

## Chapter 3—Starting a Small Business

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### TRUE/FALSE

1. "Me, too" strategies are used by very few new ventures.

ANS: F

In reality, most new ventures (especially in service industries) are founded on "me, too" strategies.

PTS: 1                      REF: p. 72                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

2. Many new businesses are formed from an entrepreneur seeing ways to improve or modify a product as a result of previous work experience.

ANS: T                      PTS: 1                      REF: p. 72                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

3. Based on knowledge gleaned from a present or recent job, entrepreneurs may see new startup ideas from modifying an existing product, improving a service, or duplicating a business concept in a different location.

ANS: T                      PTS: 1                      REF: p. 73                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

4. Hobbies or personal interests can provide startup ideas.

ANS: T                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

5. Serendipity describes a new product idea resulting from deliberate search activities.

ANS: F

Serendipity refers to making desirable accidental discoveries, not engaging in deliberate search efforts.

PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Value Creation

6. Serendipity is the facility for making desirable discoveries by accident.

ANS: T                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Value Creation

7. Magazines and other periodicals are excellent sources of startup ideas.

ANS: T                      PTS: 1                      REF: p. 75                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

8. Startups are more likely to be successful when the entrepreneur first evaluates his or her own capabilities and then looks for a new product or service idea, as opposed to beginning with a need in the marketplace and then relating those to personal capabilities.

ANS: F

Startups that are launched by first identifying market needs are more likely to be successful, especially when the business is related to consumer goods and services.

PTS: 1                      REF: p. 80                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Value Creation

9. *Cabana Life*, the company started by Melissa Marks Papock, is an example of a startup based on serendipity.

ANS: F

Cabana Life is an example of a startup based on personal experience.

PTS: 1                      REF: p. 73                      OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

10. Business guru Peter Drucker believes entrepreneurs should consider no more than two or three sources of opportunity to avoid being sidetracked as they prepare to launch or grow their enterprises.

ANS: F

Business guru Peter Drucker believes entrepreneurs should consider seven sources of opportunity as they prepare to launch or grow their enterprises: the unexpected, the incongruous, process needs, structural change, demographics, changes in perception, and new knowledge.

PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Economic Environments

11. Given their limited market scope and size, only three of Porter's five forces are relevant to small businesses.

ANS: F

All five forces are relevant for small businesses.

PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

12. The industry environment is made up of very broad factors that influence all—or at least most—businesses in a society.

ANS: F

The general environment encompasses broad factors; industry environment includes factors that directly impact a given firm and its competitors.

PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

13. According to business guru Peter Drucker, "Innovation is the specific instrument of entrepreneurship."

ANS: T                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Economic Environments

14. Starting or buying more than one business without merging their operations closely is a strategy known as differentiation.

ANS: F

Diversification involves starting or buying more than one business without merging the operations.

PTS: 1                      REF: p. 77                      OBJ: 3-2 TYPE: D  
NAT: Analytic | Value Creation

15. The general environment is very narrow and includes the forces that directly impact a firm and its competitors.

ANS: F

It is the industry environment that impacts only a firm and its competitors. The general environment is broad in its impact, since it influences all or most businesses in a society.

PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Economic Environments

16. The industry environment is defined as the combined forces that directly impact a given firm and its competitors.

ANS: T                      PTS: 1                      REF: p. 81                      OBJ: 3-4 TYPE: D  
NAT: Analytic | Economic Environments

17. The general environment is more narrowly defined than the industry environment because it focuses on specific segments, such as those relating to the economy, sociocultural trends, and geopolitical developments.

ANS: F

The general environment (comprised of economic, sociocultural, political/legal, technological, ecological, and global segments) is more broadly defined than the industry environment and therefore all (or at least most) businesses in a society. The industry environment affects only a given firm and its relevant competitors.

PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

18. General environment analysis is only appropriate for large firms.

ANS: F

Small businesses can benefit from such an analysis in that new opportunities can be identified as well as threats that might hurt operations.

PTS: 1                      REF: p. 82                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

19. Developments in the technological segment of the general environment have created significant opportunities for many new and creative small businesses.

ANS: T                      PTS: 1                      REF: p. 81-82                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

20. New competitors, substitute products/services, rivalry, suppliers and buyers all represent competitive forces within an industry.

ANS: T                      PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C

NAT: Analytic | Economic Environments

21. The bargaining power of suppliers is encouraging for small businesses attempting to enter an industry.

ANS: F

Bargaining power depends on the strength of the supplier (Will the supplier demand a high price for a limited item?) and the strength of the small business (Does the business have enough need to demand volume discounts?)

PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: D

NAT: Analytic | Economic Environments

22. Change may be the most important source of opportunities for entrepreneurial firms.

ANS: T                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: C

NAT: Analytic | Economic Environments

23. Economic trends include the rate of inflation, interest rates and even currency exchange rates, all of which promote or discourage business growth.

ANS: T                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: C

NAT: Analytic | Economic Environments

24. Research has shown that most entrepreneurs generate their business ideas by searching external sources of ideas.

ANS: F

Research has shown that these are more often generated from personal expertise, not from external sources.

PTS: 1                      REF: p. 72                      OBJ: 3-1 TYPE: C

NAT: Analytic | Value Creation

25. Resources can be either tangible or intangible in nature.

ANS: T                      PTS: 1                      REF: p. 85                      OBJ: 3-3 TYPE: D

NAT: Analytic | Economic Environments

26. Evaluation of the general environment is appropriate only for large firms that have a corporate staff to manage the process.

ANS: F

Small businesses benefit from general environmental scanning.

PTS: 1                      REF: p. 82                      OBJ: 3-3 TYPE: C

NAT: Analytic | Economic Environments

27. A competitive advantage is a resource or capability that makes a firm stronger than its rivals.

ANS: F

Core competencies are the capabilities that provide a competitive advantage.

PTS: 1                      REF: p. 86                      OBJ: 3-3 TYPE: D

NAT: Analytic | Economic Environments

28. A SWOT analysis provides a concise overview of a firm's strategic situation.

ANS: T                      PTS: 1                      REF: p. 86                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Value Creation

29. In practice, a SWOT analysis is usually based on a dynamic view of the firm and its situation.

ANS: F  
SWOT analysis is often based as a static view of the firm and its situation, which is unfortunate since the firm's strategy will always be dynamic (changing).

PTS: 1                      REF: p. 86                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Value Creation

30. Following a cost-based strategy can give a small firm a competitive advantage.

ANS: T                      PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

31. A cost-based strategy requires a firm to create and sustain differentiation in the marketplace.

ANS: F  
It is a differentiation-based strategy that requires a firm to create and sustain a firm's product or service uniqueness.

PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

32. A differentiation-based strategy usually does *not* lead to a competitive advantage in business.

ANS: F  
A differentiation-based strategy is one of two general options that can lead to a competitive advantage.

PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

33. A firm that is able to create and sustain product and/or service differentiation will most likely be a successful performer in the marketplace.

ANS: T                      PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

34. Small firms are pursuing a focus strategy if they adapt their efforts to concentrating on a specific niche within the market.

ANS: T                      PTS: 1                      REF: p. 91                      OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

35. In marketing terms, a focus strategy depends upon market segmentation.

ANS: T                      PTS: 1                      REF: p. 91                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

36. A SWOT analysis encompasses both the inside-out and outside-in approaches in determining an overview of a venture's strategic situation.

ANS: T                      PTS: 1                      REF: p. 86-87                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Value Creation

37. *Personalized Bottle Water* has been successful due to a strategy of keeping costs low.

ANS: F  
The company uses a differentiation-based focus strategy with the customization of its products.

PTS: 1                      REF: p. 91                      OBJ: 3-4 TYPE: A  
NAT: Reflective Thinking | Finance

38. A fatal flaw is a circumstance or development that, in and of itself, could render a new business unsuccessful.

ANS: T                      PTS: 1                      REF: p. 95                      OBJ: 3-5 TYPE: D  
NAT: Analytic | Value Creation

39. A feasibility analysis should be conducted only after completion of a business plan.

ANS: F  
The feasibility analysis is an intermediate step before writing the business plan.

PTS: 1                      REF: p. 94                      OBJ: 3-5 TYPE: A  
NAT: Analytic | Economic Environments

40. An entrepreneur who aspires to be a "mogul" with the company would be satisfied with an attractive niche if the macro-market had short-term growth and potential so as to get in the market before other competitors.

ANS: F  
The future mogul would want a macro-market that had fast growth and ample long-term potential.

PTS: 1                      REF: p. 95                      OBJ: 3-2 TYPE: C  
NAT: Analytic | Economic Environments

## MULTIPLE CHOICE

1. Peter Drucker identified \_\_\_\_\_ change-based sources of opportunity that entrepreneurs should consider as they prepare to launch or grow their enterprise.

