

Chapter 10

E-Commerce: Digital Markets, Digital Goods

True-False Questions

1. E-commerce refers to the use of the Internet and the Web to transact business.
Answer: True **Difficulty: Easy** **Reference: p. 392**
2. Retail consumer e-commerce is currently growing at single-digit rates.
Answer: False **Difficulty: Easy** **Reference: p. 392**
3. The Internet shrinks information asymmetry.
Answer: True **Difficulty: Medium** **Reference: p. 396**
4. Information asymmetry exists when one party in a transaction has more information for the transaction than the other party.
Answer: True **Difficulty: Medium** **Reference: p. 396**
5. Disintermediation provides major benefits to the distributor.
Answer: False **Difficulty: Medium** **Reference: p. 397**
6. A banner ad opens automatically and does not disappear until the user clicks on it.
Answer: False **Difficulty: Medium** **Reference: p. 400**
7. An online syndicator aggregates content or applications from multiple sources, packaging them for distribution, and reselling them to third-party Web sites.
Answer: True **Difficulty: Medium** **Reference: p. 403**
8. Mobile commerce is the use of wireless devices to conduct e-commerce transactions from any location.
Answer: True **Difficulty: Easy** **Reference: p. 404**
9. Web sites can gather bountiful detailed information about customer behavior and demographics.
Answer: True **Difficulty: Easy** **Reference: p. 405**

10. Blogs have had a significant impact on political affairs.
Answer: True **Difficulty: Easy** **Reference: p. 407**
11. One use of EDI is Web personalization.
Answer: False **Difficulty: Easy** **Reference: p. 410**
12. Direct goods are not directly involved in the production process.
Answer: False **Difficulty: Hard** **Reference: p. 411**
13. Automobile manufacturing is an example of a vertical market.
Answer: True **Difficulty: Medium** **Reference: p. 412**
14. Many third-party Net marketplaces provide vertical markets for a single industry.
Answer: True **Difficulty: Hard** **Reference: p. 412**
15. Although Internet-enabled cell phones are able to access the Web at anytime and from anyplace, the amount of information that they can actually handle at one time is very limited.
Answer: True **Difficulty: Medium** **Reference: p. 415**
16. Sophisticated electronic commerce software has capabilities for processing credit card purchases on the Web.
Answer: True **Difficulty: Easy** **Reference: p. 416**
17. Accumulated balance digital payment systems allow consumers to make instant online payments to merchants and other individuals based stored value in a digital account.
Answer: False **Difficulty: Medium** **Reference: p. 416**
18. Digital cash can be used for micropayments or larger purchases.
Answer: True **Difficulty: Medium** **Reference: p. 417**
19. Digital checks are less expensive than credit cards.
Answer: True **Difficulty: Medium** **Reference: p. 417**
20. Peer-to-peer payment systems are the principal payment systems for electronic commerce.
Answer: False **Difficulty: Hard** **Reference: p. 417**

Multiple-Choice Questions

21. One of the recent critical challenges facing Major League Baseball was:

- a. poor coordination between local and national sales channels.
- b. poorly managed sales channels.
- c. outdated information systems.
- d. decreasing ticket sales.

Answer: d

Difficulty: Medium

Reference p. 389

22. What was the most important impact of Major League Baseball's Web site development efforts?

- a. Created a strategic advantage for major league baseball
- b. Increased the efficiency of baseball operations
- c. Strengthened the relationship with customers and suppliers
- d. Made it possible for major league baseball to survive

Answer: c

Difficulty: Hard

Reference pp 389–390

23. Through what channel did e-commerce first evolve?

- a. Online advertising sales
- b. Internet portals
- c. Online book sales
- d. Internet service providers

Answer: a

Difficulty: Hard

Reference: p. 392

24. Since the dot-com bubble burst of 2001, e-commerce revenues:

- a. have essentially stagnated.
- b. show signs of stabilizing.
- c. have returned to solid growth.
- d. have returned to exponential growth.

