

Strategic Management - The Competitive Edge

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Module No. # 06

Lecture No. # 30

Strategic Information Systems- 1

Welcome to this session. Before we continue, let us take some two assignments, on what we have covered in the recent classes. This will be your assignment number 7.

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Assignment 7

- How would a company achieve synergy among different functions and business units?
- Is re-engineering another fad or does it offer something of lasting value?
- Can corporate culture be changed? If yes, how?

 Is downsizing a good option for Indian firms? Discuss the pros and cons.

So, these are the questions, which I would like you to answer. The first question is, how would a company achieve synergy among different functions and business units?

We have tried to answer this question, taking example of different companies. How can they achieve synergy, whether it is the synergy with respect to marketing or production, how can it be achieved?

Using this concept of synergy, we have also found out, which are the areas which can be outsourced by a company. That also we have tried to answer.

The second question I would like you to answer, is this one, that is, is reengineering another fad or does it offer something of lasting value?

So, organizations as you know are going in for re-engineering. Why are they going in for re-engineering? They find that a complete overhaul of their processes, whether with respect to marketing or production, if it can result in a significant improvement with respect to their production, and consequently the marketing results. It will be very good for them.

So, this and we also looked at different authors, giving different definitions of re-engineering like Hammer and Champ, looking at re-engineering and then how different organizations are trying to look at re-engineering, especially in the Indian scenario.

Now, the next question which I would like you to answer is, can corporate culture be changed? If yes, how?

I would like you to answer this question, taking into account some of the public sectors. They are in **the throes** of very strong competition now, due to number of players who have entered their arena, that is a marketing arena.

They are not only private players, they are MNCs, they are having lot of resources, much more compared to the PSUs. They are operating in an environment, where decision making is much faster compared to the PSUs.

Given that type of culture, and given this PSU culture, now you look at whether this corporate culture, especially of the PSUs, whether it can be changed.

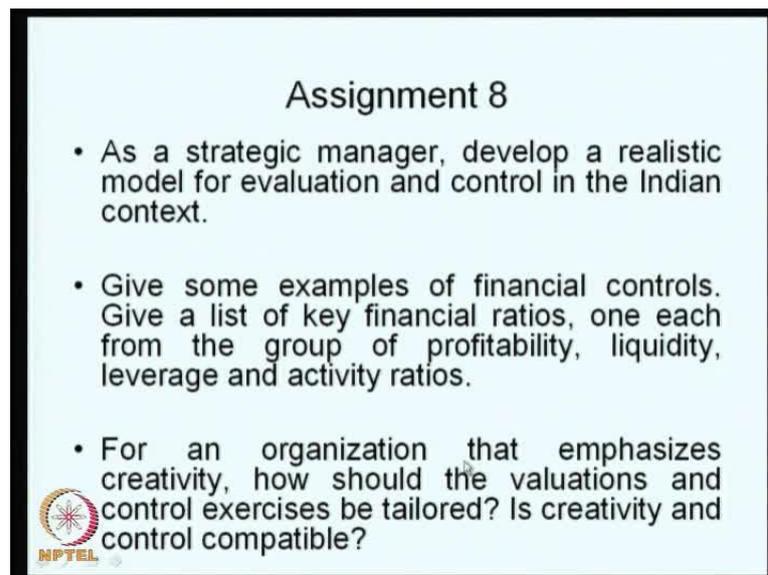
So, this is where I mentioned the example of PSUs asking for level playing field, all those types of decisions, which they wanted to take at their level, instead of the ministry level. So, they said allow us to take decisions, so that, we can perform better. So, you can take all those examples and answer this question. Can corporate culture be changed? If yes, how?

Then, the last question I would like you to answer is, is downsizing a good option for Indian firms? Discuss the pros and cons.

So, now with the onset of liberalization, this downsizing with respect to any firm has become a reality. So, it is giving, it is being given a different name. What is the name that is being given by firms? They do not want to call it downsizing, they want to say it is right-sizing. So, whether it is right-sizing or downsizing?

So, this question here puts this terminology as downsizing only. Is it a good option for Indian firms? So, many of the PSUs have given v r s. Many have taken v r s. Discuss the pros and cons. That is many employees have taken v r s. Now, how does it affect the firm? This is what I would like you to look at. This could be your assignment 7.

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A slide with a light blue background and a black border. At the top center, the text "Assignment 8" is displayed in a bold, black font. Below this, there are three bullet points, each starting with a black dot. The first bullet point reads: "As a strategic manager, develop a realistic model for evaluation and control in the Indian context." The second bullet point reads: "Give some examples of financial controls. Give a list of key financial ratios, one each from the group of profitability, liquidity, leverage and activity ratios." The third bullet point reads: "For an organization that emphasizes creativity, how should the valuations and control exercises be tailored? Is creativity and control compatible?" In the bottom-left corner of the slide, there is a small circular logo with a red and white design, and the word "NPTEL" is written in red capital letters below it.

Assignment 8

- As a strategic manager, develop a realistic model for evaluation and control in the Indian context.
- Give some examples of financial controls. Give a list of key financial ratios, one each from the group of profitability, liquidity, leverage and activity ratios.
- For an organization that emphasizes creativity, how should the valuations and control exercises be tailored? Is creativity and control compatible?

