

chapter 2

11. Entrepreneurs who want to pursue a start-up business should address their competitive advantage over potential rivals.
- a. True
 - b. False
12. A strategic decision is a decision regarding the direction a firm will take in relating to its customers and competitors.
- a. True
 - b. False
13. A segmented market can erode when the focus strategy is imitated.
- a. True
 - b. False
14. In marketing terms, a focus strategy depends on market segmentation.
- a. True
 - b. False
15. The industry environment is very broad, comprising general factors that affect all, or at least most, businesses in a society.
- a. True
 - b. False
16. Building a competitive advantage requires commitment of considerable resources.
- a. True
 - b. False
17. If a firm determines that two or more market segments have the potential to be profitable and then develops a unique marketing mix for each segment, it is called an unfocused strategy.
- a. True
 - b. False
18. Market segmentation identifies larger customer groups that will respond to general marketing strategies.
- a. True
 - b. False
19. Serendipity is the phenomenon of making desirable discoveries by accident.
- a. True
 - b. False
20. Poor market positioning and a lack of a perceived advantage among customers in the target market are reasons why many new ventures fail.
- a. True
 - b. False
21. Sustainable competitive advantage is an established value-creating industry position that is likely to endure over time.
- a. True

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b. False

22. Hobbies of retiring business executives can spawn start-up ideas.

a. True

b. False

23. Core competencies are value-creating organizational capabilities that are unique to a firm.

a. True

b. False

24. The single-segmentation strategy is usually the wisest strategy for small businesses during initial marketing efforts.

a. True

b. False

25. Limiting sales to a single geographic area is a niche market strategy.

a. True

b. False

26. Serendipity is a term describing a new product idea resulting from deliberate search activities.

a. True

b. False

27. A marketing competitive advantage is an approach that requires differentiation of a firm's product or service along some dimension other than cost.

a. True

b. False

28. Small businesses should always pursue a multisegmentation strategy as they can safely spread their resources out thinly.

a. True

b. False

29. In the textbook, Michael Porter is cited as having written about the five forces of determining the nature and degree of competition in an industry.

a. True

b. False

30. Creating a cost advantage potentially gives a firm a competitive advantage.

a. True

b. False

31. The general environment is very broad, comprising general factors that affect all, or at least most, businesses in a society.

a. True

b. False

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32. Returns from competitive advantage always increase over time.

- a. True
- b. False

33. Niche marketing guarantees a sustainable competitive advantage.

- a. True
- b. False

34. An effective marketing advantage can occur when the consumer is convinced of the uniqueness and desirability of the product or service—real or perceived.

- a. True
- b. False

35. A competitive advantage exists when a firm offers a product or service that is perceived by customers to be inferior to those of competitors, thereby promoting firm unprofitability.

- a. True
- b. False

36. Originally, computer manufacturers aimed at the corporate market and practised very little market segmentation.

- a. True
- b. False

37. Once a competitive advantage is achieved, the entrepreneur can focus much less on the external environment to pay more attention to the internal environment.

- a. True
- b. False

38. Most new ventures are founded in “me, too” strategies differentiating themselves through superior service, higher quality or performance, or lower cost.

- a. True
- b. False

39. If a business believes that two or more market segments can be profitable and develops a unique marketing mix for each, it is following a multisegmentation strategy.

- a. True
- b. False

Indicate the answer choice that best completes the statement or answers the question.

40. Which of the following indicates a niche strategy?

- a. strict concentration on a single market segment
- b. concentration on multiple products
- c. concentration on multiple products for the total market
- d. selling to many geographical regions

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41. Preeti feels she has sufficient capital to start her business and is thinking about what other resources or information she needs to minimize the risk of failure. Which key start-up question is Preeti addressing?

- a. What are the different start-up ideas you might consider?
- b. What could you do to increase your chances that the start-up business will be successful?
- c. How can you identify a genuine opportunity that promises attractive financial rewards?
- d. What competitive advantage could your business have over its rivals?

42. Christine knows her idea for a new business will become popular. She plans to continually introduce new products to stay ahead of other businesses that try to sell to her customers? Which key start-up question is Christine addressing?

- a. What are the different start-up ideas you might consider?
- b. What are some sources for additional new business ideas?
- c. How can you identify a genuine opportunity that promises attractive financial rewards?
- d. What competitive advantage could your business have over its rivals?

43. Kyle plans to open a delicatessen in Halifax featuring new desserts that he first tasted during a vacation to Italy. What is Kyle's start-up idea based on?

