***Global Marketing***

**Chapter 16 Strategic Elements of Competitive Advantage**

1) IKEA, the global furniture powerhouse, faces increasing competition from hypermarkets, "do-it-yourself" retailers such as Wal-Mart and supermarkets that are expanding into home furnishings.

Answer: TRUE

Page Ref: 484

2) IKEA stores exteriors are painted bright blue and yellow: Denmark's national colors.

Answer: FALSE

Page Ref: 484

3) The essence of marketing strategy is successfully relating the strengths of an organization to its environment.

Answer: TRUE

Page Ref: 485

4) Competition in an industry tends to drive rates of return on invested capital up towards the level of "perfect competition."

Answer: FALSE

Page Ref: 485

5) "Switching costs" are one of the barriers to entry in Porter's five forces model.

Answer: TRUE

Page Ref: 486

6) Unique product attributes represent a barrier to industry entry known as differentiation.

Answer: FALSE

Page Ref: 486

7) In many industries, the digital revolution has altered the nature of competition by increasing the cost for potential new entrants to an industry.

Answer: TRUE

Page Ref: 487

8) Analyzed in terms of Porter's five forces model, online music file sharing services represent a threat to the music industry in the form of a substitute product.

Answer: TRUE

Page Ref: 487

9) Analyzed in terms of Porter's five forces model, Wal-Mart's ability to dictate terms to the music industry is one indication of the retail giant's supplier power.

Answer: FALSE

Page Ref: 487-488

10) Microsoft and Intel are two companies that illustrate the concept of "bargaining power of suppliers" in Porter's five forces model of industry competition.

Answer: TRUE

Page Ref: 488

11) In Michael Porter's model, "buyers" refers to manufacturers (e.g., GM) and retailers (e.g. Wal-Mart), rather than consumers.

Answer: TRUE

Page Ref: 487

12) If suppliers have enough leverage over industry firms, they can raise prices high enough to significantly influence the profitability of their organizational customers.

Answer: TRUE

Page Ref: 487

13) Rivalry among firms refers to all the actions taken by firms in the industry to improve their positions and gain advantage over each other.

Answer: FALSE

Page Ref: 488

14) Michael Porter's four generic strategies for achieving competitive advantage are product differentiation, price leadership, promotion power, and distribution efficiency.

Answer: FALSE

Page Ref: 485-487

15) Michael Porter's generic strategy framework is derived from the basic *types* of competitive advantage and the *scope* of the target market served.

Answer: TRUE

Page Ref: 490

16) Cost leadership advantage is based on a firm's position as the industry's low-cost leader in a broad market.

Answer: TRUE

Page Ref: 490

17) According to the generic strategy framework, cost leadership is a sustainable source of competitive advantage if barriers exist that prevents competitors from achieving the same low costs.

Answer: TRUE

Page Ref: 490-491

18) Maytag has been called "the Rolls-Royce of washers and dryers;" and it can be said that it

has achieved a competitive advantage by means of *differentiation*.

Answer: TRUE

Page Ref: 491-492

19) Michael Porter's five forces model and Rugman and D'Cruz's flagship model are both based on the concept of corporate individualism.

Answer: FALSE

Page Ref: 493-494

20) Rugman and D'Cruz's development of the flagship model was influenced by their study of Japanese *keiretsu.*

Answer: TRUE

Page Ref: 493-494

21) Rugman and D'Cruz cite Benetton as an example of a flagship firm that excels at building partnerships.

Answer: TRUE

Page Ref: 493-494

22) Key suppliers, key customers, and key consumers are all elements of a flagship company's partner network.

Answer: TRUE

Page Ref: 493-495

23) Few competitive advantages are long lasting.

Answer: TRUE

Page Ref: 495

24) Benetton's success in the global fashion industry illustrates the flagship model.

Answer: TRUE

Page Ref: 494-495

25) The Komatsu-Caterpillar saga is just one example of how more than the pursuit of generic strategies can shape global competitive battles.

Answer: TRUE

Page Ref: 496

26) The central concept of the strategic intent model of competitive advantage is an obsession of winning.

Answer: TRUE

Page Ref: 495-496

27) The "layers of advantage" approach to global competitive innovation is based on using know-how developed by other companies.

