

**Subject: Business Economics**

**Course: B.A., 6<sup>th</sup> Semester, Undergraduate.**

**Paper No: 602**

**Paper Title: Business Strategy & Ethics.**

**Unit No.: 3 (Three)**

**Title: Strategy Formulation, Analysis & Choice.**

**Lecture No: 1 (One)**

**Title: Formulating Long-term Objectives and Grand Strategies.**

## **FAQs**

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**Q1. What is generic strategy?**

**Ans:** A long-term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. The popular term for this core idea is generic strategy.

**Q2. Write characteristics of a low cost provider.**

**Ans:** Successful low-cost producers *champion frugality* but wisely and aggressively *invest in cost-saving improvements*

Some steps in this direction include:

- ◆ Creating a cost conscious corporate culture
- ◆ Employee participation in cost-control efforts
- ◆ Ongoing efforts to benchmark costs
- ◆ Intensive scrutiny of budget requests
- ◆ Programs promoting continuous cost improvement

**Q3. What are pitfalls of low cost strategies?**

**Ans:**

- ◆ Being overly aggressive in cutting price
- ◆ Low cost methods are easily imitated by rivals
- ◆ Becoming too fixated on reducing costs  
and ignoring
  - ➔ Buyer interest in additional features
  - ➔ Declining buyer sensitivity to price

→ Changes in how the product is used

- ◆ Technological breakthroughs open up cost reductions for rivals

**Q4. Discuss the approaches to defining a market niche.**

**Ans:**

- ◆ Geographic uniqueness
- ◆ Specialized requirements in using product/service
- ◆ Special product attributes appealing only to niche buyers
- ◆ Achieve lower costs than rivals in serving a well-defined buyer segment

**Q5. What are different risks of focused strategy**

**Ans:**

- ◆ Competitors find effective ways to match a focuser's capabilities in serving niche
- ◆ Niche buyers' preferences shift towards product attributes desired by majority of buyers – niche becomes part of overall market  
Segment becomes so attractive that it becomes crowded with rivals, causing segment profits to be splintered

**Q6. What is concentrated growth?**

**Ans: Concentrated growth** directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology.

**Q7. Explain innovation in grand strategy?**

**Ans:**

- These companies seek to reap the initially high profits associated with customer acceptance of a new or greatly improved product
- Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they search for other original or novel ideas
- The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete

**Q8. Explain vertical integration.**

**Ans:**

- When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products), vertical integration is involved

- The main reason for backward integration is the desire to increase the dependability of the supply or quality of the raw materials used as production inputs

**Q9. What is conglomerate diversification?**

**Ans:**

- Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as **conglomerate diversification**.
- The principal concern of the acquiring firm is the profit pattern of the venture
- Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses

**Q10. Explain strategic alliance.**

**Ans:**

- **Strategic alliances** are distinguished from joint ventures because the companies involved do not take an equity position in one another
- In some instances, strategic alliances are synonymous with licensing agreements

Outsourcing arrangements vary