

Chapter 02 - Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map

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Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map

Multiple Choice Questions

1. In SWOT analysis, strengths and weaknesses are most easily identified by looking:
 - A. At the firm as a potential customer.
 - B. Inside the firm at its specific resources.
 - C. At the firm's competition.
 - D. At the firm's product.
 - E. Outside the firm from a consultant's perspective.

2. In SWOT analysis, opportunities and threats are identified by:
 - A. Consultation with middle management.
 - B. Talking with the rank and file workers.
 - C. Looking outside the firm.
 - D. Brainstorming techniques.
 - E. Reviewing our corporate strategy.

3. Which of the following does not represent a possible opportunity for a manufacturing firm as a part of SWOT analysis?
 - A. Demographic trends.
 - B. Technological advances in the industry.
 - C. An efficient process developed by our firm for manufacturing a product.
 - D. Changes in regulation of the industry.
 - E. Changes in the economic environment facing all industries.

4. The balanced scorecard:
 - A. Is not comprehensive, since it doesn't include all the CSFs which contribute to competitive success.
 - B. Helps focus managers' attention to bottom line profits.
 - C. Is forward looking, stressing nonfinancial measures that can lead to benefits in the future.
 - D. Fails to reflect environmental and social effects of the firm's operations.
 - E. Is heavily weighted toward the financial critical success factors (CSFs).

5. The balanced scorecard can be made more effective by developing it at a detail level so that employees:

- A. Can see how it is put together.
- B. Appreciate all the effort that goes into its preparation.
- C. Respect management for including them in its formulation.
- D. Can see how their actions contribute to the success of the firm.
- E. Do not feel left out.

6. The Euro is:

- A. A combination of European nations that cooperate on economic and trade matters.
- B. A version of Disney World located near Paris.
- C. A currency used in many European countries.
- D. A currency used in all European countries.

7. The main objective of value chain analysis is to identify stages of the value chain where the firm can:

- A. Justify increases in the price of the product or service.
- B. Increase value to the customer or reduce cost in some way.
- C. Outsource production to other producers.
- D. Improve efficiency.

8. It is becoming more common to see manufacturing firms use the value chain to take strategic steps to improve the overall profitability of the firm by:

- A. Placing greater emphasis on the value chain.
- B. Moving to an emphasis on upstream activities in the value chain.
- C. Moving to an emphasis on downstream activities in the value chain.
- D. Identifying most profitable customers.
- E. Finding low-cost manufacturing locations.

9. With regard to critical success factors, which one of the following would not be considered a financial measure of success?
- A. Cash flow.
 - B. Growth in industry productivity.
 - C. Sales growth.
 - D. Earnings growth.
 - E. Reduction in the cost of inventory.
10. Which one of the following critical success customer factors is best measured by warranty expense?
- A. Quality.
 - B. Dealer and distributor efficiency and effectiveness.
 - C. Timeliness of delivery.
 - D. Customer satisfaction.
11. Which one of the following is not usually included as a perspective of the balanced scorecard?
- A. Financial Performance.
 - B. Financial Reporting.
 - C. Learning and Growth.
 - D. Customer Satisfaction.
 - E. Internal Business Processes.
12. Which of the following best describes the type of information that cost management must provide that is important for the success of the organization?
- A. Information of a record keeping nature.
 - B. Reported financial information.
 - C. Reported nonfinancial information.
 - D. Information that addresses the strategic objectives of the organization.
 - E. Long-term planning information.

13. After critical success factors (CSFs) have been identified, the next step in developing a competitive strategy is to develop relevant and reliable measures for these CSFs. These measures are important to help the organization:

- A. Make profit for any extended period.
- B. Increase sales above previous year(s).
- C. Develop policies to enhance customer profitability.
- D. Improve productivity in selected product areas.
- E. Monitor progress toward achieving strategic goals.

14. A firm has decided to use the balanced scorecard. Which of the following is not an advantage the company will gain by using the balanced scorecard?

- A. It links the firm's CSFs to its strategy.
- B. It helps the firm monitor progress to achievement of its strategic goals.
- C. It can provide a basis for implementing strategic changes desired by the firm.
- D. It provides a comprehensive financial overview of the firm.
- E. It helps to coordinate activities in the firm.

15. During which step of value chain analysis will the company discover whether or not it has a cost advantage, and why?

- A. During the first step, when the value-chain activities are identified.
- B. During the first step, when the cost driver(s) are identified.
- C. During the second step, when the firm develops a competitive advantage by either reducing cost or adding value.
- D. The entire purpose of value chain analysis is to determine if the company has a cost advantage; therefore, it occurs in all steps.
- E. In the third step, when the company adopts and implements the balanced scorecard.

16. A local pharmaceutical firm has just announced its discovery of a revolutionary new drug for dieting. However, due to its deteriorating relationship with its union, the unionized portions of the company's employees have threatened to strike. In addition, the company's stock has started to drop due to the firm's difficulty in paying off some of its debt. In this example, what was the firm's core competency(ies)?

- A. Its research and development.
- B. Its human resources abilities.
- C. Its financing activities.
- D. Its operating activities.

17. During the strengths and weaknesses portion of a firm's SWOT analysis, which of the following would not be discovered?

- A. The firm's method of product distribution was not very efficient.
- B. Through continued research and development, the firm's products were state-of-the-art.
- C. Due to a lack of barriers to entry into the industry, several new competitors were beginning to enter the market.
- D. The production process needed to be reengineered to reduce unnecessary scrap.
- E. The firm's employees are trained in new manufacturing methods each month.

18. When a firm is determining its opportunities and threats, which of the following would not be mentioned?

- A. An intense rivalry with a local competitor was beginning to start a price war.
- B. The firm just received a patent on its main product.
- C. The success of the firm's latest marketing campaign.
- D. In spite of its patent, there are several substitute products consumers could use.
- E. Increased efficiency in the manufacturing process.

19. The declining value of the U.S. dollar relative to other currencies in recent years means that:

- A. U.S. exporters will face a greater challenge in exporting U.S.-made products.
- B. U.S. firms will be eager to buy foreign products.
- C. U.S. firms will be less profitable.
- D. U.S. exporters will have a temporary advantage over other countries in foreign trade.

20. The cause and effect relationships among critical success factors are best captured in:

- A. The balanced scorecard
- B. Business intelligence
- C. The value chain
- D. The strategy map
- E. SWOT analysis

21. Which of the following types of organizations can most benefit from value chain analysis?

- A. Service firms.
- B. Not-for-profit organizations.
- C. Manufacturing firms.
- D. All types of organizations can benefit from value chain analysis.

22. Which of the following would not likely be a perspective of a balanced scorecard for a consumer products retailer?

- A. Learning and innovation.
- B. Internal processes.
- C. Financial performance.
- D. Customer.
- E. The exploration of space.

23. Which of the following statements concerning value chain analysis is false?

- A. The goal of value chain analysis is to find areas where a company can either add value or reduce cost.
- B. The value chain focuses on the entire production process, as well as the sale of the product and service after the sale.
- C. If a company cannot compete in a specific area of the value chain, it might consider the option of outsourcing that portion of the value chain to someone who can perform it better.
- D. Throughout most industries, the most successful firms are the ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer.

24. Which of the following could be considered part of the value chain in a service firm?

- A. Inspection of product.
- B. Advertising.
- C. Raw materials.
- D. Customer service.
- E. Advertising and customer service.

