



<b>Class 11</b>	<b>Entrepreneurship</b>	<b>Unit 5D: Expanding Market</b>
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**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.

**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 be 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 desirable 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 its 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 firm 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 Benzene' (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.

## MORE QUESTIONS SOLVED

### I. Very Short Answer Type Questions [1 Mark]

**Question 1. What options are available to any company to survive in the changing environment?**

**Answer:** Normally, any company has only two options either (a) Withdraw, or (b) Fight

**Question 2. The manner which can help a company achieve, defend, glow, expand, diversify depends on what?**

**Answer:** The manner which can help a company achieve, defend, glow, expand, diversify depends on the kind of strategy it pursues.

**Question 3. What is entrepreneurial strategy?**

**Answer:** Entrepreneurial 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.

**Question 4. "STABILITY" is what the entrepreneur is looking for in the beginning." Why?**

**Answer:** "STABILITY" is what the entrepreneur is looking for in the beginning, as stability strategy is less risky, easy and comfortable, unconsciously pursued, defensive and satisfactory and also enhances functional efficiencies

**Question 5. Expansion by a firm depends on which factors.**

**Answer:** Expansion by a firm depends on the degree of growth and momentum of growth which the firm aspires.

**Question 6. What is initially preferred by a firm for expansion?**

**Answer:** Initially, enterprise prefers internal expansion strategy.

**Question 7. What is Intensive expansion?**

**Answer:** Intensive expansion refers to the increase of sales of its existing product by enlarging the existing markets by an enterprise.

**Question 8. How can a firm encourage the non-users of the product to use the product?**

**Answer:** A firm can encourage the non-users of the product to use the product by using any mode of sales promotion viz. (i) Advertising (ii) Personal Selling (iii) Discounts (iv) Coupons (L>) Samples.

**Question 9. How can a firm enter foreign market?**

**Answer.** A firm can enter foreign market through: (a) Indirect Export, (b) Direct Export, (c) Licensing, (d) Contract Manufacturing, (e) Joint Ventures, (f) Direct Investment.

**Question 10. What do you mean by Market Development Strategy?**

**Answer:** 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.

**Question 11. Give one example of Licensing.**

**Answer:** Coca-Cola carries out its international marketing by licensing bottlers around the World i.e. franchising bottlers and suppliers them with the syrup and the training needed to produce, distribute and sell the coke.

**Question 12. How is licensing used by the firms for entering in global market?**

**Answer:** 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.

**Question 13. What is contract manufacturing?**

**Answer:** It is a method for a local firm to go global. Here, the firm engages local manufacturers to produce the product for them.

**Question 14. What is vertical integration?**

**Answer:** Vertical integration 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 which will now be performed by the firm itself.

**Question 15. What do you mean by Backward Integration?**

**Answer:** It refers to taking a step back on the value-added chain towards the raw materials, i.e. producer also becomes a raw materials wholesaler.

**Question 16. What is Market Expansion Grid?**

**Answer:** Market Expansion Grid is a useful framework for detecting new intensive growth opportunities for a product or firm.

**Question 17. How many types of options are available of expansion? Name them.**

**Answer:** There are three expansion options:  
(a) Intensification (b) Integration (c) Diversification.

**II. SHORT ANSWER TYPE QUESTIONS [2/3 MARKS]**

**Question 1. Give examples of famous merger and takeover of companies in India.**

**Answer:** Following are the famous mergers and takeovers:

- Coca-Cola purchased Thums-up and Gold Spot for ₹ 180 crores while Pepsi took over Dukes, 'Magnolia'.
- Colgate bought Ciba-Geigy's Cibacca range of toothpaste and brushes for ₹ 131 crores.
- Brook Bond—Lipton acquired the Cadbury's Dollops ice cream business and Kissan Jam.
- Citibank beautifully implanted the concept of marketing through the acceptance of credit throughout the country.

