Final Exam

To complete the Distributor Self Study Program, take this final exam. Go back and review any material that was not clear as you studied the various chapters and answered the chapter quiz questions.

TRUE OR FALSE?

1) About half of all people have the Power Of One.

2) Distributors are not "service" businesses so their only real concern is to have product on the shelf when customers order.

3) Delivering great customer service comes down to one basic question: "What can I sell my customers today?"

4) The introduction and growth phases in a typical product life cycle are marked by climbing sales.

5) Customers often find distributors are a good source of product information and solutions to problems.

6) “Making it up in volume” is a sound business strategy because it allows discounting without regard to Profit Margins.

7) On a 25% Gross Margin sale, a 10% discount requires only 25% more merchandise be sold to recover the lost Profits.

8) Keeping expenses under control is a key to maximizing profitability.

9) Prices lowered for "competitive" reasons may become the "normal" price in the minds of customers.

10) A distribution channel is chosen for its service level and efficiency.

11) An increase in Operating Expenses while Sales remain the same typically reduces Operating Profit.

12) Getting the order is the only factor to consider when setting prices.

13) Generally speaking, since 1980 distributors have been seeing greater Net Profits each year.

14) The "ignorance penalty" is the price you pay for not understanding your customers’ business operations.

15) Today, distributors are likely to focus on a single marketplace rather than having something for everyone.

16) Customer service expectations are continually rising.

17) If Gross Profit declines and expenses remain constant, the expenses eat up a greater proportion of the Gross Profit.

18) Discounts have to be huge before they have a significant effect on Profits.

19) A "Best Practices" approach to business is a process of identifying and making certain that all of a distributor's business activities serve a useful purpose and are aligned with customer needs.

20) Distributors account for a tiny fraction of total wholesale trade.

21) Operating Profit is the profit before taxes are subtracted.

22) Buying business with price cuts is a great tactic because it almost always works.

23) Inventory carrying costs may require that even more sales must be made to offset discounted prices.

24) A company already providing the Augmented product must also be planning how to achieve a new Potential product.

25) If Net Profit is consistently too low or missing altogether, a business will usually not survive long.

26) "One stop shopping" is a key reason for many customers to buy from distributors.

27) Shortening the time between billing and receipt of payment has little or no effect on keeping Operating Expenses down.

28) Manufacturer direct sales are always the most efficient and cost effective approach.

29) A distributor usually takes title to merchandise which is in inventory.

30) Wholesale distribution as an industry hardly effects the Gross Domestic Product (GDP).

31) One reason that distributors came into being was that they served a population that was widely scattered.

32) Time and place utility is easier for manufacturers to provide than distributors.

33) Inventory is an insignificant factor for most distributors.

34) Shrinkage is especially burdensome because it requires hefty additional sales to make up for the losses.

35) Mark-up is determined by dividing Gross Profit by Net Cost.

36) In a typical product lifecycle, the greatest profits come at the introduction of the product.

37) The Power Of One is not a new concept.

38) "Intermediaries" is a term used for distributors and brokers.

39) Distribution is only used for the movement of goods from manufacturers to end users.

40) Planning is an activity which is only to be undertaken if something goes terribly wrong with the business.

41) "Adopters" in the service lifecycle are those who act quickly to analyze a successful innovation and use it themselves.

42) Minimizing the distance usually means finding a location closer to a large customer.

43) If distributors were eliminated, buyers would find it easier and less expensive to acquire products.

44) Gross Profit Margin and Mark-up are nearly the same and can be used interchangeably.

45) Demand is usually greatest for products which can deliver high levels of customer satisfaction.

MULTIPLE CHOICE

46) The phrase "Bottom Line" refers to
A) Net Profit
B) Sales minus product cost
C) Expenses minus net profit

47) Quantity discrepancies exist when:
A) Orders are not filled completely
B) Shipping cartons contain too much product
C) Manufacturers want to sell in larger lots than customers want to buy

48) Gross Profit is determined by
A) Subtracting expenses and product cost from Sales
B) Adding expenses and product cost
C) Subtracting product costs from Sales

49) Assuming a 2% Net Profit, what amount of sales will it take to pay for $5 in damaged merchandise which must be discarded?
A) $100
B) $250
C) $10

50) An advantage only exists if a company has an advanced technology to sell. Today competitors meet or surpass a technological advance:
A) Faster than ever before
B) About the same as in the past
C) Much less rapidly than in the past

51) Competitive pricing often means setting prices to:
A) Show how the market can support more competitors
B) Drive competitors away
C) Find price equilibrium

52) If you sell 10 products at $10 each and all carry a 25% Gross Margin, the Gross Profit on the sale is $25. Discount the selling price by 20% and the Gross Profit per product drops to
A) 50¢
B) $5.00
C) $ 1.00

53) The service lifecycle is:
A) A circle
B) A spiral
C) A slightly curved line

54) Compared to retaining a customer, the cost of winning a new customer is:
A) Nearly the same
B) About two times as much
C) Three to five times as much