25. When performing value chain analysis, which of the following should a company not take into account?

- A. The firm's competitive position.
- B. Opportunities to reduce cost.
- C. Possible opportunities where value can be added.
- D. Strengths, Weaknesses, Opportunities and Threats.

26. Both cost leadership and differentiated firms can improve on execution through:

- A. Improved automation and a higher output of products.
- B. Benchmarking and total quality management.
- C. Cost cutting and downsizing of personnel.
- D. Improvements in product development.

27. To increase profitability, technology companies such as IBM have shifted their strategic focus toward:

- A. Increasing equipment sales.
- B. Improving software applications.
- C. Providing new and enhanced customer services.
- D. Increased focus on research and development.

28. Which of the following is not a key benefit of the balanced scorecard (BSC)?

- A. It provides a means for implementing strategy.
- B. It provides an objective basis for determining each manager's compensation and advancement.
- C. It provides a framework for the firm to achieve a desired organizational change in strategy.
- D. It provides a baseline for how a firm's financial operations compare to competition within the industry.

29. A strategy map is:

- A. A detailed flowchart outlining which firm managers are responsible for each implementation of a firm's strategy and when these implementations are to take place.
- B. A cause and effect diagram of the relationships among the balanced scorecard perspectives to show how the achievement of critical success factors in each perspective affects the achievement of goals in other perspectives and the overall financial performance of the firm.
- C. A framework for the firm to achieve a desired organizational change in strategy while mapping the successes of other firms within the industry.
- D. A comprehensive framework of goals and measurable targets for executing those goals.

30. Sustainability is the balancing of short and long term goals in all three dimensions of the company's performance. Those three areas are:

- A. Economic, social, and environmental.
- B. Economic, social, and financial.
- C. Economic, environmental, and political.
- D. Social, environmental, and financial.

31. Over the past several years it has become increasingly important for firms to improve achievement towards their social and environmental responsibilities. What is the best way the management accountant can help the firm improve on sustainability?

- A. Participate in programs of environmental organizations.
- B. Develop and implement a legal staff and public relations staff for dealing with sustainability issues that may affect the firm.
- C. Develop and implement a sustainability scorecard.
- D. Risk management.

32. In terms of strategic cost management for not-for-profit organizations, which of the following is false?

- A. Not-for-profit organizations can benefit from strategic cost management since they must prove their effectiveness and efficiency to a number of different stakeholders.
- B. The balanced scorecard can be used to measure the organization's performance.
- C. Value chain analysis can be used for analyzing the organization's product design, product testing, advertising, and production processes.
- D. SWOT analysis is most helpful for non-profit organizations when it deals with the organization's competitive threats, opportunities, and critical success factors.

33. In order to remain competitive in the contemporary business environment, several firms have started training their employees to stop viewing problems as strictly functional -- a marketing problem, or an accounting problem, for example. What does this trend illustrate about strategic management?

- A. There has been a renewed emphasis on integrative thinking and solving problems cross-functionally.
- B. Functional barriers are an inherent part of a company's value chain.
- C. Firms are increasingly seeing the value of business intelligence.
- D. SWOT analysis is designed to break down functional barriers.

34. Which of the following organizations presents awards to firms that excel at execution of strategy, based on criteria such as leadership, marketing, strategic planning and process management?

- A. International Organization for Standardization.
- B. Malcolm Baldrige National Quality Program.
- C. Global Reporting Initiative.
- D. World Resources Institute.
- E. American Institute of Certified Public Accountants.

35. The critical financial success factor of profitability can be measured by:

- A. Community service activities.
- B. Customer returns and complaints.
- C. Number of product defects.
- D. Number of design changes.
- E. Earnings from operations.

36. Using value-chain analysis, a firm can develop a competitive advantage by specifically looking for ways to:

- A. Add value and reduce cost.
- B. Improve manufacturing productivity.
- C. Improve customer service.
- D. Improve product quality.
- E. Reduce organizational risk.

37. Value activities can best be defined as:

- A. Activities that firms in the industry must perform to improve a product.
- B. Activities that firms in the industry must perform in the process of converting raw material to final product, including customer service.
- C. Activities that firms in the industry must perform in the process of closing down a product line, including customer service.
- D. Activities that firms in the industry must perform to consider ways of marketing a product.
- E. Activities that firms in the industry must perform in the process of considering new products, including customer service.

38. The World Resources Institute has defined:

- A. Types of cost management.
- B. Categories for environmental performance indicators.
- C. Methods for achieving sustainability.
- D. Categories for economic performance indicators.

39. A firm succeeds on its ability to deliver products to customers more quickly than rival companies in its industry. This skill is an example of the firm's:

- A. Core competency.
- B. Research effectiveness.
- C. Production efficiency.
- D. Cost control effectiveness.
- E. Value-chain analysis.

40. SWOT analysis, a valuable analysis tool, stands for:

- A. Strengths - Workability - Opportunities - Threats
- B. Strategies - Weaknesses - Opportunities - Threats
- C. Strengths - Weaknesses - Observations - Threats
- D. Strengths - Weaknesses - Opportunities - Threats
- E. Strategies - Weaknesses - Observations - Threats

41. Which of the following perspectives of a Balanced Scorecard would most likely be the ultimate target in a strategy map for a public company?

- A. Learning and innovation.
- B. Internal processes.
- C. Financial performance.
- D. Customer service.
- E. Employees and community.

42. Some of the indicators of a growing concern for sustainability include:

- A. The liquidity crisis and sub-prime loan scandals.
- B. The global economic recession.
- C. The increased use of value chain analysis.
- D. The increased concern about global warming.
- E. The increased use of the balanced scorecard.

43. Patagonia, maker of clothing and gear for outdoor enthusiasts, is very conscious of sustainability issues. The company chose not to produce a product because:

- A. The cost of manufacturing the product exceeded its target cost.
- B. There was not sufficient demand for the product at the planned price.
- C. The environmental impact of toxic waste was unacceptable.
- D. The environmental impact of producing the product in terms of carbon emissions and energy consumptions was unacceptable.
- E. The company could not justify adding another product when there were acceptable alternatives already in the company's product offerings.

44. The decline of the U.S. dollar relative to other currencies has caused firms outside the U.S., such as BMW and Volkswagen to:

- A. Experience increasing sales in the U.S.
- B. Experience increasing sales worldwide.
- C. Locate plants in the U.S. to reduce overall manufacturing costs.
- D. Require dealers to make payments in the Euro.

45. NAFTA and WTO refer to

- A. Organizations with expertise in business process improvement.
- B. Laws and organizations which regulate international trade.
- C. Laws and regulations regarding sustainability.
- D. Organizations and trade groups that work for global economic development.

46. The five steps of strategic decision making include all of the following steps except:

- A. Obtain information and conduct analyses.
- B. Determine the organization's strategy.
- C. Identify the alternative actions.
- D. Continue an on-going evaluation of the problem.
- E. Choose and implement the desired action.

Essay Questions

47. Auto engines have become more complex over the past twenty years, partly as a result of environmental concerns about exhaust contaminants. Engineers have developed two basic approaches to solving the contaminant problem. The first emphasized the catalytic converter, a modification of the auto exhaust system designed to break down pollutants. The second emphasized redesign of the auto engine's combustion process, which adds more than twice the cost of the catalytic converter alone. However, redesigning the combustion process usually results in improved full efficiency.

