Test Bank for Strategic Management Theory and Cases 12th Edition by Hill

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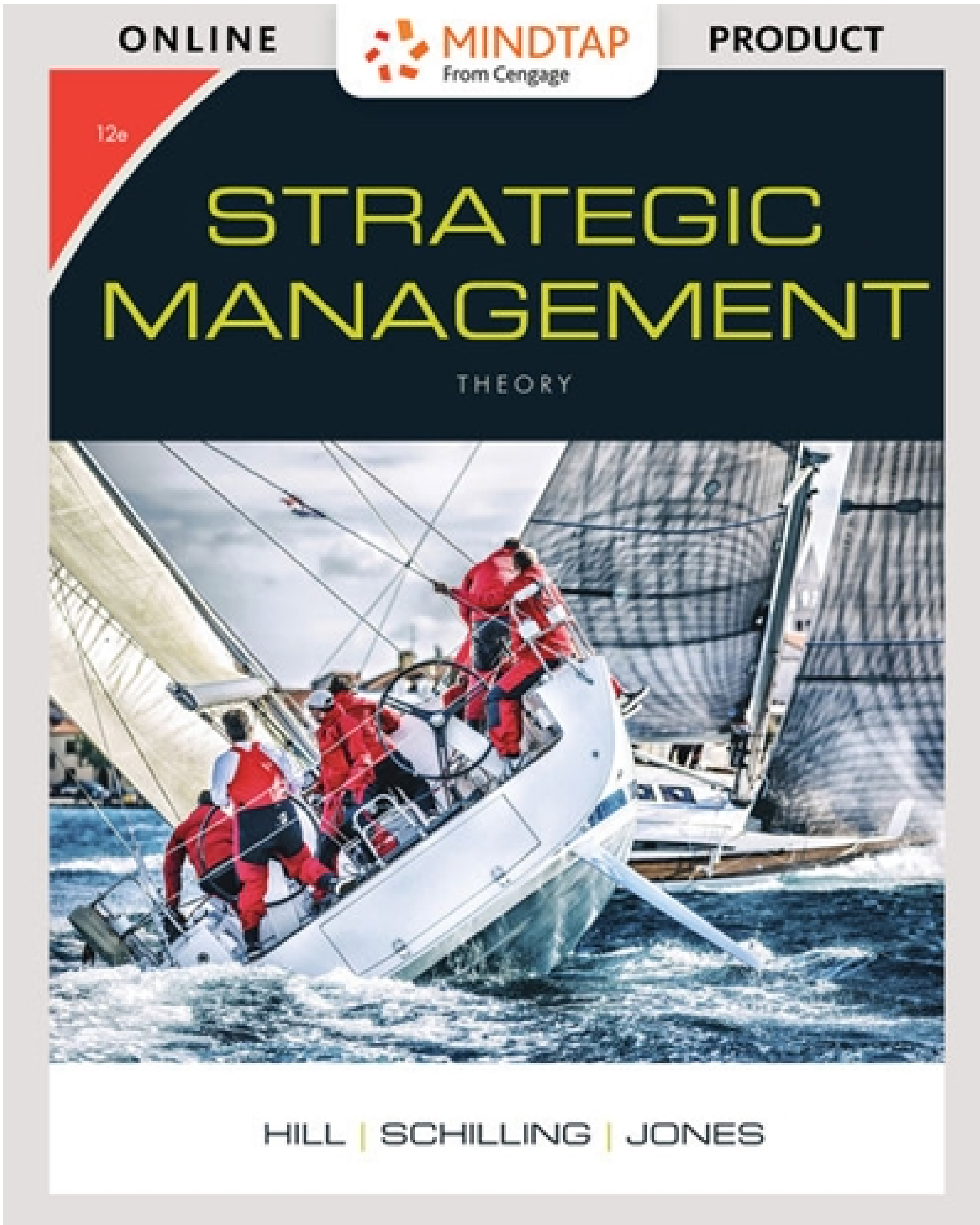

Test Bank

TRUE/FALSE

1 : Strategy formulation begins with an analysis of a firms internal processes and capabilities.
A : true
B : false