55) The best way to build a long term relationship with a customer and make it hard for a competitor to gain an advantage is to:
A) Find out the real needs of customers and answer them
B) Do what competitors do, but sooner
C) Discount, discount, discount

56) Which of the following is not a cause of assortment discrepancies:
A) The wrong products are packed for delivery
B) Buyers require a variety of products
C) Buyers need products from various manufacturers

57) If a 20% discount is given on a 25% Gross Margin sale, how much more merchandise will have to be sold to make up the lost Profits?
A) 100%
B) 625%
C) 400%

58) Which of the following is least often a factor in setting prices?
A) Competition
B) Corporate tax rate
C) Product cost
D) Demand

59) A profit & loss statement compares:
A) Income and expenses for a period of time
B) Sales to a specific customer
C) The cost of products from various manufacturers

60) According to Theodore Levitt, the physical product, (for example a computer from a computer distributor) is referred to as the:
A) Augmented product
B) Core product
C) Expected product

61) Satisfaction can be defined as the difference between a customer's expectations and
A) Industry standards
B) Their perception of how they are being treated
C) The value they feel your service has

62) The "virtuous circle" refers to:
A) Your return policy
B) The relationship between a satisfied customer and distributor
C) The process of winning and losing accounts

63) Distributors aggregate supply by:
A) Selling in small quantities
B) Packing products together for shipment
C) Bringing together product from many manufacturers

64) Which of the following is least important?
A) Adding to a customer's competitive advantage
B) Enhancing a customers revenues or market share
C) Increasing a customers self-esteem

65) If prices remain the same, which statement shown below is **not** true about Profit:
A) Profit dollars will likely increase if Sales go up, Cost of Goods remains the same and Expenses remain constant.
B) If Sales stay constant, Cost of Goods stays constant and expenses drop, Profit dollars will likely increase.
C) If Sales stay constant, Cost of Goods stays constant and Expenses remain unchanged, Profit dollars will likely increase.

66) Breaking lots means:
A) Product is too fragile
B) Breaking down large shipments for sale to customers in small quantities
C) Manufacturers only sell in large quantities direct to end users

67) Lowering Operating Expenses is least likely to be accomplished by:
A) Turning off unused lights
B) Avoiding wasted delivery trips
C) Discounting prices

68) The purchase of a product can be seen by a customer as an investment. The value received from the product can be considered:
A) Cost of goods
B) Return on investment
C) Return on expenses

69) “Leapfrogging” describes:
A) Moving out ahead of the service leader
B) Catching up to the service leader
C) Blocking others from matching your service level

70) "Leaving money on the table" means:
A) Not maximizing the profit potential of a transaction
B) Having expenses that are too large
C) Being a victim of competitive pricing

71) Three of the basic factors on which customers judge distributors are reliability, timeliness and:
A) Friendliness
B) Accuracy
C) Civic mindedness

72) In JIT delivery situations, customers usually:
A) Carry minimal inventories
B) Have enough product on hand to cover any need
C) Fax orders instead of mailing them

73) The Earn & Turn Index provides a key indication of:
A) The Net Profit level
B) How well inventory has been used to generate profit
C) The ability of a company to rotate inventory

74) If you discount a product that carries a 25% Gross Margin by 20%, how many additional products do you have to sell in order to make up the lost Margin?
A) Four
B) One
C) Three

75) An unhealthy GMROI is anything:
A) Above 8.5
B) Below 1.2
C) Below 3.7

76) The long term health of a company is dependent upon generating enough Gross Profit to pay
A) Expenses
B) A realistic return on investment
C) Both of the above

77) In comparison to replacement part cost, downtime cost:
A) Is usually about the same
B) Is rarely significant
C) May be hundreds or even thousands of times greater

78) Customers are said to buy:
A) Promises
B) Products
C) Expectations

79) Which of the following is not paid for out of Gross Profit?
A) Salaries
B) Cost of Goods
C) Rent

80) If the channel of distribution is chosen carefully, goods that flow through it will:
A) Retain the same value
B) Lose value
C) Gain value

81) "Raising the bar" on competitors means:
A) Making it tougher to match or exceed your performance
B) Meeting a standard level of service
C) Increasing prices

82) Shrinkage typically refers to:
A) Loss of customers
B) Discounting prices
C) Loss of inventory through error, theft or damage

83) Which of the following are basic concepts to keep in mind when considering the Power Of One:
A) Everyone can make a difference
B) Small changes often add up to a significant difference
C) Positive efforts reinforce each other
D) All of the above

84) The "ignorance penalty" is a price you pay for:
A) Not understanding your customers' operations
B) Falling behind in reading articles on better business practices
C) Not watching your competitors closely enough

85) Which of the following is **not** a service that distributors regularly provide
A) Training
B) Problem solving
C) Product design & engineering
D) Local market information

86) Compared to distributors, manufacturers almost always provide time and place utility:
A) Better
B) About the same
C) Less well

87) If you discount the price of a product that carries a 25% Gross Margin by 20%, how much additional dollar volume do you have to sell to make up the lost margin?
A) 100%
B) 200%
C) 300%

