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Chapter 02

Analyzing the External Environment of the Firm: Creating Competitive Advantages

True / False Questions

1. Environmental scanning and competitor intelligence provide important inputs for forecasting activities.

   True False

2. Perceptual acuity, according to Ram Charan, is the ability to know for certain what will happen in the future.

   True False

3. Ted Turner saw the potential of 24-hour news before anyone else. This is an example of perceptual acuity.

   True False

4. Perceptual acuity can be improved by sitting alone and not consulting others.

   True False

5. One CEO gets together with his critical people for half a day every eight weeks to discuss what's new and what's going on in the world. The setting is informal, and outsiders often attend. This is an example of how *not* to improve perceptual acuity.

   True False

6. A CEO meets four times a year with about four other CEOS of large, but noncompeting, diverse global companies. This is an example of how to improve perceptual acuity.

   True False

7. Two companies ask outsiders to critique strategy during their board's strategy sessions. Such input typically leads to spirited discussions that provide valued input on the hinge assumptions and options that are under consideration. This is an example of how to improve perceptual acuity.

   True False

8. Scenario planning is useful for anticipating major future changes in the external environment.

   True False

9. Environmental monitoring is *not* an input to forecasting.

   True False

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10. When management assumptions, premises, or beliefs are incorrect or when internal inconsistencies among them render the overall theory of the business invalid, the strategy of the firm needs to be updated.

    True False

11. Consider the example of Salemi Industries and the launch of its product, Cell Zone, in 2005. Although it tried to carefully analyze its potential market, it misread the market demand for the product and paid a steep price for its mistake. This is an example of internal forecasting.

    True False

12. If companies miscalculate the market, opportunities will be lost.

    True False

13. Blockbuster, Borders, Circuit City, and Radio Shack are examples of firms that did *not* have good perceptual acuity.

    True False

14. Environmental monitoring deals with tracking changes in environmental trends that are often uncovered during the environmental scanning process.

    True False

15. Competitor Intelligence (CI) is a tool that can provide management with early warnings about both threats and opportunities.

    True False

16. Competitive intelligence generally does *not* benefit very much from gathering information on competitors from sources in the public domain.

    True False

17. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

    True False

18. Environmental scanning involves surveillance of the internal environment of a firm to predict environmental changes and detect changes already under way.

    True False

19. Scenario analysis is a superficial approach to forecasting that seeks to explore possible developments that many only be connected to the past.

    True False

20. SWOT analysis is useful in part because it obliges the firm to act proactively by putting an emphasis on identifying opportunities and threats that constrain the action choices a firm might make as a result of its internal and external environmental scan.

    True False

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21. In the SWOT framework, the Strengths and Weaknesses are external environmental factors to consider.

True False

22. In the SWOT framework, Opportunities and Threats are environmental conditions internal to the firm.

True False

23. A Motel 6 executive indicates that he regularly reviews the number of rooms in the budget segment of the industry in the United States and the difference between the average daily room rate and the consumer price index (CPI). This is an example of Competitive Intelligence.

True False

24. Keeping track of competitors has become more difficult today with the amount of information that is available on the Internet.

True False

25. Code of Ethics guidelines can assist companies in avoiding aggressive competitive intelligence gathering that results from illegal behaviors.

True False

26. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

True False

27. Scenario planning is usually concerned with short-term forecasts.

True False

28. The strengths and weaknesses of a SWOT analysis refer to the external conditions of the firm.

True False

29. The opportunities and threats of a SWOT analysis refer to the internal conditions of the firm.

True False

30. To understand the business environment of a particular firm, you need to analyze both the general environment and the firm industry and competitive environment.

True False

31. Underestimating uncertainty can lead to strategies that neither defend against threats nor take advantage of opportunities.

True False

32. PPG Industries has developed four alternative futures based on differing assumptions about two key variables: the cost of energy and the extent of opportunity for growth in emerging markets. This is called demand monitoring.

True False

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33. The SWOT analysis framework leads to a conceptually simple approach to identifying the important factors that constrain strategic choices without sacrificing analytical rigor.

True False

34. Steve Jobs, the former chairman of Apple, used intuition and judgment to forecast the future.

True False

35. Scenario analysis is a form of environmental forecasting.

True False

36. Scenario analysis relies on the extrapolation of historical trends.

True False

37. An industry is composed of a set of firms that produce similar products or services, sell to similar customers, and use similar methods of production.

True False

38. Only one scenario is considered in a scenario analysis in order to envision possible future outcomes.

True False

39. Although changes in the general environment may often adversely or favorably impact a firm, they seldom alter an entire industry.

True False

40. The impact of a demographic trend varies across industries.

True False

41. A major sociocultural trend in the United States is the increased educational attainment by women.

True False

42. Technological innovations can create entirely new industries and alter the boundaries of industries.

True False

43. There is generally a weak relationship between equity markets (e.g., New York Stock Exchange) and economic indicators.

True False

44. The Internet is a leading component in the rising emergence of digital technology.

True False

45. Globalization provides opportunities to access larger potential markets and a narrow base of production factors such as raw materials, labor, skilled managers, and technical professionals.

True False

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46. A demographic trend in the United States, the aging of the population, has important implications for the economic segment (in terms of tax policies to provide benefits to increasing numbers of older citizens).

True False

47. Crowdsourcing is used by companies to develop products.

True False

48. By inviting customers to write online reviews, Amazon used crowdsourcing to build value to its offer.

True False

49. Research shows that many immigrants to the United States are prodigious job creators. This supports legislative battles to increase the number of H-1B visas for foreign workers.

True False

50. It is *not* important to consider the potential impact of government regulation when developing new innovations.

True False

51. Developments in technology and other innovations can create new industries and alter the boundaries of existing industries.

True False

52. The competitive environment consists of many factors that are particularly relevant to company strategy. This includes competitors, customers, and suppliers.

True False

53. The Porter five-forces model is designed to help us understand how social attitudes and cultural values impact U.S. businesses.

True False

54. The five-forces model helps to determine both the nature of competition in an industry and the profit potential for the industry.

True False

55. In some industries, high switching costs can act as an important barrier to entry.

True False

56. Industries characterized by high economies of scale typically attract fewer new entrants.

True False

57. The power of a buyer group is increased if the buyer group has less concentration than the supplier group.

True False

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58. Buyer power tends to be higher if suppliers provide undifferentiated or standard products.

True False

59. Supplier power tends to be highest in industries where products are vital to buyers, where switching from one supplier to another is very costly, and where there are many suppliers.

True False

60. The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration.

True False

61. The more attractive the price/performance ratio of substitute products, the tighter it constrains the ability of an industry to charge high prices.

True False

62. Rivalry is most intense when there are high exit barriers and high industry growth.

True False

63. Rivalry will be most intense when there is a lack of differentiation or switching costs.

True False

64. Rivalry is *not* always cutthroat; sometimes, it can be gentlemanly.

True False

65. In most industries, new entrants will *not* be a threat because the Internet lowers entry barriers.

True False

66. The Internet and digital technologies suppress the bargaining power of buyers by providing them with more information to make buying decisions.

True False

67. Switching costs for an end user are likely to be much higher because of the Internet.

True False

68. Because of the Internet and digital technologies, it is very difficult for suppliers to create purchasing techniques that lower switching costs.

True False

69. Reintermediation is responsible for an overall reduction in business opportunities.

True False

70. The Internet heightens the threat of substitutes because it creates new ways to accomplish the same task.

True False

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71. Five-forces analysis implicitly assumes a zero-sum game, a perspective that can be short-sighted.

True False

72. Michael Porter's five-forces Analysis is a dynamic tool for analyzing industry attractiveness.

True False

73. Complement products typically have no impact on the value of products and services of the firm.

True False

74. The Nintendo success story in the early 1990s was a result of its ability to manage its relationship with its complementors, such as the licensee rights given to outside firms to develop games using the Nintendo game console.

True False

75. Apple used complementors to gain market share in the digital music business.

True False

76. Establishing long-term mutually beneficial relationships with suppliers improves the company ability to implement just-in-time (JIT) inventory systems, which let it manage inventories better and respond quickly to market demands.

True False

77. In conducting a good industry analysis that will yield an improved understanding of the root causes of profitability, rigorous quantification of the five forces is *not* necessary.

True False

78. Competition tends to be more intense among firms within a strategic group than between strategic groups.

True False

79. The same environmental trend or event may have a very different impact on different strategic groups within the same industry.

True False

80. The use of the strategic group concept is generally *not* helpful in charting the future directions of the strategies of a firm.

True False

81. Strategic groupings help a firm identify barriers to mobility that protect a group from attacks by other groups.

True False

82. Another value of strategic grouping is that it helps a firm identify groups whose competitive position may be marginal or tenuous.

True False

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83. Strategic groupings are of no assistance in charting the future direction of company strategy.

True False

84. Strategic groups are helpful in thinking through the implications of each industry trend for the strategic group as a whole.

True False

85. A sharp increase in interest rates, for example, tends to have more impact on providers of higher-priced goods (e.g., Porsches) than on providers of lower-priced goods (e.g., Chevrolet Cobalt), whose customer base is much more price-sensitive.

True False

86. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition.

True False

87. The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

True False

88. The concept of strategic groups is also important to the external environment of a firm.

True False

89. The strategic groups concept is valuable for identifying groups with marginal competitive positions.

True False

Multiple Choice Questions

90. Two of the key inputs to developing forecasts discussed in the text are

A. environmental scanning and stakeholder identification.
B. assessing internal strengths and environmental scanning.
C. environmental scanning and competitive intelligence.
D. environmental scanning and a SWOT analysis.

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91. Salemi Industries launched Cell Zone unsuccessfully in 2005 because it did *not* understand the market demand for its new product. This is an example of

A. vision statement evaluation.
B. environmental scanning.
C. assessing internal strengths.
D. mission statement evaluation.

92. Environmental analysis requires continual questioning of all of these assumptions *except*

A. a priori ideas about the structure of the relevant industry.
B. biases about how to make money in the industry.
C. presuppositions about who is and is not a competitor.
D. continual updating of environmental knowledge.

93. Firms that were successful in the past can fail today because

A. they keep pace with changes in the nature of competition.
B. their financial situation is resilient.
C. the company strategy is outdated.
D. management monitors the relevant environmental factors regularly.

94. Examples of how to improve perceptual acuity include:

A. A CEO meets with other CEOs of non-competing companies to examine the world from multiple perspectives and then shares the results with his own management team.
B. A CEO meets with the company management team regularly to analyze current world events and their potential impact on the company.
C. A CEO meets with direct competitors to analyze current industry trends. The CEOs share their conclusions with their respective companies.
D. Outsiders are brought in to the board meeting to critique the company strategy, which considers the new information in its potential revamping of the strategy.

95. Perceptual acuity requires all of the following *except*

A. an ability to sense what is coming.
B. the ability to detect early warning signals of environmental changes.
C. a compulsive fixation on external environmental monitoring.
D. a refusal to consult with others.

96. Two non-competing global firms meet quarterly to discuss multiple perspectives on world trends. This is an example of how to improve

A. stakeholder management.
B. perceptual acuity.
C. internal scanning.
D. financial returns.

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97. Which of the following is *not* an input to develop forecasts?

A. environmental scanning
B. competitor intelligence
C. environmental monitoring
D. stakeholder management

98. Boards of directors use outsiders to critique their strategy. This is necessary to improve mostly

A. financial returns.
B. organizational hierarchy.
C. perceptual acuity.
D. employee relations.

99. When the management frame of reference gets out of touch with the realities of the actual business situation, what can happen to the firm?

A. The company business strategy no longer works.
B. Management gets across-the-board raises.
C. Management perceptual acuity improves.
D. It becomes easier to maintain competitive advantage.

