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E-commerce 2016: Business. Technology. Society., 12e **(Laudon)**
Chapter 2 E-commerce Business Models and Concepts

1) _____ 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

2) All of the following are using a subscription revenue model for music *except*:
A) Spotify.
B) Scribd.
C) Rhapsody.
D) Pandora.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

3) Which element of the business model addresses what a firm provides that other firms do not and cannot?
A) revenue model
B) competitive advantage
C) market strategy
D) value proposition
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

4) Which element of the business model refers to the presence of substitute products in the market?
A) value proposition
B) competitive environment
C) competitive advantage
D) market strategy
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

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5) 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
Difficulty: Moderate
AACSB: Analytical thinking
LO: 2.1: Identify the key components of e-commerce business models.

6) 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

7) Which of the following is an example of the subscription revenue model?
A) eHarmony
B) eBay
C) E*Trade
D) Twitter
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

8) Stickiness is an important attribute for which of the following revenue models?
A) advertising revenue model
B) subscription revenue model
C) transaction fee revenue model
D) sales revenue model
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
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9) Which of the following companies uses a transaction fee revenue model?
A) Yahoo
B) E*Trade
C) Twitter
D) Sears
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

10) Which of the following is an example of the affiliate revenue model?
A) Scribd
B) eBay
C) L.L. Bean
D) MyPoints
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

11) Which of the following involves a company giving away a certain level of product or services without charge, but then charging a fee for premium levels of the product or service?
A) advertising revenue model
B) subscription revenue model
C) freemium strategy
D) transaction fee revenue model
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
LO: 2.1: Identify the key components of e-commerce business models.

12) 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
Difficulty: Difficult
AACSB: Application of knowledge
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13) Which of the following would be considered an indirect competitor of Priceline?
A) Travelocity
B) Expedia
C) Orbitz
D) TripAdvisor
Answer: B
Difficulty: Difficult
AACSB: Analytical thinking
LO: 2.1: Identify the key components of e-commerce business models.

14) 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
Difficulty: Difficult
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

15) All of the following can be considered a direct or indirect competitor of Amazon *except*:
A) eBay.
B) Apple's iTunes Store.
C) Walmart.
D) Starbucks.
Answer: D
Difficulty: Moderate
AACSB: Analytical thinking
LO: 2.1: Identify the key components of e-commerce business models.

16) A perfect market is one in which:
A) there are no competitive advantages or asymmetries because all firms have equal access to all the factors to production.
B) one firm develops an advantage based on a factor of production that other firms cannot purchase.
C) one participant in the market has more resources than the others.
D) competition is at a minimum, as each niche market within an industry is served by the company with the greatest competitive advantage.
Answer: A
Difficulty: Difficult
AACSB: Application of knowledge
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17) Organizations that typically provide an array of services to start-up companies along with a small amount of funding are referred to as:
A) angel investors.
B) crowdfunders.
C) incubators.
D) venture capital investors.
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

18) A _____ specifically details how you plan to find customers and to sell your product.
A) sales analysis
B) business plan
C) competitive strategy
D) market strategy
Answer: D
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

19) Which of the following is *not* a community provider?
A) LinkedIn
B) Facebook
C) Priceline
D) Pinterest
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

20) 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
Difficulty: Moderate
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21) An example of a company using the content provider model is:
A) Priceline.
B) Rhapsody.
C) Dell.
D) eBay.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

22) Which of the following is *not* an example of the bricks-and-clicks e-tailing business model?
A) Walmart
B) Sears
C) Bluefly
D) Staples
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

23) The overall retail market in the United States in 2015 was estimated at about:
A) $48 trillion.
B) $4.8 trillion.
C) $480 billion.
D) $48 billion.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

24) In general, the key to becoming a successful content provider is to:
A) own the content being provided.
B) own the technology by which content is created, presented, and distributed.
C) provide online content for free.
D) provide other services as well as online content.
Answer: A
Difficulty: Moderate
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25) Which of the following was *not* able to successfully implement a freemium business model?
A) Pandora
B) Dropbox
C) LinkedIn
D) Ning
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

26) 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

27) Which of the following is an unfair competitive advantage?
A) brand name
B) access to global markets
C) lower product prices
D) superior technology
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

28) Which of the following gives a business model the most credibility with outside investors?
A) the firm's management team
B) the firm's value proposition
C) the firm's market opportunity
D) the firm's market strategy
Answer: A
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29) Which of the following statements about Foursquare is *not* true?
A) Foursquare combines a social network business model with location-based technology.
B) Foursquare began operating without a revenue model.
C) Foursquare's business model faces significant intellectual property concerns.
D) Foursquare has been able to command a high valuation from venture capital investors despite unimpressive revenue and profits.
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
LO: 2.1: Identify the key components of e-commerce business models.

