

Question #1 of 73

Question ID: 462984

Which of the following are likely to result in higher profitability for a firm in a competitive industry?

- ✓ **A) High barriers to entry, low barriers to exit, and high switching costs.**
- x **B) Product differentiation, low switching costs, and high barriers to exit.**
- x **C) Low supplier concentration, low buyer concentration, and commoditization of the industry's products.**

Explanation

All else equal, high barriers to entry, low barriers to exit, and high switching costs will tend to result in higher profitability for a firm in a competitive industry.

Question #2 of 73

Question ID: 463002

The choice of competitive strategy is driven by two fundamental questions. These fundamental questions involve:

- ✓ **A) industry attractiveness and competitive advantage.**
- x **B) industry attractiveness and profitability.**
- x **C) competitive advantage and industry growth.**

Explanation

According to Porter, the two key questions in determining a competitive strategy involve industry attractiveness and competitive advantage.

Question #3 of 73

Question ID: 462994

Strawline, Inc. manufactures straws using a new technology which allows straws to be made with an 11% reduction in costs. According to Porter's model, which of the following is *most likely*?

- x **A) Strawline's increased profit margins will allow it to decrease financial leverage.**
- ✓ **B) Any initial advantage will eventually be eliminated as competitors adopt the same technology.**
- x **C) Strawline's increased profit margins will allow it to increase financial leverage.**

Explanation

New technology does not offer a lasting advantage since the technology is available to all of Strawline's current and potential competitors.

Question #4 of 73

Question ID: 462966

An industry that manufactures and sells a commodity-like product will face increased competition primarily because of greater:

- ☐ A) threat of new entrants.
- ☐ B) bargaining power of buyers.
- ☒ C) threat of substitute products.

Explanation

Substitute products limit the profit potential of an industry. Why? They limit the prices firms can charge. There will be higher levels of competition and lower profit margins for more commodity-like products.

Question #5 of 73

Question ID: 463005

Automation can help a firm improve its competitive position by affecting:

- ☒ A) new entrants to the industry.
- ☐ B) suppliers' bargaining power.
- ☐ C) the threat of substitutes.

Explanation

Automating production can make it more expensive for rivals to enter the market, increasing the width of a company's economic moat. Automation on its own will not affect the threat of substitutes or increase suppliers' bargaining power.

Question #6 of 73

Question ID: 462961

Short-term profitability is determined by:

- ☒ A) supply and demand.
- ☐ B) bargaining power.
- ☐ C) industry structure.

Explanation

Supply and demand determines short-term profitability.

Question #7 of 73

Question ID: 462996

Karla Hanover, CEO of Marshall Computers, is gloating during a board meeting. "It's been a wonderful year, people. First, we received a tax break from the state that allows us to reduce our manufacturing costs. Second, we drove our longtime competitor, Roseland Technology, out of business. Third, we patented a new processor 30% faster than those of our rivals."

Which of the three victories Hanover cited is *least likely* to give the firm a lasting advantage over its competitors?

- ☐ A) The new, faster processor.
- ☐ B) The tax break.
- ☒ C) The demise of a competitor.

Explanation

Government action and technological advancements don't generally have a lasting effect on an industry. However, such company-specific factors as a state tax break and a patented new technology can strengthen one *company* at the expense of others. However, the elimination of a rival could result in new competitors entering the market. As such, it is least likely to provide a lasting competitive advantage.

Question #8 of 73

Question ID: 462982

While Joseph Donovan, CFA, was interviewing Gene Hickman, the CEO of Hickman Supply, Hickman made the following comments on the auto supply industry:

1. Auto manufacturers are relying on Tier 1 suppliers for more and more sub-assembly work and quality control and testing.
2. The additional subassembly work facilitates specialization among suppliers and allows them to resell their expertise to other auto manufacturers.
3. The additional subassembly work requires additional capital investment and risk taking by the suppliers.

Given these statements, Donovan is *most likely* to conclude that barriers to entry to the auto supply industry have increased due to:

- ☐ A) Statements 1 and 3 only.
- ☐ B) Statements 1 and 2 only.
- ☒ C) Statements 2 and 3 only.

Explanation

Based on the Porter model, increased specialization and an increase in capital investment may each act to increase barriers to entry. The fact that auto manufacturers are relying more and more on their suppliers may be interpreted as an industry dynamic that would attract more competition. .

Question #9 of 73

Question ID: 462969

Which of the following statements about Porter's five factors is *least* accurate?

- ☐ A) Rivalry increases when many firms of relatively equal size compete within an industry.
- ☐ B) The presence of substitute products limits the profit potential of an industry.
- ☒ C) Profitability is enhanced by increases in the bargaining power of buyers or suppliers within an industry.

Explanation

If buyers bargaining power is increased, firms' profitability will decrease.

Question #10 of 73

Question ID: 462959

According to Porter's Five Forces, all of the following should be considered when analyzing a firm's competitive strategy EXCEPT:

- ✓ **A) rivalry among existing suppliers.**
- ✗ **B) bargaining power of suppliers.**
- ✗ **C) entry barriers.**

Explanation

The rivalry among competitors should be considered, not the rivalry among suppliers.

Question #11 of 73

Question ID: 463004

According to Porter, there are two fundamental questions that determine competitive strategy. Of these two questions, the one that the firm has the most control over is whether the:

- ✗ **A) industry is attractive.**
- ✓ **B) firm can position itself to have a competitive advantage.**
- ✗ **C) industry is profitable.**

Explanation

The firm typically has little control over the industry's long-term attractiveness, but it has a great deal of control over its choice of competitive position.

Question #12 of 73

Question ID: 472535

Which of the following *least* accurately identifies one of Porter's five competitive forces that determines the attractiveness or profitability of any industry?

- ✓ **A) Threat of rivalry.**
- ✗ **B) Entry of new competitors.**
- ✗ **C) Bargaining power of buyers.**

Explanation

Porter's five competitive forces are the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of customers, and the rivalry among existing competitors.

Question #13 of 73

Question ID: 463009

Which of the following statements about approaches to strategic planning is *most* accurate?

- ✓ **A) A visionary approach has more in common with the classical approach than the shaping approach.**
- x **B) A visionary approach differs from the classical approach as a visionary company must continually reassess its goals.**
- x **C) An adaptive approach is most appropriate for a company in an industry that is highly predictable but not malleable.**

Explanation

The visionary strategist must commit time and resources to the stated goal and not deviate from it. The shaping strategy involves short planning cycles and flexibility.

Question #14 of 73

Question ID: 463003

Zanzibar Zanies, a novelties manufacturer, faces a number of competitive problems. It decides to use the six-step process to determine how Porter's five forces affect its industry. Zanzibar just finished identifying competitors, buyers, suppliers, potential entrants, and potential substitutes. The next step is to:

- x **A) assess possible changes in each force.**
- ✓ **B) determine the strength or weakness of each of the five forces.**
- x **C) analyze the industry structure and determine how each of the five forces affect pricing.**

Explanation

The process of identifying competitors, buyers, suppliers, potential entrants, and substitutes is Step 2 of the process. Step 3 is to determine the strength or weakness of the forces.

