

## Chapter 2—The External Environment: Opportunities, Threats, Industry Competition, and Competitor Analysis

### TRUE/FALSE

1. The Chapter 2 Opening Case suggests that in the future, BP and all other oil and gas firms should expect regulatory change in the political/legal segment of the general environment.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 35-36

OBJ: Application

NOT: AACSB: Ethical & Legal Understanding | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Application

2. The recent joint ventures formed by BP with Russian and Indian partners show the importance of the technological segment of the general environment that BP and other integrated oil firms have to deal with when contending with scarce resources (Chapter 2 Opening Case).

ANS: F                      PTS: 1                      DIF: Medium                      REF: 35-36

OBJ: Application

NOT: AACSB: Ethical & Legal Understanding | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Application

3. The external environment facing business stays relatively constant over time.

ANS: F                      PTS: 1                      DIF: Easy                      REF: 37

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

4. Demographic, economic, political/legal, sociocultural, technological, global, and physical are the seven elements comprising the industry environment.

ANS: F                      PTS: 1                      DIF: Hard                      REF: 37 (Table 2.1)

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

5. Firms can directly control the elements of the seven segments of the general environment.

ANS: F                      PTS: 1                      DIF: Easy                      REF: 38

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

6. To successfully deal with today's external environment and to achieve strategic competitiveness, firms must be aware and fully understand the different segments of that environment.

ANS: T                      PTS: 1                      DIF: Easy                      REF: 37

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |

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7. The recent bankruptcy filings by General Motors and Chrysler Corporation illustrate that firms cannot directly control the general environment's segments.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 38

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

8. The industry environment directly influences the firm and its competitive actions and responses.

ANS: T                      PTS: 1                      DIF: Easy                      REF: 38

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Knowledge

9. Competitor analysis is focused on the factors and conditions influencing an industry's profitability potential.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 39

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Comprehension

10. When firms analyze the external environment, they typically have complete and unambiguous data.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 39

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Comprehension

11. Microsoft's ability to achieve strategic competitiveness is affected by the threat of smartphones surpassing personal computer sales in the near future.

ANS: T                      PTS: 1                      DIF: Easy                      REF: 39

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Application

12. Monitoring involves the development of a forecast of what might happen at a future point in time.

ANS: F                      PTS: 1                      DIF: Easy                      REF: 40

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing decision-making processes | Bloom: Knowledge

13. Scanning involves detecting meaning through early signals of environmental trends.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 40

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |

14. When Philip Morris International studies the cigarette tax policies of various nations, it is engaged in the forecasting component of the environmental analysis process.

ANS: F                      PTS: 1                      DIF: Hard                      REF: 40

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing decision-making processes | Bloom: Application

15. The objective of assessing the external environment is to determine the timing and importance of the effects of environmental changes and trends on the strategic management of the firm.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 41

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

16. Age structure, geographic distribution, income distribution, interest rates, and process innovations are all elements of concern when studying the demographic segment of the general environment.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 42-43

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

17. In recent times, businesspeople have become more confident in the ability of economists to provide valid and reliable predictions about the world's economic environment.

ANS: F                      PTS: 1                      DIF: Easy                      REF: 44

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing decision-making processes | Bloom: Comprehension

18. The political/legal segment of the general environment is the arena in which organizations and interest groups compete for attention, resources and a voice in the laws and regulations guiding interactions among nations.

ANS: T                      PTS: 1                      DIF: Easy                      REF: 44-45

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

19. Legislation introduced in the U.S. Congress during the early tenure of the Obama administration intended to reduce the amount of work U.S. companies outsource is an example of a potential change in the sociocultural segment of the general environment.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 45

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application

20. The European sovereign-debt crisis and political upheavals in Tunisia, Libya, Bahrain and Syria illustrate uncertainties in the political/legal segment of the general environment that could affect the performance of business firms.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 45

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Application

21. Developing a political strategy by the newly formed General Motors would likely be ineffective as firms are generally unable to influence the political/legal environment.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 45

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Application

22. Although health care reform legislation was passed in the early part of the Obama administration, it continues to be a bone of contention especially since the 2010 midterm election and attempts have been made to repeal it in many states. These attitudes about health care reform make up the sociocultural segment of the general environment.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 45-46

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

23. The technological segment includes the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes, and materials.

ANS: T                      PTS: 1                      DIF: Easy                      REF: 46

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Knowledge of technology, design, & production | Bloom: Knowledge

24. Early adopters of new technology often achieve higher market shares and higher returns than later adopters of the technology.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 46

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Creation of Value | Dierdorff & Rubin: Knowledge of technology, design, & production | Bloom: Knowledge

25. Contrary to popular belief, the global segment of the external environment does not provide many opportunities for firms such as H.J. Heinz, SAB Miller, and Citigroup, all of which recently experienced low growth and profits coming from emerging markets.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 47

OBJ: Application

NOT: AACSB: Multicultural & Diversity | Management: Individual Dynamics | Dierdorff & Rubin: Managing decision-making processes | Bloom: Application

26. Globalfocusing is often used by firms with high levels of international operations who further increase their internationalization by focusing on global niche markets.

ANS: F                      PTS: 1                      DIF: Hard                      REF: 48

OBJ: Comprehension

NOT: AACSB: Multicultural & Diversity | Management: Individual Dynamics | Dierdorff & Rubin: Managing decision-making processes | Bloom: Comprehension

27. It is uncommon for a large firm to receive a majority of revenues from outside its home country.

ANS: F                      PTS: 1                      DIF: Easy                      REF: 47

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation | Bloom: Knowledge

28. Global warming and energy consumption are aspects of the technological environment segment that firms should monitor.

ANS: F                      PTS: 1                      DIF: Easy                      REF: 48

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

29. PepsiCo's strategy called "capital performance with a purpose" links green efforts in 11 businesses to the bottom line. This is an example of addressing concerns in the physical segment of the general environment.

ANS: T                      PTS: 1                      DIF: Easy                      REF: 48

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

30. The Chapter 2 Strategic Focus notes that McDonald's has pursued green restaurant design, sustainable packaging, waste management, and energy efficiency all of which are aspects of the technological segment of the general environment.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

31. The Chapter 2 Strategic Focus on efforts by firms to address the physical environment indicated that producing and selling "green" (environmentally friendly) products was not a successful strategy.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

32. Producing and selling "green" (environmentally friendly) products is one way that companies have responded to pressures from the physical environment (Chapter 2 Strategic Focus).

ANS: T                      PTS: 1                      DIF: Medium                      REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application

33. According to the Chapter 2 Strategic Focus, in response to hard economic conditions, there is declining trend among many companies to reduce their impact on the physical environment.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application

34. The Chapter 2 Strategic Focus indicates that producing and selling “green” (i.e., environmentally friendly) products is one way that companies have responded to pressures from the physical environment.

ANS: T                      PTS: 1                      DIF: Medium                      REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application

35. According to a recent study reported in the *Wall Street Journal*, 95% of consumer products examined committed at least one offense of “green washing,” a term used to describe unproven environmental claims (Chapter 2 Strategic Focus).

