

Cadden, Small Business Management  
Chapter 2 – Your Business Idea: The Quest for Value

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## Chapter 2

### Your Business Idea: The Quest for Value

#### True/False

1. The concept of customer value is based essentially on the price of the product or service.  
**False; Easy**
2. Customer value can be defined as the difference between perceived benefits and perceived costs.  
**True; Moderate**
3. Studies that indicated that firms with superior customer value outperform their competitors on ROI and market share gains.  
**True; Moderate**
4. There is universal consensus as to what factors make up perceived customer value.  
**False; Moderate**
5. The concept of functional value relates to the product or services ability to perform its utilitarian purpose.  
**True; Moderate**
6. Epistemic value is associated with a sense of novelty or simple fun.  
**True; Moderate**
7. The monetary component of perceived value is singularly associated with the purchase price of the product or service.  
**False; Moderate**
8. For any particular product customer value tends to be consistent across all customers.  
**False; Difficult**
9. Market segmentation is the division of any market into a subset of customers.  
**True; Easy**
10. Perceived costs can be seen as being composed of three elements: monetary, time and psychic.  
**True; Moderate**
11. Since many customers don't know exactly what they want small business owners should only listen to him/herself.

**False; Moderate**

12. Small businesses generally have no need of any formal market research.

**False; Moderate**

13. The only question a small business should ask is how much they can charge their customers.

**False; Easy**

14. Net present value discounts the value of future cash flows. It recognizes the time value of money.

**True; Moderate**

15. It is estimated that only 15% of American customers have loyalty to a single retailer, yet these customers generate between 55% 7% of that retail sales.

**True; Difficult**

16. Small businesses should only produce products and services that they know with a high degree of certainty, in advance, what customers will want.

**False; Moderate**

17. Quality function deployment is an approach that takes the desires of consumers and explores how well the individual activities of the business are meeting those desires.

**True; Moderate**

18. Quality function deployment as an approach can only be used in manufacturing concerns.

**False; Moderate**

19. One way of gathering information about customers is through loyalty programs.

**True; Moderate**

20. It is ineffectual to listen to customers through comment cards and online surveys.

**False; Moderate**

21. Small business has always been a driver of new products and services.

**True; Easy**

22. Some products that were initially created by small businesses include: air conditioner, high-resolution CAT scanner and outboard engine.

**True; Moderate**

23. Innovation involve new ways in which the product or service might be used; new ways it can be packaged; and new ways of identifying customers.

**True; Moderate**

24. Creativity in any organization can be stopped by failing to ask the right questions, failing to think in new ways and failing to tolerate creativity.

**True; Moderate**

25. Innovation is limited to the work of engineers and scientists and large R&D facilities.

**False; Moderate**

26. A recent study indicated that R&D performance by small US companies grew slightly faster than the comparable performance for larger US firms.

**False; Difficult**

27. For the period 2003 – 2007, small firms increased their R&D spending by more than 40% compared to approximately 33% increase for large companies.

**True; Difficult**

28. Smaller businesses could greatly benefit by recognizing and emerging social or consumer trends.

**True; Moderate**

29. The ability to track or identified social trends is too expensive for small businesses.

**False; Moderate**

30. The successful creation of customer value can significantly enhance a firm's cash loan.

**True; Easy**

31. It has been estimated that word-of-mouth is the primary factor in between 20% to 50% of all purchasing decisions.

**True; Difficult**

32. Customer Relationship Management software packages are too complex, too difficult and too expensive to ever be used in the small business environment.

**False; Moderate**

33. Cloud computing is not appropriate for the small business environment.

**False; Moderate**

**Multiple Choice**

34. The estimated cost of gaining a new customer over retaining a current customer has the following multiple:
- a. 3
  - b. 5
  - c. 7
  - d. 10
  - e. 20
- b; Difficult**
35. The estimated cost of regaining a dissatisfied customer over retaining a current customer has the following multiple:
- a. 3
  - b. 5
  - c. 7
  - d. 10
  - e. 20
- d; Difficult**
36. The type of value, identified by Sheth, Newman and Gross, which relates to the product or services ability to perform its utilitarian function, is
- a. Social Value
  - b. Emotional Value
  - c. Functional Value
  - d. Conditional Value
  - e. Epistemic Value
- c; Moderate**
37. The type of value, identified by Sheth, Newman and Gross, which evokes an affective response, is
- a. Social Value
  - b. Emotional Value
  - c. Functional Value
  - d. Conditional Value
  - e. Epistemic Value
- b; Moderate**