Question #15 of 73

Question ID: 463022

Which of the following statements regarding pricing power is *most* accurate?

- x **A) A company operating in an industry with a high intensity of rivalry will have a high level of pricing power.**
- x **B) A company operating in an industry that has a low threat of entrants will have a low level of pricing power.**
- ✓ **C) A company operating in an industry that has high barriers to entry will have a high level of pricing power.**

Explanation

High barriers to entry mean a low threat of entrants. In this situation the incumbent has a high level of pricing power. Intense rivalry reduces pricing power.

Question #16 of 73

Question ID: 462967

Which of the following is NOT one of Porter's five factors used to determine industry competition?

- ☐ A) Rivalry among existing competitors.
- ☒ B) Purchasing power of consumers.
- ☐ C) Bargaining power of buyers.

Explanation

Purchasing power of consumers is not one of the five forces that Porter believes to determine the intensity of competition within an industry. The other two choices are, along with the threat of new entrants and the threat of substitute products.

Question #17 of 73

Question ID: 462981

Which of the following factors associated with industry competition affect the performance of a firm within that industry?

- ☐ A) The industry's stage in its life cycle.
- ☒ B) Threat of new entrants.
- ☐ C) Industry operating leverage.

Explanation

New entrants represent increased competition and lower profitability.

Question #18 of 73

Question ID: 463008

The fashion industry changes rapidly and companies within the industry must be able to respond quickly to the latest trends. The *most* appropriate approach to strategic planning would be:

- ☒ A) adaptive as the industry is not predictable or malleable.
- ☐ B) adaptive as the industry is not predictable but is highly malleable.
- ☐ C) shaping as the industry is predictable but not malleable.

Explanation

The adaptive approach should be taken when the industry is not predictable or malleable.

Question #19 of 73

Question ID: 462970

Long-term profitability is determined by:

- ☐ A) cost leadership.
- ☐ B) supply and demand.
- ☒ C) industry structure.

Explanation

Industry structure determines long-term profitability.

Question #20 of 73

Question ID: 463010

A company undertaking a visionary approach to strategic planning is *least likely* to focus on:

- ✓ **A) being flexible and swiftly change course in reaction to changes in the industry.**
- x B) a long term goal and commit resources to it.
- x C) altering the industry it operates in with the introduction of new platforms and products.

Explanation

The visionary approach involves setting a goal and sticking to it rather than reacting to the industry.

Question #21 of 73

Question ID: 472537

Which one of the following *least* accurately identifies a competitive force according to Porter's article?

- ✓ **A) Rivalry among existing customers.**
- x B) Bargaining power of buyers.
- x C) Entry of new competitors.

Explanation

Porter's five competitive forces are the threat of new entrants, the threat of substitutes, bargaining power of suppliers, bargaining power of customers, and the rivalry among existing competitors.

Question #22 of 73

Question ID: 462978

For pharmaceutical companies, the time it takes to get a drug through the clinical trials, regulatory approval and finally to the market is approximately 12 years. In a competitive strategy analysis, this lengthy pre-product period would raise concerns about the:

- x **A) rivalry among existing suppliers.**
- ✓ **B) threat of substitutes.**
- x C) bargaining power of buyers.

Explanation

It would raise concerns about the threat of substitutes. There is usually a race among pharmaceutical companies to get similar drugs through the process first, because the first drug to the market generally captures a larger market share and creates brand loyalty.

Question #23 of 73

Question ID: 463024

Davide Andreu is concerned about the possible impact of inflation on two German retailers that he covers in his equity analyst role. Andreu has used last year's financials to produce common size income statements for the two retailers as shown below.

	Tooboola GmbH	Portentona GmbH
Sales	100%	100%
Cost of Goods Sold	38%	48%
Gross Margin	62%	52%
Sales, General & Admin	40%	20%
Depreciation	5%	15%
Operating Margin	17%	17%

Andreu is forecasting inflation of 10% in cost of goods sold for both companies due to large increases in commodity prices in the next period. Due to the fragile state of the economic recovery does not expect either company to be able to pass these costs on to consumers. Sales, general and admin costs are likely to rise by 5% and accounting depreciation will be unaffected.

If Andreu's forecasts are correct, which of the following statements is *least* accurate?

- ✓ **A) Both companies will experience the same decrease in gross margin.**
- x **B) The forecasted operating margins will be equal for Tooboola and Portentona.**
- x **C) Tooboola has a larger forecasted gross margin than Portentona.**

Explanation

	Tooboola	Toobola Forecast	Portentona	Portentona Forecast
Sales	100%	100%	100%	100%
Cost of Goods Sold (x1.10)	38%	41.8%	48%	52.8%
Gross Margin	62%	58.2%	52%	47.2%
SG&A (x1.05)	40%	42.0%	20%	21.0%
Depreciation	5%	5.0%	15%	15.0%
Operating Margin	17%	11.2%	17%	11.2%

Tooboola's gross margin drops 3.8% to 58.2%. This is a relative drop of 6.1%.

Portentona's gross margin drops 4.8% to 47.2%. This is a relative drop of 9.2%.

Question #24 of 73

Question ID: 463021

Teletharetic Inc. has recently introduced a new pain killer in the market based on a patent granted earlier in the year. The patent will expire in 5 years. Stanton Ward is an analyst covering the company for his firm and is interested on the impact the patent will have on the company. Which of the following conclusions is *most* appropriate?

- ☐ A) The company can expect to see an increase in ROIC caused by the increase in revenue and PPE.
- ☐ B) The company can expect to see a decrease in ROIC due to the increased investment required to fund the patent development.
- ☒ C) The company can expect to see a higher ROIC for the period due to the competitive advantage bestowed by the patent.

Explanation

The patent will give the company a competitive advantage for the next 5 years. A sustainably high ROIC is usually a sign of competitive advantage. Higher investment should not be required as the product has already been introduced. Additionally, higher revenues and PPE would not necessarily lead to a higher ROIC.

Question #25 of 73

Question ID: 463011

A common mistake when deciding upon a strategic approach is misplaced confidence. This involves:

- ☐ A) Underestimating how malleable an industry is and underestimating how predictable it is.
- ☐ B) Underestimating how malleable an industry is and overestimating how predictable it is
- ☒ C) Overestimating how malleable an industry is and overestimating how predictable it is

Explanation

Executives often display misplaced confidence believing that they can affect the industry with their actions and that they can confidently predict where the industry is going.

Question #26 of 73

Question ID: 462962

Porter's five factors for determining the intensity of competition within an industry are *least likely* to include:

- ☒ A) regulatory environment.
- ☐ B) bargaining power of buyers.
- ☐ C) threat of new entrants.