Answer: FALSE

Page Ref: 496-497

28) Intel's focus on designing complex, expensive microprocessors for PCs enabled competitors to develop cheaper chip sets for non-PC electronics devices. In the strategic intent model of competitive advantage, this is an example of "loose bricks."

Answer: TRUE

Page Ref: 497

29) In the strategic intent model of competitive advantage, Canon's successful entry into the photocopier market is an example of changing the rules of engagement.

Answer: TRUE

Page Ref: 497

30) "Active competition for demanding customers in the home market keeps companies under pressure to constantly innovate." This statement is consistent with Michael Porter's thesis regarding the competitive advantage of nations.

Answer: TRUE

Page Ref: 495-496

31) "Active competition for demanding customers in the home market keeps companies under pressure to constantly innovate." This statement is an integral part of Hamel and Prahalad's concept of "strategic intent."

Answer: FALSE

Page Ref: 495-496

32) In 1989, Jollibee, the most popular fast-food operator in the Philippines, got an unexpected boost when the threat of a military coup prompted McDonald's to temporarily suspend operations.

Answer: TRUE

Page Ref: 498

33) The strong rivalry in the U.S. market between Dell, Gateway, Hewlett-Packard, Apple, and other computer companies has helped make the United States a world leader in personal computers.

Answer: TRUE

Page Ref: 502-503

34) According to Michael Porter, chance plays no role in determining the competitive advantage of nations.

Answer: FALSE

Page Ref: 503-504

35) Research by Morgan Stanley indicates that the United States is home to more companies with global competitive advantage than any other country.

Answer: TRUE

Page Ref: 505

36) According to Richard D'Aveni's model of "hypercompetition," successful companies are the ones that find sustainable competitive advantages.

Answer: FALSE

Page Ref: 505

37) "Hypercompetition" is a term that describes a business environment of escalating rivalry characterized by rapid product innovation and short product life cycles.

Answer: TRUE

Page Ref: 505

38) In a hypercompetitive business world, a company's previous sources of sustainable competitive advantage may be rendered obsolete.

Answer: TRUE

Page Ref: 505

39) The Swatch Group is the world's second largest watchmaker. This shows that in the low-cost segment, brands compete on price and value.

Answer: TRUE

Page Ref: 506

40) The digital revolution rendered Sony's core competencies in analog audio technology obsolete.

Answer: TRUE

Page Ref: 508

41) According to Porter, the nature of the interaction between potential industry entrants, buyers, substitute products, suppliers, and rival firms determines:

A) whether or not the government will launch an antitrust investigation.

B) the industry's profit potential in terms of long-run return on invested capital.

C) whether a country can generate a balance of payments surplus.

D) whether a country can create a comparative advantage in the production of differentiated products.

E) whether a country can generate income by innovation.

Answer: B

Page Ref: 485-486

42) Which of the following is *not* identified by Porter as one of the possible types of barriers to entry in an industry?

A) loose bricks

B) switching costs

C) economies of scale

D) product differentiation

E) access to distribution channels

Answer: A

Page Ref: 485-487

43) In the tech world, about 90 percent of the world's nearly one billion PCs run on Microsoft's operating systems and 80 percent use Intel's microprocessors. This represents which aspect of the Porter's five forces model?

A) bargaining power of suppliers

B) bargaining power of buyers

C) threat of substitute products

D) rivalry among competitors

E) threat of new entrants

Answer: A

Page Ref: 485-488

44) In 2001, Compaq Computer CEO Michael Capellas announced that his company would concentrate on selling software and services instead of hardware. Suppose WorldCorp passes up the chance to buy software from Compaq because it has been a long time customer of IBM. As described here, WorldCorp's decision is based on:

A) economies of scale.

B) switching costs.

C) loose bricks.

D) access to distribution channels.

E) product differentiations.

Answer: A

Page Ref: 485-486

45) Jaguar produced so few cars that it couldn't get volume discounts from components suppliers. Jaguar managers sometimes could not even determine the "fair" price for a particular part. In terms of Porter's competitive forces framework, Jaguar's strategic disadvantage stemmed from low:

A) buyer power.

B) supplier power.

C) threat of new entrants.

D) threat of substitute products.

E) access to distribution channels.

