

Chapter 02

Analyzing the External Environment of the Firm

True / False Questions

1. Environmental scanning and competitor intelligence provide important inputs for forecasting activities.

True False
2. A hard trend is something that might happen and for which the probability that it might happen can be estimated.

True False
3. A soft trend is a projection based on measureable facts, events, or objects. It is something that will happen.

True False
4. The aging of the population is a hard trend.

True False
5. A number of choices government officials make are based on projections about future interest rates. The projections are soft trends.

True False
6. Environmental monitoring deals with tracking changes in environmental trends that are often uncovered during the environmental scanning process.

True False
7. Competitor Intelligence (CI) is a tool that can provide management with early warnings about both threats and opportunities.

True False

8. Competitive intelligence generally does not benefit very much from gathering information on competitors from sources in the public domain.
- True False
9. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.
- True False
10. Scenario planning is usually concerned with short-term forecasts.
- True False
11. The strengths and weaknesses of a SWOT analysis refer to the external conditions of the firm.
- True False
12. The opportunities and threats of a SWOT analysis refer to the internal conditions of the firm.
- True False
13. To understand the business environment of a particular firm, you need to analyze both the general environment and the firm industry and competitive environment.
- True False
14. Although changes in the general environment may often adversely or favorably impact a firm, they seldom alter an entire industry.
- True False
15. The impact of a demographic trend varies across industries.
- True False
16. A major sociocultural trend in the United States is the increased educational attainment by women.
- True False
17. Technological innovations can create entirely new industries and alter the boundaries of industries.
- True False

18. There is generally a weak relationship between equity markets (e.g., New York Stock Exchange) and economic indicators.

True False

19. The Internet is a leading component in the rising emergence of digital technology.

True False

20. Crowdsourcing is used by companies to develop products.

True False

21. The Porter Five-Forces model is designed to help us understand how social attitudes and cultural values impact U.S. businesses.

True False

22. The five-forces model helps to determine both the nature of competition in an industry and the profit potential for the industry.

True False

23. In some industries, high switching costs can act as an important barrier to entry.

True False

24. Industries characterized by high economies of scale typically attract fewer new entrants.

True False

25. The power of a buyer group is increased if the buyer group has less concentration than the supplier group.

True False

26. Buyer power tends to be higher if suppliers provide undifferentiated or standard products.

True False

27. Supplier power tends to be highest in industries where products are vital to buyers, where switching from one supplier to another is very costly, and where there are many suppliers.

True False

28. The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration.

True False

29. The more attractive the price/performance ratio of substitute products, the tighter it constrains the ability of an industry to charge high prices.

True False

30. Rivalry is most intense when there are high exit barriers and high industry growth.

True False

31. Rivalry will be most intense when there is a lack of differentiation or switching costs.

True False

32. In most industries, new entrants will be a bigger threat because the Internet lowers entry barriers.

True False

33. The Internet and digital technologies suppress the bargaining power of buyers by providing them with more information to make buying decisions.

True False

34. Switching costs for an end user are likely to be much higher because of the Internet.

True False

35. Because of the Internet and digital technologies, it is very difficult for suppliers to create purchasing techniques that lower switching costs.

True False

36. Reintermediation is responsible for an overall reduction in business opportunities.

True False

37. The Internet heightens the threat of substitutes because it creates new ways to accomplish the same task.

True False

38. Five-Forces analysis implicitly assumes a zero-sum game, a perspective that can be short-sighted.

True False

39. Michael Porter's Five-Forces Analysis is a dynamic tool for analyzing industry attractiveness.

True False

40. Complement products typically have no impact on the value of products and services of the firm.

True False

41. Competition tends to be more intense among firms within a strategic group than between strategic groups.

True False

42. The same environmental trend or event may have a very different impact on different strategic groups within the same industry.

True False

43. The use of the strategic group concept is generally not helpful in charting the future directions of the strategies of a firm.

True False

44. The strategic groups in the worldwide automobile industry have been very stable and unchanging in recent years.

True False

Multiple Choice Questions

45. Two of the key inputs to developing forecasts discussed in the text are:

- A. environmental scanning and stakeholder identification.
- B. environmental scanning and competitor intelligence.
- C. assessing internal strengths and environmental scanning.
- D. environmental scanning and a SWOT analysis.

46. _____ tracks the evolution of environmental trends, sequences of events, or streams of activities.

- A. Environmental scanning
- B. Environmental monitoring
- C. Environmental surveying
- D. Competitive intelligence

47. Taking advantage of the increasing penetration of personal computers in American homes, the Mayo Clinic transformed itself as a provider of health-related knowledge and expertise. It took advantage of the _____ trends of the _____ in the prices of PCs and the _____ presence of PCs in virtually every home in the U.S.
- A. soft; increase; increasing
 - B. soft; decrease; decreasing
 - C. hard; decrease; decreasing
 - D. hard; decrease; increasing
48. Scanning the general environment would identify information on _____.
- A. substitute goods
 - B. the aging population and ethnic shifts
 - C. customer and firm bargaining power
 - D. competitive rivalry
49. Which of the following is not an example of corporate competitive analysis?
- A. Banks tracking home loans
 - B. Airlines changing hundreds of fares daily in response to competitor tactics
 - C. Car manufacturers offering sales incentives based on rival offers
 - D. Consumers comparing product offers online
50. Gathering competitive intelligence _____.
- A. is good business practice
 - B. is illegal
 - C. is considered unethical
 - D. minimizes the need to obtain information in the public domain
51. Environmental forecasting does not involve plausible projections about the _____ of environmental change.
- A. direction
 - B. scope
 - C. speed
 - D. lack of intensity

