# PART-3 UNIT 1

**1.Which of the following is least likely to be an example of synergy?**

A.A shopping mall with several businesses providing different products and performing different services.

B.A car dealership providing warranties on automobile parts to maximize customer value.

C.A manufacturing company hiring a new manager with technological experience lacking in the company.

D.Military Humvees being converted into sports utility vehicles for sale to civilians.

Answer (B) is correct.

Synergy occurs when the combination of formerly separate elements has a greater effect than the sum of their individual effects. However, a car dealership's provision of warranties reflects an operational strategy designed to provide post-purchase services to gain a competitive advantage and maximize customer value. It does not reflect the complementary sharing of resources, technology, or competencies. In contrast, synergy arises from selling a line of cars that share some components or a brand identification.

A.A shopping mall with several businesses providing different products and performing different services is an example of market synergy.

C.Hiring a manager with needed skills is an example of management synergy.

D.Conversion of Humvees to SUVs is an example of technological synergy.

**2.Which of the following best describes a market synergy?**

A.Technology transfer from one product to another.

B.Bundling of products distributed through the same channels.

C.Production of multiple products at one facility.

D.Use of complementary management skills to achieve entry into a new market.

Answer (B) is correct.

Market synergy arises when products or services have positive complementary effects. Shopping malls reflect this type of synergy. Also, bundling of products, distribution through the same distribution channels, and use of the same sales force are other examples of market synergies.

A.Technology transfer constitutes technology synergy.

C.The production of multiple products at one production facility is an example of cost synergy.

D.Using complementary management skills is an example of management synergy.

**3.Which of the following is a market-oriented definition of a business versus a product-oriented definition of a business?**

A.Making air conditioners and furnaces.

B.Supplying energy.

C.Producing movies.

D.Selling men’s shirts and pants.

Answer (B) is correct.

Businesses should be defined in market terms, that is, in terms of needs and customer groups. Moreover, a distinction should be made between a target market definition and a strategic market definition. For example, a target market for a railroad might be freight hauling, but a strategic market might be transportation of any goods and people. Accordingly, stating that a business supplies energy is a market-oriented definition as opposed to the product-oriented definition. Moreover, it is also a strategic market definition.

A.Air conditioners and furnaces are products, not customer needs.

C.Movies are products, not a customer need (e.g., entertainment).

D.Shirts and pants are products, not an underlying need.

**4.Which one of the following is a social trend affecting the organization?**

A.Changes in labor markets.

B.Tougher legislation to protect the environment.

C.Rising inflation.

D.Replacements for steel in cars and appliances.

Answer (A) is correct.

Social trends, such as changes in labor markets, reflect social, cultural, and demographic factors in the organization's macroenvironment that may constitute opportunities or threats (identified in a SWOT analysis). The attributes of people (age, education, income, ethnicity, family status, etc.) and their beliefs, attitudes, and values shape and are shaped by social trends that in turn affect the organization. Thus, changes in the characteristics, sources, locations, and costs of labor resources supplied (a basic factor of production) have great effects on an organization's strategic position.

B.Tougher legislation to protect the environment is a political trend.

C.Rising inflation is an economic trend.

D.Replacements for steel in cars and appliances represent a technological trend.

**5.Which of the following best describes a cost synergy?**

A.Recycling of by-products.

B.Selling one product strengthens sales of another product.

C.Transferring knowledge to new uses.

D.Acquiring new management skills.

Answer (A) is correct.

Cost synergy results in cost reduction. It occurs in many ways, for example, in recycling of by-products or in the design, production, marketing, and sales of a line of products by the same enterprise.

B.Selling one product strengthens sales of another product is an example of market synergy.

C.Transferring knowledge to new uses is an example of technological synergy.

D.Acquiring new management skills is an example of management synergy.

**6.According to Michael E. Porter's generic strategies model, a firm that successfully adopts a differentiation strategy is most likely to**

A.Tend to disregard cost control.

B.Risk overlooking product changes.

C.Closely supervise its labor force.

D.Be able to pass supplier cost increases on to its customers.

Answer (D) is correct.

Differentiation is the generic strategy of a firm that seeks competitive advantage through providing a unique product or service. This strategy has a broad competitive scope. A successful differentiation strategy creates a consumer perception that few, if any, substitutes are available. Thus, a firm that adopts this strategy may have the additional advantage of being able to pass supplier cost increases to buyers.

A.A differentiation strategy does not signify a disregard for cost control, but simply a greater emphasis on creating a perception of the uniqueness of the product or service.

B.A firm with a cost leadership strategy risks overlooking product changes.

C.A firm with a cost leadership strategy is more likely to closely supervise its labor force.

**7.According to Michael E. Porter's generic strategies model, a firm that successfully adopts a cost focus strategy is most likely to**

A.Have weak customer loyalty.

B.Have a strong R&D function.

C.Know its market well.

D.Enjoy economies of scale.

Answer (C) is correct.

Cost focus is the generic strategy of a firm that seeks competitive advantage through lower costs but with a narrow competitive scope (e.g., a regional market or a specialized product line). The reason for a cost focus strategy is that the narrower market can be better served because the firm knows it well.

A.Firms that successfully adopt a cost focus strategy achieve very strong customer loyalty, a disincentive to potential competitors.

B.A firm adopting a differentiation strategy is more likely to have a strong R&D function. A firm that successfully adopts a cost focus strategy is more likely to have the strengths of a cost leadership firm.

D.The cost (or differentiation) advantage of servicing a narrow target may be more than offset by the cost advantage achieved by broad-target competitors through economies of scale and other factors.

**8.A strategic business unit (SBU) has a high relative market share (RMS) and a low business growth rate (BGR). According to the growth-share matrix for competitive analysis created by the Boston Consulting Group, the SBU is a**

A.Star.

B.Question mark.

C.Cash cow.

D.Dog.

Answer (C) is correct.

The annual BGR reflects the maturity and attractiveness of the market and the relative need for cash to finance expansion. The RMS reflects an SBU’s competitive position in the market segment. A high RMS signifies that the SBU has a strong competitive position. Cash cows have high RMS and low BGR. They are strong competitors and cash generators in low-growth markets.

A.Stars have both high RMS and high BGR because they are strong competitors in high-growth markets.

B.Question marks are weak competitors in high-growth markets, meaning they have a low RMS and a high BGR.

D.Dogs have both low RMS and low BGR, meaning they are weak competitors in low-growth markets.

**9.A manufacturing company produces plastic utensils for a particular segment at the lowest possible cost. The company is pursuing a cost**

A.Leadership strategy.

B.Focus strategy.

C.Differentiation strategy.

D.Containment strategy.

Answer (B) is correct.

Cost focus is the generic strategy that seeks competitive advantage through lower costs but with a narrow competitive scope (e.g., a regional market or a specialized product line). The reason for a cost-focus strategy is that the narrower market can be better served because the firm knows it well.

A.A cost leader is the lowest cost producer in the industry as a whole

C.Cost differentiation sells a product at different costs in different market segments.

D.Cost containment controls costs related to a particular product or market but does not necessarily produce the lowest possible cost.

**10.A company sells a diverse line of cookies. Its acquisition of another company, a maker of cake mixes, is most likely an example of**

A.Vertical integration.

B.Horizontal diversification.

C.Concentric diversification.

D.Conglomerate diversification.

Answer (B) is correct.

Horizontal diversification is the acquisition of businesses making products unrelated to current offerings but that might appeal to the firm’s current customers. Cookies and cake mixes are based on different technologies but may be demanded by the same customers.

A.Vertical integration occurs when suppliers, wholesalers, or retailers are acquired.

C.Concentric diversification results from developing or acquiring related businesses that do not have products, services, or customers in common with current businesses but that offer internal synergies. Thus, the new products or services may be demanded by customers different from those currently served by the company.

D.Conglomerate diversification is the acquisition of wholly unrelated businesses.

**11.Business strategies may be characterized by their effects on operations. The distinction between a compact car and a luxury car reflects which operational strategy?**

A.Cost.

B.Flexibility.

C.Service.

D.Quality.

Answer (D) is correct.

A quality strategy involves competition based on product quality or process quality. Product quality relates to design, for example, the difference between a luxury car and a subcompact car. Process quality concerns the degree of freedom from defects.

A.A cost strategy is successful when the enterprise is the low-cost producer. However, the product (e.g., a commodity) tends to be undifferentiated in these cases, the market is often very large, and the competition tends to be intense because of the possibility of high-volume sales.

B.A flexibility strategy entails offering many different products. This strategy also may reflect an ability to shift rapidly from one product line to another. An example firm is a publisher that can write, edit, print and distribute a book within days to exploit the public's short-term interest in a sensational event.

C.A service strategy seeks to gain a competitive advantage and maximize customer value by providing services, especially post-purchase services such as warranties on automobiles and home appliances.

**12.What operations strategy is most likely to be adopted when the product sold by an organization is a commodity and the market is very large?**

A.Flexibility strategy.

B.Quality strategy.

C.Service strategy.

D.Cost strategy.

Answer (D) is correct.

An operations strategy formulates a long-term plan for using resources to reach strategic objectives. A cost strategy is successful when the enterprise is the low-cost producer. However, the product (e.g., a commodity) tends to be undifferentiated in these cases, the market is often very large, and the competition tends to be intense because of the possibility of high-volume sales.

A.A flexibility strategy involves offering many different products.

B.A quality strategy involves competition based on product quality or process quality.

C.Service is not an issue in a sale of commodities.

**13.Which of the following cycles does not have accounting information recorded into the general ledger reporting system?**

A.Expenditure.

B.Production.

C.Planning.

D.Revenue.

Answer (C) is correct.

Planning is the determination of what is to be done and of how, when, where, and by whom it is to be done. Plans serve to direct the activities that all organizational members must undertake and successfully perform to move the organization from where it is to where it wants to be. No transactions that require recording in the general ledger take place during the planning cycle.

A.Purchasing, receiving, cash payments, and other transactions in the expenditure cycle are recorded in the general ledger.

B.Accounting for costs, deferred costs, and property involved in the production or conversion of goods or services are recorded in the general ledger.

D.Sales, receivables, cash receipts, bad debts, and other transactions in the revenue cycle are recorded in the general ledger.

**14.Which of the following is not a recognized firm orientation?**

A.Product-centered.

B.Competitor-centered.

C.Customer-centered.

D.Time-centered.

Answer (D) is correct.

The phrase “time-centered” is not meaningful in this context

A.Product-centered firms focus primarily on the product.

B.Competitor-centered firms mainly base moves on competitors’ actions and reactions.

C.Customer-centered firms focus on customer developments and delivering value to customers.

**15.Strategic management includes developing the organization’s grand strategy. This strategy is based on**

A.Existing strategic business units (SBUs).

B.A SWOT analysis.

C.Portfolio management of the organization's businesses.

D.Strategic planning.

Answer (B) is correct.

Strategic management is a process that includes development of a grand strategy that describes how the organization's mission is to be achieved. This strategy is based on a situational analysis that considers organizational strengths and weaknesses (a capability profile) and their interactions with environmental opportunities and threats. Such an evaluation is also called a SWOT analysis. Strengths and weaknesses (the internal environment) are usually identified by considering the firm's capabilities and resources. What the firm does particularly well or has in greater abundance are known as core competencies. Opportunities and threats (the external environment) are identified by considering macroenvironment factors (economic, demographic, political, legal, social, cultural, and technical) and microenvironment factors (suppliers, customers, distributors, competitors, and other competitive factors in the industry).

A.Strategic planning follows the SWOT analysis. This step includes determining what SBUs the organization should have.

C.Strategic planning involves portfolio management of the firm's businesses, determining the strength of each business with respect to the potential of markets and the position of businesses in their markets, and creating a strategy for each business.

D.Strategic planning formulates specific and measurable objectives, plans, policies, and budgets after the grand strategy has been developed.

**16.In a SWOT analysis, a firm considers macroeconomic factors when it identifies**

A.The capability profile.

B.Opportunities and threats.

C.Core competencies.

D.Strengths and weaknesses.

Answer (B) is correct.

Opportunities and threats (the external environment) are identified by considering macroenvironmental factors (economic, demographic, political, legal, social, cultural, and technical) and microenvironmental factors (suppliers, customers, distributors, competitors, and other competitive factors in the industry).

A.The capability profile consists of the firm’s strengths and weaknesses.

C.Strengths and weaknesses (the internal environment) are usually identified by considering the firm’s capabilities and resources. What the firm does particularly well or has in greater abundance are known as core competencies.

D.Strengths and weaknesses (the internal environment) are usually identified by considering the firm’s capabilities and resources.

**17.A firm should state its primary competitive scopes when it**

A.Defines its strategic business units (SBUs).

B.Establishes strategic control points.

C.Formulates its mission.

D.Makes investment and divestment decisions.

Answer (C) is correct.

At the highest level, a firm’s strategic planning function involves formulating its mission (ultimate firm purposes and directions), determining its strategic business units (SBUs), allocating resources to SBUs, planning to start new businesses, and downsizing or divesting old businesses. A mission statement should address reasonably limited objectives, define the firm’s major policies and values, and state the firm’s primary competitive scopes (e.g., industries, products and services, applications, core competencies, market segments, degree of vertical integration, and geographic markets).

A.A firm defines its strategic business units (entities for which separate planning is possible) only after it formulates its mission.

B.Strategic controls monitor the implementation of strategic plans. Strategic planning begins when the firm formulates its mission.

D.A firm makes investment and divestment decisions only after it formulates its mission.

**18.Strategic control measures that relate to external effectiveness apply to customer satisfaction at the**

A.Departmental level.

B.Business-operating-system level.

C.Business-unit level.

D.Work-center level.

Answer (B) is correct.

Strategic controls should be established to monitor progress, isolate problems, identify invalid assumptions, and take prompt corrective action. As plans are executed at each organizational level, control measurements are made to determine whether objectives have been achieved. Thus, objectives flow down the organizational hierarchy, and control measures flow up. One category of strategic control measures relates to external effectiveness. At the business-operating-system level, these measures concern satisfaction and flexibility.

A.At the departmental or work-center level, these measures concern quality and delivery.

C.At the business-unit level, these measures concern performance in the marketplace (market share, etc.).

D.At the departmental or work-center level, these measures concern quality and delivery.

**19.Strategic control measurements of financial results relate to**

A.Internal efficiency at the business-unit level.

B.Internal efficiency at the departmental level.

C.External effectiveness at the business-unit level.

D.External effectiveness at the business-operating-system level.

Answer (A) is correct.

Strategic controls should be established to monitor progress, isolate problems, identify invalid assumptions, and take prompt corrective action. As plans are executed at each organizational level, control measurements are made to determine whether objectives have been achieved. Thus, objectives flow down the organizational hierarchy, and control measures flow up. One category of strategic control measures relates to external effectiveness. A second category of strategic control measures relates to internal efficiency. At the business-unit level, the latter measures concern financial results.

B.Measures of internal efficiency at the departmental level concern cycle time and waste.

C.Measures of external effectiveness at the business-unit level concern performance in the marketplace (market shares, etc.).

D.Measures of external effectiveness at the business-operating-system level concern flexibility.

**20.Strategic management includes establishment of appropriate controls. Control measurements are made to determine whether organizational objectives are being achieved. One category of strategic control measures concerns external effectiveness. A measurement relating to external effectiveness is**

A.Cycle time.

B.Waste.

C.Flexibility.

D.Productivity

Answer (C) is correct.

Strategic control measures apply to external effectiveness or internal efficiency. Flexibility overlaps these categories. It relates to effectiveness and efficiency. Thus, an organization must be externally flexible in responding to changing customer needs and internally flexible in reordering its structural arrangements, retraining employees, etc.

A.Cycle time is an internal efficiency measure.

B.Waste is an internal efficiency measure.

D.Productivity is an internal efficiency measure.

**21.Strategic management is a five-step process. In what order should the five steps be accomplished?**

A.SWOT analysis, mission and goals, strategy, controls and feedback, implementation.

B.Mission and goals, SWOT analysis, strategy, implementation, controls and feedback.

C.Mission and goals, strategy, implementation, SWOT analysis, controls and feedback.

D.Strategy, SWOT analysis, mission and goals, controls and feedback, implementation.

Answer (B) is correct.

Strategic management is a five-step process:

1. The board of directors drafts the organization’s mission statement, a general statement of what the organization intends to accomplish and its reason for existing. The statement may be accompanied by one or more goals, which are concrete targets for measuring the organization’s success.

2. The organization performs a situational analysis, also called a SWOT analysis, involving identification of its strengths, weaknesses, opportunities, and threats.
3. Based on the results of the situational analysis, upper management develops a group of strategies describing how the mission statement will be fulfilled.
4. Strategic plans are implemented through the execution of component plans at each level of the entity.
5. Strategic controls and feedback are used to monitor progress, isolate problems, and take corrective action. Over the long term, feedback can be used to adjust the original mission and goals.

A.Drafting the organization’s mission and goals is the first step in the process of strategic management. Also, controls and feedback are established at the end of the process.

C.The SWOT analysis must be performed prior to strategy development and implementation.

D.Organization mission and goals are drafted during the first step in the strategic management process, followed by the SWOT analysis. Establishment of controls and feedback occurs at the end of the process.

**22.Which of the following steps in the strategic planning process should be completed first?**

A.Translate objectives into goals.

B.Determine actions to achieve goals.

C.Develop performance measures.

D.Create a mission statement.

Answer (D) is correct.

A mission statement is a formal, written document that defines an organization’s ultimate purposes in society in general terms. After a situational analysis is performed, the entity develops a group of strategies for achieving the mission.

A.A subsequent step is to translate longer-range objectives into shorter-range objectives. However, the terms “objectives” and “goals” are defined differently by different authors. For example, “goals” might be longer-range than “objectives.”

B.Determining the specific actions to achieve objectives (goals) follows defining the mission.

C.An organization does not develop performance measures before defining its mission.

**23.A firm's statement of broad objectives or mission statement should accomplish all of the following except**

A.Outlining strategies for technological development, market expansion, and product differentiation.

B.Defining the purpose of the company.

C.Providing an overall guide to those in high-level, decision-making positions.

D.Stating the moral and ethical principles that guide the actions of the firm.

Answer (A) is correct.

The determination of organizational objectives is the first step in the planning process. A mission statement is a formal, written document that defines the organization's purpose in society, for example, to produce and distribute certain goods of high quality in a manner beneficial to the public, employees, shareholders, and other constituencies. Thus, a mission statement does not announce specific operating plans. It does not describe strategies for technological development, market expansion, or product differentiation because these are tasks for operating management.

B.A mission statement defines the purpose of the company (some writers differentiate between purpose and mission).

C.Broad objectives provide guidance to those in high-level positions who are responsible for long-range planning.

D.Mission statements increasingly are concerned with ethical principles.

**24.What is strategic planning?**

A.It establishes the general direction of the organization.

B.It establishes the resources that the plan will require.

C.It establishes the budget for the organization.

D.It consists of decisions to use parts of the organization's resources in specified ways.

Answer (A) is correct.

Strategic planning establishes the general direction of an organization. It embodies the concerns of senior management and is based specifically on (1) identifying and specifying organizational objectives; (2) evaluating the organization's strengths and weaknesses; (3) assessing risk levels; (4) identifying and forecasting the effect of external (environmental) factors relevant to the organization; (5) deriving the best strategy for reaching the objectives, given the organization's strengths and weaknesses and the relevant future trends; and (6) analyzing and reviewing the capital budgeting process and capacity planning.

B.Establishing the resources the strategic plan will require is merely one phase of strategic planning.

C.Establishing the budget for the organization cannot take place until the strategic plan is complete.

D.Decisions to use parts of the organization’s resources in specified ways defines operational planning.

**25.Which of the following is an example of an outcome of strategic planning?**

A.A formal statement of the organization’s definition of the fundamental truths that guide its actions.

B.A broad statement of concepts that emphasizes the implementation of organizational objectives over the long term.

C.A set of general guides for action that channel thinking and allow a certain amount of discretion in execution.

D.A document specifying a sequence of steps detailing the exact manner in which a certain activity must be accomplished.

Answer (B) is correct.

The strategic plan states the means by which an entity expects to achieve its stated mission. Achieving the mission is predicated on implementing long-term objectives.

A.Truths that guide an organization’s actions are principles.

C.General guides for action are policies.

D.A detailed sequence of steps for accomplishing a certain activity is a procedure.

**26.Which one of the following management considerations is usually addressed first in strategic planning?**

A.Outsourcing.

B.Overall objectives of the firm.

C.Organizational structure.

D.Recent annual budgets.

Answer (B) is correct.

Strategic planning is the process of setting overall organizational objectives and drafting strategic plans. Setting ultimate objectives for the firm is a necessary prelude to developing strategies for achieving those objectives. Plans and budgets are then needed to implement those strategies.

A.Outsourcing is an operating decision of a more short-term nature.

C.Organizational structure, although important in strategic planning, is based upon the firm's overall objectives.

D.Recent annual budgets are a basis for short-term planning.

**27.All of the following are characteristics of the strategic planning process except the**

A.Emphasis on long run.

B.Analysis of external economic factors.

C.Review of the attributes and behavior of the organization's competition.

D.Analysis and review of departmental budgets.

Answer (D) is correct.

Strategic planning is the process of setting the overall organizational objectives and involves the drafting of strategic plans. Analysis and review of departmental budgets is an aspect of operational management.

A.Emphasis on the long run is an aspect of strategic planning.

B.Analysis of external economic factors is an aspect of strategic planning.

C.Consideration of competitive factors and analysis of consumer demand are all aspects of strategic planning.

**28.Strategic planning, as practiced by most modern organizations, includes all of the following except**

A.Top-level management participation.

B.A long-term focus.

C.Strategies that will help in achieving long-range goals.

D.Analysis of the current month’s actual variances from budget.

Answer (D) is correct.

Strategic planning is the process of setting overall organizational objectives. It is a long-term process aimed at determining the future course of the organization. Analysis of the current month’s budget variances is a short-term activity.

A.Top-level management participation is an element of strategic planning.

B.A long-term focus is an element of strategic planning.

C.Strategies that will help in achieving long-range goals are elements of strategic planning.

**29.Which of the following is an advantage of strategic management?**

A.It prevents budget overruns.

B.It ensures industry dominance.

C.It is consistent with the trend away from authoritarian managerial styles.

D.It is most useful for entities that have already formulated their mission statements.

Answer (C) is correct.

Strategic thinking helps employees understand and implement managerial decisions. Moreover, it is consistent with the modern trend toward cooperation and teamwork and away from authoritarian managerial styles.

A.The strategic management process can include a budgeting component, but it does not guarantee that the budget’s goals will be achieved.

B.The strategic management process includes a competitive industry analysis but does not guarantee that the firm will dominate its industry.

D.Formulating the mission statement can be a part of the strategic management process.

**30.An entity’s mission statement is usually decided on by the**

A.Board of directors.

B.Applicable laws of the state of incorporation.

C.Stockholders at the first general meeting.

D.Executive-level management.

Answer (A) is correct.

The board of directors drafts the organization’s mission statement.

B.State incorporation laws do not govern corporate mission statements.

C.Drafting a mission statement in a general stockholders’ meeting would be extremely unwieldy.

D.Upper management carries out the mission statement; it does not create it.

**31.A SWOT analysis consists of all of the following except**

A.Opportunities and threats.

B.Core competencies.

C.Market share plan.

D.Strengths and weaknesses.

Answer (C) is correct.

A plan to keep or capture market share cannot be drafted until the SWOT analysis is complete.

A.Opportunities and threats (the external environment) are identified by considering both macroenvironment factors and microenvironment factors.

B.Core competencies are the source of competitive advantages that in turn are the basis for an overall strategy.

D.Strengths and weaknesses (the internal environment) are usually identified by considering the firm’s capabilities and resources.

**32.A medical billing service is able to charge more than its competitors because it always meets its deadlines. This is an example of the successful application of a**

A.Delivery strategy.

B.Cost strategy.

C.Implementation strategy.

D.Synergy strategy.

Answer (A) is correct.

A delivery strategy may permit an enterprise to charge a higher price when the product is consistently delivered rapidly and on time.

B.A cost strategy is successful when the enterprise is the low-cost producer.

C."Implementation strategy" is not a recognized type of operations strategy.

D."Synergy strategy" is not a recognized type of operations strategy

**33.Which of the following is an example of technological synergy?**

A.An airline merging with an auto-rental company.

B.A cosmetics manufacturer branching out into pharmaceuticals.

C.Selling rejected products at a reduced price after minimal rework.

D.Transferring a former finance officer to the internal audit activity.

Answer (B) is correct.

The firm is applying its production technology to the generation of a new family of products.

A.An airline merging with an auto-rental company is an example of market synergy.

C.Selling rejected products at a reduced price after minimal rework is an example of cost synergy.

D.Transferring a former finance officer to the internal audit activity is an example of management synergy.

**34.In accordance with Michael E. Porter's generic strategies model, a firm with a broad competitive scope that has high sales volume, low margins, and efficient supply and distribution channels will most likely choose a**

A.Cost leadership strategy.

B.Cost focus strategy.

C.Differentiation strategy.

D.Focused differentiation strategy.

Answer (A) is correct.

Cost leadership is the generic strategy of a firm that seeks competitive advantage through lower costs. It has a broad competitive scope. Such a firm can earn higher profits than its competitors at the industry average price or charge a lower price to increase market share. The typical firm that follows a cost leadership strategy has low profit margins, a high volume of sales, and a substantial market share. Such a firm has efficient supply and distribution channels, is capable of large capital investment, has strengths in product design and process engineering, if it is a manufacturer, and closely supervises its labor force.

B.A cost focus strategy has a narrow competitive scope.

C.Differentiation is the generic strategy favored by firms that seek competitive advantage through providing a unique product or service and that have a broad competitive scope.

D.Focused differentiation is the generic strategy favored by firms that seek competitive advantage through providing a unique product and that have a narrow competitive scope, e.g., a regional market or a specialized product line.

**35.All of the following are characteristics of a firm using a differentiation strategy except**

A.Generating a perception that buyers have few, if any, substitutes.

B.A creative product development function.

C.A wide choice of suppliers and distributors.

D.The risk that consumer tastes may change.

Answer (C) is correct.

A differentiating firm must achieve tight coordination with its suppliers and distributors.

A.A successful differentiation strategy creates a buyer perception that few, if any, substitutes are available.

B.Creative product development is a typical strength of a broad-scope differentiator.

D.Differentiators face the risk that consumer tastes will change as they become more sophisticated buyers or as they have less need for the differentiating factor.

**36.In the Boston Consulting Group (BCG) growth-share matrix, which strategic business units are strong competitors in high growth markets but usually have modest net cash flow?**

A.Cash cows.

B.Question marks.

C.Dogs.

D.Stars.

Answer (D) is correct.

A star is a strong competitor in a high growth industry. It is profitable but needs large amounts of cash for expansion, R&D, and meeting competitors' attacks.

A.A cash cow generates more cash than it requires, providing funds to the firm to invest in other ventures.

B.A question mark deserves attention to determine whether the venture is viable. The business is in a growing industry but has not achieved a strong competitive position.

C.A dog is a business situated in a low growth or declining industry and, if not positioned strongly, will be divested.

**37.A firm has a strategic business unit (SBU) that has a low market share in a high growth market. To maintain even this low share of the market requires the firm to commit a significant amount of cash. The firm might successfully adopt a build strategy for this unit if the**

1) **SBU shows a strong potential to grow and obtains a significant share of the market.**

2) **Firm can finance its growth.**

3) **Firm expects a short-term increase in cash flow.**

4) **Firm is willing to forgo short-term earnings.**

A.1 only.

B.2 and 3 only.

C.3 and 4 only.

D.1, 2, and 4 only.

Answer (D) is correct.

One of the two portfolio models most frequently used for competitive analysis was created by the Boston Consulting Group (BCG). This model, the growth-share matrix, has two variables. The business growth rate (BGR) is on the vertical axis, and the firm's relative market share (RMS) is on the horizontal axis. The growth-share matrix has four quadrants. The firm's SBUs are commonly represented in their appropriate quadrants by circles. The size of a circle is directly proportional to the SBU's sales volume. Question marks (low RMS, high BGR) are weak competitors in high-growth markets. They need large amounts of cash not only to finance growth and keep pace with the market but also to increase RMS, but do poorly in cash generation. If RMS increases significantly, a question mark may become a star. If not, it becomes a dog. A build strategy is necessary for a question mark with the potential to be a star. Consequently, a firm may adopt a build strategy for this type of SBU if it shows a strong potential to grow, if the firm is willing to forgo short-term earnings and cash flow, and if the firm is willing and has the capacity to finance its growth. However, a firm that expects only a short-term increase in cash flow may adopt either a divest or a harvest strategy but not a build strategy. This type of SBU needs a lot of cash flow to finance its growth.

A.A question mark that adopts a build strategy also should be able to finance its growth and be willing to forgo short-term earnings.

B.A short-term increase in cash flow indicates a need to adopt a harvest or a divest strategy.

C.A short-term increase in cash flow indicates a need to adopt a harvest or a divest strategy.

**38.A strategic business unit (SBU) has a low relative market share (RMS) and a high business growth rate (BGR). According to the portfolio model for competitive analysis (the growth-share matrix) created by the Boston Consulting Group, the SBU is considered a**

A.Star.

B.Question mark.

C.Cash cow.

D.Dog.

Answer (B) is correct.

Question marks (low RMS, high BGR) are weak competitors and poor cash generators in high-growth markets. They need large amounts of cash not only to finance growth and compete in the market but also to increase RMS. If RMS increases significantly, a question mark may become a star. If not, it becomes a dog.

A.Stars (high RMS, high BGR) are strong competitors in high-growth markets. Such an SBU is profitable, but needs large amounts of cash for expansion, R&D, and to meet competitors' attacks. Net cash flow (plus/minus) is modest.

C.Cash cows (high RMS, low BGR) are strong competitors and cash generators. An SBU that is a cash cow ordinarily enjoys high profit margins and economies of scale. Financing for expansion is not needed, so the SBU’s excess cash can be used for investments in other SBUs. However, marketing and R&D expenditures should not necessarily be slashed excessively. Maximizing net cash inflow might precipitate a premature decline from cash cow to dog.

D.Dogs (low RMS, low BGR) are weak competitors in low-growth markets. Their net cash flow (plus/minus) is modest.

**39.According to the Boston Consulting Group’s portfolio model for competitive analysis, the strategy for a strong cash cow should be**

A.Harvest.

B.Divest.

C.Hold.

D.Build.

Answer (C) is correct.

A hold strategy is used for strong cash cows. It is necessary if the business is to continue to generate large net cash inflows. Harvesting might impair a strong cash cow’s ability to generate long-term positive net cash inflows.

A.A harvest strategy is used for weak cash cows and possibly dogs.

B.A divest strategy is used for question marks and dogs that reduce the firm’s profitability.

D.A build strategy is appropriate for a question mark with the potential to be a star.

**40.An advantage of a direct investment strategy when entering a foreign market is**

A.Reduction in the capital at risk.

B.Shared control and responsibility.

C.Assurance of access when the foreign country imposes domestic content rules.

D.Avoidance of interaction with the local bureaucracy.

Answer (C) is correct.

Direct investment has many advantages: (1) cheaper materials or labor, (2) receipt of investment incentives from the host government, (3) a strong relationship with interested parties in the host country, (4) control of the investment, (5) a better image in the host country, and (6) market access when domestic content rules are in effect. However, direct investment is risky because of exposure to currency fluctuations, expropriation, potentially high exit barriers, and restraints on sending profits out of the country.

A.Direct investment maximizes capital at risk.

B.Direct investment avoids shared control and responsibility.

D.Direct investment means a closer relationship with governmental entities in the host country

**41.A global firm**

A.Has achieved economies of scale in the firm’s domestic market.

B.Plans, operates, and coordinates business globally.

C.Relies on indirect export.

D.Tends to rely more on one product market.

Answer (B) is correct.

Global firms plan, operate, and coordinate their activities worldwide. Thus, a global firm secures cost or product differentiation advantages not available to domestic firms.

A.One reason to go abroad is that economies of scale are so great that they cannot be achieved in a domestic market.

C.Global firms do not rely only on indirect export. They rely on direct export, which is potentially more profitable.

D.A global firm may be a small firm that sells one product or class of products, or it may be a large firm with a multiproduct line.

**42.A firm expands into international markets to**

A.Be in foreign markets.

B.Eliminate foreign competition

C.Pursue new, higher-profit opportunities.

D.Preclude piracy of the firm’s products.

Answer (C) is correct.

A firm may decide to go abroad for many reasons, for example, to respond to a competitive challenge in its home country by another global firm, to pursue opportunities yielding greater profits, to achieve economies of scale, to diversify, or to follow customers who need international service.

A.A firm should enter international markets for well-defined purposes, not for some vague reason such as establishing a presence.

B.A firm’s counterattack in a foreign market is not likely to eliminate the competitor. However, it may serve as a market signal that will influence the foreign competitor’s behavior in a way favorable to the firm.

D.Expansion does not prevent piracy.

**43.The least risky method of entering a market in a foreign country is by**

A.Indirect exports.

B.Licensing.

C.Direct exports.

D.Direct investments.

Answer (A) is correct.

An indirect export strategy operates through intermediaries, such as home-country merchants who buy and resell the product, home-country agents who negotiate transactions with foreign buyers for a commission, cooperatives that represent groups of sellers, and export-management firms that receive fees for administering the firm’s export efforts. Indirect export requires lower investment than direct export and is less risky because of the intermediaries’ expertise.

B.Licensing a process, patent, trade secret, etc., is a way to gain a foothold in a foreign market with little immediate risk. However, the licensor may have insufficient control over the licensee’s operations, profits are lost if the arrangement succeeds, and the licensee ultimately may become a competitor.

C.Direct export involves higher risk and investment but may yield higher returns.

D.Direct investment has many advantages: (1) cheaper materials or labor, (2) receipt of investment incentives from the host government, (3) a strong relationship with interested parties in the host country, (4) control of the investment, (5) a better image in the host country, and (6) market access when domestic contest rules are in effect. However, direct investment is risky because of exposure to currency fluctuations, expropriation, potentially high exit barriers, and restraints on sending profits out of the country.

**44.Which strategy for a global marketing organization is based on a portfolio of national markets?**

A.Creation of a division to manage international marketing.

B.A multinational strategy.

C.A glocal strategy.

D.Creation of an export department.

Answer (B) is correct.

International marketing efforts take three basic forms: creation of an export department, creation of a division to manage international marketing, or global organization. The third form encompasses genuinely worldwide functions, e.g., manufacturing, marketing, finance, and logistics. Thus, worldwide operations are the organization’s focus, not merely that of a department or division of a national firm. A global organization may follow a multinational, global, or glocal strategy. A multinational strategy adopts a portfolio approach. Its emphasis is on national markets because the need for global integration is not strong. The product is customized for each market and therefore incurs higher production costs. Decision making is primarily local with a minimum of central control. This strategy is most effective given large differences between countries. Also, exchange rate risk is reduced when conducting business in this manner.

A.Export departments and international divisions are organizational arrangements that precede the firm’s evolution into a global organization.

C.Glocal strategy balances local responsiveness and global integration.

D.Export departments and international divisions are organizational arrangements that precede the firm’s evolution into a global organization.

**45.Which strategy for a global marketing organization balances local responsiveness and global integration?**

A.Global.

B.Multinational.

C.Glocal.

D.Transnational.

Answer (C) is correct.

A glocal strategy seeks the benefits of localization (flexibility, proximity, and adaptability) and global integration. Successful telecommunications firms are examples of balancing these elements. Local responsiveness is indicated when local product tastes and preferences, regulations, and barriers are significant. Global integration is indicated when demand is homogeneous and economies of productive scale are large.

A.A global strategy is weighted toward global integration.

B.A multinational strategy is weighted toward local responsiveness.

D.The term “transnational” is sometimes applied to firms that operate internationally but with a decentralized overall structure

**46.Which strategy for a global marketing organization emphasizes relatively strong central control?**

A.Global.

B.Multinational.

C.Creation of an international division.

D.Glocal.

Answer (A) is correct.

A global strategy regards the world as one market. The product is essentially the same in all countries. Central control of the production process is relatively strong. Faster product development and lower production cost are typical.

B.Decision making is primarily local with a minimum of central control in a multinational strategy.

C.Creation of an international division occurs before a firm becomes a global organization.

D.A glocal strategy combines some elements of local responsiveness or adaptation with some elements of global integration.

**47.Which of the following is correct regarding the impacts of a global strategy on an organization?**

| | Slower Product Development | Higher Production Costs | Global Firms Managed through One Central Country |
|---|---|---|---|
| **A.** | **Yes** | **Yes** | **Yes** |
| **B.** | **No** | **No** | **No** |
| **C.** | **No** | **No** | **Yes** |
| **D.** | **No** | **Yes** | **No** |

Answer (C) is correct.

A global strategy regards the world as one market. In a global strategy, faster product development and lower production costs are typical. Additionally, global firms are primarily managed from one central country, even though their products may be sold throughout the world.

A.A global strategy does not result in slower product development or higher production costs.

B.A global strategy does result in global firms being managed through a central country.

D.A global strategy does not result in higher production costs.

**48.In a regional strategy, an organization has which of the following goals?**

A.To combine the elements of multinational and international, but not multilocal, strategies.

B.To create a universal product and value chain that serves the needs of all countries in which the firm operates.

C.To combine the various operating segments of the organization based on the region in which they operate.

D.To create regional products and a regional value chain.

Answer (D) is correct.

The goal of a regional strategy is to create regional products and a regional value chain.

A.Although a regional strategy combines elements of multinational, international, and multilocal strategies, it is not the goal of the organization undertaking such a strategy.

B.In a regional strategy, the goal is not to create a single product or value chain.

C.This is not a goal of a strategy for global marketing organizations.

**49.The disadvantage of a multilocal or multidomestic strategy is that the company**

A.Uses subsidiaries in the home country to control operations.

B.Adapts the product for the global market but not for each country.

C.Makes decisions at a centralized location in the home country.

D.Incurs higher costs and lower economies of scale.

Answer (D) is correct.

A multilocal strategy has the disadvantage of increasing costs and decreasing economies of scale.

A.In a multilocal strategy, the organization uses subsidiaries in the host countries, not the home country, to control operations.

B.In a multilocal strategy, the organization adapts the product for each country.

C.A multilocal strategy typically leaves decisions to be made by the subsidiaries of the organization.

**50.Davian Wood Products produces customized products for each country it operates in. As a result, it can be said that**

A.Davian is using a multinational strategy and is saving production costs.

B.Davian is using a global strategy and is incurring higher production costs.

C.Davian is using an international strategy, resulting in centralized decision making.

D.Davian is using a multinational strategy and incurring higher production costs.

Answer (D) is correct.

A multinational strategy adopts a portfolio approach. Under this approach, the product is customized for each market, and higher production costs are incurred.

A.While a multinational strategy involves customizing products, higher (not lower) production costs are usually incurred.

B.A global strategy regards the world as one market. The product is essentially the same in all countries, and lower production costs are typical.

C.Under an international strategy, the product is essentially the same in all countries.

**51.Which of the following strategies combines elements of multinational, international, and multilocal strategies?**

A.Multidomestic strategy.

B.Transnational strategy.

C.All-encompassing strategy.

D.Regional strategy.

Answer (D) is correct.

A regional strategy combines elements of multinational, international, and multilocal strategies. The goal of this strategy is to create regional products and a regional value chain.

A.A multidomestic strategy is another name for the multilocal strategy, which is a component of the regional strategy.

B.A transnational strategy is another name for a multinational strategy, which is a component of the regional strategy.

C.“All-encompassing strategy” is not a meaningful term in this context

**52.Which of the following best describes a multilocal or multidomestic strategy used by a global marketing organization?**

A.It lowers costs by increasing economies of scale.

B.Products and services are better adapted to local markets.

C.More coordination is required by decision makers in the home country.

D.Resources are standardized and drawn from the the country that has the lowest costs.