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WEBVAN: Online Grocery Marketplace Case Study

Executive Summary

Webvan was an online, internet e-grocery organization whose purpose was to offer customers the ability to purchase groceries online through a portal then have them delivered to their homes. Webvan had a spectacularly successful Initial Public Offering (IPO) that netted the company a fantastic $375 million along with a great deal of capital from other investment firms that totaled, along with the IPO, a stock market value of $1.2 billion in November 1999 (Cohan, n.d.). Webvan's desire was to capture a significant market share of the online e-commerce trend that had erupted in the 1990s and to become the leading organization to revolutionize the $453 billion traditional offline grocery market. Webvan's main concerns were almost exclusively financial; in 1999, Webvan's sales were only $11.9 million with loses being more than triple that of sales at $35 million. In 2001, the losses for Webvan were predicted to be $302 million with sales being $518 million, but these sales would never materialize and were heavily overestimated.

The leading questions for Webvan was what they should do for their future growth? There were several different paths they could take to reinforce their business: should they purchase regional grocery stores with their own supplier networks? Should they consider a takeover from a rival competitor or a larger grocery store chain? Should Webvan pursue more product lines to give greater selection to its customers? Should Webvan pursue alternative revenue streams to gain additional income to support its operations and offset expenditures?

Industry Competitive Analysis

Organizational Mission

The organizational mission of Webvan was to provide an online grocery service that would initially service the San Francisco Bay area. Webvan would provide a much larger selection of goods on their internet website, 50,000, due to their distribution center, lack of physical storefront which would keep costs lower than traditional grocery stores, and a delivery service that would be capable of delivering groceries to customers within a 30-minute time limit. Customers would also schedule delivery times online for pickup according to their needs. Webvan wanted to build a low cost, online, store that would rival major grocery chains.

Generic Strategy

Webvan utilized the Cost Leadership generic strategy in the grocery market. Webvan had high operational costs in the background for their distribution centers but the removal of the brick-and-mortar storefronts, as well as the numerous employees and upkeep costs associated with the physical storefront locations, made the products that Webvan could offer cheaper than the same products that were on shelves at other competitors physical store sights. They added some differentiation in their service as well as they were one of the earlier companies to offer the at-home delivery service. The delivery service and the removal of the need for customers to go to a physical location was what differentiated Webvan from the large storefront competitors.

Organizational Structure

The organizational structure of Webvan was not explicitly mentioned in the text but there were several references to what we can assume was a hierarchal structure. There was a CEO in George Shaheen, there was a culinary director that was responsible for personalized meals of customers, and the distribution centers were located geographically which would require a director of each center with numerous managers for operations. We can assume from all of this that they used a hierarchal organizational structure.

Porter's Five Forces Analysis

Porter's Five Forces was originated by Dr. Michael Porter from the Harvard Business School and was developed to identify environmental threats in the business industry which would allow for the development of creative strategies to contend with and neutralize the previously mentioned threats (Rice, 2022).

Competitive Rivalry: Competitive Rivalry for Webvan in this case is exceedingly high. There are numerous other online grocery stores that were outlined in the case such as: Peapod.com, Streamline.com, Shoplink.com, Netgrocer.com, Hannaford Brothers, eGrocer.com, Pink Dot, and EthnicGrocer.com. All these rivals were competing for the majority of market share for the online grocery business in some form or another and many of them used a warehouse model that was like Webvan's warehouse distribution center template. These other companies provided similar services to Webvan and some of the companies provided additional services as well.

Threat of New Entrants: Threat of New Entrants for Webvan in this case was low to moderate. The online grocery or online delivery service was a new concept that had no prior testing so each company that attempted to enter the market was entering a completely foreign market. New startups required large infusions of capital that would have to come from significantly sized investor firms from Wall Street. This would deter most startups from occurring but there is still the threat due to the ease of creating the initial framework of the company. The internet provided the ease of initial company creation, and it would only take a successful local company that could scale their business practice in the same market to become a prospective competitor.