Correct Answer : B

2 : Opportunities arise when a company can take advantage of conditions in its industry environment to formulate and implement strategies that enable it to become more profitable.
A : true
B : false

Correct Answer : A

3 : Threats arise when conditions in the external environment endanger the integrity and profitability of a companys business.
A : true
B : false

Correct Answer : A

4 : The bottled water industry created new competitors for Coca-Cola, but it did not change the basic industry boundaries.
A : true
B : false

Correct Answer : B

5 : In Porters Five Forces model, as each of the five forces grows stronger, it limits the ability of established companies to raise prices and earn greater profits.
A : true
B : false

Correct Answer : A

6 : Substitute products are not a threat if a company is the market leader.
A : true
B : false

Correct Answer : B

7 : Suppliers are most powerful when the products that they sell have many substitutes.
A : true
B : false

Correct Answer : B

8 : Cost reductions gained through mass-producing a standardized output are a source of scale economies.
A : true
B : false

Correct Answer : A

9 : The risk of entry by potential competitors is a function of the height of the barriers to entry.
A : true
B : false

Correct Answer : A

10 : The more commodity-like that an industrys product is, the lower the intensity of any price war that may develop.
A : true
B : false

Correct Answer : B

11 : Strong brand loyalty and high customer switching costs are low barriers to entering an industry.
A : true
B : false

Correct Answer : B

12 : Growing demand tends to reduce rivalry because all companies can sell more without taking market share away from other companies.
A : true
B : false

Correct Answer : A

13 : Government deregulation of telephone service lowered the barriers to entry and lowered industry profit rates.
A : true
B : false

Correct Answer : A

14 : When buyers are in a weak bargaining position, companies in an industry must lower their prices to increase profits.
A : true
B : false

Correct Answer : B

15 : Intense rivalry lowers prices and raises costs.
A : true
B : false

Correct Answer : A

16 : Companies operating in high-technology industries are dependent on complementary products for their mutual success.
A : true

B : false

Correct Answer : A

17 : Starbucks and an independent local café are different in terms of their business techniques. They both sell coffee and, therefore, belong to the same strategic group.
A : true
B : false

Correct Answer : B

18 : A companys closest competitors are those in its strategic group.
A : true
B : false

Correct Answer : A

19 : Companies facing higher exit barriers find it harder to reduce capacity and face a greater threat of severe price competition.
A : true
B : false

Correct Answer : A

20 : Rapid growth in demand enables companies to expand their revenues and profits without taking market share away from competitors.
A : true
B : false

Correct Answer : A

21 : Successful innovation cannot transform the nature of industry competition.
A : true
B : false

Correct Answer : B

22 : One of the defining characteristics of the mature stage of the industry life cycle is that growth is low or zero.
A : true
B : false

Correct Answer : A

23 : The punctuated equilibrium view can be described as a freezing, but not an unfreezing, process in an industrys life cycle.
A : true
B : false

Correct Answer : B

24 : When the value of the dollar is low compared to the value of other currencies, products made in the United States are relatively inexpensive, and products made overseas are relatively

expensive.
A : true
B : false

Correct Answer : A

25 : Changes in the characteristics of a population, such as age or race, are irrelevant to the analysis of an industrys macroenvironment.
A : true
B : false

Correct Answer : B

26 : Deregulation of the mortgage industry is an example of how political and legal forces can impact an industry.
A : true
B : false

Correct Answer : A

27 : Technological change can represent both an opportunity and a threat.
A : true
B : false

Correct Answer : A

28 : Interest rates have an impact on the sale of automobiles, appliances, and capital equipment. This represents a macroeconomic force.
A : true
B : false

Correct Answer : A

MULTIPLE CHOICE

29 : A group of firms manufactures writing implements such as pens, pencils, and markers. This group should be referred to as a(n):
A : substitute.
B : market segment.
C : service provider.
D : regulator.
E : industry.

Correct Answer : E

30 : An industry can be defined as a group of:
A : companies offering products or services that are close substitutes for each other.
B : manufacturing plants of a single company.
C : different kinds of companies that are based in the same geographic location.
D : companies that are different but generate similar amounts of revenues.
E : brands that offer different products but are owned by a single firm.

