Rules concerning grade appeals

1) Answer key posted on T-square later today
2) Apart from simple addition errors on my part, I will not accept any appeals until **at earliest Monday, 10/20.**
3) Appeals must be put in a **type-written** memo to me, **explaining in particular** why you believe the grading was incorrect, and referring specifically to the answer key and the textbook, lecture, etc.
4) You must return your exam with the written memo to me.

TS-C Key (Blue)

A. Multiple Choice Questions (26 questions, 2 points each = 52 points total)

1. The typical four-step innovation process begins with:
   A. the modification and recombination of an existing product or process.
   B. the presentation of an idea as findings derived from basic research.
   C. the commercialization of an invention by entrepreneurs.
   D. a competitor's attempt to imitate an innovation.

   The innovation process begins with an idea. The idea is often presented in terms of abstract concepts or as findings derived from basic research.

   Learning Objective: 07-01 Outline the four-step innovation process from idea to imitation.
   Rothaermel - Chapter 07 #3
   Topic: Competition Driven By Innovation

2. True Home Inc., Super Cart Inc., and Daily Things Inc. are three consumer-product retailing companies. Their products consist primarily of day-to-day items that are easy to imitate and sell. All three companies use the same resources and capabilities in the production and distribution of their products. Which of the following is an implication of the market condition indicated in this scenario?
   A. Resource immobility of the firms will be low.
   B. Any advantage that one firm has will be short-lived.
   C. The industry structure will be far from perfect competition.
   D. Barriers to entry within the industry will be high.

   If a resource is common, it will result in perfect competition where no firm is able to maintain a competitive advantage. In perfect competition, all firms have access to the same resources and capabilities, ensuring that any advantage that one firm has will be short-lived.

   Learning Objective: 04-03 Evaluate the two critical assumptions behind the resource-based view.
   Rothaermel - Chapter 04 #14
   Topic: The Resource-Based View

3. SyncTouch Inc. is a manufacturer of cell phones. It has released an improvised version of its smartphone in markets in which the company already operates. Which of the following types of innovations does this scenario best illustrate?
   A. Architectural innovation
   B. Radical innovation
   C. Incremental innovation
   D. Disruptive innovation

   The scenario best illustrates an incremental innovation. An incremental innovation squarely builds on an established knowledge base and steadily improves an existing product or service offering. It targets existing markets using existing technology.

   Learning Objective: 07-05 Categorize different types of innovations in the markets-and-technology framework.
   Rothaermel - Chapter 07 #63
   Topic: Types of Innovation

4. The productivity frontier function is concave, and it captures the:

A. complementary relationship between differentiation and cost-leadership strategies.
B. inverse relationship between experience effects and learning effects.
C. negative correlation between economies of scale and economies of scope.
D. trade-off between value creation and production cost.

Productivity frontier is the relationship that captures the result of performing best practices at any given time. The function is concave (bulging outward) to capture the trade-off between value creation and production cost.

Learning Objective: 06-07 Describe and evaluate the dynamics of competitive positioning.
Rothaermel - Chapter 06 #81
Topic: The Dynamics of Competitive Positioning

5. As discussed in lecture, "Computer and Dynamo" is primary about:

A. how dynamic the computer industry has been over time
B. the lemons problem as it affects transactions in new technology
C. backward vertical integration in the computer industry, into dynamos
D. why productivity gains from new technology are delayed

Paul David's article explained why the productivity large benefits to society from electrification were delayed for 20-30 years.

6. As used in this course, the term 'bandwagon' refers to:

A. the movement of large amounts of investor capital in entrepreneurship
B. a shift in consumption during a standards war
C. the way markets move after radical innovation
D. the drop in entry during the shakeout phase

As discussed in lecture, Shapiro and Varian's article used the term to explain how consumers move very quickly to a new standard as the complementary benefits (network effects) begin to take hold.

7. When a firm adopts a differentiation strategy to attain competitive advantage, it focuses on:

A. maximizing its profits by providing minimal customer service.
B. providing the lowest prices to its customers.
C. delivering unique features to its customers.
D. lowering costs by employing low-skill employees.

A differentiation strategy focuses on delivering unique features, while a cost-leadership strategy focuses on low prices.

