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## Question: 1

A distinction between forecasting and planning

- A. Is not valid because that are synonyms
- B. Arises because forecasting covers the short term and planning does not
- C. Is that forecasts are used in planning
- D. Is that forecasting is a management activity, whereas planning is a technical activity

**Answer: C**

Explanation:

Planning is the determination of what is to be done, and of how, when, where, and by whom it is to be done. Plans serve to direct the activities that all organizational members must undertake to move the organization from where it is to where it wants to be. Forecasting is the basis of planning because it projects the future. A variety of quantitative methods are used in forecasting

## Question: 2

Strategy is a broad term that usually means the selection of overall objectives. Strategic analysis ordinarily excludes the

- A. Trends that will affect the entity's markets
- B. Target product mix and production schedule to be maintained
- C. Forms of organizational structure that would best serve the entity
- D. Best ways to invest in research, design, production, distribution, marketing, and administrative activities

**Answer: B**

Explanation:

Strategic analysis is the process of long-range planning. It includes identifying organizational objectives, evaluating the strengths and weaknesses of the organization, such as market trends, changes in technology, international competition, and social change. The final step is to derive the best strategy for reaching the objectives. Setting the target product mix and production schedule for the current year is not a concern of strategic analysis because it is a short-term activity.

## Question: 3

Strategic planning, as practiced by most modern organizations, includes all of the following except

- A. Top-level management prediction
- B. A long-term focus
- C. Strategies that will help in achieving long-range goals
- D. Analysis of the current month's actual variances from budget

**Answer: D**

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Explanation:

Strategic planning is the process of setting overall organizational objectives and goals. It is a long-term process aimed at charting the future course of the organization. Strategic planning is based on assessing risk levels, evaluating the strengths and weaknesses of the organization, and forecasting the future direction and influences of factors relevant to the organization such as market trends, changes in technology, international competition, and social change. Analysis of the current month's budget variances is not an aspect of strategic planning.

### Question: 4

Which one of the following reasons is not a significant reason for planning in an organization?

- A. Promoting coordination among operating units
- B. Forcing managers to consider expected future trends and conditions
- C. Developing basis for controlling operations
- D. Monitoring profitable operations

**Answer: D**

Explanation:

Monitoring profitable operations is not a significant reason for planning. Monitoring is a control function, whereas planning has a control purpose that precedes control in the planning-control cycle. Planning establishes standards against which the control function compares preliminary or final results.

### Question: 5

Certain phases of the planning process should be formalized for all of the following reasons except that

- A. Informal plans and goals lack the necessary precision, understanding, and consistency.
- B. Formal plans can act as a constraint on the decision-making freedom of managers and supervisors
- C. Formalization requires the establishment and observance of deadlines for decision making and planning
- D. Formalization provides a logical basis for rational flexibility in planning

**Answer: B**

Explanation:

A formal plan is a prescription for organizational behavior and a set of goals. Management decision making is therefore necessarily constrained by the limitations established in the plan.

### Question: 6

All of the following are characteristics of the strategic planning process except the

- A. Emphasis on the long run
- B. Analysis of external economic factors
- C. Review of the attributes and behavior of the organization's competition
- D. Analysis and review of department budgets

**Answer: D**

Explanation:

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Strategic planning is the process of setting the overall organizational objectives and goals, and involves the drafting of strategic plans. Long-range (strategic) planning is based on identifying and specifying organizational goals and objectives, evaluating the strengths and weaknesses of the organization, assessing risk levels, forecasting the future direction and influences of factors relevant to the organization (such as market trend, changes in technology, international competition, and social change), and deriving the best strategy for reaching the objectives given the organization's strengths and weaknesses and the relevant future trends. Analyzing and reviewing department budgets is an aspect of operational management and not a part of strategic planning.

### Question: 7

The first step in the sales planning process is to

- A. Assemble all the data that are relevant in developing a comprehensive sales plan
- B. Develop management guidelines specific to sales planning, including the sales planning process and planning responsibilities
- C. Prepare a sales forecast consistent with specified forecasting guidelines, including assumptions
- D. Secure management commitment to attain the goals specified in the comprehensive sales plan

**Answer: B**

Explanation:

Sales planning is a starting point for many other plans. The resources required, revenues to be earned, and costs to be incurred depend on sales. The sales plan of an operating unit should include as much specific information from that unit's management as possible, but must conform to the strategic plans or corporate management. Thus, top management must provide a context within which operational managers can prepare their plans. Corporate support include economic forecasts, overall market sales forecasts, and capital budgets.

