

Chapter 3—Starting a Small Business**MATCHING**

Match the term with its definition.

- | | |
|----------------------------|------------------------------|
| a. capabilities | f. differentiation strategy |
| b. competitive advantage | g. entrepreneurial alertness |
| c. competitive environment | h. fatal flaw |
| d. core competencies | i. feasibility analysis |
| e. cost-based strategy | |

1. A benefit that exists when a firm has a product or service that is seen by its target market as better than those of competitors
2. Readiness to act on existing but unnoticed business opportunities
3. Those capabilities that provide a firm with a competitive edge and reflect its personality
4. A preliminary assessment of a business idea that gauges whether the venture envisioned is likely to succeed
5. A company's routines and processes that can coordinate the combined use of its productive assets in order to achieve desired outcomes
6. A circumstance or development that alone could render a new business unsuccessful
7. A plan of action designed to provide a product or service with unique attributes that are valued by consumers
8. The environment that focuses on the strength, position, and likely moves and countermoves of competitors in an industry

- | | | |
|-------------------------|---------------------|------------------------|
| 1. ANS: B | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 2. ANS: G | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 3. ANS: D | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 4. ANS: I | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 5. ANS: A | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 6. ANS: H | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 7. ANS: F | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |
| 8. ANS: C | PTS: 1 | DIF: Difficulty: Easy |
| REF: p. 61-81 | OBJ: LO: 3-0 to 3-6 | NAT: BUSPROG: Analytic |
| KEY: Bloom's: Knowledge | | |

Match the term with its definition.

- a. cost-based strategy
 - b. focus strategy
 - c. general environment
 - d. industry environment
 - e. inside-out analysis
 - f. intangible resources
 - g. new benefit ideas
 - h. new market ideas
 - i. new technology ideas
9. An assessment that catalogs the startup's sources of potential strengths
 10. A plan of action that isolates an enterprise from competitors and other market forces by targeting a restricted market segment
 11. Startup ideas centered around providing customers with new or improved products or services
 12. A plan of action that requires a firm to hold down its costs so that it can compete by charging lower prices and still make a profit
 13. The environment that includes factors that directly impact a given firm and all of its competitors
 14. Startup ideas involving new or relatively new technology, centered around providing customers with a new product
 15. The broad environment, encompassing factors that influence most businesses in a society
 16. Those organizational resources that are invisible and difficult to assess

9. ANS: E PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
10. ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
11. ANS: G PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
12. ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
13. ANS: D PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
14. ANS: I PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
15. ANS: C PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
16. ANS: F PTS: 1 DIF: Difficulty: Easy
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge

Match the term with its definition.

- a. opportunity recognition
 - b. outside-in analysis
 - c. pivot
 - d. resources
 - e. serendipity
 - f. startups
 - g. strategy
 - h. SWOT analysis
 - i. tangible resources
17. To refocus or recreate a startup if the initial concept turns out to be flawed
 18. A plan of action that coordinates the resources and commitments of an organization to achieve superior performance

19. Identification of potential new products or services that may lead to promising businesses
20. The basic inputs that a firm uses to conduct its business
21. Those organizational resources that are visible and easy to measure
22. The study of the general and industry environments of a business context to identify potential startup opportunities
23. An assessment that provides a concise overview of a firm's strategic situation
24. A facility for making desirable discoveries by accident

17. ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
18. ANS: G PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
19. ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
20. ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
21. ANS: I PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
22. ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
23. ANS: H PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge
24. ANS: E PTS: 1 DIF: Difficulty: Moderate
REF: p. 61-81 OBJ: LO: 3-0 to 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge

MULTIPLE CHOICE

1. _____ refers to the way entrepreneurs identify new products or services that may lead to promising businesses.
 - a. Focus-based decisions
 - b. Elasticity
 - c. Opportunity recognition
 - d. Cost-benefit analysis

ANS: C PTS: 1 DIF: Difficulty: Easy
REF: p. 61 OBJ: LO: 3-0 NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Knowledge

2. Katarina has founded three different businesses in the past eight years, all of which have become so successful she has sold them at large profits. We can say Katarina is good at:
 - a. innovative ideas.
 - b. entrepreneurial alertness.
 - c. new market ideas.
 - d. opportunity recognition.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 61 OBJ: LO: 3-0 NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

3. Israel Kirzner believes entrepreneurs have a unique capability, which he calls _____, to spot existing opportunities for businesses.
- innovative thinking
 - market awareness
 - entrepreneurial alertness
 - opportunity recognition

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 61 OBJ: LO: 3-0 NAT: BUSPROG: Analytic
KEY: Bloom's: Knowledge

4. A computer technician recognizing a need for more atheistically pleasing computers would be said to have entrepreneurial _____.
- technology
 - alertness
 - strategy
 - rivalry

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 61 OBJ: LO: 3-0 NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Comprehension | Bloom's: Application

5. Isabella listens whenever someone says "Someone ought to make a ..." She expects one of these ideas to develop into a profitable business. Isabella possesses:
- market awareness.
 - entrepreneurial alertness.
 - opportunity recognition.
 - innovative thinking.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 61 OBJ: LO: 3-0 NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

6. Janis wants to open a restaurant. She is not interested in a franchise; she wants to build her business literally from the ground up. When she does, her business will be classified as a:
- entrepreneurial opportunity.
 - startup.
 - new market idea.
 - serendipity.