ANS: T                      PTS: 1                      DIF: Easy                      REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application

36. Compared with the general environment, the industry environment has a more indirect effect on the firm’s strategic competitiveness and ability to earn above-average returns.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 51

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

37. The five forces model expands the arena of competitive analysis beyond direct competitors (i.e., rivals) to include buyers and suppliers who may also be a source of competition.

ANS: T                      PTS: 1                      DIF: Hard                      REF: 51

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

38. A high threat of new entrants keeps pricing pressures on existing firms, keeping consumers happy and making the industry attractive and profitable.

ANS: F                      PTS: 1                      DIF: Medium                      REF: 51-52

OBJ: Comprehension

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NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

39. Switching costs, access to distribution channels, economies of scale, large numbers of competing firms, and slow industry growth are some of the entry barriers that may affect the threat of new entrants to an industry.

ANS: F PTS: 1 DIF: Hard REF: 52-54

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

40. An example of a government policy barrier to entry would be where the Antitrust Division of the Department of Justice disallows a merger because it creates a firm that is too dominant and would thus create unfair competition.

ANS: T PTS: 1 DIF: Easy REF: 54

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

41. Suppliers are powerful when the industry is dominated by a few large companies, no satisfactory substitutes are available, the selling industry is relatively more concentrated than the purchasing industry, and switching costs are high.

ANS: T PTS: 1 DIF: Hard REF: 55

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

42. The main competitive factor facing newspaper companies is the existence of substitute products and services.

ANS: T PTS: 1 DIF: Easy REF: 55

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application

43. Tablets such as the iPad have had little effect on the sale of PCs in the U.S. and PC producers such as Taiwan's Acer Computers have experienced significant growth.

ANS: T PTS: 1 DIF: Medium REF: 57

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application | Bloom: Application

44. One broad theme of the Chapter 2 Strategic Focus is that traditional sources of media (paper, tape, and film) are facing powerful substitutes in the form of digital media.

ANS: T PTS: 1 DIF: Medium REF: 56-57

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |

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45. Substitution of digital for traditional media has led to industry convergence. For example, mobile phone producers such as Nokia, Samsung, and Motorola now produce smartphones in response to Apple's iPhone (Chapter 2 Strategic Focus).

ANS: T PTS: 1 DIF: Easy REF: 56-57

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application | Bloom: Application

46. One barrier faced by digital device producers is that the firms producing the content (musicians, news organizations and newspapers, television and movie producers, and publishers) have resisted making that content available through all digital devices. (Chapter 2 Strategic Focus).

ANS: F PTS: 1 DIF: Medium REF: 56-57

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application | Bloom: Application

47. Typically, fast industry growth increases the vigor of retaliation by existing firms against a new industry rival.

ANS: F PTS: 1 DIF: Medium REF: 58

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

48. High exit barriers are factors that cause a company to remain in an industry even though the profitability of doing may be questionable.

ANS: T PTS: 1 DIF: Easy REF: 59

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

49. Exit barriers are especially low in the airline industry as aircraft are not particularly specialized and can easily be sold to other airlines, air cargo companies, the military, or even to wealthy individuals who want to own a private jet.

ANS: T PTS: 1 DIF: Medium REF: 59

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

50. Generally, the stronger the competitive forces, the higher the profit potential of an industry.

ANS: F PTS: 1 DIF: Medium REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension



51. An attractive industry is one that is characterized by high entry barriers, suppliers and buyers with strong bargaining power, low threats from substitute products, and low rivalry among firms.

ANS: F PTS: 1 DIF: Hard REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

52. Strategic groups are firms in different industries following the same or similar strategies.

ANS: F PTS: 1 DIF: Medium REF: 60

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

53. The strengths of the five competitive forces are similar across strategic groups within an industry.

ANS: F PTS: 1 DIF: Medium REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

54. The more distant strategic groups are in terms of their strategies, the greater the likelihood of rivalry between the groups.

ANS: F PTS: 1 DIF: Medium REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

55. A firm experiencing intense rivalry with powerful competitors should energetically engage in competitor analysis.

ANS: T PTS: 1 DIF: Easy REF: 61

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

56. The competitor analysis is the final part of the external environment analysis and focuses on each company against which a firm directly competes (e.g., Coca-Cola and PepsiCo, Home Depot and Lowe's, and Airbus and Boeing).

ANS: T PTS: 1 DIF: Easy REF: 60-61

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

57. The process of competitor analysis should examine the competitor's future objectives, current strategy, assumptions, and capabilities.

ANS: T PTS: 1 DIF: Hard REF: 61

OBJ: Comprehension

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NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

58. When Delta airlines wants to study Continental Airlines, it must examine both Continental and its complementor, Star Alliance.

ANS: T PTS: 1 DIF: Hard REF: 62

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

59. Eavesdropping is an ethical way to obtain information about competitors' actions.

ANS: F PTS: 1 DIF: Easy REF: 63

OBJ: Knowledge

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Foundational skills | Bloom: Knowledge

60. Any competitor intelligence practice that is legal is also ethical.

ANS: F PTS: 1 DIF: Medium REF: 63

OBJ: Comprehension

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Foundational skills | Bloom: Comprehension

## MULTIPLE CHOICE

1. According to the Chapter 2 Opening Case on BP, in response to the Deepwater Horizon oil spill, the company should expect increased scrutiny coming from which of the following segments of the general environment?
- Political/legal.
  - Global.
  - Technological.
  - Sociocultural.

ANS: A PTS: 1 DIF: Medium REF: 35-36

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

2. As noted in the Chapter 2 Opening Case, gas drilling and fracturing have dramatically increased gas reserves and may provide a substitute for other carbon dioxide producing products such as coal. This change illustrates the effect of the \_\_\_\_\_ segment of the general environment.
- economic
  - political/legal
  - technological
  - industry

ANS: C PTS: 1 DIF: Medium REF: 35-36

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing the task environment | Bloom: Application

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3. The recent joint ventures formed by BP with Russian and Indian partners show the importance of the \_\_\_\_\_ segment of the general environment that BP and other integrated oil firms have to deal when contending with scarce resources (Chapter 2 Opening Case).
- political/legal
  - physical
  - demographic
  - global

ANS: D                      PTS: 1                      DIF: Medium                      REF: 35-36

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing the task environment | Bloom: Application

4. Acme Valves, Inc., has been a successful player in the oil field supply industry in the last 15 years. Acme maintained its traditional strategy and product characteristics over this time period. But, Acme has experienced declines in sales and profits over the last four quarters. The CEO of Acme should
- continue with the proven strategy because its returns over the long run are important.
  - focus on improving efficiency of production and cost control.
  - conduct an analysis of the external environment.
  - immediately begin making incremental adjustments to the traditional business strategy in an effort to improve sales.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 37

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation | Bloom: Application

5. The three parts of the external environment which affect a firms strategic actions are
- economic, political, and legal
  - general, industry, and competitor
  - industry, business, and product
  - local, national, and global

ANS: B                      PTS: 1                      DIF: Easy                      REF: 37

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Knowledge

6. The \_\_\_\_\_ environment is composed of dimensions in the broader society that can influence an industry and the firms within it.
- general
  - competitor
  - sociocultural
  - industry

ANS: A                      PTS: 1                      DIF: Medium                      REF: 36

