Chapter 8 Strategic Management

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TRUE/FALSE QUESTIONS

THE IMPORTANCE OF STRATEGIC MANAGEMENT

1. Strategic management is the set of managerial decisions and actions that determines the short-term performance of an organization.
   (False; moderate; p. 180)

2. The most fundamental questions about strategy address why firms, facing the same environmental conditions, have varying levels of performance.
   (True; easy; p. 180)

THE STRATEGIC MANAGEMENT PROCESS

3. The first step in the strategic management process is analyzing the external environment.
   (False; difficult; p. 182)

4. Within an industry, an environment can present opportunities to one organization and pose threats to another.
   (True; moderate; p. 184)

5. Evaluating employee skill level at each position is part of analyzing the organization’s resources in the strategic management process.
   (True; easy; p. 184)

6. Activities that an organization does well or resources that it has available are called assets.
   (False; easy; p. 184)

7. Exceptional or unique organizational resources are known as core capabilities.
   (False; moderate; p. 184)
8. SWOT analysis includes an analysis of an organization’s environmental opportunities and threats.
   (True; difficult; p. 185)

9. The final step in the strategic management process is implementing the objectives.
   (False; difficult; p. 186)

10. A strong organizational culture may act as a significant barrier to accepting any changes in organizational strategies.
    (False; easy; p. 185)

**TYPES OF ORGANIZATIONAL STRATEGIES**

11. Corporate-level strategies are developed for organizations that run more than one type of business.
    (True; moderate; p. 187)

12. Retrenchment is one type of renewal strategy.
    (True; moderate; p. 189)

13. A stability strategy is developed when management decides it will remain profitable by maintaining the status quo in a rapidly changing external environment.
    (False; difficult; p. 188)

14. One method of implementing a growth strategy is by increasing production capacity.
    (True; moderate; p. 186)

15. A trucking company that grows by purchasing a chain of gasoline stations is engaged in horizontal integration.
    (False; moderate; p. 188)

16. Direct expansion and diversification are examples of a corporate retrenchment strategy.
    (False; moderate; p. 189)
17. If Burger King were to buy out Mom and Pop’s Burgers, Burger King would be growing by vertical consolidation.

(True; moderate; p. 188)

18. A retrenchment strategy is a corporate-level strategy designed to address organizational weaknesses that are leading to performance declines.

(True; moderate; p. 189)

19. Based on the Boston Consulting Group (BCG) matrix, the business group that is characterized by having low growth but high market share is known as a cash cow.

(True; moderate; p. 190)

20. The BCG matrix evaluates SBUs to identify which SBUs offer high potential and which drain organizational resources.

(True; moderate; p. 190)

21. Dogs, one of the four business groups in the corporate portfolio mix, are characterized by low growth and low market share.

(True; moderate; p. 190)

22. According to Porter’s competitive strategies framework, the cost leadership strategy would result in the best quality product at a justifiable cost.

(False; difficult; p. 193)

23. Nordstrom is an example of a company that has used the low-cost leader strategy to compete in the computer industry.

(False; moderate; p. 194)

24. According to Porter’s competitive strategies framework, a company using a focus strategy seeks to be unique in its product offering and in its industry in ways that are widely valued by customers.

(True; moderate; p. 194)
STRATEGIC MANAGEMENT IN TODAY’S ENVIRONMENT

25. Since information technology is so readily accessible, it cannot contribute to sustainable competitive advantage.
   (False; easy; p. 197)

26. The rule of three suggests that most markets evolve in a dynamic fashion.
   (True; moderate; p. 195)

27. The premise behind the rule of three is that three large “generalists” dominate and hold the most market share in any industry.
   (True; easy; p. 195)

28. An organization that is first to bring a product to the market or to sue a new process is called a “first mover.”
   (True; easy; p. 197)

MULTIPLE-CHOICE QUESTIONS
For each of the following choose the answer that most completely answers the question.

