Chapter 3
Retailing in Electronic Commerce: Products and Services

True-False Questions

1. A retailer is an intermediary that operates between manufacturers and consumers.

   Answer: T   **Reference:** Overview of E-Tailing

2. Publishers have elected to sell books through online companies like Amazon.com, through retailers like Barnes and Noble, through wholesalers who sell to small book stores, and through their own Web sites. This is an example of a multichannel approach.

   Answer: T   **Reference:** Internet Marketing and Electronic Retailing

3. E-tailing is primarily found in B2B markets.

   Answer: F   **Reference:** Overview of E-Tailing

4. Catalog sales online are limited by size constraints.

   Answer: F   **Reference:** Overview of E-Tailing

5. E-tail success requires either quality merchandise, excellent prices, or excellent service.

   Answer: F   **Reference:** Characteristics of Successful E-Tailing

6. Dell and Nike are examples of established mail-order retailers that have transformed into online retailers.

   Answer: F   **Reference:** Classification by Distribution Channel

7. Pure-play e-tailers have no physical stores.

   Answer: T   **Reference:** Classification by Distribution Channel

8. Dell's strategy is best classified as direct sales by a manufacturer.

   Answer: T   **Reference:** Classification by Distribution Channel

9. Click-and-mortar retailers add a transactional Web site to one or more brick-and-mortar stores.

   Answer: T   **Reference:** Click-and-Mortar Retailers

10. Many experts expect pure-play e-tailers to eventually dominate all retail market segments.

    Answer: F   **Reference:** Click–and-Mortar Retailers

11. Rather than replacing an existing marketing channel, the Internet is an additional marketing channel for click-and-mortar operations.

    Answer: T   **Reference:** Click-and-Mortar Retailers

12. Referring directories are malls with a directory organized by product type.

    Answer: T   **Reference:** Retailing in Online Malls

13. While shopping in a mall with shared services, a customer finds, orders, pays for, and arranges for product delivery through the hosting mall, but each store executes these services separately.

    Answer: T   **Reference:** Retailing in Online Malls

14. The only source of revenue for online travel and tourism sites is direct revenues from commissions.

    Answer: F   **Reference:** Travel and Tourism Services Online

15. The ability to provide huge amounts of free information at very low costs is the primary advantage held by online travel and tourism sites over traditional travel agencies.

    Answer: T   **Reference:** Benefits and Limitations of Online Travel Services

16. Experts are predicting that travel agencies as we know them today will be replaced by online travel service providers.

    Answer: T   **Reference:** Impact of EC on the Travel Industry

17. The employment placement industry has traditionally suffered from unbalanced supply and demand.

    Answer: T   **Reference:** Employment Placement and the Job Market

18. The primary advantage of online placement firms is that they bring job seekers into direct contact with companies seeking employees.

    Answer: T   **Reference:** Employment Placement and the Job Market

19. Most traditional insurers are abandoning their traditional agency distribution system in favor of pure-play e-commerce operations.

    Answer: F   **Reference:** Insurance Online

20. Many insurers are using a dual distribution strategy, by adding online distribution of standard products to their traditional agency distribution system.

    Answer: T   **Reference:** Insurance Online

21. When an online brokerage house, like Schwab, matches and executes buy and sell orders from its own customers, it is acting as an exchange.
    Answer: T   **Reference:** Online Stock Trading

22. The primary risk of using an online broker is the risk that the broker will not be able to execute an ordered trade in a timely manner.

    Answer: F   **Reference:** Online Stock Trading

23. From a bank's perspective, online banking offers a cheap alternative to branch banking as well as a chance to enlist customers in remote areas.

    Answer: T   **Reference:** Banking and Personal Finance Online

24. NetBank was the first pure-play e-commerce bank.

    Answer: F   **Reference:** Virtual Banks

25. Liquidity risks for online banks refer to the risk that a hacker will find a way into customer accounts.

    Answer: F   **Reference:** Implementation Issues in Online Financial Transactions

26. The U.S. grocery industry is very large, but characterized by very narrow margins.

    Answer: T   **Reference:** The Case of E-Grocers

27. Shopping avoiders use online grocers because they are physically limited in their ability to shop in traditional grocery stores.
    Answer: F   **Reference:** The Case of E-Grocers

28. Studies have shown that online grocery customers are most often repeat customers who use the online services only on rare occasions when traditional grocery shopping is inconvenient.

