Chapter X
B2C Failures: Toward an Innovation Theory Framework

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ABSTRACT

Using the product and services innovation failures literature, this chapter develops a framework to help understand why so many Internet-based business-to-consumer (B2C) “dot-com” companies failed to fulfill their initial promise. Viewed collectively, B2C dot.com crashes constitute 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. Besides ignoring basic precepts of sound business practice, unsuccessful B2C firms failed to realize they were marketing innovative services. We place B2C dot-com ventures on a continuum of need-solution context of innovations, in conjunction with the notion that seller/buyer perceptions about the scope of innovations are not necessarily concordant. Matched perceptions between sellers and buyers lead to success. Sellers as well as buyers, however, can misjudge the nature and scope of innovations. Using case evidence, the chapter illustrates the explanatory power of the framework and contributes to e-commerce issues by clarifying why, despite resource availability, many early B2C firms failed due to misjudged perceptions of sellers and/or buyers.

INTRODUCTION

The social impact of the so-called “dot-com crash” was enormous. Vast amounts of market capitalization was wiped out; thousands of highly skilled workers were left jobless; and consumers and media were turned into scathing skeptics about the promises of information technology (IT).
Perhaps most insidiously, the pillars of modern faith in the power of scientific and technological innovation were corroded—beyond repair in some cases.

This chapter proposes a framework to help understand 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 class of innovation called “B2C e-commerce,” in its initial incarnation, was flawed.

With increasing cost pressures, there is increasing reliance on consumers’ interactions with technology to create services instead of receiving services from live employees (Zeithaml, Bitner, & Gremler, 2006). Most B2C dot-com firms were geared to be such technology-based service provision firms (Pandya & Dholakia, 2005).

Marketing literature calls this new class of service technologies self-service technologies (SSTs) (Bitner, 2001). Across a wide range of industries and applications, it has been found that consumers have strong feelings about SSTs: consumers love SSTs when they work and hate them intensely when they fail (Meuter, Ostrom, Roundtree, & Bitner, 2000).

Chances of service failure are high in new services, especially in SSTs service delivery models of B2C firms (Pandya & Dholakia, 2005). What irked customers the most were SST failures in terms of downed Web sites, shipping delays or failures; Web sites that were difficult to navigate and maneuver, having to use a plethora of usernames and passwords; and inadequate “recovery” efforts by B2C providers when failures occurred (Bitner, 2001; Meuter et al., 2000). For B2C firms to succeed, the service delivery elements had to be smoother and simpler than the interpersonal services that these SSTs substituted—in many cases, it was the opposite (Pandya & Dholakia, 2005). Our framework shows how difficult this task can be as it entails creating perceptual concordance between suppliers and buyers.

In B2C settings, consumers balance the cost of time and effort, against services received, and make judgments about service quality (Berry, Seiders, & Grewal, 2002) and its continued use. In such an environment, service quality depends on: (1) the perceptions about the service quality and (2) the gap between the perception of the service and the experience of the delivered service (Brady & Cronin, 2001). Services are high in experience and credence qualities, and consumer evaluations of the actual experience relative to the perception of the service is critical to the purchase and repurchase decision (Zeithaml & Bitner, 2003; Zeithaml et al., 2006), which are central to the profitable operation of e-commerce firms. According to a high-technology product innovation research stream, two factors shape perceived vs. expected performance in innovative high-tech decisions: (1) the need-solution context of innovations (Leonard-Barton, Wilson, & Doyle, 1995) and (2) the congruence of perceptions between technology innovators and technology consumers (Rangan & Bartus, 1995).

In this chapter, we propose that in the initial wave of B2C service innovations, buyers and sellers marched down 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; Barsh, Blair, & Grosso, 2001). Research confirms that most B2C firms failed to adhere to these conventional management principles (Agarwal et al., 2001; Barsh et al., 2001; Varianini & Vaturi, 2000). Thus, we ask: Why did so many firms with resources and talents fail to use time-honored management principles? What was