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Then, I want you to attempt one more assignment, that is, assignment number 8. That is, as a strategic manager, develop a realistic model for evaluation and control in the Indian context. We looked at the evaluation and control process. What does it essentially have? Now, take an Indian firm which you know. See whether these processes are being followed. If they are being followed, how they are being followed and what is the extent of success they have been able to achieve? So, you can look at that.

In the second question, I would like you to answer, again with respect to evaluation and control, is give some examples of financial controls. Give a list of key financial ratios, one each from the group of profitability, liquidity, leverage and activity ratios.

We have considered this in great detail. So, you can take any form of your choice. Pick up some ratios from profitability, liquidity, leverage and activity, get their recent values. This can be gotten from the balance sheet and the profit and loss accounts. So, you can calculate that and try to explain, what does it mean to the firm and what does it mean to the business scenario of the firm, all the types of ramifications it can have.

Then the third question I would like you to answer is, for an organization that emphasizes creativity, how should the valuations and control exercises be tailored? Is creativity and control compatible?

I discussed what is creativity, and I also discussed what is this innovation. So, an u k person can be highly creative. Now, that creativity of the person, it has to be translated into commercialization, to come out with an innovative product. So, you put the both seeds together, that is a creativity plus the commercialization, you have this innovation in position.

So, you may be a creative person, but, as long as that creativity is not translatable to the market arena, it remains with you only. That is, the organization is not benefiting from that creativity. So, if you can make the organization benefit from that creativity, use that creativity to come out with innovative products, product lines, whatever it may be, then you are operating at a different level.

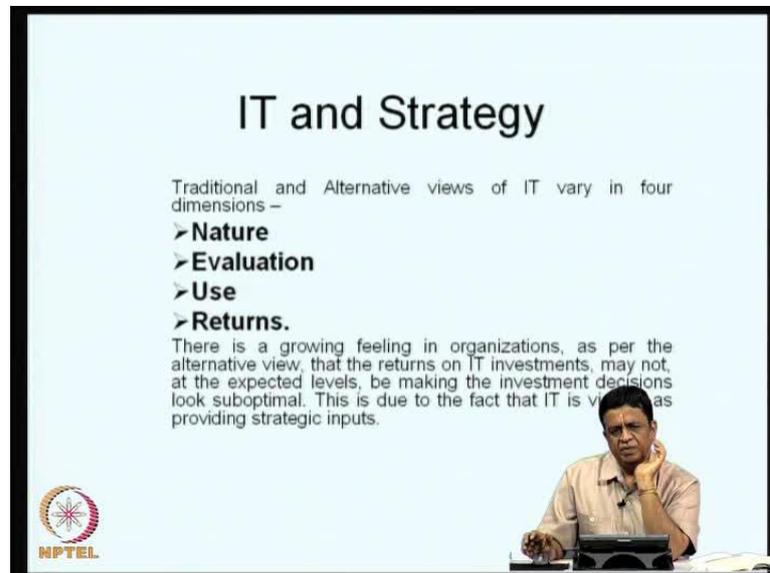
So, this is where I, where you have to look at with respect to this question. Suppose, an organization emphasizes creativity, should it, how should this valuation and control exercise? This is especially important when you are looking at acquisitions and mergers.

So, when an organization is acquiring another firm, or getting merged with another firm. So, suppose it is an organization which puts lot of emphasis on creativity, how are these valuations going to be done?

So, we have looked at how do you value a firm, in the case of mergers, in the case of acquisitions? So is creativity and control compatible? So, can there be a compatibility

between this creativity and control? This is what you have to answer. This is, these are the two further assignments which I would like you to answer.

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The slide is titled "IT and Strategy" in a large, bold, black font. Below the title, it states "Traditional and Alternative views of IT vary in four dimensions –" followed by a bulleted list: "> Nature", "> Evaluation", "> Use", and "> Returns." Below the list, there is a paragraph of text: "There is a growing feeling in organizations, as per the alternative view, that the returns on IT investments, may not, at the expected levels, be making the investment decisions look suboptimal. This is due to the fact that IT is viewed as providing strategic inputs." In the bottom right corner of the slide, there is a small inset image of a man in a light-colored shirt sitting at a desk with a laptop, looking thoughtful. In the bottom left corner of the slide, there is a circular logo with a starburst pattern and the text "NPTEL" below it.

We will continue next, in this session, on what could be these enablers for strategy. One of the enablers for strategy, these are called strategic enablers. One of the enablers for strategy is I T, the other enabler is R and D and the latest one that we are having is what is called the knowledge management.

So, what we will do is, we will look at IT and strategy first, then we will look at R and D and strategy, then we will look at knowledge management. Before we go to the other topics of interest, so, what does this IT and strategy, what do we mean by this IT and strategy?

So, I looked at an organization, told you what was the use of IT earlier. So, an organization was more concerned in using the IT for its payrolls, keeping some employee data, but was not effectively making use of this, all these data. So, this was the scenario about say, some 20 years back, but how has this scenario transformed.

