Q: 1. DD is the India's premier public service broadcaster with more than 1,000 transmitters covering 90% of the country's population across an estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network reaches nearly 30 million homes and is growing at a very fast rate.

DD's business model is based on selling half-hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a programme is Rs. 30 lakhs plus the cost of production of the programme. In exchange the producers get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for producers, at the present rates, thus is Rs. 75,000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is Rs. 65 lakhs for which the producer has to charge Rs. 1,15,000 for a 10 second spot in order to break-even. It is at this point the advertisers face a problem – the competitive rates for a 10 second spot is Rs. 50,000. Producers are possessive about buying commercial time on DD. As a result the DD's projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy. DD has three options before it. First, it should privatize, second, it should remain purely public service broadcaster and third, a middle path. The challenge seems to be to exploit DD's immense potential and emerge as a formidable player in the mass media.

(i) What is the best option, in your view, for DD?
(ii) Analyse the SWOT factors the DD has.
(iii) Why do you think that the proposed alternative is the best? (20 Marks)

Answer

i. For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels has increased and also the quality of programmes, backed by technology, has improved. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting has become a popular business. Broadcasters too have realised the great business potential in the market. But for this, policies need to be rationalised and be opened to the scope of innovativeness not only in term of quality of programmes. This would not come by simply going to more areas or by allowing bureaucratic set up to continue in the organisation. Strategically the DD needs to undergo a policy overhaul. DD, out of three options, namely privatisation, public service broadcaster or a middle path, can choose the third one, i.e. a combination of both. The whole privatisation is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting emotively in the private hand as it proves to be a great means of communication of many socially oriented public programmers. The government could also think in term of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is concerned that can be made fairly competitive. However, at the same time cost of advertising is to be compared with the reach enjoyed by the Doordarshan. The number of viewers may be far more to justify higher tariffs.

ii. The SWOT analysis involves study of strengths, weaknesses, opportunities and threats of an organisation. SWOT factors that are evidently available to the Doordarshan are as follows:

S – Strength

More than 1000 transmitters covering 90% of population across 70 million homes against only 30 million homes by C & S. More than 20,000 employees.

W – Weakness

Rigid pricing strategy. Low credibility with certain sections of society. Quality of programs is not as good as compared to C & S network

O – Opportunities

Infrastructure can be leased out to cable and satellite channel. Digital terrestrial transmission. Regional focused channels. Allotment of time, slots to other broadcasters.

T – Threats

Desertion of advertisers and producers may result in loss of revenues. Due to quality of program the reach of C & S network is continuously expanding. As the C & S network need the trained staff, some employees of DD may switchover and take new jobs. Best of the market-technology is being used by the private channels.

iii. It is suggested that the DD should adopt a middle path. It should have a mix of both the options. It should economise on its operational aspects and ensure more productivity in term of revenue generation and optimisation of use of its infrastructure. Wherever, the capacities are underutilised, these may be leased out to the private operations. At the same time quality and viewership of programmes should be improved. Bureaucracy may reduce new strategic initiatives or make the organisation less transparent. Complete privatisation can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies the government to fully exploit the avenue for social and public use. The government will also lose out as it will not be able to take advantage of rising potential of the market.

Q: 2. Read the following case and answer the questions at the end:

Dr. Sukumar inherited his father's Dey's Lab in Delhi in 1995. Till 2002, he owned 4 labs in the National Capital Region (NCR). His ambition was to turn it into a National chain. The number increased to 7 in 2003 across the country, including the acquisition of Platinum lab in Mumbai. The number is likely to go to 50 within 2-3 years from 21 at present. Infusion of Rs. 28 crores for a 26% stake by Pharma Capital has its growth strategy.

The lab with a revenue of Rs. 75 crores is among top three Pathological labs in India with Atlantic (Rs. 77 crores) and Pacific (Rs. 55 crores). Yet its market share is only 2% of Rs. 3,500 crores market. The top 3 firms command only 6% as against 40-45% by their counterparts in the USA.

There are about 20,000 to 1,00,000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Sukumar has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His six labs have been accredited nationally whereon many large hospitals have not thought of accreditation; The College of American pathologists accreditation of Dey's lab would help it to reach clients outside India.

