

E-commerce 2013, 9e (Laudon/Traver)
Chapter 9 Online Retail and Services

1) Mobile commerce currently accounts for more retail goods sold than social commerce.

Answer: TRUE

Diff: 2 Page Ref: 573

AACSB: Reflective Thinking

2) In 2012, the number of online buyers was around 150 million.

Answer: TRUE

Diff: 2 Page Ref: 573

AACSB: Reflective Thinking

3) Groupon is an example of local commerce.

Answer: TRUE

Diff: 2 Page Ref: 573

AACSB: Reflective Thinking

4) Online retailing is one of the largest segments of the retail industry.

Answer: FALSE

Diff: 2 Page Ref: 575

AACSB: Reflective Thinking

5) Contrary to predictions of analysts made during the early days of e-commerce, the Internet has led to both disintermediation and hypermediation on a widespread basis.

Answer: FALSE

Diff: 2 Page Ref: 576-577

AACSB: Reflective Thinking

6) Consumers are primarily price-driven when shopping on the Internet.

Answer: FALSE

Diff: 2 Page Ref: 577

AACSB: Reflective Thinking

7) Online retailing provides an example of the powerful role that intermediaries continue to play in retail trade.

Answer: TRUE

Diff: 2 Page Ref: 581

AACSB: Reflective Thinking

8) The power of suppliers is a key industry strategic factor.

Answer: TRUE

Diff: 2 Page Ref: 582

AACSB: Reflective Thinking

9) In the United States, the service sector accounts for about 75 percent of all economic activity.

Answer: TRUE

Diff: 2 Page Ref: 602

AACSB: Reflective Thinking

10) The retail industry is the largest investor in information technology.

Answer: FALSE

Diff: 2 Page Ref: 603

11) In the United States, banks, insurance firms, and brokerage firms are prohibited from having significant financial interests in one another.

Answer: FALSE

Diff: 2 Page Ref: 605

AACSB: Reflective Thinking

12) Almost 80 million households now use online banking.

Answer: TRUE

Diff: 2 Page Ref: 607

AACSB: Reflective Thinking

13) The online mortgage industry has transformed the process of obtaining a mortgage.

Answer: FALSE

Diff: 2 Page Ref: 610

AACSB: Reflective Thinking

14) The major impact of Internet real estate sites is in enabling online-only property transactions.

Answer: FALSE

Diff: 2 Page Ref: 613

AACSB: Reflective Thinking

15) Online career sites are being threatened by both job search engines and aggregators.

Answer: TRUE

Diff: 1 Page Ref: 624

AACSB: Reflective Thinking

16) Which of the following is *not* a major trend in online retail for 2012-2013?

A) Online retailing is the fastest growing retail channel.

B) Lunchtime purchases are the fastest growing time segment for online retail purchases.

C) Online retailers increase the use of interactive marketing tools such as blogs and user-generated content.

D) Social commerce triples from \$1 billion to \$3 billion.

Answer: B

Diff: 2 Page Ref: 577

AACSB: Reflective Thinking

17) Personal consumption of retail goods and services accounts for approximately _____ of the United States GDP.

A) \$11 billion

B) \$110 billion

C) \$1.1 trillion

D) \$11 trillion

Answer: D

Diff: 2 Page Ref: 574

AACSB: Reflective Thinking

18) All of the following products are considered durable goods *except*:

A) automobiles.

B) clothing.

C) appliances.

D) furniture.

Answer: B

Diff: 2 Page Ref: 574

AACSB: Reflective Thinking

19) Within the United States retail goods and services market, personal consumption of _____ accounts for the largest share.

A) durable goods

B) nondurable goods

C) online retail
D) services
Answer: D
Diff: 2 Page Ref: 574
AACSB: Reflective Thinking

20) Which of the following segments of the United States retail market is highly concentrated, with large firms dominating sales?

- A) food and beverage
- B) online retail
- C) MOTO
- D) general merchandise

Answer: D
Diff: 1 Page Ref: 574
AACSB: Reflective Thinking

21) The MOTO sector of the retail industry is most similar to the _____ sector.

- A) specialty stores
- B) general merchandise
- C) online retail sales
- D) product-based services

Answer: C
Diff: 2 Page Ref: 575
AACSB: Reflective Thinking

22) Which of the following is *not* one of the seven major segments of the retail industry?

