Chapter 2--External Analysis: The Identification of Opportunities and Threats

Student: ____

1. In determining its opportunities and threats, a firm should focus on internal processes and capabilities.
True False

2. Opportunities arise when a company takes advantage of conditions in its environment to formulate and implement strategies that allow it to be more profitable.
True False

3. Over the last few decades, the United States steel industry has become less concentrated.
True False

4. The demand for steel worldwide has surged in recent years, as have U.S. producers' profits.
True False

5. The Cott Corporation is an example of how a company failed to overcome barriers to entry in an industry.
True False

6. The bottled water industry created new competitors for Coca-Cola, but did not change the basic industry boundaries.
True False

7. In Porter's framework, the stronger the five forces, the more limited the ability of established companies to raise prices and earn greater profits.
True False

8. Substitute products are not a threat if a company is the market leader.
True False

9. The personal computer industry is uniquely dependent upon a powerful supplier.
True False

10. Access to cheaper capital is an example of an economy of scale.
True False

11. Even when entry barriers are very high, new firms may still enter an industry if they perceive that the benefits outweigh the costs of entry.
True False

12. One of the key factors in the success of Walmart is the buying power gained by dealing directly with manufacturers.
True False

13. In general, the more that an industry's product is like a commodity, the lower the intensity of any price war that may develop.
True False

14. Strong brand loyalty and high customer switching costs are low barriers to entering an industry.
True False

15. High exit barriers are most serious as a competitive threat when industry demand is declining.
True False

16. Government deregulation of telephone service lowered the barriers to entry and lowered industry profit margins.
True False

17. When buyers are in a weak bargaining position, companies in the supplying industry must lower their prices to increase profits.
True False

18. Intense rivalry lowers prices and raises costs.
True False

19. High tech industries are often dependent on complementor industries for their mutual success.
True False

20. Starbucks and an independent local café both sell coffee and therefore belong to the same strategic group.
True False

21. Strategic groups within an industry compete amongst themselves even though their business models may vary greatly.
True False

22. Rapid growth in industry demand enables companies to expand their revenues and profits without taking market share away from competitors.
True False

23. Successful innovation can transform the nature of industry competition.
True False

24. One of the defining characteristics of the mature stage of the industry life cycle is that growth is low or zero.
True False

25. The punctuated equilibrium view can also be described as a freezing and unfreezing process in an industry's life cycle.
True False

26. When the value of the dollar is low compared with the value of other currencies, products made in the United States are relatively inexpensive and products made overseas are relatively expensive.
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27. Changes in the characteristics of a population, such as age or race, is irrelevant to the analysis of an industry's macroenvironment.
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28. Anheuser Busch, because it dominates the mass-market beer segment, does not complete with micro-brewers.
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31. A group of firms all make writing implements¾pens, pencils, and markers. This group should be referred to as a(n)
A. substitute.
B. market segment.
C. sector.
D. supplier.
E. industry.

32. United Airlines, Amtrak, and Greyhound are all companies in the transportation
A. industry.
B. sector.
C. game.
D. segment.
E. strategic group.

33. Cosmetics makers focus on the unique needs of customers of different ages. The cosmetics makers recognize the importance of
A. shifting industry boundaries.
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A. companies offering products or services that are close substitutes for each other.
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D. companies that offer dissimilar products or services.
E. companies that offer products or services to dissimilar customers.

35. What is the impact of shifting industry boundaries on firms within the industry?
A. Higher exit barriers
B. More competitors
C. Reduced threat of substitutes
D. Greater bargaining power of suppliers
E. Lesser bargaining power of buyers

36. Which of the following is *not* one of Porter's five forces, as proposed in his original model?
A. Threat of complementors
B. Bargaining power of suppliers
C. Rivalry among established companies
D. Threat of new entrants
E. Threat of market changes

37. Which of the following is not a component of Porter's five forces model?
A. Risk of entry by potential competitors
B. The intensity of rivalry among established companies within an industry
C. The bargaining power of buyers
D. The bargaining power of suppliers
E. The lack of substitutes for an industry's products

38. Which of the following is *not* a barrier to entry?
A. Economies of scale
B. Brand loyalty
C. Absolute cost advantages
D. High customer bargaining power
E. High customer switching costs

39. If economies of scale are an industry's primary entry barrier, a new entrant's major risk is
A. its inability to access labor and materials.
B. the inferior quality of its products.
C. its inability to match the innovation of the established firm.
D. its inability to produce in sufficient volume to match the cost advantages of established producers.
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A. continuous advertising of brand and company names.
B. high product quality, service-oriented innovations, and good after-sales service.
C. cost reductions that arise from the mass production of standardized output.
D. the unique ability of established companies to spread fixed costs over a large volume.
E. control over low-cost inputs required for production, be they labor, materials, equipment, or management skills.

