

Chapter 2—Start-Up and the Need for Competitive Advantage

MULTIPLE CHOICE

1. Jim wants to convert an old record store into a non-franchised coffee shop where students from the nearby college can socialize and have Internet access within a unique atmosphere. Which of the following describes Jim's reason for this start-up?
- He wants to invent a new product or service.
 - He wants to utilize the existence of established customers or clientele.
 - He wants to have the freedom to select the ideal location, equipment, products or services, employees, suppliers, and bankers.
 - He wants to avoid undesirable precedents, policies, procedures, and legal commitments of existing firms.

ANS: C

PTS: 1

REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

BLM: Higher Order

2. Kyle purchased a new line of "toe shoes" in Chicago for his start-up company that introduces new products to Canadians. Which of the following describes Kyle's reason for this start-up?
- He wants to sell a high volume of mainstream products
 - He wants to start a new business based on a recently invented or newly developed product or service.
 - He wants to take advantage of an ideal location, equipment, products or services, employees, suppliers, and bankers.
 - He wants to sell products targeted at aging baby boomers

ANS: B

PTS: 1

REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

BLM: Higher Order

3. Which of the following is a type of small business ownership opportunity?
- a trust
 - a bailout
 - a family business
 - a co-op

ANS: C

PTS: 1

REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

BLM: Remember

4. Which route is most often thought of when discussing new venture creation?
- a start-up
 - a buyout
 - a family business
 - a franchise

ANS: A

PTS: 1

REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

BLM: Remember

5. Which route is most often thought of when discussing new venture creation?
- a. a start-up
 - b. a buyout
 - c. a family business
 - d. a franchise

ANS: A PTS: 1 REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise BLM: Remember

6. John is starting a home renovations business that will offer excellent service and lower prices. Which of the following makes this business a good investment opportunity for John?
- a. market factors
 - b. competitive advantage
 - c. management capability
 - d. sales volume

ANS: B PTS: 1 REF: pp. 28-29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity BLM: Higher Order

7. Cynthia avoided Toronto in her plan to open a fitness franchise because of the number of fitness clubs that already exist there. Which reason explains why Cynthia avoided Toronto?
- a. It has a market growing at least 15 percent per year.
 - b. It has highly concentrated competition.
 - c. It has significant value for customers.
 - d. It has a well identified need for the product.

ANS: B PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity BLM: Higher Order

8. Christine is creative with flowers but keeps putting off starting a floral design business because she has never worked in retail before. Which reason explains Christine's reluctance to start this business?
- a. She does not have a source of capital to start the business.
 - b. She prefers the routine that her career as an employee provides.
 - c. She would be a solo entrepreneur and has no related business experience.
 - d. She would first like to find a partner to start the business with.

ANS: C PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity BLM: Higher Order

9. Which of the following is an example of a type A idea?
- a. developing a new product based on prior research
 - b. replacing wooden hockey sticks with sticks made from light metals
 - c. starting a new business using prior work experience as a basis
 - d. importing handbags currently sold only in Europe to sell in Canada

ANS: D PTS: 1 REF: p. 30

OBJ: 3-Distinguish between the different types and sources of start-up ideas
BLM: Higher Order

10. Which of the following is an example of a type B idea?
- a. the R & D department of a company developing a technically new process
 - b. the production department performing an old function in a new and improved way
 - c. an accountant using her prior experience to start a bookkeeping company
 - d. an importer introducing an Italian-spiced oil to the culinary market in Canada

ANS: A PTS: 1 REF: p. 30

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

11. Which of the following is an example of a type A start-up?
- a. selling a new microsphere technology that allows oils to be contained inside billions of microscopic spheres
 - b. manufacturing a baby stroller that pushes more easily and is more difficult to overturn than previous designs
 - c. marketing an automated lawn sprinkler in Canada that was previously sold only in California.
 - d. distributing a satellite dish technology to form a mobile satellite transmitter and receiver business

ANS: C PTS: 1 REF: p. 30

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

12. Which of the following is an example of a type B start-up idea?
- a. a new microsphere technology that allows oils to be contained inside billions of microscopic spheres
 - b. a baby stroller that pushes more easily and is more difficult to overturn than previous designs
 - c. a new corner hamburger stand that has no unique product differentiation
 - d. a new mail-order business that sells a foreign-produced item never before sold domestically

