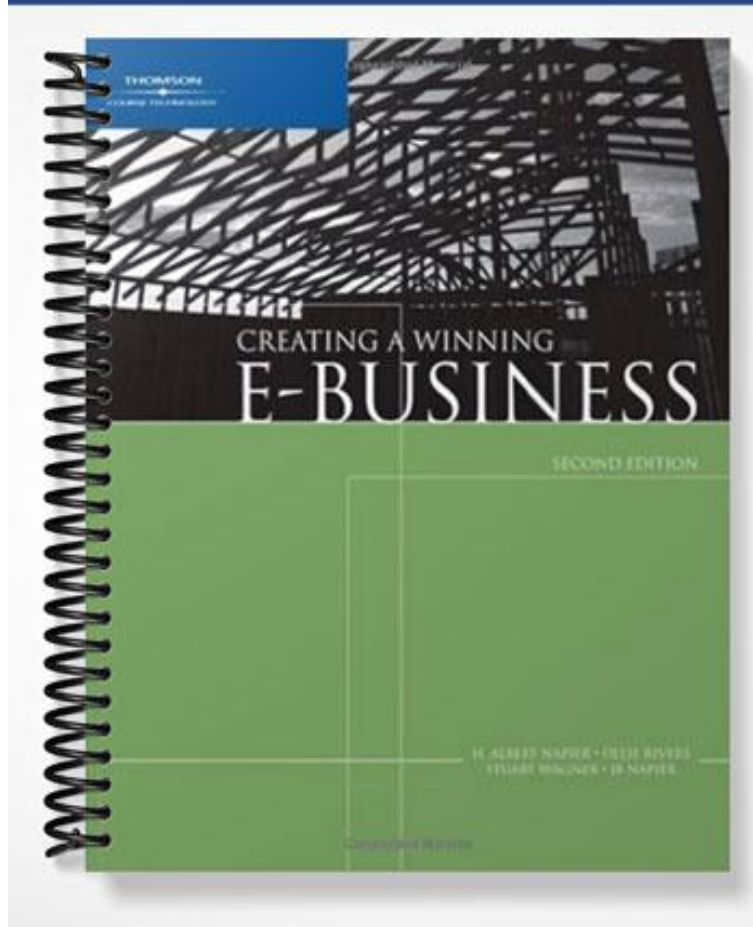


# SOLUTIONS MANUAL



## Chapter 2

### Defining Your E-Business Idea

#### Table of Contents

Chapter Overview .....	2-2
Summary of Cases .....	2-2
Learning Objectives .....	2-2
Teaching Tips.....	2-3
The Entrepreneur and the Entrepreneurial Process.....	2-3
The Entrepreneur .....	2-3
The Entrepreneurial Process .....	2-4
Quick Quiz .....	2-4
Discussion Questions .....	2-5
Projects to Assign .....	2-5
Useful Links.....	2-5
Factors Affecting E-Business Success.....	2-5
The Network Effect.....	2-6
Innovative Marketing Ideas .....	2-6
Scalability .....	2-6
Ease of Entry Into Electronic Markets.....	2-6
Adaptability to Change .....	2-7
Quick Quiz .....	2-7
Discussion Questions .....	2-7
Projects to Assign .....	2-8
Useful Links.....	2-8
Exploiting E-Business Advantages.....	2-8
Expand the Market.....	2-9
Acquire Greater Business Visibility .....	2-9
Maximize Customer Relationships and Improve Responsiveness .....	2-9
Create New Products and Services .....	2-9
Reduce Costs.....	2-10
Quick Quiz .....	2-10
Discussion Questions .....	2-11
Useful Links.....	2-11
Key Terms.....	2-12

## Chapter Overview

E-business ideas span the marketplace—from selling hard-to-find food products to a narrow niche market, to auctioning excess oil and gas capacity, to offering online mediation services, to providing the technologies that underlie e-business operations, and much more.

The focus of Chapter 2 in *Creating a Winning E-Business, Second Edition* is on entrepreneurship, the entrepreneurial process, and the factors that can help determine the success or failure of real-world e-business ideas. Students will learn about the individual abilities and traits common to many successful entrepreneurs and the process these entrepreneurs follow as they translate their e-business ideas into real businesses. Students will also learn about many new e-business ideas, some of which successfully exploited the inherent advantages of doing business online, and others which did not.

