

# **Webvan**

## **Case 4**

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### **Introduction**

After running a successful chain of bookstores Louis Borders decided to enter a new venture and start Webvan, an online grocery store delivery company. Webvan attempted to grow the online grocery store business while also increasing the margins current players were receiving from 4% to 12%. The end goal was to own and run very large warehouses that would offer 50,000 different products and deliver within 30 minute time windows. Both of which would significantly beat the current market of both online and brick and mortar, raising the standard forever.

### **Industry / Competitive Analysis**

#### **Mission Statement:**

Webvan is an online grocery service that provides a larger selection and in a quicker time frame for its customers than traditional grocery acquisition.

#### **Generic Strategy:**

Webvan is a completely online grocery service with large warehouse and factory style processing that includes workers moving less than 20 feet anytime to access over 8,000 crates of goods moving on conveyor belts. Webvan offers over 50,000 different goods which is 20,000 more than traditional stores. With 2 goals of customer service and

operations Webvan has a Differentiation strategy. This model helps Webvan to gain and maintain a competitive advantage(Afuah).

### **Porter's 5 forces**

#### Rival Competitors:

Webvan has a large number of competitors including Peapod the oldest most established online grocery service, Netgrocer, and Streamline to name a few. Each of these had their own tactics to solve the problem of online grocery shopping. Webvan tries to combat this by being the largest and fastest with customer service always first.

#### Threat of Substitutes:

Threats of Substitutes is high as the current system for grocery shopping has been the standard for centuries. Currently online shopping accounts for only 1% of all grocery shopping in a year.

#### Threat of Buyers:

Threat of buyers is high as customers have a slew of options to choose from. This could cause Webvan to reduce prices, hurting the margins significantly. The grocery business has low margins to start with meaning that the sale of the items has the ability to only get lower and lower.

#### Threat of Suppliers:

Any threat of suppliers comes from the large amount of suppliers needed to serve the industry and hold 50,000 items. Typically this is pretty low as suppliers make their money by being able to sell as many items as possible to their retailers.

#### Threat of New Entrants:

Threat of New Entrants is high with any tech based company as the barriers to entry are almost always fairly low. If someone can come in with something more efficient and lower cost then they will almost always win out.

### **Orgs Structure**

Webvan's structure starts with the suppliers who provide the goods. The warehouses then process orders as efficiently as possible to then be placed on trucks and delivered to the customer. Webvan also employs an army of 80 web developers who run and maintain the current website and system. Through the information given this is a Functional Structure. A Functional Structure groups people together to perform specific tasks according to traditional functions(Afuah).

## **Business Issue and Key stakeholders**

### **Business Issue**

Currently the biggest issue is what are the next steps to take after its successful IPO and a market that currently to date has not lived up to expectations. The Oakland distribution center was only running at 20% and the average order was only \$71 less than the \$101 mark set to achieve profitability. For this to actually work Webvan needs to take on a strategy that will drive success going forward.

### **Key Stakeholders**

- Webvan
  - Overarching company
- Employees
  - People who rely on Webvan for work and an income
- Investors

- People who just recently invested in the IPO
- Competitors
  - Other online grocery shopping chains ex. Peapod
- Traditional Grocery Stores
  - This could disrupt the current system in place ex. Kroger
- Contractors
  - These are the companies who are supplying the goods and building the warehouses

## **Proposed Solutions and Alternate Courses of Action**

### **Alternate courses of action**

#### **1. Start Buying Regional Grocery Stores**

The first course of action that I would recommend would be to start buying regional grocery stores to eliminate competitors and using their current infrastructure to implement Webvan's tactics and keep their current distribution centers to sell goods. The internet can be radical both in an organizational and economic sense (Afuah). This would increase the current market capitalization that they hold and would drive up stock prices. Over time Webvan could slowly phase out these stores in hope that more people will eventually begin to order all of their groceries through the online platform. The downsides to this would be this would

be very expensive and a large risk to take for a large reward. It also goes against Webvan's goal to have shopping online.

### **Impact on Stakeholders**

Webvan at first would incur large losses in hopes that they would pay off later.

Investors would see a rise in the stock price as Webvan's assets would increase massively. Traditional competitors should be worried that Webvan is entering into this market potentially offering exceptionally low prices to drive them out of business then to drive them out of business.

## **2. Continue to expand quickly**

Another suggestion I would give is to expand rapidly to capture as much market share as possible. This would drive a competitive advantage over their competitors(Afuah). Webvan is exceptionally good at business analytics. Webvan's current strategy is based on the bookstore that had great success with the tracking of which book categories were the best selling and thus could use this with the warehouses to see which regions are the most successful. By implementing an EAI Webvan can have a great infrastructure for data flow to hopefully find the people who want this service the most.

### **Impact on Stakeholders**

This would impact Webvan because it would be very expensive to build these new warehouses. Employees would be affected because Webvan would need to hire more people to fulfill this need. Investors could see an

uptick in stock prices as Webvan captures more and more market share.

Competitors would need to adapt as well by more than likely expanding as well to keep up with Webvan's expansions. Contractors would see an increase in business.

### 3. Scaleback operations (recommended)

My recommended course of action would be to scale back operations immediately. Currently, the plan for Webvan is to continue to expand at a very rapid pace while their first warehouse location was struggling. To me this is a huge red flag for the company and does not demonstrate that the managers truly don't know which customers this firm would offer value a.k.a the scope of this company(Afuah). Webvan needs to scale back on its expansion plans and put all effort into the Oakland warehouse and region. By using the money that they currently have raised Webvan can invest in an Enterprise Resource Manager to collect and store data from the current customers they have. Once an ample amount of data is collected Webvan can use business analytics to figure out why its average order is only \$71 and not at the \$101 mark needed to sustain profits. Only 1% of all grocery shopping is online, this means that there is so much more to learn before an expansion can take place and profits are to boom. One of the characteristics of the disruptive change model says "Initially,

the products perform worse than existing products when judged by the performance metrics that existing mainstream customers value.

Eventually, however, the performance catches up and addresses the needs of mainstream customers.”(Afuah)

### **Impact on stakeholders**

Webvan will see an immediate impact on savings and have more cash on hand. Employees will see a halt on hiring. Contractors would take a hit on supplies needed. Investors' stock prices also might take an initial hit but could see a large rebound later.

## **References**

- Afuah, Allan, and Christopher L. Tucci. *Internet Business Models and Strategies: Text and Cases*. McGraw-Hill, 2003.