

Electronic Commerce, 12th Edition 9781305867819

Chapter 1 Solutions

Review Questions

1. What are the two main categories of electronic commerce?

Answer: The two main categories of electronic commerce are:

- Consumer shopping on the Web, often called business-to-consumer (or B2C)
- Transactions conducted between businesses on the Web, often called business-to-business (or B2B)

2. List several activities that might be considered business processes.

Answer: Answers may vary. Transferring funds, placing orders, sending invoices, and shipping goods to customers are all examples of business processes.

3. List several activities that might be considered a part of business-to-government electronic commerce.

Answer: Answers may vary. Paying taxes, filing required reports and selling goods to a government agency through a state's Web site are all examples of business-to-government electronic commerce activities.

4. Name the technology that businesses have used since the 1960s to exchange transaction information electronically.

Answer: Since the 1960s, businesses have used electronic data interchange to exchange transaction information electronically. Electronic data interchange (EDI) occurs when one business transmits computer-readable data in a standard format to another business.

5. What is a value-added network?

Answer: A value-added network (VAN) is an independent firm that offers connection and transaction-forwarding services to buyers and sellers engaged in EDI. Before the Internet came into existence as we know it today, VANs provided the connections between most trading partners and were responsible for ensuring the security of the data transmitted.

6. What drove the burst of enthusiasm that led to a rapid growth of investment in online business during the first wave of electronic commerce?

Answer: In the first wave of electronic commerce, many companies and investors believed that being the first Web site to offer a particular type of product or service would give them an opportunity to be successful. This strategy is called the first-mover advantage.

7. What are some of the drawbacks to a strategy that attempts to capitalize on the first-mover advantage?

Answer: First movers must invest large amounts of money in new technologies and make guesses about what customers will want when those technologies are functioning. The combination of high uncertainty and the need for large investments makes being a first mover very risky. As many business strategists have noted, "It is the second mouse that gets the cheese."

8. What specific Internet technologies led to a growth in electronic commerce in developing countries during the third wave of electronic commerce?

Answer: The increases in global online business, especially in less developed countries, are due in part to the growing numbers of people using inexpensive devices such as mobile phones and tablet devices to access the Internet.

9. In what specific ways can businesses use online social interactions?

Answer: Businesses can use online social interactions to advertise, promote, or suggest specific products or services.

10. What is crowdsourcing?

Answer: Gathering multiple small investors together for specific business funding activities is called crowdsourcing.

11. How can online businesses use data analytics to increase sales?

Answer: Companies that store large amounts of data about their customers' behavior on their Web sites can combine that information with their existing data about customers' past purchases to predict the kinds of products, services, or special offers in which each customer might be interested.

12. Briefly explain the difference between a business model and a revenue model.

Answer: A business model is a set of processes that combine to achieve a company's primary goal, which is typically to yield a profit. A revenue model is a specific collection of business processes used to identify customers, market to those

customers, and generate sales to those customers.

13. What is a shipping profile?

Answer: A product's shipping profile is the collection of attributes, including weight and size, that affect how easily a product can be packaged and delivered.

14. Briefly explain why many industry observers believe that describing the history of electronic commerce as a series of "booms and busts" is incorrect.

Answer: Looking back from today's perspective, we can see that as the general economy has expanded and contracted, electronic commerce has consistently expanded more in the good times and contracted less in the bad times than other economic sectors.

15. Why is most business activity conducted today in hierarchical organizations rather than in markets?

Answer: The late Nobel laureate Ronald Coase wrote an essay in 1937 in which he questioned why individuals who engaged in commerce often created firms to organize their activities. He was particularly interested in the hierarchical structure of these business organizations. Coase concluded that transaction costs were the main motivation for moving economic activity from markets to hierarchically structured firms.

16. What is a network economic structure?

Answer: A network economic structure is a business structure wherein firms coordinate their strategies, resources, and skill sets by forming a long-term, stable relationship based on a shared purpose.

17. List four primary activities that might be conducted in a particular business value chain.

Answer: Answers can include any four of the following: design, produce, promote, market, deliver, and support.

18. Briefly explain why an online business can find it difficult to establish trust with its customers.

Answer: Online businesses face a difficult challenge because a kind of anonymity exists for companies trying to establish a Web presence. Because Web site visitors will not become customers unless they trust the company behind the site, a plan for establishing credibility is essential. Sellers on the Web cannot assume that visitors will know that the site is operated by a trustworthy business.

Customers' inherent lack of trust in "strangers" on the Web is logical and to be expected; after all, people have been doing business with their neighbors—not strangers—for thousands of years. Businesses on the Web must find ways to overcome the well-founded tradition of distrusting strangers.