### Summary of Cases

Topic	Title	E-Business/Entrepreneur	Pages
Entrepreneurship and e-business ideas	Ideas! Ideas!	GroceryWorks.com and Digital Witness/Kelby Hagar	37, 64-65
Entrepreneurship and e-business ideas	Failure—A Successful Idea	Failure Magazine/Jason Zasky	39
Entrepreneurial process	From Idea to Harvest	Yesmail	41-42
Network effect	A Network Effect Backlash	Third Voice	44-45
Risk-taking and vision	Entrepreneurial Risk-Taking and Vision	eBay/Meg Whitman	50
Technological innovation and e-business	A Technology Innovators Excellent Idea	W.W. Grainger	57-58
Entrepreneurship and vision	A Brilliant Execution of a Simple Idea	Half.com/Josh Kopelman	60-61
Entrepreneurship and e-business ideas	In the Beginning, the Idea	Rackspace Managed Hosting	63

### Learning Objectives

After completing this chapter, the student should be able to:

- Identify entrepreneurial abilities.
- Describe the entrepreneurial process.
- Understand the factors affecting e-business success.
- Identify ways to exploit e-business advantages.

### Teaching Tips

<b>Opening Case: Ideas! Ideas!</b>	<ul style="list-style-type: none"> <li>▪ Direct students to read the “Ideas! Ideas!” opening case. Remind students that the resolution of this case appears at the end of the chapter.</li> <li>▪ Alternatively, have students read both the opening and closing case sections before beginning the chapter.</li> <li>▪ As students work through the chapter, they should keep in mind Kelby Hagar and his entrepreneurial abilities and traits.</li> </ul>
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## **The Entrepreneur and the Entrepreneurial Process**

After discussing the Internet and Web basics and e-business models in Chapter 1, some students may now be thinking of ways that they can use the Internet and the Web to start their own e-business. Starting a successful new e-business requires:

- A great e-business idea.
- The personal abilities and traits needed to convert a new e-business idea into a functioning, growing business.
- An awareness of the entrepreneurial process.
- An understanding of the inherent advantages of doing business online.
- Long hours, hard work, and personal sacrifice.

### The Entrepreneur

An entrepreneur is someone who assumes the risks (and reaps the rewards) of starting and operating his or her own business. Entrepreneurial abilities and traits include:

- The ability to be independent and a goal-oriented leader.
- A high-energy personality with the ability to focus on achieving goals.
- Self-confidence and the belief in an e-business idea.
- Strong organizational skills.
- The ability to act quickly and decisively.

You can invite an entrepreneur to speak to the class on his or her experiences with a startup business, preferably an e-business. Ask the speaker to focus on the individual abilities and traits he or she needed to start and grow the business.

<p><b>E-Pioneers: Failure—A Successful Idea</b></p>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “<i>Failure—A Successful Idea</i>” case.</li> <li>▪ You can break students into groups to discuss the following questions:</li> <li>▪ What is or is not compelling about Jason Zasky’s e-business idea? For example, would you read <i>Failure Magazine</i>? Why or why not?</li> <li>▪ What entrepreneurial abilities or traits did Jason Zasky demonstrate?</li> </ul>
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The Entrepreneurial Process

Use Figure 2-1 (see page 41) to describe the five stages of the entrepreneurial process:

- *Stage 1:* Are you an entrepreneur?
- *Stage 2:* Do you want to buy an existing business or build one from scratch?
- *Stage 3:* If you are building a business from scratch, you must define the business idea, create a business plan, and secure financing.
- *Stage 4:* Operate and grow the business.
- *Stage 5:* Harvest the business.

<p><b>E-Case: From Idea to Harvest</b></p>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “From Idea to Harvest” case.</li> <li>▪ Ask students to identify each stage of the entrepreneurial process that resulted in the successful e-business named Yesmail.</li> <li>▪ Who was involved in each stage of the process? Why?</li> </ul>
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Quick Quiz

1. The final stage of the entrepreneurial process involves harvesting the e-business. True or False?  
**Answer:** True
2. An entrepreneur’s \_\_\_\_\_ may be enhanced if his or her e-business idea is closely related to an existing area of interest or expertise.  
**Answer:** Self-confidence
3. \_\_\_\_\_ skills are important to getting tasks done on time and staying on schedule.  
**Answer:** Organizational

Discussion Questions

Ask students if they know an entrepreneur. If they do, ask them to describe the entrepreneur and his or her business. What entrepreneurial abilities or traits does he or she demonstrate?

