

Case 7-4: Webvan

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Case 7-1: Webvan

Mission

Webvan aims to distribute groceries through an online service to customers on a global market. In pursuit of this goal, Webvan strives to redefine the grocery industry through e-commerce to given an alternative to the traditional method of grocery shopping.

Problem

The main problem that Webvan is facing financial loss. Louis Borders initially ran a company called Borders Group, Inc. which was considered the second largest book and music retailing chain in the United States. Due to his company's success, Louis planned to pursue a new challenge in starting an online grocery store service and implement what he did for Borders Group, Inc. Assuming that the same tactics would work for a different market, Louis expected to reap the benefits. However, based off research conducted for Case 7-1, "industry analysts estimated that online grocery sales would be around \$56 million which is barely 1% of the entire grocery market. Another study was conducted that determined that less than 1% used. Webvan struggles with the emergence of a new market and have the ability to attract and retain customers. "supply chain management is an integrated order acquisition set in a multichannel environment. The focus is in the buying process, enhancing it and making it faster for both customers and sellers." (Kalakota and Robinson 2008) Expected losses for the year was estimated to be \$302 million and was not even able to reach the estimated revenue. Despite the convenience online grocery shopping provides, typical shoppers want to see and purchase their groceries firsthand. However, the service may become more popular as time goes on.

Generic Strategy

The generic strategy that Webvan focuses on is differentiation. Webvan's entire business process is meant to change how customers do their grocery shopping. Instead of customers performing their weekly grocery store run, Webvan's services are able to handle these duties online and deliver directly to customers through focus in operation and customer service areas. On average, the time spent for the traditional method of grocery shopping is 45 minutes. Implementing this service into the consumers' routine eliminates that time used. This offers a convenient way to shop for groceries by filling out a shopping list and having them delivered directly to the customer. Through the focus on online-shopping, the market will gradually be more exposed and become mainstreamed. Their business process consist of their own proprietary information system, warehouse facilities and trucks to carry out their business process.

Porter Five Forces

1. Bargaining Power of Customers

The threat of bargaining power of customers is relatively high. Despite the immersion of this innovative market, the novelty of this market is still prevalent. Customers have been accustomed to the traditional method of grocery shopping so the switching of methods may be deemed difficult. Many customers still want to see what groceries they can purchase rather than just ordering them online. Based on case 7-1, the majority of groceries that were purchased online, were perishables. However, the advantage due to buying groceries online was that it automates the grocery shopping task. "The growing prominence of the Internet and corporate intranets in users' everyday lives is increasing demand for access anywhere and anytime." (Kalakota and Robinson 60). Customers are able to send their grocery shopping lists to the online vendors, and taken to the warehouse. Once prepared, trucks are filled with orders for their customers and delivered directly.

2. Bargaining Power of Suppliers

The bargaining power of suppliers is relatively high. In order to complete the orders, the warehouse needs to be stocked of materials. However, suppliers have power over Webvan because in order for them to fulfill their business process efficiently, they Webvan needs to get the best price to lower operating cost.

3. Industry Competition

The threat from industry competition is relatively high. Many online grocery shopping services have established themselves in the market. This demands that Webvan is able to offer the best services to their customers in order to attract and retain their customer. There have been many online grocery suppliers that have risen throughout time such as Peapod.com, Shoplink.com, Netgrocer.com, and e-Grocer.com. The threat from this force is that the market is already small and then have to contend with other suppliers makes it difficult to turn a profit. Once this market is established and mainstreamed into society, this company can grow in order to fulfill the demand of the customers for this new market.

4. Threat of new entrants

The threat of new entrants is relatively low. This market requires warehouses and a method of distribution for the products. Acquiring all this capital and inventory can be quite costly. Also. Another important component for this business process is to build the information system, either purchasing a license for a commercial information system, or build a proprietary system. Acquiring customers will be another obstacle in order to handle being in the market of the online grocery distribution service.

5. Threat of substitutes

The threat of substitutes is relatively high. Online grocery shopping and delivery services are a relatively new market. Because the service is new, people are very hesitant in abandoning their usual method going to the supermarket to purchase their own groceries and resorting to online shopping. Distributors such as ShopRite, Kroger, Krystal, and Walmart are major names in grocery shopping centers that take up the majority of the grocery shopping market. Competing with established market and distributors can pose to be a challenge.

