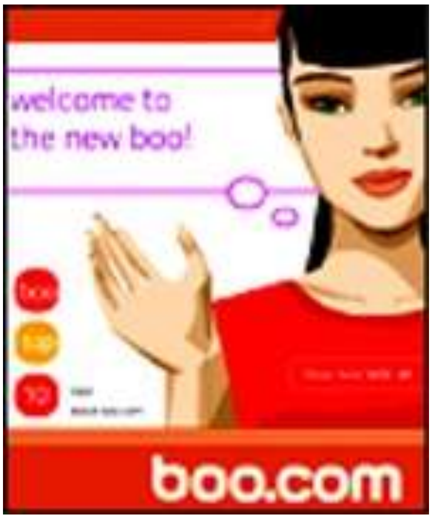
The Most Famous Dotcom Failure
By Deborah M. Collier



The most memorable Dotcom Failure was that of the original Boo.com in the year 2000. Deborah M. Collier, President at The Certificate in Online Business investigates the reasons why online retailer Boo.com failed and what we can learn.

Introduction

The year 2000 was a turbulent time for the Internet economy, but the failure of the clothing e-tailer Boo.com, added to fears about the stability and viability of existing and future on-line retailers. If we examine the history of the original Boo.com, its financial situation, marketing and management strategies, and assess the reasons for its downfall, we can learn several valuable lessons.

Boo.com was launched 3rd November 1999, with approximately $125million (76 million pounds) of funding provided by investors such as Benetton and Bernard Arnault, chairman of LVMH, Europe's largest luxury goods group. It had not only become the most heavily funded Internet start-up in Europe, but had also become the highest profile. All eyes were on Boo. The launch was delayed by six months, which according to various sources were due to technological problems. According to the 'Financial Times', there was a huge spending on consultancy fees, to get the website launched as quickly as possible. In addition, they state that $6million was spent on fashion ware, which had to be discounted as it was no longer fashionable by the time the site was eventually launched (Financial Times. 18th May 2000). When the site did eventually arrive, customers found the shopping experience frustrating. They were greeted by an on-line virtual shopping assistant 'Miss Boo'. She did not succeed in helping visitors with the purchasing experience. Instead Boo.com visitors were greeted with slow browsing, poor navigation and irritating technology. This lost potential customers and gained Boo a bad reputation.

Poor Web Design and Usability

ZDNet, a reputed critic it the IT industry, created a report of their experience of using the Boo.com site. They describe an example search for product information, which took five user actions, including escaping past annoying animated graphics, to reach the desired location. "With products zooming all around the page, customers practically have to play target practice in order select the product they want" (ZDNet, 29th November 1999). In the web design industry, there is a "three-click rule" for site design, which simply means that users should not need to click more than three times to find the information they seek. A browsing experience should be made pleasurable, simple and quick to use, and should not be hindered by the overuse of technology.

In addition to poor web design practice, there were several reports of "computer text" appearing in the users browser instead of graphics, and complaints that customers were unable to purchase products. The 'Financial Times reported that one customer had been advised by Boo to "limit the amount of transactions they made, to three per twenty minutes" (Financial Times, 4th November 1999). Clearly this kind of approach would not entice a customer to shop at this site again, and could discourage potential customers from shopping over the Internet at all.

Although there is no information available regarding Boo.com's site testing methods, it is clear from the customers poor on-line shopping experiences, that sufficient testing was not undertaken, nor were their circumstances taken into account. The average user's Internet connection does not have the available bandwidth that is needed for 3-D viewing. E-businesses should ensure that their sites are fully tested and refined before promoting them; otherwise they risk losing customers and revenue. Having in-house professionals test the site would be inconclusive as they already have prior knowledge of the objectives of the site. The test subjects should incorporate actual audience members and include some professionals, as well as those who know little about trading and those who have never traded on-line.

Bad Marketing

It was not only the site navigation and viewing experience that discouraged shoppers from buying from Boo.com. Boo marketed itself as a premium sports, urban street wear and fashion retailer, stocking quality products for the fashion conscious young individual. However, with premium products came expensive charges. Traditionally, customers are attracted to buying over the Internet by cheaper pricing. Where clothing is concerned it is particularly important, as customers like to see, feel and try on items before buying.