THE IMPORTANCE OF STRATEGIC MANAGEMENT

29. Strategic management is __________.
    a. a set of managerial decisions and actions
    b. oriented to short-run performance of an organization
    c. a process that is done best if it is done quickly
    d. all of the above
   (a; moderate; p. 180)

30. Strategic management uses the management function(s) __________.
    a. planning and leading
    b. organizing
    c. controlling
31. According to your textbook, studies of the factors that contribute to organizational performance have shown ____________ relationship between strategic planning and performance.
   a. no
   b. a mixed
   c. a negative
   d. a positive
   (d; easy; p. 181)

32. Currently strategic practices are not viable for ____________.
   a. hospitals
   b. government agencies
   c. nonprofit organizations
   d. none of the above
   (d; moderate; p. 181)

33. ________________ is the collection of managerial decisions and actions that determine the long-run performance of an organization.
   a. Planning
   b. Goal-oriented management
   c. Strategic management
   d. Leadership
   (c; moderate; p. 180)

THE STRATEGIC MANAGEMENT PROCESS

34. In the first step of strategic management, the mission of the firm answers the question, ____________
a. What business should we be in?
b. What is our reason for being in business?
c. Who are our customers?
d. Who are our creditors?

(b; moderate; p. 182)

35. In the first step of strategic management, identifying the current strategies and goals provide ___________.
   a. a foundation for planning
   b. measurable performance targets for employees
   c. a basis to determine if the goals need to be changed
   d. all of the above

(d; difficult; p. 183)

36. In analyzing the environment, managers should know ____________.
   a. what the competition is doing
   b. the competition’s stock price
   c. pending legislation that might affect the organization
   d. A and C are correct.

(d; moderate; p. 183)

37. Managers have completed the second step in strategic management, analysis of the environment, when they __________.
   a. have an accurate picture of what is happening in the external environment
   b. have beat the competition’s latest product or service to market
   c. are aware of the trends that might affect the organization
   d. only a and c are true

(d; moderate; p. 184)

38. Step 4 of strategic analysis involves ___________.
   a. selecting strategies that minimize or correct organizational weaknesses
   b. developing and evaluating strategic alternatives
c. selecting strategies that exploit organizational strengths

d. all the above

(d; difficult; p. 185)

39. An example of a core competence of a firm is __________.

a. an ability to serve the needs of a particular target market on a large scale
b. communicating with customers in their own languages worldwide
c. developing least-squared exemptions within its accounting system
d. only a and b are true

(d; moderate; p. 184)

40. ____________ are the organization’s major value-creating skills, capabilities, and resources that determine the organization’s competitive weapons.

a. Strengths
b. Opportunities
c. Core competencies
d. Weaknesses

(c; moderate; p. 184)

41. The third step in strategic management is identification of strengths and weaknesses and is related to analysis of __________.

a. the external environment
b. the internal environment
c. the alternatives the firm faces
d. time pressures involved in serving the customer

(b; moderate; p. 184)

42. Relative to the organization’s culture, a manager must be aware that __________.

a. strong and weak cultures have different effects on the strategy
b. the content of a culture has a major effect on the strategies that can be pursued
c. unimportant factors can support escalation of commitment to strategies
d. a and b

(d; difficult; p. 184)
43. The merging of the analyses of internal and external factors influencing the organization’s strategy is known as ____________.
   a. complete studies
   b. organizational behavior and theory
   c. definitional analysis
   d. SWOT analysis
   (d; easy; p. 185)

44. Formulating strategies, the fourth step in strategic planning, is complete when managers have developed a set of strategies that ____________.
   a. support and complement each other
   b. give the organization relative advantage over its rivals
   c. give the organization the most favorable competitive edge
   d. all of the above
   (b; moderate; p. 185)

45. The final step in strategic planning answers the question, ____________
   a. How effective have our strategies been?
   b. What business have we been in?
   c. What business should we have been in?
   d. How much money have we lost?
   (a; moderate; p. 186)

46. When an organization is analyzing its labor supply, it is studying its ________________.
   a. organizational culture
   b. internal environment
   c. external environment
   d. organizational structure
   (c; moderate; p. 183)
47. ___________ and ___________ are outcomes from a study of the external environment.
   a. Threats; weaknesses
   b. Strengths; weaknesses
   c. Weights; measures
   d. Opportunities; threats
   (d; moderate; p. 184)

48. If a bank estimates the capabilities of its training and development department employees prior to implementing a new training program designed to change their method of providing customer service, it is completing what step in the strategic management process?
   a. identifying opportunities and threats
   b. identifying the organization’s current mission
   c. identifying strengths and weaknesses
   d. formulating strategy
   (c; moderate; p. 184)

49. In the strategic management process, any organizational skills or resources that are exceptional or unique are the organization’s ___________.
   a. strength basis
   b. opportunities
   c. core competencies
   d. skill niches
   (c; moderate; p. 184)

