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SKU: 9781265714550-TEST-BANK

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) In Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis, strengths and weaknesses are most easily identified by looking:
   A) At the firm as a potential customer.
   B) Inside the firm at its specific resources.
   C) At the firm's competition.
   D) At the firm's product.
   E) Outside the firm from a consultant's perspective.

2) In Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis, opportunities and threats are identified by:
   A) Consultation with middle management.
   B) Talking with the rank and file workers.
   C) Looking outside the firm.
   D) Brainstorming techniques.
   E) Reviewing our corporate strategy.

3) Which of the following does **not** represent a possible opportunity for a manufacturing firm as a part of Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis?
   A) Demographic trends.
   B) Technological advances in the industry.
   C) A patent developed by another firm for manufacturing a product.
   D) Changes in regulation of the industry.
   E) Changes in the economic environment facing all industries.

4) The balanced scorecard:
   A) Is not comprehensive, since it doesn't include all the critical success factors which contribute to competitive success.
   B) Helps focus managers' attention to bottom line profits.
   C) Is forward looking, stressing nonfinancial measures that can lead to benefits in the future.
   D) Fails to reflect environmental and social effects of the firm's operations.
   E) Is heavily weighted toward the financial critical success factors.

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5) The balanced scorecard can be made more effective by developing it at a detail level so that employees:
   A) Can see how it is put together.
   B) Appreciate all the effort that goes into its preparation.
   C) Respect management for including them in its formulation.
   D) Can see how their actions contribute to the success of the firm.
   E) Do not feel left out.

6) To execute either a cost leadership or differentiation strategy, what is needed to begin the process?
   A) Access to capital.
   B) Incentives based on meeting quantitative targets.
   C) A concise statement of strategy that is clearly communicated within the organization.
   D) Strong marketing capability.
   E) Long tradition in the industry.

7) The main objective of value chain analysis is to identify stages of the value chain where the firm can:
   A) Justify increases in the price of the product or service.
   B) Increase value to the customer or reduce cost in some way.
   C) Outsource production to other producers.
   D) Improve efficiency.
   E) None of these answer choices are correct.

8) It is becoming more common to see manufacturing firms use the value chain to take strategic steps to improve the overall profitability of the firm by:
   A) Placing greater emphasis on the value chain.
   B) Moving to an emphasis on upstream activities in the value chain.
   C) Moving to an emphasis on downstream activities in the value chain.
   D) Identifying most profitable customers.
   E) Moving to an emphasis on both the upstream and downstream activities in the value chain.

9) Which of the following is a financial Critical Success Factor?
   A) Sales
   B) Market Value
   C) Liquidity
   D) Profitability
   E) All of the answer choices are financial Critical Success Factors

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10) Which one of the following would be the best way to measure quality of internal critical success factors?
A) Number of returns.
B) Setup time.
C) Share Price.
D) Warranty Expense.
E) Trends in sales performance.

11) Which one of the following is **not** usually included as a perspective of the balanced scorecard?
A) Financial Performance.
B) Tax Reporting.
C) Learning and Growth.
D) Customer Satisfaction.
E) Internal Business Processes.

12) Which of the following best describes the type of information that cost management must provide that is most important for the success of the organization?
A) Short term information for decision making.
B) Reported financial information.
C) Reported nonfinancial information.
D) Information that addresses the strategic objectives of the organization.
E) Long-term planning information.

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13) After critical success factors have been identified, the next step in developing a competitive strategy is to develop relevant and reliable measure for these critical success factors. These measures are important to help the organization:
A) Make profit for any extended period.
B) Increase sales above previous year(s).
C) Develop policies to enhance customer profitability.
D) Improve productivity in selected product areas.
E) Monitor progress toward achieving strategic goals.

14) A firm has decided to use the balanced scorecard. Which of the following is **not** an advantage the company will gain by using the balanced scorecard?
A) It links the firm's Critical Success Factors to its strategy.
B) It helps the firm monitor progress to achievement of its strategic goals.
C) It can provide a basis for implementing strategic changes desired by the firm.
D) It provides a comprehensive financial overview of the firm.
E) It helps to coordinate activities in the firm.

