

## Chapter 02

### Identifying Competitive Advantages

#### True / False Questions

1. Porter's Five Forces Model outlines the process for a sales strategy.

True   False

2. With the Five Forces Model, companies should watch the forces in the market. If the forces are strong, competition generally increases, and if the forces are weak, competition typically decreases.

True   False

3. A leadership plan that achieves a specific set of goals or objectives is a business strategy.

True   False

4. When a company is the first to market with a competitive advantage, it gains a particular benefit known as competitive intelligence.

True   False

5. Two ways to reduce buyer power are through switching costs and loyalty programs.

True   False

6. Mark Peterson identified the Five Forces Model, which analyzes the competitive forces within a business environment.

True   False

7. There are many challenges to changing doctors, including transferring medical records and losing the doctor-patient relationship along with the doctor's knowledge of the patient's history. Changing doctors provides a great example of switching costs.

True False

8. Supplier power is one of Porter's five forces, and it measures the suppliers' ability to influence the prices they charge for supplies (including materials, labor, and services).

True False

9. Polaroid had a unique competitive advantage for many years until it forgot to observe competitive intelligence. The firm went bankrupt when people began taking digital pictures. Polaroid provides a great example of Porter's threat of new entrants.

True False

10. Product differentiation occurs when a company develops unique differences in its products or services with the intent to influence demand.

True False

11. Buyer power is the ability of buyers to affect the price they must pay for an item.

True False

12. Tiffany & Company competes in the marketplace by offering high-cost custom jewelry. Tiffany & Company is following a broad market and cost leadership strategy.

True False

13. Porter has identified three generic business strategies, including focused, broad cost leadership, and switching strategy.

True False

14. According to Porter's three generic strategies, Walmart is following a business strategy that focuses on "broad market and low cost."

True False

15. Value chain analysis views a firm as a series of business processes that each add value to the product or service.

True False

16. A standardized set of activities that accomplish a specific task is called a supply chain component.

True False

17. The value chain will group a company's activities into two categories: primary value activities and support value activities.

True False

### Multiple Choice Questions

18. Which of the following is not a typical way that a company would duplicate a competitive advantage?

- A. Acquiring the new technology.
- B. Copying the business operations.
- C. Hiring away key employees.
- D. Carrying large product inventories.

19. When a company is the first to market with a competitive advantage, this is called a first-mover advantage. All of the following companies were first-movers except \_\_\_\_\_.
- A. FedEx - the online self-service software
  - B. Apple - iPad
  - C. Apple - iPod
  - D. Microsoft - Bing search engine
20. A business strategy achieves a specific set of goals, which include \_\_\_\_\_.
- A. developing new products or services and attracting new competition
  - B. increasing costs and attracting new competition
  - C. attracting new customers and developing new products or services
  - D. All of these
21. Competitive intelligence is the process of gathering information about the competitive environment, including \_\_\_\_\_.
- A. competitors' employees
  - B. competitors' differentiated processes
  - C. competitors' plans
  - D. All of these
22. Which of the following is a tool a manager can use to analyze competitive intelligence and identify competitive advantages?
- A. The three generic strategies
  - B. The threat of substitute buyer power
  - C. Differentiated costs
  - D. Supplier loyalty

23. Identifying competitive advantages can be difficult and explains why they are typically \_\_\_\_\_.  
  
A. temporary  
B. satisfactory  
C. terminated  
D. unsuccessful
24. Updating business strategies is a continuous undertaking, as internal and external environments \_\_\_\_\_.  
  
A. become less competitive  
B. remain stagnant  
C. rapidly change  
D. become more consistent
25. Which of the following is a reason why competitive advantages are typically temporary?  
  
A. The competitor hiring your key employees.  
B. The competitor seeking ways to duplicate your business operations.  
C. The competitor acquiring new technology.  
D. All of these.
26. What is a competitive advantage?  
  
A. A feature of a product or service on which customers place a lesser value on than on similar offerings from a new competitor.  
B. A brand name customers place a greater value on than the quality of the product or service.  
C. A service that customers place a lesser value on than similar offerings from a supplier.  
D. A feature of a product or service on which customers place a greater value than on similar offerings from competitors.

27. All of the following are common tools used in industry to analyze and develop competitive advantages, except:
- A. Five Forces Model
  - B. Three generic strategies
  - C. Competitive analysis model
  - D. Value chain analysis
28. Greg Provenzo owns and runs a Blockbuster video store. Greg is implementing a drive-thru rental process that is the same as you would find at a fast-food restaurant. Customers can pick up and drop off their videos without leaving their cars. Greg's new system has become so popular that Videos Plus, a competitor down the street, is attempting to re-create Greg's video drive-thru rental process. Greg's system is an example of a \_\_\_\_\_.
- A. supply chain power
  - B. first-mover advantage
  - C. business processing strategy
  - D. business intelligence
29. The process of gathering information about the competitive environment, including competitors' plans, activities, and products, to improve a company's ability to succeed is the definition of \_\_\_\_\_.
- A. feedback
  - B. information
  - C. competitive intelligence
  - D. data

30. Steve Jobs and Apple created a big advantage in the technology industry with the introduction of the iPod, iPhone, and iPad. What are these all examples of?
- A. Competitive advantage
  - B. Competitive intelligence
  - C. First-mover advantage
  - D. All of these
31. Paula Logston is the owner and operator of a high-end online custom clothing company. Paula has never heard of Porter's Five Forces Model, and she wants to understand why she should perform an analysis using it. If you were tasked with explaining Porter's Five Forces Model to Paula, what would be the primary reason she would want to use this type of analysis?
- A. To help Paula choose a clothing business focus.
  - B. To help Paula evaluate the attractiveness of the clothing industry.
  - C. To help Paula evaluate and execute business goals.
  - D. All of these.
32. A \_\_\_\_\_ advantage features a product or service on which customers place a greater value than they do on similar offerings from competitors.
- A. competitive
  - B. competitor
  - C. power
  - D. first-mover

33. The Victory Wireless store in Denver is currently offering a fabulous marketing strategy for potential new iPhone customers. Victory Wireless offers customers who purchase an iPhone with a two-year subscription a free OtterBox phone case, car charger, ear phones, and speakers. In terms of Porter's Five Forces, what is Victory Wireless attempting to achieve with this marketing strategy?
- A. Increase buyer power.
  - B. Increase substitute products.
  - C. Decrease supplier power.
  - D. Decrease buyer power.
34. Gina Brooks works for Aquarium Retail Services selling high-end saltwater fish and tank supplies. Aquarium Retail Services is the current market leader in Gina's city. Gina has recently been approached by Deep Blue Incorporated with an opportunity to run its corporate nationwide marketing and sales division. Gina decides to jump at the opportunity! Deep Blue is attempting to gain a competitive \_\_\_\_\_ by stealing its competitor's key employees.
- A. power
  - B. entry barrier
  - C. advantage
  - D. loyalty
35. The banking industry has implemented several competitive advantages, including ATMs, online bill-pay services, and electronic statements. Of course, these competitive advantages were quickly duplicated by any competitor that wanted to remain in the banking industry. These are examples of \_\_\_\_\_.
- A. acquiring new technology products and services
  - B. hiring new employees
  - C. reducing expenses
  - D. gaining invaluable feedback from customers



36. Michael Porter defined the Five Forces Model and the potential pressures that can hurt sales. Which of the following is not one of the potential pressures that can hurt sales?
- A. Suppliers can drive down profits by charging more for supplies.
  - B. New market entrants can steal potential investment capital.
  - C. Substitute products can steal customers.
  - D. All of these.
37. Which of the following is included in Porter's Five Forces Model?
- A. Loyalty expenses.
  - B. Supply chain management.
  - C. The power of competitors.
  - D. Systems thinking.
38. Kevin Campbell is an incoming freshman at your college. Kevin is frustrated by the cost of books, tuition, and expenses, and he also needs to purchase a rather expensive laptop. In an effort to save money, Kevin begins a Facebook group finding other college students who need to purchase laptops. Soon, Kevin's Facebook group has close to 100,000 students. Kevin decides to collectively approach different computer companies to see if his group qualifies for a special discount. What business strategy is Kevin using to purchase laptops?
- A. Collecting business intelligence.
  - B. Decreasing entry barriers.
  - C. Purchasing a substitute product.
  - D. Increasing buyer power.

