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Chapter 02 The External Environment Opportunities Threats Industry Competition and Competitor Analysis

TRUEFALSE

1. The external environment facing business stays relatively constant over time.

(A) True

(B) False

Answer : (B)

2. Demographic, economic, political/legal, sociocultural, technological, global, and physical are the seven elements comprising the industry environment.

(A) True

(B) False

Answer : (A)

3. Firms can directly control the elements of the seven segments of the general environment.

(A) True

(B) False

Answer : (B)

4. The bankruptcy filings by General Motors and Chrysler Corporation during the Great Recession illustrate that firms cannot directly control the general environment's segments.

(A) True

(B) False

Answer : (A)

5. The industry environment directly influences a firm and its competitive actions and responses.

(A) True

(B) False

Answer : (A)

6. Competitor analysis is focused on the factors and conditions influencing an industry's profitability

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potential.

(A) True

(B) False

Answer : (B)

7. When firms analyze the external environment, they typically have complete and unambiguous data.

(A) True

(B) False

Answer : (B)

8. Monitoring involves the development of a forecast of what might happen at a future point in time.

(A) True

(B) False

Answer : (B)

9. Scanning involves detecting meaning through early signals of environmental trends.

(A) True

(B) False

Answer : (B)

10. When Google studies the internet user privacy policies of various nations, it is engaged in the forecasting component of the environmental analysis process.

(A) True

(B) False

Answer : (B)

11. The objective of assessing the external environment is to determine the timing and importance of the effects of environmental changes and trends on the strategic management of the firm.

(A) True

(B) False

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Answer : (A)

12. Age structure, geographic distribution, income distribution, interest rates, and process innovations are all elements of concern when studying the demographic segment of the general environment.

(A) True

(B) False

Answer : (B)

13. In recent times, business leaders have become more confident in the ability of economists to provide valid and reliable predictions about the world's economic environment.

(A) True

(B) False

Answer : (B)

14. The legislation introduced in the U.S. Congress during the early tenure of the Obama administration intended to reduce the amount of work U.S. companies outsource and is an example of a potential change in the sociocultural segment of the general environment.

(A) True

(B) False

Answer : (B)

15. The European sovereign-debt crisis and political upheavals in Egypt, Tunisia, Libya, and Syria illustrate uncertainties in the political/legal segment of the general environment that could affect the performance of business firms.

(A) True

(B) False

Answer : (A)

16. Developing a political strategy by the newly formed General Motors would likely be ineffective as firms are generally unable to influence the political/legal environment.

(A) True

(B) False

Answer : (B)

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17. Although health care reform legislation was passed in the early part of the Obama administration, it continues to be a contentious issue for employers, employees, and politicians because of its increased expenses. These attitudes about health care reform make up the sociocultural segment of the general environment.

(A) True

(B) False

Answer : (A)

18. Early adopters of new technology often achieve higher market shares and higher returns than later adopters of the technology.

(A) True

(B) False

Answer : (A)

19. Contrary to popular belief, the global segment of the external environment does not provide many opportunities for firms that recently experienced low growth and profits coming from emerging markets.

(A) True

(B) False

Answer : (B)

20. Globalfocusing is often used by firms with high levels of international operations who further increase their internationalization by focusing on global niche markets.

(A) True

(B) False

Answer : (B)

21. Global warming and energy consumption are aspects of the technological environment segment that firms should monitor.

(A) True

(B) False

Answer : (B)

22. PepsiCo's strategy called "capital performance with a purpose" links green efforts in businesses

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to the bottom line. This is an example of addressing concerns in the physical segment of the general environment.

(A) True

(B) False

Answer : (A)

23. The five competitive forces model expands the arena of competitive analysis beyond direct competitors (i.e., rivals) to include buyers and suppliers who may also be a source of competition.

(A) True

(B) False

Answer : (A)

24. Switching costs, access to distribution channels, economies of scale, large numbers of competing firms, and slow industry growth are some of the entry barriers that may affect the threat of new entrants to an industry.

(A) True

(B) False

Answer : (B)

25. An example of a government policy barrier to entry would be a scenario in which the Antitrust Division of the Department of Justice disallows a merger because it creates a firm that is too dominant and would thus create unfair competition.

(A) True

(B) False

Answer : (A)

26. Suppliers are powerful when the industry is dominated by a few large companies, no satisfactory substitutes are available, the selling industry is relatively more concentrated than the purchasing industry, or switching costs are high.

(A) True

(B) False

Answer : (A)

27. Exit barriers are especially low in the airline industry because aircraft are not particularly

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specialized and can easily be sold to other airlines, air cargo companies, the military, or even to wealthy individuals who want to own a private jet.

(A) True

(B) False

Answer : (A)

28. Generally, industries with stronger competitive forces have higher profit potential.

(A) True

(B) False

Answer : (B)

29. An attractive industry is one that is characterized by high entry barriers, suppliers and buyers with strong bargaining power, low threats from substitute products, or low rivalry among firms.

