1 STRATEGIC MANAGEMENT (20–30%)

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THEORY

1.1 Strategic Management Defined

(a) **Strategic Management Process.** Strategic management is the set of decisions and actions used to formulate and implement strategies that will provide a competitively superior fit between the organization and its environment so as to achieve organizational goals. Managers ask questions such as, "What changes and trends are occurring in the competitive environment? Who are our customers? What products or services should we offer? How can we offer those products and services most efficiently?" Answers to these questions help managers make choices about how to position their organization in the environment with respect to rival companies. Superior organizational performance is not a matter of luck. It is determined by the choices that managers make. Top executives use strategic management to define an overall direction for the organization, which is the firm's grand strategy. The strategic management process is defined as a series of the following activities:

Grand Strategy ⟶ Strategy Formulation (Planning) ⟶ Strategy Implementation ⟶ Strategic Control

(b) **Grand Strategy.** Grand strategy is the general plan of major action by which a firm intends to achieve its long-term goals. Grand strategies can be defined for four general categories: (1) growth, (2) stability, (3) retrenchment, and (4) global operations.

Growth can be promoted internally by investing in expansion or externally by acquiring additional business divisions. Internal growth can include development of new or changed products or expansion

of current products into new markets. External growth typically involves *diversification,* which means the acquisition of businesses that are related to current product lines or that take the corporation into new areas. The number of companies choosing to grow through mergers and acquisitions is astounding, as organizations strive to acquire the size and resources to compete on a global scale, to invest in new technology, and to control distribution channels and guarantee access to markets.

Stability, sometimes called a *pause strategy,* means that the organization wants to remain the same size or grow slowly and in a controlled fashion. The corporation wants to stay in its current business. After organizations have undergone a turbulent period of rapid growth, executives often focus on a stability strategy to integrate strategic business units and to ensure that the organization is working efficiently.

Retrenchment means that the organization goes through a period of forced decline by either shrinking current business units or selling off or liquidating entire businesses. The organization may have experienced a precipitous drop in demand for its products or services, prompting managers to order across-the-board cuts in personnel and expenditures. *Liquidation* means selling off a business unit for the cash value of the assets, thus terminating its existence. *Divestiture* involves the selling off of businesses that no longer seem central to the corporation. Studies show that between 33 and 50% of all acquisitions are later divested. Retrenchment is also called downsizing.

In today's *global operations*, senior executives try to formulate coherent strategies to provide synergy among worldwide operations for the purpose of fulfilling common goals. Each country or region represents a new market with the promise of increased sales and profits. In the international arena, companies face a strategic dilemma between global integration and national responsiveness. Organizations must decide whether they want each global affiliate to act autonomously or whether activities should be standardized and centralized across countries. This choice leads managers to select a basic grand strategy alternative such as globalization versus multi-domestic strategy. Some corporations may seek to achieve both global integration and national responsiveness by using a transnational strategy.

When an organization chooses a strategy of **globalization**, it means that its product design and advertising strategies are standardized throughout the world. This approach is based on the assumption that a single global market exists for many consumer and industrial products. The theory is that people everywhere want to buy the same products and live the same way. A globalization strategy can help an organization reap efficiencies by standardizing product design and manufacturing, using common suppliers, introducing products around the world faster, coordinating prices, and eliminating overlapping facilities. Globalization enables marketing departments alone to save millions of dollars.

When an organization chooses a **multidomestic strategy,** it means that competition in each country is handled independently of industry competition in other countries. Thus, a multinational company is present in many countries, but it encourages marketing, advertising, and product design to be modified and adapted to the specific needs of each country. Many companies reject the idea of a single global market.

A **transnational strategy** seeks to achieve both global integration and national responsiveness. A true transnational strategy is difficult to achieve because one goal requires close global coordination while the other goal requires local flexibility. However, many industries are finding that, although increased competition means they must achieve global efficiency, growing pressure to meet local needs demands national responsiveness.

Although most multinational companies want to achieve some degree of global integration to hold costs down, even global products may require some customization to meet government regulations in various countries or some tailoring to fit consumer preferences. In addition, some products are better suited for standardization than others. Most large multinational corporations with diverse products will attempt to use a partial multidomestic strategy for some product lines and global strategies for others. Coordinating global integration with responsiveness to the heterogeneity of international markets is a difficult balancing act for managers, but an increasingly important one in today's global business world.

KEY CONCEPTS TO REMEMBER: VOCABULARY RELATED TO STRATEGIC MANAGEMENT

- **Organizational goal.** An organizational goal is a desired state of affairs that the organization attempts to reach. A goal represents a result or an end point toward which organizational efforts are directed. The choice of goals and strategy affects organization design. Top managers give direction to organizations. They set goals and develop the strategies for their organization to attain those goals.
- **Organizational purpose.** Organizations are created and continued in order to accomplish something. This purpose may be referred to as the overall goal, or mission. Different parts of the organization establish their own goals and objectives to help meet the overall goal, mission, or purpose of the organization.

  Many types of goals exist in an organization, and each type performs a different function. One major distinction is between the officially stated goals, or mission, of the organization and the operative goals that the organization actually pursues.
- **Mission.** The overall goal for an organization is often called the mission—the organization's reason for existence. The mission describes the organization's vision, its shared values and beliefs, and its reason for being. It can have a powerful impact on an organization. The mission is sometimes called the official goals, which are the formally stated definition of business scope and outcomes the organization is trying to achieve. Official goal statements typically define business operations and may focus on values, markets, and customers that distinguish the organization. Whether called a mission statement or official goals, the organization's general statement of its purpose and philosophy is often written down in a policy manual or the annual report.
- **Operative goals.** Operative goals designate the ends sought through the actual operating procedures of the organization and explain what the organization is actually trying to do. Operative goals describe specific measurable outcomes and are often concerned with the short run. Operative versus official goals represent actual versus stated goals. Operative goals typically pertain to the primary tasks an organization must perform, similar to the subsystem activities. These goals concern overall performance, boundary spanning, maintenance, adaptation, and production activities. Specific goals for each primary task provide direction for the day-to-day decisions and activities within departments.
- **Purpose of strategy.** A strategy is a plan for interacting with the competitive environment to achieve organizational goals. Some managers think of goals and strategies as interchangeable, but for our purposes, goals define where the organization wants to go and strategies define how it will get there. For example, a goal may be to achieve 15% annual sales growth; strategies to reach that goal might include aggressive advertising to attract new customers, motivating salespeople to increase the average size of customer purchases, and acquiring other businesses that produce similar products.

  Strategies can include any number of techniques to achieve the goal. The essence of formulating strategies is choosing whether the organization will perform different activities than its competitors or will execute similar activities more efficiently than its competitors do.

  Within the overall grand strategy of an organization, executives define an explicit strategy, which is the plan of action that describes resource allocation and activities for dealing with the environment and attaining the organization's goals. The essence of formulating strategy is choosing how the organization will be different. Managers make decisions about whether the company will perform different activities or will execute similar activities differently than competitors do. Strategy necessarily changes over time to fit environmental conditions, but to remain competitive, companies develop strategies that focus on core competencies, develop synergy, and create value for customers.

  A company's core competence is something the organization does especially well

in comparison to its competitors. A core competence represents a competitive advantage because the company acquires expertise that competitors do not have. A core competence may be in the area of superior research and development, expert technological know-how, process efficiency, or exceptional customer service.

When organizational parts interact to produce a joint effect that is greater than the sum of the parts acting alone, synergy occurs. The organization may attain a special advantage with respect to cost, market power, technology, or management skill. When properly managed, synergy can create additional value with existing resources, providing a big boost to the bottom line. Synergy can also be obtained through good relations with suppliers, or by strong alliances among companies.

Delivering value to the customer should be at the heart of strategy. Value can be defined as the combination of benefits received and costs paid by the customer. Managers help their companies create value by devising strategies that exploit core competencies and attain synergy.

- **Levels of strategy.** Another aspect of strategic management concerns the organizational level to which strategic issues apply. Strategic managers normally think in terms of three levels of strategy—corporate, business, and functional.

  The question, “What business are we in?” concerns corporate-level strategy. Corporate-level strategy pertains to the organization as a whole and the combination of business units and product lines that make up the corporate entity. Strategic actions at this level usually relate to the acquisition of new businesses; additions or divestments of business units, plants, or product lines; and joint ventures with other corporations in new areas.

  The question, “How do we compete?” concerns business-level strategy. Business-level strategy pertains to each business unit or product line. It focuses on how the business unit competes within its industry for customers. Strategic decisions at the business level concern amount of advertising, direction and extent of research and development, product changes, new-product development, equipment and facilities, and expansion or contraction of product lines. Many companies are opening e-commerce units as a part of business-level strategy.

  The question, “How do we support the business-level competitive strategy?” concerns functional-level strategy. It pertains to the major functional departments within the business unit. Functional strategies involve all of the major functions, including finance, research and development, marketing, and manufacturing.

- **Partnership strategies and business ecosystems.** So far, we have been discussing strategies that are based on how to compete with other companies. An alternative approach to strategy emphasizes collaboration. In some situations, companies can achieve competitive advantages by cooperating with other firms rather than competing. Partnership strategies are becoming increasingly popular as firms in all industries join with other organizations to promote innovation, expand markets, and pursue joint goals. Partnering was once a strategy adopted primarily by small firms that needed greater marketing muscle or international access. Today, however, it has become a way of life for most companies, large and small. The question is no longer whether to collaborate, but rather where, how much, and with whom to collaborate. Competition and cooperation often exist at the same time representing business ecosystems. The Internet is both driving and supporting the move toward partnership thinking.

  Mutual dependencies and partnerships have become a fact of life, but the degree of collaboration varies. Organizations can choose to build cooperative relationships in many ways, such as through preferred suppliers, strategic business partnering, joint ventures, or mergers and acquisitions. A still higher degree of collaboration is reflected in joint ventures, which are separate entities created with two or more active firms as sponsors. Mergers and acquisitions represent the ultimate step in collaborative relationships. US business has been in the midst of a tremendous merger and acquisition boom.

  Today’s companies simultaneously embrace both competition and cooperation.

Few companies can go it alone under a constant onslaught of international competition, changing technology, and new regulations. In this new environment, businesses choose a combination of competitive and partnership strategies that add to their overall sustainable advantage.

Overall effectiveness is difficult to measure in organizations. Organizations are large, diverse, and fragmented. They perform many activities simultaneously. They pursue multiple goals. They also generate many outcomes, some intended and some unintended. Managers determine which indicators to measure in order to gauge the effectiveness of their organizations. One study found that many managers have a difficult time with the concept of evaluating effectiveness based on characteristics that are not subject to hard, quantitative measurement. However, top executives at some of today's leading companies are finding new ways to measure effectiveness, using indicators such as "customer delight" and employee satisfaction. A number of approaches to measuring effectiveness look at which measurements the organization managers choose to track. These contingency effectiveness approaches are based on looking at which part of the organization managers consider most important to measure.

- **Contingency effectiveness approaches.** Contingency approaches to measuring effectiveness focus on different parts of the organization. Traditional approaches include the goal approach, the resource-based approach, and the internal process approach. Organizations bring resources in from the environment, and those resources are transformed into outputs delivered back into the environment. The goal approach to organizational effectiveness is concerned with the output side and whether the organization achieves its goals in terms of desired levels of output. The resource-based approach assesses effectiveness by observing the beginning of the process and evaluating whether the organization effectively obtains resources necessary for high performance. The internal process approach looks at internal activities and assesses effectiveness by indicators of internal health and efficiency.

  These traditional approaches all have something to offer, but each one tells only part of the story. A more recent stakeholder approach (also called the constituency approach) acknowledges that each organization has many constituencies that have a stake in its outcomes. The stakeholder approach focuses on the satisfaction of stakeholders as an indicator of the organization's performance.

(c) **Strategy Formulation (Planning).** The overall strategic management process begins when executives evaluate their current position with respect to mission, goals, and strategies. They then scan the organization's internal and external environments and identify strategic factors that might require change. Internal or external events might indicate a need to redefine the mission or goals or to formulate (plan) a new strategy at either the corporate, business, or functional level. The next stage is implementation of the new strategy. The final stage is strategic control to keep strategic plans on track.

Strategy formulation includes the planning and decision making that lead to the establishment of the firm's goals and the development of a specific strategic plan. Strategy formulation may include assessing the external environment and internal problems and integrating the results into goals and strategy. This is in contrast to strategy implementation, which is the use of managerial and organizational tools to direct resources toward accomplishing strategic results. Strategy implementation is the administration and execution of the strategic plan. Managers may use persuasion, new equipment, changes in organization structure, or a reward system to ensure that employees and resources are used to make formulated strategy a reality.

What Is Strategic Management?

Strategic management is strategic formulation (planning) plus strategic implementation plus strategic control.

Formulating (planning) strategy often begins with an assessment of the internal and external factors that will affect the organization's competitive situation. Situation analysis typically includes a search for SWOT (strengths, weaknesses, opportunities, and threats) that affect organizational performance. Situation analysis is important to all companies but is crucial to those considering globalization because of the diverse environments in which they will operate. External information about opportunities and threats may be obtained from a variety of sources, including customers, government reports, professional journals, suppliers, bankers, friends in other organizations, consultants, or association meetings. Many firms hire special scanning organizations to provide them with newspaper clippings, Internet research, and analyses of relevant domestic and global trends. Some firms use more subtle techniques to learn about competitors, such as asking potential recruits about their visits to other companies, hiring people away from competitors, debriefing former employees or customers of competitors, taking plant tours posing as "innocent" visitors, and even buying competitors' garbage. In addition, many companies are hiring competitive intelligence professionals to scope out competitors.

Executives acquire information about internal strengths and weaknesses from a variety of reports, including budgets, financial ratios, profit and loss statements, and surveys of employee attitudes and satisfaction. Managers spend 80 percent of their time giving and receiving information. Through frequent face-to-face discussions and meetings with people at all levels of the hierarchy, executives build an understanding of the company's internal strengths and weaknesses.

Internal strengths are positive internal characteristics that the organization can exploit to achieve its strategic performance goals. Internal *weaknesses* are internal characteristics that might inhibit or restrict the organization's performance. The information sought typically pertains to specific functions such as marketing, finance, production, and R&D. Internal analysis also examines overall organization structure, management competence and quality, and human resource characteristics. Based on their understanding of these areas, managers can determine their strengths or weaknesses vis-à-vis other companies.

External threats are characteristics of the external environment that may prevent the organization from achieving its strategic goals. External *opportunities* are characteristics of the external environment that have the potential to help the organization achieve or exceed its strategic goals. Executives evaluate the external environment with information about nine sectors. The task environment sectors are the most relevant to strategic behavior and include the behavior of competitors, customers, suppliers, and the labor supply. The general environment contains those sectors that have an indirect influence on the organization but nevertheless must be understood and incorporated into strategic behavior. The general environment includes technological developments, the economy, legal-political and international events, and sociocultural changes. Additional areas that might reveal opportunities or threats include pressure groups, interest groups, creditors, natural resources, and potentially competitive industries.

(d) **Strategy Implementation.** The next step in the strategic management process is *implementation*—how strategy is put into action. Some people argue that strategy implementation is the most difficult and important part of strategic management. No matter how creative the formulated strategy, the organization will not benefit if it is incorrectly implemented. In today's competitive environment, there is an increasing recognition of the need for more dynamic approaches to formulating as well as implementing strategies. Strategy is not a static, analytical process; it requires vision, intuition, and employee participation. Many organizations are abandoning central planning departments, and strategy is becoming an everyday part of the job for workers at all levels. Strategy implementation involves using several tools—parts of the firm that can be adjusted to put strategy into action. Once a new strategy is selected, it is implemented through changes in leadership, structure, information and control systems, and human resources. For strategy to be implemented successfully, all aspects of the organization need to be in congruence with the strategy. Implementation involves regularly making difficult decisions about doing things in a way that supports rather than undermines the organization's chosen strategy.