39. \_\_\_\_\_ make customers reluctant to switch to another product or service.
- A. Support activities
  - B. Switching costs
  - C. Loyalty rewards
  - D. Value chain activities
40. Callie Crystal owns and operates one of the most successful local coffee shops in Denver, called The Edgewater Café. Each time a customer purchases their 100<sup>th</sup> cup of coffee at The Edgewater Café, they receive a free pound of coffee of their choice. What is Callie attempting to create with her unique "Free Pound of Coffee" marketing program?
- A. Reducing buyer power with a loyalty program.
  - B. Increasing buyer power with a loyalty program.
  - C. Decreasing supplier power with a differentiated product.
  - D. Creating a substitute product.
41. What includes all parties involved, directly or indirectly, in obtaining raw materials or a product?
- A. Support chain.
  - B. Supply chain.
  - C. System chain.
  - D. Supply choice.
42. Which of the following represents a company in a supply chain?
- A. Customer and competitor.
  - B. Supplier and competitor.
  - C. Knowledge worker and supplier.
  - D. Supplier and customer.

43. In the center of Porter's Five Forces Model is competition. Which of the following represents the four outer boxes?
- A. Buyer power, systems power, threat of false entrants, and threat of substitute products or services
  - B. Buyer power, systems power, threat of new entrants, and threat of substitute products or services
  - C. Buyer power, supplier power, threat of new entrants, and threat of substitute products or services
  - D. Business power, supplier power, threat of new entrants, and threat of powerful services
44. Shawn McGill is on the executive board for ABC Pharmaceuticals. The company produces the number-one-selling cancer-fighting drug on the market. Due to its incredible success, ABC pharmaceuticals has decided to increase the cost of the drug from \$8 a pill to \$15 a pill. Which force is ABC Pharmaceuticals using to increase its drug price?
- A. Supplier power.
  - B. Buyer power.
  - C. Threat of false entrants.
  - D. Business power.
45. What is one of the most common ways a company can decrease supplier power?
- A. Charge lower prices.
  - B. Charge higher prices.
  - C. Use MIS to find and create alternative products.
  - D. Companies cannot affect supplier power.

46. If a supplier has high power, what can it do to influence its industry?
- A. Charge higher prices.
  - B. Shift costs to industry participants.
  - C. Limit quality or services.
  - D. All of these.
47. When buyer power is low, supplier power is typically \_\_\_\_.
- A. identical
  - B. high
  - C. low
  - D. unstable
48. How can a company reduce the threat of substitute products or services?
- A. Market the product to fewer than 10 customers.
  - B. Ignore competitive forces.
  - C. Offer additional value through wider product distribution.
  - D. Offer less value, making the product far more generic and similar to the competition.
49. Which one of Porter's five forces is high when it is easy for new competitors to enter a market and low when there are significant entry barriers to joining a market?
- A. Threat of new entrants.
  - B. Threat of substitute products or services.
  - C. Threat of buyer power.
  - D. Supply chain competition.

50. John Cleaver is the CEO of Tech World, which is a retail store that sells computers, monitors, cameras, televisions, and many other electronic products. John and his executive team are meeting to brainstorm new ideas on how to grow the business. One idea is to mimic the product of a competitor that is attempting to sell a new product in a different industry. After performing a Porter's Five Forces analysis, John determines that all of the forces are high in this new industry. What should John do?
- A. Explode into the market with an overflow of the product.
  - B. Contemplate other products to introduce at the same time in this new market.
  - C. Compare the competitor's prices and offer his product lower in this new market.
  - D. Not introduce the product. Because all five forces are strong, introducing the product would be a highly risky business strategy.
51. What is a feature of a product or service that customers have come to expect and that entering competitors must match if they want to survive?
- A. Significant barrier.
  - B. Entry barrier.
  - C. Product differentiation.
  - D. Entry chain.
52. Which of the following represents a typical supply chain?
- A. Company - Customers - Suppliers.
  - B. Company - Suppliers - Customers.
  - C. Suppliers - Company - Customers.
  - D. Suppliers - Customers - Company.

53. Imagine you are creating a new product to sell in an up and coming market. Which of the following statements indicates that it would be easy for you, as the new entrant, to compete in this market?
- A. The threat of new entrants is high in the up and coming market.
  - B. The threat of new entrants is low in the up and coming market.
  - C. The threat of new entrants is impossible to define in the up and coming market.
  - D. All of these, depending on the time of year.
54. Imagine you are creating a new product to sell in an up and coming market. Which of the following statements indicates that it would be difficult for you to enter this new market?
- A. The threat-of-new-entrants is high in the up and coming market.
  - B. The threat-of-new-entrants is low in the up and coming market.
  - C. The threat-of-new-entrants is high during the summer months in the up-and-coming market.
  - D. All of these, depending on the time of year.
55. Which of the following offers an example where Porter's five forces are mostly strong and competition is high?
- A. A dog walking business.
  - B. A ski resort.
  - C. A professional hockey team.
  - D. All of these.
56. Which of the following offers an example where Porter's five forces are mostly weak and competition is low?
- A. An international hotel chain purchasing milk.
  - B. A coffee shop.
  - C. A single consumer purchasing milk.
  - D. A dog walking business.

57. Some industries' competition is much more intense than others. Retail grocery stores, such as Kroger, Safeway, and Albertson's in the United States, experience fierce competition and offer similar marketing campaigns to compete. What is this an example of in terms of Porter's Five Forces?
- A. Rivalry among new entrants.
  - B. Rivalry among existing competitors.
  - C. Threat of substitute products or services.
  - D. Buyer power.
58. Amazon.com uses a customer-profiling system whenever a customer visits its website. Using this system, Amazon can offer products tailored to that particular customer's profile and buying pattern. What is Amazon using to achieve this competitive advantage?
- A. Rivalry.
  - B. Buyer power.
  - C. Product differentiation.
  - D. Substitute product.
59. Your boss, Ty Jacob, has asked you to analyze the music industry using Porter's Five Forces Model. Which of the following represents supplier power in the music industry?
- A. Established record labels like EMI, Sony, and Universal.
  - B. Walmart, Target, iTunes.
  - C. Game systems like Wii and social networks like Facebook.
  - D. Taylor Swift, Beyonce, The Beatles, and The Rolling Stones.

60. Your boss, Ty Jacob, has asked you to analyze the music industry using Porter's Five Forces Model. Which of the following represents buyer power in the music industry?
- A. Established record labels like EMI, Sony, and Universal.
  - B. Walmart, Target, and iTunes.
  - C. Independent record labels.
  - D. Game systems like Wii and social networks like Facebook.
61. Your boss, Ty Jacob, has asked you to analyze the music industry using Porter's Five Forces Model. Which of the following represents the threat of substitute products or services in the music industry?
- A. Established record labels like EMI, Sony, and Universal.
  - B. Independent record labels.
  - C. Game systems like Wii and social networks like Facebook.
  - D. Taylor Swift, Beyonce, The Beatles, and The Rolling Stones.
62. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents supplier power in the soft drink industry?
- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
  - B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
  - C. Zevia Natural Diet Soda begins selling directly over the Internet.
  - D. Vitamin water, fruit juice, and coffee.



63. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents buyer power in the soft drink industry?
- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
  - B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
  - C. Zevia Natural Diet Soda begins selling directly over the Internet.
  - D. Vitamin water, fruit juice, and coffee.
64. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents a threat of a new entrant in the soft drink industry?
- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
  - B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
  - C. Zevia Natural Diet Soda begins selling directly over the Internet.
  - D. Vitamin water, fruit juice, and coffee.
65. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents a substitute product in the soft drink industry?
- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
  - B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
  - C. Zevia Natural Diet Soda begins selling directly over the Internet.
  - D. Vitamin water, fruit juice, and coffee.

66. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents rivalry in the soft drink industry?
- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
  - B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
  - C. Zevia Natural Diet Soda begins selling directly over the Internet.
  - D. Coke and Pepsi submit bids to the owner of a football stadium for the exclusive sale of their products during games.
67. Porter identified three generic strategies that a business could follow after identifying a market it wanted to enter. Which of the following is not included as one of Porter's three generic strategies?
- A. Broad differentiation.
  - B. Supplier cost differentiation.
  - C. Focused strategy.
  - D. Broad cost leadership.
68. According to Porter's three generic strategies for entering a market, if you have a focused strategy what market should you target?
- A. A niche market.
  - B. A broad market.
  - C. Neither niche or broad markets.
  - D. Both niche and broad markets.

69. Which of the following offers an example of a company operating in a narrow, focused market operating as the low-cost provider?
- A. Walmart.
  - B. Tiffany & Co.
  - C. Neiman Marcus.
  - D. Payless Shoes.
70. Broad differentiation, broad cost leadership, and \_\_\_\_\_ are the three generic strategies identified by Porter.
- A. narrow market leadership
  - B. high cost versus low cost
  - C. focused strategy
  - D. none of these
71. Jennifer Bloom is writing a paper and she must determine which of Porter's three generic strategies The Museum Company has implemented. Jennifer finds out that The Museum Company offers specialty products found only in museums around the world to affluent customers. What would Jennifer determine The Museum Company is using as its generic strategy?
- A. Broad market, low cost.
  - B. Narrow market, high cost.
  - C. Broad market, high cost.
  - D. Narrow market, low cost.