ANS: A PTS: 1 REF: p. 30

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

13. Which of the following is an example of a type C start-up idea?
- a. a new microsphere technology that allows oils to be contained inside billions of microscopic spheres
 - b. a baby stroller that pushes more easily and is more difficult to overturn than previous designs
 - c. a new hamburger restaurant located beside a take-out pizza shop
 - d. a vacuum that separates oil from water to clean up oceanic petroleum spills

ANS: B PTS: 1 REF: p. 30

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

14. Which of the following is an example of a type C idea?
- a. a technically new process for converting resin into plastic optical lenses
 - b. a new way of processing customer invoices
 - c. a new business that is based on prior work experience
 - d. a product or service that is not in their market but already exists somewhere else

ANS: B PTS: 1 REF: p. 31

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

15. What type of idea accounts for the largest number of start-ups?
- a. creating a technically new process
 - b. performing an old function in a new and improved way
 - c. using prior work experience as a basis for starting a new business
 - d. providing customers with a product or service that is not in their market but already exists somewhere else

ANS: B PTS: 1 REF: p. 31

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Remember

16. What is the most productive source of start-up ideas?
- a. prior work experience
 - b. personal interests and hobbies
 - c. a chance happening
 - d. deliberate search

ANS: A PTS: 1 REF: p. 31

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Remember

17. Which example shows an idea for a new start-up coming from a hobby?
- a. a coin collector who bought and sold coins for years to build a personal collection decides to become a coin dealer
 - b. a furniture salesperson sees the possibility of opening a new furniture store in a different area of the city
 - c. a sharpshooter who shot holes in a pair of her boyfriend's jeans during an argument hears him receive compliments on the way they look
 - d. a chemist who accidentally mixes potassium with hydrogen to create an explosive reaction used in fireworks

ANS: A PTS: 1 REF: p. 31

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

18. Which idea for a new start-up comes from an accidental discovery?
- a. a coin collector who learns the value of his collection and decides to sell some at coin fairs.
 - b. a salesperson who likes the bamboo chairs he sees while on vacation and opens his own furniture store selling bamboo-style furniture.
 - c. a sharpshooter who shoots holes in a pair of her boyfriend's jeans during an argument and then hears him receive compliments on the way they look
 - d. a chef who finds his mother's old recipes and decides to write a cookbook based on them.

ANS: C PTS: 1 REF: p. 32

OBJ: 3-Distinguish between the different types and sources of start-up ideas

BLM: Higher Order

19. Which of the following is a segment of the macroenvironment?
- a. manufacturers and distributors
 - b. social and technological
 - c. customers and suppliers
 - d. employees and contract workers

ANS: B PTS: 1 REF: p. 34

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

BLM: Remember

20. Which of Michael Porter's five forces concerns customers having the ability to turn to other products to replace those that the industry offers?
- a. threat of new competitors
 - b. bargaining power of suppliers
 - c. threat of substitute products
 - d. bargaining power of buyers

ANS: C PTS: 1 REF: p. 35

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

BLM: Remember

21. A company raises its prices and customers have no choice but to pay since there are no other substitute products. Which of Michael Porter's competitive forces is this an example of?
- a. threat of new competitors
 - b. bargaining power of buyers
 - c. bargaining power of suppliers
 - d. threat of substitute products

ANS: C PTS: 1 REF: p. 35

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

BLM: Higher Order

22. What does organization assessment include?
- a. competitive analysis
 - b. intangible resources
 - c. technological changes
 - d. demographic trends

ANS: B PTS: 1 REF: p. 36

OBJ: 5-Evaluate the feasibility of a business

BLM: Remember

23. Which of the following is an intangible organizational resource?

- a. plants and equipment
- b. borrowing capacity
- c. patents and copyrights
- d. cash reserves

ANS: C PTS: 1 REF: p. 36

OBJ: 5-Evaluate the feasibility of a business

BLM: Remember

24. Which of the following is a platform for competitive advantage?

- a. premium pricing for after sales service
- b. additional product warranty available for purchase
- c. notable product attributes
- d. special product packaging

ANS: C PTS: 1 REF: p. 38

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

BLM: Higher Order

25. Carey's mobile home health care business, which delivers products to the elderly, is thriving. Which competitive advantage is this an example of?

