The Rise and Fall of Dot-Coms

**Background**  The availability of products and services on the Internet is old news. But when the Internet first emerged, it provided a unique and exciting tool for almost instant access to potential buyers worldwide. Young people in particular were quick to grasp the possibilities of the electronic marketplace. As a result, many new companies, known as dot-coms, quickly appeared on the Internet.

Like the stock of many companies based on new technologies, the value of dot-com stocks rose quickly. Investors, attracted by the initial success of dot-coms and spurred on by low interest rates in the late 1990s, were quick to join the dot-com boom. The boom, however, proved to be a financial bubble. In 2000 and 2001, the bubble burst as dot-com stocks fell dramatically. Many dot-coms went out of business, and their investors sustained heavy financial losses.

**What’s the issue?** Why did so many dot-com companies fail? Study these sources to discover what investors learned when the dot-com bubble burst.

### A. Online Encyclopedia Article

**Kozmo.com Offered New Yorkers Free, One-Hour Delivery**

Despite millions in capital investment, Kozmo.com’s choices led to failure.

**Kozmo.com** was a venture-capital-driven online company that promised free one-hour delivery of anything from DVDs to Starbucks coffee. It was founded by young investment bankers Joseph Park and Yong Kang in March 1998 in New York City. The company is often referred to as an example of the dot-com excess.

Kozmo promoted an incredible business model; it promised to deliver small goods free of charge. The company raised about $280 million, including $60 million from Amazon.com. The business model was heavily criticized by business analysts, who pointed out that one-hour point-to-point delivery of small objects is extremely expensive and there was no way Kozmo could make a profit as long as it refused to charge delivery fees. Not surprisingly, the company failed soon after the collapse of the dot-com bubble, laying off its staff of 1,100 employees and shutting down in April 2001.

Source: Wikipedia.org

**Thinking Economically** Why do you think Park and Kang were so successful in raising capital to fund their business venture?
1. During the dot-com bubble, do you think it was relatively easy or difficult for Internet start-up companies to raise capital? Explain your answer, using information from the documents.

2. Why do you think so many dot-coms failed? Use evidence from the documents in your answer.

3. What lessons might investors learn from the information presented in documents A and C?