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

7. The environmental segments that comprise the general environment typically will NOT include
- demographic factors.

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- b. sociocultural factors.
- c. substitute products or services.
- d. technological factors.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 38 (Table 2.1)

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

8. Aardvark Corp. has three products. Two products together make up two-thirds of revenues and constitute 50 percent of company profits. Aardvark's third product makes up one third of sales. With profitability far above the industry average, this product is responsible for one half of Aardvark's profits. Which of the following statements regarding assessment of the general environment is accurate for Aardvark?
- a. The company should monitor the general environment for changes that might effect the revenue of all products.
  - b. The company should monitor the general environment for changes that might effect the profitability of the most profitable products.
  - c. The company should monitor the general environment for changes that might effect the profitability of all products.
  - d. The company should monitor the general environment for changes that might effect the revenue and profitability of all products.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 38-39

OBJ: Comprehension

NOT: AACSB: Reflective Thinking Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

9. Which of the following is NOT an activity used in the external environmental analysis process?
- a. Scanning
  - b. Decrypting
  - c. Monitoring
  - d. Assessing

ANS: B                      PTS: 1                      DIF: Medium                      REF: 39-41 | 39 (Table 2.2)

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Knowledge

10. Environmental scanning would be most important for which of the following organizations?
- a. a provider of hospice services for the terminally ill
  - b. a web design company catering to small businesses
  - c. a neighborhood sewer and water utility
  - d. a manufacturer of household linens

ANS: B                      PTS: 1                      DIF: Hard                      REF: 40

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Application

11. The use of the Internet by Netflix to collect data on customer preferences is an example of
- a. assessing.
  - b. monitoring.

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- c. forecasting.
- d. scanning.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 40

OBJ: Application

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Application

12. When analysts develop feasible projections of future events and how quickly they will occur based on observed changes and trends, they are engaged in
- a. scanning.
  - b. monitoring.
  - c. forecasting.
  - d. assessing.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 41

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Knowledge

13. A general environmental analysis can be expected to produce all of the following EXCEPT
- a. objective answers.
  - b. recognition of environmental trends.
  - c. identification of organizational opportunities.
  - d. identification of organizational threats.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 39-40

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing decision-making processes | Bloom: Comprehension

14. In analyzing the demographic segment of the general environment, one typically examines all of the following factors EXCEPT
- a. age structure.
  - b. ethnic mix.
  - c. distribution of income.
  - d. cultural values.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 42

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

15. Which of the following identified in an analysis of the general environment is an opportunity for an entrepreneur who wishes to open a business doing “Fitness for Life” physical conditioning services (strength, balance, and flexibility training) in a city of 100,000 people?
- a. the average age of the population in his community is high
  - b. the level of unemployment in his community is high
  - c. a chiropractor and two independent physical therapists are located in his community
  - d. the average education level of the population in his community is low

ANS: A                      PTS: 1                      DIF: Medium                      REF: 42

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |

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16. Analyzing income distribution would include all of the following EXCEPT
- the purchasing power of various age groups.
  - the discretionary income of various ethnic groups.
  - wage differentials between male and female employees working for a large manufacturer.
  - how income is distributed among regions of the U.S.

ANS: C PTS: 1 DIF: Hard REF: 43

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

17. Demographic changes include variations in income distribution. Which of the following statements is true?
- Firms are most interested in the consumers comprising the top ten percent of the household income.
  - In general, living standards have deteriorated over time.
  - The general loss in real income has been somewhat offset by the increase in dual-career couples.
  - Workforce diversity is making the concept of average income obsolete.

ANS: C PTS: 1 DIF: Medium REF: 43

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

18. In the chapter discussion of the political legal segment of the general environment, it was noted that President Obama's administration has sought to pursue policies that would
- remove the U.S. from NAFTA.
  - abolish antitrust laws.
  - increase the amount of work U.S. companies outsource to firms in other nations.
  - reduce the amount of work U.S. companies outsource to firms in other nations.

ANS: D PTS: 1 DIF: Medium REF: 45

OBJ: Comprehension

NOT: AACSB: Multicultural & Diversity | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

19. An analysis of the economic segment of the external environment would include all of the following EXCEPT
- interest rates.
  - trade deficits or surpluses.
  - inflation rates.
  - the move toward a contingent workforce.

ANS: D PTS: 1 DIF: Medium REF: 44 | 38 (Table 2.1)

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

20. Characteristics of the current economic segment include all of the following EXCEPT
- general uncertainty.

- b. a clear understanding of future economic opportunities and threats.
- c. inability of economists to provide valid and reliable predictions.
- d. an expanding economy in Vietnam.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 44

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

21. The economic environment refers to
- a. the nature and direction of the economy in which a firm competes or may compete.
  - b. the economic outlook of the world provided by the World Bank.
  - c. an analysis of how the environmental movement and world economy interact.
  - d. an analysis of how new environmental regulations will affect the U.S. economy.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 44

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

22. Which of the following would NOT be identified in an analysis of the economic portion of the general environment?
- a. The willingness of Chrysler's buyers to purchase large vehicles due to an increase in oil prices.
  - b. The ability of Ford to issue new debt due to their recent financial performance.
  - c. The ability of BMW's buyers to finance car purchases due to a change in interest rates.
  - d. The willingness of GM buyers to purchase new vehicles due to the threat of recession.

ANS: B                      PTS: 1                      DIF: Hard                      REF: 44

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

23. The political/legal segment of an environment represents
- a. the political preferences of different ethnic groups in the society.
  - b. the technological values of different political entities in society.
  - c. how organizations and governments mutually try to influence each other.
  - d. the system of regulations governments at all levels place on businesses.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 44-45

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Legal Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

24. All of the following are aspects of the political/legal segment of the general environment EXCEPT
- a. antitrust laws.
  - b. attitudes and values.
  - c. taxation laws.
  - d. industries chosen for deregulation.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 44-45

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

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25. An analysis of society's attitudes and values would be conducted when studying the \_\_\_\_ segment of the general environment.
- a. sociocultural
  - b. global
  - c. demographic
  - d. economic

ANS: A                      PTS: 1                      DIF: Easy                      REF: 45-46

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

26. In a suburban community outside a city in Alabama, a retail store opened that specialized in dancewear for children and adults. It was moderately successful for five years until the local newspaper published an exposé that scanty lingerie stocked in the back of the store's showroom was selling briskly to a certain clientele. Afterward, the store lost most of its customers and nearly closed. Which segment of the environment did the store owner fail to take into account when she began selling the lingerie?
- a. the sociocultural segment
  - b. the economic segment
  - c. the demographic segment
  - d. the political/legal segment

ANS: A                      PTS: 1                      DIF: Medium                      REF: 45-46

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

27. The technological segment of environmental analysis includes
- a. institutions and activities involved with creating new knowledge and translating that knowledge into new outputs.
  - b. the determination of when machinery will need to be replaced in a given firm.
  - c. the need for new technology in order for a firm to gain a competitive advantage.
  - d. places where a firm's technology will allow that firm to dominate a given market.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 46

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

28. Understanding how new knowledge can develop new products, processes, or materials is a result of analyzing the \_\_\_\_ segment of the general environment.
- a. economic
  - b. political/legal
  - c. technological
  - d. global

