

## Chapter 02

### Analyzing the External Environment of the Firm

#### True / False Questions

1. Environmental scanning and competitor intelligence provide important inputs for forecasting activities.

True False

2. Environmental monitoring deals with tracking changes in environmental trends that are often uncovered during the environmental scanning process.

True False

3. Competitor Intelligence (CI) is a tool that can provide management with "early warnings" about both threats and opportunities.

True False

4. Competitive intelligence generally does not benefit very much from gathering information on competitors from sources in the public domain.

True False

5. Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

True False

6. Scenario planning is usually concerned with short-term forecasts.

True False

7. Although changes in the general environment may often adversely or favorably impact a firm, they seldom alter an entire industry.

True False

8. The same environmental trend can often have very different effects on firms within the same industry.

True False

9. A major sociocultural trend in the United States is the increased educational attainment by women.

True False

10. Technological innovations can create entirely new industries and alter the boundaries of industries.

True False

11. There is generally a weak relationship between equity markets (e.g., New York Stock Exchange) and economic indicators.

True False

12. The Internet provides an electronic "staging area" for several forms of digital communications.

True False

13. Porter's Five-Forces model is designed to help us understand how social attitudes and cultural values impact U.S. businesses.

True False

14. Porter's Five-Forces model helps to determine both the nature of competition in an industry and the industry's profit potential.

True False

15. In some industries, high switching costs can act as an important barrier to entry.

True False

16. Industries characterized by high economies of scale typically attract fewer new entrants.

True False

17. The power of a buyer group is increased if the buyer group has less concentration than the supplier group.

True False

18. Buyer power tends to be higher if suppliers provide undifferentiated or standard products.

True False

19. Supplier power tends to be highest in industries where products are vital to buyers, where switching from one supplier to another is very costly, and where there are many suppliers.

True False

20. The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration.

True False

21. The more attractive the price/performance ratio of substitute products, the more tightly it constraints an industry's ability to charge high prices.

True False

22. Rivalry is most intense when there are high exit barriers and high industry growth.

True False

23. Rivalry will be most intense when there is a lack of differentiation or switching costs.

True False

24. In most industries, new entrants will be a bigger threat because the Internet lowers entry barriers.

True False

25. The Internet and digital technologies suppress the bargaining power of buyers by providing them with more information to make buying decisions.

True False

26. An end user's switching costs are potentially much higher because of the Internet.

True False

27. Because of the Internet and digital technologies, it is very difficult for suppliers to create purchasing techniques that lower switching costs.

True False

28. Reintermediation is responsible for an overall reduction in business opportunities.

True False

29. The Internet heightens the threat of substitutes because it creates new ways to accomplish the same task.

True False

30. Five-Forces analysis implicitly assumes a zero-sum game, a perspective that can be short-sighted.

True False

31. Michael Porter's Five-Forces Analysis is a dynamic tool for analyzing industry attractiveness.

True False

32. Complementary products are products that typically have a negative impact on the value of a firm's own products or services.

True False

33. Competition tends to be more intense among firms within a strategic group than between strategic groups.

True False

34. The same environmental trend or event may have a very different impact on different strategic groups within the same industry.

True False

35. The use of the strategic groups concept is generally not helpful in charting the future directions of firms' strategies.

True False

36. The strategic groups in the world-wide automobile industry have been very stable and unchanging in recent years.

True False

**Multiple Choice Questions**

37. Two of the key inputs to developing forecasts discussed in the text are
- A. environmental scanning and stakeholder identification.
  - B. environmental scanning and competitor intelligence.
  - C. assessing internal strengths and environmental scanning.
  - D. environmental scanning and a SWOT analysis.
38. \_\_\_\_\_ tracks the evolution of environmental trends, sequences of events, or streams of activities.
- A. Environmental scanning
  - B. Environmental monitoring
  - C. Environmental surveying
  - D. Competitive intelligence
39. Scanning the general environment would identify information on
- A. substitute goods.
  - B. the aging population and ethnic shifts.
  - C. customer and firm bargaining power.
  - D. competitive rivalry.
40. Gathering "competitive intelligence"
- A. is good business practice.
  - B. is illegal.
  - C. is considered unethical.
  - D. minimizes the need to obtain information in the public domain.
41. Environmental forecasting involves developing plausible projections about the \_\_\_\_\_ of environmental change.
- A. direction
  - B. scope
  - C. speed
  - D. all of these
-

42. A danger of forecasting discussed in the text is that
- A. in most cases, the expense of collecting the necessary data exceeds the benefit.
  - B. forecasting's retrospective nature provides little information about the future.
  - C. managers may view uncertainty as "black and white" while ignoring important "gray areas."
  - D. it can create legal problems for the firm if regulators discover the company is making forecasts.
43. The aging of the population, changes in ethnic composition, and effects of the baby boom are
- A. macroeconomic changes.
  - B. demographic changes.
  - C. global changes.
  - D. sociocultural changes.
44. Increasingly larger numbers of women entering the work force since the early 1970s is an example of
- A. demographic changes.
  - B. political and legal environmental changes.
  - C. sociocultural changes.
  - D. technological developments.
45. Emerging sociocultural changes in the environment include
- A. changes in the ethnic composition.
  - B. the increasing educational attainment of women in the past decade.
  - C. progressively less disposable income by consumers.
  - D. changes in the geographic distribution of the population.
46. All of the following are important elements of the political/legal segment of the general environment EXCEPT
- A. the deregulation of utilities.
  - B. the Americans with Disabilities Act (ADA).
  - C. the increased use of Internet technology.
  - D. increases in the federally mandated minimum wage.
-

47. Which of the following would be considered part of a firm's general environment?

- A. Decreased entry barriers.
- B. Higher unemployment rates.
- C. Increased bargaining power of the firm's suppliers.
- D. Increased competitive intensity.