19. In what ways does localization differ from language translation?

Answer: The translation services and software manufacturers that work with electronic commerce sites do not generally use the term "translation" to describe what they do. They prefer the term localization, which means a translation that considers multiple elements of the local environment, such as business and cultural practices, in addition to local dialect variations in the language. The cultural element is very important because it can affect—and sometimes completely change—the user's interpretation of text.

20. Briefly describe the functions performed by a freight forwarder in international electronic commerce.

Answer: A freight forwarder is a company that arranges shipping and insurance for international transactions.

Exercises

1. In two or three paragraphs, distinguish between the terms "business activity," "business process," and "transaction."

Answer: A business activity is a task performed by a worker in the course of doing his or her job while a transaction is an exchange of value, such as a purchase, a sale, or the conversion of raw materials into a finished product.

The group of logical, related, and sequential activities and transactions in which businesses engage are often collectively referred to as business processes.

2. Some writers have called the emergence of electronic commerce to be a "revolution." Others have described it as a series of waves. In about 100 words, briefly discuss the merits of each point of view.

Answer: Answers will vary. Students could mention that using the term "revolution" directly compares this emergence of electronic commerce to other historic changes in economic organization, such as the Industrial Revolution. On the other hand, referring to this emergence as a series of waves implies that these major changes do not occur as a single event but rather a series of developments over an extended period of time.

3. In about 100 words, outline the changes in Internet technology that drove

much of the expanded consumption of digital content during the second wave of electronic commerce.

Answer: Answers will vary but could include:

- Increase in broadband connections
- Subsidization of citizens' Internet access in some countries
- E-mail used as integral part of marketing and customer contact strategies
- Emergence of digital product distribution businesses to legally distribute music, video, and other digital products
- Emergence of Web 2.0

4. The use of online advertising in the second wave of electronic commerce was significantly different than in the first wave. In a paragraph or two, briefly describe this change.

Answer: After a pronounced dip in online advertising activity and revenues near the end of the first wave, companies began the second wave with a renewed interest in making the Internet work as an effective advertising medium. Some categories of online advertising, such as employment services (job-wanted ads) have grown rapidly and have replaced traditional advertising outlets. Companies such as Google have devised ways of delivering specific ads to Internet users who are most likely to be interested in the products or services offered by those ads.

5. In the first wave of electronic commerce, many businesses tried to capitalize on a first-mover advantage. In the second wave, businesses were more likely to employ a smart-follower strategy. In about 100 words, compare the first-mover advantage to the smart-follower strategy.

Answer: Responses will vary but may be similar to the following: With first-mover advantage many companies and investors believed that being the first Web site to offer a particular type of product or service would give them an opportunity to be successful. As business researchers studied companies who had tried to gain a first-mover advantage, they learned that being first did not always lead to success. First movers must invest large amounts of money in new technologies and make guesses about what customers will want when those technologies are functioning. The combination of high uncertainty and the need for large investments makes being a first mover very risky. An approach in which a business observes first-mover failures and enters a business later, when large investments are no longer required and business processes have been tested, is called a smart-follower strategy.

6. Many customers who use mobile devices prefer to make purchases using a mobile app instead of their devices' Web browsers. It is less clear that these customers search for and select specific products using only the merchant's dedicated mobile app. In about 200 words, outline the advantages and disadvantages of using a specific merchant's mobile app to select and purchase products.

Answer:

Advantages might include:

- Faster to find and purchase product
- Ease of use
- One-touch access
- Easy to comparison shop while in a brick-and-mortar
- Receive instant retailer and/or product notifications

Disadvantages might include:

- Limited in terms of product offerings from just one retailer
- Smaller screen sizes can make it difficult to view products or look through multiple products quickly
- Smaller devices may make it more difficult to enter account/consumer information
- Security concerns regarding entering sensitive payment information

7. Many companies are combining their online business activities with an existing physical presence. In about 100 words, explain which elements they are combining and what problems they are solving by doing so.

Answer: A combination of electronic and traditional commerce strategies works best when the business process includes both commodity and personal inspection elements. Especially considering used products electronic commerce provides a good way for buyers to research and obtain information about available products, features, reliability, prices, and retailers, and also helps buyers find specific products that meet their exact requirements. The range of conditions of used products, think cars, makes the traditional commerce component of personal inspection a key part of the transaction negotiation.

Another approach to combining online and traditional selling strategies has been developed to alleviate the burden and high cost of shipping items that have terrible shipping profiles. Many retailers offer a buy online, pick-up in store feature.

8. Briefly define the term “transaction cost” and, in about 100 words, outline several specific ways in which electronic commerce can reduce transaction costs.