Correct Answer : A

31 : An impact that the changing industry boundaries have had is that:
A : owners of companies can now define boundaries.
B : there is an increase in the number of competitors for companies.
C : technological changes do not affect companies anymore.
D : the pattern of customer needs does not affect companies anymore.
E : the number of product substitutes available for customers has reduced.

Correct Answer : B

32 : Porters Five Forces model did not recognize the:
A : power of complement providers.
B : risk of entry by potential competitors.
C : intensity of rivalry among established companies within an industry.
D : bargaining power of suppliers.
E : closeness of substitutes to an industrys products.

Correct Answer : A

33 : Which of the following statements about potential competitors in an industry is true?
A : They threaten the profitability of established companies.
B : They are usually encouraged by established companies.
C : They find it easier to enter an industry when the entry barriers are high.
D : They find it easier to enter an industry when established companies have economies of scale.
E : They usually have an absolute cost advantage over established companies.

Correct Answer : A

34 : Which of the following is NOT a barrier to entry?
A : Economies of scale
B : Brand loyalty
C : Absolute cost advantages
D : High customer bargaining power
E : High customer switching costs

Correct Answer : D

35 : If economies of scale are an industrys primary entry barrier, a new entrants major concern is:
A : its inability to counter brand loyalty that customers have for established companies in the industry.
B : the inferior quality of its products.
C : its inability to match the innovation of the established firm.
D : its inability to produce in sufficient volume to match the cost advantages of established producers.
E : its inability to get buyers to switch to its product.

Correct Answer : D

36 : As a barrier to new entry, absolute cost advantages can be based on:

A : continuous advertising of brand and company names, and product innovation achieved through research and development.
B : high product quality, service-oriented innovations, and good after-sales service.
C : cost reductions that arise from the mass production of standardized output.
D : the unique ability of established companies to spread fixed costs over a large volume.
E : superior production operations and processes due to accumulated experience, patents, or trade secrets.

Correct Answer : E

37 : Which of the following industry structures consists of a large number of small or medium-sized companies, none of which is in a position to determine industry price?
A : Fragmented industry
B : Consolidated industry
C : Oligopoly
D : Monopoly
E : Monopolistic competition

Correct Answer : A

38 : A consolidated industry structure:
A : consists of a large number of small companies or medium-size companies, none of which is in a position to determine industry price.
B : constitutes a threat rather than an opportunity.
C : is dominated by a small number of companies or, in extreme cases, by just one company, and such companies often are in a position to determine industry prices.
D : provides no scope for an oligopoly to exist.
E : is characterized by low-entry barriers and commodity-type products.

Correct Answer : C

39 : Which of the following is NOT a determinant of the extent of rivalry among established companies?
A : Industry competitive structure
B : Demand conditions
C : Cost conditions
D : The height of exit barriers in the industry
E : The bargaining power of buyers

Correct Answer : E

40 : The extent of rivalry among established companies is lowest when:
A : the industrys product is a commodity.
B : demand is growing rapidly.
C : exit barriers are substantial.
D : the industry is entering a decline stage.
E : the fixed costs are high.

Correct Answer : B

41 : The bargaining power of an industrys suppliers is greater when:
A : the supply industry is fragmented.
B : switching costs are minimal for companies because of little difference among products

offered by different suppliers.
C : the industry buys in large quantities.
D : the product that suppliers sell has many substitutes and is not vital to the companies.
E : the industry is not an important customer to the suppliers.

Correct Answer : E

42 : Which of the following statements about complementors is true?
A : Their impact on industries was first recognized by Porters Five Forces model.
B : They have little importance in high-technology industries.
C : They have the power to impact the sales of the industry to which they supply complement products.
D : They tend to increase the sales of the industry they are supplying complements to by producing fewer low-quality complement products.
E : They cannot gain enough power to extract profits from the industry to which they supply complement products.

Correct Answer : C

43 : Economies of scale can arise from:
A : cost reductions gained through decreased production.
B : high prices on bulk purchases of raw material inputs and component parts.
C : an advantage gained by spreading fixed production costs over a large production volume.
D : increased spending on marketing and advertising activities.
E : poor production operations.