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.
Rothaermel - Chapter 01 #17
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

8. Golden Harvest is a restaurant located inside a five-star hotel. It caters mainly to customers who are concerned about quality dining rather than the prices. In this scenario, which of the following will be a part of Golden Harvest's strategic group?

A. A mobile food cart parked opposite to the five-star hotel
B. A nearby fast food restaurant
C. A food kiosk in an adjacent subway station
D. A premium rooftop restaurant in the same city

A premium rooftop restaurant in the same city will be a part of Golden Harvest's strategic group. A strategic group is a set of companies that pursue a similar strategy within a specific industry in their quest for competitive advantage. Companies in the same strategic group are direct competitors.

Learning Objective: 03-06 Generate a strategic group model to reveal performance differences between clusters of firms in the same industry.
Rothaermel - Chapter 03 #84
Topic: Explaining Performance Differences within the Same Industry: Strategic Groups

9. As discussed in lecture, the most highly ranked means - as reported by firms across all industries - used to capture profits from innovation is:

A. complements in production
B. complements in manufacture
C. lead time
D. patents

Cohen, Nelson, and Walsh’s table presented in lecture shows that lead time is most highly ranked.

10. Both Viten Electronics Inc. and JL Electronics Inc. incur a cost of $400 to manufacture an LED television. However, the economic value created by JL Electronics is more than that created by Viten Electronics. What does this indicate?

A. Both Viten Electronics and JL Electronics have achieved competitive parity.
B. Viten Electronics has created a higher value gap than JL Electronics.
C. Viten Electronics has a competitive advantage over JL Electronics.
D. JL Electronics can charge a premium price on its televisions.

JL Electronics can charge a premium price on its televisions. A company that uses a differentiation strategy can achieve a competitive advantage as long as its economic value created (V - C) is greater than that of its competitors. This allows the firm to charge a premium price, reflecting its higher value creation.

Learning Objective: 06-02 Examine the relationship between value drivers and differentiation strategy.
Rothaermel - Chapter 06 #14
Topic: Differentiation Strategy: Understanding Value Drivers

11. Which of the following statements is true of internal transaction costs?

A. It is beneficial to "buy" goods or services rather than "make" when internal transaction costs are low.
B. When the internal costs involved in pursuing an activity in-house are more than the costs of transacting, then the concerned firm should vertically integrate.
C. Internal transaction costs arise when companies transact in the open market.
D. Internal transaction costs tend to increase with organizational size and complexity.

Internal transaction costs include administrative costs associated with coordinating economic activity between different business units of the same corporation such as transfer pricing for input factors, and between business units and corporate headquarters including important decisions pertaining to resource allocation, among others. Internal transaction costs tend to increase with organizational size and complexity.

Learning Objective: 08-02 Describe and evaluate different options firms have to organize economic activity.
Rothaermel - Chapter 08 #7
Topic: The Boundaries of the Firm

12. The term "installed base" as used in this class refers to:

A. consumers
B. technology platforms
C. the part of the value chain closest to raw materials
D. the lowest layer of the productivity pyramid

As discussed in lecture, Shapiro and Varian introduce the term in reference to consumers who adopt a standard.

13. Free Color Inc. is an apparel company that caters to the highly price-conscious customers. Through its simple apparel designs, acceptable quality levels, and minimal customer service, the company has been able to sell its merchandise at the lowest prices in the industry. Which of the following generic business strategies is Free Color applying?

A. Product diversification
B. Niche marketing
C. Differentiation
D. Cost-leadership

Free Color is applying the cost-leadership strategy. A cost-leadership strategy seeks to create the same or similar value for customers by delivering products or services at a lower cost than competitors, enabling the firm to offer lower prices to its customers.

Learning Objective: 06-01 Define business-level strategy and describe how it determines a firms strategic position.
Rothaermel - Chapter 06 #7
Topic: Business-Level Strategy: How to Compete for Advantage

14. Companies that pursue related diversification are able to create a diversification premium because they:

A. are able to leverage time compression economies.
B. can operate beyond the minimum efficient scale.
C. can reduce the value gap created by its products.
D. are able to increase value due to economies of scope.

