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Shaheen's 'smartest' or 'dumbest' move

By [Jennifer Mack](#)

ZDNet News

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George T. Shaheen's decision to leave Andersen Consulting, the world's biggest consulting firm, for Webvan, an upstart online grocery business, may seem like a risky proposition. But Shaheen is not the first CEO to make the leap from established bricks and mortar businesses to the Net's ephemeral land of promise and riches -- and many in the industry believe Webvan may be worth the gamble.

"There aren't many around that hold the promise that Webvan does," said Jack Staff, Chief Internet Economist for Zona Research. "It has the clout of some major companies behind it.

"This will either be the smartest thing he's ever done or the dumbest.

If he's lucky, Shaheen will follow the road to riches paved by the likes of Meg Whitman and James Barksdale. Whitman left her job as general manager of Hasbro Inc.'s preschool division in May 1998 to become CEO at online auctioneer eBay (Nasdaq:[EBAY](#)). It was a very profitable job change: Whitman's 7.1 million shares of eBay stock are currently worth just under \$1 billion.

James Barksdale, the former CEO of Netscape Communications, shoehorned into the Internet business by way of established companies like Federal Express and MCI WorldCom (Nasdaq:[WCOM](#)). In its 1998 list of the wealthiest people in the technology sector, Forbes Magazine estimated Barksdale's personal wealth at \$129 million. His investment firm, The Barksdale Group, is a major investor in a major Webvan competitor, HomeGrocer.com.

The competition

With [Webvan](#), Shaheen enters an arena that is fast approaching its capacity.

Zona Research estimates there are 31 companies with an online presence in the grocery business, which is expected to gross more than \$7.5 billion by the year 2003. Webvan competes against such established online brands as [HomeGrocer](#) and [Peapod.com](#), which has an estimated \$70 million to \$90 million in consumer sales, according to the National Retail Federation, as well as bricks-and-mortar giants with an online presence, like [Albertson's](#) and [Safeway](#).

Despite its nearly \$100 million in venture capital funding -- some of which comes from Softbank, majority shareholder of ZDNet publisher Ziff-Davis Inc. (NYSE:[ZD](#)) -- Staff believes

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Webvan will likely have to sell customer data to outside companies in addition to offering its grocery services in order to turn a profit.

"For some of the players who've been around before Webvan," Staff said, "they're finding they have to have a primary business of food delivery and a secondary business of market research. What that suggests is that the margins here for online grocers are not as strong as companies would like."

The money

So far, Webvan is concentrating completely on its delivery services. In July, just five weeks after it first began making deliveries, Webvan signed a billion-dollar deal with Bechtel to build a nationwide network of automated distribution centers. Currently only available in the San Francisco Bay Area, the company plans to expand its services into 26 new markets in the next 18 months. Peapod, one of its closest competitors, currently operates in eight markets.

"Webvan has really taken one of the most aggressive approaches to online retailing of any of the companies in this space, said Blaine Mathieu, e-commerce analyst at Dataquest. "They're the ones talking about billions of dollars in infrastructure. All the other players are taking a much more considered approach."

Part of Webvan's "aggressive approach" includes an upcoming initial public offering. The Foster City, California-based company filed for an IPO in August. It plans to offer 25 million shares at a price of \$11 to \$13 per share.

The outlook

The profits are out there somewhere.

Zona estimates the online grocery business has the potential to be worth as much as \$50 billion over the next five years if it is able to steal about 10 percent of the \$500 billion grocery market. Those kinds of numbers could mean a bright future for both Webvan and Shaheen.



They've got big money in venture capital, said Staff. "They've got a system they believe in and now they've got a top CEO. They're in good shape."

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