

Chapter 1

Setting the Stage: Technology and the Modern Enterprise

Section 1.1

True/False Questions

1. Sales in Apple's app store are so large, that they would be ranked as a Fortune 500 firm if the figure were broken out as a firm separate from Apple.
True; Easy
2. The United States holds the number one ranking in Internet access speeds.
False; Moderate
3. The rise of open source software has lowered computing costs for startup and blue chip companies worldwide.
True; Easy
4. Data analytics and business intelligence are driving discovery and innovation.
True; Easy
5. Technology has proliferated in Kenya and Somaliland, with text messages used to replace cash, creating mobile money use that, on a population percentage basis, exceeds any nation in the West.
True; Moderate
6. Social media and mobile phone use are decreasing expectations for corporate ethics and customer service.
False; Easy
7. As a testament to tech's global reach, China is home to several publicly traded Internet firms, as well as a firm that was considered the largest IPO of all time.
True; Easy

Multiple Choice Questions

8. A recent report in Forbes suggests that what percent of firms are failing at digital transformation?
 - a. 89%
 - b. 72%
 - c. 40%
 - d. 23%
b; Easy
9. Select the accurate statement(s).
 - 1) The world's most valuable retailer, China's Alibaba, also carries the world's largest product inventory.
 - 2) Uber, the world's largest taxi service, owns no vehicles for hire.
 - 3) Airbnb, the world's largest accommodation provider, owns several major hotel corporations.
 - 4) Facebook does not create media content.
 - a. All are accurate
 - b. Statements 2 and 4 are accurate
 - c. Statement 4 is accurate
 - d. Statement 1 is accurate

b; Hard

10. Some of the radical changes brought about by new technologies include:

- a. the stagnation of advertising.
- b. the proliferation of telecommunications into the hands of a few.
- c. an increase in computing costs owing to the growth of licensed software.
- d. a decrease in the standards of corporate ethics.
- e. the creation of an unprecedented set of security and espionage threats.

e; Moderate

11. Tech impact is reaching even beyond the confines of Earth itself. According to an example in your chapter, how was a tool on the International Space Station recently acquired?

- a. It was purchased via China's Alibaba – showing global sourcing extends to the extraterrestrial.
- b. It was delivered to the launch site when summoned from Space using the FedEx app.
- c. It was an out-of-print product that an Etsy producer was able to craft and deliver for the next resupply flight.
- d. It was printed on-demand using 3D printing technology.

d; Easy

12. Tech firms are among the best performing firms in the world. According to the chapter, which firm is the most valuable firm in the United States, and has also posted some of the most profitable quarters of any business in any industry?

- a. Amazon
- b. Apple
- c. Google
- d. IBM

b; Easy

Short Answer Questions

13. How are entrepreneurs in sub-Saharan Africa leveraging technologies to serve local needs? Give examples.

Ghanaian firm Esoko leverages mobile phones to empower the agrarian poor with farming info and commodity pricing, raising incomes and lowering the chance of exploitation by unscrupulous middlemen. The firm Sproxil uses text message verification to save lives by fighting drug counterfeiting in developing nations around the world. Kenya's M-PESA and Somaliland's Zaad use text messages to replace cash, bringing the safety and speed of electronic payment and funds transfer to the unbanked and leveraging mobile money at rates that far outstrip any nation in the West.

Moderate

14. How has social media emerged as a catalyst for global social change?

With Facebook and Twitter playing key organizing roles in uprisings worldwide, technology can capture injustice, broadcast it to the world, disseminate ideas, and rally the far-reaching.

Moderate

15. Uber and Airbnb are larger than any taxi firm or hotel chain on the planet. In what important way does the infrastructure used by these firms to deliver services differ from more traditional rivals?

Uber, the world's largest "taxi service," owns no vehicles for hire. Airbnb, the world's largest accommodations provider, doesn't own a single hotel or rental property. (Don't accept 'mobile' or 'uses smartphones' as answers since traditional rivals also heavily leverage technology, including smartphone apps.)

Moderate

Fill in the Blanks

16. The phrase _____ is often used to describe the trend of putting “smarts” (meaning computing and telecommunications technology) putting into everyday products such as lamps, watches, thermostats, and door locks; as well as embedding tech into industrial goods.
Internet of Things (or IoT); Medium
17. _____ and _____ are turning sophisticated, high-powered computing into a utility available to even the smallest businesses and nonprofits.
Cloud Computing, Software as a Service; Moderate
18. _____ has emerged as a catalyst for global change, with Facebook and Twitter playing key organizing roles in uprisings worldwide.
Social media; Easy
19. The nation of _____ has more Internet users than any other country.
China; Easy
20. In two decades, the nation of _____ tech sector has grown from “almost nothing” to a \$120 billion industry, expanding even during the recent global recession.
India's; Easy

Section 1.2

True/False Questions

21. Founders should be wary of crowdfunding sites like Kickstarter, because these efforts require founders to give up large ownership stakes to a large number of contributors before they can raise funds to bring products to market.
False; Easy
22. The founding technology entrepreneurs behind many leading firms, such as Apple, Microsoft, and Facebook, got their start in their early 30s, leveraging university study and knowledge from their first post-college jobs to create disruptive new firms.
False; Easy
23. Palmer Luckey, the founder of Oculus, was able to get early funding for his product via Kickstarter, exceeding the fundraising goal set by his campaign without giving up a share of equity from this campaign.
True; Easy
24. Facebook was founded by Sergey Brin.
False; Easy
25. Linus Torvals created the Linux operating system.
True; Easy
26. David Karp, founder of the website Tumblr, sold the website to Google for \$1.1 Billion
False; Moderate

Multiple Choice Questions

27. One contributor to the easy with which young entrepreneurs can have success is low-cost distribution to massive markets worldwide. This is enabled by:
- a. legacy systems.
 - b. big data and business analytics.
 - c. Esoko and M-Pesa.
 - d. App stores.
 - e. Sproxil.
- d; Easy**
28. Another reason fueling the boom in fast-growing technology services is _____, which, when done right, can virally spread awareness of a firm with nary a dime of conventional ad spending.
- a. App stores
 - b. big data and business analytics
 - c. Esoko and M-Pesa
 - d. Sproxil
 - e. legacy systems
- a; Easy**
29. Yahoo! was started by _____ and _____.
- a. Sergey Brin; Larry Page
 - b. Jerry Yang; David Filo
 - c. Steve Chen; Chad Hurley
 - d. Kevin Rose; Mark Zuckerberg
 - e. Catherine Cook; Shawn Fanning
- b; Easy**
30. _____ was just a sophomore when he began building computers in his dorm room at the University of Texas. His firm would one day claim the top spot among PC manufacturers worldwide.
- a. Bill Gates
 - b. Steve Jobs
 - c. Michael Dell
 - d. Shawn Fanning
 - e. Mark Zuckerberg
- c; Easy**
31. Steve Chen and Chad Hurley are credited as the founders of:
- a. Google.
 - b. Zappos.
 - c. Facebook.
 - d. YouTube.
 - e. Yahoo!
- d; Easy**
32. Tony Hsieh served as CEO of _____, and eventually sold the firm to Amazon for \$900 million.
- a. Zappos
 - b. LinkExchange
 - c. MyYearbook.com
 - d. Napster
 - e. Yahoo!
- a; Easy**

33. Sergey Brin and Larry Page were both twenty-something doctoral students at Stanford University when they founded:
- a. Yahoo!
 - b. YouTube.
 - c. Google.
 - d. Amazon.
 - e. Napster.
- c; Easy**
34. Amazon was started by:
- a. Jeff Bezos.
 - b. Catherine Cook.
 - c. Shawn Fanning.
 - d. Linus Torvalds.
 - e. Kevin Rose.
- a; Easy**