### Question: 8

Which of the following is a market-oriented definition of a business versus a product-oriented definition of a business?

- A. We make air conditioners and furnaces
- B. We supply energy
- C. We produce movies
- D. We sell men's shirts and pants

**Answer: B**

Explanation:

Business should be defined in market terms, that is, in terms of needs and customer groups. Moreover, a distinction should be made between a target market definition and as strategic market definitions. For example, a target market for a railroad might be freight hauling, but a strategic market might be transportation of any goods and people. Accordingly, stating that a business supplies energy is a market-oriented definition as opposed to the product-oriented definition. Moreover, it is also a strategic market definition.

### Question: 9

The capital budget is a(n)

- 
- A. Plan to ensure that sufficient funds are available for the operating needs of the company
  - B. Exercise that sets the long-range goals of the company including the consideration of external influences
  - C. Plan that coordinates and communicates a company's plan for the coming year to all departments and divisions
  - D. Plan that assesses the long-term needs of the company for part and equipment purchases

**Answer: D**

Explanation:

Capital budgeting is the process of planning expenditures for long-lived assets. It involves choosing among investment proposals using a ranking procedure. Evaluations are based on various measures involving rate of return on investment.

### Question: 10

Capital budgeting techniques are least likely to be used in evaluating the

- A. Acquisition of new aircraft by a cargo company
- B. Design and implementation of a major advertising program
- C. Adoption of a new method of allocating nontraceable costs to produce lines
- D. Sale by a conglomerate of a non-profitable division

**Answer: C**

Explanation:

Capital budgeting is the process of planning expenditures for investments that are expected to generate returns over a period of more than one year. Thus, capital budgeting concerns the acquisition or disposal of long-term assets and the financing ramifications of such decisions. The adoption of a new method of allocating nontraceable costs to product lines has no effect on a company's cash flows, does not relate to the acquisition of long-term assets, and is not concerned with financing. Hence, capital budgeting is irrelevant to such a decision.

### Question: 11

The capital budgeting model that is ordinarily considered the best model for long-range decision making is the

- A. Payback model
- B. Accounting rate of return model
- C. Unadjusted rate of return model
- D. Discounted cash flow model

**Answer: D**

Explanation:

The capital budgeting methods that are generally considered the best for long-range decision making are the internal rate of return and net present value methods. These are both discounted cash flow methods

### Question: 12

Effective cost capacity management

- A. Minimizes the value delivered to customers

- B. Maximizes required future investments
- C. Matches the firm's resources with current and future market opportunities
- D. Is limited to eliminating short-term worth

**Answer: C**

Explanation:

According to SMA 4Y, Measuring the Cost of Capacity, maximizing the value created within an organization starts with understanding the nature and capabilities of all of the company's resources. Capacity is defined from several different perspectives. Managing capacity cost starts when a product is first envisioned. It continues through the subsequent disposal of resources downstream. Effective capacity cost management requires supporting effective matching of a firm's resource with current and future market opportunities.

### Question: 13

What is the key strategic issues when a firm is considering capacity expansion?

- A. Forecasting long-term demand
- B. Analyzing the behavior of competitors
- C. Identifying options
- D. Avoiding industry overcapacity

**Answer: D**

Explanation:

Whether to expand capacity is a major strategic decision because of the capital required, the difficulty of forming accurate expectations, and the long time frame of the lead times and the commitment. The key forecasting problems are long-term demand and behavior of competitors. The key strategic issue is avoidance of industry overcapacity. Undercapacity in a portable industry trends to be a short-term issue. Profits ordinarily lure additional investors. Overcapacity trends to be a long-term problem because firms are more likely to compete intensely rather than reverse their expansion

### Question: 14

When demand uncertainty is low, firms tend to adopt a strategy of preemptive expansion. The conditions for successful preemption expansion include which of the following?