Required: A. Comment on the strategic advantage of redesigning the combustion process versus simply adding a catalytic converter.

B. What are the ethical questions, if any, that should be addressed in the above decision?

48. Studebaker Corporation, one of the earliest auto manufacturers, prospered in the late 1940's and into the 1950's. Its advertising after World War II emphasized quality of design and production. The corporation also used the stability of its work force in its advertisements, often featuring pictures of father and son working side by side in its factories.

Required: A. From just this brief description of Studebaker Corporation, which type of competitive strategy--cost leadership or differentiation--would you guess Studebaker was using? Explain your choice.

B. Given your answer in Part (A), speculate on what market factors might have caused the corporation to go into bankruptcy and cease production in the mid-1960s.

49. Many products in the marketplace today are built from components designed and manufactured by sub-contractors. While the extent of this practice is not well known to consumers, manufacture and sale of multi-component units that use parts from many different companies continues to grow.

Required: If the assembling company is using value-chain analysis in its strategic planning, comment on the following:

A. The cost justification for subcontracting.

B. The willingness of consumers to buy products they know contain subcontracted parts.

C. The problems of quality control facing the assembling company.

50. Exeter Industries produces and markets several lines of food and beverage products. The company plans to expand its market to cover a new geographical area, and the first products to be introduced into this new market are three of Exeter's coffees. A meeting of the marketing committee has been called to determine the pricing and promotional strategy for the introduction of these coffees.

Mark Williams, vice president of marketing, has suggested that Exeter continue its policy of premium pricing for Rich Roast Coffee in the new market. "Rich Roast is a superior blend of Brazilian coffees and should have little difficulty gaining customer acceptance. The use of other promotional strategies doesn't appear necessary at this time."

Carol Randolph, general sales manager, agreed with this strategy for Rich Roast but recommended a different approach for Vitality Coffee, Exeter's brand of decaffeinated coffee. "Vitality is an unknown name in this region and will require a determined promotional effort to gain market share from other very competitive products. We could try penetration pricing or packaging options combined with either manufacturer's coupons or rebates. Whatever strategy we select, we should hit the market hard if we want to be successful."

Dan Felton has been appointed regional sales manager for the new geographical area and is concerned about the acceptance of Mellow Roast Coffee, a blend of regular and decaffeinated coffees. "This is a brand new type of coffee in this region and may just sit on the shelf unless we develop an effective advertising campaign. Pricing or packaging options will be worthless unless the product gains some visibility and the targeted customer base is made aware of the benefits of Mellow Roast. We need a good slogan like "A gentle wakeup without caffeine stress!"

Required: Mark Williams has suggested the continuance of premium pricing for Rich Roast Coffee. Explain the strategic role of premium pricing, and describe the economic circumstances in the marketplace that would encourage the use of this pricing strategy. (CMA adapted)

51. One of the large auto manufacturers in the 1970s developed a sport version of its family sedan. The new version was equipped with a small V8 engine and other performance improvements. The car was called the Pirouette, because of its graceful appearance and performance. Unfortunately, there was a difficulty in servicing the vehicle. The engine was too large for the space available, and it had to be moved slightly on the engine mounts in order for one of the spark plugs to be changed.

Required: Comment on the strategic competitive advantage of the Pirouette. What type of management technique was likely used in its design? What type of design approach should have been used?

52. Williams Instruments manufactures specialized surgical equipment for hospitals and clinics throughout the world. One of Williams' most popular products, comprising 40% of its revenues and 35% of its profits, is a blood pressure measuring device. Average production and sales are 400 units per month. Williams has achieved its success in the market through excellent customer service and product reliability. The manufacturing process consists primarily of assembly of components purchased from various electronic firms, plus a small amount of metalworking and finishing. The manufacturing operations cost \$600 per unit. The purchased parts cost Williams \$800, of which \$300 is for parts which Williams could manufacture in its existing facility for \$100 in materials for each unit, plus an investment in labor and equipment which would cost \$175,000 per month.

Also, Williams is considering outsourcing to another firm, Matrix Concepts, Inc, the marketing, distribution, and servicing for its units. This would save Williams \$75,000 in monthly materials and labor costs. The cost of the contract would be \$125 per product.

Required:

1. Prepare a value chain analysis for Williams to assist in the decision whether to manufacture or buy the parts, and whether to contract out the marketing, distribution, and servicing of the units.
2. Should Williams continue to:
 - (A). purchase the parts or manufacture them?
 - (B). provide the marketing, distribution and service, or outsource this activity to Matrix?

Explain your answers.

53. Motorcycle engines have become more complex over the past twenty years, partly as a result of environmental concerns about exhaust contaminants. Engineers have developed two basic approaches to solving the contaminant problem. The first emphasized the catalytic converter, a modification of the auto exhaust system designed to break down pollutants. The second emphasized redesign of the motorcycle engine's combustion process, which adds more than twice the cost of the catalytic converter alone. However, redesigning the combustion process usually results in improved full efficiency.

Required:

- A. Comment on the strategic advantage of redesigning the combustion process versus simply adding a catalytic converter.
- B. What are the ethical questions, if any, that should be addressed in the above decision?

54. Many desktop and laptop computers in the marketplace today are built from components designed and manufactured by sub-contractors. While the extent of this practice is not well known to consumers, manufacture and sale of multi-component computers that use parts from many different technology companies continues to grow.

Required: If the assembling company is using value chain analysis in its strategic planning, comment on the following:

- A. The cost justification for subcontracting.
- B. The willingness of consumers to buy products they know contain subcontracted parts.
- C. The problems of quality control facing the assembling technology company.

55. Levi Strauss and Co., maker of Levi's familiar 501 and 505 brands of jeans, also make a "Signature" brand that was introduced several years ago for discount retailers such as Wal-Mart. Levi's strategy with the new jeans was to sell a competitively priced pair. The jeans were to be about one-half the price of the familiar 501 and 505 jeans. To get costs down Levi's would:

- Use cheaper fabrics and materials.
- Shun costly mass-market advertising.
- Strictly limit the number of fits, styles, and colors.

The Signature brand had a good first year of sales; assume that results for the second year and later are not yet in.

Required:

1. Assess the new strategy at Levi. What do you think are the potential benefits and risks?
2. How will the firm's value chain and balanced scorecard change as a result of the new strategy?

56. Gordon Manufacturing produces high-end furniture products for the luxury hotel industry. Gordon has succeeded through excellence in design, careful attention to detail in manufacturing and in customer service, and through continuous product innovation. The manufacturing process at Gordon begins with a close consultation with each customer so that the finished product exactly meets the customer's specifications. This commonly means unique designs, special fabrics, and high levels of manufacturing quality. In addition, Gordon believes that a key competitive edge it has over other competitors is that it has an outstanding design staff that is able to work with customers to come up with product designs that go beyond the customer's expectations.

Required: What is the competitive strategy for Gordon Manufacturing? Explain your answer in two or three sentences.

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Anticipating a growth in the demand for luxury hotel rooms, Gordon has expanded its operations to include one new manufacturing plant, and by refitting some of the older plants with newer, more efficient equipment. The installation of the new equipment has caused some delays in filling some customer orders, and Gordon has shifted production from those plants with the delays to other manufacturing plants. The result has been an increase in some processing costs, transportation costs, and delays in meeting customer order deadlines. Also, the introduction of the new equipment has created some tensions with employees who see the new, more efficient equipment as a potential threat to their job security. There is also some disagreement among managers as to whether the new equipment will improve or reduce quality.

