True/False
Indicate whether the statement is true or false.

1. An entrepreneur should have leadership abilities in order to successfully start, operate, and grow his or her e-business. 
2. A stress management plan is not important to an entrepreneur who is starting his or her own business. 
3. Organizational skills and self-confidence are not important entrepreneurial abilities. 
4. Starting your own business is a great way to set your own work schedule which typically includes plenty of time off to enjoy other pursuits. 
5. Before beginning an entrepreneurial adventure, you should carefully review your ongoing financial needs and set aside funds to cover those needs for some time. 
6. To begin the entrepreneurial process, you must first decide whether to buy an existing business or start a new one. 
7. The time and effort an entrepreneur puts in to starting his or her own business is called sweat equity. 
8. The entrepreneurial process is a multistep process that begins with determining entrepreneurial abilities and ends with harvesting a business. 
9. An entrepreneur can harvest his or her own business by letting it become a “cash cow,” by going public, or by selling the business. 
10. E-business ideas span the spectrum from selling hard-to-find food products directly to consumers, to auctioning excess oil and gas capacity, to offering online mediation services, to providing Web site hosting services, and more. 
11. Startup e-businesses based on flawed e-business models or unsound business practices can still expect to be successful in today’s exciting global e-business economy. 
12. An important factor in an e-business’s ultimate success or failure is how well its original e-business idea adapts to changes in the marketplace. 
13. The network effect is the phenomena in which an e-business continues to operate successfully in the face of rapid growth. 
14. Viral marketing is an innovative marketing idea that exploits the network effect to rapidly spread information about a product or service across a marketplace. 
15. Scalability refers to the growing value of e-business to the economy as more and more consumers and businesses conduct business transactions online. 
16. Low-cost Internet technologies have made it more difficult for many new e-businesses to enter an online marketplace. 
17. The growth in the number of C2C auction sites, such as eBay, provides a good example of the ease with which new e-businesses can enter a virtual marketplace. 
18. An e-business’s ability to secure first-mover advantage and name identification guarantees its success over its competitors.
19. The e-business marketspace is characterized by rapid knowledge transfer and the need for entrepreneurs to be able to make decisions quickly.

20. The success of Amazon.com is partly based on the company’s adaptability to changes in the marketplace.

21. The rapid pace of change in the global e-business economy has little affect on the way existing e-businesses function.

22. The potential for an entrepreneur to expand the market for his or her e-business’s products and services is an inherent advantage of doing business online.

23. An online presence created by a Web site affords a company greater business visibility even if it sells its products offline through traditional sales channels.

24. The only reason for a business to publish a Web site is to sell its products and services online.

25. Publishing a Web site is a way to guarantee that a company will successfully expand the market for its products and services.

26. Changing market conditions can affect how well an entrepreneur executes his or her e-business idea.

27. The inherent communication power of the Internet and the Web can be used to draw and keep customers by creating warm one-to-one relationships with them.

28. The Internet and the Web are the ultimate technologies for developing and maintaining positive relationships between businesses and their customers.

29. Access to the Internet and the Web has created a business environment in which traditional business ideas are rewarded and new ideas are discouraged.

30. The implementation of Internet and Web technologies allows brick-and-click companies and pure-play e-retailers to reduce their operating costs.

**Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

31. An important leadership trait for a successful entrepreneur is:
   a. the ability to relate to others in a positive way
   b. a high-energy level
   c. the ability to organize business activities
   d. the opportunity to set his or her own work schedule

32. Which of the following entrepreneurial abilities is essential to getting things done on time?
   a. self-confidence
   b. high-energy personality
   c. leadership
   d. organizational skills

33. As a leader, an entrepreneur must be able to:
   a. locate business-critical information quickly
   b. communicate the mission and goals of his or her business to others
   c. organize business activities
   d. stay on schedule

34. When entrepreneurship takes place inside a large organization, it is sometimes called:
   a. intrapreneurship
   b. extrapreneurship
   c. interpreneurship
   d. None of the above