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 62 OBJ: LO: 3-0 NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

7. Consuela noticed significant growth in the Hispanic population in her mid-size town. The local grocery carried mostly traditional American products. She knew her neighbors would want familiar foods so she decided to open a food market catering to their preferences. Which kind of startup will her store be?
- New market idea
 - New technology idea
 - New benefit idea

d. New product idea

ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 62 OBJ: LO: 3-1a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

8. When Jeff Bezos launched Amazon.com, his idea of selling items he did not own from a website was unique. Which type of startup is this?
- a. New market idea
 - b. New technology idea
 - c. New benefit idea
 - d. New product idea

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 62-63 OBJ: LO: 3-1a NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

9. According to a study by the *National Federation of Independent Business Foundation*, the most common source of new product ideas for small business startups is
- a. prior work experience.
 - b. personal interests and hobbies.
 - c. a chance happening.
 - d. existing records of a business.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 63 OBJ: LO: 3-1b NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Knowledge

10. Jeff Bezos' original business plan involved taking orders for books and having the items shipped directly from the publisher to the customer. He modified the plan to include other products such as toys and decided to buy the toys from the producers and ship them from his own warehouse. This modification of the original plan is called:
- a. a change of plan
 - b. a pivot.
 - c. a serendipity.
 - d. a competitive move.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 63 OBJ: LO: 3-1a NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

11. Laura discovered to her amazement that the skin oil she sold seemed to repel mosquitos. She relabeled the product and began selling it as alternative to brands such as Cutter and Off!. Laura's startup is which kind?
- a. New market idea
 - b. New technology idea
 - c. New benefit idea
 - d. New product idea

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 63 OBJ: LO: 3-1a NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

12. Verlin worked in a cabinet shop until he became frustrated that his ideas for improving efficiency were falling on deaf ears. So he left and started his own cabinet shop where he could implement those ideas. From which source did his ideas for his startup come?
- a. From hobbies
 - b. From personal interests
 - c. From accidental discovery
 - d. From work experience

ANS: D PTS: 1 DIF: Difficulty: Easy
REF: p. 63-64 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

13. An example of an idea for a new startup from a hobby is
- a. a coin collector, who bought and sold coins for years to build a personal collection, deciding to become a coin dealer.
 - b. a furniture salesperson seeing 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, hearing him get complimented on the way they look.
 - d. all of the above are examples.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 64 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
STA: DISC: Value Creation KEY: Bloom's: Analysis | Bloom's: Application

14. Carol enjoyed yarn crafts but there were no yarn shops in her small town. She reasoned that there were many others nearby who might appreciate being able to purchase yarns and supplies without a long drive. Within a year her shop was profitable and expanding into larger space. Which of these statements best describes this situation?
- a. Carol grew a business out of her personal experience.
 - b. Carol turned her hobby into a thriving business.
 - c. Carol accidentally stumbled upon a gold mine.
 - d. Carol used her work experience as a source of startup ideas.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 64 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

15. Wilma needed wine glasses but all she had were candlestick holders and 8-ounce canning jars. Gluing the two together, she created what she called "mountain crystal" which became a big hit. The local crafters' association asked her to make enough for them to sell, and her business took off. This is an example of building a business from:
- a. work experience.
 - b. hobbies.
 - c. personal interest.
 - d. accidental discovery.

ANS: D PTS: 1 DIF: Difficulty: Easy
REF: p. 65 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

16. An example of an idea for a new startup from an accidental discovery is
- a. a coin collector, who bought and sold coins for years to build a personal collection, deciding to become a coin dealer.
 - b. a furniture salesperson seeing 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, hearing him get complimented on the way they look.
- d. all of the above are examples.

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 65 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Analysis | Bloom's: Application

17. The quote "Good artists borrow; great artists steal" is the principle that launched which company?
- a. *Aimie's Dinner and Movie*
 - b. *Apple*
 - c. *C and D Landscape Company*
 - d. *Xerox*

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 67 OBJ: LO: 3-2 NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Knowledge

18. Richard could see the demand for towable recreational vehicles declining so beginning in the early 1970s he used his equipment, employees, and professional network to design and build utility trucks, a more recession-resistant industry. This is an example of:
- a. serendipity.
 - b. diversification.
 - c. innovative thinking
 - d. market ideas.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 67 OBJ: LO: 3-2 NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

19. Drs. James and Janet Baker saw that many people experienced difficulty and frustration when typing, some because of physical disabilities. So they invented a voice recognition software to allow users to talk to the computer. Their ideas have become Dragon Naturally Speaking, a popular talk-to-type software application. Which of these statements describes their startup?
- a. Borrow heavily from existing products or services.
 - b. Combine two businesses to create a market opening.
 - c. Begin with a problem in mind or a pain you can relieve.
 - d. Recognize a hot trend and ride the wave.

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 67 OBJ: LO: 3-2 NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

20. Julie, owner of a bed and breakfast inn, had been asked repeatedly to cater events. Once she realized her kitchen was not being used during the later part of the day, she started the company. This change is an example of
- a. recognizing a hot trend and riding the wave.
 - b. combining two businesses into one to create a market opening.
 - c. beginning with a problem in mind.
 - d. considering ways to adapt a product or service to meet customer needs in a different way.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 67-68 OBJ: LO: 3-2 NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Comprehension | Bloom's: Application

21. Many commuters grab a cup of coffee and drink it during their ride to work. So someone invented specially shaped cups that don't tip and lids with sip openings that close and don't spill. Which of these innovative ways of thinking best fits this situation?
- a. Combine two businesses to create a market opening.
 - b. Study a product or service to see if you can make it "green."
 - c. Recognize a hot trend and ride the wave.
 - d. Study an existing product and explore ways to improve its function.