41. Which of the following industry structures consists of a large number of small and medium-sized companies, none of which is in a position to determine industry price?
A. Fragmented industry
B. Consolidated industry
C. Oligopoly
D. Monopoly
E. Sector

42. Which of the following industry structures is dominated by a small number of large companies?
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B. Consolidated industry
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43. Which of the following is *not* a determinant of the extent of rivalry among established companies?
A. The number and size distribution of companies in the industry
B. Demand conditions
C. The cost structure of firms in an industry
D. Exit barriers
E. The power of buyers

44. The extent of rivalry among established companies is lowest when
A. the industry's product is a commodity.
B. demand is growing rapidly.
C. exit barriers are substantial.
D. the industry is entering a decline stage.
E. the industry is dominated by a small number of large companies.

45. The risk of a price war is greatest in which of the following circumstances?
A. A high-growth industry
B. An industry characterized by falling demand, high exit barriers, and excess productive capacity
C. An industry characterized by a commodity-type product, strong demand, and low exit barriers
D. A mature industry during an economic upturn
E. An industry characterized by tacit price agreements

46. The bargaining power of an industry's suppliers is greater when
A. the supply industry is fragmented.
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C. the industry buys in large quantities.
D. many substitutes are available.
E. firms in the industry can threaten backward vertical integration.

47. The competitive force of substitute products tends to be stronger when
A. buyers view the prices of substitutes as too high.
B. the costs that buyers face in switching over to substitutes are low.
C. the quality and performance of substitutes are relatively low.
D. substitutes do not embody many characteristics that are similar to those of products already serving the market.
E. none of these choices.

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A. increase sales of the industry's product.
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A. Personal computers
B. Biotechnology
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D. Nanotechnology
E. Wireless communications

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A. compete directly with members of other strategic groups.
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C. follow a business model that is similar to that pursued by other companies in the group.
D. earn the same rate of return.
E. move easily to other groups as desired.

52. A market segment is a group of
A. customers within a market that can be different from each other on the basis of their distinct attributes and specific demands.
B. companies that produce similar goods or services.
C. customers within a market that purchase goods or services in similar quantities.
D. customers within a market that have similar levels of profitability.
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A. continuous advertising.
B. patent protection of products.
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A. changing from one computer system to another.
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B. constituted a major entry barrier into major industries.
C. neither hampered nor encouraged new entrants into an industry.
D. encouraged the growth of new companies.
E. none of these choices.

56. Rivalry refers to
A. competition.
B. the intensity of competition among established companies within an industry.
C. a struggle among firms using price, product design, and advertising.
D. all of these choices
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A. number of segments in the industry.
B. number and size distribution of companies in the industry.
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D. number of competing products in the industry.
E. form that competition in the industry takes.

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59. Mobility barriers
A. prevent movement within a strategic group.
B. inhibit the movement of companies between strategic groups in an industry.
C. inhibit the movement of a company from one industry to another.
D. include exit barriers of the strategic group that a company wants to enter.
E. are low when exit barriers in the strategic group that a company is a member of are high.

60. In which of the following arenas would Walmart's Sam's Club stores compete against their closest, most intense rivals?
A. The retailing sector
B. The discount retailing industry
C. The club-store discount retailing strategic group
D. Sam's Club stores face no close, intense rivals.
E. Sam's Club stores face close, intense rivals in every arena in which they compete.

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A. replacement demand is increasing rapidly.
B. technological expertise is the most important entry barrier.
C. rivalry is high.
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62. Entry barriers in the embryonic stage are frequently based on
A. brand loyalty.
B. economies of scale.
C. absolute cost advantages.
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E. technological know-how.

63. Growth industries
A. typically suffer from high mobility barriers.
B. tend to be characterized by weak rivalry.
C. have high rivalry among established companies.
D. increase prices because customers are more aware of the industry's product.
E. provide economies of scale to existing companies.