- a. new product idea
- b. new business idea
- c. new customer idea
- d. new market idea

44. A cardiologist creates a device that attaches to a smart phone to provide real-time information to a patient's doctor. The product outsells all other monitoring devices. Which factor most contributes to the competitive advantage of this product?

- a. price/value
- b. unique service features
- c. customer service
- d. accessibility

45. Which of Michael Porter's five forces concerns customers having the ability to turn to other products to replace those that the industry offers?

- a. threat of new competitors
- b. bargaining power of suppliers
- c. threat of substitute products
- d. bargaining power of buyers

46. Rohan believes his company's line of mp3 players will sell equally well to middle-aged males and females, adults in their 20s and 30s, and teenagers as long as the promotions are targeted properly to each group. What type of strategy is Rohan following?

- a. multisegmentation
- b. single-segmentation
- c. niche
- d. target market

47. Which component of a SWOT analysis is "lack of management skills or experience"?

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- a. strengths
- b. weaknesses
- c. opportunities
- d. threats

48. What are the crucial capabilities that distinguish a company competitively and reflects its general focus and personality?

- a. tactical advantage
- b. strategic competency
- c. competitive advantage
- d. core competencies

49. A new cyber security firm launches a product that large organizations adapt into their system because of its superior protection against attacks from hackers. What exists in this company to cause organizations to purchase its product?

- a. tactical advantage
- b. strategic competency
- c. competitive advantage
- d. core competencies

50. Jorge knew it was just a matter of time before competition emerged in the area of his business. What must Jorge do in order to maintain a competitive advantage?

- a. focus mainly on the organization's microenvironment
- b. continually ignore the company's external environment
- c. continually upgrade the company's organizational capabilities
- d. focus mainly on the organization's core competencies

51. Which trend is "cloud" computing related to?

- a. economic
- b. sociocultural
- c. technological
- d. demographic

52. Folding bed sheets with elastic corners was difficult for Rose. She created a tool to help keep the corners straight. This tool worked so well she developed a web business to sell it on the Internet. What was the source of Rose's new business idea?

- a. personal experience
- b. hobby and personal interests
- c. accidental discovery
- d. deliberate new business search

53. With the decline in elementary school student population, Elizabeth created a business to convert excess portable space into private storage. Which trend is this related to?

- a. economic
- b. sociocultural

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- c. technological
- d. demographic

54. The decline in the value of the Canadian dollar has helped Antonio's Ottawa business increase exports to the US. Which trend is this related to?

- a. economic
- b. sociocultural
- c. political legal
- d. global

55. Which example shows an idea for a new start-up coming from a hobby?

- a. a coin collector who bought and sold coins for years to build a personal collection decides to become a coin dealer
- b. a furniture salesperson sees the possibility of opening a new furniture store in a different area of the city
- c. a sharpshooter who shot holes in a pair of her boyfriend's jeans during an argument hears him receive compliments on the way they look
- d. a chemist who accidentally mixes potassium with hydrogen to create an explosive reaction used in fireworks

56. Carey's mobile home health care business, which delivers products to the elderly, is thriving. What competitive advantage is this an example of?

- a. price/value
- b. unique service features
- c. customer service
- d. accessibility

57. Nicholas is unsure of the kind of business to start. He wonders if the Internet, business magazines, or talking to professionals would be the best way to start. Which key start-up question is Nicholas addressing?

- a. What are the different start-up ideas you might consider?
- b. What are some sources for additional new business ideas?
- c. How can you identify a genuine opportunity that promises attractive financial rewards?
- d. What competitive advantage could your business have over its rivals?

58. Carey performed an analysis of his skills. He identified presentation skills as one of his attributes and developed a business to teach others how to present effectively. Which approach did Carey use to identify his business idea?

- a. looking outside-in
- b. looking outside-out
- c. looking inside-out
- d. looking inside-in

59. Which environment is narrowly defined and has the combined forces that directly affect a given firm and all of its relevant competitors?

- a. general
- b. industry
- c. market

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d. global

60. Josh has investors very excited about his new approach to cyber security that virtually eliminates all outside threats from system viruses or identity theft. What is Josh's new business idea based on?

- a. new technology idea
- b. new benefit idea
- c. new process idea
- d. new service idea

61. Which environment is very broad and includes factors that affect all businesses in society?

- a. general
- b. industry
- c. market
- d. global

62. After the United States increased the duty on wax candles being sold from Asia into America, Joy focused more on Canada to sell her imported candles. Which trend is this related to?