In Dey's Lab, the bio-chemistry and blood testing equipments are sanitised every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting
is also available.

There is a huge unutilised capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to Encash preclinical and multi-centre clinical trials within India and provide postgraduate training to the pathologists.

I. What do you understand by the term Vision? What is the difference between 'Vision' and 'Mission'? What vision Dr. Sukumar had at the time of inheritance of Dey's Lab? Has it been achieved?
II. For growth what business strategy has been adopted by Dr. Sukumar?
III. What is the marketing strategy of Dr. Sukumar to overtake its competitors?
IV. In your opinion what could be the biggest weakness in Dr. Sukumar's business strategy?

Answer

I. A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

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 organisation's present capabilities, customer focus, activities, and business makeup. Mission is also an expression of the vision of the corporation. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

Dr. Sukumar's vision at the initial stage was to turn his one pathological laboratory firm into a national chain of pathological laboratories. He is in the process of achieving the vision as a number of Labs have been opened and others are in pipeline. However, at the same time the market share is low when compared with the external benchmark from US market.

II. To a large extent Dr. Dey's Lab has opted the business strategy of internal growth rather than going in for acquisitions or joint ventures. The reason for such a strategy is that Dr. Sukumar does not find many existing laboratories meeting the quality standards. To fund its growth and raise funds it has also given a 26% stake to Pharma Capital.

III. Dr. Sukumar's marketing strategy is superior to its competitors. Over a period of time it is able to evolve itself as reference lab for many leading hospitals. This is a testimony of the level of confidence it enjoys among the medical professionals. It provides a high level of customer services because of the following:

- **Product mix:** It possesses technical expertise to conduct 1650 variety of tests.
- **Quality:** The laboratories use modern methods to conduct tests. Even routine tests are conducted with highly sophisticated procedures. Technology such as bar coding and automated registration of patients is also used. Thus there are no mistakes in the identity of samples. There is also daily sanitisation and validation of lab equipments.
- **Speed:** Laboratories are working round-the-clock. Further, using modern systems the company is able to deliver test results faster.
- **Convenience:** There are 500 collection centres for the laboratory, thereby the reach is more. Additionally, system of collection of samples from home also provide convenience to the patients and others.

IV. A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it. In the case it is given that Dr Sukumar has not gone for mergers and acquisition as he does not find many prospective laboratories meeting the quality standards.Thus its biggest weakness is its inability to capitalise the opportunities through mergers and acquisitions. Acquisitions and partnerships can help in leveraging the existing goodwill.

Many of these labs must be enjoying a lot of goodwill in their region. In fact, a business in the medical field such as a pathological laboratory, trust and faith are important. On account of its size and available resources Dey's Lab could have easily acquired some of these labs and built upon their names. With resources it should be feasible to modernize them to make them compatible with the business ideology and quality systems of the Dey's Lab. However, it appears that the company lacked capability to modernise an existing laboratory.

Q: 3. **4.** BB Ltd. is a business organized as three divisions and head office. The divisions are based on market groupings, which are retail, wholesale and Government. The divisions do not trade with each other.
The main method of control of the divisions has been the requirement to earn a return on investment (ROI) of 15% p.a. The definition of return and capital employed is provided by head office, at the criterion ROI rate of 15%.

The recent experience of BB Ltd., is that the group as a whole has been able to earn the 15% but there have been wide variations between the results obtained by different division. This infringes another group policy that forbids cross-subsidization, i.e. each and every division must earn the criterion ROI.

BB Ltd. Is now considering divestment strategies and this could include the closure of one or more of its divisions. The head office is aware that the Boston Product Market Portfolio Matrix (BPMPM) is widely used within the

divisions in the formulation and review of marketing strategies. As it is so widely known within the group and is generally regarded by the divisions as being useful, the head office is considering employing this approach to assist in the divestment decision.

You are required to:

I. Evaluate the use by BB Ltd. Of the concept of ROI and its policy that forbids cross subsidization.
II. Describe the extent to which the BPMPM could be applied by BB Ltd. In its divestment decision. Evaluate the appropriateness of the use of the BPMPM for this purpose.
III. Recommend, and justify, two other models that could be used in making a divestment decision. Demonstrate how BB Ltd. could utilize these models to make this decision.

