

**B2C Crash as an Innovation Failure:  
Organization Learning from the Dotcom Debris**

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Prepared for submission to:

JOURNAL OF ELECTRONIC COMMERCE IN ORGANIZATIONS

<http://www.idea-group.com/journals/>

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Draft dated: July 10, 2002

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**Abstract**

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## **INTRODUCTION**

Most explanations of the massive shakeout in the business-to-consumer (B2C) electronic commerce sector during 1999-2001 have focused on the poorly conceived business models of the failed ventures. Surveying the 18-month period from January 1999 to June 2000, Agarwal, Arjona and Lemmer (2001) reported that most B2C failures were caused by what they term “fatal attraction” – luring visitors but failing to convert them into customers. Failure to follow basic marketing principles is cited as a major cause of B2C failures. According to Varianini and Vaturi (2000):

When electronic commerce was young and the outlook was rosy, it seemed that the basic rules of marketing could be cast aside. The most important thing was thought to be a speedy launch to grab a share of the market space. Profit wasn't a near-term, or even a medium-term, goal. The aim was to get as many visitors as possible to your site, on the assumption that this would, at some stage, translate into profits. Today that strategy is in tatters.

While these explanations are valid, they examine only part of the story of B2C failures. In this paper, we propose a framework that views B2C crash as an *innovation failure*. This perspective helps identify the *organizational* factors – external market oriented as well as internal – that could strengthen the business case for surviving and emerging B2C ventures. Ignoring such factors is usually a recipe for failure while paying close attention to them could raise the probability of success.

## INNOVATION-BASED FRAMEWORK

### Premises of the Framework

The B2C electronic commerce “revolution” can be conceptualized as a major innovation. Overall, B2C methods hoped to create a radical innovation in the way customer acquisition and retention is done. In this sense B2C – not as specific dotcom firms but as a style of doing business – is a “new service product” for consumers as well as a new-to-the-world innovation.

To understand the B2C failure, we can draw lessons from the literature that has looked at new product failures quite carefully (Ayers, Dahlstrom, and Skinner 1997, Berggren and Thomas 2001, Brown and Eisenhardt 1995, Datar, Jordan, and Srinivasan 1997, Howells 2001, Ittner and Larcker 1997, Kessler, Bierly and Gopalakrishnan 2001, Leonard-Barton, Wilson, and Doyle 1995, Madique and Zerger 1984, Rangan and Bartus 1995, Srinivasan, Lovejoy, and Beach 1997). Despite considerable academic and corporate effort to understand and reverse it, the failure rate of new products continues to be as high as 95 percent (Brown and Eisenhardt 1995). A study by Arthur D. Little reports that 85 percent of the 700 companies expressed dissatisfaction with their ability to manage innovation (Berggren and Thomas 2001). Collectively, however, there is convergence in the recommendations from such studies:

- Successful innovation managers learn from failures (Howells 2001).
- Successful innovation managers maintain strategic and managerial realism and ensure that organizations match their goals with their capabilities and develop processes that facilitate transfer of tacit and explicit knowledge throughout the organization (Kessler, Bierly and Gopalakrishnan 2001)
- Successful innovation managers focus on solutions that address customer needs rather than on products, concentrate on delivery of total solution rather than product introduction, and build business models and a network of value to get a sustainable competitive advantage (Berggren and Thomas 2001).

## New Product Development Process: Key Organizational Lessons

Leonard-Barton, Wilson and Doyle (1995) discuss how, in the 1980s, Hewlett-Packard (HP) shaped its new product development process based on a study of past successes and failures. Their HP study was based on an earlier 1976 study – Project SAPPHO, by Sussex University. The key findings of SAPPHO were that successful innovators have: (1) a much better understanding of user needs; (2) pay more attention to marketing and

**Table 3: Factors affecting Success and Failure of 19 Innovation Projects at HP**

<i>Factors</i>	<i>Successful Projects Compliance Rate (%)</i>	<i>Failed Projects Compliance Rate (%)</i>
1. Understanding of User Needs	100	67
2. Strategic Alignment and Consistency	100	67
3. Systematic Competitive Analysis	100	50
4. Product Positioning	100	50
5. Technical Risk Assessment	100	50
6. Using Prioritized Criteria for Decisions	100	50
7. Regulatory Compliance	100	33
8. Matching Channel to the Product	100	33
9. Project Endorsement by Top Management	100	17
10. Total Organizational Support	100	17

