Chapter 2 External Analysis The Identification of Opportunities and Threats

TRUEFALSE

1. To determine its opportunities and threats, a firm should focus on internal processes and capabilities.

(A) True

(B) False

Answer : (B)

2. Opportunities arise when a company can take advantage of conditions in its environment to formulate and implement strategies that allow it to become more profitable.

(A) True

(B) False

Answer : (A)

3. Threats arise when conditions in the external environment endanger the integrity and profitability of a company's business.

(A) True

(B) False

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

Answer : (B)

5. In Porter's competitive forces framework, the stronger the five forces, the ability of established companies to raise prices and earn greater profits becomes more limited.

(A) True

(B) False

Answer : (A)

6. Substitute products are not a threat if a company is the market leader.

(A) True

(B) False

Answer : (B)

7. Suppliers are most powerful when the products that they sell have many substitutes.

(A) True

(B) False

Answer : (B)

8. Cost reductions gained through mass-producing a standardized output are a source of scale economies.

(A) True

(B) False

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

Answer : (A)

10. The more commodity-like that an industry's product is, the lower the intensity of any price war that may develop.

(A) True

(B) False

Answer : (B)

11. A group of firms all make tools for baking-pots, pans, measuring cups, and utensils. This group should be referred to as a market segment.

(A) True

(B) False

Answer : (B)

12. Strong brand loyalty and high customer switching costs are low barriers to entering an industry.

(A) True

(B) False

Answer : (B)

13. Growing demand tends to reduce rivalry because all companies can sell more without taking market share away from each other.

(A) True

(B) False

Answer : (A)

14. Government deregulation of telephone service lowered the barriers to entry and lowered industry profit rates.

(A) True

(B) False

Answer : (A)

15. When buyers are in a weak bargaining position, companies in the industry must lower their prices to increase profits.

(A) True

(B) False

Answer : (B)

16. Market segments are distinct groups of customers within a market that can be distinguished from each other based on their individual attributes and specific demands.

(A) True

(B) False

Answer : (A)

17. Intense rivalry lowers prices and raises costs.

(A) True

(B) False

Answer : (A)

18. Companies operating in high-technology industries are dependent on complementary products for their mutual success.

(A) True

(B) False

Answer : (A)

19. 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

Answer : (B)

20. A company's closest competitors are those in its strategic group.

(A) True

(B) False

Answer : (A)

21. Companies facing greater exit barriers find it harder to reduce capacity, and face a greater threat of severe price competition.

(A) True

(B) False

Answer : (A)

22. Rapid growth in demand enables companies to expand their revenues and profits without taking market share away from competitors.

(A) True

(B) False

Answer : (A)

23. Successful innovation cannot transform the nature of industry competition.

(A) True

(B) False

Answer : (B)

24. 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

Answer : (A)

25. The punctuated equilibrium view can be described as a freezing, but not unfreezing, process in an industry's life-cycle.

(A) True

(B) False

Answer : (B)

26. 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

Answer : (A)

27. Changes in the characteristics of a population, such as age or race, are irrelevant to the analysis of an industry's macroenvironment.

(A) True

(B) False

Answer : (B)

28. Deregulation of the mortgage industry is an example of how political and legal forces can impact an industry.

(A) True

(B) False

Answer : (A)

29. A technological change, such as the rise of the Internet, can represent either an opportunity or a threat.

(A) True

(B) False

Answer : (A)

30. Interest rates have an impact on the sale of automobiles, appliances, and capital equipment. This represents a macroeconomic force.

(A) True

(B) False

Answer : (A)

MULTICHOICE

31. 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.

Answer : (E)

32. A sector refers to a group of:

(A) government regulators.

(B) closely related industries.

(C) manufacturing plants of a company based in the same location.

(D) business units owned by a single firm.

(E) companies that manufacture similar products under different brand names.

Answer : (B)

33. A baking company has different product ranges like whole-wheat pizzas for the diet-conscious and rich cookies for children and youngsters. The company is catering to different groups of customers known as:

(A) investors.

(B) entrants.

(C) sectors.

(D) market segments.

(E) substitutes.

Answer : (D)

34. 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.

Answer : (A)

35. 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.

Answer : (B)

36. Porter's Five Forces model did not recognize one force, which is:

(A) the power of complement providers.

(B) the risk of entry by potential competitors.

(C) the intensity of rivalry among established companies within an industry.

(D) the bargaining power of suppliers.

(E) the threat of substitutes.

Answer : (A)

37. Which of the following statements is true about potential competitors in an industry?

(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.

