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Chapter 1: How Businesses Make Money

TRUE/FALSE

1. A business must understand its areas of expertise and how this expertise can be applied to make money.
ANS: T DIF: Easy REF: Section 1.1
2. All businesses use the same operating strategies to create a competitive advantage.
ANS: F DIF: Easy REF: Section 1.1
3. Many companies are successful at being both operational-centric and customer-centric.
ANS: F DIF: Moderate REF: Section 1.1
4. An operational-centric business focuses on optimizing operations rather than on obtaining the highest prices.
ANS: T DIF: Moderate REF: Section 1.2
5. Reducing product costs is less important to a customer-centric business than to an operational-centric business.
ANS: T DIF: Difficult REF: Section 1.2

MULTIPLE CHOICE

6. Which of the following is not one of the four key business strategies?
 - a. innovation and design
 - b. imitating competitors
 - c. sales and marketing
 - d. customer serviceANS: B DIF: Easy REF: Section 1.1
7. A customer-centric business could use all of the following strategies except:
 - a. innovation and design
 - b. sales and marketing
 - c. low-cost operations
 - d. customer serviceANS: C DIF: Moderate REF: Section 1.1
8. An operational-centric business would most likely utilize which of the following strategies?
 - a. innovation and design
 - b. sales and marketing
 - c. low cost operations
 - d. customer service

ANS: C DIF: Moderate REF: Section 1.1

9. Which of the following is the best example of an innovation and design strategy?
- a. using research and development to create patentable products
 - b. a national advertising campaign to create brand awareness
 - c. outsourcing call center operations to reduce costs
 - d. creating a social media presence

ANS: A DIF: Moderate REF: Section 1.1

10. Which of the following is the best example of a customer service strategy?
- a. using focus groups for feedback during product design
 - b. research to analyze a customer's click patterns on the company website
 - c. employing a dedicated product sales force
 - d. offering a longer warranty than the competition

ANS: D DIF: Moderate REF: Section 1.1

11. Which of the following is the best example of a sales and marketing strategy?
- a. hiring highly qualified product designers
 - b. hiring a dedicated sales force
 - c. outsourcing customer service to Asia to reduce costs
 - d. switching to a just-in-time inventory system

ANS: B DIF: Moderate REF: Section 1.1

12. Which of the following is the best example of a sales and marketing strategy?
- a. targeted Facebook advertising
 - b. locating the flagship store in New York's Rockefeller Center
 - c. creating an iconic logo
 - d! All of the available are true.

ANS: D DIF: Moderate REF: Section 1.1

13. Which of the following is the best example of a sales and marketing strategy?
- a. offering free shipping
 - b. optimizing systems throughput
 - c. hiring highly qualified product designers
 - d. using focus groups for feedback during product design

ANS: A DIF: Moderate REF: Section 1.1

14. Which of the following is the best example of an operations-focused strategy?
- a. locating warehouses nationwide
 - b. automating factories
 - c. outsourcing
 - d! All of the available are true.

ANS: D DIF: Easy REF: Section 1.1

15. Which of the following is not likely to be used as a primary strategy by a customer-centric business?

- a. using research and development to create patentable products
- b. a national advertising campaign to create brand awareness
- c. outsourcing call center operations to reduce costs
- d. creating a social media presence

ANS: C DIF: Difficult REF: Section 1.1

16. Which of the following strategies is least likely to be used as a primary strategy by an operational-centric business?

- a. hiring IT professionals to evaluate customer data
- b. upgrading the GPS systems in the trucking fleet
- c. marble floors in the stores
- d. upgrading the conveyor systems in the warehouses

ANS: C DIF: Moderate REF: Section 1.1

17. A company that locates its flagship store on Fifth Avenue in New York is likely using

a(n) _____ strategy.

- a. sales and marketing
- b. cost of goods sold
- c. operations
- d. innovation and design

ANS: A DIF: Moderate REF: Section 1.1

18. A company that purchases products in bulk from China and resells them for a small mark up on eBay is most likely using a(n) _____ strategy.

