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***Strategic Management and Competitive Advantage, 6e* (Barney)**
Chapter 2 Evaluating a Firm's External Environment

1) The _____ consists of broad trends in the context in which a firm operates that can have an impact on a firm's strategic choices.
A) micro-environment
B) general environment
C) task environment
D) internal environment
Answer: B
Diff: 1 Page Ref: 28
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

2) All of the following are elements of the general environment except
A) technological trends.
B) demographic trends.
C) industrial trends.
D) cultural trends.
Answer: C
Diff: 2 Page Ref: 28
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

3) _____ is/are the distribution of individuals in a society in terms of age, sex, marital status, income, ethnicity, and other personal attributes that may determine buying patterns.
A) Demographics
B) Economics
C) Technological trends
D) Culture
Answer: A
Diff: 1 Page Ref: 29
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
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4) The values, beliefs and norms that guide behavior in a society are known as
A) climate.
B) demographics.
C) economics.
D) culture.
Answer: D
Diff: 1 Page Ref: 30
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

5) When activity in an economy is relatively low for a short period of time, the economy is said to be in a
A) recession.
B) depression.
C) prosperous cycle.
D) boom.
Answer: A
Diff: 2 Page Ref: 30
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

6) Civil wars, political coups, terrorism, wars between countries, famines, and country or regional economic recessions are all examples of which element of the general environment?
A) demographics
B) specific international events
C) economics
D) culture
Answer: B
Diff: 2 Page Ref: 31
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Application of Knowledge

7) A firm's general environment consists of broad trends in the context within which the firm operates that can have an impact on the firm's strategic choices.
Answer: TRUE
Diff: 1 Page Ref: 28
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
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8) In general, technological change creates opportunities, but not threats.
Answer: FALSE
Diff: 2 Page Ref: 29
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

9) The aging of the "baby boomer" generation in American society is an example of a demographic trend.
Answer: TRUE
Diff: 2 Page Ref: 29
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Diverse and Multicultural Work Environment

10) Culture is largely the same across the world.
Answer: FALSE
Diff: 2 Page Ref: 30
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

11) Understanding a firm's general environment can help the firm identify some of the threats and opportunities it faces.
Answer: TRUE
Diff: 1 Page Ref: 31
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
AACSB: Analytical Thinking

12) Identify the six interrelated elements that comprise a firm's general environment.
Answer: The six interrelated elements of a firm's general environment include technological change, demographic trends, cultural trends, the economic climate, legal and political conditions and specific international events.
Diff: 1 Page Ref: 28
Learning Obj.: 2.1: Describe the Dimensions of the General Environment Facing a Firm and How this Environment can Affect a Firm's Opportunities and Threats.
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13) In the S-C-P model, _____ refers to the strategies that firms in an industry implement.
A) structure
B) strategy
C) conduct
D) performance
Answer: C
Diff: 2 Page Ref: 33
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

14) In a perfectly competitive industry,
A) there are relatively few firms operating in the industry.
B) the products and services sold by firms in the industry are very different from each other.
C) it is very costly for firms to enter the industry.
D) it is not very costly for firms to enter or exit the industry.
Answer: D
Diff: 3 Page Ref: 35
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

BidBuy is the world's leading online auction company. When BidBuy was founded ten years ago it was the first online auction company, and it has been the leader since it was founded. Although there are other firms in the industry, BidBuy controls over 75% of the market in the United States, and three additional firms control another 20% of the U.S. market. One of the aspects of BidBuy that keeps users from changing to other online auction companies is the large user base BidBuy has built and a feedback rating system that allows buyers and sellers to rate their satisfaction with each other following each transaction. This allows users to build a reputation for honesty and trustworthiness. Sellers with a high feedback rating tend to receive more bids on their auctions and a higher price for their goods. To help facilitate payment transfers between buyers and sellers following successful online auctions, companies such as DollarDog have been founded, and these companies have facilitated growth for BidBuy. Having attained a 75% market share in the U.S., BidBuy has begun expanding internationally, opening its own sites in some countries and purchasing incumbents in others. In its international expansion, BidBuy has allowed its individual companies to customize their offerings according to the needs and desires of the countries in which they operate and when these companies are successful, BidBuy works to transfer these successful capabilities throughout the firm.