- a. 3
- b. 5
- c. 7
- d. 9

ANS: C                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

2. Which change factor was *not* identified by Peter Drucker as a business opportunity source?

- a. the unexpected
- b. the innocuous

- c. the incongruous
- d. demographics

ANS: B                      PTS: 1                      REF: p. 75                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Economic Environments

3. Carter Pilcher's idea for *Shorts International* was based on which type of idea?
- a. TYPE A
  - b. TYPE B
  - c. TYPE C
  - d. TYPE D

ANS: C                      PTS: 1                      REF: p. 72                      OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

4. Peter Drucker's change-based sources of entrepreneurial opportunities is made up of the external factors of changes in perception, new knowledge and \_\_\_\_\_.
- a. structural change
  - b. process needs
  - c. incongruous
  - d. demographics

ANS: D                      PTS: 1                      REF: p. 75                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Economic Environments

5. The quote "Good artists borrow; great artists steal" is the principle that launched which company?
- a. *Aimie's Dinner and Movie*
  - b. *Apple*
  - c. *C and D Landscape Company*
  - d. *Xerox*

ANS: B                      PTS: 1                      REF: p. 77                      OBJ: 3-2 TYPE: A  
NAT: Reflective Thinking | Value Creation

6. Sherwood Forlee and Mihoko Ouchi, owners of *the*, sell a line of non-traditional, entertaining products that are an example of
- a. recognizing a hot trend and riding the wave.
  - b. combining two businesses into one to create a market opening.
  - c. beginning with a problem in mind.
  - d. considering ways to adapt a product or service to meet customer needs in a different way.

ANS: C                      PTS: 1                      REF: p. 78                      OBJ: 3-2 TYPE: A  
NAT: Analytic | Value Creation

7. Which statement is an example of an economic trend?
- a. The Federal Reserve announces that it will decrease the interest rate charged to banks.
  - b. Congress passes legislation that increases the tax rate on corporations.
  - c. A new computer chip is announced which will allow for miniaturization of many electronic devices.
  - d. The E.U. declares an increase in tariffs on all agricultural goods.

ANS: A                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: A  
NAT: Global Dynamics | Economic Environments

8. Which statement is an example of a political/legal trend?
- a. The Federal Reserve announces that it will decrease the interest rate it charges banks.

- b. Congress passes legislation that increases the tax rates on corporations.
- c. A new computer chip is announced which will allow for miniaturization of many electronic devices.
- d. The E.U. declares an increase in tariffs on all agricultural goods.

ANS: B                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: A  
NAT: Global Dynamics | Ethical and Legal

9. Which statement is an example of a technological trend?
- a. The Federal Reserve announces that it will decrease the interest rate it charges banks.
  - b. Congress passes legislation that increases the tax rates on corporations.
  - c. A new computer chip is announced which will allow for miniaturization of many electronic devices.
  - d. The E.U. announces an increase in tariffs on all agricultural goods.

ANS: C                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: C  
NAT: Global Dynamics | Technology

10. An example of a Type B startup idea is
- a. a new microspunge technology allowing oils to be contained inside billions of microscopic sponges.
  - b. a baby stroller that pushes more easily and is more difficult to overturn than previous designs.
  - c. opening a new hamburger stand on the corner with no unique product differentiation.
  - d. a new mail-order business selling a foreign-produced item never sold domestically before.

ANS: A                      PTS: 1                      REF: p. 72                      OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

11. A Type A idea involves
- a. a technically new process.
  - b. performing an old function in a new and improved way.
  - c. using prior work experience as a basis for starting a new business.
  - d. providing customers with a product or service absent in their market but available elsewhere.

ANS: D                      PTS: 1                      REF: p. 71                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Value Creation

12. A Type B idea involves
- a. a technically new process.
  - b. performing an old function in a new and improved way.
  - c. using prior work experience as a basis for starting a new business.
  - d. providing customers with a product or service absent in their market but available elsewhere.

ANS: A                      PTS: 1                      REF: p. 72                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Value Creation

13. A Type C idea involves
- a. a technically new process.
  - b. performing an old function in a new and improved way.
  - c. using prior work experience as a basis for starting a new business.
  - d. providing customers with a product or service absent in their market but available elsewhere.



ANS: B                    PTS: 1                    REF: p. 72                    OBJ: 3-1 TYPE: D  
NAT: Analytic | Value Creation

14. What idea accounts for the largest number of startups?
- A technically new process
  - Performing an old function in a new and improved way
  - Using prior work experience as a basis for starting a new business
  - A product or service absent in a market but available elsewhere

ANS: B                    PTS: 1                    REF: p. 72                    OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

15. An example of a Type C startup idea is
- a new microspunge technology allowing oils to be contained inside billions of microscopic sponges.
  - a baby stroller that pushes more easily and is more difficult to overturn than previous designs.
  - opening a new hamburger stand on the corner with no unique product differentiation.
  - using satellite dish technology to form a mobile satellite transmitter and receiver business.