Short Answer Questions

35. Name at least three technology firms that were founded by people in their twenties or younger. Facebook was founded by Mark Zuckerberg when he was a nineteen-year-old college sophomore. There are many – among them: Sergei Brin and Larry Page of Google, Jerry Yang and David Filo of Yahoo, Steve Chen and Chad Hurley of YouTube were all in their late twenties when they launched their firms. Jeff Bezos hadn't yet reached thirty when he began working on what would eventually become Amazon. The founders of Dropbox, Box, and Spotify were all under thirty when they founded businesses that would go on to be worth billions.
- Easy**
36. What factors contribute to the current 'golden age' of young entrepreneurship, allowing innovators to create and deploy services with less expense than prior generations? We're in a golden age of tech entrepreneurship where ideas can be vetted and tested online, and funding crowdsourced, Kickstarter-style; "the cloud" means a startup can rent the computing resources one previously had to buy at great expense; app stores give code jockeys immediate, nearly zero-cost distribution to a potential market of hundreds of millions of people worldwide; and social media done right can virally spread awareness of a firm with nary a dime of conventional ad spending.
- Easy**

Fill in the Blanks

37. Funding projects via online efforts such as Kickstarter are referred to by the term _____.
- crowdsourcing; Hard**
38. The technology known as _____ is helping to fuel the current age of fast-growth technology entrepreneurship. This technology means that a startup can rent the computing resources one previously had to buy at great expense.
- cloud computing (or "the cloud"); Moderate**
39. Shawn Fanning's _____ was widely criticized as a piracy playground.
- Napster; Easy**
40. Facebook was founded by _____.
- Mark Zuckerberg; Easy**

41. _____ was just twenty-one when he founded Apple.
Steve Jobs; Easy

Section 1.3

True/False Questions

42. Researchers in China and the US have shown an AI approach that performed better than major trading indices as well as traditional investment portfolio allocation strategies.
True; Easy
43. SEO and SEM are key tech industry acronyms that have become vital parts of the accounting professional's operating toolkit.
False; Moderate
44. Many of the careers in marketing are highly tech-centric.
True; Easy
45. Firms are increasingly shifting spending from the Web to other media such as print, radio, and television as these are often easier to track and analyze.
False; Easy
46. While process redesign, supply chain management, and factory automation are all tech-centric operations, service operations are not.
False; Easy
47. Today's job seekers are writing résumés with keywords in mind, aware that the first cut is likely made by a database search program, not a human being.
True; Moderate
48. The number of U.S. patent applications waiting approval has significantly declined in the past decade.
False; Easy
49. Technology experts in the area of user-interface design specialize in technology for competitive advantage.
False; Moderate

Multiple Choice Questions

50. The _____ is a piece of U.S. legislation that raises executive and board responsibility and ties criminal penalties to certain accounting and financial violations.
a. Civil Rights Act
b. Fair Labor Standards Act
c. Sherman Antitrust Act
d. Norris-LaGuardia Act
e. Sarbanes-Oxley Act
e; Easy
51. A company uses radio frequency identification (RFID) tags to keep track of its inventory. This is an example of the impact of technology in the area of _____.
a. accounting

- b. operations
- c. advertising
- d. human resources
- e. finance

b; Moderate

52. Crowdsourcing tools and question-and-answer sites like _____ allow firms to reach out for expertise beyond their organizations.

- a. Quora
- b. Oculus VR
- c. Alibaba
- d. Twitter
- e. M-PESA

a; Moderate

53. Technology experts in the area of user-interface design:

- a. work to make sure systems are intuitive and easy to use.
- b. leverage technology to make legacy systems more efficient.
- c. specialize in technology for competitive advantage.
- d. focus on effective back-up systems for critical business data.
- e. provide direction on technology-related security issues.

a; Easy

54. Technology experts in the area of process design:

- a. work to make sure systems are easy to use.
- b. leverage technology to make firms more efficient.
- c. specialize in technology for competitive advantage.
- d. focus on systems dealing with critical business data.
- e. provide direction on technology-related security issues.

b; Easy

55. Technology experts in the area of _____ specialize in technology for competitive advantage.

- a. user-interface design
- b. process design
- c. strategy
- d. database design
- e. hardware

c; Easy

56. Experts working in the area of _____ work to make sure systems are easy to use, while people working in the area of _____ work to leverage technology to make firms more efficient.

- a. user-interface design; process design
- b. process design; user-interface design
- c. strategy; process design
- d. process design; strategy
- e. strategy; user-interface design

a; Hard

57. Which area of corporate law is connected to technology?

- a. Privacy
- b. Patents
- c. Piracy
- d. Intellectual Property
- e. All of the above

e; moderate

Short Answer Questions

58. How has technology changed the marketing landscape?

The skill set of today's marketers is radically different from what was leveraged by the prior generation. Online channels have provided a way to track and monitor consumer activities, and firms are leveraging this insight to understand how to get the right product to the right customer, through the right channel, with the right message, at the right price, at the right time. Savvy firms are using social media to generate sales, improve their reputations, better serve customers, and innovate. Search engine marketing (SEM), search engine optimization (SEO), customer relationship management (CRM), personalization systems, and a sensitivity to managing the delicate balance between gathering and leveraging data and respecting consumer privacy are all central components of the new marketing toolkit.

Moderate

59. What kind of an impact has technology had in the area of human resources?

Technology helps firms harness the untapped power of employees. Knowledge management systems are morphing into social media technologies—social networks, wikis, and Twitter-style messaging systems that can accelerate the ability of a firm to quickly organize and leverage teams of experts. Crowdsourcing tools and question-and-answer sites like Quora and StackOverflow allow firms to reach out for expertise beyond their organizations. Human resources directors are using technology for employee training, screening, and evaluation. Sites like LinkedIn can help HR quickly target a wider group of qualified employees. Potential hires are sharing online material with HR, hoping that thoughtful blog posts, a compelling LinkedIn presence, Twitter activity reflecting an enthusiastic and engaged mind, and, for tech professionals, participation in collaborative coding communities like GitHub and Stack Overflow, all work to set apart a candidate from the herd. The hiring and retention practices of the prior generation are also in flux. Recruiting hasn't just moved online; it's now grounded in information systems that scour databases for specific skill sets, allowing recruiters to cast a wider talent net than ever before. Job seekers are writing resumes with key words in mind, aware that the first cut is likely made by a database search program, not a human being.

Moderate

60. Provide a brief overview of the different careers in the area of information systems.

Students studying technology can leverage skills in ways that range from the highly technical to those that emphasize a tech-centric use of other skills. Opportunities for programmers abound, but there are also roles for experts in areas such as user-interface design, process design, and strategy. Careers that involve consulting and field engineering are often particularly attractive for those who enjoy working with clients and problems across various industries and in different geographies. Consultants can become partners who work with the most senior executives of client firms, helping identify opportunities for those organizations to become more effective. Technology specialists can rise to be chief information officer or chief technology officer and many firms are developing so-called "C-level" specialties in emerging areas with a technology focus, such as chief information security officer (CISO), and chief privacy officer (CPO).

Moderate

Fill in the Blanks

61. The _____ department in an organization not only ensures that systems get built and keep running but also take on strategic roles targeted at proposing solutions for how technology can give the firm a competitive edge.

information systems; Easy

62. Aspiring investment bankers should study the tech industry since tech firms represent a large portion of firms selling shares on public stock markets for the first time. This process is known as _____.

IPO, Initial Public Offering, or “going public”; Easy

63. The number of US patent applications awaiting approval has _____ in the past decade.

tripled; Easy

COPYRIGHT PAGE:

Published by:
FlatWorld

© 2020 by FlatWorld. All rights reserved. Your use of this work is subject to the License Agreement available here catalog.flatworldknowledge.com/legal. No part of this work may be used, modified, or reproduced in any form or by any means except as expressly permitted under the License Agreement.