50. Which of the following is one of the drawbacks to a strong organizational culture that a manager should consider when completing the strategic management process?
   a. it can be more difficult to change
   b. employees have less understanding of the planning process
   c. employee attitudes tend to be strong, but their organizational values are weak
   d. it cancels out any organizational distinctive competence
TYPES OF ORGANIZATIONAL STRATEGIES

51. Corporate-level strategy determines __________.
   a. what businesses a company should be in or wants to be in
   b. what environment a company should be in or wants to be in
   c. the roles each business unit in an organization will play in the overall strategy
   d. only a and c are true
   (d; moderate; p. 187)

52. __________ strategy determines what businesses an organization should be in.
   a. Business-level
   b. Organizational
   c. Operational-level
   d. Corporate-level
   (d; moderate; p. 187)

53. A(n) __________ strategy addresses organizational weaknesses, helps stabilize operations, and revitalizes organizational resources and capabilities.
   a. unrelated diversification
   b. horizontal integration
   c. vertical integration
   d. retrenchment
   (d; moderate; p. 189)

54. There are three main types of growth strategies, _____________.
   a. concentration, integration, and diversification
   b. concentration, integration, and exfoliation
   c. integration, diversification, and infiltration
   d. concentration, integration, and focus
   (a; easy; p. 187)
55. When an organization attempts to combine with other organizations in the same industry, the strategy is known as a _____________ strategy.
   a. growth
   b. horizontal integration
   c. vertical integration
   d. stability
   (b; moderate; p. 188)

56. When an organization attempts to combine with other organizations in different, but associated industries, the strategy is known as a _____________ strategy.
   a. growth
   b. horizontal integration
   c. vertical integration
   d. related diversification
   (d; moderate; p. 188)

57. When an organization attempts to combine with other organizations in different and disassociated industries, the strategy is known as a _____________ strategy.
   a. unrelated diversification
   b. horizontal integration
   c. vertical integration
   d. stability
   (a; moderate; p. 188)

58. When PepsiCo seeks to integrate the strategies of Pepsi, 7-Up International, and Frito-Lay, it is developing what level of business strategy?
   a. functional
   b. system
   c. management
   d. corporate
   (d; moderate; p. 187)
59. An organization that is diversifying its product line is exhibiting what type of grand strategy?
   a. stability
   b. retrenchment
   c. growth
   d. maintenance
   (c; moderate; p. 188)

60. If United Airlines merged with Northwest Airlines, this would be an example of what kind of grand growth strategy?
   a. horizontal integration
   b. acquisition
   c. expansion
   d. vertical integration
   (a; difficult; p. 188)

61. Which of the following describes a company growing by combining with other organizations in the same industry?
   a. forward vertical integration
   b. backward vertical integration
   c. horizontal integration
   d. unrelated diversification
   (c; moderate; p. 188)

62. According to the textbook, a stability strategy is particularly appropriate when ____________.
   a. the firm is facing slow or no-growth opportunities
   b. the industry is in a state of rapid upheaval
   c. both a and b
   d. neither a or b
   (c; moderate; p. 189)

63. Which of the following is part of the principles upon which SBUs are based?
a. Each business unit serves no more than three product market segments.
b. The strategy is defined at the corporate level.
c. The strategy may be inconsistent with overall organizational needs.
d. Each serves a clearly defined product-market segment.

(d; moderate; p. 190)

64. In the Boston Consulting Group matrix, a ________ does not consume or produce much cash and holds little or no improved performance.
   a. cash cow
   b. star
   c. dog
   d. question mark

(c; moderate; p. 190)

65. In the Boston Consulting Group matrix, a business unit that exists in a low anticipated growth rate and a high market share is known as a ________.
   a. cash cow
   b. star
   c. dog
   d. question mark

(a; moderate; p. 190)

66. In the Boston Consulting Group matrix, a business unit that exists in a high anticipated growth rate and a low market share is known as a ________.
   a. cash cow
   b. star
   c. dog
   d. question mark

(d; moderate; p. 190)

67. Which of the four business groups in the corporate portfolio matrix has low growth and high market share?
   a. question marks
   b. dogs
   c. cash cows
68. Business-level strategy determines ____________.
   a. what businesses a company should be in or wants to be in
   b. what environment a company should be in or wants to be in
   c. how an organization should compete in each of its strategic business units
   d. all of the above
   (c; moderate; p. 190)

70. _______________ strategy determines how an organization should compete in each of its businesses.
   a. Business-level
   b. Organizational
   c. Operational-level
   d. Corporate-level
   (a; moderate; p. 190)

