



Kozmo.com was one of the most ambitious 'last mile' providers in recent years. Though the firm was well funded and had a promising business model, the venture failed. This document is a brief discussion of where Kozmo.com went wrong.

From a marketing standpoint, Kozmo.com clearly framed the market opportunity. The customer experience was carefully designed. Kozmo.com crafted an internet-based customer interface. Their marketing program was set up to take advantage of the surging e-commerce momentum of the time. However, Kozmo.com formulated a flawed marketing strategy. Kozmo.com assumed that the desire for instant gratification would transcend activities like online e-tailing and extend to items like video rentals. Sure, getting a book ordered from Amazon within an hour was convenient since a shipping charge was attached either way. Paying an additional delivery fee for a video rental or some coffee was quite a different matter. In addition, Kozmo.com did not evaluate their marketing program very well. The metrics should have clearly shown that their plan was not working.

If the Kozmo.com business model is considered in more detail, the aim was to take advantage of the frequency portion of recency/frequency/monetary. That is, Kozmo.com wanted to deal with frequently ordered, high margin products. Kozmo.com had distribution centers, or spokes as they were called, strategically located throughout the target delivery areas. The spokes maintained stocks of merchandise for delivery to customers within one hour of order entry. Kozmo.com calculated that their break-even point was 3.5 deliveries/courier-hour, with an average order size of \$15/order. To put it in perspective, FedEx and UPS have a rate of 12-13 deliveries/courier-hour. To become profitable, Kozmo.com felt they would need to reach four deliveries per courier-hour.

The goal was never attained during Kozmo.com's existence, and so one reason why they did not become profitable.

Another reason for the demise of Kozmo.com was that they expanded operations too fast. At their peak, Kozmo.com was operating in 11 cities including San Francisco, Boston, New York, Washington D.C. and Seattle. The competitors of Kozmo.com at the time were Urbanfetch, Webvan, Sameday.com, Pink Dot and Homedelivery.com. All focused on a single urban area instead of trying to start operations in multiple markets simultaneously. One reason Kozmo.com pursued a wide geographic area was to establish their brand. Unfortunately, the burn rate, coupled with missing the service goal stated above, was not sustainable with the available funding level. On another perspective note, Pink Dot still exists as PDQuick.com, serving the greater Los Angeles area, while Homedelivery.com is still operating in New York City.

Noting the ability of PDQuick.com and Homedelivery.com to stay in business until now, perhaps if the Kozmo.com IPO had made it out of the gate, the new funding may have given Kozmo.com the time required to gain the critical mass needed in their markets to get into the black financially.

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