38. The type of value, identified by Sheth, Newman and Gross that involves a sense of relationship with other groups through the use of images and symbols is
- Social Value
  - Emotional Value
  - Functional Value
  - Conditional Value
  - Epistemic Value
- a; Moderate**
39. The type of value, identified by Sheth, Newman and Gross, which is generated by a sense of fun or novelty, is
- Social Value
  - Emotional Value
  - Functional Value
  - Conditional Value
  - Epistemic Value
- e; Moderate**
40. The type of value, identified by Sheth, Newman and Gross, which is derived from a particular context or social-cultural setting, is
- Social Value
  - Emotional Value
  - Functional Value
  - Conditional Value
  - Epistemic Value
- d; Moderate**
41. The three components of perceived cost are:
- Operating cost, purchase cost and maintenance cost
  - Fixed cost, variable cost, and overhead cost
  - Monetary cost, time cost, and psychic cost
  - Purchase cost, variable cost, and time cost
  - Operating cost, time cost, and fixed cost
- c; Moderate**
42. The dimensions along which a market may be segmented are
- Price, income and customer
  - Geographic, demographic and psychographic
  - Demographic, price and industry
  - Geographic, industry and price
  - Income, price and industry
- b; moderate**

43. What element is least likely to be considered part of the reason for making customer value the focus of the business' existence?
- Identifying unmet customer needs
  - Generating a profit
  - Understanding the value proposition desired by customers
  - Understanding how your business' value proposition is different than competitors
  - None of the above
- b, Difficult**
44. The concept that one could identify which customers might be most profitable is known as
- Voice of the Customer
  - Quality Function Deployment
  - Customer Lifetime Value
  - Net Present Value
  - None of the above
- c; Moderate**
45. In the "House of Quality" the section that what the customer desires (*the Whats*) is known as
- Customer Requirements
  - Engineering Characteristics
  - Relationship Matrix
  - The "Roof" of the house
  - The "Basement"
- a; Moderate**
46. In the "House of Quality" the section that illustrates the means by which the company seeks to meet customer needs (*the Hows*) is known as
- Customer Requirements
  - Engineering Characteristics
  - Relationship Matrix
  - The "Roof" of the house
  - The "Basement"
- b; Moderate**
47. In the "House of Quality" the section that illustrates the correlation between customer needs and engineering characteristics is known as
- Competitive Assessment Matrix
  - Engineering Characteristics
  - Relationship Matrix
  - The "Roof" of the house
  - The "Basement"
- c; Moderate**

48. In the “House of Quality” the section that illustrates the correlation between engineering characteristics is known as
- Customer Requirements
  - Competitive Assessment Matrix
  - Relationship Matrix
  - The “Roof” of the house
  - The “Basement”
- d; Moderate**
49. In the “House of Quality” the section that evaluates the position of the company with respect to its competitors is known as
- Customer Requirements
  - Engineering Characteristics
  - Relationship Matrix
  - The “Roof” of the house
  - Competitive Assessment Matrix
- e; Moderate**
50. In the “House of Quality” the section that used for assessing engineering characteristics is known as
- Customer Requirements
  - Competitive Assessment Matrix
  - Relationship Matrix
  - The “Roof” of the house
  - The “Basement”
- e; Moderate**
51. Loyalty programs are used by what percentage of U.S. households?
- Less than 15%
  - Slightly more than 25%
  - Slightly more than 40%
  - Slightly more than 65%
  - Slightly more than 80%
- e; Difficult**
52. Which of the following is **not** a reason for the failure of having creativity in organizations?
- Failure to ask *why* type of questions
  - Failure to wish for more
  - Failure to hire only creative people
  - Failure to record ideas
  - Failure to express ideas
- c; Moderate**



53. Innovation refers to
- Development of new products
  - Development of new services
  - Development of new packaging
  - Development of new ways of distributing
  - All of the above
- e; Moderate**
54. Small businesses that focus on niche markets can gain sales if they can
- Find out of the way locations
  - Find unique/odd spokespersons
  - Identify new social and consumer trends
  - Refuse sales to the broad number of customers
  - Sell overseas
- c; Moderate**
55. Small firms can track, inexpensively, trends by
- Hiring market research firms
  - Hiring psychics
  - Hire clipping services
  - Using online tools, like Google Trends
  - None of the above
- d; Moderate**
56. It has been estimated that Word-of-mouth advertising is the primary factor in what percentage of all purchasing decisions
- 0% to 10%
  - 10 to 20%
  - 20% to 50%
  - 40% to 80%
  - 60% to 100%
- c; Difficult**
57. The former Federal Trade Commission estimated that satisfied customers tell how many other customers about their satisfactory experience
- 2
  - 4
  - 5
  - 7
  - 10
- c; Moderate**