The difficulty of implementing strategy is greater when a company goes global. In the international arena, flexibility and superb communication emerge as mandatory leadership skills. Likewise, structural design must merge successfully with foreign cultures as well as link foreign operations to the home country. Managers must make decisions about how to structure the organization to achieve the desired level of global integration and local responsiveness. Information and control systems must fit the needs and incentives within local cultures. In a country such as Japan or China, financial bonuses for star performance would be humiliating to an individual whereas group motivation and re-

ward are acceptable. As in North America, control is typically created through timetables and budgets and by monitoring progress toward desired goals. Finally, the recruitment, training, transfer, promotion, and layoff of international human resources create an array of problems not confronted in North America. Labor laws, guaranteed jobs, and cultural traditions of keeping unproductive employees on the job provide special problems for strategy implementation.

In summary, strategy implementation is essential for effective strategic management. Managers implement strategy through the tools of leadership, structural design, information and control systems, and human resources. Without effective implementation, even the most creative strategy will fail.

(e) **Strategic Control.** A formal control system can help keep strategic plans on track. A control system (e.g., reward systems, pay incentives, budgets, IT systems, rules, policies, and procedures) should be proactive instead of reactive. Control should not stifle creativity and innovation since there is no tradeoff between control and creativity. Feedback is part of control.

The goal of a control system is to detect and correct problems in order to keep plans on target. This means negative results should prompt corrective action both at the steps immediately before and after the problem identification. Some examples of corrective actions include updating assumptions, reformulating plans, rewriting polices and procedures, making personnel changes, modifying budget allocations, and improving IT systems.

1.2 Strategic Planning Process

The output of the strategic planning process is the development of a strategic plan. Its four components include: (1) mission, (2) objectives, (3) strategies, and (4) portfolio plan (see Exhibit 1.1).

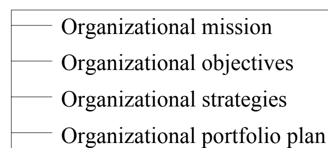

Exhibit 1.1: Components of the strategic planning process

(a) **Organizational Mission.** Every organization exists to accomplish something and the mission statement is a reflection of this. The mission statement of an organization should be a long-term vision of what the organization is trying to become, the unique aim that differentiates the organization from similar ones. It raises questions such as "what is our business?" "what should it be?" In developing a statement of mission, management must take into account three key elements.

1. The organization's history
2. The organization's distinctive competencies
3. The organization's environment

The organization's environment dictates the opportunities, constraints, and threats that must be identified before a mission statement is developed.

When completed, an effective mission statement will be focused on markets rather than products, achievable, motivating, and specific. A key feature of mission statements has been an external rather than internal focus. This means, the mission statement should focus on the broad class of needs that the organization is seeking to satisfy (external focus), not on the physical product or service that the organization is offering at present (internal focus). As Peter Drucker puts it, the question "what is our business?" can be answered only by looking at the business from the outside, from the point of view of customer and market.

What Is Our Business?

- A business is defined by the want the customer satisfies when he buys a product or service.
- To satisfy the customer is the mission and purpose of every business.

A mission statement should be realistic and achievable and should not lead the organization into unrealistic ventures far beyond its competencies. A mission statement is a guide to all employees and

provides a shared sense of purpose that provides a strong motivation to achieve objectives of the organization.

A mission statement must be specific to provide direction to management when they are choosing between alternative courses of action. For example, a mission, that states "to provide the highest quality products at the lowest possible cost" sounds good, but it is not specific enough to be useful. Specific quantitative goals are easier to measure.

(b) **Organizational Objectives.** An organization's mission is converted into specific, measurable, and action-oriented commitments and objectives. These objectives, in turn, provide direction, establish priorities, and facilitate management control. When these objectives are accomplished the organization's mission is also accomplished. Peter Drucker advises at least eight areas for establishing objectives, including: (1) market standing, (2) innovations, (3) productivity, (4) physical and financial resources, (5) profitability, (6) manager performance and responsibility, (7) worker performance and attitude, and (8) social responsibility.

(c) **Organizational Strategies.** Organizational strategy involves identifying the general approaches a business should take in order to achieve its objectives. It sets the major directions for the organization to follow. Specific steps include understanding and managing the current customer and current products and identifying new customers and new products. *Mission and objectives lead an organization where it wants to go. Strategies help an organization to get there.*

The organizational strategy is described in terms of a product/market matrix by marketing writers and is shown in Exhibit 1.2.

	Present products	New products
Present customers	Market penetration	Product development
New customers	Market development	Diversification

Exhibit 1.2: Product/market matrix

Market penetration strategy focuses on improving the position of the present product with its present customers. It involves designing a marketing plan to encourage customers to purchase more of a product. It can also include a production plan to produce more efficiently than what is being produced at present. **Market development strategy** would seek to find new customers for its present products. With the **product development strategy,** new products are developed to direct to present customers. **Diversification strategy** seeks new products for new customers.

(d) **Organizational Portfolio Plan.** An organization can be thought of as a portfolio of businesses (i.e., combination of product lines and divisions, and service lines and divisions). It is understandable that some product lines will be more profitable than others. Management must decide which product lines or divisions to build, maintain, add, or eliminate.

1.3 Global Analytical Techniques

Global analytical techniques include structural analysis of industries, competitive strategies, competitive analysis, market signals, and industry evolution. This section is adapted from Michael E. Porter's book entitled *Competitive Strategy.*[1]

(a) **Structural Analysis of Industries.** The essence of formulating competitive strategy is relating a company to its environment, that is, the industry or industries in which it operates and competes. Structural analysis is the fundamental base for formulating competitive strategy. Porter's five competitive forces are at work on an industry, including (1) threat of new entrants, (2) rivalry among existing firms, (3) pressure from substitute products or services, (4) bargaining power of buyers, and (5) bargaining power of suppliers. All five competitive forces jointly determine the intensity of industry competition and profitability.

(i) **Threat of new entrants.** New entrants to an industry bring new capacity, the desire to gain market share, and they often also bring substantial resources. As a result, prices can be low, cost can

[1] ***Competitive Strategy,*** *by Michael E. Porter, New York: The Free Press, 1980.*

be high, and profits can be low. There is a relationship between threat of new entrants, barriers to entry, and reaction from existing competitors. For example

- If barriers are high and reaction is high, then the threat of entry is low.
- If barriers are low and reaction is low, then the threat of entry is high.

There are seven major barriers to entry including: (1) economies of scale, (2) product differentiation, (3) capital requirements, (4) switching costs, (5) access to distribution channels, (6) cost disadvantages independent of scale, and (7) government policy.

(ii) **Rivalry among existing firms.** Rivalry tactics include price competition, advertising battles, new product introduction, and increased customer service or product/service warranties. Competitors are mutually dependent in terms of action and reaction, moves and countermoves, or offensive and defensive tactics. Intense rivalry is the result of a number of interacting structural factors, such as numerous or equally balanced competitors, slow industry growth, high fixed costs or storage costs, lack of differentiation or switching costs, capacity increased in large increments, diverse competitors, high strategic stakes, and high exit barriers. Porter referred to the "advertising slugfest" when describing the scrambling and jockeying for position that often occurs among fierce rivals within an industry.[2]

PORTER'S COMPETITIVE FORCES AND COMPETITIVE STRATEGIES

Porter's five competitive forces include: (1) threat of new entrants, (2) rivalry among existing firms, (3) pressure from substitute products or services, (4) bargaining power of buyers, and (5) bargaining power of suppliers.

Porter's three competitive strategies include: (1) differentiation, (2) low-cost leadership, and (3) focus.

(iii) **Pressure from substitute products or services.** In a broad sense, all firms in an industry are competitors with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms can profitably charge. The more attractive the price-performance alternative offered by substitutes, the stronger or firmer the lid on industry profits. Substitute products that deserve the most attention are those that are subject to trends improving their price–performance trade-off with the industry's product or produced by industries earning high profits.

(iv) **Bargaining power of buyers.** Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other—all at the expense of industry profits. A buyer group is powerful if the following circumstances hold true: it is concentrated or purchases large volumes relative to seller sales, the products it purchases from the industry represent a significant fraction of the buyer's costs or purchases, the products it purchases from the industry are standard or undifferentiated, it faces few switching costs, it earns low profits, buyers pose a credible threat of backward integration, the industry's product is unimportant to the quality of the buyers' products or services, and the buyer has full information about demand, prices, and costs. Informed customers (buyers) become empowered customers.

(v) **Bargaining power of suppliers.** Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods or services. The conditions making suppliers powerful tend to mirror those making buyers powerful. A supplier group is powerful if the following apply: it is dominated by a few companies and is more concentrated than the industry it sells to, it is not obligated to contend with other substitute products for sale to the industry, the industry is not an important customer of the supplier group, the suppliers' product is an important input to the buyer's business, the supplier group's products are differentiated or it has built up switching costs, and the supplier group poses a threat of forward integration.

(b) **Porter's Competitive Strategies.** Michael E. Porter[2] studied a number of businesses and introduced a framework describing three generic competitive strategies to outperforming other firms in an industry. These strategies include differentiation, low-cost leadership, and focus. The focus strategy, in which

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[2] *Ibid.*

the organization concentrates on a specific market or buyer group, is further divided into *focused low cost* and *focused differentiation.* This yields four basic strategies, and to use this model, managers evaluate two factors: (1) competitive advantage and (2) competitive scope. With respect to advantage, managers determine whether to compete through lower cost or through the ability to offer unique or distinctive products and services that can command a premium price. Managers then determine whether the organization will compete on a broad scope (competing in many customer segments) or a narrow scope (competing in a selected customer segment or group of segments). These choices determine the selection of strategies.

Competitive Strategy Actions

Competitive strategy is taking offensive or defensive actions to create a defendable position in an industry, to cope with the five competitive forces in order to achieve a superior return on investment.

The **differentiation** strategy involves an attempt to distinguish the firm's products or services from others in the industry. An organization may use advertising, distinctive product features, exceptional service, or new technology to achieve a product that is perceived as unique. This strategy usually targets customers who are not particularly concerned with price, so it can be quite profitable. The differentiation strategy can be profitable because customers are loyal and will pay high prices for the product. Companies that pursue a differentiation strategy typically need strong marketing abilities, a creative flair, and a reputation for leadership.

A differentiation strategy can reduce rivalry with competitors and fight off the threat of substitute products because customers are loyal to the company's brand. However, companies must remember that successful differentiation strategies require a number of costly activities, such as product research and design and extensive advertising.

With a **low-cost leadership** strategy, the organization aggressively seeks efficient facilities, pursues cost reductions, and uses tight cost controls to produce products more efficiently than competitors. A low-cost position means that the company can undercut competitors' prices and still offer comparable quality and earn a reasonable profit. Being a low-cost producer provides a successful strategy to defend against the five competitive forces. For example, the most efficient, low-cost company is in the best position to succeed in a price war while still making a profit. Likewise, the low-cost producer is protected from powerful customers and suppliers, because customers cannot find lower prices elsewhere, and other buyers would have less slack for price negotiation with suppliers. If substitute products or potential new entrants occur, the low-cost producer is better positioned than higher-cost rivals to prevent loss of market share. The low price acts as a barrier against new entrants and substitute products.

The low-cost leadership strategy tries to increase market share by emphasizing low cost compared to competitors. This strategy is concerned primarily with stability rather than taking risks or seeking new opportunities for innovation and growth.

With Porter's third strategy, the **focus** strategy, the organization concentrates on a specific regional market or buyer group. The company will use either a differentiation or low-cost approach, but only for a narrow target market.

Managers think carefully about which strategy will provide their company with its competitive advantage. In his studies, Porter found that some businesses did not consciously adopt one of these three strategies and were stuck with no strategic advantage. Without a strategic advantage, businesses earned below-average profits compared with those that used differentiation, cost leadership, or focus strategies. In addition, because the Internet is having such a profound impact on the competitive environment in all industries, it is more important than ever for companies distinguish themselves through careful strategic positioning in the marketplace.

These three approaches require different styles of leadership and can translate into different corporate cultures. A firm that is "stuck in the middle" is the one that has failed to develop its strategy in at least one of the three directions. The firm stuck in the middle has low profitability, lost high-volume customers, lost high-margin businesses, blurred corporate culture, and conflicting motivational sys-

tems. Risks in pursuing the three generic strategies are failing to attain or sustain the strategy and eroding the strategic advantage with industry evolution.

(c) **Competitive Analysis.** The objective of a competitive or competitor analysis is to develop a profile of the nature and success of the likely strategy changes, each competitor's response to the strategic moves, and each competitor's probable reaction to the industry changes. A series of "what if" questions must be raised and answered here.

There are four diagnostic components to a competitor analysis: (1) future goals, (2) current strategy (either explicit or implicit), (3) assumptions, and (4) capabilities (strengths and weaknesses). Both future goals and assumptions jointly answer the question "what drives the competitor"? Both current strategy and capabilities jointly answer the question "what is the competitor doing and what can it do?"

Future goals should focus on attitude toward risks, financial goals, organizational values or beliefs, organizational structure, incentive systems, accounting systems, leadership styles, composition of the board of directors, and contractual commitments (debt covenants, licensing, and joint ventures).

Examining the assumptions can identify biases or blind spots that may creep into management thinking. Rooting out these blind spots can help the firm identify competitive moves or retaliation. Assumptions focus on competitors' relative position in cost, quality, and technology; cultural, regional, or national differences; organizational values; and future demand and industry trends.

A competitor's goals, assumptions, and current strategy will influence the likelihood, timing, nature, and intensity of a competitor's reactions. A competitor's strengths and weaknesses (i.e., capability) will determine its ability to initiate or react to strategic moves and to deal with industry events that occur.

(d) **Market Signals.** A market signal is any action or indirect communication by a competitor that provides a direct or indirect indication of its intentions, motives, goals, or internal situation. The behavior of competitors provides several signals such as bluffs, warnings, and earnest commitments. Market signals, either conscious or unconscious, can aid in competitor analysis and strategy formulations, where they add greatly to the firm's base of knowledge about competitors.

(e) **Industry Evolution.** Analyzing industry evolution can increase or decrease the basic attractiveness of an industry as an investment opportunity, and it often requires the firm to make strategic adjustments. Structural analysis of industries is the starting point for analyzing industry evolution. Most of all, industry evolution should not be viewed as a "fait accompli" to be reacted to, but as an opportunity to explore.

Some analytical techniques that will aid in anticipating the pattern of industry changes include product life cycle; initial structures (the entry barriers, buyer power, and supplier power); incentives or pressures for change; potential structures; long-run changes in industry growth; changes in buyer segments; buyers' knowledge about a product or service; high degree of experimentation due to reduction of uncertainty about market size, optimal product configuration, and nature of buyers; diffusion of proprietary technology (patents); accumulation of experience (learning curve); expansion or contraction in scale; changes in input costs such as wages, materials, cost of capital, media, and transportation; innovations in product, marketing, and process management; entry and exit barriers; structural changes in adjacent industries; and changes in government policy.

The industry evolution is similar to a product life cycle (the grandfather concept), where industry growth follows an S-shaped curve due to innovation. The industry evolution has four stages such as introduction, growth, maturity, and decline. The introductory phase is flat in terms of overcoming buyer inertia and stimulating trials of the new product. Rapid growth occurs as many buyers rush into the market once the product has proven itself successful. Maturity stage is reached when growth stops and levels off. Finally, growth will decline as new substitute products appear in the market.

Some criticism about the product life cycle concept include: the duration of the stages varies widely from industry to industry, and it is often not clear what stage of the life cycle an industry is in; industry growth does not always go through the S-shaped pattern at all, because some industries skip introduction or maturity and some industries become active after decline; and product life cycles show one pattern of evolution when in fact several patterns can take place.

An industry is an interrelated system and as such, changes in one element of an industry's structure tend to trigger changes in other areas. Some key relationships in industry evolution are

- Industry concentration and mobility barriers move together.