100. Corporate retreats do *not*

A. permit companies to discuss larger marketplace trends.
B. guarantee positive consumer response to new products.
C. give companies an opportunity to look beyond their own industries.
D. oblige management to automatically change strategy.

101. Why must successful managers recognize opportunities and threats in their company external environment?

A. If they miscalculate the market, opportunities will be lost.
B. If they misread the market, they are likely to become rich.
C. If they identify all of the environmental threats, they are guaranteed to acquire large market share.
D. If they identify all of the environmental opportunities, they are guaranteed to acquire large market share.

102. _____ tracks the evolution of environmental trends, sequences of events, or streams of activities.

A. Environmental scanning
B. Environmental monitoring
C. Environmental surveying
D. Competitive intelligence

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103. Taking advantage of the increasing penetration of personal computers in American homes, the Mayo Clinic transformed itself as a provider of health-related knowledge and expertise. It took advantage of the _____ trends of the _____ in the prices of PCs and the _____ presence of PCs in virtually every home in the United States.

A. soft; increase; increasing
B. soft; decrease; decreasing
C. hard; decrease; decreasing
D. hard; decrease; increasing

104. Scanning the general environment would identify information on

A. substitute goods.
B. the aging population and ethnic shifts.
C. customer and firm bargaining power.
D. competitive rivalry.

105. Which of the following is *not* an example of corporate competitive analysis?

A. banks tracking home loans
B. airlines changing hundreds of fares daily in response to competitor tactics
C. car manufacturers offering sales incentives based on rival offers
D. consumers comparing product offers online

106. Gathering competitive intelligence

A. is good business practice.
B. is illegal.
C. is considered unethical.
D. minimizes the need to obtain information in the public domain.

107. Environmental forecasting does *not* involve plausible projections about the _____ of environmental change.

A. direction
B. scope
C. speed
D. lack of intensity

108. Which of the following websites is *not* an example of one used routinely for corporate competitive intelligence gathering?

A. Slideshare
B. Quora
C. Duolingo
D. YouTube

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109. Executives must be careful to avoid spending so much time and effort tracking the actions of _____ that they ignore _____.

A. competitors; customers
B. customers; competitors
C. existing customers; existing competitors
D. traditional competitors; new competitors

110. Banks and airlines are examples of two industries that track competitor offers continually. This is called the process of gathering

A. consumer responses.
B. competitive intelligence.
C. past decisions.
D. mainline information.

111. Which of the following would *not* lead a manager to believe that an ethical concern exists?

A. Have I done anything that coerced somebody to share this information?
B. Is the contemplated technique for gathering information relevant?
C. Have I done something to circumvent a system intended to secure or protect information?
D. Have I misled anybody in order to gain access?

112. In 1977, Kenneth H. Olsen, then president of Digital Equipment Corp., announced that there was no reason for individuals to have a computer in their home. Long since disproven, this is an example of

A. overestimation of uncertainty.
B. excellent forecasting.
C. underestimation of uncertainty.
D. good prediction skills.

113. It is important to question the reliability of forecasts because

A. if predictions are too low, a company like Motel 6 might build too many units and thus have a surplus of capacity.
B. uncertainty is black and white and therefore the gray areas are unimportant.
C. underestimating uncertainty can lead to good competitive strategies.
D. the growth new industries, such as that of telecommunications, cannot be predicted.

114. A danger of forecasting discussed in the text is that

A. in most cases, the expense of collecting the necessary data exceeds the benefit.
B. the retrospective nature of forecasting provides little information about the future.
C. managers may view uncertainty as black and white while ignoring important gray areas.
D. it can create legal problems for the firm if regulators discover the company is making forecasts.

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115. PPG Industries, the Pittsburgh-based manufacturer of paints, coatings, optical products, specialty materials, chemicals, glass, and fiber glass suffered serious failures in 1986 and 1987 when it attempted to diversify its offers. It used a technique to help it identify possible future strategies. What was it?

A. crowdsourcing
B. scenario analysis
C. competitive intelligence
D. monitoring

116. SWOT analysis is a framework for analyzing the internal and external environment of a company. It consists of strengths, weaknesses, opportunities, and threats. According to a SWOT analysis, which of the following is *not* an aspect that the strategy of the firm must follow?

A. build on its weaknesses
B. remedy the weaknesses or work around them
C. take advantage of the opportunities presented by the environment
D. protect the firm from the threats

117. Scenario planning is a useful technique for firms competing in industries characterized by _____ and _____.

A. predictability; stability
B. low profit margins; stability
C. unpredictability; change
D. high profit margins; stability

118. Scenario analysis draws on a range of disciplines and interests. It is a more _____ approach to forecasting.

A. basic
B. fundamental
C. in-depth
D. superficial

119. In the SWOT framework, _____ are the same for all firms in the same competitive environment.

A. strengths and weaknesses
B. strengths and opportunities
C. weaknesses and threats
D. opportunities and threats

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120. In the SWOT framework, _____ are internal factors that are specific to the company.

A. strengths and opportunities
B. strengths and threats
C. threats and weaknesses
D. strengths and weaknesses

121. Heightened concern with fitness might be a threat to some companies and an opportunity to others. In the SWOT framework, these are

A. internal environmental factors.
B. external environmental factors.
C. both internal and external environmental factors.
D. not relevant external environmental factors.

122. By emphasizing the importance of identifying opportunities and threats, the SWOT framework makes firms act _____ rather than _____.

A. quickly; slowly
B. immediately; eventually
C. proactively; reactively
D. intelligently; uninformed

123. SWOT analysis raises awareness about the role of strategy in creating a match between the environmental conditions and _____ of the firm.

A. internal opportunities and threats
B. internal strengths and weaknesses
C. internal strengths and opportunities
D. internal weaknesses and opportunities

124. Steve Jobs, former chairman of Apple, demonstrated that _____ also are important in forecasting.

A. character and ability
B. intuition and judgment
C. training and experience
D. imagination and training

125. Which of the following is *not* a correct usage of the SWOT framework?

A. build on its strengths
B. remedy the weaknesses or work around them
C. take advantage of the opportunities presented by the environment
D. protect the firm from environmental weaknesses

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126. The aging of the population, changes in ethnic composition, and effects of the baby boom are _____ changes.

A. macroeconomic
B. demographic
C. global
D. sociocultural

127. Larger numbers of women entering the work force since the early 1970s is an example of

A. demographic changes.
B. political and legal environmental changes.
C. sociocultural changes.
D. technological developments.

128. Emerging sociocultural changes in the environment include

A. changes in the ethnic composition.
B. the increasing educational attainment of women in the past decade.
C. progressively less disposable income by consumers.
D. changes in the geographic distribution of the population.

129. All of the following are important elements of the political and legal segment of the general environment *except*

A. the deregulation of utilities.
B. the Americans with Disabilities Act (ADA).
C. the increased use of Internet technology.
D. increases in the federally mandated minimum wage.

130. Which of the following would be considered part of the general environment of a firm?

A. decreased entry barriers
B. higher unemployment rates
C. increased bargaining power of the firm's suppliers
D. increased competitive intensity

131. Interest-rate increases have a _____ impact on the residential home construction industry and a _____ effect on industries that produce consumer necessities such as prescription drugs or basic grocery items.

A. positive; negligible
B. negative; negligible
C. negative; positive
D. positive; negative

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132. In the general environment, many relationships exist among the various elements. General environmental trends can have positive and negative impacts on various industries. For example, the aging population might have a _____ impact on the health care industry and a _____ impact on the baby product industry. These are called _____ impacts.

A. negative; positive; demographic
B. positive; negative; technological
C. negative; positive; sociocultural
D. positive; negative; demographic

133. In the general environment, which of the following is *not* a demographic trend?

A. aging population
B. greater disparities in income levels
C. more women in the workforce
D. changes in ethnic composition

134. Lowes has found that women prefer to do larger home-improvement projects with a man, whether a boyfriend, husband, or neighbor. As a result, in addition to its recipe card classes (that explain various projects that take only one weekend), Lowes offers co-ed store clinics for projects like sink installation. This is an example of which segment of the general environment?

A. economic
B. sociocultural
C. political and legal
D. demographic

135. Doctors and other health professionals say it is becoming harder to stay on the right side of the rules as billing requirements grow more convoluted. This is an example of which segment of the general environment?

A. economic
B. sociocultural
C. demographic
D. political and legal

136. Crowdsourcing is one form of technology that affects multiple segments of the general environment. Which of the following is *not* an example of crowdsourcing?

A. The Linus open-source operating system
B. Yelp online customer comments
C. Wikipedia
D. *The New York Times* online

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137. Using the Cuusoo System, Lego develops ideas that are generated by the many children and adults who create a model, take photos, write project descriptions, and submit their idea on the Lego website. This is an example of using _____ to develop new products.

A. sociocultural data
B. demographic data
C. technological data
D. crowdsourcing

138. Which is considered a force in the five-forces model?

A. increased deregulation in an industry
B. the threat of government intervention
C. recent technological innovation
D. rivalry among competing firms

139. Which of the following firms would likely pose the least competitive threat?

A. a firm in the same industry and in the same strategic group
B. a competitor to your product where a high switching cost exists
C. a firm that produces substitute goods to your product line
D. a firm in the same industry and in the nearest strategic group looking to join your group

140. The threat of new entrants is high when there are

A. high capital requirements.
B. low economies of scale.
C. high switching costs.
D. high differentiation among competitors products and services.

141. Product differentiation by incumbents act as an entry barrier because

A. new entrants cannot differentiate their products.
B. incumbents will take legal action if new entrants do not differentiate their products.
C. it helps a firm to derive greater economies of scale.
D. new entrants will have to spend heavily to overcome existing customer loyalties.

142. Which of the following would be an entry barrier?

A. easy access to raw materials
B. low switching costs
C. large economies of scale
D. low capital requirements

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143. An automobile manufacturer acquires a rental car company. This is an example of

A. backward integration.
B. forward integration.
C. economies of scale.
D. product differentiation.

144. The bargaining power of the buyer is greater than that of the supplier when

A. volume of purchase is low.
B. the buyer profit margin is low.
C. cost savings from the supplier's product are minimal.
D. threat of backward integration by buyers is low.

145. Buyer power will be greater when

A. the products purchased are highly differentiated.
B. it is concentrated or when a buyer group purchases large volumes relative to seller sales.
C. the industry product is very important to the quality of the buyer end products or services.
D. there are high switching costs.

146. The bargaining power of suppliers increases as

A. threat of forward integration by suppliers increases.
B. importance of buyers to supplier group increases.
C. switching costs for buyers decrease.
D. more suppliers enter the market.

147. New communication technology can impact seemingly unrelated industries such as the airline industry. This would be an example of a

A. threat of entry.
B. backward integration.
C. threat of substitute products.
D. forward integration.

148. The bargaining power of suppliers is enhanced under the following market condition:

A. no threat of forward integration.
B. low differentiation of the supplier products.
C. greater availability of substitute products.
D. dominance by a few suppliers.

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149. In the Five-Forces model, conditions under which a supplier group can be powerful include all of the following *except*

A. lack of importance of the buyer to the supplier group.
B. high differentiation by the supplier.
C. readily available substitute products.
D. dominance by a few suppliers.

150. Because the Internet lowers barriers to entry in most industries, it

A. decreases the threat of new entrants.
B. increases supplier power.
C. makes it easier to build customer loyalty.
D. increases the threat of new entrants.

151. End users are *not*

A. the final consumers in a distribution channel.
B. the first customers in a distribution channel.
C. likely to have greater bargaining power because of the Internet.
D. usually the C in B2C.

152. Incumbent firms may enjoy increased bargaining power because the Internet

A. focuses marketing efforts on end users.
B. has reduced the number of wholesalers and distributors.
C. increases channel conflict.
D. diminishes the power of many distribution channel intermediaries.