48. Interest-rate increases have a \_\_\_\_\_ impact on the residential home construction industry and a \_\_\_\_\_ effect on industries that produce consumer necessities such as prescription drugs or basic grocery items.

- A. positive; negligible
- B. negative; negligible
- C. negative; positive
- D. positive; negative

49. To illustrate interrelationships among different segments of the general environment: The persistence of large U.S. trade deficits (\_\_\_\_\_) has led to greater demand for protectionist measures, such as trade barriers and quotas (\_\_\_\_\_). These measures lead to higher prices for U.S. consumers and fuel inflation (\_\_\_\_\_).

- A. macroeconomic, sociocultural, political/legal
- B. macroeconomic, political/legal, economic
- C. macroeconomic, technological, economic
- D. macroeconomic, global, economic

50. Which is considered a force in the "Five-Forces" model?

- A. Increased deregulation in an industry.
- B. The threat of government intervention.
- C. Rivalry among competing firms.
- D. Recent technological innovation.

51. Which of the following firms would likely pose the least competitive threat?

- A. A firm in the same industry and in the same strategic group.
- B. A firm that produces substitute goods to your product line.
- C. A competitor to your product where a high switching cost exists.
- D. A firm in the same industry and in the nearest strategic group looking to join your group.

52. The threat of new entrants is high when there are
- A. low economies of scale.
  - B. high capital requirements.
  - C. high switching costs.
  - D. high differentiation among competitors' products and services.
53. Product differentiation by incumbents act as an entry barrier because
- A. new entrants cannot differentiate their products.
  - B. incumbents will take legal action if new entrants do not differentiate their products.
  - C. new entrants will have to spend heavily to overcome existing customer loyalties.
  - D. it helps a firm to derive greater economies of scale.
54. Which of the following would be an entry barrier?
- A. large economies of scale
  - B. low switching costs
  - C. easy access to raw materials
  - D. low capital requirements
55. A large fabricator of building components purchased a steel company to provide raw materials for its production process. This is an example of
- A. backward integration.
  - B. economies of scale.
  - C. forward integration.
  - D. product differentiation.
56. The bargaining power of the buyer is greater than that of the supplier when
- A. volume of purchase is low.
  - B. threat of backward integration by buyers is low.
  - C. cost savings from the supplier's product are minimal.
  - D. the buyer's profit margin is low.

57. Buyer power will be greater when
- A. the products purchased are highly differentiated.
  - B. there are high switching costs.
  - C. the industry's product is very important to the quality of the buyer's end products or services.
  - D. it is concentrated or purchases large volumes relative to seller sales.
58. The bargaining power of suppliers increases as
- A. more suppliers enter the market.
  - B. importance of buyers to supplier group increases.
  - C. switching costs for buyers decrease.
  - D. threat of forward integration by suppliers increases.
59. An independent group of suppliers, such as farmers, gather to form a cooperative to sell their products to buyers directly, replacing their former distributor. This is an example of
- A. threat of entry.
  - B. backward integration.
  - C. forward integration.
  - D. threat of substitute products.
60. The bargaining power of suppliers is enhanced under the following market condition:
- A. no threat of forward integration.
  - B. low differentiation of the suppliers' products.
  - C. greater availability of substitute products.
  - D. dominance by a few suppliers.
61. In Porter's Five-Forces model, conditions under which a supplier group can be powerful include all the following EXCEPT
- A. lack of importance of the buyer to the supplier group.
  - B. high differentiation by the supplier.
  - C. dominance by a few suppliers.
  - D. readily available substitute products.
-

62. A supplier group would be most powerful when there is/are
- A. many suppliers.
  - B. few substitute products.
  - C. low differentiation of products supplied.
  - D. high threat of backward integration by the buyers.
63. Threat of substitute products comes from
- A. other companies in the same industry.
  - B. foreign companies which can use cheap labor in their countries.
  - C. firms in other industries that produce products or services that satisfy the same customer need.
  - D. all of these.
64. Firms would be most likely to face intense rivalry with competitors when they
- A. are in a high growth industry with low fixed costs.
  - B. are in a protected market.
  - C. have high fixed costs, in a slow growth industry with high exit barriers.
  - D. have low exit barriers for easy transition to another industry.
65. The most intense rivalry results from
- A. numerous equally balanced competitors, slow industry growth, high fixed or storage costs.
  - B. few competitors, slow industry growth, lack of differentiation, high fixed or storage costs.
  - C. numerous equally balanced competitors, manufacturing capacity increases only in large increments, low exit barriers.
  - D. a high level of differentiation.
66. Exit barriers arise from
- A. specialized assets with no alternative use.
  - B. governmental and social pressures.
  - C. strategic interrelationships with other business units within the same company.
  - D. all of these.
-

67. Because the Internet lowers barriers to entry in most industries, it

- A. decreases the threat of new entrants.
- B. increases the threat of new entrants.
- C. makes it easier to build customer loyalty.
- D. increases supplier power.

68. End users are

- A. the final consumers in a distribution channel.
- B. usually the C in B2C.
- C. likely to have greater bargaining power because of the Internet.
- D. all of these.

69. Incumbent firms may enjoy increased bargaining power because the Internet

- A. focuses marketing efforts on end users.
- B. diminishes the power of many distribution channel intermediaries.
- C. increases channel conflict.
- D. has reduced the number of wholesalers and distributors.

70. Supplier power has increased because of the Internet for all of the following reasons EXCEPT

- A. the growth of new Web-based businesses has created more outlets for suppliers to sell to.
- B. some suppliers have created Web-based purchasing systems that encourage switching.
- C. the process of disintermediation makes it possible for some suppliers to reach end users directly.
- D. software that links buyers to a supplier's website has created rapid, low-cost order capabilities.