- No concentration takes place if mobility barriers are low or falling.
- Exit barriers deter consolidation.
- Long-run profit potential depends on future structure.
- Structural change in an industry is often accompanied by changes in industry boundaries. Innovations in technology, product substitutes, and reduction in costs are enlarging the industry base by placing more firms in direct competition. This, in turn, changes the industry boundaries where suppliers and buyers compete with each other rather than working together.
- A firm's strategic behavior can change the industry structure. A company should be sensitive to external forces that can cause the industry to evolve. These forces include (1) specific form of regulatory changes, (2) diffusion of technological innovations, and (3) improvement in the cost or supply of complementary products.

1.4 Industry Environments

In this section, competitive strategies related to fragmented industries, emerging industries, and declining industries are discussed. In addition, competition in global industries is presented, including sources and impediments, evolution of global markets, strategic alternatives, and trends affecting competition. This section is adapted from Michael E. Porter's book entitled *Competitive Strategy.*[3]

(a) **Competitive Strategies Related to Fragmented Industries.** A fragmented industry is defined as an industry where there is no single firm with a significant market size, where there are large numbers of small- and medium-sized firms, and where there are no market leaders with the power to shape the industry events. These industries range from high-tech to low-tech, providing differentiated to undifferentiated products.

Although there is no fundamental economic basis for fragmentation, the following are underlying economic causes for fragmentation: low entry barriers, absence of economies of scale or experience curve, high transportation costs, high inventory costs, no significant bargaining power between buyers and suppliers, diverse market needs, economic and managerial exit barriers, new industry, local regulations, and government prohibition of concentration.

Some industries are "stuck" in a fragmented state not because of fundamental economic reasons but for the following reasons: existing firms lack resources or skills, existing firms are complacent, and existing firms lack attention by outside firms to infuse resources for consolidation.

The payoff to consolidating a fragmented industry can be high because the costs of entry into it are low, competition is weak, and the threat of retaliation is little. The following are common approaches to overcoming fragmentation that basically unlock the fundamental economic factors: create economies of scale or experience curve (innovation), standardize diverse market needs, split off businesses that are responsible for fragmentation (i.e., decoupling production from the rest of the business, using multiple in-house labels), acquire many local companies, and recognize industry trends early.

Profitability in the fragmented industry is marginal at best. Strategic positioning is needed to become a successful firm with the following strategic alternatives for coping with a fragmented structure: manage the decentralization organization structure tightly; build low-cost, efficient facilities at multiple locations; increase the value added of the business which can be enhanced by forward integration (from manufacturing into distribution or retailing), specialization by product type, product segment, customer type, or order type; focus on a geographic area; maintain low overhead cost, tight cost control, low-skilled employees, and attention to detail; and practice selective backward integration to lower costs and to put pressure on competitors.

The strategic analyst should note the following red flags (traps) during the analysis of strategic alternatives: seeking dominance, lack of strategic discipline, overcentralization, incorrect assumptions about competitors' overhead costs and objectives, and overreactions to new products that result in increasing overall costs and overhead costs.

(b) **Competitive Strategies Related to Emerging Industries.** Emerging industries (e.g., video games, solar heating, and fiber optics) are defined as newly formed or reformed industries that have been created by technological innovations, shifts in cost structures, new consumer needs, and redefining the business due to growth in scale. There are no rules of the game to follow so therefore, they must be established. The absence of rules is both a risk and opportunity, which must be managed and explored, respectively.

[3] *Ibid.*

The emerging industries, although they are small in size and new to the industry, possess common structural characteristics, such as technological and strategic uncertainty, high initial costs with steep learning curve, first-time buyers with the possibility of inducing substitution, short-term horizon to develop products and customers, and subsidization to early entrants from government and nongovernment sources.

Emerging industries usually face problems in getting the industry off the ground. These problems include: inability to obtain raw materials and components; period of rapid escalation of raw materials prices; absence of infrastructure, such as distribution channels and service facilities; absence of product or technological standardization; perceived likelihood of obsolescence; customers' confusion; erratic product quality; image and credibility difficulties with the financial community; regulatory approval delays; high unit costs; and response of threatened entities, such as labor unions or distribution channels.

The structure of an emerging industry is unsettled and changing, and competitors are hard to diagnose. Yet, the emerging industries can benefit from the strategic degrees of freedom and leverage from good strategic choices. Possible actions include: shaping the industry structure, establishing industry conferences and trade associations, changing the role of suppliers and distribution channels, and shifting mobility barriers requiring capital commitments where customers or suppliers are integrating into the industry.

Common early mobility barriers include proprietary technology, access to distribution channels, access to raw materials, and risk, which raises the opportunity cost of capital and thereby increases effective capital barriers.

A crucial strategic choice for competing in emerging industries is the appropriate timing of entry. Early entry involves high risk, low entry barriers, and a large return. Early entry is appropriate when a learning process is initiated, customer loyalty is promising, and cost advantage is absolute. Early entry is not appropriate when costs of opening up the market are great, early competition is costly, technological change can make early investments obsolete, and building wrong human skills.

An emerging industry is attractive if its ultimate structure (not its initial structure) earns above-average returns. The decision to enter must depend on a structural analysis and a variety of scenarios. Different scenarios need to be developed for each product/technology/market combination and then utilized to forecast the probable success of different competitors. The firm may choose to try to cause the most advantageous scenario to occur and identify the key events, which will signal whether one scenario or another is actually occurring.

(c) **Competitive Strategies Related to Declining Industries.** Declining industries are defined as those industries experiencing an absolute decline in unit sales over a long period. The decline cannot be due to changes in business cycles or short-term problems such as strikes or material shortages. Declining industries are characterized by shrinking sales and profit margins, pruning product lines, falling research and development efforts, reduced advertising budgets, and diminishing number of competitors. The decline phase of an industry is different from and more complex than the decline phase of a product life cycle. Industries differ markedly in the way competition responds to decline; some industries age gracefully and some engage in bitter warfare, all leading to prolonged excess capacity and heavy operating losses. Mergers and acquisitions can reduce the excess capacity and wipe out the obsolete capacity. End-game strategies must be developed for declining industries.

Structural determinants of competition in declining industries include: conditions of demand such as uncertainty, rate, and pattern of decline; causes of decline due to technological substitution, change in demographics, and shifts in customers' (buyers') needs; presence of exit barriers due to fixed assets and fixed costs; presence of strategic exit barriers such as interrelatedness, vertical integration, and the ability to attract (access) financial markets; information barriers; managerial barriers (a blow to manager's pride, job mobility); government and social barriers (unemployment); and price war among competitors.

There are four alternative strategies for declining industries, including: (1) leadership, (2) niche, (3) harvest, and (4) quick divestment. The **leadership strategy** assumes that the remaining firms have the potential to reap above-average profits and leadership style is strong enough to keep up with competitors and to gain market share. Some tactical actions contributing to executing the leadership strategy include investing in aggressive pricing and marketing, acquiring competitors or their product lines, purchasing or retiring competitors' capacity, reducing competitors' exit barriers by manufactur-

ing spare parts, taking over long-term contracts and producing private label products, reinvesting in new products, or making process improvements.

The objective of **niche strategy** is to create or defend a strong position in a particular segment. The structural characteristics include maintaining a stable demand or decaying slowly, and allowing high returns. The strategic actions include reducing competitors' exit barriers or reducing uncertainty concerning this segment. The firm may either switch to a harvest or divest strategy.

In the **harvest strategy,** the firm seeks to optimize cash flows from the business similar to the "dog" category in the product portfolio planning techniques. It does this by increasing prices, eliminating or reducing new investment, cutting maintenance of facilities, and reducing advertising and research and development budgets. It also includes reducing the number of product models and distribution channels, eliminating small customers, and reducing postsale services such as delivery, repair, and customer service. Price increases and lower advertising actions are visible to the customer, while deferred maintenance and dropping marginal accounts and small customers are invisible to the customer. The accepted strategy for an industry in decline is a "harvest" strategy, that is, eliminating investment and generating maximum cash flows followed by divestment. The harvest strategy puts a greater demand on administrative matters due to problems such as low employee morale and retention, loss of suppliers' and customers' confidence, and questionable motivation of management.

In the **quick divestment strategy,** the firm sells (liquidates) the business early in the decline phase, rather than by harvesting and selling it later. This approach maximizes the value of the firm as well as minimizing potential risk due to incorrect forecast of future demand. It may be desirable for some firms to divest the business before decline to facilitate a stronger bargaining position. Divesting quickly may force the company to confront exit barriers such as image and interrelationships with suppliers and customers. The firm can use a private-label strategy or sell product lines to competitors to solve exit barrier problems.

When the industry structure is favorable for decline because of low uncertainty and low exit barriers for competitors, the firm should use (1) the leadership or niche strategies if it has strengths relative to its competitors or (2) the harvest or divest quickly strategies if it lacks strengths relative to its competitors.

When the industry structure is unfavorable for decline because of high uncertainty and high exit barriers for competitors, the firm should use (1) niche or harvest strategies if it has strengths relative to its competitors or (2) the divest quickly strategy if it lacks strengths relative to its competitors.

A firm can make an early commitment to one decline strategy or another. An early commitment to leadership may encourage a competitor to exit or divestment can maximize the value of the firm. On the other hand, postponing a choice of decline strategy can force the firm toward either the niche or harvest strategy, thus eliminating the polar options of leadership or divest quickly. If the leading competitor decides to exit, the firm can invest but if the leading competitor stays, the firm can continue to harvest or divest quickly.

There should be consistency between industry structure and strategic choice made by a firm. The strategic analyst should keep the following pitfalls in mind, including failing to recognize decline and not participating in the substitute industry, warfare with competitors having high exit barriers leading to disaster, and harvesting without clear strengths.

A firm should prepare for the decline phase by taking the following steps during the maturity phase: (1) minimize investments that raise exit barriers, (2) emphasize market segments that will be favorable under decline conditions, and (3) create high switching costs in these segments.

(d) **Sources and Impediments to Global Competition.** Global industries require a firm to compete on a worldwide, coordinated basis. To analyze competition in a global industry, it is necessary to examine industry economics and competitors in the various geographic or national markets jointly rather than individually. Also note that industries with multinational competitors are not necessarily global industries since "globalness" is a matter of degree.

The structural factors (cost differences, different circumstances, different roles of foreign governments, and different goals) and market forces operating in global industries are the same as those in domestic industries. Structural analysis in global industries must encompass foreign competitors, a wider pool of potential entrants, and a broader scope of possible substitutes. Firms can participate in international activities through three mechanisms, including export, licensing, and foreign direct in-

vestment, in that order. Export or foreign direct investment will be present in industries where competition is truly global.

Sources of global competitive advantage include comparative advantage, economies of scale in production, logistics, marketing, and purchasing areas, global experience, product differentiation, proprietary product technology, and mobility of production. Note that all the sources of advantage also create mobility barriers for global firms.

Impediments to achieving the global competitive advantage include economic impediments such as transportation and storage costs, differing product needs, sales force, distribution channels, local repair, sensitivity to lead times, complex price–performance trade-offs among competing brands, and lack of worldwide demand. Global competitive advantage can also be affected by managerial impediments, such as differing marketing tasks; intensive local services; rapidly changing technology; government impediments (including tariffs, duties, quotas, and local content requirements)and policies related to tax, labor, and bribery; and resource impediments, such as building world-scale facilities or start-up investments.

These impediments can block an industry from becoming a global industry altogether from cost and complexity viewpoints. Because of this, there may be aspects of "localness" that remain even in industries that are truly global. In some markets, the national firm is better situated than the global firm due to "localness."

(e) **Evolution of Global Markets.** Many industries slowly evolve into global industries over time. To create a global industry, a firm needs more sources of global competitive advantage or fewer impediments to global competition.

Environmental triggers to globalization include increased scale economies, decreased transportation or storage costs, increased factor costs (e.g., labor, energy, and materials), and reduced government constraints (e.g., tariffs, quotas, duties, taxes, and local content requirements).

Strategic innovations stimulating globalization include redefinition of product, identification of market segments, reduced cost of product adaptations, product design changes toward standardized components, de-integration of products where components are produced centrally and assembled locally, and allowing new firms to start fresh with new strategies.

(f) **Strategic Alternatives to Compete Globally.** A firm must make a choice about whether it must compete globally or compete in one or a few national markets. The alternatives include broad-line global competition with full product line, global focus (low cost or differentiation), national focus (low cost or differentiation), and protected niche, such as requiring high local content in the product and high tariffs. A better approach is to form transnational coalitions or cooperative agreements between firms in the industry that are located in different home countries.

(g) **Trends Affecting Global Competition.** A number of trends greatly affect competition in existing global industries. These trends include

- Reduction in economic differences among countries, where differences among developed and newly developed countries (NDC) are narrowing in terms of income, factor costs (e.g., labor, energy, and materials), marketing practices, and distribution channels.
- Adoption of a more aggressive industrial policy. Industrial policies of many countries are changing from passive posture to aggressive posture in order to stimulate industry in carefully selected sectors of the economy.
- Some national governments are increasingly protecting natural resources, such as oil, coal, and rubber. These assets have been controlled either directly by government ownership or through joint ventures of governments and producers. These governments recognize the advantages of low-waged, semiskilled, and unskilled labor.
- Free flow of technology where some countries have become very aggressive in selling their technology abroad or reselling it to others at bargain prices.
- Gradual emergence of new large-scale markets such as China, Russia, and India, which are becoming major global powers.
- NDC competition is growing due to cheap labor and natural resources as well as investments in capital-intensive industries. Those industries most vulnerable to NDC competition are those who lack the following entry barrier factors: rapidly changing proprietary technology, highly skilled labor, sensitivity to lead times, complex distribution channels, high consumer marketing content, and complex and technical selling tasks. These factors have become difficult problems for NDC

firms to solve due to lack of resources or skills, inexperience, lack of credibility, or inability to understand distribution channels, consumer marketing, and complex selling taking place in the developed markets.

1.5 Strategic Decisions

In this section, we will discuss integration strategies, capacity expansion, and entry into new businesses. This section is adapted from Michael E. Porter's book entitled *Competitive Strategy*.[4]

(a) **Analysis of Integration Strategies.** Vertical integration is defined in terms of a firm exercising full control over the entire supply chain, that is, from purchasing of raw materials to production, distribution, and selling of goods or services. Vertical integration can occur in three ways: full integration (the entire supply chain done internally), partial (tapered) integration (part internally and part externally with independent contractors), and quasi integration (alliances or partnerships with other firms in the supply chain using debt or equity investment without full ownership). A firm can integrate either in forward or backward direction where the upstream firm is the selling firm and the downstream firm is the buying firm. It has been said that doing all of the vertical integration tasks internally is less costly, less risky, and easier to coordinate.

Forward and Backward Integration

Forward integration means integrating activities from manufacturing to retailing activities while backward integration means integrating activities from retailing to manufacturing activities. With forward integration, finished product prices can be raised while the cost of raw materials can be lowered with backward integration.

Analysis of integration strategies requires not just the traditional cost-benefit analysis calculations but also more strategic, administrative, and marketing analysis. Integration analysis is similar to make-or-buy or purchase-or-lease decisions, as it focuses on economic or financial variables. The integration analysis should not focus on market transactions per se. Instead, it should balance the economic and administrative costs with economic and administrative benefits.