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15) During which step of value chain analysis will the company discover whether or not it has a cost advantage, and why?
A) During the first step, when the value-chain activities are identified.
B) During the first step, when the cost driver(s) are identified.
C) During the second step, when the firm develops a competitive advantage by either reducing cost or adding value.
D) The entire purpose of value chain analysis is to determine if the company has a cost advantage; therefore, it occurs in all steps.
E) In the third step, when the company adopts and implements the balanced scorecard.

16) A local pharmaceutical firm has just announced its discovery of a revolutionary new drug for dieting. However, due to its deteriorating relationship with its union, the unionized portions of the company's employees have threatened to strike. In addition, the company's stock has started to drop due to the firm's difficulty in paying off some of its debt. In this example, what was the firm's core competency(ies)?
A) Its research and development.
B) Its human resources abilities.
C) Its financing activities.
D) Its operating activities.
E) None of the answer choices are correct.

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17) During the strengths and weaknesses portion of a firm's Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis, which of the following would **not** be discovered?
A) The firm's method of product distribution was not very efficient.
B) Through continued research and development, the firm's products were state-of-the-art.
C) Due to a lack of barriers to entry into the industry, several new competitors were beginning to enter the market.
D) The production process needed to be reengineered to reduce unnecessary scrap.
E) The firm's employees are trained in new manufacturing methods each month.

18) When a firm is determining its opportunities and threats, which of the following would **not** be mentioned?
A) An intense rivalry with a local competitor was beginning to start a price war.
B) The firm just received a patent on its main product.
C) The success of the firm's latest marketing campaign.
D) In spite of its patent, there are several substitute products consumers could use.
E) Increased competition in some of its key product lines.

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19) When the value of the United States dollar is declining relative to other currencies this means that:
- A) United States exporters will face a greater challenge in exporting United States -made products.
- B) United States firms will be eager to buy foreign products.
- C) United States firms will be less profitable.
- D) United States exporters will have a temporary advantage over other countries in foreign trade.
- E) The United States trade balance will worsen.

20) The cause and effect relationships among critical success factors are best captured in:
- A) The balanced scorecard.
- B) Business analytics.
- C) The value chain.
- D) The strategy map.
- E) Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis.

21) Which of the following types of organizations can most benefit from value chain analysis?
- A) Service firms.
- B) Not-for-profit organizations.
- C) Manufacturing firms.
- D) All types of organizations can benefit from value chain analysis.
- E) None of these types of organizations can benefit from value chain analysis.

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22) Which of the following is **not** one of the four perspectives of the balanced scorecard?
- A) Customer perspective.
- B) Internal process perspective.
- C) Financial perspective.
- D) Learning and growth perspective.
- E) Costs perspective.

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23) Which of the following statements concerning value chain analysis is false?
A) The goal of value chain analysis is to find areas where a company can either add value or reduce cost.
B) The value chain focuses on the entire production process, as well as the sale of the product and service after the sale.
C) If a company cannot compete in a specific area of the value chain, it might consider the option of outsourcing that portion of the value chain to someone who can perform it better.
D) Throughout most industries, the most successful firms are the ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer.
E) All of the statements are true.

24) Which of the following would likely **not** be considered part of the value chain in a service firm?
A) Inspection of product.
B) Advertising.
C) Employee training.
D) Customer service.
E) Materials handling.

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25) What does the upstream phase in the value chain include?
A) Linkages with customers.
B) Manufacturing operations.
C) Customer relationship management.
D) Distribution and retail sales.
E) Product development and linkage with suppliers.

26) Both cost leadership and differentiated firms can improve on execution through:
A) Improved automation and a higher output of products.
B) Benchmarking and total quality management.
C) Cost cutting and downsizing of personnel.
D) Emphasis on research and product development.
E) None of these answer choices are correct.

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27) How do management accountants support the strategy and execution of differentiated firms?
A) By providing leadership to the firm.
B) By developing customer loyalty and brand recognition.
C) By gathering, analyzing, and reporting relevant information.
D) By using market research to decide how a company should implement its strategy.
E) None of these answer choices are correct.

28) Which of the following is **not** a key benefit of the balanced scorecard (BSC)?
A) It provides a means for implementing strategy.
B) It provides an objective basis for determining each manager's compensation and advancement.
C) It provides a framework for the firm to achieve a desired organizational change in strategy.
D) It provides a baseline for how an organization's financial operations compare to competition within the industry.
E) It provides a means for tracking progress toward the achievement of strategic goals.

