Case Study: Boo.com: Poster Child for Dot.com Failure?

Boo.com arrived on the Internet scene promising its investors and on-line shoppers the treat of a profitable Web site offering high-quality, stylish, designer sportswear that could be purchased easily from the office or home. Thanks to advanced widespread publicity, Boo.com became, perhaps, the most eagerly awaited Internet IPO (initial public offering of stock) of its time. However, the company declared bankruptcy only six months after its Web site had been launched and before the company could ever undertake an IPO. Investors lost an estimated $185 million, while shoppers faced a system too difficult for most to use. Many people are still wondering how it could have all gone so wrong so swiftly.

The idea for Boo.com came from two 28-year-old Swedish friends, Ernst Malmsten and Kajsa Leander, who had already established and later sold Bokus.com, which is the world’s third-largest on-line bookstore after Amazon.com and Barnes&Noble.com. The two were joined by Patrik Hedelin, an investment banker at HSBC Holdings.

Boo.com planned to sell trendy fashion products over the Web, offering such brands as North Face, Adidas, Fila, Vans, Cosmic Girl, and Donna Karan. The Boo.com business model differed from other Internet start-ups in that its products would be sold at full retail price rather than at a discount. Malmsten labeled his target group as “cash-rich, time-poor.”

The Boo Web site enabled shoppers to view every product in full-color, three-dimensional images. Visitors could zoom in on individual products, rotating them 360 degrees to view them from any angle. The site’s advanced search engine allowed customers to search for items by color, brand, price, style, and even sport. The site featured a universal sizing system based on size variations among brands and countries. Visitors were able to question Miss Boo, an animated figure offering fashion advice based on locale or on a specific activity (such as trekking in Nepal). Boo.com also made available a telephone customer service advice line. In addition Boo was to feature an independently run fashion magazine to report on global fashion trends. Those who purchased products from Boo.com earned “loyalty points,” which they could use to obtain discounts on future purchases.

The company offered free delivery within one week and also free returns for dissatisfied customers. The Web site was fluent in seven languages (two of which were American and British English). Local currencies were accepted from 18 countries, and in those countries national taxes were also calculated and collected. “Boo.com will revolutionize the way we shop. . . . It’s a completely new lifestyle proposition,” Ms. Leander proclaimed.

The founders planned to advertise its site broadly both prior to and after launching. “We are building a very strong brand name for Boo.com,” stated Malmsten. “We want to be the style editors for people with the best selection of products. We decided from day one that we would want to create a global brand name.”

Although many important financial firms rejected investment in Boo.com, J. P. Morgan & Co., an old-line investment bank, decided to back the project even though it had done no start-ups for many decades. According to the New York Times, Morgan liked the concept “because
Boo wouldn’t undercut traditional retailers with cut-rate pricing as many e-retailers do.” The Morgan bankers were also impressed by the two founders who had previously successfully launched an Internet company (Bokus.com). They also were impressed by promised rewards of “55 percent gross margins and profitability within two years,” according to the Times. Morgan found other early-stage investors, including Alessandro Benetton (son of the CEO of Benetton), Bain Capital (a Boston high-tech venture capital company), Bernard Arnault (who has made a fortune in luxury goods), Goldman Sachs, and the very wealthy Hariri family of Lebanon.

With start-up funds in hand, Malmsten and Leander set a target date of May 1999 for launching the Web site. Boo planned to develop both its complex Internet platform and customer-fulfillment systems from scratch. Management originally planned to launch in the United States and five European countries simultaneously but soon expanded the number of countries to 18. It also wanted a system that would handle 100 million Web visitors at once. When the launch date began to loom close, management committed $25 million to an advertising budget, a huge sum for a start-up. The company chose to advertise in expensive but trendy fashion magazines such as Vanity Fair as well as on cable television and the Internet. Malmsten and Leander even managed to appear on the cover of Fortune magazine before the Web site was launched.

With so much technical development to be accomplished, the company moved the target date back to June 21. As June approached management decided to open satellite offices in Munich, Paris, New York, and Amsterdam. Several hundred people were hired to take orders from these offices once the site went live. However, the launch date had to be postponed again because of incomplete Web site development, and so many of the staff sat idle for months. “With all those trophy offices, Boo looked more like a 1950s multinational than an Internet start-up,” claimed Marina Galanti, a Boo marketing director.

By September the company had spent $70 million, and Boo undertook more fund-raising. With the prelaunch advertising campaign completed months earlier, the Web site was finally launched in early November. The promised mass marketing blitz never materialized. With the original advertising campaign long over, observers commented that raising people’s interest while delaying the opening resulted in many disappointed and alienated potential customers. Moreover, the site reviews were terrible. At launch time, 40 percent of the site’s visitors could not even gain access. The site was full of errors, even causing visitors’ computers to freeze. The site design, which had been advertised as revolutionary, was slow and very difficult to use. Only one in four attempts to make a purchase worked. Users of Macintosh computers could not even log on because Boo.com was incompatible with them. Users without high-speed Internet connections found that navigating the site was painfully slow, because the flashy graphics and interactive features took so long to load. Angry customers jammed Boo.com’s customer support lines. Sales in the first three months amounted to only about $880,000, and expenses heavily topped $1 million per month. The Boo plan quickly began unraveling.