Threat of Substitutes: Threat of Substitutes for Webvan in this case is very high. The online grocery shopping industry was competing directly with brick-and-mortar stores such as Kroger and Safeway, companies that had long established business that were logistically proven and financially sound. Customers had to see incredible value in Webvan's service, or they could easily resume their normal practice of simply driving to their local grocery to acquire their groceries. Webvan must provide a unique and invaluable service to pull customers away from traditional stores.

Bargaining Power of Suppliers: Bargaining power of suppliers for Webvan in this case is low. Suppliers for the grocery industry have little power due to the sheer number of suppliers across the continental United States. Webvan even sourced mush of their seafood directly from the San Francisco Bay area to supply many of their distribution centers, Webvan could easily find another source of seafood for comparable prices. Any supplier that attempts to raise prices beyond industry standard Webvan could replace the supplier with little effort unless suppliers coordinate in any meaningful way.

Bargaining Power of Customers: Bargaining power of Customers for Webvan in this case is high. Customers, like the threat of substitutes, could easily go to another online service or traditional grocery store if there are any price increases in Webvan's services. Webvan would have to take extra precautions with their customers satisfaction.

Stakeholders

Stakeholders vary for each organization but, they are the personnel that that an organization may have an impact on who are non-shareholding constituents (Bebchuk & Tallarita, 2022). Many companies that exist now pledge to give weight to the concerns and interests of their stakeholders who may not have direct shares or interest in the company but suffer or prosper due to proximity.

Webvan Customers: The customers of Webvan in this case rely on Webvan for the delivery of their goods within the time limit that Webvan specified; 30 minutes. Customers, if they came to rely on Webvan, would lose their ability to function without the delivery service. Those customers that were open to the service at the time of the case study would have extremely specific living arrangements and requirements to use the service consistently and rely upon it. If Webvan failed, then customers would have to find alternative means of acquiring groceries. If Webvan prospered, then customers would receive better prices and additional services in time.

Webvan Employees: The employees of Webvan in this case are intrinsically involved in the ultimate performance of the company. If the company performs well then, the employees continue to receive salaries and wages, they contribute to their retirements, gain benefits in the form of healthcare and numerous other compensations. If the company performs poorly then the employees are at risk of layoffs and losing all compensation. The employees in this case can be broken down into two distinct groups, each with varying degrees of risk and reward in the company's success or failure: the executives and the lower-level employees.

The executives of Webvan would specifically reference Louis Borders, the founder of Webvan, and George Shaheen, the CEO of Webvan and prior CEO of Anderson Consulting for 32 years. Louis Borders would have a vested stake in the performance of the company due to being the founder, the performance of Webvan would directly and personally reflect on Borders' management ability as well as affect his future ability to acquire capital for any other startup company. Borders was able to acquire a hefty $120 million from investors such as Yahoo!, CBS, Softbank, Sequoia Capital and several other for Webvan and this would not happen again if Webvan performed poorly. George Shaheen would face the normal backlash of any CEO that runs a failing organization, he would suffer a lack of confidence from other organizations that would affect any future offers as an executive to another company. Shaheen had an extreme interest in the performance of the company.

The normal front-line employees would lose salaries, wages, benefits, and all other compensation if the company performed poorly and would be required to find employment elsewhere if Webvan failed. They are also affected by the failure of a company on a personal level for future employment, but not to the extent as the executives.

Webvan Investors and Shareholders: Investors and shareholders in Webvan in this case would be the firms that Louis Borders approached about starting Webvan: CBS, Yahoo!, LVMH, Softbank, Sequoia Capital, Benchmark Capital, and any other smaller firms or individuals that were willing to contribute to the startup funds for the creation and implementation of Webvan. More than $120 million was initially invested and the investors stood to lose copious amounts of capital or gain a tremendous return depending on the performance of Webvan.

Webvan Suppliers: Suppliers for Webvan would be affected based on the sales of Webvan. If Webvan performed well with their products, then the suppliers could expect more larger purchases of their products by Webvan to sell to the customer. Alternatively, if Webvan did not perform well, then suppliers would eventually lose Webvan as their customer and a portion of supplier's profit would disappear.

