

Crafting and Executing Strategy, 22e (Thompson)

Chapter 1 What Is Strategy and Why Is It Important?

1) Managerial considerations in determining how to compete successfully do *not* normally include

- A) How can a company attract, keep, and please customers?
- B) How can a company modify its entire product line to emphasize its internal service attributes?
- C) How should a company respond to changing economic and market conditions?
- D) How should a company be competitive against rivals?
- E) How should a company position itself in the marketplace?

Answer: B

Explanation: Managerial considerations for successful strategies serve consumers better while increasing performance. Internal attributes are modified to meet product line changes based on changes in the market rather than vice versa.

Difficulty: 1 Easy

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Remember

AACSB: Analytical Thinking

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2) A pharmaceutical company selling prescription drugs in France for the past 10 years has had moderate sales in a crowded market, as its rivals manufacture and market drugs of similar efficacy and having similar safety precautions, but that have superior market share. This particular pharmaceutical company's greatest challenge is to increase French doctors' prescribing their drugs. What would be the *most* effective strategy to improve sales performance in the existing market?

- A) modifying marketing communication to increase brand familiarity within key physician segments
- B) relocating all the existing drug manufacturing facilities to developing countries to reduce operational costs
- C) employing hiring plans that aim at acquiring drug designers from rival companies
- D) exiting the market and entering a new unexplored geographical location
- E) engaging in new contract talks with suppliers about price breaks

Answer: A

Explanation: Modifying marketing communication to target the most preferred set of physicians would help increase the prescription of drugs, boosting sales and performance, and increasing market share. Relocation or reduced supplier costs might improve profits but would not affect sales performance. Employing drug designers does not add value as the rivals, too, offer drugs with similar efficacy and safety precautions.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Apply

AACSB: Analytical Thinking

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3) A company's strategy consists of the action plan management takes to

- A) stake out a unique market position and achieve superior profitability.
- B) compete against rivals and establish a transitory competitive advantage.
- C) concentrate on improving the existing product offering irrespective of the changing and turbulent markets.
- D) develop a more appealing business model than rivals.
- E) identify its strategic vision, its strategic objectives, and its strategic intent.

Answer: A

Explanation: A company's strategy is the set of actions that its managers take to outperform the company's competitors with a unique market position and sustained competitive advantage.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

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4) _____ is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability.

- A) A strategy
- B) A mission statement
- C) Strategic intent
- D) A cost-price framework
- E) A market vision

Answer: A

Explanation: A company's strategy is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability. Achieving this entails making a managerial commitment to a coherent array of well-considered moves about how to compete.

Difficulty: 1 Easy

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Remember

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5) Strategy, at its essence, is about

- A) matching rival businesses' products and quality dimensions in the marketplace.
- B) building profits for short-term success.
- C) realigning the market to provoke change in rival companies.
- D) developing lasting success that can support growth and secure the company's future over the long term.
- E) re-creating a business model with regularity.

Answer: D

Explanation: Strategy at its essence is about setting a company apart from its rivals and staking out a market position that is not crowded with strong competitors. It aims at doing what rivals cannot or do not do.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Analytical Thinking

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- 6) To improve performance, there are many different avenues for outcompeting rivals such as
- A) realizing a higher cost structure and lower operating profit margins than rivals in order to drive sales growth.
 - B) creating products analogous with competitors so as to be competitive in the same markets.
 - C) pursuing similar personalized customer service or quality dimensions as rivals.
 - D) being undecided whether or not to concentrate operations on local versus global markets.
 - E) strengthening competitiveness by pursuing strategic alliances and collaborative partnerships.

Answer: E

Explanation: Strategy is about competing differently from rivals—doing what competitors don't do or doing what they can't do. Sometimes companies enter strategic alliances and collaborative partnerships to strengthen their market position and competitiveness.

Difficulty: 2 Medium

Topic: Strategy Analysis

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Analytical Thinking

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7) Under Armour, a multinational sports apparel company plans entry into a new geographical location, Vietnam, considered an emerging market, with its established and best-selling product line: women's running shorts. How should Under Armour *not* craft a strategy to enhance future profits in Vietnam?

- A) create a sales plan that aims to enhance initial sales and market penetration with low prices based on high operational costs
- B) devise a marketing plan that aims at mass customer segments with attractive advertisements and offers on products
- C) implement a diversification plan that aims at adding health and fitness centers to its existing line of products
- D) chart an acquisition plan that aims at acquiring local smaller-scale sports apparel manufacturers that seek funding and offer a complementary product lineup
- E) establish a distribution plan to set up more supply outlets than any other rivals in the location

Answer: A

Explanation: A sales plan that is based on a low price, high cost model usually does not work as it creates a wide gap between investment and realized profits, whereas an attractive mass market plan, diversification of products, positive acquisition, and more visibility in a market are moves to enhance profits.

Difficulty: 3 Hard

Topic: Strategy Analysis

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Apply

AACSB: Analytical Thinking; Technology

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- 8) Every strategy needs
- A) a distinctive element that attracts customers and produces a competitive edge.
 - B) to include similar characteristics to rival company strategies.
 - C) to pursue conservative growth built on historical strengths.
 - D) to employ diverse and sundry operating practices for producing greater control over sales growth targets.
 - E) to mimic the plans of the industry's most successful companies.

Answer: A

Explanation: Every company's strategy needs to have some distinctive and unconventional element that draws in customers and produces a competitive edge. Mimicking the strategies of successful industry rivals and employing diverse practices, not necessarily aligned to a strategy, rarely work.

Difficulty: 1 Easy

Topic: Define Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Remember

AACSB: Analytical Thinking

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- 9) A company's strategy is NOT concerned with management's choices about how to
- A) attract and please customers.
 - B) stake out the same market position as successful rival companies.
 - C) grow the business.
 - D) compete successfully.
 - E) conduct operations and improve the company's financial and market performance.

Answer: B

Explanation: Mimicking the strategies of successful industry rivals—with either copycat product offerings or maneuvers to stake out the same market position—is certainly not the best at yielding successful results.

Difficulty: 2 Medium

Topic: Define Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Knowledge Application

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10) FaberRoad, a respected courier brand, is fast losing its market share to competitors who do overnight deliveries of packages or offer lower prices. The company's research department has found that many customers care more about knowing exactly when a package will arrive than getting it the next day. Which strategy would best address the current state of FaberRoad and help it regain its market?

A) employing night delivery drivers at a high cost and maintenance charges

B) developing radio tags that could be attached to packages to allow for real-time tracking by customers' PCs and mobile phones

C) diversifying the different types of packages that can be transported and enabling booking through calls

D) acquiring small transportation companies with cheaper trucks and tempos, rebranding, and using them for deliveries

E) engaging in expensive advertising with new tag lines and famous celebrities to enhance its brand image in the market

Answer: B

Explanation: Developing new tracking technology would be a unique strategy to address the current issue of losing customers.

Difficulty: 3 Hard

Topic: Define Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 11) A company's strategy stands a better chance of succeeding when
- A) it is developed through a collaborative process involving all managers and staff from all levels of the organization.
 - B) managers employ conservative strategic moves based on past experience and form an underlying basis of control.
 - C) it is predicated on competitive moves aimed at appealing to buyers in ways that set the company apart from rivals.
 - D) managers copy the strategic moves of successful companies in its industry.
 - E) managers focus on meeting or beating shareholder expectations.

Answer: C

Explanation: Attracting and pleasing customers through cost, quality, and brand image of a product is one of the "hows" to be considered while devising strategies that are dynamic, unique, and provide sustainable edge over competitors. Usually, only the management is involved in devising strategies.

Difficulty: 2 Medium

Topic: Define Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 12) In crafting a company's strategy, managers
- A) face the biggest challenge of how closely to replicate strategies of successful companies in the industry.
 - B) have comparatively little freedom in choosing the "hows" of strategy.
 - C) are wise not to decide on concrete courses of action in order to preserve maximum strategic flexibility.
 - D) need to come up with a sustainable competitive advantage that draws in customers and produces a competitive edge over rivals.
 - E) are well-advised to be risk-averse and develop a "conservative" strategy—"dare-to-be-different" strategies are rarely successful.

Answer: D

Explanation: A well-crafted, well-executed, constantly evolving strategy manages to please customers and shareholders by providing lasting competitive edge. In the process, managers have to take risks and provide concrete solutions in ever-changing markets.

Difficulty: 2 Medium

Topic: Define Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

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- 13) The heart and soul of a company's strategy-making effort is determining how to
- A) become the industry's low-cost provider.
 - B) maximize profits and shareholder value.
 - C) improve the efficiency of its business model.
 - D) maximize profits while simultaneously operating in a socially responsible manner that keeps the company's prices as low as possible.
 - E) come up with moves and actions that produce a durable competitive edge over rivals.

Answer: E

Explanation: A company achieves a competitive advantage whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces. Strategy, at its essence, is about competing differently—doing what rival firms don't do or what rival firms can't do.

Difficulty: 1 Easy

Topic: Define Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 14) The pattern of actions and business approaches that would *not* define a company's strategy include actions to
- A) strengthen market standing and competitiveness by acquiring or merging with other companies.
 - B) strengthen competitiveness via strategic coalitions and partnerships.
 - C) upgrade competitively important resources and capabilities.
 - D) gain sales and market share with lower prices despite increased costs.
 - E) strengthen the firm's bargaining position with suppliers and distributors.

Answer: D

Explanation: A company's strategy would include actions to gain sales and market share with lower prices based on lower costs, not higher costs.