Explanation

Porter's five factors are: rivalry among the existing competitors, threat of new entrants, threat of substitute products, bargaining power of buyers, and bargaining power of suppliers.

Question #27 of 73

Question ID: 463023

Kerry Winstone covers TVStream Inc., a U.S. based company offering streaming video. She has carried out an analysis using Porter's five forces model. The table below summarizes her main conclusions.

Force	Factors
Threat of substitutes	Broadcast TV and DVD media are cost-effective substitutes.
Rivalry	There are several companies in the industry and TVStream has a 25% market share.
Bargaining power of suppliers	The content must be purchased from the major networks and movie studios.
Bargaining powers of buyers	Customers are fragmented and the base consists largely of individual subscribers.
Threat of new entrants	Major TV networks are in position to launch their own streaming service using existing technologies.

Winstone should *most appropriately* conclude that:

- ☒ A) TVStream is likely to have a high degree of pricing power derived largely from high barriers to entry.
- ☒ B) TVStream is likely to have a large degree of pricing power and above average profitability due to favorable bargaining power of suppliers
- ☒ C) TVStream is unlikely to have a large degree of pricing power and below average profitability due to threat of new entrants.

Explanation

Force	Factors	Condition
Threat of substitutes	Broadcast TV and DVD media are cost-effective substitutes.	Unfavorable
Rivalry	There are several companies in the industry and TVStream has a 25% market share.	Neutral
Bargaining power of suppliers	The content must be purchased from the major networks and movie studios.	Unfavorable

Bargaining powers of buyers	Customers are fragmented and the base consists largely of individual subscribers.	Favorable
Threat of new entrants	Major TV networks are in position to launch their own streaming service using existing technologies.	Unfavorable

There is clearly a high threat of new entrants and high bargaining power of suppliers, both of which make the industry relatively unattractive.

Question #28 of 73

Question ID: 463000

Strawline, Inc. has purchased a new production technology and plans to reduce prices with the goal of driving smaller, low-tech competitors out of the market. According to Porter's model, which of the following is *most likely*?

- ☒ A) Driving small competitors from the market will attract the attention of government regulators, risking anti-trust legal action.
- ☐ B) Driving small competitors out of the market may attract the attention of larger, stronger competitors who can adopt the same new technology.
- ☒ C) Smaller competitors will join together to improve their market size and strength.

Explanation

Driving small competitors out of the market is risky because it may attract the attention of larger, stronger competitors who will enter the market using the same new technology.

Question #29 of 73

Question ID: 463019

Roy Banstaza is forecasting 2014 SG&A expenses for Compuland Inc., a provider of online and live basic computing classes in the U.S. Relevant figures for the last 3 years for Compuland are given below:

	2011	2012	2013
	\$ 000's	\$ 000's	\$ 000's
Revenue	20,050	20,062	20,155
SG&A	5,212	5,218	5,240
	\$	\$	\$
Revenue per customer	225	220	218

Banstaza is forecasting a 2% fall in SG&A per customer in 2014 compared to 2013 due to an improved online ordering and invoicing system that Compuland has adopted. He also anticipates that the number of customers will continue to grow at the cumulative average growth rate that Compuland has experienced over the last two years.

Which of the following is *closest* to Banstaza's forecasted SG&A expense for 2014?

- ☒ A) \$5,231,000.

☐ B) \$5,328,000.

☐ C) \$5,337,000.

Explanation

Number of customers 2011 = $\$20,050,000 / \$225 = 89,111$
Number of customers 2013 = $\$20,155,000 / \$218 = 92,454$
SG&A per customer 2013 = $\$5,240,000 / 92,454 = \56.68
CAGR customers using past two years = $(92,454 / 89,111)^{1/2} - 1 = 1.86\%$
Forecasted number of customers 2014 = $92,454 \times 1.0186 = 94,172$
Forecasted SG&A per customer 2014 = $\$56.68 \times (1 - 0.02) = \55.54
Forecasted SG&A 2014 = $\$55.54 \times 94,172 = \$5,230,637$

Question #30 of 73

Question ID: 462997

Zipla Inc is an emerging bio-tech company specializing in neurological diseases. One of Zipla's drug, Apsia is scheduled to go off patent protection later this year. This change would *most likely* bring out changes in which Porter's force?

☐ A) Bargaining power of buyers.

☐ B) Bargaining power of suppliers.

☒ C) Threat of new entrants.

Explanation

Upon expiration of patent protection, threat of new entrants increases. Bargaining power of suppliers may not be affected (not enough information) and bargaining power of buyers would change only if new firms enter the market.

Question #31 of 73

Question ID: 463013

Which of the following situations is a shaping approach to strategy formulation best suited?

☒ A) Low predictability and highly malleable

☐ B) High predictability and highly malleable

☐ C) Low predictability and not highly malleable

Explanation

Shaping is appropriate where the industry is not very predictable but lends itself to being shaped by industry players.

Question #32 of 73

Question ID: 472534

Which of following is **NOT** one of Michael Porter's factors used to determine competition in an industry?

- ☐ A) **Bargaining power of buyers.**
- ☒ B) Rivalry among suppliers.
- ☐ C) Threat of substitute products.

Explanation

Porter's five forces are: rivalry among current competitors, threat of new entrants, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers.

Question #33 of 73

Question ID: 463012

Which of the following statements is most accurate?

- ☐ A) **Companies in the growth phase of their life must use a visionary approach to ensure continued growth**
- ☐ B) Companies that employ only a classical approach to strategic planning are more likely to fail than those that take a visionary approach
- ☒ C) Start-ups and companies in declining industries tend commonly use shaping or visionary approaches to strategic planning

Explanation

Start-ups have the opportunity to shape the industry and companies in a declining industry often create new opportunities and markets through shaping or visionary approaches. C is incorrect as the reading emphasizes that each of the approaches can be the best approach depending on the industry.

Question #34 of 73

Question ID: 463020

For the purpose of forecasting proforma financial statements, which of the following statements is *most* accurate?

- ☒ A) **Forecasted depreciation rates are usually based on historic information whereas forecasted capital expenditure is usually based on forecasted data.**
- ☐ B) Forecasted capital expenditure is usually based on historic information whereas forecasted depreciation rates are usually based on forecasted data.
- ☐ C) Forecasted depreciation rates and capital expenditure are usually based on forecasted data.

Explanation

Depreciation rates are usually taken from historic disclosures regarding rates used in prior periods. Capital expenditure is usually forecast using analysts' judgment regarding future needs for PPE.

Question #35 of 73

Question ID: 463007

Demand in the oil industry can be forecasted with a high degree of accuracy, but an individual company has little power to alter the dynamics of the industry. Which of the following is the *most* appropriate strategic planning approach?

- ☐ A) Shaping.
- ☐ B) Adaptive.
- ☒ C) Classical.