71. Michael Porter proposes that some ____________ are inherently more profitable than others.
   a. companies
   b. industries
   c. SBUs
   d. individuals
   (b; easy; p. 192)

72. Which of the following is not a force in the Porter’s five forces model of industry attractiveness?
   a. opportunity for new entrants
   b. opportunity for substitutes
   c. bargaining power of suppliers
   d. sustainable competitive advantage for customers
73. Differentiation as a strategy requires a firm to __________.
   a. aggressively search out efficiencies to maintain the lowest cost structure
   b. be unique in its product offering
   c. aim at a cost advantage in a niche market
   d. aim to be similar to its competition in all operations
   (b; difficult; p. 194)

74. Cost leadership as a strategy requires a firm to __________.
   a. aggressively search out efficiencies to maintain the lowest cost structure
   b. be unique in its product offering
   c. aim at a cost advantage in a niche market
   d. aim to be similar to its competition in most operations
   (a; difficult; p. 193)

75. A focus strategy requires that a firm have __________.
   a. sustained capital investment and access to capital
   b. strong marketing abilities
   c. strong basic research skills
   d. a reputation for quality or technological leadership
   (a; difficult; p. 192)

76. According to Porter’s competitive strategies framework, which of the following strategies seeks to be unique in its product offering and in its industry in ways that are widely valued by customers?
   a. cost leadership
   b. differentiation
   c. focus
   d. “stuck in the middle”
   (b; moderate; p. 194)

77. Michael Porter’s competitive strategies framework identifies three generic competitive strategies: cost leadership, differentiation, and __________.
   a. depth
b. breadth
c. revenue growth
d. focus

(d; moderate; p. 194)

78. A firm that is “stuck in the middle” cannot develop a strategy of _____________.
   a. differentiation
   b. focus
   c. cost leadership
   d. B and D are correct.

(d; moderate; p. 194)

79. In Michael Porter’s five forces model of competition, _____________ is determined by the height of barriers to entry, such as economies of scale and brand loyalty.
   a. threat of substitutes
   b. threats of new entrants
   c. bargaining power of buyers
   d. bargaining power of suppliers

(b; difficult; p. 193)

80. In Michael Porter’s five forces model of competition, _____________ is determined by the degree of supplier concentration and substitute inputs.
   a. threat of substitutes
   b. threat of new entrants
   c. bargaining power of buyers
   d. bargaining power of suppliers

(d; difficult; p. 193)

81. In Michael Porter’s five forces model of competition, _____________ is determined by the industry growth rate, increasing or falling demand, and product differences.
   a. threat of substitutes
   b. threats of new entrants
   c. bargaining power of buyers
   d. existing rivalry
82. All of the following are mentioned in the textbook as companies that have used the low-cost leader strategy except ____________.
   a. Wal-Mart
   b. Hyundai
   c. Southwest Airlines
   d. Dell Computer Corporation

83. Industry growth rate, increasing or falling demand, and product differences are factors that represent which of the following competitive forces, according to Porter?
   a. threat of new entrants
   b. threat of substitutes
   c. bargaining power of buyers
   d. existing rivalry

84. Functional-level strategy directly supports ____________.
   a. corporate-level strategy
   b. business-level strategy
   c. differentiation strategy
   d. focus strategy

85. An organization is said to have ____________ when it has several different businesses that are independent and that formulate their own strategies.
   a. operational units
   b. strategic business units
   c. competitive advantages
   d. legal subunits
86. An example of ______________ is when an organization possesses a characteristic that sets itself apart from competitors, and this gives the firm a distinct edge.
   a. core competence
   b. competitive power
   c. legal propriety
   d. competitive advantage
   (d; difficult; p. 191)

87. To a degree, an organization’s commitment to quality and continuous improvement can differentiate it from competitors, but constant improvement and reliability of an organization’s products and/or services may result in a competitive advantage that is ____________.
   a. weighted
   b. sustainable
   c. conservative
   d. uncertain
   (b; difficult; p. 192)

88. Switching costs and buyer loyalty are examples of strategic forces that determine the ____________.
   a. threat of substitutes
   b. threats of new entrants
   c. bargaining power of buyers
   d. bargaining power of suppliers
   (a; difficult; p. 193)

STRATEGIC MANAGEMENT IN TODAY’S ENVIRONMENT

89. The premise of the rule of three, is that ____________.
   a. no industry can support more than three “super niche players”
   b. there are usually only three “full line generalists”
   c. three companies usually dominate the majority of market share
   d. b and c
90. The rule of three says that most markets evolve ____________.
   a. in spurts  
   b. rapidly  
   c. in a curvilinear fashion  
   d. in a cyclical fashion