Answer: A

Page Ref: 487

46) Wal-Mart refuses to stock CDs bearing parental advisory stickers for explicit lyrics or violent imagery. Recording artists who want their recordings available at Wal-Mart have the option of altering lyrics and song titles or deleting offending tracks. Likewise, artists are sometimes asked to change album cover art if Wal-Mart deems it offensive. Considering the elements of the five forces model this is an example of:

A) buyer power.

B) supplier power.

C) threat of new entrants.

D) threat of substitute products.

E) access to distribution channels.

Answer: A

Page Ref: 487

47) Suppose you are a sales representative for Advanced Micro Devices (AMD) in Japan. You are trying to convince Toshiba to buy your company's superfast Opteron microprocessor for its new laptop computer. Toshiba's representative seems interested, but finally does not place an order. Confidentially, the representative tells you that he is afraid that Intel will withhold shipments of its Pentium 4 if he does business with AMD. Thinking about Intel's role in this scenario, which of the following element of the five forces model is evident here?

A) barriers to entry

B) bargaining power of suppliers

C) bargaining power of buyers

D) threat of substitute products

E) threat of new entrants

Answer: A

Page Ref: 486-487

48) Porter's four generic strategies for achieving competitive advantage are:

A) price determination, cost leadership, product differentiation, distribution savings

B) cost leadership, product differentiation, cost challenger, product challenger

C) price leadership, product differentiation, price challenger, cost differentiation

D) cost leadership, product differentiation, cost focus, focused differentiation

E) cost leadership, product differentiation, consumer differentiation, focused differentiation

Answer: D

Page Ref: 490

49) Francisco Martínez is CFO of Comercial Mexicana SA, a retail chain in Mexico. Commenting on Wal-Mart's entry into Mexico, Mr. Martínez notes, "I buy 20,000 plastic toys, and Wal-Mart buys 20 million. Who do you think gets them cheaper?" Which strategic principles are evident in this comment?

A) Wal-Mart's buyer power and cost leadership

B) Wal-Mart's barriers to entry and differentiation

C) Wal-Mart's loose bricks and switching costs

D) Wal-Mart's focused differentiation and supplier power

E) Wal-Mart's discount policies for customers

Answer: A

Page Ref: 490-491

50) Gillette markets its flagship MACH3 razor in more than 100 countries around the world. The MACH3 is available virtually everywhere that consumers shop for personal-care products; because of its advanced 3-blade design, the MACH3 typically costs more than other wet-shaving systems. Which generic strategy is evident in Gillette's global marketing effort of MACH3?

A) cost leadership

B) differentiation

C) cost focus

D) focused differentiation

E) consumer focus

Answer: B

Page Ref: 490-401

51) Consumers pay a premium for an iPod digital music player from Apple Computer. The iPod is characterized by distinctive styling and superior ease of use; Apple currently commands about 80 percent of the market for digital music players. Which of Porter's generic strategies best describes Apple's approach with its iPod?

A) cost leadership

B) differentiation

C) cost focus

D) focused differentiation

E) consumer focus

Answer: B

Page Ref: 490-491

52) Germany's *Mittelstand* companies have been extremely successful pursuing \_\_\_\_\_\_\_\_.

A) cost leadership

B) differentiation

C) cost focus

D) focused differentiation

E) cost differentiation

Answer: D

Page Ref: 492

53) Which of the following generic strategies best captures the way Harley-Davidson has achieved competitive advantage in the global motorcycle industry?

A) cost leadership

B) differentiation

C) cost focus

D) focused differentiation

E) cost differentiation

Answer: D

Page Ref: 492-493

54) Hundreds of small companies such as Martin-Logan and Mark Levinson compete in the high-end audiophile segment of the consumer electronics industry. If analyzed in terms of Porter's generic strategies framework, such companies might be said to be pursuing competitive advantage via:

A) cost leadership.

B) differentiation.

C) cost focus.

D) focused differentiation.

E) consumer differentiation.

Answer: D

Page Ref: 492-493

55) Rugman and D'Cruz have developed an alternative framework to Porter's five forces model. The framework, based on business networks, is called:

A) the differentiation model.

B) strategic intent.

C) the flagship model.

D) the hypercompetition model.

E) the Rugman & D'Cruz model.

Answer: C

Page Ref: 493-494

56) Which of the following is *not* an element of Rugman and D'Cruz's flagship model?

A) key suppliers

B) key customers

C) key consumers

D) selected competitors

E) focused differentiation

Answer: E

Page Ref: 493-494

57) The flagship model is evident in the strategies of all but one of the following businesses.