- A) electronics and computers
- B) consumer durables
- C) gasoline and fuel
- D) food and beverage

Answer: A
Diff: 1 Page Ref: 575
AACSB: Reflective Thinking

23) Which of the following sectors of the United States retail industry is the largest?

- A) consumer durables
- B) specialty stores
- C) gasoline and fuel
- D) online retail

Answer: A
Diff: 2 Page Ref: 575
AACSB: Reflective Thinking

24) All of the following statements are true *except*:

- A) Compared to general merchandisers, the transition to e-commerce has been easier for MOTO firms.
- B) The MOTO sector is also called the general merchandise sector.
- C) MOTO was the last technological revolution that preceded e-commerce.
- D) Distribution of catalogs is one of MOTO retailers' biggest expenses.

Answer: B
Diff: 2 Page Ref: 575-576
AACSB: Reflective Thinking

25) All of the following were factors that precipitated the growth of MOTO *except*:

- A) the national toll-free call system.
- B) the growth of the cellular phone industry.
- C) falling long distance telecommunications prices.
- D) the growth of the credit card industry.

Answer: B
Diff: 2 Page Ref: 575-576
AACSB: Reflective Thinking

26) All of the following were parts of the vision during the early days of e-commerce *except* the belief that:

- A) new, "first-mover" middlemen, with expertise in e-commerce, would force traditional intermediaries out of business.
- B) Web consumers were rational and cost-driven.
- C) entry costs to the online retail market would be much less than those needed to establish a physical storefront.
- D) the cost of acquiring customers would be much lower.

Answer: A

Diff: 2 Page Ref: 576

AACSB: Reflective Thinking

27) In 2012, online retail sales revenues were approximately:

- A) \$2.24 billion.
- B) \$22.4 billion.
- C) \$224 billion.
- D) \$2.24 trillion.

Answer: B

Diff: 3 Page Ref: 578

AACSB: Reflective Thinking

28) In 2012, approximately what percentage of Internet users over the age of 14 made a purchase at an online retail store?

- A) 30 percent
- B) 50 percent
- C) 70 percent
- D) 90 percent

Answer: C

Diff: 2 Page Ref: 578

AACSB: Reflective Thinking

29) To improve shipment and delivery, Amazon has used all of the following techniques *except*:

- A) increasing its number of warehouses.
- B) sending pre-posted packages to United States Postal System centers.
- C) optimizing the size of shipments.
- D) establishing pick-up centers for pickup and delivery of commonly ordered goods.

Answer: D

Diff: 1 Page Ref: 592

AACSB: Reflective Thinking

30) The top 25 retailers account for about _____ percent of all online retail.

- A) 90
- B) 60
- C) 45
- D) 20

Answer: B

Diff: 2 Page Ref: 579

AACSB: Reflective Thinking

31) All of the following are advantages of online retail *except*:

- A) lower supply chain costs.
- B) lower cost of distribution.
- C) ability to change prices.
- D) faster delivery of goods.

Answer: D

Diff: 2 Page Ref: 579

AACSB: Reflective Thinking

32) Which of the following is *not* one of the central challenges facing the online retail industry?

- A) lack of physical store presence
- B) consumer concerns about the privacy of personal information
- C) inconvenience in returning goods
- D) delivery delays

Answer: A
Diff: 2 Page Ref: 579
AACSB: Reflective Thinking

33) Which of the following is *not* one of the methods used by traditional retailers to develop multi-channel integration?

- A) online Web catalog
- B) online order, in-store pickup
- C) online supply-push
- D) online promotions for offline purchases

Answer: C
Diff: 2 Page Ref: 580
AACSB: Reflective Thinking

34) Which of the following is *not* a key industry strategic factor?

- A) synergies
- B) barriers to entry
- C) industry value chain
- D) existence of substitute products

Answer: A
Diff: 2 Page Ref: 582
AACSB: Reflective Thinking

35) All of the following are strategic factors that pertain specifically to a firm and its related businesses *except*:

- A) core competencies.
- B) synergies.
- C) technology.
- D) power of customers.

Answer: D
Diff: 2 Page Ref: 582
AACSB: Reflective Thinking

36) The lower the cost of sales compared to _____, the higher the gross profit.