- a. price/value
- b. unique service features
- c. customer service
- d. accessibility

ANS: D PTS: 1 REF: p. 39

OBJ: 5-Evaluate the feasibility of a business

BLM: Higher Order

26. What does a marketing-advantage strategy require?

- a. that a firm be the lowest-cost provider in an industry
- b. that a firm differentiate its product or services
- c. that a firm achieve the highest resource efficiency in an industry
- d. that a firm be the lowest-priced competitor in an industry

ANS: B PTS: 1 REF: p. 40

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

27. Which of the following applies to a firm that can create and sustain an attractive differential position?

- a. it will be a successful performer in the marketplace
- b. it should convince the consumer of the general needs its products or services satisfy
- c. it uses fewer marketing tactics to lead to differentiation
- d. it will require less investment in research and development

ANS: A PTS: 1 REF: p. 40

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

28. What type of strategy requires a firm to be the lowest-cost producer within the market?
- a. price-advantage
 - b. marketing-advantage
 - c. efficiency-advantage
 - d. cost-advantage

ANS: D PTS: 1 REF: p. 40

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

29. What are the two broad-based strategies for building a competitive advantage?
- a. creating a cost advantage and a marketing advantage
 - b. creating a price advantage and a cost advantage
 - c. creating a marketing advantage and a price advantage
 - d. creating a focus advantage and a marketing advantage

ANS: A PTS: 1 REF: pp. 40-41

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

30. Recent research has emphasized the importance of establishing a sustainable competitive advantage. What is this value-creating position likely to do?
- a. endure over time
 - b. react to environmental changes rather than taking the initiative
 - c. increase employee turnover
 - d. attain better tax incentives from the government

ANS: A PTS: 1 REF: p. 41

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

31. Jorge knew it was just a matter of time before competition emerged in the area of his business. What must Jorge do in order to maintain a competitive advantage?
- a. focus mainly on the organization's microenvironment
 - b. continually ignore the company's external environment
 - c. continually upgrade the company's organizational capabilities
 - d. focus mainly on the organization's core competencies

ANS: C PTS: 1 REF: p. 42

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Higher Order

32. In order for a firm to maintain performance over time, the business owner must be which of the following?
- a. a good communicator
 - b. competitive by nature
 - c. forward thinking
 - d. friendly with employees

ANS: C PTS: 1 REF: p. 42

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

33. Which of the following best describes competitive advantage?
- a. it requires a commitment of few resources
 - b. it requires little well-planned effort and will always increase over time
 - c. it will always lead to higher profits
 - d. it will always diminish over time

ANS: D PTS: 1 REF: p. 42

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

BLM: Remember

34. Jennifer is selling a line of sterling silver jewellery at the college she attends. Jennifer is identifying pieces that she can market most effectively to females in their twenties, females over thirty, and males. What is the term for what Jennifer is doing?
- a. market differentiation
 - b. market niching
 - c. market segmentation
 - d. market research

ANS: C PTS: 1 REF: p. 42

OBJ: 7-Define market segmentation and its related strategies BLM: Higher Order

35. Rohan believes his company's line of mp3 players will sell equally well to middle aged males and females, adults in their twenties and thirties, and teenagers, as long as the promotions are targeted properly to each group. What type of strategy is Rohan following?
- a. a multisegmentation strategy
 - b. a single-segmentation strategy
 - c. a niche strategy
 - d. a target market strategy

ANS: A PTS: 1 REF: p. 43

OBJ: 7-Define market segmentation and its related strategies BLM: Higher Order

36. What is usually the best strategy for small businesses during initial marketing efforts?
- a. a multisegmentation strategy
 - b. an unsegmented strategy
 - c. a marketing mix strategy
 - d. a single-segmentation strategy

ANS: D PTS: 1 REF: p. 43

OBJ: 7-Define market segmentation and its related strategies BLM: Remember

37. How is niche marketing best described?
- a. an attempt to compete directly with industry giants
 - b. a domestic marketing strategy
 - c. a strategy focused on a specific target market
 - d. a plan to improve on a product sold to mass markets

ANS: C PTS: 1 REF: p. 45

OBJ: 8-Explain the concept of niche marketing and its importance to small business

BLM: Remember

38. What strategy is used to implement niche marketing?
- a. selling to a mass market
 - b. extending product features to sell to more geographical regions
 - c. emphasizing a multi-product or service
 - d. concentrating on the superiority of the product or service

ANS: D PTS: 1 REF: p. 45

OBJ: 8-Explain the concept of niche marketing and its importance to small business

BLM: Remember

39. Which of the following indicates a niche strategy?
- a. strict concentration on a single market segment
 - b. concentration on multiple products
 - c. concentration on multiple products for the total market
 - d. selling to many geographical regions