Explanation

The classical approach is most appropriate for an industry that is predictable but not malleable.

Question #36 of 73

Question ID: 462999

Martin Kemp, owner of a fast-growing food distributor with one of the state's largest truck fleets, wants to buy up most of its smaller trucking rivals in an effort to increase its scale and efficiency, thus fattening profit margins. Two of Kemp's advisers warn that the strategy could backfire.

Bart Able says: "If you clear out the competition and increase profit margins, the business could draw the attention of larger companies that have so far stayed out of this region."

Andrea Baker says: "If you raise prices on truck shipping, more customers will opt to ship in their food by train."

Both Able and Baker conclude that Kemp's acquisition strategy could actually end up reducing profit margins. Which arguments are valid?

- ☐ A) Only Baker's.
- ☐ B) Only Able's.
- ☒ C) Both Able's and Baker's.

Explanation

Both Able and Baker offer legitimate reasons why an acquisition strategy might not result in sustainable margin improvement. Both may turn out to be wrong, but their arguments have merit.

Question #37 of 73

Question ID: 463017

Ben Lorson is analyzing the revenue growth of Symphonica Inc., a retailer of audio visual equipment. Relevant data for the last two years is shown below:

	2013	2012
	\$ millions	\$ millions
Revenue	1,408	1,375
Total market size	17,606	17,450
	\$ billions	\$ billions
Nominal GDP growth	16,451	16,400

He is looking at three methods of predicting revenue for 2014:

1. Assume that Symphonica retains its 2013 share of the market for 2014, and the total market grows at the same rate as it did last year.
2. Assume that revenue growth rate is equal to previous year's nominal GDP growth rate.
3. A bottom-up approach which assumes that the growth rate of Symphonica's revenue will be the same as last year

Which of the following statements regarding Lorson's forecast is *most* accurate?

- ☒ **A) Lorson's market growth and market share model predicts a higher 2014 revenue figure for Symphonica than his bottom-up approach.**
- ☒ **B) Lorson's growth relative to GDP growth model predicts a higher 2014 revenue figure for Symphonica than his market growth and market share model.**
- ☒ **C) Lorson's bottom-up approach predicts the highest revenue for 2014.**

Explanation

Market growth and market share approach (method 1)

2013 market share	$1,408/17,606 = 8.00\%$
2013 total market growth	$17,606/17,450 - 1 = 0.89\%$
2014 total market	$17,606 \times 1.0089 = 17,763$
2014 revenue Symphonica	$17,763 \times 8.00\% = 1,421$

(Alternatively, as market share is static, revenue growth = market growth = 0.89%)

Growth relative to GDP model (method 2)

2013 nominal GDP growth	$16,451/16,400 - 1 = 0.31\%$
2014 revenue Symphonica	$1,408 \times 1.0032 = 1,412$

Bottom-up (method 3)

2013 revenue growth	$1,408/1,375 - 1 = 2.4\%$
2014 revenue Symphonica	$1,408 \times 1.024 = 1,442$

Question #38 of 73

Question ID: 462998

Cost-effective video streaming service has impacted the business of video disk rental companies. This is *most likely* a change in which Porter's force?

- ☒ **A) Bargaining power of suppliers.**
- ☒ **B) Bargaining power of buyers.**
- ☒ **C) Threat of substitutes.**

Explanation

Changes in technology altered the price-performance dynamics of video delivery industry. Video-streaming increased the threat of substitutes to video rental business.

Questions #39-42 of 73

Mary Smith, a Level II CFA candidate, was recently hired for an analyst position at The Bank of Ireland. Her first assignment is to examine the competitive strategies employed by various French wineries. Smith is eager to impress her boss, Ron VanDriesen, and has taken care to make sure she is following the CFA Institute Standards of Practice when writing her research report.

Smith's report identifies four wineries that are the major players in the French wine industry. Key characteristics of each are cited below in Figure 1.

Figure 1: Characteristics of Four Major French Wineries

	<i>South Winery</i>	<i>North Winery</i>	<i>East Winery</i>	<i>West Winery</i>
Founding Date	1750	1903	1812	1947
Generic Competitive Strategy	?	Cost Leadership	Cost Leadership	Cost Leadership
Major Customer Market (more than 80% concentration)	France	France	England	USA
Production Site	France	France	France	France

In the body of Smith's report, she includes a discussion of the competitive structure of the French wine industry. She notes that over the past five years, the French wine industry has not responded to changing consumer tastes. Profit margins have declined steadily and the number of firms representing the industry has decreased from 10 to 4. It appears that participants in the French wine industry must consolidate in order to survive.

Smith's report notes that French consumers have strong bargaining power over the industry. She supports this conclusion with five key points.

Bargaining Power of Buyers

- Many consumers are drinking more beer than wine with meals and at social occasions.
- Increasing sales over the internet have allowed consumers to better research the wines, read opinions from other customers, and identify which producers have the best prices.
- The French wine industry is consolidating and consists of only 4 wineries today compared to 10 wineries five years ago.
- Over 65% of the business for the French wine industry consists of purchases from restaurants. Restaurants typically make purchases in bulk, buying 4 to 5 cases of wine at a time.
- Land where the soil is fertile enough to grow grapes necessary for the wine production process is scarce in France.

After completing the first draft of her report, Smith takes it to VanDriesen to review. VanDriesen tells her that he is a wine connoisseur himself, and often makes purchases from the South Winery. Smith tells VanDriesen, "In my report I have classified the South Winery as a stuck-in-the-middle firm. It tries to be a cost leader by selling its wine at a price that is slightly below the other firms, but it also tries to differentiate itself from its competitors by producing wine in bottles with curved necks, which increases its cost structure. The end result is that the South Winery's profit margin gets squeezed from both sides. VanDriesen replies, "I have met members of the management team from the South Winery at a couple of the wine conventions I have attended. I believe that the South Winery could succeed at being at both a cost leadership and a differentiation strategy if they separated its operations into distinct operating units, with each unit pursuing a different competitive strategy." Smith makes a note to do more research on generic competitive strategies to verify VanDriesen's assertions before publishing the final draft of her report.

If the French home currency were to greatly appreciate in value compared to the English currency, what is the likely impact on the East Winery?

- ☒ **A) Make the firm more competitive in the English market.**
- ☒ **B) Make the firm less competitive in the English market.**
- ☒ **C) No impact since the major market for East Winery is England, not France.**

Explanation

Foreign exchange rates can significantly affect the competitiveness and profitability for a given industry. For industries that derive a significant proportion of sales via exports, an appreciating currency is usually bad news because it makes the industry less competitive in the overseas market. In this case, the appreciating French currency makes French imports more expensive in England. (Study Session 11, LOS 41.c)

Question #40 of 73

Question ID: 462974

Smith would categorize the French wine industry into which of the following life cycle phases?