- A) assets
- B) revenue
- C) gross margin
- D) operating expenses

Answer: B
Diff: 3 Page Ref: 583
AACSB: Reflective Thinking

37) Gross margin is defined as gross profit:

- A) minus total operating expenses.
- B) divided by net sales revenues.
- C) divided by cost of sales.
- D) minus net income.

Answer: B
Diff: 2 Page Ref: 583
AACSB: Reflective Thinking

38) Which of the following is *not* categorized as an operating expense?

- A) the cost of products being sold
- B) marketing costs
- C) administrative overhead
- D) amortization of goodwill

Answer: A
Diff: 2 Page Ref: 583
AACSB: Reflective Thinking

39) Operating margin is defined as:

- A) operating income or loss divided by net sales revenues.
- B) operating income or loss divided by total operating expenses.

C) net sales revenues divided by net income or loss.
D) net assets divided by net liabilities.

Answer: A

Diff: 2 Page Ref: 583

AACSB: Reflective Thinking

40) What is another name for pro forma earnings?

- A) net margin
- B) operating income
- C) earnings before income taxes, depreciation, and amortization (EBITDA)
- D) generally accepted accounting principles (GAAP) earnings

Answer: C

Diff: 3 Page Ref: 584

AACSB: Reflective Thinking

41) Which of the following would *not* be considered a current asset?

- A) long-term investments
- B) cash
- C) accounts receivable
- D) marketable securities

Answer: A

Diff: 2 Page Ref: 584

AACSB: Reflective Thinking

42) Current liabilities are debts of the firm that will be due within:

- A) three months.
- B) six months.
- C) one year.
- D) two years.

Answer: C

Diff: 2 Page Ref: 584

AACSB: Reflective Thinking

43) For a quick check of a firm's short-term financial health, examine its:

- A) working capital.
- B) gross margin.
- C) long-term debt.
- D) cost of sales.

Answer: A

Diff: 2 Page Ref: 584

AACSB: Reflective Thinking

44) Virtual merchants face potentially large costs for all of the following *except*:

- A) building and maintaining a Web site.
- B) building and maintaining physical stores.
- C) building an order fulfillment infrastructure.
- D) developing a brand name.

Answer: B

Diff: 1 Page Ref: 585

AACSB: Reflective Thinking

45) All of the following statements about Amazon.com are true *except*:

- A) Amazon has achieved success by focusing on its primary mission: selling books at highly competitive prices.
- B) Amazon compensates for its low price strategy by focusing on operating expenses and eliminating marketing in offline media.
- C) eBay can be considered a competitor of Amazon's.
- D) The Kindle is the best-selling product in Amazon's history.

Answer: A

Diff: 3 Page Ref: 590-592

AACSB: Reflective Thinking

46) All of the following are challenges faced by bricks-and-clicks firms *except*:
A) coordinating prices across channels.
B) handling returns of Web purchases at retail outlets.
C) building a credible Web site.
D) building a brand name.
Answer: D
Diff: 2 Page Ref: 594
AACSB: Reflective Thinking

47) All of the following are challenges for catalog merchants *except*:
A) high costs of printing and mailing.
B) building a credible Web site.
C) the need to bring staff in or manage new technology.
D) building sophisticated order entry and fulfillment systems.
Answer: D
Diff: 2 Page Ref: 595-596
AACSB: Reflective Thinking

48) Which of the job recruitment sites is a job site aggregator?
A) SimplyHired
B) Craigslist
C) Monster
D) CareerBuilder
Answer: A
Diff: 1 Page Ref: 623
AACSB: Analytic Skills

49) The term *demand-pull* refers to:
A) making products prior to orders being received based on estimated demand.
B) waiting for orders to be received before building a product.
C) channel conflict.
D) multi-channel manufacturers who sell directly online to consumers.
Answer: B
Diff: 2 Page Ref: 597
AACSB: Reflective Thinking

50) All of the following are examples of the challenges that traditional manufacturers experience when using the Internet to sell directly to the consumer *except*:
A) moving to a supply-push model.
B) high cost structures.
C) developing a fast-response online order and fulfillment system.
D) channel conflict.
Answer: B
Diff: 2 Page Ref: 597
AACSB: Reflective Thinking

51) Which of the following has experienced the most significant online growth?
A) offline general merchandisers
B) virtual merchants
C) catalog merchants
D) manufacturer-direct firms
Answer: A
Diff: 2 Page Ref: 599
AACSB: Reflective Thinking

52) Approximately _____ percent of the United States labor force is involved in providing services.
A) 30
B) 50
C) 60
D) 80
Answer: D

53) Which of the following is *not* an example of a transaction broker?

