Chapter 2

*Student: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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| 1. | What determines the value of a product?

|  |  |
| --- | --- |
| A.  | its technology |

|  |  |
| --- | --- |
| B.  | its market price |

|  |  |
| --- | --- |
| C.  | the price the customer would be willing to pay for it in the absence of competing products and given budget constraints |

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| --- | --- |
| D.  | the market prices of competing products |

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| 2. | Which of the following are isolating mechanisms?

|  |  |
| --- | --- |
| A.  | causal ambiguity |

|  |  |
| --- | --- |
| B.  | property rights |

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| --- | --- |
| C.  | search costs |

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| D.  | all of the above |

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| 3. | Which of the following are value drivers: 1. the product's technology, 2. the firm's risk assumption, 3. economies of scale, 4. network externalities?

|  |  |
| --- | --- |
| A.  | 1 and 2 |

|  |  |
| --- | --- |
| B.  | 1, 2 and 3 |

|  |  |
| --- | --- |
| C.  | 1, 2 and 4 |

|  |  |
| --- | --- |
| D.  | all |

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| 4. | Which of the following are cost drivers: 1. the learning curve, 2. complementary products, 3. breadth of product line, 4. economies of scope?

|  |  |
| --- | --- |
| A.  | 1 and 2 |

|  |  |
| --- | --- |
| B.  | 3 and 4 |

|  |  |
| --- | --- |
| C.  | 1 and 4 |

|  |  |
| --- | --- |
| D.  | 1, 3 and 4 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | A firm creates a network externality when:

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| --- | --- |
| A.  | customers using the product speak to each other |

|  |  |
| --- | --- |
| B.  | the benefit customers receive from using the firm's product increases as new customers are added |

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| --- | --- |
| C.  | the products are produced using network technologies |

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| --- | --- |
| D.  | all its products are connected |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | Time compression diseconomies are larger when:

|  |  |
| --- | --- |
| A.  | the contribution of firm's capability to its V-C position is path dependent |

|  |  |
| --- | --- |
| B.  | a firm's capability resides within an individual employee |

|  |  |
| --- | --- |
| C.  | the knowledge underlying a firm's capability is organization specific |

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| --- | --- |
| D.  | the contribution of firm's capability to its V-C position is path dependent and the knowledge underlying a firm's capability is organization specific |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Which of the following value drivers is less likely to contribute to customer retention?

|  |  |
| --- | --- |
| A.  | customization |

|  |  |
| --- | --- |
| B.  | product line breadth |

|  |  |
| --- | --- |
| C.  | network externalities |

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| --- | --- |
| D.  | geographical scope |

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| 8. | If a firm is neither a cost leader nor a differentiator, it is called:

|  |  |
| --- | --- |
| A.  | competitively disadvantaged |

|  |  |
| --- | --- |
| B.  | poorly positioned |

|  |  |
| --- | --- |
| C.  | stuck in the middle |

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| --- | --- |
| D.  | lost in competitive space |

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| 9. | What determines a superior market position compared to rivals?

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| --- | --- |
| A.  | the difference between value and cost |

|  |  |
| --- | --- |
| B.  | superior technology |

|  |  |
| --- | --- |
| C.  | economies of scope |

|  |  |
| --- | --- |
| D.  | cost leadership |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | The buyer's surplus is:

|  |  |
| --- | --- |
| A.  | a source of customer sensitivity |

|  |  |
| --- | --- |
| B.  | the difference between a product's value and its market price |

|  |  |
| --- | --- |
| C.  | the difference between the cost to produce the product and its market price |

|  |  |
| --- | --- |
| D.  | a firm's total economic contribution |

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| --- | --- |
| 11. | A generic strategy always represents a superior market position.  True    False |

|  |  |
| --- | --- |
| 12. | A superior market position compared to rivals is sufficient to achieve a sustainable competitive advantage.  True    False |

|  |  |
| --- | --- |
| 13. | Reducing costs provides a greater return than increasing value when the marginal customer is value, not price, sensitive.  True    False |

|  |  |
| --- | --- |
| 14. | The price customers pay always represents the full value of the product.  True    False |

|  |  |
| --- | --- |
| 15. | Sunk costs in imitating a capability increase when it is tied to complementary practices.  True    False |

|  |  |
| --- | --- |
| 16. | A key assumption regarding the disadvantage of being stuck in the middle is that demand is insufficient to allow the firm to improve its position.  True    False |

|  |  |
| --- | --- |
| 17. | Investing in cost drivers can improve the firm's performance by allowing it to lower prices.  True    False |

|  |  |
| --- | --- |
| 18. | Cost reduction, compared to increasing value, is more attractive when the firms in an industry have access to the same process innovations.  True    False |

|  |  |
| --- | --- |
| 19. | The benefit of customer one-stop shopping pertains to the value driver of complements.  True    False |

|  |  |
| --- | --- |
| 20. | Competitive advantage depends on being at one end of the high value - low cost continuum.  True    False |