153. Supplier power has increased because of the Internet for all of the following reasons *except*

A. the growth of new Web-based businesses has created more outlets for suppliers to sell to.
B. software that links buyers to a supplier's website has created rapid, low-cost order capabilities.
C. the process of disintermediation makes it possible for some suppliers to reach end users directly.
D. some suppliers have created Web-based purchasing systems that encourage switching.

154. In general, the threat of substitutes is heightened because the Internet

A. lowers switching costs.
B. lowers barriers to entry.
C. introduces new ways to accomplish the same task.
D. increases output per unit of cost.

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155. How do infomediaries and consumer information websites increase the intensity of competitive rivalry?

A. by shifting customers away from issues of price
B. by consolidating the marketing message that consumers use to make a purchase decision
C. by making competitors in cyberspace seem less equally balanced
D. by highlighting unique selling advantages of a firm

156. The value net is a game-theoretic approach that

A. extends the value chain analysis.
B. uses network analysis to understand the relationships among different companies.
C. helps us to understand the evolution of the five forces over time.
D. is a way to analyze how the interactions of all the players in a game affect the firm.

157. In the value net analysis, complementors are

A. firms that produce substitute products.
B. firms that produce products that have a positive impact on company product value.
C. customers who compliment the company for their good products and services.
D. firms that supply critical inputs to a company.

158. Complements are products or services that have a potential impact on the _____ of the products or services of that company.

A. cost
B. availability
C. value
D. substitutability

159. Nintendo built a security chip into its game console hardware and then licensed the right to develop games to outside firms. These firms paid a royalty to Nintendo for each copy of the game sold. This is an example of Nintendo using _____ products.

A. substitute
B. complement
C. unrelated
D. differentiated

160. The Apple iPod was enormously successful due in large part to the company strategy of using

A. substitute products.
B. technical savvy.
C. complementors.
D. sophisticated software.

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161. Elements of the five forces can be quantified. This is important for analyzing industry structure. Which of the following is *not* an example of an element that can be quantified?

A. the percentage of the buyer total cost accounted for by the industry product
B. the percentage of industry sales required to fill a plant or operate a logistical network to efficient scale
C. the buyer switching cost
D. the governmental regulatory policy

162. Strategic groups consist of a group of

A. top executives that makes strategies for a company.
B. firms within an industry that follows similar strategies.
C. executives drawn from different companies within an industry that makes decisions on industry standards.
D. firms within an industry that decides to collude rather than compete with each other so that they can increase their profits.

163. Which of the following statements about strategic groups is *false*?

A. Two assumptions are made: (1) no two firms are totally different, (2) no two firms are exactly the same.
B. Strategic groupings are of little help to a firm in assessing mobility barriers that protect a group from attacks by other groups.
C. Strategic groups help chart the future directions of firm strategies.
D. Strategic groups are helpful in thinking through the implications of each industry trend for the group as a whole.

164. Strategic groups consist of firms that are more _____ to each other than firms that are not.

A. familiar
B. similar
C. friendly
D. useful

165. Strategic groups are clusters of firms that share _____ strategies.

A. differing
B. the same
C. similar
D. new

166. Classifying an industry into strategic groups involves judgment. If it is useful as an analytical tool, we must exercise caution in deciding what dimensions to use to map these firms. Dimensions include

A. breadth of product and geographic scope.
B. price and quality.
C. degree of vertical integration.
D. management team.

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167. Referring to the textbook Exhibit 2.7 The World Automobile Industry: Strategic Groups, which strategic group is the largest in terms of breadth of product line?

A. Ferrari, Lamborghini, Porsche
B. Toyota, Ford, General Motors, Chrysler, Honda, Nissan
C. Chery, Geely, Tata Motors
D. Mercedes, BMW

168. Referring to the textbook Exhibit 2.7 The World Automobile Industry: Strategic Groups, which strategic group is the smallest in terms of breadth of product line?

A. Ferrari, Lamborghini, Porsche
B. Toyota, Ford, General Motors, Chrysler, Honda, Nissan
C. Chery, Geely, Tata Motors
D. Mercedes, BMW

169. Referring to the textbook Exhibit 2.7 The World Automobile Industry: Strategic Groups, which strategic group consists of firms high in product pricing/quality and average in their product-line breadth?

A. Ferrari, Lamborghini, Porsche
B. Toyota, Ford, General Motors, Chrysler, Honda, Nissan
C. Chery, Geely, Tata Motors
D. Mercedes, BMW

170. In 2014, Audi introduced the Q3 SUV at a base price of only $32,500. And BMW, with its 1-series, is another well-known example. Such cars, priced in the low $30,000s, compete more directly with products from broad-line manufacturers like Ford, General Motors, and Toyota. This suggests that members of a strategic group can overcome _____ barriers and migrate to other groups that they find attractive if they are willing to commit time and resources.

A. mobility
B. competitive
C. pricing
D. cost

171. The strategic groups concept is valuable for identifying groups with _____ competitive positions.

A. marginal
B. exceptional
C. healthy
D. poor

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172. The strategic groups concept is valuable for charting the _____ directions of firm strategies.

A. historical
B. past
C. present
D. future

173. The strategic groups concept is valuable for assessing the implications of industry _____ for the strategic group as a whole.

A. trends
B. positions
C. experience
D. wealth

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Chapter 02 Analyzing the External Environment of the Firm: Creating Competitive Advantages Answer Key

True / False Questions

1. Environmental scanning and competitor intelligence provide important inputs for forecasting activities.

   TRUE
   Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts.

   AACSB: Analytical Thinking
   Accessibility: Keyboard Navigation
   Blooms: Understand
   Learning Objective: 02-01 The importance of developing forecasts of the business environment.
   Level of Difficulty: 2 Medium
   Topic: Creating the Environmentally Aware Organization

2. Perceptual acuity, according to Ram Charan, is the ability to know for certain what will happen in the future.

   FALSE
   Ram Charan defines perceptual acuity as the ability to sense what is coming before the fog clears.

   AACSB: Analytical Thinking
   Accessibility: Keyboard Navigation
   Blooms: Understand
   Learning Objective: 02-01 The importance of developing forecasts of the business environment.
   Level of Difficulty: 2 Medium
   Topic: Creating the Environmentally Aware Organization

3. Ted Turner saw the potential of 24-hour news before anyone else. This is an example of perceptual acuity.

   TRUE
   Ram Charan defines perceptual acuity as the ability to sense what is coming before the fog clears. Turner saw the potential of 24-hour news before anyone else did. All the ingredients were there, but no others connected them until he created CNN.

   AACSB: Analytical Thinking
   Accessibility: Keyboard Navigation
   Blooms: Understand
   Learning Objective: 02-01 The importance of developing forecasts of the business environment.
   Level of Difficulty: 2 Medium
   Topic: Creating the Environmentally Aware Organization

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4. Perceptual acuity can be improved by sitting alone and not consulting others.

FALSE
How can perceptual acuity be improved? Although many CEOs may complain that the top job is a lonely one, they cannot do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

5. One CEO gets together with his critical people for half a day every eight weeks to discuss what's new and what's going on in the world. The setting is informal, and outsiders often attend. This is an example of how *not* to improve perceptual acuity.

FALSE
How can perceptual acuity be improved? Although many CEOs may complain that the top job is a lonely one, they can't do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

6. A CEO meets four times a year with about four other CEOS of large, but noncompeting, diverse global companies. This is an example of how to improve perceptual acuity.

TRUE
How can perceptual acuity be improved? Although many CEOs may complain that the top job is a lonely one, they cannot do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

7. Two companies ask outsiders to critique strategy during their board's strategy sessions. Such input typically leads to spirited discussions that provide valued input on the hinge assumptions and options that are under consideration. This is an example of how to improve perceptual acuity.

TRUE
How can perceptual acuity be improved? Although many CEOs may complain that the top job is a lonely one, they cannot do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information.

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Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

8. Scenario planning is useful for anticipating major future changes in the external environment.

TRUE
Scenario planning is important in anticipating major future changes in the external environment.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

9. Environmental monitoring is *not* an input to forecasting.

FALSE
The three important processes of scanning, monitoring, and gathering competitive intelligence are used to develop forecasts.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

10. When management assumptions, premises, or beliefs are incorrect or when internal inconsistencies among them render the overall theory of the business invalid, the strategy of the firm needs to be updated.

TRUE
The strategy of a firm may be good at one point in time, but it may go astray when the management frame of reference gets out of touch with the realities of the actual business situation. This results when management assumptions, premises, or beliefs are incorrect or when internal inconsistencies among them render invalid the overall theory of the business.

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Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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11. Consider the example of Salemi Industries and the launch of its product, Cell Zone, in 2005. Although it tried to carefully analyze its potential market, it misread the market demand for the product and paid a steep price for its mistake. This is an example of internal forecasting.

FALSE
Analyzing the external environment is a critical step in recognizing and understanding the opportunities and threats that organizations face. Here is where some companies fail to do a good job. The key error of Salemi Industries was that it failed to take into consideration an emerging technology and how that would affect the sales of its product.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

12. If companies miscalculate the market, opportunities will be lost.

TRUE
Successful managers must recognize opportunities and threats in the external environment of their firm in order to not lose out on them.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

13. Blockbuster, Borders, Circuit City, and Radio Shack are examples of firms that did *not* have good perceptual acuity.

TRUE
In the business world, many once-successful firms have fallen. Perceptual acuity is the ability to sense what is coming before the fog clears.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

14. Environmental monitoring deals with tracking changes in environmental trends that are often uncovered during the environmental scanning process.

TRUE
Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 1 Easy

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Topic: Creating the Environmentally Aware Organization

15. Competitor Intelligence (CI) is a tool that can provide management with early warnings about both threats and opportunities.

TRUE
Competitive intelligence (CI) helps firms define and understand their industry and identify strengths and weaknesses of rivals. Done properly, competitive intelligence helps a company avoid surprises by anticipating competitor moves and decreasing response time.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

16. Competitive intelligence generally does *not* benefit very much from gathering information on competitors from sources in the public domain.

FALSE
Competitive intelligence is frequently done effectively through public sources of information. Examples are evident in daily newspapers and periodicals such as *The Wall Street Journal*, *Bloomberg Businessweek*, and *Fortune*. For example, banks continually track home loan, auto loan, and certificate of deposit (CD) interest rates charged by rivals. Major airlines change hundreds of fares daily in response to competitor tactics.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

17. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

FALSE
Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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18. Environmental scanning involves surveillance of the internal environment of a firm to predict environmental changes and detect changes already under way.

FALSE
Environmental scanning involves surveillance of the external environment of the firm to predict environmental changes and detect changes already under way. This alerts the organization to critical trends and events before changes develop a discernible pattern and before competitors recognize them.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

19. Scenario analysis is a superficial approach to forecasting that seeks to explore possible developments that many only be connected to the past.

FALSE
Scenario analysis is a more in-depth approach to forecasting. It draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics. It does not rely on extrapolation of historical trends. Rather, it seeks to explore possible developments that may only be connected to the past.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

20. SWOT analysis is useful in part because it obliges the firm to act proactively by putting an emphasis on identifying opportunities and threats that constrain the action choices a firm might make as a result of its internal and external environmental scan.

TRUE
Despite its apparent simplicity, the SWOT approach has been very popular. First, it forces managers to consider both internal and external factors simultaneously. Second, its emphasis on identifying opportunities and threats makes firms act proactively rather than reactively. Third, it raises awareness about the role of strategy in creating a match between the environmental conditions and the internal strengths and weaknesses of the firm.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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21. In the SWOT framework, the Strengths and Weaknesses are external environmental factors to consider.

FALSE
The Strengths and Weaknesses refer to the internal conditions of the firm in which a firm excels (strengths) and where it may be lacking relative to competitors (weaknesses).

