

E-commerce 2015, 11e (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

Page Ref: 59

Difficulty: Easy

AACSB: Application of knowledge

2) The term *unfit fitness* refers to a situation in which employees of a firm have the wrong skills for the current environment.

Answer: TRUE

Page Ref: 97

Difficulty: Moderate

AACSB: Application of knowledge

3) Firms that fail to produce returns greater than alternative investments typically go out of business.

Answer: TRUE

Page Ref: 60

Difficulty: Easy

AACSB: Application of knowledge

4) An asymmetry exists whenever all participants in a market have equivalent resources.

Answer: FALSE

Page Ref: 66

Difficulty: Moderate

AACSB: Application of knowledge

5) First movers are always more successful than follower firms.

Answer: FALSE

Page Ref: 66

Difficulty: Moderate

AACSB: Application of knowledge

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

Answer: TRUE

Page Ref: 67

Difficulty: Easy

AACSB: Application of knowledge

7) SaaS and PaaS providers can typically provide services at lower costs through scale economies.

Answer: TRUE

Page Ref: 84

Difficulty: Moderate

AACSB: Application of knowledge

8) Sharing economy companies are characterized by the free sharing of resources between the company and consumers.

Answer: FALSE

Page Ref: 81

Difficulty: Moderate

AACSB: Application of knowledge

9) 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

Page Ref: 69

Difficulty: Moderate

AACSB: Application of knowledge

10) Scale economies are efficiencies that result from flattening the hierarchy of an organization.

Answer: FALSE

Page Ref: 84

Difficulty: Moderate

AACSB: Application of knowledge

11) A company's strong linkages with its customers decrease switching costs.

Answer: FALSE

Page Ref: 95

Difficulty: Moderate

AACSB: Application of knowledge

12) The Internet's universal standards can change industry structure by lowering barriers to entry and intensifying competition within an industry.

Answer: TRUE

Page Ref: 87

Difficulty: Difficult

AACSB: Application of knowledge

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

Answer: TRUE

Page Ref: 87

Difficulty: Difficult

AACSB: Application of knowledge

14) E-commerce has increased price competition in nearly all markets.

Answer: TRUE

Page Ref: 89

Difficulty: Difficult

AACSB: Application of knowledge

15) Social technologies change industry structure by shifting programming and editorial decisions to consumers and creating substitute entertainment products.

Answer: TRUE

Page Ref: 87

Difficulty: Difficult

AACSB: Information technology

16) _____ 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

Page Ref: 58

Difficulty: Moderate

AACSB: Application of knowledge

17) All of the following are using a subscription revenue model for e-books *except*:

A) Amazon.

B) Scribd.

C) Barnes and Noble.

D) Oyster.

Answer: C

Page Ref: 60

Difficulty: Moderate

AACSB: Application of knowledge

18) 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

Page Ref: 59

Difficulty: Moderate

AACSB: Application of knowledge

19) Which element of the business model relates to the power of customers and suppliers with respect to a business?

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

Answer: B

Page Ref: 65

Difficulty: Moderate

AACSB: Application of knowledge

20) 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

Page Ref: 60

Difficulty: Moderate

AACSB: Analytical thinking

21) Your company has just implemented a new, more efficient set of business processes that other firms cannot yet obtain. This will enable your firm to adopt a strategy of:

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

Answer: A

Page Ref: 94

Difficulty: Moderate

AACSB: Analytical thinking

22) 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

Page Ref: 60

Difficulty: Moderate

AACSB: Application of knowledge

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

- A) eHarmony
- B) eBay
- C) E*Trade
- D) Twitter

Answer: A

Page Ref: 61

Difficulty: Moderate

AACSB: Application of knowledge

24) The ability to retain user attention and engagement 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

Page Ref: 60

Difficulty: Moderate

AACSB: Application of knowledge

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

- A) Yahoo
- B) E*Trade
- C) Twitter
- D) Sears

Answer: B

Page Ref: 61

Difficulty: Moderate

AACSB: Application of knowledge

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

- A) Oyster
- B) eBay
- C) L.L. Bean
- D) MyPoints

Answer: D

Page Ref: 61

Difficulty: Moderate

AACSB: Application of knowledge

27) 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

Page Ref: 60

Difficulty: Moderate

AACSB: Analytical thinking

28) 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

Page Ref: 65

Difficulty: Difficult

AACSB: Application of knowledge

29) Which of the following would be considered an indirect competitor of Travelocity?

- A) Priceline
- B) Expedia
- C) Orbitz
- D) TripAdvisor

Answer: B

Page Ref: 65

Difficulty: Difficult

AACSB: Analytical thinking

30) 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

Page Ref: 65

Difficulty: Difficult

AACSB: Application of knowledge

31) 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

Page Ref: 65

Difficulty: Moderate

AACSB: Analytical thinking

32) 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

Page Ref: 66-67

Difficulty: Difficult

AACSB: Application of knowledge

33) 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

Page Ref: 74, 84

Difficulty: Easy

AACSB: Analytical thinking

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

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

Answer: D

Page Ref: 75

Difficulty: Moderate

AACSB: Application of knowledge

35) 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

Page Ref: 69

Difficulty: Moderate

AACSB: Application of knowledge

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

- A) Yahoo
- B) MSN
- C) Amazon
- D) AOL

Answer: C

Page Ref: 75

Difficulty: Easy

AACSB: Application of knowledge

37) 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

Page Ref: 75

Difficulty: Moderate

AACSB: Application of knowledge

38) 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

Page Ref: 67

Difficulty: Easy

AACSB: Application of knowledge

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

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

Answer: C

Page Ref: 75

Difficulty: Easy

AACSB: Application of knowledge

40) 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

Page Ref: 74

Difficulty: Moderate

AACSB: Application of knowledge

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

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

Answer: B

Page Ref: 75

Difficulty: Moderate

AACSB: Application of knowledge

42) 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

Page Ref: 74, 75

Difficulty: Easy

AACSB: Application of knowledge

43) The overall retail market in the United States in 2017 was estimated at about:

- A) \$47 trillion.
- B) \$4.7 trillion.
- C) \$490 billion.
- D) \$47 billion.