ANS: B                    PTS: 1                    REF: p. 72                    OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

16. According to a study by the *National Federation of Independent Business Foundation*, new product ideas for small business startups originate from all of the following *except*
- prior work experience.
  - personal interests and hobbies.
  - a chance happening.
  - existing records of a business.

ANS: D                    PTS: 1                    REF: p. 72                    OBJ: 3-1 TYPE: C  
NAT: Analytic | Economic Environments

17. According to a study by the *National Federation of Independent Business Foundation*, the most common source of new product ideas for small business startups is
- prior work experience.
  - personal interests and hobbies.
  - a chance happening.
  - existing records of a business.

ANS: A                    PTS: 1                    REF: p. 72                    OBJ: 3-1 TYPE: C  
NAT: Analytic | Economic Environments

18. An example of an idea for a new startup from a hobby is
- a coin collector, who bought and sold coins for years to build a personal collection, deciding to become a coin dealer.
  - a furniture salesperson seeing the possibility of opening a new furniture store in a different area of the city.
  - a sharpshooter, who shot holes in a pair of her boyfriend's jeans during an argument, hearing him get complimented on the way they look.
  - all of the above are examples.

ANS: A                    PTS: 1                    REF: p. 74                    OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

19. An example of an idea for a new startup from an accidental discovery is
- a coin collector, who bought and sold coins for years to build a personal collection, deciding to become a coin dealer.
  - a furniture salesperson seeing the possibility of opening a new furniture store in a different area of the city.
  - a sharpshooter, who shot holes in a pair of her boyfriend's jeans during an argument, hearing him get complimented on the way they look.
  - all of the above are examples.

ANS: C                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

20. Which segment is part of the general environment?
- The industry segment
  - The global segment
  - The information segment
  - The human resources segment

ANS: B                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: C  
NAT: Global Dynamics | Economic Environments

21. The increased trade between the United States and Mexico since the enactment of the North American Free Trade Agreement is related to the \_\_\_\_ element of the general environment.
- technological
  - global
  - ecological
  - sociocultural

ANS: B                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: A  
NAT: Global Dynamics | Economic Environments

22. Which factor is *not* specified by Michael Porter as factors that determine the nature and degree of competition in an industry?
- threat of new competitors.
  - rivalry among existing competitors.
  - industry cost/price structure.
  - bargaining power of buyers and/or suppliers.

ANS: C                      PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

23. Which factor determines the nature and degree of competition in an industry, as identified by Michael Porter in his book *Competitive Advantage*?
- The interest of small businesses
  - Bargaining power of competitors
  - Threat of substitute products or services
  - The macroeconomic level of the industry

ANS: C                      PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

24. Which statement is an example of a global trend?
- The Federal Reserve announces that it will decrease the interest rate it charges banks.
  - Congress passes legislation that increases the tax rates on corporations.
  - A new computer chip is announced that will allow for miniaturization of many electronic

devices.

d. The E.U. declares an increase in tariffs on all agricultural goods.

ANS: D                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: A  
NAT: Global Dynamics | Economic Environments

25. An increase in the bargaining power of suppliers
- increases both the attractiveness and the profitability of the target market.
  - decreases both the attractiveness and the profitability of the target market.
  - decreases the attractiveness and increases the profitability of the target market.
  - increases the attractiveness and decreases the profitability of the target market.

ANS: B                      PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

26. In analyzing the industry environment of the particular field into which Charles was about to enter in business, he found that there existed a fierce rivalry between the competitors that were currently in the business. This competition would offset the desirability of entering the industry in which way?
- negatively
  - positively
  - no effect
  - cannot be determined

ANS: A                      PTS: 1                      REF: p. 84                      OBJ: 3-3 TYPE: C  
NAT: Reflective Thinking | Value Creation

27. Substitute products
- reduce the attractiveness and profitability of an industry.
  - represent those items manufactured by direct rivals within an industry.
  - are usually cheaper than the products they can replace.
  - are always a serious threat to rivals in an industry.

ANS: A                      PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

28. Based on William A. Sahlman's suggestions, which question about competitors should be answered by the business plan?
- Are there ways to co-opt potential or actual competitors by forming alliances?
  - How easily can new competitors enter the industry?
  - Do small businesses have special advantages when competing in the industry?
  - What is the average size of competitors?

ANS: A                      PTS: 1                      REF: p. 84                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

29. According to Peter Drucker, \_\_\_\_\_ is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth.
- creativity
  - innovation
  - capital spending
  - collaborating with competitors

ANS: B                      PTS: 1                      REF: p. 74                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Economic Environments

30. Which term is one of the seven sources of opportunities in the environment recognized by Peter Drucker?
- The unbelievable
  - The undeniable
  - The incongruous
  - The new

ANS: C                      PTS: 1                      REF: p. 75                      OBJ: 3-1 TYPE: C  
NAT: Analytic | Value Creation

31. An increase in the rivalry among existing competitors in a target market
- increases both the attractiveness and the profitability of the target market.
  - decreases both the attractiveness and the profitability of the target market.
  - decreases the attractiveness and increases the profitability of the target market.
  - increases the attractiveness and decreases the profitability of the target market.