35. A successful entrepreneur typically:
   a. works no more than 40 hours a week
   b. is able to make decisions quickly
   c. delegates leadership to others
b. is noncompetitive d. believes in his or her e-business idea
36. Successful entrepreneurs are generally:
   a. independent c. creative
   b. goal-oriented d. All of the above
37. Stage 1 in the entrepreneurial process involves:
   a. harvesting the business
   b. deciding to buy or start a business
   c. assessing your entrepreneurial interests and abilities
   d. defining the new business idea
38. Harvesting a business by going public means to:
   a. invest additional sweat equity
   b. continue to operate the company to generate cash
   c. sell the business
   d. issue a public stock offering or IPO
39. In which stage of the entrepreneurial process would you create a business plan?
   a. One
   b. Two
   c. Three
   d. Four
40. A business owner’s own time and effort invested in a startup company is called:
   a. sweat equity
   b. creating a cash cow
   c. going public
   d. owner’s equity
41. In which stage of the entrepreneurial process would you secure financing for your startup e-business?
   a. One
   b. Three
   c. Four
   d. Five
42. Which of the following factors is unique to doing business online?
   a. network effect
   b. customer service
   c. value chains
   d. brick-and-mortar storefront
43. The phenomena in which the total value of a product, service, or technology grows as more and more people use it is called:
   a. scalability
   b. viral marketing
   c. the network effect
   d. first-mover advantage
44. When the value of an e-business’s products and services increase because of distribution over the Internet and the Web, the e-business is exploiting:
   a. name identification
   b. first-mover advantage
   c. scalability
   d. the network effect
45. Which of the following e-businesses owed its early and rapid success to an innovative marketing idea now called viral marketing?
   a. AllAdvantage
   b. Hotmail
   c. Rackspace Managed Hosting
   d. Third Voice
46. The marketing technique that exploits the power of the network effect to rapidly spread information about a new e-business and its products or services is called:
   a. first-mover advantage
   b. viral marketing
   c. name identification
   d. scalability
47. The ability of an e-business idea to continue to function in the face of sudden growth is called:
   a. the network effect
   b. scalability
   c. first-mover advantage
   d. viral marketing
48. An example of an unsuccessful startup e-business that failed to recognize the power of the network effect and the importance of scalability is:
   a. Amazon.com
   c. AllAdvantage
49. Which of the following factors can make it easier for a new business to enter electronic markets?
   a. the network effect  
   b. a high-energy entrepreneur  
   c. low-cost technologies  
   d. increased demand for products

50. Which of the following factors is a major reason for the growth of C2C auction sites?
   a. generation of revenues without having to manage, warehouse, or distribute products  
   b. easy-to-install and manage auction site software  
   c. easy access to auctions sites by both buyers and sellers  
   d. All of the above

51. The competitive advantage that occurs because an e-business beats everyone else to the marketplace with specific products or services is called:
   a. first-mover advantage  
   b. name identification  
   c. scalability  
   d. going public

52. The competitive advantage that may occur when an e-business or its products or services become synonymous with generic products or services (for example “Kleenex” and “tissue”) is called:
   a. name identification  
   b. first-mover advantage  
   c. the network effect  
   d. entrepreneurship

53. Which of the following e-businesses successfully expanded its market by adding an e-business component to its already successful brick-and-mortar business?
   a. Amazon.com  
   b. Ticketmaster  
   c. Rackspace Managed Hosting  
   d. Hotmail

54. Which of the following companies uses the Internet and the Web to acquire greater business visibility while selling its products through traditional channels?
   a. Amazon.com  
   b. Hotmail  
   c. Chrysler  
   d. Hometown Favorites

55. Which of the following e-businesses is based on a new e-business idea made possible by Internet and the Web?
   a. Best Buy  
   b. Barnes & Noble  
   c. Cybersettle  
   d. None of the above

**Completion**

*Complete each statement.*

56. A(n) ________________ is someone who assumes the risks associated with starting and running his or her own business.

57. To successfully start, operate, and grow his or her business, an entrepreneur must be able to ________________ others.

58. Successful entrepreneurs must have the ________________ to accomplish their goals.

59. Many successful entrepreneurs display their ________________ natures early in life in their approach to school, hobbies, and sports.

60. The ________________ is divided into several stages or steps as a person moves from wanting to start his or her own business to starting, operating, and harvesting it.

61. An entrepreneur must be prepared to invest his or her own ________________ equity in a startup e-business.
62. The ____________________ explains how the overall value of a product or service grows as more and more people use the product or service.