52. A danger of forecasting discussed in the text is that _____.
- A. in most cases, the expense of collecting the necessary data exceeds the benefit
 - B. the retrospective nature of forecasting provides little information about the future
 - C. managers may view uncertainty as black and white while ignoring important gray areas
 - D. it can create legal problems for the firm if regulators discover the company is making forecasts
53. PPG Industries, the Pittsburgh-based manufacturer of paints, coatings, optical products, specialty materials, chemicals, glass, and fiber glass suffered serious failures in 1986 and 1987 when it attempted to diversify its offers. It used a technique to help it identify possible future strategies. What was it?
- A. crowdsourcing
 - B. scenario analysis
 - C. competitive intelligence
 - D. monitoring
54. SWOT analysis is a framework for analyzing the internal and external environment of a company. It consists of strengths, weaknesses, opportunities, and threats. According to a SWOT analysis, which of the following is not an aspect that the strategy of the firm must follow?
- A. build on its weaknesses
 - B. remedy the weaknesses or work around them
 - C. take advantage of the opportunities presented by the environment
 - D. protect the firm from the threats
55. The aging of the population, changes in ethnic composition, and effects of the baby boom are _____.
- A. macroeconomic changes
 - B. demographic changes
 - C. global changes
 - D. sociocultural changes

56. Larger numbers of women entering the work force since the early 1970s is an example of _____.
- A. demographic changes
 - B. political and legal environmental changes
 - C. sociocultural changes
 - D. technological developments
57. Emerging sociocultural changes in the environment include _____.
- A. changes in the ethnic composition
 - B. the increasing educational attainment of women in the past decade
 - C. progressively less disposable income by consumers
 - D. changes in the geographic distribution of the population
58. All of the following are important elements of the political/legal segment of the general environment EXCEPT:
- A. the deregulation of utilities
 - B. the Americans with Disabilities Act (ADA)
 - C. the increased use of Internet technology
 - D. increases in the federally mandated minimum wage
59. Which of the following would be considered part of a firm's general environment?
- A. decreased entry barriers
 - B. higher unemployment rates
 - C. increased bargaining power of the firm's suppliers
 - D. increased competitive intensity
60. Interest-rate increases have a _____ impact on the residential home construction industry and a _____ effect on industries that produce consumer necessities such as prescription drugs or basic grocery items.
- A. positive; negligible
 - B. negative; negligible
 - C. negative; positive
 - D. positive; negative

61. In the general environment, many relationships exist among the various elements. General environmental trends can have positive and negative impacts on various industries. For example, the aging population might have a _____ impact on the health care industry and a _____ impact on the baby product industry. These are called _____ impacts.
- A. negative; positive; demographic
 - B. positive; negative; technological
 - C. negative; positive; sociocultural
 - D. positive; negative; demographic
62. Which is considered a force in the Five-Forces model?
- A. increased deregulation in an industry
 - B. the threat of government intervention
 - C. rivalry among competing firms
 - D. recent technological innovation
63. Which of the following firms would likely pose the least competitive threat?
- A. a firm in the same industry and in the same strategic group
 - B. a firm that produces substitute goods to your product line
 - C. a competitor to your product where a high switching cost exists
 - D. a firm in the same industry and in the nearest strategic group looking to join your group
64. The threat of new entrants is high when there are _____.
- A. low economies of scale
 - B. high capital requirements
 - C. high switching costs
 - D. high differentiation among competitors products and services
65. Product differentiation by incumbents act as an entry barrier because _____.
- A. new entrants cannot differentiate their products
 - B. incumbents will take legal action if new entrants do not differentiate their products
 - C. new entrants will have to spend heavily to overcome existing customer loyalties
 - D. it helps a firm to derive greater economies of scale

66. Which of the following would be an entry barrier?
- A. large economies of scale
 - B. low switching costs
 - C. easy access to raw materials
 - D. low capital requirements
67. An automobile manufacturer acquires a rental car company. This is an example of ____.
- A. backward integration
 - B. economies of scale
 - C. forward integration
 - D. product differentiation
68. The bargaining power of the buyer is greater than that of the supplier when ____.
- A. volume of purchase is low
 - B. threat of backward integration by buyers is low
 - C. cost savings from the supplier's product are minimal
 - D. the buyer's profit margin is low
69. Buyer power will be greater when ____.
- A. the products purchased are highly differentiated
 - B. there are high switching costs
 - C. the industry product is very important to the quality of the buyer end products or services
 - D. it is concentrated or when a buyer group purchases large volumes relative to seller sales
70. The bargaining power of suppliers increases as ____.
- A. more suppliers enter the market
 - B. importance of buyers to supplier group increases
 - C. switching costs for buyers decrease
 - D. threat of forward integration by suppliers increases

71. New communication technology can impact seemingly unrelated industries such as the airline industry. This would be an example of a _____.
- A. threat of entry
 - B. backward integration
 - C. forward integration
 - D. threat of substitute products
72. The bargaining power of suppliers is enhanced under the following market condition:
- A. no threat of forward integration
 - B. low differentiation of the supplier products
 - C. greater availability of substitute products
 - D. dominance by a few suppliers
73. In the Five-Forces model, conditions under which a supplier group can be powerful include all the following EXCEPT:
- A. lack of importance of the buyer to the supplier group
 - B. high differentiation by the supplier
 - C. dominance by a few suppliers
 - D. readily available substitute products
74. A supplier group would be most powerful when _____.
- A. there are many suppliers
 - B. there are few substitute products
 - C. there is a low differentiation of products supplied
 - D. there is a high threat of backward integration by the buyers
75. Threat of substitute products comes from _____.
- A. other companies in the same industry
 - B. foreign companies which can use cheap labor in their countries
 - C. firms in other industries that produce products or services that satisfy the same customer need
 - D. new companies in the same industry

76. Firms would be most likely to face intense rivalry with competitors when they _____.

- A. are in a high growth industry with low fixed costs
- B. are in a protected market
- C. have high fixed costs
- D. have low exit barriers for easy transition to another industry

77. The most intense rivalry results from _____.

- A. numerous equally balanced competitors, slow industry growth, high fixed or storage costs
- B. few competitors, slow industry growth, lack of differentiation, high fixed or storage costs
- C. numerous equally balanced competitors, manufacturing capacity increases only in large increments, low exit barriers
- D. a high level of differentiation

78. Exit barriers do not arise from _____.

- A. specialized assets with no alternative use
- B. governmental and social pressures
- C. strategic interrelationships with other business units within the same company
- D. flexible costs of exit

79. Because the Internet lowers barriers to entry in most industries, it _____.

- A. decreases the threat of new entrants
- B. increases the threat of new entrants
- C. makes it easier to build customer loyalty
- D. increases supplier power