ANS: A PTS: 1 REF: p. 45

OBJ: 8-Explain the concept of niche marketing and its importance to small business

BLM: Remember

40. By selecting a particular market niche, an entrepreneur decides on the basic direction of the firm—a choice that affects the very nature of the business. What kind of decision is this?
- a. market-based decision
 - b. tactical decision
 - c. strategic decision
 - d. focus-based decision

ANS: C PTS: 1 REF: p. 46

OBJ: 8-Explain the concept of niche marketing and its importance to small business

BLM: Remember

41. George's company has sold a line of nature paperweights specifically targeted at middle aged women who like to collect decorative items with natural themes. Sales have been declining steadily as market segments are increasingly sharing similar needs and desires. Which of the following is the most likely reason for this decline in sales?
- a. the firm has a unique focus strategy
 - b. the differences across segments are narrowing
 - c. new firms are having difficulty entering the industry
 - d. employees are learning unique skills

ANS: B PTS: 1 REF: p. 46

OBJ: 8-Explain the concept of niche marketing and its importance to small business

BLM: Higher Order

42. According to Michael Porter, when can a focus strategy erode?
- a. when the strategy is unique
 - b. when the target segment's differences from other segments widen
 - c. when new firms subsegment the industry
 - d. when demand increases and the segment becomes attractive

ANS: C PTS: 1 REF: p. 47

OBJ: 8-Explain the concept of niche marketing and its importance to small business

BLM: Remember

TRUE/FALSE

1. A valid reason for starting a new company is to explicitly succeed in avoiding having to pay taxes.

ANS: F PTS: 1 REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

2. Competitive advantage is important to consider when deciding on the new business start-up.

ANS: T PTS: 1 REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

3. There must be a good fit between the entrepreneur and the opportunity.

ANS: T PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity

4. A competitive advantage exists when a firm offers a product or service that customers perceive to be superior to those of its competitors.

ANS: T PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity

5. It is necessary for the entrepreneur to have appropriate skills and experience to operate the venture.

ANS: T PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity

6. If the market growth rate is at least 15 percent a year, it is considered favourable for a new business.

ANS: T PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity

7. Return on investment of less than 15 percent is considered sustainable.

ANS: F PTS: 1 REF: p. 29

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity

8. Type B ideas are those that concern providing customers with a new product or service.

ANS: T PTS: 1 REF: p. 30

OBJ: 3-Distinguish between the different types and sources of start-up ideas

9. Type A ideas are start-up ideas concerned with providing customers with an existing product already available in their market.

ANS: F PTS: 1 REF: p. 30
OBJ: 3-Distinguish between the different types and sources of start-up ideas

10. Type C ideas, giving customers an improved product, probably account for the least number of all start-ups.

ANS: F PTS: 1 REF: pp. 30-31
OBJ: 3-Distinguish between the different types and sources of start-up ideas

11. Most new ventures are founded in “me, too” strategies differentiating themselves through superior service, higher quality or performance, or lower cost.

ANS: T PTS: 1 REF: p. 31
OBJ: 3-Distinguish between the different types and sources of start-up ideas

12. Many new businesses are formed as a result of the entrepreneur’s prior work experience, through which he or she sees ways to improve and/or modify a product.

ANS: T PTS: 1 REF: p. 31
OBJ: 3-Distinguish between the different types and sources of start-up ideas

13. A recent job provides experience that can help with start-up ideas.

ANS: T PTS: 1 REF: p. 32
OBJ: 3-Distinguish between the different types and sources of start-up ideas

14. The primary basis for start-up ideas is personal experience gained solely in one’s household.

ANS: F PTS: 1 REF: p. 32
OBJ: 3-Distinguish between the different types and sources of start-up ideas

15. Hobbies of retiring business executives can spawn start-up ideas.

ANS: T PTS: 1 REF: p. 32
OBJ: 3-Distinguish between the different types and sources of start-up ideas

16. *Serendipity* is a term describing a new product idea resulting from deliberate search activities.

ANS: F PTS: 1 REF: p. 33
OBJ: 3-Distinguish between the different types and sources of start-up ideas

17. Entrepreneurs can evaluate their own capabilities and then look to new products or services they may be capable of producing.

ANS: T PTS: 1 REF: p. 33
OBJ: 3-Distinguish between the different types and sources of start-up ideas

18. *Serendipity* is the phenomenon of making desirable discoveries by accident.