Companies that pursue related diversification are more likely to improve their performance. They create a diversification premium. At the most basic level, a corporate diversification strategy enhances firm performance. For diversification to enhance firm performance, it must do at least one of the following: provide economies of scale, exploit economies of scope, or reduce costs and increase value.

Learning Objective: 08-08 Explain when a diversification strategy creates a competitive advantage and when it does not.
Rothaermel - Chapter 08 #71
Topic: Corporate Diversification: Expanding Beyond a Single Market

15. Economies of scale do NOT allow firms to:

A. spread their variable costs over a larger output.
B. employ specialized systems and equipment.
C. take advantage of certain physical properties.
D. spread their fixed costs over a larger output.

Economies of scale allow firms to spread their fixed costs over a larger output, employ specialized systems and equipment, and take advantage of certain physical properties.

Learning Objective: 06-03 Examine the relationship between cost drivers and the cost-leadership strategy.
Rothaermel - Chapter 06 #36
Topic: Cost-Leadership Strategy: Understanding Cost Drivers

16. Which of the following forces tends to be more important in determining a firm's performance?

A. The entry barriers in the industry
B. The number and size of other firms in the industry
C. The actions of managers within the firm
D. The underlying economic structure

The key point is that managers' actions tend to be more important in determining firm performance than the forces exerted on the firm by its external environment.

Learning Objective: 01-03 Differentiate the role of firm effects and industry effects in determining firm performance.
Rothaermel - Chapter 01 #29
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

17. Pink Couture Inc. and Pink Blush Inc. are two companies in the apparel industry. While Pink Couture Inc. focuses on providing unique product features and superior customer service, Pink Blush Inc. focuses on low prices and minimal customer service. Both companies have been able to gain a competitive advantage. This is most likely because:

A. the companies have entered into a cartel arrangement.
B. the companies have pursued distinct strategic positions.
C. the companies have engaged in direct imitation and substitution.
D. the companies have executed integrated strategies.

In this scenario, the two firms have gained a competitive advantage by pursuing distinct strategic positions. Cost-leadership and differentiation are distinct strategic positions. The key to successful strategy is to combine a set of activities to stake out a unique position within an industry.

Learning Objective: 01-02 Define competitive advantage; sustainable competitive advantage; competitive disadvantage; and competitive parity.
Rothaermel - Chapter 01 #22
Topic: What Strategy Is: Gaining and Sustaining Competitive Advantage

18. A firm's resources and capabilities are costly to imitate. This is because rival companies do not clearly understand the relationship between the resources and capabilities controlled by the firm. In this case, the firm's competitive advantage is protected against imitation by _____.

A. dependence complexity
B. social complexity
C. path dependence
D. causal ambiguity

Causal ambiguity describes a situation in which the cause and effect of a phenomenon are not readily apparent. In the given scenario, the firm's competitive advantage is protected against imitation by causal ambiguity.

Learning Objective: 04-05 Evaluate different conditions that allow firms to sustain their competitive advantage.
Rothaermel - Chapter 04 #53
Topic: The Resource-Based View

19. According to lecture, the new management consultant who tells his first client, the ABC Chemical Co., to pursue a related diversification strategy to improve firm performance would be:

A. right, but only if the firm was a single-business firm
B. wrong, because the diversification-performance relationship is downward sloping
C. right, because the diversification-performance relationship is upward sloping
D. wrong, because we do not know enough about that firm and the industry

As discussed in lecture, the diversification-productivity chart presented in the textbook is valid as a general pattern across all industries, but cannot be relied upon to give us a definitive answer concerning how diversification may affect any particular firm in any particular industry – to make the mistake of applying it to every situation is an example of the so-called “ecological fallacy.”

20. How are cumulative learning and experience effects of a company most likely to affect Michael Porter's five forces?

A. Bargaining power of suppliers will be high
B. Availability of complements will be low
C. Threat of substitute products and services will be high
D. Threat of new entrants will be low

The threat of entry is low when incumbents possess cumulative learning and experience effects.