Difficulty: 1 Easy

Topic: Define Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Understand

AACSB: Analytical Thinking

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15) A creative, distinctive strategy that delivers a sustainable competitive advantage is important because

- A) without a competitive advantage a company cannot become the industry leader.
- B) without a competitive advantage a company is likely to fall into bankruptcy.
- C) crafting a strategy that yields a competitive advantage over rivals is a company's most reliable means of achieving above-average profitability and financial performance.
- D) a competitive advantage is what enables a company to achieve its strategic objectives.
- E) how a company goes about trying to please customers and outcompete rivals is what enables senior managers to choose an appropriate strategic vision for the company.

Answer: C

Explanation: A company might tailor a strategy to compete profitably in a new market that has few rivals for its business. But when rivals are already entrenched in a market, sustainable competitive advantage provides buyers with lasting reasons to prefer a company's products or services over its rivals' offerings—reasons that competitors are unable to nullify or overcome despite their best efforts.

Difficulty: 2 Medium

Topic: Define Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Understand

AACSB: Analytical Thinking

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16) A company achieves a competitive advantage when it

- A) provides buyers with superior value compared to rival sellers or offers the same value at a lower cost.
- B) has a profitable business model.
- C) is able to maximize shareholder wealth.
- D) is consistently able to achieve both its strategic and financial objectives.
- E) has a strategy well-matched to its business model.

Answer: A

Explanation: There are many routes to competitive advantage, but they all involve either giving buyers what they perceive as superior value compared to the offerings of rival sellers or giving buyers the same value as others at a lower cost to the firm.

Difficulty: 1 Easy

Topic: Define Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Understand

AACSB: Analytical Thinking

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- 17) A creative and distinctive strategy that sets a company apart from rivals and that gives it a sustainable competitive advantage
- A) is a reliable indicator that the company has a socially responsible business model.
 - B) is achievable in emerging but not mature industries.
 - C) is a company's most reliable ticket to above-average profitability.
 - D) signals that the company has a bold, ambitious strategic intent that places the achievement of strategic objectives ahead of the achievement of financial objectives.
 - E) is the best indicator that the company's strategy and business model are well-matched and properly synchronized.

Answer: C

Explanation: If a company's competitive edge holds promise for being *sustainable* (as opposed to just temporary), then so much the better for both the strategy and the company's future profitability.

Difficulty: 1 Easy

Topic: Define Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

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- 18) What separates a powerful strategy from a run-of-the-mill or ineffective one?
- A) the ability of the strategy to keep the company profitable
 - B) the proven ability of the strategy to generate maximum profits
 - C) the speed with which it helps the company achieve its strategic vision
 - D) management's ability to forge a series of actions, both in the marketplace and internally, that sets the company apart from rivals and produces sustainable competitive advantage
 - E) whether it allows the company to maximize shareholder value in the shortest possible time.

Answer: D

Explanation: A powerful strategy leads to a durable competitive advantage that competitors are unable to nullify or overcome despite their best efforts. This involves balancing, and excelling in, both internal and external environments.

Difficulty: 1 Easy

Topic: Define Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Understand

AACSB: Analytical Thinking

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19) Volta Motors, a manufacturer of self-driving delivery trucks, is working on developing its next-generation electric vehicles. It has decided on a strategy of focusing on a narrow buyer segment and outcompeting rivals by offering buyers customized autonomous, self-driving electric vehicles at a lower cost than rivals. What basic strategic approach has Volta Motors decided upon?

- A) focused differentiation
- B) best-cost provider
- C) low-cost provider
- D) broad differentiation
- E) focused low-cost

Answer: B

Explanation: A best-cost provider strategy involves concentrating on a narrow buyer segment and outcompeting rivals by offering buyers more value for their money by providing customized attributes that meet their specialized needs but at a lower cost than rivals' products.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

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20) Strategic approaches to set a company apart from rivals and achieve a sustainable competitive advantage are *not* likely to include

- A) striving to be the industry's low-cost provider.
- B) outcompeting rivals on the basis of differentiating features that will appeal to a broad spectrum of buyers.
- C) developing a best-cost provider strategy that gives customers more value for the money.
- D) focusing on a narrow market niche and serving buyers' special needs and tastes.
- E) striving to be the industry's high-price provider.

Answer: E

Explanation: Basic strategic approaches for setting a company apart from rivals and winning a sustainable competitive advantage include a low-cost provider strategy, a broad differentiation strategy, a best cost provider strategy, and a focused differentiation strategy. Charging the highest prices in an industry without offering additional value would not be a successful strategy.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

21) If you were advising Rebel Toad Brewing, a local brewpub, about how to set itself apart from rivals and achieve a sustainable competitive advantage, you would most likely *not* recommend that Rebel Toad Brewing

A) strive to be the industry's low-cost provider, thereby aiming for a cost-based competitive advantage.

B) outcompete rivals on the basis of differentiating features such as higher quality, wider product selection, added performance, better service, more attractive styling, technological superiority, or unusually good value for the money.

C) mimic the successful strategies of rivals.

D) focus on a narrow market niche to achieve a competitive edge by doing a better job than rivals of satisfying the needs and tastes of buyers comprising the niche.

E) develop a cost advantage based on offering more value for its patrons' money.

Answer: C

Explanation: Simply trying to mimic the strategies of the industry's successful companies never works. Rather, every company's strategy needs to have some distinctive element that draws in customers and produces a competitive edge.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 22) A salsa manufacturing company that enjoys the *least* bargaining power with its suppliers would most likely be
- A) involved in mass production of its products to cater to an expanding customer base.
 - B) actively catering to a broad, price-sensitive customer base.
 - C) manufacturing high-quality salsa and related products from readily available raw materials for a broad customer base.
 - D) selling salsa and related products deemed to be highly popular and easily available across most supermarkets.
 - E) offering high-cost specialized salsas that could be consumed only by customers with specific food allergies.

Answer: E

Explanation: Companies usually engage in mass production when the demand is high, which usually renders low-priced products. Mass production would also result in easy availability of products to customers. These are direct results of adopting a low-cost provider strategy.

Companies that produce high-quality products for a large customer base use a broad differentiation strategy. Companies offering high-cost specialized products have a narrow market focus with lower volume generation, thereby reducing their bargaining power with suppliers who are supplying specialized materials.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

23) Winning a sustainable competitive edge over competitors does *not* hinge on which of the following?

- A) having a distinctive competitive product offering
- B) building competitively valuable expertise and capabilities not readily matched, and offering distinctive products
- C) building experience, know-how, and specialized capabilities that have been perfected over a long period of time
- D) having hard-to-beat capabilities and impressive product innovation
- E) building products and distributing them at low prices to a broad customer base irrespective of manufacturing cost

Answer: E

Explanation: Although building products that are sold at low prices achieves a cost-based advantage over rivals, it is highly dependent on low manufacturing cost of products. A cost-independent pricing would widen the gap between investments made and profits generated, leading to losses.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

24) If you were asked to develop a low-cost provider strategy for a startup passenger air carrier business, what would you most likely *not* recommend?

- A) offer low prices on short-distance flights and eliminate meals during flights
- B) offer low prices on long-distance flights and maintain long service times for aircraft between flights
- C) offer low prices on short-distance flights and improve airplane capacity by reducing the distance between existing seats to permit adding more rows of seating
- D) offer low prices on short-distance flights and pay flight attendants a minimum wage
- E) offer low prices on long-distance flights and charge fees for both carry-on and checked luggage

Answer: B

Explanation: Long service times between flights would greatly increase the cost of an airline's operation that cannot be mitigated by low prices, which would, in turn, lead to losses. Other airlines, on the other hand, offer low prices by aggressively reducing costs, internal and external.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking; Technology

Accessibility: Keyboard Navigation

25) Amy's Drive-Thru, a fast food facility, offers healthy, sustainably grown veggie and vegan fast food at higher prices than its competitors in the market and has a drive-through and indoor seated casual dining operation. What strategy is Amy's Drive-Thru using to gain competitive advantage?

- A) a low-cost provider strategy
- B) a broad differentiation strategy
- C) a focused low-cost strategy
- D) a differentiation strategy
- E) a best-cost provider strategy

Answer: D

Explanation: Amy's Drive-Thru focuses on healthy fast food for non-meat eaters. It caters to drive-through and casual-dining customers seeking healthy alternatives and generates profits by offering products and services that rivals do not. It also concentrates on a narrow customer base.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

26) BloomsJay Resorts Inc. has multiple tropical resorts in various locations. In a crowded market that caters to all kinds of consumers, this resort caters mainly to gays with a guaranteed hassle-free holiday experience at a premium price. What strategy is BloomsJay using to gain competitive advantage?

- A) a low-cost provider strategy
- B) a broad differentiation strategy
- C) a focused low-cost strategy
- D) a focused differentiation strategy
- E) a best-cost provider strategy

Answer: D

Explanation: BloomsJay caters to gay customers, focusing on a narrow customer base and providing a unique holidaying experience. It has adopted a focused differentiation strategy concentrating on a narrow customer segment and outcompeting rivals by offering customers attributes that meet their specialized needs and is more appealing than rivals' offerings.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

27) Identify the company with a low-cost provider strategy.

- A) A fashion clothing line uses sought-after designers and natural fabrics.
- B) A mortgage company specializes in lending money for second homes.
- C) An online retailer delivers organic groceries overnight.
- D) A baby products retailer sells unassembled baby furniture produced in China.
- E) A dairy products manufacturer uses exotic substitutes to produce lactose-free dairy products.

Answer: D

Explanation: The baby products retailer selling unassembled parts made in China is most likely to have the lowest costs, and to pursue a low-cost provider strategy. The other companies listed are more likely to pursue focused differentiation or best-cost strategies.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

28) Giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations is a _____ strategy.

