**Electronic Commerce, 11th Edition  
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**Chapter 1 Solutions**

**Review Questions**

1. **Briefly describe the technologies that led businesses into the second wave of electronic commerce.**

*Answer*: The increase in broadband connections in homes is a key element in the B2C component of the second wave. The increased use of home Internet connections to transfer large audio and video files is generally seen as the impetus for the large numbers of people spending the extra money required to obtain a broadband connection during the second wave. The increased speed of broadband not only makes Internet use more efficient, but it also can alter the way people use the Web. For example, a broadband connection allows a user to watch movies and television programs online—something that is impossible to do with a dial-up connection. This opens up more opportunities for businesses to make online sales. It also changes the way that online retailers can present their products to Web site visitors.

Another group of technologies emerged in the second wave that made new online businesses possible. The general term for these technologies is Web 2.0, and they include software that allows users of Web sites to participate in the creation, editing, and distribution of content on a Web site owned and operated by a third party. Sites such as Wikipedia, YouTube, and Facebook use Web 2.0 technologies.

1. **Figure 1-5 lists sale/purchase of residential real estate as a type of business that is well suited to a combination of electronic and traditional commerce. In one paragraph, identify the elements of this service that would be best handled using traditional commerce, and explain why.**

*Answer:*  Traditional commerce, rather than electronic commerce, can be a better way to sell items that rely on personal selling skills. For example, sales of commercial real estate involve large amounts of money and a high degree of interpersonal trust. Even if commercial real estate is listed online, it will usually require personal contact to negotiate the deal.

1. **Briefly describe the specific activities that a computer assembly operation might include in B2B electronic commerce for its supply management or procurement operations.**

*Answer:* In addition to buying materials and selling computers, the company must also undertake many other activities to convert the purchased materials into computers. These activities might include hiring and managing the people who make the computers, renting or buying the facilities in which the computers are made and stored, shipping the computers, maintaining accounting records, obtaining customer feedback, purchasing insurance, and developing advertising campaigns.

1. **Name and briefly describe the two business activities that were the earliest implementations of electronic commerce.**

*Answer*: Since the mid-1960s, banks have been using electronic funds transfers (EFTs, also called wire transfers), which are electronic transmissions of account exchange information over private communications’ networks. Initially used to transfer money between business checking accounts, the use of EFTs gradually expanded to include payroll deposits to employees’ accounts, automatic payment of auto and mortgage loans, and deposit of government payments to individuals, such as U.S. Social Security System remittances.

Businesses have also used a form of electronic commerce, known as electronic data interchange, for many years. Electronic data interchange (EDI) occurs when one business transmits computer-readable data in a standard format to another business.

1. **Many business analysts have discussed the concept of the first-mover advantage. What are some of the disadvantages of being a first mover?**

*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.”

1. **What is a commodity item and why would its shipping profile be an important consideration for firms that want to sell it online?**

*Answer*: A commodity item is a product or service that is hard to distinguish from the same products or services provided by other sellers; its features have become standardized and well known.

A product’s shipping profile is the collection of attributes that affect how easily that product can be packaged and delivered. A high value-to-weight ratio can help by making the overall shipping cost a small fraction of the selling price. A DVD is an excellent example of an item that has a high value-to-weight ratio. Products that are consistent in size, shape, and weight can make warehousing and shipping much simpler and less costly. Commodity items that have an attractive shipping profile include books, clothing, shoes, kitchen accessories, and many other small household items.

1. **What are transaction costs, and why are they important considerations in electronic commerce?**

*Answer:* Transaction costs are the total of all costs that a buyer and seller incur as they gather information and negotiate a purchase-sale transaction. Businesses and individuals can use electronic commerce to reduce transaction costs by improving the flow of information and increasing the coordination of actions. By reducing the cost of searching for potential buyers and sellers and increasing the number of potential market participants, electronic commerce can change the attractiveness of vertical integration for many firms.

1. **Provide one example of an industry that operates using a network economic structure today and explain why it functions better than it would if structured as either a market or a hierarchy.**

*Answer:* In a network economic structure, companies coordinate their strategies, resources, and skill sets by forming long-term, stable relationships with other companies and individuals based on shared purposes. Network organizations are particularly well suited to technology industries that are information intensive.

In a hierarchically structured business environment, these types of strategic alliances would not last very long because the larger strategic partners would buy out the smaller partners and form a larger single company.

1. **Explain how high transaction costs would push an industry away from a market economic structure and toward a hierarchical structure.**

*Answer*: The late Nobel laureate Ronald Coase reasoned that when transaction costs were high, businesspeople would form organizations to replace market-negotiated transactions. These organizations would be hierarchical and would include strong supervision and worker-monitoring elements.

1. **How might a university use SWOT analysis to identify new degree programs that it could offer online?**

*Answer:* In SWOT analysis, the analyst first looks into the business unit to identify its strengths and weaknesses. The analyst then reviews the environment in which the business unit operates and identifies opportunities presented by that environment and the threats posed by that environment.

1. **Explain the difference between translation and localization services that might be used by an online business that wants to expand into multiple foreign markets.**

*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.