ANS: D PTS: 1 DIF: Difficulty: Challenging
REF: p. 67-68 OBJ: LO: 3-2 NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

22. When Sally realized her vintage clothing pieces were being bought by the local college students and not just their parents, she started adding more vintage pieces to her inventory. Sally is
- a. recognizing a hot trend and riding the wave.
 - b. combining two businesses into one to create a market opening.
 - c. beginning with a problem in mind.
 - d. considering ways to adapt a product or service to meet customer needs in a different way.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 67-68 OBJ: LO: 3-2 NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Analysis | Bloom's: Application

23. Alyson and Andrea, country artists, realized that their love of classic rock was also popular with their fans. Their change to their show to incorporate more rock songs with a country flavor is an example of
- a. recognizing a hot trend and riding the wave.
 - b. combining two businesses into one to create a market opening.
 - c. beginning with a problem in mind.
 - d. finding a way to adapt a product or service to meet customer needs in a different way.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 68 OBJ: LO: 3-2 NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Analysis | Bloom's: Application

24. When conducting an outside-in analysis, one should consider the _____ environment followed by the _____ environment.
- a. general; industry
 - b. general; natural
 - c. industry; natural
 - d. industry; political

ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Comprehension

25. Which statement is an example of an economic trend?
- a. The Federal Reserve announces that it will decrease the interest rate charged to banks.
 - b. Congress passes legislation that increases the tax rate on corporations.
 - c. A new computer chip is announced which will allow for miniaturization of many electronic devices.
 - d. The E.U. declares an increase in tariffs on all agricultural goods.

ANS: A PTS: 1 DIF: Difficulty: Easy

REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Global Dynamics | DISC: Economic Environments
KEY: Bloom's: Comprehension | Bloom's: Application

26. For the past several years the borrowing interest rates has been very low in the United States. This is an example of a(n) _____ trend.
- a. economic
 - b. sociocultural
 - c. political/legal
 - d. demographic

ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

27. Which statement is an example of a political/legal trend?
- a. The Federal Reserve announces that it will decrease the interest rate it charges banks.
 - b. Congress passes legislation that increases the tax rates on corporations.
 - c. A new computer chip is announced which will allow for miniaturization of many electronic devices.
 - d. The E.U. declares an increase in tariffs on all agricultural goods.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Global Dynamics | DISC: Ethical and Legal
KEY: Bloom's: Comprehension | Bloom's: Application

28. Which statement is an example of a technological trend?
- a. The Federal Reserve announces that it will decrease the interest rate it charges banks.
 - b. Congress passes legislation that increases the tax rates on corporations.
 - c. A new computer chip is announced which will allow for miniaturization of many electronic devices.
 - d. The E.U. announces an increase in tariffs on all agricultural goods.

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Reflective Thinking
STA: DISC: Global Dynamics KEY: Bloom's: Comprehension | Bloom's: Application

29. Which segment is part of the general environment?
- a. The industry segment
 - b. The global segment
 - c. The information segment
 - d. The human resources segment

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Reflective Thinking
STA: DISC: Global Dynamics | DISC: Economic Environments
KEY: Bloom's: Comprehension | Bloom's: Application

30. The increased trade between the United States and Mexico since the enactment of the North American Free Trade Agreement is related to the _____ element of the general environment.
- a. technological
 - b. global
 - c. ecological
 - d. sociocultural

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Reflective Thinking
STA: DISC: Global Dynamics | DISC: Economic Environments
KEY: Bloom's: Comprehension | Bloom's: Application

31. Which statement is an example of a global trend?
- The Federal Reserve announces that it will decrease the interest rate it charges banks.
 - Congress passes legislation that increases the tax rates on corporations.
 - A new computer chip is announced that will allow for miniaturization of many electronic devices.
 - The E.U. declares an increase in tariffs on all agricultural goods.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 69 OBJ: LO: 3-3a NAT: BUSPROG: Reflective Thinking
STA: DISC: Global Dynamics | DISC: Economic Environments
KEY: Bloom's: Comprehension | Bloom's: Application

32. An evaluation of the general environment
- is done before the feasibility analysis.
 - helps identify a trend that could be used for a possible startup idea.
 - will clarify the unique value of the startup idea.
 - will be the primary determinant for a possible startup idea.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Comprehension

33. Have you noticed women's footwear recently? Women who still wear high heels favor six-inch spiked or wedged platform shoes. Which type of trend does this represent?
- Economic
 - Sociocultural
 - Technological
 - Demographic

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

34. The State of Maryland has recently imposed a "rain tax" based on the amount of non-water-absorbing surfaces on real estate. Which type of trend does this represent?
- Economic
 - Sociocultural
 - Political/legal
 - Technological

ANS: C PTS: 1 DIF: Difficulty: Easy
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

35. As China's production of exportable goods increases, Chinese workers have more money to spend on consumer items. Other developing countries are experiencing the same growth. Which type of trend does this represent?
- Economic
 - Sociocultural