Strategic benefits of full integration include

- Economies of combined production where cost savings are achieved
- Economies of internal control and coordination through adjacent location of factories and distribution facilities
- Economies of information to obtain faster and accurate information about the marketplace
- Economies of marketing costs where there is no sales or purchasing staff
- Economies of stable relationship between upstream and downstream firms to develop efficient and specialized procedures
- Tapping into technology with the full understanding of technological risks involved
- Assurance of supply and demand to reduce uncertainty and risk of volatility with the use of internal transfer pricing methods
- Differentiation through better control of channels of distribution in order to offer better service to customers
- Raising mobility barriers to achieve higher prices, lower costs, or reduced risks
- Earning higher return on investment more than the opportunity cost of capital
- Defending against foreclosure of access to suppliers or customers which, in turn, raises the mobility barrier of access to distribution channels and suppliers of raw materials
- Offsetting bargaining power of suppliers or customers to lower the cost of raw materials (by backward integration) or to raise finished product prices (by forward integration) in order to operate more efficiently by eliminating non-value-added activities and practices

Strategic costs of full integration include

- Costs of overcoming mobility barriers due to cost of proprietary technology, favorable sources of raw materials, economies of scale, and capital requirements

[4] *Ibid.*

- Increased operating leverage and business risk due to greater increase of fixed costs in the capital structure
- Reduced flexibility to change suppliers or customers due to increased cost of changeover
- Increased exit barriers
- Increased capital requirements with reduced flexibility in allocating investment funds
- Increased costs due to developing internal technological capability
- Costs of maintaining balance between upstream and downstream capacities of production, technological changes, and changes in product mix and quality
- Internal projects to expand capacity receiving less scrutiny than external contracts with customers or suppliers
- Indiscriminately applying the same organizational structure, managerial style, control and incentive systems, and capital budgeting techniques to the upstream or downstream business units alike

Particular strategic issues to consider in **forward integration** (from manufacturing to retailing) include: improved ability to differentiate the product through better control of production process or sales process; increased mobility barriers due to improved differentiation; increased access to distribution channels; better access to market information in terms of quantity of demand, optimal product mix, and trends in customer tastes (referred to as demand leading stage) despite changing market conditions; realizing higher prices for products by setting different prices for different customers for the same product; and locating the manufacturing plants in adjacent areas for greater economies of integration.

Particular strategic issues to consider in **backward integration** (from retailing to manufacturing) include: avoiding sharing of proprietary data with suppliers due to internal production of parts or components, enhancing product differentiation by gaining control over the production of key input specifications, and locating the manufacturing plants in adjacent areas for greater economies of integration.

Partial (tapered) integration can take place either in the backward or forward direction, where some purchasing is done in the open market, which can be adjusted to reflect the degree of risk in the market. Partial integration results in lower fixed costs than full integration. In-house suppliers can be used to maintain steady production rates while independent suppliers can be used to handle the risk of market fluctuations. Partial integration reduces the risk of locked-in relationships with the suppliers and creates a healthy competition between in-house and independent suppliers. While partial integration exercises control over suppliers and gains knowledge of the operating costs, it could increase coordination costs due to matching of external production with internal production.

Quasi integration falls in between the use of long-term contract suppliers and full ownership. Common integration arrangements can include minority equity investment, loan guarantees, specialized logistical facilities, and cooperative research and development work. Quasi integration can lower unit costs, reduce the risk of supply and demand interruptions, mitigate against bargaining power, and reduce the need to make full capital investment. These benefits stem from goodwill between partners, sharing of information, frequent and informal contacts between management, and the direct financial stake of each partner. However, some benefits such as increasing return on investment, raising product differentiation, and enhancing mobility barriers are difficult to achieve with quasi integration. A cost benefit analysis is needed for each alternative arrangement in integration.

(b) **Capacity Expansion.** Capacity for a manufacturing company is defined as the ability to produce quantity of goods, as the market demands it. Increasing capacity requires large amounts of capital investment, involves longer lead times, and is a complex decision-making process. Often capacity decisions are irreversible and can be compared to an economic "oligopoly" situation where firms are mutually dependent. Usually, overbuilding (overcapacity) is a problem, not undercapacity. Prior to increasing capacity, a firm must have a clear expectation of future demand and competitors' behavior. However, the latter is difficult to predict. Overcapacity means supply is more than demand, while undercapacity means demand is greater than supply. Thus, capacity expansion deals with the uncertainty about future demand, which requires a systematic process. When the future demand is fairly certain, the capacity expansion process becomes a game of preemption. The risk of overbuilding is most severe in commodity-type businesses due to cyclical demand and undifferentiated products. Mergers and acquisitions can reduce the excess capacity and wipe out the obsolete capacity.

There are many conditions that can lead to overbuilding of capacity, including technological conditions, structural conditions, competitive conditions, information flow conditions, managerial conditions, and governmental conditions. Each of these conditions is discussed next.

- Causes of overbuilding capacity due to technological conditions include: adding capacity in large lumps, long lead times in adding capacity, changes in production technology, and building new, efficient, and larger manufacturing plants.
- Causes of overbuilding capacity due to structural conditions include: significant exit barriers, forcing by suppliers, integrated competitors, firms striving for capacity leadership, and building credibility for new substitute products where customers take a "wait and see" approach.
- Causes of overbuilding capacity due to competitive conditions include: large number of firms, lack of credible market leaders, new entry, and first mover advantages.
- Causes of overbuilding capacity due to information flow conditions include: overinflated future expectations about future demand, differing perceptions about competitor's strengths and resources, breakdown of market signals, industry structural changes, and pressure from the financial community to improve stock prices.
- Causes of overbuilding capacity due to managerial conditions include: production (not finance or marketing), orientation of management, and indifference between overbuilding and underbuilding of capacity.
- Causes of overbuilding capacity due to governmental conditions include: encouraging tax incentives, desire for indigenous industry, and pressure to increase or maintain employment.

There are limits to capacity expansion (overbuilding), including financial constraints and company diversification, which increase the opportunity cost of capital; infusion of top management with finance background to replace the marketing or production backgrounds; pollution control costs; uncertainty about future demand; capacity building costs; or lessons learned from the past mistakes of overbuilding the capacity.

One approach to capacity expansion in a growing market is the preemptive strategy, where capacity is added in anticipation of future demand and prices are established in anticipation of future cost declines. The preemptive strategy discourages competitors from expanding and deters new entrants. This strategy is risky because of early commitment of resources before the market outcome is known. The following conditions must be present for the preemptive strategy to be successful: large capacity expansion relative to expected market size, large economies of scale relative to total market demand, credibility of the preempting firm, ability to signal preemptive motives before competitors act, and willingness of competitors to back down due to high stakes in the market.

Preemptive strategy will be risky against the following: competitors with goals that are purely economic, competitors with a strategic thrust, and competitors who have equal or better staying power in the business (i.e., have a longer time horizon and are willing to trade profits for market position).

(c) **Entry into New Businesses.** Three strategies exist to enter a new business: (1) entry through internal development, (2) entry through acquisition, and (3) sequenced entry.

Entry through internal development requires building manufacturing facilities, distribution channels, and a sales force, or engaging in joint ventures. The internal entrant will face two entry barriers into an industry, such as structural entry barriers (proprietary technology, brand identification) and retaliation of existing firms (reduced prices, increased marketing costs, special promotions, extension of warranty terms, easier credit terms, and product quality improvements). The internal entrant will increase the industry capacity by changing the supply and demand balance and triggering other firms in the industry to increase their capacity.

Internal entry is risky, costly, time-consuming, disruptive, and provokes retaliation. Target firms that are risky to enter are those with slow growth, high fixed costs, high industry concentration, commodity-type products, and negative attitudes of target firm's management.

Prime targets for internal entry by a firm include: the industry is in disequilibrium (poor information and rising entry barriers), slow retaliation from existing firms, the firm has low entry costs due to increased mobility barriers and industry consolidation, the firm has unique qualities to influence the industry structure, and the firm can create synergy with existing businesses.

Some common approaches or concepts to enter into a new business include: reduce product costs; buy into the market with low initial prices; offer a superior, broad-based product; find a new niche; introduce a marketing innovation; and use established distribution channels.

Entry through acquisition, which is considered less costly and less time-consuming than internal development, means buying other firm(s) in the industry for a price that is set in the marketplace. The acquisition market is active and efficient with many finders, brokers, and investment bankers who work to eliminate any above-average profits from an acquisition. A properly executed acquisition can reduce the excess capacity or wipe out the obsolete capacity.

An economic concept related to acquisition is that a seller will not sell his business unless the sale price exceeds the expected present value (floor) of continuing to operate the business. In reality, a large premium price over the market value is the rule rather than the exception in order to motivate the seller to sell his business. Acquisition will be profitable if the floor price is low, the market is imperfect (complex motives and incomplete information), and the buyer has a unique ability to manage the acquired business. Since the market for companies is imperfect, the bidding process will not completely eliminate the profits from an acquisition. However, imperfection in the marketplace can lead to successful acquisition when the buyer has superior information in terms of new technology and future demand, the number of bidders is low, the economy is bad, the selling company is "sick" (it is bought now at below-the-book value and is later sold for a profit), the buying firm has a good name and reputation in the industry in terms of retaining existing employees and management, the buyer has a unique ability to operate the seller's business, and the new business fits well with the existing business.

Sequenced entry into a new business means that a buyer enters into one group of businesses first and later moves into other groups. This sequenced entry lowers the total cost of overcoming mobility barriers into the strategic business groups which, in turn, lowers the overall risk. Other benefits of sequenced entry include developing managerial talent, tempered competitors' reactions, and accumulation of capital needed for subsequent acquisitions. The buying firm can then make reversible investments (salvageable or salable plant capacity) to overcome mobility barriers. This means first starting with production operations and then moving into other areas such as research and development, logistics, and marketing.

1.6 Portfolio Techniques of Competitive Analysis

Portfolio strategy pertains to the mix of business units and product lines that fit together in a logical way to provide synergy and competitive advantage for the corporation. For example, an individual might wish to diversify in an investment portfolio with some high-risk stocks, some low-risk stocks, some growth stocks, and perhaps a few income bonds. In much the same way, corporations like to have a balanced mix of business divisions called **strategic business units (SBUs)**. An SBU has a unique business mission, product line, competitors, and markets relative to other SBUs in the corporation. Executives in charge of the entire corporation generally define the grand strategy and then bring together a portfolio of strategic business units to carry it out.

Portfolio models or techniques can help corporate management to determine how resources should be allocated among the various SBUs consisting of product lines and/or divisions. The portfolio techniques are more useful at the corporate-level strategy than at the business-level or functional-level strategy. Two widely used portfolio models are: (1) the Boston Consulting Group (BCG) matrix and (2) the General Electric (GE) model. Each model is presented in the following sections.

(a) **BCG Matrix Model.** The BCG matrix model organizes businesses along two dimensions—business growth rate and market share. *Business growth rate* pertains to how rapidly the entire industry is increasing. *Market share* defines whether a business unit has a larger or smaller share than competitors. The combinations of high and low market share and high and low business growth provide four categories for a corporate portfolio.

The BCG matrix model utilizes a concept of experience curves, which are similar in concept to learning curves. The experience curve includes all costs associated with a product and implies that the per-unit cost of a product should fall, due to cumulative experience, as production volume increases. The manufacturer with the largest volume and market share should have the lowest marginal cost. The leader in market share should be able to underprice competitors and discourage entry into the market by potential competitors. As a result, the leader will achieve an acceptable return on investment.

Competitive Advantage Defined

A firm is said to have a sustainable competitive advantage over other firms when it has technical superiority, low-cost production, good customer service/product support, good location, adequate financial resources, continuing product innovations, and overall marketing skills.

The BCG model (growth/market share matrix) is based on the assumption that profitability and cash flows will be closely related to sales volume. Here, growth means use of cash and market share means source of cash. Each SBU is classified in terms of its relative market share and the growth rate of the market the SBU is in, and each product is classified as stars, cash cows, dogs, or question marks. Relative market share is the market share of a firm relative to that of the largest competitor in the industry.

The following list describes the components of the BCG model:

- **Stars** are SBUs with a high market share of a high-growth market. They require large amounts of cash to sustain growth despite producing high profits. Stars are important because they have additional growth potential, and profits should be plowed into this business as investment for future growth and profits. The star is visible and attractive and will generate profits and a positive cash flow even as the industry matures and market growth slows. Stars eventually turn into cash cows as the market growth slows.
- **Cash cows** are often market leaders (high market share), but the market they are in is a mature, slow-growth industry (low growth). Because heavy investments in advertising and plant expansion are no longer required, the corporation earns a positive cash flow. It can milk the cash cow to invest in other, riskier businesses. Cash cows are used to turn question mark SBUs into stars.
- **Dogs** are poorly performing SBUs that have a low market share of a low-growth market. They are modest cash users and need cash because of their weak competitive position. The dog provides little profit for the corporation and may be targeted for divestment or liquidation if turnaround is not possible. Dog SBUs should either be harvested or divested from the portfolio.
- **Question marks** (wildcats) are SBUs with a low market share of a new, high-growth market. They require large amounts of cash inflows to finance growth and are weak cash generators because of their poor competitive position. The question mark business is risky: it could become a star, or it could fail. The corporation can invest the cash earned from cash cows in question marks with the goal of nurturing them into future stars. SBUs not chosen for investment should be harvested (managed to generate cash) until they become dogs.

DESIRABLE SEQUENCE OF PORTFOLIO ACTIONS

- Cash cow SBUs should be used to turn question marks into stars.
- A star SBU eventually becomes a cash cow as its market growth slows.
- Unqualified question mark SBUs should be harvested until they become dogs.
- Dog SBUs should either be harvested or divested from the portfolio.
- The question mark SBUs can be nurtured to become future stars.

WHICH MODEL IS WHICH?

- Both the BCG matrix and the GE model focus on corporate-level strategy accomplished through acquisition or divestment of business.
- Porter's five competitive forces and three competitive strategies focus on business-level strategy accomplished through competitive actions.

Despite its widespread use in allocating corporate resources and acceptance by managers, the BCG model has been criticized for

- Focusing on market share and market growth as the primary indicators of profitability
- Its assumption that the major source of SBU financing comes from internal means
- Its assumption that the target-market has been defined properly along with its interdependencies with other markets

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(b) **GE Model.** The General Electric (GE) model is an alternative to the BCG model and it incorporates more information about market opportunities (industry attractiveness) and competitive positions (company/business strength) to allocate resources. The GE model emphasizes all the potential sources of business strength and all the factors that influence the long-term attractiveness of a market. All SBUs are classified in terms of business strength (i.e., strong, average, weak) and industry attractiveness (i.e., high, medium, low).

The major components of industry attractiveness are market size, market share, market growth, industry profitability, and pricing. *Business strength is made up of market share, quality leadership, technological position, company profitability, company strengths and weaknesses, and company image.*

Overall strategic choices include either to invest capital to build position, to hold the position by balancing cash generation and selective cash use, or to harvest or divest. The GE model incorporates subjective judgment and accordingly, it is vulnerable to manipulation. However, it can be made stronger with the use of objective criteria.

Both the BCG matrix model and the GE model help in competitive analysis and provide a consistency check in formulating a competitive strategy for a particular industry. Either model can be used as per the manager's preference. However, if a competitor uses the BCG model because of experience curves, then a company can benefit by using the same model.

1.7 Product Life Cycles

(a) **Product Management.** Product strategy is a part of the marketing mix (i.e., product, price, place, and promotion). Other parts include promotion strategy, distribution strategy, and pricing strategy.

There are many decision areas in product management, including product definition, product classification, product mix and product line, and packaging and branding (see Exhibit 1.3).

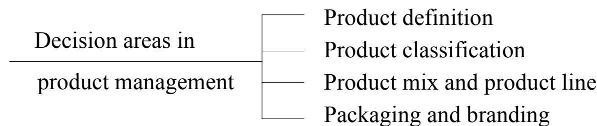

Exhibit 1.3: Decision areas in product management

(i) **Product definition.** The way in which the product variable is defined can have important implications for the survival, profitability, and long-run growth of the firm. See Exhibit 1.4 for how a product can be viewed.

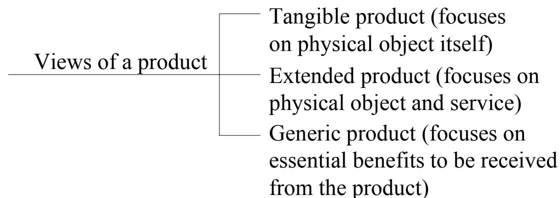

Exhibit 1.4: Views of a product

A classical example of improper definition can be found in railroad passenger service where it defined itself as being in the railroad business instead of in the transportation business. A reasonable definition of product is that it is the sum of the physical, psychological, and sociological satisfaction the buyer derives from purchase, ownership, and consumption.