Answer: c

Difficulty: Medium

Reference: p. 392

25. Which of the following is not a recent development in e-commerce?

- a. Growth of wireless Internet connections
- b. Online, interactive models for newspapers and other traditional media
- c. Use of blogs as a commercial medium
- d. Exponential growth of e-commerce retail sales

Answer: d

Difficulty: Hard

Reference: p. 392–393

26. Which new development is helping expand B2B e-commerce opportunities?

- a. Podcasting
- b. Blogs
- c. .NET and Web services
- d. Dropping of computing and networking component prices

Answer: c **Difficulty: Hard** **Reference: p. 393**

27. Based on your reading of the chapters, e-commerce is:

- a. still in its beginning phases.
- b. widely accepted by consumers, although technology is still quickly changing.
- c. not yet fully accepted by consumers, although much of its driving technology is firmly in place.
- d. well entrenched as a form of modern commerce.

Answer: a **Difficulty: Medium** **Reference: p. 393**

28. Which of the following is not one of the unique features of e-commerce technology?

- a. Information density
- b. Information asymmetry
- c. Richness
- d. Interactivity

Answer: b **Difficulty: Medium** **Reference: p. 394**

29. The quality of ubiquity, as it relates to e-commerce, is illustrated by:

- a. the same set of standards being used across the globe.
- b. plentiful, cheap information.
- c. the enabling of commerce worldwide.
- d. the availability of Internet technology everywhere and anytime.

Answer: d **Difficulty: Medium** **Reference: p. 394**

30. The lowered costs of information storage, processing, and communication, along with the improvement of data quality has resulted in which unique quality of e-commerce?

- a. Information density
- b. Richness
- c. Customization
- d. Interactivity

Answer: a **Difficulty: Medium** **Reference: p. 394**

31. A marketplace extended beyond traditional boundaries and removed from a temporal and geographic location is called a(n):
- a. virtual community.
 - b. marketpace.
 - c. online marketplace.
 - d. e-hub.

Answer: b **Difficulty: Medium** **Reference: p. 394**

32. The effort required to locate a suitable product is called:
- a. price discrimination.
 - b. search costs.
 - c. menu costs.
 - d. transparency costs.

Answer: b **Difficulty: Medium** **Reference: p. 395**

33. Information density refers to:
- a. the complexity and content of a message.
 - b. the total amount and quantity of information delivered to consumers by merchants.
 - c. the total amount and quantity of information available to all market participants.
 - d. the amount of information available to reduce price transparency.

Answer: c **Difficulty: Easy** **Reference: p. 395**

34. Selling the same goods to different targeted groups at different prices is called:
- a. price customization.
 - b. price opacity.
 - c. price gouging.
 - d. price discrimination.

Answer: d **Difficulty: Easy** **Reference: p. 396**

35. Information _____ exists when one party in a transaction has more information that is important for the transaction than the other party.
- a. transparency
 - b. asymmetry
 - c. symmetry
 - d. imbalance

Answer: b **Difficulty: Easy** **Reference: p. 396**

36. The cost to a merchant of changing the price of a product is called a:

- a. pricing cost.
- b. dynamic pricing cost.
- c. menu cost.
- d. switching cost.

Answer: c **Difficulty: Easy** **Reference: p. 397**

37. Varying a product's price according to the supply situation of the seller is called:

- a. menu pricing.
- b. supply pricing.
- c. dynamic pricing.
- d. asymmetrical pricing.

Answer: c **Difficulty: Easy** **Reference: p. 397**

38. Reducing the business process layers in a distribution channel is called:

- a. disintermediation.
- b. BPR.
- c. market segmentation.
- d. network effects.

Answer: a **Difficulty: Easy** **Reference: p. 397**

39. Compared to digital markets, traditional markets:

- a. have lower search costs.
- b. have higher marketing costs.
- c. have higher delayed gratification effects.
- d. have higher transaction costs.

Answer: d **Difficulty: Hard** **Reference: p. 398**

40. Digital goods are goods that:

- a. are produced digitally.
- b. are sold over digital networks.
- c. are delivered digitally.
- d. all of the above.