(A) True

(B) False

Answer : (B)

30. Strategic groups are firms in different industries following the same or similar strategies.

(A) True

(B) False

Answer : (B)

31. The strengths of the five competitive forces are similar across strategic groups within an industry.

(A) True

(B) False

Answer : (B)

32. The more distant strategic groups are in terms of their strategies, the greater the likelihood of rivalry between the groups.

(A) True

(B) False

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Answer : (B)

33. The competitor analysis is the final part of the external environment analysis and focuses on each company against which a firm directly competes (for example, Coca-Cola and PepsiCo, Home Depot and Lowe's, and Airbus and Boeing).

(A) True

(B) False

Answer : (A)

34. The process of competitor analysis should examine the competitors' future objectives, current strategy, assumptions, and capabilities.

(A) True

(B) False

Answer : (A)

35. When Delta Air Lines wants to study Continental Airlines, it must examine both Continental and its complementor, Star Alliance.

(A) True

(B) False

Answer : (A)

36. Eavesdropping is an ethical way to obtain information about competitors' actions.

(A) True

(B) False

Answer : (B)

37. Any competitor intelligence practice that is legal is also ethical.

(A) True

(B) False

Answer : (B)

38. Eavesdropping by the NSA on average Americans is ethical because it is a governmental organization instead of a for-profit company.

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(A) True

(B) False

Answer : (B)

MULTICHOICE

39. BP, in response to the Deepwater Horizon oil spill, expected increased scrutiny from which of the following segments of the general environment?

(A) political/legal

(B) global

(C) technological

(D) sociocultural

Answer : (A)

40. Coca-Cola and PepsiCo have been accused of contributing to the obesity problem in the United States. This accusation comes from the _____segment of the general environment.

(A) economic

(B) political/legal

(C) technological

(D) sociocultural

Answer : (D)

41. The recent joint ventures formed by BP with Russian and Indian partners show the importance of the _____ segment of the general environment in those countries that BP and other oil firms have to manage when contending with scarce resources.

(A) technological

(B) physical

(C) demographic

(D) global

Answer : (D)

42. Acme Valves, Inc., has been a successful player in the oil field supply industry in the last 15

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years. Acme maintained its strategy and product characteristics over this time period. However, the company has experienced declines in sales and profits over the last four quarters. The CEO of Acme should

(A) continue with the proven strategy because its returns over the long run are important.

(B) focus on improving efficiency of production and cost control.

(C) conduct an analysis of the external environment.

(D) immediately begin making incremental adjustments to the traditional business strategy in an effort to improve sales.

Answer : (C)

43. The three parts of the external environment that affect a firm's strategic actions are:

(A) economic, political, and legal.

(B) general, industry, and competitor.

(C) industry, business, and product.

(D) local, national, and global.

Answer : (B)

44. The _____ environment is composed of dimensions in the broader society that can influence an industry and the firms within it.

(A) general

(B) competitor

(C) sociocultural

(D) industry

Answer : (A)

45. The environmental segments that make up the general environment typically will NOT include:

(A) demographic factors.

(B) sociocultural factors.

(C) substitute products or services.

(D) technological factors.

Answer : (C)

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46. Aardvark Corp. has three products. Two products together make up two-thirds of revenues and constitute 50 percent of company profits. Aardvark's third product makes up one-third of sales. With profitability far above the industry average, this product is responsible for one-half of Aardvark's profits. Which of the following statements regarding assessment of the general environment is accurate for Aardvark?

(A) The company should monitor the general environment for changes that might affect the revenue of all products.

(B) The company should monitor the general environment for changes that might affect the profitability of the most profitable products.

(C) The company should monitor the general environment for changes that might affect the profitability of all products.

(D) The company should monitor the general environment for changes that might affect the revenue and profitability of all products.

Answer : (D)

47. Which of the following is NOT an activity used in the external environmental analysis process?

(A) Scanning

(B) Decrypting

(C) Monitoring

(D) Assessing

Answer : (B)

48. Environmental scanning would be most important for which of the following organizations?

(A) A provider of hospice services for the terminally ill

(B) A web design company catering to small businesses

(C) A neighborhood sewer and water utility

(D) A manufacturer of household linens

Answer : (B)

49. The use of the Internet by Netflix to collect data on customer preferences is an example of:

(A) assessing.

(B) monitoring.

(C) forecasting.

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(D) scanning.

Answer : (D)

50. When analysts develop feasible projections of future events and how quickly they will occur based on observed changes and trends, they are: engaged in

(A) scanning.

(B) monitoring.

(C) forecasting.

(D) assessing.

Answer : (C)

51. A general environmental analysis can be expected to produce all of the following EXCEPT:

(A) objective answers.

(B) recognition of environmental trends.

(C) identification of organizational opportunities.

(D) identification of organizational threats.

Answer : (A)

52. In analyzing the demographic segment of the general environment, one typically examines all of the following factors EXCEPT:

(A) age structure.

(B) ethnic mix.

(C) distribution of income.

(D) cultural values.

Answer : (D)

53. Which of the following, identified in an analysis of the general environment, is an opportunity for an entrepreneur who wishes to open a business providing "Fitness for Life" physical conditioning services (strength, balance, and flexibility training) in a city of 100,000 people?