- ☒ **A) Decline Phase.**
- ☒ **B) Mature Phase.**
- ☒ **C) Pioneer Phase.**

Explanation

The decline life cycle phase has the following characteristics:

- Shifting tastes or technologies have overtaken the industry
- A decline in demand
- Lower profit margins
- Participants must either consolidate, reinvent themselves, or fail

(Study Session 11, LOS 40.b)

Question #41 of 73

Question ID: 462975

VanDriesen tells Smith that he likes the fact that the conclusions in her report are backed up with facts, but tells her that he is concerned about the section concerning the Bargaining Power of Buyers. He says that while all of the points she listed may be factual, they do not all support her conclusion. Which of Smith's points support the conclusion that consumers have strong bargaining power over the industry?

- ☒ **A) Points 1, 2, and 4.**
- ☒ **B) Points 2 and 4.**
- ☒ **C) Points 2, 3, and 4.**

Explanation

Determinants of buyer power include buyer concentration, buyer volume, buyer information, available substitutes, switching costs, brand identity, and product differences. Point 1 addresses available substitutes, Point 2 addresses buyer information, and Point 4 addresses buyer and buyer concentration. Point 3, which addresses the number of competitors in the industry and Point 5, new entrants, may be factual statements but do not support the conclusion that consumers have strong bargaining power. (Study Session 11, LOS 38.b)

Question #42 of 73

Question ID: 462976

Smith notes in her report that the West Winery might differentiate its wine product on attributes that buyers perceive to be important. Which of the following attributes would be the *most likely* area of focus for the West Winery to create a differentiated product?

- ☐ A) A focus on customers aged 30 to 45.
- ☐ B) The price of the product.
- ☒ C) The method of delivery for the product.

Explanation

Product differentiation can be based on the product itself, the method of delivery, or the marketing approach. (Study Session 11, LOS 39.b)

Question #43 of 73

Question ID: 472536

According to Porter's Five Forces, which of the following is *least likely* to be considered when analyzing a firm's competitive strategy?

- ☒ A) The bargaining power of competitors.
- ☐ B) The bargaining power of suppliers.
- ☐ C) The bargaining power of buyers.

Explanation

The bargaining power of buyers and bargaining power of suppliers are relevant, but the bargaining power of employees is not one of the Five Forces.

Question #44 of 73

Question ID: 463026

Yolanda Resham is currently developing a forecast horizon for several companies that she covers in her role as an equity analyst. The equities under consideration are part of a portfolio with an average annual turnover of 25%. Which of the following statements is *least accurate* regarding the choice of time horizon?

- ☐ A) Cyclicity should be considered when developing the timeframe.
- ☐ B) A time horizon of 4 years would be consistent with the portfolio turnover.
- ☒ C) The time horizon should be independent of the average holding period for a stock.

Explanation

The holding period should be considered. An average annual turnover of 25% is consistent with a holding period of 4 years ($1/0.25$).

Question #45 of 73

Question ID: 463006

A business analyst who approaches strategic planning using Porter's five forces is most likely using a:

- ☐ A) adaptive approach
- ☐ B) shaping approach
- ☒ C) classical approach

Explanation

Five forces analysis is a manifestation of the classical approach

Question #46 of 73

Question ID: 463016

Garcia Mendoza is currently forecasting revenue for Remnicky Inc., a global provider of sports statistics to broadcasters. Mendoza is forecasting that Remnicky's revenue will grow 1% faster than global nominal GDP next year due to an increased interest in tracking statistics worldwide. In consultation with his economic research department, Mendoza has predicted that the real global GDP will grow at 1% next year, before flattening out and showing zero growth for the next 4 years. Inflation is predicted to remain steady at 1.5% for the next 5 years. Which of the following statements about Mendoza's forecast for next year is *most* accurate?

- ☐ A) Mendoza is forecasting growth of 3.5% using a hybrid approach.
- ☒ B) Mendoza is forecasting growth of using a 3.5% top-down approach.
- ☐ C) Mendoza is forecasting growth of using 2.5% a top-down approach.

Explanation

Mendoza is using a top-down approach as he is modeling revenue by starting with a forecast of the entire economy.

The predicted growth rate is 1% faster than nominal GDP = $1\% + 1.5\% + 1\% = 3.5\%$.

Question #47 of 73

Question ID: 462983

With respect to industry attractiveness, the key concern is whether the:

- ☐ A) industry is currently experiencing significant sales growth.
- ☐ B) industry is currently profitable.
- ☒ C) industry is attractive in terms of long-term profit potential.

Explanation

The key concern of industry attractiveness is whether the industry is attractive in terms of long-term profit potential.

Question #48 of 73

Question ID: 462993

Grant's Candies, a retail store in downtown Grempton, has seen a sharp increase in demand for candy over the last several months. The construction of a new school and a factory that employs 1,500 people has drawn many new families to

Grempton. Willie Grant, owner of Grant's Candies, is ecstatic about the new business and puts in a bid for a vacation home based on his higher expected profits. Accountant Callie Trakh, CFA, warns against getting too excited. Her chief concern is *most likely* fears of:

- ☐ A) a population exodus should the economic climate change and the factory shut down.
- ☒ B) an influx of new competitors.
- ☐ C) new and innovative products entering the market.

Explanation

While all of the concerns listed are legitimate worries for any business, we have no information that particularly bears on new products or economic issues. However, a larger market and higher growth is likely to attract competitors to the market.

Question #49 of 73

Question ID: 463014

A company that has the ability to shape an industry, and is able to predict the path to realizing its goal should adopt an approach to strategic planning that is *best* described as:

- ☐ A) adaptive.
- ☒ B) visionary.
- ☐ C) classical.

Explanation

A company that can shape the industry (i.e., the industry is malleable) and predict the path should take a visionary approach.

Questions #50-51 of 73

Joan Smith, CFA, is preparing a report on Vis-Com Corporation. Vis-Com develops mixed-signal semiconductors that enable the features of small panel displays in mobile phones. Joan begins her research by reviewing the President's Letter from the annual report. Below are excerpts from the letter:

Vis-Com Corporation 20X4 Annual Report President's Letter

Dear fellow shareholders,

[1] The success of our company has always depended upon our ability to provide innovations for small panel displays, which has kept our company at the leading edge of visual communications. [2] In 20X4, we launched key new display technologies, including our proprietary OLED (Organic Light Emitting Diode) device that set industry standards for innovation. [3] We derived a substantial portion of our revenue from a limited number of products for which we consider ourselves the industry standard.

[4] With that said, 20X4 has also presented us with many challenges. [5] In terms of our financial performance, year-over-year revenue growth from our core business has been flat while our gross margins have decreased from 43% to 39%. [6] In 20X4, we generated virtually all of our revenues from sales to the two leading manufacturers of mobile phones. [7] Our customers rely on us to provide them with industry leading products. [8] Our business is subject to seasonality and the varying order

patterns prevalent in the mobile handset market. [9] As such, orders may be cancelled or customers may delay shipment dates. [10] In the third quarter of the year, we experienced a significant reduction in sales of our TFT products due to pricing pressure placed on components manufacturers by mobile handset manufacturers, and we expect this reduction in sales to continue through the first quarter of 20X5.