64. An industry's buyers have high bargaining power when
A. buyers purchase in large quantities.
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65. Demand reaches total saturation in the ____ stage of the industry life cycle.
A. embryonic
B. growth
C. shakeout
D. maturity
E. decline

66. The threat from new entrants is greatest in the ____ stage of the industry life cycle.
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B. growth
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67. Which of the following is *not* one of the factors in the economic forces of the macroenvironment?
A. Interest rates
B. Inflation
C. Regulation
D. Currency exchange rates
E. Economic growth rate

68. Suppliers in an industry are most powerful when
A. there are few substitutes for the product suppliers sell.
B. switching costs are low.
C. companies in the industry can threaten to enter the suppliers' industry.
D. substitute products are readily available.
E. all of these choices

69. Julian is asked to examine the demographic environment facing his employer, a clothing manufacturer. Which of the following should Julian examine?
A. Government regulations
B. Inflation
C. Manufacturing technology
D. Aging of the population
E. Society's growing interest in exercise

70. Beverage makers are finding that water sales are increasing due to consumers' preferences for healthy drinks. Which part of the macroenvironment does this represent?
A. Economic forces
B. Demographic forces
C. Embryonic forces
D. Political forces
E. Social forces

71. The level of industry demand
A. has little effect on competition in the industry.
B. is one of the determinants of the intensity of rivalry in the industry.
C. increases as the number of customers grows.
D. is influenced by bankruptcy regulations.
E. all of these choices

72. The Internet is an example of a
A. technological force.
B. social force.
C. political and legal force.
D. demographic force.
E. global force.

73. Due to a recent relaxation in pollution standards, Ford Motors is withdrawing its electric-powered cars from sales in the U.S. market. Ford is responding to a change in which of the following macroenvironmental forces?
A. Economic
B. Demographic
C. Political and legal
D. Social
E. Strategic

74. All of the companies in a strategic group are
A. pursuing different business models.
B. of similar size.
C. pursuing a similar business model.
D. all of these choices.
E. none of these choices

75. The industry life cycle model includes which of the following stages?
A. Growth
B. Shakeout
C. Maturity
D. Decline
E. All of these choices

76. As an industry enters the shakeout stage,
A. rivalry among companies declines.
B. demand is still growing at a high rate.
C. prices rise.
D. excess capacity emerges.
E. new entrants come into the market.

77. When an industry enters the mature stage,
A. the market is totally saturated.
B. demand is limited to replacement demand.
C. growth is low or zero.
D. what growth there is in the industry comes from population expansion.
E. all of these choices

78. Eventually most industries enter a decline stage where
A. growth becomes negative.
B. rivalry among established companies usually decreases.
C. competitive pressures abate.
D. excess capacity declines.
E. demand continues to hold steady.

79. Which of the following is not a force within the macroenvironment?
A. Level of interest rates
B. Currency exchange rates
C. Inflation
D. Deflation
E. Rates of social change

80. Why is it important to understand the external environment in order to think strategically?

81. Define and then relate the concepts of sectors, industries, market segments, and strategic groups.

82. Using the industry life cycle model, explain how the threats and opportunities for existing firms in an industry change over time.

83. Describe one major limitation of each of the following models for competitive analysis: the five forces model, the strategic groups model, and the industry life cycle model. Does the existence of these limitations mean that the models are not useful? Why or why not?

84. Consider the macroenvironment facing a large, international airline headquartered in the United States (such as American or United). Give at least three examples of important trends or events from each of the five segments of the airline's macroenvironment (macroeconomic, technological, demographic, social, political, and legal), and explain whether each represents a threat or an opportunity for the firm.

Chapter 2--External Analysis: The Identification of Opportunities and Threats Key

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FALSE

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C. political and legal force.
D. demographic force.
E. global force.

73. Due to a recent relaxation in pollution standards, Ford Motors is withdrawing its electric-powered cars from sales in the U.S. market. Ford is responding to a change in which of the following macroenvironmental forces?
A. Economic
B. Demographic
C. Political and legal
D. Social
E. Strategic

74. All of the companies in a strategic group are
A. pursuing different business models.
B. of similar size.
C. pursuing a similar business model.
D. all of these choices.
E. none of these choices

75. The industry life cycle model includes which of the following stages?
A. Growth
B. Shakeout
C. Maturity
D. Decline
E. All of these choices

76. As an industry enters the shakeout stage,
A. rivalry among companies declines.
B. demand is still growing at a high rate.
C. prices rise.
D. excess capacity emerges.
E. new entrants come into the market.

77. When an industry enters the mature stage,
A. the market is totally saturated.
B. demand is limited to replacement demand.
C. growth is low or zero.
D. what growth there is in the industry comes from population expansion.
E. all of these choices

78. Eventually most industries enter a decline stage where
A. growth becomes negative.
B. rivalry among established companies usually decreases.
C. competitive pressures abate.
D. excess capacity declines.
E. demand continues to hold steady.