Required: Develop a SWOT analysis for Gordon Manufacturing. List one or more items in each category:

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Required: Present a value chain for Gordon Manufacturing with 5-6 activities and explain the role of each activity in the value chain.

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Required: Present a balanced scorecard for Gordon Manufacturing with 3-4 perspectives and 3-4 quantitative critical success factors in each perspective.

Chapter 02 Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map **Answer Key**

Multiple Choice Questions

1. In SWOT analysis, strengths and weaknesses are most easily identified by looking:

- A. At the firm as a potential customer.
- B. Inside the firm at its specific resources.**
- C. At the firm's competition.
- D. At the firm's product.
- E. Outside the firm from a consultant's perspective.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-1

2. In SWOT analysis, opportunities and threats are identified by:

- A. Consultation with middle management.
- B. Talking with the rank and file workers.
- C. Looking outside the firm.**
- D. Brainstorming techniques.
- E. Reviewing our corporate strategy.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-1

3. Which of the following does not represent a possible opportunity for a manufacturing firm as a part of SWOT analysis?

- A. Demographic trends.
- B. Technological advances in the industry.
- C.** An efficient process developed by our firm for manufacturing a product.
- D. Changes in regulation of the industry.
- E. Changes in the economic environment facing all industries.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
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4. The balanced scorecard:

- A. Is not comprehensive, since it doesn't include all the CSFs which contribute to competitive success.
- B. Helps focus managers' attention to bottom line profits.
- C.** Is forward looking, stressing nonfinancial measures that can lead to benefits in the future.
- D. Fails to reflect environmental and social effects of the firm's operations.
- E. Is heavily weighted toward the financial critical success factors (CSFs).

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-4

5. The balanced scorecard can be made more effective by developing it at a detail level so that employees:

- A. Can see how it is put together.
- B. Appreciate all the effort that goes into its preparation.
- C. Respect management for including them in its formulation.
- D.** Can see how their actions contribute to the success of the firm.
- E. Do not feel left out.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-4

6. The Euro is:

- A. A combination of European nations that cooperate on economic and trade matters.
- B. A version of Disney World located near Paris.
- C.** A currency used in many European countries.
- D. A currency used in all European countries.

Difficulty: Easy
Emerging Issues: Global
Learning Objective: 2-2

7. The main objective of value chain analysis is to identify stages of the value chain where the firm can:

- A. Justify increases in the price of the product or service.
- B.** Increase value to the customer or reduce cost in some way.
- C. Outsource production to other producers.
- D. Improve efficiency.

Difficulty: Medium
Learning Objective: 2-3

8. It is becoming more common to see manufacturing firms use the value chain to take strategic steps to improve the overall profitability of the firm by:

- A. Placing greater emphasis on the value chain.
- B. Moving to an emphasis on upstream activities in the value chain.
- C. Moving to an emphasis on downstream activities in the value chain.
- D. Identifying most profitable customers.
- E.** Finding low-cost manufacturing locations.

Difficulty: Medium
Learning Objective: 2-3

9. With regard to critical success factors, which one of the following would not be considered a financial measure of success?

- A. Cash flow.
- B. Growth in industry productivity.**
- C. Sales growth.
- D. Earnings growth.
- E. Reduction in the cost of inventory.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-1

10. Which one of the following critical success customer factors is best measured by warranty expense?

- A. Quality.**
- B. Dealer and distributor efficiency and effectiveness.
- C. Timeliness of delivery.
- D. Customer satisfaction.

Difficulty: Medium
Learning Objective: 2-1

11. Which one of the following is not usually included as a perspective of the balanced scorecard?

- A. Financial Performance.
- B. Financial Reporting.**
- C. Learning and Growth.
- D. Customer Satisfaction.
- E. Internal Business Processes.

Difficulty: Easy
Learning Objective: 2-4

12. Which of the following best describes the type of information that cost management must provide that is important for the success of the organization?

- A. Information of a record keeping nature.
- B. Reported financial information.
- C. Reported nonfinancial information.
- D.** Information that addresses the strategic objectives of the organization.
- E. Long-term planning information.

AACSB: Analytic
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Emerging Issues: Strategy
Learning Objective: 2-4

13. After critical success factors (CSFs) have been identified, the next step in developing a competitive strategy is to develop relevant and reliable measures for these CSFs. These measures are important to help the organization:

- A. Make profit for any extended period.
- B. Increase sales above previous year(s).
- C. Develop policies to enhance customer profitability.
- D. Improve productivity in selected product areas.
- E.** Monitor progress toward achieving strategic goals.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-1

14. A firm has decided to use the balanced scorecard. Which of the following is not an advantage the company will gain by using the balanced scorecard?

- A. It links the firm's CSFs to its strategy.
- B. It helps the firm monitor progress to achievement of its strategic goals.
- C. It can provide a basis for implementing strategic changes desired by the firm.
- D.** It provides a comprehensive financial overview of the firm.
- E. It helps to coordinate activities in the firm.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-4

15. During which step of value chain analysis will the company discover whether or not it has a cost advantage, and why?

- A. During the first step, when the value-chain activities are identified.
- B. During the first step, when the cost driver(s) are identified.
- C.** During the second step, when the firm develops a competitive advantage by either reducing cost or adding value.
- D. The entire purpose of value chain analysis is to determine if the company has a cost advantage; therefore, it occurs in all steps.
- E. In the third step, when the company adopts and implements the balanced scorecard.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-3

16. A local pharmaceutical firm has just announced its discovery of a revolutionary new drug for dieting. However, due to its deteriorating relationship with its union, the unionized portions of the company's employees have threatened to strike. In addition, the company's stock has started to drop due to the firm's difficulty in paying off some of its debt. In this example, what was the firm's core competency(ies)?

- A.** Its research and development.
- B. Its human resources abilities.
- C. Its financing activities.
- D. Its operating activities.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-1

17. During the strengths and weaknesses portion of a firm's SWOT analysis, which of the following would not be discovered?

- A. The firm's method of product distribution was not very efficient.
- B. Through continued research and development, the firm's products were state-of-the-art.
- C.** Due to a lack of barriers to entry into the industry, several new competitors were beginning to enter the market.
- D. The production process needed to be reengineered to reduce unnecessary scrap.
- E. The firm's employees are trained in new manufacturing methods each month.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-1

18. When a firm is determining its opportunities and threats, which of the following would not be mentioned?

- A. An intense rivalry with a local competitor was beginning to start a price war.
- B. The firm just received a patent on its main product.
- C.** The success of the firm's latest marketing campaign.
- D. In spite of its patent, there are several substitute products consumers could use.
- E. Increased efficiency in the manufacturing process.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-1

19. The declining value of the U.S. dollar relative to other currencies in recent years means that:

- A. U.S. exporters will face a greater challenge in exporting U.S.-made products.
- B. U.S. firms will be eager to buy foreign products.
- C. U.S. firms will be less profitable.
- D.** U.S. exporters will have a temporary advantage over other countries in foreign trade.

Difficulty: Hard
Emerging Issues: Global
Learning Objective: 2-2

20. The cause and effect relationships among critical success factors are best captured in:

- A. The balanced scorecard
- B. Business intelligence
- C. The value chain
- D.** The strategy map
- E. SWOT analysis

Difficulty: Easy

Learning Objective: 2-3

21. Which of the following types of organizations can most benefit from value chain analysis?

- A. Service firms.
- B. Not-for-profit organizations.
- C. Manufacturing firms.
- D.** All types of organizations can benefit from value chain analysis.

