

Case 4: webvan

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# Case background:

Webvan was founded by Louis Borders in 1971.Webvan was an internet-based company that combined online grocery shopping with ease of home delivery. Prior to Webvan, Louis Borders founded Borders Books. Webvan followed Louis’ first venture, Borders Books, with a focus in operations and customer service. Webvan’s goal was to create a more efficient assembly of orders and fast delivery. On November 5, 1999, Webvan completed its much-anticipated initial public offering (IPO) and made headlines across the business world. Despite tiny sales and big losses to date, shares of the two-year-old company, which combines Internet grocery with home delivery, shot to an 80 percent premium on its first day of trading. According to 3, “Webvan could achieve 12% operating margins compared to the industry’s low margins of 4%.” 3 Webvan’s first distribution center in San Francisco, costing $25 million, was a prototype for Borders 26 other centers in the works to build. At the end of its first day as a publicly traded company, Webvan had a total market value of more than $8 billion, nearly half the capitalization of grocery industry leaders. While Webvan had operated for a mere five months in the San Francisco area, more than 10,000 people had signed up for the service. Borders were confident that Webvan could prevail over its existing online competitors by extending aggressively. In the Internet economy, Borders argued that first-to-scale, not first-to-market, counted.

The problem:

A major problem with the online grocery industry is to attract customers to use the Internet to make their purchases while finding a more efficient and cheaper way to deliver products to the customer’s doorsteps. “The savings associated with online ordering were partially offset by expensive home delivery and servicing requirements and, like all e-commerce ventures, could vanish when faced with the costs incurred by building brand recognition.” (Webvan) The company is fairly new in the world of online grocery shopping but has done surprisingly well with a total market value of over $8 billion. They have a lot of competition, however, and must differentiate themselves and provide excellent customer service in order to stay relevant. The capabilities of an organization must be in line with the goal and strategy of that organization. With Webvan, the cost required to provide the capabilities necessary to run the company was far higher than Webvan’s profit

Industry Competitive Analysis

1. Mission Statement:

Webvan’s mission was to be the last mile leader of the Internet Commerce and provide a safe secure online customer experience that offered nearly double the selection of products of a typical grocery store and at comparable prices. Webvan wanted to create a new and improved e-grocery industry.

1. Stakeholders:

“A stakeholder is anyone who is affected by your business in one way or another.” 5 The main stakeholders in Webvan are Webvan shareholders, employees, Louis Borders and other Webvan Executives and customers.

1. Webvan Shareholders: the shareholders have a critical stake in the success or failure of the company. After its IPO, Webvan primary goal was to provide profit to shareholders. While Webvan is operating at a net loss, shareholders are not happy and are losing money and will continue to lose money if Webvan continues to operate in this fashion.
2. Webvan employees. They need the company to be profitable to continue working for the company. The large stake in the wellbeing of Webvan directly affects them. Employees rely on a company for pay, job security, job satisfaction, and benefits 5.
3. Louis Borders and other Webvan Executives: As the founder of Webvan, Borders, and Executives have a large stake in the success of Webvan. They have a monetary stake. As an executive, their responsibility to makes the top-level discussions anything that affects the company will have a direct impact on them as leaders and the future of the company.
4. Webvan Customers: Since Webvan is in an industry that relies on customer loyalty, the customers have a stake in the future of the organization. Webvan gained many customers that continuously relied on the company to provide them with groceries. Although these customers spent less than the average grocery order, these customers still drove Webvan’s profitability, and Borders thought that this size would gradually increase as time passed.
5. Market:

The history of online groceries began in the late 1980s. Online groceries were mainly used by smaller and local companies. Where it was easier to keep track of orders and get them out the door in a timely fashion. As the popularity of the Internet grew, more companies saw an opportunity to bring the grocery to the web. Many of the online groceries wanted to gain a customer base with many repeat orders, as well as steal some of the market share from the typical storefront grocers.