(d; moderate; p. 195)

91. According to the textbook, senior managers must decide whether or not the emphasis of their innovation efforts is going to be upon ____________.
   a. basic research  
   b. product innovation  
   c. process development  
   d. all of the above

(d; moderate; p. 196)

92. Process development strategies seek to achieve a competitive advantage by ____________.
   a. looking for ways to enhance existing work processes  
   b. making the firm more efficient  
   c. making the firm more effective  
   d. a and b

(d; easy; p. 199)

93. An Internet based knowledge management system that resulted in shorter customer response times would be one e-business technique that contributes to the competitive advantage of a ____________.
   a. cost leader  
   b. differentiator  
   c. focuser  
   d. star

(b; moderate; p. 197)
94. According to the textbook, the first organization to bring a product or service to market is often referred to as the ___________.
   a. prime player  
   b. market leader  
   c. first mover  
   d. trailblazer  
   (c; easy; p. 199)

95. According to the textbook, customer service strategies involve giving the customer what they want, effective communication, and ___________.
   a. providing employees with incentives and bonuses for good service  
   b. providing employees with customer service training  
   c. commitment from upper management  
   d. none of the above  
   (b; moderate; p. 198)

SCENARIO QUESTIONS
For each of the following choose the answer that most completely answers the question.

THE STRATEGIC MANAGEMENT PROCESS

SWOT Analysis (Scenario)

As a process of self-examination during her senior year of college, Casey decides to develop a SWOT analysis of her prospects relative to getting a job.

96. Casey realizes that she has a personal characteristic that suggests she is not comfortable interacting with strangers. She interprets this as a(n) ___________ if she is get a job as a salesperson.
   a. alternative  
   b. strength  
   c. weakness  
   d. opportunity
97. Casey majored in marketing and really enjoyed studies in market research. Through research on the Internet and in the university library, she discovers that this industry appears to have significant positive external trends. She interprets this as a(n) _________.
   a. alternative
   b. strength
   c. weakness
   d. opportunity

98. Casey begins outlining her 5-year career goals. These should include ____________.
   a. the type of job she would like to have
   b. how many people she would like to be managing
   c. the salary she would like to be making
   d. all of the above

99. Casey finally outlines a 5-year career action plan. This consists of ____________.
   a. actions required to accomplish her career goals
   b. statements of what she will need to do to accomplish her career goals
   c. definitions of assistance she will need and how she will acquire the assistance
   d. all of the above

100. Casey has been involved in ____________ at a personal level.
    a. opportunity analysis
    b. risk avoidance
    c. strategic planning
    d. Stage decision making

TYPES OF ORGANIZATIONAL STRATEGIES
Powerballs (Scenario)

Colleen invested a dollar in the Powerball Lottery and won $60 million. Subsequently, she decides to start her own business.

101. Initially she begins a business that has a single-line business. She realizes that this organization will need a ___________ strategy.
   a. business-level
   b. organizational
   c. operational-level
   d. corporate-level
   (a; moderate; p. 190)

102. Colleen decides that she wants to assemble lawn mowers. She decides that she wants a business to develop a distinctive edge in producing high-quality lawn mowers. This emphasis on quality is to be so strong that her company will have a ___________ that will set her company apart from her competition.
   a. core competence
   b. competitive power
   c. legal propriety
   d. competitive advantage
   (d; difficult; p. 191)

103. Colleen is successful after the first 3 years, and she is approached by a competitor who is nearing retirement age. The competitor is interested in selling his business to Colleen. For Colleen, this would be a(n) ___________ strategy.
   a. unrelated diversification
   b. horizontal integration
   c. vertical integration
   d. retrenchment
   (b; difficult; p. 188)

104. Before Colleen can purchase her competitor’s business, she finds another business opportunity in a supplier who sells her wheels for lawnmowers. This would serve her as a(n) ___________.
   a. unrelated diversification
b. horizontal integration

c. vertical integration

d. related diversification

(d; difficult; p. 188)

105. A business broker hears that Colleen is interested in purchasing a business and approaches her with an offer
to sell her a company that owns a patent on a new roofing product and who installs this new roofing in the
southwestern United States. If she buys this firm, she will be using a(n) _____________ strategy.

a. unrelated diversification

b. horizontal integration

c. vertical integration

d. related diversification

(a; difficult; p. 188)

106. No matter which business Colleen decides to buy, she intends to operate each business independently and
allow each to determine its own strategy. This will mean that each company will be a(n) _____________.

a. operational unit

b. strategic business unit

c. competitive advantage

d. legal subunit

(b; moderate; p. 191)

Un Taco Pequeno (Scenario)

Imagine that you are the president of Taco Rocket, a new and successful chain of 100 Mexican fast-food
restaurants. The success you have experienced in the last 5 years has you thinking of what to do with the business
next. Should you expand the business at the current rate? Open new and different restaurants? What?