A) Ford

B) Volkswagen

C) IKEA

D) Benetton

E) Microsoft

Answer: E

Page Ref: 494-495

58) The key to maintaining competitive advantage, according to Dr. W.E. Deming as well as your textbook authors, is:

A) being committed to constant improvement.

B) being first to market with all products.

C) outsourcing key components.

D) challenging all market leaders.

E) stressing low price advantage in all areas.

Answer: A

Page Ref: 495-496

59) Building layers of advantage, searching for loose bricks, changing the rules of competitive engagement, and collaborating are elements of the competitive advantage framework developed by:

A) W.E. Deming.

B) Hamel and Prahalad.

C) Porter.

D) Drucker.

E) D'Aveni.

Answer: B

Page Ref: 496-497

60) Building layers of advantage, searching for loose bricks, changing the rules of competitive engagement, and collaborating are elements of Hamel and Prahalad's framework for:

A) quality advantage.

B) positioning.

C) competitive innovation.

D) marketing management.

E) innovation leadership.

Answer: C

Page Ref: 496-497

61) Intel's focus on designing complex, expensive microprocessors for PCs enabled competitors to develop cheaper chip sets for non-PC electronics devices. In the strategic intent model of competitive advantage, this is an example of:

A) building layers of advantage.

B) loose bricks.

C) changing the rules of engagement.

D) collaborating.

E) none of the above

Answer: B

Page Ref: 497

62) In the terminology of the strategic intent framework for competitive advantage, a firm that establishes advantages in a number of different areas has:

A) attribute diversity.

B) marketing breadth.

C) comparative advantage.

D) layers of advantage.

E) a "double diamond."

Answer: D

Page Ref: 496-497

63) Caterpillar's attention was focused elsewhere when Komatsu made its first international entry into the Eastern European Market. Based on the strategic intent framework this is an example of:

A) changing the rules.

B) collaborating.

C) comparative advantage.

D) layers of advantage.

E) loose bricks.

Answer: E

Page Ref: 496-497

64) When managers at Matsushita realized that cost advantages in TV production were often fleeting, they added quality and reliability advantages, thus establishing:

A) loose bricks.

B) a "double diamond."

C) attribute diversity.

D) layers of advantage.

E) buyer power.

Answer: D

Page Ref: 496-497

65) An approach to competitive advantage that exploits weaknesses in competitors' narrow-focus strategies is called a \_\_\_\_\_\_\_\_ strategy.

A) loose bricks

B) collaboration

C) layers of advantage

D) supplier power

E) generic

Answer: A

Page Ref: 497

66) In the 1960s, Honda took advantage of Harley-Davidson's focus on the heavyweight segment of the motorcycle market by offering smaller models and, eventually, larger ones. According to the strategic intent model, Honda was using a \_\_\_\_\_\_\_\_ strategy.

A) collaboration

B) layers of advantage

C) loose bricks

D) generic

E) supplier power

Answer: C

Page Ref: 497

67) When company management decides that it is unwilling to follow the "conventional wisdom" and instead finds a new way to gain competitive advantage, it might be said to be:

A) searching for loose bricks.

B) changing the rules of engagement.

C) collaborating.

D) building layers of advantage.

E) innovating.

Answer: B

Page Ref: 497-498

68) Mitsubishi Heavy Industries Ltd. and other Japanese companies manufacture airplanes under license to U.S. firms and also work as subcontractors for aircraft parts and systems. This type of effort is known as:

A) searching for loose bricks.

B) collaborating.

C) building of layers of advantage.

D) changing the rules of engagement.

E) innovating.

Answer: B

Page Ref: 498

69) In the 1950s, Sony licensed the technology for the transistor from Bell Labs and proceeded to become the world's leading manufacturer of portable radios. Which strategy was Sony using to gain competitive advantage?

A) collaboration

B) layers of advantage

C) changing the rules

D) loose bricks

E) engagement

Answer: A

Page Ref: 498

70) According to Michael Porter's research on the competitive advantage of nations, human, physical, knowledge, capital, and infrastructure resources are all components of a country's:

A) factor conditions.

B) demand conditions.

C) strategy, structure, and rivalry.

D) related and supporting industries.

E) global conditions.