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

22. In the SWOT framework, Opportunities and Threats are environmental conditions internal to the firm.

FALSE
Opportunities and Threats are environmental conditions external to the firm. These could be factors in either the general or the competitive environment.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

23. A Motel 6 executive indicates that he regularly reviews the number of rooms in the budget segment of the industry in the United States and the difference between the average daily room rate and the consumer price index (CPI). This is an example of Competitive Intelligence.

FALSE
One of the authors of this text has conducted on-site interviews with executives from several industries to identify indicators that firms monitor as inputs to their strategy process. Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities. They may be trends that the firm came across by accident or ones that were brought to its attention from outside the organization. Monitoring enables firms to evaluate how dramatically environmental trends are changing the competitive landscape.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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24. Keeping track of competitors has become more difficult today with the amount of information that is available on the Internet.

FALSE
Keeping track of competitors has become easier today with the amount of information that is available on the Internet. Examples of some websites that companies routinely use for competitive intelligence gathering include Slideshare, Quora, Ispionage, and YouTube.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

25. Code of Ethics guidelines can assist companies in avoiding aggressive competitive intelligence gathering that results from illegal behaviors.

TRUE
At times, aggressive efforts to gather competitive intelligence may lead to unethical or illegal behaviors. United Technologies has set clear Code of Ethics guidelines to help prevent unethical behavior.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

26. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

FALSE
Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

27. Scenario planning is usually concerned with short-term forecasts.

FALSE
Scenario analysis is an in-depth approach to environmental forecasting that involves detailed assessments by experts of societal trends, economics, politics, technology, or other dimensions of the external environment.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability

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and change.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

28. The strengths and weaknesses of a SWOT analysis refer to the external conditions of the firm.

FALSE
The Strengths and Weaknesses refer to the internal conditions of the firm in which a firm excels (strengths) and where it may be lacking relative to competitors (weaknesses).

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

29. The opportunities and threats of a SWOT analysis refer to the internal conditions of the firm.

FALSE
The Opportunities and Threats are environmental conditions external to the firm. These could be factors either in the general or competitive environment. In the general environment, one might experience developments beneficial for most companies such as improving economic conditions, that lower borrowing costs or trends that benefit some companies and harm others.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

30. To understand the business environment of a particular firm, you need to analyze both the general environment and the firm industry and competitive environment.

TRUE
Generally, firms compete with other firms in the same industry. An industry is composed of a set of firms that produce similar products or services, sell to similar customers, and use similar methods of production. Gathering industry information and understanding competitive dynamics among the different companies in your industry is key to successful strategic management. To understand the business environment of a particular firm, you need to analyze both the general environment and the firm industry and competitive environment.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

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31. Underestimating uncertainty can lead to strategies that neither defend against threats nor take advantage of opportunities.

TRUE
A danger of forecasting is that managers may view uncertainty as black and white and ignore important gray areas.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

32. PPG Industries has developed four alternative futures based on differing assumptions about two key variables: the cost of energy and the extent of opportunity for growth in emerging markets. This is called demand monitoring.

FALSE
Costly failures led PPG to a new emphasis on strategic planning. One of the key tools it uses today is scenario planning. PPG has developed four alternative futures based on differing assumptions about two key variables: the cost of energy (because its manufacturing operations are energy-intensive) and the extent of opportunity for growth in emerging markets.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

33. The SWOT analysis framework leads to a conceptually simple approach to identifying the important factors that constrain strategic choices without sacrificing analytical rigor.

TRUE
Despite its apparent simplicity, the SWOT approach has been very popular. First, it forces managers to consider both internal and external factors simultaneously. Second, its emphasis on identifying opportunities and threats makes firms act proactively rather than reactively. Third, it raises awareness about the role of strategy in creating a match between the environmental conditions and the internal strengths and weaknesses of the firm. Finally, its conceptual simplicity is achieved without sacrificing analytical rigor.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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34. Steve Jobs, the former chairman of Apple, used intuition and judgment to forecast the future.

TRUE
While analysis is necessary, it is also equally important to recognize the role played by intuition and judgment. Steve Jobs, the legendary former chairman of Apple, took a very different approach in determining what customers really wanted. Jobs relied on his own intuition, his radar-like feel for emerging technologies and how they could be brought together to create insanely great products that ultimately made the difference.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

35. Scenario analysis is a form of environmental forecasting.

TRUE
Scenario analysis is a more in-depth approach to forecasting. It draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

36. Scenario analysis relies on the extrapolation of historical trends.

FALSE
Scenario analysis is a more in-depth approach to forecasting. It draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics. It usually begins with a discussion of participant thoughts on ways in which societal trends, economics, politics, and technology may affect an issue. Scenario analysis involves the projection of future possible events. It does not rely on extrapolation of historical trends. Rather, it seeks to explore possible developments that may only be connected to the past. That is, several scenarios are considered in a scenario analysis in order to envision possible future outcomes.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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37. An industry is composed of a set of firms that produce similar products or services, sell to similar customers, and use similar methods of production.

TRUE
To understand the business environment of a particular firm, you need to analyze both the general environment and the firm's industry and competitive environment. Generally, firms compete with other firms in the same industry. An industry is composed of a set of firms that produce similar products or services, sell to similar customers, and use similar methods of production. Gathering industry information and understanding competitive dynamics among the different companies in your industry is key to successful strategic management.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

38. Only one scenario is considered in a scenario analysis in order to envision possible future outcomes.

FALSE
Several scenarios are considered in a scenario analysis in order to envision possible future outcomes.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

39. Although changes in the general environment may often adversely or favorably impact a firm, they seldom alter an entire industry.

FALSE
The general environment is composed of factors that can have dramatic effects on firm strategy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

40. The impact of a demographic trend varies across industries.

TRUE
The impact of a demographic trend, like all segments of the general environment, varies across industries. Rising levels of affluence in many developed countries bode well for brokerage services as well as for upscale pets and supplies. However, this trend may adversely affect fast-food restaurants because people can afford to dine at higher-priced restaurants.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

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Level of Difficulty: 2 Medium
Topic: The General Environment

41. A major sociocultural trend in the United States is the increased educational attainment by women.

TRUE
Increased educational attainment by women in the workplace has led to more women in upper management positions. Given such educational attainment, it is hardly surprising that companies owned by women have been one of the driving forces of the U.S. economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

42. Technological innovations can create entirely new industries and alter the boundaries of industries.

TRUE
Developments in technology lead to new products and services and improve how they are produced and delivered to the end user. Innovations can create entirely new industries and alter the boundaries of existing industries.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

43. There is generally a weak relationship between equity markets (e.g., New York Stock Exchange) and economic indicators.

FALSE
Economic indicators are associated with equity markets. When stock market indexes increase, consumer discretionary income rises and there is often an increased demand for luxury items such as jewelry and automobiles.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

44. The Internet is a leading component in the rising emergence of digital technology.

TRUE
The Internet has been a leading and highly visible component of a broader technological phenomenon—the emergence of digital technology. These technologies are altering the way business is conducted and are having an effect on nearly every business domain.

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Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

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Level of Difficulty: 2 Medium
Topic: The General Environment

45. Globalization provides opportunities to access larger potential markets and a narrow base of production factors such as raw materials, labor, skilled managers, and technical professionals.

FALSE
Globalization provides both opportunities to access larger potential markets and a broad base of production factors such as raw materials, labor, skilled managers, and technical professionals. However, such endeavors also carry many political, social, and economic risks.

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Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

46. A demographic trend in the United States, the aging of the population, has important implications for the economic segment (in terms of tax policies to provide benefits to increasing numbers of older citizens).

TRUE
In our discussion of the general environment, we see many relationships among the various elements. For example, a demographic trend in the United States, the aging of the population, has important implications for the economic segment (in terms of tax policies to provide benefits to increasing numbers of older citizens).

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Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

47. Crowdsourcing is used by companies to develop products.

TRUE
In June 2006, *Wired* magazine defined crowdsourcing as the tapping of the latent talent of the (online) crowd. It has become the term of choice for a process that is infiltrating many aspects of business life and has claimed some well-known successes, particularly on the product development front.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

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48. By inviting customers to write online reviews, Amazon used crowdsourcing to build value to its offer.

TRUE
One of the smartest moves by Amazon was to invite its customers to write online reviews. The customers are neither paid nor controlled by the company, but the content that they create adds enormous value to other customers and, therefore, to Amazon.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

49. Research shows that many immigrants to the United States are prodigious job creators. This supports legislative battles to increase the number of H-1B visas for foreign workers.

TRUE
In 2014, companies applied for 172,500 H-1B visas. This means that at least 87,500 engineers, developers, and others couldn't take jobs in the United States. As one would expect, this is a political hot potato for industry executives as well as U.S. labor and worker rights groups. The key arguments against H-1B visas are that H-1B workers drive down wages and take jobs from Americans. Actual statistics show that immigrants are more than twice as likely to found a company as are native-born citizens. They started 28 percent of all new U.S. businesses in 2011, despite accounting for just 12.9 percent of the total population. And in Silicon Valley, the percentage of new companies started by foreign-born entrepreneurs was a remarkable 43.9 percent during 2006-2012.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

50. It is *not* important to consider the potential impact of government regulation when developing new innovations.

FALSE
Over time, government regulations often have a tendency to become increasingly complex. Political processes and legislation influence environmental regulations with which industries must comply. Government legislation can also have a significant impact on the governance of corporations.

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Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 3 Hard
Topic: The General Environment

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51. Developments in technology and other innovations can create new industries and alter the boundaries of existing industries.

TRUE
Developments in technology lead to new products and services and improve how they are produced and delivered to the end user. Innovations can create entirely new industries and alter the boundaries of existing industries.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

52. The competitive environment consists of many factors that are particularly relevant to company strategy. This includes competitors, customers, and suppliers.

TRUE
The competitive environment consists of many factors that are particularly relevant to company strategy. These include competitors (existing or potential), customers, and suppliers.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

53. The Porter five-forces model is designed to help us understand how social attitudes and cultural values impact U.S. businesses.

FALSE
The five-forces model developed by Michael E. Porter has been the most commonly used analytical tool for examining the competitive environment. It describes the competitive environment in terms of five basic competitive forces.

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Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

54. The five-forces model helps to determine both the nature of competition in an industry and the profit potential for the industry.

TRUE
The five-forces model developed by Michael E. Porter describes the competitive environment in terms of five basic competitive forces that affect the ability of a firm to compete in a given market. Together, they determine the profit potential for a particular industry.

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Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

55. In some industries, high switching costs can act as an important barrier to entry.

TRUE
A barrier to entry is created by the existence of one-time costs that the buyer faces when switching from one supplier product or service to another.

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Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

56. Industries characterized by high economies of scale typically attract fewer new entrants.

TRUE
Economies of scale refers to spreading the costs of production over the number of units produced. The cost of a product per unit declines as the absolute volume per period increases. This deters entry by forcing the entrant to come in at a large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage. Both are undesirable options.

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Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

57. The power of a buyer group is increased if the buyer group has less concentration than the supplier group.

FALSE
A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales. If a large percentage of a supplier sales are purchased by a single buyer, the importance of the buyer business to the supplier increases.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
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Topic: The Competitive Environment

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58. Buyer power tends to be higher if suppliers provide undifferentiated or standard products.

TRUE
A buyer group is powerful when the products it purchases from the industry are standard or undifferentiated. Confident they can always find alternative suppliers, buyers play one company against the other.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

59. Supplier power tends to be highest in industries where products are vital to buyers, where switching from one supplier to another is very costly, and where there are many suppliers.

FALSE
A supplier group will be powerful when the supplier group is dominated by a few companies, the supplier product is an important input to the buyer business, or the supplier has built up switching costs for the buyer.