[11] Our business strategy is to focus on the design, development, and marketing of mixed-signal semiconductors. [12] As such, we outsource all of our semiconductor fabrication, assembly, and testing, which reduce the capital intensity of our business. [13] Because we do not have long-term fixed price supply contracts with our foundry contractors, our wafer costs fluctuate with the cyclical demand for semiconductors and the availability of foundry capacity. [14] Given the high cost to bring on a new foundry contractor, we like to work with the contractors who already know our products. [15] In 20X4, our margins were adversely impacted by the higher cost of purchasing fabricated wafers.

[16] Thank you for your continued support, as we look forward to a profitable 20X5.

Question #50 of 73

Question ID: 462954

Using the information provided in the President's Letter and Porter's competitive analysis concepts, determine whether the bargaining power of suppliers is favorable or unfavorable for Vis-Com and which sentences support this conclusion:

<u>Favorable or Unfavorable</u>	<u>Supporting Sentences</u>
<input checked="" type="checkbox"/> A) Favorable	7, 8
<input checked="" type="checkbox"/> B) Unfavorable	11, 12
<input checked="" type="checkbox"/> C) Unfavorable	13, 14

Explanation

The conclusion of unfavorable is correct. The firm is faced with the high cost of switching suppliers as supported in sentence 14. In addition, a shortage of the suppliers' products adversely affected the firm's costs (sentence 13). These factors contribute to greater bargaining power for the firm's suppliers.

The conclusion of favorable is incorrect. Sentences 7 and 8 discuss the firm's industry environment and do not specifically mention Vis-Com's relationship to its suppliers.

Sentences 11 and 12 discuss the firm's business model, which involves outsourcing. However, the bargaining power of the suppliers is not discussed. (LOS 32.a)

Question #51 of 73

Question ID: 462955

Using the information provided in the President's Letter and Porter's competitive analysis concepts, determine whether the bargaining power of buyers is favorable or unfavorable for Vis-Com and which sentence supports this conclusion:

<u>Favorable or Unfavorable</u>	<u>Supporting Sentence</u>
<input checked="" type="checkbox"/> A) Unfavorable	6
<input checked="" type="checkbox"/> B) Favorable	3
<input checked="" type="checkbox"/> C) Unfavorable	7

Explanation

Sentence 6 indicates that two buyers represent virtually all of the firm's sales volume. This concentration of buyer power gives the buyers leverage over the firm, which is unfavorable.

Sentence 7 discusses in general terms that customers rely on Vis-Com for innovative products. The sentence does not specify the bargaining power of buyers. If the reliance is very high, then the customer's bargaining power is weak, so this sentence would possibly indicate a favorable conclusion.

Sentence 3 discusses the product line of the company. Specifically, the firm relies on a few products for most of its revenue. The sentence does not discuss the firm's relationship to the buyers of those products. (LOS 32.d)

Question #52 of 73

Question ID: 462985

If an analyst was assessing a pharmaceutical company's competitive strategy, the length of the drug patent would be related to which of Porter's Five Forces?

- ☒ A) Bargaining power of buyers.
- ☒ B) Threat of new entrants (Entry barriers).
- ☒ C) Rivalry among existing competitors.

Explanation

Long drug patents make entry into the industry difficult; therefore this relates to barriers to entry.

Question #53 of 73

Question ID: 463028

Dan Patrino is currently constructing pro-forma accounts for Roolling Inc., an engineering company based in the U.S. He has put together the following forecast for the next 3 years:

	2013	2014E	2015E	2016E
	\$millions	\$millions	\$millions	\$millions
Sales	935	954	973	993
PPE (NVB)	295			
EBITDA		239	253	278
Net Income for year		95	107	130

Patrino is now forecasting the balance sheet and intends to use the following assumptions:

- Capital expenditure will remain constant at 2.5% of sales for the foreseeable future.
- Depreciation will be 1.5% of sales in 2014, 1.7% of sales in 2015 and 1.9% of sales in 2016.

Patrino's forecast of the net book value of PPE at the end of 2016 is *closest to*:

- ☒ A) \$318 million.
- ☒ B) \$325 million.
- ☒ C) \$304 million.

Explanation

	2013	2014E	2015E	2016E
	\$millions	\$millions	\$millions	\$millions
Sales	935	954	973	993
Capex (% sales)		2.5%	2.5%	2.5%
Capex (\$m)		24	24	25
Depreciation (% sales)		1.5%	1.7%	1.9%
Depreciation (\$m)		14	17	19
Net PPE	295	305	312	318

Question #54 of 73

Question ID: 463018

When comparing a large company with a much smaller company, which of the following statements regarding economies of scale is *most* accurate?

- ☒ **A) An analyst will conclude that economies of scale are present in the industry if the larger company has higher revenues and a higher gross profit margin.**
- ☐ **B) An analyst will conclude that economies of scale are present in the industry if the larger company has higher revenues and higher gross profit.**
- ☐ **C) An analyst will conclude that economies of scale are present in the industry if the smaller company has a higher gross margin and lower revenues.**

Explanation

Economies of scale are evidenced by larger companies displaying larger gross margins. Having a larger revenue figure and a larger gross profit does not necessarily imply a larger margin.

Question #55 of 73

Question ID: 462960

According to Porter's Five Forces, all of the following should be considered when analyzing a firm's competitive strategy EXCEPT:

- ☐ **A) threat of substitutes.**
- ☐ **B) bargaining power of suppliers.**
- ☒ **C) exit barriers.**

Explanation

Entry barriers should be considered, not exit barriers.

Questions #56-61 of 73

Frank Palmer, CFA, is preparing a report on the tobacco industry for investors in his home country of Molvania. Molvania is a small coastal country of approximately 15 million inhabitants that is run by a strong monarchy headed by reigning King Alexander III. The country is blessed with warm summers and moderate winters and has a thriving tourist industry. The country's main industry, however, is tobacco. Molvania has adopted the U.S. dollar as its currency of business.

Despite numerous health-related problems, lawsuits, and rising prices associated with tobacco products, there is still something attractive about tobacco—strong earnings. Legal battles continue to affect the tobacco industry, however. Smokers stricken with cancer and other smoking-related health problems have tried to pool their complaints together in large class-action lawsuits. Nevertheless, the global industry continues to maintain its profitability even if growth is limited. Tobacco sales in Molvania are dominated by Royal Tobacco Incorporated (RTI) and Universal Tobacco Products Incorporated (UTP). These two large companies control 80% of the domestic market. In 1998, Molvania established a 51% state-owned tobacco company through a joint venture with RTI and UTP. The plan was for the new entity, Molvania Tobacco International (MTI), to develop a thriving export business and to become known around the world. A handful of smaller companies continued to compete domestically and held the remaining 20% of the home market but did little or no export business.