88) If the cost is $5 and you want a 45% Gross Profit Margin, what should the selling price be?
A) $6.00
B) $9.09
C) $7.19

89) If the product cost is $100 and you want a 40% Gross Profit Margin, what should the selling price be?
A) $166.67
B) $144.00
C) $266.67

90) If the selling piece is $150 and the cost is $100, what is the Gross Profit in dollars?
A) $15
B) $25
C) $50

91) If the Gross Profit is $50 and the cost is $100, what is the Mark-up?
A) 10%
B) 50%
C) 100%

92) If the Gross Profit is $3 and the cost is $6.25, what is the Mark-up?
A) 34%
B) 14%
C) 48%

93) If the cost is $100 and the selling price is $150, what is the Gross Profit Margin?
A) 30%
B) 33.3%
C) 38.5%

94) If the cost is $6 and the selling price is $10, what is the Gross Profit Margin?
A) 22%
B) 40%
C) 120%

Fig. 1

Sales	$200,000.00	$200,000.00
Cost of Goods	148,000.00	148,000.00
Gross Margin	52,000.00	52,000.00
Operating Expenses	48,000.00	**47,520.00**
Operating Profit	$4,000.00	**$______.___**

95) In Fig. 1, the Operating Profit, after Expenses have been reduced by 1%, would be:
A) $4,480.00
B) $4,000.00
C) $5,177.00

96) The Operating Profit increase represents a percentage improvement of:
A) 1%
B) 12%
C) 10%

Fig. 2

Sales	$200,000.00	**$202,000.00**
Cost of Goods	148,000.00	149,480.00
Gross Margin	52,000.00	52,520.00
Operating Expenses	48,000.00	48,000.00
Operating Profit	$4,000.00	**$______.___**

97) In Fig.2, the Operating Profit, after Sales have been increased by 1%, would be:
A) $4,980.00
B) $4,000.00
C) $4,520.00

98) That increase represents a percentage improvement of:
A) 18%
B) 22%
C) 13%

Fig. 3

Sales	$200,000.00	**$202,000.00**
Cost of Goods	148,000.00	**148,000.00**
Gross Margin	52,000.00	54,000.00
Operating Expenses	48,000.00	**47,520.00**
Operating Profit	$4,000.00	**$______.___**

99) In Fig. 3, the Operating Profit, after Sales have been increased by 1% and Expenses have been reduced by 1 would be:
A) $4,480.00
B) $6,480.00
C) $10,100.00

100) That increase represents a percentage improvement of:
A) 22%
B) 62%
C) 42%

☞ **Answer Key** ☞ **Table of Contents** ☞ **Exercises**

Exercises

The following problems provide additional practice in calculating selling prices, gross margins and mark-ups.

1) Based on the information given for each of the following six items, please complete the blank spaces:

Item	Net Cost	Mark-up Percentage	Selling Price	Gross Profit Margin
A	**$4.99**	______	**$11.09**	______
B	______	**67%**	**$14.84**	**40%**
C	**$3.23**	______	______	**40%**
D	**$5.98**	**233%**	**$19.93**	______
E	**$2.85**	______	______	**45%**
F	**$16.86**	______	______	**50%**

2) You have just received a special order part for a customer waiting at your counter. You know the cost of this part is $150.00 plus freight and this large customer receives goods at a 25% margin. What is the standard mark-up and the price that you should charge this customer?

3) A customer brings in a worn component looking for a replacement. Since he doesn't you know the part number or specifications, you examine and measure the part. After a 15 minute search, you identify and locate the part and find the net cost is $2.50. What mark-up percentage and gross margin amount do you need to apply just to cover your time and overhead (estimated @ $12.20 per hour)?

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Distribution and the Power of One
Final Exam and Exercise answers

1	False
2	False
3	False
4	True
5	True
6	False
7	False
8	True
9	True
10	True
11	True
12	False
13	False
14	True
15	True
16	True
17	True
18	False
19	True
20	False
21	True
22	False
23	True
24	True
25	True
26	True
27	False
28	False
29	True
30	False
31	True
32	False
33	False
34	True
35	True
36	False
37	True
38	True
39	False
40	False
41	True
42	False
43	False
44	False
45	True
46	A
47	C
48	C
49	B
50	A
51	B
52	A
53	B
54	C
55	A
56	A
57	C
58	B
59	A
60	B
61	B
62	B
63	C
64	C
65	C
66	B
67	C
68	B
69	A
70	A
71	B
72	A
73	B
74	A
75	B
76	C
77	C
78	C
79	B
80	C
81	A
82	C
83	D
84	A
85	C
86	C
87	C
88	B
89	A
90	C
91	B
92	C
93	B
94	B
95	A
96	B
97	C
98	C
99	B
100	B

Exercises

1A	122%, 55%
1B	$8.90
1C	122%, $7.18
1D	70%
1E	82%, $5.18
1F	100%, $33.72

2. Mark-up is 33 1/3%; price is $200 plus freight

3. Mark-up is 122%; gross margin is $3.05.

Final Exam Questions

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