Chapter 2

Strategy and Technology: Concepts and Frameworks for Achieving Success

Section 2.1

True/False Questions

1. A firm's financial performance that consistently outperforms its industry's peers is known as operational effectiveness.
False; Easy
2. According to Michael Porter, the reason many firms suffer margin-eroding competition is because they have defined themselves according to strategic positioning rather than operational effectiveness.
False; Moderate
3. When technology can be matched quickly, it is rarely a source of competitive advantage.
True; Easy
4. According to the resource-based view of competitive advantage, if a firm is to maintain sustainable competitive advantage, it must control a set of exploitable resources that are valuable and can be substituted easily.
False; Moderate
5. Fast growing Groupon was able to dissuade rivals from entering its market because the firm's technology was so difficult to replicate.
False; Easy
6. In the crowded market space of 175 mattress firms, CNBC's claim that "you can't tell them apart" reinforces the idea that similar offerings become commoditized.
True; Easy
7. Cisco's acquisition of Pure Digital, makers of the Flip video camera line, was largely considered a flop because comparable technology soon became a feature in other popular consumer electronics products.
True; Easy

Multiple Choice Questions

8. A firm's financial performance that consistently outperforms its industry's peers is known as _____.
 - a. comparative advantage
 - b. absolute advantage
 - c. sustainable competitive advantage
 - d. first mover advantage
 - e. operational efficiency advantage**c; Easy**
9. Which of the following statements about technology is true?
 - a. Technology alone is enough to provide sustainable competitive advantage to a firm.
 - b. Technology plays a marginal role in creating strategic differences.
 - c. Technological improvements are not important in strengthening a firm's strategic advantages.

- d. Technological improvements can often be copied by rivals, leading to a profit-eroding arms race.
- e. Technology cannot be used by late entrants to gain a share of the industry.

d; Moderate

10. Technology that that super-imposes content, such as images and animation on top of real world images is called:
- a. Alternative imaging
 - b. Strategic design
 - c. Illustration editing
 - d. Augmented reality
 - e. Product placement

d; Hard

11. Operational effectiveness refers to:
- a. the implementation of technology in a business context.
 - b. performing the same tasks better than rivals perform them.
 - c. the number of times inventory is sold or used during the course of a year.
 - d. performing different tasks or the same tasks in different ways.
 - e. matching the benefits of a successful position while maintaining an existing position.

b; Easy

12. The _____ problem exists when rivals watch a pioneer's efforts, learn from their successes and missteps, and then enter the market quickly with a comparable or superior product at a lower cost.
- a. late entrant
 - b. early starter
 - c. first mover
 - d. intellectual property
 - e. fast follower

e; Easy

13. _____ refers to performing different tasks than rivals or the same tasks in a different way.
- a. Straddling
 - b. Operational effectiveness
 - c. Strategic positioning
 - d. Vertical integration
 - e. Scale advantage

c; Easy

14. A firm is said to be _____ when it attempts to match the benefits of a successful position while maintaining its existing position.
- a. switching
 - b. straddling
 - c. dovetailing
 - d. streamlining
 - e. vertically integrating

b; Easy

15. According to Porter, strategy is fundamentally about being _____.
- a. different
 - b. efficient

- c. superior
 - d. scalable
 - e. profitable
- a; Easy**

16. The resource-based view of competitive advantage states that for a firm to maintain sustainable competitive advantage it must control a set of exploitable resources that have four critical characteristics. What are these characteristics?
- a. inventory turns, high margins, long account payable periods, brand building relationships
 - b. operational effectiveness, strategic positioning, scale, distribution channels
 - c. rareness, value, imperfect imitability, non substitutability
 - d. a website, an app, cloud-based systems, a savvy technology staff

c; Moderate

17. Many telecom firms began digging up the ground and laying webs of fiberglass to meet the growing demand for Internet connectivity. However, rivals and startups began to imitate these firms and soon these new assets were not so rare and each day they seemed to be less valuable. It can be inferred from this example that:
- a. resource-based thinking can help avoid the trap of carelessly entering markets simply because growth is spotted.
 - b. the telecommunications market is only big enough to support one or two major players.
 - c. the immense scale advantages enjoyed by major firms can help them fight off competition from newer entrants.
 - d. technology assets that require high investment and maintenance are liable to becoming obsolete much quicker than others.
 - e. the scale of technology investment required to run a business is not a huge enough factor to act as a barrier to entry for new, smaller competitors.

a; Moderate

18. In _____, the light inside fiber is split into different signal-carrying wavelengths in a way similar to how a prism splits light into different colors.
- a. polarization
 - b. time-division multiplexing
 - c. space-division multiplexing
 - d. frequency hopping spread spectrum
 - e. dense wave division multiplexing

e; Easy

19. Startup firms can struggle to gain lower prices from rivals, but FreshDirect seems to have found several ways to gain lower supplier prices. FreshDirect buys direct from suppliers, eliminating any markup from a middleman. In addition to this, the firm employs other methods to get lower prices from suppliers. Which of the following is not a way FreshDirect helps suppliers in exchange for supplier agreement to offer it better pricing terms?
- a. FreshDirect carries a greater selection of supplier products
 - b. FreshDirect will cobrand products from suppliers
 - c. FreshDirect pays suppliers faster than rivals
 - d. FreshDirect shares warehouse space with farmers and livestock producers
 - e. FreshDirect shares data on customer insights with suppliers

d; Moderate

20. Sometimes technology can sound geeky, and so technical that executives might think that it doesn't require managerial or investor attention. However, many investing in the telecom sector suffered from a lack of insight on how a key technology was impacting their industry. Telecom firms failed to anticipate the impact of a technology known as _____, which enabled existing fiber to carry more transmissions than ever before.
- a. radio frequency identification (RFID)
 - b. dense wave division multiplexing (DWDM)
 - c. cloud computing
 - d. open source software
- d; Moderate**

Essay Questions

21. What are Porter's views in relation to operational effectiveness and strategic positioning? Contrast the two concepts.

According to Porter, the reason so many firms suffer aggressive, margin-eroding competition is because they've defined themselves according to operational effectiveness rather than strategic positioning.

Operational effectiveness refers to performing the same tasks better than rivals perform them.

Everyone wants to be better, but the danger in operational effectiveness is "sameness." This risk is particularly acute in firms that rely on technology for competitiveness, as technology can easily be acquired. Because of this, operational effectiveness is usually not sufficient enough to yield sustainable dominance over the competition.

In contrast to operational effectiveness, strategic positioning refers to performing different activities from those of rivals, or the same activities in a different way. According to Porter, strategy is fundamentally about being different. While technology itself is often very easy to replicate, it can also play a critical role in creating and strengthening strategic differences—advantages that rivals will struggle to match.

Moderate

22. One of the key questions posed by 21st century managers is "How can we possibly compete when everyone can copy our technology and the competition is a click away?" One path to take involves creating a resource or set of resources for sustainable competitive advantage. List the four characteristics that such resources must have for the possibility of sustainable competitive advantage to exist. Why is it important to have all four simultaneously?

These resources must be (1) *valuable*, (2) *rare*, (3) *imperfectly imitable* (tough to imitate), and (4) *nonsubstitutable*. Having all four characteristics is key. Miss value and no one cares what you've got. Without rareness, you don't have something unique. If others can copy what you have, or others can replace it with a substitute, then any seemingly advantageous differences will be undercut.

Moderate

23. Startup firms can struggle to gain lower prices from rivals, but FreshDirect seems to have found several ways to gain lower supplier prices. FreshDirect buys direct from suppliers, eliminating any markup from a middleman. What else did FreshDirect offer suppliers in exchange for better pricing terms?

In exchange for more favorable supplier terms, FreshDirect carries a greater selection of supplier products while eliminating the "slotting fees" (payments by suppliers for prime shelf space) common in traditional retail, cobrands products to help establish and strengthen supplier brand, pays partners in days rather than weeks, and shares data to help improve supplier sales and operations.