72. According to Porter, companies that wish to dominate broad markets should operate using a \_\_\_\_\_ strategy.
- A. cost leadership with a low cost
  - B. differentiation with a low cost
  - C. cost leadership with a high cost
  - D. all of these
73. Which of the following demonstrates a company that has implemented a low-cost, broad-market strategy?
- A. Neiman Marcus.
  - B. Payless Shoes.
  - C. The Sharper Image.
  - D. Walmart.
74. If a business is following a focused strategy, then its competitive scope is \_\_\_\_\_.
- A. broad market
  - B. narrow market
  - C. broad range of products
  - D. broad range of services
75. When applying Porter's three generic strategies, Tiffany & Co. has a competitive scope and cost strategy that is a \_\_\_\_\_.
- A. broad market, high cost strategy
  - B. narrow market, low cost strategy
  - C. narrow market, high cost strategy
  - D. broad market, low cost strategy

76. In the bookstore industry, some of today's businesses compete with different business strategies and cost strategies. Which of the following is using a broad market competitive scope along with a low cost strategy?
- A. Amazon.com.
  - B. Any local independent bookstore that specializes in antique books.
  - C. Barnes & Noble.
  - D. Borders Books.
77. Which of the following is similar to focused strategy versus broad strategy?
- A. Large market versus leadership.
  - B. Large market versus uniqueness.
  - C. Niche market versus large market.
  - D. Niche market versus generic.
78. Your boss, Tom Repicci, has asked you to analyze the airline industry using Porter's three generic strategies. Which of the following companies are using a differentiation strategy?
- A. Southwest, Horizon, Frontier, and JetBlue.
  - B. British Airways, Singapore Airlines, and Virgin Atlantic.
  - C. Sky Taxi, a rent-by-the-hour personal plane service.
  - D. All of these.
79. Your boss, Tom Repicci, has asked you to analyze the airline industry using Porter's three generic strategies. Which of the following companies are using a focused strategy?
- A. Southwest, Horizon, Frontier, and JetBlue.
  - B. British Airways, Singapore Airlines, and Virgin Atlantic.
  - C. Sky Taxi, a rent-by-the-hour personal plane service.
  - D. All of these.

80. According to Porter's value chain analysis, which of the following provides customer support after the sale of goods and services?
- A. Inbound logistics.
  - B. Outbound logistics.
  - C. Operations.
  - D. Service.
81. Which of the following represents procurement as part of the support value activities in a value chain analysis?
- A. Purchases inputs, such as raw materials, resources, equipment, and supplies.
  - B. Applies MIS to processes to add value.
  - C. Distributes goods and services to customers.
  - D. Promotes, prices, and sells products to customers.
82. What includes support-value activities and primary-value activities and is used to determine how to create the greatest possible value for customers?
- A. Supplier power.
  - B. Operations management.
  - C. Porter's Five Forces Model.
  - D. Value chain analysis.
83. What is a standardized set of activities that accomplishes a specific task?
- A. Business strategy.
  - B. Business outcome.
  - C. Business process.
  - D. Knowledge process.

84. Which of the following analyzes a company's business processes and is useful for determining how to create the greatest possible value for customers?
- A. Product analysis.
  - B. Primary supplier power.
  - C. Value chain analysis.
  - D. Buyer chain analysis.
85. The goal of value chain analysis is to identify processes in which the firm can add value for the customer and create a competitive advantage for itself, with a \_\_\_\_\_ or \_\_\_\_\_.
- A. focused strategy, product differentiation
  - B. focused strategy, cost advantage
  - C. cost advantage, primary value activities
  - D. cost advantage, product differentiation
86. What are the two main categories in a value chain analysis?
- A. Primary value activities and secondary value activities.
  - B. Primary value activities and support value activities.
  - C. Primary value activities and strengthening value activities.
  - D. None of these.
87. Which of the following is not considered a category within the primary value activities in a value chain analysis?
- A. Inbound logistics.
  - B. Firm infrastructure.
  - C. Operations.
  - D. Service.

88. Which of the following is not considered a category within the support value activities in a value chain analysis?
- A. Technology development.
  - B. Outbound logistics.
  - C. Human resource management.
  - D. Firm infrastructure.
89. What is the support value activity that hires employees and provides them with training and compensation?
- A. Procurement.
  - B. Operations resource management.
  - C. Human resource management.
  - D. Firm infrastructure.
90. Sandy Fiero works as the Chief Knowledge Officer for Bend Lumbar Company. She has been given the responsibility to create a product or service that will bring an added value to its customers to increase the company's revenue. Sandy determines that the best value she can add is by creating a service that offers free next-day shipping on any order over \$50. Where in the value chain is Sandy adding value?
- A. The primary value activity outbound logistics.
  - B. The primary value activity inbound logistics.
  - C. The primary value activity marketing and sales.
  - D. The primary value activity operations.



91. When evaluating the value chain, all of the following are included in the primary value activities except:
- A. Inbound activities.
  - B. Operations.
  - C. Service.
  - D. MIS development.
92. When evaluating the value chain, which of the following is included in the support value activities?
- A. Inbound activities.
  - B. Marketing and sales.
  - C. Firm infrastructure.
  - D. Finance and sales.
93. Which of the following decisions does a firm need to make as soon as it has identified the activities from the value chain that are bringing the highest added value to their customers?
- A. Target high value-adding activities to further enhance their value.
  - B. Target low value-adding activities to increase their value.
  - C. Perform some combination of the two.
  - D. All of these.

94. MIS can add value to both primary activities and support activities in the value chain. Which of the following is not an example of a company adding value by using MIS in a primary activity?
- A. Scottrade Corp. creating an online system for employees to track paychecks, benefits, the wellness-rewards program, and other employee benefit items.
  - B. A system for the sales and marketing departments to track specific sales targets and follow-up processes.
  - C. An easy electronic survey to be sent to the customer right after a service is completed.
  - D. Royal Crest Dairy placing their order and delivery system on an easily accessible Web portal so customers can track delivery status.
95. MIS can add value to both primary and support activities within a business. Which of the following is not an example of a company adding value by the use of MIS in a support activity?
- A. Netflix creating a business strategy for the video rental market that delivers videos via the mail.
  - B. The human resources department creates a tracking system to efficiently reward employees based on their performance.
  - C. Scottrade Corp. creating an online system for employees to track paychecks, benefits, their wellness-rewards program, and other employee benefit items.
  - D. The University of Forks creates a program to automatically order office supplies, such as pens and pads of paper, for its employees.

### Fill in the Blank Questions

96. Business strategies that match \_\_\_\_\_ company competencies to opportunities result in a competitive advantage.

\_\_\_\_\_

97. Competitive \_\_\_\_\_ is the process of gathering information about the competitive environment, including competitors' plans, activities, and products, to improve a company's ability to succeed.

\_\_\_\_\_

98. Apple utilized the first-mover \_\_\_\_\_ with its iPod product.

\_\_\_\_\_

99. Michael Porter identified pressures that can hurt potential sales. Knowledgeable customers can force \_\_\_\_\_ prices by pitting rivals against each other.

\_\_\_\_\_

100. The Porter's Five Forces Model analyzes the competitive forces within the environment in which a company operates to assess the potential for \_\_\_\_\_ in an industry.

\_\_\_\_\_

101. \_\_\_\_\_ power measures the ability of buyers to affect the price they must pay for an item.

\_\_\_\_\_

102. The threat of substitute products or services is \_\_\_\_\_ when there are many alternatives to a product or service and low when there are few alternatives from which to choose.

\_\_\_\_\_

103. The \_\_\_\_\_ chain consists of all parties involved, directly or indirectly, in obtaining raw materials or a product.

\_\_\_\_\_

104. Rivalry among existing competitors is \_\_\_\_\_ when competition is fierce in a market and low when competitors are more complacent.

\_\_\_\_\_

105. Porter has identified three \_\_\_\_\_ business strategies for entering a new market: (1) broad cost leadership, (2) broad differentiation, and (3) focused strategy.

\_\_\_\_\_

106. Focused strategies concentrate on either cost leadership or \_\_\_\_\_.

\_\_\_\_\_

107. Porter suggests adopting only \_\_\_\_\_ of the three generic strategies.

\_\_\_\_\_

108. A \_\_\_\_\_ chain analysis views a firm as a series of business processes that each add value to the product or service.

\_\_\_\_\_

109. \_\_\_\_\_ value activities are found at the bottom of the value chain. These include business processes that acquire raw materials and manufacture, deliver, market, sell, and provide after-sales services.