- A. The firm should avoid market signals that alert competitors to the firm's plans
- B. The expansion should be small relative to the market to minimize risk
- C. Economic of scale should be large relative to demand
- D. The business should be strategically vital to competitors

**Answer: C**

Explanation:

Economics of scale should be large in relation to demand, or the learning-curve effect should give an initial large investor a permanent cost advantage. For example, the preemptive firm may be able to secure too much of the market to allow a subsequent firm to invest at the efficient scale. That is, the residual demand available to be met by the later firm is less than the efficient scale of production. The later firm therefore must choose between intense competition at the efficient scale or a cost disadvantage.

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## Question: 15

Capacity expansion is also referred to as

- A. Market penetration
- B. Market development
- C. Product development
- D. Diversification

**Answer: A**

Explanation:

Market penetration is growth of existing products or development of existing markets. It occurs in mature firms within an industry

## Question: 16

What type of synergy exists when products or services have positive complementary effects?

- A. Market synergy
- B. Cost Synergy
- C. Technological synergy
- D. Management synergy

**Answer: A**

Explanation:

Market synergy arises when products or services have positive complementary effects Shopping malls reflect this type of synergy.

## Question: 17

Which of the following is not an example of synergy?

- A. A shopping mall with several businesses providing different products and performing different services
- B. A store provides warranties on automobile parts in order to maximize customer value .
- C. A manufacturing company hires a new manager with technological experience lacking in the company
- D. Military Humvees are converted into sports utility vehicles for sale to civilians

**Answer: B**

Explanation:

Synergy occurs when the combination of formerly separate elements has a greater effect than the sum of their individual effects. It is unclear here whether the store is a car dealership or a parts shop. Therefore, this is seen more as an operational service strategy that seeks to gain a competitive advantage and maximize customer value by providing services such as warranties, rather than market synergy. Market synergy arises when products or services have positive complementary effects. (i.e., a parts shop and a service warranty on parts)

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## Question: 18

Which of the following best describes a market synergy?

- A. Technology transfer from one product to another
- B. Bundling of products distributed through the same channels
- C. Production of multiple products at one facility
- D. Use of complementary management skills to achieve entry into a new market

**Answer: B**

Explanation:

Market synergy arises when products or services have positive complementary effects. Shopping malls reflect this type of synergy. Also, bundling of products, distribution through the same distribution channels, and usage of the same sales force are other examples of market synergies.

## Question: 19

Which of the following factors is not typical of an industry that faces intense competitive rivalry?

- A. Price-cutting
- B. Large advertising budgets
- C. Frequent introduction of new products
- D. Inelastic demand

**Answer: D**

Explanation:

Rivalry among existing firms will be intense when an industry has many strong competitors. Inelastic demand exists when quantity purchased is not greatly affected by price changes. Thus, price cutting does not increase sales for the industry and is therefore atypical of an intensely competitive industry.

## Question: 20

Intense rivalry among firms in an industry increases when there is

- I- A low degree of product differentiation
- II- Low consumer switching costs

- A. I only
- B. II only
- C. Both I and II
- D. Neither I nor II

**Answer: C**

Explanation:

The degree of product differentiation and the costs of switching from one competitor's product to another increase the intensity of rivalry and competition in an industry. Less differentiation tends to heighten competition based on price, with price cutting leading to lower profits. Low costs of switching products also increase competition

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## Question: 21

The prospect for the long-term profitability of an existing firm is greater when

- A. The firm operates in an industry with a steep learning curve in its production process
- B. The costs of switching suppliers is low
- C. New entrants are encouraged by government policy
- D. Distribution channels are willing to accept new products

**Answer: A**

Explanation:

The prospects of long-term profitability are contingent upon the industry's exit and entry barriers. The entry of new firms in market decreases the prospect for long-term profitability. When a firm operates in an industry that has a steep learning curve, it is more difficult for new firms to enter the market. Thus, the prospects of long-term profitability are greater for an existing firm.

## Question: 22

Structural considerations affecting the threat of substitutes include all of the following except

- A. Relative prices
- B. Brand identity
- C. Cost of switching to substitutes
- D. Customers' inclination to use a substitute

**Answer: B**

Explanation:

Substitutes are types of goods and services that serve the same purpose. All products that can replace a good or service should be considered substitutes. For example, bicycles and cars are substitutes for public transportation. Structural considerations determine the effect substitutes have on one another. However, because substitutes affecting the threat of substitutes.