ANS: T PTS: 1 REF: p. 33
OBJ: 3-Distinguish between the different types and sources of start-up ideas

19. Magazines and other periodicals are excellent sources of start-up ideas.

ANS: T PTS: 1 REF: p. 33
OBJ: 3-Distinguish between the different types and sources of start-up ideas

20. A start-up idea also may emerge from a prospective entrepreneur's deliberate search.

ANS: T PTS: 1 REF: p. 33
OBJ: 3-Distinguish between the different types and sources of start-up ideas

21. A competitive advantage exists when a firm offers a product or service that is perceived by customers to be inferior to those of competitors, thereby promoting firm unprofitability.

ANS: F PTS: 1 REF: p. 33
OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

22. Entrepreneurs and small business owners who are unable to find a competitive advantage are usually destined to fail.

ANS: T PTS: 1 REF: pp. 33-34
OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

23. To establish a competitive advantage, the business owner needs to understand the nature of the environment in which he or she will operate.

ANS: T PTS: 1 REF: p. 34
OBJ: 5-Evaluate the feasibility of a business

24. Studying general trends and the dynamics of competition in an industry can be used to block the effects of competitive response.

ANS: T PTS: 1 REF: p. 34
OBJ: 5-Evaluate the feasibility of a business

25. External analysis enables the entrepreneur or business owner to determine what business potential exists, whereas internal analysis reveals what the firm is able to do.

ANS: T PTS: 1 REF: p. 34
OBJ: 5-Evaluate the feasibility of a business

26. The industry environment is very broad, comprising general factors that affect all, or at least most, businesses in a society.

ANS: F PTS: 1 REF: p. 34
OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

27. The macroenvironment is very broad, comprising general factors that affect all, or at least most, businesses in a society.

ANS: T PTS: 1 REF: p. 34

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

28. Within the context of the macroenvironment, critical segments include STEP (sociocultural, technological, economic, and political/legal).

ANS: T PTS: 1 REF: p. 34

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

29. In the textbook, Michael Porter is cited as having written about the five forces of determining the nature and degree of competition in an industry.

ANS: T PTS: 1 REF: p. 35

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

30. Understanding forces that underly competitive pressure helps in assessing threats to the venture.

ANS: T PTS: 1 REF: p. 35

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

31. According to Gary Hamel, understanding industry environment and assessing the macroenvironment represent the initial steps in providing a platform for competitive advantage.

ANS: T PTS: 1 REF: p. 35

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

32. Core competencies are value-creating organizational capabilities that are unique to a firm.

ANS: T PTS: 1 REF: p. 36

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

33. In order to assess the organizational potential of a business, entrepreneurs and business owners must understand the difference between resources and capabilities.

ANS: T PTS: 1 REF: p. 36

OBJ: 5-Evaluate the feasibility of a business

34. Organizational resources include such factors as capital, technology, equipment, and employees.

ANS: T PTS: 1 REF: p. 36

OBJ: 5-Evaluate the feasibility of a business

35. Intangible resources may be visible but they are relatively easy to quantify.

ANS: F PTS: 1 REF: p. 36
OBJ: 5-Evaluate the feasibility of a business

36. Organizational resources are tangible and intangible resources used to conduct business.

ANS: T PTS: 1 REF: p. 36
OBJ: 5-Evaluate the feasibility of a business

37. A “go/no-go” model is a useful process in selecting a potential venture in the screening of ideas.

ANS: T PTS: 1 REF: pp. 36-37| Exhibit 2-4
OBJ: 5-Evaluate the feasibility of a business

38. In a “go/no-go” model, business ideas are evaluated in a two-stage process that evaluates if it is a “go” or a “no-go” recommendation.

ANS: F PTS: 1 REF: pp. 36-37|Exhibit 2-4
OBJ: 5-Evaluate the feasibility of a business

39. Price/value, unique service features, notable product attributes, customer service, and accessibility are, according to the textbook, platforms for competitive advantage.

ANS: T PTS: 1 REF: pp. 37-38
OBJ: 5-Evaluate the feasibility of a business

40. Good choices result from proper and systematic assessment of the foundations that support solid competitive advantage.

ANS: T PTS: 1 REF: p. 39
OBJ: 5-Evaluate the feasibility of a business

41. Sustaining a competitive advantage is a critical success factor.

ANS: T PTS: 1 REF: pp. 39-40
OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

42. Creating a cost advantage potentially gives a firm a competitive advantage.

ANS: T PTS: 1 REF: pp. 39-40
OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

43. An effective marketing advantage can occur when the consumer is convinced of the uniqueness and desirability of the product or service—real or perceived.