ANS: C                      PTS: 1                      DIF: Easy                      REF: 46

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

29. The next critical technological opportunity for organizations is predicted to be

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- a. the Internet.
- b. multiphasic interventions.
- c. biological engineering.
- d. wireless communications.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 47

OBJ: Knowledge

NOT: AACSB: Information Technology | Management: Information Technology | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

30. Which of the following would be an example of the application of next major technological opportunity for organizations?
- a. Boeing's Dreamliner.
  - b. Toyota's hybrid vehicles.
  - c. Philip Morris International's smokeless tobacco.
  - d. Amazon's Kindle.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 47

OBJ: Knowledge

NOT: AACSB: Information Technology | Management: Information Technology | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

31. The observation that in China, even though car sales surged 37% in 2010, it is expected that by 2015 they will reach production overcapacity and have a glut of extra cars is an aspect of the \_\_\_\_ segment of the general environment.
- a. demographic
  - b. global
  - c. physical
  - d. technological

ANS: B                      PTS: 1                      DIF: Easy                      REF: 47

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

32. Because of threats and risks in the global environment, some firms choose to take a more cautious approach by
- a. avoiding global markets altogether.
  - b. expanding only to developed countries.
  - c. focusing on global niche markets.
  - d. acquiring already established firms in foreign markets.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 48

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

33. The concepts of *Guanxi*, *Wa*, and *Inhwa* all convey the general idea of
- a. entrepreneurial risk-taking.
  - b. interpersonal relationships.
  - c. the value of hard work.
  - d. personal achievement.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 48

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OBJ: Knowledge

NOT: AACSB: Multicultural & Diversity | Management: Group Dynamics | Dierdorff & Rubin: Interpersonal orientation | Bloom: Knowledge

34. Global warming and energy consumption trends are aspects of the \_\_\_\_\_ segment of the general environment that firms should monitor.
- technological
  - physical
  - sociocultural
  - economic

ANS: B

PTS: 1

DIF: Easy

REF: 48

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

35. Green restaurant design, sustainable packaging, waste management, and energy efficiency are aspects of the \_\_\_\_\_ segment of the general environment that McDonald's has sought to address (Chapter 2 Strategic Focus).
- technological
  - political/legal
  - global
  - physical

ANS: D

PTS: 1

DIF: Medium

REF: 49

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

36. All of the following are examples of efforts by firms to address the physical segment of the general environment in the Chapter 2 Strategic Focus case EXCEPT
- Sustainable packaging by McDonald's.
  - Reduction in carbon dioxide emissions by Procter & Gamble.
  - Reduction in water usage in plants by Unilever.
  - Hiring more women and minorities at Microsoft.

ANS: D

PTS: 1

DIF: Medium

REF: 49-50

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

37. The Chapter 2 Strategic Focus case on firm's efforts to take care of the physical environment noted that one popular approach was
- producing and selling additional green products.
  - lobbying the government to reduce environmental regulations.
  - making donations to the Sierra Club and other environmental organizations.
  - increasing health benefit for employees.

ANS: A

PTS: 1

DIF: Medium

REF: 49

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

38. An industry is defined as
- a group of firms producing the same products or services.
  - firms producing items that sell through the same distribution channels.
  - firms that sell the same products or services to the same customer base.
  - a group of firms producing products that are close substitutes.

ANS: D                      PTS: 1                      DIF: Easy                      REF: 50

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

39. The likelihood of entry of new competitors is affected by \_\_\_\_ and \_\_\_\_.
- barriers to entry, expected retaliation of current industry organizations
  - the power of existing suppliers, buyers
  - the profitability of the industry, the market share of its leading firm
  - the demand for the product, the profitability of the competitors

ANS: A                      PTS: 1                      DIF: Hard                      REF: 52

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

40. Which of the following is NOT an entry barrier to an industry?
- expected competitor retaliation
  - economies of scale
  - customer product loyalty
  - bargaining power of suppliers

ANS: D                      PTS: 1                      DIF: Medium                      REF: 52-54

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

41. New entrants to an industry are more likely when
- it is difficult to gain access to distribution channels.
  - economies of scale in the industry are high.
  - product differentiation in the industry is low.
  - capital requirements in the industry are high.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 53

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

42. Economies of scale refer to the fact that as the
- quantity of product produced in a given time period increases, the cost of manufacturing each unit increases.
  - quantity of product produced in a given time period increases, the cost of manufacturing each unit remains constant.
  - quantity of product produced in a given time period increases, the cost of manufacturing each unit decreases.
  - quantity of product produced in a given time period decreases, the cost of manufacturing each unit decreases.

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ANS: C                      PTS: 1                      DIF: Hard                      REF: 52

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

43. The large expenditures on advertising by firms such as Procter & Gamble and Colgate-Palmolive is an example of what kind of barrier to entry?
- Access to distribution channels.
  - Capital requirements.
  - Economies of scale.
  - Product differentiation.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 53

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

44. Product differentiation refers to the
- ability of the buyers of a product to negotiate a lower price.
  - response of incumbent firms to new entrants.
  - belief by customers that a product is unique.
  - fact that as more of a product is produced the cheaper it becomes per unit.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 53

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation | Bloom: Comprehension

45. Switching costs refer to the
- cost to a producer to exchange equipment in a facility when new technologies emerge.
  - cost of changing the firm's strategic group.
  - one-time costs suppliers incur when selling to a different customer.
  - one-time costs customers incur when buying from a different supplier.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 53

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

46. Customer loyalty programs such as airline frequent flyer miles are an attempt to
- decrease competitors' access to distribution channels.
  - develop a cost advantage independent of scale.
  - increase customers' switching costs.
  - overcome the perishability of the hotel "product."

ANS: C                      PTS: 1                      DIF: Easy                      REF: 53-54

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

47. As customers come to believe that a firm's product is unique, this allows the firm to
- decrease its advertising expenditures.
  - customize its product.

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- c. force other companies out of the market by lowering prices.
- d. obtain loyal customers.

ANS: D                      PTS: 1                      DIF: Medium                      REF: 53

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

48. DWK Foods has developed a line of cookies and candies sweetened exclusively with organic honey. Although DWK is selling some of the products over the Internet, in order to gain economies of scale, the products must be sold in retail outlets. The main barrier to entry DWK is likely to encounter here is
- a. government licensing and permits.
  - b. access to distribution channels.
  - c. consumers' switching costs.
  - d. cost disadvantages independent of scale.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 54

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

49. In the case of a retail business dependent on drive-in customers, the major cost disadvantage independent of scale would be
- a. favorable locations are not available.
  - b. other competitors have proprietary product technology.
  - c. access to raw materials is difficult.
  - d. other competitors have government subsidies.

