentiate itself from competitors and capture a larger market share.

- **Strategic management acts as a defence mechanism against potential mistakes and pitfalls**, helping Somya avoid costly errors in marketing decisions and campaign execution. It provides a structured approach to identifying and mitigating risks, ensuring more informed and safer decision-making.
- **Strategic management enhances the longevity and sustainability of AquaPure Beverages** by ensuring that marketing strategies are adaptable and resilient in a dynamic market. It helps the company establish a clear and deliberate position within the industry, ensuring sustained relevance and competitiveness.
- **Strategic management enables the development of core competencies and competitive advantages** that are crucial for the company's success. This includes building strong brand identity, innovative product offerings, and superior customer service. By focusing on these strengths, Somya can ensure that AquaPure Beverages achieves sustainable growth and maintains its competitive edge in the beverage industry.

Through strategic management, Somya can effectively navigate the competitive challenges faced by AquaPure Beverages. By providing clear direction, encouraging a proactive approach, guiding critical decisions, identifying new opportunities, defending against pitfalls, ensuring longevity and developing core competencies, strategic management enables the company to achieve and sustain a competitive edge. This comprehensive approach will allow Somya to design innovative advertising campaigns that engage the public, capture the market, and drive the company forward.

8. A company's mission statement is typically focused on its present business scope, **who we are and what we do**. Mission statements broadly describe an organization's present capability, customer focus, activities, and business make up. Mission for an organization is significant for the following reasons:

- It ensures **unanimity of purpose** within the organization.
  - It develops a basis, or standard, for **allocating organizational resources**.
  - It provides a basis for **innovating the use of the organisation's resources**
  - It **establishes** a general tone or **organizational climate**, to suggest a business like operation.
  - It serves as a **focal point** for those who can identify with the **organisation's purpose and direction**.
  - It facilitates the **translation of objectives and goals into a work structure** involving the assignment of tasks to responsible elements within the organization.
  - It specifies organizational purposes and the **translation of these purposes into goals** in such a way that cost, time, and performance parameters can be assessed and controlled.
9. Steps to understand the competitive landscape are as follows:
- (i) **Identify the competitor:** The first step to understanding the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.
  - (ii) **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.
  - (iii) **Determine the strengths of the competitors:** What is the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business?

- (iv) **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.
  - (v) **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthened by the firm.
- 10.** According to Michael Porter's Five Forces framework, rivalry among competitors significantly influences the attractiveness and profitability of an industry. When rivalry becomes cutthroat, several conditions contribute to low industry profitability:
- 1. **Industry Leader Presence:** While a strong industry leader can help maintain pricing discipline, the effectiveness diminishes as the number of competitors increases. Many rivals can engage in aggressive pricing strategies, leading to decreased profitability.
  - 2. **Number of Competitors:** A higher number of competitors increases rivalry, making it difficult for any single firm to control pricing. This leads to intensified price competition, which adversely affects industry profitability.
  - 3. **High Fixed Costs:** Industries with high fixed costs create pressure on firms to fully utilize their capacity. When firms face excess capacity, they often resort to price cuts to maintain sales volume, which diminishes profitability across the industry.
  - 4. **Exit Barriers:** High exit barriers prevent firms from leaving the industry, keeping competition high. Specialized assets or other constraints can lead firms to remain in the market, maintaining competitive pressure and negatively impacting profitability for all players.
  - 5. **Product Differentiation:** In industries lacking product differentiation, firms primarily compete on price. This leads to price wars and lower profitability. In contrast, firms that can

differentiate their products tend to achieve higher profit margins and reduce competitive pressure.

6. **Slow Industry Growth:** When industry growth slows, firms may adopt aggressive tactics to protect or gain market share, resulting in intensified rivalry and diminished profitability as they compete for a limited customer base.

In summary, conditions such as the presence of a strong industry leader, the number of competitors, high fixed costs, exit barriers, lack of product differentiation and slow industry growth contribute to cutthroat rivalry and low industry profitability.