- A) a stockbroker
- B) a real estate agent
- C) an accountant
- D) an employment agency

Answer: C

Diff: 2 Page Ref: 603

AACSB: Analytic Skills

54) All of the following services require extensive personalization *except*:

- A) financial services.
- B) legal services.
- C) medical services.
- D) accounting services.

Answer: A

Diff: 2 Page Ref: 603

AACSB: Reflective Thinking

55) All of the following are trends in the financial service industry *except*:

- A) industry consolidation.
- B) integrated financial services.
- C) pure online banks are displacing established multi-channel firms.
- D) growth of online personal banking.

Answer: C

Diff: 2 Page Ref: 605-607

AACSB: Reflective Thinking

56) Which of the following statements about financial portals is *not* true?

- A) They do not offer financial services.
- B) They add to the online price competition in the finance industry.
- C) Their strategy is similar to that of large banking institutions.
- D) They make their money from advertising, referral fees, and subscription fees.

Answer: C

Diff: 2 Page Ref: 609-610

AACSB: Reflective Thinking

57) In _____, all of a customer's financial (and even nonfinancial) data are pulled together at a single personalized Web site.

- A) account aggregation
- B) a financial portal
- C) integrated financial services
- D) EBPP systems

Answer: A

Diff: 2 Page Ref: 610

AACSB: Reflective Thinking

58) The Internet has resulted in lower search costs, increased price comparison, and lower prices to consumers for which insurance product line?

- A) term life insurance
- B) automobile insurance
- C) health insurance
- D) property and casualty insurance

Answer: A

Diff: 2 Page Ref: 612

AACSB: Reflective Thinking

59) All of the following statements about the online insurance industry are true *except*:

- A) The Internet has dramatically changed the insurance industry's value chain.
- B) Web sites of almost all the major firms provide the ability to obtain an online quote.
- C) Internet usage has led to a decline in term life insurance prices industry-wide.

D) The industry has been very successful in attracting visitors searching for information.

Answer: A

Diff: 2 Page Ref: 611-612

AACSB: Analytic Skills

60) All of the following statements about the online real estate services market are true *except*:

A) The major impact of Internet real estate sites is in influencing offline decisions.

B) Real estate differs from other types of online financial services because it is impossible to complete a property transaction online.

C) The primary service offered by real estate sites is a listing of houses available.

D) The Internet and e-commerce have created significant disintermediation in the real estate marketplace.

Answer: D

Diff: 2 Page Ref: 613

AACSB: Reflective Thinking

61) Craigslist is a player in which of the following online services market?

A) real estate services and career services

B) insurance services and brokerage services

C) travel services

D) online accounting services

Answer: A

Diff: 1 Page Ref: 613

AACSB: Reflective Thinking

62) Which of the following best explains why the service sector is a natural avenue for e-commerce?

A) The service sector is less geographically reliant and more globally oriented.

B) The service sector has historically been more technology-reliant.

C) Much of the value in services is based on the collection, storage, and exchange of information.

D) It is not; services are difficult to translate to e-commerce because they rely on face-to-face communication and barter.

Answer: C

Diff: 2 Page Ref: 572

AACSB: Analytic Skills

63) What is the largest sector of the online travel services market in terms of revenue?

A) hotel reservations

B) car reservations

C) cruise/tour reservations

D) airline reservations

Answer: D

Diff: 2 Page Ref: 615

AACSB: Reflective Thinking

64) Which of the following statements is *not* true?

A) Price competition among online travel services is difficult as comparison shopping for better prices is easy.

B) Online travel services is one of the few sectors in which extensive disintermediation has occurred.

C) The ability of travel products and services to be commoditized is a significant factor in the explosive growth of the online travel services industry.

D) The online travel services industry has gone through a period of consolidation.

Answer: B

Diff: 3 Page Ref: 615-619

AACSB: Reflective Thinking

65) Which of the following is *not* a major trend in the online recruitment services industry?

