

## CHAPTER 2: STRATEGIC USES OF INFORMATION SYSTEMS

1. Strategic information systems are defined by their technical features per se, and not by how they are used.
  - a. True
  - b. False

*ANSWER:* False

2. Practically any mobile-based system that gives a company competitive advantage is a strategic information system.
  - a. True
  - b. False

*ANSWER:* True

3. Companies raise barriers to entrants by obtaining legal protection of intellectual property.
  - a. True
  - b. False

*ANSWER:* True

4. The larger the number of companies competing within an industry, the better off each company is.
  - a. True
  - b. False

*ANSWER:* False

5. Switching costs can be explicit or implicit.
  - a. True
  - b. False

*ANSWER:* True

6. Instead of differentiating a product or service, an organization can add to the product or service to increase its value to the consumer.
  - a. True
  - b. False

*ANSWER:* True

7. An alliance can be created to enable customers to use the same technology for purchases from different companies.
  - a. True
  - b. False

*ANSWER:* True

8. A barrier to potential new market entrants is the high expense of entering the particular market.
  - a. True
  - b. False

*ANSWER:* True

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9. One way to lock in buyers in a free market is to create a situation in which customers fear high switching costs.
- True
  - False

*ANSWER:* True

10. A firm gains bargaining power with a supplier when the firm has many competitors.
- True
  - False

*ANSWER:* False

11. The reengineering process makes it possible to determine how much each change contributed to the organization's improved position.
- True
  - False

*ANSWER:* False

12. In a highly competitive industry that traditionally has had a narrow profit margin, JetBlue managed to gain strategic advantage by reducing cost and therefore reducing the price to the customer.
- True
  - False

*ANSWER:* True

13. For an information system to be an strategic information, one of the conditions is that the information system must serve an organizational goal rather than simply provide information.
- True
  - False

*ANSWER:* True

14. The goal of reengineering is to gain small incremental cost savings.
- True
  - False

*ANSWER:* False

15. Being on the bleeding edge can mean that implementation costs are significantly higher than anticipated.
- True
  - False

*ANSWER:* True

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16. The word “strategy” originates from the Greek word *strategos*, meaning “\_\_\_\_\_.”
- a. ahead
  - b. general
  - c. task
  - d. vision

ANSWER: b

17. In a\_\_\_\_\_, a market rarely remains the domain of one organization for long; thus, competition ensues almost immediately.
- a. planned economy
  - b. mixed society
  - c. free-enterprise society
  - d. command economy

ANSWER: c

18. Which of the following statements is true of explicit switching costs?
- a. Explicit switching costs involve a penalty levied for terminating a deal or contract.
  - b. Explicit switching costs are recurring in nature.
  - c. Explicit switching costs are variable in nature.
  - d. Explicit switching costs are concerned with the indirect costs in time and money.

ANSWER: a

19. One way to increase market share is to lower prices, and the best way to lower prices is to\_\_\_\_\_.
- a. reduce costs
  - b. outsource jobs
  - c. promote self-training
  - d. update to latest technologies

ANSWER: a

20. Which of the following is considered a strategic advantage of the first-mover?
- a. Technological literacy
  - b. Superior brand name
  - c. High market value
  - d. Guaranteed long-term success

ANSWER: b

21. Which of the following patents does Priceline.com hold that prevents competitors from entering its business space?
- a. One-click online purchasing
  - b. Half-price product exchange plan
  - c. Online reverse auctioning
  - d. Zero processing fee

ANSWER: c

22. \_\_\_\_\_ are expenses incurred when a customer stops buying a product or service from one business and starts buying it from another.
- a. Marginal costs
  - b. Standard costs
  - c. Opportunity costs
  - d. Switching costs

ANSWER: d

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23. A \_\_\_\_\_ is a body of clients that is large enough to attract many other clients.
- a. client subsystem
  - b. client set
  - c. critical alliance
  - d. critical mass

ANSWER: d

24. \_\_\_\_\_ refers to the competitive advantage that a company can achieve by persuading customers that its product or service is better than its competitors'.
- a. Product segmentation
  - b. Product differentiation
  - c. Product validation
  - d. Product specification