Source: Based on Leonard-Barton, Wilson and Doyle (1995)

publicity; (3) perform their development work more efficiently than failed ones, but not necessarily more quickly; (4) use outside technology and scientific advice, not in general, but in specific targeted areas; and (5) consist of responsible individuals who are usually more senior, with greater authority than their counterparts on failed projects. These factors distinguished between success and failure by less than 0.1 percent chance. Based on this study, HP undertook a study of 19 successful and unsuccessful projects in 9 out of HP's 14 businesses. The successful projects exhibited 100 percent compliance on ten factors while the failed ones had between 17 to 67 percent compliance (see Table 3).

This and other follow up studies led these researchers to conclude that the primary cause of difficulties in the marketplace was a failure to understand user needs. The failure was not usually attributable to a lack of effort. Some project teams spent much time and millions of dollars to understand their customers. The market research efforts failed in one or more of the following way:

- Failure to correctly identify the target user, the buyer who controlled the financial decision, and others who affected the decision to purchase.
- Inability to figure out exactly what consumer problem was being addressed by their product.
- Incapacity to transfer user needs into product design features.

**Table 4: HP’s View of Key Factors for New Product Success**

<i>Success Factor</i>	<i>Explanation</i>
Strategic Alignment	Contribution of the new project to strategic objectives
User/Customer Needs	Identification of the target segment and need articulation
Compliance Issues	Identification of all constraints including regulatory ones
Competitive Analysis	Identification and analysis of top three competitors
Product Positioning	Identification of differentiation and competitive advantage
Project Priorities	Trade-offs among cost, launch date, feature preferences
Risk Management	Assessment of risk
Market Channels	Selecting appropriate channel to reach target segment
Leadership	Upper management support and guidance
Resource Availability	Staff and funds to meet objectives in allotted time
Dependency Management	Management of external and internal dependency

Source: Adapted from Leonard-Barton, Wilson, and Doyle (1995), p. 289.

Cooper and his colleagues found that failure occurs when adequate attention is not paid to market (Cooper 1992, 1993, 1998, Calantone and Cooper 1979, Cooper and Kleinschmidt 1986). In a study of 235 new product development projects, Souder (1987) found that clarity of problem definition in terms of user requirements was the primary requirement for success. The HP development process, based on the research evidence, came to regard the 11 factors listed in Table 4 to be the key to new product success. Note

that other studies also found that, among these factors, clarity in understanding user needs was the most important. The other factors reflect the ability of the firm and project team to translate that understanding into a successful product.

The difficulties of managing successful new product development as indicated by the set of factors listed in Tables 3 and 4, especially in understanding customer needs, are compounded when new markets are to be created. New products in existing markets address known needs. In such cases, satisfaction gaps with existing products can be identified with relative ease. In new markets, customer need is uncertain and both the need and products co-evolve (Leonard-Barton, Wilson and Doyle 1995). Accordingly, Leonard-Barton, Wilson and Doyle (1995) identify the following four need-solution contexts:

1. An improved solution for a known need
2. New solution to a known need
3. A new solution to an anticipated need
4. An evolving solution to an uncertain need.

Rangan and Bartus (1995) argue that whereas many new product taxonomies have been offered, all of these definitions assume that the innovator (supplier) and the customer are in agreement on the degree of the newness of the product or what the authors call the product's "breakthrough" nature. They claim that customers and innovators do not necessarily see eye to eye on this aspect and offer a model to analyze the situations when there is a mismatch of perceptions across the parties to the exchange. The authors contend that often product failures are caused by such mismatch. Their model consists of a two-by-two matrix of buyer and seller, wherein each can perceive the new product to be

either a breakthrough or an incremental product. Breakthrough products are inventions and incremental products are mere innovations. Breakthroughs are unlike any existing products or practices. They employ new technology, create new markets, and represent conceptual change. Increments are continuation of existing practices; thus, suppliers and customers have a clear idea of what the product is and what it can do for them. When both seller and buyer see eye-to-eye, we have a concordant state of innovation and market relationship.