Answer: c **Difficulty: Medium** **Reference: p. 398**

41. Compared to traditional goods, digital goods:

- a. have higher marketing costs.
- b. have lower production costs.
- c. have greater pricing flexibility.
- d. have higher inventory costs.

Answer: c **Difficulty: Medium** **Reference: p. 399**

42. Which of the following Internet business models does Amazon.com use?

- a. Information broker
- b. Transaction broker
- c. Online service provider
- d. Virtual storefront

Answer: d **Difficulty: Medium** **Reference: p. 399**

43. Which of the following businesses utilizes the content provider Internet business model?

- a. Amazon.com
- b. eBay.com
- c. CNN.com
- d. Motocross.com

Answer: c **Difficulty: Medium** **Reference: p. 399**

44. Which of the following is an ad that opens automatically and does not disappear until the user clicks on it?

- a. Banner ad
- b. Controlled ad
- c. Portal ad
- d. Pop-up ad

Answer: d **Difficulty: Medium** **Reference: p. 400**

45. Internet content providers:

- a. generate from directing buyers to sellers.
- b. save users money and time by processing online sales dealings.
- c. provide a digital environment where buyers and sellers can establish prices for products.
- d. create revenue by providing digital content over the Web.

Answer: d **Difficulty: Easy** **Reference: p. 399**

46. Transaction brokers:

- a. generate revenue from advertising or from directing buyers to sellers.
- b. save users money and time by processing online sales dealings.
- c. provide a digital environment where buyers and sellers can establish prices for products.
- d. sell physical products directly to consumers or individual businesses.

Answer: b **Difficulty: Easy** **Reference: p. 399**

47. Online marketplaces:

- a. save users money and time by processing online sales dealings.
- b. provide a digital environment where buyers and sellers can establish prices for products.
- c. create revenue by providing digital content over the Web.
- d. sell physical products directly to consumers or individual businesses.

Answer: b **Difficulty: Easy** **Reference: p. 399**

48. Which of the five moral dimensions does the Interactive Session on MySpace.com raise?

- a. Information rights and obligations
- b. Quality of life
- c. System quality
- d. Property rights and obligations

Answer: b **Difficulty: Hard** **Reference: p. 402**

49. A “supersite” that provides a comprehensive entry point for a huge array of Internet resources and services is called a(n):

- a. portal.
- b. online syndicator.
- c. content provider.
- d. information broker.

Answer: a **Difficulty: Medium** **Reference: p. 403**

50. Pure-play business models:

- a. are primarily used in business-to-business electronic commerce.
- b. do not sell a physical product.
- c. are extensions of traditional bricks-and-mortar businesses.
- d. did not have an earlier existing bricks-and-mortar business before they went to the Internet.

Answer: d **Difficulty: Easy** **Reference: p. 404**

51. eBay is an example of:
- a. a click-and-mortar business.
 - b. C2C electronic commerce.
 - c. B2C electronic commerce.
 - d. an online exchange.

Answer: b **Difficulty: Easy** **Reference: p. 404**

52. Businesses retailing products and services directly via the Internet to individual consumers best describes:
- a. B2B electronic commerce.
 - b. C2C electronic commerce.
 - c. M-commerce.
 - d. B2C electronic commerce.

Answer: d **Difficulty: Easy** **Reference: p. 404**

53. Consumers selling goods and services electronically to other consumers best describes:
- a. disintermediation.
 - b. C2C electronic commerce.
 - c. M-commerce.
 - d. B2C electronic commerce.

Answer: b **Difficulty: Easy** **Reference: p. 404**

54. The presentation of Web pages tailored to a customer, based on the gathering of demographic information provided by the customer, is called:
- a. interactive marketing.
 - b. personalization.
 - c. collaborative filtering.
 - d. localization.