Difficulty: Easy

Learning Objective: 2-3

22. Which of the following would not likely be a perspective of a balanced scorecard for a consumer products retailer?

- A. Learning and innovation.
- B. Internal processes.
- C. Financial performance.
- D. Customer.
- E.** The exploration of space.

Difficulty: Easy

Learning Objective: 2-4

23. Which of the following statements concerning value chain analysis is false?

- A. The goal of value chain analysis is to find areas where a company can either add value or reduce cost.
- B. The value chain focuses on the entire production process, as well as the sale of the product and service after the sale.
- C. If a company cannot compete in a specific area of the value chain, it might consider the option of outsourcing that portion of the value chain to someone who can perform it better.
- D.** Throughout most industries, the most successful firms are the ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer.

Difficulty: Hard
Learning Objective: 2-3

24. Which of the following could be considered part of the value chain in a service firm?

- A. Inspection of product.
- B. Advertising.
- C. Raw materials.
- D. Customer service.
- E.** Advertising and customer service.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Service
Emerging Issues: Strategy
Learning Objective: 2-3

25. When performing value chain analysis, which of the following should a company not take into account?

- A. The firm's competitive position.
- B. Opportunities to reduce cost.
- C. Possible opportunities where value can be added.
- D.** Strengths, Weaknesses, Opportunities and Threats.

Difficulty: Medium
Learning Objective: 2-3

26. Both cost leadership and differentiated firms can improve on execution through:

- A. Improved automation and a higher output of products.
- B. Benchmarking and total quality management.**
- C. Cost cutting and downsizing of personnel.
- D. Improvements in product development.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-2

27. To increase profitability, technology companies such as IBM have shifted their strategic focus toward:

- A. Increasing equipment sales.
- B. Improving software applications.
- C. Providing new and enhanced customer services.**
- D. Increased focus on research and development.

Difficulty: Hard
Emerging Issues: Service
Learning Objective: 2-3

28. Which of the following is not a key benefit of the balanced scorecard (BSC)?

- A. It provides a means for implementing strategy.
- B. It provides an objective basis for determining each manager's compensation and advancement.
- C. It provides a framework for the firm to achieve a desired organizational change in strategy.
- D. It provides a baseline for how a firm's financial operations compare to competition within the industry.**

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-4

29. A strategy map is:

- A. A detailed flowchart outlining which firm managers are responsible for each implementation of a firm's strategy and when these implementations are to take place.
- B.** A cause and effect diagram of the relationships among the balanced scorecard perspectives to show how the achievement of critical success factors in each perspective affects the achievement of goals in other perspectives and the overall financial performance of the firm.
- C. A framework for the firm to achieve a desired organizational change in strategy while mapping the successes of other firms within the industry.
- D. A comprehensive framework of goals and measurable targets for executing those goals.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-4

30. Sustainability is the balancing of short and long term goals in all three dimensions of the company's performance. Those three areas are:

- A.** Economic, social, and environmental.
- B. Economic, social, and financial.
- C. Economic, environmental, and political.
- D. Social, environmental, and financial.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-5

31. Over the past several years it has become increasingly important for firms to improve achievement towards their social and environmental responsibilities. What is the best way the management accountant can help the firm improve on sustainability?

- A. Participate in programs of environmental organizations.
- B. Develop and implement a legal staff and public relations staff for dealing with sustainability issues that may affect the firm.
- C.** Develop and implement a sustainability scorecard.
- D. Risk management.

AACSB: Ethics
Difficulty: Hard
Emerging Issues: Ethics
Learning Objective: 2-5

32. In terms of strategic cost management for not-for-profit organizations, which of the following is false?

- A. Not-for-profit organizations can benefit from strategic cost management since they must prove their effectiveness and efficiency to a number of different stakeholders.
- B. The balanced scorecard can be used to measure the organization's performance.
- C.** Value chain analysis can be used for analyzing the organization's product design, product testing, advertising, and production processes.
- D. SWOT analysis is most helpful for non-profit organizations when it deals with the organization's competitive threats, opportunities, and critical success factors.

Difficulty: Easy
Learning Objective: 2-3

33. In order to remain competitive in the contemporary business environment, several firms have started training their employees to stop viewing problems as strictly functional -- a marketing problem, or an accounting problem, for example. What does this trend illustrate about strategic management?

- A.** There has been a renewed emphasis on integrative thinking and solving problems cross-functionally.
- B. Functional barriers are an inherent part of a company's value chain.
- C. Firms are increasingly seeing the value of business intelligence.
- D. SWOT analysis is designed to break down functional barriers.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-1

34. Which of the following organizations presents awards to firms that excel at execution of strategy, based on criteria such as leadership, marketing, strategic planning and process management?

- A. International Organization for Standardization.
- B.** Malcolm Baldrige National Quality Program.
- C. Global Reporting Initiative.
- D. World Resources Institute.
- E. American Institute of Certified Public Accountants.

Difficulty: Medium
Learning Objective: 2-2

35. The critical financial success factor of profitability can be measured by:

- A. Community service activities.
- B. Customer returns and complaints.
- C. Number of product defects.
- D. Number of design changes.
- E.** Earnings from operations.

Difficulty: Easy

Learning Objective: 2-4

36. Using value-chain analysis, a firm can develop a competitive advantage by specifically looking for ways to:

- A.** Add value and reduce cost.
- B. Improve manufacturing productivity.
- C. Improve customer service.
- D. Improve product quality.
- E. Reduce organizational risk.

Difficulty: Easy

Learning Objective: 2-3

37. Value activities can best be defined as:

- A. Activities that firms in the industry must perform to improve a product.
- B.** Activities that firms in the industry must perform in the process of converting raw material to final product, including customer service.
- C. Activities that firms in the industry must perform in the process of closing down a product line, including customer service.
- D. Activities that firms in the industry must perform to consider ways of marketing a product.
- E. Activities that firms in the industry must perform in the process of considering new products, including customer service.

Difficulty: Hard

Learning Objective: 2-3

38. The World Resources Institute has defined:

- A. Types of cost management.
- B. Categories for environmental performance indicators.**
- C. Methods for achieving sustainability.
- D. Categories for economic performance indicators.

Difficulty: Medium
Emerging Issues: Global
Learning Objective: 2-5

39. A firm succeeds on its ability to deliver products to customers more quickly than rival companies in its industry. This skill is an example of the firm's:

- A. Core competency.**
- B. Research effectiveness.
- C. Production efficiency.
- D. Cost control effectiveness.
- E. Value-chain analysis.

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Service
Emerging Issues: Strategy
Learning Objective: 2-1

40. SWOT analysis, a valuable analysis tool, stands for:

- A. Strengths - Workability - Opportunities - Threats
- B. Strategies - Weaknesses - Opportunities - Threats
- C. Strengths - Weaknesses - Observations - Threats
- D. Strengths - Weaknesses - Opportunities - Threats**
- E. Strategies - Weaknesses - Observations - Threats

AACSB: Analytic
Difficulty: Easy
Emerging Issues: Strategy
Learning Objective: 2-1

41. Which of the following perspectives of a Balanced Scorecard would most likely be the ultimate target in a strategy map for a public company?