80. End users are not _____.

- A. the final consumers in a distribution channel
- B. usually the C in B2C
- C. likely to have greater bargaining power because of the Internet
- D. the first customers in a distribution channel

81. Incumbent firms may enjoy increased bargaining power because the Internet _____.
- A. focuses marketing efforts on end users
 - B. diminishes the power of many distribution channel intermediaries
 - C. increases channel conflict
 - D. has reduced the number of wholesalers and distributors
82. Supplier power has increased because of the Internet for all of the following reasons EXCEPT:
- A. the growth of new Web-based businesses has created more outlets for suppliers to sell to
 - B. some suppliers have created Web-based purchasing systems that encourage switching
 - C. the process of disintermediation makes it possible for some suppliers to reach end users directly
 - D. software that links buyers to a supplier's website has created rapid, low-cost order capabilities
83. In general, the threat of substitutes is heightened because the Internet _____.
- A. introduces new ways to accomplish the same task
 - B. lowers switching costs
 - C. lowers barriers to entry
 - D. increases output per unit of cost
84. How do infomediaries and consumer information websites increase the intensity of competitive rivalry?
- A. by shifting customers away from issues of price
 - B. by making competitors in cyberspace seem less equally balanced
 - C. by consolidating the marketing message that consumers use to make a purchase decision to a few key pieces of information that the selling company has little control over
 - D. by highlighting unique selling advantages of a firm
85. The value net is a game-theoretic approach that _____.
- A. extends the value chain analysis
 - B. is a way to analyze all the players in a game and analyze how their interactions affect the ability of a firm to generate and appropriate value
 - C. helps us to understand the evolution of the five forces over time
 - D. uses network analysis to understand the relationships among different companies

86. In the value net analysis, complementors are _____.

- A. firms that produce substitute products
- B. customers who compliment the company for their good products and services
- C. firms that produce products or services that have a positive impact on the value of firm products or services
- D. firms that supply critical inputs to a company

87. Strategic groups consist of _____.

- A. a group of top executives that makes strategies for a company
- B. a group of firms within an industry that follows similar strategies
- C. a group of executives drawn from different companies within an industry that makes decisions on industry standards
- D. a group of firms within an industry that decides to collude rather than compete with each other so that they can increase their profits

88. Which of the following statements about strategic groups is FALSE?

- A. Two assumptions are made: (1) no two firms are totally different, (2) no two firms are exactly the same.
- B. Strategic groupings are of little help to a firm in assessing mobility barriers that protect a group from attacks by other groups.
- C. Strategic groups help chart the future directions of firm strategies.
- D. Strategic groups are helpful in thinking through the implications of each industry trend for the group as a whole.

Essay Questions

89. Explain how competitor intelligence can be improved by gathering information about competitors in the public domain. Provide examples.
90. Discuss some of the limitations of forecasting.
91. Discuss the six segments of the general environment. Provide examples of how they might be related.

92. Explain the important barriers to entry in an industry. Provide examples.

93. Discuss and provide examples of factors that would lead to greater buyer power.

94. What are some of the factors that would cause a supplier group to become powerful? Illustrate.

95. Several factors usually interact which result in intense rivalry among competitors. Explain.

96. Address how Internet and digital technologies affect the Porter five forces.

97. Explain how the value net analysis adds to the five-forces analysis. Be sure to include examples from at least two industries.

98. What value is the strategic group concept as a tool in analyzing an industry?
99. SWOT analysis is a basic technique for analyzing firm and industry conditions. Explain the relationship between the SWOT approach to evaluating the general environment, the industry of the firm, and the competitive environment.

Chapter 02 Analyzing the External Environment of the Firm **Answer Key**

True / False Questions

1. Environmental scanning and competitor intelligence provide important inputs for forecasting activities.

TRUE

Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-01 The importance of developing forecasts of the business environment.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

2. A hard trend is something that might happen and for which the probability that it might happen can be estimated.

FALSE

A soft trend is something that might happen and for which the probability that it might happen can be estimated.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-01 The importance of developing forecasts of the business environment.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

3. A soft trend is a projection based on measureable facts, events, or objects. It is something that will happen.

FALSE

A hard trend is a projection based on measureable facts, events, or objects. It is something that will happen.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-01 The importance of developing forecasts of the business environment.

4. The aging of the population is a hard trend.

TRUE

A hard trend is a projection based on measureable facts, events, or objects. It is something that will happen.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

5. A number of choices government officials make are based on projections about future interest rates. The projections are soft trends.

TRUE

A soft trend is something that might happen and for which the probability that it might happen can be estimated.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-01 The importance of developing forecasts of the business environment.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

6. Environmental monitoring deals with tracking changes in environmental trends that are often uncovered during the environmental scanning process.

TRUE

Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities.

AACSB: Analytic
Blooms: Remember
Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 1 Easy
Topic: Creating the Environmentally Aware Organization

7. Competitor Intelligence (CI) is a tool that can provide management with early warnings about both threats and opportunities.

TRUE

Competitive intelligence (CI) helps firms define and understand their industry and identify strengths and weaknesses of rivals. Done properly, competitive intelligence helps a company avoid surprises by anticipating competitor moves and decreasing response time.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

8. Competitive intelligence generally does not benefit very much from gathering information on competitors from sources in the public domain.

FALSE

Competitive intelligence is frequently done effectively through public sources of information. Examples are evident in daily newspapers and periodicals such as The Wall Street Journal, BusinessWeek, and Fortune. For example, banks continually track home loan, auto loan, and certificate of deposit (CD) interest rates charged by rivals. Major airlines change hundreds of fares daily in response to competitor tactics.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

9. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

FALSE

Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

10. Scenario planning is usually concerned with short-term forecasts.

FALSE

Scenario analysis is an in-depth approach to environmental forecasting that involves detailed assessments by experts of societal trends, economics, politics, technology, or other dimensions of the external environment.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

11. The strengths and weaknesses of a SWOT analysis refer to the external conditions of the firm.

FALSE

The Strengths and Weaknesses refer to the internal conditions of the firm in which a firm excels (strengths) and where it may be lacking relative to competitors (weaknesses).