Correct Answer : C

44 : Brand loyalty can be created by:
A : minimal advertising.
B : not using patents to protect products.
C : cutting the costs for research and development.
D : emphasizing high-quality products.
E : minimizing after-sales service.

Correct Answer : D

45 : Which of the following statements about government regulations in the context of entry barriers of an industry is true?
A : Government deregulation in an industry results in significant reduction in competition.
B : Government regulation is not a major entry barrier for any industries.
C : Falling entry barriers due to government deregulation results in higher competition and lower industry profit rates.
D : The threat of new entrants is reduced when the government deregulates an industry.
E : Companies that enjoy brand loyalty and have significant scale economies are the ones who face major threat of competition due to government deregulation.

Correct Answer : C

46 : ___________ costs arise when a customer invests time, energy, and money shifting from the products offered by one established company to the products offered by a new entrant.
A : Overhead
B : Incremental

C : Marginal
D : Opportunity
E : Switching

Correct Answer : E

47 : Which of the following statements about rivalry in the context of established companies is true?
A : It significantly reduces the costs of established companies.
B : It squeezes profits out of an industry.
C : It enables companies to lower their spending on non-price-competitive strategies.
D : It forces companies to reduce prices when it is less intense.
E : It is unaffected by the demand conditions of an industry.

Correct Answer : B

48 : The competitive structure of an industry refers to the number __________ within it.
A : of market segments
B : and size distribution of companies
C : of consumers
D : of manufacturing plants
E : of products produced

Correct Answer : B

49 : Common exit barriers include all of the following EXCEPT:
A : investments in assets such as specific machines, equipment, or operating facilities that are of little or no value in alternative uses.
B : emotional attachments to an industry.
C : high fixed costs associated with leaving an industry.
D : bankruptcy regulations that keep unprofitable assets in the industry.
E : economic dependence because a company relies on a single industry for its entire revenue and all profits.

Correct Answer : B

50 : An industrys buyers have high bargaining power when:
A : they purchase in small quantities.
B : switching costs are low.
C : it is economically impossible for them to purchase an input from several companies at once.
D : the supply industry depends upon buyers for a very small percentage of its total orders.
E : the industry is a monopoly.

Correct Answer : B

51 : The level of industry demand:
A : has little effect on competition in the industry.
B : is one of the determinants of the intensity of rivalry in the industry.
C : increases when customers exit a marketplace.
D : does not impact the market share that established companies hold.
E : decreases the rivalry among established companies, when in decline.

Correct Answer : B

52 : When shopping for clothing such as shirts and jeans, Tyrone only buys products from Eastern Clothing Company even if there are several other companies that offer similar products at lower prices. Tyrones preference for Eastern Clothing Company demonstrates:
A : lack of demand.
B : bargaining power.
C : risk of entry.
D : brand loyalty.
E : lack of economies of scale

Correct Answer : D

53 : Suppliers in an industry are most powerful when:
A : there are few substitutes for the products that they sell.
B : switching costs are low.
C : companies in the industry threaten to enter the suppliers industry.
D : their profitability is significantly affected by the purchases of companies in a particular industry.
E : they refrain from entering their customers industry because of lack of resources.

Correct Answer : A

54 : Members of a strategic group:
A : compete only with members of other strategic groups.
B : are affected by Porters five competitive forces in the same way and to the same degree as the members of other strategic groups.
C : follow a strategy that is similar to that pursued by other companies in the group.
D : face no threat of product substitutes from other members.
E : move easily between groups without barriers.

Correct Answer : C

55 : Mobility barriers:
A : allow industries to change their strategy and compete in a particular strategic group.
B : inhibit the movement of companies between strategic groups in an industry.
C : inhibit companies from shifting between suppliers for raw materials.
D : are factors that operate outside of an industry.
E : exclude the barriers to entry into a group and the barriers to exit from a companys existing strategic group.

Correct Answer : B

56 : In growth industries,:
A : the intensity of rivalry is very high.
B : technological expertise is the most important entry barrier.
C : the threat from potential competitors is typically highest.
D : distribution channels are poorly developed.
E : buyers are not familiar with the industrys products.