30) Which type of investor typically becomes interested in a start-up company after it has begun generating revenue?
A) incubators
B) angel investors
C) crowdfunders
D) venture capital investors
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

31) Which of the following is another name for a revenue model?
A) business model
B) business strategy
C) financial model
D) financial statements
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

32) All of the following use a social network marketing strategy *except*:
A) Twitter.
B) YouTube.
C) Pinterest.
D) Amazon.
Answer: D
Difficulty: Easy
AACSB: Application of knowledge
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33) The use by a company of its competitive advantage to achieve more advantage in surrounding markets is known as _____.
A) market strategy
B) differentiation
C) leverage
D) focus
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

34) A wealthy individual who invests personal funds in a start-up in exchange for an equity stock in the business is referred to as a(n) _____.
A) incubator
B) angel investor
C) venture capital investor
D) crowdfunder
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

35) Which of the following is not a key element of an elevator pitch?
A) exit strategy
B) growth metrics
C) legal structure
D) market opportunity
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

36) A value proposition defines how a company's product or service fulfills the needs of a customer.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

37) Firms that fail to produce returns greater than alternative investments typically go out of business.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
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38) An asymmetry exists whenever all participants in a market have equivalent resources.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

39) First movers are often not as successful as follower firms.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

40) All firms need an organization to efficiently implement their business plans and strategies.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

41) The JOBS Act and issuance of enabling regulations by the Securities and Exchange Commission allows a start-up company to use crowdfunding to solicit accredited investors to invest in small and early-stage start-ups.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

42) Why is the management team such an important element of a business model?
Answer: A strong management team gives a model instant credibility to outside investors, immediate market-specific knowledge, and experience in implementing business plans. A strong management team may not be able to salvage a weak business model, but the team should be able to change the model and redefine the business as it becomes necessary.
Difficulty: Moderate
AACSB: Application of knowledge; Written and oral communication
LO: 2.1: Identify the key components of e-commerce business models.

43) Who are the e-commerce enablers and why are they important?
Answer: No discussion of e-commerce business models would be complete without mention of a group of companies whose business model is focused on providing the infrastructure necessary for e-commerce companies to exist, grow, and prosper. E-commerce enablers provide the hardware, operating system software, networks and communications technology, applications software, Web design, consulting services, and other tools required for e-commerce. While these firms may not be conducting e-commerce per se (although in many instances, e-commerce in its traditional sense is in fact one of their sales channels), as a group they have perhaps profited the most from the development of e-commerce.
Difficulty: Moderate
AACSB: Application of knowledge; Written and oral communication
LO: 2.1: Identify the key components of e-commerce business models.

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44) Define elevator pitch and describe its key elements.
Answer: An elevator pitch is a short two-to-three minute presentation aimed at convincing investors to invest. The key elements of an elevator pitch are an introduction, in which you state your name and position, your company's name and a tagline in which you compare what your company does to a well-known company; background, in which you state the origin of your idea, and the problem you are trying to solve, the industry size/market opportunity, in which you provide brief facts about the size of the market; revenue model/numbers/growth metrics, in which you provide insight into your company's revenue model and results thus far, how fast it is growing, and early adopters, if there are any; funding, in which you state the amount of funds you are seeking and what it will help you achieve; and finally exit strategy, in which you explain how your investors will achieve a return on their investment.
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.1: Identify the key components of e-commerce business models.

45) 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.
Difficulty: Moderate
AACSB: Analytical thinking; Written and oral communication
LO: 2.1: Identify the key components of e-commerce business models.

46) The business model of e-tailers is quite similar to that of:
A) e-distributors.
B) transaction brokers.
C) exchanges.
D) service providers.
Answer: A
Difficulty: Easy
AACSB: Analytical thinking
LO: 2.2: Describe the major B2C business models.