1. Organizational structure

The organizational structure Webvan was using is functional. Because common activities are grouped together in individual departments. According to Cash “…An organization’s performance is dependent on all functions working together in a coordinated manner, the functional structure requires extensive information exchange among functions.” 4

1. Generic Strategy

The strategy that Webvan followed is differentiation. Webvan had hoped to differentiate itself within the online grocery market in two distinct areas: Operations and Customer Service. On the operations side, Webvan created proprietary systems that automated, linked, and tracked every part of the grocery ordering and delivery process. Once orders were placed on the Web, they were automatically routed to the warehouse. "Pickers" were stationed throughout the distribution center to assemble the orders. The orders were loaded onto refereed trucks, which took the orders to one of twelve docking stations throughout the Bay area where they were loaded onto one of more than 60 vans so that drivers could take the orders directly to people's homes. Throughout the distribution center to assemble the orders in plastic boxes or totes, which were color-coded depending if the items were refrigerated, frozen, or dry. The pickers traveled no more than 19.5 feet in any direction to reach 8,000 bins of goods that were brought to the picker on rotating carousels. Customers were able to receive their orders the next day and were even able to specify within a 30-minute time frame when they would like the order to be delivered. Webvan also offered 50,000 products to their customers, when their competitor only offered 30,000 products. Deliveries could be attended or unattended, which mean that the customers don't have to be home in order to receive their order.

Porter’s 5 Forces

1. Inter-Industry Competition

Inter-Industry competition is extremely high. Webvan is new into the online grocery market, and there are many other new entrants as well as already established companies in the online market. it is important that Webvan differentiates themselves from their competitors to give consumers a reason to use Webvan for their online grocery shopping

1. Threat of New Entrants

The threat of new entrants is high due to the rapid growth of Internet usage by customers. “If your market is one that has a common technology Base… then you will usually find it easy for new rivals to enter your market.”6

1. Customer’s Barging Power

There are many different factors that can influence a customer’s bargaining power. According to class conversation you can increase the bargaining power of customers if customer’s switching costs are low, the customer is price sensitive, or if there is little differentiation between products 1. There did not seem to be any incentive for customers to choose to purchase their goods online versus at a retail store. Webvan did not have anything in place to increase the switching costs of its customers. In fact it was more expensive for people to purchase these goods from Webvan than it was for them to purchase the items at a store.

1. Supplier’s Barging Power

Supplier power is low because there are many sources of food and produce that Webvan needs in order to fulfill their needs and keep their operations going.

1. Threat of Substitutes

The threat of substitutes is extremely high because consumers can shop at numerous amounts of brick-and-mortar grocery stores as well as online grocery competitors. Potential customers could choose to go to normal grocery stores or choose other online options besides Webvan. Since buying their groceries at their local store was still cheaper, customers were still more inclined to substitute buying their groceries online for the cheaper option.

INTERNET ENABLED BUSINESS MODEL (IEBS)

1. PROFIT SITE

The profit site is what an organization does better than its competition. In the case of Webvan, the product site would be the focus on operations as well as customer service. Webvan was focused on providing a customized and personal shopping experience of which a traditional grocery store couldn’t provide. Webvan distribution centers were able to “serve as many customers as 20 normal supermarkets…with half the labor and double the Selection” 3

1. CUSTOMER VALUE

The purpose of value is to maximize customer satisfaction. This can be achieved in two ways: Cost leadership and differentiation. as mentioned in the case earlier Webvan was using differentiation strategy. It strived to differentiate itself not only from the traditional grocery stores also from online grocery competitors. “Quality-driven gourmet online grocer with everyday grocery prices” 3.

1. SCOPE

The scope of a business is usually bounded by a geographically limited area. In terms of Webvan, the organization was limited to sales primarily by the range of its distribution centers. they had had an approximate range of a 40-square-mile radius around the San Francisco Bay Area.

1. PRICING

Using the Internet enabled business model allows businesses to use the Internet to drive variable cost down. The traditional approach, as well as the approach followed by Webvan, is menu pricing, which eliminates any negotiation and provides an efficient and quick sales process.

1. REVENUE SOURCES

Webvan received revenue solely from sales of grocery products and delivery fees. The company did not intend to sell its customer data to third-party database firms, nor did it receive online advertising fees, since it wanted to remain neutral among the different product brands that it sold online.

