

# Chapter 2.10

## B2C Failures: Toward an Innovation Theory Framework

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### EXECUTIVE SUMMARY

This article uses concepts derived from the investigation of product and services innovation failures to develop a strategic market framework to help understand why so many Internet-based business-to-consumer (B2C) companies failed to fulfill their initial promise. B2C crashes, viewed collectively, may be seen as representing an initial wave of failure of an entirely new class of technology-driven services. Such services sought to inform, promote, sell, and deliver B2C items in radically unfamiliar ways. Research shows B2C firms failed because they did not follow time-tested business precepts, but does not tell us why. In addressing this question, this article argues that unsuccessful B2C firms failed to realize they were marketing innovative services. It focuses on the difficulty of marketing innovative services by developing an integrated framework using 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 perceptions lead to success, but not always because sellers and buyers can both misjudge the nature and scope of an innovation. Using secondary sources, the article illustrates the explanatory power of the framework and contributes to e-commerce management issues by clarifying why, despite resource availability, most B2C firms failed in the initial round.

### INTRODUCTION

This article proposes an innovation theory-based framework to help understand why so many Internet-based business-to-consumer (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, 2003).

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 article, we propose 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). Thus, we ask: Why did so many firms with resources and talents fail 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 & Kotler, 1999). And as we argue later in the article, the innova-

tive technology required B2C firms to alter their view of business-customer relations. We develop a framework to show how innovation context can lead to problems of concordance of perceptions between buyers and sellers. Managers have to figure out how to navigate this maze of perceptions to be successful.

The article is organized as follows. The next section examines the scope of the B2C failure problem and reflects on some early diagnoses of it. The section that follows presents the proposed innovation theory-based framework and provides illustrative evidence. The concluding section draws together the main arguments, and makes recommendations for managers and researchers.

## SCOPE OF THE B2C PROBLEM

B2C e-commerce failure was a system-wide failure. It was not the case where a few managers in a few start-up firms made poor judgment calls. The finding that managers of these firms failed to follow well-known management truths—that costs cannot consistently exceed revenues, pricing correctly is critical, or customer services are important for long-term success (Agarwal, Arjona, & Lemmens, 2001; Marn, 2000; Varianini & Vaturi, 2000)—is important and necessary, but not in itself sufficient. Incompetence is not a satisfactory answer when a large number of firms fail. This section first describes the enormity of the B2C failure, followed by a brief review of the empirical findings that have carefully looked at the B2C failures. This discussion sets the stage for our contribution and develops our framework to address the question of why these managers in all these firms failed.

## The Size of the Crash

The B2C market crash was massive and economically destabilizing. It wiped out billions of dollars

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