ANS: T PTS: 1 REF: p. 40
OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

44. A marketing competitive advantage is an approach that requires differentiation of a firm's product or service along some dimension other than cost.

ANS: T PTS: 1 REF: p. 40

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

45. Building a competitive advantage requires commitment and considerable resources.

ANS: T PTS: 1 REF: p. 40

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

46. Sustainable competitive advantage is an established value-creating industry position that is likely to endure over time.

ANS: T PTS: 1 REF: p. 41

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

47. Returns from competitive advantage always increase over time.

ANS: F PTS: 1 REF: p. 42

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

48. Once a competitive advantage is achieved, the entrepreneur can focus much less on the external environment to pay more attention to the internal environment.

ANS: F PTS: 1 REF: p. 42

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

49. In marketing terms, a focus strategy depends on market segmentation.

ANS: T PTS: 1 REF: p. 42

OBJ: 7-Define market segmentation and its related strategies

50. Originally, computer manufacturers aimed at the corporate market and practised very little market segmentation.

ANS: T PTS: 1 REF: p. 43

OBJ: 7-Define market segmentation and its related strategies

51. Market segmentation identifies larger customer groups that will respond to general marketing strategies.

ANS: F PTS: 1 REF: p. 43

OBJ: 7-Define market segmentation and its related strategies

52. If a business believes that two or more market segments can be profitable and develops a unique marketing mix for each, it is following a multisegmentation strategy.

ANS: T PTS: 1 REF: p. 43

OBJ: 7-Define market segmentation and its related strategies

53. If a firm determines that two or more market segments have the potential to be profitable and then develops a unique marketing mix for each segment, it is called an unfocused strategy.

ANS: F PTS: 1 REF: p. 43
OBJ: 7-Define market segmentation and its related strategies

54. Small businesses should always pursue a multisegmentation strategy as they can safely spread their resources out thinly.

ANS: F PTS: 1 REF: p. 43
OBJ: 7-Define market segmentation and its related strategies

55. The single-segmentation strategy is usually the wisest strategy for small businesses during initial marketing efforts.

ANS: T PTS: 1 REF: p. 43
OBJ: 7-Define market segmentation and its related strategies

56. A variation of the single-segmentation strategy is called niche marketing.

ANS: T PTS: 1 REF: p. 45
OBJ: 7-Define market segmentation and its related strategies

57. A niche market strategy is particularly attractive to a small firm that is trying to escape direct competition with industry giants.

ANS: T PTS: 1 REF: p. 45
OBJ: 8-Explain the concept of niche marketing and its importance to small business

58. Niche marketing guarantees a sustainable competitive advantage.

ANS: F PTS: 1 REF: p. 45
OBJ: 8-Explain the concept of niche marketing and its importance to small business

59. Limiting sales to a single geographic area is a niche market strategy.

ANS: T PTS: 1 REF: p. 45
OBJ: 8-Explain the concept of niche marketing and its importance to small business

60. *Strategic decision* is a decision regarding the direction a firm will take in relating to its customers and competitors.

ANS: T PTS: 1 REF: p. 46
OBJ: 8-Explain the concept of niche marketing and its importance to small business

61. A segmented market can erode when the focus strategy is imitated.

ANS: T PTS: 1 REF: p. 46
OBJ: 8-Explain the concept of niche marketing and its importance to small business

ESSAY

1. There are several reasons for starting a business from scratch rather than pursuing other alternatives such as franchising. Such reasons include the following:

ANS:

- To begin a new type of business based on a recently invented or newly developed product or service
- To take advantage of an ideal location, equipment, products or services, employees, suppliers, and bankers
- To avoid undesirable precedents, policies, procedures, and legal commitments of existing firms

PTS: 1 REF: p. 28

OBJ: 1-Give several reasons for starting a new business rather than buying an existing firm or acquiring a franchise

2. What are the five major evaluation criteria for a start-up?

ANS:

- Market factors
- Competitive advantage
- Economics
- Management capability
- Fatal flaws

PTS: 1 REF: p. 29|Exhibit 2-1

OBJ: 2-Identify several factors that determine whether an idea for a new venture is a good investment opportunity

3. Name two basic categories of new venture ideas.

ANS:

New market (type A: same product sold to a different segment or into a different area), new technology (type B), or type C—old functions done in new, different ways.