Answer: A

Page Ref: 500-501

71) According to Michael Porter's research on the competitive advantage of nations, Switzerland's large synthetic dye industry and the success of the Swiss pharmaceuticals can be explained in terms of:

A) factor conditions.

B) demand conditions.

C) strategy, structure, and rivalry.

D) related and supporting industries.

E) formation of European Union.

Answer: D

Page Ref: 502

72) The rivalry between Dell, Hewlett-Packard, Gateway, Compaq, and Apple forces all the players to undertake all of the following except:

A) develop new products.

B) improve existing one.

C) lower costs and prices.

D) develop new technologies.

E) none of the above

Answer: E

Page Ref: 503-504

73) Chance events play a role in shaping the competitive environment. Chance events are occurrences which include all but one of the following:

A) major technological breakthroughs.

B) wars and their aftermath.

C) oil crisis.

D) currency fluctuations.

E) annual business meeting.

Answer: E

Page Ref: 503-504

74) The \_\_\_\_\_\_\_\_ framework was developed by Professor Richard D'Aveni to describe a business environment in which no form of competitive advantage can be sustained for long because of escalating and accelerating competitive forces.

A) five forces model

B) generic strategies

C) strategic intent

D) hypercompetition

E) factor conditions

Answer: D

Page Ref: 505-506

75) In the global watch industry, the success of the Swatch brand resulted in a manufacturing renaissance for Switzerland. In the strategic framework known as hypercompetition, Swatch's success is an example of interactions in which arena:

A) cost/quality.

B) timing and know how.

C) entry barriers.

D) deep pockets.

E) sporting events.

Answer: A

Page Ref: 507

76) Sony's PlayStation 3 (PS3) has a powerful chip that provides new levels of realism; PS3 also contains a Blu-Ray DVD player. However, the less complex, less expensive Nintendo Wii has been outselling Sony's game system by a margin of 3-to-1. Based on D'Aveni's model this is reflective of:

A) cost/quality.

B) timing and know how.

C) entry barriers.

D) loose bricks.

E) deep pockets.

Answer: B

Page Ref: 508

77) According to strategy expert Richard D'Aveni, the actions taken by Swatch in the global watch industry illustrate hypercompetitive dynamic maneuvering in which arena?

A) cost/quality

B) timing and know-how

C) entry barriers

D) deep pockets

E) olympics

Answer: A

Page Ref: 506-507

78) Which of the following is *not* one of the four arenas in which dynamic strategic interactions are played out in hypercompetitive industries?

A) cost/quality

B) timing and know-how

C) entry barriers

D) deep pockets

E) buyer and supplier power

Answer: E

Page Ref: 507-508

79) According to the hypercompetition model of competitive advantage, which of the following allows the firm to create an entirely new product or market?

A) know-how advantage

B) timing advantage

C) outflanking

D) switching costs

E) countermoves

Answer: B

Page Ref: 507-508

80) The "double-diamond" approach to national competitive advantage is a conceptual framework associated with:

A) Michael Porter.

B) Gary Hamel and C.K. Prahalad.

C) Richard D'Aveni.

D) Alan Rugman.

E) Antonio Perez.

Answer: D

Page Ref: 509-510

81) Michael E. Porter, a leading theorist of competitive strategy, developed a five forces model to explain competition in an industry. List these forces and describe the impact of the threat of new entrants.

Answer: The five forces model by Porter are the threat of new entrants, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers, and the competitive rivalry among current members of the industry. New entrants to an industry bring new capacity, a desire to gain market share and position. They also bring new approaches to serving customer needs. New players mean prices will be pushed downward and margins squeezed, resulting in reduced industry profitability in the long run. According to Porter there are eight major sources of barriers to entry, the presence or absence of which determines the extent of threat of new industry entrants. (1) Economies of scale, which refer to the decline in per-unit product costs as the absolute volume of production per period increases. Although the concept of scale economies is frequently associated with manufacturing it is also applicable to R&D, general administration, marketing, and other business functions. (2) Product differentiation is the barrier that depends on the extent of a product's perceived uniqueness. Differentiation can be achieved as a result of unique product attributes or effective marketing communications, or both. (3) Capital requirement is another barrier. This may include fixed as well as the working capital. Some industries require enormous capital for various activities. (4) The one-time switching costs caused by the need to change suppliers and products are another barrier. These might include retraining, ancillary equipment costs, the cost of evaluating a new source, and other related aspects. (5) The access to distribution channels is another barrier. If channels are full or unavailable, the cost of entry is substantially increased because a new entrant must invest time and money to gain access to existing channels or to establish new channels. (6) Government policy is frequently a major entry barrier. (7) Established firms may also enjoy cost advantages independent of scale economies that present barriers to entry. Access to raw materials, a large pool of low-cost labor, favorable locations, and government subsidies are several examples. (8) Competitor response can be a major entry barrier. If new entrants expect existing competitors to respond strongly to entry, their expectations about the rewards of entry will certainly be affected.

