

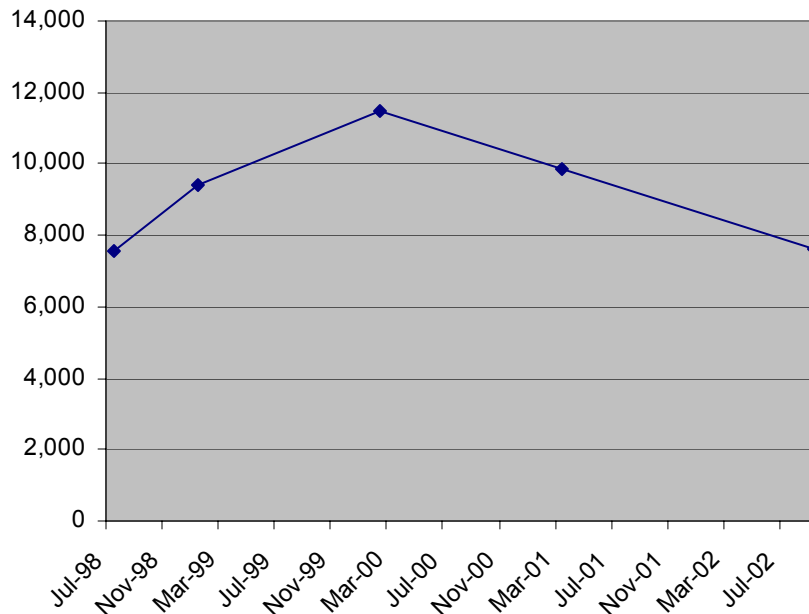
# The Reason For the Dot-Bomb

## Misguided E-commerce Expectations



By Chad Buckendahl

The Dot-Bomb is the period of time between 1998 and 2002. This period of time is when we saw the DOW Industrial Average rise from under 8,000 to just fewer than 12,000 and back down to under 8,000 in a matter of five years.



It was a wild time with severe highs and lows with not only the stock market, but the emotions of millions of people. As an Internet marketer in this era, I have a first-hand account of what caused what is referred to as “the bubble” and then the ensuing “bubble burst” in March 2001.

This white paper is my own personal account of what led to the creation of the bubble and finally, root causes of the burst. You can draw your own conclusions and I know you’ll have better insight after reading this document about the Dot-Bomb.

### **Building the Internet Marketing Bubble – 1998 to 2000**

To understand what caused the Dot-Bomb era, one must first understand what caused the creation of the bubble. The bubble in reference to the Dot-Bomb era is in reference to the hype created over the Internet. The term “bubble” symbolizes the hot air that was rampant during this time period.

Many believed that the Internet was going to be the single means of commerce. In listening to my peers, one could be led to believe that the Internet was going to replace retail. As crazy as that now sounds, it was what many believed back then. The first reason I point to that led to the creation of the bubble is: **Business Leaders did not understand direct marketing.** The leadership of companies may have understood marketing but not the discipline of direct marketing. At its core, direct marketing relies on metrics to guide efforts. Direct marketing is harder for traditional marketers to understand because they are not used to letting numbers guide their decisions. Instead, they allowed instincts to guide decisions. This is the first foundational block that led to the creation of the dot-bomb bubble.

The second factor that played into the creation of the dot-bomb bubble was: **Investors misunderstood technology.** The Internet was a new concept to most and people were easily misled and confused by it.

Many business leaders believed and lead others to believe that the Internet was a new frontier and those companies that laid stake to it first would succeed. They convinced investors to fund the efforts without the proper business plan in place. I challenge anyone to reference an e-commerce initiative during this period that came in under budget and on time.

Now, it is common practice to not build for 10 years but to build for 1 or 2 years. Technology changes rapidly and to try to build architecture that will last more than two years is ludicrous. Don't misunderstand that there is nothing wrong with building scalable architecture, however, building the end-all e-commerce architecture is not something that is even possible by today's standards, let alone at the beginning of the e-commerce era. People misunderstanding technology is the second reason for the Internet bubble to be created.

The third and final cause for the creation of the Internet bubble was: **Marketers overestimated consumer's willingness to pay online.** The bottom-line was that consumers did not want to submit their billing information through the Internet. Many companies never realized this and scratched their heads on why their conversion rate was so low. When we surveyed consumers why they did not purchase after visiting the site, the most common reason cited was security concerns.

We immediately put the phone number directly on the order form and conversion increased. This was not possible for some companies but I was lucky enough to work for companies that had supporting call centers. Again, the third and final cause of the Internet bubble was that marketers overestimated consumer's willingness to pay online.

To recap, the reasons for the creation of the dot-bomb bubble include:

1. Business Leaders did not understand direct marketing.
2. Investor's misunderstood technology.
3. Marketers overestimated consumer's willingness to pay online.

These three causes lead to unrealistic expectations set with investors and set the stage for a gigantic bubble filled full of hot air.

## ***The Internet Bubble Bursts – March 2001***

Unrealistic expectations lead to investor disappointment and patience for return on investment grew thin. It's easy to say that it was the investor's fault because they grew impatient too soon. This is not the case. Investors gained their senses and began to pull out. This caused the money to quickly dry up and lead to economic recession during the period. Then, the terrorist attacks of September 11, 2001 happened and any remaining life the economy had in it, was gone.

## ***Summary of What We Learned***

I learned a lot, having gone through the Internet Dot-bomb. Not all of it was about business. I was proud to witness the resilience of my fellow Internet marketers and I hope that they have taken their personal experiences and optimized their business prowess, like I have. As a collective group, we learned the following:

1. **Build strong business plans.** Think through every aspect of the business and put a plan on paper that everyone involved in the organization has a sense for the direction the organization is taking. If you are the director of technology, have a technology plan. If you are the Director of Call Center Operations, have a Call Center Operations Plan. Leadership is not hard, it's just hard work. I live by a quote that sp

2. **Build for Scalability, Not for Everything.** It doesn't matter if you have the most robust site in the world if you have blown your budget half way through the year. Build what's necessary to make money and once you make money, keep perfecting your code.
3. **Keep a Close Eye on Metrics.** Know your key performance indicators and watch the numbers every single day.