Chapter 02
The Character of Business Marketing

True / False Questions

1. *(p. 33)* Often the profit impact from purchasing and logistical efficiencies outweighs that from market penetration.
TRUE

Difficulty: Medium

2. *(p. 36)* While buyers are highly selective with regard to the sellers they deal with, sellers typically seek only long-term relationships with as many buyers as possible.
FALSE

Difficulty: Medium

3. *(p. 37)* The value of any system depends on the depth and quality of ongoing support given by the users.
FALSE

Difficulty: Easy

4. *(p. 38)* A strategic partnership results when both buyers and sellers have strong interests in maintaining an ongoing exchange.
TRUE

Difficulty: Easy

5. *(p. 38)* A successful JIT relationship requires the supplier to produce and deliver to the OEM PRECISELY the right quality and quantity of the right goods at PRECISELY the right time.
TRUE

Difficulty: Medium

6. *(p. 40)* Relationship building is simplified by the fact that buyers and sellers typically share the same interests and preferences.
FALSE

Difficulty: Medium

7. *(p. 40)* The factors selected for tracking and/or measurement in internal assessments are especially significant since "what gets measured is what gets done".
TRUE

Difficulty: Medium

8. *(p. 41)* External standards provided by trade associations and/or consulting groups may prove useful in measuring the relative effectiveness of various channel members.
TRUE

Difficulty: Medium

9. *(p. 41-42)* Since integrity, fairness, loyalty, flexibility and other "ethical intangibles" cannot be accurately measured, they are rarely considered in evaluating business relationships.
FALSE

Difficulty: Medium

10. *(p. 42)* The relationship development process between business firms is similar in many ways to the courtship and marriage process.
TRUE

Difficulty: Medium

11. *(p. 43)* Initial purchases take place only after the buyer and seller have reached the commitment stage of the relationship development process.
FALSE

Difficulty: Medium

12. *(p. 44)* Reciprocation is typically an important tool for developing the trust required for effective communication and negotiation.
TRUE

Difficulty: Easy

13. *(p. 45)* The use of power has no place in negotiations between members of a distribution channel.
FALSE

Difficulty: Medium

14. *(p. 46)* While trust may be initially extended as a result of expectation and/or reputation, it must be finally earned through direct experience over time.
TRUE

Difficulty: Easy

15. *(p. 48)* Firms that have enjoyed a long-term committed relationship should avoid any consideration to the costs and/or alternatives that would attend dissolution.
FALSE

Difficulty: Medium

16. *(p. 49)* "Supplier verification" visits indicate a lack of trust and should be avoided.
FALSE

Difficulty: Medium

17. *(p. 50)* Dependence balancing strategies indicate a lack of trust and/or commitment to a supplier.
FALSE

Difficulty: Medium

18. *(p. 51)* Relational contracts are voluminous documents that seek to anticipate and provide for any and all contingencies that may arise between the parties.
FALSE

Difficulty: Medium

19. *(p. 51)* Vertical integration implies bringing a function or technology within the boundary of a firm.
TRUE

Difficulty: Medium

20. *(p. 54)* Safeguarded relationships exist when technical ties bond the parties to the ongoing exchange.
TRUE

Difficulty: Medium

Multiple Choice Questions

21. *(p. 32)* Transactional exchange, also called _____, is severely limited by technical complexity, exacting buyer standards and a variety of dependencies between buyer and seller that arise from the exchange.
A. Discrete markets
b. Bond markets
c. Stock markets
d. Derivative markets
e. OTC markets

Difficulty: Hard

22. *(p. 32)* Which of the following statements about transactional exchange is FALSE?
a. Presently, the prevalence of transactional exchange is severely limited by exacting buyer standards
b. Many products have a level of complexity and significance in the creation of value that are poorly served by transactional exchange
c. The benefits of transactional exchange might be improved on by using additional means to coordinate activities between customers and suppliers
d. Transactional exchange has a limited range of effectiveness
E. In a transactional exchange, buyers are at a disadvantage due to low-cost inputs

Difficulty: Hard

23. *(p. 33)* Proactively planning and coordinating the flows of products, services and information among firms cooperating to create and deliver value to end users is the focus of:
a. Relational contracts
b. Strategic partnerships
c. Corporate relationships
D. Supply chain management
e. Vertical integration