- c. Global
- d. Demographic

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

36. Today's smartphones bear little resemblance to the original analog cell phones of the early 1990s. Their capabilities exceed those of the early desktop computers. It seems nearly every adult carries at least one cell phone. Which of the trends does this represent?
- a. Sociocultural
 - b. Demographic
 - c. Technological
 - d. Global

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

37. TV commercials promote reverse mortgages. Other ads promote medications for high blood pressure, ED, immune system disorders, and high cholesterol. Which type of trend do these represent?
- a. Sociocultural
 - b. Global
 - c. Technological
 - d. Demographic

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

38. Which factor determines the nature and degree of competition in an industry, as identified by Michael Porter in his book *Competitive Advantage*?
- a. The interest of small businesses
 - b. Bargaining power of competitors
 - c. Threat of substitute products or services
 - d. The macroeconomic level of the industry

ANS: C PTS: 1 DIF: Difficulty: Challenging
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Analysis | Bloom's: Application

39. Substitute products
- a. reduce the attractiveness and profitability of an industry.
 - b. represent those items manufactured by direct rivals within an industry.
 - c. are usually cheaper than the products they can replace.
 - d. are always a serious threat to rivals in an industry.

ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: C

40. Considering Michael Porter's five factors, we can say that the fast food hamburger industry is characterized by:
- a. intense rivalry.
 - b. strong suppliers.

- c. strong buyers.
- d. ease of entry into the industry.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

41. An increase in the bargaining power of suppliers
- a. increases both the attractiveness and the profitability of the target market.
 - b. decreases both the attractiveness and the profitability of the target market.
 - c. decreases the attractiveness and increases the profitability of the target market.
 - d. increases the attractiveness and decreases the profitability of the target market.

ANS: B PTS: 1 DIF: Difficulty: Challenging
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Analysis | Bloom's: Application

42. Considering Michael Porter's five factors, the automotive industry in the United States is characterized by:
- a. weak rivalry.
 - b. high barriers to entry.
 - c. many substitute products.
 - d. weak suppliers.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

43. Considering Michael Porter's five factors, the chicken meat processing industry is characterized by:
- a. low barriers to entry.
 - b. intense rivalry among competitors.
 - c. availability of many substitutes.
 - d. strong buyers.

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

44. The diamond market is monopolized by the DeBeers organization, from mining to cutting and polishing to wholesaling. Jewelers can do little to negotiate prices. This situation typifies:
- a. low barriers to entry.
 - b. availability of substitutes.
 - c. intense rivalry.
 - d. strong suppliers.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

45. Farmers wishing to sell grain cannot negotiate a price; they either accept the price offered or decline to sell their crop. This is an example of:
- a. low barriers to entry.
 - b. availability of substitutes.
 - c. intense rivalry.
 - d. strong buyers.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 71 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

46. Careful analysis of the competitive environment can result in:
- failure of a new business.
 - unexpected response from a rival.
 - loss of the startup's supplier base.
 - greater financial success of the startup.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 72 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

47. Based on William A. Sahlman's suggestions, which question about competitors should be answered by the business plan?
- Are there ways to co-opt potential or actual competitors by forming alliances?
 - How easily can new competitors enter the industry?
 - Do small businesses have special advantages when competing in the industry?
 - What is the average size of competitors?

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 72 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Knowledge

48. An inside-out analysis is one that:
- considers the general environment and industry setting.
 - catalogs the startup's sources of potential strengths.
 - considers the strengths of buyers and suppliers.
 - catalogs the possible responses of rivals in the industry.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 72 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

49. Miles' startup company began well but within a couple months he found he was unable to pay invoices from suppliers. He didn't understand how he could have this problem. He hired experts; his business idea was sound; and he had many new customers. What went wrong?
- Miles lacked critical technologies.
 - Miles lacked patents or copyrights.
 - Miles lacked raw materials.
 - Miles lacked cash resources.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

50. Resources are best described as
- those basic inputs that a firm uses to conduct its business.
 - only those features that are visible and easy to quantify.
 - the firm's lending capacity.
 - capabilities that can be exploited.

ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic

51. Tangible resources include:

- a. cash, technology, and raw materials.
- b. cash, management expertise, and a good reputation
- c. management expertise, a good reputation, and technology.
- d. intellectual property rights, equipment, and a skilled workforce.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

52. Intangible resources include:

- a. a good location, cash, and capable business partners.
- b. a good reputation, a respected brand name, and an extensive personal network.
- c. intellectual property rights, equipment, and technology.
- d. capable business partners, intellectual property rights, and equipment.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

53. Rumpelstiltskin, an imp in a Grimm Brothers fairy tale, could spin straw into gold. We would call this a(n)

- a. useful skill.
- b. tangible resource.
- c. intangible resource
- d. capability.

ANS: D PTS: 1 DIF: Difficulty: Easy
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

54. A(n) _____ exists when multiple resources are integrated and then deployed to the firm's advantage.

- a. networked resource
- b. common intangible
- c. capability
- d. industry edge

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Knowledge

55. Which of the following could be considered a core competency?

- a. Zappos' 365 day return policy
- b. NutriSystem's claim that users lose weight by eating
- c. McDonald's ability to fry hamburgers quickly
- d. Southwest Airlines' ability to make flying fun

ANS: D PTS: 1 DIF: Difficulty: Challenging
REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

56. Morris built a thriving business by selling tailor-made clothing at off-the-rack prices. All other custom-clothing stores charge much higher prices. We can say that Morris has a(n)

- a. core competency.
- b. competitive advantage.
- c. serendipity.
- d. opportunity alertness.