107. Because of the good profits and a fear of growing too fast, you decide to keep Taco Rocket in the same
business and do not change the menu, hoping to retain the same market share and return-on-investment
record. This would be considered a _____________ strategy.

a. stability

b. growth

c. combination
108. If you decided to purchase a local five-store hardware chain because it was a good investment, this would be an example of _____________.
   a. a lateral growth strategy  
   b. a combination purchase  
   c. related diversification  
   d. unrelated diversification  
   (d; moderate; p. 188)

109. If you decided to concentrate on Taco Rocket’s primary business, only increasing the menu to include new items such as enchiladas and rice bowls, this would be an example of what type of growth strategy?
   a. lateral growth  
   b. horizontal integration  
   c. concentration  
   d. related diversification  
   (c; moderate; p. 187)

110. You’ve decided to purchase a controlling interest in a chain of Oriental fast-food restaurants, called Honk Kong Fooey. However, you have decided to change the name of the chain to the Shanghai Grill. This move is most representative of what type of growth strategy?
   a. lateral growth  
   b. horizontal integration  
   c. unrelated diversification  
   d. related diversification  
   (b; moderate; p. 188)

111. Your oldest supplier, Zorro Distributors, is a family-owned firm. Recently, the firm’s president, Diego De La Vega, made the decision to retire. To his disappointment, none of his five children stepped forward to take his place at the helm of the firm. Sr. De La Vega is concerned that if he sells his company to a larger distributor, many of his employees will lose their jobs. You approach your old friend with a generous offer
to buy Zorro and continue its current operations. Should your offer be accepted, Taco Rocket would be undertaking __________.

a. lateral growth  
b. unrelated diversification  
c. forward vertical integration  
d. backward vertical integration  
**(d; moderate; p. 188)**

### El Taco Grande (Scenario)

It is now 10 years later (see previous scenario) and, as the original owner of Taco Rocket, you have seen your business holdings grow substantially. The number of stores you own and franchise has grown by 200 percent and you own a number of companies in related and unrelated areas.

112. You now need to decide how to best manage and utilize the large number of assets represented by the numerous companies you own. For each SBU, managers must create a __________ strategy to determine how your corporation should compete in each of its businesses.

a. corporate-level  
b. business-level  
c. functional-level  
d. tactical  
**(b; moderate; p. 190)**

113. What level of strategy integrates the strategies of your various business units (Taco Rocket, Shanghai Grill, Zorro Distributors)?

a. corporate level  
b. business level  
c. functional level  
d. strategic level
114. You called the Boston Consulting Group (BCG), and they have provided you with some advice based on their famous corporate portfolio matrix. Your oldest holding, Taco Rocket, has not grown much in recent years, but due to low debt, generates a huge amount of cash. According to BCG, Taco Rocket would be considered a ____________.
   a. cash cow
   b. star
   c. question mark
   d. dog

115. Recently, you also purchased a company that manufactures a new satellite dish, allowing you to enter into the cable television market. The business is profitable and growing, but the technological unknowns make it risky. BGC considers it a ____________.
   a. cash cow
   b. star
   c. question mark
   d. dog

116. Another purchase you made was to acquire a local coffee-cart chain with 30 locations around the city. You don’t see it growing very much, but then, it doesn’t cost much to operate. BCG would label this venture a ____________.
   a. cash cow
   b. star
   c. question mark
   d. dog

Patrick the E-business Entrepreneur (Scenario)

Patrick majored in entrepreneurship and computer science in college. After graduation, he decided to start his own business as an e-business entrepreneur, founding an online B2B reverse auction company called CompuSave.
117. While his more established competitors have concentrated on the supply market Fortune 1000-type firms, Dave has decided to concentrate on the Small–Medium-size Enterprise (SME) market, concentrating on reselling computer-related hardware to firms in the local tri-state area so that he can keep his marketing costs low. This strategy would be characterized by Porter as a __________ strategy.
   a. differentiation
   b. low cost
   c. focus
   d. none of the above
   (a; difficult; p. 194)