So, this scenario got transformed into IT being used in the process of M I S, that is, management information systems. Then it got used into decision support systems, where you make use of this data, convert this into information, take decisions. Then, the third one where you are operating now is, make use of this IT to take strategic decisions. So,

we are operating at the level as it stands today, at S I S. What is S I S? S I S stands for strategic information systems.

So, when we look at IT and strategy, traditional and alternate views of IT vary in 4 dimensions. So, how was the, what has been, we look at nature, then evaluation, use and returns.

What is the present feeling? There is a growing feeling in organizations as per the alternate view that, the returns on IT investments, may not, at the expected levels, be making the investment decisions look are suboptimal.

So, it, there is a feeling, lot of investment is going towards IT in organizations, but it is not resulting in the expected levels of benefit for the organization. There is a feeling that, this may be due to the fact that IT is viewed as providing strategic inputs.

In other words, organization is expecting more and more from the application of IT. So, when the organization says that we expand our IT facilities, it, it wants that IT facilities expanded, that is the **expanded** IT facilities to result, or to contribute in strategic decision making.

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IT Strategy Components

Sound strategic plans contain at least six components or elements, they include

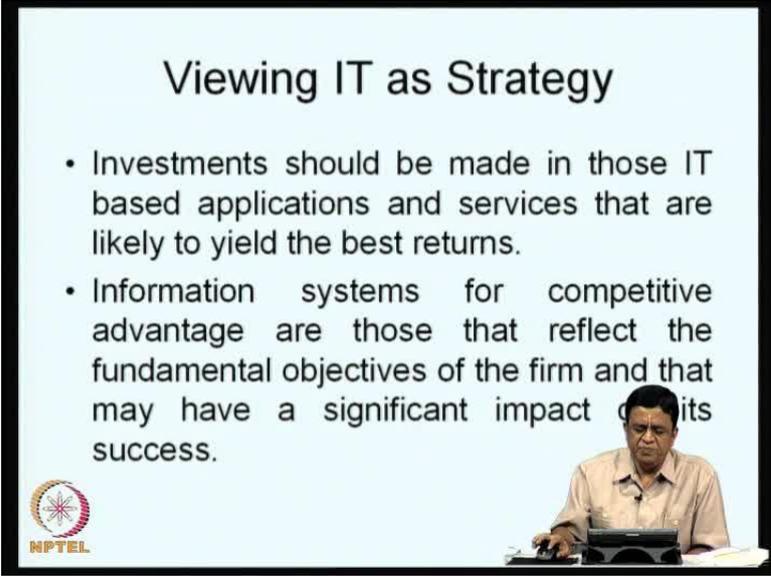
- Application system components
- Application development components
- Infrastructure component
- Maintenance component
- Operations component
- Security component

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What are the IT strategy components?

A sound strategic plan or sound strategic plans, contain at least 6 components or elements. They are, that is, application system components, application development components, then infrastructure component, then maintenance component, then operations component and a security component. Note that, we are only dealing with the IT components at the peripheral level. We are not going very great, we are not going into great depths, with respect to any of these components.

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The slide is titled "Viewing IT as Strategy" and contains two bullet points. The first bullet point states: "Investments should be made in those IT based applications and services that are likely to yield the best returns." The second bullet point states: "Information systems for competitive advantage are those that reflect the fundamental objectives of the firm and that may have a significant impact on its success." In the bottom right corner of the slide, there is a small inset image of a man sitting at a desk with a laptop. In the bottom left corner of the slide, there is the NPTEL logo, which consists of a stylized sun or starburst icon above the text "NPTEL".

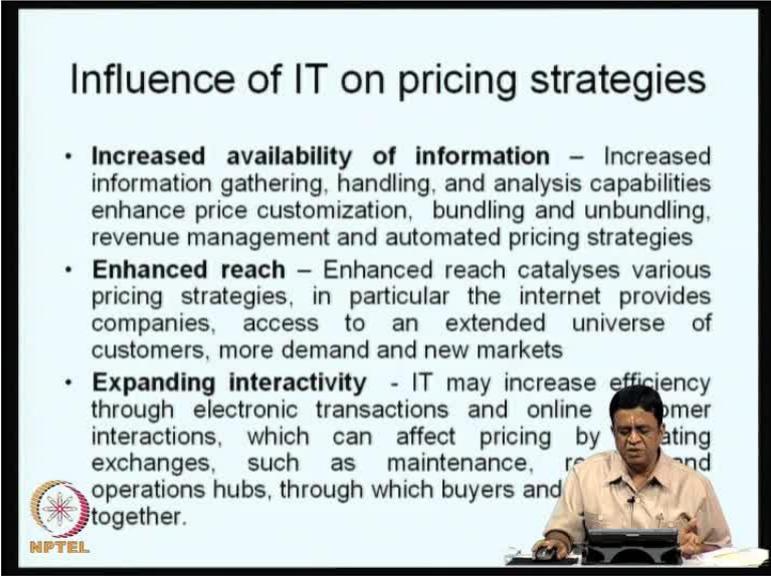
I am only mentioning to you. Suppose you want to increase or expand the IT infrastructure, what are all the components it should have? Now, how do you view IT as a strategy? Investments should be made in those IT applications and services that are likely to yield the best return. So, this is what I was trying to say.