- a. sales and marketing
- b. counter trade
- c. operational centric
- d. innovation and design

ANS: C DIF: Moderate REF: Section 1.1

19. A restaurant hiring a famous chef to prepare specialized meals for customers is an example of which strategy?

- a. innovation and design
- b. sales and marketing
- c. low cost operations
- d. customer service

ANS: A DIF: Moderate REF: Section 1.1

20. A fast-food restaurant that installs a burger flipping robot in the kitchen to replace workers is using an example of which strategy?

- a. innovation and design
- b. customer relations
- c. low-cost operations
- d. helpful sales force

ANS: C DIF: Moderate REF: Section 1.1

21. Which of the following is the best example of a company using an innovation and design strategy?

- a. developing, testing, and patenting new drugs
- b. using a just-in-time inventory system
- c. installing time management software
- d. easy to use instructions and manuals

ANS: A DIF: Moderate REF: Section 1.1

22. The financial operations of a business are reported in

- a. the Journal of Business Operations.
- b. a company's financial statements.
- c. entries in the CEO's checkbook.
- d. Businesses should not keep financial reports to avoid being audited.

ANS: A DIF: Easy REF: Section 1.1

COMPLETION

23. For a business to survive, it must have a _____.

ANS: competitive advantage DIF: Moderate REF: Section 1.1

24. A business that focuses on obtaining higher prices through innovation and design, sales and marketing, or customer service is a _____ business.

ANS: customer-centric DIF: Easy REF: Section 1.2

25. An _____ business makes money by optimizing their operations and becoming low-cost producers.

ANS: operational-centric DIF: Easy REF: Section 1.2

26. A(n) _____ business should be in constant contact with its customers.

ANS: customer-centric DIF: Easy REF: Section 1.2

27. A(n) _____ business focuses on optimizing operations and reducing costs.

ANS: operational-centric DIF: Easy REF: Section 1.2

28. A(n) _____ business focuses on obtaining higher prices through innovation and design, sales and marketing, and customer service.

ANS: customer-centric DIF: Easy REF: Section 1.2

29. Operational-centric businesses focus on becoming a _____ producer.

ANS: low-cost DIF: Moderate REF: Section 1.2

30. The purpose of starting and operating a business is to _____.

ANS: make money DIF: Moderate REF: Section 1.2

31. A manufacturer who automates a manual process is likely focused on _____ as a strategy.

ANS: operations DIF: Easy REF: Section 1.2

32. As industries mature, the companies in those industries tend to become more _____.

ANS: operational-centric DIF: Easy REF: Section 1.2

SHORT ANSWER

33. Discuss why a business needs a strategy to be successful long-term.

ANS: Businesses that are successful long-term have a competitive advantage over the competition that results from conscious effects to either be more operational efficient than the competition or provide a better customer experience than the competition. Operational efficiency, better customer service, better products through innovation and design, and more effective sales and marketing are strategies to create competitive advantage.

DIF: Moderate REF: Section 1.1

34. Describe the key elements of an innovation and design strategy.

ANS: When using an innovation and design strategy, a business creates products that are in some way different and better than the products and services offered by the competition. This difference allows the business to charge a higher price.

DIF: Moderate REF: Section 1.1

35. Describe the key elements of a sales and marketing strategy.

ANS: When using a sales and marketing strategy, the goal is to make customers aware of your products and to create a higher, better value for your products in the eyes of the customer, which will allow a higher price to be charged.

DIF: Moderate REF: Section 1.1

36. Describe the key elements of a customer service strategy.

ANS: Customer service activities help support the customer during and after the purchase process. This support can be provided in person, via print, or online, and should provide a better customer experience than the customer can get from competitors. This difference allows the business to charge a higher price.

DIF: Moderate REF: Section 1.1

37. Describe the key elements of an operations strategy.

ANS: A business pursuing an operations strategy strives to produce and deliver its products to customers more efficiently and at a lower price than its competitors. Pursuing an operations strategy means continually trying to be more efficient.

DIF: Moderate REF: Section 1.1