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Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

60. The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration.

TRUE
A supplier group will be powerful when the supplier group poses a credible threat of forward integration. This provides a check against the industry ability to improve the terms by which it purchases.

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Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

61. The more attractive the price/performance ratio of substitute products, the tighter it constrains the ability of an industry to charge high prices.

TRUE
Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can charge profitably. The more attractive the price/performance ratio of substitute products, the tighter the lid will be on the profits of that industry.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

62. Rivalry is most intense when there are high exit barriers and high industry growth.

FALSE
Intense rivalry is the result of several interacting factors including: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, and high exit barriers.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

63. Rivalry will be most intense when there is a lack of differentiation or switching costs.

TRUE
Where the product or service is perceived as a commodity or near commodity, the buyer's choice is typically based on price and service, resulting in pressures for intense price and service competition. Lack of switching costs has the same effect.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

64. Rivalry is *not* always cutthroat; sometimes, it can be gentlemanly.

TRUE
Rivalry, of course, differs across industries. In some instances it is characterized as warlike, bitter, or cutthroat, whereas in other industries it is referred to as polite and gentlemanly.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
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Topic: The Competitive Environment

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65. In most industries, new entrants will *not* be a threat because the Internet lowers entry barriers.

FALSE
In most industries, the threat of new entrants has increased because digital and Internet-based technologies lower barriers to entry. For example, businesses that reach customers primarily through the Internet may enjoy savings on other traditional expenses such as office rent, sales-force salaries, printing, and postage. This may encourage more entrants who, because of the lower start-up expenses, see an opportunity to capture market share by offering a product or performing a service more efficiently than existing competitors. Thus, a new cyber entrant can use the savings provided by the Internet to charge lower prices and compete on price despite the incumbent's scale advantages.

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Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

66. The Internet and digital technologies suppress the bargaining power of buyers by providing them with more information to make buying decisions.

FALSE
The Internet and wireless technologies may increase buyer power by providing consumers with more information to make buying decisions and by lowering switching costs.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

67. Switching costs for an end user are likely to be much higher because of the Internet.

FALSE
Switching costs for an end user are also potentially much lower because of the Internet. Switching may involve only a few clicks of the mouse to find and view a competing product or service online.

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Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

68. Because of the Internet and digital technologies, it is very difficult for suppliers to create purchasing techniques that lower switching costs.

FALSE
Suppliers may be able to create Web-based purchasing arrangements that make purchasing easier and discourage their customers from switching.

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Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

69. Reintermediation is responsible for an overall reduction in business opportunities.

FALSE
Just as the Internet is eliminating some business functions, it is creating an opening for new functions. These new activities are entering the value chain by a process known as reintermediation.

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Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

70. The Internet heightens the threat of substitutes because it creates new ways to accomplish the same task.

TRUE
Along with traditional marketplaces, the Internet has created a new marketplace and channel. In general, the threat of substitutes is heightened, because the Internet introduces new ways to accomplish the same tasks.

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Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

71. Five-forces analysis implicitly assumes a zero-sum game, a perspective that can be short-sighted.

TRUE
Five-forces analysis implicitly assumes a zero-sum game, determining how a firm can enhance its position relative to the forces. Yet such an approach can often be short-sighted. It can overlook the many potential benefits of developing constructive win-win relationships with suppliers and customers.

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72. Michael Porter's five-forces Analysis is a dynamic tool for analyzing industry attractiveness.

FALSE
The five-forces analysis also has been criticized for being essentially a static analysis. External forces as well as strategies of individual firms are continually changing the structure of all industries.

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Blooms: Remember
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

73. Complement products typically have no impact on the value of products and services of the firm.

FALSE
Complements typically are products or services that have a potential impact on the value of products or services of the firm. Powerful hardware is of no value to a user, unless there is software that runs on it.

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

74. The Nintendo success story in the early 1990s was a result of its ability to manage its relationship with its complementors, such as the licensee rights given to outside firms to develop games using the Nintendo game console.

TRUE
The Nintendo success story in the early 1990s was a result of its ability to manage its relationship with its complementors. Nintendo built a security chip into the hardware and then licensed the right to develop games to outside firms. These firms paid a royalty to Nintendo for each copy of the game sold. The royalty revenue enabled Nintendo to sell game consoles at close to their cost, thereby increasing their market share, which, in turn, caused more games to be sold and more royalties to be generated.

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Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
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Topic: The Competitive Environment

75. Apple used complementors to gain market share in the digital music business.

TRUE
The Apple company foray into music has been tremendously successful. Since the introduction in 2001 of the iPod, Apple has sold over 300 million iPod units worldwide. iTunes software and services are still going strong, increasing to 16 billion USD in 2013, which represented a 71 percent increase over 2011.

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Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
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Topic: The Competitive Environment

76. Establishing long-term mutually beneficial relationships with suppliers improves the company ability to implement just-in-time (JIT) inventory systems, which let it manage inventories better and respond quickly to market demands.

TRUE
Five-forces analysis implicitly assumes a zero-sum game, determining how a firm can enhance its position relative to the forces. Yet such an approach can often be shortsighted; it can overlook the many potential benefits of developing constructive win-win relationships with suppliers and customers. Establishing long-term mutually beneficial relationships with suppliers improves the company ability to implement just-in-time (JIT) inventory systems, which let it manage inventories better and respond quickly to market demands.

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Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

77. In conducting a good industry analysis that will yield an improved understanding of the root causes of profitability, rigorous quantification of the five forces is *not* necessary.

FALSE
Michael Porter addresses two critical issues in conducting a good industry analysis, which will yield an improved understanding of the root causes of profitability: (1) choosing the appropriate time frame and (2) a rigorous quantification of the five forces.

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Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

78. Competition tends to be more intense among firms within a strategic group than between strategic groups.

TRUE
Strategic groups are clusters of firms that share similar strategies. Rivalry tends to be greater among firms that are alike.

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Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
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79. The same environmental trend or event may have a very different impact on different strategic groups within the same industry.

TRUE
Strategic groups are helpful in thinking through the implications of each industry trend for the strategic group as a whole. Such analysis can help in making predictions about industry evolution. A sharp increase in interest rates, for example, tends to have less impact on providers of higher-priced goods (e.g., Porsches) than on providers of lower-priced goods (e.g., Chevrolet Cobalt) whose customer base is much more price sensitive.

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Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

80. The use of the strategic group concept is generally *not* helpful in charting the future directions of the strategies of a firm.

FALSE
Strategic groupings help chart the future directions of the strategies of a firm. Arrows emanating from each strategic group can represent the direction in which the group (or a firm within the group) seems to be moving. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition.

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Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

81. Strategic groupings help a firm identify barriers to mobility that protect a group from attacks by other groups.

TRUE
Strategic groupings help a firm identify barriers to mobility that protect a group from attacks by other groups. Mobility barriers are factors that deter the movement of firms from one strategic position to another. For example, in the chainsaw industry, the major barriers protecting the high-quality, dealer-oriented group are technology, brand image, and an established network of servicing dealers.

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Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
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82. Another value of strategic grouping is that it helps a firm identify groups whose competitive position may be marginal or tenuous.

TRUE
One of the values of using the concept of strategic groups as an analytical tool is that it helps a firm identify groups whose competitive position may be marginal or tenuous. We may anticipate that these competitors may exit the industry or try to move into another group.

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Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

83. Strategic groupings are of no assistance in charting the future direction of company strategy.

FALSE
Strategic groupings help chart the future directions of company strategy. Arrows emanating from each strategic group can represent the direction in which the group (or a firm within the group) seems to be moving. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition. In the automobile industry, for example, the competition in the minivan and sport utility segments has intensified in recent years as many firms have entered those product segments.

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Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

84. Strategic groups are helpful in thinking through the implications of each industry trend for the strategic group as a whole.

TRUE
One of the values of using the concept of strategic groups as an analytical tool is that they are helpful in thinking through the implications of each industry trend for the strategic group as a whole. Is the trend decreasing the viability of a group? If so, in what direction should the strategic group move? Is the trend increasing or decreasing entry barriers? Will the trend decrease the ability of one group to separate itself from other groups? Such analysis can help in making predictions about industry evolution.

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85. A sharp increase in interest rates, for example, tends to have more impact on providers of higher-priced goods (e.g., Porsches) than on providers of lower-priced goods (e.g., Chevrolet Cobalt), whose customer base is much more price-sensitive.

FALSE
A sharp increase in interest rates, for example, tends to have less impact on providers of higher-priced goods (e.g., Porsches) than on providers of lower-priced goods (e.g., Chevrolet Cobalt), whose customer base is much more price-sensitive.

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Blooms: Understand
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Level of Difficulty: 2 Medium
Topic: The Competitive Environment

86. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition.

TRUE
Strategic groupings help chart the future direction of company strategies. Arrows emanating from each strategic group can represent the direction in which the group (or a firm within the group) seems to be moving. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition. In the automobile industry, for example, the competition in the minivan and sport utility segments has intensified in recent years as many firms have entered those product segments.

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Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

87. The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

TRUE
The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

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88. The concept of strategic groups is also important to the external environment of a firm.

TRUE
The concept of strategic groups is also important to the external environment of a firm. No two organizations are completely different nor are they exactly the same. The question is how to group firms in an industry on the basis of similarities in their resources and strategies.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

89. The strategic groups concept is valuable for identifying groups with marginal competitive positions.

TRUE
The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

Multiple Choice Questions

90. Two of the key inputs to developing forecasts discussed in the text are

A. environmental scanning and stakeholder identification.
B. assessing internal strengths and environmental scanning.
C. environmental scanning and competitive intelligence.
D. environmental scanning and a SWOT analysis.
Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

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91. Salemi Industries launched Cell Zone unsuccessfully in 2005 because it did *not* understand the market demand for its new product. This is an example of

A. vision statement evaluation.
B. environmental scanning.
C. assessing internal strengths.
D. mission statement evaluation.

Analyzing the external environment is a critical step in recognizing and understanding the opportunities and threats that organizations face.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

92. Environmental analysis requires continual questioning of all of these assumptions *except*

A. a priori ideas about the structure of the relevant industry.
B. biases about how to make money in the industry.
C. presuppositions about who is and is not a competitor.
D. continual updating of environmental knowledge.

According to Hamel and Prahalad, every manager carries around in his or her head a set of biases, assumptions, and presuppositions about the structure of the relevant industry, about how one makes money in the industry, about who the competition is and is not, about who the customers are and are not, and so on. Environmental analysis requires you to continually question such assumptions.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

93. Firms that were successful in the past can fail today because

A. they keep pace with changes in the nature of competition.
B. their financial situation is resilient.
C. the company strategy is outdated.
D. management monitors the relevant environmental factors regularly.

The strategy of the firm may be good at one point in time, but it may go astray when the management frame of reference gets out of touch with the realities of the actual business situation. This results when management assumptions, premises, or beliefs are incorrect or when internal inconsistencies among them render the overall theory of the business invalid.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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94. Examples of how to improve perceptual acuity include:

A. A CEO meets with other CEOs of non-competing companies to examine the world from multiple perspectives and then shares the results with his own management team.
B. A CEO meets with the company management team regularly to analyze current world events and their potential impact on the company.
C. A CEO meets with direct competitors to analyze current industry trends. The CEOs share their conclusions with their respective companies.
D. Outsiders are brought in to the board meeting to critique the company strategy, which considers the new information in its potential revamping of the strategy.

Although many CEOs may complain that the top job is a lonely one, they can't do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

95. Perceptual acuity requires all of the following *except*

A. an ability to sense what is coming.
B. the ability to detect early warning signals of environmental changes.
C. a compulsive fixation on external environmental monitoring.
D. a refusal to consult with others.

The best CEOs are compulsively tuned to the external environment and seem to have a sixth sense that picks up anomalies and detects early warning signals which may represent key threats or opportunities. Although many CEOs may complain that the top job is a lonely one, they cannot do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information.