We are not interested in the components per se. That is the(()), as a manager you are always looking at the returns that it is going to give, that is any investment decision that you are going to make, whether it is component a or component b or things like that, you are not per se worried about those components. You are looking at how much investment went into those components, and what is the type of R O I you are getting? One.

Second is, what is the type competitive advantage that these information systems are giving, with respect to other players in the market? This is the other way of looking at it. So, this is what a strategic manager will always be looking at.

He would be looking at, how can the information systems, the investment in the information systems could be leveraged for competitive advantage. So, information systems for competitive advantage are those, that reflect the fundamental objectives of the firm and that may have a significant impact on its success. So, this is the way a strategic manager would like to look at IT.

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Influence of IT on pricing strategies

- **Increased availability of information** – Increased information gathering, handling, and analysis capabilities enhance price customization, bundling and unbundling, revenue management and automated pricing strategies
- **Enhanced reach** – Enhanced reach catalyses various pricing strategies, in particular the internet provides companies, access to an extended universe of customers, more demand and new markets
- **Expanding interactivity** - IT may increase efficiency through electronic transactions and online customer interactions, which can affect pricing by creating exchanges, such as maintenance, repair and operations hubs, through which buyers and sellers come together.

The slide includes an NPTEL logo in the bottom left corner and a video inset in the bottom right corner showing a man in a light-colored shirt sitting at a desk with a laptop, appearing to be presenting or speaking.

Now, as a mark strategic man and also a person who might be influenced or who is going to be certainly influenced by the business environment, you are looking at the influence of IT and pricing strategies.

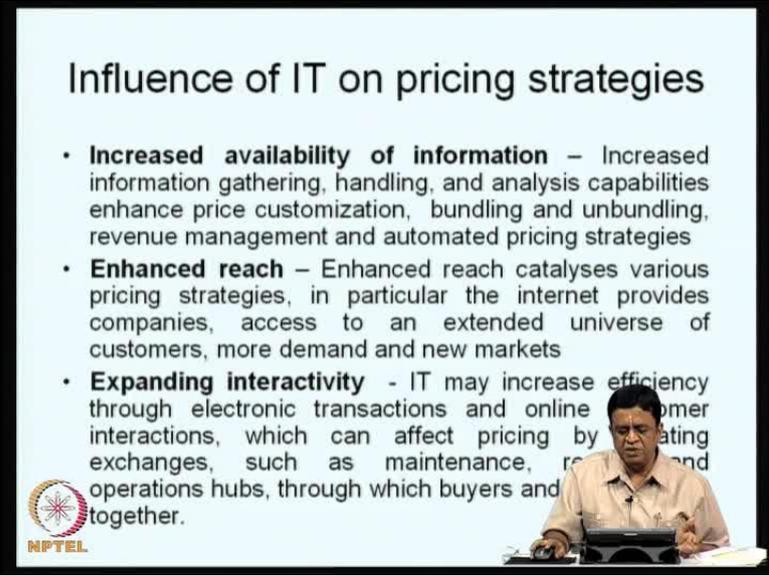
So, how can pricing be used as an effective tool to formulate strategies and where, how IT can be made use of in this process? One is the increased availability of information, that is increased information gathering, handling and analysis capabilities enhance price customization, bundling and, and unbundling, revenue management and automated pricing strategy. So, many of the companies, especially if you look at some of the companies like Honeywell Corporation, pricing strategies is extremely crucial for them. The, the company makes its business from the after sales services. So, it has sold a particular component. Now, its business actually starts after sales. So, some of these, most of these components are used in aerospace industry.

So, when these components come for servicing, back to the, back to Honeywell, this is the time where the company makes its business. So, suppose there is a competitor. There

are competitors actually, for Honeywell also. Suppose he is able to offer a better pricing model compared to Honeywell, then Honeywell is going to lose in the marketplace, which it would never try to.

So, this is where the pricing strategy becomes extremely crucial for organizations. So, an organization, this is just an example of an organization. There are other organizations also, where pricing becomes extremely crucial, especially in consumer products, consumer durables. So, a very good example is that of Hindustan Lever, using this control and pricing very effectively. And in all these, IT can help. Then, the second one is what is called the enhanced reach. What is this enhanced reach?

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The slide is titled "Influence of IT on pricing strategies" and lists three key points:

- **Increased availability of information** – Increased information gathering, handling, and analysis capabilities enhance price customization, bundling and unbundling, revenue management and automated pricing strategies
- **Enhanced reach** – Enhanced reach catalyses various pricing strategies, in particular the internet provides companies, access to an extended universe of customers, more demand and new markets
- **Expanding interactivity** - IT may increase efficiency through electronic transactions and online customer interactions, which can affect pricing by creating exchanges, such as maintenance, repairs and operations hubs, through which buyers and sellers group together.

The slide also features the NPTEL logo in the bottom left corner and a small inset image of a presenter in the bottom right corner.

This enhanced reach catalyzes various pricing strategies, in particular, the internet provides companies access to an extended universe of customers, more demand and new markets. In other words, it can open up new arenas, that is, internet can open up new arenas **for** the company. It can open up new market segments and to that extent your business can be more effective.

