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Case Webvan

Problem

The online grocery industry purpose is to attract customers and have them use the internet to make purchases, Online grocery industry emerging slowly, and there were already well-established businesses such as Peapod. Peapod was one of the most dominant online grocery business, its pioneering customers 400 households in the greater Chicago area, “Peapod claimed an estimated 44 percent of the Internet grocery market.” (Edgecliff-Johnson). Given that this industry is new, and it is controlled by customer orders Webvan is facing many difficult strategic decisions in which it is impacting its future. Border had already planned to maintain the sustainability of his company, but in order to survive Webvan has to find a way to gain customers and increase its profit/sells.

Generic Strategy

Webvan’s generic strategy is differentiation. Webvan’s focuses on the improvements of two areas, which is customer service and their operations. Webvan's 80 software programmers created proprietary systems that automated, linked, and tracked every part of the grocery ordering and delivery process. For customers, Webvan aimed to provide its customers to order and have it delivered to them the next day within 30-minutes delivery window, their delivery can be attended or unattended, which means that customer do not have to be at home to receive their order, they will simply be dropped off at while the customer is away.” As of December 1999, delivery was free for orders over $50; delivery fees were $4.95 for orders under $50.” (Afuah). Webvan also offered 50,000 products to their customers, their competitors only offered 30,000 products. Webvan’s quality is what differentiate them from other competitors.

Organizational Structure

The organizational structure for Webvan is functional, their activities are grouped together, for example they have to make sure that the food stays fresh and must be monitored, until a customer receives it. "…An organization's performance is dependent on all functions working together in a coordination manner, the functional structure requires extensive information exchange among functions." (Cash)

Industry Competitive Analysis:

Mission Statement

Webvan's mission is to provide a safe and secure online shopping experience at an affordable price to their customer, while offering more than double the products of their competitors. Their goal is to lead the online grocery store, while providing an excellent service.

Porter's Five Forces:

1. **Competition**

   Webvan has a high threat of competition because they are competing in two different industries: e-commerce and brick and mortar, when it comes to rivalry, they will constantly face competition for customers. In addition, there are already well-established companies for example, Peapod.com, Netgrocer.com, Streamline.com and Shoplink.com. Peapod has the largest loyal customer base so Webvan must be alerted at everything the competitors are doing.

2. **Threats of New Entrants**

   Threat of new entrant is high, internet had a rapid growth in the 1990, a well-established brick and mortar grocery business can easily enter the e-commerce. New entrants can also offer similar strategies that Webvan is offering, Webvan has to stay ahead of any new competitions.

3. **Threat of Substitutes**

   The threat of substitutes is high, consumers can choose to shop at any available brick and mortar store or other online competitors, that all depends based on the products they offer and the service they receive.

4. **Bargaining Power of Suppliers**

   Bargaining power of suppliers is relatively low, there are many available alternatives Webvan can purchase their goods from, and due to the fact that they purchase their grocery items in bulk they get a good price to fulfill a large distribution's needs.

5. **Bargaining Power of Customers**

   Bargaining power of customers is high because of the availabilities of other competitors via e-commerce and brick and mortar, a customer can choose to shop around and pick the best available service or price they prefer, the cost of customer that have to switch is almost nothing, due to the availability of other businesses.

Stakeholders

Employees: Employees play huge role in this company, they have a large stake in Webvan, Employees are well trained and must be professional at all times, they also cannot accept any sort of bribes from the customers. Without happy employees, Webvan customers will not be satisfied without their great customer service.

Contractors: Bechtel Group, they are Engineering and construction firm, they have high stake in the success of Webvan, because they signed a $1 billion agreement to develop the distribution center for Webvan to build distribution centers which was needed to service it customers in the 26 markets.

Shareholders: They have a large stake in Webvan because they want to see the company profit, any effect on the company can impact them.

Customers: Webvan relies highly on its customers, their loyalty is what keeps Webvan in the competitive environment, and Webvan's business highly relies on them.

