Test Bank for Modern Competitive Strategy 4th Edition by Walker

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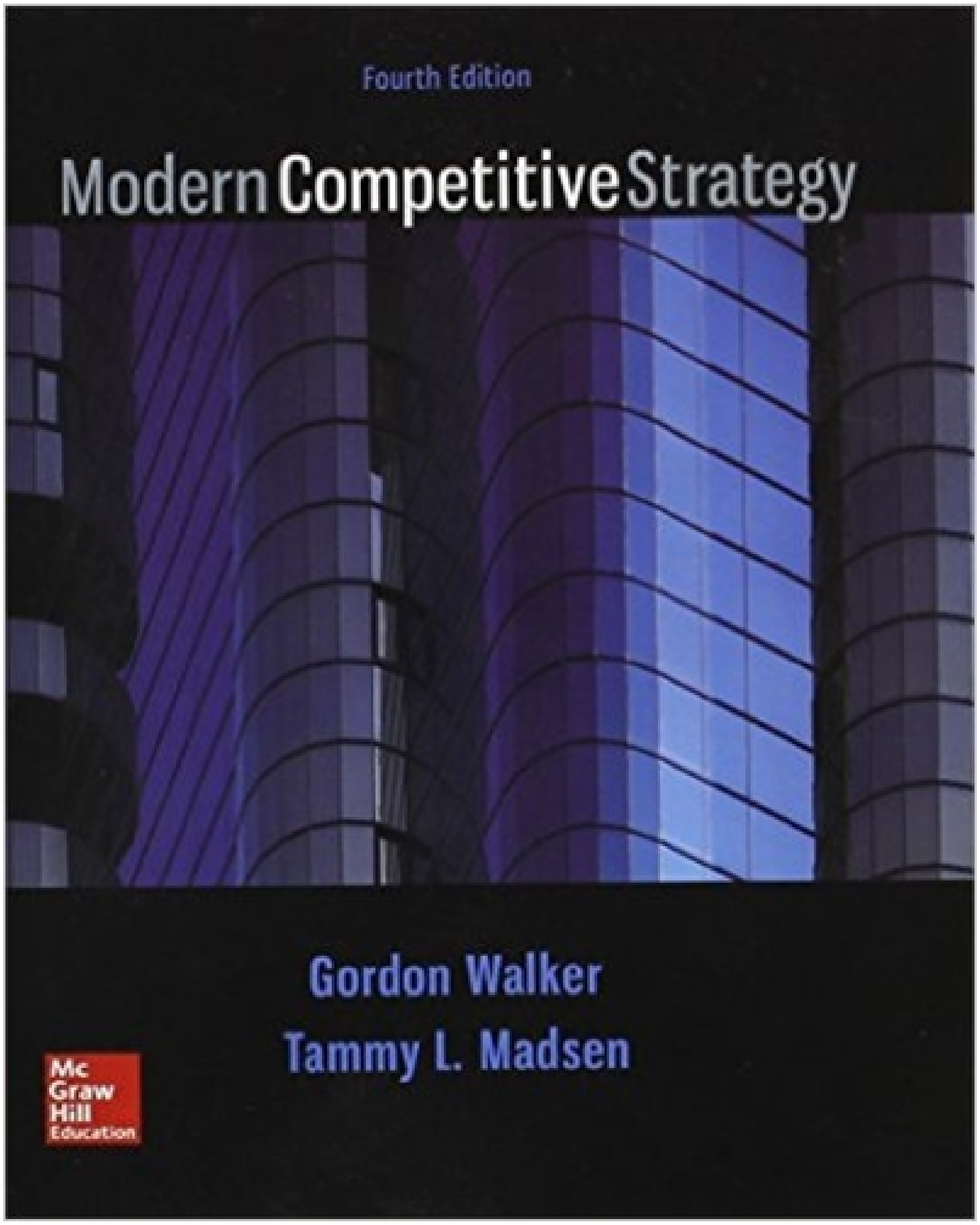

Test Bank

Chapter 02

Competitive Advantage

Multiple Choice Questions

1. What determines the value of a product?

   A. its technology
   B. its market price
   C. the price the customer would be willing to pay for it in the absence of competing products and given budget constraints
   D. the market prices of competing products

2. Which of the following are isolating mechanisms?

   A. causal ambiguity
   B. property rights
   C. search costs
   D. all of the above

3. Which of the following are value drivers: 1. the product's technology, 2. the firm's risk assumption, 3. economies of scale, 4. network externalities?