29) A strategy map is:
A) A detailed flowchart outlining which firm managers are responsible for each implementation of a firm's strategy and when these implementations are to take place.
B) A cause and effect diagram of the relationships among the balanced scorecard perspectives to show how the achievement of critical success factors in each perspective affects the achievement of goals in other perspectives and the overall financial performance of the firm.
C) A framework for the firm to achieve a desired organizational change in strategy while mapping the successes of other firms within the industry.
D) None of these answer choices are correct.
E) A spreadsheet that lists the top goals and priorities of an organization and the steps needed to achieve them.

30) Sustainability is the balancing of short- and long-term goals in all three dimensions of the company's performance. Those three areas are:
A) Economic, social, and environmental.
B) Economic, social, and financial.
C) Economic, environmental, and political.
D) Social, environmental, and political.
E) None of the answer choices are correct.

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31) Over the past several years it has become increasingly important for firms to improve achievement towards their social and environmental responsibilities. What is the best way the management accountant can help the firm improve on sustainability?
A) Participate in programs of environmental organizations.
B) Develop and implement a legal staff and public relations staff for dealing with sustainability issues that may affect the firm.
C) Develop and implement a sustainability scorecard.
D) Risk management.
E) None of the answer choices are correct.

32) Which of the following is a value activity that an organization in the computer manufacturing industry would perform first?
A) Processing returns, inquiries, and repairs.
B) Making retail sales.
C) Conducting research and development for design.
D) Purchasing, receiving, and stocking.
E) Converting materials into components.

33) In order to remain competitive in the contemporary business environment, several firms have started training their employees to stop viewing problems as strictly functional - that is, as only a marketing problem, or an accounting problem, for example. What does this trend illustrate about strategic management?
A) There has been a renewed emphasis on integrative thinking and solving problem cross-functionally.
B) Functional barriers are an inherent part of a company's value chain.
C) Firms are increasingly seeing the value of business analytics.
D) Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis is designed to break down functional barriers.
E) Management doesn't understand how a firm works in the real world.

34) Which of the following organizations presents awards to firms that excel at execution of strategy, based on criteria such as leadership, marketing, strategic planning, and process management?
A) International Organization for Standardization.
B) Malcolm Baldrige National Quality Program.
C) Global Reporting Initiative.
D) World Resources Institute.
E) American Institute of Certified Public Accountants.

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35) The customer critical success factor of price can be measured by:
A) Community service activities.
B) Customer returns and complaints.
C) Number of product defects.
D) Cash Flows.
E) Sales Volume.

36) Using value-chain analysis, a firm can develop a competitive advantage by specifically looking for ways to:
A) Add value and reduce cost.
B) Improve manufacturing productivity.
C) Improve customer service.
D) Improve product quality.
E) Reduce organizational risk.

37) Value activities can best be defined as:
A) Activities that firms in the industry must perform to improve a product.
B) Activities that firms in the industry must perform in the process of producing the product or providing the service.
C) Activities that firms in the industry must perform in the process of closing down a product line, including customer service.
D) Activities that firms in the industry must perform to consider ways of marketing a product.
E) Activities that firms in the industry must perform in the process of considering new products, including customer service.

38) The role of the management accountant is to make sustainability indicators an integral part of which of the following?
A) Product design.
B) Strategic planning.
C) Management decision making.
D) Purchasing.
E) Product design, strategic planning, management decision making, and purchasing.

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39) A firm succeeds on its ability to deliver products to customers more quickly than rival companies in its industry. This skill is an example of the firm's:
A) Core competency.
B) Research effectiveness.
C) Production efficiency.
D) Cost control effectiveness.
E) Value-chain analysis.

40) The analysis tool acronym SWOT stands for:
A) Strengths - Workability - Opportunities - Threats.
B) Strategies - Weaknesses - Opportunities - Thinking.
C) Strengths - Weaknesses - Observations - Threats.
D) Strengths - Weaknesses - Opportunities - Threats.
E) Strategies - Weaknesses - Observations - Threats.

41) Which of the following perspectives of a Balanced Scorecard would most likely be the ultimate goal in a strategy map for a public company?
A) Learning and innovation.
B) Internal processes.
C) Financial performance.
D) Customer service.
E) Employees and community.