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

12. The opportunities and threats of a SWOT analysis refer to the internal conditions of the firm.

FALSE

The Opportunities and Threats are environmental conditions external to the firm. These could be factors either in the general or competitive environment. In the general environment, one might experience developments beneficial for most companies such as improving economic conditions, that lower borrowing costs or trends that benefit some companies and harm others.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

13. To understand the business environment of a particular firm, you need to analyze both the general environment and the firm industry and competitive environment.

TRUE

Generally, firms compete with other firms in the same industry. An industry is composed of a set of firms that produce similar products or services, sell to similar customers, and use similar methods of production. Gathering industry information and understanding competitive dynamics among the different companies in your industry is key to successful strategic management. To understand the business environment of a particular firm, you need to analyze both the general environment and the firm industry and competitive environment.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

14. Although changes in the general environment may often adversely or favorably impact a firm, they seldom alter an entire industry.

FALSE

The general environment is composed of factors that can have dramatic effects on firm strategy.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

15. The impact of a demographic trend varies across industries.

TRUE

The impact of a demographic trend, like all segments of the general environment, varies across industries. Rising levels of affluence in many developed countries bode well for brokerage services as well as for upscale pets and supplies. However, this trend may adversely affect fast-food restaurants because people can afford to dine at higher-priced restaurants.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

16. A major sociocultural trend in the United States is the increased educational attainment by women.

TRUE

Increased educational attainment by women in the workplace has led to more women in upper management positions. Given such educational attainment, it is hardly surprising that companies owned by women have been one of the driving forces of the U.S. economy.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

17. Technological innovations can create entirely new industries and alter the boundaries of industries.

TRUE

Developments in technology lead to new products and services and improve how they are produced and delivered to the end user. Innovations can create entirely new industries and alter the boundaries of existing industries.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

18. There is generally a weak relationship between equity markets (e.g., New York Stock Exchange) and economic indicators.

FALSE

Economic indicators are associated with equity markets. When stock market indexes increase, consumer discretionary income rises and there is often an increased demand for luxury items such as jewelry and automobiles.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

19. The Internet is a leading component in the rising emergence of digital technology.

TRUE

The Internet has been a leading and highly visible component of a broader technological phenomenon—the emergence of digital technology. These technologies are altering the way business is conducted and are having an effect on nearly every business domain.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

20. Crowdsourcing is used by companies to develop products.

TRUE

In June 2006, Wired magazine defined crowdsourcing as the tapping of the latent talent of the (online) crowd. It has become the term of choice for a process that is infiltrating many aspects of business life and has claimed some well-known successes, particularly on the product development front.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

21. The Porter Five-Forces model is designed to help us understand how social attitudes and cultural values impact U.S. businesses.

FALSE

The five-forces model developed by Michael E. Porter has been the most commonly used analytical tool for examining the competitive environment. It describes the competitive environment in terms of five basic competitive forces.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

22. The five-forces model helps to determine both the nature of competition in an industry and the profit potential for the industry.

TRUE

The five-forces model developed by Michael E. Porter describes the competitive environment in terms of five basic competitive forces that affect the ability of a firm to compete in a given market. Together, they determine the profit potential for a particular industry.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

23. In some industries, high switching costs can act as an important barrier to entry.

TRUE

A barrier to entry is created by the existence of one-time costs that the buyer faces when switching from one supplier's product or service to another.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

24. Industries characterized by high economies of scale typically attract fewer new entrants.

TRUE

Economies of scale refers to spreading the costs of production over the number of units produced. The cost of a product per unit declines as the absolute volume per period increases. This deters entry by forcing the entrant to come in at a large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage. Both are undesirable options.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

25. The power of a buyer group is increased if the buyer group has less concentration than the supplier group.

FALSE

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales. If a large percentage of a supplier sales are purchased by a single buyer, the importance of the buyer business to the supplier increases.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

26. Buyer power tends to be higher if suppliers provide undifferentiated or standard products.

TRUE

A buyer group is powerful when the products it purchases from the industry are standard or undifferentiated. Confident they can always find alternative suppliers, buyers play one company against the other.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

27. Supplier power tends to be highest in industries where products are vital to buyers, where switching from one supplier to another is very costly, and where there are many suppliers.

FALSE

A supplier group will be powerful when the supplier group is dominated by a few companies, the supplier product is an important input to the buyer business, or the supplier has built up switching costs for the buyer.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

28. The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration. (p. 59)

TRUE

A supplier group will be powerful when the supplier group poses a credible threat of forward integration. This provides a check against the industry ability to improve the terms by which it purchases.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

29. The more attractive the price/performance ratio of substitute products, the tighter it constrains the ability of an industry to charge high prices.

TRUE

Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can charge profitably. The more attractive the price/performance ratio of substitute products, the tighter the lid will be on the profits of that industry.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

30. Rivalry is most intense when there are high exit barriers and high industry growth.

FALSE

Intense rivalry is the result of several interacting factors including: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, and high exit barriers.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

31. Rivalry will be most intense when there is a lack of differentiation or switching costs.

TRUE

Where the product or service is perceived as a commodity or near commodity, the buyer's choice is typically based on price and service, resulting in pressures for intense price and service competition. Lack of switching costs has the same effect.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

32. In most industries, new entrants will be a bigger threat because the Internet lowers entry barriers.

TRUE

In most industries, the threat of new entrants has increased because digital and Internet-based technologies lower barriers to entry. For example, businesses that reach customers primarily through the Internet may enjoy savings on other traditional expenses such as office rent, sales-force salaries, printing, and postage. This may encourage more entrants who, because of the lower start-up expenses, see an opportunity to capture market share by offering a product or performing a service more efficiently than existing competitors. Thus, a new cyber entrant can use the savings provided by the Internet to charge lower prices and compete on price despite the incumbent's scale advantages.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

33. The Internet and digital technologies suppress the bargaining power of buyers by providing them with more information to make buying decisions.

FALSE

The Internet and wireless technologies may increase buyer power by providing consumers with more information to make buying decisions and by lowering switching costs.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

34. Switching costs for an end user are likely to be much higher because of the Internet.

FALSE

Switching costs for an end user are also potentially much lower because of the Internet. Switching may involve only a few clicks of the mouse to find and view a competing product or service online.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

35. Because of the Internet and digital technologies, it is very difficult for suppliers to create purchasing techniques that lower switching costs.