118. Patrick determined that he needed a new marketing strategy that would help increase the awareness of his company and the benefits it could provide to local businesses. In the textbook, devising this new marketing strategy would be termed as a __________.
   a. corporate-level strategy
   b. business-level strategy
   c. functional-level strategy
   d. tactical strategy
   (b; moderate; p. 190)

119. After hiring several employees, Patrick requires that each person in this company be involved in studying trends involving new technology, competitors, and customers. These employees are involved in __________.
   a. external analysis
   b. internal environment
   c. strategic management
Your old friend, Ariel Eskenazi, is the owner and general manager of Megabyte Center, a computer reseller and systems integrator located in Panama City, Panama. Since leaving IBM to start a business in his home country, Ariel’s company has steadily grown, due in large part to the business partnerships he’s established over the years with large foreign computer and software firms, such as Goldstar and Microsoft. These relationships have helped his company win considerable market share in Panama, as well as in other parts of Latin America. However, since the 1999 turnover of the Panama Canal to the Panamanian government, there has been a huge influx of foreign capital into Panama. For example, several large Asian firms have made Panama a beachhead for their American operations. Tourism is on the rise, with over a score of new hotels built in the metropolitan area alone over the past 3 years. As a result, demand for Megabyte’s products and services has increased markedly, but so has the level and diversity of its competition. While Megabyte’s customer base has remained fairly loyal, many longtime customers are beginning to demand price concessions and enhanced service levels in return for their continued business. Additionally, Ariel has learned recently that several of his former suppliers and business partners are considering establishing local sales offices of their own in Panama City. Ariel knows you are very knowledgeable about competitive strategy and calls you asking for advice. You begin by telling him a little about Michael Porter’s five forces theory of competition.

120. According to Porter’s model, the possibility of his former suppliers entering the local market as a direct competitor would be considered which of the five forces?
   a. threat of substitutes
   b. bargaining power of suppliers
   c. bargaining power of customers
   d. threat of new entrants
   (d; moderate; p. 192)

121. His customers’ demands for lower prices and enhanced service would be representative of which of Porter’s five forces?
a. threat of substitutes
b. threat of new entrants
c. bargaining power of customers
d. current rivalry
(c; easy; p. 193)

122. Demand growth and increasing intensity and diversity of competition that Ariel is facing is indicative of which one of Porter’s five forces?
a. threat of substitutes
b. threat of new entrants
c. bargaining power of customers
d. current rivalry
(d; moderate; p. 193)

123. Once Ariel has assessed the five forces and determined the threats and opportunities that exist in the current environment, you tell him that he is then ready to select an appropriate competitive strategy. Porter outlines three “generic” strategies: cost leadership, differentiation, and ___________.
a. niche
b. segmentation
c. focus
d. stuck in the middle
(c; moderate; p. 194)

124. Ariel is considering foregoing the retail side of his business entirely. Instead, he will redirect his resources toward reselling hardware and software and providing systems integration services to the Latin American governmental and industrial sectors. According to the textbook, such a move would be most representative of which one of Porter’s generic strategies?
a. niche
b. segmentation
c. focus
d. stuck in the middle
(c; moderate; p. 194)
ESSAY QUESTIONS

125. In a short essay, list and discuss the three levels of strategy that a large organization must develop.

Answer
a. Corporate-level strategy—This strategy seeks to determine what businesses a company should be in or wants to be in. Corporate-level strategy determines the direction that the organization is going and the roles that each business unit in the organization will plan in pursuing that direction.
b. Business-level strategy—This strategy seeks to determine how an organization should compete in each of its businesses. For a small organization in only one line of business or the large organization that has not diversified into different products or markets, the business-level strategy typically overlaps with the organization’s corporate strategy. For organizations with multiple businesses, however, each division will have its own strategy that defines the products or services it will offer and the customers it wants to reach.
c. Functional-level strategy—This strategy seeks to determine how to support the business-level strategy. For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business-level strategy.

(moderate; pp. 187-195)

126. In a short essay, discuss the Boston Consulting Group (BCG) matrix and explain its usefulness in segmenting businesses. Include a discussion of the characteristics for each of the four categories based on the BCG matrix.