- A. Learning and innovation.
- B. Internal processes.
- C. Financial performance.**
- D. Customer service.
- E. Employees and community.

Difficulty: Medium
Learning Objective: 2-4

42. Some of the indicators of a growing concern for sustainability include:

- A. The liquidity crisis and sub-prime loan scandals.
- B. The global economic recession.
- C. The increased use of value chain analysis.
- D. The increased concern about global warming.**
- E. The increased use of the balanced scorecard.

Difficulty: Easy
Learning Objective: 2-5

43. Patagonia, maker of clothing and gear for outdoor enthusiasts, is very conscious of sustainability issues. The company chose not to produce a product because:

- A. The cost of manufacturing the product exceeded its target cost.
- B. There was not sufficient demand for the product at the planned price.
- C. The environmental impact of toxic waste was unacceptable.
- D. The environmental impact of producing the product in terms of carbon emissions and energy consumptions was unacceptable.**
- E. The company could not justify adding another product when there were acceptable alternatives already in the company's product offerings.

Difficulty: Medium
Learning Objective: 2-5

44. The decline of the U.S. dollar relative to other currencies has caused firms outside the U.S., such as BMW and Volkswagen to:

- A. Experience increasing sales in the U.S.
- B. Experience increasing sales worldwide.
- C. Locate plants in the U.S. to reduce overall manufacturing costs.**
- D. Require dealers to make payments in the Euro.

Difficulty: Medium
Emerging Issues: Global
Learning Objective: 2-3

45. NAFTA and WTO refer to

- A. Organizations with expertise in business process improvement.
- B. Laws and organizations which regulate international trade.**
- C. Laws and regulations regarding sustainability.
- D. Organizations and trade groups that work for global economic development.

Difficulty: Medium
Emerging Issues: Global
Learning Objective: 2-3

46. The five steps of strategic decision making include all of the following steps except:

- A. Obtain information and conduct analyses.
- B. Determine the organization's strategy.**
- C. Identify the alternative actions.
- D. Continue an on-going evaluation of the problem.
- E. Choose and implement the desired action.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-3

Essay Questions

47. Auto engines have become more complex over the past twenty years, partly as a result of environmental concerns about exhaust contaminants. Engineers have developed two basic approaches to solving the contaminant problem. The first emphasized the catalytic converter, a modification of the auto exhaust system designed to break down pollutants. The second emphasized redesign of the auto engine's combustion process, which adds more than twice the cost of the catalytic converter alone. However, redesigning the combustion process usually results in improved full efficiency.

Required: A. Comment on the strategic advantage of redesigning the combustion process versus simply adding a catalytic converter.

B. What are the ethical questions, if any, that should be addressed in the above decision?

A. This illustrates the basic conflict between higher upstream costs with higher downstream benefits versus lower initial cost to meet minimum standards or requirements. The advantage of increased gas mileage and lowered pollution will have to be "sold" to the consumer as beneficial, not only to the auto's owner, but also to society in the form of a cleaner environment.

B. Several ethical issues are involved in this decision. What responsibility does the auto company have regarding a cleaner environment and reduced use of oil, a non-renewable resource? What responsibility does the auto company have in meeting, if not exceeding, government regulations on pollution control? What responsibility do we as auto buyers have to a cleaner environment and protection of natural resources? Strategic long-range planning would require consideration of options that cost more to produce but generate higher future benefits, even if those benefits do not accrue directly to the manufacturer.

AACSB: Analytic

AACSB: Ethics

Difficulty: Medium

Emerging Issues: Ethics

Emerging Issues: Strategy

Learning Objective: 2-2

48. Studebaker Corporation, one of the earliest auto manufacturers, prospered in the late 1940's and into the 1950's. Its advertising after World War II emphasized quality of design and production. The corporation also used the stability of its work force in its advertisements, often featuring pictures of father and son working side by side in its factories.

Required: A. From just this brief description of Studebaker Corporation, which type of competitive strategy--cost leadership or differentiation--would you guess Studebaker was using? Explain your choice.

B. Given your answer in Part (A), speculate on what market factors might have caused the corporation to go into bankruptcy and cease production in the mid-1960s.

A. Studebaker attempted to achieve a distinctive quality image in its advertising as a way to differentiate itself from other auto company products. Presumably, by emphasizing the design and the way the car was made, the firm was trying to impress that Studebaker would be more desirable than competitive autos. Additionally, the advertisements tried to appeal to masses hearts and not just need for transportation and this clearly is not a cost leadership issue. (Its cars were competitively priced, but the company was not a cost leader, nor did it attempt to focus on a particular segment of the auto-buying public.)

B. If differentiation was the chosen answer, it follows that the stress on quality eventually led to higher cost (and prices) that made the car less competitive. In fact, this was partly the reason the company failed, but futuristic design resulted in a look the public was not ready to accept. If the students chose cost leadership as the answer, their explanation would have to be evaluated on the basis of its logic and originality.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-4

49. Many products in the marketplace today are built from components designed and manufactured by sub-contractors. While the extent of this practice is not well known to consumers, manufacture and sale of multi-component units that use parts from many different companies continues to grow.

Required: If the assembling company is using value-chain analysis in its strategic planning, comment on the following:

- A. The cost justification for subcontracting.
 - B. The willingness of consumers to buy products they know contain subcontracted parts.
 - C. The problems of quality control facing the assembling company.
-
- A. If a firm can consistently buy quality items delivered on time for less than it costs to make the same items in-house, there is a need for strong subjective reasons for not subcontracting.
 - B. Most products are purchased because they are price- and quality-competitive. Little brand name loyalty remains among consumers, especially when it costs more. The consumer has adjusted to the marketplace where use of subcontracted components is common and accepted. The assembler provides the warranty, which is only as good as the company giving it.
 - C. On-site quality control would seem to better ensure quality than would a guarantee from a supplier. However, subcontractors that specialize in component manufacture can and do operate at high quality levels. Components can be checked for quality just before assembly, and penalty clauses can be written into contracts to ensure high quality levels for components produced by subcontractors.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-3

50. Exeter Industries produces and markets several lines of food and beverage products. The company plans to expand its market to cover a new geographical area, and the first products to be introduced into this new market are three of Exeter's coffees. A meeting of the marketing committee has been called to determine the pricing and promotional strategy for the introduction of these coffees.

Mark Williams, vice president of marketing, has suggested that Exeter continue its policy of premium pricing for Rich Roast Coffee in the new market. "Rich Roast is a superior blend of Brazilian coffees and should have little difficulty gaining customer acceptance. The use of other promotional strategies doesn't appear necessary at this time."

Carol Randolph, general sales manager, agreed with this strategy for Rich Roast but recommended a different approach for Vitality Coffee, Exeter's brand of decaffeinated coffee. "Vitality is an unknown name in this region and will require a determined promotional effort to gain market share from other very competitive products. We could try penetration pricing or packaging options combined with either manufacturer's coupons or rebates. Whatever strategy we select, we should hit the market hard if we want to be successful."

Dan Felton has been appointed regional sales manager for the new geographical area and is concerned about the acceptance of Mellow Roast Coffee, a blend of regular and decaffeinated coffees. "This is a brand new type of coffee in this region and may just sit on the shelf unless we develop an effective advertising campaign. Pricing or packaging options will be worthless unless the product gains some visibility and the targeted customer base is made aware of the benefits of Mellow Roast. We need a good slogan like "A gentle wakeup without caffeine stress!"