A unique aspect of the Molvanian tobacco industry is that, along with its rich supply of tobacco plants—considered by experts to produce the best tobacco in the world—there is a special hand-rolling skill which enables local manufacturers to produce a premium product. This ability is passed from generation to generation in what amounts to a closely guarded secret that permits high quality output. Indeed, several South American and Caribbean-based companies have made numerous unsuccessful attempts to acquire the Molvanian skill. There are several strong international competitors that produce premium brand products and have well-developed distribution networks. However, Molvanian tobacco products are generally considered to be among the best anywhere. To maintain control, MTI decided to appoint an exclusive group of dealers around the world to distribute Molvanian tobacco products. Only these select dealers would have access to the Molvanian supply. In addition, MTI was responsible for all marketing efforts worldwide. A recent government survey determined that by the end of last year, the export business accounted for more than one-half of the dollar volume of the Molvanian tobacco industry.

Even though many of the country's plantations were originally state-owned, King Alexander bowed to the will of the majority and permitted tobacco farmers to buy land through low cost loans with the understanding that partial repayment could be made through higher-yielding harvests.

Palmer makes the following two statements regarding the threat of substitutes within the industry:

Statement 1: Substitutes exist, but this threat is relatively low due to the premium nature of Molvania's products.

Statement 2: The threat should be considered as very low due to the existence of competitors who also make premium products.

Palmer is evaluating the price sensitivity and the bargaining power of buyers and makes the following statements in his report.

Statement 3: Since a premium product is being offered, price sensitivity is relatively less important.

Statement 4: Due to the presence of other competitors worldwide, pricing issues cannot be ignored.

Question #56 of 73

Question ID: 462987

Which of the following is *least likely* to be a barrier to entry in the Molvanian tobacco industry?

- ✓ **A) Cigarette consumption has declined in recent years.**
- x B) The country is small, making land difficult to acquire.
- x C) The supply of labor is limited due to the skill required.

Explanation

The supply of labor is limited due to the skill required. The country is small, making land difficult to acquire. Moreover, the state is strongly involved and controls the export business. It would be extremely difficult to penetrate the tobacco industry in Molvania. (Study Session 11, LOS 32.a)

Question #57 of 73

Question ID: 472539

Which of the following *most* accurately describes the bargaining power of buyers (the select group of tobacco dealers) and buyers' bargaining leverage?

- x A) **Buyers have leverage because they have the ability to initiate lawsuits against the industry.**
- x B) Buyers have significant leverage because they purchase the tobacco products.
- ✓ C) Buyers have very little leverage.

Explanation

Buyers have very little leverage, since they are appointed by the majority state-owned company and have little or no access to additional supply. (Study Session 11, LOS 32.a)

Question #58 of 73

Question ID: 462989

Palmer concludes that the bargaining power of suppliers is high because tobacco farmers have some control over the harvest and have a measure of control over the volume of tobacco produced. Which of the following additional factors, when considered in conjunction with the factor Palmer cites, *best* supports the conclusion that the bargaining power of suppliers is moderate instead of high?

- ✓ **A) Much of the industry is either state-controlled or influenced by two large domestic companies.**
- x B) Smaller companies within Molvania have little or no export business.
- x C) Molvanian manufacturers have managed to protect their relative advantage in producing hand-rolled tobacco products.

Explanation

In terms of supply, there are two opposing forces at work. Tobacco farmers control the harvest, and they may have a measure of control over the volume of tobacco produced, as Palmer notes. However, much of the industry is either state-controlled or influenced by two large domestic companies, which is consistent with less supplier bargaining power. When these facts are taken into consideration, the conclusion that the bargaining power of suppliers is moderate is a reasonable one. (Study Session 11, LOS 32.a)

Question #59 of 73

Question ID: 462990

Which statement *most* accurately portrays the rivalry among existing competitors in the industry? Rivalry among existing competitors in the industry is:

- ☐ A) very low.
- ☒ B) moderate.
- ☐ C) very high.

Explanation

Rivalry among existing competitors in the industry is moderate. While it is limited domestically, the export business is substantially more competitive due in large part to several international companies having well-developed distribution networks. (Study Session 11, LOS 32.d)

Question #60 of 73

Question ID: 462991

Are Palmer's statements regarding the threat of substitutes within the industry correct or incorrect?

- ☒ A) Only statement 1 is correct.
- ☐ B) Only statement 2 is correct.
- ☐ C) Both statements are correct.

Explanation

Substitutes exist, but this threat is relatively low due to the premium nature of Molvania's products, so Statement 1 is correct. The threat should not be considered as very low due to the existence of competitors who also make premium products, so Statement 2 is incorrect. (Study Session 11, LOS 38.b)

Question #61 of 73

Question ID: 462992

Are Palmer's statements regarding price sensitivity and bargaining power of buyers correct or incorrect?

- ☒ A) Both statements are correct.
- ☐ B) Only statement 4 is correct.
- ☐ C) Only statement 3 is correct.

Explanation

Since a premium product is being offered, price sensitivity is of limited importance, so Statement 3 is correct. On the other hand, due to the presence of other competitors worldwide, pricing issues cannot be ignored, so Statement 4 is also correct. (Study Session 11, LOS 38.b)

Question #62 of 73

Question ID: 463015

The introduction of mass production to the automobile market that revolutionized the industry is an example of:

- ☐ A) a classical approach to strategic planning taking advantage of a predictable industry.

- ✓ **B)** a visionary approach to strategic planning taking advantage of a malleable industry.
- ✗ **C)** an adaptive approach to strategic planning taking advantage of a predictable industry.

Explanation

Mass produced cars were an entirely new idea and shaped the industry that Ford were in.

Question #63 of 73

Question ID: 462956

Which of the following is NOT one of Porter's five factors determining the intensity of competition within an industry?

- ✗ **A) Rivalry among existing competitors.**
- ✗ **B)** Threat of substitute products.
- ✓ **C)** Bargaining power of the firm's creditors.

Explanation

The bargaining power of the firm's customers and suppliers along with the threat of substitute products, the threat of new entrants, and the rivalry among existing competitors comprise Porter's five factors. The bargaining power of the firm's creditors is not one of Porter's five factors.

Question #64 of 73

Question ID: 462995

Joel Mason, owner of a ball-bearing factory in Cleveland, finds two interesting stories while reading *The Wall Street Journal* at breakfast. He reads that the government instituted a tariff on imported bearings, and that overall sales of ball bearings in the region rose 18% over the last year. Of the two changes mentioned above, which are likely to have a positive effect on Mason's company over the long run?

- ✗ **A) The higher industry growth rate.**
- ✓ **B)** Neither of them.
- ✗ **C)** The newly passed tariff.