ANSWER: b

25. \_\_\_\_\_ refers to an organization's initiative of adding to a product or service to increase its value to the consumer.
- a. Scaling value
  - b. Enhancement of existing products or services
  - c. Appreciation of existing products or services
  - d. Incrementing value

ANSWER: b

26. \_\_\_\_\_ provide customers with cheaper combined service and the convenience of one-stop shopping.
- a. Alliances
  - b. Prototypes
  - c. Automations
  - d. Parameters

ANSWER: a

27. On the web, an example of alliances is a(n) \_\_\_\_\_.
- a. affiliate program
  - b. online analytical agreement
  - c. object-oriented program
  - d. progressive task agreement

ANSWER: a

28. Which of the following is a result of forming strategic alliances?
- a. Organizations do not enjoy synergy.
  - b. The combined service is more expensive.
  - c. One-stop shopping is rendered inconvenient.
  - d. The same technology is used.

ANSWER: d

29. Which of the following conditions must exist for an information system to be a strategic information system?
- a. The information system must simply provide information.
  - b. The organization's information system unit must only work with managers of the same unit.
  - c. The organization's top management must be involved only during the implementation stage.
  - d. The information system must serve an organizational goal.

ANSWER: d

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30. \_\_\_\_\_ involves adoption of new machinery and elimination of management layers.
- a. Prototyping
  - b. Reengineering
  - c. Debugging
  - d. Offshoring

ANSWER: b

31. A system can only help a company sustain competitive advantage if the company continuously modifies and enhances it, creating a(n) \_\_\_\_\_ for competitors.
- a. alliance
  - b. bleeding edge
  - c. standard
  - d. moving target

ANSWER: d

32. \_\_\_\_\_ use physical characteristics of people, such as fingerprints and retina scans, for authentication and access to physical places and online information systems.
- a. Access codes
  - b. Biometrics
  - c. Object codes
  - d. Compilers

ANSWER: b

33. JetBlue obtained the strategic advantage of the \_\_\_\_\_ by implementing the latest available technologies of fast databases, VoIP, and a slick website.
- a. first mover
  - b. late mover
  - c. source code
  - d. object code

ANSWER: b

34. The most important metric in the airline industry is \_\_\_\_\_, which is how much it costs to fly a passenger one mile of the journey.
- a. cost per available seat-mile (CASM)
  - b. cost per available seat (CAS)
  - c. cost per mile (CM)
  - d. cost per hour (CH)

ANSWER: a

35. In a highly competitive industry that traditionally has had a narrow profit margin, JetBlue managed to gain strategic advantage by \_\_\_\_\_.
- a. reducing cost
  - b. hiring new employees
  - c. increasing the seating capacity
  - d. reducing the number of flights

ANSWER: a

36. A company achieves \_\_\_\_\_ by using strategy to maximize its strengths, resulting in a competitive advantage.

ANSWER: strategic advantage

37. The essence of strategy is innovation, so \_\_\_\_\_ is often gained when an organization tries a strategy that no one has tried before.

ANSWER: competitive advantage

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38. Companies that are first to adopt advanced systems that reduce labor enjoy \_\_\_\_\_ for as long as their competitors lag behind.

*ANSWER:* competitive advantage

39. Indirect costs in time and money spent adjusting to a new product that competes with the old is an example of implicit \_\_\_\_\_.

*ANSWER:* switching costs

40. \_\_\_\_\_ are expenses incurred when a customer stops buying a product or service from one business and starts buying it from another.

*ANSWER:* Switching costs

41. eBay's success demonstrates the strategic advantage of the \_\_\_\_\_, an organization that is the first to offer a new product or service.

*ANSWER:* first mover

42. \_\_\_\_\_ provide draws for customers that include combined services that are cheaper.

*ANSWER:* Alliances

43. Organizations can achieve competitive advantage if they are powerful enough to \_\_\_\_\_ suppliers to their mode of operation or buyers to their product.

*ANSWER:* lock in

44. \_\_\_\_\_ combine ideas for making potentially winning business decisions and ideas for harnessing information technology to implement the decisions.

