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Chapter VIII

Conceptualizing Failed B2C Dotcoms as Innovation Failures

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Abstract

During the 1998-2003 dot-com bust, many Internet-based business-to-consumer (B2C) companies failed to fulfill their initial and alluring promises. Concepts derived from the investigation of product and services innovation failures can provide a valuable strategic market framework to understand why so many dot-com B2C ventures crashed so fast. Early B2C ventures represented an entirely new class of technology-driven services. These B2C dot-coms sought to inform, promote, sell, and deliver consumer items in radically unfamiliar ways. In doing so, many B2C firms did not follow time-tested business precepts. In particular, the failed B2C firms did not realize they were marketing innovative services. Our framework uses the continuum of need-solution context in conjunction with the notion that seller/buyer perceptions about the scope of innovations are not necessarily concordant. Matched or "concordant" perceptions lead to success, and mismatched or "discordant" perceptions often breed failures. Using short cases and historical data, this chapter illustrates the explanatory power of the framework.

Introduction

In the advanced economies, B2C e-commerce has become entrenched in many ways and yet consumer skepticism and distrust are expected to persist in some aspects of B2C transactions (Numberger & Rennhak, 2005; Robertson, Murphy, & Purchase 2005). Of course, as is well known, this contemporary state of wary-but-nonetheless-thriving B2C e-commerce was born via a traumatic labor process of the dot-com crash.

This chapter proposes an innovation theory-based conceptual framework to help explain why so many Internet-based B2C companies failed to fulfill their initial promise. B2C dot-com crashes represent special types of innovation failures. Our analysis shows that the product innovation called *B2C e-commerce,* in its initial incarnation, was flawed.

In innovative B2C settings, consumers balance the cost of 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, & Gremler, 2006).

Furthermore, in high-tech marketing contexts, two factors shape perceived vs. expected performance. These are the need-solution context (Leonard-Barton, Wilson, & Doyle, 1995), and the congruence of perceptions between technology innovators and technology consumers (Rangan & Bartus, 1995). In this paper it is proposed that in the initial wave of B2C service innovations, buyers and sellers marched down very divergent paths. Technology innovators and sellers saw B2C technologies as being capable of radically exceeding buyers' expectations, while buyers saw B2C innovations as relatively inconvenient ways of performing familiar shopping tasks. Many B2C firms in the first wave focused more attention on marketing and front-end technology and less on timely delivery and customer satisfaction. The results were persistently high customer acquisition costs without sufficient revenues (Agarwal, Arjona, & Lemmens, 2001). Research shows that most B2C firms failed to adhere to conventional management principles (Varianini & Vaturi, 2000). It also suggests that many dot-coms failed because of lack of basic customer knowledge and failure of implementation, logistics, and service follow-up (Howell, 2000). The question is: why so many firms with resources and talents failed to use time-honored principles? What was it about this new technology and service delivery method that these managers misread? We argue that the firms failed to realize they were dealing with a new innovative situation, which needed a new managerial orientation (Achrol

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