Breakthroughs require technology and applications development. Most customers are unlikely to know about the characteristics of the product and the development work is typically an “inside out” process wherein technical people play an important role. Increments on the other hand are evolutionary from the point of view of customers, who must play the major role in their development. The customer’s voice, therefore, becomes the dominant impetus for new product design. Thus, incremental situations are outside-in process. The key in incremental situations is to recognize that customers know what they want, and know the alternatives available in the market. They can evaluate the new product offer. Performance at a price rather than performance alone becomes a design criterion. Looking at breakthroughs and incremental products as a continuum, Rangan and Bartus (1995) argue that as we move from a breakthrough to incremental product, the voice of technology should be proportionately muted and replaced by the voice of the customer. When one side thinks it is a breakthrough and the other thinks it is an incremental product we have discordance, a mismatch. There is a lack of clarity about which voice- technology or consumer- should govern the product development process. Failures are more likely when we have such discordance. When suppliers think the

product is incremental and customers think it's a breakthrough, Rangan and Bartus call the mismatch "shadow," because the new idea is an outgrowth of some other and more central technical project. When suppliers think it's a breakthrough, but buyers think it is an incremental product, the mismatch is a "delusion," from the point of view of suppliers. This framework is very useful in the B2C context. The mismatch between suppliers of B2C could either be a "shadow" because the idea was an afterthought, or a me-too activity of a large firm already in the same or similar business. Or, the B2C was a failure of the "delusion" kind, where suppliers were enamored of the technology, but the customer thought she was buying regular products (clothes, books, CDs, toys) but through a different (better) service, and was disappointed.

By merging the Rangan and Bartus (1995) and the Leonard-Barton, Wilson and Doyle (1995) perspectives, we obtain the schema of Table 5. In essence, the three right-hand columns of Table 5 characterize the concordance or discordance of the buyer and the seller about the perceived newness of the innovation. The left-hand column reflects a kind of technology continuum, ranging from the relative comfort of low-tech/known tech to the extreme uncertainty of high-tech.

When needs are known, either both parties agree that the solution is incremental (and therefore understandable and better), or there are discordant expectations, when one thinks it is a breakthrough while the other thinks its an incremental solution. In rare cases, there may be the possibility of a "false dawn," when an incremental innovation is misperceived by both sides as a breakthrough.

When needs are unknown, both must think it is a breakthrough otherwise perceptions will be discordant and success will be unlikely. There is also the rare

possibility of “unrecognized promise,” when sellers and buyers both see only incremental benefits in a truly innovative solution. As Table 5 shows, for each solution/need pair, there are concordant and discordant conditions. The concordant condition could possibly lead to success, and the discordant condition would most likely lead to failure.

Early in 2000, Josh Harris, founder of the streaming-media company Pseudo.com declared with certitude on the CBS TV Show 60-Minutes that he was there to take companies like CBS out of business (Useem 2000). At the time the Internet was seen as a “disruptive technology,” that would favor new entrants and send old-line companies scurrying for cover (Christensen----). At the time the boast did not seem too far-fetched, but from this distance today, the boast seems laughable and sophomoric. That is not to say that there were no breakthroughs on the Net. Useem, writing in October 2000, argued that whereas some companies like Napster, electronic brokerages, and online airline ticket sales roiled their respective industries, the majority of the B2Cs – especially those that sold anything physical – were dismal failures. But in October 2001, even without factoring in the September 11 disaster, it would be hard to imagine if he could consider Napster and E\*Trade successful. Borders.com and LDJ Direct or Go.com were created as separate companies – as Internet pure plays – because management probably thought the Net was a breakthrough product, and the technology voice needed to dominate the development of “clicks,” and that “bricks” knowledge embedded in the original organization was less important. WW Grainger, a Chicago-based warehousing company, is reabsorbing its Grainger.com because, according to its President James Ryan, it became obvious that the dotcom unit needed greater interdependence with the old company. These companies failed the expectations of their founders because customers

were looking at the same products (known needs) with better service and the same or lower price (improved or new solutions), and there were alternatives available out there in the “bricks” world. These new me-too companies did not offer any clear value that customers could identify. The online firms assumed they were breakthroughs and spent enormous capital on acquiring new customers. Some estimate that customer acquisition costs of online firms were four times as high as those of off-line companies (Useem 2000). It led McKinsey & Co. to remark that the Internet is an extraordinary way to communicate with known customers but a terrible way to attract new ones (Useem 2000).