ANS: B PTS: 1 DIF: Difficulty: Challenging
 REF: p. 73 OBJ: LO: 3-3b NAT: BUSPROG: Analytic
 KEY: Bloom's: Comprehension

57. A SWOT analysis can be described best as
- a. a means of assessing the firm's industry situation.
 - b. an assessment of the internal strengths and weakness of the firm.
 - c. a dynamic analysis of the firm's current situation.
 - d. a concise overview of the firm's strategic situation.

ANS: D PTS: 1 DIF: Difficulty: Moderate
 REF: p. 74 OBJ: LO: 3-3c NAT: BUSPROG: Analytic
 STA: DISC: Value Creation KEY: Bloom's: Comprehension

58. Observations about the external environment and organizational potentials can be brought together by means of
- a. an alignment strategy.
 - b. the in-and-out assessment.
 - c. a SWOT analysis.
 - d. common sense critique.

ANS: C PTS: 1 DIF: Difficulty: Easy
 REF: p. 74 OBJ: LO: 3-3c NAT: BUSPROG: Analytic
 STA: DISC: Economic Environments KEY: Bloom's: Comprehension

59. One of the drawbacks of SWOT analysis is:
- a. it is very time consuming.
 - b. a professional consultant must perform it.
 - c. its focus on present conditions.
 - d. it requires information about competitors not readily available to outsiders.

ANS: C PTS: 1 DIF: Difficulty: Challenging
 REF: p. 74 OBJ: LO: 3-3c NAT: BUSPROG: Reflective Thinking
 KEY: Bloom's: Comprehension

60. Noland has identified an underserved market for his product. Competitors are not likely to notice his efforts to attract his target market, and his product fills a need for these customers. Noland has found:
- a. an opportunity sweet spot.
 - b. a core competency.
 - c. a competitive advantage.
 - d. a capability.

ANS: A PTS: 1 DIF: Difficulty: Moderate
 REF: p. 74 OBJ: LO: 3-3c NAT: BUSPROG: Analytic
 KEY: Bloom's: Comprehension

61. Generally speaking, a strategy is
- a. an action plan that guides resource investments.
 - b. a formal statement of what the firm intends to do.
 - c. an expanded description of the firm's mission statement.

- d. most effective when it is designed to reflect the tactics that are common within an industry.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 75 OBJ: LO: 3-4 NAT: BUSPROG: Analytic
STA: DISC: Economic Environments KEY: Bloom's: Knowledge

62. The two broad strategies for building a competitive advantage are the _____ strategies.
- a. cost-based and differentiation-based
 - b. price-advantage and cost-advantage
 - c. marketing-advantage and price-advantage
 - d. focus-advantage and marketing-advantage

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 75 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Knowledge

63. A company that is the lowest-cost producer within the market will have what type of strategy?
- a. Price-based
 - b. Marketing-based
 - c. Efficiency-based
 - d. Cost-based

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 75 OBJ: LO: 3-04 NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Comprehension

64. Milton's Auto Service is a small auto maintenance and repair shop located in a small town in a garage behind Milton's house. Milton doesn't charge as much as auto dealerships so he has a steady stream of local customers. Which of the following best describes Milton's strategy?
- a. innovation
 - b. strategic alliances
 - c. cost-based
 - d. differentiation

ANS: C PTS: 1 DIF: Difficulty: Easy
REF: p. 75 OBJ: LO: 3-4a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

65. *Marketplace Farms* is a regional cooperative of apple and orange growers. In order to compete against larger regional growers, the company relies on inexpensive packaging processes and lower cost labor instead of machines. *Marketplace Farms* is relying on what type of strategy?
- a. price-based
 - b. marketing-based
 - c. efficiency-based
 - d. cost-based

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 75 OBJ: LO: 3-4a NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Analysis | Bloom's: Application

66. A differentiation-based strategy requires that a firm
- a. be the lowest-cost provider in an industry.
 - b. emphasize the uniqueness of its product or services.
 - c. achieve the highest resource efficiency in an industry.

d. be the lowest-priced competitor in an industry.

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 76 OBJ: LO: 3-4a NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Knowledge

67. Kitty-Kat Korner fabric shop caters to the quilters in the region. Nowhere else can a quilter find everything she needs: fabrics, notions, pattern books, even quilting machines and quilting classes. This is not your typical fabric store by any means. Which of the following best describes Kitty-Kat's strategy?
- a. innovation
 - b. differentiation
 - c. cost-based
 - d. strategic alliances

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 76 OBJ: LO: 3-4a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

68. *Containers Etc.* manufactures household containers. In contrast to traditional market designs, all of the products are microwaveable, child-proof and come in an assortment of 35 colors. Accordingly, *Containers Etc.* is pursuing a _____ strategy.
- a. product-based
 - b. differentiation-based
 - c. concept-based
 - d. efficiency-based

ANS: B PTS: 1 DIF: Difficulty: Easy
REF: p. 76 OBJ: LO: 3-4a NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Comprehension | Bloom's: Application

69. A focus strategy is best described as
- a. an attempt to compete directly with industry giants.
 - b. a domestic marketing strategy.
 - c. a strategy that isolates the firm from market forces.
 - d. targeting the high end of a market.