Hard

Fill in the Blanks

24. According to TechCrunch, Facebook's development mantra, formerly, "Move Fast and Break Things" should now be "_____."
Move Last and Take Things; Moderate

Section 2.2

True/False Questions

25. Firms that build an imitation-resistant value chain develop a way of doing business that others struggle to replicate.
True; Easy
26. A trademark is the symbolic embodiment of all the information connected with a product or service of a firm.
False; Easy
27. A salesperson's ability to effectively bargain with his/her consumers is called viral marketing.
False; Easy
28. Businesses benefit from economies of scale when the cost of an investment can be used in serving a niche customer base.
False; Easy
29. The scale of technology investment required to run a business can act as a barrier to entry by discouraging new, smaller competitors.
True; Easy
30. Commodities are products or services that vary across multiple vendors.
False; Easy
31. Network externalities exist when a product or service becomes less expensive as more people use it.
False; Moderate
32. Metcalfe's Law is used to explain the concept of switching costs.
False; Moderate
33. Many firms choose not to implement operational components of ERP software and instead elect to create their own propriety solutions in part because they see their uniqueness in certain operations areas as key to creating difficult-to-imitate competitive advantages.
True; Moderate
34. When firms see distribution partners as rivals, this is known as Channel Conflict.
True; Moderate
35. A firm can benefit from high switching costs, even when rivals offer free products.
True; Moderate

Multiple Choice Questions

36. The set of activities through which a product or service is created and delivered to customers is known as a(n) _____.
a. marketing plan
b. value chain
c. inventory turnover
d. strategic position
e. pure play
b; Easy
37. How did Apple trump Google to become the dominant mapping platform on iOS?
a. Apple's control of iOS gave it control of the distribution channel to reach its users, kicking Google out as the default mapping app and capturing the majority of user engagement.
b. Apple sued Google for copyright infringement related to the look and feel of Apple Maps.
c. Apple sued Google for privacy violations related to the collection of map data.
d. Apple hasn't trumped Google Maps. Google's Map app is used by the majority of iOS customers, whereas most users ignore Apple Maps.
a; Moderate
38. Which of the following represents one of the primary components of the value chain?
a. Outbound logistics
b. Firm infrastructure
c. Human resource management
d. Research and development
e. Procurement
a; Moderate
39. Dell, previously the world's number one PC manufacturer, has seen its market share shrink because of rivals copying its value chain and reducing the price advantage it enjoyed over rivals. Dell's present struggles:
a. underscore the importance of continually assessing a firm's strategic position among changing market conditions.
b. are a result of rivals adopting supply chain management of software products that have yielded competitive advantages.
c. imply that publicly traded firms are at a disadvantage in the technology sector.
d. highlight the fact that scale advantages of an established firm are a huge factor in discouraging newer entrants to a market.
e. demonstrate that resource-based thinking can help firms avoid the trap of carelessly entering markets simply because growth is spotted.
a; Moderate
40. A(n) _____ is the symbolic embodiment of all the information connected with a product or service.
a. trademark
b. copyright
c. patent
d. brand
e. advertisement
d; Easy

41. A strong brand can be an exceptionally powerful resource for competitive advantage by lowering _____, proxying _____ and inspiring _____.
a. price; strategy; innovation
b. switching costs; quantity; performance
c. expenses; marketing; respect
d. search costs; quality; trust
e. customer concern; investment; profits
d; Moderate
42. Leveraging consumers to promote a product or service is known as _____.
a. straddling
b. affiliating
c. long tailing
d. crowdsourcing
e. viral marketing
e; Easy
43. Benefits related to a firm's size are referred to as _____.
a. network effects
b. brand recall
c. scale advantages
d. vertical integration
e. disintermediation
c; Easy
44. Businesses benefit from economies of scale when the cost of an investment can be:
a. spread across increasing units of production.
b. used in serving a niche and loyal customer base.
c. used to build a brand image for products through advertising.
d. leveraged to recruit consumers to promote a product or service.
e. diverted to implementing technology upgrades in the business model.
a; Moderate
45. _____ exist when consumers incur an expense to move from one product or service to another.
a. Network effects
b. Switching costs
c. Economies of scale
d. Competitive advantages
e. Profit margins
b; Easy
46. Apple's dominance of smartphone and tablet markets has allowed the firm to lock up 60 percent of the world's supply of advanced touch-screen displays, and to do so with better pricing than would be available to smaller rivals. This is an example of:
a. network externalities that make Apple valuable.
b. high switching costs for suppliers.
c. a complex tech product establishing itself as a killer brand.
d. a growing firm gaining bargaining power with its suppliers.
e. low search costs associated with a famous brand.
d; Easy

47. The acronym API stands for:
- a. Access Programming Interface
 - b. Application Processing Inquiry
 - c. Access Processing Interface
 - d. Application Programming Inquiry
 - e. Application Programming Interface
- e; Easy**
48. Netscape, which once controlled more than 80 percent of the market share in Web browsers, lost its dominant position when customers migrated to Internet Explorer, Microsoft's Web browser. Internet Explorer was easy to install and had no significant differences in terms of usability. This example serves to illustrate that:
- a. fast-following smaller firms are always ready with newer and possibly superior products.
 - b. customers of technology companies are becoming increasingly savvy and more demanding.
 - c. the open source nature of technology ensures that no firm can expect to monopolize a market.
 - d. firms need to employ increasingly stringent intellectual property norms to guard against infringements from smaller, competitive rivals.
 - e. firms with low switching costs can sometimes be rapidly overtaken by strong rivals with additional competitive advantages.
- e; Moderate**
49. Which of the following is not highlighted as a source of switching costs?
- a. Learning costs
 - b. Information and data
 - c. Search costs
 - d. Viral marketing
 - e. Loyalty programs
- d; Moderate**
50. If a new entrant hopes to attract customers from an established incumbent, the new entrant must ensure that the value they offer exceeds the incumbents' value in addition to any perceived ____.
- a. switching costs
 - b. market depreciation
 - c. brand benefits
 - d. advertising expenses
 - e. scale advantages
- a; Easy**
51. Consumers buying commodities are highly ____ since they have so many similar choices.
- a. quality-conscious
 - b. price-focused
 - c. brand-driven
 - d. technologically discriminating
 - e. loyal
- b; Easy**
52. The acronym NPE stands for:
- a. Non-Practicing Entities
 - b. Non-Practicing Exhibits

- c. Normal Practicing Entities
 - d. Neo-Practicing Entities
 - e. Normal-Practicing Exhibits
- a; Easy**

53. _____ Law is said to be at play when the value of a product or service increases as its number of users expands.
- a. Amdahl's
 - b. Turing's
 - c. Zuckerberg's
 - d. Metcalfe's
 - e. Moore's

d; Easy

54. The paths through which products or services get to customers are known as _____.
- a. information pathways
 - b. vertical markets
 - c. distribution channels
 - d. proxy networks
 - e. horizontal markets

c; Easy

55. The patent system is often considered to be unfairly stacked against startups because:
- a. bigger multinational firms enjoy patent protection in all countries as opposed to startups, which are domestic firms that do not get such protection for the most part.
 - b. the intellectual property laws are not adequate to protect the interests of smaller firms from infringements.
 - c. the patent system grants patents for innovations on a differential basis, with bigger firms getting precedence over start-ups.
 - d. high litigation costs coupled with a few months of litigation can sink an early stage firm.
 - e. patents are granted by the patent system on an ad hoc basis wherein firms that have been in business longer get patent protection for longer periods of time.

d; Moderate

Essay Questions

56. List the various components of a value chain and give a brief description of each of them.
- The value chain is the “set of activities through which a product or service is created and delivered to customers. There are five primary components of the value chain and four supporting components. The primary components are as follows:
- Inbound logistics—getting needed materials and other inputs into the firm from suppliers
 - Operations—turning inputs into products or services
 - Outbound logistics—delivering products or services to consumers, distribution centers, retailers, or other partners
 - Marketing and sales—customer engagement, pricing, promotion, transaction
 - Support—service, maintenance, and customer support
- The secondary components are:
- Firm infrastructure—functions that support the whole firm, including general management, planning, IS, and finance
 - Human resource management—recruiting, hiring, training, and development

Technology/research and development—new product and process design

Procurement—sourcing and purchasing functions

Moderate

57. How does FreshDirect leverage an imitation-resistant value chain to repel rivals?

When we compare FreshDirect's value chain to traditional rivals, there are differences across every element. But most importantly, the elements in FreshDirect's value chain work together to create and reinforce competitive advantages that others cannot easily copy. Incumbents trying to copy the firm would be *straddled* across two business models, unable to reap the full advantages of either. And late-moving pure-play rivals will struggle, as FreshDirect's lead time allows the firm to develop brand, scale, data, and other advantages that newcomers lack.

Moderate

58. Diagram and label the value chain, listing all primary and secondary components.



; Moderate

Fill in the Blanks

59. The category of enterprise software known as _____ is implemented in modules, offering the potential of automating an organization's entire value chain.

