

Chapter 2: Defining Your E-Business Idea

Student: _____

1. An entrepreneur should have leadership abilities in order to successfully start, operate, and grow his or her e-business.

True False
2. A stress management plan is not important to an entrepreneur who is starting his or her own business.

True False
3. Organizational skills and self-confidence are not important entrepreneurial abilities.

True False
4. Starting your own business is a great way to set your own work schedule which typically includes plenty of time off to enjoy other pursuits.

True False
5. Before beginning an entrepreneurial adventure, you should carefully review your ongoing financial needs and set aside funds to cover those needs for some time.

True False
6. To begin the entrepreneurial process, you must first decide whether to buy an existing business or start a new one.

True False
7. The time and effort an entrepreneur puts in to starting his or her own business is called sweat equity.

True False
8. The entrepreneurial process is a multistep process that begins with determining entrepreneurial abilities and ends with harvesting a business.

True False
9. An entrepreneur can harvest his or her own business by letting it become a “cash cow,” by going public, or by selling the business.

True False

10. E-business ideas span the spectrum from selling hard-to-find food products directly to consumers, to auctioning excess oil and gas capacity, to offering online mediation services, to providing Web site hosting services, and more.
- True False
11. Startup e-businesses based on flawed e-business models or unsound business practices can still expect to be successful in today's exciting global e-business economy.
- True False
12. An important factor in an e-business's ultimate success or failure is how well its original e-business idea adapts to changes in the marketplace.
- True False
13. The network effect is the phenomena in which an e-business continues to operate successfully in the face of rapid growth.
- True False
14. Viral marketing is an innovative marketing idea that exploits the network effect to rapidly spread information about a product or service across a marketplace.
- True False
15. Scalability refers to the growing value of e-business to the economy as more and more consumers and businesses conduct business transactions online.
- True False
16. Low-cost Internet technologies have made it more difficult for many new e-businesses to enter an online marketplace.
- True False
17. The growth in the number of C2C auction sites, such as eBay, provides a good example of the ease with which new e-businesses can enter a virtual marketplace.
- True False
18. An e-business's ability to secure first-mover advantage and name identification guarantees its success over its competitors.
- True False

19. The e-business marketplace is characterized by rapid knowledge transfer and the need for entrepreneurs to be able to make decisions quickly.

True False

20. The success of Amazon.com is partly based on the company's adaptability to changes in the marketplace.

True False

21. The rapid pace of change in the global e-business economy has little affect on the way existing e-businesses function.

True False

22. The potential for an entrepreneur to expand the market for his or her e-business's products and services is an inherent advantage of doing business online.

True False

23. An online presence created by a Web site affords a company greater business visibility even if it sells its products offline through traditional sales channels.

True False

24. The only reason for a business to publish a Web site is to sell its products and services online.

True False

25. Publishing a Web site is a way to guarantee that a company will successfully expand the market for its products and services.

True False

26. Changing market conditions can affect how well an entrepreneur executes his or her e-business idea.

True False

27. The inherent communication power of the Internet and the Web can be used to draw and keep customers by creating warm one-to-one relationships with them.

True False

28. The Internet and the Web are the ultimate technologies for developing and maintaining positive relationships between businesses and their customers.

True False

29. Access to the Internet and the Web has created a business environment in which traditional business ideas are rewarded and new ideas are discouraged.
- True False
30. The implementation of Internet and Web technologies allows brick-and-click companies and pure-play e-retailers to reduce their operating costs.
- True False
31. An important leadership trait for a successful entrepreneur is:
- A. the ability to relate to others in a positive way
 - B. a high-energy level
 - C. the ability to organize business activities
 - D. the opportunity to set his or her own work schedule
32. Which of the following entrepreneurial abilities is essential to getting things done on time?
- A. self-confidence
 - B. high-energy personality
 - C. leadership
 - D. organizational skills
33. As a leader, an entrepreneur must be able to:
- A. locate business-critical information quickly
 - B. communicate the mission and goals of his or her business to others
 - C. organize business activities
 - D. stay on schedule
34. When entrepreneurship takes place inside a large organization, it is sometimes called:
- A. intrapreneurship
 - B. extrapreneurship
 - C. interpreneurship
 - D. None of the above
35. A successful entrepreneur typically:
- A. works no more than 40 hours a week
 - B. is noncompetitive
 - C. delegates leadership to others
 - D. believes in his or her e-business idea