**Question 2. Describe an example of collaboration.**

**Answer:** Car market: Phenomenal changes in the car market are happening in India and in the world. Due to collaborations happening between many Indian



companies with different foreign car makers like Ford, Peugeot, GM (Opel-Astra), Daewoo, etc, car market had got a tremendous boost in India. In order to survive in the changed and changing environment, a business enterprise needs to be strong enough to cope with the challenges before it.

**Question 3. Fight is a better option for firms in the changing environment. Why?**

**Answer:** Fight is a better option for firms in the changing environment as there is no fun in surrendering before a war. Thus, it is better to plan:

- (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.

**Question 4. What strategies are available to a firm for achieving its growth objectives?**

**Answer:** The corporate strategies a firm can adopt, have been classified into four grand categories:

- (i) Stability maintain strategies (ii) Expansion – growth strategies
- (iii) Retrenchment/Divestment strategies (iv) Combination strategies.

**Question 5. Explain the meaning of Expansion.**

**Answer:**

- Expansion is one of the forms of internal growth of business
- It means enlargement or increase in the same line of activity.
- Expansion of an enterprise can be both in domestic market as well as in international arena.
- Expansion can be done through various methods and many options that are available to an enterprise.

**Question 6. What methods can be used for encouraging frequency of use of the product by a firm?**

**Answer:** Customers can be encouraged to increase the frequency of use of the product by.

- Encouraging frequency of use of the product: For example, brush twice a day with any toothpaste to prevent cavities.
- Usage per use of the product: For example, every time you shampoo your hair, repeat it two times for better results.

**Question 7. Describe one example describing “Attract new clientele” strategy of a firm.**

**Answer:** In India greeting cards use was limited to festivals and birthdays. Archies’ systematically and aggressively promoted cards more as a medium of communication than as a way to merely sending Good Wishes. Archie’s was successful to an extent of having collaboration with Hallmark Cards of the U.S.A. to market its cards in India.

**Question 8. Describe one example describing “Attract Competitors Customers” strategy of a firm.**

**Answer:** Hindustan Lever had a strategy of multi-branding with an aim of capturing the market by winning the customers of their competitors. It introduced many brands in soaps and I detergents markets, so that no segment is left untouched. It has Dove-in the Ultra premium segment, Lifebuoy – in the economic segment and Rexona, Liril and Le Sancy— i in the remaining segments.

**Question 9. While opting for New Geographical Market for extending sales, an entrepreneur must take which features?**

**Answer:** While opting for New Geographical Market for extending sales approach an entrepreneur must be aware of:

- Customers’ preferences
- Language
- Legal requirements
- Regional differences, etc.

**Question 10. Expansion is a very useful tool to safely increase a customer’s profile. Why?**

**Answer:** Expansion is a very useful tool to safely increase a customer’s profile. This helps to:

1. Achieve economies of large scale production;
2. To reduce its risk;
3. To reduce dependence on any one market;
4. Counter attack a global firm from snatching their customers through better products at cheap prices.
5. Foreign markets might provide higher profit opportunities than the domestic market.

**Question 11. Give examples of the past who are on the top today but once were in sorry state of affairs.**

**Answer:**

1. Coca-Cola had to withdraw their 2 litre bottles in Spain after discovering that few Spaniards only owned refrigerators with large enough compartments to store it.
2. S.C. Johnson's wax floor polish initially failed in Japan. The wax made the floors too 1 slippery and Johnson had overlooked the fact that Japanese don't wear shoes in their homes.
3. General Foods, "Tang" initially failed in France because it was positioned as a substitute for orange juice at Breakfast. The French drink little orange juice and almost none at breakfast.

**Question 12. Explain, how did Forhan's use demographic features to increase sale?**

**Answer:** Forhan's toothpaste was losing its market share to Colgate and Closeup which were coming up with new variations of toothpastes. Forhan's was being viewed as the tooth paste prescribed by the doctor and meant for the older generation, i Forhan's then came up with a brand extension-Forhan's Fluoride, with a better, tangier taste than the original, propagating it as excellent for healthy gums and teeth, for all those who are above 6 years. Forhan's got a New lease of Life. It thus targeted a new age group in a effective way.