Answer

I. Evaluation of the use of the concept of ROI by BB Ltd.

ROI is an accounting measure that estimates the level of profits as a proportion of the capital employed over the year. The concept of ROI is widely used by different companies to measures its performance. Therefore BB Ltd. Is not unusual in using this concept of ROI as a means of performance monitoring of its different divisions.

Perhaps on division of BB Ltd., may have failed to meet its ROI because it might have recently purchased new fixed assets. Perhaps another division might be using old assets that have been written off. Further one division might be riskier than another division.

ROI and cross subsidization:

There could be a lot of problems with cross subsidy. This issue of cross subsidies is more complex than it first appears.
We do not know how the investment funds have been allocated if the head office allocates them, and the divisions cannot take their own investment decisions, there is a cross subsidization by the back door as it were.
Further one division's hard earned cash might be used to buy another division's assets. Arguably, cross-subsidization is the advantage of a business like BB Ltd.
Further, if the businesses have different business cycle, they are able to bail each other out when appropriate, whilst ensuring that the shareholders receive a fairly constant return.

II. Application of BPMPM by BB Ltd. In its divestment decision:

BPMPM aims to link the overall growth of the market for a product, the growth in the market share of a product, with the product's cash-generative activities.
BPMPM classifies a company's products in terms of potential cash generation and cash expenditure requirements into cash cows, dogs, stars and question marks.

- Stars are products with a high share of a high growth market. In short term, term require capital expenditure, in excess of the cash they generate, in order to maintain their market position, but promise high returns in the future. In due course, however, stars will become cash cows, which are characterized by a high market share, but low sales growth.
- Cash cows need very little capital expenditure and generate high level of cash income. The important strategic feature of cash cows is that they are already generating high cash returns that can be used to finance the stars.
  • Question marks are products in a high-growth market, but where they have a low market share. A decision needs to be taken about whether the products justify considerable capital expenditure in the hope of increasing their market share, or whether they should be allowed dying quietly.
- Dogs products with a low share of a low growth market. Dogs should be allowed to die, or should be killed off.

Appropriateness of use of BPMPM:

BPMP is conventionally assumed to apply to products and it is perhaps unusual to see it applied to businesses and divisions.

The problem is that we do not know enough about the firm's product range to suggest how the matrix could be applied.

Rather than assuming that a whole division is a dog and divesting it, is possible that a thorough review of the product range of each division could be examined to see whether certain products can be pruned from the range.

BPMPM should not be used in isolation. Further it needs to be modified from time to time.

III. Models for making a divestment decision:

A no. of models is available, which could be used by the co. in making a divestment decision.

Two such models could be:

- Porter's five forces model and
- The product life cycle.

Porter's five forces model:

This model can be used to place each division in the competitive context. The five forces model suggests that the competitive environment is determined by five factors viz.

- The threat of new entrants.
- The threat of substitute products,
- The bargaining power of customers,
- The bargaining power of suppliers and
- The state of competitive rivalry within the industry.

The value of this model is that it examines each division's strengths in a competitive context. If the trend is for entry barriers to get lower, or if a major new entrant is no the horizon, this must influence the divestment decision, if the business is a marginal player in the market or if the resources required to fight off such a challenge are too expensive.

Similarly, if the customers are powerful or suppliers are powerful, then the margins would get eroded steadily and firm's business would become less attractive. Similarly if the threat of substitute products becomes serious, then divestment might become a sensible choice.

The product Life cycle:

This model bears similarities to the BCG matrix. This model suggests that a firm's products have a natural life cycle that can be analyzed into the phases of **introduction, growth, maturity and decline.**

In the **introduction phase**, the product still has to make money.

In the **growth phase**, it starts to make profit.

Maturity occurs when the demand is no longer growing. The demand and the profit are at its peak.

In the **decline phase**, demand falls off, profits fall and eventually no profits are made.
Thus BB Ltd. Can use this model to examine the condition of the products in each of the
divisions.