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42) Some of the indicators of a growing concern for sustainability include:
A) The immigration crisis in many countries.
B) The trend to economic nationalism.
C) The increased use of value chain analysis.
D) The increased concern about climate change.
E) The increased use of the balanced scorecard.

43) Outdoor Company, maker of clothing and gear for outdoor enthusiasts, is very conscious of sustainability issues. The company chose not to produce a product because:
A) The cost of manufacturing the product exceeded its target cost.
B) There was not sufficient demand for the product at the planned price.
C) The environmental impact of toxic waste was unacceptable.
D) The environmental impact of producing the product in terms of carbon emissions and energy consumptions was unacceptable.
E) The company could not justify adding another product when there were acceptable alternatives already in the company's product offerings.

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44) How can a firm develop a competitive advantage?
A) Hire better managers who use value-chain analysis.
B) Provide massive discounts on products or services to drive away competition.
C) Reduce costs or add value.
D) Expand into more markets.
E) Require more capital to fund more projects.

45) What is the first step of value-chain analysis?
A) Develop a competitive advantage.
B) Identify value-chain activities.
C) Identify opportunities for added value.
D) Identify opportunities for reduced cost.
E) Determine the strategic issues surrounding the problem.

46) The five steps of strategic decision-making include all of the following steps except:
A) Obtain information and conduct analyses.
B) Determine the organization's critical success factors.
C) Identify the alternative actions.
D) Continue an on-going evaluation of the problem.
E) Choose and implement the desired action.

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47) A final step in the Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis is to identify quantitative measures for the:
A) Value propositions.
B) Competitor analyses.
C) Critical success factors.
D) Value propositions and also critical success factors.
E) Competitor analyses and also critical success factors.

48) Which of the following would be a resource that a firm would analyze during the Strengths and Weaknesses step of the Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis?
A) Barriers to entry.
B) Pressure from substitute products.
C) Bargaining power of suppliers.
D) Operations.
E) Pressure from substitute products.

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49) All of the following are required resources for differentiation except:
- A) Product engineering.
- B) Corporate reputation for quality.
- C) Intense supervision of labor.
- D) Strong marketing capability.
- E) Long tradition in the industry.

50) All of the following are required resources for cost leadership except:
- A) Substantial capital investment.
- B) Strong marketing capability.
- C) Products designed for ease of manufacturing.
- D) Process engineering skills.
- E) Intense supervision of labor.

51) Which of the following is **not** a term used for a phase of the value chain?
- A) Operations.
- B) Upstream.
- C) Downstream.
- D) Sustainability.
- E) All of the answer choices are terms used for a phase of the value chain.

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52) Which of the following measures would likely be found on the financial perspective section of a balanced scorecard?
- A) Sales growth.
- B) Customer retention.
- C) Efficiency of manufacturing.
- D) Increase in number of sales staff.
- E) None of these answer choices are correct.

53) Which of the following is **not** an effective way to implement the balanced scorecard?
- A) Obtain the support of top management.
- B) Make it so that the balanced scorecard cannot be modified so that the strategy can have time to take effect.
- C) Give managers and employees clear incentives linked to the scorecard.
- D) Include processes for ensuring the accuracy and reliability of the information in the scorecard.
- E) Ensure that the relevant portions of the scorecard are readily accessible to those responsible for the measures.

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54) Which of the following is **not** a reason why global companies choose to report on corporate responsibility?
A) Ethical considerations.
B) Innovation and learning.
C) Risk management.
D) Market share.
E) Saves time.

55) Which of the following is **not** a category of the environmental component of sustainability indicators?
A) Operational indicators.
B) Management indicators.
C) Environmental condition indicators.
D) Working condition indicators.
E) All of the answers are a category of the environmental component of sustainability indicators.

56) Which is **not** a concern for sustainability?
A) Climate change.
B) Labor.
C) Profit.
D) Health.
E) Safety.

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57) The five competitive forces that help identify opportunities and threats include all of the following except?
A) Pressure from substitute products.
B) Barriers to entry.
C) Bargaining power of competitors.
D) Intensity of rivalry among competitors.
E) Bargaining power of suppliers.

58) Effective execution of the cost leadership strategy requires all of the following except:
A) Incentives based on meeting strict quantitative goals.
B) Frequent, detailed control reports.
C) Tight cost control.
D) Structured organization and policies.
E) Strong coordination among functions: research, product development, manufacturing, and marketing.