Correct Answer : C

57 : Entry barriers in embryonic industries tend to be based on:
A : brand loyalty.

B : economies of scale.
C : absolute cost advantages.
D : regulatory advantage.
E : technological knowhow.

Correct Answer : E

58 : Which of the following statements about growth industries is true?
A : They typically have high barriers to entry.
B : They tend to be characterized by weak rivalry.
C : They are characterized by low demands.
D : They increase prices because customers are more aware of the industrys product.
E : They inhibit the development of distribution channels.

Correct Answer : B

59 : Demand reaches total saturation in the __________ stage of the industry life cycle.
A : embryonic
B : growth
C : shakeout
D : maturity
E : decline

Correct Answer : D

60 : The threat from potential competitors is greatest in the ___________ stage of the industry life cycle.
A : embryonic
B : growth
C : shakeout
D : maturity
E : decline

Correct Answer : B

61 : As an industry enters the shakeout stage,:
A : rivalry among companies declines.
B : demand grows at a high rate.
C : prices of products increase.
D : excess productive capacity emerges.
E : new entrants come into the market.

Correct Answer : D

62 : As an industry enters the decline stage,:
A : growth becomes negative.
B : rivalry among established companies usually decreases.
C : competitive pressures abate.
D : capacity reduces.
E : demand remains the same.

Correct Answer : A

63 : In the late 1800s, when the automobile was first manufactured, the automobile industry would have been considered a(n) __________ industry.
A : mature
B : shakeout
C : embryonic
D : growth
E : declining

Correct Answer : C

64 : Which of the following is currently an embryonic industry?
A : Personal computers
B : Biotechnology
C : Internet retailing
D : Nanotechnology
E : Wireless communications

Correct Answer : D

65 : Which of the following is NOT one of the macroeconomic forces?
A : Interest rates
B : Inflation rates
C : Cultural changes
D : Currency exchange rates
E : Growth rate of the economy

Correct Answer : C

66 : Julian was asked to examine the demographic forces facing his employer, a clothing manufacturer. Which of the following factors is Julian most likely to examine?
A : Government regulations
B : Inflation rates
C : Manufacturing technology
D : Age of the population
E : Societys growing interest in exercise

Correct Answer : D

67 : Many beverage manufacturers are noticing that sales for bottled water and fruit-based beverages is increasing compared to carbonated drinks because customers are increasingly becoming health conscious. This change in customer preferences can be attributed to which of the following factors of the macroenvironment?
A : Economic forces
B : Demographic forces
C : Technological forces
D : Political forces
E : Social forces

Correct Answer : E

68 : The Internet is an example of a __________ force.
A : technological
B : social

C : macroeconomic
D : demographic
E : global

Correct Answer : A

69 : Due to a recent relaxation in the pollution control laws by the government, Alpha Motors has reduced the production of its electric-powered cars. The company is responding to a change in which of the following macroenvironmental forces?
A : Macroeconomic
B : Demographic
C : Political and legal
D : Social
E : Global

Correct Answer : C

70 : Americans are currently living longer now than in the past because of advances in medicine. As a result, the sale of products that meet the needs of older individuals, such as devices that assist in walking and movement, have increased. In the context of an industrys macroenvironment, age is considered a __________ force.
A : technological
B : demographic
C : social
D : political
E : legal

Correct Answer : B

71 : Philip Morris capitalized on the growing health consciousness trend when it acquired Miller Brewing Company, and then redefined competition in the beer industry with its introduction of low-calorie beer (Miller Lite). This health trend represents a __________ force.
A : social
B : political
C : legal
D : technological
E : demographic

Correct Answer : A

ESSAY

72 : Briefly describe the five stages of the industry life cycle.