(A) The average age of the population in his community is high.

(B) The level of unemployment in his community is high.

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(C) A chiropractor and two independent physical therapists are located in his community.

(D) The average education level of the population in his community is low.

Answer : (A)

54. An analysis of income distribution would include all of the following EXCEPT:

(A) the purchasing power of various age groups.

(B) the discretionary income of various ethnic groups.

(C) wage differentials between male and female employees working for a large manufacturer.

(D) how income is distributed among regions of the United States.

Answer : (C)

55. Demographic changes include variations in income distribution. Which of the following statements is true?

(A) Firms are most interested in the consumers in the top 10 percent of household income.

(B) In general, living standards have deteriorated over time.

(C) The general loss in real income has been somewhat offset by the increase in dual-career couples.

(D) Workforce diversity is making the concept of average income obsolete.

Answer : (C)

56. The Obama administration sought to pursue policies that would:

(A) remove the United States from NAFTA.

(B) abolish antitrust laws.

(C) increase the amount of work U.S. companies outsource to firms in other nations.

(D) reduce the amount of work U.S. companies outsource to firms in other nations.

Answer : (D)

57. An analysis of the economic segment of the external environment would include all of the following EXCEPT:

(A) interest rates.

(B) trade deficits or surpluses.

(C) inflation rates.

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(D) income distribution.

Answer : (D)

58. Characteristics of the current economic segment include all of the following EXCEPT:

(A) general uncertainty.

(B) a clear understanding of future economic opportunities and threats.

(C) the inability of economists to provide valid and reliable predictions.

(D) an expanding economy in Vietnam.

Answer : (B)

59. The economic environment refers to:

(A) the nature and direction of the economy in which a firm competes or may compete.

(B) the economic outlook of the world provided by the World Bank.

(C) an analysis of how the environmental movement and world economy interact.

(D) an analysis of how new environmental regulations will affect the U.S. economy.

Answer : (A)

60. Which of the following would NOT be identified in an analysis of the economic portion of the general environment?

(A) The willingness of Chrysler's buyers to purchase large vehicles in light of an increase in oil prices

(B) The ability of Ford to issue new debt in light of its recent financial performance

(C) The ability of BMW's buyers to finance car purchases in light of a change in interest rates

(D) The willingness of GM buyers to purchase new vehicles in light of the threat of recession

Answer : (B)

61. The political/legal segment of an environment represents:

(A) the political preferences of different ethnic groups in the society.

(B) the technological values of different political entities in society.

(C) how organizations and governments mutually try to influence each other.

(D) the system of regulations governments at all levels place on businesses.

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Answer : (C)

62. All of the following are aspects of the political/legal segment of the general environment EXCEPT:

(A) lobby groups.

(B) attitudes and values.

(C) taxation laws.

(D) industries chosen for deregulation.

Answer : (B)

63. An analysis of society's attitudes and values would be conducted when studying the _____ segment of the general environment.

(A) sociocultural

(B) global

(C) demographic

(D) economic

Answer : (A)

64. In a suburban community outside a city in Alabama, a retail store opened that specialized in dancewear for children and adults. It was moderately successful for five years until the local newspaper published an exposé that scanty lingerie stocked in the back of the store's showroom was selling briskly to a certain clientele. Afterward, the store lost most of its customers and nearly closed. Which segment of the environment did the store owners fail to take into account when they began selling the lingerie?

(A) the sociocultural segment

(B) the economic segment

(C) the demographic segment

(D) the political/legal segment

Answer : (A)

65. The technological segment of environmental analysis includes:

(A) institutions and activities involved with creating new knowledge and translating that knowledge into new outputs.

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(B) the determination of when machinery will need to be replaced in a given firm.

(C) the need for new technology used by a firm to gain a competitive advantage.

(D) places where a firm's technology will allow that firm to dominate a given market.

Answer : (A)

66. Understanding how new knowledge can develop new products, processes, or materials is a result of analyzing the _____ segment of the general environment.

(A) economic

(B) political/legal

(C) technological

(D) global

Answer : (C)

67. The next critical technological opportunity for organizations is predicted to be:

(A) the Internet.

(B) multiphasic interventions.

(C) biological engineering.

(D) wireless communications.

Answer : (D)

68. Which of the following would be an example of the application of the next major technological opportunity for organizations?

(A) Boeing's 747

(B) Toyota's hybrid vehicles

(C) Budweiser's non-alcoholic beer

(D) SpaceX's reusable space vehicle

Answer : (D)

69. The observation that China reached automotive production overcapacity in 2015, and has a glut of extra cars, is an aspect of the _____ segment of the general environment.

(A) demographic

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(B) global

(C) physical

(D) technological

Answer : (B)

70. Because of threats and risks in the global environment, some firms choose to take a more cautious approach by:

(A) avoiding global markets altogether.

(B) expanding only to developed countries.

(C) focusing on global niche markets.

(D) acquiring already established firms in foreign markets.

Answer : (C)

71. The concepts of *Guanxi, Wa,* and *Inhwa* all convey the general idea of:

(A) entrepreneurial risk-taking.

