

E-Commerce Essentials (Laudon/Traver)

Chapter 2 E-commerce Business Models and Concepts

1) A value proposition defines how a company's product or service fulfills the needs of a customer.

Answer: TRUE

Diff: Easy

AACSB: Application of knowledge

2) The terms *revenue model* and *financial model* can be used interchangeably.

Answer: TRUE

Diff: Moderate

AACSB: Application of knowledge

3) In order to be considered successful, a firm must produce returns greater than alternative investments.

Answer: TRUE

Diff: Easy

AACSB: Application of knowledge

4) Most first movers have the complementary resources needed to sustain their advantage.

Answer: FALSE

Diff: Moderate

AACSB: Application of knowledge

5) All firms need an organization to efficiently implement their business plans and strategies.

Answer: TRUE

Diff: Easy

AACSB: Application of knowledge

6) Visitors to specialized niche portals tend to spend less money than the average visitor to a horizontal portal.

Answer: FALSE

Diff: Difficult

AACSB: Application of knowledge

7) Barriers to entry into the e-tail marketplace are high.

Answer: FALSE

Diff: Moderate

AACSB: Application of knowledge

8) *Differentiation* refers to situations in which there is little difference between products and the only basis of choosing a product is price.

Answer: FALSE

Diff: Easy

AACSB: Application of knowledge

9) The Internet's universal standards decrease the cost of industry and firm operations.

Answer: TRUE

Diff: Difficult

AACSB: Application of knowledge

10) Interactivity that enables product customization alters industry structure by reducing the threat of substitutes.

Answer: TRUE

Diff: Difficult

AACSB: Application of knowledge

11) Interfirm rivalry is one area of the business environment where e-commerce technologies have had an impact on most industries.

Answer: TRUE

Diff: Difficult

AACSB: Information technology

12) Social technologies change industry structure by shifting programming and editorial decisions to consumers.

Answer: TRUE

Diff: Easy

AACSB: Information technology

13) _____ and _____ are typically the most easily identifiable aspects of a company's business model.

A) Market strategy; market opportunity

B) Value proposition; revenue model

C) Value proposition; competitive environment

D) Revenue model; market strategy

Answer: B

Diff: Moderate

AACSB: Application of knowledge

14) All of the following are key elements of a business model *except*:

A) competitive environment.

B) organizational development.

C) information technology strategy.

D) market strategy.

Answer: C

Diff: Moderate

AACSB: Application of knowledge

15) Which element of the business model addresses the question of why a customer should buy from the firm?

- A) revenue model
- B) competitive advantage
- C) market strategy
- D) value proposition

Answer: D

Diff: Moderate

AACSB: Application of knowledge

16) Which element of the business model examines who else occupies the firm's intended marketspace?

- A) value proposition
- B) competitive environment
- C) competitive advantage
- D) market strategy

Answer: B

Diff: Moderate

AACSB: Application of knowledge

17) Which of the following are Amazon's primary value propositions?

- A) personalization and customization
- B) selection and convenience
- C) reduction of price discovery cost
- D) management of product delivery

Answer: B

Diff: Moderate

AACSB: Analytical thinking

18) Your solar-panel manufacturing firm has developed a unique and patented process for creating high-efficiency solar panels at a fraction of current costs. This will enable your firm to adopt a strategy of:

- A) cost competition.
- B) scope.
- C) scale.
- D) focus.

Answer: A

Diff: Moderate

AACSB: Analytical thinking

19) A firm's _____ describes how a firm will produce a superior return on invested capital.

- A) value proposition
- B) revenue model
- C) market strategy
- D) competitive advantage

Answer: B

Diff: Moderate

AACSB: Application of knowledge

20) Which of the following is an example of the subscription revenue model?

- A) Ancestry.com
- B) eBay
- C) Amazon
- D) Twitter

Answer: A

Diff: Moderate

AACSB: Application of knowledge

21) Stickiness is an important attribute for which revenue model?