**Fill-in Questions**

58. The difference between perceived benefits and perceived costs is \_\_\_\_\_.  
**customer value; Easy**
59. The basis of value that relates to the products or services ability to perform its utilitarian purpose is known as \_\_\_\_\_.  
**functional value; Moderate**
60. \_\_\_\_\_ is the basis of value involves a sense of relationship with other groups through the use of images or symbols.  
**social value; Moderate**
61. \_\_\_\_\_ is the basis of value that is derived from the ability to evoke an affective response.  
**emotional value; Moderate**
62. Epistemic value is generated by a sense of \_\_\_\_\_.  
**novelty or simple fun; Moderate**
63. A basis of value that is derived from a particular context or socio-cultural setting is known as \_\_\_\_\_.  
**conditional value; Moderate**
64. Components that consist of the purchase, operating, service, switching and opportunity cost associated with any product or service is known as the \_\_\_\_\_ of cost.  
**monetary component; Moderate**
65. The element of cost that can be associated with factors that might do stress in the customer is known as the \_\_\_\_\_ component.  
**psychic; Moderate**
66. The division of a market into several portions that are different from each other is known as \_\_\_\_\_.  
**market segmentation; Easy**
67. A technique that is associated with the concept of Voice of the Customer (VOC) which is used to design new products and services or to improve existing ones by exploring how well individual activities are meeting those desires is known as \_\_\_\_\_.  
**Quality Function Deployment (QFD); Easy**
68. An attempt to identify the real wants and needs of the customer is sometimes referred to as the \_\_\_\_\_.  
**Voice of the Customer; Moderate**

69. A measure of the revenue generated by the customer, the cost generated for that particular customer and the projected retention rate of that customer over their lifetime is also known as the \_\_\_\_\_.  
**customer lifetime value; Moderate**
70. The discounting value of future cash flows minus the original investment is also known as the \_\_\_\_\_.  
**net present value; Easy**
71. One way smaller firms can compete with larger competitors is by being better at the process of \_\_\_\_\_.  
**innovation; Moderate**
72. One reason why smaller firms may be more innovative than their larger competitors is that small firms have less \_\_\_\_\_.  
**resources; Difficult**
73. A recent study indicated that R&D performance at smaller companies \_\_\_\_\_ than comparable performance at larger U.S. firms.  
**grew slightly faster; Moderate**
74. Smaller firms can track trends at no or nominal cost by using \_\_\_\_\_ tools.  
**online; Moderate**
75. \_\_\_\_\_ refers to a service approach which hopes to build a long-term sustainable relationship with customers.  
**Customer Relationship Management; Easy**
76. \_\_\_\_\_ refers to the situation in which a vendor's software does not reside on the small businesses.  
**Cloud computing; Moderate**

### **Short Answer**

77. Why is customer value important?  
**Customer value is important because if a business fails to provide customer's value they will no longer be customers. No customers means no revenue and no revenue means no profits.**  
**Moderate**
78. What are the different types of customer value?  
**Although different authors have argued for different number and types of value, the useful consensus is that there are five types of value: functional value, social value, emotional value, epistemic value and conditional value.**

**Moderate**

79. How would you define customer value?  
**Customer value can be defined as the difference between perceived benefits and perceived costs.**  
Easy
80. What are the different types of perceived costs?  
**There are three types of perceived costs – those being monetary cost, time cost and psychic cost.**  
Easy
81. What is meant by market segmentation?  
**Market segmentation involves dividing the overall market in two different subcategories. The basis of segmentation may be done by geographic region, demographic statistics or psychographics.**  
Easy
82. What is meant by customer lifetime value?  
**This is a measure of the revenue generated by the customer, the cost generated for that particular customer, and the projected retention rate of that customer over their lifetime.**  
Easy
83. What is meant by the term net present value?  
**Net present value discounts the value of future cash flows. It recognizes the time value of money.**  
Easy
84. Is market research the only way to ascertain what products and services should be provided to customers?  
**Although valuable market research is valuable it is not the only method to determine new products and services provide customers. Individual intuition can be extremely useful in the development of new products and services.**  
Moderate
85. Identify some major inventions that were originally created by small businesses.  
**Some products and inventions that were originally developed by small businesses include: air conditioner, Bakelite, FM radio, gyrocompass, high resolution cat scanner, outboard engine, the pacemaker, personal computer, frozen foods, safety razor's, soft contact lenses and the zipper.**  
Easy

86. What is meant by innovation?

**Innovation can involve new ways in which the product or service might be used; it can involve new ways of packaging a product or services; innovation can be associated with identifying new customers or new ways to reach customers; to put it simply, innovation centers on finding new ways to provide customer value.**

**Easy**

87. Why are trends important to the small business owner?

**Small businesses that can identify emerging trends before the competition and position themselves so as to be able to exploit these trends can then produce tangible economic returns.**

**Moderate**

88. Is the identification of trends beyond the capability of small businesses given their lack of resources?

**The ability for small businesses to identify or track trends is greatly simplified by the availability of online data services that are available either at no cost or a nominal cost. Online technology now provides even the smallest business with the opportunity to monitor and detect trends that can be translated into more successful business ventures.**