Similarly, Boo.com got entangled in creating the best aesthetic site possible but failed to incorporate the basic desire of customers to view and compare fashion products quickly to make a buy decision. Launched with a blaze of publicity, it burned through \$135 million even before it went public (Isaacs 2001). There were management failures too. Boo.com’s launch was delayed, its software supplier could not deliver, and potential users complained that the site was impossible to navigate. In May 2000, the company went bankrupt with an estimated debt of \$250 million and a loss of \$100 million for its biggest backers (Sains 2001). Insiders say Boo.com failed because it spent too much money on marketing (Isaacs 2001). While Boo.com was offering an aesthetic shopping experience, customers were looking for good deals with a fast delivery service. “Boo.com has been shut down for being the biggest bunch of marketing-led, content free morons in European e-commerce. Nothing happens on this page. Not much happens on any of the other pages either, except for rotating shoes and annoying helper applications. This site is designed for extremely wealthy people...” went a post on a Boo-bashing site. The worst

mistake that led to Boo.com failure, according to an employee was trying “to sell clothes on the Net” (Isaacs 2001).

Petstore.com, Pets.com, Toysmart.com and other similar ventures failed to take off because they offered nothing new to the customers, neither inexpensive products, nor inexpensive and reliable delivery. These companies are criticized for targeting a niche for which demand had never been – and probably, never will be – proven (Isaacs 2001). Petstore.com burned \$150 million and then sold its customer database and partnership with Safeway and Discovery Communications to Pets.com for \$13 million, which in turn closed its doors without finding money or a buyer. Toysmart.com, backed by \$40 to \$50 million from Disney, did not have a chance in a crowded space occupied by Toys-R-Us and other e-tailers (Isaacs 2001). These companies addressed a known need but their offer did not match either customer expectations of better and cheaper service or match already existing new and traditional suppliers. E-Toys failed, first, to forecast demand, and then overreacted and overstocked products, which quickly became obsolete. They lacked customer knowledge and production knowledge, although the top management team consisted of top experienced Disney executives.

The “Breakthrough” notion prompted by the idea that the Internet was a disruptive technology, also promoted what Useem (2000) calls the “Instant-Company” approach, resting on illusory first-mover advantages and network-externality effects. These ideas led companies to build major brands supported by marketing and advertising expenditures. But the “the eyeballs the websites managed to attract did’nt turnout to be loyal,” (Useem 2000, p. 84). CDNow, a music e-tailer, had 83% name recognition but only 17% loyalty (Useem 2000 p. 84). And the brand promotion did not turn into first

mover or network advantage. These hard learned lessons are making entrepreneurs realize they need to differentiate their products on the Internet. Just as Internet offers instant market access, it can also instantly wipe out their first mover advantage because of tremendous ease of entry. Perception of commodity would generate commodity like response from the customers. Useem (2000) quotes Kenneth Kurtzman, CEO of Ashford.com, a luxury goods site, as saying: "One lesson I've learned is it's not about brand building, it's about brand experience." It appears that the Internet is not disruptive in the sense of a "breakthrough," but it is certainly different because it brings the sellers and the buyers to come together in new ways. It disrupts the old way of doing business and changes the customer-company relationship. Useem argues that the Internet forces companies to empower the customer by putting in her hands customization tools, choiceboards, and decision-making data, which is making customers "product-makers" instead of "product-takers."

Some of these lessons have come home. Consider companies like iChoose, which helps online shoppers do instant price comparisons and collect its revenues from retailers. It is clear that the old ways of selling stocks or airline tickets is nearly at its end and these industries will have to do more for customers. Tom Siebel of Siebel Systems said, "The Internet will only be a benefit if companies use it to grab hold of the customer and never let go." But this is hard because the technology itself raises the bar and creates higher customer expectations in terms of on and off-line service. According to Siebel "The issue isn't how I put my business on the Internet. That's easy. But the entire distribution channels have been forever transformed. It isn't either/or situation. Customers will buy from multiple channels, sometimes simultaneously. They will randomly transmigrate