- A) best-cost provider
- B) focused low-cost
- C) focused differentiation
- D) broad differentiation
- E) low-cost provider

Answer: A

Explanation: A best-cost provider strategy is giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations. This approach is a hybrid strategy that blends elements of low-cost provider and differentiation strategies; the aim is to have lower costs than rivals while simultaneously offering better differentiating attributes.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 29) An evolving strategy for a ride-share business like Uber or Lyft is *not* likely to be triggered by
- A) their need to keep strategy in step with changing circumstances, market conditions, and changing customer needs and expectations.
 - B) the proactive efforts of their managers to fine-tune and improve one or more pieces of the strategy.
 - C) their need to abandon some strategy features that have been faltering or are no longer working well.
 - D) their need to respond to the newly initiated actions and competitive moves of manufacturers of autonomous vehicles.
 - E) their need to respond to short-term swings in the stock market that impact timing of an initial public offering (IPO).

Answer: E

Explanation: Adapting to new conditions and constantly evaluating what is working well enough to continue and what needs to be improved are normal parts of the strategy-making process, resulting in an evolving strategy. Strategy features that work with evolving markets would not trigger evolution as long as the firm's fundamentals are sound.

Difficulty: 3 Hard

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

30) A "repeatedly evolving strategy" best applies to a

A) government housing agency that formulates urban redevelopment plans during a four-year window of time and implements them phase by phase over that period of time.

B) mobile phone company, established in a saturated market, that plans its research and development activities to allow for quarterly releases of new products that match or overtake features of rivals' mobile phones.

C) startup cosmetics manufacturer that replicates the products of rivals but at a comparable quality and lower price.

D) nationalized bank that lends at a lower interest rate but offers a zero-processing fee in a market crowded with privatized banks running at high cost.

E) firearms regulatory agency, set up by the government, that publishes industry standards for safety, reliability, and quality of arms and ammunition.

Answer: B

Explanation: Industry environments characterized by high-velocity change require companies to repeatedly adapt their strategies. Companies in industries with rapid-fire advances in technology, such as consumer electronics and telecommunications, may find it essential to adjust key elements of their strategies several times a year, especially in saturated markets with ample and strong rivalry.

Difficulty: 3 Hard

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 31) Managers of every company should be willing and ready to modify their strategies because
- A) market conditions and circumstances are changing over time or the current strategy is clearly failing.
 - B) the task of crafting strategy is a one-time event.
 - C) the strategic vision necessitates periodic updating.
 - D) frequent changes in strategy make it very difficult for rivals to imitate.
 - E) all strategies are reactive.

Answer: A

Explanation: A company's strategy evolves incrementally as management fine-tunes various pieces of the strategy and adjusts it in response to unfolding events. Inevitably there will be occasions when changing market and competitive conditions call for some kind of strategic reaction or abandonment of a current strategy, but a company's strategy also consists of deliberate and proactive (or planned) elements.

Difficulty: 2 Medium

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 32) Adapting to new conditions like new innovations by competitors, fast-changing technological developments, and constantly evaluating what is working result in
- A) an assured profitability strategy.
 - B) a broad market entry strategy.
 - C) an emergent strategy.
 - D) unlimited revenue generation.
 - E) a proactive strategy.

Answer: C

Explanation: A portion of a company's strategy is always developed on the fly, coming as a response to fresh strategic maneuvers on the part of rival firms, unexpected shifts in customer requirements, fast-changing technological developments, newly appearing market opportunities, a changing political or economic climate, or other unanticipated happenings in the surrounding environment. These adaptive strategy adjustments make up the firm's emergent strategy.

Difficulty: 1 Easy

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 33) Managers must be prepared to modify their strategy *except* when
- A) changing circumstances affect performance and the desire to improve the current strategy.
 - B) rivals make or adjust moves in the market due to the shifting needs of buyers.
 - C) encountering stagnating market conditions and increasingly restrictive new customer acquisition opportunities.
 - D) evidence is mounting that the current strategy is becoming less effective.
 - E) rivals announce their monthly profit margins in public.

Answer: E

Explanation: Managers of every company must be willing and ready to modify the strategy in response to changing market conditions, advancing technology, unexpected moves by competitors, shifting buyer needs, emerging market opportunities, and new ideas for improving the strategy.

Difficulty: 2 Medium

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 34) A company's strategy is a "work in progress" and evolves over time because of the
- A) importance of developing a fresh strategic plan every year that keeps employees from becoming bored with executing the same strategy year after year.
 - B) ongoing need to imitate the new strategic moves of the industry leaders.
 - C) need to make regular adjustments in the company's strategic vision.
 - D) ongoing need of company managers to react and respond to changing market and competitive conditions.
 - E) frequent need to modify key elements of the company's business model.

Answer: D

Explanation: Regardless of whether a company's strategy changes gradually or swiftly, the important point is that the task of crafting strategy is not a one-time event but always a work in progress. The strategic vision of a company affects the strategies and changes to strategies are not a set target; they depend on market factors and the company's position.

Difficulty: 2 Medium

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 35) It is normal for a company's strategy to end up being
- A) a blend of offensive actions on the part of managers to improve the company's profitability and defensive moves to counteract changing market conditions.
 - B) a combination of conservative moves to protect the company's market share and somewhat more risky initiatives to set the company's product offering apart from rivals.
 - C) a close imitation of the strategy employed by the recognized industry leader.
 - D) a blend of proactive actions to improve the company's competitiveness and financial performance, and adaptive reactions to unanticipated developments and fresh market conditions.
 - E) more a product of clever entrepreneurship than of efforts to clearly set a company's product/service offering apart from the offerings of rivals.

Answer: D

Explanation: A company's realized strategy comprises planned initiatives to improve the company's financial performance and secure a competitive edge in combination with initiatives to deal with unanticipated developments and fresh market conditions.

Difficulty: 2 Medium

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 36) Crafting a deliberate strategy involves developing strategy elements that
- A) imitate as much of the market leader's strategy as possible so as not to end up at a competitive disadvantage.
 - B) comprise a five-year strategic plan that is then fine-tuned during the remainder of the plan period; big changes in strategy are thus made only once every five years.
 - C) consist of a blend of proactive new planned initiatives plus ongoing strategy elements continued from prior periods.
 - D) deliberately eliminate the ongoing strategic elements and implement new planned initiatives.
 - E) consist of adaptive change plans to new market situations along with abandoned redundant ongoing elements.

Answer: C

Explanation: The biggest portion of a company's current strategy flows from previously initiated actions that have proven themselves in the marketplace and newly launched initiatives aimed at edging out rivals and boosting financial performance. This part of management's action plan for running the company is its deliberate strategy, consisting of proactive strategy elements that are both planned and realized as planned.

Difficulty: 1 Easy

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

37) Strategy formulation is

A) mostly hidden to outside view and is deliberately kept under wraps by top-level managers (so as to catch rival companies by surprise when the strategy is launched).

B) typically planned well in advance and usually deviates little from the planned set of actions and business approaches because of the risks of making on-the-spot changes.

C) static over time unless a newly appointed CEO decides to take the company in a new direction with a new strategy.

D) typically a blend of proactive and reactive strategy elements.

E) developed solely on the fly because managers must make constant efforts to come up with fresh moves to keep a company's product offering clearly set apart from the product offerings of rival firms.

Answer: D

Explanation: A company's strategy is devised by a set of well-informed managers or a board. It is subject to change as per market conditions and includes both proactive and reactive measures. Some parts of the strategies being developed are always on the fly owing to fluctuating external and internal conditions.

Difficulty: 2 Medium

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 38) A company's realized strategy evolves from one version to the next due to
- A) changing management direction because of understanding several appealing strategy alternatives.
 - B) the proactive efforts of company managers to improve the current strategy, a need to respond to changing customer requirements and expectations, and a need to react to fresh strategic maneuvers on the part of rival firms.
 - C) ongoing turnover in the managerial and executive ranks (new managers often decide to shift to a different strategy).
 - D) pressures from shareholders to boost profit margins and pay higher dividends.
 - E) the importance of keeping the company's business model fresh and up-to-date.

Answer: B

Explanation: A company's strategy in totality (its realized strategy) tends to be a combination of proactive and reactive elements, with certain strategy elements being abandoned because they have become obsolete or ineffective. A company's realized strategy can be observed in the pattern of its actions over time.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 39) It is *incorrect* to say that a company's strategy evolves due to
- A) a need to promote stability and retain the status quo.
 - B) the need to abandon some strategy elements that are no longer working well.
 - C) a need to respond to changing customer requirements and expectations.
 - D) a need to react to fresh strategic maneuvers on the part of rival firms.
 - E) the proactive efforts of company managers to improve obsolete aspects of the strategy.

Answer: A

Explanation: A portion of a company's strategy is always developed on the fly, coming as a response to fresh strategic maneuvers on the part of rival firms, unexpected shifts in customer requirements, fast-changing technological developments, newly appearing market opportunities, a changing political or economic climate, or other unanticipated happenings in the surrounding environment.

Difficulty: 2 Medium

Topic: The Roles of Firm Effects and Industry Effects on Firm Performance and Competitive Advantage

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 40) In the course of crafting a strategy, managers typically *do not*
- A) abandon certain strategy elements that have grown stale or become obsolete.
 - B) modify the current strategy when market and competitive conditions take an unexpected turn or some aspects of the company's strategy hit a stone wall.
 - C) revamp the current strategy in response to the fresh strategic maneuvers of rival firms.
 - D) take proactive actions to improve this or that piece of the strategy.
 - E) share the strategy publicly to obtain additional customer and shareholder support.

Answer: E

Explanation: Sharing a strategy and business model with rival companies is not a standard procedure, but the other four steps are usually implemented in one or another form while crafting a strategy.