Required: Mark Williams has suggested the continuance of premium pricing for Rich Roast Coffee. Explain the strategic role of premium pricing, and describe the economic circumstances in the marketplace that would encourage the use of this pricing strategy. (CMA adapted)

The strategic role of premium pricing includes the following:

- Creating an image of a top-of-the-line, high-quality product.
- Establishing brand loyalty.
- The product or service can be significantly differentiated to justify a premium price.
- Demand is price inelastic, that is, pricing does not significantly affect demand.
- Production and marketing facilities are inadequate to serve a large market.
- The firm is unable to reduce cost to the level necessary to compete in a cost leadership manner.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-2

51. One of the large auto manufacturers in the 1970s developed a sport version of its family sedan. The new version was equipped with a small V8 engine and other performance improvements. The car was called the Pirouette, because of its graceful appearance and performance. Unfortunately, there was a difficulty in servicing the vehicle. The engine was too large for the space available, and it had to be moved slightly on the engine mounts in order for one of the spark plugs to be changed.

Required: Comment on the strategic competitive advantage of the Pirouette. What type of management technique was likely used in its design? What type of design approach should have been used?

Based on an actual case, this story illustrates how short term thinking (putting a V8 engine into a car too small for a V8) leads to long-term problems. The proper engine for the car would have been one of the firm's six cylinder engines. The firm faced not only the servicing and warranty issues related to the poor design, but also the cost of loss of customer goodwill. The management technique used here was probably based on short-run marketing goals. That is, the managers were motivated to increase sales in the current year, even if it meant taking some actions that could result in unfavorable long term consequences.

AACSB: Analytic
Difficulty: Hard
Emerging Issues: Strategy
Learning Objective: 2-2

52. Williams Instruments manufactures specialized surgical equipment for hospitals and clinics throughout the world. One of Williams' most popular products, comprising 40% of its revenues and 35% of its profits, is a blood pressure measuring device. Average production and sales are 400 units per month. Williams has achieved its success in the market through excellent customer service and product reliability. The manufacturing process consists primarily of assembly of components purchased from various electronic firms, plus a small amount of metalworking and finishing. The manufacturing operations cost \$600 per unit. The purchased parts cost Williams \$800, of which \$300 is for parts which Williams could manufacture in its existing facility for \$100 in materials for each unit, plus an investment in labor and equipment which would cost \$175,000 per month.

Also, Williams is considering outsourcing to another firm, Matrix Concepts, Inc, the marketing, distribution, and servicing for its units. This would save Williams \$75,000 in monthly materials and labor costs. The cost of the contract would be \$125 per product.

Required:

1. Prepare a value chain analysis for Williams to assist in the decision whether to manufacture or buy the parts, and whether to contract out the marketing, distribution, and servicing of the units.
2. Should Williams continue to:
 - (A). purchase the parts or manufacture them?
 - (B). provide the marketing, distribution and service, or outsource this activity to Matrix?

Explain your answers.

1.1

Value Activity	Option One- Manufacture	Option Two- Buy
First: Raw Materials	Williams not involved at this step in the value chain	Williams not involved at this step in the value chain
Second: Manufacture of parts for the equipment	Williams not involved at this step in the value chain; the cost is \$500 to Williams	Williams not involved at this step in the value chain; the cost of these parts is \$500 to Williams (Note: \$500 is the \$800 total less \$300 for purchased parts that could be manufactured.
Third: Manufacture of components	Williams purchases \$300 of these parts	Williams manufactures these parts for \$100 each plus monthly costs of \$175,000
Fourth: Assembly	Williams' costs are \$600	Williams' costs are \$600
Fifth: Marketing, distribution and service	Williams' costs are \$75,000 per month	Williams contracts these services out to Matrix for \$125 per product
Costs Summary: Costs which <i>differ between the two options</i>	Purchase of components: $300 \times 400 = \$120,000$	Unit costs for manufacture of components ($\$100 \times 400$) + monthly cost of \$175,000 for labor and equipment = \$215,000 The total cost of purchase is less than the cost of manufacture, by \$95,000.
	Monthly cost for marketing, distribution and service: \$75,000	Monthly cost of Matrix contract: $\$125 \times 400 = \$50,000$ The total cost of the Matrix contract is less than the cost of the inside service, by \$25,000

2. (A). The cost to purchase is \$95,000 less than the cost to manufacture. Therefore, Williams should purchase the components.

(B). The cost of the monthly marketing, distribution, and service in-house is \$25,000 more than the cost of the outside contract. Since Williams is a manufacturer of specialized instruments, it

is likely to compete on the basis of product differentiation rather than cost. Therefore, Williams should choose the option in each case that advances the firm's strategy, and consider cost savings a second priority. If the firm can achieve higher quality by manufacturing the components, then it should do so, even if this creates a higher cost of \$95,000. Similarly, the decision about marketing, distribution and service should be made with the firm's strategy in mind.

AACSB: Analytic
Difficulty: Hard
Emerging Issues: Strategy
Learning Objective: 2-3

53. Motorcycle engines have become more complex over the past twenty years, partly as a result of environmental concerns about exhaust contaminants. Engineers have developed two basic approaches to solving the contaminant problem. The first emphasized the catalytic converter, a modification of the auto exhaust system designed to break down pollutants. The second emphasized redesign of the motorcycle engine's combustion process, which adds more than twice the cost of the catalytic converter alone. However, redesigning the combustion process usually results in improved full efficiency.

Required:

- A. Comment on the strategic advantage of redesigning the combustion process versus simply adding a catalytic converter.
- B. What are the ethical questions, if any, that should be addressed in the above decision?

A. This illustrates the basic conflict between higher upstream costs with higher downstream benefits versus lower initial cost to meet minimum standards or requirements. The advantage of increased gas mileage and lowered pollution will have to be "sold" to the consumer as beneficial, not only to the auto's owner, but also to society in the form of a cleaner environment.

B. Several ethical issues are involved in this decision. What responsibility does the motorcycle company have regarding a cleaner environment and reduced use of oil, a non-renewable resource? What responsibility does the motorcycle company have in meeting, if not exceeding, government regulations on pollution control? What responsibility do we as auto buyers have to a cleaner environment and protection of natural resources? Strategic long range planning would require consideration of options that cost more to produce but generate higher future benefits, even if those benefits do not accrue directly to the manufacturer.

AACSB: Analytic
AACSB: Ethics
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-2

54. Many desktop and laptop computers in the marketplace today are built from components designed and manufactured by sub-contractors. While the extent of this practice is not well known to consumers, manufacture and sale of multi-component computers that use parts from many different technology companies continues to grow.