**Question 13. Before going global what is to be decided by the firm?**

**Answer:** Before making a decision to go global or abroad, the company must weigh several risks by deciding:

- (i) Strategically, logically whether to go abroad or not
- (ii) Which markets to enter? (iii) How to enter the foreign market?
- (iv) The marketing program (v) Marketing organisation.

### **III. Short Answer Type Questions [4 Marks]**

**Question 1. What do you mean by Indirect Export?**

**Answer:** It is an occasional exporting which is a passive level of involvement where the company exports from time-to-time :

- on its own initiative.

- by getting work through independent middlemen.
- in response to occasional or unsolicited orders from abroad.

**For this the company makes:**

- a commitment to expand through exports,
- the least change in the company's product lines,
- workforce organization,
- investments or missions are involved.

**Question 2. Why is indirect method a convenient mode of expanding?**

**Answer:** It is so due to the following:

- It reflects a commitment to expand through exports,
- It involves the least change in the company's product lines,
- It involves least change in workforce organization, id) Involves less change in investments or missions.

**Question 3. Explain Direct Export.**

**Answer:** 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 of Foreign based agents or distributors to sell the goods on behalf of the company.

**Question 4. How is licensing used by the firms for entering in global market?**

**Answer:** 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.

**Question 5. Explain one example of licensing.**

**Answer:** When SEARS opened departmental stores in Mexico and Spain, they found qualified local manufacturers to produce many of its products. This not

only significantly reduced SEARS cost of production but led the company to earn envious revenue position.

**Question 6. Explain Contract Manufacturing.**

**Answer:** 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.

**Question 7. What are Joint Ventures? Explain.**

**Answer:** 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.

**Question 8. Describe one example of Joint venture.**

**Answer:** Godrej-GE is a joint venture formed by spinning off the refrigerator business of Godrej and Boyee with GE (USA) with Godrej holding 60% stake and GE holding 40%. Godrej-GE plans to consolidate its refrigerators business and enter into other white goods manufacture such as ACs, dish washers, etc.

**Question 9. Explain Direct Investment method of going global.**

**Answer:** 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.

**Question 10. Give one example of Direct investment.**

**Answer:** Electrolux AB a Swedish company and a world leader in white goods manufacturing plans to invest about \$ 100 million in India in the next 3-4 years. Heinz took over Glaxo's foods business for Rs 210 crores.

**Question 11. Describe Horizontal Integration.**

**Answer:** 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.

**Question 12. Give one example of Horizontal Integration.**

**Answer:** 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.

**Question 13. What is Diversification strategy? Explain.**

**Answer:** 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 be regarded as related diversification. Q14. What is Product Development Strategy?

Ans. Product Development Strategy implies developing or modifying the existing product to meet the requirement of the customers. This involves developing and selling new products to people who are already purchasing the firm's existing products, i.e., management can consider new product possibilities in the same existing markets by:

- Adding new features: A fairness cream with sunscreen component.
- Different Quality Levels: Surf excel, Surf Ultra, etc.
- Alternative Technology: CDMA and GPRS mobiles.

**IV. Long Answer Type Questions [6 Marks]**

**Question 1. World is Shrinking! Explain in what way?**

**Answer:**

- Brands: Many brands like Kellogg's in breakfast cereals, Baskin Robbins and Walls in the ice-cream market, Sony, Akai, Panasonic in electronic market, Honda, Mercedes-Benz, Volkswagen in car market, Nestle, McDonald, etc. have become household names today. »
- Foreign Companies: Many foreign companies have turned towards India through mergers, takeover, collaborations, joint ventures, etc.
- Product: Any world class product is now available in any part of the world.
- Reach: The reach for any type of the product has become easy for the customers.

- **Communication techniques:** Means of communication like mobile, internet, etc have brought the global markets at the door steps of the consumers.

These all happenings which has bought the countries closer is also meant as World is Shrinking!