Answer: b **Difficulty: Medium** **Reference: p. 406**

55. Tools that record customer activities at Web sites and store them in a log for further analysis are called:
- a. clickstream tracking tools.
 - b. customer tracking tools.
 - c. collaborative filtering tools.
 - d. filtering tools.

Answer: a **Difficulty: Easy** **Reference: p. 405**

56. Tools that compare user behavior and interests to make purchasing recommendations to users are called:
- clickstream tracking tools.
 - customer tracking tools.
 - collaborative filtering tools.
 - filtering tools.

Answer: c **Difficulty: Easy** **Reference: p. 406**

57. From your reading of the text, which general strategy to overcome market forces is an overarching focus for Stonyfield Farm?
- Low-cost leadership
 - Product differentiation
 - Focus on market niche
 - Strengthen customer and supplier intimacy

Answer: c **Difficulty: Hard** **Reference: p. 408**

58. What strategy was implemented by Stonyfield Farm's use of blogs?
- Low-cost leadership
 - Product differentiation
 - Focus on market niche
 - Strengthen customer and supplier intimacy

Answer: d **Difficulty: Hard** **Reference: p. 408**

59. The organizational department responsible for handling customer service issues is the:
- service center.
 - customer support.
 - call center.
 - sales department.

Answer: c **Difficulty: Medium** **Reference: p. 409**

60. EDI is:
- the use of Internet technologies for electronic data transactions.
 - the exchange between two organizations of standard transactions through a network.
 - electronic data invoicing.
 - electronic delivery infrastructure.

Answer: b **Difficulty: Medium** **Reference: p. 410**

61. The process of sourcing goods and materials, negotiating with suppliers, paying for goods, and making delivery arrangements is called:
- procurement.
 - e-procurement.
 - supply chain management.
 - electronic commerce.

Answer: a **Difficulty: Easy** **Reference: p. 410**

62. An extranet that links a large firm to its suppliers and other key business partners is called a(n):
- private industrial network.
 - e-hub.
 - marketspace.
 - exchange.

Answer: a **Difficulty: Easy** **Reference: p. 411**

63. _____ are more transaction oriented than private industrial networks.
- Private exchanges
 - E-hubs
 - Extranets
 - All of the above

Answer: b **Difficulty: Hard** **Reference: p. 411**

64. Net marketplaces:
- focus on continuous business process coordination between companies for supply chain management.
 - operate as independent intermediaries between buyers and sellers.
 - are geared towards short-term spot purchasing.
 - are more relationship oriented and less transaction oriented than private industrial networks.

Answer: b **Difficulty: Medium** **Reference: p. 411**

65. A third-party Net marketplace that connects many buyers and suppliers for spot purchasing is called a(n):
- exchange.
 - vertical market.
 - private exchange.
 - e-hub.

Answer: a **Difficulty: Medium** **Reference: p. 412**

66. Which type of application takes special advantage of the unique capabilities of mobile technology?

- a. Text-based messaging
- b. Personalized services
- c. Location-based applications
- d. Interactive, video-rich applications

Answer: c **Difficulty: Medium** **Reference: p. 413**

67. The electronic payment system in which users make micropayments and purchases on the Web, accumulating a debit balance on their credit card or telephone bill is called a(n) _____ payment system.

- a. smart card
- b. accumulated balance digital
- c. stored value
- d. digital cash

Answer: b **Difficulty: Medium** **Reference: p. 416**

68. The electronic payment system that uses a credit card-size plastic card that stores digital information and that can be used for electronic payments in place of cash is called:

- a. digital cash.
- b. e-cash.
- c. digital wallet.
- d. smart card.

Answer: d **Difficulty: Easy** **Reference: p. 416**

69. Based on your reading of the case study text, which of the four generic strategies to deal with competitive forces was the motivating factor behind eBay's acquisition of JotSpot and Kaboodle?

- a. Low-cost leadership
- b. Product differentiation
- c. Focus on market niche
- d. Strengthen customer and supplier intimacy

Answer: b **Difficulty: Hard** **Reference: p. 426**

70. Based on your reading of the text, how do wireless marketing strategies differ from "traditional" Internet marketing strategies?