71. In general, the threat of substitutes is heightened because the Internet

- A. introduces new ways to accomplish the same task.
- B. lowers switching costs.
- C. lowers barriers to entry.
- D. increases output per unit of cost.

72. How do infomediaries and consumer information websites increase the intensity of competitive rivalry?
- A. by shifting customers away from issues of price
  - B. by making competitors in cyberspace seem less equally balanced
  - C. by consolidating the marketing message that consumers use to make a purchase decision to a few key pieces of information that the selling company has little control over
  - D. by highlighting a firm's unique selling advantages
73. The value net is a game-theoretic approach that
- A. extends the value chain analysis.
  - B. is a way to analyze all the players in a game and analyze how their interactions affect a firm's ability to generate and appropriate value.
  - C. helps us to understand the evolution of the five forces over time.
  - D. uses network analysis to understand the relationships among different companies.
74. In the value net analysis, complementors are
- A. firms that produce substitute products.
  - B. customers who compliment the company for their good products and services.
  - C. firms that produce products or services that have a positive impact on the value of a firm's products or services.
  - D. firms that supply critical inputs to a company.
75. Strategic groups consist of
- A. a group of top executives who make strategies for a company.
  - B. a group of firms within an industry that follow similar strategies.
  - C. a group of executives drawn from different companies within an industry that makes decisions on industry standards.
  - D. a group of firms within an industry that decide to collude rather than compete with each other so that they can increase their profits.

76. Which of the following statements about strategic groups is FALSE?

- A. Two assumptions are made: (1) no two firms are totally different, (2) no two firms are exactly the same.
- B. Strategic groupings are of little help to a firm in assessing mobility barriers that protect a group from attacks by other groups.
- C. Strategic groups help chart the future directions of firms' strategies.
- D. Strategic groups are helpful in thinking through the implications of each industry trend for the group as a whole.

**Essay Questions**

77. Explain how competitor intelligence can be improved by gathering information about competitors in the public domain. Provide examples.

78. Discuss some of the limitations of forecasting.

79. Discuss the six segments of the general environment. Provide examples of how they might be related.

80. Explain the important barriers to entry in an industry. Provide examples.

81. Discuss and provide examples of factors that would lead to greater buyer power.

82. What are some of the factors that would cause a supplier group to become powerful? Illustrate.

83. Several factors usually interact which result in intense rivalry among competitors. Explain.

84. Address how Internet and digital technologies affect Porter's five-forces.

85. Explain how the value net analysis adds to the Five-Forces analysis. Be sure to include examples from at least two industries.

86. What value is the strategic groups concept as a tool in analyzing an industry?

## Chapter 02 Analyzing the External Environment of the Firm **Answer Key**

### **True / False Questions**

1. (p. 41) Environmental scanning and competitor intelligence provide important inputs for forecasting activities.

**TRUE**

Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts. Exhibit 2.1 illustrates relationships among these important activities.

Refer to Exhibit 2.1

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-01 The importance of developing forecasts of the business environment.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

2. (p. 42) Environmental monitoring deals with tracking changes in environmental trends that are often uncovered during the environmental scanning process.

**TRUE**

Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

3. (p. 42) Competitor Intelligence (CI) is a tool that can provide management with "early warnings" about both threats and opportunities.

**TRUE**

Competitive intelligence (CI) helps firms define and understand their industry and identify rivals' strengths and weaknesses. Done properly, competitive intelligence helps a company avoid surprises by anticipating competitors' moves and decreasing response time.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

4. (p. 42) Competitive intelligence generally does not benefit very much from gathering information on competitors from sources in the public domain.

**FALSE**

Competitive intelligence is frequently done effectively through public sources of information. Examples are evident in daily newspapers and periodicals such as The Wall Street Journal, BusinessWeek, and Fortune. For example, banks continually track home loan, auto loan, and certificate of deposit (CD) interest rates charged by rivals. Major airlines change hundreds of fares daily in response to competitors' tactics.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

5. (p. 44) Even with all of the advances in recent years, forecasting is typically considered more of an art than a science and it is of little use in generating accurate predictions.

**FALSE**

Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

6. (p. 46) Scenario planning is usually concerned with short-term forecasts.

**FALSE**

Scenario analysis is an in-depth approach to environmental forecasting that involves experts' detailed assessments of societal trends, economics, politics, technology, or other dimensions of the external environment.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

7. (p. 47) Although changes in the general environment may often adversely or favorably impact a firm, they seldom alter an entire industry.

**FALSE**

The general environment is composed of factors that can have dramatic effects on firm strategy. Typically, a firm has little ability to predict trends and events in the general environment and even less ability to control them. When listening to CNBC, for example, you can hear many experts espouse different perspectives on what action the Federal Reserve Board may take on short-term interest rates—an action that can have huge effects on the valuation of entire economic sectors.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

8. (p. 47-49) The same environmental trend can often have very different effects on firms within the same industry.

**TRUE**

An example would be the rising levels of affluence in many developed countries. This bodes well for brokerage services as well as for upscale pets and supplies. However, this trend may adversely affect fast-food restaurants because people can afford to dine at higher-priced restaurants.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

9. (p. 50) A major sociocultural trend in the United States is the increased educational attainment by women.

**TRUE**

Increased educational attainment by women in the workplace has led to more women in upper management positions. Given such educational attainment, it is hardly surprising that companies owned by women have been one of the driving forces of the U.S. economy.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

10. (p. 50) Technological innovations can create entirely new industries and alter the boundaries of industries.

**TRUE**

Developments in technology lead to new products and services and improve how they are produced and delivered to the end user. Innovations can create entirely new industries and alter the boundaries of existing industries.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

11. (p. 52) There is generally a weak relationship between equity markets (e.g., New York Stock Exchange) and economic indicators.

