CIS 410-50

**Webvan**

**Case Analysis**

**Case 4**

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**Executive Summary:**

In this case we look at Webvan, which was an internet based company that provided online grocery shopping and delivery in the late 1990’s to early 2000’s. Despite being a highly valued company with many investors and plenty of capital, the company was experiencing tiny profits and big losses in just the two years of starting. Webvan’s main problem occurred from attracting and retaining customers using there grocery ordering and delivery services. Webvan was trying to become an industry leader in the online grocery industry, and the company was going to have to overcome many challenges and rivals in order to capitalize on the vast opportunities of this mostly untapped market. I will be going over the case, the organizations mission, the organizational structure, the strategy of the company, the options that Webvan can take, Porter’s five forces, the stakeholders involved in this case, and my solution for Webvan.

**The Case:**

Webvan’s chairman, Louis Border, who was the founder of Border books, thought that he could transfer the inventory management and customer service focused learning that he established in the book selling industry into online grocery retailing. He recognized the potential of online retailing from the huge boom of the internet in the 1990’s. The only problem was finding an efficient and cheaper way to deliver to customers doorsteps. “When the product value chain becomes efficient, consumers benefit in the form of lower prices.” (Kalakota 102). When efficiency is achieved and lower prices become available, is when you will see the potential of an online grocery store. With this idea in mind, Louis Border founded Webvan. Webvan was said to be “Arguably the most ambitious e-commerce initiative to date.”. In order to become a successful and profitable company and to affect their stakeholders in a positive way, Webvan was needing to find ways to overcome the challenges of being an e-commerce grocery store in the late 1990’s to early 2000’s.

**Case Analysis:**

Webvan’s mission statement was to become a leader in the online grocery shopping and delivery industry. Webvan provided a B2C business that gave customers a convenient service that allowed them to order groceries and have them delivered to their house all while allowing the cost of ordering to be low and having a wide arranged of products to choose from. “The infinite virtual capacity property means that consumers face no lines anytime they go shopping.” (Afuah and Tucci 42). Louis Border recognized this through his own personal situation with online ordering. He recognized that there was a huge potential with online shopping due to the huge convenience for customers. Webvan’s ultimate goal was to introduced customers to their service and retain them to allow for a consistent stream of revenue for the company.

Webvan’s organizational structure was under the functional organizational structure. This structure allowed Webvan to be divided up into specific roles, which helped form Webvan from the traditional grocery store into an online order and delivery grocery service. The functional organization structure allowed The Webvan Model to be implemented into the company. This model was segmented into two distinct areas, operations and customer service. These areas would allow Webvan to differentiate themselves from the competition, in which has been established before Webvan and is very vast.

The generic strategy was differentiation for Webvan. The idea of having an online grocery store was not new in the 1990’s. There had already been very established companies that offered the same service that Webvan offers. What Webvan implemented to differentiate themselves from the competition was to utilize the Webvan model of operations and customer service in order to gain a competitive advantage over their rivals. Operations focused on the proprietary system that automatically tracked every part of the delivery and ordering process. While customer service was focused on providing customers with flexibility, simple ordering processes, and offering a wide array of products that have not been seen by the competition beforehand. By obtaining the customer value, Webvan could achieve sustainability, which was a problem as Webvan was losing profits and year after year. The potential for innovation was a huge goal for Webvan, and they utilized the differentiation strategy to achieve this. “Industry characteristics evolve and so should the kinds of activities a firm performs to take advantage of industry profitability.”(Afuah & Tucci 65). Webvan needed to evolve as a company in order to turn a profit for the future. Through differentiation this could be done, but more strategy was needed in order to become successful.

**Porter’s Five Forces:**

**Competitive Rivalry:** The competitive rivalry for Webvan was very high. Webvan had many rivals including, Peapod, Netgrocer, eGrocer, niche businesses, and traditional grocery chains, which had been dominate and amassed a huge part of the market share. Many rivals have been well established prior to Webvan being a company. “They face competitors who have their own business models, who are just as interested in making money, and who may be equally capable of offering the same level of value to customers.” (Afuah and Tucci 5). This was the problem that Webvan was facing. Differentiation was a strategy for Webvan to gain a competitive advantage over their rivals.

**Threat of New Entrants:** The threat of new entrants was moderate for Webvan. Webvan had huge initial investment from many different sources, which allowed them to become a formattable force in the online grocery business. Becoming a new entrant in this industry that already has a vast amount of market share taken will be difficult, considering the huge upfront cost that it takes to become established. But, if Webvan can do it so can another businesses.

**Threat of Substitutes:** The threat of substitutes was very high for Webvan. Many of the already established firms already had a community of reliable customers that they have amassed over many years of business. Customers could choose any of the other businesses that already have been established over Webvan. Also, traditional, brick-and-mortar groceries were pretty much untouchable at this time, with over 99% of the market share in the grocery industry. It would take time for customers to change over from in person shopping to online shopping in order for Webvan and other online grocery businesses to be sustainable for the future.