\_\_\_\_\_

110. \_\_\_\_\_ value activities are found along the top of the value chain and include business processes, such as firm infrastructure, human resource management, technology development, and procurement, that support the primary value activities.

\_\_\_\_\_

## Essay Questions

111. Explain why competitive advantages are temporary.

112. Describe Porter's Five Forces Model and explain each of the five forces.

113. Compare Porter's three generic strategies.

114. Demonstrate how a company can add value by using Porter's value chain analysis.

## Chapter 02 Identifying Competitive Advantages Answer Key

### True / False Questions

1. Porter's Five Forces Model outlines the process for a sales strategy.

(p. 20)

**FALSE**

Porter's Five Forces Model analyzes the competitive forces within the environment in which a company operates to assess the potential for profitability in an industry.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

2. With the Five Forces Model, companies should watch the forces in the market. If the forces are strong, competition generally increases, and if the forces are weak, competition typically decreases.

(p. 20)

**TRUE**

With the Five Forces Model, companies should watch the forces in the market. If the forces are strong, competition generally increases, and if the forces are weak, competition typically decreases.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

3. A leadership plan that achieves a specific set of goals or objectives is a business strategy.  
(p. 18)

**TRUE**

A leadership plan that achieves a specific set of goals or objectives.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

4. When a company is the first to market with a competitive advantage, it gains a particular benefit known as competitive intelligence.  
(p. 19)

**FALSE**

When a company is the first to market with a competitive advantage, it gains a particular benefit known as a first-mover advantage.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

5. Two ways to reduce buyer power are through switching costs and loyalty programs.  
(p. 20-21)

**TRUE**

Two ways to reduce buyer power are through switching costs and loyalty programs.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*



*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

6. Mark Peterson identified the Five Forces Model, which analyzes the competitive forces within a business environment.

**FALSE**

Michael Porter created the Porter's Five Forces Model, which analyzes the competitive forces within a business environment.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

7. There are many challenges to changing doctors, including transferring medical records and losing the doctor-patient relationship along with the doctor's knowledge of the patient's history. Changing doctors provides a great example of switching costs.

**TRUE**

Switching costs are costs that make customers reluctant to switch to another product or service. Switching costs include financial as well as intangible values.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

8. Supplier power is one of Porter's five forces, and it measures the suppliers' ability to influence the prices they charge for supplies (including materials, labor, and services).  
(p. 21)

**TRUE**

Supplier power is one of Porter's five forces. It measures the suppliers' ability to influence the prices they charge for supplies (including materials, labor, and services).

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

9. Polaroid had a unique competitive advantage for many years until it forgot to observe competitive intelligence. The firm went bankrupt when people began taking digital pictures. Polaroid provides a great example of Porter's threat of new entrants.  
(p. 21)

**FALSE**

This is an example of Porter's threat of substitute products or services.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

10. Product differentiation occurs when a company develops unique differences in its products or services with the intent to influence demand.  
(p. 22)

**TRUE**

Product differentiation occurs when a company develops unique differences in its products or services with the intent to influence demand.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

11. Buyer power is the ability of buyers to affect the price they must pay for an item.  
(p. 20)

**TRUE**

Buyer power is the ability of buyers to affect the price they must pay for an item.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

12. Tiffany & Company competes in the marketplace by offering high-cost custom jewelry. Tiffany & Company is following a broad market and cost leadership strategy.  
(p. 24)

**FALSE**

Tiffany & Company is following a focused market with high cost differentiation strategy.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

13. Porter has identified three generic business strategies, including focused, broad cost leadership, (p. 23) and switching strategy.

**FALSE**

Porter has identified three generic business strategies: (1) broad cost leadership, (2) broad differentiation, and (3) focused strategy.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

14. According to Porter's three generic strategies, Walmart is following a business strategy that (p. 24) focuses on "broad market and low cost."

**TRUE**

An example of a business that uses the business strategy "broad market and low cost" is Walmart.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

15. Value chain analysis views a firm as a series of business processes that each add value to the product or service.  
(p. 25)

**TRUE**

Value chain analysis views a firm as a series of business processes that each adds value to the product or service.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

16. A standardized set of activities that accomplish a specific task is called a supply chain component.  
(p. 24)

**FALSE**

A standardized set of activities that accomplish a specific task is called a business process.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

17. The value chain will group a company's activities into two categories: primary value activities and support value activities.  
(p. 25)

**TRUE**

The value chain will group a company's activities into two categories: primary value activities and support value activities.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

## Multiple Choice Questions

18. Which of the following is not a typical way that a company would duplicate a competitive advantage?  
(p. 19)

- A. Acquiring the new technology.
- B. Copying the business operations.
- C. Hiring away key employees.
- D.** Carrying large product inventories.

Ways that companies duplicate competitive advantages include acquiring new technology, copying the business operations, and hiring away key employees.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

19. When a company is the first to market with a competitive advantage, this is called a first-mover advantage. All of the following companies were first-movers except \_\_\_\_\_.  
(p. 19)

- A. FedEx - the online self-service software
- B. Apple - iPad
- C. Apple - iPod
- D. Microsoft - Bing search engine

First-mover advantage is an advantage that occurs when a company can significantly increase its market share by being first with a competitive advantage. Google was first to market with search-engine technology.

AACSB: Reflective Thinking

AACSB: Technology

Accessibility: Keyboard Navigation

Blooms: Analyze

Difficulty: 3 Hard

Learning Outcome: 02-01 Explain why competitive advantages are temporary.

Topic: Identifying Competitive Advantages

20. A business strategy achieves a specific set of goals, which include \_\_\_\_\_.  
(p. 18)

- A. developing new products or services and attracting new competition
- B. increasing costs and attracting new competition
- C. attracting new customers and developing new products or services
- D. All of these

A business strategy is a leadership plan that achieves a specific set of goals or objectives such as developing new products or services, entering new markets, increasing customer loyalty, attracting new customers, increasing sales, and decreasing costs.

AACSB: Reflective Thinking

AACSB: Technology

Accessibility: Keyboard Navigation

Blooms: Remember

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

21. Competitive intelligence is the process of gathering information about the competitive environment, including \_\_\_\_\_.  
(p. 19)

- A. competitors' employees
- B. competitors' differentiated processes
- C. competitors' plans
- D. All of these

Competitive intelligence is the process of gathering information about the competitive environment, including competitors' plans, activities, and products, to improve a company's ability to succeed.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

22. Which of the following is a tool a manager can use to analyze competitive intelligence and identify competitive advantages?  
(p. 19)

- A. The three generic strategies
- B. The threat of substitute buyer power
- C. Differentiated costs
- D. Supplier loyalty

Managers utilize three common tools to analyze competitive intelligence and develop competitive advantages including: (1) the Five Forces Model, (2) the three generic strategies, and (3) value chain analysis.

*AACSB: Reflective Thinking*



AACSB: Technology

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Outcome: 02-01 Explain why competitive advantages are temporary.

Topic: Identifying Competitive Advantages

23. Identifying competitive advantages can be difficult and explains why they are typically \_\_\_\_\_.  
(p. 19)

- A. temporary
- B. satisfactory
- C. terminated
- D. unsuccessful

Competitive advantages are typically temporary.

AACSB: Reflective Thinking

AACSB: Technology

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Outcome: 02-01 Explain why competitive advantages are temporary.

Topic: Identifying Competitive Advantages

24. Updating business strategies is a continuous undertaking, as internal and external environments  
(p. 19) \_\_\_\_\_.

- A. become less competitive
- B. remain stagnant
- C. rapidly change
- D. become more consistent

Updating business strategies is a continuous undertaking, as internal and external environments rapidly change.

AACSB: Reflective Thinking

AACSB: Technology

Accessibility: Keyboard Navigation

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

25. Which of the following is a reason why competitive advantages are typically temporary?

*(p. 19)*

- A. The competitor hiring your key employees.
- B. The competitor seeking ways to duplicate your business operations.
- C. The competitor acquiring new technology.
- D. All of these.

Competitive advantages are typically temporary, because competitors often quickly seek ways to duplicate them by acquiring new technology, copying the business operations, and hiring away key employees.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

26. What is a competitive advantage?

*(p. 19)*

- A. A feature of a product or service on which customers place a lesser value on than on similar offerings from a new competitor.
- B. A brand name customers place a greater value on than the quality of the product or service.
- C. A service that customers place a lesser value on than similar offerings from a supplier.
- D. A feature of a product or service on which customers place a greater value than on similar offerings from competitors.

This is the definition of competitive advantage.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

27. All of the following are common tools used in industry to analyze and develop competitive  
(p. 19) advantages, except:

- A. Five Forces Model
- B. Three generic strategies
- C. Competitive analysis model
- D. Value chain analysis

A competitive analysis model is not discussed in this text.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

28. Greg Provenzo owns and runs a Blockbuster video store. Greg is implementing a drive-thru rental process that is the same as you would find at a fast-food restaurant. Customers can pick up and drop off their videos without leaving their cars. Greg's new system has become so popular that Videos Plus, a competitor down the street, is attempting to re-create Greg's video drive-thru rental process. Greg's system is an example of a \_\_\_\_\_.