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| --- | --- |
| 21. | How can a firm achieve a superior market position without having the lowest cost or offering the highest value, relative to rivals?      |

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| --- | --- |
| 22. | Assume you are opening up a mobile app store (with applications for smartphones and tablets). Describe how you will measure a customer's willingness to pay for your product offerings.      |

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| --- | --- |
| 23. | What mechanisms help to isolate or protect Southwest Airlines' superior market position relative to rivals?      |

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| --- | --- |
| 24. | What is the relationship between a firm's resources and capabilities and its Value and Cost Drivers?      |

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| 25. | How can a firm use switching costs to increase customer retention? Give one example.      |

Chapter 2 Key

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| 1.*(p. 24)* | What determines the value of a product?

|  |  |
| --- | --- |
| A.  | its technology |

|  |  |
| --- | --- |
| B.  | its market price |

|  |  |
| --- | --- |
| **C.**  | the price the customer would be willing to pay for it in the absence of competing products and given budget constraints |

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| --- | --- |
| D.  | the market prices of competing products |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2.*(p. 47)* | Which of the following are isolating mechanisms?

|  |  |
| --- | --- |
| A.  | causal ambiguity |

|  |  |
| --- | --- |
| B.  | property rights |

|  |  |
| --- | --- |
| C.  | search costs |

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| --- | --- |
| **D.**  | all of the above |

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| 3.*(p. 35-42)* | Which of the following are value drivers: 1. the product's technology, 2. the firm's risk assumption, 3. economies of scale, 4. network externalities?

|  |  |
| --- | --- |
| A.  | 1 and 2 |

|  |  |
| --- | --- |
| B.  | 1, 2 and 3 |

|  |  |
| --- | --- |
| **C.**  | 1, 2 and 4 |

|  |  |
| --- | --- |
| D.  | all |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4.*(p. 43)* | Which of the following are cost drivers: 1. the learning curve, 2. complementary products, 3. breadth of product line, 4. economies of scope?

|  |  |
| --- | --- |
| A.  | 1 and 2 |

|  |  |
| --- | --- |
| B.  | 3 and 4 |

|  |  |
| --- | --- |
| **C.**  | 1 and 4 |

|  |  |
| --- | --- |
| D.  | 1, 3 and 4 |

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| 5.*(p. 40)* | A firm creates a network externality when:

|  |  |
| --- | --- |
| A.  | customers using the product speak to each other |

|  |  |
| --- | --- |
| **B.**  | the benefit customers receive from using the firm's product increases as new customers are added |

|  |  |
| --- | --- |
| C.  | the products are produced using network technologies |

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| D.  | all its products are connected |

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| 6.*(p. 52)* | Time compression diseconomies are larger when:

|  |  |
| --- | --- |
| A.  | the contribution of firm's capability to its V-C position is path dependent |

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| --- | --- |
| B.  | a firm's capability resides within an individual employee |

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| --- | --- |
| C.  | the knowledge underlying a firm's capability is organization specific |

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| --- | --- |
| **D.**  | the contribution of firm's capability to its V-C position is path dependent and the knowledge underlying a firm's capability is organization specific |

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| 7.*(p. 48-49)* | Which of the following value drivers is less likely to contribute to customer retention?

|  |  |
| --- | --- |
| A.  | customization |

|  |  |
| --- | --- |
| B.  | product line breadth |

|  |  |
| --- | --- |
| C.  | network externalities |

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| --- | --- |
| **D.**  | geographical scope |

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| 8.*(p. 28-29)* | If a firm is neither a cost leader nor a differentiator, it is called:

|  |  |
| --- | --- |
| A.  | competitively disadvantaged |

|  |  |
| --- | --- |
| B.  | poorly positioned |

|  |  |
| --- | --- |
| **C.**  | stuck in the middle |

|  |  |
| --- | --- |
| D.  | lost in competitive space |

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| 9.*(p. 57)* | What determines a superior market position compared to rivals?