- a. Focus is on bringing message related to the customer's point of need or locale.
- b. Content-rich messaging
- c. Greater personalization
- d. Pushing Web sites to customers

Answer: a **Difficulty: Medium** **Reference: p. 413–415**

Fill In the Blanks

71. Menu costs are the merchants' costs of changing prices.
Difficulty: Hard **Reference: p. 397**
72. A(n) virtual storefront sells physical products directly to consumers or individual businesses.
Difficulty: Medium **Reference: p. 399**
73. A(n) virtual community provides an online meeting place where people with similar interests can communicate and find useful information.
Difficulty: Medium **Reference: p. 399**
74. A(n) portal provides the initial point of entry to the Web along with specialized content and other services.
Difficulty: Easy **Reference: p. 399**
75. Exchanges are a third-party Net marketplace primarily transaction oriented and that connect many buyers and suppliers for spot purchasing.
Difficulty: Medium **Reference: p. 412**
76. A(n) digital wallet stores credit card and owner identification information and provides these data automatically during electronic commerce purchase transactions.
Difficulty: Medium **Reference: p. 416**
77. A(n) micropayment is a payment for a very small sum of money, often less than \$10.
Difficulty: Medium **Reference: p. 416**
78. Stored value payment systems enable a consumer to make instant online payments to merchants and other individuals based on value stored in the digital account.
Difficulty: Medium **Reference: p. 416**
79. Peer-to-peer payment systems allow people to send money to vendors or individuals who are not set up to accept credit card payments.
Difficulty: Medium **Reference: p. 417**
80. A(n) digital checking system extends the functionality of existing checking accounts so they can be used for online shopping payments.
Difficulty: Medium **Reference: p. 417**

Essay Questions

81. **Describe how e-commerce affects careers in the four major business functions. Which function do you think is most affected currently?**

- If your career is in finance and accounting, you will be working with systems for receiving payments electronically over the Internet and for delivering new online financial services based on the Web.
- If your career is in human resources, you will be using online job-hunting sites to attract new employees.
- If your career is in manufacturing, production or operations management, you will be using the Internet for sourcing, and using public B2B commerce systems and private industrial networks for procurement and management of your supply chain.
- If your career is in sales and marketing, you will be using the Web to provide digital products and services, and to sell and promote products by using personalization, customization, and community marketing techniques.

I think the function most affected currently by e-commerce is manufacturing and production, as a company's supply chain can affect 75% of its total operating budget. The efficiency and better decision making afforded by e-commerce can make significant changes in a company's supply chain and, therefore, profits.

Difficulty: Hard

Reference:

p. 391

82. **"Knowledge increases exponentially," is a phrase with which we are all familiar. How does this concept apply to electronic business and the emergence of the digital firm? Support your contentions.**

Student answers will vary: One answer might be:

The exponential increases of knowledge refer to shared information. For example, once the concept of a wheel is established, inheritors of that knowledge do not have to "reinvent the wheel." The Internet is a tool similar to the wheel: it is based on shared standards and universal tools. The Internet and shared networking technologies are allowing new techniques for attracting customers and selling customers to be developed and adapted very quickly. For example, although early Internet retailers had difficulty setting up secure credit card transactions and payment systems, today there are many systems in place as vendors step in to create shared tools for doing this. The Internet is fostering shared knowledge and as such propagating ever greater increases in that knowledge.

Difficulty: Hard

Reference:

p. 391–418

83. **What are transaction costs? List and describe at least four ways that the Internet can reduce transaction costs.**

Transaction costs are the costs in participating in a market and purchasing goods and services that a business cannot make itself. Because of its speed and the availability of information, the Internet makes it possible to reduce the time expenditure in such transactions as answering the customer questions, trading shares of stock, correcting an employee record, processing customer orders, making advertising information available, or paying a bill. Because time and effort is reduced, transaction costs are reduced.