- A) advertising revenue model
- B) subscription revenue model
- C) transaction fee revenue model
- D) sales revenue model

Answer: A

Diff: Moderate

AACSB: Application of knowledge

22) Which of the following companies utilizes a transaction fee revenue model?

- A) WSJ.com
- B) E*Trade
- C) Twitter
- D) Sears.com

Answer: B

Diff: Moderate

AACSB: Application of knowledge

23) Which of the following is an example of the affiliate revenue model?

- A) Yahoo
- B) eBay
- C) Gap.com
- D) MyPoints

Answer: D

Diff: Moderate

AACSB: Application of knowledge

24) Assume you are analyzing the market opportunity of a distance learning company, Learnmore.com, that creates education courses delivered over the Internet for the Fortune 1000 corporate market. Assume that the overall size of the distance learning market is \$25 billion. The overall market can be broken down into three major market segments: Corporate, College, and Elementary/High School, each of which accounts for a third of the market. Within the Corporate market, there are two market niches: Fortune 1000, which accounts for 60% of the market, and all others, which together account for 40% of the market. What is Learnmore.com's realistic market opportunity, approximately?

- A) \$5 billion
- B) \$6.6 billion
- C) \$165 billion
- D) \$25 billion

Answer: A

Diff: Difficult

AACSB: Analytical thinking

25) Which of the following factors is *not* a significant influence on a company's competitive environment?

- A) how many competitors are active
- B) what the market share of each competitor is
- C) the availability of supportive organizational structures
- D) how competitors price their products

Answer: C

Diff: Moderate

AACSB: Application of knowledge

26) The existence of a large number of competitors in any one market segment may indicate:

- A) an untapped market niche.
- B) the market is saturated.
- C) no one firm has differentiated itself within that market.
- D) a market that has already been tried without success.

Answer: B

Diff: Difficult

AACSB: Application of knowledge

27) All of the following can be considered a direct or indirect competitor of Amazon.com *except*:

- A) eBay.
- B) Apple's iTunes Store.
- C) Barnesandnoble.com.
- D) Starbucks.

Answer: D

Diff: Moderate

AACSB: Analytical thinking

28) The business model of e-distributors is quite similar to that of:

- A) e-tailers.
- B) transaction brokers.
- C) exchanges.
- D) service providers.

Answer: A

Diff: Moderate

AACSB: Analytical thinking

29) All of the following use an advertising revenue model *except*:

- A) Facebook.
- B) Yahoo.
- C) Google.
- D) Amazon.

Answer: D

Diff: Moderate

AACSB: Application of knowledge

30) Which of the following statements about Groupon is *not* true?

- A) Groupon has yet to show a profit.
- B) Groupon combines two major trends in e-commerce: localization and social networks.
- C) It is unclear if Groupon's business model is sustainable.
- D) Groupon believes it must scale up fast in a winner-take-all market.

Answer: A

Diff: Moderate

AACSB: Application of knowledge

31) Which of the following is *not* considered a portal?

- A) Yahoo
- B) MSN
- C) WSJ.com
- D) AOL

Answer: C

Diff: Easy

AACSB: Application of knowledge

32) Horizontal or general portals primarily generate revenue in all of the following ways *except*:

- A) charging advertisers for ad placement.
- B) collecting transaction fees.
- C) sales of goods.
- D) charging subscription fees.

Answer: C

Diff: Moderate

AACSB: Application of knowledge

33) A business document that specifically details how you plan on selling your product and find new customers is called a:

- A) sales analysis.
- B) business plan.
- C) competitive strategy.
- D) market strategy.

Answer: D

Diff: Easy

AACSB: Application of knowledge

34) Which of the following is *not* a community provider?

- A) LinkedIn
- B) Facebook
- C) Priceline
- D) Pinterest

Answer: C

Diff: Easy

AACSB: Application of knowledge

35) Which of the following is *not* a variation of the e-tailer business model?