Difficulty: 1 Easy

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 41) Strategy is about competing differently than rivals; thus, strategy success is about
- A) the sources of sustained advantages and superior profitability.
 - B) those emergent, unplanned, reactive, and adaptive plans that are more appropriate than deliberate or intended ones that drive the realized strategy.
 - C) matching internal resources and capabilities to the industry environment.
 - D) keeping the firm current with the rapid pace of change in the industry.
 - E) replacing proactive and reactive measures by modified ongoing strategic elements to preserve company values.

Answer: A

Explanation: A successful strategy is a powerful one that aims at sustained competitive advantage and changes along with the evolving market and consumer needs and expectations. Such strategies are a combination of proactive and reactive elements that provide a competitive edge.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

42) A deliberate strategy is best exemplified by a(n)

- A) popular downtown theater that has been staging plays and showing films decides to begin booking rock and roll acts.
- B) airline company that cuts frills in order to cope with increasing fuel prices.
- C) IT firm that trims jobs during a recession.
- D) smartphone manufacturer that divests its tablet production branch after not gaining market share.
- E) online jewelry reseller that discontinues its line of turquoise rings due to lack of demand.

Answer: A

Explanation: The theater deliberately diversifies its offerings to gain more profits and strengthen its market position. It is not a result of changing internal and external environmental factors, whereas the other examples are a result of changes to market, changes in customer preferences, or changes in economic climate.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

43) An emergent strategy is best exemplified by a(n)

- A) local hardware store that offers a 10 percent discount for seniors on the first Wednesday of every month.
- B) online book reseller that diversifies into custom book publishing.
- C) oil-change franchisor that continues geographical expansion despite a recession.
- D) healthy food manufacturer that integrates forward into drive-thru fast health food restaurants.
- E) microbrewer that invests in building community water wells during a drought.

Answer: E

Explanation: A microbrewer that invests in building community water wells during a drought best exemplifies an emergent strategy.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

44) Consider the following three companies and their strategies.

- Company A is an established database management company that acquires a well-reputed but small publishing house to enter the booming publishing industry.
- Company B, a sports management house, declared bankruptcy during a recent recession but now has created a television network that airs regional sports events.
- Company C, a package delivery business, is a startup based on delivery efficiency models created by a few students, and delivers almost all kinds of packages.

The use of strategies by these three companies accurately can be analyzed by saying that

A) Company B employs an emergent strategy, whereas companies A and C employ deliberate strategies.

B) All three companies employ deliberate strategies.

C) All three companies employ emergent strategies.

D) Company C employs a deliberate strategy; companies A and B employ emergent strategy.

E) companies A and C employ emergent strategies; company B employs a deliberate strategy.

Answer: B

Explanation: All three companies do not have reactive strategy elements that emerge as changing conditions warrant. They employ proactive strategies to explore new markets.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

45) A luxury bathtub manufacturer offered scented bubble bath foams and massage coupons as a gimmick when its bathtubs did not sell. The bubble foam became famous among some women and led to a line of exclusive bath products for women. The manufacturer established shops in various regional locations and hired celebrities to market its products to enhance sales. Now its products are sold through retail outlets and online sites throughout the world. Which of the following is accurate?

- A) Offering scented bubble bath foams and massage coupons was an emergent strategy.
- B) Creating a subbrand that offered exclusive bath products for women was an emergent strategy.
- C) Establishing shops in regional locations was an emergent strategy.
- D) Hiring celebrities to market its products was an emergent strategy.
- E) Creating a worldwide presence through retail outlets and online sites was an emergent strategy.

Answer: B

Explanation: Capitalizing upon the new surprising opportunity by creating a subbrand that offered exclusive bath products for women was a reactive response to unanticipated developments and fresh market conditions.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

46) Due to impending labor strife over planned layoffs in its Silicon Valley headquarters, a social networking company has decided to outsource its programming operations to an emerging market, India, to obtain cheaper labor. Since then, this social networking company has encountered criticism that has diminished its current market position and staff productivity. You have been retained by this company to develop an appropriate reactive (emergent) strategy that would begin by

- A) hiring and training new talent to begin operations in the emerging market.
- B) acquiring a local computer chip marketing and distribution specialist firm in the new location.
- C) cancelling the idea of outsourcing and retaining the existing workforce to run operations.
- D) shifting the existing workforce to the new geographical location and paying them according to new standards.
- E) cancelling the job cuts till the market situation and entry operations stabilize.

Answer: E

Explanation: Cancelling the job cuts for the time being to solidify its market position is a reactive strategy to ensure that new operations and current productivity are not affected. This crisis intervention is not a permanent solution, but a reactive strategy to maintain current balance. The options involving hiring new talent and acquiring a firm are proactive strategies. The options involving "cancelling the idea and shifting the workforce are either nonviable or high-risk reactive strategies.

Difficulty: 3 Hard

Topic: The Link Between Strategy and Staffing Decisions

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

47) A company's business model

- A) concerns the actions and business approaches that will be used to grow the business, conduct operations, and stake a competitor's market position.
- B) is management's blueprint for how it will generate revenues sufficient to cover costs and yield an attractive profit.
- C) concerns what combination of moves in the marketplace it plans to make to outcompete rivals.
- D) deals with how it can simultaneously maximize profits and operate in a socially responsible manner that keeps its prices as low as possible.
- E) concerns how management plans to pursue strategic objectives, given the larger imperative of meeting or beating its financial performance targets.

Answer: B

Explanation: At the core of every sound strategy is the company's business model. A business model is management's blueprint to provide a customer the best value deal along with keeping costs low enough to make profits.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

48) The consumer goods companies listed below all pursue the same business model with the exception of

- A) Acer laptops.
- B) Gillette razors.
- C) Epson printers.
- D) Keurig espresso coffee machines.
- E) Nintendo Wii.

Answer: A

Explanation: All but one of the above companies pursue the same business model—selling the product at a low or break-even price and making up the margins on the need for consumers to make repeated purchases of proprietary replacements or accessories such as blades, printer cartridges, coffee pods, and platform-specific computer games. Acer laptops do not require replacements or accessories that are proprietary; indeed, many of its software packages, printers, and external drives are made by third parties.

Difficulty: 3 Hard

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) Why is it important to craft a business model?

- A) Because it sets forth management's game plan for maximizing profits for shareholders
- B) Because it details exactly how management's strategy will result in the achievement of the company's strategic intent
- C) Because it is a part of an operating model that focuses on delivering excellence and creating value for external shareholders and internal labor force
- D) Because it sets forth the key components of the enterprise's business approach, indicates how revenues will be generated, and makes a case for why the strategy can deliver value to customers in a profitable manner
- E) Because it sets forth management's long-term action plan to match the business standards set by formidable rivals

Answer: D

Explanation: A business model is management's blueprint for delivering a valuable product or service to customers in a manner that will generate revenues sufficient to cover costs and yield an attractive profit.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

50) Management's blueprint for how and why the company's business approaches will generate revenues sufficient to cover costs and produce attractive profits and returns on investment

- A) best describes what is meant by a company's strategy.
- B) best describes what is meant by a company's business model.
- C) accounts for why a company's financial objectives are at the stated level.
- D) portrays the essence of a company's business purpose or mission.
- E) is what is meant by the term strategic intent.

Answer: B

Explanation: The two elements of a company's business model are its customer value proposition and its profit formula. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.

Difficulty: 1 Easy

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 51) The difference between a company's strategy and a company's business model is that
- A) a company's strategy is management's game plan for achieving strategic objectives while its business model is management's game plan for achieving financial objectives.
 - B) the strategy concerns how to compete successfully and the business model concerns how to operate efficiently.
 - C) a company's strategy is management's game plan for realizing the strategic vision, whereas a company's business model is the game plan for accomplishing its corporate responsibility goals.
 - D) strategy relates broadly to a company's competitive moves and business approaches while its business model relates to whether the revenues flowing from the strategy are sufficient to cover costs and realize a profit.
 - E) a company's strategy is solely concerned with how to please customers while its business model is solely concerned with how to please shareholders.

Answer: D

Explanation: At the core of every sound strategy is the company's business model. A business model is how a company plans to realize its strategies and usually revolves around the Value-Price-Cost Framework.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 52) The customer value proposition lays out the company's approach to
- A) meeting profitability guidelines without the risk of losing customers.
 - B) operating efficiently given the current level of customers.
 - C) embracing rival company approaches to gaining customers.
 - D) satisfying customer wants and needs at a price that customers will consider a good value.
 - E) assuring that the company makes enough profits based on its per-unit cost.

Answer: D

Explanation: A good customer value proposition convinces a customer about the uniqueness of a product. An increase in the customer's familiarity and approval would result in increased sales and market share.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

53) A regional electric scooter manufacturer sells its scooter at a lower price than other manufacturers of two-wheeler scooters. What will make the product most attractive for customers?

- A) low profit
- B) high value
- C) high cost
- D) low value
- E) low cost

Answer: B

Explanation: From a customer perspective, the greater the value delivered and the lower the price, the more attractive is the company's value proposition.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

54) You have been asked to advise Waltham Furniture, a company that seeks to serve a target middle-class customer demographic obsessed with the quality and price of products. Your proposed value proposition for this company to offer to its customers would be to

- A) identify the unique features of your client's furniture without comparing it with a rival's products.
- B) offer copycat furniture at low cost but an average quality compared to your client's rivals.
- C) offer the same quality of furniture as do your client's rivals but at a high cost based on greater market share and higher brand value.
- D) provide comparable quality furniture at a much lower price than your rivals but leave the final assembly of purchased furniture to customers accompanied by an easy-to-follow assembly guide.
- E) market and sell only average quality furniture compared to your rivals at an imperceptible difference in price.