63. Successful e-business entrepreneurs develop imaginative ways of exploiting the ____________________ in order to market products and services to new customers.

64. The rapid spread of information about products and services by electronic word of mouth is sometimes called ____________________ marketing.

65. E-business ideas that do not continue to function well when under the pressure of unexpected business growth lack ____________________.

66. The C2C ____________________ marketplace provides a good example how low-cost technologies can make it easy for many new e-businesses to enter an online marketplace and become competitive.

67. The very successful real-world e-business that exploited low-cost technologies, first-mover advantage, and name identification to become the leader in the C2C auction marketplace is ____________________.

68. The e-business marketspace is characterized by ____________________ and the need to make business decisions quickly.

69. ____________________ is an example of a pure play e-retailer with a strong adaptability to change as illustrated by its ability to modify its business model when necessary and expanded its product offerings to satisfy changes in the marketplace.

70. Ticketmaster, Wal-Mart, and Costco are examples of existing brick-and-mortar businesses that successfully revamped their business model to add a(n) ____________________ component.

71. The ____________________ enables companies to get their name and products or services in front of more potential customers than ever before.

72. Market conditions, execution, and ____________________ all play an important role in exploiting the Internet and the Web to expand the market for an e-business’s products or services.

73. Simply publishing a ____________________ is no guarantee that a company will successfully exploit the communication power of the Internet and Web to expand the market for its products and services.

74. Changing ____________________ conditions may impact how well a business will be able to execute its e-business idea.

75. One of the biggest benefits of doing business online is the potential to reduce operating ____________________.

Essay

76. Discuss five entrepreneurial traits or abilities that are common to individuals who successfully start, operate, and grow their own businesses.

77. Describe the five stages of the entrepreneurial process.

78. Explain the concept of viral marketing and give a real-world e-business example that enjoyed early success in attracting new customers through viral marketing.

79. Discuss the three major reasons for the growth of C2C e-business auction sites.

80. Describe how existing businesses or new e-businesses can exploit the inherent advantages of doing business online and give examples of real-world businesses that have successfully done so.
ch2
Answer Section

TRUE/FALSE

1. ANS: T   PTS: 1   REF: 38
2. ANS: F   PTS: 1   REF: 38
3. ANS: F   PTS: 1   REF: 38
4. ANS: F   PTS: 1   REF: 39
5. ANS: T   PTS: 1   REF: 40
6. ANS: F   PTS: 1   REF: 40
7. ANS: T   PTS: 1   REF: 40
8. ANS: T   PTS: 1   REF: 40
9. ANS: T   PTS: 1   REF: 40
10. ANS: T  PTS: 1   REF: 42
11. ANS: F  PTS: 1   REF: 42
12. ANS: T  PTS: 1   REF: 42
13. ANS: F  PTS: 1   REF: 42
14. ANS: T  PTS: 1   REF: 46
15. ANS: F  PTS: 1   REF: 47
16. ANS: F  PTS: 1   REF: 48
17. ANS: T  PTS: 1   REF: 48
18. ANS: F  PTS: 1   REF: 49
19. ANS: T  PTS: 1   REF: 51
20. ANS: T  PTS: 1   REF: 51
21. ANS: F  PTS: 1   REF: 52
22. ANS: T  PTS: 1   REF: 52
23. ANS: T  PTS: 1   REF: 53
24. ANS: F  PTS: 1   REF: 53
25. ANS: F  PTS: 1   REF: 54
26. ANS: T  PTS: 1   REF: 56
27. ANS: T  PTS: 1   REF: 56
28. ANS: T  PTS: 1   REF: 56
29. ANS: F  PTS: 1   REF: 58
30. ANS: T  PTS: 1   REF: 61