79. Which of the following is not a force within the macroenvironment?
A. Level of interest rates
B. Currency exchange rates
C. Inflation
D. Deflation
E. Rates of social change

80. Why is it important to understand the external environment in order to think strategically?

Strategic thinking allows managers to select those strategies that allow their companies to establish competitive advantage and outperform rivals. As the external environment continues to change in rapid and unpredictable ways, it is important for managers to understand the conditions that exist and that impact their performance and profitability. Without an understanding of the external environment, the strategy process would be arbitrary and performance would be lower than it should be. By understanding the dynamics that drive industries and the macroenvironmental forces that present both opportunities and threats, managers are in a position to craft strategies that allow them to effectively steer their companies through challenging times.

81. Define and then relate the concepts of sectors, industries, market segments, and strategic groups.

All of these concepts are useful in terms of understanding the nature of competition and the forces in the industry environment that affect performance. A skilled strategic manager must take all of these into account when developing strategies.

A sector refers to a group of closely related industries. In terms of scope, sectors encompass the broadest set of firms. A sector is typically composed of several interrelated industries. An industry refers to a group of companies offering products and services that are close substitutes for each other. Market segments refer to a distinct group of customers within an industry market that can be differentiated from each other on the basis of their distinct attributes and specific demands. A strategic group is a group of companies within an industry in which each company follows a business model that is similar to that pursued by other companies in the group. A useful way to look at a strategic group is as an intersection of market segments and industries. The concept of a strategic group is especially useful in the strategy process because it helps a company determine its direct competition.

82. Using the industry life cycle model, explain how the threats and opportunities for existing firms in an industry change over time.

In the embryonic stage of the industry life cycle, barriers to entry come from access to technological know-how (a threat). Rivalry is relatively low due to the fragmented nature of the industry (an opportunity). Suppliers tend to be large and powerful relative to existing companies, as do buyers (threats). Substitute products may be plentiful, inexpensive, and better known to consumers (a threat).

In the growth stage, barriers to entry are typically quite low (a threat). Rivalry is low because the growing industry creates plenty of demand (an opportunity). Buyers and suppliers are somewhat less powerful relative to the larger companies of the growth stage (moving toward opportunities). Substitute products may be few or plentiful (an opportunity or threat).

In a mature industry, barriers to entry rely on economies of scale and brand loyalty, and they are quite high (an opportunity). Rivalry becomes much more intense (a threat). Buyers and suppliers become even less powerful relative to the large existing companies (opportunities). Substitute products may be few or plentiful (opportunity or threat).

In the decline stage, there are few new entrants (an opportunity). Rivalry remains very intense (a threat). Buyers and suppliers become more powerful relative to existing firms (moving toward threats). Substitute products are likely to be plentiful and appealing to consumers (a threat).

83. Describe one major limitation of each of the following models for competitive analysis: the five forces model, the strategic groups model, and the industry life cycle model. Does the existence of these limitations mean that the models are not useful? Why or why not?

All three of these models fail to account for the impact that radical change and innovation can have on an industry. Radical change can alter the impact of the five forces; it can shift the strategic groupings within an industry; and it can speed, slow, or disrupt an industry's progress through the stages of the life cycle model. Because these three models all rely on historical evidence to project future trends, the possibility and impact of radical discontinuity is not incorporated into them.

Another limitation of each of these models is the lack of accounting for firm-specific characteristics and actions. These three models all assume that the environment is a major determinant of firm performance and that every firm in the industry (or the strategic group) experiences the industry structure in the same way. Yet empirical evidence demonstrates that firms within the industry have widely differing levels of performance, so there must be other explanatory variables. According to some studies, industry characteristics account for no more than 20 percent of the variance in performance across firms.

A limitation of the life cycle model is that not every industry moves through the same steps or in the same order or at the same rate. Empirical evidence shows that industries vary tremendously in the rate and way in which they mature.

84. Consider the macroenvironment facing a large, international airline headquartered in the United States (such as American or United). Give at least three examples of important trends or events from each of the five segments of the airline's macroenvironment (macroeconomic, technological, demographic, social, political, and legal), and explain whether each represents a threat or an opportunity for the firm.

Students don't need to conduct research to answer this question; they should be able to answer from their own understanding and general knowledge. Examples of the types of answers they should write are given below.

- The airline industry benefits from low interest rates, part of the macroeconomic environment, because it enables airlines to borrow the funds for purchasing new planes at lower cost.
- Americans are taking shorter but more frequent vacations. This social trend presents an opportunity for airlines to sell more tickets.
- Technological advances have allowed railroads to use fast, fuel-efficient bullet trains, which can economically substitute for planes on short, heavily-traveled commuter routes, such as along the Boston-New York-Washington corridor. This development threatens airlines because it reduces the number of tickets they can sell and the prices they can charge in those markets.