**FALSE**

Economic indicators are associated with equity markets. When stock market indexes increase, consumers' discretionary income rises and there is often an increased demand for luxury items such as jewelry and automobiles.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

12. (p. 54) The Internet provides an electronic "staging area" for several forms of digital communications.

**TRUE**

The Internet provides a platform or staging area for the application of numerous technologies, rapid advances in knowledge, and unprecedented levels of global communication and commerce. Even technologies that don't require the Internet to function, such as wireless phones and GPS, rely on the Internet for data transfer and communications.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

13. (p. 55) Porter's Five-Forces model is designed to help us understand how social attitudes and cultural values impact U.S. businesses.

**FALSE**

The "five-forces" model developed by Michael E. Porter has been the most commonly used analytical tool for examining the competitive environment. It describes the competitive environment in terms of five basic competitive forces.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

14. (p. 55) Porter's Five-Forces model helps to determine both the nature of competition in an industry and the industry's profit potential.

**TRUE**

The "five-forces" model developed by Michael E. Porter describes the competitive environment in terms of five basic competitive forces that affect a firm's ability to compete in a given market. Together, they determine the profit potential for a particular industry.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

15. (p. 56) In some industries, high switching costs can act as an important barrier to entry.

**TRUE**

A barrier to entry is created by the existence of one-time costs that the buyer faces when switching from one supplier's product or service to another.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

16. (p. 56) Industries characterized by high economies of scale typically attract fewer new entrants.

**TRUE**

Economies of scale refers to spreading the costs of production over the number of units produced. The cost of a product per unit declines as the absolute volume per period increases. This deters entry by forcing the entrant to come in at a large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage. Both are undesirable options.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

17. (p. 57) The power of a buyer group is increased if the buyer group has less concentration than the supplier group.

**FALSE**

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales. If a large percentage of a supplier's sales are purchased by a single buyer, the importance of the buyer's business to the supplier increases.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

18. (p. 57) Buyer power tends to be higher if suppliers provide undifferentiated or standard products.

**TRUE**

A buyer group is powerful when the products it purchases from the industry are standard or undifferentiated. Confident they can always find alternative suppliers, buyers play one company against the other, as in commodity grain products.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

19. (p. 58-59) Supplier power tends to be highest in industries where products are vital to buyers, where switching from one supplier to another is very costly, and where there are many suppliers.

**FALSE**

A supplier group will be powerful when the supplier group is dominated by a few companies, the supplier's product is an important input to the buyer's business, or the supplier has built up switching costs for the buyer.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

20. (p. 59) The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration.

**TRUE**

A supplier group will be powerful when the supplier group poses a credible threat of forward integration. This provides a check against the industry's ability to improve the terms by which it purchases.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

21. (p. 59) The more attractive the price/performance ratio of substitute products, the more tightly it constraints an industry's ability to charge high prices.

**TRUE**

Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge. The more attractive the price/performance ratio of substitute products, the tighter the lid on an industry's profits.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

22. (p. 60) Rivalry is most intense when there are high exit barriers and high industry growth.

**FALSE**

Intense rivalry may result from slow industry growth (slow industry growth turns competition into a fight for market share, since firms seek to expand their sales) and high exit barriers (factors that keep firms competing though they may be earning low returns on their investments).

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

23. (p. 60) Rivalry will be most intense when there is a lack of differentiation or switching costs.

**TRUE**

Intense rivalry may result from lack of differentiation or switching costs. Where the product is perceived as a commodity, the buyer's choice is typically based on price and service, resulting in intense price and service competition. Lack of switching costs has the same effect.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

24. (p. 61) In most industries, new entrants will be a bigger threat because the Internet lowers entry barriers.

**TRUE**

In most industries, the threat of new entrants has increased because digital and Internet-based technologies lower barriers to entry. For example, Internet businesses may enjoy savings on expenses such as office rent, sales-force salaries, printing, and postage. This may encourage more entrants who see an opportunity to capture market share by offering a product more efficiently.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

25. (p. 61) The Internet and digital technologies suppress the bargaining power of buyers by providing them with more information to make buying decisions.

**FALSE**

The Internet and wireless technologies may increase buyer power by providing consumers with more information to make buying decisions and by lowering switching costs.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

26. (p. 63) An end user's switching costs are potentially much higher because of the Internet.

**FALSE**

An end user's switching costs are also potentially much lower because of the Internet. Switching may involve only a few clicks of the mouse to find and view a competing product or service online.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

27. (p. 63) Because of the Internet and digital technologies, it is very difficult for suppliers to create purchasing techniques that lower switching costs.

**FALSE**

Suppliers may be able to create Web-based purchasing arrangements that make purchasing easier and discourage their customers from switching.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

28. (p. 64) Reintermediation is responsible for an overall reduction in business opportunities.

**FALSE**

Just as the Internet is eliminating some business functions, it is creating an opening for new functions. These new activities are entering the value chain by a process known as reintermediation—the introduction of new types of intermediaries.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

29. (p. 64) The Internet heightens the threat of substitutes because it creates new ways to accomplish the same task.

**TRUE**

Along with traditional marketplaces, the Internet has created a new marketplace and a new channel. In general, therefore, the threat of substitutes is heightened because the Internet introduces new ways to accomplish the same tasks.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

30. (p. 66) Five-Forces analysis implicitly assumes a zero-sum game, a perspective that can be short-sighted.

**TRUE**

Five-forces analysis implicitly assumes a zero-sum game, determining how a firm can enhance its position relative to the forces. Yet such an approach can often be short-sighted; that is, it can overlook the many potential benefits of developing constructive win-win relationships with suppliers and customers.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

31. (p. 67) Michael Porter's Five-Forces Analysis is a dynamic tool for analyzing industry attractiveness.