*ANSWER:* Strategic information systems SISs  
Strategic information systems (SISs)

45. The goal of \_\_\_\_\_ is not to gain small incremental cost savings, but to achieve great efficiency leaps—of 100 percent and even 1000 percent.

*ANSWER:* reengineering

46. In an environment where most information technology is available to all, \_\_\_\_\_ that are originally developed to create a strategic advantage quickly become an expected standard business practice.

*ANSWER:* SISs  
strategic information systems strategic  
information systems (SISs)

47. Brand-name success is a perfect example of \_\_\_\_\_.

*ANSWER:* product differentiation

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48. \_\_\_\_\_ is software that the developer gives to potential adopters for trial use.

*ANSWER:* Beta software

49. Information systems that help seize opportunities are called \_\_\_\_\_.

*ANSWER:* strategic information systems  
SISs  
strategic information systems (SISs)

50. Ford created a joint venture with General Motors Corp. and DaimlerChrysler to establish \_\_\_\_\_, a website that serves as an electronic market for parts suppliers who can bid online on requests for proposals posted by the automakers.

*ANSWER:* Covisint

51. When failure occurs because an organization tries to be on the technological leading edge, observers call it the \_\_\_\_\_.

*ANSWER:* bleeding edge

52. List eight basic initiatives that companies can use to gain competitive advantage.

*ANSWER:* Consider competitive advantage in terms of a for-profit company, whose major goal is to maximize profits by lowering costs and increasing revenue. A for-profit company achieves competitive advantage when its profits increase significantly, most commonly through increased market share. Eight basic initiatives that can be used to gain competitive advantage are: reduce costs, raise barriers to market entrants, establish high switching costs, create new products or services, differentiate products or services, enhance products or services, establish alliances, and lock in suppliers or buyers. It is important to understand that the eight listed are the most common, but not the only, types of business strategy an organization can pursue. It is also important to understand that strategic moves often consist of a combination of two or more of these initiatives and other steps. The essence of strategy is innovation, so competitive advantage is often gained when an organization tries a strategy that no one has tried before.

53. Give an example of companies establishing high switching costs to gain competitive advantage.

*ANSWER:* Manufacturers of laser and ink-jet printers sell their printers at cost or below cost. However, once you purchase a printer, you must replace a depleted ink or toner cartridge with one that the printer manufacturer sells, or take a risk with other cartridges whose quality is often low. As a cartridge customer, you face high costs if you consider switching to another brand. Even if comparable cartridges from another manufacturer are less expensive, you cannot use them; and if you decide to use those cartridges, you will lose your investment in the printer, because you must buy a new one. Thus, establishing high switching costs often locks in customers. Locking in customers by any means is a way to accomplish a strategic advantage.

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54. Provide an example of a company using the lock in buyers strategy successfully.

*ANSWER:* Adobe gives away its Acrobat Reader software, an application that lets web surfers open and read documents created using different computers running different operating systems, such as various versions of Windows, the Mac operating system, and UNIX. When the Reader user base became large enough, organizations and individuals found it economically justifiable to purchase and use the full Acrobat application (the application used to create the documents) and related applications. Using this strategy put Adobe's PDF (portable data format) standard in an unrivaled position.

55. Why would you consider competitive advantage as a moving target?

*ANSWER:* Competitive advantage is often short-lived. In time, competitors imitate the leader, and the advantage diminishes. So, the quest for innovative strategies must be dynamic. Corporations must continuously contemplate new ways to use information technology to their advantage. In a way, companies' jockeying for the latest competitive advantage is a lot like an arms race. Side A develops an advanced weapon, then side B develops a similar weapon that terminates the advantage of side A, and so on.

56. Why is JetBlue considered to have gained a late mover advantage?

*ANSWER:* Some observers cite the fact that JetBlue is a late competitor as an important factor in its success. The company is not burdened with antiquated information systems, or as IT professionals like to call them, legacy systems. This allowed its CIO to implement the latest available technologies: fast databases, VoIP, a slick website, laptop computers with the latest algorithms for fast calculation of routes and loads in the cockpit, and other technologies. This situation illustrates the strategic advantage of the late mover.