

Chapter 02

Corporate Strategy Decisions and Their Marketing Implications

Multiple Choice Questions

1. Which of the following strategy components address issues such as the time frame in which each target should be attained and the target level of performance to be achieved on each dimension?

- A. Scope and mission
- B. Development strategy
- C. Objectives
- D. Sources of synergy

Answer: c

Level of Difficulty: Easy

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2. The principles of _____ involve meeting humanity's needs without harming future generations.

- A. sustainability
- B. reversibility
- C. specificity
- D. adaptability

Answer: a

Level of Difficulty: Easy

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3. What is the expansion for the acronym SMART used in specifying corporate objectives?

- A. Specific, Measurable, Attainable, Relevant, and Time-bound
- B. Structured, Manageable, Acceptable, Related, and Theoretical
- C. Standardized, Manageable, Accountable, Relevant, and Targeted
- D. Structured, Marketable, Accountable, Reusable, and Targeted

Answer: a

Level of Difficulty: Medium

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4. Which of the following indexes is used to measure the profitability criterion?

- A. Percentage change in sales
- B. Return on net assets
- C. Price/earnings ratio
- D. Percentage cost savings from new processes

Answer: b

Level of Difficulty: Easy

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5. Which of the following performance criteria is assessed using the measures of market share, brand awareness, and brand preference?

- A. Profitability
- B. Contribution to owners
- C. Competitive strength
- D. Growth

Answer: c

Level of Difficulty: Easy

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6. In expressing corporate objectives aimed at enhancing shareholder value, a firm combining its debt and market value of its stock, and then subtracting the capital invested in the company, is using the _____ approach.

- A. return on capital
- B. economies of scale
- C. economic value added
- D. cash conversion cycle

Answer: c

Level of Difficulty: Medium

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7. The calculated market value added (MVA) for Triptych Inc. is positive. Which of the following is indicated by this result?

- A. The amount of wealth the company has created
- B. The amount of debt the company has accumulated
- C. The total amount of resources available to the company
- D. The success of the company's efforts at sustainability

Answer: a

Level of Difficulty: Hard

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8. A customer feedback survey conducted by an auto dealer found that about 75 percent of customers reported satisfaction with the order processing, delivery, and post-sale services. This indicates that:

- A. customer satisfaction increases due to the product-oriented approach.
- B. spending more on emphasizing product features creates a sustainable competitive advantage.
- C. customer satisfaction is influenced by factors other than the product itself.
- D. customer intimacy is the least important factor in determining customer satisfaction.

Answer: c

Level of Difficulty: Medium

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9. Which of the following strategies is most likely to be used by a company that is trying to increase its market share for its current products in the current market?

- A. Diversification
- B. Market penetration

- C. Market development
- D. Product development

Answer: b

Level of Difficulty: Easy

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10. In order to expand, Medio.com (an e-tailer) pursued a combination of actions such as making service improvements, cutting costs as well as forming alliances with Web portals to expand its share of Web shoppers. This is an example of expansion by:

- A. diversifying.
- B. offshoring.
- C. developing new products for current customers.
- D. increasing market penetration of current product.

Answer: d

Level of Difficulty: Hard

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11. A corporate growth strategy that focuses on developing new products for current markets is called:

- A. a market penetration strategy.
- B. a product development strategy.
- C. a market development strategy.
- D. a product positioning strategy.

Answer: b

Level of Difficulty: Easy

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12. Stepan Cleansers Inc. successfully introduced a variety of detergents for washing clothes, dishes, and carpets. Each variety of detergent capitalized on the use of baking soda as an effective deodorizer. The new detergents were promoted in existing markets where consumers had a high level of recognition of the brand. This example illustrates the use of a:

- A. market penetration strategy.
- B. diversification strategy.
- C. product development strategy.
- D. market development strategy.

Answer: c

Level of Difficulty: Hard

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13. Theaters, orchestras, and other performing arts organizations often reach audiences outside major metropolitan areas by promoting matinee performances at lower prices and free transportation to attract senior citizens and students. Identify the strategy being employed in this case.

- A. Expansion by diversifying
- B. Expansion by selling existing products to new segments

- C. Expansion by developing new products for current customers
- D. Expansion by increasing penetration of current product-markets

Answer: b

Level of Difficulty: Hard

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14. A processed-meat manufacturer is moving downstream in terms of product flow by launching a chain of retail outlets. Which diversification strategy is being used by the company?