Projects to Assign

Ask each student to list entrepreneurial abilities and traits and then rate each on a scale of 1-10, where 1 is the least important ability or trait and 10 is the most important ability or trait for a startup e-business entrepreneur to possess.

Useful Links

Remind students to check out the student online companion for links to topics related to entrepreneurship and e-business ideas.

Web Site	URL
Center for Entrepreneurial Leadership and Clearinghouse on Entrepreneurship Education	<a href="http://www.celcee.edu/">www.celcee.edu/</a>
Entrepreneur Tips	<a href="http://entrepreneur.lifetips.com/">entrepreneur.lifetips.com/</a>
Entrepreneur.com	<a href="http://www.entrepreneur.com/">www.entrepreneur.com/</a>
Entrepreneurs' Help Page	<a href="http://www.tannedfeet.com/">www.tannedfeet.com/</a>
EntreWorld.org – Resources for Entrepreneurs	<a href="http://www.entreworld.com/">www.entreworld.com/</a>
Failure Magazine	<a href="http://failuremag.com/">failuremag.com/</a>
Yesmail	<a href="http://www.yesmail.com/">www.yesmail.com/</a>

**Factors Affecting E-Business Success**

E-business ideas cover a wide spectrum of businesses. For example:

- Hometown Favorites (hard-to-find food products)
- Rackspace Managed Hosting (Web hosting services)
- Cybersettle (online mediation services)
- Amazon.com (books and other consumer products)
- eBay (online auctions)

Ask students for additional examples of interesting e-business ideas.

You should emphasize that, just like successful brick-and-mortar businesses, successful e-businesses must follow sound e-business models and adhere to sound business practices. Point out that there are some factors related to doing business online that can affect the success of a new e-business, such as the network effect, the opportunity to develop innovative ways to market a new e-business, concerns about scalability, ease of entry into electronic markets, and adaptability to rapid change.

The Network Effect

The network effect is the phenomena in which the total value of a product, service, or technology grows as more and more people use the product, service, or technology. You can use the telephone network analogy to explain the network effect. Note that an e-business entrepreneur should consider whether his or her e-business idea exploits the network effect by using the Internet and the Web to increase the value in the products or services offered.

<p><b>E-Pioneers: A Network Effect Backlash</b></p>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “A Network Effect Backlash” case.</li> <li>▪ How many students think the Third Voice e-business idea was a good one? How many do not?</li> <li>▪ Ask students to discuss the role the network effect played in the early success and later failure of Third Voice.</li> </ul>
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Innovative Marketing Ideas

Widespread business and consumer access to the Internet and Web has created opportunities to develop new ways, such as viral marketing, to market products and services. Use the Hotmail example to explain the concept of viral marketing, the electronic word-of-mouth marketing made possible by communications over a network and exploitation of the network effect.

Scalability

Scalability is the ability of an e-business idea to function well in the face of explosive business growth. For example, what will happen if a new e-business experiences an unexpected demand for its products or services? Use the AllAdvantage example to show how the failure to anticipate an e-business idea’s scalability—as well as the failure to recognize the power of the network effect—can adversely affect the success of an e-business.

Ease of Entry Into Electronic Markets

Low-cost Internet and Web technologies help make it possible for entrepreneurs to start new e-businesses. Use online auctions as an example of the type of online business that is easy to start. Online auctions provide:

- Easy-to-use sites and attractive propositions for consumers looking for bargains.
- Auction software that is easy to install and manage.
- Attractive business propositions for entrepreneurs because revenues can be earned without having to manage, warehouse, or distribute products.

eBay is a good example of an extraordinarily successful online auction site that enjoys first-mover advantage and name identification in addition to the other benefits of operating an online auction site.

<b>E-Case: Entrepreneurial Risk Taking and Vision</b>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “Entrepreneurial Risk Taking and Vision” case. Ask students to discuss answers to the following questions:</li> <li>▪ Why is the online auction e-business idea so popular?</li> <li>▪ What specific e-business factors supported the early and continuing success of eBay?</li> <li>▪ Why was Meg Whitman willing to take a chance on eBay?</li> <li>▪ How did Meg Whitman’s background prepare her to become President and CEO of eBay? What, if any, entrepreneurial abilities and traits did she exhibit to be successful in her earlier corporate positions and at eBay?</li> </ul>
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### Adaptability to Change

Rapid knowledge transfer and a changing marketplace are hallmarks of doing business online. The ability to adapt to change is critical for a successful e-business. Amazon.com is a good example of a successful e-business that has adapted its original e-business model to meet changes in the marketplace.