Correct Answer : An embryonic industry is one that is just beginning to develop. Growth at this stage is slow because of factors such as buyers' unfamiliarity with the industry's product, high prices due to the inability of companies to leverage significant scale economies, and poorly developed distribution channels. Barriers to entry tend to be based on access to key technological knowhow rather than cost economies or brand loyalty. If the core knowhow required to compete in the industry is complex and difficult to grasp, barriers to entry can be quite high, and established companies will be protected from potential competitors. Rivalry in embryonic industries is based not so much on price as on educating customers, opening up distribution channels, and perfecting the design of the product. Such rivalry can be intense, and the company that is the first to solve design problems often has the opportunity to develop a significant market position.?Once demand for an industry’s product begins to increase, it develops the characteristics of a growth industry. In a growth industry, first-time demand is expanding rapidly as many new customers enter the market. Typically, an industry grows when customers become familiar with the product, prices fall because scale economies have been attained, and distribution channels develop. Normally, the importance of control over technological knowledge as a barrier to entry has diminished by the time an industry enters its growth stage. Because few companies have yet to achieve significant scale economies or built brand loyalty, other entry barriers tend to be relatively low early in the growth stage. Thus, the threat from potential competitors is typically highest at this point. Paradoxically, high growth means that new entrants can be absorbed into an industry without a marked increase in the intensity of rivalry. Thus, rivalry tends to be relatively low.?Sooner or later, the rate of growth slows, and the industry enters the shakeout stage. In the shakeout stage, demand approaches saturation levels: more and more of the demand is limited to replacement because fewer potential first-time buyers remain. As an industry enters the shakeout stage, rivalry between companies can build. Typically, companies that have become accustomed to rapid growth continue to add capacity at rates consistent with past growth. However, demand is no longer growing at historic rates, and the consequence is excess productive capacity.?The shakeout stage ends when the industry enters its mature stage. The market is fully saturated, demand is limited to replacement demand, and growth is low or zero. Typically, the growth that remains comes from population expansion, bringing new customers into the market, or increasing replacement demand. As an industry enters maturity, barriers to entry increase, and the threat of entry from potential competitors decreases. As growth slows during the shakeout, companies can no longer maintain historic growth rates merely by holding on to their market share. Competition for market share develops, driving down prices and often producing a price war. To survive the shakeout, companies begin to focus on minimizing costs and building brand loyalty. By the time an industry matures, the surviving companies are those that have secured brand loyalty and efficient, low-cost operations. Because both of those factors constitute a significant barrier to entry, the threat of entry by potential competitors is often greatly diminished.?Eventually, most industries enter a stage of decline: growth becomes negative for a variety of reasons, including technological substitution, social changes, demographics, and international competition. Within a declining industry, the degree of rivalry among established companies usually increases. Depending on the speed of the decline and the height of exit barriers, competitive pressures can become as fierce as in the shakeout stage. The largest problem in a declining industry is that falling demand leads to the emergence of excess capacity.

73 : Describe the major limitations of the models for industry analysis. Does the existence of these limitations mean that the models are not useful? Why or why not?

Correct Answer : The competitive forces, strategic group, and industry life-cycle models all have limitations. The competitive forces and strategic group models present a static picture of competition that deemphasizes the role of innovation. Yet innovation can revolutionize industry structure and completely shift the strength of different competitive forces. The competitive forces and strategic group models have been criticized for de-emphasizing the importance of individual company differences. A company will not be profitable just because it is part of an attractive industry or strategic group; much more is required. The industry life-cycle model is a generalization that is not always followed; particularly when innovation revolutionizes an industry.

74 : Consider the macroenvironment facing a large, international airline headquartered in the

United States (such as American Airlines or United Airlines). Give at least three examples of important trends or events from each of the segments of the airlines macroenvironment (macroeconomic, global, technological, demographic, social, political, and legal), and explain whether each represents a threat or an opportunity for the firm.

Correct Answer : The airline industry benefits from low interest rates, part of the macroeconomic environment, because it enables airlines to borrow the funds for purchasing new planes at a lower cost.?Americans are taking shorter but more frequent vacations. This social trend presents an opportunity for airlines to sell more tickets.?Technological advances have allowed railroads to use fast, fuel-efficient bullet trains, which can economically substitute for planes on short, heavily-traveled commuter routes, such as along the Boston–New York–Washington, D.C. corridor. This development threatens airlines because it reduces the number of tickets they can sell and the prices they can charge in those markets.