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Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

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96. Two non-competing global firms meet quarterly to discuss multiple perspectives on world trends. This is an example of how to improve

A. stakeholder management.
B. perceptual acuity.
C. internal scanning.
D. financial returns.

Although many CEOs may complain that the top job is a lonely one, they cannot do it effectively by sitting alone in their office. Instead, high-performing CEOs are constantly meeting with people and searching out information. This helps them improve perceptual acuity.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

97. Which of the following is *not* an input to develop forecasts?

A. environmental scanning
B. competitor intelligence
C. environmental monitoring
D. stakeholder management

Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

98. Boards of directors use outsiders to critique their strategy. This is necessary to improve mostly

A. financial returns.
B. organizational hierarchy.
C. perceptual acuity.
D. employee relations.

To improve perpetual acuity, two companies ask outsiders to critique strategy during their board strategy sessions. Such input typically leads to spirited discussions that provide valued input on the hinge assumptions and options that are under consideration. Once, the focus was on pinpointing the risk inherent in a certain strategy. Now, discussions have led to finding that the company was missing a valuable opportunity.

AACSB: Analytical Thinking
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Blooms: Apply
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

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99. When the management frame of reference gets out of touch with the realities of the actual business situation, what can happen to the firm?

A. The company business strategy no longer works.
B. Management gets across-the-board raises.
C. Management perceptual acuity improves.
D. It becomes easier to maintain competitive advantage.

A company strategy may be good at one point in time, but it may go astray when the management frame of reference gets out of touch with the realities of the actual business situation. This results when management assumptions, premises, or beliefs are incorrect or when internal inconsistencies among them render the overall theory of the business invalid.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

100. Corporate retreats do *not*

A. permit companies to discuss larger marketplace trends.
B. guarantee positive consumer response to new products.
C. give companies an opportunity to look beyond their own industries.
D. oblige management to automatically change strategy.

According to Ram Charan, an adviser to many Fortune 500 CEOs, improving perceptual acuity is an advantage that one CEO finds from getting together with his critical people for half a day every eight weeks to discuss what is new and what is going on in the world. The setting is informal, and outsiders often attend. The participants look beyond the lens of their industry because some trends that affect one industry may impact others later on.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

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101. Why must successful managers recognize opportunities and threats in their company external environment?

A. If they miscalculate the market, opportunities will be lost.
B. If they misread the market, they are likely to become rich.
C. If they identify all of the environmental threats, they are guaranteed to acquire large market share.
D. If they identify all of the environmental opportunities, they are guaranteed to acquire large market share.

Successful managers must recognize opportunities and threats in their company external environment. They must be aware of what is going on outside their company. If they focus exclusively on the efficiency of internal operations, the firm may degenerate into the most efficient producer of buggy whips, typewriters, or carbon paper. But if they miscalculate the market, opportunities will be lost.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

102. _____ tracks the evolution of environmental trends, sequences of events, or streams of activities.

A. Environmental scanning
B. Environmental monitoring
C. Environmental surveying
D. Competitive intelligence

Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities. Monitoring enables firms to evaluate how dramatically environmental trends are changing the competitive landscape.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

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103. Taking advantage of the increasing penetration of personal computers in American homes, the Mayo Clinic transformed itself as a provider of health-related knowledge and expertise. It took advantage of the _____ trends of the _____ in the prices of PCs and the _____ presence of PCs in virtually every home in the United States.

A. soft; increase; increasing
B. soft; decrease; decreasing
C. hard; decrease; decreasing
D. hard; decrease; increasing
A hard trend is a projection based on measurable facts, events, or objects. It is something that will happen. The aging of the population is a hard trend. So is the increasing speed and decreasing cost of computers.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

104. Scanning the general environment would identify information on

A. substitute goods.
B. the aging population and ethnic shifts.
C. customer and firm bargaining power.
D. competitive rivalry.
Environmental scanning involves surveillance of the external environment of a firm to predict environmental changes and detect changes already under way. This alerts the organization to critical trends and events before changes develop a discernible pattern and before competitors recognize them.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

105. Which of the following is *not* an example of corporate competitive analysis?

A. banks tracking home loans
B. airlines changing hundreds of fares daily in response to competitor tactics
C. car manufacturers offering sales incentives based on rival offers
D. consumers comparing product offers online
Corporate competitive intelligence is the activity of collecting and interpreting data on competitors, defining and understanding the industry, and identifying competitor strengths and weaknesses in order to avoid surprises by anticipating competitor moves and decreasing response time.

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Blooms: Understand

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Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

106. Gathering competitive intelligence

A. is good business practice.
B. is illegal.
C. is considered unethical.
D. minimizes the need to obtain information in the public domain.

Competitive intelligence (CI) helps firms define and understand their industry and identify strengths and weaknesses of rivals. This includes the intelligence gathering associated with collecting data on competitors and interpreting such data.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

107. Environmental forecasting does *not* involve plausible projections about the _____ of environmental change.

A. direction
B. scope
C. speed
D. lack of intensity

Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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108. Which of the following websites is *not* an example of one used routinely for corporate competitive intelligence gathering?

A. Slideshare
B. Quora
C. Duolingo
D. YouTube

Keeping track of competitors has become easier today with the amount of information that is available on the Internet. The following are examples of some websites that companies routinely use for competitive intelligence gathering: Slideshare, Quora, Ispionage, YouTube. Duolingo is a language learning website.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

109. Executives must be careful to avoid spending so much time and effort tracking the actions of _____ that they ignore _____.

A. competitors; customers
B. customers; competitors
C. existing customers; existing competitors
D. traditional competitors; new competitors

A word of caution: Executives must be careful to avoid spending so much time and effort tracking the actions of traditional competitors that they ignore new competitors. Further, broad environmental changes and events may have a dramatic impact on company viability.

AACSB: Analytical Thinking
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Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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110. Banks and airlines are examples of two industries that track competitor offers continually. This is called the process of gathering

A. consumer responses.
B. competitive intelligence.
C. past decisions.
D. mainline information.

Competitive intelligence is the activity of collecting and interpreting data on competitors, defining and understanding the industry, and identifying competitor strengths and weaknesses. Banks continually track home loan, auto loan, and certificate of deposit (CD) interest rates charged by rivals. Major airlines change hundreds of fares daily in response to competitors' tactics.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

111. Which of the following would *not* lead a manager to believe that an ethical concern exists?

A. Have I done anything that coerced somebody to share this information?
B. Is the contemplated technique for gathering information relevant?
C. Have I done something to circumvent a system intended to secure or protect information?
D. Have I misled anybody in order to gain access?

The Code of Ethics Guide on Competitive Intelligence at United Technologies encourages managers and workers to ask themselves these five questions whenever they have ethical concerns. Collecting relevant information is not an ethical concern; however, this is a concern if the contemplated technique for gathering information is invasive.

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Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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112. In 1977, Kenneth H. Olsen, then president of Digital Equipment Corp., announced that there was no reason for individuals to have a computer in their home. Long since disproven, this is an example of

A. overestimation of uncertainty.
B. excellent forecasting.
C. underestimation of uncertainty.
D. good prediction skills.

In 1977, one of the colossal underestimations in business history occurred when Kenneth H. Olsen, president of Digital Equipment Corp., announced that there was no reason for individuals to have a computer in their home. The explosion in the personal computer market was not easy to detect in 1977, but it was clearly within the range of possibilities at the time. Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

113. It is important to question the reliability of forecasts because

A. if predictions are too low, a company like Motel 6 might build too many units and thus have a surplus of capacity.
B. uncertainty is black and white and therefore the gray areas are unimportant.
C. underestimating uncertainty can lead to good competitive strategies.
D. the growth new industries, such as that of telecommunications, cannot be predicted.

Some forecasting issues are much more specific to a particular firm and the industry in which it competes. Consider how important it is for Motel 6 to predict future indicators, such as the number of rooms, in the budget segment of the industry. If its predictions are low, it will build too many units, creating a surplus of room capacity that would drive down room rates.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Why environmental scanning, environmental monitoring, and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 3 Hard
Topic: Creating the Environmentally Aware Organization

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114. A danger of forecasting discussed in the text is that

A. in most cases, the expense of collecting the necessary data exceeds the benefit.
B. the retrospective nature of forecasting provides little information about the future.
C. managers may view uncertainty as black and white while ignoring important gray areas.
D. it can create legal problems for the firm if regulators discover the company is making forecasts.

A danger of forecasting is that managers may view uncertainty as black and white and ignore important gray areas. The problem is that underestimating uncertainty can lead to strategies that neither defend against threats nor take advantage of opportunities.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

115. PPG Industries, the Pittsburgh-based manufacturer of paints, coatings, optical products, specialty materials, chemicals, glass, and fiber glass suffered serious failures in 1986 and 1987 when it attempted to diversify its offers. It used a technique to help it identify possible future strategies. What was it?

A. crowdsourcing
B. scenario analysis
C. competitive intelligence
D. monitoring

Scenario analysis is a more in-depth approach to forecasting. It draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics. It usually begins with a discussion of participant thoughts on ways in which societal trends, economics, politics, and technology may affect an issue. Developing strategies based on possible future scenarios seems to be paying off for PPG Industries. The company currently boasts a return on equity of 19.1 percent and its stock had a total return of over 43 percent over the most recent 52-week period.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
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116. SWOT analysis is a framework for analyzing the internal and external environment of a company. It consists of strengths, weaknesses, opportunities, and threats. According to a SWOT analysis, which of the following is *not* an aspect that the strategy of the firm must follow?

A. build on its weaknesses
B. remedy the weaknesses or work around them
C. take advantage of the opportunities presented by the environment
D. protect the firm from the threats

The general idea of SWOT analysis is that company strategy must build on its strengths, remedy its weaknesses or work around them, take advantage of the opportunities presented by the environment, and protect the firm from the threats. Despite its apparent simplicity, the SWOT approach has been very popular. First, it forces managers to consider both internal and external factors simultaneously. Second, its emphasis on identifying opportunities and threats makes firms act proactively rather than reactively. Third, it raises awareness about the role of strategy in creating a match between the environmental conditions and the firm's internal strengths and weaknesses. Finally, its conceptual simplicity is achieved without sacrificing analytical rigor.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

117. Scenario planning is a useful technique for firms competing in industries characterized by _____ and _____.

A. predictability; stability
B. low profit margins; stability
C. unpredictability; change
D. high profit margins; stability

Scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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118. Scenario analysis draws on a range of disciplines and interests. It is a more _____ approach to forecasting.

A. basic
B. fundamental
C. in-depth
D. superficial

Scenario analysis is a more in-depth approach to forecasting. It draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

119. In the SWOT framework, _____ are the same for all firms in the same competitive environment.

A. strengths and weaknesses
B. strengths and opportunities
C. weaknesses and threats
D. opportunities and threats

Opportunities and Threats are environmental conditions external to the firm. These could be factors in either the general or the competitive environment. In the general environment, one might experience developments that are beneficial for most companies, such as improving economic conditions that lower borrowing costs, or trends that benefit some companies and harm others.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

120. In the SWOT framework, _____ are internal factors that are specific to the company.

A. strengths and opportunities
B. strengths and threats
C. threats and weaknesses
D. strengths and weaknesses

The Strengths and Weaknesses refer to the internal conditions of the firm in which a firm excels (strengths) and may be lacking relative to competitors (weaknesses).

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Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

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Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

121. Heightened concern with fitness might be a threat to some companies and an opportunity to others. In the SWOT framework, these are

A. internal environmental factors.
B. external environmental factors.
C. both internal and external environmental factors.
D. not relevant external environmental factors.

In the general environment, one might experience developments that are beneficial for most companies, such as improving economic conditions that lower borrowing costs, or trends that benefit some companies and harm others. An example is the heightened concern with fitness, which is a threat to some companies (e.g., tobacco) and an opportunity to others (e.g., health clubs).