A) disintermediation

B) localization

C) social networking



D) consolidation
Answer: A
Diff: 2 Page Ref: 624-625
AACSB: Reflective Thinking

66) _____ goods are consumed quickly and have shorter life spans.
Answer: Nondurable
Diff: 1 Page Ref: 574
AACSB: Reflective Thinking

67) General merchandisers have always competed against a more traditional form of retail firms called _____.
Answer: specialty retailers
Diff: 2 Page Ref: 575
AACSB: Reflective Thinking

68) _____ refers to the ability of firms to survive as profitable business firms during the specified period.
Answer: Economic viability
Diff: 2 Page Ref: 582
AACSB: Reflective Thinking

69) _____ measures the percentage of sales revenue a firm is able to retain after all expenses are deducted from gross revenues.
Answer: Net margin
Diff: 2 Page Ref: 584
AACSB: Reflective Thinking

70) A(n) _____ provides a financial snapshot of a company's assets and liabilities (debts) on a given date.
Answer: balance sheet
Diff: 2 Page Ref: 584
AACSB: Reflective Thinking

71) If a firm's _____ is only marginally positive, or negative, the firm will likely have trouble meeting its short-term obligations.
Answer: working capital
Diff: 3 Page Ref: 584
AACSB: Reflective Thinking

72) A(n) _____ is a single channel Web firm that generates almost all its revenues from online sales.
Answer: virtual merchant
Diff: 2 Page Ref: 585
AACSB: Reflective Thinking

73) In a(n) _____ strategy, traditional merchants combine their offline retail and online retail stores and services to provide a seamless customer experience.
Answer: multi-channel
Diff: 2 Page Ref: 594-595
AACSB: Reflective Thinking

74) Thus far, the most successful and innovative pure-play online retailer is _____.
Answer: Amazon.com, Amazon
Diff: 1 Page Ref: 585
AACSB: Reflective Thinking

75) Also called bricks-and-clicks merchants, _____ companies have a network of physical stores as their primary retail channel but also have introduced online offerings.
Answer: multi-channel
Diff: 2 Page Ref: 597

76) In a(n) _____ model, products are made prior to orders received based on estimated demand.

Answer: supply-push

Diff: 2 Page Ref: 597

AACSB: Reflective Thinking

77) The United States Department of Labor defines _____ occupations as "concerned with performing tasks" in and around households, business firms, and institutions.

Answer: service

Diff: 1 Page Ref: 602

AACSB: Reflective Thinking

78) _____ are sites that provide consumers with comparison shopping services, independent financial advice, and financial planning.

Answer: Financial portals

Diff: 2 Page Ref: 609

AACSB: Reflective Thinking

79) The four major sectors in the travel market are airline tickets, hotel reservations, cruises/tours, and _____.

Answer: car rentals

Diff: 2 Page Ref: 615

AACSB: Reflective Thinking

80) _____ provide integrated airline, hotel, conference center, and auto rental services at a single Web site.

Answer: Corporate Online Booking Solutions, COBS

Diff: 3 Page Ref: 615

AACSB: Reflective Thinking

81) Define the terms *goods* and *services* and discuss the limitations of those definitions in today's evolving marketplace.

Answer: The term *goods* refers to physical products. *Services* refers to performing activities for others around households, business firms, and institutions and includes medical, financial, real estate, travel, educational, legal, accounting, and other business services. However, in today's evolving marketplace, these simplistic definitions are somewhat outdated because often the distinction between a good and a service is not that clear-cut as manufacturers and retailers of physical goods increasingly sell support services that add value to the physical product. For example, warranties, insurance policies, after-sale repairs, and purchase loans are increasingly a large source of revenue for manufacturers and retailers. This marketplace evolution toward a "product-based services" model is particularly noteworthy in the packaged software market where, for example, Microsoft is now offering software bundled with various services on a subscription basis, as well as various value-added services from a variety of Microsoft Web sites.

Diff: 2 Page Ref: 574, 602-603

AACSB: Analytic Skills

82) Describe the vision of online retailing during the early days of e-commerce. Did these predictions and assumptions turn out to be true?

Answer: In the early days of e-commerce, entrepreneurial online retailers saw the Web as one of the largest market opportunities in the United States economy. They believed that entering the online retail market would be an easy proposition because the new marketing channel would revolutionize the retail industry. The belief was that the Internet would greatly reduce both search costs and transaction costs causing consumers to use the Internet to find the lowest prices for products. This would result in consumers being increasingly drawn to the new channel, and only the low-cost, high-service quality e-tailers would survive. Economists assumed that Web consumers would be rational and cost-driven rather than brand-name and perceived-value driven.