(ii) **Product classification.** A product classification is an analytical device to assist in planning marketing strategy and programs. A basic assumption underlying such classifications is that products with common attributes can be marketed in a similar manner. In general, products are classified according to two basic criteria: (1) end use or market and (2) degree of processing or physical transformation required.

Examples of product classification are agricultural products and raw materials, industrial goods, and consumer goods. The market for industrial products has certain attributes that distinguish it from the consumer goods market. For certain products there are a limited number of buyers known as a **vertical market** (which means that it is narrow) because customers are restricted to a few industries, and it is deep, in that a large percentage of the producers in the market use the product. Some products, such as office supplies, have a **horizontal market,** which means that the goods are purchased by all types of firms in many different industries.

(iii) **Product mix and product line.** The product mix is the composite of products offered for sale by the firm's product line. It refers to a group of products that are closely related in terms of use, customer groups, price ranges, and channels of distribution. There are three primary dimensions of a firm's product mix, as shown in Exhibit 1.5.

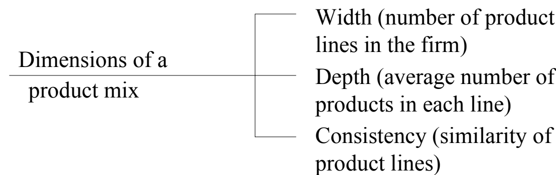

Exhibit 1.5: Dimensions of a product mix

Width of the product mix refers to the number of product lines the firm handles. **Depth** of the product mix refers to the average number of products in each line. **Consistency** of the product mix refers to the similarity of product lines. Product line plans take into account consumer evaluation of the company's products (strengths and weaknesses) and objective and accurate information on sales, profits, and market share (actual and anticipated levels).

(iv) **Packaging and branding.** Distinctive or unique packaging is one method of differentiating relatively homogeneous products, such as toothpaste or soap. The design of packaging should focus on the size of the product, how easy it is to open, how strong the packaging should be in protecting the product, the attractiveness of the packaging, and costs.

Many companies use branding strategies to increase the strength of the product image. Factors to be considered include: product quality, whereby products do what they do very well; consistent advertising, in which brands tell their story often and well; and brand personality, where the brand stands for something unique (e.g., Xerox, Kodak). A good brand name can evoke feelings of trust, confidence, security, and strength. Markov analysis can be used to determine the extent to which customers switch brands.

Markov analysis is useful in studying the evolution of certain systems over repeated trials. This analysis has been used, for example, (1) to describe the probability that a machine, functioning in one period, will function or break down in another period, and (2) to identify changes in the customer's account receivables collection experience

(b) **Product Life Cycles.**

(i) **Product life-cycle concept.** A firm's product strategy must consider the fact that products have a life cycle—phases or stages that a product will go through in its lifetime. This life cycle varies according to industry, product, technology, and market. In general, product growth follows an S-shaped curve (although it is shown in Exhibit 1.6 as linear) due to innovation, diffusion of a new product, and changes in the product and the market. There are four phases that a typical product goes through including: (1) introduction, (2) growth, (3) maturation, and (4) decline. Some products skip a phase, such as introduction or maturity, while some products are revitalized after decline, thereby not going through the S-shaped pattern. Each phase is described briefly in the following sections.

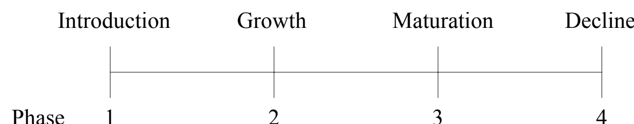

Exhibit 1.6: Phases/stages of a product life cycle

Introduction phase (phase 1) incurs high production and marketing costs. Profits are low or nonexistent. This phase is flat due to difficulties of overcoming buyer inertia and stimulating trials of the new product.

Profits increase and are possibly correlated with sales during the **growth stage** (phase 2) as the market begins trying and adopting the product. As the product **matures** (phase 3), profits do not keep pace with sales because of competition. Penetration of the product's potential buyers is eventually reached, causing the rapid growth to stop and level off. Price concessions, increasing product quality, and expanding advertising will be planned to maintain market share.

At some point sales will **decline** (phase 4), and the seller must decide whether to drop the product, alter the product, seek new uses for the product, seek new markets, or continue with more of the same. Growth will eventually taper off as new substitute products appear in the market. The advice for the decline phase is not to invest in slow or negative growth or unfavorable markets but instead to pull the cash out.

Due to changing conditions, the marketing mix has to be changed in line with the product life cycle (PLC) changes. The PLC concept can help in forecasting, pricing, advertising, and product plans. The difficult part of the PLC concept is estimating the exact time periods for these four phases in that it is hard to know when one phase begins and ends. The duration of each phase varies from product to product, which diminishes the usefulness of the PLC concept as a marketing planning tool.

(ii) **Product audit.** The product audit is a marketing management technique whereby the company's current product offerings are required to ascertain whether each product should be continued as is, improved, modified, or discontinued. The product manager, who is responsible for his product, should ensure that the product audit is performed at regular intervals as a matter of marketing policy. One of the major purposes of the product audit is to detect "sick" products for possible discontinuation. Some critical factors to be considered in this area are

- **Sales trends.** How have sales moved over time? Why have sales declined?
- **Profit contribution.** What has been the profit contribution of this product to the company?
- **Product life cycle.** Has the product reached a level of maturity and saturation in the market? Has the product outgrown its usefulness? The product discontinuation issue is a hard one because it involves consideration of its negative impact on employees, keeping consumers supplied with replacement parts, disposing of inventory, and providing repair and maintenance services.

One of the objectives of the product audit is to determine whether to modify or improve the product or to leave things as they are (status quo). Modifying the product requires changes in product features, design, packaging, promotion, price, and channels of distribution. Product improvement suggestions often come from advertising agencies, consultants, sales staff, consumers, and intermediaries, and involve many functions such as engineering, manufacturing, marketing, and accounting. Market research is advised when a product improvement is planned because it is not always clear as to how consumers will react to improvements or changes.

KEY CONCEPTS TO REMEMBER: ELEMENTS OF PRODUCT STRATEGY

- An audit of the firm's actual and potential resources include financial strength, access to raw materials, plant and equipment, operating personnel, management, engineering and technical skills, and patents and licenses.
- Approaches to current markets include more of the same products; variations of present products in terms of grades, sizes, and packages; new products to replace or supplement current lines; and product deletions.
- Approaches to new or potential markets include geographical expansion of domestic sales, new socioeconomic or ethnic groups, overseas markets, new uses of present products, complementary goods, and mergers and acquisitions.
- State of competition includes new entries into the industry, product limitation, and competitive mergers or acquisitions.

(c) **New Product Development Process.**

(i) **New product steps.** A company that can bring out new products faster than its competition enjoys many advantages and benefits. To increase speed in introducing new products, many companies are bypassing time-consuming regional tests in favor of national programs. The goal is to develop a new product right the first time. Yet, the rate of new product failures is high (33 to 90%) and the investment is high, too. There is an opportunity cost involved here due to the alternative uses of funds spent on product failures and the time spent in unprofitable product development. Marketing writers estimate that the primary reason for new product failure is the selling company's inability to match up its offerings to the needs of the customer. This inability to satisfy customer needs can be attributed to three main sources.

1. Inadequacy of up-front marketing intelligence efforts
2. Failure of the company to stick close to what it does best
3. The inability to provide better value than competing products and technologies

Developing products that generate a maximum dollar profit with a minimum amount of risk is asking for the best of both worlds—an ideal solution. A more practical, systematic approach is needed to formalize the process for new product planning. New product policy guidelines should be a prerequisite for proper product planning. These guidelines should consist of procedures for various steps shown in sequence (see Exhibit 1.7).

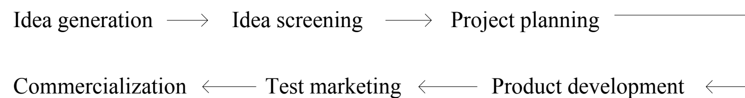

Exhibit 1.7: Sequence of steps in the new product development process

(ii) **Causes of new product failure.** Many of the reasons for new product failure relate to execution and control problems—mostly management-oriented problems. Below is a brief list of some of the more important causes of new product failures.

- Faulty estimates of new product potential
- Unexpected reactions from competitors
- Poor timing in the introduction of the product
- Rapid change in the market (economy) after the product introduction was approved
- Inadequate quality control
- Faulty estimates in production costs
- Inadequate expenditures on initial promotion programs
- Faulty market testing
- Improper channel of distribution

To properly address the causes of new product failures, it is important to consider both marketing research and technical research combined with gathering relevant information for decision-making purposes. For example, to calculate a return on investment, one needs to know the pricing strategy to be used and the investment outlay. Similarly, one needs to estimate the magnitude of the product investment outlay and the annual cash flow in order to use the payback method, which is the rate of investment outlay to annual cash flow. The basic information required in the investment outlay includes estimates of such things as production equipment, research and development costs, and marketing expenditures; the annual cash flow requires a forecast of quantity demanded in units and unit prices.

(iii) **New product policy.** Developing a new product policy is a complicated matter since new products are the lifeblood of successful business firms. Thus, the critical product policy question is not whether to develop new products but in what direction to move. Marketing management needs to develop criteria (standards/norms) for success that new products must meet if they are to be considered candidates for launching. Possible areas for standards development include profits, costs, use of plant capacity, and market share.

There are at least ten different ways a product can be presented as new.

1. A product performing an entirely new function
2. A product that offers improved performance of an existing function

3. A product that is a new application of an existing product
4. A product that offers additional functions
5. An existing product offered to a new market
6. A product that through lower cost is able to reach more buyers
7. An upgraded product defined as an existing product integrated into another existing product
8. A downgraded product
9. A restyled product
10. A growth vector matrix to indicate the direction in which the organization is moving with respect to its current products and markets (see Exhibit 1.8).

	Present products	New products
Present markets	Market penetration	Product development
New markets	Market development	Diversification

Exhibit 1.8: Matrix of present/new markets and present/new products

Market penetration denotes a growth direction through the increase in market share for present product markets. Market development refers to finding new customers for present products. Product development refers to creating new products to replace existing ones. Diversification refers to developing new products and cultivating new markets.

Steps in the development of a new product policy are as follows:

1. Prepare a long-range industry forecast for existing product lines.
2. Prepare a long-range profit plan for the company, using existing product lines.
3. Review the long-range profit plan.
4. Determine what role new products will play in the company's future.
5. Prepare an inventory of company capabilities.
6. Determine market areas for new products.
7. Prepare a statement of new product objectives.
8. Prepare a long-range profit plan, incorporating new products.
9. Assign new product responsibility.
10. Provide for evaluation of new product performance.

(d) **Marketing of Services.**

(i) **Service characteristics.** The service sector of the US economy has grown to such an extent that it captures about 50 cents of the consumer's every dollar. The definition of what constitutes a service remains unclear. Both products and services have the following common variables that comprise the marketing mix:

- The product or service itself
- The price
- The distribution system
- Promotion
- Marketing research

Yet, services possess certain distinguishing characteristics and have unique problems that result in marketing mix decisions that are substantially different from those found in communication with the marketing of goods. *These characteristics include intangibility, inseparability, fluctuating demand, a highly differentiated marketing system, and a client relationship.* Each of these characteristics is discussed next.

- **Intangibility** arises when a service firm is actually selling an idea or experience, not a product. It is often difficult to illustrate, demonstrate, or display the service in use. Examples include airline or hotel service.

- **Inseparability** arises when a service cannot be separated from the person of the seller. In other words, the service must be created and marketed simultaneously. An example is an insurance agent who is selling a policy.
- **Fluctuating demand** occurs when services fluctuate either by season (tourism), days (airlines), or time of day (movie theaters). One example of stimulating demand or unused capacity is when downtown hotels (or those that are used predominantly by business travelers) offer significant discounts for a weekend stay.
- **Highly differentiated marketing systems** offer different service approaches for different services. For example, the marketing of banking or financial services requires a different approach than the marketing of computer services or airline services.
- **Client relationships** exist between the buyer and the seller, as opposed to a customer relationship. Examples include physician-patient, banker-investor relationships. The buyer follows the suggestions provided by the seller.

(ii) **Service quality.** Poor quality of service or nonperformance are two major reasons, and high price is a minor reason for switching to the competition. Service quality is measured against performance, which can be very difficult to ascertain. In general, problems in the determination of good service quality are attributable to differences in the expectations, perceptions, and experiences regarding the encounter between the service provider and the service user.

It is easier and cheaper to keep an existing customer than to find a new one. Product quality can be measured against accepted standards, which is tangible, while service quality is measured against expected performance, which is intangible.

Service quality is the gap between expected service and perceived service. The following is a list of determinants of service quality, which can help marketing managers to avoid losing customers:

- Reliability involves dependability and consistency of performance.
- Responsiveness concerns the willingness or readiness of employees to provide service.
- Competence means possession of the necessary skills and knowledge to perform the service.
- Access involves approachability and ease of contact.
- Courtesy involves politeness, respect, consideration, and friendliness of contact personnel.
- Communication means keeping customers informed in language they can understand. It also means listening to customers.
- Credibility involves trustworthiness, believability, and honesty.
- Security is the freedom from danger, risk, or doubt.
- Understanding the customer involves making the effort to understand the customer's needs.
- Tangibles include the physical evidence of the service.

(iii) **Overcoming the obstacles in service marketing.** In view of the size and importance of service economy, considerable innovation and ingenuity are needed to make high-quality services available at convenient locations for consumers. The actual services offered by service providers often fall behind the opportunities available due to the following obstacles: a limited view of marketing, a lack of competition, a lack of creative management, a concept of "no obsolescence," and a lack of innovation in the distribution of services.

MULTIPLE-CHOICE QUESTIONS (1-113)

Global Analytical Techniques

1. Which of the following typically includes a search for strengths, weaknesses, opportunities, and threats (SWOT) that affect organizational performance?
- a. Situational analysis.
- b. Sensitivity analysis.
- c. "What if" analysis.
- d. External environmental analysis.

2. Where does the information about opportunities and threats come from for a company?
- a. An analysis of the organization's internal environment.
- b. A department by department study of the organization.
- c. A scan of the external environments.
- d. An analysis of employee grievances.

3. Which of the following is **not** an element of stakeholder analysis?
- a. Identifying stakeholders.
- b. Prioritizing stakeholders.
- c. Motivating stakeholders financially.
- d. Assessing stakeholder needs.

4. A corporate-level strategy is concerned with which of the following questions?
- a. What business are we in?
- b. How do we compete?
- c. How do we support our chosen strategy?
- d. Where do we market our products?

5. A business-level strategy is concerned with which of the following questions?
- a. What business are we in?
- b. How do we compete?
- c. How do we support our chosen strategy?
- d. Where do we market our products?

6. A functional-level strategy is concerned with which of the following questions?
- a. What business are we in?
- b. How do we compete?
- c. How do we support our chosen strategy?
- d. What business do we buy?

7. Which of the following strategies is used to implement the growth and competitive strategies of the firm?
- a. Focus strategy.
- b. Functional strategy.
- c. Corporate strategy.
- d. Generic strategy.

8. If a firm is decentralized and has a web of independent offices in each region with little or no formal hierarchy, which business-level structure is it likely to have?
- a. Functional.
- b. Project matrix.
- c. Network.
- d. Product/market.

9. Which business-level structure is based on inputs and outputs and works in a dynamic environment with strong internal technical and external market pressures?
- a. Functional.
- b. Project matrix.
- c. Network.
- d. Divisional.

10. What type of centralization is typically found in the project matrix structure?
- a. Decentralized.
- b. Very decentralized.
- c. Very centralized.
- d. Decentralized with sharing.

11. Which type of growth strategy is typically associated with firms that have a functional structure?
- a. Market development.
- b. Existing product development.
- c. Market penetration.
- d. New product development.