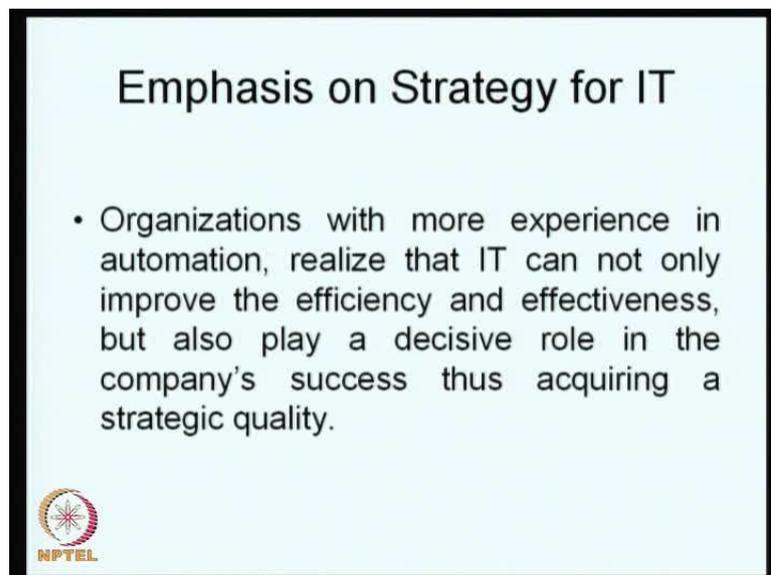
Then, the third one, third influence of IT and pricing strategies is on expanding interactivity, that is, IT may increase efficiency through electronic transactions. This is what we call the e-commerce and online customer interactions, which can affect pricing by creating exchanges, such as maintenance, repairs and operations hubs, through which buyers and sellers group together.

So, you have a situation, where this e-commerce can play a very vital role, especially in a b to b transactions. This is what I was trying to tell you in the earlier classes. Whereas, a c to c transaction or a b to c transaction has not been very promising so far, with respect to the e-commerce.

A b to b transaction has been quite promising. It is taking place between organizations. So, this gives them this expanding interactivity and that could be an important influence on, of IT on pricing strategies.

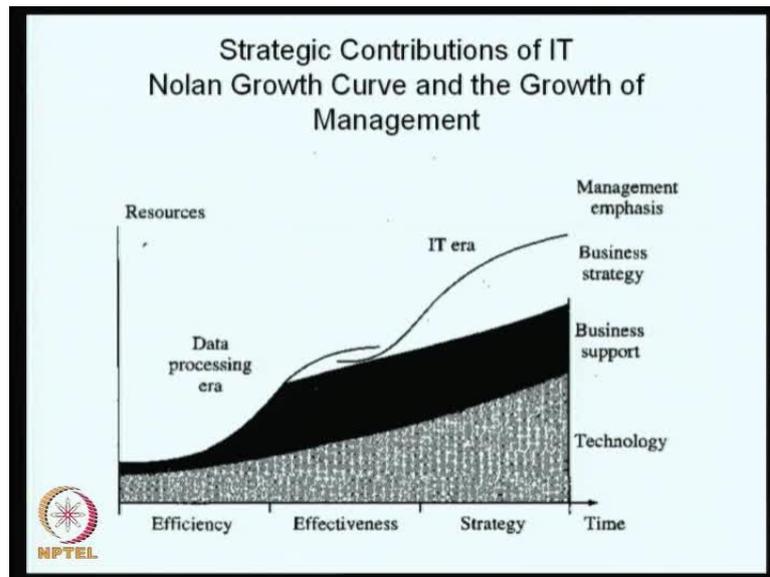
Now, how can the organizations which have got this IT backing or which have delved into IT, how can they leverage on strategy?

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Organizations with more experience in automation realize that, IT can not only improve the efficiency and effectiveness, but also play a decisive role in the company's success, thus acquiring a strategies quality.

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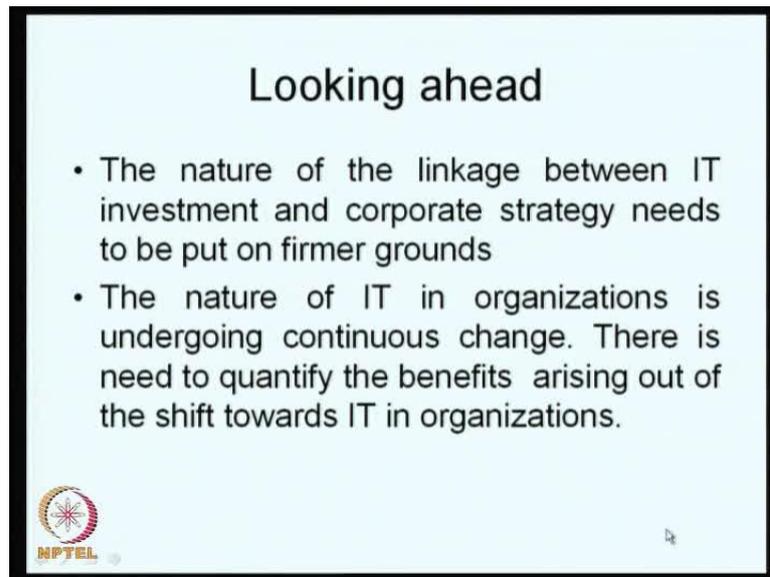
So, the, the company will, the companies will try to get a strategic edge by getting this IT into their fold or getting this IT on their fold.