In December, J. P. Morgan’s representative on Boo.com’s board of directors resigned, leaving no one from Morgan to advise the company. In late December with sales lagging badly and the company running out of cash, Malmsten was unable to raise enough additional investment, causing Boo to begin selling its clothing at a 40 percent discount. This changed
Boo’s public image and its target audience. However, Boo’s advertising did not change to reflect this strategy shift.

On January 25, 2000 Boo.com announced a layoff of 70 employees, starting its decline from a reported high of about 450 persons, a huge number for a start-up. In late February, J. P. Morgan resigned as a Boo.com advisor. According to reports, it feared being sued by angry investors. In March, when sales reached $1.1 million, Boo was still spending far more than its income. In April, Internet stocks plunged on the stock market, and plans for a Boo IPO were shelved. Finally, on May 17, Malmsten hired a firm to liquidate the company, announcing his decision the next day. He also indicated that the company had many outstanding bills it could not pay.

One problem leading to Boo.com’s bankruptcy was its lack of planning and control. “When you strip away the sexy dot.com aspect and the technology out of it, these are still businesses that need the fundamentals—budgeting, planning, and execution,” observed Jim Rose, CEO of QXL.com PLC, an on-line auction house. “To roll out in 18 countries simultaneously, I don’t think even the biggest global companies like IBM or General Motors would take that on.” Boo’s offices were rented in high-priced areas such as London’s Carnaby Street and in New York’s West Village. Numerous reports surfaced of employees flying first class and staying in five-star hotels. Reports even surfaced that communications that could have gone by regular mail were routinely sent by Federal Express.

Many in the financial community noted the lack of oversight by the board. Management controlled most of the board seats, with only four being allocated to investors. However, those four investor representatives rarely attended board meetings. Moreover, none had any significant retail or Internet experience. The board failed to offer management the supervision it clearly needed.

Serious technical problems contributed as well. Developing their own software proved slow and expensive. The plan required rich, complex graphics so visitors could view products from any angle. The technicians also had to develop a complex virtual inventory system, because Boo maintained very little inventory of its own. Boo’s order basket was particularly intricate, because items were actually ordered from the manufacturer, not from Boo, so that one customer might have a basket containing items coming from four or five different sources. The site also had to enable its customers to communicate in any one of seven languages and to convert 18 different currencies and calculate taxes from 18 different countries.

Industry analysts observed that 99 percent of European and 98 percent of U.S. homes lack the high-capacity Internet connections required to easily access the graphics and animation on the Boo.com site. No Apple Macintosh computer could access the site. Navigating the site presented visitors special problems. Web pages existed that did nothing, such as one visitors reported that displayed only a strange message that read “Nothing happens on this page—except that you may want to bookmark it.” Product descriptions were displayed in tiny one-square inch windows, making descriptions not only difficult to read but also difficult to scroll through. Boo developed its own, very unorthodox, scrolling method that people found unfamiliar and difficult to use. Moreover, interface navigation was too complex. The Boo hierarchical menus required precise accuracy, because visitors making a wrong choice had no alternative but to return to the top to start over again. Moreover, the icons were miniscule.
One annoying aspect of the site was the constant presence of Miss Boo. Although she was developed to give style advice to browsers and buyers, she was constantly injected regardless of whether the visitor desired her. Many visitors reacted as they might have if they were shopping in a bricks-and-mortar store and had a live clerk hovering over them, commenting without stop.

On June 18, Fashionmall.com purchased most of the remnants of Boo.com, including its brand name, Web address, advertising materials, and on-line content. (Bright Station PLC purchased the company’s software for taking orders in multiple languages to market to other online businesses that want to sell to consumers in other countries.) “What we really bought is a brand that has phenomenal awareness world-wide,” explained Kate Buggeln, the president of Fashionmall.com’s Boo division. The company plans to use the Boo brand name to add a high-end site similar to its long-existing clothing site. The new Boo.com was launched on October 30, 2000 with a shoestring $1 million budget. The site is much less ambitious than its earlier incarnation, acting primarily as a portal, and it does not own any inventory. Its design is much less graphics-intensive and flashy, enabling visitors to browse smoothly and easily through its pages. It features about 400 items for sale ferreted out by a network of fashion scouts as appealing to upscale buyers under age 31. Rather than getting bogged down in taking orders and shipping goods, Boo will direct customers to the Web sites that sell the merchandise they wish to purchase. Buggeln is optimistic about Boo.com’s chances of success this time.

Case Study Questions

1. Analyze Boo.com’s business model. How did it differ from more conventional retail Web site strategies? Why do you think the founders and investors of Boo were drawn to this unusual strategy?
2. What problems did Boo.com encounter trying to implement its business model? What management, organization, and technology factors contributed to these problems?
3. What could Boo.com have done differently that might have made the project successful?