Courses of Action/Alternatives

1. **Do Nothing:**

   This is the first alternative Webvan can take to continue their business in the same business strategy. If they continue at their current stat without changes, based on the financial prediction, they will most likely obtain a sale revenue of $518 million, and an overall loss of $302 million for the year. However, if Webvan chooses to do nothing and continue in this path they will most likely lose their shareholders investment. Webvan has a high operational cost, and if they do not see sales, Webvan will have to file for a bankruptcy which they will go out of business.

   Impact on Stakeholders:

   a. **Employees:** They will keep working with same expectation and high professional expectations.
   b. **Customers:** They will not be affected; customer will continue receiving their deliveries on time.
   c. **Shareholders:** Their investment will be very risky, financial prediction states that Webvan could go bankrupt, so their investment will be a huge loss.

d. **Contractors:** Continue to build distribution centers and delivery infrastructures.

2. **Attempt to Get Buy-out Option:**

This action would make a call for Webvan to get purchased by an organization, even though Webvan has a large valuation that has protection against take over, a buyout is safer for Webvan, Amazon would be great option. “In 1968, the New York Central and Pennsylvania railroads merged to form Penn Central, which became the sixth-largest corporation in America. But just two years later, the company shocked Wall Street by filing for bankruptcy protection, making it the largest corporate bankruptcy in American history at the time.” (DUMONT). This example shows that a buy-out option isn’t always the best, because Webvan is not gaining profit and this option can be risky because it highly depends on an organization that want to purchase them or not. If a purchase to happen Border will continue to utilize the capital and its assets, and employees will also keep their jobs.

Impact on Stakeholders:

a. **Employees:** If a buy-out to occur employees will keep working with same expectation and high professional expectations.

b. **Customers:** They will not be affected; Their products will continue to be delivered on time.

c. **Shareholders:** Their risk of losing their investment could decrease, the strategy might be different, their profits might increase since they will gain more customers.

d. **Contractors:** Since they have already signed a contract, they will continue to build distribution centers and delivery infrastructures.

3. **Exit the Market:**

This Action involves Webvan to leave the market. Webvan does not have a good future they prediction stats that they will most likely see losses, it is better to leave the market early as there is still could save shareholders from loss on their investment "liquidating assets is often the best or perhaps only feasible method of exiting their businesses, especially retail businesses." (E. McCarty). This course of action may not be great image for Borders, because all of his employees will be out of jobs and investors in the future will try to avoid him, in a long term it is better than a bankruptcy.

Impact on Stakeholders:

a. **Employees:** They will lose their jobs

b. **Customers:** Will have to find another grocery delivery service.

c. **Shareholders:** Their investment would be a loss, but better than going bankrupt.

d. **Contractors:** Since they have already signed a contract, they could keep partial or keep all the money depends on what the contract states.

Best course of Action

The best course of action for Webvan is to exit the market, because Webvan is not seeing any profit and if they continue with the same strategy, they could be bankrupt, and the sooner they do it the better, the less money they will lose, and they can keep some or all of their assets and liquidation this will negatively impact all Webvan stakeholders, but it is the best option for Webvan as the financial prediction states a future bankruptcy. Attempt to get buy-out can also be great choice but since Webvan is not making enough money I do not think any organization would take a risk and buy them. This option can be risky because it highly depends on an organization that want to purchase them or not. If a purchase to happen Border will continue to utilize the capital and its assets, and employees will also keep their jobs. The last alternative which I highly don't recommend is do nothing, this option is very risky, if Webvan chooses to do nothing an continue their business, they will mostly be likely to only see losses in the near future. In the goal it states the goal of an organization is "make money now and in the future" (Goldratt). Webvan would most likely not be able to maintain their business, which would negatively impact all of the stakeholders. The shareholders would lose their investment in the company. The customers would lose a business and the competitors would gain customers and potential profits.

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