PTS: 1 REF: pp. 30-31

OBJ: 3-Distinguish between the different types and sources of start-up ideas

4. Which of the three categories of new venture ideas accounts for the most start-up ventures? Why?

ANS:

Type C start-up ideas probably account for the largest number of all new venture start-ups. These ideas result in modifications to existing products and services. Therefore, they have less risk and already have a market that provides a customer base. Of course, they will fail if the market does not perceive that an old function is being performed in a new and improved manner.

PTS: 1 REF: pp. 30-31

OBJ: 3-Distinguish between the different types and sources of start-up ideas

5. Compare prior work experience with accidental discovery and deliberate search as a source of start-up ideas.

ANS:

Prior work experience is probably the most prolific source of start-up ideas. It produces ideas that are related to the individual's skills and knowledge. Accidental discovery (serendipity), on the other hand, is like lightning—it may strike at any time and be totally unrelated to the individual's background. Deliberate search has the potential for producing ideas of many kinds and escapes the limitations inherent in relying on prior work experiences for inspiration.

PTS: 1

REF: pp. 31-32

OBJ: 3-Distinguish between the different types and sources of start-up ideas

6. Compare the different approaches to deliberate search for new venture ideas.

ANS:

Entrepreneurs can begin by either evaluating their own abilities and ideas—a production-oriented approach—or assessing market needs or opportunities—a marketing-oriented approach. Either approach can produce viable new venture ideas, but students should note that venture capitalists typically like ideas that have a known market demand.

PTS: 1

REF: pp. 31-33

OBJ: 3-Distinguish between the different types and sources of start-up ideas

7. Explain the importance of matching environmental and organizational assessments.

ANS:

An environmental assessment systematically examines the macroenvironment and the industry environment with the dual goals of finding opportunities that can be pursued and uncovering threats against which the firm should provide some sort of defence. An organizational assessment, on the other hand, looks within the firm to consider the strengths and weaknesses in the firm's capabilities. A solid competitive foundation can be established only when the strengths and weaknesses of the organization have been wisely matched with a profile of opportunities and threats.

PTS: 1

REF: pp. 34-36

OBJ: 5-Evaluate the feasibility of a business

8. List the five factors that determine the nature and degree of competition in an industry, as presented by Michael Porter in his book *Competitive Advantage*.

ANS:

- The threat of new competitors
- The threat of substitutes
- The bargaining power of buyers
- The bargaining power of suppliers
- The rivalry among existing competitors

PTS: 1

REF: p. 35

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

9. Describe the Venture Feasibility Screening Model (go/no-go) model used in the screening of ideas.

ANS:

There are three stages in this model. At the end of each stage, the entrepreneur must decide if it is still worthwhile and if they should proceed to the next stage.

Stage 1: Back of the Envelope—the idea is sketched out with a very simple analysis. Go or no-go based on initial feasibility.

Stage 2: Research and Verification—perform extensive market and costing research to evaluate the potential customers, competition, resources required, the technical and financial feasibility. Then, based on this research, they decide if it is a go or no-go.

Stage 3: Refining the Concept—this entails the preparation of a detailed business plan that will address all the research and issues from Stage 2. Then, decide go or no-go.

Leap of Faith: If the concept passes the “go” in Stage 3, start the venture. Fewer than 1 percent of all ideas that start off “on the back of the envelope” ever reach this stage. The three stages of evaluation are invaluable to decide what is viable and what is not.

PTS: 1 REF: pp. 36-37/Exhibit 2-4

OBJ: 5-Evaluate the feasibility of a business

10. Explain two factors that can lead to competitive advantage for a new start-up.

ANS:

Any two of the following:

- Price/value
- Unique service features
- Notable product attributes
- Customer service
- Accessibility

PTS: 1 REF: pp. 37-38 OBJ: 5-Evaluate the feasibility of a business

11. Though a number of paths can lead to competitive advantage, some of the more common ones include distinctions based on five core elements. Name these elements and provide one example of each of them.