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59) The differentiation strategy requires all of the following resources, except:
A) Strong marketing capability.
B) Long tradition in the industry or unique skills.
C) Product engineering.
D) Products designed for ease of manufacture.
E) Corporate reputation for quality or technology leadership.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

60) Roweil Company is a manufacturer of agricultural chemicals located in Eastern North Carolina that sells its products directly to farmers in the Atlantic states. The company is known for the quality of its products, packaging, delivery, and customer service. The production process at Roweil involves several steps, one of which involves the cleaning of each vat before a batch of a new chemical is added. This is done so there is no contamination of chemicals. Currently the cleansing of the batch is time-consuming, requiring a good bit of water and additional chemicals to ensure that the vat is appropriately cleaned. The waste resulting from the cleaning process is itself treated carefully, as many of the chemicals Roweil produces can be harmful to plants and animals if not properly handled. Roweil is considering an investment in new equipment that would speed up the cleaning process and would require less water and fewer additional chemicals. The new process would involve the application of heat and high air flow. The new cleaning equipment would, however, be quite expensive.

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Required:

(a) Comment on the strategic issues facing Roweil concerning the potential investment in the cleaning equipment.

(b) What are the ethical questions, if any, that should be addressed in the above decision?

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61) Studebaker Corporation, a U.S. automobile manufacturer from 1902 to 1966, prospered in the late 1940s and into the 1960s. Its advertising after World War II emphasized quality of design and production. The corporation also used the stability of its work force in its advertisements, often featuring pictures of fathers and sons working side by side in its factories.

Required:
(a) From just this brief description of Studebaker Corporation, which type of competitive strategy, cost leadership or differentiation, would you guess Studebaker was using? Explain your choice.
(b) Given your answer in Part (a), speculate on what market factors might have caused the corporation to go into bankruptcy and cease production in the mid-1960s.

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62) Many products in the marketplace today are built from components designed and manufactured by sub-contractors. While the extent of this practice is not well known to consumers, the manufacture and sale of multi-component units that use parts from many different companies continues to grow.

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Required:
If the assembling company is using value-chain analysis in its strategic planning, comment on the following:
(a) The cost justification for subcontracting.
(b) The willingness of consumers to buy products they know contain subcontracted parts.
(c) The problems of quality control facing the assembling company.

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63) Exeter Industries produces and markets several lines of food and beverage products. The company plans to expand its market to cover a new geographical area, and the first products to be introduced into this new market are three of Exeter's coffees. A meeting of the marketing committee has been called to determine the pricing and promotional strategy for the introduction of these coffees. Exeter has adopted the differentiation strategy and is using the marketing committee to come up with the proper way to execute this strategy in the firm's pricing and promotional policy.
Mark Williams, vice president of marketing, has suggested that Exeter continue its policy of premium pricing for Rich Roast Coffee in the new market. "Rich Roast is a superior blend of Brazilian coffees and should have little difficulty gaining customer acceptance. The use of other promotional strategies doesn't appear necessary at this time."
Carol Randolph, general sales manager, agreed with this strategy for Rich Roast but recommended a different approach for Vitality Coffee, Exeter's brand of decaffeinated coffee. "Vitality is an unknown name in this region and will require a determined promotional effort to gain market share from other very competitive products. We could try penetration pricing or packaging options combined with either manufacturer's coupons or rebates. Whatever strategy we select, we should hit the market hard if we want to be successful."
Dan Felton has been appointed regional sales manager for the new geographical area and is concerned about the acceptance of Mellow Roast Coffee, a blend of regular and decaffeinated coffees. "This is a brand new type of coffee in this region and may just sit on the shelf unless we develop an effective advertising campaign." Pricing or packaging options will be worthless unless the product gains some visibility and the targeted customer base is made aware of the benefits of Mellow Roast. We need a good slogan like "A gentle wakeup without caffeine stress!"