1. **Briefly describe the function a customs broker might perform in the delivery of goods that were purchased online.**

*Answer*: A customs broker is a company that arranges the payment of tariffs and compliance with customs laws for international shipments.

**Exercises**

1. **Many companies that sell luxury goods, such as Chanel, Lilly Pulitzer, and Vera Wang, did not offer their products for sale on their Web sites for many years. Some of these companies still do not sell products on their Web sites (or offer only some of their products for sale), preferring instead to sell their products through exclusive retail stores. Identify at least one luxury goods producer that does not sell some or all of its products online and speculate why they might have chosen this strategy.**

*Answer*: Responses will vary. Dior, Chanel, Céline, and Hermes do not sell their products online. These companies insist on the customers’ presence in their retail stores. Some argue that having an online store could potentially cannibalize in-store traffic while others are wary about losing their exclusivity in the digital market place.

1. **You have decided to buy a new color printer for your home office, but are unsure whether an ink-jet or laser printer would be best for you. Use two Web sites such as HPshopping.com, Office Depot, Best Buy, OfficeMax, or Staples to gather information. Write a short critique of how each of the two sites provided or failed to provide information useful to you in your search.**

*Answer:* Answers will vary.

Web sites: Staples.com and HPshopping.com

A great feature of HPshopping.com is that it allows you to filter printers by use (Business, Home, and Large Format). If you choose Business, both inkjets and lasers are recommended. However, the feature also allows you to drill down further to compare the cost of ink/toner for each brand. This is important because the cost of the ink/toner affects the total cost of the printer over time. Staples.com does not provide this feature.

1. **Choose one of the Web sites listed in the previous question and identify three ways the company has reduced its transaction costs by using a Web site to provide information about printers. List these three transaction cost-reduction elements and write a paragraph in which you discuss one transaction cost-reduction opportunity that you believe the company has missed.**

*Answer:* Answers will vary. For HPShopping.com:

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

1. **Create a diagram (similar to the diagram in Figure 1-10) that describes the industry value chain for a bicycle. Identify stages of the chain in which a company might use electronic commerce and explain how the company might use it in those stages.**

*Answer:* Responses will vary.

1. Brand designs product.
2. Manufacturer receives designs.
3. Manufacture acquires components and builds product to specification and cost.
4. Distributor receives product from brand/supplier, appoints resellers, sets retail price, and does local marketing.
5. Retailer stocks and sells product.
6. Consumers acquire product.
7. **Read the following business messages and come up with a list of words or phrases in each message that you believe might be troublesome for automated translation software. Then use either the Yahoo! Babel Fish or the FreeTranslation Web site to translate the messages from English to one of the foreign languages available on that site. Translate each message back into English. Write a short memo that compares the problems you anticipated with those that occurred in the automated translation. The business messages are the following:**

* **The flight has been delayed due to weather and your shipment of components will be delayed by one day.**
* **We want to bid on your proposal, but we will need you to send us the drawings of subassembly #24 and the supervising mechanical engineer’s quality control report by next Thursday.**
* **Our company offers the latest and greatest hot deals on wheels. We would love to send you a brochure that explains why our brakes, wheels, and enhanced suspension components will meet your needs effectively and economically.**

*Answer:* Phrases that might pose a problem include:

* Hot deals on wheels
* Subassembly #24
* Shipment of components

**Cases**

### C1. Amazon.com

1. Both Toys“R”Us and Amazon.com benefited from the network economics effect they obtained by having toys available for sale on Amazon.com’s well-known electronic commerce site. Many small toy retailers in the Amazon Marketplace program also benefited because shoppers visited the Amazon.com site looking for toys. When a site visitor searched for a toy, the Amazon Marketplace retailers’ offerings were presented on the search results page along with results from Toys“R”Us and Amazon.com.
2. Answers will vary. Advantages may include:

* The arrangement eliminated the toy inventory problems that had been plaguing Amazon.
* The arrangement required Toys "R" Us to pay a base fee plus a percentage of sales. The profit potential was significant.

1. Answers may vary. There are several issues to consider, including:

* Zappos has a one-of-a-kind culture that cannot be easily duplicated.
* Its free shipping model (and returns) is legendary
* Zappos also offers superior customer service

1. Answers may vary. Amazon bought IMDb to support its entry into the online video sales market.

### 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. Assumptions made my students will vary, but may include the following:

* Assume Hal’s Woodworking plans to expand its 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 can offer at significantly lower prices.

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

* 1. Sales of appropriate store products
  2. Live access to inventory system (to determine if desired items are in-stock or to reserve a product to be picked up in-store)
  3. 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. Handouts and sample videos could be offered for free, while related tapes, DVDs, and books could be offered for sale. Store experts in various trades or skills could offer live chats on specific topics or offer tips and support on a bulletin board system.
  4. 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.
  5. Emphasize specialty products: The Web site could feature unique products or manufacturers that the national chains do not. These could include regional businesses and manufacturers who cater to specialty markets (i.e. orchid lovers, antiques restoration, etc.)