## Question: 23

Logistics Corp. is performing research to determine the feasibility of entering the truck rental industry. The decision to enter the market is most likely to be deterred if

- A. Buyer switching costs are high
- B. Buyers view the product as differentiated
- C. The market is dominated by a small consortium of buyers
- D. Buyers enjoy large profit margins

**Answer: C**

Explanation:

When purchasing power is concentrated in a few buyers or when buyers are well organized, their bargaining power is greater. This effect is reinforced when sellers are in capital-intensive industry such as trucking.

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## Question: 24

Which industry factor does not contribute to competitive rivalry?

- A. Price-cutting, large advertising budgets, and frequent introduction of new products.
- B. A firm's growth must come from winning, other firms' customers.
- C. High costs of switching suppliers.
- D. High fixed costs.

**Answer: C**

Explanation:

If it is expensive to switch suppliers, customers will be less motivated to respond competitor advances.

## Question: 25

Which condition does not increase the threat of new competitor entry into the industry?

- A. Strong brand identity.
- B. Existing firms do not enjoy the cost advantages of vertical integration.
- C. Few proprietary product differences.
- D. Low capital requirements.

**Answer: D**

Explanation:

Strong brand identity decreases the new competitors will enter an industry. New competitors have difficulty because potential customers are loyal to established firms in the industry.

## Question: 26

Which factor most likely encourages entry into an existing market?

- A. Governmental subsidies for new investors.
- B. High product differentiation, principally produced by trademarks.
- C. Knowledge of the industry, with high investments in development.
- D. Low fixed exit costs.

**Answer: A**

Explanation:

Subsidies for new firms lower entry barriers. Thus, new firms may enter the industry and intensify competition. Government policy also may affect competition via regulations that encourages or discourage substitutes or affect costs, that govern competitive behavior, or that limit growth. Government also may be a buyer or supplier.

## Question: 27

The concurrent action of basic competitive force as defined by Porter's model determines?

- A. The long-term profitability and the competitive intensity of the industry.
- B. The entrance barriers that potential players must face to get into the industry.
- C. The rivalry inside the industry.
- D. The strategy that a firm should follow to achieve its objectives.

**Answer: A**

Explanation:

Michael E. Porter, a leader in the field of strategic management, has developed a comprehensive model of the structure of industries and competition. One feature is his analysis of the five competitive forces that determine long-term profitability measured by long-term return on investment. This analysis determines the attractiveness of an industry.

### Question: 28

Which of the following is a favorable condition for a firm competing in profitable, expanding industry?

- A. The firm does not have a strong customer base.
- B. A few suppliers who can restrict supply.
- C. Competitors find it difficult to acquire the firm's customers.
- D. The firm has high costs relative to other firms in the industry.

**Answer: C**

Explanation:

A firm that has successfully differentiated its products through developing a desirable image, better services, cost leadership, the features of the product, or other means is in a favorable competitive position. Competitors find it difficult to acquire the firm's customers, for example, by price cutting. The reason is that the firm's products are perceived to have few substitutes, and brand loyalty is high. Furthermore, barriers to entry are favorable to the firm. These barriers deter competitors from entering the market. Existing firm can increase market share and emphasize cutting costs and increasing value?

### Question: 29

Which basic force(s) drive (s) industry competition and the ultimate profit potential of the industry?

- I. Threat of new entrants.
- II. Bargaining power of suppliers.
- III. Favorable access to raw materials and labor.
- IV. Product differentiation

- A. I only
- B. I and II only
- C. III and IV only
- D. I, II, III, and IV

**Answer: B**

Explanation:

Threat of new entrants and bargaining power of suppliers are among the five basic forces that drive industry competition and the ultimate profit potential industry. This potential is measured in terms of long-term return on

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invested capital. The other three forces are rivalry among existing firms, threat substitutes and threat of buyers' bargaining power.

### Question: 30

A manufacturing company produces plastic utensils for a particular segment at the lowest possible cost. The company is pursuing a cost?

- A. Leadership strategy
- B. Focus strategy
- C. Differentiation strategy
- D. Containment strategy

**Answer: B**

Explanation:

A cost focus strategy aims at cost leadership in a particular segment, such as a regional market or a specialty product line. The rationale for a focus strategy is that the narrower market can be better served.

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