Chapter 1
Business Market Management
Guiding Principles

Multiple Choice Questions:

1. _______ is (are) the process of understanding, creating, and delivering value to targeted business markets and customers.
   a. Business market management
   b. Business market
   c. Business marketing
   d. Customer value in business markets
   (a; Easy; p. 4; Analytic Skills)

2. _______ provide(s) a means of gaining an equitable return on the value delivered and of enhancing a supplier firm's present and future profitability.
   a. Business market management
   b. Business market
   c. Business marketing
   d. Customer value in business markets
   (a; Moderate; p. 4; Analytic Skills)

3. _______ (is) are firms, institutions, or governments that acquire goods and services either for their own use, to incorporate into the products or services that they produce, or for resale along with other products and services to other firms, institutions, or governments.
   a. Business market management
   b. Business markets
   c. Business marketing
   d. Customer value in business markets
   (b; Easy; p. 4; Analytic Skills)

4. _______ is NOT a guiding principle of business market management.
   a. Regard value as the cornerstone
   b. Focus on business market processes
   c. Business channel management
   d. Stress doing business across borders
   (c; Easy; p. 5; Analytic Skills)

5. We _______ because of the predominant role that functionality or performance plays in business markets.
   a. Regard value as the cornerstone
   b. Focus on business market processes
   c. Manage business channels
   d. Stress doing business across borders
   (a; Easy; p. 6; Analytic Skills)

6. The worth in monetary terms of the economic, technical, service, and social benefits a customer firm receives in exchange for the price it pays for a market offering is (a) _______.
   a. business market management
   b. business market
   c. business marketing
   d. customer value in business markets
   (d; Easy; p. 6; Analytic Skills)

7. We can capture the essence of the concepts in our definition of value in a _______
   a. customer value in business markets
   b. fundamental value equation
   c. estimate of value
   d. estimate of value changes
   (b; Moderate; p. 6; Analytic Skills)

8. The fundamental value equation is _______.
   a. $(Price_f – Value_f) > (Price_a\text{-}Value_a)$
   b. $(Value_f - Price_f) > (Price_a\text{-}Value_a)$
   c. $(Value_f - Price_f) > (Value_a - Price_a)$
   d. $(Value_f - Price_f) < (Price_a\text{-}Value_a)$
   (c; Difficult; p. 6; Analytic Skills)

9. The difference between value and price is the_______
   a. customer incentive to purchase
   b. fundamental value equation
   c. estimate of value changes
   d. concept of value in the business markets
   (a; Easy; p. 7; Analytic Skills)

10. The comprehensive, practical approach for demonstrating and documenting the value of present and prospective market offerings is _______.
    a. customer incentive to purchase
    b. customer value management
    c. estimate of value changes
    d. concept of value in the business markets
    (b; Easy; p. 9; Analytic Skills)

11. A _______ by a team that assesses a market offering's attributes in terms of their functionality or performance, calculates the total costs associated with providing this specific functionality or performance, and attempts to identify lower-cost alternatives.
    a. customer incentive to purchase
    b. customer value management
    c. value analysis
    d. concept of value in the business markets
    (c; Moderate; p. 9; Analytic Skills)

12. _______ is a set of activities that takes one or more kinds of input and creates an output that is of value to the customer.
    a. Business market management
    b. Business process
    c. Shareholder value
    d. Customer value in business markets
    (b; Moderate; p. 9; Analytic Skills)

13. A business creates _______ when the economic returns generated from realizing its business strategy exceeds the cost of capital employed to realize it.
    a. business process
    b. customer value
    c. marketing value
    d. shareholder value
    (d; Easy; p. 10; Analytic Skills)

14. Estimates of a set of _______ such as sales growth rate, operating profit margin, working capital investment and cost of capital, are used to calculate the present value of forecasted cash flows and the residual value of the business after the forecast period.
    a. value drivers
    b. customer value
    c. marketing value
    d. shareholder value
    (a; Difficult; p. 10; Analytic Skills)

15. The process of understanding customer requirements and preferences, anticipating how they will change, and then responsively constructing solutions to fulfill those requirements and preferences in a way that customers are willing to pay for is _______.
    a. product development management
    b. supply chain development
    c. customer relationship management
    d. business management
    (a; Easy; p.11; Analytic Skills)