    Answer: F   **Reference:** The Case of E-Grocers

29. Time-starved customers choose to shop at online grocers in order to free up scarce personal time.

    Answer: T   **Reference:** The Case of E-Grocers

30. Online grocers have shown a high degree of success and are significantly more profitable than traditional brick-and-mortar grocery stores.

    Answer: F   **Reference:** The Case of E-Grocers

31. Digital music presents an advantage over traditional CDs and tapes in that the digital music store has negligible physical inventory storage cost.

    Answer: T   **Reference:** Online Delivery of Digital Products, Entertainment, and Media

32. A major attraction of digital entertainment products for producers of such products is the possibility of eliminating retail intermediaries.

    Answer: T   **Reference:** Online Delivery of Digital Products, Entertainment, and Media

33. Since Napster encouraged peer-to-peer file sharing and did not actually publish music at its site, the courts ruled that Napster's operations were exempt from traditional copyright laws.

    Answer: F   **Reference:** The Napster Experience: Its Rise and Collapse

34. Egghead.com realized a substantial reduction in operating costs and inventory costs by eliminating its brick-and-mortar stores and becoming a pure-play in e-commerce.

    Answer: T   **Reference:** Developments in the Delivery of Digital Products

35. Spy services are cookies installed on the computers of shoppers which track where shoppers go on the Internet and each item purchased.

    Answer: T   **Reference:** "Spy" Services

36. Real gains for traditional retailers can only be realized by replacing brick-and-mortar operations with pure-plays in EC.

    Answer: F   **Reference:** Successful Click-And-Mortar Strategies

37. In implementing a successful click-and-mortar strategy, a company must make sure that whether a customer establishes contact through face-to-face encounters with store personnel or through the Web page, the information and service received is consistent.

    Answer: T   **Reference:** Successful Click-And-Mortar Strategies

38. Investors in e-tailers which report small losses on each unit sold shouldn't be concerned because the huge volume of business available online should more than offset these small marginal losses.
    Answer: F   **Reference:** What Lessons Can We Learn from These Failures?

39. Cybermediation occurs at Web sites that use intelligent agents to facilitate intermediation.

    Answer: T   **Reference:** Cybermediation

40. Channel conflict occurs when adding an online distribution channel causes problems with existing distribution channels.

    Answer: T   **Reference:** Channel Conflict

Multiple Choice Questions

41. A retailer is an intermediary who operates:

    a. between manufacturers and consumers.
    b. in B2B markets between suppliers and manufacturers.
    c. only in pure-play e-commerce markets.
    d. an Internet Service provider.

    Answer: a   **Reference**: Overview of E-Tailing

42. In e-tailing, the customer

    a. is always a consumer.
    b. is always another business.
    c. may be a consumer or a business.
    d. is a wholesaler.

    Answer: c   **Reference**: Overview of E-Tailing

43. All of the following product categories are well established on the Internet today **EXCEPT:**

    a. computer hardware.
    b. office supplies.
    c. sporting goods.
    d. new cars.

    Answer: d   **Reference:** What Sells Well on the Internet

44. All of the following product characteristics are expected to facilitate greater online sales **EXCEPT**:

    a. a digitized product format.
    b. high price.
    c. standard product specifications.
    d. frequently purchased items.

    Answer: b   **Reference**: Characteristics of Successful E-Tailing

45. Marketing that takes place without the help of intermediaries is called:

    a. disintermediation.
    b. direct marketing.
    c. pure-play e-tailing.
    d. shared service malls.

    Answer: b   **Reference**: Classification by Distribution Channel

46. Dell's strategy is best described as:

    a. a shared service mall strategy.
    b. a click-and-mortar strategy.
    c. direct sales by a manufacturer.
    d. a brick-and-mortar strategy.

    Answer: c   **Reference**: Classification by Distribution Channel

47. Sears marketing strategy would best be described as:

    a. a shared service mall strategy.
    b. a click-and-mortar strategy.
    c. direct sales by a manufacturer.
    d. a brick-and-mortar strategy.

    Answer: b   **Reference**: Classification by Distribution Channel

48. In direct marketing:

    a. customers are contacted without intermediaries.
    b. shipments are made directly from the seller to the customer.
    c. sales are made in malls only.
    d. electronic distributors must be used.

    Answer: a   **Reference**: Classification by Distribution Channel

49. An online seller of travel services which makes its money by charging fees for its services is an example of a:

    a. viral marketer.
    b. content disseminator.
    c. market maker.
    d. transaction broker.

    Answer: d   **Reference**: Exhibit 3.2

50. A marketer that uses email to advertise to potential customers is called a:

    a. viral marketer.
    b. content disseminator.
    c. market maker.
    d. transaction broker.