The entrepreneurs also believed that entry costs to the online retail market would be much lower than the costs to establish a physical store, and that they could be more efficient at marketing and order fulfillment than their offline counterparts. They believed they could inexpensively create

compelling Web sites that would attract customers and that these costs would no doubt be far less than the costs of warehouses, fulfillment centers, and physical stores. They severely underestimated the costs to build sophisticated order entry, shopping cart, and fulfillment systems because they believed the technology had already been developed and furthermore believed with technology prices falling every year, updating and building any other necessary systems would be economical.

With search engines almost instantaneously connecting consumers to relevant online vendors, customer acquisition costs would also be negligible. As prices fell, the unwieldy and outdated offline merchants would be driven out of business and the new entrepreneurs of the efficient online marketplace would take over. Smart entrepreneurs would exploit first mover advantages to take their place at the head of the online merchant class and the old general merchandisers would be locked out of the market.

In some industries, such as apparel, electronics, and digital content, the market would be disintermediated, eliminating the traditional "middlemen" as manufacturers and distributors built a direct relationship with the consumer. The Web would become the dominant channel replacing the physical stores, sales clerks, and sales forces. In other industries, retailers would outsource the warehousing and order-fulfillment functions and a kind of hypermediation would occur in which many intermediaries would perform the functions for the virtual firm.

Unfortunately for many failed businesses and many investors, these assumptions did not turn out to be correct. The structure of the retail marketplace remained intact, and consumers have proven to be less price sensitive than the economists expected. In online merchandising, the importance of brand names to consumers' perceptions of quality and service have been extended rather than decreased or eliminated. The retail marketplace was neither disintermediated nor revolutionized. Although an entirely new channel emerged, it today belongs not to the pure-play, Web only, first movers, but also to the multi-channel firms with established brand names.

Diff: 2 Page Ref: 576-577

AACSB: Analytic Skills

83) Describe the state of the online retail sector today.

Answer: The online retail sector is the smallest segment of the total retail market but is growing faster than its offline counterparts. Although revenues have been flat during the recession, they are expected to resume double-digit growth. More people than ever are shopping online, and millions more look for information about purchases they make at offline stores. The primary beneficiaries of this growing consumer support are not only the first-mover dot-com companies but also the established offline retailers who have the brand-name recognition, supportive infrastructure, and financial resources to enter the online marketplace successfully.

One of the most important e-commerce retail themes today is the ability of offline traditional firms such as Walmart and Target to continue to integrate their Web operations with their physical store operations in order to provide an "integrated shopping customer experience," and leveraging the value of their physical stores. Additionally, many established MOTO retailers are also finding online success. Consumers are attracted to well-known retail brands and are not primarily cost-driven but rather have demonstrated that they are looking for trust, reliability, fulfillment, and customer service. Online retailing today, rather than becoming an example of the market efficiencies of disintermediation, is demonstrating the powerful role that intermediaries continue to play in retail trade.

Diff: 2 Page Ref: 577-581

AACSB: Analytic Skills

84) Define *economic viability* and explain the factors involved in assessing a firm's economic viability.

Answer: Economic viability refers to the ability of firms to survive during a specified time period as profitable business firms. To analyze the economic viability of a firm, both strategic and financial assessments are conducted.

Strategic approaches to economic viability focus on both the industry in which a firm operates and the firm itself. Industry factors to examine include barriers to entry, which are expenses such as high capital costs, or intellectual property such as patents or copyrights held by other firms, which will make it difficult for new entrants to join the industry. The power of the suppliers and

power of the customers in the industry must also be considered. If suppliers are sufficiently powerful they can charge higher prices whereas if the manufacturers or retailers are more powerful they can bargain effectively for lower prices from their suppliers. The relative power of the customers determines whether or not they will be able to shop among the firm's competitors, thus keeping prices down. The existence of substitute products in an industry can also drive prices down if consumers have access to products with a similar function that they determine will fill their needs just as adequately. The industry value chain must be evaluated to determine if the chain of production and distribution for the industry is changing in ways that will benefit or harm the firm. Finally, the nature of the intra-industry competition must be evaluated to determine if the competition within the industry is based on differentiated products and services, price, the scope of the offerings or the focus of the offerings, and whether any imminent changes in the nature of the competition will benefit or harm the firm.