ERP or enterprise resource planning; Easy

60. Rivals such as _____ and _____ once made their own chips, but sold off manufacturing when their smaller market shares couldn't justify the Intel-sized multi-billion dollar table stakes needed to stay in the game.

AMD; IBM (or) IBM; AMD; Moderate

61. _____ are products or services that are nearly identically offered from multiple vendors.

Commodities; Easy

62. _____ exist when a product or service becomes more valuable as more people use it.

Network effects; Easy

63. _____ hold intellectual property not with the goal of bringing novel innovations to market but instead in hopes that they can sue or extort large settlements from others.

Patent trolls; Easy

64. More recently, Apple has leveraged its _____ platform as a distribution channel to launch a new subscription service. Just nine months after launching the Apple Music, the firm had attracted over 13 million paying subscribers to its streaming service.

iTunes; Easy

Section 2.3

True/False Questions

65. Timing and technology alone will not yield sustainable competitive advantage.

True; Easy

66. Market entry is the same as building a sustainable business.

False; Easy

Multiple Choice Questions

67. Firms like Blockbuster, Sotheby's, and Barnes & Noble were put at risk by operating under the following platitude:

- a. There is no "I" in team.
- b. Follow, don't lead.
- c. What's done is done.
- d. Better late than never.
- e. Work smarter, not harder.

b; Moderate

68. Moving first pays off when the time lead is used to create:

- a. the latest technology at a firm's production plant.
- b. operational effectiveness to harness maximum profitability.
- c. critical resources for competitive advantage.
- d. high stock value to generate funds for expansion.
- e. market entry to ensure sustainable competitive advantage.

c; Easy

Essay Questions

69. Time and technology can be enablers for competitive advantage. Explain this statement.

Even though barriers to entry for tech-centric industries are rather low, it's absolutely critical to understand that market entry is not the same as building a sustainable business and just showing up doesn't guarantee survival. Timing and technology alone will not yield sustainable competitive advantage. Yet both of these can be enablers for competitive advantage. Put simply, it's not the time lead or the technology; it's what a firm does with its time lead and technology. True strategic positioning means that a firm has created differences that cannot be easily matched by rivals. Moving first pays off when the time lead is used to create critical resources that are valuable, rare, tough to imitate, and lack substitutes. Anything less risks the arms race of operational effectiveness. Building resources like brand, scale, network effects, switching costs, or other key assets can provide firms with a shot. But guessing wrong about the market or botching up execution means failure or inviting direct competition. It is true that most technologies can be copied. But the lead that each of the most successful tech-enabled firms had was leveraged to create network effects, switching costs, data assets, and helped build solid and well-respected brands.

Moderate

70. Discuss the role of timing and technology as it relates to competitive advantage.

Timing and technology alone will not yield sustainable competitive advantage. Yet both of these can be *enablers* for competitive advantage. Put simply, it's not the time lead or the technology; it's what a firm *does* with its time lead and technology. True strategic positioning means that a firm has created

differences that cannot be easily matched by rivals. Moving first pays off when the time lead is used to create critical resources that are valuable, rare, tough to imitate, and lack substitutes. Anything less risks the arms race of operational effectiveness.

Easy

Section 2.4

True/False Questions

71. If a firm's goods are highly differentiated, the Internet typically lessens the firm's bargaining power as a supplier.

False; Moderate

72. If there is the availability of a wide variety of undifferentiated commodity goods in a given market, and these products are available online, then bargaining power typically shifts to the buyer.

True; Moderate

73. The internet is largely seen as lowering the entry barrier for new entrants, but firms that enter may have little chance of success unless they have a competitive advantage over existing rivals

True; Easy

74. Uber is an example of a business model that has strengthened the bargaining power of suppliers (cab drivers) with respect to middlemen who took a cut of their services (e.g. cab companies).

True; Easy

Multiple Choice Questions

75. Which of the following is one of Porter's five forces?

- a. Availability of competitors in the market
- b. Total cost of ownership
- c. Purchasing power parity of consumers
- d. Threat of new entrants
- e. Strength of intellectual property laws

d; Moderate

76. Which of the following is a source of bargaining power of buyers?

- a. Greater choice of products
- b. High switching costs
- c. Loyalty programs
- d. Network effects
- e. Unique and highly differentiated products

a; Moderate

77. The degree to which complete information is available is known as ____.

- a. information assurance
- b. data proximity
- c. operational alertness
- d. price transparency
- e. data consolidation

d; Easy

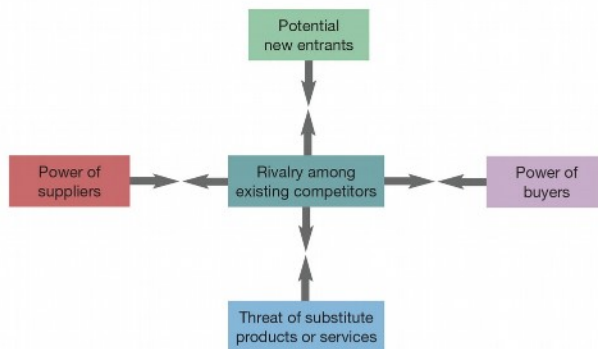
78. How does the Internet typically impact price transparency and information asymmetry?

- a. Both price transparency and information asymmetry increase
- b. Both price transparency and information asymmetry decrease
- c. Price transparency increases while information asymmetry decreases
- d. Price transparency decreases while information asymmetry increases.

c; Easy

Essay Questions

79. Diagram and label all components in the Porter Five Forces model (also known as the Industry and Competitive Analysis model)?



; Easy

80. Relate your understanding of the Porter's Five Forces model to describe how the Internet affects the bargaining power of buyers and sellers according to whether offers commodity or differentiated products.

It is often suggested that the Internet increases bargaining power of buyers and lowers the bargaining power of suppliers. This suggestion is true for some industries like auto sales and jewelry where the products are commodities and the price transparency of the Internet counteracts a previous information asymmetry where customers often didn't know enough information about a product to bargain effectively. But it's not true across the board.

In cases where a seller's goods are highly differentiated, the Internet can strengthen supplier bargaining power. The customer base of an antique dealer used to be limited by how many likely purchasers lived within driving distance of a store. Now with eBay, the dealer can take a rare good to a global audience and have a much larger customer base bid up the price. Switching costs also weaken buyer bargaining power.

Moderate

Fill in the Blanks

81. _____, also known as the Industry and Competitive Analysis, is a popular framework for examining a firm's competitive environment.

Porter's five forces; Easy

82. A decision situation where one party has more or better information than its counterparty is called a(n) _____.

information asymmetry; Easy

COPYRIGHT PAGE:

Published by:
FlatWorld

© 2020 by FlatWorld. All rights reserved. Your use of this work is subject to the License Agreement available here catalog.flatworldknowledge.com/legal. No part of this work may be used, modified, or reproduced in any form or by any means except as expressly permitted under the License Agreement.

Chapter 3

Zara: Fast Fashion from Savvy Systems

Section 3.1

True/False Questions

1. The U.S. Department of Justice needed to provide a special exemption to the Fair Factories Clearinghouse, and before doing so, had to be convinced that the effort wouldn't be used by buyers to collude and further squeeze prices from competitors.
True; Easy
2. The Fair Factories Clearinghouse is subject to network effects.
True; Easy
3. Making seasonal apparel decisions is a challenge because it often involves making predictions on what customers will be interested in, months in advance of clothing appearing on store shelves.
True; Easy
4. Zara's dominance in the fashion industry is due to its horizontally integrated structure accompanied by a globally dispersed production model.
False; Easy
5. Zara's clothing look like high fashion, but are comparatively inexpensive.
True; Easy
6. Most fashion retailers place orders for a seasonal collection a few days before these lines make an appearance in stores.
False; Easy
7. Maintaining large inventories is highly essential for the viability of the fashion industry.
False; Easy

Multiple Choice Questions

8. In an industry where nearly every major player outsources manufacturing to low-cost countries, Zara is highly _____, keeping huge swaths of its production process in-house.
 - a. privatized
 - b. vertically integrated
 - c. publicly traded
 - d. subsidized
 - e. autonomous**b; Easy**
9. What was considered the source of Mickey Drexler's inventory problems at Gap?
 - a. He personally approved sweatshop-affiliated contract manufacturers
 - b. He wrote the code for Gap's disastrously broken inventory system
 - c. The firm guessed wrong about fashion, placing big bets on trends that consumers didn't want
 - d. He led a botched merger with Disney in the hopes that combining technology with the Disney Store would create a super-efficient set of shopping mall destination stores.

c; Easy

10. Zara holds a competitive advantage over its rivals in spite of:
- refusing to implement technology in its operational model.
 - conducting business only through online storefronts.
 - its globally distributed contract manufacturing model.
 - operating through fewer stores across the world than its closest rivals.
 - Keeping large portions of its production processes in-house.

e; Easy

11. _____ involves outsourcing production to third-party firms.