Learning Objective: 03-02 Apply Porters five competitive forces to explain the profit potential of different industries.
Rothaermel - Chapter 03 #26
Topic: Industry Structures And Firm Strategy: The Five Forces Model

21. KitchenThings Inc. is a company that manufactures plastic kitchenware. It operates at an output level that allows it to keep its unit cost per output to the lowest in the industry. This in turn allows KitchenThings to be the price leader. Other competing companies cannot operate at the same level due to a lack of consumer demand for their products. This puts them at a competitive disadvantage. In this scenario, the cost driver behind KitchenThings's strategic position is _____.

A. availability of complements
B. economies of scale
C. superior customer service
D. learning-curve effects

In this scenario, the cost driver behind KitchenThings's strategic position is economies of scale. Firms with greater market share might be in a position to reap economies of scale, decreases in cost per unit as output increases.

Learning Objective: 06-03 Examine the relationship between cost drivers and the cost-leadership strategy.
Rothaermel - Chapter 06 #42
Topic: Cost-Leadership Strategy: Understanding Cost Drivers

22. How do firms benefit from vertical integration?

A. Firms that vertically integrate will have increased strategic flexibility when faced with technological changes.
B. Firms that vertically integrate do not have to make transaction-specific investments.
C. Vertical integration allows firms to increase operational efficiencies through improved coordination of adjacent value chain activities.
D. Vertical integration allows firms to reduce organizational complexity and administrative costs.

Vertical integration allows firms to increase operational efficiencies through improved coordination and the fine-tuning of adjacent value chain activities. It facilitates scheduling and planning.

Learning Objective: 08-04 Identify and evaluate benefits and risks of vertical integration.
Rothaermel - Chapter 08 #34
Topic: Vertical Integration along the Industry Value Chain

23. A firm's strategic position is likely to be strong when:

A. its suppliers and vendors can easily forward integrate and buyers can backward integrate.
B. the entry barriers within the industry it operates in are low and the exit barriers are high.
C. the gap between the value the firm's product generates and the cost to produce it is large.
D. all the five forces in Porter's model are strong.

A firm's strategic position relates to its ability to create value for customers (V) while containing the cost to do so (C). Competitive advantage flows to the firm that is able to create as large a gap as possible between the value the firm's product or service generates and the cost required to produce it.

Learning Objective: 03-02 Apply Porters five competitive forces to explain the profit potential of different industries.
Rothaermel - Chapter 03 #15
Topic: Industry Structures And Firm Strategy: The Five Forces Model

24. While cell phones with holographic keyboards are currently in the introduction stage of the industry life cycle, tablet computers are in the growth stage. In the context of this scenario, which of the following statements is true?

A. While the industry for cell phones with holographic keyboards will focus on product innovation, the tablet industry will focus on process innovation.
B. The industry for cell phones with holographic keyboards will face price competition, whereas, in the tablet industry, the mode of competition will be non-price.
C. The industry for cell phones with holographic keyboards will face greater competition than the tablet industry.
D. While the industry for cell phones with holographic keyboards can reap the benefits of economies of scale, the tablet industry will experience no such benefits.

In the given scenario, while the industry for cell phones with holographic keyboards will focus on product innovation, the tablet industry will focus on process innovation. In the introductory stage, the level of product innovation is at a maximum because new features increasing perceived consumer value are critical to gaining traction in the market. During the growth stage of the industry life cycle, a standard is established in an industry, due to which the basis of competition tends to move away from product innovations toward process innovations.

Learning Objective: 07-03 Describe the competitive implications of different stages in the industry life cycle.
Rothaermel - Chapter 07 #28
Topic: Innovation and the Industry Life Cycle

25. A _____ primarily details the goal-directed actions managers take in their quest for competitive advantage when competing in a single product market.

A. code of ethics
B. mission statement
C. functional-level strategy
<u>D.</u> business-level strategy

A business-level strategy details the goal-directed actions managers take in their quest for competitive advantage when competing in a single product market. It may involve a single product or a group of similar products that use the same distribution channel.

Learning Objective: 06-01 Define business-level strategy and describe how it determines a firms strategic position.
Rothaermel - Chapter 06 #1
Topic: Business-Level Strategy: How to Compete for Advantage

26. To help a firm achieve a competitive advantage, each distinct activity performed in the value chain needs to:

<u>A.</u> contribute to the firm's strategic position as either low-cost leader or differentiator.
B. reduce the immobility and the heterogeneity of the firm's resources.
C. create a static fit between the company's internal resources and the external environment.
D. reduce the causal ambiguity and the social complexity of the firm's source of success.