(B) interpersonal relationships.

(C) the value of hard work.

(D) personal achievement.

Answer : (B)

72. Global warming and energy consumption trends are aspects of the _____ segment of the general environment that firms should monitor.

(A) technological

(B) physical

(C) sociocultural

(D) economic

Answer : (B)

73. Green design, sustainable packaging, waste management, and energy efficiency are aspects of the _____ segment of the general environment that companies have sought to address with environmental sustainability initiatives.

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(A) technological

(B) political/legal

(C) global

(D) physical

Answer : (D)

74. All of the following are examples of efforts by firms to address the physical segment of the general:

(A) development of sustainable packaging by McDonald's.

(B) reduction in carbon dioxide emissions by Procter & Gamble.

(C) reduction in water usage in plants by Unilever.

(D) increase in hiring of women and minorities at Microsoft.

Answer : (D)

75. One popular approach to taking care of the physical environment is:

(A) producing and selling additional green products.

(B) lobbying the government to reduce environmental regulations.

(C) making donations to the Sierra Club and other environmental organizations.

(D) increasing health benefits for employees.

Answer : (A)

76. An industry is defined as:

(A) a group of firms producing the same products or services.

(B) firms producing items that sell through the same distribution channels.

(C) firms that sell the same products or services to the same customer base.

(D) a group of firms producing products that are close substitutes.

Answer : (D)

77. The likelihood of entry of new competitors is affected by _____ and _____.

(A) barriers to entry; expected retaliation of current industry organizations

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(B) the power of existing suppliers; buyers

(C) the profitability of the industry; the market share of its leading firm

(D) the demand for the product; the profitability of the competitors

Answer : (A)

78. Which of the following is NOT an entry barrier to an industry?

(A) Expected competitor retaliation

(B) Economies of scale

(C) Customer product loyalty

(D) Bargaining power of suppliers

Answer : (D)

79. New entrants to an industry are more likely when:

(A) it is difficult to gain access to distribution channels.

(B) economies of scale in the industry are high.

(C) product differentiation in the industry is low.

(D) capital requirements in the industry are high.

Answer : (C)

80. Economies of scale refers to the fact that as the:

(A) quantity of product produced in a given time period increases, the cost of manufacturing each unit increases.

(B) quantity of product produced in a given time period increases, the cost of manufacturing each unit remains constant.

(C) quantity of product produced in a given time period increases, the cost of manufacturing each unit decreases.

(D) quantity of product produced in a given time period decreases, the cost of manufacturing each unit decreases.

Answer : (C)

81. The large amount of advertising by firms such as Procter & Gamble and Colgate-Palmolive is an example of what kind of barrier to entry?

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(A) Access to distribution channels

(B) Capital requirements

(C) Economies of scale

(D) Product differentiation

Answer : (D)

82. Product differentiation refers to the:

(A) ability of the buyer of a product to negotiate a lower price.

(B) response of incumbent firms to new entrants.

(C) belief by customers that a product is unique.

(D) fact that as more of a product is produced the cheaper it becomes per unit.

Answer : (C)

83. When consumers change mobile phone and data service providers, they may be required to maintain service with the provider for a specified time period. This is an example of a:

(A) cost to a producer to exchange equipment in a facility when new technologies emerge.

(B) cost of changing the firm's strategic group.

(C) one-time cost suppliers incur when selling to a different customer.

(D) one-time cost customers incur when buying from a different supplier.

Answer : (D)

84. Customer loyalty programs such as airline frequent-flyer miles are an attempt to:

(A) decrease competitors' access to distribution channels.

(B) develop a cost advantage independent of scale.

(C) increase customers' switching costs.

(D) overcome the perishability of the hotel "product."

Answer : (C)

85. As customers come to believe that a firm's product is unique, this allows the firm to:

(A) decrease its advertising expenditures.

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(B) customize its product.

(C) force other companies out of the market by lowering prices.

(D) obtain loyal customers.

Answer : (D)

86. DWK Foods has developed a line of cookies and candies sweetened exclusively with organic honey. Although DWK is selling some of the products over the Internet, in order to gain economies of scale the products must be sold in retail outlets as well. The main barrier to entry DWK is likely to encounter here is:

(A) government licensing and permits.

(B) access to distribution channels.

(C) consumers' switching costs.

(D) cost disadvantages independent of scale.

Answer : (B)

87. For a restaurant business dependent on drive-thru customers, the major cost disadvantage independent of scale would be if:

(A) favorable locations are not available.

(B) other competitors have proprietary product technology.

(C) access to food and ingredients is difficult.

(D) other competitors have government subsidies.

Answer : (A)

88. A certain marble quarry provides a unique type of marble that is richly colored and strikingly veined. It has been used for churches and public buildings throughout the world. The architect of a new headquarters for a prestigious Fortune 500 firm has specified the use of this marble, and this marble only, for the project. Which of the following statements is most likely to be true?

(A) The cost of the marble will be expensive because of the bargaining power of the supplier.

(B) The cost of the marble will be moderate because of the bargaining power of the buyer.

(C) The cost of the marble will be moderate because of economies of scale.

