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Webvan Case 4 Analysis

**The Issue:**

Webvan is a company that wants to become the leader in online grocery delivery. Webvan has good infrastructure and customer service however, Webvan only has one major issue: they are projected to be operating at a loss. For 1999 Webvan is projected to net loss $35 million with total sales being $11.9 million. For 2001 forecasts project that sales would be $518 million with an overall loss of 302 million dollars. Webvan's Chairman Louis Borders wants to figure out a way to make them profitable to ensure company survival long-term.

**Mission, Generic Strategy, Porter's 5, and Organizational Structure:**

Webvan's mission statement is "Delivery groceries to customers in a way that surpasses brick and mortar stores' options, customer service and speed". Webvan does this by using differentiation one of Porter's generic strategies. According to Tucci: "A product is differentiated if customers perceive it to have something of value that other products do not have. A firm can differentiate its products in eight different ways: product features, timing, location, service, product mix, the linkage between functions, linkage with other firms, and reputation" (Tucci 55). Webvan does this by providing more options to customers thus increasing product mix, automatic deliveries to customers, faster deliveries, and superior customer support to set them apart from their competition. Porter's five forces are a good way to tell how healthy a company is, it consists of bargaining power of suppliers, bargaining power of customers, the threat of substitutes, threat of new entrants, and competitive rivalry. Webvan's threat of suppliers' bargaining power is medium because Webvan is directly supplied with groceries that go to a distribution center where they are sorted into the customers' orders. Webvan must get these groceries from somewhere, so the suppliers do have some power. Webvan customers' bargaining power is something that could be an issue because there are other alternatives in the current market. This means that customers have an opportunity to substitute Webvan's deliveries with someone else's. To mitigate this risk Webvan must differentiate itself so the customer has higher switch cost, and this would make them less likely to try to bargain or switch to a substitution. In the current market, there are many Substitutes for online grocery delivery. For example, Peapod.com, Streamline.com, Shoplink.com, Netgrocer.com, and eGrocer.com are some current substitutes for Webvan's services. To mitigate this Webvan must differentiate enough that customers will choose Webvan for grocery deliveries instead of its competitors. The threat of new entrants is concerning because big brick-and-mortar stores could eventually shift their focus on securing a segment in the online market, but currently, investors are not encouraging big brick-and-mortar companies to make big internet bets. To combat this Webvan must again differentiate to the point that customers will choose Webvan over its competitors. The recent focus on new online business has caused some serious competitive rivalry. Webvan can use its' differentiation to keep it successful in this market. Webvan's exact organizational structure is unknown. Currently, it is focusing on maintaining its current differentiation by setting up distribution centers and delivery infrastructure in 26 new markets over the next two years. The distribution centers are using a hub-and-spoke system. Another differentiation focus was customer service, Webvan provided a 50,000-product selection whereas typical grocery stores online provided 30,000. Also, Webvan used personalized shopping lists which after the customers first order would help increase the speed of future orders.

**Key stakeholders:**

The key stakeholders at Webvan are the employees, customers, and shareholders. A company's stakeholders are the people or groups that are impacted by the business. At Webvan the employees will be affected if the company succeeds or fails, they will be paid and hired based on how well the company is doing. The customers will be directly impacted by Webvan's performance. Customers will receive products faster and more easily if Webvan succeeds, If Webvan does poorly Customers could see increased delivery times and a smaller product selection along with higher prices. Webvan is a publicly-traded company so shareholders will be directly impacted depending on how well Webvan is performing. If Webvan does well shareholders' stock price will increase therefore investors will make money, if Webvan does poorly then shareholders' stock price will decrease, and investors will lose their money. It is in Webvan's best interest to maintain its positive performance so that all key stakeholders will be positively impacted.