Boo.com's clever technology enabled shoppers to view items in 3-D and according to ZDNet gave a distinct visual feel of the products (ZDNet, 29th November 1999), but they did not account for a key internet buying driver – lower prices. Studies sponsored by KPMG, Hewlett-Packard and VNU Publications – the publisher of 'Computing', show the three main reasons for web purchases in the UK as (in order if importance), "Ease/Convenience", "Better Prices" and 'Speed of Process'. Results for France and Germany were similar (Computing, 30th November 2000). Boo.com fulfilled none of the criteria. One wonders what market research they conducted and if so, how they applied it. The 'Financial Times' reasoned that the brands involved in Boo.com did not wish to offer discounts, as it would devalue their brand (Financial Times, 4th November 1999). Perhaps if the site itself had given a good user experience, "Ease/Convenience" and "Speed of Process" would have won the customers hearts.

Bad Planning

It would seem that bad planning in several areas of Boo.com's strategy was key to its downfall. Its Swedish founders Kajsa Leander and Ernst Malmsten were too ambitious in their business plan. Instead of starting small and then expanding slowly, Boo wanted to dominate the market immediately. The 'Financial Times' describes the management team as "visionary and hip", but
quite rightly asks the question whether any traditional shopkeeper would plan to simultaneously launch a new chain of stores in eighteen countries across two continents (Financial Times, 19th May 2000). The answer is of course "No". Boo's founders clearly did not have "bricks and mortar" retailing experience, although they had

the experience of starting and running Bookus.com, which according to 'Investor's Week', was the third-largest online bookstore in the world (Investor's Week, 26th May 2000).

Lack of Sound Financial Management

The grandiose and sizeable vision of Boo.com's founders and investors came with huge costs - costs which spiralled out of control due to lack of sound financial management. The 'Financial Times' describes the pattern of spending from technology costs, through to employment benefits. They believe the biggest cost was the construction of Boo's technology platform, which involved hefty programming for multi-currency sales and product delivery. In addition to the initial outlay of the website, there were high maintenance expenses, for example, five thousand pounds a month for creating 3D photographs of its products for the web site. According to one investor, Boo.com didn't have managers to oversee its spending. It took six months to recruit a chief financial officer and they had no chief operating officer. There is also much feedback from employees about excessive employment benefits and luxurious spending, but Leander and Malmsten suggest that these benefits were justified in order to attract "some of the brightest brains in Europe". Moreover, the investors did not query the fervent spending of the company. In fact, board meetings were said to have taken place via mobile phone rather than face-to-face (Financial Times, 20th May 2000).

Human Resource Management Errors

Boo.com attempted to create a perfect environment for its employees, with plenty of staffing including a call centre of eighty people, and approximately four hundred staff in all, a number which proved to be excessive and expensive (Financial Times, 18th May 2000). While extra employees ensure an efficient running of a company, and sufficient call centre staff is valuable to providing excellent customer service, there should be careful human resource management. It appears that Boo.com had followed its pattern of operating on an overly grand scale, by over recruiting at the outset, rather than seeing how well the business faired.

Investor Concerns

There had been improvements to the website and it was starting to gain significant revenues (Net sales from February to April were $1.1million and gross sales in April $500,000), comparing well with other e-tailers (Financial Times, 20th May 2000). Nevertheless, would it have been sensible to invest more money at this stage? Boo.com was forced into liquidation when it's investors refused to inject any more cash into the business. It had already spent $380million. Fashionmall.com, a US fashion portal, bought its technology infrastructure, domain and brand. Boo.com would be used as a portal to introduce shoppers to retailers, and would continue to use the well-known virtual assistant 'Miss Boo'.

Business Model and Brand Failures

Ben Narasin, Fashionmall's CEO, suggested that it was only Boo.com's business model which had failed, and not its brand (Financial Times, 2nd June 2000). Surely, this is not the case. On the one hand Boo did succeed in creating a “hip and trendy” image suitable for attracting young shoppers, but on the other hand, the performance of the site gave the brand a reputation of being customer unfriendly. To elaborate, let us examine the Boo theme as discussed in articles such as ‘Investor’s Week’. The site was used to create a virtual world called ‘Planet Boo’ which had ‘Club Boo’, ‘Miss Boo’ the virtual assistant and customer service staff called the ‘Boo crew’. There was also ‘Boom magazine’ (Investor’s Week, 26th May 2000). Metaphors such as shopping trolleys are commonly used in sites as good way of assisting the customer with navigation and to take the technicality away from the user’s interaction with the site. ‘Miss Boo’ provides a good metaphor. To some, but not all customers, the trendy ‘Miss Boo’ may be appealing, but ‘Investor’s Week’ suggests that the ‘Boo’ culture was overplayed and in fact drove customers away (Investor’s Week, 26th May 2000).