MULTIPLE CHOICE

31. ANS: A   PTS: 1   REF: 38
32. ANS: D   PTS: 1   REF: 38
33. ANS: B   PTS: 1   REF: 38
34. ANS: A   PTS: 1   REF: 38
35. ANS: D   PTS: 1   REF: 38
36. ANS: D   PTS: 1   REF: 38-39
37. ANS: C   PTS: 1   REF: 40
38. Ans: D  PTS: 1   REF: 40
39. Ans: C  PTS: 1   REF: 40
40. Ans: A  PTS: 1   REF: 40
41. Ans: B  PTS: 1   REF: 40
42. Ans: A  PTS: 1   REF: 42
43. Ans: C  PTS: 1   REF: 42
44. Ans: D  PTS: 1   REF: 42
45. Ans: B  PTS: 1   REF: 45-46
46. Ans: B  PTS: 1   REF: 46
47. Ans: B  PTS: 1   REF: 47
48. Ans: C  PTS: 1   REF: 47
49. Ans: C  PTS: 1   REF: 48
50. Ans: D  PTS: 1   REF: 48
51. Ans: A  PTS: 1   REF: 49
52. Ans: A  PTS: 1   REF: 49
53. Ans: B  PTS: 1   REF: 52
54. Ans: C  PTS: 1   REF: 53
55. Ans: C  PTS: 1   REF: 58

COMPLETION

56. Ans: entrepreneur
   PTS: 1   REF: 38
57. Ans:
   lead
   communicate with
   direct
   PTS: 1   REF: 38
58. Ans: self-confidence
   PTS: 1   REF: 38
59. Ans: competitive
   PTS: 1   REF: 39
60. Ans: entrepreneurial process
   PTS: 1   REF: 40
61. Ans:
   sweat
   time and effort
   PTS: 1   REF: 40
62. Ans: network effect
   PTS: 1   REF: 42
63. Ans:
network effect
Internet
Web

64. PTS: 1 REF: 45
   ANS: viral

65. PTS: 1 REF: 46
   ANS: scalability

66. PTS: 1 REF: 47
   ANS: auction

67. PTS: 1 REF: 48
   ANS: eBay

68. PTS: 1 REF: 48-50
   ANS: rapid knowledge transfer

69. PTS: 1 REF: 51
   ANS: Amazon.com

70. PTS: 1 REF: 51
   ANS: e-business

71. PTS: 1 REF: 52
   ANS: Internet
   Web
   Internet and Web

72. PTS: 1 REF: 53
   ANS: timing

73. PTS: 1 REF: 54
   ANS: Web site

74. PTS: 1 REF: 54
   ANS: market

75. PTS: 1 REF: 56
   ANS: cost
   costs
   expense
   expenses

76. PTS: 1 REF: 61
ESSAY

76. ANS:
As an entrepreneur, an individual must demonstrate leadership skills such as intelligence, determination, integrity, listening skills, the ability to relate to others in a positive way, and the ability to communicate the goals of his or her business to others. Starting a new business requires a high-energy personality to meet scheduling demands, the self-confidence to accomplish goals, the organizational skills necessary to get things done, and the ability to act quickly and decisively when necessary.

PTS: 1 REF: 38

77. ANS:
Stage 1: deciding whether or not an individual is an entrepreneur and can expend the time and effort necessary to start a new business.
Stage 2: deciding whether to buy an existing business or start a new business from scratch.
Stage 3: if starting a new business, defining the business idea, creating a business plan, and securing financing.
Stage 4: operating and growing the business.
Stage 5: harvesting the business by continuing to operate it as a “cash cow,” going public, selling the business, or closing the business.

PTS: 1 REF: 40

78. ANS:
Viral marketing is a method of attracting new customers that exploits the network effect by using rapid electronic word of mouth to promote an e-business’s products or services. The e-business example that led to coining the phrase “viral marketing” was Hotmail, one of the first free Web-based e-mail services. Hotmail was promoted by automatically adding a short advertising message and link to the bottom of each outgoing e-mail message. As more and more Hotmail messages began traveling across the Internet, more and more potential customers read the advertising message and signed up for the service.

PTS: 1 REF: 45-46

79. ANS:
1. Ease with which consumers can interact with an auction Web site (just a computer and Internet access).
2. Availability of low-cost auction site software that is easy to install and maintain.
3. Attractive business proposition in which an e-business can earn commissions or fees without having to manage, warehouse, or distribute products.

PTS: 1 REF: 48

80. ANS:
Existing and new businesses can use the communication power of the Internet and the Web to expand their markets (Ticketmaster), acquire greater business visibility (Ford Motor Company), maximize customer relationships (Southwest Airlines), create new products or services (Cybersettle), and reduce operating costs (Microsoft).

PTS: 1 REF: 52-63