**Bargaining Power of Suppliers:** The bargaining power of suppliers for Webvan was moderate to high. Webvan had to procure groceries from suppliers that were already supplying all the other grocery stores. Webvan really could not negotiate a lower prices than the suppliers were already selling at. But, Since there are multiple different suppliers for one product Webvan could negotiate better deals for specific products to be featured on their online grocery site. Therefore the bargaining power of suppliers was moderate to high for Webvan.

**Bargaining power of customers:** The bargaining power of customers for Webvan is very high. Customers could switch between many different types of grocery options and businesses. Retaining customers was a huge obstacle to overcome for Webvan and other online grocery businesses. Therefore, the bargaining power of customers is high for Webvan.

**Options:**

**The Do nothing Option:** If Webvan were to do nothing and continue with not innovating and changing how they conduct business, they would just continue to lose money and lose their investors money. They might gain more customers over time, but the other companies that provide the same service that Webvan does could take their business. The cost of running the company was too great, which would hurt the sustainability of the company for the long term. The revenue sources of Webvan would continue to be potential customers or returning customers. If Webvan was to become a successful business something else had to be done. The stakeholders of Webvan are the employees, investors, and the upper management of Webvan, Louis Border, and customers. The employees of Webvan would be effected greatly if the company decided to do nothing about the current situation. They would could be laid off in the future if the company would continue down the road of bankruptcy. The investors would lose all the money they gave to Webvan to become a successful company. This would include initial investors and investors that have shares into the company through the stock market. The upper management would lose the time investment that was put into Webvan. Louis Border would fail to venture into a new industry and make a successful company, unlike he did with Borders Books. The customers would not really be effected because of the vast amount of substitutes that are available to them.

**Utilize their large market capitalization:** If Webvan were to utilize their large market capitalization to purchase regional chains in markets that it was interested in, and to forward with additional product line, they could potentially change their road to bankruptcy into a road of profitability. They would acquire chains that could potentially be taking market share from them, and hopefully transition the current customers of those reginal chains into Webvan customers. Expanding would give Webvan more reach over the market, which can bring more customers into using their service. Webvan can use the current supplier chains an distribution centers that the regional chains already possess, and can leverage equipment to further expand their own distribution centers. “Even if a problem looks insurmountable there is a simple and powerful solution. But such a solution can be found only if the scope is enlarged.” (Goldratt 68). What Webvan is needing to do is enlarge their scope, this could be a solution to the problem they have been facing with being unprofitable. This option could help more investment in the company if they plan to expand their market share. The stakeholders of Webvan will be effected with this option. The stakeholders include employees, investors, and the upper management of Webvan, Louis Border, and customers. The employees could have the potential to relocate to different distribution centers if they desire and have a future employment with the company. The investors could potentially make back their initial investment in Webvan, as Webvan is using the investment to expand the company which has the potential to bring more revenue in and move the stock price upwards. The upper management and founder Louis Border, could turn Webvan into a hugely successful company, and can see a positive return on their time and monetary investment. The customers that currently use Webvan will be happy to know that Webvan is expanding the products they offer and are working to become more customer service focused, as they are expanding into different regions and are acquiring more distribution centers, which would increase delivery times and flexibility for the company.

**Get bought out by a larger company:** If Webvan were looking to be acquired by a larger company, they might have the necessary investment and infrastructure to become a successful company, or to transition into the companies infrastructure, or exit the market completely due to the larger organization not wanting to continue the business venture. This could be beneficial to the company for business continuation, or could maybe ruin the company as the bigger company does not share the same vision as Webvan does. Webvan can use the bigger companies resources to obtain more customers and to retain them as well. The stakeholders of Webvan will be effected greatly. The stakeholders for this option include employees, investors, and the upper management of Webvan, Louis Border, and customers. The employees will have a better opportunity to keep their job, and be support better the larger infrastructure and company. The investors, will still get to keep their initial investments, and could see positive returns if the bigger company moves Webvan into a better situation than they currently are in. The upper management, including Louis Border, would be bought out by the larger company and could see a large return from being bought out and could potentially keep working for the larger company. The customers could have a better shopping experience due to the larger infrastructure and have more choices on products given the larger companies suppliers and supply lines. Also, delivery of groceries could become faster and more flexible if they were to improve the delivery system due to more capital from the bigger company.

**My solution:**

My solution for Webvan is to utilize their large market capitalization to further expand their reach to customers through acquiring regional chains, and going forward into adding additional product lines for their online services. By going with this option Webvan could gain more market share and obtain more customers using their online grocery service. They can change the continual loss every year into gains from the expanding their company into new regions and adding additional product lines to their online grocery store. “Although short-term innovation and adjustments are always possible, the forces of natural selection and the environment are ultimately in control.” (Morgan 54). This may be a short-term innovation, but can turn into a long-term solution if they keep building onto this choice. Investment will continue to be added, as investors see that Webvan is becoming bigger and will likely see an return of their investments. Overall, I think this is the most appropriate choice for Webvan, as doing nothing could lead to bankruptcy, and getting acquired by a larger company could change Webvans mission statement and overall strategy to becoming a leading online grocery company. In order to become a successful and profitable company Webvan was needing to find ways to overcome the challenges of being an e-commerce grocery store and by going with this option I believe they can overcome all the challenges and reach the goals they are seeking.

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