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| --- | --- |
| **A.**  | the difference between value and cost |

|  |  |
| --- | --- |
| B.  | superior technology |

|  |  |
| --- | --- |
| C.  | economies of scope |

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| --- | --- |
| D.  | cost leadership |

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| 10.*(p. 27)* | The buyer's surplus is:

|  |  |
| --- | --- |
| A.  | a source of customer sensitivity |

|  |  |
| --- | --- |
| **B.**  | the difference between a product's value and its market price |

|  |  |
| --- | --- |
| C.  | the difference between the cost to produce the product and its market price |

|  |  |
| --- | --- |
| D.  | a firm's total economic contribution |

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| 11.*(p. 30-33)* | A generic strategy always represents a superior market position.  **FALSE** |

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| *Accessibility: Keyboard NavigationBlooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #11* |

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| 12.*(p. 47)* | A superior market position compared to rivals is sufficient to achieve a sustainable competitive advantage.  **FALSE** |

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| *Accessibility: Keyboard NavigationBlooms: RememberDifficulty: 1 EasyWalker - Chapter 02 #12* |

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| 13.*(p. 33)* | Reducing costs provides a greater return than increasing value when the marginal customer is value, not price, sensitive.  **FALSE** |

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| 14.*(p. 24)* | The price customers pay always represents the full value of the product.  **FALSE** |

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| *Accessibility: Keyboard NavigationBlooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #14* |

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| --- | --- |
| 15.*(p. 43)* | Sunk costs in imitating a capability increase when it is tied to complementary practices.  **TRUE** |

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| *Accessibility: Keyboard NavigationBlooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #15* |

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| 16.*(p. 29)* | A key assumption regarding the disadvantage of being stuck in the middle is that demand is insufficient to allow the firm to improve its position.  **TRUE** |

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| 17.*(p. 33)* | Investing in cost drivers can improve the firm's performance by allowing it to lower prices.  **TRUE** |

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| 18.*(p. 33)* | Cost reduction, compared to increasing value, is more attractive when the firms in an industry have access to the same process innovations.  **FALSE** |

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| 19.*(p. 36)* | The benefit of customer one-stop shopping pertains to the value driver of complements.  **FALSE** |

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| *Accessibility: Keyboard NavigationBlooms: ApplyDifficulty: 1 EasyWalker - Chapter 02 #19* |

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| 20.*(p. 33)* | Competitive advantage depends on being at one end of the high value - low cost continuum.  **FALSE** |

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| 21.*(p. 29-32)* | How can a firm achieve a superior market position without having the lowest cost or offering the highest value, relative to rivals?  By focusing on building a larger gap between Value and Cost rather than focusing on one end of the continuum between Value and Cost. |

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| *Blooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #21* |

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| 22.*(p. 25-26)* | Assume you are opening up a mobile app store (with applications for smartphones and tablets). Describe how you will measure a customer's willingness to pay for your product offerings.  Use Customer Perceptions of Value Approach as described on pages 25-26. |

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| *Blooms: ApplyDifficulty: 2 MediumWalker - Chapter 02 #22* |

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| 23.*(p. 51)* | What mechanisms help to isolate or protect Southwest Airlines' superior market position relative to rivals?  Causal ambiguity (see description page 51) |

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| *Blooms: ApplyBlooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #23* |

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| 24.*(p. 33, 53)* | What is the relationship between a firm's resources and capabilities and its Value and Cost Drivers?  A firm's resources and capabilities underlie its ability to increase or decrease costs and/or value. |

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| *Blooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #24* |

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| 25.*(p. 48-49)* | How can a firm use switching costs to increase customer retention? Give one example.  To prevent the erosion of competitive advantage by substitutes and competing products in an industry, a firm can raise switching costs. There are 3 types of switching costs:- Search costs: the more a buyer must search for an alternative product, the higher his search costs; search costs are determined by the inherent characteristics of a product or service.- Transition costs: the more extensive and complex the process of switching from one product to another, the higher the transition costs.- Learning costs: the more new information and skills the buyer must learn in adopting a new product, the greater the learning costs.Example: Many value drivers are directly related to switching costs:Customization locks in buyers by providing a firm with deep knowledge of a customer's business. This knowledge reduces communication costs in the supply relationship. The customer's transition costs increase when it shifts to a new product since it must replace the existing customized protocols. |

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| *Blooms: ApplyBlooms: RememberDifficulty: 2 MediumWalker - Chapter 02 #25* |

Chapter 2 Summary

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| *Category* | *# of Questions* |
| Accessibility: Keyboard Navigation | 20 |
| Blooms: Apply | 9 |
| Blooms: Remember | 18 |
| Difficulty: 1 Easy | 8 |
| Difficulty: 2 Medium | 17 |
| Walker - Chapter 02 | 25 |