Difficulty: Hard

Reference:

p. 394

84. **List and describe at least five different Internet business models. Which of these models do you think is the most risky for a dot-com business? Support your answer.**

The eight models are: virtual storefront, information broker, transaction broker, online marketplace, content provider, online service provider, virtual community, and portal. The choice of riskiest model will depend on the individual student.

Difficulty: Medium

Reference:

p. 399

85. **Using Web personalization technology, companies are moving into customer-centered retailing. Discuss this concept, defining relevant terms.**

Web personalization is the art of gathering enough information about visitors to your Web site that you can present that site to returning visitors, hopefully new customers, by name and by interest area.

Customer-centered retailing allows a company to tailor products individually to many customers at the same time. In Internet terms, this is referred to as “mass customization.” In the past, because it could not know each of its customers individually, a company had to create a product aimed at a broad variety of needs and hope that the needs of enough customers could be met with that product to create a profit. Customers, on the other hand, had to choose among products that already existed, or pay an increased price for a product tailored individually to them.

The Internet, by making it possible for companies and their customers to interact individually, has changed this equation. Companies can now use the capacities of the Internet to provide ongoing information, service, and support to individuals, which will create positive interactions with customers that can serve as the foundations for long-term relationships and repeat purchases.

Difficulty: Hard

Reference:

p. 405–406

86. **List and describe at least three ways in which the individual consumer may pay for purchases on the Internet.**

The principal electronic payment systems for electronic commerce for the individual are credit card, digital wallet, accumulated balance digital payment systems, stored value systems, digital cash, peer-to-peer payment systems, and electronic checks. Most consumers use their credit card.

Difficulty: Medium

Reference:

p. 416–417

87. **List and describe the three major types of electronic commerce. Which do you think is ultimately the most valuable to the individual consumer? Support your answer.**

Business-to-consumer, business-to-business, and consumer-to-consumer. All three are valuable to the consumer, but in the long run, business-to-business may be the most valuable to the individual consumer because it will reduce prices and increase both goods and services. (Other opinions, of course, are supportable.)

Difficulty: Medium

Reference:

p. 404–412

88. **What methods could a portal use to generate revenue? Which do you think might be most successful, and why?**

Advertising, subscriptions, selling collected marketing information, and directing buyers to sellers could all generate revenue. I would think the most successful method would be through collecting marketing information, because as a portal that links to large amounts of external information and attracts repeat customers, the portal would have the opportunity to gather a lot of information about each user.

Difficulty: Medium

Reference:

p. 399–406

89. **You are consulting for Lucky's, a chain of gas stations. What types of e-commerce opportunities, if any, are relevant to Lucky's? Could Lucky's make use of any Internet business models for this opportunity?**

In terms of B2B e-commerce, Lucky's might be able to procure goods over the Internet, use a private industrial network to coordinate their supply chain with suppliers and manage inventory. Depending on the structure of the gasoline retail business, industry net marketplaces and exchanges might be of use.

In terms of B2C e-commerce, there are not many opportunities, as it is inefficient to sell gasoline over the Internet. However, a mobile payment system, similar to Mobil's SpeedPass payment system, is a way of offering more convenient services to customers. Additionally, Lucky's could make sure that its stations are listed in popular location-based mobile services that help drivers find nearby gas stations.

Difficulty: Hard

Reference:

p. 404–418

90. **You have been hired as a marketing consultant by a law firm in Los Angeles that specializes in juvenile justice. What ways can you use the Internet as a marketing tool and to advertise the firm's services?**

For market research, you could advertise on search engines. You could pay for marketing research at relevant portals. You could also collect customer information from the company's Web site. You could monitor relevant blogs to see what issues are of concern in juvenile justice, so as to address these concerns in your advertising campaigns.

To advertise, you could advertise on search engine results and at relevant portals or legal information content providers, using banner ad or popup ads. If it were feasible, you could create a juvenile justice portal and blog for the company in order to attract users whom you could gather market research as well as promote your services.

Difficulty: Hard

Reference:

p. 405–409