(D) The cost of the marble will be expensive because of the high strategic stakes involved.

Answer : (A)

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89. Suppliers are powerful when:

(A) satisfactory substitutes are available.

(B) they sell a commodity product.

(C) they offer a credible threat of forward integration.

(D) they are in a highly fragmented industry.

Answer : (C)

90. How is consolidation among fuel providers serving airport facilities viewed in the five forces model of competition?

(A) As a reduction of the airlines' ability to benefit from economies of scale.

(B) As an increase in switching costs because the airlines have no choice but to use jet fuel and other oil products.

(C) As an increase in the bargaining power of suppliers of a critical input.

(D) As an increase in the intensity of rivalry among airlines for scarce resources.

Answer : (C)

91. Blood banks are highly dependent on donors. In the terminology of industry analysis, which statement about donors is accurate?

(A) Blood donors are suppliers and are powerful because of the critical nature of what they provide to the blood bank.

(B) Blood donors are suppliers and are powerful because of their concentration relative to the blood bank.

(C) Blood donors are buyers and are not powerful because switching costs to change to alternative inputs are low.

(D) Blood donors are buyers and are powerful because of the volume of blood needed.

Answer : (A)

92. The aircraft industry has long been dominated by two large aircraft manufacturers, Boeing and Airbus. The demand for major aircraft is low, and Boeing and Airbus aggressively compete for orders from airlines. What effect will these conditions have on the domestic airline industry?

(A) It will make the airline industry more attractive because of decreased supplier power.

(B) It will make the airline industry less attractive because of decreased supplier power.

(C) It will make the airline industry more attractive because of increased supplier power.

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(D) It will make the airline industry more attractive because of a new entrant.

Answer : (A)

93. Golden Lotus, an exercise club targeting healthy individuals over 50, is located in a fast-growing city in the Southwest. Which of the following factors that may have an effect on the success of Golden Lotus is the most directly controllable by the company?

(A) The sociocultural environment

(B) The demographics of the environment

(C) The economy of the local area

(D) The power of the customers/buyers

Answer : (D)

94. Buyers are powerful when:

(A) there is a threat of forward integration.

(B) they purchase a small proportion of the supplier's output.

(C) switching costs are low.

(D) the buyers' industry is fragmented.

Answer : (C)

95. The highest amount a firm can charge for its products is most directly affected by:

(A) expected retaliation from competitors.

(B) the cost of substitute products.

(C) variable costs of production.

(D) customers' high switching costs.

Answer : (B)

96. The threat from substitutes is high when:

(A) switching costs are high.

(B) the substitute product's price is lower than the industry product's price.

(C) the quality of the substitute product is lower than the quality of the industry's product.

(D) the substitute product stimulates new process innovations within the industry.

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Answer : (B)

97. Media content has moved from paper, tape, and film to a digital world based on Internet technology. From the perspective of the five forces model, which force is most relevant here?

(A) Buyers

(B) Substitutes

(C) Entry barriers

(D) Suppliers

Answer : (B)

98. All of the following are forces that create high rivalry within an industry EXCEPT:

(A) numerous or equally balanced competitors.

(B) high fixed costs.

(C) fast industry growth.

(D) high storage costs.

Answer : (C)

99. High-level maintenance on aircraft is performed by the manufacturer. This service after the sale means that in the aircraft industry:

(A) customers are relatively weak because of the high switching costs created by frequent-flyer programs.

(B) the industry is moving toward differentiation of services.

(C) the competitive rivalry in the industry is severe.

(D) the economic segment of the external environment has shifted, but airline strategies have not changed.

Answer : (C)

100. A manufacturer of washing machines has expanded its plant and has created excess capacity, just as the general economy has taken a downturn. The company is likely to:

(A) raise prices on washing machines to offset lost sales.

(B) be vulnerable to new entrants to an attractive market.

(C) suffer from intense rivalry from international manufacturers.

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(D) offer rebates and incentives for customers who purchase washing machines.

Answer : (D)

101. When rival firms compete aggressively by trying to attract competitors' customers, this might be an indication of:

(A) an industry with low exit barriers.

(B) increasing economies of scale.

(C) slow industry growth.

(D) high bargaining power among buyers.

Answer : (C)

102. Mighty Green, a residential lawn chemical manufacturer, is committed to gaining market share in its industry. Mighty Green:

(A) is likely to raise the level of competitive rivalry in the industry.

(B) probably has top management who are affected by emotional barriers to exit.

(C) has decided that long-run above-average returns are not important.

(D) will probably embark on an acquisition strategy.

Answer : (A)

103. Which of the following explains, in part, why rivalry among McDonald's, Wendy's, and Burger King is intense?

(A) There is low geographic saturation of the market.

(B) There is high differentiation among competing products.

(C) The threat of supplier forward integration is low.

(D) These companies are trying to find ways to differentiate their products.

Answer : (D)

104. Circuit Inc. is a manufacturer of a broad range of consumer electronics products. These consumer products are all highly profitable. The firm also manufactures a low-cost component that is an essential differentiating feature for most of its consumer products. The costs to manufacture this component have risen sharply in recent months. Internal estimates now indicate the company is breaking even on the manufacture of this component. Which of the following is most likely?

