

Cambridge Summer Institute

August 2017

Business Model Generation, D. Robinson

Final Exam **KEY**

Instructions: For each question, choose the *best* answer. The questions were written from the PowerPoints used for the course. Clearly circle the letter of the answer to each question. If you make a mistake, strike through the wrong answer (\) and circle the correct answer.

Criterion for Pass/No Pass

*After grading, enter the scores into an Excel and calculate the highest score (Max) and median score (Median). Then, calculate a **lower bound** as follows:*

$$\text{Lower Bound} = \text{Median} - (\text{Max} - \text{Median}) = 2 * \text{Median} - \text{Max}$$

For example, if the top score is 18 /20 and the median is 14, then the Lower Bound is 10 /20. In this example, pass anyone with 10 /20, but anyone lower than that would be a No Pass.

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1. Which of the following is an advantage of Target Marketing?
 - a. Almost all people within a Market will be satisfied with our product
 - b. We can use broad media to reach everyone
 - c. Our firm is likely to be more profitable
 - d. We get to work with many different channels of distribution

Ans: C L1 *Easy, definitional*

2. Traditional New Product Development depends on:
 - a. Inspiration
 - b. A formal multi-step process
 - c. Gut feelings by entrepreneurs who show true passion
 - d. Satisfied customers who can say what they like about a product

Ans: B L1 *Easy, definitional*

3. Many New Product ideas come from:
 - a. Improvements in existing products
 - b. Creating value where customers don't see value
 - c. Entering existing industries with intense competition
 - d. Happy customers

Ans: A L1 *Easy, definitional*

4. As a generalization of new app-enabled businesses that have failed, what is the common cause of their downfall?
 - a. Failure to think through full costs of transactions
 - b. Inability to "get the word out", to let people know they exist
 - c. Lack of sufficient capital
 - d. Inability to find sufficient technical workers

Ans: A L1 *Moderately difficult concept/application (Beepi)*

5. Which of the following is not a likely outcome of a test market?
 - a. Project abandonment due to lack of consumer acceptance
 - b. Product withdrawn and needs to be redesigned
 - c. Changes in the pricing structure
 - d. Project abandonment due to competitor cloning (making the same product as us)

Ans: D L1 *Moderately difficult concept*

6. Which of the following is not a part of the Lean Startup Movement?
 - a. The belief that entrepreneurship is about hard work, not luck
 - b. Refusing to release the product until it is perfect
 - c. Rapid prototyping
 - d. Developing a Minimal Viable Product

Ans: B L1 *Easy, definitional*

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7. What are the “self-expressive features of a brand”
- How the brand wants to be talked about in Social Media
 - How consumers use the brand to show their own personality
 - The Product features in the Value Proposition
 - A technical term for the phrase “value for money”
- Ans: B L2 *Easy, definitional*
8. If you went punting this week, you may have taken the boat out yourself, or may have chosen a “chauffeur-driven” punt with a “gondolier” to do the punting for you. Which kind of segmentation best applies these 2 types of customers?
- Demographic
 - Geographic
 - Psychographic
 - Occasion
- Ans: C L2 fits best *Difficult, application to new situation*; it’s not “Demographic” because both groups are visiting students; Geography is irrelevant since the punts are location-based in Cambridge and “Occasion” isn’t right here (you could make a case for Behavioral (Use) but that deliberately is not offered as an option here.
9. What is true of the Value Proposition?
- All customers want the cheapest price
 - The Value Proposition cannot be expressed in words
 - Different customers seek different kinds of value
 - Customers will not pay for Image value
- Ans: C L2 *Moderately difficult concept*
10. Which of the following is not a correct use of the term “Market”?
- Different types of bicycles offered for sale in Cambridge
 - People who want to buy motorbikes
 - People who want to go punting
 - Firms that buy punts to rent out to tourists
- Ans: A L2 *A Moderately difficult concept. “Market” is firms that buy or people, not a range of products (which is “category”).*
11. To a Marketer, your exact age and income are not as important as:
- Your ethnicity
 - Your life stage: never married and no children
 - Your street address, where you live
 - Which university you attend
- Ans: B L2 *Moderately difficult concept*

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12. Your firm pays rent every month and the rent stays the same no matter how much you make or sell. The correct term for this type of expense would be:
- Variable Cost
 - Total Variable Cost
 - Marginal Cost
 - Period Fixed Cost
- Ans: D L3 *Difficult concept*