- a. economic
- b. sociocultural
- c. political legal
- d. global

63. According to Michael Porter, when can a focus strategy erode?

- a. when the strategy is unique
- b. when the target segment's differences from other segments widen
- c. when new firms subsegment the industry
- d. when demand increases and the segment becomes attractive

64. Which of the following is an intangible organizational resource?

- a. plants and equipment
- b. borrowing capacity
- c. patents and copyrights
- d. cash reserves

65. Jack wants customers that purchase from his chain of hardware stores to feel they received the best value possible. To accomplish this Jack continually negotiates the best arrangements possible with his suppliers. Which competitive advantage strategy is Jack most focused on?

- a. customer service
- b. cost-based
- c. differentiation
- d. premium product

66. Pat's back problems forced him to change his truck driving career. He reviewed business magazines and business sites and eventually purchased a truck wash business. What was the source of Pat's new business idea?

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- a. personal experience
- b. hobby and personal interests
- c. accidental discovery
- d. deliberate new business search

67. Parmeet found that her first-year college students were less and less prepared to be academically successful. Using her teaching experience she created a business to provide weekend camps for students to become more prepared for their postsecondary education. Which approach did Parmeet use to identify her business idea?

- a. looking outside-in
- b. looking outside-out
- c. looking inside-out
- d. looking inside-in

68. When China opens its doors to foreign suppliers Katie's engineering firm was able to secure contracts to help build infrastructure in Chinese cities. Which trend is this related to?

- a. economic
- b. sociocultural
- c. political legal
- d. global

69. By selecting a particular market niche, an entrepreneur decides on the basic direction of the firm—a choice that affects the very nature of the business. What kind of decision is this?

- a. market-based
- b. tactical
- c. strategic
- d. focus-based

70. Kayla is evaluating new business ideas to determine which have the greatest potential to provide the level of profits needed to enable her to live a lavish lifestyle. Which key start-up question is Kayla addressing?

- a. What are the different start-up ideas you might consider?
- b. What are some sources for additional new business ideas?
- c. How can you identify a genuine opportunity that promises attractive financial rewards?
- d. What competitive advantage could your business have over its rivals?

71. Harveer is starting a business to sell a product she feels will make fastening loads to truck beds more efficient. What is Harveer's new business idea based on?

- a. new technology idea
- b. new benefit idea
- c. new process idea
- d. new service idea

72. Elle loves to cycle between small towns in Northern Ontario. This inspired her to use her own maps of safe cycling roads to create an Internet subscription business for other cycling enthusiasts. What was the source of Elle's new business idea?

- a. personal experience

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- b. hobbies and personal interests
- c. accidental discovery
- d. deliberate new business search

73. George is fearful of a new company he sees at a tradeshow that is selling a similar product that his company currently distributes but at a much better price. Which component of SWOT is causing concern for George?

- a. strengths
- b. weaknesses
- c. opportunities
- d. threats

74. Which component of a SWOT analysis is “a strong network of personal contacts”?

- a. strengths
- b. weaknesses
- c. opportunities
- d. threats

75. Which idea for a new start-up comes from an accidental discovery?

- a. a coin collector who learns the value of his collection and decides to sell some at coin fairs
- b. a salesperson who likes the bamboo chairs he sees while on vacation and opens his own furniture store selling bamboo-style furniture
- c. a sharpshooter who shoots holes in a pair of her boyfriend’s jeans during an argument and then hears him receive compliments on the way they look
- d. a chef who finds his mother’s old recipes and decides to write a cookbook based on them

76. Which strategy focuses on one market even when many markets exist?

- a. multisegmentation
- b. unsegmented
- c. marketing mix
- d. single-segmentation

77. Jennifer is selling a line of sterling silver jewellery at the college she attends. Jennifer is identifying pieces that she can market most effectively to females in their 20s, females over 30, and males. What is Jennifer doing?

- a. market differentiation
- b. market niching
- c. market segmentation
- d. market research

78. George’s company has sold a line of nature paperweights specifically targeted at middle-aged women who like to collect decorative items with natural themes. Sales have been declining steadily as market segments are increasingly sharing similar needs and desires. What is the most likely reason for this decline in sales?

- a. The firm has a unique focus strategy.
- b. The differences across segments are narrowing.
- c. New firms are having difficulty entering the industry.

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- d. Employees are learning unique skills.

79. A company raises its prices and customers have no choice but to pay because there are no other substitute products. Which of Michael Porter's competitive forces is this an example of?