12. Which of the following is a disadvantage of the multi-divisional structure?
- a. Competition for corporate resources may create coordination difficulties.
- b. Corporate-level management is freed from day-to-day issues.
- c. Each business focuses its efforts on the needs of its particular stakeholders.
- d. No duplication in organizational support functions such as accounting.

13. If an organization expects high operational synergies among a few highly related businesses and needs a great deal of coordination; the organization will probably choose which of the following structures?
- a. Network.
- b. Linked.
- c. Corporate matrix.
- d. Strategic business unit.

14. An organization that is broadly diversified, with a moderate need for coordination and groups of related businesses within each major unit, should most likely choose which of the following structures?
- a. Network.
- b. Multidivisional.
- c. Transactional.
- d. Strategic business unit.

15. Which of the following is the major disadvantage of a corporate matrix structure?
- a. Flexibility.
- b. Sharing of information.
- c. Complexity.
- d. Shared marketing.

16. Which of the following is a strength of a concentration strategy?
- a. Executives can develop in-depth knowledge of the business.
- b. Industry maturity will rarely affect the firm.
- c. Firms pursuing this strategy are rarely acquired by another firm.
- d. Product obsolescence will not affect the firm.

17. Which of the following is a weakness of a concentration strategy?
- a. The organization cannot develop a distinctive competence.
- b. The strategy is risky when the environment is unstable.

c. There is high ambiguity regarding strategic direction.
d. Organizational resources are severely strained.

18. A competitive edge that cannot be easily or quickly copied by competitors in the short run is called a
a. Competitive parity.
b. Differentiated advantage.
c. Comparative advantage.
d. Sustainable competitive advantage.

19. Primary activities of the value chain include which of the following?
a. Procurement.
b. Research and development.
c. Sales and marketing.
d. Human resource management.

20. Which of the following is **not** a primary activity of the value chain?
a. Procurement.
b. Operations.
c. Sales and marketing.
d. Service and inbound logistics.

21. Support activities of the value chain include which of the following?
a. Warehousing.
b. Transportation.
c. Sales and installation.
d. Administration.

22. Support activities of the value chain include which of the following?
a. Logistics.
b. Procurement.
c. Operations.
d. Service.

23. All of the following are possible ways to develop a competitive advantage with value chain **except:**
a. Through activities that create value for the organization.
b. In the way internal activities are linked to the external environment.
c. In the way primary and support activities are combined.
d. In any of the primary and support activities.

24. Which of the following can be defined as the combination of benefits received and costs paid by the customer?
a. Customer benefits.
b. Delivering value.
c. Cost-benefit trade-off.
d. Synergy and structure trade-off.

25. If a firm sells business units that are **not** consistent with the strategic direction of the organization, it is involved in
a. Reorganization.
b. Downscoping.
c. Telescoping.
d. Refocusing.

26. Which of the following restructuring actions is most likely to involve the divestiture of a business unit?
a. Leveraged buyout.
b. Downscoping.
c. Retrenchment.
d. Reorganization.

27. The acquisition of business units that are related to current product lines or that take the corporation into new business areas is referred to as
a. Retrenchment.
b. Diversification.
c. Liquidation.
d. Reorganization.

28. When the organization goes through a period of forced decline by either shrinking current business units or selling off or liquidating entire businesses, it is called
a. Retrenchment.
b. Growth.
c. Outsourcing.
d. Leveraged buyout.

29. Which of the following involves the selling of businesses that no longer seem central to the corporation?
a. Diversification.
b. Growth.
c. Synergy.
d. Divestiture.

30. Business units that should be strongly considered for divestiture during restructuring include those with
a. High capital intensity.
b. Low operational fit.
c. Low to medium risk.
d. High research and development expenses.

31. The best definition of a divestiture is that it is a
a. Sell-off.
b. Spin-off.
c. Reverse acquisition.
d. Refocusing.

Industry Environments

32. Which of the following is **not** part of Michael Porter's Forces Model of industry competition?
a. Competitors.
b. Suppliers.
c. Unions.
d. Customers.

33. Customers tend to exhibit a powerful force on competition in the industry if
a. There are a large number of customers that buy the product.
b. The customers are earning high profits or making a large income.
c. The sellers' products are highly differentiated.
d. Purchases customers make from the industry are large relative to the amount spent for items from other industries.

34. Suppliers tend to exhibit greater power in the industry if
a. There are few suppliers of the raw materials, products, or services.
b. There are many substitutes for the product or service that suppliers sell.
c. Suppliers cannot integrate forward because there are so many.
d. The suppliers' products are undifferentiated and plentiful.

35. High levels of competition may be caused by
a. Rapid industry growth.
b. Low exit barriers.
c. A small number of competitors.
d. A lack of product differentiation.

36. Which of the following may lead a firm to conclude that an industry is attractive to enter?
a. Strong supplier power.
b. Strong customer power.
c. No close substitutes.
d. Many strong competitors.

37. Any limit on asset redeployment from one line of business or industry to another is called a
a. Barrier to mobility.
b. Barrier to entry.
c. Barriers to exit.
d. Barrier to capacity.

38. Barriers to entry are related to which of the following competitive forces?
a. Rivalry among competitors.
b. Potential new entrants.
c. Threat of substitute products.
d. Bargaining power of buyers.

39. Prospector firms
a. Pursue an offensive strategy.
b. Focus on preserving market share.
c. React to environmental situations.
d. Engage in no new product or market development.

40. Defender firms
a. Pursue an offensive strategy.
b. Attempt to increase market share.
c. React to environmental situations.
d. Engage in no new product or market development.

41. Which of the following firms pay attention to efficiency of current operations?
a. Defenders.
b. Prospectors.
c. Analyzers.
d. Reactors.

42. Which of the following firms pay attention to searching for new market opportunities?
a. Defenders.
b. Prospectors.
c. Analyzers.
d. Reactors.

43. A competitive advantage is sustainable when it is based on
a. Strong financial resources.
b. Physical assets.
c. A capability that is hard to imitate by competitors.
d. A product or service quality.

44. A core competency is **not** based on which of the following capabilities?
a. It is hard to imitate.
b. It is unique.
c. It can be applied to one business area.
d. It is valuable and sustainable.

45. Which of the following is a business activity that an organization does especially well relative to its competition?
a. Strategy.
b. Synergy.
c. Cash cow.
d. Core competence.

46. What is the primary reason that an organization should monitor the broad environment?
a. To anticipate concerns and trends.
b. To determine the firm's internal strengths.
c. To determine the firm's internal weaknesses.
d. To identify key employees or resources within the firm.

47. Which of the following is part of the broad environment?
a. Competitors.
b. Suppliers.
c. Technological trends.
d. Unions.

48. All of the following are true about environmental uncertainty **except:**
a. It makes managerial decision making more difficult.
b. Organizations derive most of their influence directly from the broad environment.
c. Political power influences the organization.
d. Economic power influences the organization.

49. What should organizations do with stakeholders that have a large influence on environmental uncertainty?
a. Ignore them.
b. Partner with them.
c. Monitor them.
d. Fight them.

Strategic Decisions

50. According to the theory of transaction cost economics, a market is likely to fail if
a. There are a large number of suppliers.
b. The future is highly uncertain.
c. All parties to the transaction have the same level of knowledge.
d. The firm's assets are used to develop products and services.

51. Which of the following best describes the typical evolution of corporate-level strategy for a company?
a. Concentration, vertical integration, diversification, restructuring.
b. Restructuring, diversification, vertical integration, concentration.
c. Concentration, diversification, restructuring, vertical integration.
d. Horizontal integration, diversification, vertical integration, restructuring.

52. The set of decisions and actions used to formulate and implement strategies is known as
a. Strategy formulation.
b. Strategic planning.
c. Strategic management.
d. Strategy implementation.

53. Which of the following uses managerial tools to direct resources toward the achievement of strategic goals?
a. Strategy formulation.
b. Strategy coordination.
c. Strategy implementation.
d. Strategic control.

54. The planning and decision making that lead to the establishment of the organization's goals and of a specific strategic plan is known as
a. Strategy formulation.
b. Strategy coordination.
c. Strategy implementation.
d. Strategic control.

55. Which of the following are the action steps by which an organization intends to attain its overall goals?
a. Tactical goals.
b. Operational goals.
c. Tactical plans.
d. Strategic plans.

56. Goals that define the outcomes that major divisions and departments must achieve in order for the organization to reach its overall goals are called
a. Tactical goals.
b. Operational goals.
c. Divisional goals.
d. Strategic goals.

57. Which of the following is the correct sequence of organizational goals from bottom-up viewpoint?
a. Operational, strategic, tactical goals.
b. Tactical, operational, strategic goals.
c. Strategic, tactical, operational goals.
d. Operational, tactical, strategic goals.

58. Lower-level goals of an organization should lead to the achievement of higher-level goals. This is called
a. A linking pin theory.
b. A value-added chain.
c. A means-end chain.
d. An end-means chain.

59. All of the following are characteristics of effective goal setting in an organization **except:**
a. Goals should be challenging but realistic.
b. Goals should be set for every aspect of employee behavior.
c. Goals should be specific and measurable.
d. Goals should cover key result areas.

60. At which of the following stages of vertical integration does product branding become very important?
a. Raw material extraction.
b. Primary manufacturing.
c. Final manufacturing.
d. Wholesaling and/or retailing.

61. Some products bypass which of the following stages of vertical integration?
a. Raw material extraction.
b. Primary manufacturing.
c. Final manufacturing.
d. Wholesaling and/or retailing.

62. What is the major intention of vertical integration strategy?
a. Total control of a product from concept to customers.
b. Increased control over the quality of suppliers.
c. Greater opportunity for product differentiation.
d. Increased control over the way a product is marketed.

63. Which of the following is a disadvantage of vertical integration?
a. Administrative costs.
b. Selling costs.
c. Research and development costs.
d. Production costs.

64. A firm that can master one stage of the industry supply chain will not necessarily excel at other stages. For this reason, many firms avoid which of the following strategies?
a. Vertical integration.
b. Diversification.
c. Restructuring.
d. Horizontal integration.

65. Which of the following diversification strategies places significant demands on corporate-level executives?
a. Related diversification.
b. Unrelated diversification.
c. Tangible-relatedness diversification.
d. Intangible-relatedness diversification.

66. From a cost leadership viewpoint, true economies of scale are often confused with increases in which of the following?
a. Economies of scope.
b. Throughput.
c. Diseconomies of scale.
d. Diseconomies of scope.

67. All of the following are factors supporting a low-cost strategy **except:**
a. High-capacity utilization.
b. Economies of scope.
c. Technological advances.
d. Learning curve effects.

68. Strategic fit occurs when

I. Two organizations are strong in the same areas of research and development.
II. Two organizations are weak in the same areas of marketing.
III. One organization is strong in research and development but weak in marketing.
IV. One organization is weak in research and development but strong in marketing.

a. I only.
b. II and IV.
c. I and III.
d. III and IV.

69. Which of the following is the best statement about organizational fit?
a. It facilitates resource sharing.
b. It fosters communication.
c. It transfers knowledge and skills.
d. It makes organizations compatible.

70. When two organizations have similar management processes, cultures, systems, and structures, it is called a(n)

a. Strategic fit.
b. Organizational fit.
c. Tangible relatedness.
d. Intangible relatedness.

71. Market penetration entails which of the following?
a. Combining vertical integration with horizontal integration.
b. Increasing market share though advertising, promotions, or increased sales effort.
c. Forming a strategic alliance with a firm in a new business.
d. Acquiring an organization in the same line of business.

72. Market development entails which of the following?
a. Seeking new market segments or new applications for existing products.
b. Modifying existing products to create new market segments.
c. Forming a strategic alliance with a firm in a new business.
d. Acquiring an organization in the same line of business.

73. A firm pursuing market development would likely increase investments in
a. New product development.
b. Basic research and development.
c. Product application development.
d. A new sales force.

74. Which of the following organizations is most likely to actively seek growth?
a. Defender firms.
b. Reactor firms.
c. Prospector firms.
d. Analyzer firms.

75. Firms often remain in a low-growth industry in which efforts to increase sales cost more than they are worth if the industry has high
a. Exit barriers.
b. Entry barriers.
c. Built-in barriers.
d. Built-on barriers.

76. A company that pursues a cost leadership strategy
a. Always has the lowest price.
b. Typically benefits from economies of scale.
c. Is more interested in quality than quantity.
d. Typically benefits from economies of scope.

77. Which of the following is an advantage of pursuing cost leadership?
a. Loss of sales does not reduce economies of scale benefits.
b. Firms invest heavily in differentiating their products.
c. A firm may charge the same price as its competitors but make a higher profit.
d. Sales always increase with increasing amount of output due to lower costs.

78. A best-cost strategy is similar to which of the following generic business strategies?
a. Differentiation combined with cost leadership.
b. Differentiation focus.
c. Cost leadership.
d. Cost focus.

79. Which of the following strategies can be profitable for an organization when customers are loyal and willing to pay high prices for its products or services?
a. Focus.
b. Internal growth.
c. Cost leadership.
d. Differentiation.

80. Which of the following strategies involve seeking efficient facilities, cutting costs, and using tight cost controls to be more efficient than competitors?
a. Focus.
b. Internal growth.
c. Cost leadership.
d. Differentiation.

81. Focus strategies, in general, are based on which of the following?
a. Focusing on low cost strategy.
b. Meeting the needs of specific customers better than competitors.
c. Charging the highest price possible.
d. Serving a broad market base.

82. The influence of potential competitors on industry competition is determined primarily by
a. Buyer power.
b. Supplier power.
c. Strength of entry barriers.
d. Strength of exit barriers.

83. A strategic control system helps managers to assess the relevance of the organization's strategy to
a. Its competitors' strategies.
b. Its profitability.
c. Its progress in the accomplishment of its goals.
d. The needs of its employees.

84. Strategic management process does **not** include which of the following?
a. Production scheduling.
b. Analysis of the environment.
c. Formulation of strategies.
d. Implementation of strategies.

85. Strategy formulation involves which of the following?
a. Corporate-level, business-level, and division-level strategy formulation.
b. Functional-level, employee-level, and customer-level strategy formulation.
c. Corporate-level, business-level, and functional-level strategy formulation.
d. Plant-level, office-level, and warehouse-level strategy formulation.

86. Regarding strategy implementation and strategic control
a. Strategy implementation is more important than strategic control.
b. Strategy implementation refers to the details of strategy execution whereas strategic control refers to ongoing evaluation of and adjustments to strategy.
c. Strategic control is more important than strategy implementation.

d. Strategy implementation refers primarily to domain definition whereas strategic control refers primarily to domain navigation.

87. What is the most logical relationship between a sustainable competitive advantage and an organizational strength?
a. A sustainable competitive advantage is a strength that is difficult for competitors to imitate.
b. A strength cannot be easily duplicated while a sustainable competitive advantage can be easily copied.
c. Every strength leads to a sustainable competitive advantage.
d. Every sustainable competitive advantage leads to strength.

88. After three years of steadily decreasing profits in spite of increased sales and a growing economy, which of the following is the preferred course of action for a chief executive officer to take?
a. Set a turnaround goal of significantly increasing profits within two months.
b. Reduce staff by 10% in every unit.
c. Reduce staff in the non-value-adding functions by 20%.
d. Encourage innovation at all levels and use an early retirement program to reduce staff size.

Portfolio Techniques of Competitive Analysis

89. How business units and product lines fit together in a logical way is the essence of
a. Business-level strategy.
b. Portfolio strategy.
c. Competitive strategy.
d. Financial strategy.

90. What are the two axes of the Boston Consulting Group Matrix?
a. Stars and cash cows.
b. Growth rates and market share.
c. Profitability and growth rates.
d. Growth rates and cash flow.

91. In the Boston Consulting Group Matrix, cash cows have
a. High growth rates and low market share.
b. Low growth rates and high market share.
c. Low growth rates and low market share.
d. High growth rates and high market share.

92. In the Boston Consulting Group Matrix, stars have
a. High growth rates and low market share.
b. Low growth rates and high market share.
c. Low growth rates and low market share.
d. High growth rates and high market share.