ANS: A                      PTS: 1                      DIF: Easy                      REF: 54

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

50. A certain marble quarry provides a unique type of marble that is richly colored and strikingly veined. It has been used for churches and public buildings throughout the world. The architect of a new headquarters for a prestigious Fortune 500 firm has specified the use of this marble, and this marble only, for this project. Which of the following statements is most likely to be true?
- a. The cost of the marble will be expensive because of the bargaining power of the supplier.
  - b. The cost of the marble will be moderate because of the bargaining power of the buyer.
  - c. The cost of the marble will be moderate because of economies of scale.
  - d. The cost of the marble will be expensive because of the high strategic stakes involved.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 55

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

51. Suppliers are powerful when
- a. satisfactory substitutes are available.
  - b. they sell a commodity product.
  - c. they offer a credible threat of forward integration.
  - d. they are in a highly fragmented industry.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 55

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OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

52. In the airline industry, consolidation among fuel providers serving airport facilities would be considered as \_\_\_\_ factor in the five forces model of competition.
- a reduction of the airlines' abilities to enjoy economies of scale
  - an increase in switching costs because the airlines have no choice but to use jet fuel and other oil products
  - an increase in the bargaining power of suppliers of a critical input
  - an increase in the intensity of rivalry among airlines for scarce resources

ANS: C

PTS: 1

DIF: Medium

REF: 55

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

53. Blood banks are highly dependent on donors. In the terminology of industry analysis, which statement of donors is accurate?
- Blood donors are suppliers and are powerful due to the critical nature of what they provide to the blood bank.
  - Blood donors are suppliers and are powerful due to their concentration relative to the blood bank.
  - Blood donors are buyers and are not due to low switching costs needed to change to alternative inputs.
  - Blood donors are buyers and are powerful due to the volume of blood needed.

ANS: A

PTS: 1

DIF: Medium

REF: 55

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

54. The aircraft industry has long been dominated by two large aircraft manufacturers, Boeing and Airbus. The demand for major aircraft is low, and Boeing and Airbus aggressively compete for orders from airlines. What effect will these conditions have on the domestic airline industry?
- It will make the airline industry more attractive because of decreased supplier power.
  - It will make the airline industry less attractive because of decreased supplier power.
  - It will make the airline industry more attractive because of increased supplier power.
  - It will make the airline industry more attractive because of a new entrant.

ANS: A

PTS: 1

DIF: Hard

REF: 55

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

55. Golden Lotus, an exercise club targeting healthy individuals over 50, is located in a fast-growing city in the Southwest. Which of the following factors that may have an effect on the success of Golden Lotus is the most directly controllable by the company?
- the socio-cultural environment
  - the demographics of the environment
  - the economy of the local area
  - the power of the customers/buyers

ANS: D                      PTS: 1                      DIF: Hard                      REF: 55

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

56. Buyers are powerful when
- there is a threat of forward integration.
  - they purchase a small proportion of the supplier's output.
  - switching costs are low.
  - the buyers' industry is fragmented.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 55

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

57. The highest amount a firm can charge for its products is most directly affected by
- expected retaliation from competitors.
  - the cost of substitute products.
  - variable costs of production.
  - customers' high switching costs.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 55

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

58. The threat from substitutes is high when
- switching costs are high.
  - the substitute product's price is lower than the industry product's price.
  - the quality of the substitute product is lower than the quality of the industry's product.
  - the substitute product stimulates new process innovations within the industry.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 57

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

59. The Chapter 2 Strategic Focus discussed the movement of media content from paper, tape, and film to a digital world based on Internet technology. From the perspective of the five forces model, which force is most relevant here?
- buyers
  - substitutes
  - entry barriers
  - suppliers

ANS: B                      PTS: 1                      DIF: Medium                      REF: 56-57

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

60. All of the following are forces that create high rivalry within an industry EXCEPT
- numerous or equally balanced competitors.

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- b. high fixed costs.
- c. fast industry growth.
- d. high storage costs.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 58-59

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

61. The existence of high exit barriers such as ownership of specialized assets (e.g., large aircraft) in the airline industry indicates that
- a. customers are relatively weak because of the high switching costs created by frequent flyer programs.
  - b. the industry is moving toward differentiation of services.
  - c. the competitive rivalry in the industry is severe.
  - d. the economic segment of the external environment has shifted, but airline strategies have not changed.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 59

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

62. A manufacturer of washing machines has expanded its plant and has created excess capacity, just as the general economy has taken a downturn. The company is likely to
- a. raise prices on washing machines to offset lost sales.
  - b. be vulnerable to new entrants to an attractive market.
  - c. suffer from intense rivalry from international manufacturers.
  - d. offer rebates and incentives for customers who purchase washing machines.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 58

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

63. When rival firms compete aggressively by trying to attract competitors' customers, this might be an indication of
- a. an industry with low exit barriers.
  - b. increasing economies of scale.
  - c. slow industry growth.
  - d. high bargaining power among buyers.

ANS: C                      PTS: 1                      DIF: Hard                      REF: 58

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

64. Mighty Green, a residential lawn chemical manufacturer, is committed to gaining market share in its industry. Mighty Green
- a. is likely to raise the level of competitive rivalry in the industry.
  - b. probably has top management who are affected by emotional barriers to exit.
  - c. has decided that long-run above-average returns are not important.
  - d. will probably embark on an acquisition strategy.

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ANS: A                      PTS: 1                      DIF: Medium                      REF: 58

OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

65. Rivalry between Dell, Hewlett-Packard, and other computer manufacturers is intense in part because
- low geographic saturation of the market.
  - the high differentiation among competing products.
  - the low threat of supplier forward integration.
  - these companies are trying to find ways to differentiate their products.

ANS: D                      PTS: 1                      DIF: Hard                      REF: 59

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

66. Circuit Corp. is a manufacturer of a broad range of consumer electronics products. These consumer products are all highly profitable. The firm also manufactures a low-cost component which is an essential differentiating feature for most of their consumer products. The costs to manufacture this component have risen sharply in recent months. Internal cost accounting estimates now indicate the company is breaking even on the manufacture of this component. Which of the following is most likely?
- Circuit will likely continue to manufacture the component, even at a loss, due to low supplier power.
  - Circuit will likely continue to manufacture the component, even at a loss, due to high strategic stakes.
  - Circuit will likely discontinue manufacture the component due to low strategic stakes.
  - Circuit will likely discontinue manufacture the component due to high supplier stakes.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 59

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

67. Exit barriers to a firm include all of the following EXCEPT
- generic assets.
  - loyalty to employees.
  - governmental concern about job loss.
  - restrictive labor agreements.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 59

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

68. An owner of a stable of racehorses has been earning below-average returns for over 15 years. To a colleague, he expressed his determination to stay in horse racing until he died because "racing is in my blood." This individual is probably still racing horses because of
- high barriers to exit.
  - high switching costs.
  - high fixed costs.
  - low levels of competitive rivalry.

ANS: A                      PTS: 1                      DIF: Hard                      REF: 59

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OBJ: Application

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

69. According to the five forces model, an attractive industry would have all of the following characteristics EXCEPT
- low barriers to entry.
  - suppliers and buyers with little bargaining power.
  - a moderate degree of rivalry among competitors.
  - few good product substitutes.

ANS: A PTS: 1 DIF: Hard REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

70. According to the five forces model, an unattractive industry would include all of the following characteristics EXCEPT
- low economies of scale needed for new firms to enter.
  - low supplier power due to commodity inputs.
  - high threat of substitute products due to a large number of low cost alternatives.
  - high bargaining power of buyers due to low switching costs.