**FALSE**

The five-forces analysis also has been criticized for being essentially a static analysis. External forces as well as strategies of individual firms are continually changing the structure of all industries.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

32. (p. 67) Complementary products are products that typically have a negative impact on the value of a firm's own products or services.

**FALSE**

Complements typically are products or services that have a potential impact on the value of a firm's own products or services. Powerful hardware is of no value to a user unless there is a software that runs on it.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

33. (p. 68) Competition tends to be more intense among firms within a strategic group than between strategic groups.

**TRUE**

Strategic groups are clusters of firms that share similar strategies. Rivalry tends to be greater among firms that are alike.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

34. (p. 69-70) The same environmental trend or event may have a very different impact on different strategic groups within the same industry.

**TRUE**

Strategic groups are helpful in thinking through the implications of each industry trend for the strategic group as a whole. Such analysis can help in making predictions about industry evolution. A sharp increase in interest rates, for example, tends to have less impact on providers of higher-priced goods (e.g., Porsches) than on providers of lower-priced goods (e.g., Chevrolet Cobalt) whose customer base is much more price sensitive.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

35. (p. 69) The use of the strategic groups concept is generally not helpful in charting the future directions of firms' strategies.

**FALSE**

Strategic groupings help chart the future directions of firms' strategies. Arrows emanating from each strategic group can represent the direction in which the group (or a firm within the group) seems to be moving. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

36. (p. 70) The strategic groups in the world-wide automobile industry have been very stable and unchanging in recent years.

**FALSE**

The auto market has been very dynamic and competition has intensified in recent years. Many firms in different strategic groups compete in the same product markets.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

### Multiple Choice Questions

37. (p. 41) Two of the key inputs to developing forecasts discussed in the text are

- A. environmental scanning and stakeholder identification.
- B. environmental scanning and competitor intelligence.**
- C. assessing internal strengths and environmental scanning.
- D. environmental scanning and a SWOT analysis.

Three important processes (scanning, monitoring, and gathering competitive intelligence) are used to develop forecasts. Exhibit 2.1 illustrates relationships among these important activities.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-01 The importance of developing forecasts of the business environment.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

38. (p. 42) \_\_\_\_\_ tracks the evolution of environmental trends, sequences of events, or streams of activities.

- A. Environmental scanning
- B. Environmental monitoring**
- C. Environmental surveying
- D. Competitive intelligence

Environmental monitoring tracks the evolution of environmental trends, sequences of events, or streams of activities. Monitoring enables firms to evaluate how dramatically environmental trends are changing the competitive landscape.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

39. (p. 41) Scanning the general environment would identify information on

- A. substitute goods.
- B. the aging population and ethnic shifts.**
- C. customer and firm bargaining power.
- D. competitive rivalry.

Environmental scanning involves surveillance of a firm's external environment to predict environmental changes and detect changes already under way. This alerts the organization to critical trends and events before changes develop a discernible pattern and before competitors recognize them.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

40. (p. 42) Gathering "competitive intelligence"

- A.** is good business practice.
- B. is illegal.
- C. is considered unethical.
- D. minimizes the need to obtain information in the public domain.

Competitive intelligence (CI) helps firms define and understand their industry and identify rivals' strengths and weaknesses. This includes the intelligence gathering associated with collecting data on competitors and interpreting such data.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

41. (p. 44) Environmental forecasting involves developing plausible projections about the \_\_\_\_\_ of environmental change.

- A. direction
- B. scope
- C. speed
- D.** all of these

Environmental forecasting involves the development of plausible projections about the direction, scope, speed, and intensity of environmental change. Its purpose is to predict change.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 1 Easy*

*Topic: Creating the Environmentally Aware Organization*

42. (p. 45) A danger of forecasting discussed in the text is that

- A. in most cases, the expense of collecting the necessary data exceeds the benefit.
- B. forecasting's retrospective nature provides little information about the future.
- C.** managers may view uncertainty as "black and white" while ignoring important "gray areas."
- D. it can create legal problems for the firm if regulators discover the company is making forecasts.

A danger of forecasting is that managers may view uncertainty as black and white and ignore important gray areas. The problem is that underestimating uncertainty can lead to strategies that neither defend against threats nor take advantage of opportunities.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-03 Why scenario planning is a useful technique for firms competing in industries characterized by unpredictability and change.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

43. (p. 47) The aging of the population, changes in ethnic composition, and effects of the baby boom are

- A. macroeconomic changes.
- B.** demographic changes.
- C. global changes.
- D. sociocultural changes.

Demographics are genetic and observable characteristics of a population, including elements such as the aging population, rising or declining affluence, changes in ethnic composition, geographic distribution of the population, and disparities in income level.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 1 Easy*

*Topic: The General Environment*

44. (p. 49) Increasingly larger numbers of women entering the work force since the early 1970s is an example of

- A. demographic changes.
- B. political and legal environmental changes.
- C. sociocultural changes.**
- D. technological developments.

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include a higher percentage of women in the workforce.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

45. (p. 49-50) Emerging sociocultural changes in the environment include

- A. changes in the ethnic composition.
- B. the increasing educational attainment of women in the past decade.**
- C. progressively less disposable income by consumers.
- D. changes in the geographic distribution of the population.

Sociocultural forces influence the values, beliefs, and lifestyles of a society. Examples include an increased educational attainment by women in the workplace.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

46. (p. 50) All of the following are important elements of the political/legal segment of the general environment EXCEPT

- A. the deregulation of utilities.
- B. the Americans with Disabilities Act (ADA).
- C.** the increased use of Internet technology.
- D. increases in the federally mandated minimum wage.