Page Ref: 485-487

82) There have been considerable changes that have taken effect since Porter presented his theories. One such impact is due to the tremendous technological advancement. In light of these changes, examine what potential impact technology has on some of his theories.

Answer: With the digital revolution there are several aspects that have impact on the entry barriers that were listed by Michael Porter. Technology has lowered the cost for new entrants significantly. For example, Barnes & Noble watched an entrepreneurial upstart, Amazon.com storm the barriers protecting traditional booksellers. Amazon.com exploited a lagging inefficiency in book distribution by shipping unsold copies of books back to publishers to be shredded and turned into pulp. Its centralized operations and increasingly personalized online service enable customers to select from millions of different titles at discount prices and have them delivered to their homes within days. The company has expanded into new product lines such as CDs and DVDs. The company now serves tens of millions of customers in 160 countries. Barnes & Noble responded by entering the online book market itself even as it continues to be profitable in its traditional business method. Thus, internet superstores selling different kinds of general merchandise will come into the horizon making the way business is done very different as well as a significant decrease in the cost of doing business.

Page Ref: 486-487

83) In addition to the *five forces* model of industry competition, Michael Porter has developed a framework of so-called generic business strategies. Explain these generic strategies describing their aims and application.

Answer: The generic business strategies are based on the two types or sources of competitive advantage: low-cost and differentiation. The relationship of these two sources with the scope of the target market served (narrow or broad) or product mix width (narrow or wide) yields four generic strategies: cost leadership, product differentiation, cost focus, and focused differentiation. Cost leadership is competitive advantage based on a firm's position as the industry's low producer in broadly defined markets or across a wide mix of products. By contrast, strategies to achieve a narrow focus advantage targets a narrowly defined market or customer. This advantage is based on an ability to create more customer value for a narrowly targeted segment and results from a better understanding of customer needs and wants. Focused differentiation strategies backed by a strong export effort have proven to be very successful. When a firm's lower cost position enables it to offer a narrow target market and lower prices than the competition is what is referred to as the strategy of cost focus. In the shipbuilding industry, for example, Polish and Chinese shipyards offer simple, standard vessel types at low prices that reflect low production costs.

Page Ref: 490-492

84) Describe how competitive advantage can be created via strategic intent giving examples of successful approaches of competitors..

Answer: An alternative framework for understanding competitive advantage focuses on competitiveness as a function of the pace at which a company implants new advantages deep within its organization. This framework identifies strategic intent, growing out of ambition and obsession with winning, as the means for achieving competitive advantage. Major theories related to this were presented by Gary Hamel and C.K. Prahalad. The basic approach is founded in the principles of W.E. Deming, who stressed that a company must commit itself to continuing improvement in order to be a winner in a competitive struggle. Many firms have gained competitive advantage by disadvantaging rivals through competitive innovation. Hamel and Prahalad define competitive innovation as the art of containing competitive risks within manageable proportions. They identify four successful approaches used by Japanese competitors. These are building layers of advantage, searching for loose bricks, changing the rules of engagement, and collaborating. Building layers of advantage refers to having a wide portfolio of advantages thereby reducing risk in any competitive encounters. A second approach takes advantage of the "loose bricks" left in the defensive walls of competitors whose attention is narrowly focused on a market segment or a geographic area to the exclusion of others. A third approach involves changing the so-called "rules of engagement" and playing by the rules set by industry leaders. A final source of competitive advantage is using know-how developed by other companies. Such collaboration may take the form of licensing agreements, joint ventures, or partnerships.

Page Ref: 490-492

85) What does the phrase *factor condition* refer to? How can these factors be inherited or created? Describe Porter's categories of factor conditions.