**Alternatives and impacts:**

Webvan does not have many problems however it has one main issue currently, it is projected to lose money in the upcoming years. Three potential solutions for Webvan are to start marketing and maintain its current course and wait for demand to increase, buy regional grocery chains in desired markets, and start selling customer data. If Webvan just maintained its current course and started a marketing campaign It would eventually become profitable long-term. Currently, the market is growing slowly but projections show that eventually 20% of all grocery orders will be placed online. Marketing can also help bring more people to buy their groceries online. If

Webvan had more users from marketing, then eventually they might operate at a profit. If Webvan starts operating at a profit all key stakeholders will be positively affected. Customers will enjoy efficient grocery deliveries, employees will continue to get hired and promoted, and shareholders will continue to profit from their shares. If Webvan bought grocery chains in desired markets they could reduce competition and gain market share. According to Tucci: “As we have noted, market share is critical (…). In our example, the firm with an 80 percent market share in 1999 earned more than $1 billion in profits while the one with 20 percent lost money. A firm’s strategy early in the life of such products, then, is to strive for high market share.” (Tucci 59). So Tucci says that a higher market share can lead to higher profits which Webvan needs for its key stakeholders to continue to be positively affected. If this caused Webvan’s profits to increase, then all key stakeholders will be positively affected. Customers will enjoy efficient grocery deliveries, employees will continue to get hired and promoted, and shareholders will continue to profit from their shares. If Webvan started selling their customers' data, they could help increase profit margins. According to Tucci: “First, almost anyone with a website had an audience and therefore the potential to sell advertising or capture customer data.” (Tucci 62) If Webvan started finding alternative sources of revenue it could help make a profit to help keep it in the market long enough for it to become profitable. Webvan already has many customers in which it can pull a google and sell their data to help increase Webvan’s bottom line. If this caused Webvan’s profits to increase, then all key stakeholders will be positively affected. Customers will enjoy efficient grocery deliveries, employees will continue to get hired and promoted, and shareholders will continue to profit from their shares. If Webvan started selling their customers' data, they could help increase profit margins.

**The best alternative and why:**

Webvan should start marketing to help increase its user base and wait for the market to grow. Webvan's projections show that the market will continue to grow and as it grows Webvan will establish a warehousing network that will differentiate them in this market which will then lead them to eventual profitability. To help increase profits in the short run Webvan should start marketing its website to potential customers. According to Zwass when talking about how a small gold shop got its' users: "GolfWeb has been able to attract some 500,000 hits a day to its 25,000 pages. Until recently, the firm has relied on advertisers for its revenue" (Zwass 13) Zwass also says: "For a chance of success in this marketplace, the firm must identify an actual customer need and the firm's relationship with the customer must build on the key feature of the medium, namely interactivity" (Zwass 8) The marketing will create advertising that targets these key customers and thus profits will increase. These increased profits will cause all key stakeholders will be positively affected. Customers will enjoy efficient grocery deliveries, employees will continue to get hired and promoted, and shareholders will continue to profit from their shares. If Webvan started selling their customers' data, they could help increase profit margins. If Webvan bought a grocery store chain, it would cost a ton of resources which would increase the amount of money they need to earn to overcome their net loss. Also even if Webvan got more infrastructure it is not known that this will increase total profits. Even though market share has increased who knows if the customers will increase as well. If net loss continued then it would hurt all stakeholders, employees would not be given raises and even fired, customers would receive a worse service with longer shipping times, and shareholders would lose money due to plummeting stock prices. If Webvan started selling customer data, it would not be enough profit to get the company ‘in the green’ the profits would not be enough to change the net loss. Also, customers could find this out and despise the company. Since Webvan would be operating at a loss it would hurt all stakeholders, employees would not be given raises and even fired, customers would receive a worse service with longer shipping times, and shareholders would lose money due to plummeting stock

prices.

**Conclusion:**

In conclusion, Fried says: “Trends indicate that customers are demanding not only more responsiveness and quality (…)” (Fried 326) Since Webvan has a quality service Webvan should start marketing its service harder and wait for the market to increase which will bring it profits. This will help keep all stakeholders happy with the promise of massive profits. With massive profits, employees will be paid more and get more benefits which will positively impact them. Customers will continue to get quick and quality grocery shipments that take less time and cost less than traditional grocers. Shareholders will continue to make a profit from their stocks because of the profits from Webvan.

**Sources:**

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