ANS: B PTS: 1 DIF: Hard REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

71. The competition within each strategic group is
- more intense than is the competition between strategic groups.
  - less intense than is the competition between strategic groups.
  - typically very low.
  - an unknown factor in the analysis of competitive practices within a firm's strategic group.

ANS: A PTS: 1 DIF: Easy REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

72. Firms within strategic groups
- follow dissimilar strategies.
  - follow similar strategies across certain dimensions.
  - typically engage in greater amounts of intergroup rivalry than intragroup rivalry.
  - exist almost exclusively in the manufacturing sector.

ANS: B PTS: 1 DIF: Medium REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

73. All of the following are implications of strategic groups EXCEPT
- the strength of the five forces differ across strategic groups.
  - the strength of the five forces is the same across strategic groups.

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- c. competitive rivalry within strategic groups is greater than between strategic groups.
- d. the closer the strategic groups are in terms of strategies, the greater is the likelihood of rivalry.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

74. Competitor analysis focuses on
- a. firms with which the company competes directly.
  - b. firms that produce products that are substitutes.
  - c. all firms in the industry.
  - d. companies that might enter the industry.

ANS: A                      PTS: 1                      DIF: Medium                      REF: 60

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

75. Which of the following pairs of companies would be least likely to be examined together as part of competitive analysis?
- a. Home Depot and Lowe's
  - b. Boeing and Airbus
  - c. IBM and Microsoft
  - d. Coca Cola and PepsiCo

ANS: C                      PTS: 1                      DIF: Medium                      REF: 61

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

76. Competitor intelligence is
- a. legally or illegally-gained data about competitors' internal strategic processes and competitive decisions.
  - b. strategic information gained from industrial espionage targeting international competitors.
  - c. the data that the firm gathers to understand competitors' objectives, strategies, assumptions, and capabilities.
  - d. illegal to gather under the Sarbanes-Oxley Act.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 61

OBJ: Knowledge

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

77. Once a firm has determined its competitor's future objectives, current strategy, assumptions, and strengths and weaknesses, its next step is to develop
- a. an environmental assessment.
  - b. a marketing plan.
  - c. a response profile.
  - d. a task force to implement the plan.

ANS: C                      PTS: 1                      DIF: Medium                      REF: 61

OBJ: Knowledge

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NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

78. A competitor analysis includes all of the following about competitors EXCEPT
- future objectives.
  - current strategy.
  - assumptions.
  - traditions.

ANS: D PTS: 1 DIF: Medium REF: 61

OBJ: Comprehension

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

79. Clarissa is a sales representative for a large pharmaceutical firm. While calling on one of her major clients, the purchasing director of a hospital, the client told her confidential information that a sales representative from a competing firm had passed on to him. The information completely contradicts Clarissa's firm's understanding of the competitor's business strategy, and would allow Clarissa's employer to gain many of the competitor's clients.
- There is no ethical or legal concern here for Clarissa.
  - The ethical dilemma is not Clarissa's but her client's, since he passed on confidential information to her voluntarily.
  - The ethical dilemma here is the right of competitors not to reveal certain information.
  - This is an example of ethical competitor intelligence obtained as eavesdropping.

ANS: C PTS: 1 DIF: Hard REF: 62-63

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

80. All the following are ethical sources of data for external analysis EXCEPT
- trade shows.
  - competitor's annual reports.
  - competitor's help wanted advertisements
  - a competitor's confidential memos.

ANS: D PTS: 1 DIF: Easy REF: 62-63

OBJ: Knowledge

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

81. Competitor intelligence could ethically come from all the following EXCEPT
- court records.
  - financial reports.
  - trade show discussions.
  - eavesdropping.

ANS: D PTS: 1 DIF: Medium REF: 62-63

OBJ: Knowledge

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

82. Which of the following represents a competitive intelligence practice that is both legal and ethical?

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- a. A firm hires a competitor's employee and asks that employee to share the names and addresses of business contacts from his/her previous job.
- b. An executive attends a trade show solely to obtain a competitor's brochures, listen to sales pitches, and ask questions about the competitor's products.
- c. A city council member shares information about the decision process for selecting a contractor to build a new library wing with his wife, an executive with a construction firm bidding on the contract.
- d. A marketing manager at Smith-Phillips, Inc., sells confidential plans for the company's expansion into the Far East to a firm that is not a direct competitor.

ANS: B                      PTS: 1                      DIF: Medium                      REF: 63

OBJ: Application

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Application

83. Which of the following intelligence gathering techniques is most likely to be legal and ethical?
- a. hiring investigators to examine the competitor's trash
  - b. entering a competitor's production plant without authorization
  - c. redirecting a competitor's emails to one's own company
  - d. attending trade show presentations given by a competitor's employees

ANS: D                      PTS: 1                      DIF: Medium                      REF: 63

OBJ: Comprehension

NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

## ESSAY

1. Explain why it is important for organizations to analyze and understand the external environment.

ANS:

Organizations do not exist in isolation. The external environment of the organization presents threats and opportunities which the organization must address in its strategic actions. Parts of the organization's external environment are changing rapidly, such as technology, and the organization must constantly adjust to these changes. The information that the organization gathers about competitors, customers and stakeholders is used to build the organization's capabilities or to build relationships with stakeholders in the external environment. The information that the organization gathers about the external environment must be matched with its knowledge of its internal environment to form its vision, to develop its mission, and to take actions that result in strategic competitiveness and above-average returns.

PTS: 1                      DIF: Medium                      REF: 37                      OBJ: 2-01

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Synthesis

2. Identify and describe the three major parts of the external environment. What is the purpose of the firm's collecting information about these aspects of its environment?

ANS:

The external environment has three major parts. The first is the *general environment*, which is composed of dimensions in the broader society that affect industries and their firms. These environmental segments are: demographic, economic, political/legal, sociocultural, technological, and global. The second part of the external environment is the *industry environment*, which involves five factors that influence a firm, its competitive actions and responses, and the industry's profit potential. These five factors are: the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors. The *competitor environment* is the third part of the external environment. The firm must be able to predict competitors' actions, responses, and intentions. With the information collected about these aspects of its external environment, the firm can develop its vision, mission, and strategic actions.

PTS: 1                      DIF: Medium                      REF: 38-39                      OBJ: 2-02  
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Evaluation

3. Describe and discuss the four activities of the external environmental analysis process.

ANS:

The external environmental analysis process includes four steps: scanning, monitoring, forecasting and assessing. The *scanning* of the environment includes the study of all segments of the general environment in order to detect changes that may occur in the future or already are occurring. This is critical in a volatile environment. Scanning often deals with ambiguous, incomplete, or unconnected data and information. When analysts *monitor* the environment, they observe environmental changes to see if an important trend is emerging from those spotted by scanning. It is critical for the firm to detect meanings in these events and trends so that it can be prepared to take advantage of opportunities these trends provide. *Forecasting* builds on scanning and monitoring to develop feasible projections of what might happen, and how quickly it will occur. Forecasting is important in helping the firm adjust sales to meet demand. Finally, through *assessing*, the analyst determines the timing and the significance of the effects of environmental changes and trends on the strategic management of the firm. Assessment must specify the competitive relevance of the data.

