

Chapter 02

Markets and Competitive Space

True/False Questions

1. When modularization occurs, products become commodities.

Answer: True

Difficulty: Easy

Page: 38

2. The influence of competing brands becomes weaker with closer substitutability and more direct competition.

Answer: False

Difficulty: Easy

Page: 39

3. The product-variant product-market structure includes a broad group of products that satisfy a general, yet similar, need.

Answer: False

Difficulty: Easy

Page: 40

4. Customer function considers the role or purpose of the good or service.

Answer: True

Difficulty: Easy

Page: 43

5. It is important to focus on the distributor of a product when defining the market, since the distributor drives demand for the product.

Answer: False

Difficulty: Medium

Page: 43

6. The value chain analysis considers the vertical network of firms involved in production.

Answer: True

Difficulty: Easy

Page: 49

7. A new competitor entering a market is likely to come from companies competing in other geographical regions with similar products.

Answer: True

Difficulty: Medium

Page: 54

8. Sales forecasts, typically, fall short of market potential.

Answer: True

Difficulty: Easy

Page: 55-56

9. In the initial stage of competition, the competitors concentrate on market share for end products and profits.

Answer: False

Difficulty: Easy

Page: 58

10. In the final phase of competition, companies involve in partnering with the objective of controlling industry standards.

Answer: False

Difficulty: Easy

Page: 58

Multiple Choice Questions

11. _____ refers to firms using simpler and less costly ways to match the value requirements offered by the products of incumbent firms serving the market.

A. Modularization

B. Commoditization of product designs

C. Disruptive innovation

D. Creating new market space

Answer: C

Difficulty: Easy

Page: 37

12. _____ changes products into commodities, making it difficult for companies to earn anything more than subsistence returns from those products.

A. Disruptive innovation

B. Modularization

C. Cannibalization

D. Segmentation

Answer: B

Difficulty: Easy

Page: 38

13. The purpose of _____ is to target new opportunities where buyers' value requirements are not being satisfied by existing products.

A. disruptive innovation

B. commoditization of products

C. benchmarking

D. creating new market space

Answer: D

Difficulty: Easy

Page: 38

14. The _____ product-market includes a broad group of products that satisfy a larger common need.

- A. generic
- B. product-type
- C. product-variant
- D. larger-type

Answer: A

Difficulty: Easy

Page: 40

15. Which of the following is the first step in defining and analyzing product-markets?

- A. Forecasting market size
- B. Determining the boundaries of the market
- C. Analyzing competition
- D. Predicting rate of change of the market

Answer: B

Difficulty: Easy

Page: 40

16. Which of the following is the second step in analyzing product-markets?

- A. Analyze competition
- B. Form the product-market
- C. Forecast market size and rate of change
- D. Analyze end users

Answer: B

Difficulty: Easy

Page: 42

17. Which of the following is the final step in analyzing the competition?

- A. Anticipating actions by competitors
- B. Evaluating key competitors
- C. Identifying and evaluating potential competitors
- D. Identifying key competitors

Answer: C

Difficulty: Easy

Page: 48

18. Which of the following is the most direct type of competition?

- A. Budget competition
- B. Generic competition
- C. Product-category competition
- D. Product-variant competition

Answer: D

Difficulty: Easy

Page: 48

19. _____ analysis is horizontal and only covers similar types of firms and operating practices of the firms.

- A. Value chain
- B. Industry
- C. Market segmentation
- D. Customer profile

Answer: B

Difficulty: Easy

Page: 49

20. According to Porter's five competitive forces, _____ recognizes that active competition among industry members helps determine industry performance and it is the most direct and intense form of competition.

- A. rivalry among existing firms
- B. threat of new entrants
- C. threat of substitute products
- D. bargaining power of suppliers

Answer: A

Difficulty: Easy

Page: 51

21. If critical inputs are in jeopardy or prices of those inputs are extraordinarily high, companies may pursue vertical integration strategies or develop collaborative relationships to reduce the:

- A. rivalry among existing firms.
- B. bargaining power of buyers.
- C. threat of substitute products.
- D. bargaining power of suppliers.

Answer: D

Difficulty: Moderate

Page: 51

22. _____ is measured by comparing the share of the firm against the competitor with the highest market share in the segment.

- A. Market segmentation
- B. Relative market position
- C. Product differentiation
- D. Customer segment

Answer: B

Difficulty: Easy

Page: 52

23. Market entry by a new competitor is likely under which of the following conditions?

- A. When markets have matured and growth is slow
- B. When major market-entry barriers are present

- C. When competition is limited to one or a few competitors
- D. When market incumbents' profit margins have declined

Answer: C

Difficulty: Easy

Page: 54

24. _____ is the maximum amount of product sales that can be obtained from a defined product-market during a specified time period.