(A) Circuit will likely continue to manufacture the component, even at a loss, due to low supplier

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power.

(B) Circuit will likely continue to manufacture the component, even at a loss, due to high strategic stakes.

(C) Circuit will likely discontinue manufacture of the component due to low strategic stakes.

(D) Circuit will likely discontinue manufacture of the component due to high supplier stakes.

Answer : (B)

105. Exit barriers to a firm include all of the following EXCEPT:

(A) generic assets.

(B) loyalty to employees.

(C) governmental concern about job loss.

(D) restrictive labor agreements.

Answer : (A)

106. An owner of a stable of racehorses has been earning below-average returns for more than 15 years. To a colleague, he expressed his determination to stay in horse racing until he died because "racing is in my blood." This individual is probably still racing horses because of:

(A) high barriers to exit.

(B) high switching costs.

(C) high fixed costs.

(D) low levels of competitive rivalry.

Answer : (A)

107. According to the five forces model, an attractive industry would have all of the following characteristics EXCEPT:

(A) low barriers to entry.

(B) suppliers and buyers with little bargaining power.

(C) a moderate degree of rivalry among competitors.

(D) few good product substitutes.

Answer : (A)

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108. According to the five forces model, an unattractive industry would include all of the following characteristics EXCEPT:

(A) low economies of scale needed for new firms to enter.

(B) low supplier power due to commodity inputs.

(C) high threat of substitute products due to a large number of low-cost alternatives.

(D) high bargaining power of buyers due to low switching costs.

Answer : (B)

109. The competition within each strategic group is:

(A) more intense than the competition between strategic groups.

(B) less intense than the competition between strategic groups.

(C) typically very low.

(D) an unknown factor in the analysis of competitive practices within a firm's strategic group.

Answer : (A)

110. Firms within strategic groups:

(A) follow dissimilar strategies.

(B) follow similar strategies across certain dimensions.

(C) typically engage in greater intergroup rivalry than intragroup rivalry.

(D) exist almost exclusively in the manufacturing sector.

Answer : (B)

111. All of the following are implications of strategic groups EXCEPT:

(A) the strength of the five forces differs across strategic groups.

(B) the strength of the five forces is the same across strategic groups.

(C) competitive rivalry within strategic groups is greater than between strategic groups.

(D) the closer the strategic groups are in terms of strategies, the greater is the likelihood of rivalry.

Answer : (B)

112. Competitor analysis focuses on:

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(A) firms with which the company competes directly.

(B) firms that produce products that are substitutes.

(C) all firms in the industry.

(D) companies that might enter the industry.

Answer : (A)

113. Which of the following pairs of companies would be least likely to be examined together as part of competitive analysis?

(A) Wendy's and Taco Bell

(B) Samsung and Apple

(C) Netflix and Microsoft

(D) Coca-Cola and PepsiCo

Answer : (C)

114. Competitor intelligence is:

(A) legally or illegally gained data about competitors' internal strategic processes and competitive decisions.

(B) strategic information gained from industrial espionage targeting international competitors.

(C) the data that the firm gathers to understand competitors' objectives, strategies, assumptions, and capabilities.

(D) illegal to gather under the Sarbanes-Oxley Act.

Answer : (C)

115. Once a firm has determined its competitors' future objectives, current strategy, assumptions, and strengths and weaknesses, its next step is to develop:

(A) an environmental assessment.

(B) a marketing plan.

(C) a response profile.

(D) a task force to implement the plan.

Answer : (C)

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116. A competitor analysis includes all of the following about competitors EXCEPT:

(A) future objectives.

(B) current strategy.

(C) assumptions.

(D) traditions.

Answer : (D)

117. Clarissa is a sales representative for a large pharmaceutical firm. While calling on one of her major clients, the purchasing director of a hospital, the client told her confidential information that a sales representative from a competing firm had passed on to him. The information completely contradicts Clarissa's firm's understanding of the competitor's business strategy and would allow Clarissa's employer to gain many of the competitor's clients. What ethical implications may result from this situation?

(A) There is no ethical or legal concern here for Clarissa.

(B) The ethical dilemma is not Clarissa's but her client's, since he passed on confidential information to her voluntarily.

(C) The ethical dilemma here is the right of competitors not to reveal certain information.

(D) This is an example of ethical competitor intelligence obtained as eavesdropping.

Answer : (C)

118. All of the following are ethical sources of data for external analysis EXCEPT:

(A) trade shows.

(B) a competitor's annual reports.

(C) a competitor's help-wanted advertisements.

(D) a competitor's confidential memos.

Answer : (D)

119. Competitor intelligence could ethically come from all of the following EXCEPT:

(A) court records.

(B) financial reports.

(C) trade show discussions.

(D) eavesdropping.

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Answer : (D)

120. Which of the following represents a competitive intelligence practice that is both legal and ethical?

(A) A firm hires a competitor's employees and asks them to share the names and addresses of business contacts from their previous company.