11. EcoBuild Constructions can use **Mendelow's Matrix** effectively to analyze and manage stakeholders through a structured, grid-based approach by following these steps:
  1. **Identify Stakeholders:** Begin by identifying all relevant stakeholders such as government bodies, investors, suppliers, environmental groups and local communities who may influence or be affected by the project.
  2. **Assess Power and Interest:** Evaluate each stakeholder's **power** (ability to influence project outcomes) and **interest** (level of concern or involvement). Power may stem from authority, resources or expertise, while interest relates to the stakeholder's stake in the project's success.
  3. **Plot Stakeholders on the Grid:** Create a grid with Power on one axis and Interest on the other. Plot stakeholders accordingly:
    - **High Power–High Interest:** Key Players
    - **High Power–Low Interest:** Keep Satisfied
    - **Low Power–High Interest:** Keep Informed
    - **Low Power–Low Interest:** Low Priority
  4. **Develop Strategies for Each Quadrant:**
    - **Key Players:** Engage closely with these stakeholders, involve them in decision-making and keep them informed as their support is vital for project success.

- **Keep Satisfied:** Provide periodic updates and address concerns to maintain their satisfaction and prevent potential opposition.
  - **Keep Informed:** Communicate regularly and share progress updates to sustain their interest and gain valuable feedback.
  - **Low Priority:** Monitor occasionally for changes in their power or interest but allocate minimal resources to manage them.
5. **Monitor and Adapt:** Continuously review stakeholder power and interest, as these may change over time. Adjust engagement strategies accordingly to ensure ongoing alignment with project goals.

By applying **Mendelow's Matrix**, EcoBuild Constructions can systematically analyze and manage stakeholders, tailor communication and engagement efforts and build strong relationships—thereby increasing the likelihood of the project's success.

## 12. Key Strategic Drivers of an Organization

Strategic drivers are essential elements that influence an organization's ability to differentiate itself from its competitors and achieve competitive advantage. These drivers assess the current performance of the business and provide insights into areas that need focus.

The key strategic drivers include:

1. **Industry and Markets:** Understanding the industry and markets is crucial for identifying the organization's relative position. Industries group similar companies based on their primary products, while markets are defined by the buyers and sellers of these products. Analyzing industry and market dynamics, often through tools like strategic group mapping, helps organizations evaluate competition and refine strategies.
2. **Customers:** Identifying and understanding customers is a critical driver. Customers are segmented based on their needs and spending capacity, which guides product development and marketing strategies. Differentiating between customers (buyers)

and consumers (users) is vital to tailoring pricing, design, and usability strategies effectively.

3. **Products and Services:** Products and services are central to defining the business. Organizations must assess their offerings, classify products, and devise strategies for differentiation, branding, and pricing. Product innovation and marketing are key to maintaining competitiveness.
4. **Channels:** The channels through which products and services are delivered impact accessibility and customer satisfaction. Strategies related to direct, digital, or relationship-based marketing ensure the efficient distribution of offerings to target customers.

By aligning these drivers with organizational goals, businesses can achieve sustained growth and maintain a competitive edge.

13. In the given situation, the suitable **retrenchment strategy** for **Reinnovate Electronics Ltd.** is the **Turnaround Strategy**. This strategy is designed to reverse the company's decline and restore it to profitability, particularly when the company is facing challenges such as declining market share, negative cash flows, and low employee morale.

**Stages in the Action Plan for Turnaround Strategy:**

- **Stage One - Assessment of Current Problems:** The first step is to assess and diagnose the root causes of the company's decline, such as uncompetitive products, poor cash flow or internal inefficiencies. This stage involves determining the extent of the damage caused by these problems.
- **Stage Two - Analyze the Situation and Develop a Strategic Plan:** Evaluate the chances of the company's survival and develop a strategic plan that outlines the corrective actions to be taken. This includes identifying appropriate strategies to address internal inefficiencies, improving competitiveness and enhancing employee morale.
- **Stage Three - Implementing an Emergency Action Plan:** If the situation is critical, an immediate action plan must be implemented to stabilize the business. This may involve cutting costs, ensuring

positive cash flow, raising necessary funds and addressing short-term operational issues.