Alternatives

1. Do Nothing
2. Become a partner with a Grocery store
3. Buy regional chains and block competition
4. Push an additional product line

1) Do Nothing: An alternative that can potentially resolve the problem is to do nothing. Despite its size, Webvan has been able to establish a reputable name in such a short amount of time. Their business model is effective and is able to fulfill customer needs. It can be inferred their services are sufficient due to no customer complaints on record. Doing nothing allows the business process to continue without any alterations as well as staying to what the company already knows. By doing nothing, Webvan is being patient in waiting for the market to become more popular, which can eventually increase financial performance for the company. The online grocery shopping service came in 1999 which may be a factor in why the market is not as popular. This can be inferred from the fact that people prefer going into the grocery market and physically see the groceries that they want to purchase. This is an important factor because switching to an entirely new method of performing a task or errand can be considered tedious. As a result, people are more hesitant in adopting this method. However, in doing nothing, it is

assumed that the market will become more in demand. For example, research was conducted and concluded that online grocery shoppers visited the grocery store less often by 6% which can indicate a possible future for this future. “Business realities are complex, replete with ambiguity, uncertainty, and confusion.” (Hammer and Stanton 38). If the market was not to become more popular, then Webvan would ultimately fail.

2) Establish partnership with a large grocery chain: In order to secure a guaranteed way to secure Webvan’s business continuity, it is possible to establish a partnership with a major grocery chain. Chains such as Safeway Inc., Kroger Co., ShopRite and Stop&Shop are leading industries in the grocery market. “Success in the next generation means a significant in strategy.” (Kalakota and Ronbinson 208). This alternative guarantees a better chance for Webvan’s survival due to the profits they can bring in to support the service. The online service can be an extension of the larger grocery chain giving the option to enter in the grocery store and purchase them or use the online service. This allows the two functions to coexist and still be profitable. Other smaller companies similar to Webvan has implemented this method, however this eliminated the low storage cost. As a result, goods cost just as much as purchasing them instore. Also, control of decisions can be affected due to the other party associated in the partnership may or may not agree on the decision-making process.

3) Buy regional chains and block competition: Over the years, Webvan has acquired valuable capital. Webvan’s capital consists of a proprietary information system, a 330-square foot distribution center, a \$25 million distribution center, as well as nearly \$120 million in capital investments in CBS, Yahoo!, Sequoia Capital and Benchmark Capital. This indicates that Webvan has the resources to acquire more regional chains. In doing so, it can block competition through restricting equipment from these other chains. However, acquiring these chains adds

more to the operating costs as facilities increase in number and become dispersed throughout the area. It can pose to be a problem in terms of managing and quality control due to the number that has to be managed.

4) Push an additional product line: In order to expose themselves to the market, Webvan can expand on the products and services that they offer. This allows Webvan to reach other markets depending on what products and services they implement. “A company’s success depends on the ability to innovate and integrate new technologies into service offerings.” (Kalakota and Robinson 65). However, pushing an additional product line involves another business process depending on what is implemented especially if it does not coincide with the grocery market. Not only does this involve another cost, competition is another factor that Webvan will have to face.

Proposed Solution

Based on the available alternatives, the best course of action would be to do nothing. The business model shows that it is effective and the business has been able to acquire a lot of capital. The potential growth of the e-commerce market is expected and can hopefully boost financial performance of the service. Webvan started in 1999 where the idea was still considered “new and innovative.” However, since this a new type of market, people are very hesitant to adopt this method and it is unsure whether or not it would have completely replaced the traditional method of grocery shopping. For present society however, you can see that the commercialization of the internet is becoming more prevalent. Streaming services and even online purchases of commercial products such as Netflix, Hulu, and Amazon are becoming mainstream e-commerce services. Gradually, these services are starting to phase out cable and traditional retail stores and becoming more dominant in consumer use. Assuming that the adoption of these methods can be applied to grocery shopping, the market for an online grocery

shopping service. Based off the research that the case included, there is a possible chance that the use of the online service can continue to rise. E-commerce is starting to become more prevalent and it can improve the financial performance of the company.

Works Cited

Hammer, Michael and Stanton, Steven, The Reengineering Revolution, Cambridge, Harper Business, 1995

Kalakota, Ravi and Robinson, Marcia, e-Business 2.0 Roadmap for Success, Upper Saddle River, 2001