Answer: D

Explanation: The targeted customer base for Waltham Furniture would be most benefitted with a company's proposition that provides high quality of products at a lower price. The benefit of cost savings on assembling final products is passed on to the customer through low prices, a part of which would also contribute to the company's profit.

Difficulty: 3 Hard

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

55) Based upon its advertising slogan, the pizza restaurant that likely offers the best value proposition to its customers is

- A) Johnny's Pie Shop: "The Tastiest Pizza You've Ever Had."
- B) Fast n'Fresh Pizza: "Get fresh, hot pizza, delivered under 20 minutes—or it's free."
- C) Sustainable Slices: "Organic and sustainably sourced ingredients that are good for you and the planet."
- D) Loyalty Pizza: "One pizza, 5 points: to be redeemed with a pan pizza upon reaching 50 points."
- E) Crackerjack Pizza: "Open your pizza box and find a free gift. Hurry! Free gifts for 100 lucky customers."

Answer: B

Explanation: Fast n'Fresh Pizza provides the best value proposition as it does not prompt the customer to invest more and promises a tight turnaround time on deliveries. Johnny's Pie Shop and Sustainable Slices do not offer a distinctive value over other firms. Loyalty Pizza offers little in return on a relatively heavy repeat purchase investment by its customers. Crackerjack Pizza has a clever pitch but customer benefit is speculative.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

56) Troopline Inc., an online laptop retailer, sells laptops of similar range and features as other online laptop retailers. Which of the value propositions would *not* benefit the company?

- A) providing free delivery of purchased laptops
- B) allowing customers to pay through gift coupons
- C) updating the site with better high-resolution pictures of laptops
- D) providing mobile friendly version of the site and compatible apps for mobile users
- E) establishing a comparison feature tab that allows customers to compare offerings from other online retailers

Answer: E

Explanation: Establishing a comparison tab could severely affect the sales of Troopline as it offers similar product ranges with similar features as displayed on other sites.

Difficulty: 3 Hard

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

57) A search engine giant specializes in all types of search items; provides a free translation feature for 80 different languages; stores all passwords for commonly visited sites in encrypted form; allows users to view ads on previously made related searches; provides suggestive search items to assist the user; allows users to view a collection of related web pages users might want to visit; and provides a faster load time and more accurate hits than its rivals. This search engine company uses a profit formula that primarily consists of

- A) providing a free translation feature for 80 different languages.
- B) allowing users to view ads on previously made related searches.
- C) allowing users to view a collation of related web pages users might want to visit.
- D) providing a faster load time and more accurate hits than its rivals.
- E) providing suggestive search items based on history of sites visited.

Answer: B

Explanation: Product companies are charged heavily for the ad space on the web pages users visit. This would serve as the company's profit formula. Other offerings comprise a powerful value proposition for customers.

Difficulty: 3 Hard

Topic: Measures of Analyzing Competitive Advantage

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

58) A winning strategy is one that

- A) builds strategic fit, is socially responsible, and maximizes shareholder wealth.
- B) is highly profitable and boosts the company's market share.
- C) fits the company's internal and external situation, builds sustainable competitive advantage, and improves company performance.
- D) results in a company becoming the dominant industry leader.
- E) can pass the ethical standards test, the strategic intent test, and the profitability test.

Answer: C

Explanation: A winning strategy is the one that is built on objectives that are specific and achievable; is well matched to industry and competitive conditions; achieves a durable competitive advantage over rivals; and sustains strong company performance.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

59) A winning strategy must pass which three tests?

- A) the dominant market test, the sustainable advantage test, and the profit test
- B) the fit test, the competitive advantage test, and the performance test
- C) the sustainable performance test, the fit test, and the profit test
- D) the performance test, the dominant market test, and the fit test
- E) the fit test, the sustainable advantage test, and the dominant market test

Answer: B

Explanation: A strategy that passes the three tests, the fit test, the competitive advantage test, and the performance test, is usually regarded as a winning strategy. These tests measure a strategy's fit to a company's situation, its ability to bestow competitive advantage, and good performance.

Difficulty: 1 Easy

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

60) To distinguish a winning strategy from a mediocre or losing strategy, a strategic manager should ask which question?

- A) How good is the company's business model?
- B) Is the company a technology leader?
- C) Does the company have low prices in comparison to rivals?
- D) Is the company putting too little emphasis on behaving in an ethical and socially responsible manner?
- E) How well does the strategy fit the company's situation?

Answer: E

Explanation: To qualify as a winner, a strategy has to be well matched to industry and competitive conditions, a company's best market opportunities, and other pertinent aspects of the business environment in which the company operates.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

61) To test the merits of a firm's strategy and distinguish it as a winning strategy, which major question needs to be addressed?

A) Is the company's strategy ethical and socially responsible, and does it put enough emphasis on good product quality and good customer service?

B) Is the company putting too little emphasis on growth and profitability and too much emphasis on behaving in an ethical and socially responsible manner?

C) Is the strategy resulting in the development of additional competitive capabilities?

D) Is the strategy helping the company achieve a sustainable competitive advantage, and is it resulting in better company performance?

E) Does the strategy strike a good balance between maximizing shareholder wealth and maximizing customer satisfaction?

Answer: D

Explanation: A strategy is distinguished as a winning strategy based on whether it fits a company's situation, allows a company to produce superior performance for more than a brief period of time, and helps achieve a durable competitive advantage over rivals.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

62) For John Sidanta, CEO and founder of Primaplast, a manufacturer of biodegradable plastic drinking straws made from recycled material, crafting and executing a strategy is a top-priority managerial task because it

A) helps Primaplast management create tight fits between a company's strategic vision and business model.

B) allows Primaplast company personnel, and especially senior executives, to know the answer to "who are we, what do we do, and where are we headed?"

C) is Primaplast management's prescription for doing business, its roadmap to competitive advantage, a game plan for pleasing customers, and its formula for improving performance, especially in light of impending community and some food service outlets' bans on conventional plastic drinking straws.

D) provides Primaplast with clear guidance as to what the company's business model and strategic intent are, and helps keep managerial decision-making from being rudderless.

E) establishes how well Primaplast executives perform these tasks and are the key determinants of executive compensation.

Answer: C

Explanation: High-achieving enterprises like Primaplast are nearly always the product of astute, creative, and proactive strategy making. A company's business model, its operational model, and realized results are factors associated with its strategy.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

63) Why are crafting and executing business strategies the foremost tasks of any organization?

A) because they are necessary ingredients of a sound operational business model

B) because a good strategy coupled with a good strategy execution are the most telling signs of good management and allow a company to be a standout performer in the marketplace

C) because the management skills of top executives are sharpened as they work their way through the strategy-making, strategy-executing processes

D) because doing these tasks helps executives develop an appropriate strategic vision, strategic intent, and set of strategic objectives

E) because of the contribution they make to maximizing value for shareholders

Answer: B

Explanation: Crafting and executing business strategies are the first steps around which a company's growth and progress framework is placed. It is important that a crafted strategy be executed proficiently to realize successes of the strategy.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 64) Good strategy combined with good strategy execution
- A) offers a surefire guarantee for avoiding periods of weak financial performance.
 - B) is the best sign that a company is a true industry leader.
 - C) is a more important management function than forming a strategic vision combined with setting objectives.
 - D) is the clearest indicator of good management.
 - E) signals that a company has the best business model in a market.

Answer: D

Explanation: A good strategy and a good strategy execution are the most telling signs of good management. The rationale for using the twin standards of good strategy making and good strategy execution to determine whether a company is well managed is therefore compelling: The better conceived a company's strategy and the more competently it is executed, the more likely the company will be a standout performer in the marketplace.

Difficulty: 2 Medium

Topic: Value of Strategic Leadership

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 65) The most significant signs of a well-managed company are
- A) the eagerness with which executives set stretch financial and strategic objectives and develop an ambitious strategic vision.
 - B) aggressive pursuit of new opportunities and a willingness to change the company's business model whenever circumstances warrant.
 - C) good strategy-making combined with good strategy execution.
 - D) a visionary mission statement and a willingness to pursue offensive strategies rather than defensive strategies.
 - E) a profitable business model and a balanced scorecard approach to measuring the company's performance.

Answer: C

Explanation: A good strategy and a good strategy execution are the most telling signs of good management. The rationale for using the twin standards of good strategy making and good strategy execution to determine whether a company is well managed is therefore compelling: The better conceived a company's strategy and the more competently it is executed, the more likely the company will be a standout performer in the marketplace.

Difficulty: 2 Medium

Topic: Strategy Analysis

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 66) Excellent execution of an excellent strategy is
- A) the best test of managerial excellence and the best recipe for making a company a standout performer.
 - B) a solid indication that managers are maximizing profits and looking out for the best interests of shareholders.
 - C) the best test of whether a company is a true industry leader.
 - D) the best evidence that managers have an emerging business model.
 - E) the best test of whether a company enjoys sustainable competitive advantage.

Answer: A

Explanation: The formulation of a truly successful strategy requires managers to consider not only these primary factors involved in crafting a strategy but also an organization's ability to execute whatever strategy it chooses.

Difficulty: 2 Medium

Topic: Value of Strategic Leadership

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

67) Ben Weprin is founder and CEO of Graduate Hotel, a growing chain of boutique hotels situated near college campuses and designed to cater to the nostalgia and local boosterism that are part of the culture of university towns. (Room keys are imprinted with the names of famous alumni, and public spaces are decorated with historical photos of campus life, vintage art and other collegiate artifacts.) Mr. Weprin and his company are trying to create a brand that will find year-round business by catering to more than just alumni coming back for once-a-year football weekends or 10-year anniversaries of their graduating classes. What is the major question that Mr. Weprin and his team need to ask about his company's strategy?