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 76-77 OBJ: LO: 3-4b NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Comprehension

70. Mark is the owner of *Delectable Delights*, a specialty store offering chocolates, candies, and fruit baskets. After a recent analysis of the competitive environment, Mark concluded that three distinct consumer segments exist for his products - A, B, and C consumers. In an effort to maximize the effectiveness of its strategy, Mark has decided to limit his efforts to fulfilling the needs of A consumers. He is employing a _____ strategy.
- a. multisegmentation
 - b. selective
 - c. focus
 - d. concentration

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 76-77 OBJ: LO: 3-4b NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Comprehension | Bloom's: Application

71. Kitty-Kat Korner fabric shop caters to the quilters in the region. Other fabric shops carry fabrics for all types of clothing along with floral, yarn, and other craft supplies. Kitty-Kat carries only items related to quilting. Which of the following best describes Kitty-Kat's strategy?
- a. focus
 - b. cost-based
 - c. quality
 - d. innovation

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 76-77 OBJ: LO: 3-4b NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis | Bloom's: Comprehension

72. Arlene runs *Technographics*, a company that designs greeting cards for computer users. What type of strategy would be expected?
- a. a focus strategy.
 - b. an unsegmented strategy.
 - c. a multisegmentation strategy.
 - d. a marketing mix strategy.

ANS: A PTS: 1 DIF: Difficulty: Easy
REF: p. 76-77 OBJ: LO: 3-4b NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Comprehension | Bloom's: Application

73. According to Michael Porter, a focus strategy can erode when
- a. the strategy is protected.
 - b. the target segment's differences from other segments narrow.
 - c. new firms reconstruct the industry.
 - d. demand for the product grows and thus attracts new competitors.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 79 OBJ: LO: 3-4b NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Knowledge

74. Which action is a cause for erosion of a small firm's focus strategy?
- a. Consumer demand grows.
 - b. New firms reconstruct the industry.
 - c. Differences between segments grow larger.
 - d. The focus strategy is imitated.

ANS: D PTS: 1 DIF: Difficulty: Easy
REF: p. 79 OBJ: LO: 3-4b NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Knowledge

75. As the success of the athletic teams at O-MY-U skyrocketed, so did attendance at the games. Out-of-town visitors found all the hotels fully booked. So Bob and Shirley opened their home to guests on weekends, operating as a bed-and-breakfast. Soon many of their neighbors did the same and Bob and Shirley found they could no longer fill all their rooms every game weekend. How would Michael Porter explain this?
- a. The focus strategy was imitated.
 - b. Demand disappeared.
 - c. The target segment lost its uniqueness.
 - d. The industry became further segmented.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 79 OBJ: LO: 3-4b NAT: BUSPROG: Analytic

KEY: Bloom's: Analysis | Bloom's: Application

76. O-MY-U once had a winning team in every college sport. But athletes graduate and fortunes change. Attendance at the games dropped when the team had a losing season. Bob and Shirley found it difficult to attract enough guests to their bed-and-breakfast to cover their costs. How would Michael Porter explain this?
- The focus strategy was imitated.
 - Demand disappeared.
 - The target segment lost its uniqueness.
 - New firms subsegmented the industry.

ANS: B PTS: 1 DIF: Difficulty: Moderate
REF: p. 79 OBJ: LO: 3-4b NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis | Bloom's: Application

77. Many direct sales organizations suggest that the new "member" begin selling the product part-time while continuing to work at his/her regular job. Which explanation best fits this recommendation?
- The business meets a definite market need.
 - The target market is sizable.
 - There are few competitors.
 - The business can be tested cheaply and expanded incrementally.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 80 OBJ: LO: 3-5 NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis | Bloom's: Application

78. According to the feasibility analysis framework, an entrepreneur who has a vision of a multi-unit company will
- be satisfied with an attractive niche so the company can gain market share.
 - check to see if the health of the micro-market is strong enough for future macro-market growth.
 - desire a healthier micro-market potential growth over the health of the macro-market.
 - be satisfied with an attractive niche if it would serve as a point of entry for long-term potential.

ANS: D PTS: 1 DIF: Difficulty: Challenging
REF: p. 81 OBJ: LO: 3-6 NAT: BUSPROG: Analytic
STA: DISC: Value CreationKEY: Bloom's: Comprehension | Bloom's: Analysis

79. Miriam opened a yarn craft store in her small town based on her personal interests and hobbies. There were no competitors locally; the merchandise was readily available; and she had the initial capital to open the store. Yet her business failed. Too few customers visited her store. What was Miriam's fatal flaw?
- The merchandise was patent-protected.
 - Miriam could not raise enough capital.
 - Miriam lacked industry knowledge.
 - Miriam ignored the market limitations.

ANS: D PTS: 1 DIF: Difficulty: Moderate
REF: p. 81 OBJ: LO: 3-6 NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis | Bloom's: Application

80. Jesse would like to start a landscaping company that concentrates on using native plants. The feasibility study showed a need for \$100,000 to start the company (she has \$10,000), competition of three other companies (one concentrated on using native plants), and buyers who were predominantly 60 years or older (who loved yard work). Which statement is true?
- a. This plan shows fatal flaws with financing, competition, and market as none of these flaws could be fixed.
 - b. The plan has a fatal flaw with financing and competition as the market might have an interest in her speciality.
 - c. The plan has a fatal flaw with financing but competition might not be as much of an issue if the native plant landscaping is growing with the buyers.
 - d. The plan could be fixed if an investor went into business with her.