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

122. By emphasizing the importance of identifying opportunities and threats, the SWOT framework makes firms act _____ rather than _____.

A. quickly; slowly
B. immediately; eventually
C. proactively; reactively
D. intelligently; uninformed

Despite its apparent simplicity, the SWOT approach has been very popular. First, it forces managers to consider both internal and external factors simultaneously. Second, its emphasis on identifying opportunities and threats makes firms act proactively rather than reactively.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

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123. SWOT analysis raises awareness about the role of strategy in creating a match between the environmental conditions and _____ of the firm.

A. internal opportunities and threats
B. internal strengths and weaknesses
C. internal strengths and opportunities
D. internal weaknesses and opportunities

The SWOT framework raises awareness about the role of strategy in creating a match between the environmental conditions and the internal strengths and weaknesses of the firm.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

124. Steve Jobs, former chairman of Apple, demonstrated that _____ also are important in forecasting.

A. character and ability
B. intuition and judgment
C. training and experience
D. imagination and training

While analysis is necessary, it is also equally important to recognize the role played by intuition and judgment. Steve Jobs, the legendary former chairman of Apple, took a very different approach in determining what customers really wanted. Jobs relied on his own intuition, his radar-like feel for emerging technologies and how they could be brought together to create insanely great products that ultimately made the difference. For Jobs, intuition was no mere gut call.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

125. Which of the following is *not* a correct usage of the SWOT framework?

A. build on its strengths
B. remedy the weaknesses or work around them
C. take advantage of the opportunities presented by the environment
D. protect the firm from environmental weaknesses

The general idea of SWOT analysis is that a firm's strategy must build on its strengths, remedy its weaknesses or work around them, take advantage of the opportunities presented by the environment, and protect the firm from the threats.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

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Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

126. The aging of the population, changes in ethnic composition, and effects of the baby boom are _____ changes.

A. macroeconomic
B. demographic
C. global
D. sociocultural

Demographics are genetic and observable characteristics of a population, including elements such as the aging population, rising or declining affluence, changes in ethnic composition, geographic distribution of the population, and disparities in income level.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

127. Larger numbers of women entering the work force since the early 1970s is an example of

A. demographic changes.
B. political and legal environmental changes.
C. sociocultural changes.
D. technological developments.

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include a higher percentage of women in the workforce.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

128. Emerging sociocultural changes in the environment include

A. changes in the ethnic composition.
B. the increasing educational attainment of women in the past decade.
C. progressively less disposable income by consumers.
D. changes in the geographic distribution of the population.

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include an increased educational attainment by women in the workplace.

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Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
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Topic: The General Environment

129. All of the following are important elements of the political and legal segment of the general environment *except*

A. the deregulation of utilities.
B. the Americans with Disabilities Act (ADA).
C. the increased use of Internet technology.
D. increases in the federally mandated minimum wage.

Political processes and legislation influence environmental regulations with which industries must comply. Some elements of the political and legal arena include the Americans with Disabilities Act (ADA) of 1990, deregulation of utilities, and increases in the federally mandated minimum wage.

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Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
Topic: The General Environment

130. Which of the following would be considered part of the general environment of a firm?

A. decreased entry barriers
B. higher unemployment rates
C. increased bargaining power of the firm's suppliers
D. increased competitive intensity

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
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Level of Difficulty: 2 Medium
Topic: The General Environment

131. Interest-rate increases have a _____ impact on the residential home construction industry and a _____ effect on industries that produce consumer necessities such as prescription drugs or basic grocery items.

A. positive; negligible
B. negative; negligible
C. negative; positive
D. positive; negative

Interest-rate increases have a negative impact on the residential home construction industry but a negligible (or neutral) effect on industries that produce consumer necessities such as prescription drugs or common grocery items.

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Level of Difficulty: 2 Medium
Topic: The General Environment

132. In the general environment, many relationships exist among the various elements. General environmental trends can have positive and negative impacts on various industries. For example, the aging population might have a _____ impact on the health care industry and a _____ impact on the baby product industry. These are called _____ impacts.

A. negative; positive; demographic
B. positive; negative; technological
C. negative; positive; sociocultural
D. positive; negative; demographic

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global. The aging population is a demographic trend that could positively affect the health care industry and negatively affect the baby product industry.

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Blooms: Apply
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Level of Difficulty: 3 Hard
Topic: The General Environment

133. In the general environment, which of the following is *not* a demographic trend?

A. aging population
B. greater disparities in income levels
C. more women in the workforce
D. changes in ethnic composition

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global. The demographic segment of the general environment involves genetic and observable characteristics of a population, including the levels and growth of age, density, sex, race, ethnicity, education, geographic region, and income.

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Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 2 Medium
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134. Lowes has found that women prefer to do larger home-improvement projects with a man, whether a boyfriend, husband, or neighbor. As a result, in addition to its recipe card classes (that explain various projects that take only one weekend), Lowes offers co-ed store clinics for projects like sink installation. This is an example of which segment of the general environment?

A. economic
B. sociocultural
C. political and legal
D. demographic

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include a higher percentage of women in the workforce, dual-income families, increases in the number of temporary workers, greater concern for healthy diets and physical fitness, greater interest in the environment, and postponement of having children.

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Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 3 Hard
Topic: The General Environment

135. Doctors and other health professionals say it is becoming harder to stay on the right side of the rules as billing requirements grow more convoluted. This is an example of which segment of the general environment?

A. economic
B. sociocultural
C. demographic
D. political and legal

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global. The political/legal segment of the general environment is concerned with how a society creates and exercises power, including rules, laws, and taxation policies.

AACSB: Analytical Thinking
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Level of Difficulty: 3 Hard
Topic: The General Environment

136. Crowdsourcing is one form of technology that affects multiple segments of the general environment. Which of the following is *not* an example of crowdsourcing?

A. The Linus open-source operating system
B. Yelp online customer comments
C. Wikipedia
D. *The New York Times* online

Crowdsourcing is the practice in which the Internet is used to tap a broad range of individuals and groups to generate ideas and solve problems.

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Topic: The General Environment

137. Using the Cuusoo System, Lego develops ideas that are generated by the many children and adults who create a model, take photos, write project descriptions, and submit their idea on the Lego website. This is an example of using _____ to develop new products.

A. sociocultural data
B. demographic data
C. technological data
D. crowdsourcing
Lego runs its crowdsourcing program with Cuusoo System, a Japanese company. The Lego Cuusoo site helps the company develop ideas that its 180 designers might not come up with on their own. People create a model, take photos, write a project description, and submit their idea on the Lego website (ideas.lego.com). Projects that garner more than 10,000 votes from site visitors are evaluated by designers and executives to ensure they meet such requirements as safety and playability and they fit with the Lego brand. This is an example of using crowdsourcing effectively.

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Blooms: Apply
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Level of Difficulty: 3 Hard
Topic: The General Environment

138. Which is considered a force in the five-forces model?

A. increased deregulation in an industry
B. the threat of government intervention
C. recent technological innovation
D. rivalry among competing firms
The five-forces model describes the competitive environment in terms of five basic competitive forces: the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products and services, and the intensity of rivalry among competitors in an industry.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

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139. Which of the following firms would likely pose the least competitive threat?

A. a firm in the same industry and in the same strategic group
B. a competitor to your product where a high switching cost exists
C. a firm that produces substitute goods to your product line
D. a firm in the same industry and in the nearest strategic group looking to join your group
The competitive threat of intense rivalry can result from lack of differentiation or switching costs. When switching costs are high, this threat is lowered.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

140. The threat of new entrants is high when there are

A. high capital requirements.
B. low economies of scale.
C. high switching costs.
D. high differentiation among competitors products and services.
High entry barriers discourage new competitors. Among the major sources of entry barriers are economies of scale, product differentiation, capital requirements, and switching costs.

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Level of Difficulty: 2 Medium
Topic: The Competitive Environment

141. Product differentiation by incumbents act as an entry barrier because

A. new entrants cannot differentiate their products.
B. incumbents will take legal action if new entrants do not differentiate their products.
C. it helps a firm to derive greater economies of scale.
D. new entrants will have to spend heavily to overcome existing customer loyalties.
When existing competitors have strong brand identification and customer loyalty, differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties.

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142. Which of the following would be an entry barrier?

A. easy access to raw materials
B. low switching costs
C. large economies of scale
D. low capital requirements

Among the major sources of entry barriers are economies of scale, product differentiation, capital requirements, switching costs, and access to raw materials and distribution channels.

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Level of Difficulty: 1 Easy
Topic: The Competitive Environment

143. An automobile manufacturer acquires a rental car company. This is an example of

A. backward integration.
B. forward integration.
C. economies of scale.
D. product differentiation.

An example of forward integration in the text is an automobile manufacturer acquiring a rental car company. In this case, the automobile manufacturer is a potential competitor who is using forward integration to increase marketplace power.

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Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

144. The bargaining power of the buyer is greater than that of the supplier when

A. volume of purchase is low.
B. the buyer profit margin is low.
C. cost savings from the supplier's product are minimal.
D. threat of backward integration by buyers is low.

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales, it earns low profits, or the buyers pose a credible threat of backward integration.

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Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
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Topic: The Competitive Environment

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145. Buyer power will be greater when

A. the products purchased are highly differentiated.
B. it is concentrated or when a buyer group purchases large volumes relative to seller sales.
C. the industry product is very important to the quality of the buyer end products or services.
D. there are high switching costs.

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales, the products it purchases from the industry are standard or undifferentiated, the buyer faces few switching costs, or the industry product is unimportant to the quality of the buyer products or services.

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Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

146. The bargaining power of suppliers increases as

A. threat of forward integration by suppliers increases.
B. importance of buyers to supplier group increases.
C. switching costs for buyers decrease.
D. more suppliers enter the market.

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the industry is not an important customer of the supplier group; the supplier group products are differentiated or it has built up switching costs for the buyer; or the supplier group poses a credible threat of forward integration.

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Blooms: Remember
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Level of Difficulty: 1 Easy
Topic: The Competitive Environment

147. New communication technology can impact seemingly unrelated industries such as the airline industry. This would be an example of a

A. threat of entry.
B. backward integration.
C. threat of substitute products.
D. forward integration.

Identifying substitute products involves searching for other products or services that can perform the same function as the industry's offerings. This may lead a manager into businesses seemingly far removed from the industry. For example, the airline industry might not consider video cameras much of a threat. But as digital technology has improved and wireless and other forms of telecommunication have become more efficient, teleconferencing has become a viable substitute for business travel.

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Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

148. The bargaining power of suppliers is enhanced under the following market condition:

A. no threat of forward integration.
B. low differentiation of the supplier products.
C. greater availability of substitute products.
D. dominance by a few suppliers.
A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the supplier group is not obliged to contend with substitute products for sale to the industry; the supplier group products are differentiated or it has built up switching costs for the buyer; or the supplier group poses a credible threat of forward integration.

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Blooms: Remember
Learning Objective: 02-05 How forces in the competitive environment can affect profitability, and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

149. In the Five-Forces model, conditions under which a supplier group can be powerful include all of the following *except*

A. lack of importance of the buyer to the supplier group.
B. high differentiation by the supplier.
C. readily available substitute products.
D. dominance by a few suppliers.
A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the supplier group is not obliged to contend with substitute products for sale to the industry; the supplier group products are differentiated or it has built up switching costs for the buyer; or the industry is not an important customer of the supplier group.

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150. Because the Internet lowers barriers to entry in most industries, it

A. decreases the threat of new entrants.
B. increases supplier power.
C. makes it easier to build customer loyalty.
D. increases the threat of new entrants.