from a Web site to a showroom, to Web-TV, WAP-device, Kiosks-- and the dialogue thread must be continuous. That's the challenge." (quoted in Reed 2000, p. 57) When Dell began to woo households and small businesses, they found that the Internet encouraged customers to search more (Harvard Business School Case, Dell On-Line, 1997). The new medium creates new demands for those who wish to market on the Net, a lesson that is hard to learn. A recent Deloitte Consulting study of 850 top executives in this regard is instructive (Reed 2000). The study reports that only 13 percent of the companies paid attention to creating customer loyalty networks (integration of marketing and servicing activities through technology) and supply chain collaborations (streamlining of finance, human resources, and creating e-chain connectivity, collaboration and customization of manufacturing and supply processes of supply chain partners). Businesses on the Net will have to augment their core products with services germane to the medium to add value and create sustainable competitive advantage using customer-centric strategies to create loyalty on the one hand, and create organizational resources and capability to actually deliver these values consistently, on the other. Agarwal, Arjona and Lemmens (2001) came to similar conclusions after analyzing 250,000 data points tracking 650 million visitors to eight kinds of web sites where the visitors made 2.7 billion visits and conducted 27 million transactions and paid \$4 billion to 224 companies in North America, Europe and Latin America. They found (which was no surprise to them) that features an e-business must have would allow the firm to find its natural customers efficiently, the firm must offer these customers the product they want in appropriately segmented way, and the product must be delivered reliably to these customers. These are certainly valid findings, although, as the authors admit, somewhat obvious, and

unsurprising. More importantly, such strategic orientation by itself is not enough in the B2C environment. B2C firms will have to see themselves not merely as providers of goods by alternative means. They will have to view the business itself as a new form of service. Their innovation is not the goods or the services they provide, but in the way in which they provide these. Customers have to be convinced that the risk that they take in doing ordinary things like buying a plane ticket or a car or book through the Internet is not only justified but rewarding in some recognizable ways. The firm also has to find ways to provide services which customers demand without bleeding edge technologies, and a focus on basic product presentation, customer service, and with on-time, efficient delivery with the assurance of no hassle. B2C way has competitive advantage over doing it the conventional way. B2C firms need to market B2C transactional experiences as innovative services. By bringing the learning from services marketing into the picture and integrating it with the above analytical model, we can create a more robust model for B2C success.

## **CASE STUDIES**

The above discussion depicted the likely scenario in many B2C companies where the capacity of the firms to perform the technical and delivery functions deteriorates but at the demand for quality of services demanded increases with increased number of visitors to the site. We explore this idea (as depicted in Figure 3) in greater detail by analyzing two well-known B2C companies: Web-Van and e-Toys. Both firms started with promise, were well-financed, were led by highly educated and experienced managers who had substantial and successful careers prior to the startups. Both

companies achieved significant brand recognition and equity and became leaders in their respective markets in a relatively short time. And despite all these factors, these companies failed. The purpose of discussing these two cases is to demonstrate that these companies failed to appreciate the fact that theirs was a new service to the customers. As argued in the earlier sections management must carefully handle both the front and the back-end of their businesses efficiently and effectively. Too much attention was paid to the front-end where the Web-based technology was "sexy," and not enough attention was paid to the back-end delivery and order-fulfillment side, which was part of the less "sexy" conventional business. As shown in Figures 2, 3 and --- customers require performance on the total cycle of Web-visit to Order-Fulfillment to be satisfied with their purchase and then revisit the site again and again. Only then B2Cs are likely to make money. Our case studies will demonstrate that these areas are the precise areas where Web-Van and e-Toys failed.