   A. 1 and 2
   B. 1, 2 and 3
   C. 1, 2 and 4
   D. all

4. Which of the following are cost drivers: 1. the learning curve, 2. complementary products, 3. breadth of product line, 4. economies of scope?

   A. 1 and 2
   B. 3 and 4
   C. 1 and 4
   D. 1, 3 and 4

5. A firm creates a network externality when:

A. customers using the product speak to each other
B. the benefit customers receive from using the firm's product increases as new customers are added
C. the products are produced using network technologies
D. all its products are connected

6. Time compression diseconomies are larger when:

A. the contribution of firm's capability to its V-C position is path dependent
B. a firm's capability resides within an individual employee
C. the knowledge underlying a firm's capability is organization specific
D. the contribution of firm's capability to its V-C position is path dependent and the knowledge underlying a firm's capability is organization specific

7. Which of the following value drivers is less likely to contribute to customer retention?

A. customization
B. product line breadth
C. network externalities
D. geographical scope

8. If a firm is neither a cost leader nor a differentiator, it is called:

A. competitively disadvantaged
B. poorly positioned
C. stuck in the middle
D. lost in competitive space

9. What determines a superior market position compared to rivals?

A. the difference between value and cost
B. superior technology
C. economies of scope
D. cost leadership

10. The buyer's surplus is:

A. a source of customer sensitivity
B. the difference between a product's value and its market price
C. the difference between the cost to produce the product and its market price
D. a firm's total economic contribution

True / False Questions

11. A generic strategy always represents a superior market position.

    True False

12. A superior market position compared to rivals is sufficient to achieve a sustainable competitive advantage.

    True False

13. Reducing costs provides a greater return than increasing value when the marginal customer is value, not price, sensitive.

    True False

14. The price customers pay always represents the full value of the product.

    True False

15. Sunk costs in imitating a capability increase when it is tied to complementary practices.

    True False

16. A key assumption regarding the disadvantage of being stuck in the middle is that demand is insufficient to allow the firm to improve its position.

    True False

17. Investing in cost drivers can improve the firm's performance by allowing it to lower prices.

    True False

18. Cost reduction, compared to increasing value, is more attractive when the firms in an industry have access to the same process innovations.

    True False

19. The benefit of customer one-stop shopping pertains to the value driver of complements.

    True False

20. Competitive advantage depends on being at one end of the high value - low cost continuum.

    True False

Short Answer Questions

21. How can a firm achieve a superior market position without having the lowest cost or offering the highest value, relative to rivals?

22. Assume you are opening up a mobile app store (with applications for smartphones and tablets). Describe how you will measure a customer's willingness to pay for your product offerings.

23. What mechanisms help to isolate or protect Southwest Airlines' superior market position relative to rivals?

24. What is the relationship between a firm's resources and capabilities and its Value and Cost Drivers?

25. How can a firm use switching costs to increase customer retention? Give one example.

Chapter 02 Competitive Advantage Answer Key

Multiple Choice Questions

1. What determines the value of a product?
(p. 24)

A. its technology
B. its market price
C. the price the customer would be willing to pay for it in the absence of competing products and given budget constraints
D. the market prices of competing products

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

2. Which of the following are isolating mechanisms?
(p. 47)

A. causal ambiguity
B. property rights
C. search costs
D. all of the above

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

3. Which of the following are value drivers: 1. the product's technology, 2. the firm's risk assumption, 3. economies of scale, 4. network externalities?
(p. 35-42)

A. 1 and 2
B. 1, 2 and 3
C. 1, 2 and 4
D. all

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

4. Which of the following are cost drivers: 1. the learning curve, 2. complementary products, 3. breadth of product line, 4. economies of scope?
(p. 43)

A. 1 and 2
B. 3 and 4
C. 1 and 4
D. 1, 3 and 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

5. A firm creates a network externality when:
(p. 40)

A. customers using the product speak to each other
B. the benefit customers receive from using the firm's product increases as new customers are added
C. the products are produced using network technologies
D. all its products are connected