Required:
Mark Williams has suggested the continuance of premium pricing for Rich Roast Coffee. Explain the strategic role of premium pricing, and describe the economic circumstances in the marketplace that would encourage the use of this pricing strategy. (CMA adapted)

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64) Williams Instruments manufactures specialized surgical equipment for hospitals and clinics throughout the world. One of Williams' most popular products, comprising 40% of its revenues and 35% of its profits, is a blood pressure measuring device. Average production and sales are 400 units per month. Williams has achieved its success in the market through excellent customer service and product reliability. The manufacturing process consists primarily of assembly of components purchased from various electronic firms, plus a small amount of metalworking and finishing. The manufacturing operations cost $600 per unit. The purchased parts cost Williams $800, of which $300 is for parts which Williams could manufacture in its existing facility for $100 in materials for each unit, plus an investment in labor and equipment which would cost $175,000 per month.
Also, Williams is considering outsourcing to another firm, Matrix Concepts, Inc., the marketing, distribution, and servicing for its units. This would save Williams $75,000 in monthly materials and labor costs. The cost of the contract would be $125 per product.

Required:
(1) Prepare a value chain analysis for Williams to assist in the decision whether to manufacture or buy the parts, and whether to contract out the marketing, distribution, and servicing of the units.
(2) Should Williams continue to: (a) purchase the parts or manufacture them? (b) provide the marketing, distribution and service, or outsource this activity to Matrix? Explain your answers.

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65) Levi Strauss & Company, maker of Levi's popular 501, 512, and 711 jeans, also makes a brand that was introduced for discount retailers such as Walmart. Levi's strategy with the new jeans (the Signature brand) was to sell a competitively priced pair of jeans. The jeans are about one-half or less the price of the popular 501, 512, and 711 jeans. To reduce costs Levi's:

- Uses cheaper fabrics and materials.
- Shuns costly mass-market advertising.
- Strictly limits the variety of fits, styles, and colors.

Required:

1. Assess the new strategy at Levi's. What do you think to be the potential benefits and risks?
2. How will the firm's value chain and balanced scorecard change as a result of the new strategy?

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66) Gordon Manufacturing produces high-end furniture products for the luxury hotel industry. Gordon has succeeded through excellence in design, careful attention to quality in manufacturing and in customer service, and through continuous product innovation. The manufacturing process at Gordon begins with a close consultation with each customer so that the finished product exactly meets the customer's specifications. This commonly means unique designs, special fabrics, and high levels of manufacturing quality. In addition, Gordon believes that a key competitive edge it has over other competitors is that it has an outstanding design staff that is able to work with customers to come up with product designs that go beyond the customer's expectations.

Anticipating a growth in the demand for luxury hotel rooms, Gordon has expanded its operations to include one new manufacturing plant, and by refitting some of the older plants with newer, more efficient equipment. The installation of the new equipment has caused some delays in filling some customer orders, and Gordon has shifted production from those plants with the delays to other manufacturing plants. The result has been an increase in some processing costs, transportation costs, and delays in meeting customer order deadlines. Also, the introduction of the new equipment has created some tensions with employees who see the new, more efficient equipment as a potential threat to their job security. There is also some disagreement among managers as to whether the new equipment will improve or reduce quality.

Required:

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Develop a SWOT analysis for Gordon Manufacturing. List one or more items in each category.

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Required:
Present a value chain for Gordon Manufacturing with at least five activities and explain the role of each activity in the value chain.

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Required:
Present a balanced scorecard for Gordon Manufacturing with four perspectives and at least three quantitative critical success factors in each perspective.

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69) The tire business is becoming increasingly competitive as new manufacturers from Southeast Asia and elsewhere enter the global marketplace. At the same time, customer expectations for performance, tread life, and safety continue to increase. An increasing variety of vehicles, from the small and innovative gas/electric vehicles to the large SUVs, place more demands on tire designers and on tire manufacturing flexibility. Established brands such as Goodyear and Firestone must look to new ways to compete and maintain profitability.

Required:

1. Is the competitive strategy of a global tire maker cost leadership or differentiation? Explain your answer.
2. What are the ethical issues, if any, for tire manufacturers?

