

6.06 Industry and Competitive Analysis

Question 1

Within the context of strategic industry analysis, a global industry that is *most likely* benefiting from technological and demographic influences is:

- A. gold mining.
- B. biotechnology.
- C. cargo shipping.

Question 2

Which of the following is a limitation when applying business cycle sensitivity labels such as cyclical or noncyclical to global industry analysis?

- A. Currency fluctuations make business cycle sensitivity difficult to predict.
- B. Industry classification labels are relative descriptors along a continuum.
- C. Different tax regimes among various countries make comparisons difficult.

Question 3

Which of the following would be the *least appropriate* data source for measuring the size of an industry by its total revenue?

- A. Survey data from third-party consultants
- B. Investor presentations by publicly traded companies
- C. Reported total firm revenue from companies in the industry

Question 4

Which of the following is *most likely* a defining characteristic of a noncyclical industry?

- A. High operating leverage.
- B. Inelastic demand for goods or services.
- C. Greater sensitivity to the business cycle.

Question 5

A pharmaceutical company's exclusive patent for a popular drug expires at the end of 20X1. All else equal, at the end of 20X2, the Herfindahl-Hirschman Index for the market for that drug will *most likely* be:

- A. smaller.
- B. unchanged.
- C. larger.

Question 6

Of the following, a defining characteristic of a cyclical industry is *most likely*?

- A. High operating leverage
- B. Inelastic product demand
- C. Consistent profitability profile.

Question 7

Compared with noncyclical companies, cyclical companies *most likely*:

- A. produce consumer staples.
- B. exhibit higher volatility in profits.
- C. have strong revenue during economic contractions.

Question 8

Which of the following *best* describes a characteristic of industry life-cycle analysis?

- A. The model is most useful when industries are in periods of rapid change.
- B. Companies in the same industry can be expected to exhibit similar performance.
- C. External factors can cause an industry to deviate from the expected progress of the cycle.

Question 9

Over the last 20 years, a country's population has increased due to a sharp rise in its birth rate. Based only on this population growth, which industry is *most likely* experiencing the smallest increase in demand?

- A. Health care
- B. Food and beverage
- C. Personal care products

Question 10

Which of the following is *least likely* a characteristic of the shakeout stage in an industry's life cycle?

- A. Slowing growth
- B. Moderate competition
- C. Frequent company restructuring

Question 11

A company's equity securities are considered defensive stocks. The company *most likely* produces which of the following products?

- A. Consumer staples
- B. Fashion accessories
- C. Manufacturing equipment

Question 12

Which of the following industries will *most likely* experience revenue declines in a recession?

- A. Electric power generation
- B. Automobile manufacturing
- C. Pharmaceutical production

Question 13

An industry is characterized by high bargaining power of suppliers and low barriers to entry. Based on strategic analysis from Porter's five forces, this industry *most likely* exhibits:

- A. strong pricing power.
- B. stable market shares.
- C. small economic profits.

Question 14

A cost leadership strategy would *best* defend against which of the following competitive forces?

- A. Threat of substitutes
- B. Bargaining power of suppliers
- C. Bargaining power of customers

Question 15

When preparing a thorough industry life cycle stage analysis, the experience curve is *most appropriate* for which type of industries?

- A. Service industries.
- B. High fixed cost industries.
- C. Embryonic-stage industries.

Question 16

Highly fragmented industries *most likely* exhibit high price competition due to:

- A. firms' desire to increase profit margins.
- B. the difficulty of firms coordinating strategically.
- C. firms viewing themselves as members of large group.

Question 17

In an industry operating near capacity, which of the following types of companies is *most likely* to be able to rapidly increase capacity?

- A. Reinsurance
- B. Pharmaceutical
- C. Dry-bulk shipping

Question 18

An industry experiencing the growth phase in the industry life cycle is *most likely* characterized by:

- A. rising prices.
- B. low competition.
- C. falling economics of scale.

Question 19

In equity analysis, market share instability is *most likely* linked with:

- A. high entry barriers.
- B. rapid product innovation.
- C. high customer switching costs.

Question 20

Expecting a recession, a portfolio manager changes the allocation in a client's equity portfolio by overweighting consumer staples and utilities while underweighting industrials. The portfolio manager's action is *best* described as:

- A. risk budgeting.
- B. sector rotation strategy.
- C. tactical asset allocation.

Question 21

An industry has high barriers to exit. According to Porter's "five forces" framework, which of the following is *most likely* to be present in this industry?

- A. Threat of substitutes is high
- B. Threat of new entrants is high
- C. Bargaining power of buyers is low

Question 22

An analyst collects the following data on a company and its peers:

Market Share	20X1	Current (20X4)
Company	53%	50%
Peer 1	14%	18%
Peer 2	12%	15%
Peer 3	13%	12%
Peer 4	8%	5%

If the company chooses to acquire its smallest peer, the analyst's *most appropriate* conclusion will be that:

- A. the Herfindahl-Hirschman Index will increase by more than 200.
- B. 5% will be added to the company's organic market share growth.
- C. the company is acquiring a product that is superior to other competitors'.

Question 23

An industry with high barriers to entry and widespread consumer adoption is *most likely* characterized by:

- A. high pricing power for new entrants.
- B. low pricing power for existing companies.
- C. high pricing power for existing companies.

Question 24

According to CFA Institute curriculum, Michael Porter's "five forces" framework forms the basis of strategic industry analysis. One purpose of this analysis is *most likely* to identify an industry's:

- A. ability to generate economic profits.
- B. diversification benefits for an investment portfolio.
- C. assignment to the appropriate sector classification.

Question 25

According to Porter's "five forces" analysis, and all else being equal, high switching costs for goods and services are *most likely* to increase the:

- A. threat of new entrants.
- B. bargaining power of buyers.
- C. bargaining power of suppliers.

Question 26

An industry is characterized by excess capacity, frequent price wars, and technological substitutions. This industry is *most likely* in which of the following life-cycle stages?

- A. Mature
- B. Decline
- C. Shakeout

Question 27

Which of the following is *most likely* a limitation of grouping companies based on their sensitivity to the business cycle?

- A. Some countries will be in recession while others are expanding
- B. Certain companies grow revenue during all phases of the business cycle
- C. Classifications run along a continuum although business cycle sensitivity is discrete

Question 28

Which of the following is the *most appropriate* conclusion regarding industry growth categorization?

- A. Defensive companies typically experience modest revenue growth even during recessions.
- B. Companies within the same industry may have differing growth and cyclicity characteristics.
- C. Investors that agree on a company's degree of cyclicity will typically have similar valuations.

Question 29

An industry that is in the mature life-cycle stage *most likely* exhibits:

- A. low barriers to entry.
- B. interdependence among companies.
- C. growth rates significantly higher than GDP growth.

Question 30

An incumbent company with strong pricing power is *most likely* to be in an industry that exhibits a:

- A. low degree of industry concentration and stable market share.
- B. high degree of industry concentration and stable market share.
- C. high degree of industry concentration and unstable market share.

Question 31

Which of the following would *most effectively* support execution of a differentiation strategy?

- A. Closer proximity to customers
- B. Using higher-quality materials
- C. Gaining cheaper access to raw materials

Question 32

With regard to forming an appropriate equity peer group, which of the following statements is *most* accurate?

- A. Standard industry classification systems are adequate.
- B. Named competitors in an annual report are an important consideration.
- C. Total revenue, operating margins, and debt levels are the most important considerations.

Question 33

Which of the following is *least likely* a major approach to industry classification?

- A. Statistical similarities
- B. Geographical concentration
- C. Products and/or services supplied