I am providing for you a graph, which puts down this strategic contribution of IT. This is called the Nolan growth curve and growth of management. So, you had, you had the data processing era earlier here and now you have the IT era.

The data processing era is shown here, the IT era is shown here. Now, where is, what is really happening? If you really see, the resources that are used in the data processing era, is up to this point. It resulted in a certain band of efficiency, effectiveness, strategy over time.

But now, if you look at the IT era, the IT era is contributing to business support, business strategy and the management emphasis. So, whereas, that, that data processing era you were looking at, use of IT for collecting **data**, as I told **you**, with respect to your payrolls, are with respect to your employees, the IT era has changed the scenario drastically. You are looking at business support, you are looking at business strategy, you are looking at management emphasis through IT.

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So, this is what is referred to as the strategy contributions of IT, which is brought out by this growth curve. Now, how does it, what, what is in store? What might be in store in the future? With the type of IT revolution that has taken place, may be something more in the offing also, we do not know to what, what is the form it will take, as... You are looking at what is the type of thing, earlier you had a big computer, the size of that computer started reducing, you went into desktop, now went into laptop, the laptop size has started shrinking, you have caught what is called the atom.

So, your getting into this atom has got further shrunk again, now they are calling, a tablet. So, these are, this is the way IT has, the technology with respect to IT has kept on changing.

Now, given this type of change that is taking place with respect to IT, that is, this is the way the technology is changing the IT scenario or the IT business scenario very fast. You are seeing this, not only with respect to IT, with respect to your mobile phones, with respect to other electronic goods also. So, the changes that are taking place is, by one word if you have to say that, it has been extraordinary. So, you are really seeing a, cataclysmic changes in this fields.

So, when such is a change, as a businessman or as a company, what are you looking at? You made a certain amount of investment at a certain point of time on this IT. All of a sudden, you find within an year or two, the value of that investment has become 0. That

is, if you want to dispose of that equipments or the components that we looked at, we said we are having, for there, as there is, there are likely to be 6 components. You want to get, you want to make salvage value. You may just say that, there is no salvage. You may say, find a situation just within 2 years, the salvage value is 0. That is the type of crucial investment scenario decisions, which the strategic manager is faced with.

So, in the present day set up, he is looking at this types of scenario. He is, he is getting worried. Suppose this much investment going into many times, crores, in big organizations, **made into** these IT umbrella, then what happens? What will be the salvage value? And he finds that, after 2 years, it may drastically come down, even touch 0, then he gets extremely worked up. So, he has to get back the money within that 2 years or 3 years.

So, he wants to look at whether is it possible to realize that value. So, the nature of the result is, the nature of the linkage between IT investment and corporate strategy needs to be put on firmer ground. So, this is what the strategic manager is looking at.

The nature of IT in organizations is undergoing continuous change. There is need to quantify the benefits arising out of the shift towards IT in organizations. So, this is where the job of the strategic manager and the IT manager both are called or both will be called in question.

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R & D and Strategy

R&D has a direct impact on the company's relationships with other companies

Elements of an explicit R&D Strategy

- *The nature of products developed*
- *The nature of markets sought*
- *The nature of technology employed*
- *Orientation and nature of new product process*



Now, we look at one more aspect of, one more enabler for strategy. The other enabler for strategy is what we call the R and D and strategy. So, we, R and D is, as you know a very important component of an industry now.

Now, it has, earlier, we used to look at R and D as, not the main the functional area. We used to look at R and D, as not the main contributor for a company- **we said ok**, we should make some investment in R and D.

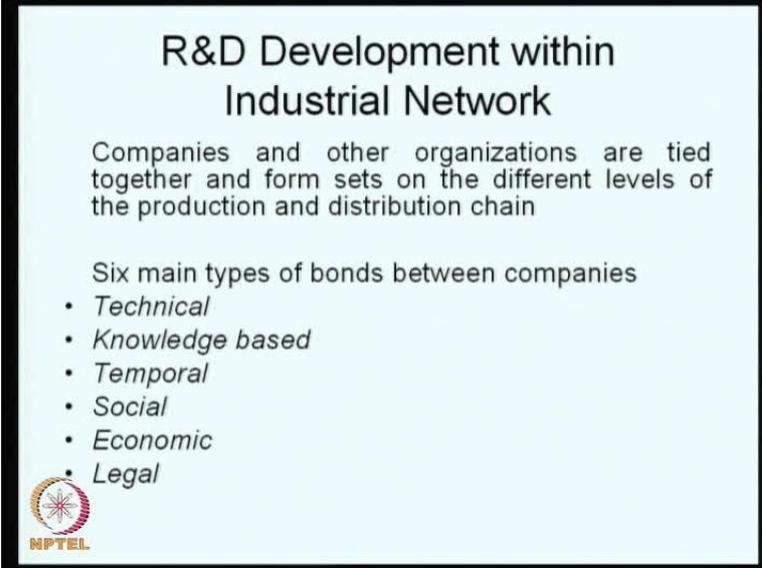
We were not, we, by saying we, the organization were not concentrating or were not putting so much of emphasis, on the types of results that investment in R and D was giving them.