Political processes and legislation influence environmental regulations with which industries must comply. Some elements of the political/legal arena include the Americans with Disabilities Act (ADA) of 1990, deregulation of utilities, and increases in the federally mandated minimum wage.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

47. (p. 47) Which of the following would be considered part of a firm's general environment?

- A. Decreased entry barriers.
- B.** Higher unemployment rates.
- C. Increased bargaining power of the firm's suppliers.
- D. Increased competitive intensity.

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global. Exhibit 2.3 provides examples of key trends and events in each of the six segments of the general environment.

Refer to Exhibit 2.3

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

48. (p. 51) Interest-rate increases have a \_\_\_\_\_ impact on the residential home construction industry and a \_\_\_\_\_ effect on industries that produce consumer necessities such as prescription drugs or basic grocery items.

- A. positive; negligible
- B. negative; negligible**
- C. negative; positive
- D. positive; negative

Interest-rate increases have a negative impact on the residential home construction industry but a negligible (or neutral) effect on industries that produce consumer necessities such as prescription drugs or common grocery items.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 2 Medium*

*Topic: The General Environment*

49. (p. 51) To illustrate interrelationships among different segments of the general environment: The persistence of large U.S. trade deficits (\_\_\_\_\_) has led to greater demand for protectionist measures, such as trade barriers and quotas (\_\_\_\_\_). These measures lead to higher prices for U.S. consumers and fuel inflation (\_\_\_\_\_).

- A. macroeconomic, sociocultural, political/legal
- B. macroeconomic, political/legal, economic**
- C. macroeconomic, technological, economic
- D. macroeconomic, global, economic

The general environment is divided into six segments: demographic, sociocultural, political/legal, technological, economic, and global. Exhibit 2.3 provides examples of key trends and events in each of the six segments of the general environment.

*AACSB: Analytic*

*Blooms: Apply*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 3 Hard*

*Topic: The General Environment*

50. (p. 55) Which is considered a force in the "Five-Forces" model?

- A. Increased deregulation in an industry.
- B. The threat of government intervention.
- C. Rivalry among competing firms.**
- D. Recent technological innovation.

The "five-forces" model describes the competitive environment in terms of five basic competitive forces: the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products and services, and the intensity of rivalry among competitors in an industry.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

51. (p. 60) Which of the following firms would likely pose the least competitive threat?

- A. A firm in the same industry and in the same strategic group.
- B. A firm that produces substitute goods to your product line.
- C. A competitor to your product where a high switching cost exists.**
- D. A firm in the same industry and in the nearest strategic group looking to join your group.

The competitive threat of intense rivalry can result from lack of differentiation or switching costs. When switching costs are high, this threat is lowered.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

52. (p. 56) The threat of new entrants is high when there are

- A. low economies of scale.
- B. high capital requirements.
- C. high switching costs.
- D. high differentiation among competitors' products and services.

High entry barriers discourage new competitors. Among the major sources of entry barriers are economies of scale, product differentiation, capital requirements, and switching costs.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

53. (p. 56) Product differentiation by incumbents act as an entry barrier because

- A. new entrants cannot differentiate their products.
- B. incumbents will take legal action if new entrants do not differentiate their products.
- C. new entrants will have to spend heavily to overcome existing customer loyalties.
- D. it helps a firm to derive greater economies of scale.

When existing competitors have strong brand identification and customer loyalty, differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

54. (p. 56) Which of the following would be an entry barrier?

- A.** large economies of scale
- B. low switching costs
- C. easy access to raw materials
- D. low capital requirements

Among the major sources of entry barriers are economies of scale, product differentiation, capital requirements, switching costs, and access to raw materials and distribution channels.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

55. (p. 55) A large fabricator of building components purchased a steel company to provide raw materials for its production process. This is an example of

- A.** backward integration.
- B. economies of scale.
- C. forward integration.
- D. product differentiation.

An example of forward integration in the text is an automobile manufacturer acquiring a rental car company, or a firm in an entirely new industry introducing a similar product that uses a more efficient technology. Backward integration is the opposite, purchasing an upstream activity, such as that of a supplier in this question.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

56. (p. 57) The bargaining power of the buyer is greater than that of the supplier when
- A. volume of purchase is low.
  - B. threat of backward integration by buyers is low.
  - C. cost savings from the supplier's product are minimal.
  - D.** the buyer's profit margin is low.

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales, it earns low profits, or the buyers pose a credible threat of backward integration.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

57. (p. 57) Buyer power will be greater when
- A. the products purchased are highly differentiated.
  - B. there are high switching costs.
  - C. the industry's product is very important to the quality of the buyer's end products or services.
  - D.** it is concentrated or purchases large volumes relative to seller sales.

A buyer group is powerful when it is concentrated or purchases large volumes relative to seller sales, the products it purchases from the industry are standard or undifferentiated, the buyer faces few switching costs, or the industry's product is unimportant to the quality of the buyer's products or services.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

58. (p. 58-59) The bargaining power of suppliers increases as
- A. more suppliers enter the market.
  - B. importance of buyers to supplier group increases.
  - C. switching costs for buyers decrease.
  - D.** threat of forward integration by suppliers increases.

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to, the industry is not an important customer of the supplier group, the supplier group's products are differentiated or it has built up switching costs for the buyer, or the supplier group poses a credible threat of forward integration.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

59. (p. 55) An independent group of suppliers, such as farmers, gather to form a cooperative to sell their products to buyers directly, replacing their former distributor. This is an example of
- A. threat of entry.
  - B. backward integration.
  - C.** forward integration.
  - D. threat of substitute products.