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Answer Key

Test name: Chapter 02

1) B
2) C
3) C
4) C
5) D
6) C
7) B
8) E
9) E
10) A
11) B
12) D
13) E
14) D
15) C
16) A
17) C
18) C
19) D
20) D
21) D
22) E
23) D
24) E
25) E
26) B
27) C
28) D
29) B
30) A
31) C
32) C
33) A
34) B
35) E
36) A
37) B

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38) E
39) A
40) D
41) C
42) D
43) D
44) C
45) B
46) B
47) C
48) D
49) C
50) B
51) D
52) A
53) B
54) E
55) D
56) C
57) C
58) E
59) D
60) Essay

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(a) The company operates in a commodity business, agricultural chemicals, but distinguishes itself by quality and customer service. It is possible that some farmers would pay a higher (differentiated) price for the Roweil product because of the quality and service. Choosing a more environmentally friendly way to clean its production vats, and making an investment in the new system might sway some customers to the company, if it were not to cause a significant rise in prices. So the investment in the cleaning equipment could be a winner for Roweil. The company is in the best position, knowing its customers and employers and other constituents, to assess how the investment might affect the company. Also, it is possible that the cleaning equipment might produce lower costs in the long run, if it substantially reduces the cost of treating the waste water from the cleaning process.
(b) There are ethical issues are involved in this decision. Buyers of the product are likely to be pleased (if prices are not that much changed) to be associated with an environmentally friendly product. Also, residents and consumers in the areas where Roweil operates may see this as a very positive step and support the company in different ways. The company should consider the state of current environmental regulations facing the company, and the extent of possible future regulations, and determine the net cost of the investment versus the benefits in becoming in this case a more environmentally friendly company.

61) Essay
(a) Studebaker attempted to achieve a distinctive quality image in its advertising as a way to differentiate itself from other auto company products. Presumably, by emphasizing the design and the way the car was made, the firm was trying to impress that Studebaker would be more desirable than competitive autos. Additionally, the advertisements tried to appeal to the hearts of the public and not just the need for transportation, which is clearly not a cost leadership issue. (Its cars were competitively priced, but the company was not a cost leader, nor did it attempt to focus on a particular segment of the auto-buying public.)
(b) If differentiation was the chosen answer, it follows that the stress on quality eventually led to higher cost (and prices) that made the car less competitive. In fact, this was partly the reason the company failed, but futuristic design resulted in a look the public was not ready to accept. If the students chose cost leadership as the answer, their explanation would have to be evaluated on the basis of its logic and originality.

62) Essay

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(a) If a firm can consistently buy quality items delivered on time for less than it costs to make the same items in-house, there is a need for strong subjective reasons for not subcontracting.
(b) Most products are purchased because they are price- and quality-competitive. Little brand name loyalty remains among consumers, especially when it costs more. The consumer has adjusted to the marketplace where use of subcontracted components is common and accepted. The assembler provides the warranty, which is only as good as the company giving it.
(c) On-site quality control would seem to better ensure quality than would a guarantee from a supplier. However, subcontractors that specialize in component manufacture can and do operate at high quality levels. Components can be checked for quality just before assembly, and penalty clauses can be written into contracts to ensure high quality levels for components produced by subcontractors.

63) Essay
The strategic role of premium pricing includes the following:

- creating an image of a top-of-the-line, high-quality product.
- establishing brand loyalty.
- the product or service can be significantly differentiated to justify a premium price.
- demand is price inelastic, that is, pricing does not significantly affect demand.
- production and marketing facilities are inadequate to serve a large market.
- the firm is unable to reduce cost to the level necessary to compete in a cost leadership manner.

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64) Essay

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Value Activity	Option One-Manufacture	Option Two-Buy
First: Raw Materials	Williams not involved at this step in the value chain	Williams not involved at this step in the value chain
Second: Manufacture of parts for the equipment	Williams not involved at this step in the value chain; the cost is $500 to Williams	Williams not involved at this step in the value chain; the cost of these parts is $500 to Williams (Note: $500 is the $800 total less $300 for purchased parts that could be manufactured)
Third: Manufacture of components	Williams manufactures these parts for $100 each plus monthly costs of $175,000	Williams purchases $300 of these parts
Fourth: Assembly	Williams' costs are $600	Williams' costs are $600
Fifth: Marketing, distribution and service	Williams' costs are $75,000 per month	Williams contracts these services out to Matrix for $125 per product
Costs Summary: Costs which *differ between the two options*	Unit costs for manufacture of components ($100 × 400) + monthly cost of $175,000 for labor and equipment = $215,000	Purchase of components: $300 × 400 = $120,000

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2. (a) The cost to purchase is $95,000 less than the cost to manufacture. Therefore, Williams should purchase the components (b) The cost of the monthly marketing, distribution, and service in house is $25,000 more, than the cost of the outside contract. Since Williams is a manufacturer of specialized instruments, it is likely to compete on the basis of product differentiation rather than cost. Therefore, Williams should choose the option in each case that advances the firm's strategy, and consider cost savings a second priority. If the firm can achieve higher quality by manufacturing the components, then it should do so, even if this creates a higher cost of $95,000. Similarly, the decision about marketing, distribution and service should be made with the firm's strategy in mind.