FALSE

Suppliers may be able to create Web-based purchasing arrangements that make purchasing easier and discourage their customers from switching.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

36. Reintermediation is responsible for an overall reduction in business opportunities.

(p. 64)

FALSE

Just as the Internet is eliminating some business functions, it is creating an opening for new functions. These new activities are entering the value chain by a process known as reintermediation.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

37. The Internet heightens the threat of substitutes because it creates new ways to accomplish the same task.

TRUE

Along with traditional marketplaces, the Internet has created a new marketplace and channel. In general, the threat of substitutes is heightened, because the Internet introduces new ways to accomplish the same tasks.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

38. Five-Forces analysis implicitly assumes a zero-sum game, a perspective that can be short-sighted.
(p. 66)

TRUE

Five-forces analysis implicitly assumes a zero-sum game, determining how a firm can enhance its position relative to the forces. Yet such an approach can often be short-sighted. It can overlook the many potential benefits of developing constructive win-win relationships with suppliers and customers.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

39. Michael Porter's Five-Forces Analysis is a dynamic tool for analyzing industry attractiveness.

FALSE

The five-forces analysis also has been criticized for being essentially a static analysis. External forces as well as strategies of individual firms are continually changing the structure of all industries.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

40. Complement products typically have no impact on the value of products and services of the firm.

FALSE

Complements typically are products or services that have a potential impact on the value of products or services of the firm. Powerful hardware is of no value to a user, unless there is software that runs on it.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

41. Competition tends to be more intense among firms within a strategic group than between strategic groups.

TRUE

Strategic groups are clusters of firms that share similar strategies. Rivalry tends to be greater among firms that are alike.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

42. The same environmental trend or event may have a very different impact on different strategic groups within the same industry.

TRUE

Strategic groups are helpful in thinking through the implications of each industry trend for the strategic group as a whole. Such analysis can help in making predictions about industry evolution. A sharp increase in interest rates, for example, tends to have less impact on providers of higher-priced goods (e.g., Porsches) than on providers of lower-priced goods (e.g., Chevrolet Cobalt) whose customer base is much more price sensitive.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

43. The use of the strategic group concept is generally not helpful in charting the future directions of the strategies of a firm.

FALSE

Strategic groupings help chart the future directions of the strategies of a firm. Arrows emanating from each strategic group can represent the direction in which the group (or a firm within the group) seems to be moving. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

44. The strategic groups in the worldwide automobile industry have been very stable and unchanging in recent years.

FALSE

The auto market has been very dynamic and competition has intensified in recent years. Many firms in different strategic groups compete in the same product markets.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

Multiple Choice Questions

45. Two of the key inputs to developing forecasts discussed in the text are:

- A. environmental scanning and stakeholder identification.
- B. environmental scanning and competitor intelligence.**
- C. assessing internal strengths and environmental scanning.
- D. environmental scanning and a SWOT analysis.

Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-01 The importance of developing forecasts of the business environment.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

46. _____ tracks the evolution of environmental trends, sequences of events, or streams of activities.

- A. Environmental scanning
- B. Environmental monitoring**
- C. Environmental surveying
- D. Competitive intelligence

Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities. Monitoring enables firms to evaluate how dramatically environmental trends are changing the competitive landscape.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

47. Taking advantage of the increasing penetration of personal computers in American homes, the Mayo Clinic transformed itself as a provider of health-related knowledge and expertise. It took advantage of the _____ trends of the _____ in the prices of PCs and the _____ presence of PCs in virtually every home in the U.S.

A. soft; increase; increasing
B. soft; decrease; decreasing
C. hard; decrease; decreasing
D. hard; decrease; increasing

A hard trend is a projection based on measurable facts, events, or objects. It is something that will happen. The aging of the population is a hard trend. So is the increasing speed and decreasing cost of computers.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

48. Scanning the general environment would identify information on _____.

A. substitute goods
B. the aging population and ethnic shifts
C. customer and firm bargaining power
D. competitive rivalry

Environmental scanning involves surveillance of the external environment of a firm to predict environmental changes and detect changes already under way. This alerts the organization to critical trends and events before changes develop a discernible pattern and before competitors recognize them.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

49. Which of the following is not an example of corporate competitive analysis?

- A. Banks tracking home loans
- B. Airlines changing hundreds of fares daily in response to competitor tactics
- C. Car manufacturers offering sales incentives based on rival offers
- D. Consumers comparing product offers online**

Corporate competitive intelligence is the activity of collecting and interpreting data on competitors, defining and understanding the industry, and identifying competitor strengths and weaknesses in order to avoid surprises by anticipating competitor moves and decreasing response time.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

50. Gathering competitive intelligence _____.

- A. is good business practice**
- B. is illegal
- C. is considered unethical
- D. minimizes the need to obtain information in the public domain

Competitive intelligence (CI) helps firms define and understand their industry and identify strengths and weaknesses of rivals. This includes the intelligence gathering associated with collecting data on competitors and interpreting such data.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

51. Environmental forecasting does not involve plausible projections about the _____ of environmental change.

A. direction
B. scope
C. speed
D. lack of intensity

Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 1 Easy

Topic: Creating the Environmentally Aware Organization

52. A danger of forecasting discussed in the text is that _____.

A. in most cases, the expense of collecting the necessary data exceeds the benefit
B. the retrospective nature of forecasting provides little information about the future
C. managers may view uncertainty as black and white while ignoring important gray areas
D. it can create legal problems for the firm if regulators discover the company is making forecasts

A danger of forecasting is that managers may view uncertainty as black and white and ignore important gray areas. The problem is that underestimating uncertainty can lead to strategies that neither defend against threats nor take advantage of opportunities.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

53. PPG Industries, the Pittsburgh-based manufacturer of paints, coatings, optical products, specialty materials, chemicals, glass, and fiber glass suffered serious failures in 1986 and 1987 when it attempted to diversify its offers. It used a technique to help it identify possible future strategies. What was it?