To help a firm achieve a competitive advantage, each distinct activity performed in the value chain needs to contribute to the firm's strategic position as either low-cost leader or differentiator. Each distinct activity performed needs to either add incremental value to the product or service offering or lower its relative cost.

Learning Objective: 04-07 Apply a value chain analysis to understand which of the firms activities in the process of transforming inputs into outputs generate differentiation and which drive costs.
Rothaermel - Chapter 04 #80
Topic: The Value Chain Analysis

B. Short Answer Questions (3 questions, 6 points each = 18 points) - Write no more than 2-3 sentences each – Please keep your answer <u>concise</u> and <u>legible</u>.

27. Explain the two types of related diversification strategy with the help of examples.

Students' answers may vary. There are two types of related diversification strategy: related-constrained and related-linked.
• When executives consider business opportunities only where they can leverage their existing competencies and resources, the firm is using related-constrained diversification. The choices of alternative business activities are limited—constrained—by the fact that they need to be related through common resources, capabilities, and competencies. ExxonMobil's diversification move into natural gas is an example of related-constrained diversification.
• If executives consider new business activities that share only a limited number of linkages, the firm is using related-linked diversification. For example, Amazon began business by selling only one product: books. Over time, it expanded into CDs and later gradually leveraged its online retailing capabilities into a wide array of product offerings.

Learning Objective: 08-06 Describe and evaluate different types of corporate diversification.
Rothaermel - Chapter 08 #113
Topic: Corporate Diversification: Expanding Beyond a Single Market

28. Why is it important for managers to understand the dynamics of competitive positioning?

Strategic positions are not fixed, but can—and need to—change as the environment changes. It is critical for managers, therefore, to understand the dynamics of competitive positioning—or how strategy shapes a firm's position over time. Changes in the industry environment allow firms to stake out more valuable positions and turn inferior performance into a competitive advantage. By the same token, as industries change, once-leading companies who held strategic positions along the productivity frontier may fall behind. Since competition is never static, understanding changes as the industry evolves is critical in staking out valuable competitive positions and to sustain a competitive advantage.

Learning Objective: 06-07 Describe and evaluate the dynamics of competitive positioning.
Rothaermel - Chapter 06 #125
Topic: The Dynamics of Competitive Positioning

29. Describe the two types of vertical integration along the industry value chain.

The two types of vertical integration along the industry value chain are backward vertical integration and forward vertical integration.
Backward vertical integration is achieved by moving ownership of activities upstream to the originating inputs of the value chain.
A firm engages in forward vertical integration by moving ownership of activities closer to the end customer.

Learning Objective: 08-03 Describe the two types of vertical integration along the industry value chain: backward and forward vertical integration.
Rothaermel - Chapter 08 #105
Topic: Vertical Integration along the Industry Value Chain

C. Essay Question (30 points total)

Instructions: Before you begin, consider your best answer, and outline that answer in the box provided, focusing on the structure of your statement, and what elements your written answer will cover (5 points). Then, write your answer on the "Answer Sheet" provided – you may **only** use the front and back of that page. Write <u>legibly</u> and be <u>concise</u> – make sure that you demonstrate that you understand the meaning of any concepts you use in your answer (25 points).

Question: The Cola Wars case gives us a unique view of the soft-drink industry. Use Porter's 5-forces to analyze the bottlers' position in their (bottling) product market. Do they have a strong or a weak position?

The case also teaches us about the CSD market leaders, Coke and Pepsi. Use what you have learned about the Resource-based view of strategy to analyze these companies and their positions. From that perspective, what is the source of their superior performance? Is it sustainable? Why or why not? In your opinion, how does the resource-based explanation of their performance stack up against the industry-based explanations?