ANS: B                      PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

32. A(n) \_\_\_\_\_ exists when multiple resources are integrated and then deployed to the firm's advantage.
- networked resource
  - common intangible
  - capability
  - industry edge

ANS: C                      PTS: 1                      REF: p. 85                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Economic Environments

33. Resources are best described as
- those basic inputs that a firm uses to conduct its business.
  - only those features that are visible and easy to quantify.
  - the firm's lending capacity.
  - capabilities that can be exploited.

ANS: A                      PTS: 1                      REF: p. 85                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Economic Environments

34. A SWOT analysis can be described best as
- a means of assessing the firm's industry situation.
  - an assessment of the internal strengths and weakness of the firm.
  - a dynamic analysis of the firm's current situation.
  - a concise overview of the firm's strategic situation.

ANS: D                      PTS: 1                      REF: p. 86                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Value Creation

35. Observations about the external environment and organizational potentials can be brought together by means of
- an alignment strategy.
  - the in-and-out assessment.
  - a SWOT analysis.
  - common sense critique.

ANS: C                      PTS: 1                      REF: p. 86                      OBJ: 3-3 TYPE: C  
NAT: Analytic | Economic Environments

36. Generally speaking, a strategy is
- an action plan that guides resource investments.
  - a formal statement of what the firm intends to do.
  - an expanded description of the firm's mission statement.
  - most effective when it is designed to reflect the tactics that are common within an industry.

ANS: A                      PTS: 1                      REF: p. 88                      OBJ: 3-4 TYPE: D  
NAT: Analytic | Economic Environments

37. The two broad strategies for building a competitive advantage are the \_\_\_\_\_ strategies.
- cost-based and differentiation-based
  - price-advantage and cost-advantage
  - marketing-advantage and price-advantage
  - focus-advantage and marketing-advantage

ANS: A                      PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

38. A company that is the lowest-cost producer within the market will have what type of strategy?
- Price-based
  - Marketing-based
  - Efficiency-based
  - Cost-based

ANS: D                      PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

39. *Marketplace Farms* is a regional cooperative of apple and orange growers. In order to compete against larger regional growers, the company relies on lower cost labor instead of machines and inexpensive packaging processes. *Marketplace Farms* is relying on what type of strategy?
- price-based
  - marketing-based
  - efficiency-based
  - cost-based

ANS: D                      PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: A  
NAT: Reflective Thinking | Value Creation

40. A differentiation-based strategy requires that a firm
- be the lowest-cost provider in an industry.
  - emphasize the uniqueness of its product or services.
  - achieve the highest resource efficiency in an industry.
  - be the lowest-priced competitor in an industry.

ANS: B                      PTS: 1                      REF: p. 89                      OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

41. *Containers Etc.* manufactures household containers. In contrast to traditional market designs, all of the products are microwaveable, child-proof and come in an assortment of 35 colors. Accordingly, *Containers Etc.* is pursuing a \_\_\_\_\_ strategy.
- product-based
  - differentiation-based
  - concept-based
  - efficiency-based

ANS: B                    PTS: 1                    REF: p. 90                    OBJ: 3-4 TYPE: A  
NAT: Reflective Thinking | Value Creation

42. Mark is the owner of *Delectable Delights*, a specialty store offering chocolates, candies, and fruit baskets. After a recent analysis of the competitive environment, Mark concluded that three distinct consumer segments exist for his products - A, B, and C consumers. In an effort to maximize the effectiveness of its strategy, Mark has decided to focus on fulfilling the needs of A consumers. He is employing a \_\_\_\_\_ strategy.
- multisegmentation
  - selective
  - focus
  - concentration

ANS: C                    PTS: 1                    REF: p. 91                    OBJ: 3-4 TYPE: A  
NAT: Reflective Thinking | Value Creation

43. A focus strategy is best described as
- an attempt to compete directly with industry giants.
  - a domestic marketing strategy.
  - a strategy that isolates the firm from market forces.
  - targeting the high end of a market.

ANS: C                    PTS: 1                    REF: p. 91                    OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

44. Carol runs *Technographics*, a company that designs greeting cards for computer users. What type of strategy would be expected?
- a focus strategy.
  - an unsegmented strategy.
  - a multisegmentation strategy.
  - a marketing mix strategy.