Difficulty: Medium

24. *(p. 33)* Global competition has created all of the following except a(n):
a. Greater focus on accountability in marketing efforts
b. Insistence for greater effectiveness in marketing efforts
c. Invigorated quest for operational efficiency
d. Drive to eliminate any waste
E. Greater isolation between firms culturally separated

Difficulty: Easy

25. *(p. 36)* Some business marketers choose not to sell to government agencies because:
a. Government agencies do not have enough challenging work
B. The paperwork is too thick and the margins too thin
c. Agencies simply use their purchasing muscle to push inventories up the supply chain
d. Contracts or technical ties bond the parties to the ongoing exchange and large penalties are involved
e. The expected follow-up business may be large

Difficulty: Medium

26. *(p. 37)* All of the following statements about transactional relationships are true EXCEPT:
a. The identity of the parties is hardly relevant
b. Performance is practically immediate
c. Trading terms are simple and clear
D. They require lengthy, comprehensive communications between parties
e. Money is traded for easily measured commodities

Difficulty: Medium

27. *(p. 37)* According to the text, an auction implies that the buyer is primarily concerned with:
a. Quality
B. Price
c. Delivery
d. Technology
e. Reputation

Difficulty: Medium

28. *(p. 37)* Which of the following is a limitation of online auctions?
A. Many products and services cannot be fully specified
b. Products and services do not meet standards of delivery and quality
c. Low savings for purchasers
d. Inability to send business to the most-efficient suppliers
e. They are usually held for sub quality and old products

Difficulty: Medium

29. *(p. 37)* According to the text, the value of any system depends:
a. On the creation of long-running relationships with all comers
b. Only on the communication content between transacting parties
c. On the identity of the vendors and users
d. Only on the user's personal expertise and deft problem solving
E. On the depth and quality of ongoing support given by the vendor

Difficulty: Hard

30. *(p. 37)* These software suites assist marketer efforts to collect and store accessible data on each account; evaluate customer, program and product performance; and support the development of customized services to maximize the long-run profitability of each account.
a. Relational database systems
b. JIT systems
c. Supply chain management systems
D. CRM systems
e. Delivery systems

Difficulty: Medium

31. *(p. 38)* This results only when BOTH parties have mutual interests in maintaining an ongoing exchange.
a. A standard assessment
b. A safeguarded relationship
C. A strategic partnership
d. A transactional partnership
e. Dependence balancing

Difficulty: Easy

32. *(p. 38)* Many of the strategic partnerships that characterize business markets have been sparked by _____, a management process of renewed dedication to customer satisfaction and efficiency.
A. "The quality revolution"
b. "Complexity management"
c. "Decision-making units"
d. "The value chain"
e. "Environmental engineering"

Difficulty: Medium

33. *(p. 38)* OEM buyers have worked with suppliers of component parts and materials to eliminate costly inventories and frequent handling costs by establishing:
a. Transaction costs
b. Relational contracts
c. Social relationships
d. Safeguarded relationships
E. JIT relationships

Difficulty: Hard

34. *(p. 40)* All the following are reasons for buyers frequently turning to supply partnerships EXCEPT:
a. Costly safety stocks
b. High return rates
c. Numerous reorders
d. Inefficiencies in the production process
E. Short lead times

Difficulty: Medium

35. *(p. 41)* Using _____, a company can evaluate relationships on a relative basis against outside norms provided by trade associations or consulting companies.
a. Internal assessment
B. External measures
c. Trade unions
d. Internal reviews
e. White papers

Difficulty: Easy

36. *(p. 41)* In terms of external measures, which of the following statements is TRUE?
A. A company can evaluate relationships on a relative basis against external norms provided by consulting companies
b. Comparing sales and market penetration rates between agents in similar creates dissonance in agency relationships
c. Although agencies are autonomous businesses and are paid a standard commission on sales, most do not participate in manufacturer training programs
d. They cannot be used to critically evaluate the direction of sustained business relationships
e. They are unable to compare relationships based on an external standard or profile derived from other relationships

Difficulty: Medium

37. *(p. 42)* The BEST analogy for a good strategic relationship is a(n):
a. Social group
B. Courtship and marriage
c. Association of convenience
d. Economic arrangement
e. Union of opposites

Difficulty: Medium

38. *(p. 43)* In the _____ stage of the relationship development process, buyer and seller independently consider the other as an exchange partner.
A. Awareness
b. Commitment
c. Exploration
d. Expansion
e. Contractual