65) Essay

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1. The risks of the new line are that it might shift the company's reputation from what has been a tradition of differentiated products (501, 512, etc.) to one of cost leadership (the Signature line), leaving consumers confused about the Levi's brand. The risks of the new brand include:

- Could change department store customers' opinion of Levi's core jeans
- The new brand of jeans could end up looking and feeling shoddy
- After a period of brand name recognition, it may sink below the radar
- Customers may get bored and want more variety

Michael Porter's observation might be that the firm is in risk of getting "stuck in the middle" between the cost leadership and differentiation strategies.

2. The firm's value chain will likely change little, as the manufacture of the jeans will continue to be produced in low-cost facilities worldwide. The largest difference in the jeans will be in the fabrics used, the design, and the variety of jeans offered. The balanced scorecard for Levi's is not likely to change much either, as noted above for the value chain. Levi Strauss uses the BSC in its shared services center in Eugene, Oregon.

66) Essay

There are likely to be a wide variety of answers. Here are some representative items.

Strengths

Reputation for quality, product design, customer service, and innovation

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Weaknesses

Delays in meeting customer orders

Potential labor problems due to labor concerns about new equipment

Unknown effect of new equipment on product quality.

Opportunities

Expected growth in demand for Gordon's products as the demand for luxury hotel accommodations increases

Threats

Ability to replace skilled workers due to labor problems?

Order delays - effect on customer satisfaction?

Unknown future demand for luxury hotel accommodations; if the growth does not happen, then Gordon will have a lot of expensive unused capacity.

67) Essay

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One of a variety of possible answers follows:

Value Activity (in sequence)	The Role of this Activity
Market research	To benchmark and maintain overall strategy
Product planning	Importance of developing new products and products that satisfy the high expectations of the luxury hotel customer
Advertising and Promotion	Stress the firm's quality and innovation
Product design	Focus on innovation, quality
Develop bill of materials	May need long lead times to acquire the best quality materials
Source parts and skilled labor	Very important because of Gordon's reputation for quality and craftsmanship
Scheduling production	A critical step because of long lead times and tight labor resources
Cutting and trimming materials	Importance of quality
Assembly	Importance of quality
Finish and painting	Importance of quality
Preparation for Shipment	Importance of quality
Invoice customer	Accuracy, customer service
Customer service	A key step in the differentiation strategy
Warranty returns and allowances	Treat these as opportunities for product redesign and improvement, i.e., on-going redesign
Customer satisfaction follow-up	Important for the differentiation strategy

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68) Essay

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The four perspectives are shown below, and example CSFs in each perspective.

Financial
Sales, sales growth - by product line and customer
Earnings by product line and customer
ABC-based product costs
Return on investment, by product line
New investment, by product line

Internal Processes
Measures of quality; number of defects, customer complaints...
Waste of materials
Cycle time, the time from the start to the finish of producing an order
Productivity measures; hours per product, materials per product
Inventory levels

Customer
Lead time; the time from when the order is received until it is delivered
Retention of profitable customers
Satisfaction, in specific categories: as measured by customer survey, number of referrals
Number of new customers

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Learning and Innovation
Training hours
Retention of key employees
Employee satisfaction, as measured by survey or number of complaints
New product development; number of new product ideas

69) Essay

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1. A good answer should address whether the tire business is a commodity business, or whether differentiation can play a role. Some might argue that certain tires, such as Michelin, are differentiated by their reputation, quality, and advertising for long life and safety. Many other tire manufacturers compete mainly on price, with limited warranties on tread life, load limits, and so on. What types of differentiation might also work?
2. Whether the tire manufacturer competes on cost leadership or differentiation, there should be a very high standard for tire safety that all customers can expect, irrespective of the brand of tire they choose. This is a complex matter that involves recommendations for tire pressure, tire size, tire performance, and tire load limits by the tire manufacturer, auto manufacturer and tire retailer. All three must participate in the process of choosing a tire design, tire pressure, etc., that will safely meet the needs of the vehicle owner, for the owner's specific planned use of that vehicle.

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