

## Ch. 11

1. Some types of common challenges: customer retention, conversion rate, store visibility (physical or search ranking), channel conflicts, brand awareness, level of industry competitiveness (i.e. market structure), barriers to entry, long-term profitability, etc.

2. Competitive tensions arise from traditional retailers and other e-tailers. E-tailers might want to enter the physical retailing world to increase their brand awareness and be geographically closer to the consumer. Retailers might want to go online to globally increase their product accessibility and reduce consumer search costs.

4. Production-based model: demand depends upon the ability of firms to create products and then market them to an impressionable public (consumers are lead to believe that they need the product). Examples consist of iPods and Razr phones.

Demand-based model: differentiations based upon variations in product attributes desired by consumers. Examples consist of cars (SUVS vs compacts), organic food, and computer purchases.

5. Attribute space is the location and clustering of customers depending on their individual tastes and preferences. While consumers are not completely homogenous, they share certain similarities that allow them to be placed into market segments such as frugal, luxurious, innovators, early majority, late majority, etc. Market segments allow firms to narrow down their target market and customize the product to the consumer's interest; a niche strategy.

7. Competitive advertising: advertising designed to place the product in front of consumers and persuade them that theirs is better than any competing product. Example: "Samuel Adams beer tastes better than any other beer."

Information advertising: advertising designed to convey information about the product. Corona commercials: "enjoy a cold one on the beach."

8. TV: consumers are irrational and unintelligent. Firms present information to potential consumers in the hopes that they will be persuaded to buy their product.

Internet: consumers are more rational and actively seek out product information. Consumers know what type of product they want to buy and seek out specific information about that product.

10. Private-label brands are products that the manufacturing firm produces in order to be sold under a different label (e.g. Safeway brand products). Private-label brands allow firms to capture the reservation prices of buyers with a low willingness to pay without alienating the brand loyalty of the customer willing to pay for brand equity. To prevent the private-label brand from being inferior, the e-tailer can place the product on the same product page of brand name products, but this can potentially cause channel conflicts. Another method is to offer access to a specific section of the web page reserved for private-label brands and discounted products.

13. A self-organizing site is one where site users create the site's content. Examples consist of Facebook.com and Wikipedia.org . This leads to greater efficiency because users contribute work to the site, thus creating/tailoring the site to best match their individual tastes and those of their friends. Real profit potential comes from reduced overhead costs, increased rates of value capture/extraction, and the "selling of eyeballs" (i.e. information collected about the user is then sold to advertisers and marketers).

16. They have limited the distribution channels e-tailers use, imposed protectionist regulations, and maintained the structure of some intermediary roles. Not all buyers should be required to use an intermediary because their role has been made useless for most e-commerce transactions (e.g. traditional travel agent hubs). Some services are still needed though, such as car dealerships and grocery stores.

## Ch. 12

3. Generally Accepted Accounting Principles, established by the country's national governing body. Under GAAP, Businesses adhere to a strict set of standards for measuring profit and firms abide by the same general methods of accounting.

4. Pro forma means "according to the form" or "as is". Firms essentially set their own measures of calculating profit and generally do not include loans, a decline in the company's investments, sunk costs, and startup costs when determining profit.

5. The tensions arise from the implications of reporting the different profits in financial statements. Pro forma is more forgiving to startup firms, whereas GAAP is a better indicator of long-term performance and benchmarking purposes (i.e. comparing one company to other companies in the industry). GAAP yields the truest picture of financial condition because all expenses are included, whereas pro forma hides some operating expenses and startup costs.

6. Given that startup costs are not factored in, pro forma could be useful in seeing the long-term profitability of a young firm. Additionally, they allow investors to see financial performance with sunk, fixed, and variable costs separately accounted for.

7. Financial transparency is being able to see the firm's accounting reports in their entirety. GAAP rules force firms to account for all types of expenses, including loans and startup costs.

8. Accounting profit is revenues in excess of accounting expenses. Economic profit is revenues earned in excess of cost, opportunity cost, and normal profit. GAAP uses accounting profit since it provides general standards of measurement to accurately measure a firm's profit and performance in relation to other firms. Economic profit is better suited to decision making due to analytical tools such as cost-benefit analysis and utilitarian ethics (greatest good for the greatest number of people; benefits received exceed the harm caused) in order to see which business option will provide the best reward with the least risk.

9. An accountant is concerned with whether the firm is making a profit or a loss. An economist is concerned with how well society is using its scarce resources. Accounting expenses are the costs in the form of cash outlays for labor, material, advertising, and other parts of the value chain. Economic opportunity cost is the value of the next best alternative for using capital and other resources (e.g. opening a bakery instead of CD manufacturing plant). Accounting expense is the correct concept for determining the actual amount of profit earned because opportunity costs aren't realized costs and are not as useful once the firm is able to achieve short run profitability.

10. 1) Accounting for the entrepreneur's time investment and 2) Factoring in economic fluctuations and accounting for changes such as inflation. Since these costs are future expectations, they are not considered realized costs. They are somewhat necessary to help protect the entrepreneur and investors, but are not significantly important in determining profits.

11. Firms try to maximize the efficiency of their capital and their production inputs. Since the allocation of scarce resources is allotted to those with the highest willingness to pay, firms will look for input substitutions to scarce resources in order to make the best use of their capital and maintain a profit. An accounting profit or loss is sufficient as an incentive for firms to find more affordable and readily available raw materials to generate the same type and volume of resource flow.

14. Economic view: the firm's function is to make a profit and maintain the interest of its stockholders.

Social view: the firm creates various externalities that impact both its stakeholders and stockholders and should be held accountable for its actions.

The economic view has a greater basis in reality since economic efficiency is often the firm's top priority.

Stockholders: people who invest wealth in exchange for part ownership of the firm.

Stakeholders: individuals effected by the positive and negative externalities of the firm.

Examples include local communities, the environment, the firm's workers, schools, other competing firms, etc.

15. Examples of some characteristics include lower overhead costs, a potentially better trained and more productive workforce, outsourcing customer service / technical support, absence of a physical location and having to pay a leasing rent, and disintermediation of the value chain.

16. This is a differentiation strategy vs. low cost leadership strategy question. A differentiation strategy sells products at a higher price because of perceived higher quality and brand equity (e.g. Godiva chocolate). A low cost leadership strategy is to sell the product as cheaply as possible in order to generate a large sales volume (e.g. M&M's). Amazon.com uses a differentiation strategy (profit margin per unit of sales) to further diversify its product line and strengthen its brand equity as a one stop virtual retailer.