Difficulty: Easy

39. *(p. 43)* In this stage of the relationship development process, there is no interaction between the buyer and seller, but unilateral considerations of potential partners.
a. Exploration
b. Commitment
C. Awareness
d. Expansion
e. Contractual

Difficulty: Easy

40. *(p. 43)* Which of these phases is typically the first phase of the relationship development process?
a. Commitment
b. Exploration
c. Contractual
d. Expansion
E. Awareness

Difficulty: Medium

41. *(p. 43)* Interaction between the parties occurs for the first time during which stage of the relationship development process?
A. Exploration
b. Contractual
c. Commitment
d. Expansion
e. Awareness

Difficulty: Medium

42. *(p. 43)* Which of these observations is TRUE of the exploration stage of the relationship development process?
a. Unilateral considerations of potential partners
b. Buyer and seller independently consider the other as an exchange partner
C. A fragile relationship
d. Interaction yields net payoffs in excess of some minimum level
e. Association moves to enlarging rewards and the scope of exchange

Difficulty: Medium

43. *(p. 43)* In the _____ stage of the relationship development process, one party has made a successful request for adjustment and starts to seek more from current rather than alternative partners.
a. Exploration
b. Commitment
c. Awareness
D. Expansion
e. Contractual

Difficulty: Medium

44. *(p. 43)* The _____ stage of the relationship development process is marked by partners adapting and resolving disputes internally in order to sustain the relationship.
a. Awareness
b. Exploration
c. Expansion
d. Contractual
E. Commitment

Difficulty: Medium

45. *(p. 44)* Which term refers to the degree to which the interaction between buyer and seller yields them net payoffs in excess of some minimum level?
a. Commitment
B. Attraction
c. Elasticity
d. Expansion
e. Reciprocity

Difficulty: Medium

46. *(p. 44)* As partners communicate and begin to bargain over the distribution of their obligations, rewards and costs, any concession made by one party is expected to be met by some form of _____ by the other.
A. Reciprocation
b. Unilateral concession
c. Demand
d. Payment
e. Association

Difficulty: Medium

47. *(p. 45)* The ability of one organization, Alpha, to get another organization, Beta, to do what it would not do otherwise, which is derived from Beta's dependence on Alpha for valued resources like status and economic rewards that are not easily obtained elsewhere is called:
a. Attraction
b. Concession
c. Adjustment
D. Power
e. Justice

Difficulty: Medium

48. *(p. 45)* The rendering of what is merited or due is the anticipated outcome of:
A. Justice
b. Power
c. Norms
d. Negotiation
e. Pressure

Difficulty: Easy

49. *(p. 45)* Standards of behavior for the parties, the guidelines by which the parties interact, are called:
a. Values
B. Norms
c. Attitudes
d. Habits
e. Mores

Difficulty: Easy

50. *(p. 46)* The most important expectation underlying the creation and maintenance of ongoing exchange relationships is:
a. Profit
b. Sales results
c. Effort
d. Communication
E. Trust

Difficulty: Medium

51. *(p. 46)* The belief that a party's word or promise is reliable and a party will fulfill his/her obligations in an exchange relationship is termed:
a. Power
B. Trust
c. Value
d. Hope
e. Honesty

Difficulty: Medium

52. *(p. 46)* Account development, cross-selling and up-selling are manifestations of the:
A. Expansion phase
b. Awareness stage
c. Exploration stage
d. Commitment phase
e. Contractual stage

Difficulty: Medium

53. *(p. 46)* As a firm _____, it spins off internal functions to an outside provider.
a. Negotiates
b. Cooperates
C. Outsources
d. Explores
e. Diversifies

Difficulty: Medium

54. *(p. 46)* The essence of the expansion phase is:
A. Increasing dependence between exchange partners
b. A decrease in the need for communication
c. An increase in the need for communication
d. The final establishment of a permanent relationship
e. The creation of norms

Difficulty: Medium

55. *(p. 46-47)* The formation of a development team representing key members of all firms involved in the value chain is covered in the:
a. Release to tool
b. Distribution channel
c. Distribution contract
D. Presource agreement
e. Source agreement

Difficulty: Medium

56. *(p. 47)* The "Release to Tool" agreement is:
a. A formal, legal contract to purchase a definite volume within a specified time
B. Evidenced by a contract to purchase a specified quantity over a period of time at an agreed-upon price
c. The last phase of the commitment stage
d. Unique to manufacturing firms
e. The formation of a development team consisting of representatives from various areas such as technical centers