- A) What must managers do, and do well, to make a company a winner in the marketplace?
- B) What can employees do, and do well, to ensure customer satisfaction?
- C) What can shareholders do, and do well, to ensure a profitable company?
- D) What do customers do, how to profile customers who buy a company's product, and tailor sales strategy around them?
- E) What do suppliers do, and how to get supplies at the lowest cost to build a profitable business?

Answer: A

Explanation: The foremost question that Graduate Hotel and every enterprise should ask to be successful is whether its managers have taken the right steps to formulate a suitable strategy and taken proactive/reactive measures to implement the strategy accurately.

Difficulty: 3 Hard

Topic: Value of Strategic Leadership

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

68) A pharmaceutical giant acquires a manufacturer of rare specialty drugs to improve its falling share prices and invests all its wealth into the deal. Due to a deficit, it agrees to do a joint venture for the acquisition and involves a major automobile giant to fund the deal. After a rocky start, the companies now have a strong market position and generate good profits. How would you characterize this company's strategy?

- A) It fails the performance test.
- B) It fails the competitive advantage and the fit tests.
- C) It is a winning strategy.
- D) It fails in all three tests.
- E) It fails the fit test but passes the competitive advantage and performance tests.

Answer: C

Explanation: The pharmaceutical giant assessed the market, identified a suitable solution to accentuate its market position, gained a competitive edge by adding a specialty drug to its product line, and realized financial profits and a strong market position. The strategy is a winner as it clears all three tests.

Difficulty: 2 Medium

Topic: Strategy Analysis

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

69) Consider the following five companies and their situations.

- Company A is an established online fantasy sports gaming company that has been accused of game-rigging, bribes and kickbacks.
- Company B, a ride share company, has delayed its planned initial public offering due to reports of having an inhospitable workplace characterized by sexual harassment and discrimination.
- Company C, a pharmaceutical manufacturer, charges higher prices for life-saving drugs in some countries than it charges in others.
- Company D, a manufacturer and marketer of high-end consumer electronics, has a strict Code of Conduct that requires its suppliers to comply with several standards regarding safe working conditions, fair treatment of workers, and environmentally safe manufacturing.
- Company E, a pizza delivery business, is being boycotted by customers and losing sponsored tie-ins with professional sports due to racist comments by its founder and CEO.

Which of the above companies is distinguished by an ethical strategy as opposed to an unethical or flawed strategy?

- A) Company A
- B) Company B
- C) Company C
- D) Company D
- E) Company E

Answer: D

Explanation: The reputational and financial damage that unethical strategies and behavior shown by companies A, B, C, and E above is substantial. When a company is put in the public spotlight because certain personnel are alleged to have engaged in misdeeds, unethical behavior, fraudulent accounting, or criminal behavior, its revenues and stock price are usually hammered hard. Many customers and suppliers shy away from doing business with a company that engages in sleazy practices or turns a blind eye to its employees' illegal or unethical behavior. Repulsed by unethical strategies or behavior, wary customers take their business elsewhere and wary suppliers tread carefully. Moreover, employees with character and integrity do not want to work for a company whose strategies are shady or whose executives lack character and integrity. Consequently, solid business reasons exist for companies to shun the use of unethical strategy elements. Besides, immoral or unethical actions are just plain wrong.

Difficulty: 3 Hard

Topic: Ethical Behavior in Business Strategies

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 70) In evaluating proposed or existing strategies managers should
- A) initiate new initiatives even though they don't seem to match the company's internal and external situation.
 - B) scrutinize the company's existing strategies on a regular basis to ensure they offer a good strategic fit, create a competitive advantage, and result in above-average performance.
 - C) evaluate the firm's business model at least every three years.
 - D) ensure core capabilities are incorporated for establishing a competitive advantage.
 - E) align existing strategies with new strategies to emphasize incremental gains.

Answer: B

Explanation: New initiatives that do not seem to match the company's internal and external situation should be scrapped before they come to fruition, while existing strategies must be scrutinized on a regular basis to ensure they offer a good strategic fit with the company's internal and external situation, create a competitive advantage, and contribute to above-average performance or performance improvements.

Difficulty: 2 Medium

Topic: The Strategic Role of Managers in Strategy Formulation and Implementation

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 71) A winning strategy is one that
- A) builds strategic fit, is socially responsible, and maximizes shareholder wealth.
 - B) is highly profitable and boosts the company's market share.
 - C) results in a company becoming the dominant industry leader.
 - D) fits the company's internal and external situation, builds sustainable competitive advantage, and improves company performance.
 - E) can pass the ethical standards test, the strategic intent test, and the profitability test.

Answer: D

Explanation: A winning strategy must fit the company's external and internal situation, build sustainable competitive advantage, and improve company performance.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

72) A seldom used strategic approach to setting a company apart from rivals and achieving a sustainable competitive advantage is

A) striving to be the industry's low-cost provider, thereby aiming for a cost-based competitive advantage.

B) outcompeting rivals on the basis of such differentiating features as higher quality, wider product selection, added performance, better service, more attractive styling, or technological superiority.

C) developing competitively valuable resources and capabilities that rivals cannot easily match, copy, or trump with capabilities of their own.

D) focusing on a narrow market niche and winning a competitive edge by doing a better job than rivals of serving the special needs and tastes of buyers comprising the niche.

E) copying the attributes of a popular product or service.

Answer: E

Explanation: The above are four out of five of the most frequently used and dependable strategic approaches to setting a company apart from rivals and winning a sustainable competitive advantage. Clever rivals can nearly always copy the attributes of a popular product or service, but it is substantially more difficult for rivals to match the know-how and specialized capabilities a company has developed and perfected over a long period.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

73) A company achieves sustainable competitive advantage when

A) it has a profitable business model.

B) a sufficiently large number of buyers have a lasting preference for its products or services as compared to the offerings of competitors.

C) it is able to maximize shareholder wealth.

D) it is consistently able to achieve both its strategic and financial objectives.

E) its strategy and its business model are well matched and in sync.

Answer: B

Explanation: A company achieves sustainable competitive advantage when an attractively large number of buyers develop a durable preference for its products or services over the offerings of competitors, despite the efforts of competitors to overcome or erode its advantage.

Difficulty: 1 Easy

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 74) A company's business strategy is *not* likely to include
- A) actions to respond to changing market conditions or other external factors.
 - B) actions to strengthen competitiveness via strategic alliances and collaborative partnerships.
 - C) actions to strengthen internal capabilities and competitively valuable resources.
 - D) actions to manage the functional areas of the business.
 - E) management's actions to revise the company's financial and strategic performance targets.

Answer: E

Explanation: A company's business strategy incorporates responding to changing market conditions, strengthening competitiveness via strategic alliances and collaborative partnerships, strengthening capabilities and competitively valuable resources, and managing the functional areas of the business in order to achieve, not revise, financial and strategic performance targets.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 75) Changing circumstances and ongoing managerial efforts to improve the strategy
- A) account for why a company's strategy evolves over time.
 - B) explain why a company's strategic vision undergoes almost constant change.
 - C) make it very difficult for a company to have concrete strategic objectives.
 - D) make it very hard to know what a company's strategy really is.
 - E) are consistent with a planned strategy approach.

Answer: A

Explanation: A company's strategy tends to evolve over time because of changing circumstances and ongoing management efforts to improve the company's strategy.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

76) What is strategy and why is it important?

Answer: A company's strategy is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability. A well-crafted strategy is the sort of lasting success that can support growth and secure the company's future over the long-term. A company's strategy provides direction and guidance, in terms of not only what the company should do but also what it should not do.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

77) Briefly define each of the following terms.

- a. Sustainable competitive advantage
- b. Deliberate strategy
- c. Emergent strategy
- d. Realized strategy
- e. Abandoned strategy

Answer:

- a. A company achieves a competitive advantage when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm. The advantage is sustainable if it persists despite the best efforts of competitors to match or surpass this advantage.
- b. Deliberate strategy consists of proactive strategy elements that are both planned and realized as planned and ongoing strategy elements continued from prior periods.
- c. Emergent strategy consists of reactive strategy elements that emerge as changing conditions warrant. A portion of a company's strategy is always developed on the fly, coming as a response to fresh strategic maneuvers on the part of rival firms, unexpected shifts in customer requirements, fast-changing technological developments, newly appearing market opportunities, a changing political or economic climate, or other unanticipated happenings in the surrounding environment. These adaptive strategy adjustments make up the firm's emergent strategy.
- d. A company's realized strategy tends to be a combination of proactive and reactive elements, with certain strategy elements being abandoned because they have become obsolete or ineffective.
- e. Abandoned strategies are planned strategy elements that may not work out and are abandoned in consequence.

Difficulty: 1 Easy

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.; 01-04 That a company's strategy tends to evolve.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

78) What are the three tests of a winning strategy?

Answer: A winning strategy must pass three tests:

- The fit test: No strategy can work well unless it exhibits good external fit and is in sync with prevailing market conditions.
- The competitive advantage test: Winning strategies enable a company to achieve a competitive advantage over key rivals that is long-lasting. The bigger and more durable the competitive advantage, the more powerful it is.
- The performance test: The mark of a winning strategy is strong company performance. Two kinds of performance indicators tell the most about the caliber of a company's strategy: (1) competitive strength and market standing and (2) profitability and financial strength.

Difficulty: 1 Easy

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

79) Identify and briefly describe the five most frequently used strategic approaches to achieving a sustainable competitive advantage. Provide examples.