    Answer: a   **Reference**: Exhibit 3.2

51. A company that creates and manages many-to-many markets is called a:

    a. viral marketer.
    b. content disseminator.
    c. market maker.
    d. transaction broker.

    Answer: c   **Reference**: Exhibit 3.2

52. In an e-market, Federal Express is an example of a:

    a. viral marketer.
    b. content disseminator.
    c. market maker.
    d. service provider.

    Answer: d   **Reference**: Exhibit 3.2

53. All of the following are potential sources of revenue for online independent travel agents **EXCEPT**:

    a. subscription fees.
    b. advertising fees.
    c. transaction fees.
    d. direct marketing revenues.

    Answer: d   **Reference**: Travel and Tourism Services Online

54. Sites that evaluate and verify the trustworthiness of e-tailers are called:

    a. business rating sites.
    b. shopbots.
    c. trust verification sites.
    d. shopping portals.

    Answer: c   **Reference**: Trust Verification Sites

55. The TRUSTe seal is an example of:

    a. a business rating.
    b. a trustmark.
    c. a copyright.
    d. a B2B exchange.

    Answer: b   **Reference**: Trust Verification Sites

56. Bobbie wants to buy a painting over the Internet, but she is unwilling to pay for it until she inspects it to ascertain authenticity. The auction site through which she purchases the painting agrees to hold her money until she tells them to release it to the seller. This is an example of:

    a. a business rating.
    b. a trustmark.
    c. an escrow service.
    d. an epinion provider.

    Answer: c   **Reference**: Other Shopper Tools

57. A software agent that surveys user's reading interests, then uses machine learning to find new Web pages and news articles using neural-network-based collaborative filtering technology is called:

    a. an aggregator portal.
    b. a real-time agent.
    c. a learning agent.
    d. the sponsorship model.

    Answer: c   **Reference**: Exhibit 3.8

58. A traditional brick-and-mortar store with a mature Web site uses a click-and-mortar strategy to do all of the following **EXCEPT**:

    a. reduce refunds and exchanges.
    b. speak with one voice.
    c. empower customers.
    d. leverage each channel's advantages for all customers.

    Answer: a   **Reference**: Successful Click-and-Mortar Strategies

59. The original click-and-mortar strategy employed by Toys R Us failed, as did the original toy venture of Amazon.com. Now, Toys R Us sells toys online through Amazon.com. This is an example of:

    a. disintermediation.
    b. channel conflict.
    c. a digital delivery system.
    d. an alliance of a pure-player with a traditional retailer.

    Answer: d   **Reference**: Alliance of Virtual and Traditional Retailers: Amazon.com and Toys R Us

60. WeRFishingLures has been in business for fifteen years selling custom fishing lures to local fishermen through its store in a shopping mall. The company's owners are considering opening a Web site and selling their products internationally. One new risk they will face in going from a brick-and-mortar strategy to a click-and-mortar strategy is:

    a. the risk that their products will not meet the needs of their target market.
    b. the risk that costs will erode their profit margin.
    c. the risk associated with trying to abide by conflicting rules and regulations in many different locales.
    d. the risks associated with shifting their cost structure from mostly fixed costs to mostly variable costs.

    Answer: c   **Reference**: What Lessons Can We Learn from These Failures?

61. The single factor that will determine which intermediaries continue to exist and which are replaced is:

    a. the addition of value-added services by the intermediary.
    b. the ability of the intermediary to match up buyers and sellers.
    c. the profitability of the intermediary.
    d. the length of the relationship between the intermediary and its customers.

    Answer: a   **Reference**: Disintermediation and Reintermediation

62. Rather than selling through computer and office supply stores, Dell decided to sell directly to its customers. The elimination of these traditional retailers is called:

    a. reintermediation.
    b. cybermediation.
    c. disintermediation.
    d. channel conflict.

    Answer: c   **Reference**: Disintermediation and Reintermediation

63. Direct marketing eliminates:

     a. wholesalers and retailers only.
     b. retailers only.
     c. wholesalers only.
     d. all intermediaries.

     Answer: d   **Reference**: Disintermediation and Reintermediation

64. Rather than competing with other travel agencies for traditional fees, Rosenbluth International changed its business model to assist its customers with comparison shopping and through providing other value-added services. This is an example of:

     a. disintermediation.
     b. reintermediation.
     c. cybermeidation.
     d. electronic intermediation.