ANS: A                    PTS: 1                    REF: p. 91                    OBJ: 3-4 TYPE: A  
NAT: Reflective Thinking | Value Creation

45. Which description does *not* indicate a focus strategy?
- Strict concentration on a single subset of customers
  - Concentration on a single product
  - Concentration on multiple products for the total market
  - Restriction to a single geographical region

ANS: C                    PTS: 1                    REF: p. 91                    OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

46. An entrepreneur's choice that affects the nature of a small firm and its basic direction is known as a
- market-based decision.
  - tactical decision.
  - strategic decision.
  - focus-based decision.

ANS: C                    PTS: 1                    REF: p. 92                    OBJ: 3-4 TYPE: D  
NAT: Analytic | Value Creation

47. According to Michael Porter, a focus strategy can erode when
- the strategy is protected.

- b. the target segment's differences from other segments narrow.
- c. new firms reconstruct the industry.
- d. demand for the product grows and thus attracts new competitors.

ANS: B                      PTS: 1                      REF: p. 94                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

48. Which action is a cause for erosion of a small firm's focus strategy?
- a. Consumer demand grows.
  - b. New firms reconstruct the industry.
  - c. Differences between segments grow larger.
  - d. The focus strategy is imitated.

ANS: D                      PTS: 1                      REF: p. 94                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

49. A computer technician recognizing a need for more atheistically pleasing computers would be said to have entrepreneurial \_\_\_\_\_.
- a. technology
  - b. alertness
  - c. strategy
  - d. rivalry

ANS: B                      PTS: 1                      REF: p. 69                      OBJ: 3-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

50. \_\_\_\_\_ refers to the way entrepreneurs identify new products or services that may lead to promising businesses.
- a. Focus-based decisions
  - b. Elasticity
  - c. Opportunity recognition
  - d. Cost-benefit analysis

ANS: C                      PTS: 1                      REF: p. 69                      OBJ: 3-1 TYPE: D  
NAT: Analytic | Value Creation

51. Focus strategies can be implemented in any of the following ways *except*
- a. emphasizing a single product or service.
  - b. limiting the market to a single geographic area.
  - c. restricting focus to a single subset of customers.
  - d. ensuring that the venture is the lowest-cost provider in the market.

ANS: D                      PTS: 1                      REF: p. 91                      OBJ: 3-4 TYPE: C  
NAT: Analytic | Value Creation

52. When conducting an outside-in analysis, one should consider the \_\_\_\_\_ environment followed by the \_\_\_\_\_ environment.
- a. general; industry
  - b. general; natural
  - c. industry; natural
  - d. industry; political

ANS: A                      PTS: 1                      REF: p. 81                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Economic Environments

53. Analyzing the internal potentials of a business is conducting a(n) \_\_\_\_\_ analysis.

- a. regulatory
- b. political
- c. inside-out
- d. outside-in

ANS: C                      PTS: 1                      REF: p. 85                      OBJ: 3-3 TYPE: D  
NAT: Analytic | Value Creation

54. Alyson and Andrea, country artists, realized that their love of classic rock was also popular with their fans. Their change to their show to incorporate more rock songs with a country flavor is an example of
- a. recognizing a hot trend and riding the wave.
  - b. combining two businesses into one to create a market opening.
  - c. beginning with a problem in mind.
  - d. finding a way to adapt a product or service to meet customer needs in a different way.

ANS: D                      PTS: 1                      REF: p. 79                      OBJ: 3-2 TYPE: A  
NAT: Reflective Thinking | Value Creation

55. Julie, owner of a bed and breakfast inn, had been asked repeatedly to cater events. Once she realized her kitchen was not being used during the later part of the day, she started the company. This change is an example of
- a. recognizing a hot trend and riding the wave.
  - b. combining two businesses into one to create a market opening.
  - c. beginning with a problem in mind.
  - d. considering ways to adapt a product or service to meet customer needs in a different way.

ANS: B                      PTS: 1                      REF: p. 77                      OBJ: 3-2 TYPE: A  
NAT: Reflective Thinking | Value Creation

56. When Sally realized her vintage clothing pieces were being bought by the local college students and not just their parents, she started adding more vintage pieces to her inventory. Sally is
- a. recognizing a hot trend and riding the wave.
  - b. combining two businesses into one to create a market opening.
  - c. beginning with a problem in mind.
  - d. considering ways to adapt a product or service to meet customer needs in a different way.

ANS: A                      PTS: 1                      REF: p. 78                      OBJ: 3-2 TYPE: A  
NAT: Reflective Thinking | Value Creation

57. A feasibility analysis is
- a. a preliminary assessment of a business idea that gauges possible success.
  - b. used to correct a fatal flaw.
  - c. completed after the business plan.
  - d. for the identification of possible sellers.