- A) bricks-and-clicks
- B) virtual merchant
- C) market creator
- D) manufacturer-direct

Answer: C

Diff: Moderate

AACSB: Application of knowledge

36) An example of a company using the content provider model is:

- A) Priceline.
- B) Rhapsody.com.
- C) Dell.
- D) eBay.

Answer: B

Diff: Moderate

AACSB: Application of knowledge

37) Which of the following is *not* an example of the bricks-and-clicks e-tailing business model?

- A) Walmart.com
- B) JCPenney.com
- C) Dell.com
- D) Staples.com

Answer: C

Diff: Easy

AACSB: Application of knowledge

38) The overall retail market in the United States in 2012 was estimated at about:

- A) \$37 trillion.
- B) \$3.7 trillion.
- C) \$370 billion.
- D) \$37 billion.

Answer: B

Diff: Moderate

AACSB: Application of knowledge

39) Expedia is an example of a:

- A) community provider.
- B) transaction broker.
- C) market creator.
- D) service provider.

Answer: B

Diff: Moderate

AACSB: Application of knowledge

40) All of the following may lead to a competitive advantage *except*:

- A) less expensive suppliers.
- B) better employees.
- C) fewer products.
- D) superior products.

Answer: C

Diff: Moderate

AACSB: Application of knowledge

41) The basic value proposition of community providers is:

- A) they offer a fast, convenient one-stop site where users can focus on their most important concerns and interests.
- B) they offer consumers valuable, convenient, time-saving, and low cost alternatives to traditional service providers.
- C) they create a digital electronic environment for buyers and sellers to meet, agree on a price and transact.
- D) they increase customers' productivity by helping them get things done faster and more cheaply.

Answer: A

Diff: Moderate

AACSB: Application of knowledge

42) All of the following are examples of Business-to-Business (B2B) business models *except*:

- A) e-distributors.
- B) e-procurement.
- C) private industrial networks.
- D) e-tailers.

Answer: D

Diff: Easy

AACSB: Application of knowledge

43) What is the primary revenue model for an e-distributor?

- A) sales
- B) transaction fee
- C) advertising
- D) subscription

Answer: A

Diff: Moderate

AACSB: Application of knowledge

44) Grainger.com is an example of which of the following business models?

- A) B2B service provider
- B) exchange
- C) e-distributor
- D) industry consortia

Answer: C

Diff: Moderate

AACSB: Application of knowledge

45) _____ create and sell access to digital electronic markets.

- A) E-distributors
- B) Portals
- C) E-procurement firms
- D) Market creators

Answer: C

Diff: Moderate

AACSB: Application of knowledge

46) Exostar is an example of a(n):

- A) private industrial network.
- B) exchange.
- C) industry consortium.
- D) e-distributor.

Answer: C

Diff: Easy

AACSB: Application of knowledge

47) The element of a business model that is responsible for making the model work is:

- A) the management team.
- B) the organizational structure.
- C) the firm's key competitive advantage.
- D) the market strategy.

Answer: A

Diff: Moderate

AACSB: Application of knowledge

48) Your startup firm has developed Web-based note-taking software that allows participants to create and share virtual notes attached to existing Web pages. You anticipate marketing your online application to Web development and design companies. Which of the following revenue models is the most appropriate for your new company?

- A) advertising
- B) transaction fee
- C) affiliate
- D) subscription

Answer: D

Diff: Moderate

AACSB: Analytical thinking

49) Which of the following features of e-commerce technology changes industry structure by lowering barriers to entry but greatly expands the market at the same time?

- A) global reach
- B) richness
- C) interactivity
- D) personalization

Answer: A

Diff: Moderate

AACSB: Information technology

50) All of the following are business models employed by the music industry *except*:

- A) subscription.
- B) peer-to-peer streaming.
- C) download-and-own.
- D) cloud streaming.