- Vertical integration
- Long tailing
- Peer production
- Contract manufacturing
- Viral production

d; Easy

12. In retail in general and fashion in particular, having _____ is considered the kiss of death.

- excess inventory
- storefronts in expensive districts with costly rents
- a large labor force
- limited production runs
- dispersed production facilities

a; Easy

13. Contract manufacturers used by the apparel industry are often criticized because:

- they hike up the costs of producing goods.
- firms cannot maintain high profit margins by employing them.
- they charge exorbitant labor costs that drive down sales.
- they are known to grossly overprice their services.
- of poor working conditions.

e; Easy

14. _____ is a non-profit organization that shares audit information on contract manufacturers among members of the apparel industry and other industries.

- Fair Factories Clearinghouse
- Pricewaterhouse Coopers
- Amnesty International
- Klynveld Main Goerdeler
- Transparency International

a; Easy

Essay Questions

15. What were the problems encountered by Gap in the early part of the decade following the 1990s? What were the measures taken to overcome these problems?
Gap was an industry leader for much of the 1990s in apparel retail, with over \$1 billion in profits. However, sales declined in the early part of the following decade, prompting the firm to try revitalizing the brand. Chasing the youth market, Gap filled its stores with miniskirts, low-rise jeans,

and other offerings. But the throngs of teenagers they sought to attract never showed up, and the shift in offerings sent Gap's mainstay customers to retailers that easily copied the styles that Gap had made classic. Gap's same-store sales declined for twenty-nine months straight and profits vanished. The firm's debt was downgraded to junk status.

Closing down hundreds of stores did not work either and Gap was forced to write off much of its inventory. The marketing model used by Gap to draw customers in via big-budget television promotion also collapsed. The firm has since ceded its position as the market leader.

Moderate

16. What is contract manufacturing? What advantages can a firm expect to gain from contract manufacturing? What are the downsides associated with this practice?

Contract manufacturing refers to outsourcing production to third-party firms. Firms that use contract manufacturers do not own the plants or directly employ the workers who produce the requested goods. Conventional wisdom suggests that leveraging cheap contract manufacturing in developing countries can keep the cost of goods low and allow firms to leverage specialized manufacturing expertise if production is not seen as core to competitive advantage. Firms can lower prices and sell more products or maintain higher profit margins.

Many firms have also experienced the ugly downside to this practice. Global competition among contract firms has led to race-to-the-bottom cost-cutting measures. Too often, this means that in order to have the low-cost bid, contract firms skimp on safety, ignore environmental concerns, employ child labor, and engage in other ghastly practices. Incidents such as the Spring 2013 Bangladesh Rana Plaza disaster, which killed more than 1,100 people in the collapse of an illegally constructed eight-story building housing multiple contract garment factories, underscore the human toll of unacceptable contract manufacturing practices. Big firms are big targets and those that fail to adequately ensure their products are made under acceptable labor conditions risk a brand-damaging backlash that may turn off customers, repel new hires, and leave current staff feeling betrayed.

Moderate

Short Answers

17. The U.S. Justice Department initially reviewed the Fair Factories Clearinghouse but eventually approved the effort as described in readings and class. What was the government initially concerned about?

Price-fixing or price collusion; Easy

Fill in the Blank Questions

18. _____ is a non-profit organization that shares audit information on contract manufacturers.

Fair Factories Clearinghouse; Easy

19. Outsourcing production to third-party firms is called _____.

contract manufacturing; Easy

Section 3.2

True/False Questions

20. Zara's high fashion styles are inspired by customer tastes, with technology used to gather data on preferences at given store locations.

True; Easy

21. Elaborate customer surveys help Zara designers predict fashion trends months into the future and design products accordingly.
False; Easy
22. Limited production runs ensure customers do not have to visit Zara's stores as often as they visit other stores, allowing the firm to save money through staff reductions when compared to peers.
False; Easy
23. Zara's IT expenditure, measured by IT workers as a percentage of total employees, is only slightly higher than the industry average.
False; Moderate
24. Zara's use of technology across the value chain allows the firm to manufacture more unique items than rivals H&M and Gap.
True; Easy
25. Zara encourages employee use of technology by tying employee salaries to sales performance.
True; Easy
26. Goods to be further customized based on designer/manager collaboration are called greige.
True; Easy
27. RFID tags allow Zara staff to take in-store inventory less frequently than rivals, saving money on staffing.
False; Easy
28. An information system consists of hardware, software, data, procedures, and the people who interact with and are impacted by the system.
True; Easy

Multiple Choice Questions

29. Personal digital assistants are:
- a. transaction processing systems that capture customer purchases.
 - b. small chip-based tags that wirelessly emit a unique identifying code for the item that they are attached to.
 - c. systems that provide rewards and usage incentives, typically in exchange for a method that provides a more detailed tracking and recording of customer activity.
 - d. handheld computing devices meant largely for mobile use outside an office setting.
 - e. artificial intelligence systems that leverage rules or examples to perform a task in a way that mimics applied human expertise.
- d; Easy**
30. Zara's staff members regularly collect data from customers at its stores. This data is used to:
- a. decide the designs and styles of Zara's products for the next few seasons.
 - b. determine the in-store soundtrack and layout.
 - c. inform designers on customer preferences and staff on store sales results.
 - d. determine where future Zara stores should be located.
 - e. identify the products that customers would like to buy through discounted sales.

c; Easy

31. _____ are critical for capturing sales data, and are usually linked to systems which manager a firm's inventory.
- a. Point-of-sale systems
 - b. Legacy systems
 - c. CRM systems
 - d. Server farms
 - e. Data aggregators

a; Easy

32. Many firms have developed and deployed innovative information systems, only to see these systems go unused by key staff members. How has Zara helped ensure its systems will be used by staff?
- a. employees are monitored by in-store cameras
 - b. employee time on information systems is recorded each time the system is engaged
 - c. system use drives store success and as much as 70 percent of salaries are tied to sales performance
 - d. all employees must have a Fair Factories Clearinghouse account, which is used to log and report employee activity
 - e. systems were designed by employees, who feel a sense of ownership in the technology deployed

c; Moderate

33. Zara's clothing lines are designed:
- a. by star designers like Stella McCartney.
 - b. in collaboration with celebrities and pop artists.
 - c. by design school graduates to suit customer demand.
 - d. by designers who win talent shows sponsored by Zara.
 - e. mostly by foreign designers in European design hotspots of Paris and Milan.

c; Easy

34. How does Zara differ from its competitors in converting ideas into products?
- a. Zara concepts appear in stores in fifteen days on average compared to rivals who receive new styles once or twice a season.
 - b. Zara's ideas are inspired by social media, compared to the intrinsic design processes followed by its competitors.
 - c. Zara's design and concept teams use data from customers to predict fashion trends many months into the future and stock up inventory accordingly, as opposed to its rivals.
 - d. Collaborations with celebrities help Zara churn out a limited, yet profitable, volume of items every year, while rivals produce a higher volume of less fashionable items.
 - e. By focusing on a smaller number of products than rivals like Gap, Zara manages to limit exposure to wrong guesses.

a; Moderate

35. A value chain is a set of:
- a. similarly profitable firms competing against each other in any given industry.
 - b. large firms that are vertically integrated.
 - c. activities through which a product or service is created and delivered to customers.
 - d. a large number of small firms that dominate a given market.
 - e. robotically controlled conveyor belts that deliver product quickly from manufacturing stations to shipping containers.