**Question 2. What changes are being seen in Indian economy in the recent times?**

**Or**

**The Indian market is going through a period of upheavals. Explain.**

**Answer:** Following points narrate the changes/upheavals related to Indian economy in the recent time:

- **Liberalisation:** The winds of liberalisation have brought about changes that have been unimaginable a decade ago or in the pre-liberalisation era.
- **New products:** New players both from India as well as abroad are entering in different products. This has forced the consumers to upgrade their choices and preferences.
- **Competition:** The competition in the market has become intense where firms are trying to protect their turf while new ones are making every effort to gain a foothold.
- **Communication:** Time and distance are rapidly shrinking with the growth and expansion of faster technology, communication, finance and transportation.
- **Indian companies:** Indian companies around the world are going global, which is intensifying competition and creating new activities in market.

**Question 3. When does a firm pursues to expansion strategy?**

**Answer:** An expansion strategy is a strategy that a firm pursues:

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.

**Question 4. Why is it desirable for a firm to grow and expand?**

**Answer:** It is desirable for a firm to grow and expand because of following reasons:

- **Natural desire:** A healthy firm normally has a natural desire for growth for its goodwill and other reasons.
- **Survival:** Growth is essential for survival because if a firm does not grow when competitor firms are growing, then it might lose its competitiveness.
- **Market share:** A company needs growth to increase its market share so as to capture more number of customers.
- **Market leader:** Market leadership is an objective of growth for several companies and they want to dominate the other firms.
- **Avoidance of risks:** A company needs to diversify its business to minimize risks. By its profit earned by one product can be used for compensating for the losses of other product.
- **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.
- **Raising profit:** To increase profits is the most obvious objectives of growth. More sales are more profit margin.
- **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.

**Question 5. Explain the various forms which a profit market expansion can assume.**

**Answer:** A profit market expansion can assume the following forms:

1. **Penetration Strategies:** This is a strategy to grow by encouraging existing customers to buy more of the firm's existing product. Here, the enterprise try and attempt to increase the sale of the current products in the current markets by following approaches:



- Encourage frequency of use of the product.
  - Attract new clientele using sales promotion techniques like Advertising, Personal selling, Discounts, Coupons, etc.
  - Attract Competitors Customers by using persuasive techniques.
2. **Market Development Strategy:** It involves selling the firm's existing products to new groups of customers and exploring new markets for the existing product at all levels national and international. The new groups of customers can be searched in terms of: New Demographic Market, New Product use, New Geographical Market:
  3. **Product Development Strategies:** It includes developing or modifying the existing product to meet the requirement of the customers. Developing and selling new products to people who are already purchasing the firm's existing products, i.e., management can consider new product possibilities in the same existing markets by Adding new features, Different Quality Levies and Alternative Technology.

**Question 6. New group of customers can be searched in which terms. Explain each.**

**Answer:** The new groups of customers can be searched in terms of:

- **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.
- **New Product use:** An 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. E.g. Aspirin, a pain killer, has been found good for heart too.
- **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.

**Question 7. Explain the Product Development Strategy of Raymond.**

**Or**

**Explain the Product Development Strategy of Park Avenue.**

**Answer:** Raymond's, in early eighties, launched some ready to wear trousers called 'Double Barrels'. The product received a low response. Aggressive advertising, naming the same now as Raymond's Leg wear with caption "no hassles with tailors" and the promise of a "great fit" too failed. The company, realized through research that by and large Indians were attracted to a foreign label consequently, the company decided to market their readymade garments under a new brand name — PARK AVENUE which conveyed a 'Western' image to fit in for perfect stylish and a completely Western image from top to bottom. Park Avenue extended wallets, belts and kerchiefs under one roof. With ease company sailed through the critical stages.

**Question 8. What is Vertical Expansion? Explain.**

**Answer:** 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 material wholesaler.  
For example: For manufacturing of 'Nirma' detergent an important raw material used 'Linear Alkaline Benzene (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
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