- **Stage Four - Restructuring the Business:** Focus on restructuring the company's core business operations, especially if they have been significantly affected. This stage involves efforts to improve efficiency, restructure finances and position the company for long-term recovery and growth.
- **Stage Five - Returning to Normal:** In the final stage, the company should begin showing signs of profitability and improving financial performance. Strategic efforts such as introducing new products, improving customer service and forming alliances should be emphasized to restore market share and build long-term sustainability.

By following these stages, **ReInnovate Electronics Ltd.** can develop a comprehensive turnaround plan to regain financial stability, improve operational efficiency and rebuild its competitive position in the market.

14. Ansoff's Product Market Growth Matrix, developed by Igor Ansoff, is a strategic tool that helps businesses identify growth opportunities by analyzing the interplay between products and markets.

It offers four distinct strategies based on whether the products and markets are existing or new. These strategies are:

1. **Market Penetration:** Focuses on selling existing products in existing markets. This involves increasing market share by enhancing sales through advertising, promotions, competitive pricing, or encouraging higher usage among current customers.
2. **Market Development:** Entails selling existing products in new markets. This could involve exploring new geographical regions, utilizing alternative distribution channels, or creating new market segments.
3. **Product Development:** Involves introducing new or modified products into existing markets. This strategy often requires innovation and developing products that meet current market needs.

4. **Diversification:** Refers to marketing new products in new markets. It is a high-risk strategy as the business ventures into unfamiliar products and markets.

As market dynamics evolve, companies may transition between these strategies to adapt and sustain growth. The matrix provides a structured framework for businesses to align their growth strategies with their capabilities and market conditions.

15. To enable successful digital transformation, the appropriate strategy for **BrightWave Solutions** is a **Change Management Strategy**. This strategy ensures that the organizational, procedural and cultural changes associated with adopting new digital technologies are effectively managed.

Following are the five best practices for managing change in small and medium-sized businesses:

1. **Begin at the top:** Change should be initiated and driven by unified, focused leadership. A committed top management can create and promote a culture that inspires the organization to embrace change.
2. **Ensure that the change is both necessary and desired:** Before initiating digital transformation, decision-makers must understand its necessity and long-term impact. Without a proper strategy, introducing too much change too quickly can be counterproductive.
3. **Reduce disruption:** It is essential to minimize employee disruption during transformation. This can be done by:
  - Communicating changes early.
  - Equipping employees with tools and training.
  - Empowering change agents like project managers.
  - Involving IT teams proactively.
  - Creating an environment conducive to change.
4. **Encourage communication:** Promote open and continuous two-way communication. This ensures that employees feel heard and involved and that concerns are addressed timely. Effective

communication also promotes innovation and collaboration across departments.

- 5. Recognize that change is the norm, not the exception:** Businesses must treat change as a continuous process, not a one-time project. Being change ready helps the organization to adapt, sustain performance and stay aligned with evolving customer expectations.

By following these practices, **BrightWave Solutions** can successfully manage its digital transformation, improve operational efficiency, enhance product offerings and maintain a competitive edge in the renewable energy industry.

- 16.** In managing strategic uncertainties in a rapidly changing business environment, organizations need to adopt proactive strategies to navigate unpredictability effectively. Following are the several key approaches:

**Flexibility:** Organizations should build flexibility into their strategies to enable quick adaptation to change in the environment.

**Diversification:** Diversifying the organization's product portfolio, markets, and customer base can help reduce the impact of strategic uncertainty.

**Monitoring and Scenario Planning:** Regularly monitoring key indicators of change and conducting scenario planning exercises can help organizations anticipate and prepare for different future scenarios.

**Building Resilience:** Investing in building internal resilience is essential for weathering uncertainty. This includes strengthening operational processes, increasing financial flexibility, and improving risk management capabilities.

**Collaboration and Partnerships:** Collaborating with other organizations, suppliers, customers, and partners can provide access to additional resources, expertise, and market opportunities. Strategic partnerships enable organizations to pool resources, share risk, and leverage each other's strengths to navigate uncertainty more effectively.