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

6. Time compression diseconomies are larger when:
(p. 52)

A. the contribution of firm's capability to its V-C position is path dependent
B. a firm's capability resides within an individual employee
C. the knowledge underlying a firm's capability is organization specific
D. the contribution of firm's capability to its V-C position is path dependent and the knowledge underlying a firm's capability is organization specific

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

7. Which of the following value drivers is less likely to contribute to customer retention?
(p. 48-49)

A. customization
B. product line breadth
C. network externalities
D. geographical scope

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

8. If a firm is neither a cost leader nor a differentiator, it is called:
(p. 28-29)

A. competitively disadvantaged
B. poorly positioned
C. stuck in the middle
D. lost in competitive space

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

9. What determines a superior market position compared to rivals?
(p. 57)

A. the difference between value and cost
B. superior technology
C. economies of scope
D. cost leadership

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

10. The buyer's surplus is:
(p. 27)

A. a source of customer sensitivity
B. the difference between a product's value and its market price
C. the difference between the cost to produce the product and its market price
D. a firm's total economic contribution

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

True / False Questions

11. A generic strategy always represents a superior market position.
(p. 30-33)

FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

12. A superior market position compared to rivals is sufficient to achieve a sustainable competitive advantage.
(p. 47)

FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

13. Reducing costs provides a greater return than increasing value when the marginal customer is value, not price, sensitive.
(p. 33)

FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy

14. The price customers pay always represents the full value of the product.
(p. 24)

FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

15. Sunk costs in imitating a capability increase when it is tied to complementary practices.
(p. 43)

TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

16. A key assumption regarding the disadvantage of being stuck in the middle is that demand is insufficient to allow the firm to improve its position.
(p. 29)

TRUE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

17. Investing in cost drivers can improve the firm's performance by allowing it to lower prices.
(p. 33)

TRUE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy

18. Cost reduction, compared to increasing value, is more attractive when the firms in an industry have access to the same process innovations.
(p. 33)

FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

19. The benefit of customer one-stop shopping pertains to the value driver of complements.
(p. 36)

FALSE

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy

20. Competitive advantage depends on being at one end of the high value - low cost continuum.
(p. 33)

FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Short Answer Questions

21. How can a firm achieve a superior market position without having the lowest cost or offering the highest value, relative to rivals?
(p. 29-32)

By focusing on building a larger gap between Value and Cost rather than focusing on one end of the continuum between Value and Cost.

Blooms: Remember
Difficulty: 2 Medium

22. Assume you are opening up a mobile app store (with applications for smartphones and tablets). Describe how you will measure a customer's willingness to pay for your product offerings.
(p. 25-26)

Use Customer Perceptions of Value Approach as described on pages 25-26.

Blooms: Apply
Difficulty: 2 Medium

23. What mechanisms help to isolate or protect Southwest Airlines' superior market position relative to rivals?
(p. 51)

Causal ambiguity (see description page 51)

Blooms: Apply
Blooms: Remember
Difficulty: 2 Medium

24. What is the relationship between a firm's resources and capabilities and its Value and Cost Drivers?
(p. 33, 53)

A firm's resources and capabilities underlie its ability to increase or decrease costs and/or value.

Blooms: Remember
Difficulty: 2 Medium

25. How can a firm use switching costs to increase customer retention? Give one example.
(p. 48-49)

To prevent the erosion of competitive advantage by substitutes and competing products in an industry, a firm can raise switching costs. There are 3 types of switching costs:

- Search costs: the more a buyer must search for an alternative product, the higher his search costs; search costs are determined by the inherent characteristics of a product or service.
- Transition costs: the more extensive and complex the process of switching from one product to another, the higher the transition costs.
- Learning costs: the more new information and skills the buyer must learn in adopting a new product, the greater the learning costs.

Example: Many value drivers are directly related to switching costs:

Customization locks in buyers by providing a firm with deep knowledge of a customer's business. This knowledge reduces communication costs in the supply relationship. The customer's transition costs increase when it shifts to a new product since it must replace the existing customized protocols.

Blooms: Apply
Blooms: Remember
Difficulty: 2 Medium