13. You are operating a coffee shop on Bridge Street and are considering adding gelato (Italian ice cream). The most relevant cost for your do/not-do decision is:
- The wholesale cost of the gelato
 - Marginal cost of renting a freezer and gelato inventory
 - The full cost of renting a freezer, inventory and the allocating part of the labor costs of your existing “baristas” (coffee shop workers)
 - The full cost of freezer, gelato, baristas and the prorated (divided) part of your salary as a manager of the business
- Ans: B L3 *Difficult, application to new situation; compare with “cost of this course” for CBL*

14. What is “cost avoidance”?
- Project abandonment
 - Getting rid of expensive suppliers and making things ourselves
 - “Buy” in the “make versus buy” decision
 - Making customers assemble furniture
- Ans: C L3 *Moderately difficult*

15. If you were importing goods, why would you use a customs broker as opposed to going down to the docks and clearing goods through customs yourself?
- Customs brokers charge their fees to the port, not the importer so you might as well use them
 - Customs brokers are likely to steal from us
 - Expertise: the broker knows more about how to do this task
 - Customs brokers charge fees to the sender, not the person who receives goods
- Ans: C L3 *Easy, definitional*

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16. “Coopetition” is a difficult term to define. It means:
- Agreeing with competitors not to raise prices
 - Cooperating with one other firm to drive smaller firms in an industry out of business
 - Agreeing with another firm not to enter their home market if they agree not to enter ours
 - Buying a critical component or function from a firm that also competes with us
- Ans: D L3 *Difficult concept – the other answers are wrong because they are illegal.*
17. What evidence was there that Homejoy had a poor Value Proposition?
- They were threatened with lawsuits over contractor versus employee status
 - Many homeowners complained that they had to re-clean their houses after the HJ contractors had left
 - Many customers downloaded the app to their phones, but never actually used it
 - Relatively few of the customers who had bought “on deal” came back to pay full price
- Ans: D *Homejoy case, discussed. Easy.*
18. What is true of the customer acquisitions process?
- A new customer is worth as much as an existing customer, in terms of firm profitability
 - It is a funnel with lots of prospects, fewer qualified prospects and even fewer new customers
 - It’s pretty easy to convert identified prospects into customers
 - The most difficult part of the process is to turn first-time customers into repeat customers
- Ans: B L4 *Easy, definitional*
19. Many firms now encourage customers to write online reviews of products that they’ve purchased. Why do they do this?
- Deepen the level of customer relationship to the brand, beyond a single transaction
 - To save the cost of employing writers to develop their website
 - To avoid customer service inquiries
 - To get the customer’s e-mail and other personal information
- Ans: A L4 *Moderately difficult concept: Levels of customer relationship*
20. The US department store chain, JC Penney, announced this year that it is closing 158 of 1,100 stores. They will likely lose:
- Geographic reach
 - Profitability as they close under-performing stores
 - Local knowledge of consumer preferences at their remaining stores
 - The good relationship with their remaining customers
- Ans: A L4 *Moderately difficult application*

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21. Many “bricks” stores (physical presence actual retail stores) also sell to consumers through their website (“clicks”). What is the new term for “selling to our loyal customers who buy online”?
- Media buys
 - Social media marketing
 - Direct-to-consumer sales
 - Internet only retailing
- Ans: C L4 *Easy, definitional*

22. You and your friends have a great idea for a website in the US that will provide information on Summer Study Abroad opportunities. Your friends’ initial business plan depends on being “ad supported” – the site will also show advertisements. You warn them that:
- Under EU rules, it’s illegal to advertise a different product on your website
 - Some of the products advertised might have nothing to do with Study Abroad
 - The site might become too cluttered with ads and dissuade people from using it
 - Websites with the most daily users, such as Facebook, take almost all the available advertising dollars
- Ans: D L4 *Moderate, application of concept from PPT.*

23. Facebook provides a great deal of utility to people who sign up with it, and yet FB charges no membership fee. How can they give this valuable service away for free?
- Freemium model – professional level celebrity users like Justin Bieber and Kim Kardashian do pay a large monthly fee
 - FB is a successful ad supported website
 - The fixed costs of setting up FB were so low, they could afford to do this
 - They make money on the “agency model” charging a percentage of transactions
- Ans: B L4 *Easy, standard example of 3rd-party “paying for eyeballs.”*

24. If you booked your flight to UK in late July, you probably paid more than your roommate who booked in late March. Airlines offering different prices at different times is a form of:
- Two-part pricing
 - Illegal price discrimination
 - Yield management
 - Product line pricing
- Ans: C L4, *on slide, easy*