- A. supply chain power
- B. first-mover advantage**
- C. business processing strategy
- D. business intelligence

The first-mover advantage is an advantage that occurs when a company can significantly increase its market share by being first with a competitive advantage.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

29. The process of gathering information about the competitive environment, including competitors' plans, activities, and products, to improve a company's ability to succeed is the definition of \_\_\_\_\_.

- A. feedback
- B. information
- C. competitive intelligence**
- D. data

Competitive intelligence is the process of gathering information about the competitive environment, including competitors' plans, activities, and products, to improve a company's ability to succeed.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

30. Steve Jobs and Apple created a big advantage in the technology industry with the introduction  
(p. 19) of the iPod, iPhone, and iPad. What are these all examples of?

- A. Competitive advantage
- B. Competitive intelligence
- C. First-mover advantage
- D. All of these

Steve Jobs and Apple created a big advantage in the technology industry with their products the iPod, iPhone, and iPad. These are examples of competitive advantage, competitive intelligence, and first-mover advantage.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

31. Paula Logston is the owner and operator of a high-end online custom clothing company. Paula (p. 20) has never heard of Porter's Five Forces Model, and she wants to understand why she should perform an analysis using it. If you were tasked with explaining Porter's Five Forces Model to Paula, what would be the primary reason she would want to use this type of analysis?

- A. To help Paula choose a clothing business focus.
- B. To help Paula evaluate the attractiveness of the clothing industry.
- C. To help Paula evaluate and execute business goals.
- D. All of these.

One of the three tools company executives often use when analyzing competitive intelligence is the Five Forces Model. This is used to evaluate industry attractiveness.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

32. A \_\_\_\_\_ advantage features a product or service on which customers place a greater value (p. 19) than they do on similar offerings from competitors.

- A. competitive
- B. competitor
- C. power
- D. first-mover

A competitive advantage features a product or service on which customers place a greater value than they do on similar offerings from competitors.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

33. The Victory Wireless store in Denver is currently offering a fabulous marketing strategy for potential new iPhone customers. Victory Wireless offers customers who purchase an iPhone with a two-year subscription a free OtterBox phone case, car charger, ear phones, and speakers. In terms of Porter's Five Forces, what is Victory Wireless attempting to achieve with this marketing strategy?

- A. Increase buyer power.
- B. Increase substitute products.
- C. Decrease supplier power.
- D. Decrease buyer power.

Victory Wireless is attempting to decrease buyer power by offering products at a lower price or competing on price.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

34. Gina Brooks works for Aquarium Retail Services selling high-end saltwater fish and tank supplies. (p. 19) Aquarium Retail Services is the current market leader in Gina's city. Gina has recently been approached by Deep Blue Incorporated with an opportunity to run its corporate nationwide marketing and sales division. Gina decides to jump at the opportunity! Deep Blue is attempting to gain a competitive \_\_\_\_\_ by stealing its competitor's key employees.
- A. power
  - B. entry barrier
  - C. advantage
  - D. loyalty

Ways that companies duplicate competitive advantages include acquiring the new technology, copying business processes, and hiring away employees.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*



35. The banking industry has implemented several competitive advantages, including ATMs, online bill-pay services, and electronic statements. Of course, these competitive advantages were quickly duplicated by any competitor that wanted to remain in the banking industry. These are examples of \_\_\_\_\_.

- A. acquiring new technology products and services
- B. hiring new employees
- C. reducing expenses
- D. gaining invaluable feedback from customers

The banking industry has utilized competitive advantage by offering ATMs, online bill-pay services, and e-statements. All of these are examples of ways they duplicated each other by acquiring new technology products and services.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

36. Michael Porter defined the Five Forces Model and the potential pressures that can hurt sales.  
(p. 20) Which of the following is not one of the potential pressures that can hurt sales?

- A. Suppliers can drive down profits by charging more for supplies.
- B. New market entrants can steal potential investment capital.
- C. Substitute products can steal customers.
- D. All of these.

Michael Porter defined the Five Forces Model. Before formally presenting his model, he identified pressures that can hurt potential sales, which include: (1) knowledgeable customers can force down prices by pitting rivals against each other, (2) influential suppliers can drive down profits by charging higher prices for supplies, (3) competition can steal customers, (4) new market entrants can steal potential investment capital, and (5) substitute products can steal customers.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

37. Which of the following is included in Porter's Five Forces Model?  
(p. 20)

- A. Loyalty expenses.
- B. Supply chain management.
- C. The power of competitors.
- D. Systems thinking.

In figure 1.8, Porter's Five Forces Model outlines rivalry among existing competitors, the power of competitors.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

38. Kevin Campbell is an incoming freshman at your college. Kevin is frustrated by the cost of books, tuition, and expenses, and he also needs to purchase a rather expensive laptop. In an effort to save money, Kevin begins a Facebook group finding other college students who need to purchase laptops. Soon, Kevin's Facebook group has close to 100,000 students. Kevin decides to collectively approach different computer companies to see if his group qualifies for a special discount. What business strategy is Kevin using to purchase laptops?

- A. Collecting business intelligence.
- B. Decreasing entry barriers.
- C. Purchasing a substitute product.
- D. Increasing buyer power.

Buyer power is one of Porter's Five Forces, which measures the ability of buyers to affect the price they must pay for an item. Kevin's group is attempting to increase their buyer power.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

39. \_\_\_\_\_ make customers reluctant to switch to another product or service.

(p. 20)

- A. Support activities
- B. Switching costs**
- C. Loyalty rewards
- D. Value chain activities

Switching costs are costs that make customers reluctant to switch to another product or service.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

40. Callie Crystal owns and operates one of the most successful local coffee shops in Denver, called The Edgewater Café. Each time a customer purchases their 100<sup>th</sup> cup of coffee at The Edgewater Café, they receive a free pound of coffee of their choice. What is Callie attempting to create with her unique "Free Pound of Coffee" marketing program?

(p. 21)

- A. Reducing buyer power with a loyalty program.**
- B. Increasing buyer power with a loyalty program.
- C. Decreasing supplier power with a differentiated product.
- D. Creating a substitute product.

One way to reduce buyer power is with a loyalty program, which is a program to reward customers based on their spending.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

41. What includes all parties involved, directly or indirectly, in obtaining raw materials or a product?  
(p. 21)

- A. Support chain.
- B. Supply chain.**
- C. System chain.
- D. Supply choice.

The supply chain includes all parties involved, directly or indirectly, in obtaining raw materials or a product.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

42. Which of the following represents a company in a supply chain?  
(p. 21)

- A. Customer and competitor.
- B. Supplier and competitor.
- C. Knowledge worker and supplier.
- D. Supplier and customer.**

In a typical supply chain, a company will be both a supplier and a customer.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

43. In the center of Porter's Five Forces Model is competition. Which of the following represents the  
(p. 20) four outer boxes?

- A. Buyer power, systems power, threat of false entrants, and threat of substitute products or services
- B. Buyer power, systems power, threat of new entrants, and threat of substitute products or services
- C. Buyer power, supplier power, threat of new entrants, and threat of substitute products or services
- D. Business power, supplier power, threat of new entrants, and threat of powerful services

The four competitive forces that work among the power of competitors are buyer power, supplier power, threat of new entrants, and threat of substitute products or services.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

44. Shawn McGill is on the executive board for ABC Pharmaceuticals. The company produces the  
(p. 21) number-one-selling cancer-fighting drug on the market. Due to its incredible success, ABC pharmaceuticals has decided to increase the cost of the drug from \$8 a pill to \$15 a pill. Which force is ABC Pharmaceuticals using to increase its drug price?

- A. Supplier power.
- B. Buyer power.
- C. Threat of false entrants.
- D. Business power.

Supplier power, one of Porter's five forces, measures the suppliers' ability to influence the prices they charge for supplies (including materials, labor, and services).

*AACSB: Reflective Thinking*

AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.  
Topic: The Five Forces Model-Evaluating Industry Attractiveness

45. What is one of the most common ways a company can decrease supplier power?  
(p. 21)

- A. Charge lower prices.
- B. Charge higher prices.
- C. Use MIS to find and create alternative products.
- D. Companies cannot affect supplier power.

Using MIS to find alternative products is one way of decreasing supplier power.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.  
Topic: The Five Forces Model-Evaluating Industry Attractiveness

46. If a supplier has high power, what can it do to influence its industry?  
(p. 21)

- A. Charge higher prices.
- B. Shift costs to industry participants.
- C. Limit quality or services.
- D. All of these.