ANS: C PTS: 1 DIF: Difficulty: Challenging
REF: p. 81-82 OBJ: LO: 3-6 NAT: BUSPROG: Reflective Thinking
STA: DISC: Value CreationKEY: Bloom's: Analysis | Bloom's: Application

81. Peggy would like to open a dog grooming business in her home. Which of the following, if true, would indicate this is a good idea?
- a. More households now own dogs but the owners don't want to give them regular baths.
 - b. Fewer households now own dogs but the owners don't want to give them regular baths.
 - c. Fewer households now own dogs but the owners give them regular baths.
 - d. More households own dogs but the owners give them regular baths.

ANS: A PTS: 1 DIF: Difficulty: Moderate
REF: p. 83 OBJ: LO: 3-6a NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis

82. Mike and Jane opened a franchise sporting goods store. Neither was athletic; neither had ever managed a retail store; and the business failed within one year. Which statement best explains these results?
- a. The venture did not fit with their mission or aspirations.
 - b. They had no connections with suppliers, customers, or investors.
 - c. They lacked factors critical to the success of the enterprise.
 - d. They failed to complete a feasibility study.

ANS: C PTS: 1 DIF: Difficulty: Moderate
REF: p. 84 OBJ: LO: 3-6c NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis | Bloom's: Application

ESSAY

1. Compare and contrast personal experience, hobbies and personal interests, and accidental discovery as a source of startup ideas. Use examples to strengthen the discussion.

ANS:

Personal experiences is a one of the most prolific source of startup ideas. It produces ideas that are related to the individual's skills and knowledge and may result from past work experience (Melissa Marks Papock and *Cabana Life*). Accidental discovery and serendipity, on the other hand, may happen at any time and be totally unrelated to the individual's background (Ex. Simone Gonzales and *Pleasure Doing Business*). Sometimes hobbies and personal interests grow beyond their leisure activities and become businesses. (Ex. Alex Shogren and *Best Kiteboarding*). For instance, people who love skiing might start a ski equipment rental operation as a way to make income from an activity they enjoy.

PTS: 1 DIF: Difficulty: Challenging REF: p. 63-65

OBJ: LO: 3-1b NAT: BUSPROG: Communication
KEY: Bloom's: Comprehension | Bloom's: Evaluation

STA: DISC: Value Creation

2. Select one of the ways of innovative thinking, explain it, and give an example of a business idea this type of thinking might generate.

ANS:

See pages 67-69 for ten ways of innovative thinking. Students may use either the examples from the text or think of their own.

PTS: 1

DIF: Difficulty: Challenging

REF: p. 67-69

OBJ: LO: 3-2

NAT: BUSPROG: Reflective Thinking

KEY: Bloom's: Comprehension

3. 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*. Why is the proper identification of these factors important for a new venture?

ANS:

- New competitors
- Substitute products/services
- Rivalry
- Suppliers
- Buyers

All five factors combine to make a target market attractive and profitable. If these factors are strong, then profitability is weaker. An entrepreneur should understand each factor to identify opportunities and threats for the new venture.

PTS: 1

DIF: Difficulty: Challenging

REF: p. 71

OBJ: LO: 3-3a

NAT: BUSPROG: Communication

STA: DISC: Economic Environments KEY: Bloom's: Comprehension | Bloom's: Evaluation

4. Describe the differences and relationships between resources, capabilities and core competencies. How do these items relate to inside-out analysis?

ANS:

Resources are basic inputs that a firm uses in its business, including cash for investment, useful technologies, access to equipment, and capable employees. Companies have both tangible and intangible resources.

Capabilities are best viewed as the integration of various resources in a way that boosts the firm's competitive advantage.

Core competencies are those resources and capabilities that provide an enterprise with a competitive advantage over its rivals.

An inside-out analysis catalogues the resources and capabilities available to the startup leading to core competency identification. By using resources and capabilities in unique ways, a firm can establish its core competencies and apply them to obtain a competitive advantage.

PTS: 1

DIF: Difficulty: Challenging

REF: p. 73

OBJ: LO: 3-3b

NAT: BUSPROG: Communication

STA: DISC: Value Creation

KEY: Bloom's: Comprehension | Bloom's: Evaluation

5. Name and describe the two broad-based strategy options that a firm can select when pursuing a competitive advantage in the marketplace.

ANS:

Strategies can be condensed into either a cost-based strategy or a differentiation-based strategy. The cost-based strategy requires a firm to be the lowest-cost producer in its market, employing practices ranging from using low-cost labor to installing highly efficient manufacturing equipment. Using creative approaches, small firms can be very competitive using this type of strategy.

Differentiation-based strategies are based on product or service differentiation. That is, firms using this strategy must offer a product or service that is perceived to be unique in some way (e.g., convenient to operate, recognized as user-friendly) that the consumer desires.

PTS: 1 DIF: Difficulty: Challenging REF: p. 75-76
OBJ: LO: 3-4a NAT: BUSPROG: Communication
STA: DISC: Economic Environments KEY: Bloom's: Comprehension | Bloom's: Evaluation

6. What marketing activities suggest that a small firm is following a focus strategy?

ANS:

- Strict concentration on a single or limited market segment
- Concentration on a single or specialized product
- Restriction to a single geographical region
- Emphasis on substantive superiority of the product or service

A firm could then pair this focus strategy with an overall cost-based strategy or a differentiation-based strategy.