     Answer: b   **Reference**: Disintermediation and Reintermediation

65. Amazon.com utilizes a wide variety of new types of intermediaries in serving its customers. This is an example of:

     a. disintermediation.
     b. unbundling.
     c. cybermeidation.
     d. hypermediation.

     Answer: d   **Reference**: Disintermediation and Reintermediation

66. The process of offering specialized services in small segments in order to improve speed and efficiency is called:

     a. channel conflict.
     b. unbundling.
     c. cybermeidation.
     d. hypermediation.

     Answer: b   **Reference**: Disintermediation and Reintermediation

67. When its agents learn that an insurer has begun selling policies over the Internet, they threaten to resign en masse unless the insurer stops this practice. This is an example of

     a. channel conflict.
     b. unbundling.
     c. cybermeidation.
     d. hypermediation.

     Answer: a   **Reference**: Channel Conflict

68. Amazon.com uses cookies to identify returning customers and to provide suggested products for purchase based on prior shopping behavior. This is an example of:

    a. personalization.
    b. channel cooperation.
    c. on-demand delivery.
    d. advertising supported model.

    Answer: a   **Reference**: Personalization

69. E-wisdom says that the first company to begin selling in a marketspace is more likely to succeed than competitors that join the marketspace later. This is called:

    a. channel conflict.
    b. first-mover advantage.
    c. strategic positioning.
    d. static design.

    Answer: b   **Reference**: Managerial Issues

70. In some online markets, it isn't the first firm to enter the marketspace that succeeds, but the second company that learns from the leader's errors and collects the customers the lead company loses as a result of these mistakes. This strategy is called:

    a. second to-market.
    b. re-intermediation.
    c. channel conflict.
    d. strategic positioning.

    Answer: a   **Reference**: Managerial Issues

71. Amazon.com elected to enter the online book market very early and build brand recognition while other companies were still trying to decide what to do. This strategy is called:

    a. wait and learn.
    b. reintermediation.
    c. first-to-market.
    d. channel transformation.

    Answer: c   **Reference**: Managerial Issues

72. Amazon.com entered into a partnership with ToysRUs after eToys began struggling in the online toy market. This is an example of:

    a. second-mover strategy.
    b. reintermediation.
    c. first-to-market.
    d. channel transformation.

    Answer: a   **Reference**: Managerial Issues

73. Strategic positioning requires e-managers to answer all of the following questions **EXCEPT:**

    a.   What niche will our products fill?
    b.   Which company should provide our server hardware?
    c.   What partners shall we use?
    d.   Which business functions will we outsource?

    Answer: b   **Reference**: Managerial Issues

Essay Questions

74. List three characteristics of successful e-tailing.

    Answer: Any three of:
    1.   High brand recognition.
    2.   A guarantee from well-known vendors.
    3.   Digitized format.
    4.   Relatively inexpensive items.
    5.   Frequently purchased items.
    6.   Commodities with standard specifications.
    7.   Items that cannot be opened in a traditional store.

    Reference: Characteristics of Successful E-tailing

75. Give an example of how e-commerce is driving disintermediation and reintermediation.

    Answer: Answers will vary. Disintermediation examples would include any situation where an intermediary is driven out of existence by the emergence of an online business model making a traditional intermediary's roll obsolete. Reintermediation occurs whenever e-commerce creates the need for a new kind of value-added intermediary.

    Reference: Disintermediation and Reintermediation

76. The economics of e-commerce make traditional concern over profit margins obsolete due to the volumes possible for online businesses. Do you agree? Defend your answer.

    Answer: E-commerce is just as dependent on a positive profit margin as traditional businesses. While the focus of e-businesses is often directed toward fixed rather than variable costs, the concept of controlling total cost in a way to create a profit is equally relevant to all businesses.

    Reference: Problems with E-Tailing and Lessons Learned

77. Explain how channel conflict could threaten the success of a click-and-mortar strategy.

    Answer: Channel conflict occurs whenever problems arise among different distribution channels in use by the same company. A successful click-and-mortar strategy depends on the success of both the traditional and new channel of distribution. If conflict arises between two channels, the efforts of the company could be compromised as service in both channels declines and customers seek other alternatives.

    Reference: Channel Conflict

78. Explain why pricing is difficult in a click-and-mortar strategy.

    Answer: Search engines compare prices across the Internet, so pricing must be competitive in order to achieve sales. Prices must also allow the achievement of profit goals within the company. This conflict between sales and profit is complicated further by the competing price structure of the traditional brick-and-mortar operation. If prices are much lower than the traditional structure, traditional sales may be cannibalized by lower profit online sales.

    Reference: Determining the Right Price