36. Successful entrepreneurs are generally:
- A. independent
 - B. goal-oriented
 - C. creative
 - D. All of the above
37. Stage 1 in the entrepreneurial process involves:
- A. harvesting the business
 - B. deciding to buy or start a business
 - C. assessing your entrepreneurial interests and abilities
 - D. defining the new business idea
38. Harvesting a business by going public means to:
- A. invest additional sweat equity
 - B. continue to operate the company to generate cash
 - C. sell the business
 - D. issue a public stock offering or IPO
39. In which stage of the entrepreneurial process would you create a business plan?
- A. One
 - B. Two
 - C. Three
 - D. Four
40. A business owner's own time and effort invested in a startup company is called:
- A. sweat equity
 - B. creating a cash cow
 - C. going public
 - D. owner's equity
41. In which stage of the entrepreneurial process would you secure financing for your startup e-business?
- A. One
 - B. Three
 - C. Four
 - D. Five
42. Which of the following factors is unique to doing business online?
- A. network effect
 - B. customer service
 - C. value chains
 - D. brick-and-mortar storefront

43. The phenomena in which the total value of a product, service, or technology grows as more and more people use it is called:
- A. scalability
 - B. viral marketing
 - C. the network effect
 - D. first-mover advantage
44. When the value of an e-business's products and services increase because of distribution over the Internet and the Web, the e-business is exploiting:
- A. name identification
 - B. first-mover advantage
 - C. scalability
 - D. the network effect
45. Which of the following e-businesses owed its early and rapid success to an innovative marketing idea now called viral marketing?
- A. AllAdvantage
 - B. Hotmail
 - C. Rackspace Managed Hosting
 - D. Third Voice
46. The marketing technique that exploits the power of the network effect to rapidly spread information about a new e-business and its products or services is called:
- A. first-mover advantage
 - B. viral marketing
 - C. name identification
 - D. scalability
47. The ability of an e-business idea to continue to function in the face of sudden growth is called:
- A. the network effect
 - B. scalability
 - C. first-mover advantage
 - D. viral marketing
48. An example of an unsuccessful startup e-business that failed to recognize the power of the network effect and the importance of scalability is:
- A. Amazon.com
 - B. Hotmail
 - C. AllAdvantage
 - D. Hometown Favorites

49. Which of the following factors can make it easier for a new business to enter electronic markets?
- A. the network effect
 - B. a high-energy entrepreneur
 - C. low-cost technologies
 - D. increased demand for products
50. Which of the following factors is a major reason for the growth of C2C auction sites?
- A. generation of revenues without having to manage, warehouse, or distribute products
 - B. easy-to-install and manage auction site software
 - C. easy access to auctions sites by both buyers and sellers
 - D. All of the above
51. The competitive advantage that occurs because an e-business beats everyone else to the marketplace with specific products or services is called:
- A. first-mover advantage
 - B. name identification
 - C. scalability
 - D. going public
52. The competitive advantage that may occur when an e-business or its products or services become synonymous with generic products or services (for example “Kleenex” and “tissue”) is called:
- A. name identification
 - B. first-mover advantage
 - C. the network effect
 - D. entrepreneurship
53. Which of the following e-businesses successfully expanded its market by adding an e-business component to its already successful brick-and-mortar business?
- A. Amazon.com
 - B. Ticketmaster
 - C. Rackspace Managed Hosting
 - D. Hotmail
54. Which of the following companies uses the Internet and the Web to acquire greater business visibility while selling its products through traditional channels?
- A. Amazon.com
 - B. Hotmail
 - C. Chrysler
 - D. Hometown Favorites

55. Which of the following e-businesses is based on a new e-business idea made possible by Internet and the Web.
- A. Best Buy
 - B. Barnes & Noble
 - C. Cybersettle
 - D. None of the above
56. A(n) _____ is someone who assumes the risks associated with starting and running his or her own business.
- _____
57. To successfully start, operate, and grow his or her business, an entrepreneur must be able to _____ others.
- _____
58. Successful entrepreneurs must have the _____ to accomplish their goals.
- _____
59. Many successful entrepreneurs display their _____ natures early in life in their approach to school, hobbies, and sports.
- _____
60. The _____ is divided into several stages or steps as a person moves from wanting to start his or her own business to starting, operating, and harvesting it.
- _____
61. An entrepreneur must be prepared to invest his or her own _____ equity in a startup e-business.
- _____
62. The _____ explains how the overall value of a product or service grows as more and more people use the product or service.
- _____
63. Successful e-business entrepreneurs develop imaginative ways of exploiting the _____ in order to market products and services to new customers.
- _____

