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Case 6 Webvan

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1. **Dilemma:** Should Webvan pursue greater avenues for their business? Should they consider buying out physical grocery chains? Should Webvan continue business considering the large losses looming overhead?
2. **Role of IT:** The role of IT, for Webvan, is the online shopping center they use to sell their products and services. Their Internet based shopping center can be used by anyone that uses the Internet to purchase perishable and non perishable groceries
3. **Critical Stakeholders and their rights:**
   1. **Customers –** The target market for Webvan is anyone that uses the Internet and eats food. The customers are those that purchase groceries from Webvan’s online store. They select items from a shopping list and will be delivered within a thirty-minute delivery window the next day. Since Webvan sells and delivers groceries, customers have the right to a competitive price, timely delivery and quality products.
   2. **Webvan Inc. –** Webvan is now a public grocery company since it completed its IPO, which means it has a lot of pressure to succeed in the grocery business. Although they have ventured into the online world of selling they are still a grocery store, not a technology company. Webvan is using the Internet to leverage their assets and create cost leadership and differentiation as well as creating a median between the customers and the business. They must be able to sustain profits now and in the future by selling a large amount of groceries with a large margin. Webvan has a high quality distribution center, which provides fast and high quality products for their customers and allows them to operate efficiently. Webvan has the right to distribute their products and services as a lawful business in order to make money now and in the future.
   3. **Competitors –** Webvan’s competitors are large physical grocery chains such as Kroger, as well as online grocers such as peapod.com. The incoming online stores affect the physical grocery stores because it could potentially take away their traditional in house business. They have the right to fair competition with respect to customers, pricing and marketing.
   4. **Shareholders –** Now that Webvan has completed its IPO it is owned by shareholders which means the company’s main objective is to provide profits to the shareholders. The shareholders have the right to a return on their investment as well as knowledge of any major decisions the company could make.
4. **Porters Five Forces**
   1. Buyers have a large amount of power because within the industry there are many grocery stores. Customers can choose from a large number of grocery chains and local businesses to buy their foodstuff.
   2. Suppliers have little power because there are many sources of food and produce that Webvan needs in order to produce their profits. These products can come from all over the country and sometimes from other parts of the world. (Webvan)
   3. The possibility of new entrants is high because the products Connor Metal creates are not unique. This allows small mom and popshops the ability to enter the market easily. (Webvan)
   4. Substitutes are high for the grocery industry since there are many similar grocery stores throughout the company. Webvan has a tried to differentiate themselves by providing an online store front and adding delivery to their business model. (Webvan)
   5. The grocery industry has high competition due to the many grocery chains, little shops and low supplier power. The price will be lower because the competition and low supplier power drives the price down.
5. **Alternative courses of action**
   1. **Do nothing** – If Webvan chose to do nothing and continue on with their current business model, they would most likely incur the large potential losses in the near future. They would most likely not be able to sustain their business, which would harm all of the stakeholders except the competitors. The shareholders would lose their investment in the company. The customers would lose a business and the competitors would gain customers and potential profits.
   2. **Buy out physical grocery chain**  - If Webvan were to buy out a large physical grocery chain they would be purchasing locations with already proven processes. The chains usually have fully functional distribution warehouses and supplier networks. This could potentially catapult their online business because they would be able to control the cost and quality of their products.
   3. **Cut losses and get out –** Webvan’s initial revenues do not meet the needed amount to gain a profit, which means they are headed towards large financial losses. If they decided to get out of the business they could potentially save their shareholders from a large loss in their investment. The company would not have to file for bankruptcy. The customers would lose a place to buy groceries but they have many other options. The competitors would possibly increase their customer base and increase profits.
6. **My normative recommendation:** My personal recommendation for Webvan is they should realize their financial position and get out of the market before they lose everything. They are a grocery company that is trying to operate as an Internet company and it is clouding their decision-making. As soon as Webvan completed their IPO, they valuated a potential $35 million dollar loss in the near future. This information should give Webvan the inclination that they are not selling enough to sustain a profitable business. They must either increase the amount of products they sell or increase their profit margins in order to make money now and in the future. This would benefit the shareholders because if Webvan continues with their business they will eventually spend all of their shareholder’s investment. So if Webvan realizes where their business is going, it will save the shareholders money. This would benefit the competitors because their business would increase, in theory, from the customers that used to use Webvan. Webvan’s customers would not benefit from this, although they could always move to another company. Their cost of moving to another online company such as peapod.com or moving to a physical grocery chain is minimal so the customers are not greatly affected. Lastly, Webvan as a company would obviously not want to shut down and the employees would not want to look for a new job. Although, this would benefit the company because it saves their name and money and gives them an opportunity to possibly start a new venture.

**Works Cited**

WEBVAN: REINVENTING THE MILKMAN

Porter’s five forces