- a. threat of new competitors
- b. bargaining power of buyers
- c. bargaining power of suppliers
- d. threat of substitute products

80. What is the most productive source of start-up ideas?

- a. prior work experience
- b. personal interests and hobbies
- c. chance happening
- d. deliberate search

81. Smaller family sizes made Jim change his used vehicle business to sell fewer minivans and promote more crossovers and sedans. Which trend is this related to?

- a. economic
- b. sociocultural
- c. political legal
- d. global

82. How is niche marketing best described?

- a. an attempt to compete directly with industry giants
- b. a domestic marketing strategy
- c. a strategy focused on a specific target market
- d. a plan to improve on a product sold to mass markets

83. Which of the following is a part of inside-out analysis?

- a. competitive analysis
- b. intangible resources
- c. technological changes
- d. demographic trends

84. What strategy is used to implement niche marketing?

- a. selling to a mass market
- b. extending product features to sell to more geographical regions
- c. emphasizing a multi-product or service
- d. concentrating on the superiority of the product or service

85. Paul became distracted while barbecuing ribs. Although the ribs dried out he found the sauce had a delightful flavour. He added a few spices and now markets this new sauce to grocery stores. What was the source of Paul's new business idea?

- a. personal experience

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- b. hobby and personal interests
- c. accidental discovery
- d. deliberate new business search

86. Juanita wants to sell the best experience in travel to her clients. She wants them to feel that no other travel company could take care of all their needs as well. For this Juanita builds in a large margin of profit. Which competitive advantage strategy does Juanita use?

- a. customer service
- b. cost-based
- c. differentiation
- d. premium product

87. Jennifer can't wait to start her business. The excitement of running her own enterprise and the risks of failure are both thrilling to her. What is Jennifer experiencing?

- a. start-up fever
- b. start-up anxiety
- c. start-up rush
- d. start-up apprehension

88. Describe two reasons why the single-segmentation approach is probably the wisest strategy for small businesses to use during initial marketing efforts.

89. What are the two principal broad-based strategies that lead to competitive advantages? Briefly explain each.

90. List the five factors that determine the nature and degree of competition in an industry, as presented by Michael Porter in his book *Competitive Advantage*.

91. Though a number of paths can lead to competitive advantage, some of the more common ones include distinctions based on five core elements. Name these elements and provide one example of each of them.

92. Compare the different approaches to deliberate search for new venture ideas.

93. Briefly define each of the following terms:

- a. Market segmentation
- b. Multisegmentation strategy
- c. Single-segmentation strategy

94. The general environment contains a number of important trends. Describe each of these.

95. Explain the process of organizational assessment.

96. Compare prior work experience with accidental discovery and deliberate search as a source of start-up ideas.

97. What marketing activities suggest that a small firm is following a niche market segmentation strategy?

98. Why does it become necessary for some entrepreneurs to "pivot" at some point after start-up?

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99. Describe start-ups that are based on new technology ideas.

100. Define and briefly explain sustainable competitive advantage.

101. What four conditions can erode a segmented market according to Michael Porter in his book, *Competitive Advantage*?

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Answer Key

1. True
2. True
3. True
4. True
5. True
6. True
7. True
8. True
9. True
10. False
11. True
12. True
13. True
14. True
15. False
16. True
17. False
18. False
19. True
20. True
21. True
22. True
23. True
24. True

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25. True

26. False

27. True

28. False

29. True

30. True

31. True

32. False

33. False

34. True

35. False

36. True

37. False

38. True

39. True

40. a

41. b

42. d

43. d

44. b

45. c

46. a

47. b

48. d

49. c

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50. c

51. c

52. a

53. d

54. a

55. a

56. d

57. b

58. c

59. b

60. a

61. a

62. c

63. c

64. c

65. b

66. d

67. a

68. d

69. c

70. c

71. b

72. b

73. d

74. a

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75. c

76. d

77. c

78. b

79. c

80. a

81. b

82. c

83. b

84. d

85. c

86. c

87. a

88. A small business may have limited resources, and the single-segmentation approach allows it to specialize and focus on one segment it to make better use of its limited resources.

89. *Cost-based strategy* requires a firm to be the lowest-cost producer within the market. The sources of cost advantage are quite varied, ranging from low-cost labour to efficiency in operations. Compared to other strategies, however, competing on cost may be the least sustainable advantage. Competitors may respond by finding ways to lower their costs and create conditions for a price war. Many entrepreneurs and business owners assume that cost-based strategies work only for large corporations; however, cost-advantage factors are so numerous and varied that, in many cases, small business may actually be able to use them with greater success. Calgary-based WestJet, which began flying in 1996, is an example of this.

