Chapter 2: Industry Competition

1. The primary industry includes a firm's key business units, whereas the secondary industry includes the firm's less significant business units.

   a. True

   *b. False

2. All industries pass through the industry life cycle at roughly the same pace.

   a. True

   *b. False

3. A young industry that is beginning to form is considered to be in the growth stage.

   a. True

   *b. False

4. Firms in mature industries often seek new uses for their products.

   *a. True

   b. False

5. When storage costs are low, the intensity of rivalry tends to increase.

   a. True

   *b. False

6. A long-term labor agreement can be an example of an exit barrier.

   *a. True

   b. False

7. The lack of high capital costs serves as a barrier to entry for an industry.

a. True

*b. False

8. A patent is an example of a cost advantage independent of size.

*a. True

b. False

9. Substitute products are offered by close competitors.

*a. True

b. False

10. The bargaining power of buyers increases when buyers are concentrated or each one purchases a significant portion of the industry's sales.

*a. True

b. False

11. The bargaining power of buyers increases when buyers earn high profits.

a. True

*b. False

12. The bargaining power of suppliers is high when there are no substitutes.

*a. True

b. False

13. One weakness of Porter's five-forces model is that it is based on the assumptions of the industrial organization perspective.

*a. True

b. False

14. One weakness of Porter's five-forces model is that it tends to overemphasize partnerships and other relationships between firms.

a. True

*b. False

15. One weakness of Porter's five-forces model is that it assumes that firm resources are the primary determinants of industry profitability.

a. True

*b. False

16. The objective of Porter's five-forces model is to

a. assess firm profitability.

*b. assess the potential for profits within an industry.

c. emphasize the intensity of rivalry within an industry.

d. None of the above.

17. An industry is

a. not the same as a firm.

b. often difficult to define.

c. not always the most important factor in determining a firm's performance.

*d. All of the above.

18. A firm's industry

a. is synonymous with its macroeovnrionment.

*b. can be difficult to define.

c. always has the greatest influence on a firm's performance.

d. None of the above.

19. A young industry that is beginning to form is in the

*a. growth stage.

b. shakeout stage.

c. maturity stage.

d. decline stage.

20. The shakeout stage

a. occurs after the maturity stage.

*b. occurs when growth no longer supports the increasing number of competitors

c. precedes the growth stage.

d. All of the above.

21. The maturity stage occurs

*a. immediately after the growth stage.

b. immediately before the shakeout stage.

c. when virtually all purchases are upgrades or replacements.

d. None of the above.

22. Which of the following is not one of Porter's five industry forces?

a. Bargaining power of buyers

b. Threat of substitute products

c. Intensity of rivalry among incumbent firms

*d. None of the above

23. Intensity of rivalry in an industry is a function of all of the following EXCEPT

a. the concentration of competitors.

b. slow industry growth.

c. high exit barriers.

*d. government policy.

24. Rivalry increases sharply when

*a. competitors are diverse.

b. competitors are similar.

c. competitors operate in multiple industries.

d. None of the above.

25. Exit barriers in an industry include

a. strategic factors.

b. emotional factors.

c. economic factors.

*d. All of the above.

26. The decline in unit costs of a product that occurs as the absolute volume of production increases is known as

a. factor analysis.

b. industry economies.

c. economies of scope.

*d. None of the above.

27. Switching costs are incurred by

*a. the buyer.

b. the seller.

c. both the buyer and the seller.

d. neither the buyer nor the seller.

28. Barriers to entry may be associated with

a. cost advantages associated with the quantity of production.

b. cost advantages independent of size.

*c. Both A & B

d. Neither A nor B

29. Pressure from substitute products occurs from

a. inside the industry.

b. primary competitors.

c. primary and secondary competitors.

*d. None of the above.

30. When an industry's customers are hesitant to negotiate for lower prices, the

a. bargaining power of buyers is high.

b. bargaining power of suppliers is high.

*c. bargaining power of buyers is low.

d. bargaining power of suppliers is low.

31. Which of the following does not increase the bargaining power of buyers?

a. Buyers face few switching costs.

*b. Buyers earn high profits.

c. Products that the buyer purchase represent a significant percentage of the buyers' costs.

d. Buyers have the ability to engage in backward integration.

32. When firms that provide key raw materials to an industry constantly negotiate for higher prices, the

a. bargaining power of buyers is high.

*b. bargaining power of suppliers is high.

c. bargaining power of buyers is low.

d. bargaining power of suppliers is low.

33. Which of the following does not increase the bargaining power of suppliers?

*a. An abundance of substitute products

b. Built-in switching costs among the suppliers' products

c. Domination of the supplying industry by a few competitors.

d. All of the above increase the bargaining power of suppliers.

34. Which of the following is not a limitation of Porter's five-forces model?

a. It is based on the assumptions of industrial organization theory.

b. It does not allow for the role of partnerships.

c. It does not account for the fact that a large firm may be able to influence industry structure.

*d. It assumes that firm resources explain firm performance.

35. Which of the following is not a limitation of Porter’s five-forces model?

a. It does not account for the fact that a large firm may be able to influence industry structure.

b. It assumes that industry structure explains firm performance.

*c. It incorporates the resource-based perspective on strategic decision-making.

d. It is based on the assumptions of industrial organization theory.

Type: E

36. Must all industries proceed through each of the industry life cycle stages? Why or why not? Explain.

a. Answers will vary. In theory, all industries eventually pass through all stages. However, it is possible that industries in the maturity stage may “redefine themselves” and return to the growth stage.

Type: E

37. Is the intensity of rivalry in the fast-food industry low, moderate, or high? Explain.

a. Typically high, but answers should address the factors associated with intensity of rivalry:

- concentration of competitors
- high fixed or storage costs
- slow industry growth
- lack of differentiation or storage costs
- capacity augmented in large increments
- diversity among competitors
- high strategic stakes
- high exit barriers

Type: E

38. Are the barriers to entry in the automobile manufacturing industry low, moderate, or high? Explain.

a. Typically high, but answers should address each of the factors associated with entry barriers:

- economies of scale
- brand identity and product differentiation
- capital requirements
- switching costs
- access to distribution channels
- cost advantages independent of size
- government policy

Type: E

39. Is the threat of substitutes low, moderate, or high in the U.S. airline industry?

a. Answers will vary, but should identify substitutes as coming from outside of the industry such as trains, bus travel, and the like.

Type: E

40. What are the limitations of Porter's five forces model? Given these limitations, is it useful or not? Explain.

a. Answers will vary, but should note its usefulness in assessing industry-level factors while addressing four key limitations:

- It assumes the existence of a clear, recognizable industry. Likewise, the model addresses only the behavior of firms in an industry and does not account for the role of partnerships, a growing phenomenon in many industries. When firms "work together," either overtly or covertly, they create complex relationships that are not easily incorporated into industry models.
- It does not take into account the fact that some firms, most notably large ones, can often take steps to modify the industry structure, thereby increasing their prospects for profits.
- It assumes that industry factors, not firm resources, comprise the primary determinants of firm profit.

- A firm that competes in many countries typically must analyze and be concerned with multiple industry structures.