If the supplier power is high, the supplier can influence the industry by (1) charging higher prices, (2) limiting quality or services, or (3) shifting costs to industry participants.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Understand

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

47. When buyer power is low, supplier power is typically \_\_\_\_.

*(p. 21)*

- A. identical
- B.** high
- C. low
- D. unstable

When buyer power is low, supplier power is typically high.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

48. How can a company reduce the threat of substitute products or services?

*(p. 21)*

- A. Market the product to fewer than 10 customers.
- B. Ignore competitive forces.
- C.** Offer additional value through wider product distribution.
- D. Offer less value, making the product far more generic and similar to the competition.

One way a company can reduce the threat of substitute products or services is to offer additional value through wider product distribution.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*



49. Which one of Porter's five forces is high when it is easy for new competitors to enter a market  
(p. 22) and low when there are significant entry barriers to joining a market?

- A. Threat of new entrants.
- B. Threat of substitute products or services.
- C. Threat of buyer power.
- D. Supply chain competition.

Threat of new entrants, one of Porter's five forces, is high when it is easy for new competitors to enter a market and low when there are significant entry barriers to joining a market.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

50. John Cleaver is the CEO of Tech World, which is a retail store that sells computers, monitors, cameras, televisions, and many other electronic products. John and his executive team are meeting to brainstorm new ideas on how to grow the business. One idea is to mimic the product of a competitor that is attempting to sell a new product in a different industry. After performing a Porter's Five Forces analysis, John determines that all of the forces are high in this new industry. What should John do?

- A. Explode into the market with an overflow of the product.
- B. Contemplate other products to introduce at the same time in this new market.
- C. Compare the competitor's prices and offer his product lower in this new market.
- D. Not introduce the product. Because all five forces are strong, introducing the product would be a highly risky business strategy.

When the five forces are all strong or high, copying a competitor's product is a poor business strategy. When the forces are low, this is a great time to execute this business strategy.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

51. What is a feature of a product or service that customers have come to expect and that entering competitors must match if they want to survive?

- A. Significant barrier.
- B. Entry barrier.
- C. Product differentiation.
- D. Entry chain.

An entry barrier is a feature of a product or service that customers have come to expect and that entering competitors must match to survive.

*AACSB: Reflective Thinking*

AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.  
Topic: The Five Forces Model-Evaluating Industry Attractiveness

52. Which of the following represents a typical supply chain?  
(p. 21)

- A. Company - Customers - Suppliers.
- B. Company - Suppliers - Customers.
- C. Suppliers - Company - Customers.
- D. Suppliers - Customers - Company.

A traditional business supply chain operates like this: supplier - company - customers.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.  
Topic: The Five Forces Model-Evaluating Industry Attractiveness

53. Imagine you are creating a new product to sell in an up and coming market. Which of the  
(p. 22) following statements indicates that it would be easy for you, as the new entrant, to compete in this market?

- A. The threat of new entrants is high in the up and coming market.
- B. The threat of new entrants is low in the up and coming market.
- C. The threat of new entrants is impossible to define in the up and coming market.
- D. All of these, depending on the time of year.

The threat of new entrants is high when it is easy for new competitors to enter a market and low when there are significant entry barriers to joining a market.

AACSB: Reflective Thinking

AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Analyze  
Difficulty: 3 Hard

Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.  
Topic: The Five Forces Model-Evaluating Industry Attractiveness

54. Imagine you are creating a new product to sell in an up and coming market. Which of the following statements indicates that it would be difficult for you to enter this new market?

- A. The threat-of-new-entrants is high in the up and coming market.
- B.** The threat-of-new-entrants is low in the up and coming market.
- C. The threat-of-new-entrants is high during the summer months in the up-and-coming market.
- D. All of these, depending on the time of year.

The threat of new entrants is high when it is easy for new competitors to enter a market and low when there are significant entry barriers to joining a market.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.  
Topic: The Five Forces Model-Evaluating Industry Attractiveness

55. Which of the following offers an example where Porter's five forces are mostly strong and  
(p. 22) competition is high?

- A. A dog walking business.
- B. A ski resort.
- C. A professional hockey team.
- D. All of these.

With Porter's Five Forces Model, the following are all examples of situations with strong forces and, therefore, increased competition: (1) a single consumer purchasing milk, (2) a company that makes pencils, (3) coffee from McDonalds, (4) a dog-walking business, and (5) a coffee shop.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

56. Which of the following offers an example where Porter's five forces are mostly weak and  
(p. 22) competition is low?

- A. An international hotel chain purchasing milk.
- B. A coffee shop.
- C. A single consumer purchasing milk.
- D. A dog walking business.

With Porter's Five Forces Model, the following are all examples of situations with weak forces and, therefore, decreased competition: (1) an international hotel chain purchasing milk, (2) a company that makes airline engines, (3) cancer drugs from a pharmaceutical company, (4) a professional hockey team, and (4) the Department of Motor Vehicles.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

57. Some industries' competition is much more intense than others. Retail grocery stores, such as (p. 22) Kroger, Safeway, and Albertson's in the United States, experience fierce competition and offer similar marketing campaigns to compete. What is this an example of in terms of Porter's Five Forces?

- A. Rivalry among new entrants.
- B. Rivalry among existing competitors.**
- C. Threat of substitute products or services.
- D. Buyer power.

Some industries' competition is much more intense than others. Retail grocery stores, such as Kroger, Safeway, Albertson's, and Ralph's in the United States, have fierce competition and similar programs to compete with each other.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

58. Amazon.com uses a customer-profiling system whenever a customer visits its website. Using this system, Amazon can offer products tailored to that particular customer's profile and buying pattern. What is Amazon using to achieve this competitive advantage?

- A. Rivalry.
- B. Buyer power.
- C. Product differentiation.
- D. Substitute product.

Product differentiation is an advantage that occurs when a company develops unique differences in its products with the intent to influence demand.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

59. Your boss, Ty Jacob, has asked you to analyze the music industry using Porter's Five Forces Model. Which of the following represents supplier power in the music industry?

- A. Established record labels like EMI, Sony, and Universal.
- B. Walmart, Target, iTunes.
- C. Game systems like Wii and social networks like Facebook.
- D. Taylor Swift, Beyonce, The Beatles, and The Rolling Stones.

An example of supplier power in the music industry includes established record labels like EMI, Sony, and Universal.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

60. Your boss, Ty Jacob, has asked you to analyze the music industry using Porter's Five Forces Model. Which of the following represents buyer power in the music industry?

- A. Established record labels like EMI, Sony, and Universal.
- B. Walmart, Target, and iTunes.**
- C. Independent record labels.
- D. Game systems like Wii and social networks like Facebook.

Buyer power in the music industry includes Walmart, Target, and iTunes, which purchase music from record labels to sell online and in their stores.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

61. Your boss, Ty Jacob, has asked you to analyze the music industry using Porter's Five Forces Model. Which of the following represents the threat of substitute products or services in the music industry?

- A. Established record labels like EMI, Sony, and Universal.
- B. Independent record labels.
- C. Game systems like Wii and social networks like Facebook.**
- D. Taylor Swift, Beyonce, The Beatles, and The Rolling Stones.

Game systems like Wii and social networks offer alternatives or substitute products to purchasing music for a consumer.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*



62. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents supplier power in the soft drink industry?

- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
- B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
- C. Zevia Natural Diet Soda begins selling directly over the Internet.
- D. Vitamin water, fruit juice, and coffee.

Supplier power in the soft drink industry is represented by Pepsi.

63. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents buyer power in the soft drink industry?

- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
- B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
- C. Zevia Natural Diet Soda begins selling directly over the Internet.
- D. Vitamin water, fruit juice, and coffee.

Buyer power in the soft drink industry is represented by Walmart.

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

64. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents a threat of a new entrant in the soft drink industry?

- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
- B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
- C. Zevia Natural Diet Soda begins selling directly over the Internet.
- D. Vitamin water, fruit juice, and coffee.

Zevia Natural Diet Soda represents a new entrant in the soft drink industry.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

65. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents a substitute product in the soft drink industry?

- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
- B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
- C. Zevia Natural Diet Soda begins selling directly over the Internet.
- D. Vitamin water, fruit juice, and coffee.

Vitamin water, fruit juice, or coffee are all substitute products to a soft drink.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

66. Your boss, Kerry Miller, has asked you to analyze the soft drink industry using Porter's Five Forces Model. Which of the following represents rivalry in the soft drink industry?

- A. Pepsi requires stores that carry Pepsi products to commit to minimum orders of 1,000 cases.
- B. Walmart negotiates a lower cost per bottle from Coke in exchange for premium shelf space in every Walmart store.
- C. Zevia Natural Diet Soda begins selling directly over the Internet.
- D. Coke and Pepsi submit bids to the owner of a football stadium for the exclusive sale of their products during games.