PTS: 1                      DIF: Medium                      REF: 39-41 | 39 (Table 2.2)  
OBJ: 2-03  
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

4. Describe the seven segments of the general environment.

ANS:

1) The *demographic* segment encompasses factors such as population size, geographic distribution, age structure, ethnic mix, and income distribution. 2) The *economic* segment involves the nature and direction of the economy in which a firm competes or may compete, domestic as well as global. 3) The *political/legal* segment is the arena in which organizations compete for attention, resources, and a voice in laws and regulations guiding the interactions among nations. 4) The *sociocultural* segment is concerned with society's attitudes and cultural values. 5) The *technological* segment includes institutions and activities involved with creating new knowledge and transforming it into new outputs, products, processes, and materials. 6) The *global* segment includes new global markets, existing markets that are changing, international political events, and critical cultural and institutional characteristics of global markets. 7) The *physical* segment includes potential and actual changes in the physical environment (such as global warming) and business practices that are intended to positively deal with those changes (such as control of carbon emissions and other environmentally friendly actions).

PTS: 1 DIF: Medium REF: 41-50 | 38 (Table 2.1)

OBJ: 2-04

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Knowledge

5. Identify the five forces that underlie the five forces model of competition. Explain briefly how they affect industry profit potential.

ANS:

1) Threat of *new entrants*: New entrants threaten existing firms' market share. They increase production capacity in an industry which results in lower profits for all firms, unless demand is increasing. The new entrant may force the existing firms to be more effective and efficient in production, and to compete on new dimensions. 2) Power of *suppliers*: Suppliers with high power can increase prices and decrease the quality of their products sold to the firm. If firms are unable to pass along price increases to customers, their profits diminish. 3) Power of *buyers*: When buyers (customers) have high power they can force prices down, and require increases in quality and service levels, thus driving profits down. 4) *Substitutes*: Substitutes perform the same or similar functions of the firm's product. The price of the substitute places an upper limit on prices firms can charge for the original product, limiting industry profits. 5) Intensity of competitive *rivalry* affects the firm's ability to make a profit as competitors' actions challenge the firm or competitors try to improve their market position. Increasing rivalry reduces the ability of weaker firms to survive.

PTS: 1 DIF: Medium REF: 50-55 | 57-59 | 51 (Figure 2.2)

OBJ: 2-05

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

6. Describe the factors that raise the competitive nature of an industry's rivalry.

ANS:

The competitive rivalry in an industry can be based on price, product quality, and product innovation in an attempt to differentiate the firm's product from its rivals' products. The factors that can increase competitive rivalry include the following: 1) numerous and equally balanced competitors; 2) slow or no industry growth; 3) high fixed costs, high storage costs of inventory, or perishable products; 3) lack of differentiated products or low cost of product switching by customers; 4) high strategic stakes for the competitors; and 5) high barriers for firms wishing to exit the industry, causing firms to remain in an industry where they cannot reasonably expect to make a profit.

PTS: 1 DIF: Medium REF: 57-59 OBJ: 2-05

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

7. What are high exit barriers and how do they affect the competition within an industry?

ANS:

Exit barriers are economic, strategic, and emotional factors causing companies to remain in an industry, even though the profitability of doing so is in question. The following are common sources of exit barriers: 1) specialized assets which cannot be used in another business or location; 2) fixed costs of exit, such as labor agreements which penalize a firm for ceasing operation; 3) strategic interrelationships or mutual dependence of business units wherein one business of a corporation serves another corporate business; 4) emotional barriers that cause owners to be sentimentally attached to the business or to their own role in it; 5) government and social restrictions that prevent a firm from closing, often in order to prevent the loss of jobs in a country or community.

PTS: 1                      DIF: Medium                      REF: 59                      OBJ: 2-05  
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

8. What is a firm's strategic group? What effect does the strategic group have on the firm?

ANS:

The firm's strategic group is the set of firms that emphasize similar strategic dimensions and use a similar strategy. The firms in a strategic group occupy similar positions in the market, offer similar goods to similar customers, and may make similar decisions about production technology and organizational features. Competition among firms in a strategic group is more intense than the competition among a firm and those firms outside its strategic group. Actions of members in the firm's strategic group affect its strategic decisions in many areas including pricing, product quality, and distribution.

PTS: 1                      DIF: Medium                      REF: 60                      OBJ: 2-06  
NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

9. What do firms need to know about their competitors? What legal and ethical intelligence gathering techniques can be used to obtain this information?

ANS:

Competitor analysis helps firms identify: 1) what drives the competitors by understanding the competitor's *future objectives*; 2) what the competitor is doing and is capable of doing by understanding the competitor's *current strategy*; 3) what the competitor believes about the industry by understanding the *assumptions* made by the competitor; and 4) what the competitor's *capabilities* are by understanding the competitor's strengths and weaknesses. Firms can legally and ethically gather public information, such as annual reports, SEC reports, UCC filings, court records, and advertisements. Firms can also attend trade fairs to obtain competitors' brochures, view exhibits, and discuss products. This data combines to form competitive intelligence.

PTS: 1                      DIF: Medium                      REF: 60-62                      OBJ: 2-07  
NOT: AACSB: Ethics | Management: Ethical Responsibilities | Dierdorff & Rubin: Managing the task environment | Bloom: Comprehension

## CASE

### Case Scenario 1: The Boys and Girls Club.



The Boys and Girls Club (BGC) is a national non-profit organization geared to provide America's youth with the tools and skills they need to become healthy adults, responsible citizens, and effective leaders. By bringing parents, neighbors, educators, and civic leaders together with our youth, BGC believes it can instill these crucial life lessons at an age when they're most needed. The national organization is headquartered in Atlanta, GA, and serves as a service hub for over 3,700 club locations around the U.S. Each local club is directed by a volunteer board of directors and staffed by professional youth development workers (usually including an executive director, a program director, and an arts director) and many volunteers who just enjoy working with young people and want to make a difference in their lives. While affiliated with the national center, each local BGC is locally funded.

1. (Refer to Case Scenario 1) How are the various facets of the general environment (Table 2.1 in *Strategic Management*) likely to be important for BGC?

ANS:

The best answers will begin by noting that BGC has a mission focused on the education and social development of needy youth. Thus, the demographic, economic, sociocultural segments, and physical may be the segments of primary importance. Within the physical segment, for instance, BGC may consider what it can do to respond to climate change and depletion of energy resources. The global segment is also a natural discussion point since contexts far from home may not come to our attention until after a critical stage has been passed. For instance, the presence of immigrants and refugees in a community many affect the needs of the BGC's clientele.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

2. (Refer to Case Scenario 1) Why would attention focused on victims of natural disasters be a threat to the BGC?

ANS:

The best answers will observe that BGC is entirely dependent upon local donations for its operations and public focus on other causes will likely draw away donation dollars that had been historically earmarked for BGC. This alternative charitable giving serves donors as a substitute for donations to BGC.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

3. (Refer to Case Scenario 1) How might the BGC respond to threats to their donations at both local and national levels?