### Quick Quiz

1. Two competitive advantages eBay enjoys in the online auction marketplace are \_\_\_\_\_ and \_\_\_\_\_.  
**Answer:** First-mover advantage; name identification
2. \_\_\_\_\_ is a marketing technique that relies on electronic word of mouth.  
**Answer:** Viral marketing
3. Scalability refers to the ability of a business to function well in the face of unexpected growth. True or False?  
**Answer:** True

### Discussion Questions

Ask students to offer examples of other e-businesses that successfully exploited the network effect.

Ask students to describe the AllAdvantage e-business idea. How did the network effect and scalability affect the success or failure of AllAdvantage?



Ask students to discuss the variety of reasons behind the success of eBay. Students' discussion should incorporate factors such as the network effect, scalability, first-mover advantage, name identification, and ease of entry into electronic markets.

Ask students to offer examples of successful e-businesses, such as Amazon.com, that have adapted their e-business models and business practices to accommodate changes in the marketplace.

### Projects to Assign

Assign students the task of using online research to learn more about a successful e-business entrepreneur of their choice and then report back to the class what they learned about the entrepreneur and his or her original e-business idea.

### Useful Links

Web Site	URL
Amazon.com	<a href="http://www.amazon.com/">www.amazon.com/</a>
eBay	<a href="http://www.ebay.com/">www.ebay.com/</a>
Hotmail	<a href="http://www.hotmail.com/">www.hotmail.com/</a>

## **Exploiting E-Business Advantages**

Describe the ways a startup e-business can exploit the inherent advantages of doing business online. For example, startup e-businesses can:

- Expand the market.
- Acquire greater business visibility.
- Maximize customer relationships.
- Increase responsiveness to customers.
- Create new products or services.
- Reduce costs.

Expand the Market

As students learned in Chapter 1, time and space are not limiting factors for e-business; therefore, entrepreneurs can expand their potential markets by reaching all types of consumers anywhere in the world at any time of the day or night. Brick-and-click businesses also recognize the potential to expand their markets by modifying their business models to incorporate e-business. Ticketmaster, Wal-Mart, and Costco are examples of brick-and-click businesses that incorporate e-business.

Acquire Greater Business Visibility

The communication capabilities offered by the Internet and the Web allow businesses of all types to gain greater visibility with consumers. Automotive manufacturers, such as Ford Motor Company and Chrysler, are examples of businesses who use the Internet and the Web to gain greater business visibility but who do not directly sell products or services through their Web sites.

Maximize Customer Relationships and Improve Responsiveness

The Internet and the Web are the ultimate communication tools for both businesses and consumers. Southwest Airlines is an example of a business that uses the communication power of the Internet and the Web to respond to its customers, maximize customer benefits, and maintain customer loyalty.

<p><b>E-Case: A Technology Innovator's Excellent Idea</b></p>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “A Technology Innovator’s Excellent Idea” case.</li> <li>▪ Break students into groups to discuss the following questions:</li> <li>▪ What e-business advantages did W. W. Grainger successfully exploit?</li> <li>▪ What factors enabled W. W. Grainger to successfully transition to a brick-and-click company?</li> </ul>
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Create New Products and Services

The Internet and the Web provide a business environment in which existing businesses can expand and refine their products or services and new e-businesses can offer new products or services. The Cybersettle e-business illustrates an e-business created around a new product or service.

<p><b>E-Case: A Brilliant Execution of a Simple Idea</b></p>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “A Brilliant Execution of a Simple Idea” case.</li> <li>▪ Ask students to consider why Josh Kopelman enjoys success as a serial entrepreneur. They should write one or two paragraphs that discuss the reasons for Kopelman’s successes.</li> <li>▪ Ask students to use their written summaries to discuss entrepreneurship and entrepreneurial abilities and traits with a group of classmates.</li> </ul>
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Reduce Costs

One of the major benefits of doing business online is the opportunity to reduce operating costs. Costs for transaction processing, order tracking, sales support, and customer support activities can be reduced by conducting the activities online. Cisco Systems, Dell, and Microsoft are examples of companies that save operating costs by conducting sales and customer support activities online.