Answer : (A)

38. 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

Answer : (D)

39. If economies of scale are an industry's primary entry barrier, a new entrant's 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.

Answer : (D)

40. 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.

Answer : (E)

41. 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) Sector

Answer : (A)

42. A consolidated industry structure:

(A) consists of a large number of small companies.

(B) can be seen in agriculture, dry cleaning, health clubs, and real estate brokerage.

(C) consists of few companies that are in a position to determine industry price.

(D) provides no scope for oligopoly to exist.

(E) is characterized by low-entry barriers and commodity-type products.

Answer : (C)

43. Which of the following is NOT a determinant of the extent of rivalry among established companies?

(A) Industry competitive structure

(B) Demand conditions

(C) The cost structure of firms in an industry

(D) Exit barriers

(E) The power of buyers

Answer : (E)

44. The extent of rivalry among established companies is lowest when:

(A) the industry's 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.

Answer : (B)

45. The bargaining power of an industry's 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.

Answer : (E)

46. Which of the following statements is true about complementors?

(A) Their impact on industries was first recognized by Porter's 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.

Answer : (C)

47. 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.

Answer : (C)

48. Market segments are groups of:

(A) customers within a market that can be different from each other on the basis of their distinct attributes and specific demands.

(B) companies within a market that produce similar goods or services which are close substitutes of each other.

(C) companies that follow a similar business model and cater to the needs of similar customers.

(D) closely related industries.

(E) large companies that are in a position to determine industry price.

Answer : (A)

49. 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 product quality.

(E) minimizing after-sales service

Answer : (D)

50. Which of the following statements is true about government regulations in the context of entry barriers of an industry?

(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 reduces 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.

Answer : (C)

51. _____ 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 costs

(B) Incremental costs

(C) Marginal costs

(D) Opportunity costs

(E) Switching costs

Answer : (E)

52. Which of the following statements is true about rivalry in the context of established companies?

(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.

Answer : (B)

53. The competitive structure of an industry refers to the:

(A) number of market segments in the industry.

(B) number and size distribution of companies in the industry.

(C) number of consumers in the industry.

(D) number of manufacturing plants in the industry.

(E) number of products produced in the industry.

Answer : (B)

54. Common exit barriers include:

(A) minimal investment in assets like specific machines.

(B) emotional attachments to an industry.

(C) low fixed costs associated with leaving an industry.

(D) the lack of bankruptcy regulations.

(E) economic independence of a company

Answer : (B)

55. An industry's 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.

Answer : (B)

56. 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.

Answer : (B)

57. 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. Tyrone's 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

Answer : (D)

58. 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.

Answer : (A)

59. Members of a strategic group:

(A) compete only with members of other strategic groups.

(B) are affected by Porter's five competitive forces in the same way and to the same degree as the members of other strategic groups.

(C) follow a business model 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.

Answer : (C)

60. Mobility barriers:

(A) allow industries to change their strategy and compete in that strategic group.

(B) inhibit the movement of companies between strategic groups in an industry.

(C) inhibit companies from shifting between suppliers for the 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 company's existing group.

Answer : (B)

61. In growth industries:

(A) the intensity of rivalry is very high.

(B) technological expertise is the most important entry barrier.

(C) threat from potential competitors is typically highest.

(D) distribution channels are poorly developed.

(E) buyers are not familiar with the industry's products.

Answer : (C)

62. 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.

Answer : (E)

63. Which of the following is true of growth industries?

(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 industry's product.

(E) They inhibit the development of distribution channels.

Answer : (B)

64. Demand reaches total saturation in the ____ stage of the industry life-cycle.

(A) embryonic

(B) growth

(C) shakeout

(D) maturity

(E) decline

Answer : (D)

65. 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

Answer : (B)

66. 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.

Answer : (D)

67. 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.

Answer : (A)

68. In the late 1800s, when the automobile was first manufactured, the automobile industry would have been considered a(n):

(A) mature industry.

(B) stakeout industry.

(C) embryonic industry.

(D) growth industry.

(E) declining industry.

Answer : (C)

69. Which of the following is currently an embryonic industry?

(A) Personal computers

(B) Biotechnology

(C) Internet retailing

(D) Nanotechnology

(E) Wireless communications

Answer : (D)

70. Which of the following is NOT one of the factors in the economic forces of the macroenvironment?

(A) Interest rates

(B) Inflation

(C) Cultural changes

(D) Currency exchange rates

(E) Economic growth rate

Answer : (C)

71. 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

(C) Manufacturing technology

(D) Age of the population

(E) Society's growing interest in exercise

Answer : (D)

72. Many beverage manufacturers are noticing that sales for packaged 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

Answer : (E)

73. The Internet is an example of a:

(A) technological force.