Now, that scenario has undergone a drastic change after this liberalization. So, what are the industries looking at? The industries are looking at applied R and D. They are not worried about the basic R and D. They are saying ok, this much of investment into R and D, how is it helping me? What you mean by helping?

It must translate into attributes of the product or in many cases help the company to come out with new products or product lines.

So, R and D has a direct impact on the company's relationship with other companies. An explicit R and D strategy should contain the following elements, that is, the nature of the products developed, the nature of markets sought, the nature of technology employed, the orientation and nature of new product process. These are the 4 elements which should be made explicit, when you look at an R and D strategy in an organization. That is the nature of products developed, then, the nature of market sought, the nature of technology employed, the orientation and nature of new product process.

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R&D Development within Industrial Network

Companies and other organizations are tied together and form sets on the different levels of the production and distribution chain

Six main types of bonds between companies

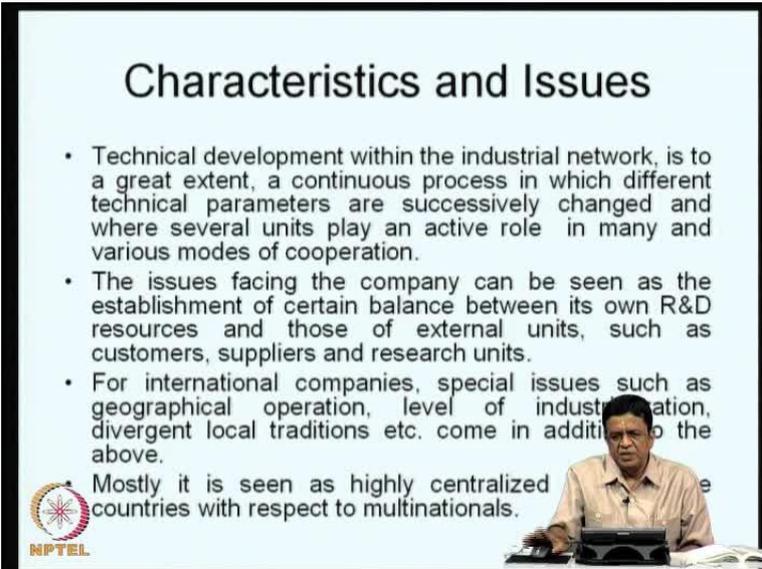
- *Technical*
- *Knowledge based*
- *Temporal*
- *Social*
- *Economic*
- *Legal*



Suppose, you are looking at R and D development within the industrial network. Companies and other organization are tied together and form sets on the different levels of the production and distribution chain.

So, there is sort of relationship between companies. You can visualize 6 main types of bonds between companies, can be technical, can be knowledge based, can be temporal or social, economic, legal.

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Characteristics and Issues

- Technical development within the industrial network, is to a great extent, a continuous process in which different technical parameters are successively changed and where several units play an active role in many and various modes of cooperation.
- The issues facing the company can be seen as the establishment of certain balance between its own R&D resources and those of external units, such as customers, suppliers and research units.
- For international companies, special issues such as geographical operation, level of industrialization, divergent local traditions etc. come in addition to the above.

Mostly it is seen as highly centralized in the developed countries with respect to multinationals.



Given this type of scenario, what are the types of characteristics and issues which you may be faced, in this type of industrial network? So, technical development within the industrial network is to a great extent, a continuous process in which different technical parameters are successively changed and where several units play an active role in many and various modes of cooperation.

So, the, if you really **look at** R and D also in the present scenario, you may not be looking at your own company's R and D. You may be looking at R and D in cooperation with other units, other companies.

So, it is, it is not the, the R and D of your particular unit. There may be different units of the same parent company also. You want to bring all that R and D to the table and see how it can improve the product line.

Sometimes, suppose you are in direct association with other companies. You want to make use of that R and D results also, to change the product line or change the characteristics of your products.

So, the issues facing the company can be seen as the establishment of certain balance between its own R and D resources and those of external units such as, customers, suppliers and research units. So, suppose you are looking at the types of issues, you have to look at your own R and D resources and the external unit. So, a different type of supply chain coming into operation.

For international companies, special issues such as geographical operation, level of industrialization, divergent local traditions, etcetera come, in addition to the above.

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Co Operation Strategies

National companies

- **Introvert R&D Strategy** – all activities within company
- **Extrovert R&D Strategy** – all activities in cooperation with external units

International companies

For national companies pursuing an extrovert strategy the companies can co operate with

- Partners in several different countries
- Domestic partners only
- Only foreign partners in few leading countries

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So, given this type of scenario, these characteristics and issues, you can see as, mostly it is highly centralized in the home countries with respect to multinationals. Now, what is this cooperation strategies, with respect to national companies?