Answer: Transaction costs are the total of all costs that a buyer and seller incur as they gather information and negotiate a purchase-and-sale transaction.

Responses on specific ways electronic commerce reduces costs will vary but could include:

- No brick and mortar store required
- Fewer storage requirements
- Elimination of processing errors

9. In a paragraph or two, explain how the Internet creates or enhances the network effect.

Answer: Responses will vary but may include discussions on how the Internet allows the technologies (and thus the people behind them) such as e-mail and social media have a global reach.

10. Write a paragraph in which you distinguish between a business value chain and an industry value chain.

Answer: A business value chain is a way of organizing the activities that each strategic business unit undertakes to design, produce, promote, market, deliver, and support the products or services it sells. An industry value chain describes the larger stream of activities into which a particular business unit's value chain is embedded. To visualize this, start with the inputs to your strategic business unit and work backward to identify your suppliers' suppliers, then the suppliers of those suppliers, and so on. Then start with your customers and work forward to identify your customers' customers, then the customers of those customers, and so on.

11. Political and cultural issues can limit the ability of companies to do business in other countries. In about 100 words, provide examples of how specific government rules and cultural norms can interfere with the conduct of electronic commerce across international borders.

Answer: Responses will vary but may include:

- Translation and localization issues
- Different cultural interpretations of simple design elements, such a shopping cart
- Government control of Internet access in certain countries

Cases

C1. Silvercar

1. Silvercar excludes customers without access to a smartphone or tablet as well as customers who prefer one-on-one service and would rather speak to a person at a rental counter or even over the phone. By choosing not to serve these customers, Silvercar is saving a significant amount on the costs associated with rental counter space, customer transportation to the rental facility, and customer service personnel.
2. Answers will vary. A response may include the threat of lost market share. Silvercar attracts customers who prefer convenience. To reduce this threat, you could suggest the development of a mobile app, a curbside service option and an all-inclusive rental rate for those customers who would prefer that.

3. Answers may vary. The Silvercar employee delivering the car may be the only personal interaction the customer has with the company so it is extremely important that this person be helpful. The customer may have questions regarding specifics of the rental agreement or the functionality of the car. This employee should possess enough knowledge to assist the customer in a friendly, courteous and respectful way.

C2: Hal's Woodworking

1. Responses will vary. Several possible elements are specified below:

STRENGTHS

- Established strong reputation in their geographic area
- Community connections/ gathering place
- Focused dedication to customer service
- Pre-existing collection of workshops and seminars
- Web-ready, robust inventory control system

WEAKNESSES

- Less bulk buying power than larger chains
- No national brand reputation
- Significant costs to establish Web site with uncertain chance of recouping expenses
- No longer stocks lumber

OPPORTUNITIES

- Exploit regional expertise and knowledge (gardening, regulations, building benefits)
- Power tool expertise (classes, demos, booklets, DVDs)
- Partner with Web sites of other local and national businesses, organizations

THREATS

- Competition from national hardware chains
- Competition from manufacturers

2. Responses will vary. Several possible elements are specified below:

STRENGTHS

- Established strong reputation with existing high-end customers
- Focused dedication to customer service
- Web-ready, robust inventory control system

WEAKNESSES

- Less bulk buying power than larger chains
- No national brand reputation
- Significant costs to establish Web site with uncertain chance of recouping expenses

OPPORTUNITIES

- Power tool expertise (offer e-books and online videos)

- Offer specialty tools not readily available elsewhere
- Partner with Web sites of local and national woodworking organizations

THREATS

- Competition from national hardware chains
- Competition from manufacturers

3. Assumptions made by students will vary, but may include the following:
 - Assume Hal's Woodworking plans to expand its specialty products and services to a national customer base
 - Assume Hal's Woodworking will invest in the software to connect its inventory system to the Internet
 - Assume Hal will not try to compete with national chains on items that the chains may offer at significantly lower prices

Specific site content and features that may be included could include:

- a. Feature unique products or manufacturers that the national chains do not. These could include regional businesses and manufacturers who cater to the woodworking/cabinet making markets
 - b. Live access to inventory system (to determine if desired items are in-stock or needs to be special ordered)
 - c. Online training (mix of free and for sale): Hal already has a large body of product and skill training materials that could be added to the Web site. Printouts and sample videos could be offered for free, while related full-length videos and e-books could be offered for sale for download. Store experts could offer live chats on specific topics or offer tips and support on a bulletin board system.
 - d. Make a direct online translation of the store's pre-existing bulletin board of equipment sales and job listings. This could easily be expanded to a national audience.
4. Answers will vary. Additional costs could be associated with building, hosting, and maintaining Web site, as well as providing customer service to the national audience. Benefits could include the development of strong brand recognition, and increased sales and customer base.