Answer: *The best answers will take each of the issues in turn. Good answers will touch on most, but not necessarily all, of the following elements:*

<u>Five-Forces (10 points):</u> *The profit potential of an industry it is a function of the* ***five forces that shape competition: threat of entry, power of suppliers, power of buyers, threat of substitutes, and rivalry among existing firms****.*

Entry barriers *– Probably pretty high:* ***Franchise agreements; Capital requirements*** *encompass investments to set up plants with dedicated machinery, and transport / distribution. The likelihood of entry is also determined by the* ***expected return on investment****. Threat of entry is low when capital requirements are high in comparison to the (low) expected returns. Bottlers may also have incumbent advantages such as* ***learning and scale economies****.* ***Force is Weak.***

Bargaining power of suppliers is high when: *The suppliers' industry is* ***more concentrated*** *than the industry it sells to, and offers* ***differentiated*** *(non-commodity) products (****no readily available substitutes****, and incumbents face* ***significant switching costs*** *when changing suppliers), and when suppliers* ***do not depend heavily*** *on incumbents for a large portion of their revenues and can* ***credibly threaten to forward integrate*** *into the industry. Also, in this particular case, suppliers* ***lock bottlers in*** *with contracts.* ***Force is (Very) Strong.***

Substitutes for bottling – *Probably none (apart from fountain distribution), little likelihood some innovative alternative will be made available in the market.* ***Force is Weak.***

Bargaining power of buyers is low when: *Buyers are* ***fragmented*** *and purchase a* ***small amount relative to the total supply****, buyers face* ***high switching costs (here, loyalty)****, buyers spend* ***little relative*** *to total budget. Here, it can be argued that individuals, large chain stores, and even CSD's themselves are buyers.* ***Force may be Strong / Weak.***

Rivalry – *may be low when geography is exclusive (due to territorial contracts),* ***but – in markets where Coke / Pepsi fighting for market share, Rivalry is very intense****.* ***Force may be Strong / Weak.***

<u>Weak or Strong (4 points):</u> *As a rule of thumb, the* ***stronger*** *the five forces, the* ***lower the industry's profit potential****—making the industry less attractive for competitors. From the perspective of a manager of an incumbent firm* ***competing for advantage*** *in an established industry, the company should be positioned in a way that* ***relaxes the constraints of strong forces and leverages weak forces****. Noting all the above forces, the* ***Strong Forces (particularly with CSD suppliers)*** *put bottlers in a* ***Weak Position****. Best answers will note that bottling is one of the* ***least*** *profitable US industries, while CSD manufacture is one of the* ***most*** *profitable* ***(3 points).***

<u>RBV (5 points):</u> *The r****esource-based view*** *provides a model that aids in identifying* ***core competencies****, considering certain types of* ***"resources" as key to superior firm performance****. If a resource exhibits* ***VRIO*** *attributes, the resource enables the firm to* ***gain and sustain a competitive advantage****. CSD assets (particularly the* ***intangible*** *ones like Brand) may be* ***immobile*** *and* ***heterogeneous****, thus exhibiting the characteristics of a "resource." These assets may (or may not, the student can argue either way) exhibit VRIO. If "mapping" is* ***valuable*** *(V),* ***rare*** *(R), and* ***costly to imitate - inimitable*** *(I), it may be they type of firm resource that provides competitive advantage. But the firm also must* ***organize*** *(O) to capture the value of the resource. Only if a firm's managers are able to answer "yes" four times to the attributes listed in the decision tree is the resource in question support a* ***core competency*** *that underpins a firm's* ***unique position*** *and ability to capture* ***sustainable competitive advantage (5 points).***

<u>Sustainable Competitive Advantage (3 points):</u> ***Resources, capabilities, and core competences must be the basis of competitive advantage, as informed by VRIO*** *(see above). The student can point to any such sources they've identified, or believe are absent completely, in Coke and Pepsi, and come to any conclusion about sustainability, so long as they follow a logical argument.*

<u>Comparing Industry versus Firm-related perspectives of competitive advantage (3 points)</u>: *In terms of how this explanation stacks up against the industry-based (Porter's 5-forces) explanations, the student can argue either way. Good answers will understand that one focuses on the* ***firm-specific*** *explanations, and the other on the* ***industry-specific*** *explanations of competitive advantage. Good answers will note that* ***firm-specific explanations*** *in general account for more of the variance in explaining firm performance than do* ***industry-specific*** *ones, but that is not necessarily dispositive in this case (or in any case, given our discussion in lecture of the hazards of applying a general rule to a specific firm, or industry – thus committing the so-called "ecological fallacy").* ***(2 points)***