- A. crowdsourcing
- B. scenario analysis**
- C. competitive intelligence
- D. monitoring

Scenario analysis is a more in-depth approach to forecasting. It draws on a range of disciplines and interests, among them economics, psychology, sociology, and demographics. It usually begins with a discussion of participant thoughts on ways in which societal trends, economics, politics, and technology may affect an issue. Developing strategies based on possible future scenarios seems to be paying off for PPG Industries. The company currently boasts a return on equity of 19.1 percent and its stock has had a total return of over 43 percent over the most recent 52-week period.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

54. SWOT analysis is a framework for analyzing the internal and external environment of a company. It consists of strengths, weaknesses, opportunities, and threats. According to a SWOT analysis, which of the following is not an aspect that the strategy of the firm must follow?

- A.** build on its weaknesses
- B. remedy the weaknesses or work around them
- C. take advantage of the opportunities presented by the environment
- D. protect the firm from the threats

The general idea of SWOT analysis is that a firm's strategy must build on its strengths, remedy its weaknesses or work around them, take advantage of the opportunities presented by the environment, and protect the firm from the threats. Despite its apparent simplicity, the SWOT approach has been very popular. First, it forces managers to consider both internal and external factors simultaneously. Second, its emphasis on identifying opportunities and threats makes firms act proactively rather than reactively. Third, it raises awareness about the role of strategy in creating a match between the environmental conditions and the firm's internal strengths and weaknesses. Finally, its conceptual simplicity is achieved without sacrificing analytical rigor.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

55. The aging of the population, changes in ethnic composition, and effects of the baby boom are ____.

- A. macroeconomic changes
- B.** demographic changes
- C. global changes
- D. sociocultural changes

Demographics are genetic and observable characteristics of a population, including elements such as the aging population, rising or declining affluence, changes in ethnic composition, geographic distribution of the population, and disparities in income level.

AACSB: Analytic
Blooms: Remember

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 1 Easy

Topic: The General Environment

56. Larger numbers of women entering the work force since the early 1970s is an example of _____.

- A. demographic changes
- B. political and legal environmental changes
- C. sociocultural changes**
- D. technological developments

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include a higher percentage of women in the workforce.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

57. Emerging sociocultural changes in the environment include _____.

- A. changes in the ethnic composition
- B. the increasing educational attainment of women in the past decade**
- C. progressively less disposable income by consumers
- D. changes in the geographic distribution of the population

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include an increased educational attainment by women in the workplace.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

58. All of the following are important elements of the political/legal segment of the general environment EXCEPT:

- A. the deregulation of utilities
- B. the Americans with Disabilities Act (ADA)
- C. the increased use of Internet technology**
- D. increases in the federally mandated minimum wage

Political processes and legislation influence environmental regulations with which industries must comply. Some elements of the political/legal arena include the Americans with Disabilities Act (ADA) of 1990, deregulation of utilities, and increases in the federally mandated minimum wage.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

59. Which of the following would be considered part of a firm's general environment?

- A. decreased entry barriers
- B. higher unemployment rates**
- C. increased bargaining power of the firm's suppliers
- D. increased competitive intensity

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

60. Interest-rate increases have a _____ impact on the residential home construction industry and a _____ effect on industries that produce consumer necessities such as prescription drugs or basic grocery items.

- A. positive; negligible
- B. negative; negligible**
- C. negative; positive
- D. positive; negative

Interest-rate increases have a negative impact on the residential home construction industry but a negligible (or neutral) effect on industries that produce consumer necessities such as prescription drugs or common grocery items.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 2 Medium

Topic: The General Environment

61. In the general environment, many relationships exist among the various elements. General environmental trends can have positive and negative impacts on various industries. For example, the aging population might have a _____ impact on the health care industry and a _____ impact on the baby product industry. These are called _____ impacts.

- A. negative; positive; demographic
- B. positive; negative; technological**
- C. negative; positive; sociocultural
- D. positive; negative; demographic

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global. The aging population is a demographic trend that could positively affect the health care industry and negatively affect the baby product industry.

AACSB: Analytic

Blooms: Apply

Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.

Level of Difficulty: 3 Hard

Topic: The General Environment

62. Which is considered a force in the Five-Forces model?

- A. increased deregulation in an industry
- B. the threat of government intervention
- C. rivalry among competing firms**
- D. recent technological innovation

The five-forces model describes the competitive environment in terms of five basic competitive forces: the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products and services, and the intensity of rivalry among competitors in an industry.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

63. Which of the following firms would likely pose the least competitive threat?

- A. a firm in the same industry and in the same strategic group
- B. a firm that produces substitute goods to your product line
- C. a competitor to your product where a high switching cost exists**
- D. a firm in the same industry and in the nearest strategic group looking to join your group

The competitive threat of intense rivalry can result from lack of differentiation or switching costs. When switching costs are high, this threat is lowered.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

64. The threat of new entrants is high when there are _____.

- A. low economies of scale
- B. high capital requirements
- C. high switching costs
- D. high differentiation among competitors products and services

High entry barriers discourage new competitors. Among the major sources of entry barriers are economies of scale, product differentiation, capital requirements, and switching costs.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

65. Product differentiation by incumbents act as an entry barrier because _____.

- A. new entrants cannot differentiate their products
- B. incumbents will take legal action if new entrants do not differentiate their products
- C. new entrants will have to spend heavily to overcome existing customer loyalties
- D. it helps a firm to derive greater economies of scale

When existing competitors have strong brand identification and customer loyalty, differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

66. Which of the following would be an entry barrier?

- A. large economies of scale
- B. low switching costs
- C. easy access to raw materials
- D. low capital requirements

Among the major sources of entry barriers are economies of scale, product differentiation, capital requirements, switching costs, and access to raw materials and distribution channels.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

67. An automobile manufacturer acquires a rental car company. This is an example of _____.

- A. backward integration
- B. economies of scale
- C. forward integration
- D. product differentiation

An example of forward integration in the text is an automobile manufacturer acquiring a rental car company. In this case, the automobile manufacturer is a potential competitor who is using forward integration to increase marketplace power.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

68. The bargaining power of the buyer is greater than that of the supplier when _____.

- A. volume of purchase is low
- B. threat of backward integration by buyers is low
- C. cost savings from the supplier's product are minimal
- D.** the buyer's profit margin is low