Answer: The five most frequently used strategic approaches are:

- A low-cost provider strategy: It aims at achieving a cost-based advantage over rivals. Walmart and Southwest Airlines have earned strong market positions because of the low-cost advantages they have achieved over their rivals. Such strategies produce a durable competitive edge.
- A broad differentiation strategy: It aims to differentiate the company's product or service from that of rivals in ways that will appeal to a broad spectrum of buyers. Successful adopters of differentiation strategies include Apple (innovative products) and Johnson & Johnson in baby products.
- A focused differentiation strategy: It concentrates on a narrow buyer segment and outcompetes rivals by offering buyers customized attributes that meet their specialized needs and tastes better than rivals' products. Lululemon, for example, specializes in high-quality yoga clothing and the like, attracting a devoted set of buyers in the process.
- A focused low-cost strategy: It concentrates on a narrow buyer segment (or market niche) and outcompetes rivals by having lower costs and thus being able to serve niche members at a lower price. Private-label manufacturers of food, health and beauty products, and nutritional supplements use their low-cost advantage to offer supermarket buyers lower prices than those demanded by producers of branded products.
- A best-cost provider strategy: It gives customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations. This approach is a hybrid strategy that blends elements of low-cost provider and differentiation strategies, and Target is cited in Chapter 1 as one example of a company pursuing a best-cost strategy.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

80) What is the connection between a company's strategy and its quest for sustainable competitive advantage?

Answer: The central features of a strategy are the actions and moves in the marketplace that managers are taking to gain a competitive advantage over rivals. There are many routes to competitive advantage, but they all involve either giving buyers what they perceive as superior value compared to the offerings of rival sellers or giving buyers the same value as others at a lower cost to the firm. Superior value can mean a good product at a lower price, a superior product that is worth paying more for, or a best-value offering that represents an attractive combination of price, features, quality, service, and other attributes.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

81) Provide at least two examples of a company's competitively valuable capabilities.

Answer: 1. To be sufficiently innovative to thwart the efforts of clever rivals to copy or closely imitate the product offering. Examples cited in Chapter 1 include Apple Inc. (innovative products), Johnson & Johnson (reliability of baby products), BMW (engineering for performance), Rolex (luxury and prestige), and Hyundai (advanced manufacturing processes and unparalleled quality control systems).

2. To make it extremely difficult for rivals to match the low-cost leader's approach to driving costs out of the business. Examples cited in Chapter 1 include Walmart (superior distribution and inventory management capabilities) and Southwest Airlines (superior revenue management and efficient maintenance and turnaround of aircraft).

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-02 The concept of a sustainable competitive advantage.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

82) What are the three questions that managers can use to distinguish a winning strategy from a so-so or flawed strategy? Briefly explain why each question is important.

Answer: The three questions to distinguish a winning strategy from a so-so or flawed strategy are: (1) How well does the strategy fit the company's situation? (2) Is the strategy helping the company to achieve a sustainable competitive advantage? (3) Is the strategy producing good company performance? Regarding its fit with a company's internal and external situation, a strategy has to be well matched and must fit competitive conditions in the industry and other aspects of the enterprise's external environment. At the same time, it should be tailored to the company's collection of competitively important resources and capabilities. Regarding strategy and the achievement of sustainable competitive advantage, strategies that fail to achieve a durable competitive advantage over rivals are unlikely to produce superior performance for more than a brief period of time; the bigger and more durable the competitive edge that the strategy helps build, the more powerful it is. Regarding strategy and performance, the mark of a winning strategy is a strong company performance; the caliber of a company's strategy can be measured by (1) gains in profitability and financial strength and (2) advances in the company's competitive strength and market standing.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

83) Should a company's strategy be tightly connected to its quest for competitive advantage? Why or why not? What difference does it make whether a company has a sustainable competitive advantage or not?

Answer: Yes, a company's strategy should be tightly connected to its quest for competitive advantage because a strategy is deemed successful when it achieves a durable competitive edge over rivals to gain profits for long period of time along with building a strong customer base and steady market position. Delivering superior value or delivering value more efficiently—whatever form it takes—nearly always requires performing value chain activities differently than rivals do and building competencies and resource capabilities that are not readily matched.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

84) During a recession, a high-end beverage producer facing strong competition in a saturated market has decided to phase out all its flagship products and introduce a new line of second-label beverages at lower price points in reaction to its falling market share. Would this type of a reactive strategy revive its position? Why or why not?

Answer: Strategy, at its essence, is about competing differently—doing what rival firms do not do or what rival firms can not do. This does not mean that the key elements of a company's strategy have to be 100 percent different, but rather that they must differ in at least some important respects. Refreshing its products completely during recession might improve the company's position in the market; however, as consumers tend to have lower disposable income during a recession, there is no guarantee that these customers would purchase an all-new product line.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

85) Compare the business models of Gillette and Epson.

Answer: A company's business model sets forth how its strategy and operating approaches will create value for customers, while at the same time generate ample revenues to cover costs and realize a profit. The two elements of a company's business model are its (1) customer value proposition and (2) its profit formula. Gillette's business model in razor blades involves (1) selling a master product—the razor—at an attractively low price and then (2) making money on repeat purchases of razor blades that can be produced cheaply and sold at high profit margins. Printer manufacturers like Epson (as well as Hewlett-Packard and Canon) pursue much the same business model as Gillette, that is, (1) selling printers at a low (virtually break-even) price and (2) making large profit margins on the repeat purchases of ink cartridges and other printer supplies.

Difficulty: 3 Hard

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

86) Why are the capabilities needed to build a sustainable competitive advantage so important to a winning business strategy? Cite one of the company examples in the chapter to illustrate your answer.

Answer: A strategy should be tailored to the company's collection of competitively important resources and capabilities. It is unwise to build a strategy upon the company's weaknesses or pursue a strategic approach that requires resources that are deficient in the company. Examples of winning business strategies cited in the chapter include (1) Pandora's superior capabilities in developing and using algorithms to generate playlists based on listeners' predicted preferences and (2) Apple Inc.'s distinctive innovation and pricing strategies and proliferation across the globe. The capabilities of both of these companies have proven difficult for competitors to imitate or best and have allowed each to build and sustain competitive advantage.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

87) Why is a company's strategy typically a blend of proactive and reactive approaches?

Answer: A typical company strategy consists of both deliberate and/or planned initiatives that have proven themselves in the marketplace and newly launched initiatives aimed at further boosting performance, and emergent and/or reactive adjustments to unanticipated strategic moves by rivals, unexpected changes in customer preferences, and new market opportunities.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

88) Can an organization succeed by pursuing strategies that are proactive and reactive? Explain.

Answer: A company's strategy is shaped partly by management analysis and choice and partly by the necessity of adapting and learning by doing. Depending on market factors, internal changes, and changing customer needs, a mix of both proactive and reactive strategies is important to implement to achieve a company's realized strategy. Managers must always be willing to supplement or modify the proactive strategy elements with as-needed reactions to unanticipated conditions. Inevitably, there will be occasions when market and competitive conditions take an unexpected turn that calls for some kind of strategic reaction.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

89) Explain why a company's strategy cannot be completely planned out in advance and why crafting a company's strategy cannot be a one-time, once-and-for-all managerial exercise. Identify at least three factors that account for why company strategies evolve.

Answer: A company's strategy tends to evolve because of changing circumstances and ongoing efforts by management to improve the strategy. Planned initiatives to improve the company's financial performance and secure a competitive edge are implemented in sync with reactive strategies because market conditions and customer preferences change from time to time. Changing circumstances and ongoing management efforts to improve the strategy cause a company's strategy to evolve over time—a condition that makes the task of crafting strategy a work in progress, not a one-time event. Factors that mostly lead to change in strategies are fresh strategic maneuvers on the part of rival firms, unexpected shifts in customer requirements, fast-changing technological developments, etc.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

90) Explain in detail what a company's business model entails.

Answer: At the core of every sound strategy is the company's business model. The two elements of a company's business model are (1) its customer value proposition and (2) its profit formula. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

91) What factors determine whether a strategy can be called a winning strategy?

Answer: To determine a winning strategy, a company needs to ensure the strategy is well matched to industry and competitive conditions, a company's best market opportunities, and other pertinent aspects of the business environment in which the company operates; it should enable a company to achieve a competitive advantage over key rivals that is long-lasting; finally, the mark of a winning strategy is strong company performance. Two kinds of performance indicators tell the most about the caliber of a company's strategy: (1) competitive strength and market standing and (2) profitability and financial strength.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

92) How can a manager tell a winning strategy from a strategy that is mediocre or a loser?

Answer: The mark of a winning strategy is strong company performance. Two kinds of performance indicators tell the most about the caliber of a company's strategy: (1) competitive strength and market standing and (2) profitability and financial strength. Above-average financial performance or gains in market share, competitive position, or profitability are signs of a winning strategy.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

93) Why is sustainable competitive advantage so important to a winning business strategy?

Answer: Strategies that fail to achieve a durable competitive advantage over rivals are unlikely to produce superior performance for more than a brief period of time. Winning strategies enable a company to achieve a competitive advantage over key rivals that is long-lasting. The bigger and more durable the competitive advantage, the more powerful it is.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

94) Why is it appropriate to argue that good strategy-making combined with good strategy execution are valid signs of good management?

Answer: Crafting and executing strategy are core management functions. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's direction, develops competitively effective strategic moves and business approaches, and pursues what needs to be done internally to produce good day-in, day-out strategy execution and operating excellence.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

95) Mediocre execution of a powerful strategy is a proven recipe for winning in the marketplace. True or false? Explain your answer.

Answer: This is false. Crafting and executing strategy are core management functions. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's direction, develops competitively effective strategic moves and business approaches, and pursues what needs to be done internally to produce good day-in, day-out strategy execution and operating excellence. Instead, good strategy and good strategy execution taken together are the most telling signs of good management.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

96) Good strategy plus good strategy execution equals good management. True or false? Justify and explain your answer.

