Chapter IV

Failures of B2C Retailing:
A Services Industry View

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Abstract

Conceptualizing business-to-consumer (B2C) businesses as an innovative class of technology-infused services yields insights into the factors that may lead to success or failure of such businesses. Drawing from services marketing literature and recent thinking on Internet service metrics, this chapter presents a framework for analyzing B2C businesses.

Birth Pangs of B2C: Dot-Com Failures

Looking back from the perspective of 2006, B2C e-commerce appears to be in a wary-yet-thriving mode (Latzer & Preissl, 2005). B2C systems have become parts

of consumer lives, despite lingering consumer skepticism and distrust (Numberger & Rennhak, 2005; Robertson, Murphy, & Purchase, 2005). Turning the clock back by less than a decade, however, shows that B2C e-commerce was born via a very traumatic phase—especially in the USA—of the "dot-com crash."

During 1999 to 2001, many B2C e-commerce ventures failed. The B2C market crash was massive and economically destabilizing. It wiped out billions of dollars of market capitalization and led to a huge loss of employment. Between 1995 and 2000 a total of 492 Internet-related companies raised $36.3 billion in capital in the public markets. By 2000, just 11% of these companies traded at prices greater than their offer price. A third of them traded below 80% of the offer price. In 1999, 230 Initial Public Offerings (IPOs) raised $18.2 billion. In 2000, 130 IPOs were offered and raised $12.8 billion; but 133 IPOs representing $10.4 billion were withdrawn from the market. The market capitalization of the Internet sector in 1999 was $881 billion. This fell to $208 billion by December 2000 (Anderson, 2001). Layoffs in the industry in the year 2000 were 4,805 in September; 5,677 in October, and by December, the total layoffs stood at 22,267. Unemployment reached 700,000 for the year 2001 (Corcoran, 2002, Rock, 2000).

Such failures were attributed to causes such as failure to follow time-honored business and marketing principles (Agarwal, Arjona, & Lemmens, 2001; Varianni & Vaturi 2000), wrong or premature timing (Useem, 2000), inadequate financing (Cummings & Carr, 2001), and poor execution of strategies (Kemmler, Kubicova', Musselwhite, & Prezeau 2001).

Another useful way to look at B2C businesses—successes as well as failures—is to conceptualize them as *innovative consumer services*. In essence, B2C e-commerce businesses represent new technology-driven ways of providing promotional, retailing, and distribution services to consumers. This paper proposes a services marketing framework to understand why so many Internet-based B2C companies failed to fulfill their initial promise. B2C dot-com crashes represent special types of services failures. Our analysis shows that the B2C e-commerce in its initial incarnation was flawed. In B2C settings, consumers balance the cost of their time and efforts against services received and make judgments about service quality (Berry, Seiders, & Grewal, 2002). In the B2C environment, service quality depends on: (1) the process by which perceptions about the quality are formed, and (2) the gap between the perception of the service and the experience of the delivered service (Brady & Cronin, 2001; Zeithaml & Bitner 2003). By viewing B2C e-commerce businesses as services, we bring to bear, upon the B2C e-commerce sector, the existing knowledge from services marketing and Internet service metrics research. Recognizing that services require closer functional coordination between marketing, production, and operations, we adapt the services models of Brady and Cronin (2001) and Gronroos (1984) for the B2C context to glean fresh insights into the

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