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47) All of the following use an advertising revenue model *except*:
A) Twitter.
B) Yahoo.
C) Google.
D) Amazon.
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

48) Which of the following is *not* considered a portal?
A) Yahoo
B) MSN
C) Amazon
D) AOL
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

49) 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

50) 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

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51) eBay uses all of the following business models *except*:
A) B2C market creator.
B) C2C market creator.
C) content provider.
D) e-commerce infrastructure provider.
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

52) All of the following are business models employed in the online music industry *except*:
A) subscription.
B) peer-to-peer streaming.
C) download-and-own.
D) cloud streaming.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

53) The financial services, travel services, and job placement services industries typically use the _____ business model.
A) community provider
B) transaction broker
C) market creator
D) e-tailer
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

54) 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.
A) market creator
B) community provider
C) e-tailer
D) portal
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

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55) On-demand service companies are characterized by the free sharing of resources between the company and consumers.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.2: Describe the major B2C business models.

56) Define and describe the transaction broker business model and discuss the eight components of the business model for this type of B2C firm.
Answer: The transaction broker business model is most commonly found in the financial services, travel services, and job placement services industries. The eight elements of a business model are value proposition, revenue model, market opportunity, competitive environment, competitive advantage, market strategy, organizational development, and management team.

The primary value proposition for a transaction broker is the saving of time and money. These sites also often provide timely information and opinion. They offer the consumer the opportunity to increase their individual productivity by helping them to get things done faster and more cheaply.

The revenue model for these firms is based upon receiving commissions or transaction fees when a successful business deal is completed. Online stock trading firms receive either a flat fee for each transaction or a fee based on a sliding scale according to the size of the transaction. Job sites charge the employers a listing fee up front, rather than when the position is filled as traditional "head hunter" firms have done.

The market opportunity for transaction brokers in financial services appears to be large due to the rising interest in receiving financial planning advice and conducting stock transactions online. Demand is also increasing for job placement help that is national and even global in nature and for purchasing travel services quickly and easily online. However, there is some market resistance due to consumers' fear of loss of privacy and loss of control over their personal financial information.

The competitive environment for financial services has become fierce as new entrants, including the traditional brokerage firms that have now entered the online marketspace, have flooded the market. In order to compete effectively, online traders must convince consumers that they have superior security and privacy procedures. The number of job placement sites has also multiplied, and the largest sites such as Monster, which have the greatest number of job listings, are the most likely to survive. Consolidation in all of the transaction broker markets is presently occurring, making the market opportunity and competitive environment for new firms looking to enter the marketspace bleak.

The market strategies for such firms typically include expensive marketing campaigns to convince consumers to switch from their current provider or to choose their company over other more well-established competitors, also a daunting task in the present economic environment.

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Achieving a competitive advantage is crucial to firms trying to enter these industries. Possible strategies are to lure well-known names in the industry away from their present positions to head a new endeavor, giving the firm instant credibility in the market. Experienced, knowledgeable, and well-known employees may be able to give a new firm a competitive edge.

New companies may have to start out recruiting a specialized highly skilled staff, with an organizational development plan that is far more advanced than the typical startup. A strong management team will attract investors and convince investors and consumers alike that a new firm has plenty of market-specific knowledge and the experience necessary to implement the business plan.
Difficulty: Difficult
AACSB: Analytical thinking; Written and oral communication
LO: 2.2: Describe the major B2C business models.

57) All of the following are examples of business-to-business (B2B) business models *except*:
A) e-distributors.
B) e-procurement.
C) exchanges.
D) e-tailers.
Answer: D
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

58) What is the primary revenue model for an e-distributor?
A) sales
B) transaction fee
C) advertising
D) subscription
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

59) W.W. Grainger is an example of which of the following business models?
A) B2B service provider
B) exchange
C) e-distributor
D) industry consortia
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

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60) _____ create and sell access to digital markets.
A) E-distributors
B) Portals
C) E-procurement firms
D) Market creators
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

61) Which of the following may offer its customers value chain management software?
A) e-distributors
B) e-procurement companies
C) exchanges
D) community providers
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

62) Over the past decade, the number of exchanges has:
A) greatly increased.
B) diminished sharply.
C) stayed about the same.
D) increased slowly but steadily.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

63) SupplyOn is an example of a(n):
A) private industrial network.
B) exchange.
C) industry consortium.
D) e-distributor.
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

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64) A _____ marketplace supplies products and services of interest to particular industries.
A) perfect
B) differentiated
C) horizontal
D) vertical
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

65) SaaS and PaaS providers can typically provide services at lower costs through scale economies.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.3: Describe the major B2B business models.