Answer: The phrase factor conditions refers to a country's endowment with resources. Factor resources may have been created or inherited. Basic factors may be inherited or created without much difficulty since they can be replicated in other nations and they are not sustainable sources of national advantage. Porter describes five categories of factor conditions: human, physical, knowledge, capital, and infrastructure. The quantity of workers available, the skills possessed by these workers, the wage levels, and the overall work ethic of the workforce together constitute a nation's human resources factor. Countries with a plentiful supply of low-wage workers have an obvious advantage in the production of labor-intensive products. On the other hand, such countries may be at a disadvantage when it comes to the production of sophisticated products which require highly skilled workers capable of working without extensive supervision. The availability, quantity, quality, and cost of land, water, minerals, and other natural resources determine a country's physical resources. A country's size and location are also included in this category. The availability within a nation of significant population having scientific, technical, and market-related knowledge means that the nation is endowed with knowledge resources. The presence of this factor is usually a function of the number of research facilities and universities — both government and private — operating in the country. This factor is important to success in sophisticated products and services. The nation's savings rate, interest rates, tax laws, and government deficit all affect the availability of capital resources. The advantages enjoyed by industries in countries with low capital costs versus those located in nations with relatively high capital costs are sometimes decisive. Firms paying high capital costs are frequently unable to stay in a market where the competition comes from a nation with low capital costs. The firms with the low cost of capital can keep their prices low and force the firms paying high costs to accept low returns on investment or leave the industry. Finally, infrastructure is important which includes a nation's banking, healthcare, transportation, communication systems as well as the availability and cost of using these systems. More sophisticated industries are more dependent on advanced infrastructure for success. A mix of factors available to the industry determines a nation's competition advantage.

Page Ref: 500-501

86) What are demand conditions? Why is the nature of home demand conditions for the firm's or industry's products and services important?

Answer: Demand conditions are the factors that either train firms for world-class competition or that fails to adequately prepare them to compete in the global marketplace. The nature of home demand conditions for the firm's or industry's products and services is important because it determines the rate and nature of improvement and innovation by the firms in the nation. Characteristics of home demand are particularly important to the creation of competitive advantage which include the composition of home demand, the size and pattern of growth of home demand, rapid home market growth, and the means by which a nation's home demand pulls the nation's products and services into foreign markets. The characteristics of home demand determines how firms perceive, interpret, and respond to buyer needs. Competitive advantage can be achieved when the home demand sets the quality standard and gives local firms a better picture of buyer needs, at an earlier time, than is available to foreign rivals. This advantage is enhanced when home buyers pressure the nation's firms to innovate quickly and frequently. The size and pattern of growth of home demand are important only if the composition of the home demand is sophisticated and anticipates foreign demand. Large home markets offer opportunities to achieve economies of scale and learning while dealing with familiar, comfortable markets. Rapid home market growth is yet another incentive to invest in and adopt new technologies faster, and to build large, efficient facilities. Means by which a nation's products and services are pushed or pulled into foreign countries helps a nation's people and businesses go abroad and then demand the nation's products and services in those second countries. It is the interplay of demand conditions that produces competitive advantage. Of special importance are those conditions that lead to initial and continuing incentives to invest and innovate, and to continuing competition in increasingly sophisticated markets.

Page Ref: 501-502

87) The nature of firm strategy, structure, and rivalry is the final determinant of a nation's diamond. What does this statement refer to? How does domestic rivalry differ from foreign rivalry? Please explain in detail.

Answer: Domestic rivalry in a single national market is a powerful influence on competitive advantage. A good example is the PC industry in the United States which created a strong domestic rivalry. It keeps the industry dynamic and creates continual pressure to improve and innovate. The rivalry between Dell, HP, Gateway, Compaq, Apple, and others forces all the players to develop new products, improve existing ones, lower costs and prices, develop new technologies, and continually improve quality and service to keep customers satisfied. Rivalry with foreign firms may lack this intensity. Domestic rivals have to fight each other not just for market share, but also for employee talent, R & D breakthroughs, and prestige in the home market. Eventually, strong domestic rivalry will push firms to seek international markets to support expansions in scale. The absence of significant domestic rivalry can lead to complacency in the home firms and eventually cause them to become noncompetitive in the world markets. The intensity of the competition is more important rather than the number of domestic rivals. Also, the quality of the competitors makes a difference. It is also important that there be a fairly high rate of new business formations to create new competitors and safeguard against the older companies becoming comfortable with their market positions and products or services. New industry entrants bring new perspectives and new methods. They also find pockets of markets that were not explored by the incumbent companies. Differences in management styles, organizational skills, and strategic perspectives also create advantages and disadvantages for firms competing in different types of industries. The intensity of domestic rivalry also depends on them.