Differentiation-based strategy is the second general option for building a competitive advantage. It is an approach that requires differentiation of a firm's product or service along some dimension other than cost. A firm that can create and sustain an attractive differential position will be a successful performer in the marketplace. The consumer must be convinced of the uniqueness and desirability of the product or service—whether real or perceived—if the strategy is to be effective. A wide variety of operation and marketing tactics, ranging from promotion to product design, lead to product or service differentiation. Students may cite the example from the textbook of the Winnipeg-based Arctic Group.

90. · The threat of new competitors
· The threat of substitutes
· The bargaining power of buyers
· The bargaining power of suppliers
· The rivalry among existing competitors

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91. The student should reply:

- Price/value, citing one of the examples within the textbook such as Sibson Canada or Winnipeg's Corydon Hardware
- Unique service features, citing the example of GroceryGateway.com of Toronto
- Notable product attributes, citing the example of Buckley's cough syrup
- Customer service, citing the example of Canadian Tire Corporation
- Accessibility, citing the example of Greg Brophy and his mobile document shredding company

92. Entrepreneurs can begin by either evaluating their own abilities and ideas—a production-oriented approach—or assessing market needs or opportunities—a marketing-oriented approach. Either approach can produce viable new venture ideas, but students should note that venture capitalists typically like ideas that have a known market demand.

93.

- a. Market segmentation: division of a market into several smaller groups with similar needs or buying behaviour
- b. Multisegmentation strategy: recognizing individual market segments with different preferences and developing a unique marketing mix for each segment
- c. Single-segmentation strategy: recognizing that several distinct market segments exist but choosing to concentrate on reaching only one segment (usually the most profitable)

94. The student should describe each of the following:

- Economic trends: changes to the rate of inflation, interest rates, and currency exchange rates
- Sociocultural trends: societal changes that may affect consumer demand, opening up new markets and forcing others to decline
- Political/legal trends: changes in government relations that may pose a threat to existing companies or devastate an inventive business concept
- Global trends: international developments that create new opportunities to expand markets

95. This is the assessment of the strengths and weaknesses of a firm. Students need to look at both organizational resources and organizational capabilities.

- Organizational resources, which are basic inputs that the firm uses to conduct its business such as capital, technology equipment, and employees. They are both tangible and intangible resources.
- Tangible resources, which are organizational resources that are visible and easy to measure such as cash reserves and the firm's borrowing capacity.
- Intangible resources, which are organizational resources that are invisible and difficult to quantify such as property rights, patents, brand recognition, and the firm's reputation.
- Organizational capabilities, which are what a company can deliver when the resources are gathered together and deployed to the firm's advantage.

96. Prior work experience is probably the most prolific source of start-up ideas. It produces ideas that are related to the individual's skills and knowledge. Accidental discovery (serendipity), on the other hand, is like lightning—it may strike at any time and be totally unrelated to the individual's background. Deliberate search has the potential for producing ideas of many kinds and escapes the limitations inherent in relying on prior work experiences for inspiration.

97. · Restricting focus to a single market segment

- Concentrating on the superiority of the product or service
- Limiting sales to a single geographical region
- Emphasizing a single product or service

98. Some entrepreneurs have to pivot or refocus the start-up if it is becoming clear that there are flaws in the original concept.

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99. Start-ups based on new technology ideas involve new knowledge or technology breakthroughs. The present higher risk since there is not necessarily a model or previous success to follow but they can offer tremendous potential. The technology would need to be unique, better than what others currently offer, feasible to implement, and focus on a market need that is deep enough to generate sufficient sales.

100. Sustainable competitive advantage is an established, value-creating industry position which is likely to endure over time. No competitive advantage lasts forever. Recent research has emphasized the importance of establishing a sustainable competitive advantage, a value-creating industry position that is likely to endure over time. From the beginning, the entrepreneur should plan sustainability into strategy by leveraging unique capabilities of the firm in a way that competitors will find difficult to imitate. However, the entrepreneur must recognize that rivals will sooner or later discover a way to duplicate any value-creating strategy. Therefore, it is also important to think of new ways to invest performance outcomes so that the basis of competitive advantage can be renewed over the long run. Competitive advantage clearly has a life cycle. Building a competitive advantage generally requires commitment of considerable resources, a well-planned effort that will lead to a performance payoff. In order for a firm to maintain performance over time, it is essential that the business owner be forward-thinking.

101. 1. The focus strategy is imitated.

2. The target segment becomes structurally unattractive because of erosion of the structure or because demand simply disappears.

3. The target segment's differences from other segments narrow.

4. New firms subsegment the industry.