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales, it earns low profits, or the buyers pose a credible threat of backward integration.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

69. Buyer power will be greater when _____.

- A. the products purchased are highly differentiated
- B. there are high switching costs
- C. the industry product is very important to the quality of the buyer end products or services
- D.** it is concentrated or when a buyer group purchases large volumes relative to seller sales

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales, the products it purchases from the industry are standard or undifferentiated, the buyer faces few switching costs, or the industry product is unimportant to the quality of the buyer products or services.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

70. The bargaining power of suppliers increases as _____.

- A. more suppliers enter the market
- B. importance of buyers to supplier group increases
- C. switching costs for buyers decrease
- D. threat of forward integration by suppliers increases**

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the industry is not an important customer of the supplier group; the supplier group's products are differentiated or it has built up switching costs for the buyer; or the supplier group poses a credible threat of forward integration.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

71. New communication technology can impact seemingly unrelated industries such as the airline industry. This would be an example of a _____.

- A. threat of entry
- B. backward integration
- C. forward integration
- D. threat of substitute products**

Identifying substitute products involves searching for other products or services that can perform the same function as the industry's offerings. This may lead a manager into businesses seemingly far removed from the industry. For example, the airline industry might not consider video cameras much of a threat. But as digital technology has improved and wireless and other forms of telecommunication have become more efficient, teleconferencing has become a viable substitute for business travel.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

72. The bargaining power of suppliers is enhanced under the following market condition:

- A. no threat of forward integration
- B. low differentiation of the supplier products
- C. greater availability of substitute products
- D. dominance by a few suppliers**

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the supplier group is not obliged to contend with substitute products for sale to the industry; the supplier group's products are differentiated or it has built up switching costs for the buyer; or the supplier group poses a credible threat of forward integration.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

73. In the Five-Forces model, conditions under which a supplier group can be powerful include all the following EXCEPT:

- A. lack of importance of the buyer to the supplier group
- B. high differentiation by the supplier
- C. dominance by a few suppliers
- D. readily available substitute products**

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the supplier group is not obliged to contend with substitute products for sale to the industry; the supplier group's products are differentiated or it has built up switching costs for the buyer; or the industry is not an important customer of the supplier group.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

74. A supplier group would be most powerful when _____.

- A. there are many suppliers
- B.** there are few substitute products
- C. there is a low differentiation of products supplied
- D. there is a high threat of backward integration by the buyers

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to; the supplier group is not obliged to contend with substitute products for sale to the industry; the supplier group products are differentiated or it has built up switching costs for the buyer; or the supplier group poses a credible threat of forward integration.

AACSB: Analytic
Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy
Topic: The Competitive Environment

75. Threat of substitute products comes from _____.

- A. other companies in the same industry
- B. foreign companies which can use cheap labor in their countries
- C.** firms in other industries that produce products or services that satisfy the same customer need
- D. new companies in the same industry

Substitute products are those products or services that can perform the same function as the industry offerings. They may be offered by businesses seemingly far removed from the industry.

AACSB: Analytic
Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy
Topic: The Competitive Environment

76. Firms would be most likely to face intense rivalry with competitors when they _____.

- A. are in a high growth industry with low fixed costs
- B. are in a protected market
- C. have high fixed costs**
- D. have low exit barriers for easy transition to another industry

Intense rivalry is the result of several interacting factors, including the following: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, or high exit barriers.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

77. The most intense rivalry results from _____.

- A. numerous equally balanced competitors, slow industry growth, high fixed or storage costs**
- B. few competitors, slow industry growth, lack of differentiation, high fixed or storage costs
- C. numerous equally balanced competitors, manufacturing capacity increases only in large increments, low exit barriers
- D. a high level of differentiation

Intense rivalry is the result of several interacting factors, including the following: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, or high exit barriers.

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

78. Exit barriers do not arise from _____.
(p. 60)

- A. specialized assets with no alternative use
- B. governmental and social pressures
- C. strategic interrelationships with other business units within the same company
- D. flexible costs of exit**

Exit barriers are economic, strategic, and emotional factors that keep firms competing even though they may be earning low or negative returns on their investments. Some exit barriers are specialized assets, fixed costs of exit, strategic interrelationships (e.g., relationships between the business units and others within a company in terms of image, marketing, shared facilities, and so on), emotional barriers, and government and social pressures (e.g., governmental discouragement of exit out of concern for job loss).

AACSB: Analytic

Blooms: Remember

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.

Level of Difficulty: 1 Easy

Topic: The Competitive Environment

79. Because the Internet lowers barriers to entry in most industries, it _____.

- A. decreases the threat of new entrants
- B. increases the threat of new entrants**
- C. makes it easier to build customer loyalty
- D. increases supplier power

In most industries, the threat of new entrants has increased because digital and Internet-based technologies lower barriers to entry. Internet businesses may enjoy savings on traditional expenses which may encourage more entrants who see an opportunity to capture market share by offering a product or performing a service more efficiently than existing competitors.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

80. End users are not _____.

- A. the final consumers in a distribution channel
- B. usually the C in B2C
- C. likely to have greater bargaining power because of the Internet
- D. the first customers in a distribution channel**

End users are the final customers in a distribution channel. Sales activity that is labeled B2C is concerned with end users. The Internet is likely to increase the power of these buyers, in part because the Internet provides large amounts of consumer information.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

81. Incumbent firms may enjoy increased bargaining power because the Internet _____.

- A. focuses marketing efforts on end users
- B. diminishes the power of many distribution channel intermediaries**
- C. increases channel conflict
- D. has reduced the number of wholesalers and distributors

In some industries, buyer channel intermediaries are dominated by powerful players that control who gains access to the latest goods or the best merchandise. The Internet and wireless communications, however, make it much easier and less expensive for businesses to reach customers directly. Thus, the Internet may increase the power of incumbent firms relative to that of traditional buyer channels.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

82. Supplier power has increased because of the Internet for all of the following reasons EXCEPT:

- A. the growth of new Web-based businesses has created more outlets for suppliers to sell to
- B. some suppliers have created Web-based purchasing systems that encourage switching**
- C. the process of disintermediation makes it possible for some suppliers to reach end users directly
- D. software that links buyers to a supplier's website has created rapid, low-cost order capabilities