Answer: B

Diff: Moderate

AACSB: Application of knowledge

51) Which of the following is *not* a primary activity in a firm value chain?

- A) inbound logistics
- B) finance/accounting
- C) operations
- D) sales and marketing

Answer: B

Diff: Moderate

AACSB: Application of knowledge

52) A _____ coordinates a firm's suppliers, distributors, and delivery firms with its own production needs using an Internet-based supply chain management system.

- A) value chain
- B) value system
- C) value web
- D) business strategy

Answer: C

Diff: Moderate

AACSB: Application of knowledge

53) If you wished to leverage the ubiquitous nature of the Web to differentiate your product, you would:

- A) enable individual customization of the product by consumers.
- B) implement a strategy of commoditization.
- C) adopt a strategy of cost competition.
- D) develop a scope strategy to compete within a narrower market segment.

Answer: A

Diff: Moderate

AACSB: Analytical thinking

54) A strategy designed to compete within a narrow market or product segment is called a _____ strategy.

- A) scope
- B) differentiation
- C) cost
- D) focus

Answer: D

Diff: Moderate

AACSB: Application of knowledge

55) Which of the following was the first to announce a cloud music service?

- A) Apple
- B) Google
- C) Amazon
- D) Microsoft

Answer: C

Diff: Moderate

AACSB: Application of knowledge

56) Which of the following was *not* able to successfully implement a freemium business model?

- A) Pandora
- B) MailChimp
- C) Evernote
- D) Ning

Answer: D

Diff: Moderate

AACSB: Application of knowledge

57) All of the following are assets of Twitter *except*:

- A) user attention.
- B) audience size.
- C) database of tweets.
- D) retail inventory.

Answer: D

Diff: Moderate

AACSB: Application of knowledge

58) A(n) _____ is a set of planned activities designed to result in a profit in marketplace.

Answer: business model

Diff: Moderate

AACSB: Application of knowledge

59) In the _____ revenue model, a Web site that offers users content or services charges a fee for access to some or all of its offerings.

Answer: subscription

Diff: Moderate

AACSB: Application of knowledge

60) A firm's _____ refers to the other companies operating in the same marketplace selling similar products.

Answer: competitive environment

Diff: Moderate

AACSB: Application of knowledge

61) The use by a company of its competitive advantage to achieve more advantage in surrounding markets is known as _____.

Answer: leverage

Diff: Moderate

AACSB: Application of knowledge

62) Carbonite is a company that uses a(n) _____ business model.

Answer: service provider

Diff: Moderate

AACSB: Application of knowledge

63) The financial services, travel services, and job placement services industries use the _____ business model.

Answer: transaction broker

Diff: Easy

AACSB: Application of knowledge

64) In the _____ business model, a Web-based business builds a digital environment in which buyers and sellers can meet, display products, search for products, and establish prices.

Answer: market creator

Diff: Moderate

AACSB: Application of knowledge

65) A(n) _____ marketplace supplies products and services of interest to particular industries.

Answer: vertical

Diff: Moderate

AACSB: Application of knowledge

66) _____ is a social network based on 140-character messages.

Answer: Twitter

Diff: Moderate

AACSB: Application of knowledge

67) A(n) _____ is the set of activities performed in an industry or in a firm that transforms raw inputs into final products and services.

Answer: value chain

Diff: Moderate

AACSB: Application of knowledge

68) _____ occurs when there are no differences among products or services and the only basis for choosing a particular product or service is price.

Answer: Commoditization

Diff: Moderate

AACSB: Application of knowledge

69) A(n) _____ strategy is a strategy to compete in all markets around the globe rather than merely in local, regional, or national markets.

Answer: scope

Diff: Moderate

AACSB: Application of knowledge

70) _____ offer users powerful Web search tools as well as an integrated package of content and services, such as news, e-mail, instant messaging, calendars, shopping, and more, all in one place.

