

SAMPLE MIDTERM—SAMPLE ANSWERS

Note: On the actual exam, you will be given approximately one half page to answer each question. You do NOT need to bring a blue-book. You will have one hour to answer your chosen four questions.

Please select any 4 of the following 5 questions to answer:

1. According to *Internet Marketing*, what are some issues in positioning a web based business?

Positioning involves the development of a unique marketing position—how is what the firm offers different from that offered by competitors, and why is this offering preferable for some segment of the market? This decision involves finding a target market, identifying its needs, and identifying how the firm will meet this target market's needs. There are several ways that the Internet presence can be used here—e.g., to generate leads, provide information, or providing superior service online.

2. According to *E-Commerce Management*, what does Metcalfe's Law suggest?

Metcalfe's law states that a network increases in value based roughly on the square of the number of people in the network. For example, if two people are in a network, only one connection exists. On the other hand, if four people are in the network, six connections can be made. For 8 members, $(64-8)/2= 26$ connections can be made. Thus, when the number of members is doubled, the value of the network is much more than doubled.

3. According to *E-Commerce Management*, what does the idea of *disintermediation* involve, and how does the Internet affect this?

Disintermediation involves eliminating one or more members of the channel. For example, if a farmer sells directly to consumers, the wholesaler and retailer are disintermediated. In some cases, the Internet reduces the cost of maintaining direct contact with customers. Thus, the value added by some intermediaries is reduced, and it may be cost effective for the seller to eliminate these.

4. How to manufacturer and retailer interests tend to differ?

Manufacturers generally want to maximize the sales of their products. If the retailer is willing to buy more units at a lower price, it may be worthwhile for the manufacturer to reduce prices. The retailer, on the other hand, is interested in maximizing sales within a particular category. Often, if the price on one brand is reduced, sales of that brand will increase, but much of this increase will come at the expense of other brands in the category. Therefore, it is often more profitable for the retailer not to pass along any discounted price to consumers.

5. Some people have suggested that it may be possible for internet based firms to make large profits online selling online because costs of selling online are lower. Please evaluate this statement.

Costs of selling online are not consistently lower than selling through traditional retail channels. The online seller must perform, or pay to have performed, the services that the retailer would provide. There is a lot of

labor involved in packaging and shipping products, and shipping is more expensive per item in small lots. Therefore, retailers can often reach consumers at a lower cost, particularly when the bulk-to-value ratio is high and if the absolute margin is low. For some items, such as high value computers that rapidly decline in value, selling online may be less expensive than selling through retail channels. However, if that is the case, the relevant competition will be other online sellers, not retailers. Thus, there will be no competitive advantage, and the equilibrium price is likely to involve a profit no larger than that made by traditional retailers.