Several factors contribute to stronger supplier power. First, Web-based business may create more downstream outlets for suppliers to sell to. Second, Web-based purchasing arrangements make purchasing easier and discourage customers from switching. Online procurement systems directly link suppliers and customers, reducing transaction costs and paperwork. Third, the use of proprietary software that links buyers to a supplier website may create a rapid, low-cost ordering capability that discourages the buyer from seeking other sources of supply. Finally, suppliers will have greater power to the extent that they can reach end users directly without intermediaries.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

83. In general, the threat of substitutes is heightened because the Internet _____.

- A. introduces new ways to accomplish the same task**
- B. lowers switching costs
- C. lowers barriers to entry
- D. increases output per unit of cost

Along with traditional marketplaces, the Internet has created a new marketplace and a new channel. In general, therefore, the threat of substitutes is heightened because the Internet introduces new ways to accomplish the same tasks.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

84. How do infomediaries and consumer information websites increase the intensity of competitive rivalry?

- A. by shifting customers away from issues of price
- B. by making competitors in cyberspace seem less equally balanced
- C.** by consolidating the marketing message that consumers use to make a purchase decision to a few key pieces of information that the selling company has little control over
- D. by highlighting unique selling advantages of a firm

Some shopping infomediaries, such as CNET, not only search for the lowest prices on many different products but also rank the customer service quality of different sites that sell similarly priced items. They increase rivalry by consolidating the marketing message that consumers use to make a purchase decision into a few key pieces of information over which the selling company has little control.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

85. The value net is a game-theoretic approach that _____.

- A. extends the value chain analysis
- B.** is a way to analyze all the players in a game and analyze how their interactions affect the ability of a firm to generate and appropriate value
- C. helps us to understand the evolution of the five forces over time
- D. uses network analysis to understand the relationships among different companies

Based on game-theoretic considerations, Brandenburger and Nalebuff recently introduced the concept of the value net, which in many ways is an extension of the five-forces analysis. The value net represents all the players in the game and analyzes how their interactions affect a firm's ability to generate and appropriate value.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 2 Medium
Topic: The Competitive Environment

86. In the value net analysis, complementors are _____.

- A. firms that produce substitute products
- B. customers who compliment the company for their good products and services
- C.** firms that produce products or services that have a positive impact on the value of firm products or services
- D. firms that supply critical inputs to a company

Complements typically are products or services that have a potential impact on the value of firm's own products or services. Those who produce complements are usually referred to as complementors. Powerful hardware is of no value to a user unless there is software that runs on it.

AACSB: Analytic
Blooms: Remember

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 1 Easy
Topic: The Competitive Environment

87. Strategic groups consist of _____.

- A. a group of top executives that makes strategies for a company
- B.** a group of firms within an industry that follows similar strategies
- C. a group of executives drawn from different companies within an industry that makes decisions on industry standards
- D. a group of firms within an industry that decides to collude rather than compete with each other so that they can increase their profits

Strategic groups are clusters of firms that share similar strategies. Rivalry tends to be greater among firms that are alike.

AACSB: Analytic
Blooms: Remember

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 1 Easy
Topic: The Competitive Environment

88. Which of the following statements about strategic groups is FALSE?

- A. Two assumptions are made: (1) no two firms are totally different, (2) no two firms are exactly the same.
- B.** Strategic groupings are of little help to a firm in assessing mobility barriers that protect a group from attacks by other groups.
- C. Strategic groups help chart the future directions of firm strategies.
- D. Strategic groups are helpful in thinking through the implications of each industry trend for the group as a whole.

In an industry analysis, two assumptions are unassailable: (1) no two firms are totally different, and (2) no two firms are exactly the same. What value is the strategic group concept as an analytical tool? First, strategic groupings help a firm identify barriers to mobility that protect a group from attacks by other groups. They also help chart the future directions of firm strategies and are helpful in thinking through the implications of each industry trend for the strategic group as a whole.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

Essay Questions

89. Explain how competitor intelligence can be improved by gathering information about competitors in the public domain. Provide examples.

Answers will vary.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.

Level of Difficulty: 2 Medium

Topic: Creating the Environmentally Aware Organization

90. Discuss some of the limitations of forecasting.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.
Level of Difficulty: 2 Medium
Topic: Creating the Environmentally Aware Organization

91. Discuss the six segments of the general environment. Provide examples of how they might be related.

Answers will vary.

AACSB: Analytic
Blooms: Apply
Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.
Level of Difficulty: 3 Hard
Topic: The General Environment

92. Explain the important barriers to entry in an industry. Provide examples.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

93. Discuss and provide examples of factors that would lead to greater buyer power.

Answers will vary.

AACSB: Analytic
Blooms: Understand

Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

94. What are some of the factors that would cause a supplier group to become powerful? Illustrate.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

95. Several factors usually interact which result in intense rivalry among competitors. Explain.

Answers will vary.

AACSB: Analytic
Blooms: Apply
Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.
Level of Difficulty: 3 Hard
Topic: The Competitive Environment

96. Address how Internet and digital technologies affect the Porter five forces.

Answers will vary.

AACSB: Analytic
Blooms: Understand
Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.
Level of Difficulty: 2 Medium
Topic: The Competitive Environment

97. Explain how the value net analysis adds to the five-forces analysis. Be sure to include examples from at least two industries.

Answers will vary.

AACSB: Analytic

Blooms: Apply

Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.

Level of Difficulty: 3 Hard

Topic: The Competitive Environment

98. What value is the strategic group concept as a tool in analyzing an industry?

Answers will vary.

AACSB: Analytic

Blooms: Understand

Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.

Level of Difficulty: 2 Medium

Topic: The Competitive Environment

99. SWOT analysis is a basic technique for analyzing firm and industry conditions. Explain the relationship between the SWOT approach to evaluating the general environment, the industry of the firm, and the competitive environment.

Answers will vary.

AACSB: Analytic

Blooms: Analyze

Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.

Level of Difficulty: 3 Hard

Topic: Creating the Environmentally Aware Organization