ANS:

The student should reply:

- Price/value, citing one of the examples within such as Sibson Canada or Winnipeg’s Corydon Hardware
- Unique service features, citing the example of GroceryGateway.com of Toronto
- Notable product attributes, citing the example of Buckley’s cough syrup
- Customer service, citing the example of Canadian Tire Corporation
- Accessibility, citing the example of Greg Brophy and his mobile document shredding company

PTS: 1 REF: pp. 37-39

OBJ: 4-Define competitive advantage and assess features of the environment and organization itself that support competitive advantage

12. What are the two principal broad-based strategies that lead to competitive advantages? Briefly explain each.

ANS:

Cost advantage requires a firm to be the lowest-cost producer within the market. The sources of cost advantage are quite varied, ranging from low-cost labour to efficiency in operations. Compared to other strategies, however, competing on cost may be the least sustainable advantage. Competitors may respond by finding ways to lower their costs and create conditions for a price war. Many entrepreneurs and business owners assume that cost-based strategies work only for large corporations; however, cost-advantage factors are so numerous and varied that, in many cases, small business may actually be able to use them with greater success. Calgary-based WestJet, which began flying in 1996, is an example of this.

Marketing-advantage strategy is the second general option for building a competitive advantage. It is an approach that requires differentiation of a firm's product or service along some dimension other than cost. A firm that can create and sustain an attractive differential position will be a successful performer in the marketplace. The consumer must be convinced of the uniqueness and desirability of the product or service—whether real or perceived—if the strategy is to be effective. A wide variety of operation and marketing tactics, ranging from promotion to product design, lead to product or service differentiation. Students may cite the example from the textbook of the Winnipeg-based Arctic Group.

PTS: 1

REF: pp. 39-40

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

13. Explain the process of organizational assessment.

ANS:

This is the assessment of the strengths and weaknesses of a firm. They need to look at both organizational resources and organizational capabilities.

- Organizational resources, which are basic inputs that the firm uses to conduct its business such as capital, technology equipment, and employees. They are both tangible and intangible resources.
 - Tangible resources, which are organizational resources that are visible and easy to measure such as cash reserves and the firm's borrowing capacity.
 - Intangible resources, which are organizational resources that are invisible and difficult to quantify such as property rights, patents, brand recognition, and the firm's reputation.
- Organizational capabilities are what a company can deliver when the resources are gathered together and deployed to the firm's advantage.

PTS: 1

REF: pp. 40-41

OBJ: 5-Evaluate the feasibility of a business

14. Define and briefly explain sustainable competitive advantage.

ANS:

Sustainable competitive advantage is an established, value-creating industry position which is likely to endure over time. No competitive advantage lasts forever. Recent research has emphasized the importance of establishing a sustainable competitive advantage, a value-creating industry position that is likely to endure over time. From the beginning, the entrepreneur should plan sustainability into strategy by leveraging unique capabilities of the firm in a way that competitors will find difficult to imitate. However, the entrepreneur must recognize that rivals will sooner or later discover a way to duplicate any value-creating strategy. Therefore, it is also important to think of new ways to invest performance outcomes so that the basis of competitive advantage can be renewed over the long run. Competitive advantage clearly has a life cycle. Building a competitive advantage generally requires commitment of considerable resources, a well-planned effort that will lead to a performance payoff. In order for a firm to maintain performance over time, it is essential that the business owner be forward-thinking.

PTS: 1

REF: pp. 41-42

OBJ: 6-Identify and compare strategy options for building and sustaining competitive advantage

15. Briefly define each of the following terms:

- a. Market segmentation
- b. Multisegmentation strategy
- c. Single-segmentation strategy

ANS:

- a. Market segmentation—division of a market into several smaller groups with similar needs or buying behaviour
- b. Multisegmentation strategy—recognizing individual market segments with different preferences and developing a unique marketing mix for each segment
- c. Single-segmentation strategy—recognizing that several distinct market segments exist but choosing to concentrate on reaching only one segment (usually the most profitable)

PTS: 1

REF: pp. 42-44

OBJ: 7-Define market segmentation and its related strategies

16. Describe two reasons why the single-segmentation approach is probably the wisest strategy for small businesses to use during initial marketing efforts.

ANS:

A small business may have limited resources, and the single-segmentation approach allows it to specialize and focus on one segment it to make better use of its limited resources.

PTS: 1

REF: pp. 43-44

OBJ: 7-Define market segmentation and its related strategies

17. What marketing activities suggest that a small firm is following a niche strategy?

ANS:

- Restricting focus to a single market segment
- Concentrating on the superiority of the product or service
- Limiting sales to a single geographical region
- Emphasizing a single product or service

PTS: 1 REF: pp. 45-46

OBJ: 8-Explain the concept of niche marketing and its importance to small business