**Moderate**

89. What is meant by the term customer relationship management?

**Customer relationship management refers to a service approach which hopes to build a long-term and sustainable relationship with customers that provides value for both the customer and the company. It is a generic term covering different types of software and browser applications that collect information about customers and organizes and the way they can be effectively used by management.**

**Easy**

90. What is meant by cloud computing?

**Cloud computing, also known as SaaS (Software as a Service) refers to vendor software that does not reside on the small business computer system. All aspects of the system from maintenance to backups are the responsibility of the vendor. The software is on an off-site location. Cloud computing can significantly reduce the cost of acquiring and maintaining many different types of computer applications.**

**Easy**

### Essay

91. Why should a small business owner be concerned about the concept of customer value?

**Concept of customer value, which can be defined as the difference between perceived benefits and perceived cost, is a critical value to any business regardless of size. However, it's of particular importance to the small business. Small businesses thrive and survive on their ability to be better providers of customer value. They can achieve these ends either by increasing the perceived benefits that they provide to customers or by reducing the perceived costs that customers experience. Small businesses have the flexibility to develop an intimacy with their customers that can better enable them to understand what the customer values.**

**Moderate**

92. What are the different ways that a small business owner can use to listen to the voice of the customer?

**Business owners can simply engage in dialogs with their customers. They can also use other methods of soliciting feedback from your customers, such as satisfaction surveys or the use of the company's website. Businesses may engage in market research projects to better understand their customer or to evaluate proposed new products and services. Other ways of listening to customers is through comment cards and paper and online surveys. Loyalty programs are another way of gathering information about each of customers. Social marketing options offer tremendous opportunity not only to listen to customers but to engage in an active dialog that can build a sustainable relationship with customers.**

**Moderate**

93. What is meant by the term quality function employment?

**Quality function deployment is an approach that was initially developed in Japan for manufacturing applications. It seeks to "transform user demands into design quality, to deploy the functions forming quality, and to deploy methods for achieving the design quality into subsystems and component parts, and ultimately to specific elements." Simply UFT takes the desires of the customers and explores how well the individual activities of the business are meeting those desires. It considers how the company's activities interact with each other and how well the company is meeting those customers desires with respect to the competition. It is generally presented in a schematic known as the house of quality.**

**Difficult**

94. If creativity is important for many small businesses, what can be done to foster creativity?

**One of the first steps that should be taken in order to force to creativity is to recognize that the business owner and his or her organization should not create an environment that stifles creativity some of the factors that crush the creative process in organizations are:**

1. **Failure to ask questions** – Small business owners and their employees often fail to ask the required *why* type questions.

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2. **Failure to record ideas** – It doesn't help if individuals in an organization are creative and produce a large number of ideas if these ideas cannot be evaluated by other members of the organization. Therefore, it's important for you to record ideas and to share them.
3. **Failure to revisit ideas** – One of the benefits of recording ideas is that if they are not immediately implemented they may become viable at some point in the future.
4. **Failure to express ideas** – Sometimes individuals are unwilling to express new ideas for fear of criticism. In some organizations we are too willing to critique an idea before it is allowed to fully develop.
5. **Failure to think in new ways** – This is more than the cliché of "thinking outside the box". It involves new ways of approaching and looking at a problem of providing customer value.
6. **Failure to wish for more** – Satisfaction with the current state of affairs or with the means of solving particular problems translates into an inability to look at new ways of providing value to customers.
7. **Failure to try to be creative** – Many people mistakenly think that they are not at all creative. This means you'll never try to produce new types of solutions to the problems that they face.
8. **Failure to keep trying** – When attempting to provide new ways to create customer value, sometimes individuals are confronted with a creative block. Then they simply give up. This is the surest way to destroy the creative thinking process.
9. **Failure to tolerate creative behavior** – Organizations often fail to nurture the creative process. They failed to give people time to think about problems, they fail to tolerate the "odd" suggestions from employees and limit creativity to a narrow domain.

**Difficult**

95. Describe how the successful creation of customer value can significantly enhance the firm's cash flow.

**Firms that are successful in correctly identifying the sources of value should be able to provide superior customer value. This may produce a direct relationship with their customers. These relationships produce a back-and-forth flow of information which should enable the business to further enhance its ability to provide customer value. A successful relationship enhances the probability of customer loyalty; hopefully, building a strong enough relationship to produce a customer for life. Customer loyalty can have a number of positive outcomes. Loyalty will result in increased sales from particular customers. This not only generates more revenue, but as the business comes to better understand its loyal customers the cost of serving customers will drop. Increased sales, with the declining costs, translate into a significant boost in cash flow.**

**Moderate**