### **First Case Here (Webvan?)**

Armed with more than \$122 million in initial funding from blue-chip companies such as CBS and Knight Ridder and backing from top-notch Silicon Valley venture capital firms such as Benchmark Capital, Sequoia Capital and Softbank, Louis R. Borders (the co-founder of the successful Borders Bookstore chain) and his associates launched Webvan in the San Francisco Bay Area on June 2, 1999. Recruiting high-profile Andersen Consulting (now renamed Accenture) CEO George Shaheen as its head, Webvan was set to completely revolutionize the business of buying and selling groceries. Webvan executives believed that they had learned from the mistakes of predecessor,

struggling online grocers such as Peapod and xxxxx, and were in a strong position to implement a folly-free B2C strategy. Webvan burned through over \$1 billion in just two years, while its stock plunged from an IPO high of \$34 to just pennies. In the last three months of its short existence, the volume of orders from Webvan customers dropped sharply, pointing to a movement into the zone of dissatisfaction depicted in Figure 3. This

**Box 2: A Technically Savvy Customer-Commentator’s View of Webvan**

Even as I placed a regular, twice-monthly order with WebVan and marveled at the ease of it all, I had to wonder how long it would last. It simply didn't make sense to me that I could sit at my computer and do shopping in 15 minutes that normally would take an hour or more, then have my groceries delivered at no noticeable premium. The savings to me, in time, gasoline and frustration, were obvious, but WebVan's profit potential wasn't. The company said it could achieve profitability at certain customer volumes, but it bled too much cash trying to reach those volumes.

In recent months, as WebVan struggled to survive, it continually made special offers to keep us shopping. I was shopping anyway, but no one turns down \$20 in free groceries.

I had to wonder, however, whether those \$20 rebate offers weren't just cutting deeper into WebVan's bottom line. Considering that its drivers were always on time and courteous, the goods were delivered in special packaging for freshness - each green pepper got its own ZipLock bag - and each order came with some special freebie, WebVan appeared to me to be working too hard for too little money.

Source: Wilson (2001)

was despite the premium services provided at cut-rate prices (see Box 2). According to some B2C consultants, Webvan expanded too fast into too many cities and created an overly complex website. Webvan counted on a dramatic shift in shopper behavior. It assumed that there would be a mass exodus of customers from “bricks” to Webvan’s “clicks.” This was not to be.

## Second Case Here (eToys?)

To be written and analyzed/presented using the framework developed in previous section...

eToys incorporated in November 1996, began operations on the Web a year later in October 1997, and closed its doors in the fourth quarter of 2001. During its brief life the company was never profitable. It experienced increasing sales and increasing losses through out its corporate life. Sales increased from \$24 million in 1998 to \$182 million in 2000. Losses in 1998 were \$35 million and reached \$137 million in 2000. Its stock price had reached a high of \$86 but when it closed its doors, it was in pennies.

Venture Capital firms: Idealab, Highland Capital Partners III, Sequoia Capital & Entities, and Intel Corp. among others helped to finance the venture. It was headed by

Started as a Web retailer, eToys offered a broad array of children's products consisting of toys, video games, software, videos, and music. It carried an inventory of well over 9,500 SKUs and 750 brands. It offered its customers well-known traditional brands such as Mattel, Hasbro, and Leggo, as well as specialty brands like Brio, Playmobil, and Learning Curve. The firm believed the Web provided them with a natural advantage because consumers were dissatisfied with buying toys in the traditional brick and mortar environment. The old "bricks" based shopping experience was time-consuming, inconvenient, and unpleasant. Factors like product selection, store layout, indifferent customer service, and shopping with children, all, contributed to the dissatisfaction. The eToys management believed the Web retail environment, "clicks" provided the perfect antidote. Sales for the toy retailer rose fivefold-- to \$151 million-- in the year ended March 31, 2000, the company lost \$189.6 million. eToys' stock price

which was at \$86 in October 1999, fell to \$5 in March. eToys raised \$100 million by selling convertible preferred stock to private investors. Merrill Lynch & Co. then stated that eToys would be able to reduce its selling and marketing costs from 79.7 % of sales to 43.9 % of sales in 2000. This they claimed would allow the company to break even in 2002 and make it easy for them to raise more money.

**Box 3: Customer's View of eToys**

## Applying the Framework to the Cases

One problem is that we have not “integrated” the product failure and service failure streams that we have reviewed... so we have some disparate frameworks, but not one framework against which we can stack up and assess our cases....

Table 6, a summarization of general service quality factors, needs to be set up...!!

Integrating the discussion so far on the failure-success aspects of innovation projects in general, services in general, and B2C ventures as innovative services in particular, we propose the integrative schema of Table 7. In a sense, we can view the sets of factors summarized in Table 7 as hurdles that new B2C ventures have to pass through.