An example of forward integration in the text is an automobile manufacturer acquiring a rental car company, or a firm in an entirely new industry introducing a similar product that uses a more efficient technology.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

60. (p. 58-59) The bargaining power of suppliers is enhanced under the following market condition:

- A. no threat of forward integration.
- B. low differentiation of the suppliers' products.
- C. greater availability of substitute products.
- D.** dominance by a few suppliers.

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to, the supplier group is not obliged to contend with substitute products for sale to the industry, the supplier group's products are differentiated or it has built up switching costs for the buyer, or the supplier group poses a credible threat of forward integration.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

61. (p. 58-59) In Porter's Five-Forces model, conditions under which a supplier group can be powerful include all the following EXCEPT

- A. lack of importance of the buyer to the supplier group.
- B. high differentiation by the supplier.
- C. dominance by a few suppliers.
- D.** readily available substitute products.

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to, the supplier group is not obliged to contend with substitute products for sale to the industry, the supplier group's products are differentiated or it has built up switching costs for the buyer, or the industry is not an important customer of the supplier group.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

62. (p. 58-59) A supplier group would be most powerful when there is/are

- A. many suppliers.
- B.** few substitute products.
- C. low differentiation of products supplied.
- D. high threat of backward integration by the buyers.

A supplier group will be powerful when the supplier group is dominated by a few companies and is more concentrated (few firms dominate the industry) than the industry it sells to, the supplier group is not obliged to contend with substitute products for sale to the industry, the supplier group's products are differentiated or it has built up switching costs for the buyer, or the supplier group poses a credible threat of forward integration.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

63. (p. 59) Threat of substitute products comes from

- A. other companies in the same industry.
- B. foreign companies which can use cheap labor in their countries.
- C.** firms in other industries that produce products or services that satisfy the same customer need.
- D. all of these.

Substitute products are those products or services that can perform the same function as the industry's offerings. They may be offered by businesses seemingly far removed from the industry.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

64. (p. 59-60) Firms would be most likely to face intense rivalry with competitors when they
- A. are in a high growth industry with low fixed costs.
  - B. are in a protected market.
  - C.** have high fixed costs, in a slow growth industry with high exit barriers.
  - D. have low exit barriers for easy transition to another industry.

Intense rivalry is the result of several interacting factors, including the following: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, or high exit barriers.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

65. (p. 59-60) The most intense rivalry results from
- A.** numerous equally balanced competitors, slow industry growth, high fixed or storage costs.
  - B. few competitors, slow industry growth, lack of differentiation, high fixed or storage costs.
  - C. numerous equally balanced competitors, manufacturing capacity increases only in large increments, low exit barriers.
  - D. a high level of differentiation.

Intense rivalry is the result of several interacting factors, including the following: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, or high exit barriers.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

66. (p. 60) Exit barriers arise from

- A. specialized assets with no alternative use.
- B. governmental and social pressures.
- C. strategic interrelationships with other business units within the same company.
- D.** all of these.

Exit barriers are economic, strategic, and emotional factors that keep firms competing even though they may be earning low or negative returns on their investments. Some exit barriers are specialized assets, fixed costs of exit, strategic interrelationships (e.g., relationships between the business units and others within a company in terms of image, marketing, shared facilities, and so on), emotional barriers, and government and social pressures (e.g., governmental discouragement of exit out of concern for job loss).

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

67. (p. 61) Because the Internet lowers barriers to entry in most industries, it

- A. decreases the threat of new entrants.
- B.** increases the threat of new entrants.
- C. makes it easier to build customer loyalty.
- D. increases supplier power.

In most industries, the threat of new entrants has increased because digital and Internet-based technologies lower barriers to entry. Internet businesses may enjoy savings on traditional expenses which may encourage more entrants who see an opportunity to capture market share by offering a product or performing a service more efficiently than existing competitors.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

68. (p. 63) End users are

- A. the final consumers in a distribution channel.
- B. usually the C in B2C.
- C. likely to have greater bargaining power because of the Internet.
- D. all of these.**

End users are the final customers in a distribution channel. Sales activity that is labeled "B2C" (that is, business-to-consumer) is concerned with end users. The Internet is likely to increase the power of these buyers, in part because the Internet provides large amounts of consumer information.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

69. (p. 63) Incumbent firms may enjoy increased bargaining power because the Internet

- A. focuses marketing efforts on end users.
- B. diminishes the power of many distribution channel intermediaries.**
- C. increases channel conflict.
- D. has reduced the number of wholesalers and distributors.

In some industries, buyer channel intermediaries are dominated by powerful players that control who gains access to the latest goods or the best merchandise. The Internet and wireless communications, however, make it much easier and less expensive for businesses to reach customers directly. Thus, the Internet may increase the power of incumbent firms relative to that of traditional buyer channels.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

70. (p. 63) Supplier power has increased because of the Internet for all of the following reasons EXCEPT

- A. the growth of new Web-based businesses has created more outlets for suppliers to sell to.
- B.** some suppliers have created Web-based purchasing systems that encourage switching.
- C. the process of disintermediation makes it possible for some suppliers to reach end users directly.
- D. software that links buyers to a supplier's website has created rapid, low-cost order capabilities.

Several factors contribute to stronger supplier power. First, Web-based business may create more downstream outlets for suppliers to sell to. Second, Web-based purchasing arrangements make purchasing easier and discourage customers from switching. Online procurement systems directly link suppliers and customers, reducing transaction costs and paperwork. Third, the use of proprietary software that links buyers to a supplier's website may create a rapid, low-cost ordering capability that discourages the buyer from seeking other sources of supply. Finally, suppliers will have greater power to the extent that they can reach end users directly without intermediaries.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

71. (p. 64) In general, the threat of substitutes is heightened because the Internet

- A.** introduces new ways to accomplish the same task.
- B. lowers switching costs.
- C. lowers barriers to entry.
- D. increases output per unit of cost.

