Chad Tracy

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Case 7: Webvan

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Dilemma

Webvan is a grocery store company that had just completed its IPO. They specialize in offering a service that combines grocery shopping with home delivery via the internet. Webvan is a company initially started as a book store that has since expanded to the online grocery shopping store that it is today. The company has found great success, with 80% premium on their first day of trading and having a total market value of almost half of the capitalization of leaders in the grocery industries. Louis Borders, the current chairman and founder of Webvan, is confident that the company will continue to find success by expanding aggressively in the market.

Webvan's success has brought out a response from competitors in the grocery industry. Companies in the grocery industry have since started to implement web and delivery services into their business models.

Despite their success, Webvan was still suffering from low initial grocery sales. In 1999, Webvan losses were forecasted to be $35 million and overall loss of $302 million for the year of 2001. In addition, Webvan's average customer order was calculated to be $71 compared to the $101 the company required to generate targeted revenues.

Moving forward, Webvan has a lot of pressure from the new investors and Wall Street. Webvan is in a positon where their next decision will decide if they will remain dominant in the industry and meet the expectations of the industry.

<u>Industry Competitive Analysis</u>

<u>Mission Statement</u>

What – A grocery store company that combined Internet shopping and home delivery. Webvan utilized their automation software and warehouse facilities to serve customers within a 40-square-mile radius around the San Francisco Bay area. They were also known for their exceptional customer service, which allowed them to deliver a customer's groceries the day after they ordered them.

Who – By the time of their IPO, Webvan had a total market value that was equivalent to almost half the capitalization of grocery industry leaders, totaling to $8 billion. The facilities used for Webvan's operations allowed the company to serve customers in the San Francisco Bay Area.

How – Webvan follows a differentiation strategy, which they perform in two ways: customer service and operations. With their customer service, they were able to offer customers a wide variety of products and deliver it to them within a day at the customer's preference (attended or unattended). This put them in the position of being quality-driven, timely, and flexible. Meanwhile, their operations featured systems that automated and tracked every part of the process. This system used along with their distribution center allowed them to serve as many customers as 20 normal supermarkets would. By using their software, facilities, and taking advantage of the untapped market potential for a grocery delivery service, Webvan could gain significant market share. As a company using a differentiation strategy, Webvan can gain an advantage by offering a service at a level of quality only they can offer (Tanwar p. 13).

Five Forces Analysis

Competition – (High) Many other companies are in the grocery industry and have been attempting to use the internet to enhance their business. To add on to this, Webvan's success has served as a wakeup call for many of these companies.

Bargaining Power of Customers – (High) Customers have a high bargaining power because it would be very easy for them to get the same groceries at another store. Webvan is currently holding on to their customers with their unique service. With their differentiation strategy, they allow companies to get a unique experience, but their weakness is that eventually customers can potentially decide that the services the brand offers isn't worth the money they could potentially be saving.

Threat of New Entrants – (Low) The grocery market has a significant amount of entry barriers. For a company to enter they would need suppliers, facilities, and services for delivery if they want to directly compete with Webvan. The amount of resources required are far too high.

Threat of Substitutes – (High) Webvan's recent success has rival companies trying to find ways to compete with their services. There are many other grocery companies and some of them already have similar services. Technology moves and evolves quickly, which can allow other companies to develop software that competes with Webvan.

Threat of Suppliers – (Medium) Webvan and its suppliers are mutually dependent on each other. They both heavily rely on the service of the other to continue to exist. Also, like how Webvan has multiple products to sell, those suppliers have multiple grocery stores they sell to.

Organizational Structure

Webvan is a functional organization. Webvan works on making the business efficient and providing a high level of service quality for the area it serves. They also have a clear structure within the company. Their current issues include deciding what they should do to be a more efficient business and make profits (Kalakota p. 19). Their tight structure and differentiated services allows them to have their large market share.

SWOT Analysis

Strengths:

- Large market share
- Unique service
- High customer satisfaction
- Fast rate of growth
- Successful IPO

Weaknesses:

- Substantial losses
- Failure to meet revenue goals
- Relatively new compared to other grocery store companies
- Low sales demand

- Low performing distribution centers

Opportunities:

- Satisfy investors
- Expand by purchasing smaller grocery stores
- Take offer from a larger company
- Push for other product lines

Threats:

- Companies with more resources (Larger supply networks)
- Not being able to survive in the future
- New technology
- New or similar services from competitors

Stakeholders

Webvan – The company in question. After a successful IPO, they must decide what direction they want to go. The decision they make can affect the fate of the company.

Louis Borders – The current chairman and founder of the company. He faces a lot of responsibility for the future of the company. The performance of the company will affect his relations with Wall Street, the company, and investors.

Investors – Webvan just went public with a successful IPO. The investors it attracted will face financial risk based on the decisions made with the company.

Competitors – Webvan is in a strong, also diverse, position in terms of where they stand with competitors. They are young, so they could still be bought out. At the same time, it is also a viable option for them to expand by buying out other grocery companies. Either way, the direction Webvan decides to go will have an impact on other companies in the same industry.

Alternative Courses of Action

1. Do Nothing – This would have Webvan operating their business as usual without changing anything. If this were to happen and the analysts are correct then by the year of 2001 they would have an overall loss of $302 million. This option doesn't take advantage of any of the company's current benefits and would eventually put them out of business. Their high operational costs and low performing sales (predicted losses every year and low average customer order amounts) would cause the company to run itself into the ground if nothing is done.

2. Expand by Purchasing other grocery stores – This was the CEO's preferred strategy, as expanding rapidly would allow them to be the first to scale. Ideally, this option would allow the company to expand while eliminating competition and taking advantage of any preexisting supply networks. Although this sounds ideal for the company it doesn't align with their company strategy and mission. In this scenario, they would expand the company and then have to set up distribution centers similar to the one that exists now. Doing all of this while already suffering losses and being predicted to face more soon would burn the company out of money.

   In Kalakota's text he speaks of the dangers of playing into fads, specifically with e-business. Fads tend to start, spread, and die quickly, often times taking businesses with them (Kalakota Ch 2). This applies to Webvan in the way that their own technology and operations being the trend that will die. There are companies that have been doing online grocery shopping before and after Webvan. Now that Webvan is successful it is obvious that their methods and technologies will be copied and the differentiation of the company will diminish over time. Once Webvan expands in the face of profit loss and diminishing differentiation they will fail as a company.

3. Attempt to be bought – This option would allow Webvan and its services to be bought out by a larger grocery store. This could allow Webvan to recover some money back from their losses and prevent anymore from happening in the future. The original company, Borders, would get rid of the risk that Webvan provides and would give it some money to utilize for a different purpose.

4. **Exit the Market** – This would allow Webvan to cease operations and make money from their current assets in the industry by liquidation. The exit strategy is one of four corporate strategy options and is used for dealing with product or services that prove to be unprofitable (Orcullo p. 63). Using the exit strategy is my normative recommendation.

   Not only is Webvan not profitable, but the whole online grocery market is predicted to fall. Market predictions for the industry spanned from $4.5 billion to $10.8 billion. With such heavy variation in predictions, a business that is losing revenue, and a customer base that isn’t using the service as much as predicted it is too dangerous for Border to stay in this market. The company invested too many resources in a market that is doomed to fail and it is best that they cut their losses now before it is too late.

Also, this is a good option for investors as they wouldn't have to stay with the company as they lost money in the future, therefore protecting them from a bad investment. They had managed to take advantage of the trend and got a strong IPO out of it. It is best that they leave the market now before it ends up causing them to lose money (Kalakota Ch. 2).

Work Cited

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