93. In the Boston Consulting Group Matrix, the question mark has which of the following?
a. High growth rates and low market share.
b. Low growth rates and high market share.
c. Low growth rates and low market share.
d. High growth rates and high market share.

94. Which of these is true about the dog division in the Boston Consulting Group Matrix?
a. High growth rates and low market share.
b. Low growth rates and high market share.
c. Low growth rates and low market share.
d. High growth rates and high market share.

95. In the Boston Consulting Group Matrix, market share is defined as the ratio of
a. The smallest business unit's size to the size of its smallest competitor.
b. A firm's growth rate to its industry growth rate.
c. A firm's profits to its industry's average profits.
d. The business unit's size to the size of its largest competitor.

96. The General Electric Business Screen employs which of the following?

I. Industry attractiveness
II. Competitive strengths
III. Vertical integration
IV. Horizontal integration

a. I and II.
b. III only.
c. IV only.
d. III and IV.

Product Life Cycles

97. Which of the following statements is true during the growth stage of the product life cycle?
a. Sales start a long-term decline as substitute products offer superior sets of benefits.
b. There is rapidly increasing market demand and new competitors are entering the market.
c. A few early adopters try the product, generating sales that are slowly growing.
d. The market is saturated because the vast majority of customers have become regular product purchasers.

98. The mature stage of the product life cycle is characterized by
a. A saturated market because the vast majority have become regular product purchasers.
b. No market because no one is now purchasing the product.
c. A few early adopters trying the product, generating sales that are slowly growing.
d. Sales that begin a long-term decline as substitute products offer superior sets of benefits.

99. Which of the following statements is true during the decline stage of the product life cycle?
a. The market is saturated because the vast majority of customers have become regular product purchasers.
b. There is a constant demand as replacement sales take place.
c. A few early adopters try the product, generating sales that are slowly growing.
d. Sales start a long-term decline as substitute products offer superior sets of benefits.

100. Which of the following must be adapted to meet the special opportunities and challenges of each stage of the product life cycle?
a. The project leader must be appointed.
b. The general management structure must be in place.

c. The marketing strategy and tactics must be in place.
d. The manufacturing strategy must be in place.

101. Customers in which of the following phases of the product life cycle are called laggards?
a. Introduction.
b. Growth.
c. Maturity.
d. Decline.

102. Few competitors exist in which of the following phase of the product life cycle?
a. Introduction.
b. Growth.
c. Maturity.
d. Decline.

103. Negative cash flows occur in which of the following phases of the product life cycle?
a. Introduction.
b. Growth.
c. Maturity.
d. Decline.

104. The strategic focus of improving productivity is practiced in which of the following phases of the product life cycle?
a. Introduction.
b. Growth.
c. Maturity.
d. Decline.

105. Brand loyalty is emphasized in which of the following phases of the product life cycle?
a. Introduction.
b. Growth.
c. Maturity.
d. Decline.

106. A choice between skimming and penetration pricing strategies is most likely to be made in which of the following stages of the product life cycle?
a. Mature.
b. Introductory.
c. Growth.
d. Decline.

107. Stable, competitive prices, and price wars are both common in which of the following stages of the product life cycle?
a. Mature.
b. Introductory.
c. Growth.
d. Decline.

108. Prices are kept as high as possible before harvesting in which of the following stages of the product life cycle?
a. Mature.
b. Introductory.
c. Growth.
d. Decline.

109. Which of the following statements is true during the introduction stage of the product life cycle?
a. Demand for a product is fairly stable.
b. Firms have an opportunity to create barriers to entry.
c. Producers are generally highly profitable.
d. First mover advantages are unimportant.

110. Towards the end of the growth stage of the product life cycle
a. Demand for a product falls.
b. Entry barriers play little or no role.
c. A competitive stakeout usually occurs.
d. Differentiation is not possible.

111. A competitive shakeout occurs in which of the following stages of the product life cycle?
a. Growth.
b. Maturity.
c. Decline.
d. Commodity.

112. Which of the following statements is true during the maturity stage of the product life cycle?
a. Product differentiation becomes increasingly easier.
b. First mover advantages are commonly available.
c. Firms have an opportunity to create entry barriers.
d. High-volume production tends to dominate manufacturing strategy.

113. Which of the following statements is true during the decline stage of the product life cycle?
a. Tight cost controls leading to efficiency are essential.
b. Products are highly differentiated.
c. New entrants are common.
d. Competition is no longer based on price.

MULTIPLE-CHOICE ANSWERS AND EXPLANATIONS

1. a __ __	24. b __ __	47. c __ __	70. b __ __	93. a __ __
2. c __ __	25. b __ __	48. b __ __	71. b __ __	94. c __ __
3. c __ __	26. b __ __	49. b __ __	72. a __ __	95. d __ __
4. a __ __	27. b __ __	50. b __ __	73. d __ __	96. a __ __
5. b __ __	28. a __ __	51. a __ __	74. c __ __	97. b __ __
6. c __ __	29. d __ __	52. c __ __	75. a __ __	98. a __ __
7. b __ __	30. b __ __	53. c __ __	76. b __ __	99. d __ __
8. c __ __	31. c __ __	54. a __ __	77. c __ __	100. c __ __
9. a __ __	32. c __ __	55. d __ __	78. a __ __	101. d __ __
10. d __ __	33. d __ __	56. a __ __	79. d __ __	102. a __ __
11. c __ __	34. a __ __	57. d __ __	80. c __ __	103. a __ __
12. a __ __	35. d __ __	58. c __ __	81. b __ __	104. d __ __
13. c __ __	36. c __ __	59. b __ __	82. c __ __	105. c __ __
14. d __ __	37. c __ __	60. c __ __	83. c __ __	106. b __ __
15. c __ __	38. b __ __	61. d __ __	84. a __ __	107. a __ __
16. a __ __	39. a __ __	62. a __ __	85. c __ __	108. d __ __
17. b __ __	40. d __ __	63. d __ __	86. b __ __	109. b __ __
18. d __ __	41. a __ __	64. a __ __	87. a __ __	110. c __ __
19. c __ __	42. b __ __	65. b __ __	88. d __ __	111. b __ __
20. a __ __	43. c __ __	66. b __ __	89. b __ __	112. d __ __
21. d __ __	44. c __ __	67. b __ __	90. b __ __	113. a __ __
22. b __ __	45. d __ __	68. d __ __	91. b __ __	1st: __/113 = __%
23. a __ __	46. a __ __	69. d __ __	92. d __ __	2nd: __/113 = __%

Global Analytical Techniques

1. (**a**) Situational analysis typically includes a search for strengths, weaknesses, opportunities, and threats (SWOT) that affect organizational performance.

Subject Area: Strategic management—global analytical techniques (SWOT analysis). Source: Author.

2. (**c**) While information about strengths and weaknesses of organization come from internal sources, information about opportunities and threats will come from external sources. The external sources can include competition, government, economy, and political, legal, demographic, and cultural changes.

Subject Area: Strategic management—global analytical techniques (SWOT analysis). Source: CBM, Volume two.

3. (**c**) Since stakeholders are already motivated financially, a company does not need to focus on them. After identifying, prioritizing, and assessing the needs of stakeholders, the company needs to integrate knowledge about stakeholders into the strategic management process.

Subject Area: Strategic management—global analytical techniques (stakeholder analysis). Source: Author.

4. (**a**) Corporate-level strategy pertains to the organization as a whole and the combination of business units and product lines that make up the corporate entity. It asks the question, what business are we in?

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: CBM, Volume two.

5. (**b**) Business-level strategy pertains to each business unit or product line. It focuses on how the business unit competes within its industry for customers. It asks the question how do we compete?

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

6. (**c**) The question, how do we support our chosen strategy? concerns functional-level strategy. It pertains to the major functional departments within the business unit. It asks the question "how do we compete?

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: CBM, Volume two.

7. (**b**) Functional strategy includes marketing strategy, operations strategy, human resource strategy, information systems strategy, finance strategy, and research and development strategy.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

8. (**c**) The network is a "spider's web" structure. It is very decentralized and organized around customer groups or geographical regions.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

9. (**a**) A functional structure is organized around the inputs or activities that are required to produce products and services. It includes operations, marketing, finance, and others. It is oriented toward internal efficiency and exploits economies of scale and learning curve effects from focused activities. The structure is a centralized and specialized environment.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

10. (**d**) The project matrix structure is a hybrid structure that combines both elements of functional and product/market forms. It is most common in uncertain competitive environments. It is decentralized with sharing of information and resources.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

11. (**c**) The functional structure can be effective in pursuing a market penetration strategy because the number of products and markets are limited and because the stakeholder requirements are stable over time.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

12. (**a**) If an organization has a few businesses in its portfolio, management may choose a line-of-business or multidivisional structure, with each business existing as an autonomous unit. A disadvantage of multidivisional structure is that the structure makes resource sharing and cooperation difficult. Another disadvantage is that competition for corporate resources may create coordination difficulties among divisions.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

13. (**c**) The corporate matrix structure is a way to achieve a high degree of coordination among several related businesses. This structure is used when (1) individual business units need to take advantage of resources, information, and technology sharing and/or (2) a balance is needed between pressure to decentralize business units closer to market trends and pressure to maintain centralized control to bring about economies of scope and shared learning.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

14. (**d**) Management may choose to form a strategic business unit (SBU) with each SBU incorporating a few closely related businesses. The SBU structure makes it possible for top management to keep track of many businesses at one time. It allows decentralization that is meaningful to local management so that the complexity will not overload the top management.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

15. (**c**) The corporate matrix structure requires coordination among different internal stakeholders by forcing managers within related businesses to maintain close contact with each other. This adds complexity, which may interfere with its purpose.

Subject Area: Strategic management—global analytical techniques (structural analysis). Source: Author.

16. (**a**) The concentration strategy begins with a single or small group of products and services and a single market. A single business approach allows an organization to master one business and industry environment. This specialization allows top executives to obtain in-depth knowledge of the business and industry, which should reduce strategic mistakes.

Subject Area: Strategic management—global analytical techniques (competitive strategies). Source: Author.

17. (**b**) Concentration strategies entail several risks, especially when the environment is unstable. Since the organization is dependent on one product or business area to sustain itself, change can dramatically reduce organizational performance.

Subject Area: Strategic management—global analytical techniques (competitive strategies). Source: Author.

18. (**d**) A sustainable competitive advantage is an advantage that is difficult to imitate by competitors in the short run and thus leads to higher-than-average organizational performance over a long time period.

Subject Area: Strategic management—global analytical techniques (competitive strategies). Source: Author.

19. (**c**) The value chain divides organizational processes into distinct activities that create value for the customer. The primary activities include operations, sales and marketing, logistics (inbound and outbound), and service.

Subject Area: Strategic management—global analytical techniques (value-chain analysis). Source: Author.

20. (**a**) Procurement is not a primary activity of the value chain.

Subject Area: Strategic management—global analytical techniques (value-chain analysis). Source: Author.

21. (**d**) Support activities of the value chain include administration, human resource management, technology, and procurement.

Subject Area: Strategic management—global analytical techniques (value-chain analysis). Source: Author.

22. (**b**) Procurement of raw materials and parts are support activities of the value chain.

Subject Area: Strategic management—global analytical techniques (value-chain analysis). Source: Author.

23. (**a**) Organizational activities should create value for the customer, not for the organization. An organization can develop a competitive advantage (1) in any of the primary or support activities, (2) in the way the primary and secondary activities are combined, or (3) in the way internal activities are linked to the external environment. The cumulative effect of these activities will determine organization's strengths, weaknesses, and performance related to competitors.

Subject Area: Strategic management—global analytical techniques (value-chain analysis). Source: Author.

24. (**b**) Delivering value to the customer should be at the heart of strategy. Value can be defined as the combination of benefits received and costs paid by the customer. Managers can help their companies create value by devising strategies that exploit core competencies and attain synergy.

Subject Area: Strategic management—global analytical techniques (value-chain analysis). Source: CBM, Volume two.

25. (**b**) Downscoping involves reducing diversification through selling off nonessential businesses that are not related to the organization's core competencies and capabilities.

Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: Author.

26. (**b**) Downscoping involves refocusing corporate assets on distinctive core competencies.

Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: Author.

27. (**b**) External growth involves diversification, which means the acquisition of business units that are related to current product lines or that take the company into new business areas.

Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: CBM, Volume two.

28. (**a**) Retrenchment means that the organization goes through a period of forced decline by either shrinking current business units or selling off or liquidating entire businesses.

Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: Author.

29. (**d**) Divestiture involves the selling off of businesses that no longer seem related to the corporation's business.
Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: CBM, Volume two.

30. (**b**) Business units with low operational relatedness (fit) should be placed on the divestiture list.
Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: Author.

31. (**c**) In essence, a divestiture is a reverse acquisition. In a sell-off, a business unit is sold to another firm or, in the case of a leveraged buyout, to the business unit's managers. With a spin-off, current shareholders are issued a proportional number of shares in the spun-off business. Refocusing may involve new acquisitions or new ventures to round out a corporate portfolio or add more strength in an area essential to corporate competencies.
Subject Area: Strategic management—global analytical techniques (divestiture analysis). Source: Author.

Industry Environments

32. (**c**) Industries refer to a group of organizations that compete directly with each other to win orders or sales in the marketplace. Michael Porter's Forces Model of industry competition includes suppliers, customers, and industry competitors (existing, potential, and indirect).
Subject area: Strategic management—industry environments. Source: Author.

33. (**d**) According to Porter, customers tend to exhibit a powerful force on competition in an industry if the purchases customers make from the industry are large relative to the amount expended for items from other industries. Here customers will expend considerable effort to shop for the best price.
Subject area: Strategic management—industry environments. Source: Author.

34. (**a**) According to Porter, supplier power is greater when there are only a few suppliers available to supply the raw materials, products, or services.
Subject area: Strategic management—industry environments. Source: Author.

35. (**d**) According to Porter, overall profitability is most susceptible to negative pressure from competitive rivalry in industries when there is a lack of product differentiation. This puts a lot of pressure on prices and often leads to price-cutting strategies.
Subject area: Strategic management—industry environments. Source: Author.

36. (**c**) If organizations provide goods or services that are really substitutes for the goods and services provided by an industry, these organizations become indirect competitors. On the other hand, an industry is attractive to enter when there are no close substitutes for the goods and services.
Subject area: Strategic management—industry environments. Source: Author.

37. (**c**) A barrier to exit is any restriction on the ability of incumbents to re-deploy assets from one industry or line of business to another.
Subject area: Strategic management—industry environments. Source: Author.

38. (**b**) Capital requirements and economies of scale are examples of two potential barriers to entry that can keep out new competitors. This relates to the competitive force of potential new entrants.
Subject area: Strategic management—industry environments. Source: Author.

39. (**a**) Prospector organizations have a reputation for aggressively making things happen rather than waiting for them to happen. They pursue an offensive strategy.
Subject area: Strategic management—industry environments. Source: Author.

40. (**d**) Defender firms are expert at producing and marketing a few products in a narrowly defined market and do not engage in new product or market development.
Subject area: Strategic management—industry environments. Source: Author.

41. (**a**) Defender firms pay attention to efficiency of current operations.
Subject area: Strategic management—industry environments. Source: Author.

42. (**b**) Prospector firms pay attention to searching for new market opportunities.
Subject area: Strategic management—industry environments. Source: Author.

43. (**c**) A sustainable competitive advantage is any advantage (capability) that is difficult to imitate by competitors in the short run, leading to higher-than-average organizational performance over a long time period.
Subject area: Strategic management—industry environments. Source: Author.

44. (**c**) A core competency or distinctive competence is one that is hard to imitate by a competitor; that is valuable, unique, and sustainable; and that can be applied in more than one business area.
Subject area: Strategic management—industry environments. Source: Author.

45. (**d**) A company's core competence is something the organization does especially well in comparison to its competitors. A core competence represents a competitive advantage because the company acquires expertise that competitors do not have.
Subject area: Strategic management—industry environments. Source: Author.