(B) An executive attends a trade show solely to obtain a competitor's brochures, listen to sales pitches, and ask questions about the competitor's products.

(C) A city council member shares information about the decision process for selecting a contractor to build a new city council building with his wife, an executive with a construction firm bidding on the contract.

(D) A marketing manager sells confidential plans for a company's expansion into the Far East to a firm that is not a direct competitor.

Answer : (B)

121. Which of the following intelligence-gathering techniques is most likely to be legal and ethical?

(A) Hiring investigators to examine the competitor's trash

(B) Entering a competitor's production plant without authorization

(C) Redirecting a competitor's emails to one's own company

(D) Attending trade show presentations given by a competitor's employees

Answer : (D)

122. The U.S. Hispanic market is the third-largest "Latin American" economy behind Brazil and Mexico. This impacts the _____ aspect of demographic segment analysis.

(A) age structure

(B) geographic distribution

(C) income distribution

(D) ethnic mix

Answer : (D)

123. New Jersey and New York have the highest state taxes in the United States. They also have high ratios of people moving out compared to people moving into the state. This impacts the _____ aspect of demographic analysis.

(A) age structure

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(B) geographic distribution

(C) income distribution

(D) ethnic mix

Answer : (B)

124. The communications industry is broadly defined as encompassing all of the following EXCEPT:

(A) media companies.

(B) smartphone producers.

(C) book retailers.

(D) entertainment companies.

Answer : (C)

125. The Department of Defense buys aircraft from U.S. companies for national security reasons. This is an example of a _____ barrier to entry.

(A) cost disadvantage independent of scale

(B) government policy

(C) capital requirements

(D) product differentiation

Answer : (B)

126. After Amazon lowered the price on its tablets, Samsung eventually lowered the price on its tablets. Samsung needed to do this because:

(A) it is in the same strategic group.

(B) it is outside the strategic group.

(C) of inter-strategic group competition.

(D) of strategic distinctiveness.

Answer : (A)

127. Applications developed for iPhones make the phone more valuable to iPhone users. App developers are _____ to Apple.

(A) suppliers

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(B) customers

(C) competitors

(D) complementors

Answer : (D)

128. Counterfeiting goods and exporting them from China is:

(A) ethical and legal.

(B) unethical but legal.

(C) ethical but illegal.

(D) unethical and illegal.

Answer : (D)

ESSAY

129. Explain why it is important for organizations to analyze and understand the external environment.

Graders Info :

Organizations do not exist in isolation. The external environment of the organization presents threats and opportunities which the organization must address in its strategic actions. Some aspects of the organization's external environment are changing rapidly, such as technology, and the organization must constantly adjust to these changes. The information that the organization gathers about competitors, customers, and stakeholders is used to build the organization's capabilities or to build relationships with stakeholders in the external environment. The information that the organization gathers about the external environment must be matched with its knowledge of its internal environment to form its vision, to develop its mission, and to take actions that result in strategic competitiveness and above-average returns.

130. Identify and describe the three major parts of the external environment. What is the purpose for a firm to collect information about these aspects of its environment?

Graders Info :

The external environment has three major parts. The first is the *general environment*, which is composed of dimensions in the broader society that affect industries and their firms. These environmental segments are: demographic, economic, political/legal, sociocultural, technological, and global. The second part of the external environment is the *industry environment*, which involves

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five factors that influence a firm, its competitive actions and responses, and the industry's profit potential. These five factors are: the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors. The *competitor environment* is the third part of the external environment. The firm must be able to predict competitors' actions, responses, and intentions. With the information collected about these aspects of its external environment, the firm can develop its vision, mission, and strategic actions.

131. Describe and discuss the four activities of the external environmental analysis process.

Graders Info :

The external environmental analysis process includes four steps: scanning, monitoring, forecasting, and assessing. The *scanning* of the environment includes the study of all segments of the general environment in order to detect changes that may occur in the future or that already are occurring. This is critical in a volatile environment. Scanning often deals with ambiguous, incomplete, or unconnected data and information. When analysts *monitor* the environment, they observe environmental changes to see if an important trend is emerging from those spotted by scanning. It is critical for the firm to detect meanings in these events and trends so that it can be prepared to take advantage of opportunities these trends provide. *Forecasting* builds on scanning and monitoring to develop feasible projections of what might happen and how quickly it will occur. Forecasting is important in helping the firm adjust sales to meet demand. Finally, through *assessing*, the analyst determines the timing and the significance of the effects of environmental changes and trends on the strategic management of the firm. Assessment must specify the competitive relevance of the data.

132. Describe the seven segments of the general environment.

Graders Info :

1) The *demographic* segment encompasses factors such as population size, geographic distribution, age structure, ethnic mix, and income distribution. 2) The *economic* segment involves the nature and direction of the economy in which a firm competes or may compete, domestic as well as global. 3) The *political/legal* segment is the arena in which organizations compete for attention, resources, and a voice in laws and regulations guiding the interactions among nations. 4) The *sociocultural* segment is concerned with society's attitudes and cultural values. 5) The *technological* segment includes institutions and activities involved with creating new knowledge and transforming it into new outputs, products, processes, and materials. 6) The *global* segment includes new global markets, existing markets that are changing, international political events, and critical cultural and institutional characteristics of global markets. 7) The *physical* segment includes potential and actual changes in the physical environment (such as global warming) and business practices that are intended to positively deal with those changes (such as control of carbon emissions and other environmentally friendly actions).