PTS: 1 DIF: Difficulty: Challenging REF: p. 76-77
OBJ: LO: 3-4b NAT: BUSPROG: Communication
STA: DISC: Economic Environments KEY: Bloom's: Comprehension | Bloom's: Analysis

7. Which of Michael Porter's four conditions for segmented market erosion occurred with *Minnetonka*, the small firm that is widely recognized as the first to introduce liquid hand soap?

ANS:

- The focus strategy is imitated.
- The target segment becomes structurally unattractive because the structure erodes or because demand simply disappears.
- The target segment's differences from other segments narrow.
- New firms subsegment the industry.

Procter and Gamble quickly imitated the product and had the money to push their product. *Minnetonka* contributed to the segment narrowing as they didn't focused on *Softsoap*'s unique advantage. Now new firms have subsegmented the industry with the addition of antibacterial agents to the soaps.

PTS: 1 DIF: Difficulty: Challenging REF: p. 79
OBJ: LO: 3-4b NAT: BUSPROG: Communication
STA: DISC: Economic Environments KEY: Bloom's: Comprehension | Bloom's: Analysis

8. Identify and discuss the five factors entrepreneurs should consider when screening new business ideas.

ANS:

1. *Strength of the business idea*: The idea should meet a market need while offering products or services customers favor and find easy to use. No fatal flaws should be present.

2. *Targeted market and customers:* The market should be large enough to sustain the business, growing rapidly, include customers with purchasing power, and be reachable through clear channels of promotion.

3. *Industry and competitive advantage:* The industry should have few competitors, low barriers to entry, high operating margins, and high growth.

4. *Capability of founder(s):* The founders should have industry-related experience, skills, and networks along with a passion and fit with the new business.

5. *Capital requirements and venture performance:* The new venture should require little capital to launch, have high anticipated profits, and low levels of liability and other risks. Other similar enterprises should perform well in this industry.

PTS: 1 DIF: Difficulty: Challenging REF: p. 79-80
OBJ: LO: 3-5 NAT: BUSPROG: Reflective Thinking KEY: Bloom's: Comprehension

9. Briefly state the difference between a market and an industry. How are these two items related to small business success?

ANS:

A market consists of buyers, current or potential customers who are interested in purchasing a particular class of products or services to satisfy their wants or needs - and they must have the ability to pay for them.

An industry is made up of sellers who compete with one another by offering identical or similar products or services for sale to the same general group of buyers. Both markets and industries are considered part of the macro level of the business.

A market with potential, an attractive industry and a capable individual or team with skills and capabilities to pull together are critical for success.

PTS: 1 DIF: Difficulty: Challenging REF: p. 82-84
OBJ: LO: 3-6a NAT: BUSPROG: Communication
STA: DISC: Economic Environments KEY: Bloom's: Comprehension | Bloom's: Evaluation

TRUE/FALSE

1. Many businesses are formed because an entrepreneur saw ways to improve or modify a product as a result of previous work experience.

ANS: T PTS: 1 DIF: Difficulty: Easy
REF: p. 64 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Comprehension

2. It is nearly impossible to make a business out of a hobby.

ANS: F PTS: 1 DIF: Difficulty: Moderate
REF: p. 64 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Analysis

3. Serendipity describes a new product idea resulting from deliberate search activities.

ANS: F PTS: 1 DIF: Difficulty: Easy

REF: p. 65 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Comprehension

4. By observing trends in the use of leisure time, technology, or other areas, an entrepreneur can discover potential business ideas.

ANS: T PTS: 1 DIF: Difficulty: Moderate
REF: p. 66 OBJ: LO: 3-1b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Comprehension

5. The general environment includes rival companies and products.

ANS: F PTS: 1 DIF: Difficulty: Moderate
REF: p. 69-70 OBJ: LO: 3-3a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension | Bloom's: Evaluation

6. An inside-out analysis identifies a company's strengths and the competition's weaknesses.

ANS: F PTS: 1 DIF: Difficulty: Moderate
REF: p. 72 OBJ: LO: 3-3b NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Comprehension | Bloom's: Knowledge

7. Using a cost-based strategy, a company would take steps to increase efficiency and hold down costs.

ANS: T PTS: 1 DIF: Difficulty: Easy
REF: p. 75-76 OBJ: LO: 3-4a NAT: BUSPROG: Analytic
KEY: Bloom's: Comprehension

8. Using a focus strategy, a company would focus its attention on producing one product that satisfied the greatest number of customers.

ANS: F PTS: 1 DIF: Difficulty: Moderate
REF: p. 76-77 OBJ: LO: 3-4b NAT: BUSPROG: Analytic
KEY: Bloom's: Analysis | Bloom's: Evaluation

9. When screening new business ideas, the entrepreneur need not focus on the size of the targeted market.

ANS: F PTS: 1 DIF: Difficulty: Moderate
REF: p. 80 OBJ: LO: 3-5 NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Comprehension

10. During a feasibility analysis, an entrepreneur may discover a fatal flaw in the idea.

ANS: T PTS: 1 DIF: Difficulty: Moderate
REF: p. 81 OBJ: LO: 3-6 NAT: BUSPROG: Reflective Thinking
KEY: Bloom's: Comprehension