16. The process that incorporates acquisition of all physical and informational inputs, as well as the efficiency and effectiveness with which they are transformed into customer solutions is _______.
    a. product development management
    b. supply chain development
    c. customer relationship management
    d. business management
    (b; Easy; p.11; Analytic Skills)

17. The process that addresses all aspects of identifying customers, creating customer knowledge, building customer relationships and shaping their perceptions of the organization and its products is _______.
    a. product development management
    b. supply chain development
    c. customer relationship management
    d. business management
    (c; Easy; 11; Communication)

18. The process of generating knowledge about the marketplace that individuals in the firm use to inform and guide their decision making is _______.
    a. product development management
    b. supply chain development
    c. customer relationship management
    d. market sensing
    (d; Easy; p. 12; Analytic Skills)

19. The process of learning how companies rely on a network of suppliers to add value to their offerings, integrate purchasing activities with those functional areas and outside firms, and make purchase decisions is _______.
    a. understanding firms as customers
    b. supply chain development
    c. customer relationship management
    d. market sensing
    (a; Easy; p. 13; Analytic Skills)

20. The process of studying how to exploit a firm's resources to achieve short-term and long-term marketplace success, deciding upon a course of action, and flexibly updating it as learning occurs during implementation is _______.
    a. understanding firms as customers
    b. crafting market strategy
    c. customer relationship management
    d. market sensing
    (b; Easy; p. 13; Analytic Skills)

True/False Questions:

21. The three core business processes essential to customer value creation are product development management, supply chain management, and customer relationship management.
    (true; Moderate; p. 11; Reflective Thinking)

22. Business channel management is the process of putting products that create the greatest value of the targeted market segments.
    (false; Difficult; p. 13; Reflective Thinking)

23. Gaining new business, sustaining reseller partnerships, and managing customers are business market process for delivering value.
(true; Moderate; p. 13; Reflective Thinking)

24. Reduction of trade barriers and tariffs makes the playing field for foreign suppliers to compete with domestic suppliers in their home-country markets far more difficult.
(false; Difficult; p. 15; Multicultural and Diversity)

25. A collaborative relationship between two firms is a kind of **strategic alliance**, which is simply a commercial agreement between two (or more) parties to work together in some mutually defined ways.
(true; Moderate; p. 26; Multicultural and Diversity)

26. "Price" and "cost" are the same thing.
(false, Moderate, p.6, Reflective Thinking)

27. The value of a product can only be assessed relative to the next best alternative product.
(true, Moderate, p. 6, Reflective Thinking)

Essay Questions:

28. Identify the nine business market processes in the text.

Answer:
1. crafting market strategy
2. understanding firs as customers
3. market sensing
4. managing market offerings
5. new offering realization
6. business channel management
7. gaining customers
8. sustaining reseller partnerships
9. sustaining customer relationships

(Easy; p. 2; Reflective Thinking)

29. What are the four guiding principles of business market management?

Answer:
• Regard value as the cornerstone of business market management
• Focus on business market processes
• Stress doing business across borders
• Accentuate working relationships and business networks
(Easy; p. 4; Reflective Thinking)

30. Explain how to choose what language to use in doing business across borders and issues with using an interpreter.

Answer:
A first step in doing business across borders is to determine what language to use. English is regarded as the language of international business, because it is the most frequently used.32 The language that businesspeople are most likely to know other than their native language is English. Even in circumstances where managers from one country do know the language of their counterparts' country, they may prefer to speak English. French and German managers, for example, may conduct business discussions in English, because it does not give either side an advantage. Alternatives to using English are to use the language of one of the parties, use another language that both parties are willing to use, or rely on interpreters. When the supplier and customer managers do not have a common language that they are comfortable using for business discussions, one or both parties need to employ interpreters. Use of interpreters, however, can lengthen the time needed for the business discussions, change the "atmosphere" of the discussions, increase the costs of the discussions, or increase the chances for misunderstandings. Nevertheless, doing business through interpreters is sometimes the only viable.
(Moderate; p.18; Multicultural and Diversity)