Answer
The Boston Consulting Group matrix introduced the idea that an organization’s businesses could be evaluated and plotted using a $2 \times 2$ matrix to identify which ones offered high potential and which were a
drain on organizational resources. The horizontal axis represents market share, which was evaluated as either low or high; and the vertical axis indicates anticipated market growth, which also was evaluated as either low or high. Based on its evaluation, the business was placed in one of four categories:

a. Cash cows (low growth, high market share)—Businesses in this category generate large amounts of cash, but their prospects for future growth are limited.

b. Stars (high growth, high market share)—These businesses are in a fast-growing market, and hold a dominant share of that market. Their contribution to cash flow depends on their need for resources.

c. Question marks (high growth, low market share)—These businesses are in an attractive industry, but hold a small market share percentage.

d. Dogs (low growth, low market share)—Businesses in this category do not produce or consume much cash. However, they hold little promise for improved performance.

(easy; p. 190)

127. In a short essay, discuss the concept of competitive advantage. Include specific examples of companies and their respective competitive advantages to support your answer.

**Answer**

Competitive advantage is what sets an organization apart, that is, its distinct edge. That distinct edge comes from the organization’s core competencies, which might be in the form of organizational capabilities—the organization does something that others cannot do or does it better than others can do it. For example, Dell has developed a competitive advantage based upon its ability to create a direct-selling channel that’s highly responsive to customers. Southwest Airlines has a competitive advantage because it is skilled in giving passengers what they want—quick, convenient, and fun service. Or those core competencies that lead to competitive advantage also can come from organizational assets or resources—the organization has something that its competitors do not have. For instance, Wal-Mart’s state-of-the-art information systems allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which Wal-Mart has turned into a price advantage.

(easy; pp. 191-192)

128. List and discuss the five competitive forces, according to Porter, that determine industry attractiveness and profitability. In discussing these forces be sure to identify specific factors that determine the strength of that force.

**Answer**
a. Threat of new entrants—factors such as economies of scale, brand loyalty, and capital requirements, determine how easy or difficult it is for new competitors to enter an industry.

b. Threat of substitutes—factors such as switching costs and buyer loyalty determine the degree to which customers are likely to buy a substitute product.

c. Bargaining power of buyers—factors such as number of customers in the market, customer information, and the availability of substitutes determine the amount of influence that buyers have in an industry.

d. Bargaining power of suppliers—factors such as the degree of supplier concentration and availability of substitute inputs determine the amount of power that suppliers have over firms in the industry.

e. Existing rivalry—factors such as industry growth rate, increasing or falling demand, and product differences determine how intense the competitive rivalry will be among firms in the industry.

(moderate; p. 193)

129. In a short essay, list and discuss the three competitive strategies, according to Porter. Include specific examples of companies that pursue each of the three competitive strategies.

Answer

a. Cost leadership strategy—when an organization sets out to be the lowest-cost producer in its industry, it’s following a cost leadership strategy. A low-cost leader aggressively searches out efficiencies in production, marketing, and other areas of operation. Overhead is kept to a minimum, and the firm does everything it can to cut costs. For example, at Wal-Mart’s headquarters in Bentonville, Arkansas, office furnishings are sparse and drab, but functional. Although low-cost leaders don’t place a lot of emphasis on “frills,” the product or service being sold must be perceived as comparable in quality to that offered by rivals or at least be acceptable to buyers. Examples of companies that have used the low-cost leader strategy include Wal-Mart, Hyundai, and Southwest Airlines.

b. Differentiation strategy—the company that seeks to offer unique products, which are widely valued by customers is following a differentiation strategy. Sources of differentiation might be exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. The key to this competitive strategy is that whatever product or service attribute is chosen for differentiation must set the firm apart from its competitors and be significant enough to justify a price premium that exceeds the cost of differentiation. Practically any successful product or service can be identified as an example of the differentiation strategy: Nordstrom (customer service), Sony (reputation for quality and innovative design), Coach handbags (design and brand image), and Kimberly-Clark’s Huggies Pull-Ups (product design).
c. Focus strategy—the aim of the focus strategy is at a cost advantage or a differentiation advantage in a narrow segment. That is, managers select a market segment or group of segments in an industry and don’t attempt to serve the broad market. The goal of a focus strategy is to exploit a narrow segment of a market. These segments can be based on product variety, type of end buyer, distribution channel, or geographical location of buyers. Research suggests that the focus strategy may be the most effective choice for small businesses because they typically do not have the economies of scale or internal resources to successfully pursue one of the other two strategies.

(moderate; pp. 193-194)