Suppose you are following only an introvert R and D strategy, what do you mean by it? You do not want to share the results of your R and D with any other company, so, you want to hold it within you.

Suppose you are following an extrovert R and D strategy, then you are looking at R and D strategy, all the activities in cooperation with external units. How does the scenario reflect or change with respect to international companies?

For national companies pursuing this extrovert strategy, the companies can cooperate with partners in different countries, domestic partners only, only foreign partners in few leading companies, in few leading countries.

So, this is the way, these scenarios can change. So, you can partner with, partners in several different countries. You can have only domestic partners, you can have only foreign partners in few leading countries.

So, this, in other words, a company- a national company, following this international extrovert R and D strategy, can get into some association, which can be profitable, with this international companies, both to itself and to the others.

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Alternatives for technology cooperation

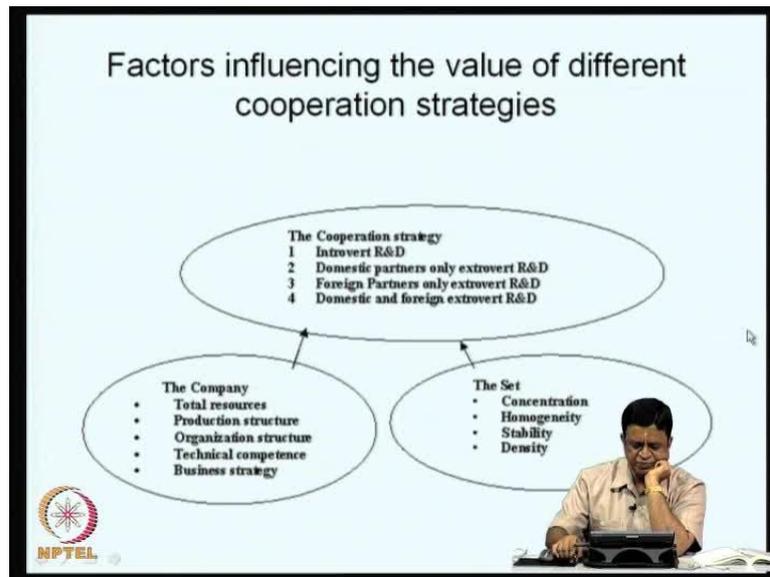
Market Orientation	R&D Organization	Technology Strategy			
		Introvert	Extrovert		
			Only Domestic partners	Only foreign partners	Domestic and foreign partners
National	Centralized				
International	Centralized				
	Decentralized				



Now, these alternatives where technology cooperation are brought out in the form of a table here. You have a market orientation, which is national or international. You have an R and D organization, which can be centralized in the national set up.

In the international setup, it can be centralized or decentralized. The technology strategy can be introvert or it can be - when it is an extrovert, it can be only domestic partners, it can be only foreign partners, or it can be domestic and foreign partners. What I tried to explain earlier, put in the form of the table here, giving the alternatives for technology cooperation.

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Now given this type of a scenario, how, what are the factors that are going to influence or which can influence the value of different cooperation strategies.

Now, we look at this cooperation strategy. This is the top ring here. It has an introvert R and D, a domestic partners only extrovert R and D, then a foreign partners only extrovert R and D, then a domestic and foreign extrovert R and D.

The ring with respect to the company consist of, what is the total resources, what is the production structure, what is the organization structure, what is the technical competence and what is the business strategy. In other words, how does this cooperation strategy affect all these.

The set which is going to affect them, is brought out in these 4 points, one is the concentration, the homogeneity, the stability and the density of the different types of factors that are being considered.

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Looking Ahead

- The framework on R&D needs to be further worked upon. Marketability and profitability angles need to be built in
- There is a need to build in technology relationships in the technology roadmap framework. Organizations should orient themselves towards strategic management of technologies

So, in other words, this R and D is playing a very active role now. It is no longer passive. You, you can never look at R and D in the passive sense, which we were looking at till the late eighties. That scenario is a thing of the past and industries are more interested in applied R and D. They are not interested to that extent in the basic R and D or the pure R and D.

So, how does the industry view the basic R and D or the pure R and D? It views it more from an educational prospective, say they say, if you are an educational institution, concentrate your efforts on pure R and D.

Suppose, you are looking at R and D with respect to an organization, find out the methods by which you have basic R and D which you are doing in the educational institutions, to what extent it can be applied for our business scenario.

A very good example of this applied R and D is the Microsoft research. How it is getting translated? You are finding that Microsoft research is doing research, on its own product offerings. What is the version of this particular product which has been put out into the market? What are the types of features it has and what are the improvements that can be made? What has been the result?

The result has been something **startling**, which its other competitors have found it hard to keep **pace** with. So, for the first time a company started saying, I will cannibalize my own product, a product which was doing well at that particular time in a marketplace.

So, the market to a certain extent, said this is a very desired type of a decision. Why should this product be cannibalized, when it is doing so well? But, the company had, or the chairman of, the founder chairman of the company had reasons. He said, if I am not cannibalizing this product, then my competitor will make it to cannibalize. So, before he does it ((Unable to play video))