Difficulty: Medium

57. *(p. 48)* The lasting desire to maintain or preserve a valuable, important relationship is a:
a. Contract
b. Norm
c. Behavior
d. Distribution pledge
E. Commitment

Difficulty: Easy

58. *(p. 48)* This phase of the relationship development process is characterized by the parties' exchanging of significant resources.
a. Exploration
b. Attraction
C. Commitment
d. Expansion
e. Reciprocation

Difficulty: Medium

59. *(p. 48)* In the commitment phase,
A. Buyer and seller may exchange employees in order to fully identify with the trading partner
b. The association moves from one of testing and probing to one of enlarging rewards and the scope of exchange
c. The supplier may collect information about product specifications, buying process and the like at the prospective customer
d. The parties probe and test each other and initial purchases can take place
e. The interaction between buyer and seller yields them net payoffs in excess of some minimum level

Difficulty: Medium

60. *(p. 48)* The termination of an advanced relationship is accomplished through:
A. Dissolution
b. Arbitration
c. Dissemination
d. Outsourcing
e. Internal review

Difficulty: Easy

61. *(p. 49)* _____ encompasses all formal efforts to obtain evidence of supplier capabilities and commitment.
a. Presourcing agreements
B. Supplier verification
c. Outsourcing notification
d. Release to Tool
e. Vertical integration

Difficulty: Easy

62. *(p. 50)* _____ involves cultivating relationships with other exchange partners in order to reduce the risks associated with relying on a single supplier.
a. Outsourcing
b. Vertical integration
c. Reciprocation
D. Dependence balancing
e. A relational contract

Difficulty: Medium

63. *(p. 51)* _____ do not try to bring every future contingency up for consideration in the present, but establish means of continuous planning, adjusting and resolving conflicts.
A. Relational contracts
b. JIT systems
c. Safeguarded relationships
d. Strategic partnerships
e. Transactional relationships

Difficulty: Medium

64. *(p. 51)* Relational contracts
a. Ensures continuity in a relationship because suppliers are now hierarchically connected employees
B. Can establish procedures or structures for planning to ensure ongoing effective exchange
c. Are formal efforts to obtain evidence of supplier capabilities and commitment
d. Are contracts to purchase a specified quantity over a period of time at an agreed-upon price
e. Precipitates the formation of a development team consisting of representatives from various areas such as manufacturing, purchasing and technical centers

Difficulty: Medium

65. *(p. 51)* Which of the following provides the "strongest bond" and ensures continuity in buyer/seller relationships?
a. Relational contracts
b. Rolling contracts
C. Vertical integration
d. Presource Agreements
e. Release-to-Tool Agreements

Difficulty: Medium

66. *(p. 51)* Bringing a function or technology within the boundary of the firm is:
a. Valence
B. Vertical integration
c. Supply chain management
d. Company orientation
e. Formalization

Difficulty: Medium

67. *(p. 51)* In vertical integration,
A. Employees work in an environment of formal rules, authority, reporting structures and special responsibilities
b. A buyer reduces its dependence on the supplier by cultivating relationships with other exchange partners
c. There is variation in delivery and parts performance
d. Entails stretching the supplier coordination and management resources across two partners
e. Formal efforts are made to obtain evidence of supplier capabilities and commitment

Difficulty: Medium

68. *(p. 51)* Firms make a strategic choice to use distributors or their own sales force, outside research agencies or their own research department, third-party logistical services or their own traffic department, contract suppliers or inhouse manufacturing and much more in:
a. Horizontal integration
b. Safeguarded relationships
c. Corporate relationships
D. Vertical integration
e. Dependence balancing

Difficulty: Medium

69. *(p. 52)* What is the downside of vertical integration?
a. Many products have a level of complexity and significance in the creation of value that are poorly served by vertical integration
b. There is technical complexity, exacting buyer standards and a variety of dependencies between buyer and seller
C. It swells fixed costs and may not well duplicate the motivation of owners of independent businesses
d. Many products and services, like complex components, engineering services or system installations, cannot be fully specified
e. It does not recognize the dynamics of decision making by the cross-functional work teams, which are becoming common at large firms

Difficulty: Medium

70. *(p. 53)* According to the text, which of the following business relationships is MOST like a marriage?
a. Corporations
b. Associations
c. Sole proprietorships
D. Partnerships
e. Networks