31. Explain the role of correspondent banking units (CBUs) role in doing business across borders.

Answer:
Foreign currency exchange, letters of credit and their confirmations, and other services that enable firms to do business across borders are provided by the correspondent banking units (CBUs) of commercial banks. These CBUs are responsible for managing a set of relationships with banks in other countries, referred to as correspondent banks, that provide agreed-upon banking services (e.g., confirming letters of credit) to one another. Without these correspondent banking relationships, it would be virtually impossible for companies to conduct any cross-border trade. Correspondent banks provide account and trade services to each other that facilitate the efficient movement of payments across borders and provide protection to both the sellers and buyers doing business across borders.
(Moderate; p. 21; Multicultural and Diversity)

32. Briefly explain a business network.

    Answer:
    A business network is a set of two or more connected business relationships. Connected means the extent to which exchange in one relation is contingent upon exchange (or non-exchange) in the other relation. Moreover, two connected relationships of interest can themselves be both directly and indirectly connected with other relationships that have some bearing on them, as part of a larger business network.
    (Moderate; p. 28; Reflective Thinking)

33. Describe "customer incentive to purchase" and explain how a supplier firm can take action to increase it.

    Answer:
    Customer incentive to purchase captures the likelihood that a prospect will buy a supplier's product. It can be measured as value minus price. Thus, a supplier firm can increase it in three ways: 1) it can increase the value of its offering by adding product features or services at no extra charge, 2) it can reduce its price, and/or 3) it can add product features or services while simultaneously reducing price.
    (Moderate; p. 7; Reflective Thinking)

34. Describe each of the following terms or phrases in your own words and give an example.

    1. **Business Process** – This is a collection of activities that takes one or more input and creates an output that is of value to the customer. Examples include: product design, order fulfillment, customer service, supply chain management, customer relationship management, product development management, among others.
    (Difficult, p.9; Reflective Thinking)
    2. **Transactional Relationship** – Business dealings where the customer and supplier focus upon the timely exchange of basic products for highly competitive products. An example would be a small firm's one time purchase of computer paper from the local Office Depot.
    (Difficult, p.25; Reflective Thinking)
    3. **Collaborative Relationship –** The establishment of strong and extensive social, economic, service, and technical ties between a supplier and customer which results in mutual benefit. An example would be the Northrup and Raytheon mentioned in Box 1.5.
    (Difficult, p.25; Reflective Thinking)

4. **Gives & Gets** – The ***Gets*** in a customer-supplier working relationships entail the benefits that one partner receives. These normally entail either cost reductions or revenue enhancements. ***Gives*** capture the investments a firm must make to gain those benefits. These include price and usage costs. As an example, a customer firm may have to pay a higher price in order to gain additional cost saving benefits from a premium product.
(Moderate, p.26; Reflective Thinking)
5. **Exchange Episode** – This is a single transaction between a supplier and customer in which a customers pays a price and receives an offering. An example might be a maintenance manager who buys a pair of protective goggles from the local Grainger service location.
(Moderate, p.27; Reflective Thinking)
6. **Business Network *Actor*** – A firm, institution, or government agency that performs activities and holds resources within a business network. Examples include any of the organizations mentioned in Box 1.5: Lockheed Martin, Stork, Raytheon, Northrup-Grumman, BAE Systems, Goodrich, Pratt & Whitney, GE, Rolls Royce, and so on.
(Moderate, p.31; Reflective Thinking)
7. **Business Network *Activities*** – These are actions that transform resources into products or services of value. Examples are order management cycle, product processes, fulfillment, and so on.
(Moderate, p.32; Reflective Thinking)
8. **Business Network *Resources*** – Things of value. These include technical know-how, equipment, personnel, or capital.
(Moderate, p.32; Reflective Thinking)
9. **Network Identify** – The way that firms see themselves in relationships and how other actors see them. It captures the uniqueness of each firm in its set of relationships. An example would be a firm's perceived capabilities and competencies within the context of the network.
(Difficult, p.32; Reflective Thinking)
10. **Lead Operator** – The actor that serves as the systems integrator within a complex business network. This firm coordinates and integrates the activities of all of the network partners. An example would be the Head of Correspondent Banking at ABN-Amro in Box 1.6.
(Difficult, p.34; Reflective Thinking)