Page Ref: 502-503

88) How do chance events play a role in shaping the competitive environment?

Answer: Chance events are occurrences that are beyond the control of the firms, industries, and also governments. Unexpected events such as wars and their aftermaths, technological breakthroughs, sudden dramatic shifts in factor or input cost, changes in oil prices or production crisis, dramatic swings in exchange rates and so on. Chance events are important because they create major discontinuities in operation as well as in technologies. Such disruptions allow nations and firms that were not competitive to leapfrog over old competitors and become competitive, even leaders, in the changed industry. For example, the development of microelectronics allowed many Japanese firms to overtake U.S. and German firms in industries that had been based on electromecahnical technologies. These electromechanical technologies traditionally were dominated by the Americans and Germans. From a systemic perspective, the role of chance events lies in the fact that they alter conditions in the diamond. The nation with the most favorable "diamond" however, will be the one most likely to take advantage of these events and convert them into advantages. For example, Canadian researchers were the first to isolate insulin, but they could not convert this breakthrough into a globally competitive product. Firms in the United States and Denmark were able to do that because of their respective national "diamonds."

Page Ref: 503-504

89) What is hypercompetition? Briefly discuss conditions under which hypercompetition takes place.

Answer: The term hypercompetition is used to describe a dynamic competitive world in which no action or advantage can be sustained for long. Under such conditions everything changes because of the dynamic maneuvering and strategic interactions by hypercompetitive firms. According to D'Aveni's model, competition unfolds in a series of dynamic strategy interactions in four arenas: cost/quality; timing and know-how, entry barriers, and deep pockets. Each of these arenas is continuously destroyed and recreated by the dynamic maneuvering of hypercompetitive firms. Competition in the first arena, cost/quality occurs via seven dynamic strategic interactions: price wars, quality and price positioning; "the middle path," "cover all niches," outflanking and niching, the move toward an ultimate value marketplace, and escaping from the ultimate value marketplace by restarting the cycle. The second arena deals with timing and know-how. A firm that has the skills to be a "first mover" and arrive first in a market has achieved a timing advantage. A know-how advantage is the technological knowledge. It deals with six dynamic strategic interactions that drive competition in this arena: capturing first-mover advantages; imitation and improvement by followers; creating impediments to imitation; overcoming the impediments; transformation or leapfrogging; and downstream vertical integration. Next one deals with the barriers to entry. These barriers include economies of scale, product differentiation, capital investments, switching costs, access to distribution channels, cost advantages other than scale, and government policies. The last one deals with deep pockets which evidently leads to hypercompetition.

Page Ref: 505-509

90) The irony and paradox of the hypercompetition framework is that, in order to achieve a sustainable advantage, companies must seek a series of 'unsustainable' advantages. Explain this statement using dynamic strategic interaction sequence.

Answer: The first dynamic strategic interaction comes as a company builds a geographic 'stronghold' by creating and reinforcing barriers. After securing a market, competitors begin to seek markets outside the home-country or stronghold. The second dynamic strategic interaction takes place when companies target the product market strongholds of competitors in other countries. For example, Honda's geographic expansion outside Japan. The third dynamic strategic interaction comes when incumbents make short-term counter responses to the guerrilla attacks. Strong incumbents may try to turn back the invader with price wars, factory investment, or product introductions, or they may adopt a wait-and-see attitude before responding. The fourth dynamic strategic interaction occurs when the incumbent realizes it must respond fully to the invader by making strategic responses to create new hurdles. The fifth interaction takes place when competitors react to these new hurdles. The sixth dynamic strategic interaction consists of long-run counter responses to the attack via defensive moves or offensive moves. The seventh interaction is when competition between the incumbent and entrant is exported to the entrant's home turf. The eighth and final dynamic strategic interaction in this arena consists of an unstable standoff between the competitors. Thus, eventually it comes to unsustainable advantages. Thus, it is said that the role following marketing is innovation and the creation of new markets.

Page Ref: 509-510