Difficulty: Medium

71. *(p. 53)* A trading association supported principally by social bonds and habit is a:
a. Transactional relationship
b. Safeguarded relationship
c. Corporate relationship
d. Strategic partnership
E. Social relationship

Difficulty: Medium

72. *(p. 54)* Safeguard relationships may be based on any/all of the following except:
A. Social bonds
b. Formal contracts
c. Structural ties
d. Technical ties
e. Financial "penalties" for nonperformance

Difficulty: Medium

73. *(p. 54)* Contracts may have large penalties for termination and detailed procedures for resolving conflicts and adjusting to new working environments in:
a. Social relationships
B. Safeguarded relationships
c. Corporate relationships
d. Strategic partnerships
e. Transactional relationships

Difficulty: Medium

74. *(p. 54)* _____ relationships are exchanges safeguarded by ownership or vertical integration.
a. Safeguarded
b. Social
C. Corporate
d. Strategic
e. Transactional

Difficulty: Medium

75. *(p. 54)* Most business marketers agree that the MOST significant development in network thinking has been in the area of:
a. Relational contracts
b. Vertical integration
C. Supply chain management
d. Social contracts
e. Structural relationships

Difficulty: Medium

Essay Questions

76. *(p. 32-33)* Write a short note on transactional exchange and its advantages and limitations?

In today's world of commercial trading, the prevalence of transactional exchange, sometimes also called spot markets or discrete markets, is severely limited by technical complexity, exacting buyer standards and a variety of dependencies between buyer and seller that arise from the exchange. In this complex and dynamic environment, price (the market) must be complemented with other mechanisms for coordinating work between two parties. Otherwise exchange will not take place or exchange will prove unsatisfactory, even highly frustrating, for at least one of the parties. Transactional exchange works quite well to keep suppliers on their toes, ever striving to offer the lowest price. Although there may be an adversarial character to the interaction (a consequence of short-run self-interest and the impersonal mechanism of the market) buyers benefit from low-cost inputs. Buyers work at arm's length from vendors and simply order from another source the next time around. But transactional exchange has a limited range of effectiveness. Many products have a level of complexity and significance in the creation of value that are poorly served by transactional exchange. The purchasing agent seeking the lowest delivered price on standard fasteners might really do a disservice for the firm by not properly accounting for costs of defects, late delivery, inventory costs, ordering costs and so on. In short, the benefits of transactional exchange might be improved on by using additional means to coordinate activities between customers and suppliers.

Difficulty: Medium

77. *(p. 37)* In what ways do CRM systems assist marketer efforts?

CRM systems assist marketer efforts to: (1) collect and store accessible data on each account, the name and position of key personnel, purchase history, delivery specifications, sales calls, trade show interactions, e-mails and other contacts, (2) evaluate customer, program and product performance and (3) support the development of customized services, communications and more in order to maximize the long-run profitability of each account.

Difficulty: Medium

78. *(p. 38)* What is a strategic partnership and what is the essence of the partnership?

A strategic partnership results when both parties have keen interests in maintaining an ongoing exchange. The strategic essence of the partnership rests on the significance of the resources and long-run consequences of the efforts.
Many of the strategic partnerships that characterize business markets have been sparked by the "quality revolution," a management process of renewed dedication to customer satisfaction and efficiency.

Difficulty: Easy

79. *(p. 38-39)* What is a JIT relationship? Write a note on its drawbacks?

A JIT relationship "requires the supplier to produce and deliver to the OEM precisely the necessary quantities at the necessary time, with the objective that products produced by the supplier conform to performance specification every time." Unfortunately, some of the early JIT relationships were underachievers because buyers simply used their purchasing muscle to push inventories up the supply chain; no system efficiencies resulted. Others represented a simplistic attempt to mimic Japanese systems without thorough examination of the distance and climatic challenges posed for stockless throughput. An assessment of JIT by suppliers to U.S. automakers showed evidence of missed opportunities. Fully 30 percent of the suppliers see JIT as merely an upstream shift of inventories and only half the suppliers get stable delivery schedules from their customers.

Difficulty: Medium

80. *(p. 51)* Write a brief note on relational contracts and its advantages?

Relational contracts are contracts that do not try to bring every future contingency up for consideration in the present, but establish means of continuous planning, adjusting and resolving conflicts. Relational contracts can specify decision-making authority by issue (material standards, shutdowns, training and maintenance) and establish procedures or structures for planning to ensure ongoing effective exchange.

Difficulty: Easy