

Total scores

Student name.....

Student number.....

Equity Analysis: Porter five forces analysis and Porter's generic strategies (Total 30 points)

True (T) or False (F): Write down T or F behind each statement.

1. Porter five forces analysis draws upon industrial organization (IO) economics to derive five forces that determine the level of competition (competitive intensity) within an industry.
2. The level of competition within an industry determines the attractiveness or the overall industry profitability.
3. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit.
4. Firms with competitive advantage over industry peers can achieve a profit above the industry average.
5. The two basic types of competitive advantage are focus and lower cost.
6. Generic strategies for achieving above average performance in the industry are cost leadership, differentiation, cost focus, and differentiation focus.
7. Michael E. Porter described an industry as having multiple segments that can be targeted by a firm. The breadth of its targeting refers to the competitive scope of the business.
8. Firms choose one of two types of scope, either focus (offering its products to selected target markets, also called a segmentation strategy or niche strategy) or industry-wide.
9. Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope.
10. Michael E. Porter stressed the idea that achieving competitive advantage requires a firm to make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it.
11. Among Porter five forces, two forces from 'vertical' competition are the threat of substitute products or services, the threat of new entrants. Three forces from 'horizontal' competition are the bargaining power of suppliers and the bargaining power of customers, the threat of established rivals.
12. Among Porter five forces, three forces from 'horizontal' competition are the threat of established rivals, the threat of substitute products or services, and the threat of new entrants. Two forces from 'vertical' competition are the bargaining power of suppliers and the bargaining power of customers.
13. The five forces remain the same over time.
14. Porter explained that firms with high market share were successful because they pursued a focus strategy and firms with low market share were also successful because they used market segmentation to focus on a small but profitable market niche.
15. The hole in the middle problem refers to empirical research indicated that the most profitable firms were those with moderate market share.

16. Cost leadership strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers.
17. Cost leadership strategy is achieved by having the lowest prices, or the lowest price to value ratio in the target market segment.
18. The three main ways to operate at a lower cost than rivals are achieving a high asset utilization, achieving low direct and indirect operating costs, and control over the value chain encompassing all functional groups.
19. Low direct and indirect cost can be achieved by offering high volumes of standardized products, using fewer components, using standard components, limiting the number of models produced to ensure larger production runs, establishing a cost-conscious culture, outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing other costs including distribution, R&D and advertising.
20. Control over the supply chain could be achieved by bulk buying to enjoy quantity discounts, instituting competitive bidding for contracts, working with vendors to keep inventories low, and using methods such as Just-in-Time purchasing or Vendor-Managed Inventory.
21. Small companies can be cost leaders not cost focus.
22. Differentiation strategy is not suitable for big companies. It is more appropriate for small companies.
23. Focus strategy is definitely appropriate strategies for small companies.
24. Big companies which chose applying differentiation strategies may also choose to apply in conjunction with cost focus strategies or differentiation focus strategies.
25. Innovation of products or processes can help enable a startup or small company to offer a cheaper product or service where incumbents' costs and prices have become too high.
26. A differentiation strategy is appropriate where the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy.
27. Unique technical expertise, talented personnel, innovative process, or successful brand management can help successful differentiation.
28. Firms typically look to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available.
29. A focused strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.
30. Though Porter had a fundamental rationalisation in his concept about the invalidity of hybrid business strategy, the highly volatile and turbulent market conditions will not permit survival of rigid business strategies since long-term establishment will depend on the agility and the quick responsiveness towards market and environmental conditions.

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