**Table 7:**

<i>Success-Failure factors relating to</i>	<i>Refer to</i>	<i>Innovation types affected by these factors</i>	<i>Phase or context for checking these factors</i>	<i>Methods for checking venture quality vis-à-vis these factors</i>
Innovation development projects	Tables 3, 4	All innovations	Development phase	
Perception mismatches across buyer-seller	Table 5	All high-tech innovations	Development phase, Venture funding phase	
Service quality	Table 6	All services innovations	Service design phase	
Web-delivered service quality	Fig. 2	New web-delivered services in general	Website design phase	
Scaling-up of B2C ventures	Fig. 3	Innovative B2C ventures	Development phase, Expansion phase	

Unlike a typical hurdle race, however, the phases and contexts in which these hurdles are set up are not always linear or serial in appearance. New B2C ventures may have to zigzag, or go back and forth, across these hurdles. Also, these hurdles are not automatically in place to check the quality and progress of new B2C ventures. These hurdles need to be consciously set up and monitored by the promoters and backers of B2C ventures.

### **CONCLUDING OBSERVATIONS**

**To be written...**

Jeff Fisher (2001) in a Newsweek article wrote insightfully that the Internet is a technology and selling items in a retail format is one way of using this technology. Its advantages reside in lower start-up costs and greater geographic exposure but that does not make retailing any easier. While Fisher is right about retailing being a difficult business and lower barriers to entry, the technology itself imposes higher costs of customer acquisition, customer service, order execution and corporate management, all of which seem to increase with increasing demand. In economic terms the technology, at least, in the retail case, neither provides increasing returns to scale nor is it scale neutral. In fact, based on the foregoing discussion and the evidence, we hypothesize that: The cost of retailing increases with increasing the capacity of the firm to serve its retail customers.

The retail business is highly competitive, to begin with, where customers themselves have to go to the brick/mortar store to pickup their goods. Self-delivery is implicit. In the case of the electronic store, human service, merchandizing, inside sales, payment, and other forms of customer service is replaced by the web-site. There was the presumption that when to these customer costs if we add the cost of the brick/moratar

store, these total costs will exceed the cost of serving on the web. We argue that both the front-end technology costs and back-end delivery and after sales services have turned out to be much greater than anticipated. In addition, the Internet pushes up the rivalry among firms another notch, thereby lowering margins and adding delivery and service costs. This decreases the ability of the firm to cover costs and provide the level of service demanded by customers. To all this you must also add the cost of advertising and creating a brand image. Echoing these sentiments, Lindsay Parker, a Deloitte & Touche analyst in an interview in Computerworld said: "there is a reason that Safeway didn't deliver to people's houses for years," (Sliwa 2001). Amazon.Com, the surviving retailer is trying to solve the problem by increasing the assortment of goods it sells online on the one hand and is trying to get its customers to spend more money, more frequently, each time they visit. They are still far from profitability. When firms begin to see the B2C as a new high quality, high margin service, and position it to deliver that service, that the firms will begin to succeed. At the current time, customers have been trained to expect home delivery at prices lower than what they would get at their local store. Unfortunately, the technology cannot accomplish this miracle. It is too good to be true!

**Table 1: Needs, Solutions, Market Expectations, and Innovation Types**

		<i>Buyer and Seller concur that the innovation is:</i>		<i>Buyer and Seller disagree about newness</i>
<i>Need</i>	<i>Solution</i>	<i>Breakthrough</i>	<i>Incremental</i>	<i>Mismatch</i>
Known	Improved	<i>FALSE DAWN</i>	<i>RECOGNIZABLE IMPROVEMENT</i>	<i>DISCORDANT INNOVATIONS &amp; MARKETS</i>
Known	New	<i>MODERATE BREAKTHROUGH</i>	<i>UNDERESTIMATED IMPROVEMENT</i>	
Anticipated	New	<i>MAJOR BREAKTHROUGH</i>	<i>UNRECOGNIZED PROMISE</i>	
Uncertain	Evolving	<i>POTENTIAL, UNTESTED INNOVATION</i>	<i>POTENTIAL, UNTESTED INNOVATION</i>	

Source: Authors' integration of ideas from multiple sources including Leonard-Barton, Wilson and Doyle (1995) and Rangan and Bartus (1995)

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