<p><b>E-Case in Progress: In the Beginning, the Idea</b></p>	<ul style="list-style-type: none"> <li>▪ Ask students to read the “In the Beginning, the Idea” introduction to the “E-Case in Progress” section.</li> <li>▪ Remind students that the Rackspace Managed Hosting e-business will be featured throughout the text.</li> <li>▪ Ask students to use a link on the student’s online companion to visit the Rackspace Managed Hosting Web site and become familiar with the site, the e-business’s products or services, and its management team.</li> <li>▪ Ask students to discuss the timeliness of the managed Web site hosting idea and the factors that may have helped convert the idea into a very successful e-business.</li> </ul>
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Quick Quiz

1. Because e-business is not bound by the factors of time and space, existing businesses and new e-businesses are able to effectively \_\_\_\_\_ their markets.

**Answer:** Expand

2. Automotive manufacturers use the Internet and the Web to gain greater business \_\_\_\_\_.

**Answer:** Visibility

3. Simply publishing a Web site guarantees that a business will successfully expand the market for products or services. True or False?

**Answer:** False

Discussion Questions

How has Ticketmaster expanded its market by doing business online?

How have Ford Motor Company, Chrysler, and other automotive manufacturers made use of the communication power of the Internet and the Web?

In what ways has Southwest Airlines exploited the Internet and Web to enhance its responsiveness to its customers?

What other successful e-businesses also harness the communication power of the Internet and the Web to provide customer support before and after the sale and to maintain customer loyalty?

Useful Links

Web Site	URL
Chrysler	<a href="http://www.chrysler.com/">www.chrysler.com/</a>
Cisco Systems	<a href="http://www.cisco.com/">www.cisco.com/</a>
Costco	<a href="http://www.costco.com/">www.costco.com/</a>
Dell, Inc.	<a href="http://www.dell.com/">www.dell.com/</a>
Ford Motor Company	<a href="http://www.ford.com/">www.ford.com/</a>
Microsoft Corporation	<a href="http://www.microsoft.com/">www.microsoft.com/</a>
Southwest Airlines	<a href="http://www.southwest.com/">www.southwest.com/</a>
Ticketmaster	<a href="http://www.ticketmaster.com/">www.ticketmaster.com/</a>
Wal-Mart	<a href="http://www.walmart.com/">www.walmart.com/</a>

<p><b>Closing Case: Ideas! Ideas!</b></p>	<ul style="list-style-type: none"> <li>▪ Remind students to review the “Ideas! Ideas!” opening case, if necessary.</li> <li>▪ Direct students to read the “Ideas! Ideas!” closing case.</li> <li>▪ Ask students to consider Hagar’s e-business ideas and how he has or has not exploited inherent advantages of doing business online to create successful e-businesses.</li> </ul>
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## Key Terms

- **cash cow:** A business that continues operations in order to generate cash.
- **entrepreneur:** Someone who assumes the risks associated with starting and running his or her own business.
- **entrepreneurial abilities:** Specific abilities needed by a person who wishes to start and operate a business, such as leadership, high-energy personality, self-confidence, organizational skills, and the ability to act quickly and decisively.
- **entrepreneurial process:** A series of steps by which a person determines whether he or she has the abilities to be an entrepreneur and then decides whether it's best to start a new business or purchase an existing one. The steps are (1) decide if someone is an entrepreneur; (2) if yes, decide to purchase or start a business; (3) if starting a business, define the business idea, create a business plan, and secure financing; (4) if purchasing or starting a business, operate the business; and (5) harvest the business.
- **first-mover advantage:** An advantage inherent in being the first business of a particular type in the marketplace.
- **going public:** The act of issuing a public stock offering or IPO.
- **name identification:** The advantage a business enjoys when its name is not only readily recognized by potential customers, but identified with the business's specific products or services.
- **network effect:** The increasing value of a network to each participant as the number of total participants increases.
- **scalability:** The ability of a business to continue to function well regardless of how large the business becomes; also the ability of a server to handle increased traffic loads without crashing.
- **sweat equity:** The time, effort, and personal money an entrepreneur spends to get a new business started.
- **viral marketing:** Marketing a business's products or services by electronic word of mouth; a marketing approach that exploits the network effect to spread information about a business's products or services rapidly.