ANS:

Since BGC is governed locally by a board of directors drawn from the community, the local organizations should use these members to rally support against their dwindling donation base. The board and BGC staff members can also reach out to other local organizations and community governments. At a national level, image ads and the lobbying of various national organizations (government, teachers' associations, minority outreach organizations, environmental groups, etc.) can be initiated and managed through the BGC headquarters in Atlanta.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation | Bloom: Application

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4. (Refer to Case Scenario 1) The purpose of the Boys and Girls Club (BGC) is to instill in youth the tools and skills needed to become healthy adults, responsible citizens, and effective leaders. If the BGC were to initiate programs about women's issues, women in the workforce, workforce diversity, and changes in work and career preferences, it would be contributing to an understanding of which segment of the general environment?

- a) Demographic
- b) Sociocultural
- c) Economic
- d) Technological

ANS:

b) Sociocultural

PTS: 1

DIF: Hard

REF: 38 (Table 2.1)

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

**Case Scenario 2: B.B. Mangler.**

B.B. Mangler is a top U.S. business-to-business distributor of maintenance, repair, and service equipment, components, and supplies such as compressors, motors, signs, lighting and welding equipment, and hand and power tools. Its industry is typically referred to as MRO, which is an acronym for maintenance, repair, and supplies. MRO products are typically small, fairly inexpensive (light bulbs and washers), but often needed on short notice. It states its strategy as having the "capacity to offer an unmatched breadth of lowest total cost MRO solutions to business." Mangler's GoMRO sourcing center for indirect spot buys locates products through its database of 8,000 suppliers and 5 million products. Mangler has 388 physical branches in the U.S., including Puerto Rico (90% of sales), 184 in Canada, and 5 in Mexico. Customers include contractors, service and maintenance shops, manufacturers, hotels, governments, and health care and educational facilities. Mangler also provides materials-management consulting services.

5. (Refer to Case Scenario 2) Historically, Mangler appears to have relied on its physical locations for market presence in the U.S. and northern South America. What threats does the Internet pose to its location-based strategy?

ANS:

The best answers will start by noting that Mangler's location-based strategy is also likely to require quite a bit of investment in inventory (keeping all those parts on hand at each of its branches in the U.S., Canada, and Mexico). Given that it competes in a low-cost industry, and itself competes on cost, an Internet-based MRO competitor may be able to create an even lower cost structure (as Amazon.com did with books). The Internet seems like a natural fit for the MRO market. Such an online strategy may be particularly effective for those MRO items that are less time-critical.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

6. (Refer to Case Scenario 2) What opportunities does the Internet provide to Mangler, both domestically and internationally?

ANS:

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Answers to this question suggests several different responses to the ways in which the Internet could be capitalized on domestically by Mangler. The best answers for the international strategy question will begin by noting that just as Mangler's many domestic locations provide a barrier to entry in its markets by potential competitors (i.e., it already has the market share to cover its high physical location costs and also is likely to have tremendous goodwill), so too have they been a barrier against Mangler's entry into other international markets like Europe, Asia, and other parts of Latin America. The Internet does away with this barrier to a great extent, which levels the playing field between Mangler and the incumbents of those respective international markets.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

7. (Refer to Case Scenario 2) How should Mangler respond to the threat of new Internet-based entrants?

ANS:

There are several possible avenues and the best answers will note these alternatives. The most obvious response would be for Mangler to start up a web-based complement to its location-based delivery system. A related response might involve the centralization of low-demand, high-cost items to parts of the country, which could then be funneled rapidly to the actual local outlets using the Internet as an internal market. Finally, Mangler could hedge this threat by investing in the most promising online rivals.

PTS: 1

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation | Bloom: Application

8. (Refer to Case Scenario 2) The use of the Internet by Mangler would enhance its low cost strategy and reduce the barriers of entry to markets in Europe, Asia, and Latin America

ANS:

T

PTS: 1

DIF: Medium

REF: 52-54

OBJ: Application

NOT: AACSB: Reflective Thinking Skills | Management: Strategy | Dierdorff & Rubin: Managing strategy & innovation | Bloom: Application

### **Case Scenario 3: Barracuda Inc.**

Barracuda Inc. is a lamp fixture manufacturer that is considering an entry strategy into the U.S. home furnishings manufacturing industry. The existing landscape consists of many players but none with a controlling share. There are presently 2500 home furnishings firms, and only 600 of those have over 15 employees. Average net profit after tax is between 4 and 5%. While the industry is still primarily comprised of single-business family-run firms that manufacture furniture domestically, imports are increasing at a fairly rapid rate. Some of the European imports are leaders in contemporary design. Relatively large established firms are also diversifying into the home furnishings industry via acquisition. Supplier firms to the home furnishings industry are in relatively concentrated industries (like lumber, steel, and textiles). Retailers, the intermediate customer of the home furnishings industry, have been traditionally very fragmented. Customers have many products to choose from, at many different price points, and few home furnishing products have strong brands. Also, customers can switch easily among high and low-priced furniture and other discretionary expenditures (spanning big screen TVs to the choice of postponing any furniture purchase entirely).

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9. (Refer to Case Scenario 3) Using the five-forces framework, summarize the opportunities and threats facing Barracuda as it considers entry into the home furnishings manufacturing industry. Which threats are greatest to current incumbents?

ANS:

The best answers will be based on an application of the five forces model to the scenario. From this model students should be able to point out that the most significant threats are the power of consumers, lack of economic power with suppliers, and increasing presence of imports. These characteristics plus the highly fragmented nature of the industry itself are likely to translate into near-perfect competition leaving no single player with a clear advantage. Opportunities may exist in particular niches, depending on the internal strengths of new entrants. In terms of the larger market, there appears to be an opportunity for a large firm to consolidate the industry and add brand power, thereby potentially gaining power over suppliers and customers.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

10. (Refer to Case Scenario 3) How intense is competitive rivalry likely to be among incumbents of the home furnishings manufacturing industry?

ANS:

The best answers will be able to walk through the determinants of rivalry spelled out in pages 57 through 58. The fact that this industry is fairly characterized as having nearly perfect competition suggests that rivalry is high. Larger players are likely to have significant exit barriers, particularly given the slow growth, high fixed costs, lack of differentiation, and low profitability of the market overall. Thus, new larger entrants to this industry may further escalate the degree of competition.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

11. (Refer to Case Scenario 3) Is the furniture industry described above attractive?

ANS:

Astute students may begin by noting that this industry is attractive if you are in a position that is currently less attractive than that demonstrated by the home furnishings business. Beyond that, discussion should generally lead to the recognition that this industry is currently unattractive - summarized by its paltry profit margins, fragmented membership, lack of power over suppliers and customers, and high degree of rivalry.

PTS: 1

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence | Dierdorff & Rubin: Managing the task environment | Bloom: Application

12. (Refer to Case Scenario 3) Given the characteristics of buyers (customers) in the U.S. home furnishings manufacturing industry (many products to choose from, few home furnishing products have strong brands, and customers can easily switch among high and low-priced furniture), buyers would be considered weak and their effect would be to make the industry more attractive.

ANS:

F

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PTS: 1                      DIF: Medium                      REF: 55

NOT: AACSB: Business Knowledge & Analytical Skills | Management: Environmental Influence |  
Dierdorff & Rubin: Managing the task environment | Bloom: Application