Answer: Portals

Diff: Easy

AACSB: Application of knowledge

71) Define organizational development and describe its importance in relation to the implementation of a business plan and strategy.

Answer: Organizational development is a plan that describes how the company will organize the work that needs to be accomplished in the business plan or strategy. Typically, work is divided into functional departments, such as production, shipping, marketing, customer support, and finance. Jobs within these functional areas are defined, and then recruitment begins for specific job titles and responsibilities. Typically, in the beginning, generalists who can perform multiple tasks are hired. As the company grows, recruiting becomes more specialized. For instance, at the outset, a business may have one marketing manager. But after two or three years of steady growth, that one marketing position may be broken down into seven separate jobs done by seven individuals.

All firms—new ones in particular—need an organization to efficiently implement their business plans and strategies. Many e-commerce firms and many traditional firms that attempt an e-commerce strategy have failed because they lacked the organizational structures and supportive cultural values required to support new forms of commerce.

Diff: Moderate

AACSB: Analytical thinking; Written and oral communication

72) Define the term *industry structure* and discuss the ways the Internet and e-commerce have changed the five forces that characterize industry structure.

Answer: The term *industry structure* refers to the general business environment in an industry. It is defined by the nature of the players in the industry and their relative bargaining power. It is characterized by five forces: the rivalry among existing competitors, the threat of substitute products, the barriers to entry into the industry, the bargaining power of the suppliers, and the bargaining power of the buyers.

The competitive consequences of technological developments often change the market share positions among the players. New forms of distribution created by new market entrants can completely change the competitive forces in an industry. The Internet, the Web, and e-commerce have affected the structure of different industries in varying, yet often profound ways. In fact, the explosive emergence of the Internet as a major worldwide distribution channel for goods, services, and even for employment is powerfully changing economies, markets, and industry structures. The universal standards of the Internet have lowered the barrier to entry for many industries, bringing a flood of new entrants. Interfirm rivalry is one area where e-commerce technology has had an impact on most industries.

The major consequence is that every business must become globally competitive, even if it manufactures or sells only within a local or regional market. The Internet has changed the scope of competition from local and regional to national and global, pitting firms that had previously been in separate geographic markets against one another. Consumers of all types of goods have access to global price information, putting pressure on many producers and suppliers in some industries to decrease their prices. On the other hand, it has also presented new opportunities for firms to differentiate their products or services from their competitors, driving prices and profits for those firms up.

The overall positive or negative effect of e-commerce technologies on firm profitability depends on the industry involved. In some industries, particularly those involved with information distribution such as newspapers, magazines, software distributors, music and publishing companies, e-commerce has completely changed the ways of doing business. New online challengers have intensified competition and increased the availability of substitute products.

In general, the bargaining power of consumers has grown relative to the providers, driving prices down and challenging the overall profitability of these industries. In other industries, particularly manufacturing, e-commerce has not greatly changed relationships with consumers but relationships with suppliers have been impacted by the aggregation of markets such as those created by B2B hubs. Increasingly, manufacturing firms in entire industries have banded together to aggregate purchases, create industrial digital exchanges or marketplaces, and outsource industrial processes in order to obtain better prices from suppliers.

Diff: Difficult

AACSB: Analytical thinking; Written and oral communication

73) Briefly explain three B2B Net marketplace business models besides the exchange business model.

Answer: Three other B2B Net marketplace business models are e-distributor, e-procurement, and industry consortium. E-distributors supply products and services directly to individual businesses. The e-distributor operates much like its B2C counterparts, placing its catalog online and giving purchasing agents access to its product lines in a searchable format. An e-distributor is simply one company seeking to serve many customers. For an e-distributor critical mass involves having enough products and services to attract a large enough customer base.

B2B e-procurement firms create and sell access to digital electronic marketplaces. One type of B2B e-procurement firm is a B2B service provider, which sells business services to other firms. Some common B2B business services are accounting, financial services, human resources management, and printing.