Along with traditional marketplaces, the Internet has created a new marketplace and a new channel. In general, therefore, the threat of substitutes is heightened because the Internet introduces new ways to accomplish the same tasks.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

72. (p. 65) How do infomediaries and consumer information websites increase the intensity of competitive rivalry?

- A. by shifting customers away from issues of price
- B. by making competitors in cyberspace seem less equally balanced
- C.** by consolidating the marketing message that consumers use to make a purchase decision to a few key pieces of information that the selling company has little control over
- D. by highlighting a firm's unique selling advantages

Some shopping infomediaries, such as BizRate and CNET, not only search for the lowest prices on many different products but also rank the customer service quality of different sites that sell similarly priced items. They increase rivalry by consolidating the marketing message that consumers use to make a purchase decision into a few key pieces of information over which the selling company has little control.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

73. (p. 67) The value net is a game-theoretic approach that

- A. extends the value chain analysis.
- B.** is a way to analyze all the players in a game and analyze how their interactions affect a firm's ability to generate and appropriate value.
- C. helps us to understand the evolution of the five forces over time.
- D. uses network analysis to understand the relationships among different companies.

Based on game-theoretic considerations, Brandenburger and Nalebuff recently introduced the concept of the value net, which in many ways is an extension of the five-forces analysis. It is illustrated in Exhibit 2.10. The value net represents all the players in the game and analyzes how their interactions affect a firm's ability to generate and appropriate value.

Refer to Exhibit 2.10.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

74. (p. 67) In the value net analysis, complementors are

- A. firms that produce substitute products.
- B. customers who compliment the company for their good products and services.
- C.** firms that produce products or services that have a positive impact on the value of a firm's products or services.
- D. firms that supply critical inputs to a company.

Complements typically are products or services that have a potential impact on the value of a firm's own products or services. Those who produce complements are usually referred to as complementors. Powerful hardware is of no value to a user unless there is a software that runs on it.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

75. (p. 68) Strategic groups consist of

- A. a group of top executives who make strategies for a company.
- B.** a group of firms within an industry that follow similar strategies.
- C. a group of executives drawn from different companies within an industry that makes decisions on industry standards.
- D. a group of firms within an industry that decide to collude rather than compete with each other so that they can increase their profits.

Strategic groups are clusters of firms that share similar strategies. Rivalry tends to be greater among firms that are alike.

*AACSB: Analytic*

*Blooms: Remember*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 1 Easy*

*Topic: The Competitive Environment*

76. (p. 68-69) Which of the following statements about strategic groups is FALSE?

A. Two assumptions are made: (1) no two firms are totally different, (2) no two firms are exactly the same.

**B.** Strategic groupings are of little help to a firm in assessing mobility barriers that protect a group from attacks by other groups.

C. Strategic groups help chart the future directions of firms' strategies.

D. Strategic groups are helpful in thinking through the implications of each industry trend for the group as a whole.

In an industry analysis, two assumptions are unassailable: (1) No two firms are totally different, and (2) no two firms are exactly the same. What value is the strategic groups concept as an analytical tool? First, strategic groupings help a firm identify barriers to mobility that protect a group from attacks by other groups. They also help chart the future directions of firms' strategies and are helpful in thinking through the implications of each industry trend for the strategic group as a whole.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

### Essay Questions

77. (p. 42-44) Explain how competitor intelligence can be improved by gathering information about competitors in the public domain. Provide examples.

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

Chapter 02 - Analyzing the External Environment of the Firm

78. (p. 44-45) Discuss some of the limitations of forecasting.

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-02 Why environmental scanning; environmental monitoring; and collecting competitive intelligence are critical inputs to forecasting.*

*Level of Difficulty: 2 Medium*

*Topic: Creating the Environmentally Aware Organization*

79. (p. 47-55) Discuss the six segments of the general environment. Provide examples of how they might be related.

Answers will vary.

*AACSB: Analytic*

*Blooms: Apply*

*Learning Objective: 02-04 The impact of the general environment on a firm's strategies and performance.*

*Level of Difficulty: 3 Hard*

*Topic: The General Environment*

80. (p. 56-57) Explain the important barriers to entry in an industry. Provide examples.

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

Chapter 02 - Analyzing the External Environment of the Firm

81. (p. 57-58) Discuss and provide examples of factors that would lead to greater buyer power.

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

82. (p. 58-59) What are some of the factors that would cause a supplier group to become powerful? Illustrate.

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

83. (p. 59-61) Several factors usually interact which result in intense rivalry among competitors. Explain.

Answers will vary.

*AACSB: Analytic*

*Blooms: Apply*

*Learning Objective: 02-05 How forces in the competitive environment can affect profitability; and how a firm can improve its competitive position by increasing its power vis-à-vis these forces.*

*Level of Difficulty: 3 Hard*

*Topic: The Competitive Environment*

Chapter 02 - Analyzing the External Environment of the Firm

84. (p. 61-65) Address how Internet and digital technologies affect Porter's five-forces.

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*

85. (p. 67-68) Explain how the value net analysis adds to the Five-Forces analysis. Be sure to include examples from at least two industries.

Answers will vary.

*AACSB: Analytic*

*Blooms: Apply*

*Learning Objective: 02-06 How the Internet and digitally based capabilities are affecting the five competitive forces and industry profitability.*

*Level of Difficulty: 3 Hard*

*Topic: The Competitive Environment*

86. (p. 68-71) What value is the strategic groups concept as a tool in analyzing an industry?

Answers will vary.

*AACSB: Analytic*

*Blooms: Understand*

*Learning Objective: 02-07 The concept of strategic groups and their strategy and performance implications.*

*Level of Difficulty: 2 Medium*

*Topic: The Competitive Environment*