It was their inability to keep the customer engaged in the buying process, due to poor design, and slow performance that caused damage. Negative media exposure brought on by the delay of the launch of the site, and bad publicity regarding excessive spending and non-profitability were detrimental to the brand.

KPMG said that Boo spent $25million of its initial $125million on marketing, and according to Dr Therese Torris, a senior researcher with Forrester Research this money was spent on expensive advertising through TV, radio and fashion magazines (BizReport, 19th May 2000).

The publication ‘Marketing’ writes that Boo.com burnt cash on advertising and brand promotion but says that Boo’s “initial success was due to it’s expertise in creating brand awareness Marketing, 25th May 2000). Unquestionably, good branding is about understanding what stimulates customers and about rising to their expectations. At the basic level, successful branding should evoke thoughts of quality and of a business that delivers on promise. Boo.com was not able to do this. Therefore, it would appear, that whilst it is important to spend on advertising and to research, using the most effective methods, if your business is not sound and does not satisfy the customer, then this investment is effectively wasted.

What lessons are there for existing and prospective e-tailers?

Firstly, e-tailers should not launch a website until it has been rigorously tested. They should wait until the structure and site are completely ready before marketing the brand. Enlisting e-commerce professionals to ensure that the site is one hundred percent robust, will deter any embarrassing publicity from damaging the brand, and will assure customers of a stress free shopping experience.

When they are ready to market the business, e-tailers should be careful to use the most effective methods of advertising whilst not overspending. A budget and sound marketing plan should be in place beforehand and should be rigorously followed. Television and expensive advertising campaigns may be effective, but more investment should be placed on retaining the existing customers through good Customer Relationship Management. The 1993 ‘Market and Customer Management Review’ shows that PriceWaterhouseCoopes researched and calculated that 2% customer retention is equivalent to a 10% reduction in costs (Pearson, 1994).

One possible method of retaining customer is by offering rewards, or discounted pricing on goods in return for consumer loyalty. This has proved effective with existing supermarket and the ‘Air Miles scheme’. There was no indication that Boo.com offered and such a loyalty program. Even with quality goods, there is value in offering loyalty discounts to customers, and this should not in any way harm the quality of the brands involved. General Motors launched a competitively priced credit card, which on usage accrues points towards discounts on the next car purchase. This form of relationship building maintains daily contact with the customer. (Pearson, 1994). As an e-tailer it would be easier to maintain such a scheme with customers and as with traditional retailers, it would ensure that shoppers are not lost to competitors.

According to Pearson, direct marketing provides a technique of assessing risk and targeting potential investments, and it also allows estimation of the value of rewards from customer service and marketing (Pearson, 1994). Once again, there is nothing revolutionary about this approach, but it proves that traditional retailing strategies are core to electronic business today.

One would assume that armed with a large call centre, Boo.com would have had ample opportunity to exploit the methods of direct marketing and customer relationship management. However, there is little to suggest that Boo made use of these strategies. Although the frenzied Internet investment has declined since the market boom, e-tailers should still be careful not plan an overly large scale. Just like established businesses, it is much easier to manage and plan on smaller scale, gain proven success records and revenue, and then expand. Boo.com's failing was that it was over-ambitious and this affected the quality of their service.

Excessive spending must be avoided and any business at the outset should have quality in house financial experts to manage and regulate spending. In addition luxurious spending on human resources will not aid a business if staff has not yet been justified by previous business performance.

The evidence shown does not in any way suggest that Boo.com failed because it was not an established "bricks and mortar" retailer. On the contrary, successful e-tailers such as Amazon.com dispel those beliefs. The problem with Boo was poor management from the outset. Boo.com's founders were not equipped to manage such a grand scale business without partners who have sound retail and financial experience. In reality, according to a senior design consultancy that worked closely with Boo, Ernst Malmsten the Chief Executive was a poetry critic (Computing, 26th May 2000). This seems absurd, but there is clearly a need for the ambition, energy and creative flare, which comes from such people. However, it is absolutely essential that experienced retailers and financial management be at the forefront of such e-commerce businesses.

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First written and published in September 2001 by Deborah Collier and for Deborah's readers in 2008.

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Deborah is the founder of the Certificate in Online Business™ (COB) series of globally-recognised industry qualifications, which were established in 2008. She developed the reputation of the programs among well-known brands gaining testimonials from Directors and managers at government organisations and leading companies such as Mars, Schneider Electric, House of Fraser and Procter & Gamble. Deborah leads the strategic direction of the training programs and company. In addition, she oversees marketing, partnerships and licensing.

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