Explanation

Neither of the issues presented are likely to have any long-term effect on the company, as the market generally responds to such changes and finds a new equilibrium. High growth rates tend to attract more competitors, and the effectiveness of tariffs is questionable even in the short term.

Question #65 of 73

Question ID: 463027

When an analyst is developing long term projections of earnings for a company, which of the following statements is *least* accurate?

- ✓ **A) Earnings projections should be based on the most recent earnings for growing companies as it reflects the current state of the economy.**

- ☐ **B)** When forecasting long term earnings for a highly cyclical company, an expected mid-cycle level of earnings should be used.
- ☐ **C)** A perpetuity should only be used if the analyst does not anticipate any inflection points occurring in the industry or economic environment.

Explanation

The most recent earnings figure may not be sustainable. Even growing companies may face a downturn due to changes in the industry. The most recent data is not necessarily the most appropriate.

Question #66 of 73

Question ID: 462963

Which of the following is NOT one of Michael Porter's factors used to determine competition in an industry?

- ☐ **A) Threat of new entrants into the market.**
- ☐ **B)** Bargaining power of the firm with its suppliers.
- ☒ **C)** Capital structure and financial flexibility.

Explanation

Porter's competitive factors are: rivalry among the existing competitors; threat of new entrants; threat of substitute products; bargaining power of buyers; bargaining power of suppliers.

Question #67 of 73

Question ID: 462964

Daniel Tipton and Jesse Torrez are first-year MBA students at the Haas School of Business. Torrez has an economics background, but Tipton's background is in music. To help Tipton study one of the main tenets of competition theory, Torrez creates the following question and asks Tipton to identify the statement that is *most* inconsistent with Porter's five forces. Which statement should Tipton select?

- ☐ **A) To sustain above average returns on invested capital, firms should strive for economies of scale.**
- ☒ **B)** Porter's five forces are: rivalry among current competitors, economies of scale, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers.
- ☐ **C)** Supplier power is higher when there are only a few suppliers to an industry.

Explanation

Porter's five forces are: rivalry among current competitors, *threat of new entrants*, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers. Economies of scale are a way to lessen the threat of new entrants, but are not the only way to discourage competition. Companies can also have barriers to entry such as regulation or high start-up capital. The other choices are true.

Question #68 of 73

Question ID: 462958

Determinants of substitute threats include:

- ✓ **A) relative price performance of substitutes, buyer propensity to substitute, and switching costs.**
- x **B)** relative price performance of substitutes, presence of substitute inputs, and switching costs.
- x **C)** buyer propensity to substitute, presence of substitute inputs, and switching costs.

Explanation

The threat of product substitution is driven by availability, prices, and cost of switching to other products in addition to the inclination of the buyer to switch.

Question #69 of 73

Question ID: 462957

Mary Moore is preparing a report on the commercial banking industry. As she gleaned information from the competitors annual reports she encountered the following statements in the CEO's letters to their shareholders and the Management Discussion and Analysis (MD&A) section:

William Spencer, CEO of Western Banks, stated in the MD&A: "Consolidation within the industry will continue at its current pace, or perhaps accelerate, as banking concerns seek to increase their presence and market share."

Margaret Acosta, CEO of Southwest Banking, stated in her letter to the shareholders: "Competition is becoming increasingly diverse as banks continue to increase in size and offer products ranging from insurance and mutual funds to high tech interaction with customers."

Maria Bellini, CEO of Atlantic Mercantile Banks, noted in the MD&A that: "Cost advantages in most traditional banking activities seem to be mostly gone now, which will impact the industry future profitability."

Moore is *most likely* to report that the commercial banking industry has high rivalry among competitors based on:

- x **A) Margaret and Maria's statements only.**
- x **B)** William and Margaret's statements only.
- ✓ **C)** William and Maria's statements only.

Explanation

William and Maria's statements support arguments for rivalry among commercial banks in that they indicate that banks must increase market share through mergers and acquisitions and that traditional banking activities are now commodities. Margaret's statement suggests that banks are offering increasingly diverse products in an attempt to differentiate - the opposite of a commodity-type business.

Question #70 of 73

Question ID: 463025

PixOut Inc. is a U.S. based manufacturer of waterproof cameras. PixOut's products are typically used by leisure customers wishing to use a camera for snorkeling and deep-sea diving. The cameras come in at a reasonable price point and are aimed primarily at the 'point and shoot' market. Recently, a rival manufacturer has brought an extremely cheap waterproof case for smart phones to the market, and this is having a definite impact on PixOut's sales.

Torsten Gruber is forecasting the impact the phone cover may have on PixOut's revenue next year. Gruber's predicted sales figures in units are shown below:

	2014E
PixOut cameras sold (units)	42,505
Sales of smart phone covers (units)	11,044

Gruber is assuming that a percentage of the phone cover sales have cannibalized PixOut camera sales. In predicting the sales for 2014, he is assuming a 25% cannibalization rate. In addition, he forecasts the average selling price of a PixOut camera is \$185 and the average selling price of the smart phone cover is \$80.

Which of the following is closest to Gruber's estimate of the revenue lost by PixOut due to cannibalization in 2014?

- ☒ A) \$265,056.
- ☒ B) \$5,898,000.
- ☒ C) \$510,785.

Explanation

Number of phone covers sold	11,044
Cannibalization rate	25%
Number of camera sales lost	$11,044 \times 25\% = 2,761$
Revenue lost	$2,761 \times \$185 = \$510,785$

Question #71 of 73

Question ID: 463001

Which of Porter's forces would be affected by the rise of big box retailers for the appliance manufacturing industry?

- ☒ A) Threat of new entrants
- ☒ B) Bargaining power of Buyers
- ☒ C) Bargaining power of suppliers

Explanation

Big box retailers became large buyers, squeezing the margins of the manufacturers whose products they sold.

Question #72 of 73

Question ID: 462977

Which of the following changes to the widget industry is *most likely* to result in higher profits for all U.S. widget makers 10 years from now?

- ☒ A) Creation of a widget-makers' coalition that brokers all widget deals.
- ☒ B) Creation of a series of new products that require widgets as components.
- ☒ C) A sharp increase in the global demand for widgets.

Explanation

An increase in demand for widgets is likely to boost profits in the short run, but could attract new competitors. The same can be said for new products that create a wider market for widgets. However, the creation of a widget-makers' coalition could change the balance of power in the market. One of Porter's five forces is the bargaining power of suppliers. A coalition that

brokers all widget deals could skew the field in favor of producers, raising widget prices and the profits of companies that make them.

Question #73 of 73

Question ID: 462968

Significant economies of scale in an industry will reduce industry competition by reducing the:

- ✓ **A) threat of new entrants.**
- x **B) bargaining power of suppliers.**
- x **C) threat of substitute products.**

Explanation

Potential new entrants to an industry are discouraged from entering the market, by things like barriers to entry and economies of scale. Because new entrants represent increased competition, the lack of new entrants will reduce industry competition.