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CIS 410

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02 October 2022

Introduction/Problem

Webvan was an online grocery shopping and delivery service founded in the 90s by Louis Borders, a successful businessman in the book and CD selling industry. In his years in that particular industry Borders used technology to revolutionize how customers purchased books and CDs by using a very sophisticated computer inventory system. Borders book business was the second largest book and music chain in the US and increased its sales dramatically. Borders' experience in the book industry had prepared and gave him the confidence to want to take on retailing through the internet, but more efficiently and cost-effectively. Borders had big ideas so he took on the most ambitious e-commerce challenge of delivery groceries to customers' doorsteps.

In late 1999 Webvan had its initial public offering where shares rose 80% premium on its first day of trading. Its shares consisted of internet grocery shopping with home delivery. At the end of the day, Webvan walked away with a market value of more than $8 billion, they held nearly half of the grocery industry total market shares. Although this was a good outlook on Webvan, this had Borders thinking about the sustainability of the company and how to stay competitive. Border was convinced Webvan could prevail over its existing competitors by expanding aggressively.

Porter's five forces

The rapid growth of internet usage in the 90s is one of the major factors in the growth of online shopping. Many more people were using the internet and so business leaders saw an opportunity in that. The latest trend competitors were using was the distribution-centric prototype system. Its goal was to reach customers, have great customer service, customer satisfaction and customers to continue using the service. This was especially used by new entrants to steal market shares from off-line grocery markets and to provide new market opportunities.

Threat of New Entrants: High

With the advancement of technology many brick and mortar are able to bring their businesses online and even from their physical location they are able to gain an advantage over an online grocer customers are not satisfied with.

Threat of Substitutes: High
The threat of substitutes is high for an industry like this. There are so many online options, as well as physical stores. So customers can choose to shop from anywhere. With Webvan they had issues with timing, and that caused some customers to return to showing for themselves.

Supplier Power:low
Supplier power is relatively low, as they have to outsource or create their products for the customers.

Buyer Power: high
Buyer power is high because there are numerous grocery stores, whether it's a brick and mortar, or online, customers get to be picky about who they want to do business with.

Degree of Rivalry: High

The degree of competition is very high for an industry like this for Webvan their competition was with Peapod, one the largest and older online grocers. Peapod was competitive for a while but near the early 2000 it seemed to have lost focus, by derailing from solely focusing on groceries to other products such as books, dry cleaning and flowers. Another competitor was streamline.com and shoplink.com; these companies' goal was to simplify the lives of busy individuals by offering flexible delivery. Netgrocer.com was the first grocer to employ the warehousing delivery strategy. Charged by weight instead of orders. Only delivered non perishable items, typically house products bought once monthly. Hannaford brothers; eGrocer.com, this online grocer had a “collection center” strategy. Customers could pick up their orders from any collection center. Customers would make their sections from the comfort of their homes and would only travel to pick up their already shopped and assorted grocery bags.

Stakeholders

Customers
Webvan customers are affected by its decisions and the service they provide is beneficial to many. Its key goal was very convenient for customers, physical grocery runs are typically 45 minutes to an hour, so the services were designed to help customers not lose valuable time that could be used doing something else. There was an incentive to do more shopping, delivery was free for orders over $50. And when customers did not meet minimum requirements for free delivery, shipping was relatively affordable.

Employees

Employees are affected by the decisions of Webvan. There was a whole system for when orders are put in online: it was then routed to the warehouse, “picked” by an employee, transported on a conveyor belt until loaded on refrigerated trucks, these trucks take orders to docking stations, there orders are placed in trucks to be delivered right off to customers. Employes played a big role in making sure things run smoothly.

Business partner: Bechtel Group
A deal of $1 billion was signed in conjunction with an engineering and construction firm, Bechtel Group, allocated to the distribution center previously discussed. This was expected to double the selection of products at comparable prices.

Stockholders/shareholders
Webvan is now a public company so that means that investors' interest is very important, because decisions made would affect the company stock prices.

Courses of Action/Alternatives

1. Do Nothing

The first alternative is to do nothing and continue Webvan’s operations as is. Webvan differentiates itself from competitors with its operation and customer service.

With its operation Webvan has a system that automated, linked and tracked every part of the grocery ordering and delivery process. A new 330,000 square foot distribution center that utilized the proprietary system to service customers. This new system is expected to bring in revenues of $300 million based on prediction of 8000 orders a day.

In terms of customer service, orders were delivered at the convenience of customers.There was an incentive to do more shopping, delivery was free for orders over $50. And when customers did not meet minimum requirements for free delivery, shipping was affordable. Webvan carried 20,000 more products than did normal groceries stores. So customers had more variety in options. And regular customers got their personalized shopping experience.

Webvan is in the right direction with the company, they are improving their operations and putting the needs of the customers as a priority.

2. Buy Regional grocery chains.

Webvan could use its large market share of $8 billion to buy regional grocery chains. According to the case, regional chains already possess supplier networks as well as their own distribution centers. And by doing so Webvan could leverage equipment from those particular distribution centers while they attempt to replicate its own distribution centers. This would allow them to remain competitive online and as well amongst brick and mortars. And increase its market shares.

3. Increase its product line.

The next thing Webvan can do is increase its product line. Although Webvan is doing pretty well, it wouldn't hurt for it to add additional services to reach even more customers. For example, it could add a service where customers do not have to wait for their groceries to be delivered, they could just do the usual online ordering pick up in stores. Webvan had some facilities that operated only at 20% of its capacity so it's important

Recommendation

I would recommend for Webvan to have another analysis performed to really see where the underlying issues are causing them not to meet predictions. For example there was a big difference between what industry analysts had estimated in sales compared to market projections. The discrepancy was in billions of dollars, very large to overlook.
According to the case this difference was due to not as many people using online grocery shopping, it was a challenge to attract and retain customers who use the internet to do their shopping and because many preferred to shop in person as they are able to make the best selections for themselves. However, I believe we need to look at what's causing customers to not shop online as much, could it be the amount of time it takes between when customers place and receive their order?, could it be the cost associated with delivery and tipping ? Could it be customers wanting to make their own selection because they do not get the best quality product when shopped by an employee? There are many questions that should be asked and really analyzed to find the hidden cost of Webvan not meeting its target goal. And based on the findings of this new analysis Webvan needs to consider exiting the market because at the rate they are going they risk losing everything and hurting their stakeholders.

Citation

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