64. The rapid spread of information about products and services by electronic word of mouth is sometimes called _____ marketing.
- _____
65. E-business ideas that do not continue to function well when under the pressure of unexpected business growth lack _____.
- _____
66. The C2C _____ marketplace provides a good example how low-cost technologies can make it easy for many new e-businesses to enter an online marketplace and become competitive.
- _____
67. The very successful real-world e-business that exploited low-cost technologies, first-mover advantage, and name identification to become the leader in the C2C auction marketplace is _____.
- _____
68. The e-business marketplace is characterized by _____ and the need to make business decisions quickly.
- _____
69. _____ is an example of a pure play e-retailer with a strong adaptability to change as illustrated by its ability to modify its business model when necessary and expanded its product offerings to satisfy changes in the marketplace.
- _____
70. Ticketmaster, Wal-Mart, and Costco are examples of existing brick-and-mortar businesses that successfully revamped their business model to add a(n) _____ component.
- _____
71. The _____ enables companies to get their name and products or services in front of more potential customers than ever before.
- _____
72. Market conditions, execution, and _____ all play an important role in exploiting the Internet and the Web to expand the market for an e-business's products or services.
- _____

73. Simply publishing a _____ is no guarantee that a company will successfully exploit the communication power of the Internet and Web to expand the market for its products and services.
- _____
74. Changing _____ conditions may impact how well a business will be able to execute its e-business idea.
- _____
75. One of the biggest benefits of doing business online is the potential to reduce operating _____.
- _____
76. Discuss five entrepreneurial traits or abilities that are common to individuals who successfully start, operate, and grow their own businesses.
77. Describe the five stages of the entrepreneurial process.

78. Explain the concept of viral marketing and give a real-world e-business example that enjoyed early success in attracting new customers through viral marketing.
79. Discuss the three major reasons for the growth of C2C e-business auction sites.
80. Describe how existing businesses or new e-businesses can exploit the inherent advantages of doing business online and give examples of real-world businesses that have successfully done so.

Chapter 2: Defining Your E-Business Idea **Key**

1. TRUE
2. FALSE
3. FALSE
4. FALSE
5. TRUE
6. FALSE
7. TRUE
8. TRUE
9. TRUE
10. TRUE
11. FALSE
12. TRUE
13. FALSE
14. TRUE
15. FALSE
16. FALSE
17. TRUE
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19. TRUE
20. TRUE
21. FALSE
22. TRUE
23. TRUE
24. FALSE
25. FALSE
26. TRUE
27. TRUE
28. TRUE
29. FALSE
30. TRUE

- 31. A
- 32. D
- 33. B
- 34. A
- 35. D
- 36. D
- 37. C
- 38. D
- 39. C
- 40. A
- 41. B
- 42. A
- 43. C
- 44. D
- 45. B
- 46. B
- 47. B
- 48. C
- 49. C
- 50. D
- 51. A
- 52. A
- 53. B
- 54. C
- 55. C
- 56. entrepreneur
- 57. lead *or* communicate with *or* direct
- 58. self-confidence
- 59. competitive
- 60. entrepreneurial process
- 61. sweat *or* time and effort
- 62. network effect
- 63. network effect *or* Internet *or* Web
- 64. viral

65. scalability

66. auction

67. eBay

68. rapid knowledge transfer

69. Amazon.com

70. e-business

71. Internet *or* Web *or* Internet and Web

72. timing

73. Web site

74. market

75. cost *or* costs *or* expense *or* expenses

76. As an entrepreneur, an individual must demonstrate leadership skills such as intelligence, determination, integrity, listening skills, the ability to relate to others in a positive way, and the ability to communicate the goals of his or her business to others. Starting a new business requires a high-energy personality to meet scheduling demands, the self-confidence to accomplish goals, the organizational skills necessary to get things done, and the ability to act quickly and decisively when necessary.

77. Stage 1: deciding whether or not an individual is an entrepreneur and can expend the time and effort necessary to start a new business.

Stage 2: deciding whether to buy an existing business or start a new business from scratch.

Stage 3: if starting a new business, defining the business idea, creating a business plan, and securing financing.

Stage 4: operating and growing the business.

Stage 5: harvesting the business by continuing to operate it as a “cash cow,” going public, selling the business, or closing the business.

78. Viral marketing is a method of attracting new customers that exploits the network effect by using rapid electronic word of mouth to promote an e-business’s products or services. The e-business example that led to coining the phrase “viral marketing” was Hotmail, one of the first free Web-based e-mail services. Hotmail was promoted by automatically adding a short advertising message and link to the bottom of each outgoing e-mail message. As more and more Hotmail messages began traveling across the Internet, more and more potential customers read the advertising message and signed up for the service.

79. 1. Ease with which consumers can interact with an auction Web site (just a computer and Internet access).

2. Availability of low-cost auction site software that is easy to install and maintain.

3. Attractive business proposition in which an e-business can earn commissions or fees without having to manage, warehouse, or distribute products.

80. Existing and new businesses can use the communication power of the Internet and the Web to expand their markets (Ticketmaster), acquire greater business visibility (Ford Motor Company), maximize customer relationships (Southwest Airlines), create new products or services (Cybersettle), and reduce operating costs (Microsoft).