The strategic factors for the individual firm that are examined include the firm value chain, the core competencies of the firm, the synergies available to the firm, the technology used by the firm, and the social and legal challenges facing the firm. The firm value chain must be evaluated to determine if the firm has adopted business systems that will enable it to operate at peak efficiency and whether there are any looming technological changes that might force the firm to change its processes or methods. The core competencies of a firm are its unique skills that cannot be easily duplicated. When analyzing the economic viability of a firm it is important to consider whether technological changes might invalidate these competencies. Synergies refer to the availability to the firm of the competencies and assets of related firms that it owns or with which it has formed strategic partnerships. The firm's current technology must be evaluated to determine if it has proprietary technologies that will allow it to scale with demand and if it has developed the customer relationship, fulfillment, supply chain management, and human resources systems that it will need in order to be viable. Finally, the social and legal challenges facing the firm should be examined to determine if the firm has taken into account consumer trust issues such as the privacy and security of personal information and if the firm may be vulnerable to legal challenges.

The financial factors to analyze are the firm's revenues, cost of sales, gross margin, operating expenses, operating margin, and net margin. Revenues must be examined to determine if they are growing and at what rate. Cost of sales is the cost of the products sold including all related costs. The lower the cost of sales compared to revenue, the higher the gross profit. Gross margin is calculated by dividing gross profit by net sales. If the gross margin is improving consistently, the economic outlook for the firm is enhanced. Operating expenses such as marketing, technology, and administrative costs should be evaluated to determine if the firm's needs in the near interim will necessitate increased outlays. Large increases in operating expenses may result in net losses for the firm. Operating margin tells us if the firm's current operations are covering its operating expenses, not including interest expenses and other non-operating expenses. Net margin is calculated by dividing net income or net loss by net sales. It evaluates the net profit or loss for each dollar in sales. For example, a net margin of 12% indicates that a firm is making 12 cents on each dollar in sales. These figures can be found on a firm's consolidated statement of operations and summary balance sheet. A thorough strategic and financial analysis will often reveal the true economic prospects for a firm in the near to medium term.

Diff: 3 Page Ref: 582-584

AACSB: Analytic Skills

85) Identify and discuss the key features of the online insurance industry.

Answer: The insurance industry is part of the financial services sector. It has four major segments: automobile, life, health, and property and casualty. Insurance products can be very complex and have not become true online products. Some policies can only be explained by an experienced sales agent and there are many types of policies and products—for example, different types of non-automotive property and casualty insurance. In addition to the complexity of the product, other distinguishing characteristics make it difficult for it to be completely transferred to the new online channel, such as a traditional reliance on thousands of local insurance offices and agents to sell complex products uniquely suited to the circumstances of the insured person and/or property. In addition, the industry is regulated not at the federal level but separately in each state, with differing regulations, successful in attracting visitors who are looking to obtain prices and terms of insurance policies. While many national insurance underwriting companies initially did not offer competitive products directly on the Web because it might injure the business operations of their traditional local agents, the Web sites of almost all of the major firms now provide the ability to obtain an online quote. Even if consumers do not

actually purchase insurance policies online, the Internet has proven to have a powerful influence by dramatically reducing search costs and changing the price discovery process.

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AACSB: Analytic Skills

86) Explain why online career services are so well suited to the Web.

Answer: Next to travel services, job-hunting services have been one of the Internet's most successful online services because they save money for both job hunters and employers. Job resumes can be posted for free, many other career-related services can be easily accessed, and for a fee, job hunters can access lists of job openings that have been posted by companies.

Online recruiting provides a more efficient and cost-effective means of linking employers and job hunters and reduces the total time-to-hire. Job hunters can easily build, update, and distribute their resumes, conduct job searches, and gather information on employers at their convenience and leisure. They can also take skills assessment tests, fill out personality assessment questionnaires, and access such services as personalized account management for job hunters, job search tools, employer blocking tools, organizational culture assessments and e-mail notifications when an appropriate job is newly listed on the site.

Career recruitment is an information-intensive business process that the Internet can automate, thus reducing search time and costs for all parties. In addition to matching job applicants with available positions, online sites also serve the larger function of automating this information-intensive business process.

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