46. (**a**) A single organization cannot influence major occurrences and patterns in the broad environment. All it can do is to anticipate concerns and trends.
Subject area: Strategic management—industry environments. Source: Author.

47. (**c**) The broad environment consists of technological trends, political and legal forces, economic conditions, and sociocultural factors.
Subject area: Strategic management—industry environments. Source: Author.

48. (**b**) Environmental uncertainty reduces a firm's ability to predict with confidence the future state of its environment, such as demand, competitor actions, new regulation, the cost of supplies, or the availability of labor. Organizations derive most of their influence from external (broad) and internal environments.

Subject area: Strategic management—industry environments. Source: Author.

49. (**b**) Stakeholders who are a high priority for partnerships are those that have a strong influence on the outcomes of the organization. They have too much to lose or gain.

Subject area: Strategic management—industry environments. Source: Author.

Strategic Decisions

50. (**b**) Transaction cost economics, which is the study of economic exchanges and their costs, provides a cost perspective on vertical integration that helps explain when vertical integration may be appropriate. A market failure occurs when transaction costs are high enough to encourage an organization to produce a good or service in-house instead of buying it from the open market. The market is likely to "fail" when the future is highly uncertain.

Subject Area: Strategic management—strategic decisions. Source: Author.

51. (**a**) The four broad approaches to corporate strategy or its evolution are concentration, vertical integration, diversification, and restructuring. Horizontal integration involves the acquisition of an organization in the same line of business. It involves acquisition of capabilities, market segments, or product lines from outside rather than development of them internally.

Subject Area: Strategic management—strategic decisions. Source: Author.

52. (**c**) Strategic management is the set of decisions and actions used to formulate and implement strategies that will provide a completely superior fit between the organization and its environment so as to achieve organizational goals.

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

53. (**c**) Strategy implementation is the use of managerial and organizational tools to direct resources toward accomplishing strategic results. Strategy implementation is the administration, coordination, and execution of the strategic plan.

Subject Area: Strategic management—strategic decisions. Source: Author.

54. (**a**) Strategy formulation includes the planning and decision-making that lead to the establishment of the firm's goals and the development of a specific strategic plan. Strategy formulation may include assessing the external environment and internal problems and integrating the results into goals and strategy.

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

55. (**d**) Strategic plans define the action steps by which a company intends to attain strategic goals. Broad statements describing where the organization wants to be in the future are called strategic goals. The strategic plan is the blueprint that defines the organizational activities and resource allocations required for meeting these targets. Its purpose is to turn organizational goals into realities within the prescribed time periods.

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

56. (**a**) The results that major divisions and departments within an organization intended to achieve are defined as tactical goals. These goals apply to middle management and describe what major subunits must do in order for the organization to achieve its overall goals. The specific results expected from departments, work groups, and individuals are the operational goals.

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

57. (**d**) Operational goals lead to the achievement of tactical goals, which in turn lead to the attainment of strategic goals. Strategic goals are traditionally considered the responsibility of higher-level management, tactical goals that of middle management, and operational goals that of the lower-level management (first-line supervisors and workers).

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

58. (**c**) Effectively designed organizational goals fit into a hierarchy; that is, the achievement of goals at low levels permits the attainment of high-level goals. This is called a means-end chain because low-level goals lead to the accomplishment of high-level goals.

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

59. (**b**) It is neither necessary nor practical to set goals for every aspect of employee behavior. Goals should be specific and measurable, cover key result areas, be challenging but realistic, have a defined time period, and be linked to rewards.

Subject Area: Strategic management—strategic decisions. Source: CBM, Volume two.

60. (**c**) The five stages of industry supply chain for manufacturing firms include raw material extraction, primary manufacturing, final manufacturing, wholesaling, and retailing. At the final manufacturing stage, product branding becomes very important since consumers associate brand names with quality, service, and reliability.

Subject Area: Strategic management—strategic decisions. Source: Author.

61. (**d**) Some products bypass the wholesaling and/or retailing stages due to direct sales by the manufacturer to customers.

Subject Area: Strategic management—strategic decisions. Source: Author.

62. (**a**) Vertical integration is the extent to which a firm is involved in several stages of the industry supply chain. Although the other three choices are the possible reasons for vertical integration, total control of a product from concept to customers is the major intention.

Subject Area: Strategic management—strategic decisions. Source: Author.

63. (**d**) Research revealed that vertical integration may be associated with reduced administrative, selling, and research and development costs, but higher production costs. The reason for the higher production costs may be that inter-

nal suppliers have a guaranteed customer and that they have no incentive to keep their costs down and be competitive.
Subject Area: Strategic management—strategic decisions. Source: Author.

64. (**a**) Vertical integration often requires substantially different skills than those currently possessed by the firm. For this reason, many firms avoid vertical integration and move directly into some of form of diversification. Horizontal integration involves the acquisition of an organization in the same line of business.
Subject Area: Strategic management—strategic decisions. Source: Author.

65. (**b**) Large, unrelated diversified firms are called conglomerates since they are involved in a conglomeration of unrelated businesses. Research has demonstrated that most, but not all, unrelated firms have lower profitability than firm pursuing other corporate-level strategies. There is also some evidence that unrelated diversification is associated with higher levels of risk than other strategies. Unrelated diversification places significant demands on corporate-level executives due to increased complexity and technological changes taking place across industries.
Subject Area: Strategic management—strategic decisions. Source: Author.

66. (**b**) Cost advantages lead to economies of scale, which is often confused with increases in the throughput of a manufacturing plant. True economies of scale are cost advantages associated with larger-sized facilities rather than with increased volume (throughput) through an existing facility.
Subject Area: Strategic management—strategic decisions. Source: Author.

67. (**b**) Firms pursuing a low-cost strategy will typically employ one or more of the following factors to create their low-cost positions. These factors include (1) high-capacity utilization, (2) economies of scale, (3) technological advances, or (4) learning curve or experience curve effects. Economies of scope refer to a cost advantage spread over a wide variety of products or functions.
Subject Area: Strategic management—strategic decisions. Source: Author.

68. (**d**) Two types of fit are required: strategic fit and organizational fit. Strategic fit refers to the effective matching of strategic organizational capabilities. This means, if one organization is weak in one area the other organization must be strong in other area.
Subject Area: Strategic management—strategic decisions. Source: Author.

69. (**d**) Organizational fit makes organizations compatible, which facilitates resource sharing, communication, and transference of knowledge and skills.
Subject Area: Strategic management—strategic decisions. Source: Author.

70. (**b**) Organizational fit occurs when two organizations have similar management processes, culture, systems, and structures.
Subject Area: Strategic management—strategic decisions. Source: Author.

71. (**b**) By investing its resources internally, a business can pursue market penetration, market development, or product/service development. Market penetration entails investing in advertising, capacity expansion, and/or the sales force with the intent of increasing market share in the current business. This strategy requires no change in the scope of the organization.
Subject Area: Strategic management—strategic decisions. Source: Author.

72. (**a**) In market development, the organization seeks new market segments, or product application development, which involves creating new application of its products. Both of these approaches require a broadened definition of the markets or functions served.
Subject Area: Strategic management—strategic decisions. Source: Author.

73. (**d**) To support market development, firms may need to invest in market research, new marketing approaches, and a new sales force.
Subject Area: Strategic management—strategic decisions. Source: Author.

74. (**c**) Prospector firms actively seek new market opportunities and are willing to take risks.
Subject Area: Strategic management—strategic decisions. Source: Author.

75. (**a**) There are many situations in which investing for the objective of growth is ineffective. For example, a firm may find it in a mature, declining, or rigidly segmented market in which efforts to increase sales would cost more than they are worth. This situation is typical of industries with low profits, no growth, and high exit barriers. These barriers exist when the capital equipment and skills an organization possesses are not applicable to other businesses.
Subject Area: Strategic management—strategic decisions. Source: Author.

76. (**b**) Economies of scale results when production costs per unit are less in a large-size facility than in a small-size facility. Here, scale refers to the size of a facility. Economies of scope refer to spreading of costs over a wide variety of products or functions.
Subject Area: Strategic management—strategic decisions. Source: Author.

77. (**c**) If an organization is able to achieve the lowest cost but charges a price similar to that of competitors, it will still make higher profits.
Subject Area: Strategic management—strategic decisions. Source: Author.

78. (**a**) The best-cost strategy is the middle-ground strategy in that it provides the most reasonable trade-off between low cost and differentiating features.
Subject Area: Strategic management—strategic decisions. Source: Author.

79. (**d**) The differentiation strategy involves an attempt to distinguish the firm's products or services from others in the industry. The differentiation strategy can be profitable because customers are loyal and will pay high prices for the products or services.
Subject Area: Strategic management—strategic decisions. Source: Author.

80. (**c**) With a cost leadership strategy, the organization aggressively seeks efficient facilities, pursues cost reduc-

tions, and uses tight cost controls to produce products more efficiently than competitors.

Subject Area: Strategic management—strategic decisions. Source: Author.

81. (**b**) Firms pursuing focus strategies have to be able to identify their target market segment and both assess and meet the needs and desires of buyers in that segment better than any other competitor.

Subject Area: Strategic management—strategic decisions. Source: Author.

82. (**c**) New entrants increase competitiveness in an industry, which may drive down prices and profits. Forces that keep new entrants out, providing a level of protection for existing competitors, are called entry barriers.

Subject Area: Strategic management—strategic decisions. Source: Author.

83. (**c**) A strategic control system supports managers in assessing the relevance of the organization's strategy to its progress in the accomplishment of its goals, and when discrepancies exist, to support areas needing attention and corrective actions.

Subject Area: Strategic management—strategic decisions. Source: Author.

84. (**a**) The strategic management process includes analysis of the environment, formulation of strategies, establishment of strategic direction, implementation of strategies, and strategic restructuring.

Subject Area: Strategic management—strategic decisions. Source: Author.

85. (**c**) Strategy formulation involves specific strategies at corporate-level, business-level, and functional-level of a company.

Subject Area: Strategic management—strategic decisions. Source: Author.

86. (**b**) Strategy implementation refers to the details of strategy execution whereas strategic control refers to ongoing evaluation of and adjustments to strategy. Strategy implementation is performed through functional-level, business-level, and corporate-level structures. Strategic control systems include feedback, concurrent, and feed forward controls.

Subject Area: Strategic management—strategic decisions. Source: Author.

87. (**a**) Strengths are firm resources and capabilities that can lead to a competitive advantage. Opportunities allow a firm to take advantage of an organization's strengths. A firm will have a sustainable competitive advantage (1) if a resource that a firm possesses allows the firm to take advantage of opportunities or neutralizes threats, (2) if only a small number of firms possess it, and (3) if it is costly or impossible to imitate.

Subject Area: Strategic management—strategic decisions. Source: Author.

88. (**d**) This is a long-term solution, which contains the elements needed to counter organizational decline. Choice (a) is incorrect. This response illustrates two of the characteristics of organizational decline: increased centralization of decision-making and lack of long-term planning. The exclusive emphasis on short-term results is likely to be counterproductive. Choice (b) is incorrect. Another characteristic of organizational decline is nonprioritized cuts. Downsizing, by itself, rarely turns a company around. Choice (c) is incorrect. This is too crude a method of prioritizing cuts. Reducing staff disproportionately in control functions could have disastrous consequences.

Subject Area: Strategic management—strategic decisions. Source: CIA Model Exam 2002, III-5.

Portfolio Techniques of Competitive Analysis

89. (**b**) Portfolio strategy pertains to the mix of business units and product lines that fit together in a logical way to provide synergy and competitive advantage for the corporation.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: CBM, Volume two.

90. (**b**) The two axes in the Boston Consulting Group Matrix include growth rates and market share.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: CBM, Volume two.

91. (**b**) Cash cows have low growth rates and high market share.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: CBM, Volume two.

92. (**d**) Stars have high growth rates and high market share.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: CBM, Volume two.

93. (**a**) The question mark has high growth rates and low market share. It exists in a new, rapidly growing industry but has only a small market share. The question mark is risky; it could become a star, or it could fail.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: CBM, Volume two.

94. (**c**) The dog division is a poor performer. It has a low market share in a low growth market.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: CBM, Volume two.

95. (**d**) The market share is calculated as the ratio of the business unit's size to the size of its largest competitor.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: Author.

96. (**a**) The General Electric Business Screen employs measures of industry attractiveness and competitive strengths that are defined by the organization. The model is flexible enough to accommodate a wide variety of indicators of industry attractiveness and competitive strengths.

Subject Area: Strategic management—portfolio techniques of competitive analysis. Source: Author.

Product Life Cycles

97. (**b**) During the growth stage of the product life cycle, there is rapidly increasing market demand and new competitors entering the market.

Subject Area: Strategic management—product life cycles. Source: Author.

98. (**a**) The mature stage of the product life cycle is characterized by a saturated market because the vast majority of customers have become regular product purchasers.

Subject Area: Strategic management—product life cycles. Source: Author.

99. (**d**) During the decline stage of the product life cycle, sales start a long-term decline as substitute products offer superior sets of benefits.

Subject Area: Strategic management—product life cycles. Source: Author.

100. (**c**) The marketing strategy and tactics must be in place to meet the special opportunities and challenges of each stage of the product life cycle.

Subject Area: Strategic management—product life cycles. Source: Author.

101. (**d**) Innovators and early adopters are those customers who are willing to take more risk, buy the product shortly after introduction. During growth phase, product purchase begins to spread to the early majority of the mass market, with full penetration and adoption by the late majority occurring primarily in the maturity phase. Near the product's decline, only laggards are left purchasing the product.

Subject Area: Strategic management—product life cycles. Source: Author.

102. (**a**) In the introduction phase of the product life cycle, few competitors exist, growing number in the growth phase, many rivals in the maturity phases, and declining number in the decline phase.

Subject Area: Strategic management—product life cycles. Source: Author.

103. (**a**) Negative cash flow occurs in the introduction phase, is moderate in the growth phase, high in the maturity stage, and low in the decline phase.

Subject Area: Strategic management—product life cycles. Source: Author.

104. (**d**) Tight cost controls and improving productivity and efficiency are important in the decline phase of the product life cycle.

Subject Area: Strategic management—product life cycles. Source: Author.

105. (**c**) Brand loyalty is emphasized in the maturity phase, product awareness in the introductory phase, brand preference in the growth phase, and selective emphasis in the decline phase.

Subject Area: Strategic management—product life cycles. Source: Author.

106. (**b**) In the introductory stage, paying attention to costs is important, and the firm may choose to pursue a skimming or penetration pricing strategy.

Subject Area: Strategic management—product life cycles. Source: CBM, Volume two.

107. (**a**) During the mature stage, stable, competitive prices, and price wars are common.

Subject Area: Strategic management—product life cycles. Source: Author.

108. (**d**) In the decline stage, the firm should try to keep prices up if the decision has been made to harvest the brand.

Subject Area: Strategic management—product life cycles. Source: CBM, Volume two.

109. (**b**) Firms have an opportunity to create barriers to entry during the introduction stage of the product life cycle.

Subject Area: Strategic management—product life cycles. Source: Author.

110. (**c**) Toward the end of the growth stage of the product life cycle, a competitive stakeout usually occurs. During this stage, demand greatly increases, which often attracts new competitors (competitive stakeout). The company is faced with the opposing forces of growing demand, yet increasing competition.

Subject Area: Strategic management—product life cycles. Source: Author.

111. (**b**) During the maturity stage of the product life cycle, slowing of growth can lead to a competitive shakeout of weaker producers, resulting in fewer competitors.

Subject Area: Strategic management—product life cycles. Source: Author.

112. (**d**) During the maturity stage of the product life cycle, high volume production tends to dominate manufacturing strategy.

Subject Area: Strategic management—product life cycles. Source: Author.

113. (**a**) During the decline stage of the product life cycle, tight cost controls and efficiency improvements are needed as part of marketing tactics.

Subject Area: Strategic management—product life cycles. Source: Author.