The rivalry between Coke and Pepsi is famous in the soft drink industry.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

67. Porter identified three generic strategies that a business could follow after identifying a market it (p. 23) wanted to enter. Which of the following is not included as one of Porter's three generic strategies?

- A. Broad differentiation.
- B.** Supplier cost differentiation.
- C. Focused strategy.
- D. Broad cost leadership.

Porter has identified three generic business strategies for entering a new market: (1) broad cost leadership, (2) broad differentiation, and (3) focused strategy.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

68. According to Porter's three generic strategies for entering a market, if you have a focused (p. 23) strategy what market should you target?

- A.** A niche market.
- B. A broad market.
- C. Neither niche or broad markets.
- D. Both niche and broad markets.

According to Porter's three generic strategies for entering a market, if you have a focused strategy you should target a narrow market, niche market, or a unique market.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

69. Which of the following offers an example of a company operating in a narrow, focused market  
(p. 24) operating as the low-cost provider?

A. Walmart.  
B. Tiffany & Co.  
C. Neiman Marcus.  
D. Payless Shoes.

Payless competes by offering a specific product (narrow market) at low prices. Their strategy is to be the low-cost provider of shoes.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

70. Broad differentiation, broad cost leadership, and \_\_\_\_\_ are the three generic strategies  
(p. 23) identified by Porter.

A. narrow market leadership  
B. high cost versus low cost  
C. focused strategy  
D. none of these

The three strategies proposed by Porter are (1) broad cost leadership, (2) broad differentiation, and (3) focused strategy.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

71. Jennifer Bloom is writing a paper and she must determine which of Porter's three generic strategies The Museum Company has implemented. Jennifer finds out that The Museum Company offers specialty products found only in museums around the world to affluent customers. What would Jennifer determine The Museum Company is using as its generic strategy?

- A. Broad market, low cost.
- B. Narrow market, high cost.**
- C. Broad market, high cost.
- D. Narrow market, low cost.

The Museum Company competes using a narrow market and high cost focus.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

72. According to Porter, companies that wish to dominate broad markets should operate using a \_\_\_\_\_ strategy.

- A. cost leadership with a low cost**
- B. differentiation with a low cost
- C. cost leadership with a high cost
- D. all of these

According to Porter, broad markets should use cost leadership with a low cost and differentiation with a high cost.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

73. Which of the following demonstrates a company that has implemented a low-cost, broad-  
(p. 24) market strategy?

- A. Neiman Marcus.
- B. Payless Shoes.
- C. The Sharper Image.
- D. Walmart.

Walmart competes by offering a broad range of products at low prices. Its business strategy is to be the low-cost provider of goods for the cost-conscious consumer.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

74. If a business is following a focused strategy, then its competitive scope is \_\_\_\_\_.  
(p. 24)

- A. broad market
- B. narrow market
- C. broad range of products
- D. broad range of services

When you have a market segment, your competitive scope should be a narrow market, and the cost strategy should be a focused strategy.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

75. When applying Porter's three generic strategies, Tiffany & Co. has a competitive scope and cost  
(p. 24) strategy that is a \_\_\_\_\_.

- A. broad market, high cost strategy
- B. narrow market, low cost strategy
- C. narrow market, high cost strategy
- D. broad market, low cost strategy

Tiffany & Co. competes by offering a differentiated product, jewelry, at high prices. Its business strategy allows it to be a high-cost provider of premier designer jewelry to affluent consumers.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

76. In the bookstore industry, some of today's businesses compete with different business strategies  
(p. 24) and cost strategies. Which of the following is using a broad market competitive scope along with a low cost strategy?

- A. Amazon.com.
- B. Any local independent bookstore that specializes in antique books.
- C. Barnes & Noble.
- D. Borders Books.

Amazon.com competes by offering a broad range of differentiated products at low prices.

*AACSB: Reflective Thinking*



AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Analyze  
Difficulty: 3 Hard

Learning Outcome: 02-03 Compare Porter's three generic strategies.  
Topic: The Three Generic Strategies-Choosing a Business Focus

77. Which of the following is similar to focused strategy versus broad strategy?  
(p. 23)

- A. Large market versus leadership.
- B. Large market versus uniqueness.
- C. Niche market versus large market.
- D. Niche market versus generic.

Focused strategies versus broad strategies is synonymous to niche market versus large market.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Outcome: 02-03 Compare Porter's three generic strategies.  
Topic: The Three Generic Strategies-Choosing a Business Focus

78. Your boss, Tom Repicci, has asked you to analyze the airline industry using Porter's three generic strategies. Which of the following companies are using a differentiation strategy?  
(p. 23-24)

- A. Southwest, Horizon, Frontier, and JetBlue.
- B. British Airways, Singapore Airlines, and Virgin Atlantic.
- C. Sky Taxi, a rent-by-the-hour personal plane service.
- D. All of these.

British Airways, Singapore Airlines, and Virgin Atlantic all compete using differentiation strategies.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

79. Your boss, Tom Repicci, has asked you to analyze the airline industry using Porter's three generic strategies. Which of the following companies are using a focused strategy?  
(p. 23-24)

- A. Southwest, Horizon, Frontier, and JetBlue.
- B. British Airways, Singapore Airlines, and Virgin Atlantic.
- C. Sky Taxi, a rent-by-the-hour personal plane service.
- D. All of these.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

80. According to Porter's value chain analysis, which of the following provides customer support after the sale of goods and services?  
(p. 25)

- A. Inbound logistics.
- B. Outbound logistics.
- C. Operations.
- D. Service.

The service activity within the primary value activities will provide customer support after the sale of goods and services.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

81. Which of the following represents procurement as part of the support value activities in a value chain analysis?  
(p. 25)

- A. Purchases inputs, such as raw materials, resources, equipment, and supplies.
- B. Applies MIS to processes to add value.
- C. Distributes goods and services to customers.
- D. Promotes, prices, and sells products to customers.

Procurement is the part of the support value activities which purchases inputs, such as raw materials, resources, equipment, and supplies.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

82. What includes support-value activities and primary-value activities and is used to determine how to create the greatest possible value for customers?  
(p. 25)

- A. Supplier power.
- B. Operations management.
- C. Porter's Five Forces Model.
- D. Value chain analysis.

The support activity firm infrastructure and the primary value activity of outbound logistics, are both included in value chain analysis.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

83. What is a standardized set of activities that accomplishes a specific task?

(p. 24)

- A. Business strategy.
- B. Business outcome.
- C. Business process.
- D. Knowledge process.

A business process is a standardized set of activities that accomplishes a specific task.

AACSB: Reflective Thinking

AACSB: Technology

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.

Topic: Value Chain Analysis-Executing Business Strategies

84. Which of the following analyzes a company's business processes and is useful for determining how to create the greatest possible value for customers?

(p. 25)

- A. Product analysis.
- B. Primary supplier power.
- C. Value chain analysis.
- D. Buyer chain analysis.

Value chain analysis views a firm as a series of business processes that each add value to the product or service.

AACSB: Reflective Thinking

AACSB: Technology

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.

Topic: Value Chain Analysis-Executing Business Strategies

85. The goal of value chain analysis is to identify processes in which the firm can add value for the customer and create a competitive advantage for itself, with a \_\_\_\_\_ or \_\_\_\_\_.  
(p. 25)

- A. focused strategy, product differentiation
- B. focused strategy, cost advantage
- C. cost advantage, primary value activities
- D. cost advantage, product differentiation**

The goal of value chain analysis is to identify processes in which the firm can add value for the customer and create a competitive advantage for itself, with a cost advantage or product differentiation.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

86. What are the two main categories in a value chain analysis?  
(p. 25)

- A. Primary value activities and secondary value activities.
- B. Primary value activities and support value activities.**
- C. Primary value activities and strengthening value activities.
- D. None of these.

The value chain groups a firm's activities into two categories, primary value activities and support value activities.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

87. Which of the following is not considered a category within the primary value activities in a value chain analysis?  
(p. 25)

- A. Inbound logistics.
- B. Firm infrastructure.**
- C. Operations.
- D. Service.

Primary value activities are found at the bottom of the value chain. These include business processes that acquire raw materials and manufacture, deliver, market, sell, and provide after-sales services.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

88. Which of the following is not considered a category within the support value activities in a value chain analysis?  
(p. 25)

- A. Technology development.
- B. Outbound logistics.**
- C. Human resource management.
- D. Firm infrastructure.

Support value activities are found along the top of the value chain and include business processes, such as firm infrastructure, human resource management, technology development, and procurement, that support the primary value activities.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

89. What is the support value activity that hires employees and provides them with training and compensation?  
(p. 25)

- A. Procurement.
- B. Operations resource management.
- C. Human resource management.
- D. Firm infrastructure.