Answer: This is true. Good strategy and good strategy execution are the most telling signs of good management. The rationale for using the twin standards of good strategy making and good strategy execution to determine whether a company is well managed is therefore compelling. The better conceived a company's strategy and the more competently it is executed, the more likely the company will be a standout performer in the marketplace. In stark contrast, a company that lacks clear-cut direction, has a flawed strategy, or cannot execute its strategy competently is a company whose financial performance is probably suffering, whose business is at long-term risk, and whose management is sorely lacking.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

97) Apple Inc.'s strategy, outlined in Chapter 1, represents a managerial commitment to an integrated array of considered choices about how it should compete. What are the hallmarks of Apple Inc.'s strategy?

Answer: The central thrust of Apple Inc.'s strategy is undertaking moves to build and strengthen the company's long-term competitive position and financial performance by competing differently from rivals and gaining a sustainable competitive advantage over them. Hallmarks of Apple Inc.'s strategy are highlighted in Illustration Capsule 1.1. These elements include:

- Designing and developing its own operating systems, hardware, application software and services.
- Continuously investing in R&D and frequently introducing products.
- Strategically locating its stores and staffing them with knowledgeable personnel.
- Expanding the company's reach domestically and internationally.
- Maintaining a quality brand image, supported by premium pricing.
- Committing to corporate social responsibility and sustainability through supplier relations.
- Cultivating a diverse workforce rooted in transparency.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

98) A new entrant in a market dominated by established players introduces itself with copycat products of another competitor. Would this strategy work in the long-term for the firm? Justify your answer.

Answer: Mimicking the strategies of successful industry rivals—with either copycat product offerings or maneuvers to stake out the same market position—rarely works. Rather, every company's strategy needs to have some distinctive element that draws in customers and produces a competitive edge. Strategy, at its essence, is about competing differently—doing what rival firms do not do or what rival firms cannot do.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

99) An established manufacturer and marketer of apparel and equipment for competitive sports is fast losing market share to companies that not only offer similar products, but also are upgrading their research and development capabilities to produce better products. List a few general actions and approaches that would help the established company revive its position.

Answer: The organization might employ various approaches to revive its positions: actions to, strengthen market standing and competitiveness by acquiring or merging with other companies; actions, to strengthen competitiveness via strategic alliances and collaborative partnerships; actions, to upgrade, build, or acquire competitively important resources and capabilities; actions to gain sales and market share via more performance features, more appealing design, better quality or customer service, wider product selection; or other such actions.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-01 What we mean by a company's strategy and why it needs to differ from competitors' strategies.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

100) A well-established brewery offers lower-priced beer to powerful supermarket buyers at widespread locations and has loyal distributors that supply mass goods to supermarket retailers. With fewer ways to achieve differentiation in the market, most new microbrewery entrants offer similar products but lack sufficient funding to compete against the well-established brewery. Which strategy could new microbrewers employ? Explain your answer.

Answer: The well-established brewery aims to achieve a cost-based advantage over rivals and deter new entrants. Similar to Walmart and Southwest Airlines, which have earned strong market positions because of the low-cost advantages, they have achieved over their rivals, the incumbent brewer is pursuing a broad low-cost strategy. Low-cost provider strategies can produce a durable competitive edge when rivals find it hard to match the low-cost leader's approach to driving costs out of the business. Therefore, newer entrants have no choice but to compete on the basis of focused differentiation in order to gain a foothold in the market.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

101) A mobile phone manufacturing and marketing company acquires an overseas display manufacturing company to gain a strong market position. Which of the five generic strategies has the mobile phone manufacturer used to gain competitive advantage?

Answer: The mobile phone manufacturing company has employed a backward integration strategy to gain more market share and also to manufacture a key component of its products at a lower cost. It has employed a low-cost provider strategy that allows it to achieve a cost-based advantage over rivals. The chapter describes how Walmart and Southwest Airlines earned strong market positions because of the low-cost advantages they have achieved over their rivals. Low-cost provider strategies can produce a durable competitive edge when rivals find it hard to match the low-cost leader's approach to driving costs out of the business.

Difficulty: 3 Hard

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

102) A mobile on-demand transportation company with an established brand name uses a unique mobile app and GPS mapping technology to reduce the time for drivers to pick up passengers and take them to their destinations. It then gives the mobile apps away free to all riders. Which of the five generic strategies is this company using?

Answer: The mobile on-demand transportation company has employed a best-cost provider strategy giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations. This approach is a hybrid strategy that blends elements of low-cost provider and differentiation strategies; the aim is to have lower costs than rivals while simultaneously offering better differentiating attributes.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

103) A dining facility with multiple branches caters to newlywed couples only. The ambience, special live music arrangements for each couple, and privacy of the dining sections have become a rage among newlyweds. Which of the five generic strategies has the company used?

Answer: The dining facility has used a focused differentiation strategy to gain a competitive advantage over dining facilities that cater to all. It concentrates on a narrow buyer segment and outcompetes rivals by offering buyers customized attributes that meet customers' specialized needs and tastes better than rivals' products.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

104) LinkedIn specializes in social networking for businesses and recruiters. Which of the five generic strategies is LinkedIn employing?

Answer: LinkedIn uses a focused differentiation strategy—concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by focusing on these specialized customer groups' networking needs better than its more broadly-based rivals, attracting a devoted set of customers in the process.

Difficulty: 2 Medium

Topic: Strategic Approaches to Winning a Sustainable Competitive Advantage

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

105) An electronic chip manufacturer has a quarterly release of its products. What can you say about its strategy?

Answer: Industry environments characterized by high-velocity change require companies to repeatedly adapt their strategies. For example, companies in industries with rapid-fire advances in technology like medical equipment, electronics, and wireless devices often find it essential to adjust key elements of their strategies several times a year, sometimes even finding it necessary to reinvent their approach to providing value to their customers.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-03 The five most basic approaches for setting a company apart from its rivals.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

106) A data storage company realizes that its facilities are used most by financial institutions. It capitalizes on the opportunity and starts storing specific financial information only and is now one of the most sought-after financial databases. What strategy has the company employed?

Answer: The company has used an emergent strategy in response to unexpected shifts in customer requirements and newly appearing market opportunities. Inevitably, there will be occasions when market and competitive conditions take an unexpected turn that calls for some kind of strategic reaction. Hence, a portion of a company's strategy is always developed on the fly.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

107) An established company in a market decides to donate a part of its profits to a children's charity to improve its market image. Soon after, it launches a website that offers new clothes, accessories, and books that could be donated to various children's charities by interested parties. The company gained positive publicity and its sales went up. What would you say about this strategy?

Answer: The company has adopted a proactive strategy and used its existing market position to create a new market opportunity. This planned initiative improved the company's financial performance and secured a competitive edge.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

108) Keurig, a coffee machine manufacturer, sells high-quality espresso machines at a very low price but provides low-cost refills of varietal coffee pods at a relatively higher price than rivals. Explain this business model.

Answer: Selling high-quality Keurig machines at a very low price is the company's customer value proposition and then selling low-cost refills at a relatively higher price is the company's profit formula. The two elements of a company's business model are (1) its customer value proposition and (2) its profit formula. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

109) A pizza maker manufactures thin-crust pizzas and offers free soft drinks with a pack of four pan pizzas. What can you say about its Value-Price-Cost Framework?

Answer: Thin-crust pizzas allow the pizza maker to cut down on dough costs; that is, its profit formula and free soft drinks with a larger pack is both a profit formula and a value proposition for customers. The two elements of a company's business model are (1) its customer value proposition and (2) its profit formula. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.

Difficulty: 2 Medium

Topic: The Importance of a Viable Business Model

Learning Objective: 01-04 That a company's strategy tends to evolve.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

110) A new entrant into the mobile phone market imitates its rivals' cellphones feature for feature, but offers its products at a 20 percent discount over its rivals' prices. What can you say about the new entrant's prospects for long-term success?

Answer: Companies do not get to the top of the industry rankings or stay there with illogical strategies, copycat strategies, or timid attempts to try to do better. Only a handful of companies can boast of hitting home runs in the marketplace due to lucky breaks or the good fortune of having stumbled into the right market at the right time with the right product. Even if this is the case, success will not be lasting unless the companies subsequently craft a strategy that capitalizes on their luck, builds on what is working, and discards the rest. So there can be little argument that the process of crafting a company's strategy matters—and matters a lot.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-05 What constitutes a viable business model.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

111) A fashion magazine plans to cut down on its fashion-related content and provides the space instead for high-priced advertisements, but somehow fails to convince giant fashion brands to advertise in its magazine. What do we understand from this failure?

Answer: Utilizing space for advertisements was a great strategy to earn profits but poor planning and execution of this strategy led to its failure. Good strategy and good strategy execution are the most telling signs of good management. The rationale for using the twin standards of good strategy making and good strategy execution to determine whether a company is well managed is therefore compelling: The better conceived a company's strategy and the more competently it is executed, the more likely the company will be a standout performer in the marketplace.

Difficulty: 2 Medium

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

112) Explain why some companies get to the top of industry rankings and stay there, while others do not.

Answer: The better conceived a company's strategy and the more competently it is executed, the more likely that the company will be a standout performer in the marketplace. In stark contrast, a company that lacks clear-cut direction, has a flawed strategy, or cannot execute its strategy competently is a company whose financial performance is probably suffering, whose business is at long-term risk, and whose management is sorely lacking; that is, how well a company performs is directly attributable to the caliber of its strategy and the proficiency with which the strategy is executed.

Difficulty: 3 Hard

Topic: Strategy and the Strategic Management Process

Learning Objective: 01-06 The three tests of a winning strategy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation