

Discussion Questions

1. *Judith, an accounting student, states: "Strategy analysis seems to be an unnecessary detour in doing financial statement analysis. Why can't we just get straight to the accounting issues?" Explain to Judith why she might be wrong.*
2. *What are the ways that a firm can create barriers to entry to deter competition in its business? What factors determine whether these barriers are likely to be enduring?*
3. *Explain why you agree or disagree with each of the following statements.*
 - a. It's better to be a differentiator than a cost leader, since you can then charge premium prices.
 - b. It's more profitable to be in a high-technology than a low-technology industry.
 - c. The reason why industries with large investments have high barriers to entry is because it is costly to raise capital.

Multiple Choice Questions

Q2.1. Industry profitability is a function of

- A. Rivalry among existing firms
- B. Competitive advantage of industry members
- C. Bargaining power of customers
- D. A, B, and other factors
- E. A, C, and other factors

Q2.2. Which of the following industry factors does not affect the nature of rivalry among existing firms in the industry?

- A. Ratio of fixed to variable costs
- B. Concentration of competitors
- C. Industry growth
- D. First mover advantage

Q2.3. Which of the following industry factors does not affect the threat of new firms entering the industry?

- A. Legal barriers
- B. Ratio of fixed to variable costs
- C. Price sensitivity of buyers
- D. First mover advantage

Q2.4. Which of the following industry factors does not affect the bargaining power of buyers in the industry?

- A. Concentration of buyers relative to the concentration of sellers

- B. Ratio of fixed to variable costs
- C. Price sensitivity of customers
- D. None of the above

Q2.5. European airlines' structural excess capacity (i.e., low load factors) negatively affected the average profitability in the European airline industry between 2001 and 2014. This is an example of how

- A. The rivalry among existing firms affects industry profitability.
- B. The threat of new entrants affects industry profitability.
- C. The threat of substitute products affects industry profitability.
- D. The bargaining power of buyers affects industry profitability.
- E. The bargaining power of suppliers affects industry profitability.

Q2.6. The price sensitivity of customers in the hotel industry

- A. Varies depending on what day of the week it is.
- B. Is positively affected by the availability of web booking systems and the resulting price transparency in the industry.
- C. Is negatively affected by the lack of hotels in a particular geographical area.
- D. None of the above

Q2.7. Consider the following statement: "Discount retailers follow a cost leadership strategy." This statement is

- A. True
- B. False

Q2.8. Consider the following statement: "In industries with high rivalry among existing firms, the optimal competitive strategy is to be a cost leader." This statement is

- A. True
- B. False

Q2.9. Consider the following statement: "Very few firms are successful in combining a cost leadership strategy with a differentiation strategy because both strategies require different and typically irreconcilable core competences." This statement is

- A. True
- B. False

Q2.10. Consider the following statement: "Firms following a cost leadership strategy tend to earn higher margins on their products or services than firms following a differentiation strategy." This statement is

- A. True
- B. False

Q2.11. Managers' choice whether or not to diversify activities across geographical areas or product segments is part of the

- A. Corporate strategy decision
- B. Competitive strategy decision
- C. None of the above

Q2.12. Economic theory indicates that the optimal corporate strategy and structure minimizes the firm's

- A. Production costs
- B. Service costs
- C. Book value of assets
- D. Transaction costs
- E. None of the above

Q2.13. The existence of conglomerates in emerging markets is partly the result of

- A. Low transaction costs in emerging labor markets
- B. High transaction costs in emerging capital markets
- C. High transaction costs in emerging production markets
- D. Low transaction costs in emerging production markets
- E. None of the above

Q2.14. Consider the following statement: "Single-segment businesses have lower transaction costs than multi-segment businesses." This statement is

- A. True
- B. False

Q2.15. Consider the following statement: "A firm's industry choice, competitive positioning and corporate strategy all influence the difference between the firm's actual and required return on capital." This statement is

- A. True
- B. False

Answers:

- Q2.1: E,
- Q2.2: D,
- Q2.3: C,
- Q2.4: B,
- Q2.5: A,
- Q2.6: B,
- Q2.7: A,

Q2.8: B,
Q2.9: A,
Q2.10: B,
Q2.11: A,
Q2.12: D,
Q2.13: B,
Q2.14: B,
Q2.15: A