- A. Forward vertical integration
- B. Related diversification
- C. Backward integration
- D. Unrelated diversification

Answer: a

Level of Difficulty: Medium

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15. Faced with a decline in its current business, a generic drug manufacturer is planning a foray into the design and manufacture of re-locatable structures. Which diversification strategy is being employed by the company?

- A. Related diversification
- B. Backward integration
- C. Forward vertical integration
- D. Unrelated diversification

Answer: d

Level of Difficulty: Hard

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16. Cash cows are:

- A. businesses with a high relative share of low-growth markets.
- B. low-share businesses in low-growth markets.
- C. market leaders in a high-growth industry.
- D. businesses in high-growth industries with low relative market shares.

Answer: a

Level of Difficulty: Easy

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17. Low-share businesses in low-growth markets are called _____ because although they may throw off some cash, they typically generate low profits, or losses.

- A. stars
- B. question marks
- C. cash cows
- D. dogs

Answer: d

Level of Difficulty: Easy

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18. Which of the following is a limitation of the growth-share matrix?

- A. Since the matrix uses multiple variables as a basis for categorizing a firm's business, it is complex to understand.
- B. Outcomes of this analysis are highly sensitive to variations in how growth and share are measured.
- C. It fails to analyze the impact of investing resources in different businesses on the firm's future earnings.
- D. The model fails to consider that firms can generate cash from businesses with strong competitive positions in mature markets.

Answer: b

Level of Difficulty: Medium

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19. Which of the following provides a basis for comparing the economic returns to be gained from investing in different businesses pursuing different strategies or from alternative strategies that might be adopted by a given business unit?

- A. Value-based planning
- B. BCG growth matrix
- C. Corporate mission statement
- D. Backward integration

Answer: a

Level of Difficulty: Easy

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20. Identify a limitation of value-based planning.

- A. It attempts to assess the economic value a given strategy is likely to generate by relying on distorted accounting measures.
- B. It is typically a tool for evaluating strategy alternatives identified and developed through managers' judgments.
- C. It fails to assess the shareholder value a given strategy is likely to generate.
- D. It fails to provide a basis for comparing the economic returns to be gained from investing in different businesses pursuing different strategies.

Answer: b

Level of Difficulty: Medium

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21. Which of the following is typically a part of using customer equity to estimate the value of alternative marketing actions?

- A. Forecasting the costs incurred in promoting products
- B. Calculating the lifetime values of each of its customers
- C. Assessing the shareholder value of each marketing action
- D. Discouraging customer intimacy

Answer: b

Level of Difficulty: Medium

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Essay Questions

22. What are the components of sustainable competitive advantage at the corporate level?

Answer: It is based on company resources, resources that other firms do not have, that take a long time to develop, and that are hard to acquire. For example, highly developed information systems; extensive market research operations, and/or cooperative long-term relationships with customers, a brand name that customers recognize and trust; cooperative alliances with suppliers or distributors that enhance efficiency; or a body of satisfied and loyal customers who are predisposed to buy related products or services.

Level of Difficulty: Medium

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23. How can customer equity be used to estimate the value of alternative marketing actions?

Answer: This approach calculates the economic return for a prospective marketing initiative based on its likely impact on the firm's customer equity, which is the sum of the lifetime values of its current and future customers. The impact of a firm's past marketing actions on customer equity can be statistically estimated from historical data. This enables managers to identify the financial impact of alternative marketing "value drivers" of customer equity, such as brand advertising, quality or service improvements, and loyalty programs. Once a manager calculates the implementation costs and capital requirements involved, it is possible to estimate the financial return for any similar marketing initiative in the near future.

Level of Difficulty: Medium

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24. What are the various sources of synergy for a firm?

Answer: There are three sources of synergies namely, knowledge-based, corporate identity and the corporate brand, and shared resources.

Knowledge-based: The performance of one business can be enhanced by the transfer of competencies, knowledge, or customer-related intangibles such as brand-name recognition and reputation from other units within the firm.

Corporate identity and the corporate brand: Corporate identity can help a firm stand out from its competitors and give it a sustainable advantage in the market. Corporate identity flows from the communications, impressions, and personality projected by an organization. One rationale for a unique corporate identity programs is that they can generate synergies that enhance the effectiveness and efficiency of the firm's marketing efforts for its individual product offerings.

Shared resources: Corporate synergy is inherent in sharing operational resources, facilities, and functions across business units. However, the sharing of operational facilities and functions may not produce positive synergies for all business units.

Level of Difficulty: Medium

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