133. Identify the five forces that underlie the five forces model of competition. Explain briefly how they affect industry profit potential.

Graders Info :

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1) Threat of *new entrants*: New entrants threaten existing firms' market share. They increase production capacity in an industry which results in lower profits for all firms, unless demand is increasing. The new entrant may force the existing firms to be more effective and efficient in production, and to compete on new dimensions. 2) Power of *suppliers*: Suppliers with high power can increase prices and decrease the quality of their products sold to the firm. If firms are unable to pass along price increases to customers, their profits diminish. 3) Power of *buyers*: When buyers (customers) have high power they can force prices down, and require increases in quality and service levels, thus driving profits down. 4) *Substitutes*: Substitutes perform the same or similar functions of the firm's product. The price of the substitute places an upper limit on prices firms can charge for the original product, limiting industry profits. 5) Intensity of competitive *rivalry* affects the firm's ability to make a profit as competitors' actions challenge the firm or competitors try to improve their market position. Increasing rivalry reduces the ability of weaker firms to survive.

134. Describe the factors that raise the competitive nature of an industry's rivalry.

Graders Info :

The competitive rivalry in an industry can be based on price, product quality, and product innovation in an attempt to differentiate the firm's product from its rivals' products. The factors that can increase competitive rivalry include: 1) numerous and equally balanced competitors; 2) slow or no industry growth; 3) high fixed costs, high storage costs of inventory, or perishable products; 3) lack of differentiated products or low cost of product switching by customers; 4) high strategic stakes for the competitors; and 5) high barriers for firms wishing to exit the industry, causing firms to remain in an industry where they cannot reasonably expect to make a profit.

135. What are high exit barriers and how do they affect the competition within an industry?

Graders Info :

Exit barriers are economic, strategic, and emotional factors causing companies to remain in an industry, even though the profitability of doing so is in question. The following are common sources of exit barriers: 1) specialized assets which cannot be used in another business or location; 2) fixed costs of exit, such as labor agreements which penalize a firm for ceasing operation; 3) strategic interrelationships or mutual dependence of business units wherein one business of a corporation serves another corporate business; 4) emotional barriers that cause owners to be sentimentally attached to the business or to their own role in it; 5) governmental and social restrictions that prevent a firm from closing, often in order to prevent the loss of jobs in a country or community.

136. What is a firm's strategic group? What effect does the strategic group have on the firm?

Graders Info :

The firm's strategic group is the set of firms that emphasize similar strategic dimensions and use a similar strategy. The firms in a strategic group occupy similar positions in the market, offer similar goods to similar customers, and may make similar decisions about production technology and organizational features. Competition among firms within a strategic group is more intense than the

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competition among a firm and those firms outside its strategic group. Actions of members in the firm's strategic group affect its strategic decisions in many areas, including pricing, product quality, and distribution.

137. What do firms need to know about their competitors? What legal and ethical intelligence-gathering techniques can be used to obtain this information?

Graders Info :

Competitor analysis helps firms identify: 1) what drives the competitor by understanding the competitor's *future objectives*); 2) what the competitor is doing and is capable of doing by understanding the competitor's *current strategy*; 3) what the competitor believes about the industry by understanding the *assumptions* made by the competitor; and 4) what the competitor's *capabilities* are by understanding the competitor's strengths and weaknesses. Firms can legally and ethically gather public information, such as annual reports, SEC reports, UCC filings, court records, and advertisements. Firms can also attend trade fairs to obtain competitors' brochures, view exhibits, and discuss products. This data combines to form competitive intelligence.

138. What are barriers to entry and how do they affect competition in the industry?

Graders Info :

Entry barriers discourage competitors from entering a market and facilitate a firm's ability to remain competitive in a market in which it currently competes. Barriers to entry include: 1) **Economies of scale** are derived from incremental efficiency improvements through experience as a firm grows larger. 2) **Product differentiation** occurs when over time, customers may come to believe that a firm's product is unique. This belief can result from the firm's service to the customer, effective advertising campaigns, or being the first to market a product or service. 3) Capital requirements - Competing in a new industry requires a firm to have resources to invest. In addition to physical facilities, capital is needed for inventories, marketing activities, and other critical business functions. 4) **Switching costs** are the one-time costs customers incur when they buy from a different supplier. 5) Access to distribution channels - Over time, industry participants commonly learn how to effectively distribute their products. Once a relationship with its distributors has been built a firm will nurture it, thus creating switching costs for the distributors. 6) Cost disadvantages independent of scale - Sometimes, established competitors have cost advantages that new entrants cannot duplicate. Proprietary product technology, favorable access to raw materials, desirable locations, and government subsidies are examples. 7) Government policy - Through their decisions about issues such as the granting of licenses and permits, governments can also control entry into an industry.

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