1. CONNECTED ACTIVITIES

The primary activities performed in Webvan are the user customization and the fast delivery process. These activities were designed to give Webvan an edge over its competition both online and offline. “To offer better value to the right customers, a firm must carefully choose which activities it performs and when it performs them” 3.

1. IMPLEMENTATION

How well these portions of a company interact is key in determining the success or failure of an organization. When looking at Webvan we can see that their organizational structure and strategy were efficient in their attempt to reach their goals. What failed Webvan was the environment in which they started their business. The environment at the time of Webvan’s creation did not have a sufficient market for Webvan to profit.

1. SUSTAINABILITY

The sustainability of an organization can be broken down into three strategies: run, team up, and block (CIS 410). An organization using the Internet enabled business model must decide upon one of the three sustainability strategies in order to survive. A sustainability strategy is chosen by looking at an organization using the complementary asset model. This model determines what sustainability strategy an organization should follow based on its imitability and complementary assets. The most important thing is the complementary assets held by Webvan are easily accessible and free for competitors to utilize. A high imitability with free complimentary assets determines that Webvan must use the run sustainability model, the most difficult option, which forces an organization to be constantly innovating to stay ahead of its competition.

1. COST STRUCTURE

In order for an organization to stay in business it must create a profit. The underlying goal of every organization is to “make money now and in the future 2. From its inception, the Webvan system was doomed. The high costs of creating enormous distribution centers vastly outweighed the relatively small revenue Webvan made from sales 2.

alternatives:There are three alternatives Webvan can do. Purchase regional grocery chains, exit the market, and do nothing.

1. Purchase regional grocery chains:

This option involves Webvan purchasing regional grocery chains in order to diversify into brick and mortar stores as well as their original online platform. This would bring in more customers and sales. Borders and Shaheen would continue to make money. Current employees would continue working as they do, and new employees would join the team due to the new locations. Stockholders might see aslight rise in the value of their stock. Customers would continue to get the great service they have been, as would new customers in the area. The customers of the old chain would lose their place to shop, and would possibly switch to Webvan.

1. exit the market:

This option would be a large expense and could prove difficult for a company making losses. If this option were to be chosen, Webvan would be able to eliminate some competitors, create more infrastructures, as well as tap into existing customers bases. If Webvan decided to exit the market, they would have to liquidize all of their assets. Since Webvan is currently operating at a loss, and the future does not show any signs of changing, by exiting the market Webvan would be able to get out of the industry without any more damage and without going bankrupt. This option could potential save shareholders a large loss on their investment. The employees would have to find a new place of work. The customers would have to find a new grocer to purchase from. Bechtel group would lose out on the contract.

1. do nothing:

The last option would involve Webvan continuing business in its current state and not changing anything. If Webvan were to do nothing, they would continue to operate at a loss and would probably eventually go completely bankrupt and out of business. This would be the worst-case scenario for all of Webvan’s stakeholders. Employees would no longer be receiving pay or benefits and would have to find a job elsewhere. Louis Borders would be out of a lot of money from starting up Webvan and may lose credibility as a business owner. If Webvan were to continue down this route, they would eventually run out of money and potentially go bankrupt. Webvan shareholders would lose their investments. The employees would lose their jobs. Borders would get a bad reputation for bankrupting the company. The Bechtel group would lose out on the contract. Webvan customers would be forced to choose another online retailer or even go to a brick-and-mortar store such as Kroger.

Recommendation

I believe the best action that Webvan would take is the third alternative, which is to just Exit the market. This would be the best option due to the current state of Webvan and the decisions that were being made. Even though Webvan had a good idea along with good capabilities to achieve their goals, they just didn’t have the capital to support the capabilities and they were losing money. Customers have so many options where they would like to buy their groceries, and there is not a large enough online presence that Webvan is operating at a loss. In order for Webvan to breakeven or even make a profit, they would need to find a way to give customers an incentive to use their service, while still staying competitive with their competitors. Webvan tried to use product mix to differentiate themselves from their competitors, but it was not enough to earn again at the end of the year. The reason why the exit from the market would be the best course of action is if they decided to. Do nothing would be the worst option to take in this case because they will be out of business in a few years. On the other hand, purchasing regional grocery chains may not be the best thing to do know considering the company financial situation. Webvan has been losing money with this option will cost them a lot.

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