ANS: A                      PTS: 1                      REF: p. 95                      OBJ: 3-5 TYPE: C  
NAT: Analytic | Value Creation

58. An evaluation of the general environment
- a. is done before the feasibility analysis.
  - b. helps identify a trend that could be used for a possible startup idea.
  - c. will clarify the unique value of the startup idea.
  - d. will be the primary determinant for a possible startup idea.

ANS: B                      PTS: 1                      REF: p. 96                      OBJ: 3-5 TYPE: C



NAT: Analytic | Economic Environments

59. Entrepreneurial success consists of all of the following elements *except*
- a preliminary assessment of a business idea that gauges possible success, the capability of an individual or the suitability of a team.
  - a market with potential.
  - a business plan.
  - an attractive industry.

ANS: C                      PTS: 1                      REF: p. 95                      OBJ: 3-5 TYPE: C  
NAT: Analytic | Value Creation

60. According to the feasibility analysis framework, an entrepreneur who has a vision of a multi-unit company will
- be satisfied with an attractive niche so the company can gain market share.
  - check to see if the health of the micro-market is strong enough for future macro-market growth.
  - desire a healthier micro-market potential growth over the health of the macro-market.
  - be satisfied with an attractive niche if it would serve as a point of entry for long-term potential.

ANS: D                      PTS: 1                      REF: p. 95                      OBJ: 3-5 TYPE: C  
NAT: Analytic | Value Creation

61. According to Mullins, which characteristic is *not* needed for strong new venture leadership?
- The venture must fit the leader's mission, aspirations, and level of comfort with the risk.
  - The venture must be in an attractive industry with market potential with which the leader is knowledgeable.
  - The leader must grasp factors that are critical to the success of the enterprise and his or her ability to execute on these factors.
  - The leader must have a strong connection to suppliers, customers, investors, and others who will be essential to making the venture work.

ANS: B                      PTS: 1                      REF: p. 97                      OBJ: 3-5 TYPE: C  
NAT: Analytic | Dynamics

62. A diversification strategy is illustrated by
- an event planner deciding to purchase rental space.
  - a restaurant owner adding a gift shop inside the restaurant.
  - an upscale clothing store starting a boutique shoe store.
  - a car wash who adds a pick up service.

ANS: C                      PTS: 1                      REF: p. 77                      OBJ: 3-2 TYPE: A  
NAT: Reflective Thinking | Value Creation

63. Jesse would like to start a landscaping company that concentrates on using native plants. The feasibility study showed a need for \$100,000 to start the company (she has \$10,000), competition of three other companies (one concentrated on using native plants), and buyers who were predominantly 60 years or older (who loved yard work). Which statement is true?
- This plan shows fatal flaws with financing, competition, and market as none of these flaws could be fixed.
  - The plan has a fatal flaw with financing and competition as the market might have an interest in her speciality.
  - The plan has a fatal flaw with financing but competition might not be as much of an issue if the native plant landscaping is growing with the buyers.

d. The plan could be fixed if an investor went into business with her.

ANS: C

PTS: 1

REF: p. 95

OBJ: 3-5 TYPE: A

NAT: Reflective Thinking | Value Creation

## ESSAY

1. Of the three basic types of ideas from which most startups are launched, which one accounts for the most startup ventures? Why?

ANS:

Type C startup ideas probably account for the largest number of all new venture startups. These ideas result in modifications to existing products and services. Therefore, they may have less risk and a market with a customer base. The idea will fail if the market does not perceive that an old function is being performed in a new and improved manner.

PTS: 1

REF: p. 72

OBJ: 3-1 TYPE: C

NAT: Communication | Value Creation

2. Compare and contrast personal experience, hobbies and personal interests and accidental discovery as a source of startup ideas. Use examples to strengthen the discussion.

ANS:

Personal experiences is a one of the most prolific source of startup ideas. It produces ideas that are related to the individual's skills and knowledge and may result from past work experience (Melissa Marks Papock and *Cabana Life*). Accidental discovery and serendipity, on the other hand, may happen at any time and be totally unrelated to the individual's background (Ex. Simone Gonzales and *Pleasure Doing Business*). Sometimes hobbies and personal interests grow beyond their leisure activities and become businesses. (Ex. Alex Shogren and *Best Kiteboarding*). For instance, people who love skiing might start a ski equipment rental operation as a way to make income from an activity they enjoy.

PTS: 1

REF: p. 72-74

OBJ: 3-1 TYPE: A

NAT: Communication | Value Creation

3. Briefly state the difference between a market and an industry. How are these two items related to small business success?