Industry consortia are typically industry-owned vertical marketplaces that serve a specific industry. Industry consortia are usually funded by industry members, who pay for the creation of the site and contribute the initial operating capital. Then they typically charge firms that participate in the consortia transaction and subscription fees.

Diff: Moderate

AACSB: Analytical thinking; Written and oral communication

74) Discuss the implications of each of the unique features of e-commerce technology for the overall business environment.

Answer: The ubiquity of e-commerce creates new marketing channels and expands the size of the overall market. It also creates new efficiencies in industry operations and lowers the costs to firms of sales operations. By reducing the cost of information, the Internet provides each of the key players in the value chain for an industry with new opportunities to maximize their positions by lowering costs and/or raising prices. Manufacturers can develop direct relationships with their customers through their own Web sites and bypass the costs of distributors and retailers. Distributors can develop highly efficient inventory management systems to reduce their costs, and retailers can develop efficient customer relations management systems to strengthen their service to customers. Customers can use the Web to search for the best quality, prices and delivery methods thus reducing their transaction costs and the prices they pay for goods.

The global reach of e-commerce lowers barriers to entry and expands the market at the same time. This lowers the costs of both industry and firm operations through production and sales efficiencies. When the operational efficiency of an entire industry increases, it helps the industry to compete with alternative industries and lowers prices and adds value to consumers.

The universal standards of e-commerce lower barriers to entry while at the same time intensifying competition within an industry. Universal standards also reduce the costs for communications and computing enabling firms to engage in broad-scope strategies. Communications efficiencies can also enable firms to outsource some primary and secondary activities to specialized, more efficient providers without affecting the consumer. The Internet can also be used to precisely coordinate the steps in the value chain for a firm, thus reducing overall costs.

The richness of e-commerce reduces the strength of powerful distribution channels. It also allows firms to reduce their reliance on traditional sales forces and can enhance post-sales support services.

The interactivity of e-commerce reduces the threat of substitutes through the enhanced use of customization. It also reduces industry and firm costs by enabling differentiation strategies. In their totality, the differentiation features of a product constitute the customer value proposition for a firm. The ability of the Web to personalize the shopping experience and to customize a product to the particular demands of each consumer are the most significant ways in which the interactivity of the Web can be used to differentiate products.

The use of Internet technology to personalize and customize a customer's experience or product reduces threats of substitutions, raises barriers to entry, reduces value chain costs by lessening reliance on sales forces, and enables personalized marketing strategies.

The information density on the Web weakens powerful sales channels thus shifting bargaining power to the consumer, while also lowering the costs of obtaining, processing, and distributing information about suppliers and consumers.

The use of social technologies shifts programming and editorial decisions to consumers; creates substitute entertainment products; and energizes a large group of new suppliers.

E-commerce firms can also leverage the ubiquitous nature, the global reach, the interactivity, and the information density of the Web to differentiate products and services. Firms can make it possible for consumers to purchase a product from home, work, or on the road, anywhere in the world. They can create Web-based experiences with unique interactive content and store and process product information, warranties, and helpful hints to differentiate their product and their firm from the competition.

Diff: Difficult

AACSB: Analytical thinking; Written and oral communication

75) Define value chain and explain the difference between a firm value chain, an industry value chain, and a value web.

Answer: A value chain is the set of activities performed that transforms raw inputs into final products and services. A firm value chain is the set of activities a firm engages in to create final products from raw inputs. The key steps and support activities in a firm's value chain are inbound logistics, operations, outbound logistics, sales and marketing, and after sales service. With an industry value chain, the chain broadens to include six generic players: suppliers, manufacturers, transporters, distributors, retailers, and customers. A value web coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system. It is a networked trans-business system that coordinates the value chains of several firms.

Diff: Moderate

AACSB: Analytical thinking; Written and oral communication