Answer: B

Page Ref: 74

Difficulty: Moderate

AACSB: Application of knowledge

44) 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

Page Ref: 77

Difficulty: Moderate

AACSB: Application of knowledge

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

- A) Pandora
- B) Dropbox
- C) LinkedIn
- D) Ning

Answer: D

Page Ref: 101

Difficulty: Moderate

AACSB: Application of knowledge

46) 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

Page Ref: 65-66

Difficulty: Moderate

AACSB: Application of knowledge

47) 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

Page Ref: 74, 76

Difficulty: Moderate

AACSB: Application of knowledge

48) 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

Page Ref: 83

Difficulty: Easy

AACSB: Application of knowledge

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

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

Answer: A

Page Ref: 83

Difficulty: Moderate

AACSB: Application of knowledge

50) 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

Page Ref: 84

Difficulty: Moderate

AACSB: Application of knowledge

51) _____ create and sell access to digital markets.

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

Answer: C

Page Ref: 84

Difficulty: Moderate

AACSB: Application of knowledge

52) 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

Page Ref: 84

Difficulty: Moderate

AACSB: Application of knowledge

53) 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

Page Ref: 84-85

Difficulty: Moderate

AACSB: Application of knowledge

54) SupplyOn is an example of a(n):

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

Answer: C

Page Ref: 85

Difficulty: Easy

AACSB: Application of knowledge

55) 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

Page Ref: 66

Difficulty: Moderate

AACSB: Application of knowledge

56) 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

Page Ref: 68

Difficulty: Moderate

AACSB: Application of knowledge

57) 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

Page Ref: 72

Difficulty: Moderate

AACSB: Application of knowledge

58) 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

Page Ref: 62-63

Difficulty: Moderate

AACSB: Analytical thinking

59) 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

Page Ref: 69

Difficulty: Moderate

AACSB: Application of knowledge

60) 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

Page Ref: 87

Difficulty: Moderate

AACSB: Information technology

61) 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

Page Ref: 78-79

Difficulty: Moderate

AACSB: Application of knowledge

62) 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

Page Ref: 91

Difficulty: Moderate

AACSB: Application of knowledge

63) 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

Page Ref: 91-92

Difficulty: Moderate

AACSB: Application of knowledge

64) 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

Page Ref: 93

Difficulty: Difficult

AACSB: Analytical thinking

65) 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

Page Ref: 95

Difficulty: Moderate

AACSB: Application of knowledge

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

Answer: business model

Page Ref: 58

Difficulty: Moderate

AACSB: Application of knowledge

67) _____ technologies are technologies that enable the incremental improvement of products and services.

Answer: Sustaining

Page Ref: 96

Difficulty: Moderate

AACSB: Application of knowledge

68) Innovative entrepreneurs and their business firms that destroy existing business models are referred to as _____.

Answer: disruptors

Page Ref: 96

Difficulty: Moderate

AACSB: Application of knowledge

69) A(n) _____ is a company that sells products and services that are very similar and in the same market segment.

Answer: direct competitor

Page Ref: 65

Difficulty: Moderate

AACSB: Application of knowledge

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

Answer: leverage

Page Ref: 67

Difficulty: Moderate

AACSB: Application of knowledge

71) 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) _____.

Answer: angel investor

Page Ref: 69

Difficulty: Moderate

AACSB: Application of knowledge

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

Answer: transaction broker

Page Ref: 80-81

Difficulty: Easy

AACSB: Application of knowledge

73) 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

Page Ref: 81

Difficulty: Moderate

AACSB: Application of knowledge

74) Personal funds derived from savings, credit card advances, home equity loans, and loans from family and friends are examples of _____ that an entrepreneur may use to get a business off the ground.

Answer: seed capital

Page Ref: 69

Difficulty: Moderate

AACSB: Application of knowledge

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

Answer: vertical

Page Ref: 85

Difficulty: Moderate

AACSB: Application of knowledge

76) New technologies that are at the core of a change in the way business is done are referred to as _____ technologies.

Answer: disruptive

Page Ref: 96

Difficulty: Moderate

AACSB: Application of knowledge

77) An industry _____ is an effort to understand and describe the nature of competition in an industry, the nature of substitute products, the barriers to entry, and the relative strength of consumers and suppliers.

Answer: structural analysis

Page Ref: 87

Difficulty: Moderate

AACSB: Application of knowledge

78) 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

Page Ref: 90

Difficulty: Moderate

AACSB: Application of knowledge

79) _____ 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

Page Ref: 93

Difficulty: Moderate

AACSB: Application of knowledge

80) 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

Page Ref: 95

Difficulty: Moderate

AACSB: Application of knowledge

81) 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 marketplace, 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 marketplace 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.

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.

Page Ref: 80-81

Difficulty: Difficult

AACSB: Analytical thinking; Written and oral communication

82) 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.

Page Ref: 67

Difficulty: Moderate

AACSB: Analytical thinking; Written and oral communication

83) 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.

Page Ref: 86-89

Difficulty: Difficult

AACSB: Analytical thinking; Written and oral communication

84) 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.

Page Ref: 86-98

Difficulty: Difficult

AACSB: Analytical thinking; Written and oral communication

85) 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.

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AACSB: Analytical thinking; Written and oral communication

86) 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.

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