Chapter 2

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

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | Which of the following are isolating mechanisms?      |  |  | | --- | --- | | A. | causal ambiguity |  |  |  | | --- | --- | | B. | property rights |  |  |  | | --- | --- | | C. | search costs |  |  |  | | --- | --- | | D. | all of the above | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | 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 |  |  |  | | --- | --- | | D. | all its products are connected | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |  |  |  | | --- | --- | | 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 | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Which of the following value drivers is less likely to contribute to customer retention?      |  |  | | --- | --- | | A. | customization |  |  |  | | --- | --- | | B. | product line breadth |  |  |  | | --- | --- | | C. | network externalities |  |  |  | | --- | --- | | D. | geographical scope | |

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | What determines a superior market position compared to rivals?      |  |  | | --- | --- | | A. | the difference between value and cost |  |  |  | | --- | --- | | B. | superior technology |  |  |  | | --- | --- | | C. | economies of scope |  |  |  | | --- | --- | | D. | cost leadership | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |  |
| --- | --- |
| 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 |

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

|  |  |
| --- | --- |
| 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. |

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

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

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

Chapter 2 Key

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #1* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. *(p. 47)* | Which of the following are isolating mechanisms?      |  |  | | --- | --- | | A. | causal ambiguity |  |  |  | | --- | --- | | B. | property rights |  |  |  | | --- | --- | | C. | search costs |  |  |  | | --- | --- | | **D.** | all of the above | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Walker - Chapter 02 #2* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Walker - Chapter 02 #3* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #4* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #5* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. *(p. 52)* | 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 |  |  |  | | --- | --- | | **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 | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #6* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Walker - Chapter 02 #7* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Walker - Chapter 02 #8* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. *(p. 57)* | What determines a superior market position compared to rivals?      |  |  | | --- | --- | | **A.** | the difference between value and cost |  |  |  | | --- | --- | | B. | superior technology |  |  |  | | --- | --- | | C. | economies of scope |  |  |  | | --- | --- | | D. | cost leadership | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #9* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Walker - Chapter 02 #10* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #11* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Walker - Chapter 02 #12* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Walker - Chapter 02 #13* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #14* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #15* |

|  |  |
| --- | --- |
| 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** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Walker - Chapter 02 #16* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Walker - Chapter 02 #17* |

|  |  |
| --- | --- |
| 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** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Walker - Chapter 02 #18* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Walker - Chapter 02 #19* |

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

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #20* |

|  |  |
| --- | --- |
| 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. |

|  |
| --- |
| *Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #21* |

|  |  |
| --- | --- |
| 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. |

|  |
| --- |
| *Blooms: Apply Difficulty: 2 Medium Walker - Chapter 02 #22* |

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

|  |
| --- |
| *Blooms: Apply Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #23* |

|  |  |
| --- | --- |
| 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. |

|  |
| --- |
| *Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #24* |

|  |  |
| --- | --- |
| 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. |

|  |
| --- |
| *Blooms: Apply Blooms: Remember Difficulty: 2 Medium Walker - Chapter 02 #25* |

Chapter 2 Summary

|  |  |
| --- | --- |
| *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 |