Required: If the assembling company is using value chain analysis in its strategic planning, comment on the following:

- A. The cost justification for subcontracting.
 - B. The willingness of consumers to buy products they know contain subcontracted parts.
 - C. The problems of quality control facing the assembling technology company.
-
- A. If a technology firm can consistently buy quality items delivered on time for less than it costs to make the same items in-house, there have to be strong subjective reasons for not subcontracting.
 - B. Most products are purchased because they are price and quality competitive. For many consumer products, little brand name loyalty remains among consumers, especially when it costs more. The consumer has adjusted to the marketplace where use of subcontracted components is common and accepted. The assembler provides the warranty, which is only as good as the company giving it.
 - C. On-site quality control would seem to better ensure quality than would a guarantee from a supplier. However, subcontractors that specialize in component manufacture can and do operate at high quality levels. Components can be checked for quality just before assembly, and penalty clauses written into contracts to ensure high quality levels for components produced by subcontractors.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-3

55. Levis Strauss and Co., maker of Levi's familiar 501 and 505 brands of jeans, also make a "Signature" brand that was introduced several years ago for discount retailers such as Wal-Mart. Levi's strategy with the new jeans was to sell a competitively priced pair. The jeans were to be about one-half the price of the familiar 501 and 505 jeans. To get costs down Levi's would:

- Use cheaper fabrics and materials.
- Shun costly mass-market advertising.
- Strictly limit the number of fits, styles, and colors.

The Signature brand had a good first year of sales; assume that results for the second year and later are not yet in.

Required:

1. Assess the new strategy at Levi. What do you think are the potential benefits and risks?
2. How will the firm's value chain and balanced scorecard change as a result of the new strategy?

1. Recent annual reports show that sales and profits on the Signature line are doing well. Levi's has a portion of its web site devoted to the Signature line (<http://www.levistrauss.com/signature.com>). The risks of the new line are that it might pull the company from what has been a tradition of differentiated products (501, 505) to cost leadership (the Signature line), leaving consumers confused about the Levi brand. The risks of the new brand include:

- could turn off department store customers of Levi's core jeans
- Signature jeans could end up looking and feeling shoddy
- after a period of buzz, may sink below the radar
- customers may get bored and want more variety

Michael Porter's observation might be that the firm is in risk of getting "stuck in the middle" between the cost leadership and differentiation strategies.

2. The firm's value chain will likely change little, as the manufacture of the jeans will continue to be produced in low-cost facilities world wide. The largest difference in the jeans will be in the fabrics used, the design, and the variety of jeans offered. The balanced scorecard for Levi's is not likely to change much either, as noted above for the value chain. Levi Straus uses the BSC in its shared services center in Eugene Oregon.

Difficulty: Medium
Learning Objective: 2

56. Gordon Manufacturing produces high-end furniture products for the luxury hotel industry. Gordon has succeeded through excellence in design, careful attention to detail in manufacturing and in customer service, and through continuous product innovation. The manufacturing process at Gordon begins with a close consultation with each customer so that the finished product exactly meets the customer's specifications. This commonly means unique designs, special fabrics, and high levels of manufacturing quality. In addition, Gordon believes that a key competitive edge it has over other competitors is that it has an outstanding design staff that is able to work with customers to come up with product designs that go beyond the customer's expectations.

Required: What is the competitive strategy for Gordon Manufacturing? Explain your answer in two or three sentences.

Because the emphasis of the company is on innovation, quality, product design, and customer service, Gordon competes on differentiation. The company succeeds by satisfying the customers, which are luxury hotels, on the features and quality of its products.

AACSB: Analytic
Difficulty: Medium
Emerging Issues: Strategy
Learning Objective: 2-2

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Anticipating a growth in the demand for luxury hotel rooms, Gordon has expanded its operations to include one new manufacturing plant, and by refitting some of the older plants with newer, more efficient equipment. The installation of the new equipment has caused some delays in filling some customer orders, and Gordon has shifted production from those plants with the delays to other manufacturing plants. The result has been an increase in some processing costs, transportation costs, and delays in meeting customer order deadlines. Also, the introduction of the new equipment has created some tensions with employees who see the new, more efficient equipment as a potential threat to their job security. There is also some disagreement among managers as to whether the new equipment will improve or reduce quality.

Required: Develop a SWOT analysis for Gordon Manufacturing. List one or more items in each category:

There are likely to be a wide variety of answers. Here are some representative items.

Strengths

- Reputation for quality, product design, customer service, and innovation

Weaknesses

- Delays in meeting customer orders
- Potential labor problems due to labor concerns about new equipment
- Unknown effect of new equipment on product quality.

Opportunities

- Expected growth in demand for Gordon's products as the demand for luxury hotel accommodations increases

Threats

- Ability to replace skilled workers due to labor problems
- Order delays - effect on customer satisfaction
- Unknown future demand for luxury hotel accommodations; if the growth does not happen, then Gordon will have a lot of expensive unused capacity.

Difficulty: Medium
Learning Objective: 2-1

58. Gordon Manufacturing produces high-end furniture products for the luxury hotel industry. Gordon has succeeded through excellence in design, careful attention to quality in manufacturing and in customer service, and through continuous product innovation. The manufacturing process at Gordon begins with a close consultation with each customer so that the finished product exactly meets the customer's specifications. This commonly means unique designs, special fabrics, and high levels of manufacturing quality. In addition, Gordon believes that a key competitive edge it has over other competitors is that it has an outstanding design staff that is able to work with customers to come up with product designs that go beyond the customer's expectations.

Required: Present a value chain for Gordon Manufacturing with 5-6 activities and explain the role of each activity in the value chain.

One of a variety of possible answers follows:

Value Activity	The Role of this Activity
Market research	To benchmark and maintain overall strategy
Product planning	Importance of developing new products and products that satisfy the high expectations of the luxury hotel customer
Advertising and Promotion	Stress the firm's quality and innovation
Product design	Focus on innovation, quality
Develop bill of materials	May need long lead times to acquire the best quality materials
Source parts and skilled labor	Very important because of Gordon's reputation for quality and craftsmanship
Scheduling production	A critical step because of long lead times and tight labor resources
Cutting and trimming materials	Importance of quality
Assembly	Importance of quality
Finish and painting	Importance of quality
Preparation for Shipment	Importance of quality
Invoice customer	Accuracy, customer service
Customer service	A key step in the differentiation strategy
Warranty returns and allowances	Treat these as opportunities for product redesign and improvement, i.e., on-going redesign
Customer satisfaction follow-up	Important for the differentiation strategy

Difficulty: Hard

Learning Objective: 2-3

Chapter 02 - Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map

59. Gordon Manufacturing produces high-end furniture products for the luxury hotel industry. Gordon has succeeded through excellence in design, careful attention to quality in manufacturing and in customer service, and through continuous product innovation. The manufacturing process at Gordon begins with a close consultation with each customer so that the finished product exactly meets the customer's specifications. This commonly means unique designs, special fabrics, and high levels of manufacturing quality. In addition, Gordon believes that a key competitive edge it has over other competitors is that it has an outstanding design staff that is able to work with customers to come up with product designs that go beyond the customer's expectations.

Required: Present a balanced scorecard for Gordon Manufacturing with 3-4 perspectives and 3-4 quantitative critical success factors in each perspective.

The four perspectives are shown below, and example CSFs in each perspective.

Financial
Sales, sales growth -- by product line and customer
Earnings, by product line and customer
ABC-based product costs
Return on investment, by product line
New investment, by product line

Internal Processes
Measures of quality; number of defects, customer complaints...
Waste of materials
Cycle time, the time from the start to the finish of producing an order
Productivity measures; hours per product, materials per product
Inventory levels

Customer
Lead time; the time from when the order is received until it is delivered
Retention of profitable customers
Satisfaction, in specific categories: as measured by customer survey, number of referrals,...
Number of new customers

Learning and Innovation
Training hours
Retention of key employees
Employee satisfaction, as measured by survey or number of complaints
New product development; number of new product ideas

Difficulty: Medium
Learning Objective: 2-4