c; Easy

36. Which of the following is not a benefit achieved through Zara's integration of technology throughout the firm?
- a. limited product runs of many unique products
 - b. higher markdowns
 - c. fewer write-offs
 - d. less need for advertising

b; Moderate

37. Zara store staff gain as much as three hours in prime selling time to assist customers at stores. Which of Zara's practices is instrumental in these time savings?
- a. Concepts going from ideas to appearances in stores in fifteen days on an average.
 - b. Three hundred member-strong design teams churning out up to thirty thousand items a year.
 - c. Distribution centers ironing clothes in advance and packing them on hangers, with security and price tags affixed.
 - d. Collecting data from customers on what kind of clothes to stock in stores, using PDAs.
 - e. Tweaking shipping models through Air France-KLM Cargo to coordinate outbound shipments with return legs loaded with raw materials.

c; Easy

38. Due to limited production runs, Zara's customers:
- a. tend to delay their shopping until the products go on sale.
 - b. visit the stores more often.
 - c. buy products at discounted rates after a few weeks.
 - d. visit stores less often.
 - e. create a greater opportunity for increased markdowns and write-offs.

b; Easy

39. According to an independent study, Zara books some 85 percent of its products at full price compared to the industry average markdown ratio of 50 percent. This is made possible by:
- a. keeping a major part of the production processes under direct proprietary control.
 - b. coordinating the outbound shipments of all Inditex brands with return legs loaded with return materials and half-finished items.
 - c. applying data analytics to purchase trends.
 - d. the practice of having limited production runs of its designs.
 - e. leveraging contract manufacturers to produce only staple items with longer shelf-lives, which account for one-eighth of dollar volume.

d; Moderate

40. Zara's IT expenditure is low by fashion industry standards and is also highly effective. Which of the following makes this possible?
- a. Targeting technology investment at points in the value chain where it has the most significant impact.
 - b. Utilizing the money spent on IT infrastructure to improve the IT skills of its employees through training programs.
 - c. Using the best and most expensive software and hardware in the market, as it lowers any maintenance costs later.
 - d. Outsourcing IT management to third-party firms which provide IT services at lower costs.
 - e. Investing IT funding in improving the infrastructure and cutting down employee overhead costs.

a; Easy

41. Small chip-based tags that wirelessly emit a unique identifying code for the item that they are attached to are called _____.
a. Personal Digital Assistants
b. Smart adaptors
c. Trackbacks
d. Legacy labels
e. RFID tags

e; Easy

42. High-end fashion house Prada's experiment of implementing the latest technology in its flagship store failed because:
a. Prada targeted technology investment only at points in its value chain where it would have the most significant impact.
b. The execution of the technological advancements was poor and didn't work well during customer interactions, so managers and staff stopped using it.
c. The effort was unlike Prada's signature style, being more functional than fashionable.
d. Prada skimped on spending with its IT expenditure being lesser than one-fourth the fashion industry average.
e. The RFID technology used on items in the store were not state of the art and suffered from legacy system problems.

b; Moderate

43. _____ represents an integrated solution that combines hardware, software, data, procedures, and the people who interact with and are impacted by the system.
a. A neural network
b. Artificial intelligence
c. An information system
d. Supercomputing
e. Cloud computing

c; Easy

44. ROI is a term used to represent the:
a. return on information
b. rate of information-generated
c. regular order intake
d. return on investment
e. relay-ordered inventory

d; Easy

45. The e-commerce strategy that blends online and offline sales is called _____.
a. sales channel
b. betterline
c. omnichannel
d. blended sales
e. omniline

c; Moderate

46. At Zara, clothes are ironed in advance and packed on hangers, with security and price tags affixed. This system means that employees in Zara stores simply move items from shipping box to store racks, spending most of their time on:
- outsourcing their sales activities.
 - value-added functions like helping customers find what they want.
 - wrestling with inventory during busy periods.
 - packing unsold merchandise that need to be returned to the distribution center.
 - whisking items from their stores to the staging areas.
- b; Moderate**

Essay Questions

47. Walmart is a large firm, but some suggest that Zara has had more success implementing effective RFID. Why?
- Firms from Walmart to JCPenny have struggled to effectively implement RFID, but Zara's vertical integration is an advantage here, as well. Since the entire supply chain is under Zara control and all items flow through one of two warehouses, Zara can affix tags to all products before sending them out to stores (a challenge for other retailers that have third-party suppliers ship to multiple warehouses or directly to stores). Stores then send tags back to Zara warehouses for reuse (reassigning a tag's unique item to a new clothing item). Although tags only cost ten cents, with hundreds of millions of items sold each year, these costs would easily add up, so the reusable tag system makes solid financial sense (Zara bought so many tags at launch that it actually consumed one in every six tags produced for the entire apparel industry that year).
- Moderate**
48. How does RFID improve in-store customer service?
- RFID lets Zara know where products are, so if a customer asks for an item in a store (perhaps in a different size or color), staff using custom apps on an iPod Touch can immediately tell if a product is in store, in a nearby store, or if it can be ordered from the distribution center or Zara.com.
- Moderate**
49. Briefly explain the intelligence-gathering exercises carried out by Zara in its stores and the role of technology in such efforts.
- Zara's designs are based on the evidence of customer demand. Zara's store managers lead the intelligence-gathering effort that ultimately determines what ends up on each store's racks. Armed with personal digital assistants (PDAs) to gather customer input, staff members regularly chat up customers to gain feedback on what they'd like to see more of.
- Once stores are closed, the staff looks for trends in the piles of unsold items that customers tried on but didn't buy to spot any preferences in cloth, color, or styles offered among the products in stock. PDAs are also linked to the store's point-of-sale (POS) system showing how garments rank by sales. Managers send updates that combine the hard data captured at the cash register with insights on what customers would like to see. All of this valuable data allows the firm to plan styles and issue rebuy orders based on feedback rather than hunches and guesswork. The goal is to improve the frequency and quality of decisions made by the design and planning teams.
- Moderate**
50. Describe how Zara's counterintuitive practice of making limited production runs is profitable and effective in maintaining a competitive advantage over the firm's rivals.
- While running out of bestsellers might be seen as a disaster at most retailers, at Zara the practice delivers several benefits.

Limited runs allow the firm to cultivate the exclusivity of its offerings. Each Zara store is stocked with items tailored to the tastes of its local clientele. Limited runs encourage customers to buy right away and at full price. Customers realize that waiting for items to go on sale means the products have almost certainly been sold or moved to make room for newer stock. Zara rarely runs discount sales and this is evidenced in data which suggests that Zara books some 85 percent of its products at full price, compared to the industry average of just 50 percent.

The constant parade of new, limited-run items also encourages customers to visit often. The average Zara customer visits the store seventeen times per year, compared with only three annual visits made to competitors. This ensures that Zara spends almost nothing on advertising.

Finally, limited production runs allows the firm to reduce to a minimum the risk of making mistakes, such as stocking up on inventory with items customers would not buy and incurring losses.

Moderate

51. What role does Zara's headquarters play in the running of its stores?

Zara's store managers, armed with personal digital assistants (PDAs), gather customer input. Staff members regularly chat up customers to gain feedback on what they'd like to see more of. The staff looks for trends in the piles of unsold items that customers tried on but didn't buy to spot any preferences in cloth, color, or styles offered among the products in stock. Managers send this valuable data to Zara's headquarters which allows the firm to plan styles and issue rebuy orders based on feedback rather than hunches and guesswork. The goal is to improve the frequency and quality of decisions made by the design and planning teams.

While stores provide valuable front-line data, headquarters plays a major role in directing in-store operations. Software is used to schedule staff based on each store's forecasted sales volume, with locations staffing up at peak times such as lunch or early evening. This constant refinement of operations throughout the firm's value chain has helped reverse a prior trend of costs rising faster than sales.

Even the store displays are directed from the firm's headquarters outside, where a basement staging area known as "Fashion Street" houses a Potemkin village of bogus storefronts meant to mimic some of the chain's most exclusive locations throughout the world. It is here that workers test and fine-tune the chain's award-winning window displays, merchandise layout, even determine the in-store soundtrack. Every two weeks, new store layout marching orders are forwarded to managers at each location.