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15) Which of the following best describes the competition in the U.S. online auction industry?
A) perfect competition
B) monopolistic competition
C) oligopoly
D) monopoly
Answer: C
Diff: 2 Page Ref: 35
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Application of Knowledge

16) In the structure-conduct-performance model, the term "structure" refers to industry structure, which can be measured by such factors as the number of competitors in an industry.
Answer: TRUE
Diff: 2 Page Ref: 33
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

17) In the structure-conduct-performance model, the term "performance" refers solely to the performance of individual firms.
Answer: FALSE
Diff: 2 Page Ref: 33
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

18) In a perfectly competitive industry, a large number of firms have products and services that are similar to each other and it is not very costly for firms to enter into or exit these markets.
Answer: TRUE
Diff: 2 Page Ref: 32
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

19) The S-C-P model assumes that any competitive advantages a firm has in an industry must benefit society.
Answer: FALSE
Diff: 3 Page Ref: 32
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
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20) According to the S-C-P model, attributes of the industry structure within which a firm operates define the range of options and constraints facing a firm.
Answer: TRUE
Diff: 2 Page Ref: 33
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

21) Monopolistically competitive industries consist of only a single firm.
Answer: FALSE
Diff: 3 Page Ref: 35
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

22) Identify and define the three elements of the S-C-P model.
Answer: The three elements of the (structure-conduct-performance S-C-P) model are structure, which in this model refers to industry *structure*, measured by such factors as the number of competitors in an industry, the heterogeneity of products in an industry, and the cost of entry and exit in an industry, *conduct*, which refers to the strategies that firms in an industry implement and *performance*, which includes both the performance of individual firms and the performance of the economy as a whole.
Diff: 2 Page Ref: 33
Learning Obj.: 2.2: Describe How the Structure-Conduct-Performance (S-C-P) Model Suggests that Industry Structure Can Influence a Firm's Competitive Choices.
AACSB: Analytical Thinking

23) Within the five forces framework, the five most common threats facing firms from their competitive environment include each of the following except
A) substitutes.
B) complementors.
C) suppliers.
D) buyers.
Answer: B
Diff: 2 Page Ref: 34
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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24) Firms in industries characterized by _____ can expect to earn only competitive parity.
A) perfect competition
B) monopolistic competition
C) oligopoly
D) monopoly
Answer: A
Diff: 3 Page Ref: 35
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

25) Which type of competition is characterized by a large number of firms, heterogeneous products and low cost of entry and exit?
A) perfect competition
B) monopolistic competition
C) oligopoly
D) monopoly
Answer: B
Diff: 2 Page Ref: 35
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

26) Which type of competition is characterized by a small number of firms, homogeneous products and costly entry and exit?
A) perfect competition
B) monopolistic competition
C) oligopoly
D) monopoly
Answer: C
Diff: 2 Page Ref: 35
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

27) A(n) _____ is any individual, group, or organization outside a firm that seeks to reduce the level of that firm's performance.
A) environmental threat
B) environmental opportunity
C) environmental equalizer
D) competitive advantage
Answer: A
Diff: 1 Page Ref: 34
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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28) Firms that have either recently begun operations in an industry or that threaten to begin operations in an industry soon are considered to be _____ in the five forces framework.
A) barriers to entry
B) new competitors
C) suppliers
D) buyers
Answer: B
Diff: 1 Page Ref: 34
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

29) _____ exist when a firm's costs rise as a function of its volume of production.
A) Economies of scale
B) Economies of scope
C) Diseconomies of scale
D) Learning curve effects
Answer: C
Diff: 2 Page Ref: 36
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

30) All other things being equal, which of the following would lead to lower barriers to entry in an industry?
A) The existence of economies of scale in the industry.
B) Products are highly differentiated in the industry.
C) Industry incumbents have learning-curve cost advantages.
D) Raw materials are widely and readily available at a competitive price.
Answer: D
Diff: 3 Page Ref: 36
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

31) Frequent price cutting by firms in an industry, frequent introduction of new products by firms in an industry and intense advertising campaigns are indications of
A) high power of buyers.
B) high threat of new entrants.
C) high levels of direct competition.
D) high threat of substitutes.
Answer: C
Diff: 2 Page Ref: 40
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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32) The threat of direct competition tends to be high when
A) there are few firms in an industry and these firms tend to be unequal in size.
B) the industry growth rate is high.
C) firms are unable to differentiate their products.
D) production capacity can be added in small increments.
Answer: C
Diff: 3 Page Ref: 40
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

33) The products or services provided by a firm's direct competitors meet _____ customer needs in _____ ways as the product provided by the firm itself.
A) different; the same
B) approximately the same; the same
C) different; different
D) approximately the same; different
Answer: B
Diff: 3 Page Ref: 41
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

34) The products or services provided by a firm's substitutes meet _____ customer needs in _____ ways as the product provided by the firm itself.
A) different; the same
B) approximately the same; the same
C) different; different
D) approximately the same; different
Answer: D
Diff: 3 Page Ref: 41
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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35) Which of the following statements regarding substitutes is accurate?
A) In the extreme, substitutes can ultimately replace an industry's products or services.
B) Substitutes place a floor on the prices firms in an industry can charge and on the profits firms in an industry can earn.
C) Substitutes rarely impact the profitability that firms in an industry can earn.
D) The importance of substitutes in reducing the profit potential in a wide variety of industries is decreasing.
Answer: A
Diff: 3 Page Ref: 41
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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36) _____ make a wide variety of raw materials, labor and other critical assets available to firms.
A) Buyers
B) Rivals
C) Suppliers
D) Substitutes
Answer: C
Diff: 1 Page Ref: 42
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

37) Which of the following attributes makes suppliers a stronger threat?
A) The supplier's industry is dominated by a small number of firms.
B) The product or service provided by suppliers is not highly differentiated.
C) Suppliers are threatened by substitutes.
D) Suppliers are not able to engage in forward vertical integration.
Answer: A
Diff: 2 Page Ref: 42
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

38) Which of the following is the best example of forward vertical integration?
A) a car dealership opening up its own automobile manufacturing plant
B) a car company opening its own dealerships to sell its products directly to customers
C) a car company opening its own chain of video rental stores
D) a car company opening a plant to produce motorcycles
Answer: B
Diff: 3 Page Ref: 43
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Application of Knowledge

39) Buyers tend to have less power when
A) a firm has only one buyer, or a small number of buyers.
B) the products or services being sold to buyers are standard and not differentiated.
C) the supplies they purchase are an insignificant portion of the costs of their final products.
D) they are not earning significant economic profits.
Answer: C
Diff: 2 Page Ref: 43
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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40) Overall, the average level of performance in an industry is likely to be highest when
A) the threat level of all five forces is high.
B) the threat level of rivalry and substitutes is low, but the threat level of suppliers, buyers and new entrants is high.
C) the threat level of rivalry, substitutes and new entrants is high, but the threat level of buyers and supplies is low.
D) the threat level of all five forces is low.
Answer: D
Diff: 3 Page Ref: 44
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

41) The level of direct competition in the fastfood industry can best be described as
A) low because of the numerous firms in the industry and the slowing growth rate.
B) low because of the slowing growth rate and the competition from composite wood furniture.
C) high because of the numerous firms in the industry and the slowing growth rate.
D) moderate because the slowing growth rate offsets the numerous firms in the industry.
Answer: C
Diff: 3 Page Ref: 40
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Application of Knowledge

42) The threat of suppliers in the legal industry can best be described as
A) low because there are a large number of suppliers selling an undifferentiated product.
B) high because there are a large number of suppliers selling an undifferentiated product.
C) moderate because the large number of suppliers is offset by the undifferentiated products they are selling.
D) moderate because of the slowing growth rate in the industry and the commodity nature of the products produced by suppliers.
Answer: A
Diff: 3 Page Ref: 42
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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43) Jay Z recently started Tidal, an "artist friendly" streaming company. This would be an example of
A) complementors.
B) backward vertical integration.
C) consolidation.
D) forward vertical integration.
Answer: D
Diff: 2 Page Ref: 43
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Application of Knowledge

44) In the hardwood furniture industry, composite wood furniture would be an example of a(n)
A) substitute.
B) rival.
C) new entrant.
D) complementor.
Answer: A
Diff: 2 Page Ref: 41
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Application of Knowledge

45) The threat of buyers in the hardwood furniture industry is best described as
A) high because there are many suppliers, none of which represents a significant portion of the hardwood furniture industry's sales.
B) low because of the slow industry growth and the commodity nature of the suppliers.
C) low because there are many suppliers, none of which represents a significant portion of the hardwood furniture industry's sales.
D) high because of the slow industry growth and the commodity nature of the suppliers.
Answer: C
Diff: 2 Page Ref: 43
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Application of Knowledge

46) The five forces framework is based on the S-C-P model and identifies the five most common threats facing firms from their local competitive environment and the conditions under which these threats are more or less likely to be present.
Answer: TRUE
Diff: 1 Page Ref: 34
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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47) Within the five forces framework, when all five threats are very high, competition in the industry begins to approach a monopoly.
Answer: FALSE
Diff: 2 Page Ref: 35
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

48) Incumbent firms may have a whole range of cost advantages compared to new competitors.
Answer: TRUE
Diff: 2 Page Ref: 36
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

49) The threat of entry in an industry depends on the cost of entry, and the cost of entry, in turn, depends upon the existence and "height" of barriers to entry.
Answer: TRUE
Diff: 1 Page Ref: 36
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

50) Diseconomies of scale exist in an industry when a firm's costs fall as a function of that firm's volume of production.
Answer: FALSE
Diff: 2 Page Ref: 36
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

51) Brand identification and customer loyalty serve as entry barriers because new entrants not only have to absorb the standard costs associated with starting production in a new industry, but also have to absorb the costs associated with overcoming an incumbent firm's differentiation advantages.
Answer: TRUE
Diff: 2 Page Ref: 38
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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52) Proprietary technology often is more important as a barrier to entry than is managerial know-how.
Answer: FALSE
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Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

53) Learning-curve cost advantages are present when the cost of production falls with the cumulative volume of production.
Answer: TRUE
Diff: 1 Page Ref: 40
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

54) The threat of existing competition tends to be high in an industry when firms are able to meaningfully differentiate their products.
Answer: FALSE
Diff: 2 Page Ref: 40
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

55) In an industry, the products or services provided by a firm's direct competition meet approximately the same customer needs in the same way as the products or services provided by the firm itself, whereas substitutes meet approximately the same customer needs but do so in different ways.
Answer: TRUE
Diff: 3 Page Ref: 41
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

56) A firm's supplier poses a greater threat if the supplier's industry has a large number of firms, none of which dominate the supplying industry, than if the supplier's industry is dominated by a small number of firms.
Answer: FALSE
Diff: 3 Page Ref: 42
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57) Suppliers are a greater threat to firms in an industry when suppliers are threatened by substitutes.
Answer: FALSE
Diff: 2 Page Ref: 42
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

58) The threat of buyers is greater if the products or services that are being sold to buyers are standard and not differentiated than if the products sold to buyers are highly differentiated.
Answer: TRUE
Diff: 2 Page Ref: 43
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

59) If the owner of a jewelry store who normally purchased diamonds from a diamond brokerage firm were to open his own diamond brokerage firm, this would be an example of forward vertical integration.
Answer: FALSE
Diff: 2 Page Ref: 43
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Application of Knowledge

60) In general, it is rarely the case that all five forces in the five forces framework will be equally threatening at the same time.
Answer: TRUE
Diff: 1 Page Ref: 44
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

61) Identify the five most common threats facing firms from their local competitive environment that are represented in the five forces framework, and discuss under what conditions firms in a specific industry are most likely to earn an above average profit and when they are likely to earn a below average profit.
Answer: The five threats that constitute the five forces framework include the threat from new competition, the threat from competition among existing companies, the threat of substitutes, the threat of suppliers, and the threat of buyers. When all five threats are low, competition begins to approach what economists call a monopoly and firms are able to earn above average profits. Alternatively, when all five forces are very high, competition begins to approach perfect competition and the best firms can hope to earn is competitive parity.
Diff: 2 Page Ref: 34
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
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62) Identify the four types of competition, the attributes of each type and the expected performance under each.
Answer: The four types of competition include perfect competition, monopolistic competition, oligopoly and monopoly. Perfect competition is characterized by a large number of firms, homogeneous products and low cost entry and exit. Firms in these industries can expect to earn only competitive parity. Monopolistic competition is characterized by a large number of firms, heterogeneous products and low cost entry and exit. Firms in such industries can earn a competitive advantage. Oligopoly is characterized by a small number of firms, homogeneous products, and costly entry and exit; firms in such industries can earn a competitive advantage. Finally, monopoly is characterized by one firm and costly entry. Firms in such industries can earn a competitive advantage.
Diff: 2 Page Ref: 35
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

63) Discuss the difference between a company's existing direct competitors and its substitutes and discuss the role substitutes play in an industry.
Answer: The products or services provided by a firm's rivals meet approximately the same customers' needs in the same ways as the products or services provided by the firm itself, while substitutes meet approximately the same customers' needs but do so in different ways. Substitutes place a ceiling on the prices firms in an industry can charge and on the profits firms in an industry can earn.
Diff: 2 Page Ref: 40
Learning Obj.: 2.3: Describe the Five Environmental Threats and Indicators of When each of These Threats will Enhance or Reduce the Attractiveness of an Industry.
AACSB: Analytical Thinking

64) If your customers value your products more when they have your product and another firm's product rather than when they have your product alone, the other firm is considered to be a
A) competitor.
B) complementor.
C) rival.
D) substitute.
Answer: B
Diff: 2 Page Ref: 45
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
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BidBuy is the world's leading online auction company. When BidBuy was founded ten years ago it was the first online auction company, and it has been the leader since it was founded. Although there are other firms in the industry, BidBuy controls over 75% of the market in the United States, and three additional firms control another 20% of the U.S. market. One of the aspects of BidBuy that keeps users from changing to other online auction companies is the large user base BidBuy has built and a feedback rating system that allows buyers and sellers to rate their satisfaction with each other following each transaction. This allows users to build a reputation for honesty and trustworthiness. Sellers with a high feedback rating tend to receive more bids on their auctions and a higher price for their goods. To help facilitate payment transfers between buyers and sellers following successful online auctions, companies such as DollarDog have been founded, and these companies have facilitated growth for BidBuy. Having attained a 75% market share in the U.S., BidBuy has begun expanding internationally, opening its own sites in some countries and purchasing incumbents in others. In its international expansion, BidBuy has allowed its individual companies to customize their offerings according to the needs and desires of the countries in which they operate and when these companies are successful, BidBuy works to transfer these successful capabilities throughout the firm.

65) For BidBuy, services such as those offered by DollarDog that make BidBuy's services more valuable for customers who use the services of both companies are best described as
A) complementors.
B) substitutes.
C) rivals.
D) suppliers.
Answer: A
Diff: 2 Page Ref: 45
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
AACSB: Application of Knowledge

66) Factors such as BidBuy's feedback rating system that are valuable to the company's customers but which are not useful on other online auction sites are examples of
A) first-mover advantages.
B) complementors.
C) substitutes.
D) customer-switching costs.
Answer: D
Diff: 2 Page Ref: 51
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
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67) BidBuy has a _____ advantage.
A) visionary
B) global
C) first-mover
D) comparative
Answer: C
Diff: 3 Page Ref: 50
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
AACSB: Application of Knowledge

68) Sophisticated software can enhance the value that customers receive from a personal computer. Therefore, software can be said to be a complementor of a personal computer.
Answer: TRUE
Diff: 2 Page Ref: 45
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
AACSB: Application of Knowledge

69) According to Bradenburger and Nalebluff, a firm's competitors help increase the size of a firm's markets while complementors divide this market among a set of firms.
Answer: FALSE
Diff: 2 Page Ref: 45
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
AACSB: Analytical Thinking

70) It is possible for a single firm to be a complementor of one firm and a competitor of another.
Answer: TRUE
Diff: 2 Page Ref: 45
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
AACSB: Analytical Thinking

71) Describe the difference between a competitor and a complementor and identify the role complementors play in an industry.
Answer: A firm is a competitor if your customers value your product less when they have this other firm's product than when they have your product alone. On the other hand, another firm is a complementor if your customers value your products more when they have this other firm's product than when they have your product alone. It is possible for a firm to be a complementor for some firms and competitors for others and it is also possible for a single firm to be both a competitor and a complementor, especially in industries where it is important to create technological standards.
Diff: 2 Page Ref: 45
Learning Obj.: 2.4: Discuss the Role of Complements in Analyzing Competition within an Industry.
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72) An industry in which a large number of small or medium-sized firms operate and no small set of firms has dominant market share or creates dominant technologies is known as a(n) _____ industry.
A) fragmented
B) consolidated
C) mature
D) emerging
Answer: A
Diff: 1 Page Ref: 49
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

73) The major opportunity facing firms in fragmented industries is
A) refining their current products and emphasizing an increase in service quality.
B) developing new products and technologies.
C) creating a first-mover advantage through technological leadership.
D) the implementation of strategies that began to consolidate the industry into a smaller number of firms.
Answer: D
Diff: 2 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

74) The advantages that come to firms that make important strategic and technological decisions early in the development of an industry are known as _____ advantages.
A) first-mover
B) competitive
C) comparative
D) emerging
Answer: A
Diff: 1 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

75) In general, first-mover advantages can arise from any of these sources except
A) technological leadership.
B) preemption of strategically valuable assets.
C) the creation of customer switching costs.
D) using an imitative strategy to introduce improved versions of competitors' new products.
Answer: D
Diff: 3 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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76) Mature industries are characterized by
A) an increase in total industry demand.
B) faster increases in production capacity.
C) a slowdown in the introduction of new products or services.
D) a decrease in the amount of international competition.
Answer: C
Diff: 2 Page Ref: 53
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

77) The most promising opportunity for a firm in a declining industry is to
A) establish itself as a first mover in the post-shakeout industry.
B) become a market leader in the pre-shakeout industry.
C) become a fast follower in the pre-shakeout industry.
D) merge with another firm.
Answer: B
Diff: 2 Page Ref: 55
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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78) Firms in a declining industry that engage in a long, systematic phased withdrawal from the industry, extracting as much value as possible during the withdrawal period, are following a(n) _____ strategy.
A) niche
B) expansion
C) divestment
D) harvest
Answer: D
Diff: 2 Page Ref: 56
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

79) In the 1980s, the video cassette rental industry had a large number of small firms with no firm with a dominant market share. The video cassette rental industry in the 1980s was a(n) _____ industry.
A) fragmented
B) mature
C) emerging
D) declining
Answer: A
Diff: 2 Page Ref: 49
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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80) _____ are advantages that come to firms that make important strategic and technological decisions early in the development of an industry.
A) Visionary advantages
B) First-mover advantages
C) Comparative advantages
D) Missionary advantages
Answer: B
Diff: 1 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

81) A consolidation strategy is a good option in what type of industry?
A) mature
B) emerging
C) fragmented
D) declining
Answer: C
Diff: 2 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

82) _____ are resources required to successfully compete in an industry.
A) Strategically valuable assets
B) Technological leader strategies
C) Process innovations
D) Product innovations
Answer: A
Diff: 2 Page Ref: 51
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

83) _____ costs exist when customers make investments in order to use a firm's particular products or services.
A) First-mover-switching
B) Technological leadership-switching
C) Customer-switching
D) Process-switching
Answer: C
Diff: 1 Page Ref: 51
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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Hickory Divine is one of the leading manufacturers in the hardwood furniture industry. Hickory Divine has many small competitors, none of which controls a significant portion of the industry. Hickory, like most of the furniture manufacturers, sells its products to a broad variety of small furniture stores throughout the country, none of which represents a large percentage of Hickory's sales. When purchasing the products it uses for manufacturing its furniture, Hickory is able to choose from many suppliers since the wood it uses is an undifferentiated commodity, and Hickory is able to easily switch to any supplier that has the best price and delivery times. While growth in the hardwood furniture industry has historically been in the double digits, the industry growth rate has slowed considerably into the single digits, to approximately 5% in recent years; consumers have been purchasing less expensive furniture made of composite wood that is considerably less expensive than hardwood furniture but that looks and functions very similarly once it is painted.

84) Based on the above description, the hardwood furniture industry can best be described as a(n) _____ industry.
A) emerging
B) fragmented
C) consolidated
D) declining
Answer: B
Diff: 2 Page Ref: 49
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Application of Knowledge

85) An emerging industry is an industry in which a large number of small or medium-sized firms operate and no small set of firms has a dominant market share or creates dominant technologies.
Answer: FALSE
Diff: 2 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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86) The major opportunity facing firms in fragmented industries is the implementation of strategies that begin to consolidate the industry into a smaller number of firms.
Answer: TRUE
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Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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87) First movers that invest only in technology usually obtain sustained competitive advantages, even if they do not tie up strategically valuable resources in an industry before their full value is widely understood.
Answer: FALSE
Diff: 2 Page Ref: 50
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

88) If you were to purchase a new Apple iPod and were unable to use your previously downloaded library of digital music with your new iPod, this would be an example of a customer-switching cost you would incur to use Apple's product.
Answer: TRUE
Diff: 3 Page Ref: 51
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Application of Knowledge

89) Mature industries are characterized by elements such as increasing growth in total industry demand, significant increases in product capacity, and an overall increase in the profitability of firms in the industry.
Answer: FALSE
Diff: 3 Page Ref: 53
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

90) Product innovation is an effort to refine and improve a firm's current processes.
Answer: FALSE
Diff: 2 Page Ref: 54
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

91) A fragmented industry is an industry that has experienced an absolute decline in unit sales over a sustained period of time.
Answer: FALSE
Diff: 2 Page Ref: 54
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92) A firm following a niche strategy in a declining industry reduces its scope of operations and focuses on narrow segments of the declining industry.
Answer: TRUE
Diff: 1 Page Ref: 55
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

93) Firms pursuing a harvest strategy in a declining industry do not expect to remain in the industry over the long term.
Answer: TRUE
Diff: 2 Page Ref: 56
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
AACSB: Analytical Thinking

94) The objective of divestment is to extract a firm from a declining industry.
Answer: TRUE
Diff: 2 Page Ref: 56
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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95) All divestments are caused by industry decline.
Answer: FALSE
Diff: 2 Page Ref: 56
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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96) Identify the four generic industry structures and the specific strategic opportunities in each of these industries.
Answer: The four generic industry structures are fragmented industries, emerging industries, mature industries, and declining industries.
Fragmented industries are industries in which a large number of small or medium-sized firms operate and no small set of firms has dominant market share or creates dominant technologies. The major opportunity facing firms in fragmented industries is the implementation of strategies that begin to consolidate the industry into smaller firms.
Emerging industries are newly created, or newly recreated industries formed by technological innovations, changes in demand, and the emergence of new customer needs. The opportunities that face firms in emerging industries fall into the general category of first-mover advantages or making important strategic and technological decisions early in the development of an industry.
Mature industries are those experiencing slowing growth in total industry demand, the development of experienced repeat customers, a slowdown in increases in production capacity, a slow-down in the introduction of new products and services, an increase in the amount of international competition, and overall reduction in the profitability of firms in the industry. Opportunities for firms in mature industries focus on a greater emphasis on refining a firm's current products, on increasing the quality of service, on reducing manufacturing costs, and on increasing quality through process innovations.
A **declining industry** is an industry that has experienced an absolute decline in unit sales over a sustained period of time. The major strategic options that face firms in this kind of industry are leadership, niche, harvest and divestment.
Diff: 2 Page Ref: 47
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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97) Identify and clearly distinguish between the four strategic options available to firms in a declining industry.
Answer: The four major strategic options available to firms in a declining industry are leadership, niche, harvest and divestment. One strategy is for a firm to position itself to become a market leader in the pre-shakeout industry by becoming the firm with the largest market share in that industry. The purpose of becoming the marker leader is to facilitate the exit of firms that are not likely to survive a shakeout. A firm following a niche strategy in a declining industry reduces its scope of operations and focuses on narrow segments of the declining industry. Firms pursuing a harvest strategy engage in a long, systematic, phased withdrawal, extracting as much value as possible during the withdrawal period. Finally, firms pursuing divestment extract a firm from the declining industry, but do so soon after a pattern of decline is established in an industry.
Diff: 2 Page Ref: 55
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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98) What are customer-switching costs?
Answer: Customer-switching costs exist when customers make investments in order to use a firm's particular products or services. These investments tie customers to a particular firm and make it more difficult for customers to begin purchasing from other firms.
Diff: 2 Page Ref: 51
Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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99) What is a harvest strategy?
Answer: In a harvest strategy, which is usually employed in a declining industry, the firm engages in a long, systematic withdrawal, extracting as much value as possible during the withdrawal period. This can work if there is some value to harvest.
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Learning Obj.: 2.5: Describe Four Generic Industry Structures and Specific Strategic Opportunities in Those Industries.
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