ANS:

A market consists of buyers, current or potential customers who are interested in purchasing a particular class of products or services to satisfy their wants or needs - and they must have the ability to pay for them.

An industry is made up of sellers who compete with one another by offering identical or similar products or services for sale to the same general group of buyers. Both markets and industries are considered part of the macro level of the business.

A market with potential, an attractive industry and a capable individual or team with skills and capabilities to pull together are critical for success.

PTS: 1

REF: p. 95-96

OBJ: 3-5 TYPE: C

NAT: Communication | Economic Environments

4. List the five factors that determine the nature and degree of competition in an industry, as presented by Michael Porter in his book *Competitive Advantage*. Why is the proper identification of these factors important for a new venture?

ANS:

- New competitors
- Substitute products/services
- Rivalry
- Suppliers
- Buyers

All five factors combine to make a target market attractive and profitable. If these factors are strong, then profitability is weaker. An entrepreneur should understand each factor to identify opportunities and threats for the new venture.

PTS: 1                      REF: p. 83                      OBJ: 3-3 TYPE: C

NAT: Communication | Economic Environments

5. Name and describe the two broad-based strategy options that a firm can select when pursuing a competitive advantage in the marketplace.

ANS:

Strategies can be condensed into either a cost-based strategy or a differentiation-based strategy. The cost-based strategy requires a firm to be the lowest-cost producer in its market, employing practices ranging from using low-cost labor to installing highly efficient manufacturing equipment. Using creative approaches, small firms can be very competitive using this type of strategy.

Differentiation-based strategies are based on product or service differentiation. That is, firms using this strategy must offer a product or service that is perceived to be unique in some way (e.g., convenient to operate, recognized as user-friendly) that the consumer desires.

PTS: 1                      REF: p. 89-90                      OBJ: 3-4 TYPE: C

NAT: Communication | Economic Environments

6. What marketing activities suggest that a small firm is following a focus strategy?

ANS:

- Strict concentration on a single or limited market segment
- Concentration on a single or specialized product
- Restriction to a single geographical region
- Emphasis on substantive superiority of the product or service

A firm could then pair this focus strategy with an overall cost-based strategy or a differentiation-based strategy.

PTS: 1                      REF: p. 91-92                      OBJ: 3-4 TYPE: C

NAT: Communication | Economic Environments

7. Which of Michael Porter's four conditions for segmented market erosion occurred with *Minnetonka*, the small firm that is widely recognized as the first to introduce liquid hand soap?

ANS:

- The focus strategy is imitated.
- The target segment becomes structurally unattractive because the structure erodes or because demand simply disappears.
- The target segment's differences from other segments narrow.
- New firms subsegment the industry.

*Procter and Gamble* quickly imitated the product and had the money to push their product. *Minnetonka* contributed to the segment narrowing as they didn't focused on *Softsoap*'s unique advantage. Now new firms have subsegmented the industry with the addition of antibacterial agents to the soaps.

PTS: 1                    REF: p. 94                    OBJ: 3-4 TYPE: A  
NAT: Communication | Economic Environments

8. Describe the differences and relationships between resources, capabilities and core competencies. How do these items relate to inside-out analysis?

ANS:

Resources are basic inputs that a firm uses in its business, including cash for investment, useful technologies, access to equipment, and capable employees. Companies have both tangible and intangible resources.

Capabilities are best viewed as the integration of various resources in a way that boosts the firm's competitive advantage.

Core competencies are those resources and capabilities that provide an enterprise with a competitive advantage over its rivals.

An inside-out analysis catalogues the resources and capabilities available to the startup leading to core competency identification. By using resources and capabilities in unique ways, a firm can establish its core competencies and apply them to obtain a competitive advantage.

PTS: 1                    REF: p. 85-86                    OBJ: 3-3 TYPE: C  
NAT: Communication | Value Creation

9. Discuss ways a small business owner can spot trends to increase their company's performance.

ANS:

From the text:

1. Listen to (and ask) customers.
2. Stay in touch with industry changes by reading industry newsletters, e-scriptions, magazines or attending national conferences.
3. Use marketing tools such as online or in-person focus groups, social media groups, or chat rooms.
4. Use Internet sites such as *trendhunter.com* and *jwintelligence.com*.

Others:

5. If the budget allows, hire a consultant to research ideas.
6. Analyze product sales to see if certain items are selling faster or slower than the last quarter.
7. Look to other areas of the country that are early adopters to see what is selling and why.
8. Watch other industries to see what could be adopted.

PTS: 1                    REF: p. 78                    OBJ: 3-2 TYPE: C  
NAT: Communication | Value Creation