Moderate

52. Why has Zara been more effective in leveraging technology to enhance its operating strategies than its rivals? Provide an example to contrast Zara's handling of technology in its operations.

Whether measured by IT workers as a percentage of total employees or total spending as a percentage of sales, Zara's IT expenditure is less than one-fourth the fashion industry average. Zara excels by targeting technology investment at the points in its value chain where it will have the most significant impact, making sure that every dollar spent on tech has a payoff.

High-end fashion house Prada's efforts at its flagship Manhattan store contrast Zara's efforts. The firm used radio frequency identification (RFID) tags on clothes in its store. By wirelessly reading the tags on each garment, dressing rooms would recognize what was brought in and make recommendations of matching accessories as well as similar products that patrons might consider. Customers could check inventory, and staff sporting PDAs could do the same. A dressing room camera would allow clients to see their front and back view side-by-side as they tried on clothes. However, as slick as it sounded, the effort had disastrous consequences and the investment in Prada's in-store technology was simply too high, with estimates suggesting the location took in just one-third the sales needed to justify expenses.

At Prada's Manhattan flagship store, the effort looked like tech was chosen because it seemed fashionable rather than functional.

Moderate

53. Many firms have developed innovative information systems, only to find that employees fail to adopt these tools. How does Zara encourage store managers to effectively use the systems deployed in stores?

Managers have 'skin in the game,' with compensation tied to overall store performance. Store performance is improved through manager's use of information systems that help ensure that fashions arrive in store tailored to customer feedback, requests, and preferences.

Easy

Short Answers

54. Our analysis of Inditex's Zara stores showed the power of data to fuel competitive advantage. *List* the two acronyms for technologies that Zara uses to collect data in stores, and *describe* what the data from *each* of these respective systems 'tells' the firm.

POS – what the store is selling; PDA – what customers want to see on shelves.

Easy

Fill in the Blanks

55. A(n) _____ is a transaction process that captures customer purchase information.
point-of-sale system; Easy

56. Coordinating and enabling the flow of goods, people, information, and other resources among locations is known as _____.
logistics; Moderate

57. An information system is an integrated solution that combines five components: hardware, software, data, _____, and the people who interact with and are impacted by the system.
procedures; Moderate

58. _____ are goods to be further customized based on designer/manager collaboration.
Greige; Easy

59. When a single firm owns several layers in its value chain, it is said to be _____.
vertically integrated; Easy

Section 3.3

True/False Questions

60. The strengthening of the euro relative to the dollar has insulated Zara against financial vulnerabilities.
False; Moderate
61. Rising fuel costs are likely to make Zara's model of twice-weekly deliveries more expensive to maintain.
True; Easy

62. Zara also saves money by simplifying pricing. An item sold in Bangkok is likely to cost the same as a similar item sold in Barcelona.

False; Moderate

63. Zara's vertically integrated model is easier for rivals to copy compared to Dell's, as computing is more complex than clothing in terms of number of new models offered.

False; Moderate

Multiple Choice Questions

64. Factors such as weather, natural disaster, terrorism, labor strife, or political unrest can shut down a firm's operations. Which of the following is one of the measures taken by firms to hedge such risks?
- a. Driving up profitability by increasing prices of market goods
 - b. Spreading productions facilities across the globe
 - c. Requesting government intervention in the form of subsidies or nationalization
 - d. Sourcing raw materials from countries with low labor costs
 - e. Diverting marketing and advertising budgets to accommodate greater production

b; Moderate

65. Zara is susceptible to any disruption in northern Spain because:
- a. it moves all of its deliveries through just two locations, both in Spain.
 - b. it conducts its trade operations based on the American dollar rather than the stronger euro.
 - c. most of Zara's products are sold in markets outside Spain and Europe.
 - d. Zara's products are sold at much lower costs around the world than in Spain, and this harms profitability.
 - e. Zara's production facilities in Asia and Central America are threatening employment in Spain.

a; Easy

66. Zara's production costs could rise at higher rates than its competitors because many of the firm's costs are tied to the _____.

- a. euro
- b. dollar
- c. yen
- d. pound
- e. franc

a; Easy

67. The Zara experience involves a regular supply of new stock on the shelves, because of which customers tend to visit Zara's stores more often than they visit other retailers' stores. However, such a policy will become more expensive to maintain if:

- a. star designers demand a higher fee for its designs.
- b. PDAs are not used.
- c. fuel costs rise.
- d. Zara's horizontal integration fails.
- e. Zara outsources its production process.

c; Easy

Essay Questions

68. What are the operational and financial challenges that Zara faces?

In spite of its effectiveness, Zara's Spain-centric, just-in-time manufacturing model has certain defects. By moving all of the firm's deliveries through just two locations, both in Spain, the firm remains hostage to any disruption in the region, such as weather, natural disaster, terrorism, labor strife, or political unrest. Firms often hedge risks that could shut down operations by spreading facilities throughout the globe. If problems occur in northern Spain, Zara has no such fall back. Moreover, this model also leaves the firm potentially more susceptible to financial vulnerabilities as the Euro has strengthened relative to the dollar. Many low-cost manufacturing regions have currencies that are either pegged to the dollar or have otherwise fallen against the Euro. This situation means Zara's Spain-centric costs rise at higher rates compared to competitors, presenting a challenge in keeping profit margins in check. Rising transportation costs are another concern. If fuel costs rise, the model of twice-weekly deliveries that has been key to defining the Zara experience becomes more expensive to maintain.

Zara is liable to be overtaken by rivals who might, in time, succeed in copying its vertically integrated value chain, despite the difficulty involved. Dell's loss of market share due to the same reason can be cited a precedent for Zara's potential vulnerability in this regard.

Finally, the firm's financial performance can also be impacted by broader economic conditions.

When the economy falters, consumers simply buy less and may move a greater share of their wallet to less-stylish and lower-cost offerings from deep discounters like Wal-Mart. Zara is particularly susceptible to conditions in Spain, in particular, and Western Europe, in general.

Hard

Fill in the Blanks

69. The organizational activities that are required to produce goods or services are known as _____.
operations; Moderate

COPYRIGHT PAGE:

Published by:
FlatWorld

© 2020 by FlatWorld. All rights reserved. Your use of this work is subject to the License Agreement available here catalog.flatworldknowledge.com/legal. No part of this work may be used, modified, or reproduced in any form or by any means except as expressly permitted under the License Agreement.

Chapter 4

Netflix in Two Acts: Sustaining Leadership in an Epic Shift from Atoms to Bits

Section 4.1

True/False Questions

1. Even though Netflix is now mainly focused on digital distribution, it continues to offer the DVD-by-mail service in its base-price product.
False; Easy
2. Netflix's initial revenue model was based on a flat-rate monthly subscription fee rather than a per-disc rental fee.
True; Easy
3. Although sometimes referred to as "rental," Netflix's model is really a substitute good for conventional use-based media rental.
True; Easy
4. A major factor in Netflix's success is competitive advantage.
True; Easy
5. The business of streaming video is radically different from DVD-by-mail in several key ways, including content costs, content availability, revenue opportunities, rivals and their motivation.
True; Easy

Multiple Choice Questions

6. Today the Netflix is so focused on _____ that it offers its streaming-only subscription as the default option for consumers.
 - a. special promotions
 - b. viewer feedback
 - c. rating content
 - d. digital distribution
 - e. none of the above**d; Moderate**

Essay Questions

7. Describe Netflix's streaming video business model.

Today the firm is focused on digital distribution that it offers its streaming-only subscription as the default option for consumers. The default page at Netflix.com doesn't even mention DVDs; the disc subscription service that Netflix built its user-base with had become an optional add-on that the firm is actively discouraging new consumers from joining. For less than \$10 a month (\$12 if you want Ultra HD with 4 simultaneous streams), customers gain unlimited access to the entire Netflix streaming library (which is smaller than the number of DVDs available for mailing). Netflix streaming is now available on PCs, as well as all major tablets, smart phones, and Internet-connected televisions, DVD players, and video game consoles.

Moderate