Human resource management provides employee hiring, training, and compensation.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

90. Sandy Fiero works as the Chief Knowledge Officer for Bend Lumbar Company. She has been given the responsibility to create a product or service that will bring an added value to its customers to increase the company's revenue. Sandy determines that the best value she can add is by creating a service that offers free next-day shipping on any order over \$50. Where in the value chain is Sandy adding value?  
(p. 25)

- A. The primary value activity outbound logistics.
- B. The primary value activity inbound logistics.
- C. The primary value activity marketing and sales.
- D. The primary value activity operations.

Outbound logistics distributes goods and services to customers.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

91. When evaluating the value chain, all of the following are included in the primary value activities (p. 25) except:

- A. Inbound activities.
- B. Operations.
- C. Service.
- D. MIS development.

The primary value activities include (1) inbound logistics, (2) operations, (3) outbound logistics, (4) marketing and sales, and (5) service.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

92. When evaluating the value chain, which of the following is included in the support value (p. 25) activities?

- A. Inbound activities.
- B. Marketing and sales.
- C. Firm infrastructure.
- D. Finance and sales.

The support value activities found along the top of the value chain include (1) firm infrastructure, (2) human resource management, (3) technology development, and (4) procurement.

*AACSB: Reflective Thinking*



AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy

Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.  
Topic: Value Chain Analysis-Executing Business Strategies

93. Which of the following decisions does a firm need to make as soon as it has identified the  
(p. 26) activities from the value chain that are bringing the highest added value to their customers?

- A. Target high value-adding activities to further enhance their value.
- B. Target low value-adding activities to increase their value.
- C. Perform some combination of the two.
- D. All of these.

After a firm has identified the activities from the value chain that are bringing the highest added value to their customers, they need to make decisions regarding the competitive advantage by determining whether to (1) target high value-adding activities to further enhance their value, (2) target low value-adding activities to increase their value, or (3) perform some combination of the two.

AACSB: Reflective Thinking  
AACSB: Technology  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium

Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.  
Topic: Value Chain Analysis-Executing Business Strategies

94. MIS can add value to both primary activities and support activities in the value chain. Which of the following is not an example of a company adding value by using MIS in a primary activity?

(p. 26)

- A. Scottrade Corp. creating an online system for employees to track paychecks, benefits, the wellness-rewards program, and other employee benefit items.
- B. A system for the sales and marketing departments to track specific sales targets and follow-up processes.
- C. An easy electronic survey to be sent to the customer right after a service is completed.
- D. Royal Crest Dairy placing their order and delivery system on an easily accessible Web portal so customers can track delivery status.

MIS can add value to both primary and support activities within a business. All are primary activities except Scottrade Corp. creating an online system for employees to track paychecks, benefits, their wellness-rewards program, and other employee benefit items. This is a support value activity.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

95. MIS can add value to both primary and support activities within a business. Which of the following is not an example of a company adding value by the use of MIS in a support activity?

(p. 26)

- A. Netflix creating a business strategy for the video rental market that delivers videos via the mail.
- B. The human resources department creates a tracking system to efficiently reward employees based on their performance.
- C. Scottrade Corp. creating an online system for employees to track paychecks, benefits, their wellness-rewards program, and other employee benefit items.
- D. The University of Forks creates a program to automatically order office supplies, such as pens and pads of paper, for its employees.

MIS can add value to both primary and support activities within a business. All are support activities except for the example "Netflix creating a business strategy for the video rental market that delivers videos via the mail." This is a primary value activity.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

## Fill in the Blank Questions

96. Business strategies that match \_\_\_\_\_ company competencies to opportunities result in a competitive advantage.

(p. 19)

core

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

97. Competitive \_\_\_\_\_ is the process of gathering information about the competitive  
(p. 19) environment, including competitors' plans, activities, and products, to improve a company's ability to succeed.

intelligence

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

98. Apple utilized the first-mover \_\_\_\_\_ with its iPod product.  
(p. 19)

advantage

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*

99. Michael Porter identified pressures that can hurt potential sales. Knowledgeable customers can  
(p. 20) force \_\_\_\_\_ prices by pitting rivals against each other.

down

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

100. The Porter's Five Forces Model analyzes the competitive forces within the environment in which  
(p. 20) a company operates to assess the potential for \_\_\_\_\_ in an industry.

profitability

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

101. \_\_\_\_\_ power measures the ability of buyers to affect the price they must pay for an item.  
(p. 20)

Buyer

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

102. The threat of substitute products or services is \_\_\_\_ when there are many alternatives to a  
(p. 21) product or service and low when there are few alternatives from which to choose.

high

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

103. The \_\_\_\_\_ chain consists of all parties involved, directly or indirectly, in obtaining raw  
(p. 21) materials or a product.

supply

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

104. Rivalry among existing competitors is \_\_\_\_\_ when competition is fierce in a market and low  
(p. 22) when competitors are more complacent.

high

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

105. Porter has identified three \_\_\_\_\_ business strategies for entering a new market: (1) broad cost  
(p. 23) leadership, (2) broad differentiation, and (3) focused strategy.

generic

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

106. Focused strategies concentrate on either cost leadership or \_\_\_\_\_.  
(p. 23)

differentiation

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

107. Porter suggests adopting only \_\_\_\_\_ of the three generic strategies.

(p. 23)

one

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

108. A \_\_\_\_\_ chain analysis views a firm as a series of business processes that each add value to the product or service.

(p. 25)

value

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

109. \_\_\_\_\_ value activities are found at the bottom of the value chain. These include business processes that acquire raw materials and manufacture, deliver, market, sell, and provide after-sales services.

(p. 25)

Primary

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

110. \_\_\_\_\_ value activities are found along the top of the value chain and include business  
(p. 25) processes, such as firm infrastructure, human resource management, technology development, and procurement, that support the primary value activities.

### Support

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*

## Essay Questions

111. Explain why competitive advantages are temporary.  
(p. 19)

A competitive advantage is a feature of a product or service on which customers place a greater value than they do on similar offerings from competitors. Competitive advantages provide the same product or service either at a lower price or with additional value that can fetch premium prices. Unfortunately, competitive advantages are typically temporary, because competitors often quickly seek ways to duplicate them. In turn, organizations must develop a strategy based on a new competitive advantage. Ways that companies duplicate competitive advantages include acquiring the new technology, copying business processes, and hiring away employees.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-01 Explain why competitive advantages are temporary.*

*Topic: Identifying Competitive Advantages*



112. Describe Porter's Five Forces Model and explain each of the five forces.

(p. 20-22)

Porter's Five Forces Model analyzes the competitive forces within the environment in which a company operates, to assess the potential for profitability in an industry. Buyer power is the ability of buyers to affect the price they must pay for an item. Supplier power is the suppliers' ability to influence the prices they charge for supplies (including materials, labor, and services). Threat of substitute products or services is high when there are many alternatives to a product or service and low when there are few alternatives from which to choose. Threat of new entrants is high when it is easy for new competitors to enter a market and low when there are significant entry barriers to entering a market. Rivalry among existing competitors is high when competition is fierce in a market and low when competition is more complacent.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-02 Describe Porter's Five Forces Model and explain each of the five forces.*

*Topic: The Five Forces Model-Evaluating Industry Attractiveness*

113. Compare Porter's three generic strategies.

(p. 23)

Organizations typically follow one of Porter's three generic strategies when entering a new market: (1) broad cost leadership, (2) broad differentiation, or (3) focused strategy. Broad strategies reach a large market segment. Focused strategies target a niche market. Focused strategies concentrate on either cost leadership or differentiation.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-03 Compare Porter's three generic strategies.*

*Topic: The Three Generic Strategies-Choosing a Business Focus*

114. Demonstrate how a company can add value by using Porter's value chain analysis.  
(p. 25)

To identify competitive advantages, Michael Porter created value chain analysis, which views a firm as a series of business processes that each add value to the product or service. The goal of value chain analysis is to identify processes in which the firm can add value for the customer and create a competitive advantage for itself, with a cost advantage or product differentiation. The value chain groups a firm's activities into two categories - primary value activities and support value activities. Primary value activities acquire raw materials and manufacture, deliver, market, sell, and provide after-sales services. Support value activities, along the top of the value chain in the figure, include firm infrastructure, human resource management, technology development, and procurement. Not surprisingly, these support the primary value activities.

*AACSB: Reflective Thinking*

*AACSB: Technology*

*Blooms: Analyze*

*Difficulty: 3 Hard*

*Learning Outcome: 02-04 Demonstrate how a company can add value by using Porter's value chain analysis.*

*Topic: Value Chain Analysis-Executing Business Strategies*