Alternatives

First Alternative: Do nothing and maintain the then-current status quo: This is another case were doing nothing and maintaining the status quo would inevitably result in the shutdown of the company in the extremely near future. Webvan was hemorrhaging capital as they had losses totaling $35 million in 1999 and they were expected to have even greater losses totaling $302 million per year. They had no way of accurately predicting their actual revenue as they were in completely uncharted business territory. Webvan had exceptionally high operating costs and low grocery sales and they would inevitably be forced to shut down the organization if sales continued to significantly underperform. Most industry leaders already considered grocery sales to be incredibly dismal with a margin of 1% to 2% and this, compounded with the misunderstanding of customers desired experience, would cause the collapse of the company.

Second Alternative: Attempt to purchase local grocery stores and ingest into business model: This alternative to Webvan's business practice would allow for the purchase of a local grocery chain to gain a customer base. Gaining a solid customer base with a physical storefront would allow for the ingestion of a working logistical framework, it would allow for a built-in customer base to market their online service to, it would allow the executives to gain knowledge and experience within the grocery industry, and it would build brand recognition which Webvan sorely lacked at the time of its launch. This alternative would be costly in the initial purchase, but the ingestion of a working operational structure and customer base would assist Webvan in marketing its true business desire in the online grocery industry.

Third Alternative: Sell Webvan to an online competitor or large grocery chain: If Webvan sold to another company then the shareholders could receive profit depending on the sale of the company or they could cut their losses. The executives would likely be replaced but they would at least leave the company with dignity and not suffer from abject failure. The employees would be indifferent as long as compensation remained equivalent in some way and there would be.

Fourth Alternative: Purse alternative profit streams to increase profitability: Webvan profited solely from the delivery service fee and the sale of its products in the grocery category. This would be considered a mistake as they could gain significant sums of capital by selling customer data to third parties or marketing assorted products for fees from suppliers or other special interests. This revenue stream may be frowned upon by the customers but once Webvan established its place in the industry and had solid financial performance, they could reassess the sale of customer data and other revenue streams if needed. According to recent studies in 2020, users email addresses were worth $65 to advertisers (Pawtocol, 2020) . A simple calculation for inflation via the Department of Labor Statistics shows that the equivalent value for 1999, when Webvan was at its peak, was worth $35.70 (*CPI Inflation Calculator*, n.d.). Using this additional revenue stream could have offset their financial deficits.

Recommendation

Hybrid Recommendation: Attempt to purchase local grocery stores and ingest into business model & Pursue the alternative revenue streams: Under normal circumstances my recommendation would have been to exit the market or sell to a new competitor but I believe there were two flaws in their design that caused their failure that they could have fixed if they purchased local grocery chains, built customers from a brick-and-mortar facilities, then moved to online distribution using their built-in customer base: they essentially reinvented the wheel by spending $1 billion of a brand new, untested distribution center and the fact that they tried to cover too large of a geographic area with a customer that they did not understand.

Pursuing alternative revenue streams was something that Webvan did not do but would have increased their profitability. In 202, LinkedIn Marketing Solutions generated an astounding $3 billion in revenue by giving advertisers access to their customers information (Invisibly, 2021). Webvan did not have this customer base, but the profit would nonetheless have helped with their profitability.

Doing nothing would result in Webvan running into bankruptcy and being forced to liquidate its assets to sell off to cover debts. Allowing for the purchase of the company by a rival firm would be a viable alternative but the whole point of Webvan was to be a competitor to the grocery industry, if there was a profit to be made in selling Webvan then it may be a decent idea. But the overall mission of Webvan was to maintain its independence as a business organization that could rival the traditional grocers. The hybrid approach would allow for a built-in consumer base, the building of brand through traditional stores, real value of real estate, additional revenue streams through the sale of customer data, and a cushion to continue to operate in the future.

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