- A. Market potential
- B. Sales forecast
- C. Market share
- D. Modularization

Answer: A

Difficulty: Easy

Page: 54

25. Which of the following is a major source for new competitors?

- A. Companies already targeting similar customer groups with other products.
- B. Companies competing in the same regions with different products.
- C. Companies competing in a different product-market.
- D. Companies with advanced unrelated technologies.

Answer: A

Difficulty: Easy

Page: 54

26. _____ is the upper limit of sales that can be achieved by all firms for a specified product-market over an indicated time period.

- A. Market potential
- B. Market share
- C. Differential pressure
- D. Absolute threshold

Answer: A

Difficulty: Easy

Page: 54

27. _____ refers to the expected sales for a defined product-market during a specified time period.

- A. Market potential
- B. Sales forecast
- C. Market share
- D. Modularization

Answer: B

Difficulty: Easy

Page: 55

28. Company sales divided by the total sales of all firms for a specified product-market

determines the _____ of a particular firm.

- A. market potential
- B. absolute threshold
- C. relative market position
- D. market share

Answer: D

Difficulty: Easy

Page: 56

29. Which of the following is an advantage of using the time-series analysis in sales forecasting?

- A. It utilizes historical data when forecasting.
- B. It consumes the least amount of time in forecasting.
- C. It is a very subjective type of analysis.
- D. It is most effective when forecasting new or innovative products.

Answer: A

Difficulty: Easy

Page: 57

30. Which of the following is the final phase of competition?

- A. Partnering of companies with the objective of controlling industry standards
- B. Companies competing in identifying product concepts
- C. Competitors concentrating on market share for end products and profits
- D. Firms focusing on building competencies

Answer: C

Difficulty: Easy

Page: 58

Essay Questions

31. Explain the competitive box. Why is there a need for strategic thinkers to “think outside the competitive box”?

Answer: There is a tendency for executives to think in terms of a stable "competitive box" around their businesses—defined by technology, geography, competitors and the existing customer base. This frame of reference enables analytical tools to be successfully applied, research to be carried out, and plans can be made. This traditional perspective is logical in stable markets but fails to address the reality that the real threats as well as exciting opportunities may be present outside the conventional competitive box. Increasingly, new markets, new types of competition, and new business designs are emerging that fuel market growth and cannibalize the existing customer base of incumbents' markets. Importantly, effective processes for understanding markets and competitive space and guiding the strategic initiatives appropriate for the markets require strategic thinking outside the competitive box.

Difficulty: Moderate

Page: 36

32. Discuss the differences between a generic product-market and a product-type product-

market.

Answer: The generic product-market includes a broad group of products that satisfy a general, yet similar, need. The starting point in determining product-market boundaries is to identify the particular need or want that a group of products satisfies. Since people with a similar need may not satisfy the need in the same manner, generic product-markets are often heterogeneous, containing different end-user groups and several types of related products. The product-type product-market includes all brands of a particular product type. The product type is a product category or product classification that offers a specific set of benefits intended to satisfy a customer's need or want in a specific way. Differences in the products within a product-type product-market may exist, creating product-variants.

Difficulty: Moderate

Page: 40

Page: 41

33. Identify the three guidelines for defining a product-market.

Answer: In defining the product-market, it is helpful to indicate (1) the basis for identifying buyers in the product-market of interest (geographical area, consumer/business etc.), (2) the market size and characteristics, and (3) the brand and/or product categories competing for the needs and wants of the buyers included in the product-market.

Difficulty: Easy

Page: 41

34. Explain how buyers make choices in products and brands.

Answer: Buyers normally follow a decision process. They begin by recognizing a need (problem recognition); next, they seek information; then, they identify and evaluate alternative products; and finally, they purchase a brand. The length and complexity of this process varies by product and purchasing situation. Decisions for frequently purchased products with which a buyer has past experience tend to be routine. One part of studying buyer decision processes is finding out what criteria people use in making decisions.

Difficulty: Moderate

Page: 46

35. Identify Porter's five competitive forces that impact industry performance.

Answer: Michael Porter's five competitive forces that impact industry performance are: 1. Rivalry among existing firms, 2. Threat of new entrants, 3. Threat of substitute products, 4. Bargaining power of suppliers, 5. Bargaining power of buyers.

Difficulty: Easy

Page: 51