(B) social force.

(C) macroeconomic force.

(D) demographic force.

(E) global force.

Answer : (A)

74. 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

Answer : (C)

75. 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 industry's macroenvironment, age is considered a:

(A) technological force.

(B) demographic force.

(C) social force.

(D) political force.

(E) legal force.

Answer : (B)

76. 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

Answer : (A)

ESSAY

77. Why is it important to understand the external environment in order to think strategically?

Graders Info :

Strategic thinking allows managers to select the strategies that allow their companies to establish a competitive advantage and outperform rivals. As the external environment continues to change in rapid and unpredictable ways, it is important for managers to understand the conditions that exist

and that will impact their performance and profitability.
Without an understanding of the external environment, the strategy process would be arbitrary, and performance would be lower than it should be. By understanding the dynamics that drive industries and the macroenvironmental forces that present both opportunities and threats, managers are in a position to craft strategies that allow them to effectively steer their companies through challenging times.

78. Define and then relate the concepts of sectors, industries, and market segments.

Graders Info :

All of these concepts are useful in terms of understanding the nature of competition and the forces in the industry environment that affect performance. A skilled strategic manager must take all of these into account when developing strategies.
A sector refers to a group of closely related industries. In terms of scope, sectors encompass the broadest set of firms. A sector is typically composed of several interrelated industries. An industry refers to a group of companies offering products and services that are close substitutes for each other. Market segments refer to a distinct group of customers within an industry market that can be differentiated from each other on the basis of their distinct attributes and specific demands.

79. Using the industry life-cycle model, explain how the threats and opportunities for existing firms in an industry change over time.

Graders Info :

In the embryonic stage of the industry life cycle, barriers to entry come from access to technological knowhow (a threat). Rivalry is relatively low due to the fragmented nature of the industry (an opportunity). Suppliers tend to be large and powerful relative to existing companies, as do buyers (threats). Substitute products may be plentiful, inexpensive, and better known to consumers (a threat).
In the growth stage, barriers to entry are typically quite low (a threat). Rivalry is low because the growing industry creates plenty of demand (an opportunity). Buyers and suppliers are somewhat less powerful relative to the larger companies in the growth stage (moving toward opportunities). Substitute products may be few or plentiful (an opportunity or threat).

In a mature industry, barriers to entry rely on economies of scale and brand loyalty, and they are quite high (an opportunity). Rivalry becomes much more intense (a threat). Buyers and suppliers become even less powerful relative to the large existing companies (opportunities). Substitute products may be few or plentiful (opportunity or threat).

In the decline stage, there are few new entrants (an opportunity). Rivalry remains very intense (a threat). Buyers and suppliers become more powerful relative to existing firms (moving toward threats). Substitute products are likely to be plentiful and appealing to consumers (a threat).

80. Describe one major limitation of each of the following models for competitive analysis: the five forces model, the strategic groups model, and the industry life cycle model. Does the existence of these limitations mean that the models are not useful? Why or why not?

Graders Info :

All three of these models fail to account for the impact that radical change and innovation can have on an industry. Radical change can alter the impact of the five forces; it can shift the strategic groupings within an industry; and it can speed, slow, or disrupt an industry's progress through the stages of the life cycle model. Because these three models all rely on historical evidence to project future trends, the possibility and impact of radical discontinuity is not incorporated into them.
Another limitation of each of these models is the lack of accounting for firm-specific characteristics and actions. These three models all assume that the environment is a major determinant of firm performance and that every firm in the industry (or the strategic group) experiences the industry structure in the same way. Yet empirical evidence demonstrates that firms within the industry have widely differing levels of performance, so there must be other explanatory variables. According to some studies, industry characteristics account for no more than 20 percent of the variance in performance across firms.
A limitation of the life cycle model is that not every industry moves through the same steps or in the same order or at the same rate. Empirical evidence shows that industries vary tremendously in the rate and way in which they mature.

81. Consider the macroenvironment facing a large, international airline headquartered in the United States (such as American or United). Give at least three examples of important trends or events from each of the five segments of the airline's macroenvironment (macroeconomic, technological, demographic, social, political, and legal), and explain whether each represents a threat or an opportunity for the firm.

Graders Info :

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 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 corridor. This development threatens airlines because it reduces the number of tickets they can sell and the prices they can charge in those markets.