In most industries, the threat of new entrants has increased because digital and Internet-based technologies lower barriers to entry. Internet businesses may enjoy savings on traditional expenses which may encourage more entrants who see an opportunity to capture market share by offering a product or performing a service more efficiently than existing competitors.

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Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

151. End users are *not*

A. the final consumers in a distribution channel.
B. the first customers in a distribution channel.
C. likely to have greater bargaining power because of the Internet.
D. usually the C in B2C.

End users are the final customers in a distribution channel. Sales activity that is labeled B2C is concerned with end users. The Internet is likely to increase the power of these buyers, in part because the Internet provides large amounts of consumer information.

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Topic: The Competitive Environment

152. Incumbent firms may enjoy increased bargaining power because the Internet

A. focuses marketing efforts on end users.
B. has reduced the number of wholesalers and distributors.
C. increases channel conflict.
D. diminishes the power of many distribution channel intermediaries.

In some industries, buyer channel intermediaries are dominated by powerful players that control who gains access to the latest goods or the best merchandise. The Internet and wireless communications, however, make it much easier and less expensive for businesses to reach customers directly. Thus, the Internet may increase the power of incumbent firms relative to that of traditional buyer channels.

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profitability.
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Topic: The Competitive Environment

153. Supplier power has increased because of the Internet for all of the following reasons *except*

A. the growth of new Web-based businesses has created more outlets for suppliers to sell to.
B. software that links buyers to a supplier's website has created rapid, low-cost order capabilities.
C. the process of disintermediation makes it possible for some suppliers to reach end users directly.
D. some suppliers have created Web-based purchasing systems that encourage switching.

Several factors contribute to stronger supplier power. First, Web-based business may create more downstream outlets for suppliers to sell to. Second, Web-based purchasing arrangements make purchasing easier and discourage customers from switching. Online procurement systems directly link suppliers and customers, reducing transaction costs and paperwork. Third, the use of proprietary software that links buyers to a supplier website may create a rapid, low-cost ordering capability that discourages the buyer from seeking other sources of supply. Finally, suppliers will have greater power to the extent that they can reach end users directly without intermediaries.

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Topic: The Competitive Environment

154. In general, the threat of substitutes is heightened because the Internet

A. lowers switching costs.
B. lowers barriers to entry.
C. introduces new ways to accomplish the same task.
D. increases output per unit of cost.

Along with traditional marketplaces, the Internet has created a new marketplace and a new channel. In general, therefore, the threat of substitutes is heightened because the Internet introduces new ways to accomplish the same tasks.

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155. How do infomediaries and consumer information websites increase the intensity of competitive rivalry?

A. by shifting customers away from issues of price
B. by consolidating the marketing message that consumers use to make a purchase decision
C. by making competitors in cyberspace seem less equally balanced
D. by highlighting unique selling advantages of a firm

Some shopping infomediaries, such as CNET, not only search for the lowest prices on many different products but also rank the customer service quality of different sites that sell similarly priced items. They increase rivalry by consolidating the marketing message that consumers use to make a purchase decision into a few key pieces of information over which the selling company has little control.

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Level of Difficulty: 2 Medium
Topic: The Competitive Environment

156. The value net is a game-theoretic approach that

A. extends the value chain analysis.
B. uses network analysis to understand the relationships among different companies.
C. helps us to understand the evolution of the five forces over time.
D. is a way to analyze how the interactions of all the players in a game affect the firm.

Based on game-theoretic considerations, Brandenburger and Nalebuff recently introduced the concept of the value net, which in many ways is an extension of the five-forces analysis. The value net represents all the players in the game and analyzes how their interactions affect company ability to generate and appropriate value.

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Level of Difficulty: 2 Medium
Topic: The Competitive Environment

157. In the value net analysis, complementors are

A. firms that produce substitute products.
B. firms that produce products that have a positive impact on company product value.
C. customers who compliment the company for their good products and services.
D. firms that supply critical inputs to a company.

Complements typically are products or services that have a potential impact on the value of the products or services of that company. Those who produce complements are usually referred to as complementors. Powerful hardware is of no value to a user unless there is software that runs on it.

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profitability.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

158. Complements are products or services that have a potential impact on the _____ of the products or services of that company.

A. cost
B. availability
C. value
D. substitutability

Complements typically are products or services that have a potential impact on the value of the products or services of that company. Those who produce complements are usually referred to as complementors.

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Topic: The Competitive Environment

159. Nintendo built a security chip into its game console hardware and then licensed the right to develop games to outside firms. These firms paid a royalty to Nintendo for each copy of the game sold. This is an example of Nintendo using _____ products.

A. substitute
B. complement
C. unrelated
D. differentiated

The success of Nintendo in the early 1990s was a result of its ability to manage its relationship with its complementors. Nintendo built a security chip into the hardware and then licensed the right to develop games to outside firms. These firms paid a royalty to Nintendo for each copy of the game sold. The royalty revenue enabled Nintendo to sell game consoles at close to their cost, thereby increasing their market share, which, in turn, caused more games to be sold and more royalties to be generated.

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160. The Apple iPod was enormously successful due in large part to the company strategy of using

A. substitute products.
B. technical savvy.
C. complementors.
D. sophisticated software.

Complements typically are products or services that have a potential impact on the value of firm's own products or services. Those who produce complements are usually referred to as complementors. In 2002, Steve Jobs began his campaign to cajole the major music companies into selling tracks to iPod users through the iTunes Music Store, an online retail site. Most industry executives, after being burned by illegal file-sharing services like Napster and Kazaa, just wanted digital music to disappear. However, his passionate vision persuaded them to climb on board. He promised to reduce the risks that they faced by offering safeguards against piracy, as well as a hip product (iPod and iPad Touch) that would drive sales.

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Level of Difficulty: 2 Medium
Topic: The Competitive Environment

161. Elements of the five forces can be quantified. This is important for analyzing industry structure. Which of the following is *not* an example of an element that can be quantified?

A. the percentage of the buyer total cost accounted for by the industry product
B. the percentage of industry sales required to fill a plant or operate a logistical network to efficient scale
C. the buyer switching cost
D. the governmental regulatory policy

The point of industry analysis is not to declare the industry attractive or unattractive but to understand the underpinnings of competition and the root causes of profitability. As much as possible, analysts should look at industry structure quantitatively, rather than be satisfied with lists of qualitative factors. Many elements of five forces can be quantified: the percentage of the buyer total cost accounted for by the industry product (to understand buyer price sensitivity); the percentage of industry sales required to fill a plant or operate a logistical network to efficient scale (to help assess barriers to entry); and the buyer switching cost (determining the inducement an entrant or rival must offer customers).

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162. Strategic groups consist of a group of

A. top executives that makes strategies for a company.
B. firms within an industry that follows similar strategies.
C. executives drawn from different companies within an industry that makes decisions on industry standards.
D. firms within an industry that decides to collude rather than compete with each other so that they can increase their profits.

Strategic groups are clusters of firms that share similar strategies. Rivalry tends to be greater among firms that are alike.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 1 Easy
Topic: The Competitive Environment

163. Which of the following statements about strategic groups is *false*?

A. Two assumptions are made: (1) no two firms are totally different, (2) no two firms are exactly the same.
B. Strategic groupings are of little help to a firm in assessing mobility barriers that protect a group from attacks by other groups.
C. Strategic groups help chart the future directions of firm strategies.
D. Strategic groups are helpful in thinking through the implications of each industry trend for the group as a whole.

In an industry analysis, two assumptions are unassailable: (1) no two firms are totally different, and (2) no two firms are exactly the same. What value is the strategic group concept as an analytical tool? First, strategic groupings help a firm identify barriers to mobility that protect a group from attacks by other groups. They also help chart the future directions of firm strategies and are helpful in thinking through the implications of each industry trend for the strategic group as a whole.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

164. Strategic groups consist of firms that are more _____ to each other than firms that are not.

A. familiar
B. similar
C. friendly
D. useful

In an industry analysis, two assumptions are unassailable: (1) No two firms are totally different, and (2) no two firms are exactly the same. The issue becomes one of identifying groups of firms that are more similar to each other than firms that are not, otherwise known as strategic groups.

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Level of Difficulty: 2 Medium
Topic: The Competitive Environment

165. Strategic groups are clusters of firms that share _____ strategies.

A. differing
B. the same
C. similar
D. new

Strategic groups are clusters of firms that share similar strategies.

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166. Classifying an industry into strategic groups involves judgment. If it is useful as an analytical tool, we must exercise caution in deciding what dimensions to use to map these firms. Dimensions include

A. breadth of product and geographic scope.
B. price and quality.
C. degree of vertical integration.
D. management team.

Classifying an industry into strategic groups involves judgment. If it is useful as an analytical tool, we must exercise caution in deciding what dimensions to use to map these firms. Dimensions include breadth of product and geographic scope, price/quality, degree of vertical integration, type of distribution (e.g., dealers, mass merchandisers, private label), and so on.

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167. Referring to the textbook Exhibit 2.7 The World Automobile Industry: Strategic Groups, which strategic group is the largest in terms of breadth of product line?

A. Ferrari, Lamborghini, Porsche
B. Toyota, Ford, General Motors, Chrysler, Honda, Nissan
C. Chery, Geely, Tata Motors
D. Mercedes, BMW

The final group (at the far right) consists of firms with a broad range of products and multiple price points. These firms have entries that compete at both the lower end of the market (e.g., the Ford Focus) and the higher end (e.g., Chevrolet Corvette).

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168. Referring to the textbook Exhibit 2.7 The World Automobile Industry: Strategic Groups, which strategic group is the smallest in terms of breadth of product line?

A. Ferrari, Lamborghini, Porsche
B. Toyota, Ford, General Motors, Chrysler, Honda, Nissan
C. Chery, Geely, Tata Motors
D. Mercedes, BMW

Three firms, Zhejiang Geely Holding Company, Chery Automobile Company, and Tata Motors have introduced models that bring new meaning to the term subcompact. These have the lowest breadth of product line and are at the lowest price.

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169. Referring to the textbook Exhibit 2.7 The World Automobile Industry: Strategic Groups, which strategic group consists of firms high in product pricing/quality and average in their product-line breadth?

A. Ferrari, Lamborghini, Porsche
B. Toyota, Ford, General Motors, Chrysler, Honda, Nissan
C. Chery, Geely, Tata Motors
D. Mercedes, BMW

The third group (near the middle) consists of firms high in product pricing/quality and average in their product-line breadth. This includes Mercedes and BMW.

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170. In 2014, Audi introduced the Q3 SUV at a base price of only $32,500. And BMW, with its 1-series, is another well-known example. Such cars, priced in the low $30,000s, compete more directly with products from broad-line manufacturers like Ford, General Motors, and Toyota. This suggests that members of a strategic group can overcome _____ barriers and migrate to other groups that they find attractive if they are willing to commit time and resources.

A. mobility
B. competitive
C. pricing
D. cost

In 2014, Audi introduced the Q3 SUV at a base price of only 32,500 USD. And BMW, with its 1-series, is another well-known example. Such cars, priced in the low 30,000 USD, compete more directly with products from broad-line manufacturers like Ford, General Motors, and Toyota. This suggests that members of a strategic group can overcome mobility barriers and migrate to other groups that they find attractive if they are willing to commit time and resources.

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171. The strategic groups concept is valuable for identifying groups with _____ competitive positions.

A. marginal
B. exceptional
C. healthy
D. poor

The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

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172. The strategic groups concept is valuable for charting the _____ directions of firm strategies.

A. historical
B. past
C. present
D. future

The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

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173. The strategic groups concept is valuable for assessing the implications of industry _____ for the strategic group as a whole.

A. trends
B. positions
C. experience
D. wealth

The strategic groups concept is valuable for determining mobility barriers across groups, identifying groups with marginal competitive positions, charting the future directions of firm strategies, and assessing the implications of industry trends for the strategic group as a whole.

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