66) What is a B2B exchange, and what benefits do they offer? Given those benefits, why are they today only a small part of the overall B2B picture?
Answer: An exchange is an independent digital marketplace where hundreds of suppliers meet a smaller number of very large commercial purchasers. Exchanges are owned by independent, usually entrepreneurial startup firms whose business is making a market, and they generate revenue by charging a commission or fee based on the size of the transactions conducted among trading parties. They usually serve a single vertical industry, and focus on the exchange of direct inputs to production and short-term contracts or spot purchasing. For buyers, B2B exchanges make it possible to gather information, check out suppliers, collect prices, and keep up to date on the latest happenings all in one place. Sellers, on the other hand, benefit from expanded access to buyers. The greater the number of sellers and buyers, the lower the sales cost and the higher the chances of making a sale. In theory, exchanges make it significantly less expensive and time-consuming to identify potential suppliers, customers, and partners, and to do business with each other. As a result, they can lower transaction costs–the cost of making a sale or purchase. Exchanges can also lower product costs and inventory-carrying costs–the cost of keeping a product on hand in a warehouse. In reality, however, B2B exchanges have had a difficult time convincing thousands of suppliers to move into singular digital markets where they face powerful price competition, and an equally difficult time convincing businesses to change their purchasing behavior away from trusted long-term trading partners. As a result, the number of exchanges has fallen significantly.
Difficulty: Moderate
AACSB: Application of knowledge; Written and oral communication
LO: 2.3: Describe the major B2B business models.

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67) Which business strategy involves implementing a new, more efficient set of business processes that other firms cannot yet obtain?
A) strategy of cost competition
B) scope strategy
C) customer intimacy strategy
D) focus/market niche strategy
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

68) 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
Difficulty: Moderate
AACSB: Information technology
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

69) Which of the following is *not* a primary activity in a firm value chain?
A) outbound logistics
B) finance/accounting
C) operations
D) after-sales service
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

70) A _____ is a networked business ecosystem that 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

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71) 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
Difficulty: Difficult
AACSB: Analytical thinking
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

72) 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
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

73) _____ technologies are technologies that enable the incremental improvement of products and services.
A) Sustaining
B) Differentiating
C) Disruptive
D) Commodity
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

74) Innovative entrepreneurs and their business firms that destroy existing business models are referred to as _____.
A) crowdfunders
B) venture capitalists
C) disruptors
D) angel investors
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

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75) The term *unfit fitness* refers to a situation in which employees of a firm have the wrong skills for the current environment.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

76) Scale economies are efficiencies that result from flattening the hierarchy of an organization.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

77) A company's strong linkages with its customers increase switching costs.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

78) The Internet's universal standards can change industry structure by increasing barriers to entry and decreasing competition within an industry.
Answer: FALSE
Difficulty: Difficult
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

79) Interactivity that enables product customization alters industry structure by increasing the threat of substitutes.
Answer: FALSE
Difficulty: Difficult
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

80) E-commerce has increased price competition in nearly all markets.
Answer: TRUE
Difficulty: Difficult
AACSB: Application of knowledge
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

81) Social technologies change industry structure by shifting programming and editorial decisions to consumers and creating substitute entertainment products.
Answer: TRUE
Difficulty: Difficult
AACSB: Information technology
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

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82) 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. Inter-firm 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.
Difficulty: Difficult
AACSB: Analytical thinking; Written and oral communication
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

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83) 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.

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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.
Difficulty: Difficult
AACSB: Analytical thinking; Written and oral communication
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

84) 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 transbusiness system that coordinates the value chains of several firms.
Difficulty: Moderate
AACSB: Analytical thinking; Written and oral communication
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

85) Describe the four stages involved in business model disruption.
Answer: In the first disruptive stage, disruptors, often funded by new sources of finance, introduce new products that are less expensive, less capable, and of poorer quality. These early products nevertheless find a niche in a market that incumbents do not serve or are unaware of. In the second stage, disruptors improve their products at a rapid pace, taking advantage of newer technologies at a faster pace than incumbents, expanding their niche market, and eventually attracting a larger customer base from the incumbents' market. In the third stage, the new products and business model become good enough, and even superior to products offered by incumbents. In the fourth stage, incumbent companies lose market share, and either go out of business or are consolidated into other more successful firms that serve a much more limited customer base. Some incumbents survive by finding new customers for their existing product, adopting some of the newer products and business models in separate divisions of their firms, or moving into other often nearby markets.
Difficulty: Moderate
AACSB: Analytical thinking; Written and oral communication
LO: 2.4: Understand the key business concepts and strategies applicable to e-commerce.

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