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Webvan Case Analysis

**Summary:**

Webvan is an e-commerce and disruption company. In 1997 the founders of Borders bookstore decided to start a new venture in the online market. When they created Webvan it was said to be “arguably the most ambitious e-commerce initiative to date” (Himelstein,1999). It operated in the San Francisco area for 5 months and serviced more than 10,000 people (Afuah−Tucci, 2003). In 1999 Webvan’s sales were expected to amount to $11.9 million, which is less than large grocery chains make in one day. While losses would amount to $35 million (Himelstein,1999). Founder of Webvans, Louis Borders, once said that “We are building the Last Mile to the consumer. It is a huge logistical problem.” While it was a huge undertaking Borders thought it would be a worthwhile Industry.

**Problem:**

The problems they faced are the same that all big industry alternatives face. The first problem they face is that the consumer market for online grocery was a limited and unsubstantial market. The projected sales for all online grocery stores in 1998 was only $156 million, unfortunately, that is less than one percent of the entire grocery market. The second problem they face is, that to be successful to ship and deliver produce and perishable food. They need to have distribution centers near the cities in which they deliver. While the customer will not be visiting the grocery store. The delivery drivers need a coordinated place to pick up the groceries. Another problem they will face is that home delivery and service requirements are expensive and necessary. The biggest problem that they face is that all of these problems combine with each other and create the bigger problem that with only a small percentage of the overall grocery market it needed to have all this infrastructure to be operational. Was this investment worthwhile, and could they find a way to have a smaller infrastructure or a more convenient way to house or deliver the groceries to the consumer’s house.

**Industry and Competitive Analysis:**

The primary function of Webvan is to distribute groceries to a customer who used their e-commerce website. Once the groceries are ordered, Webvan would organize the shipment and deliver it to the customer’s house.

Generic Strategy

The goal of Webvan is to create a system that is more efficient and gives better service than other companies in the industry. This allows Webvan to have a differentiation focus, if done right it would give Webvan more brand loyalty and higher popularity in the niche market that they are in.

Porter’s Five Forces

*Competitive Rivalry*

In the small but growing niche market of online grocers, Webvan is one of many already in the industry. While Webvan focuses on differentiation, many of its competitors give the same outcome. At this time Peapod is their biggest competitor, and like many of the competitors, they sent personal shoppers to existing grocery stores to pick up the groceries. This makes Webvan stand out because they are going to have a huge distribution center for all major cities where the groceries would be stored and then sent out to the customer’s house. The competitive force is strong because there are many alternatives that customers can choose from.

*Threat of New Entrants*

Entering the market can be simple or complex. As long as the new entrant can make an e-commerce store and deliver to the consumer’s house, they can enter the market. With that being said, the threat of new entrants is strong.

Threat of Substitutes

With the market being as open as it is, the threat of substitutes is extraordinarily strong. Not only are the specialized market of online grocery stores full of competitors. But the massive industry of grocery stores is filled with giant corporations that have thieved for years before the internet was even a thing.

Bargaining Power of Suppliers

Webvan would be considered a reseller, and the number of suppliers that supply the grocery industry is extensive. With numerous wholesale food suppliers, the bargaining power of suppliers is weak. Because if Webvan does not like the wholesale price of one supplier, they can go to another just as easily.

Bargaining Power of Buyers

Webvan has many competitors in the grocery industry, both online and in-person. This means that the bargaining power of buyers is strong because the customer can always go to a competitor to get a better price or better services.

**Stakeholders:**

The stakeholders of Webvan are the Borders brothers who founded the company. The Investors such as CBS, Yahoo!, LVMH, Softbank, and respected venture capital firms Sequoia Capital and Benchmark Capital. George Shaheen the CEO of Webvan. The Bechtel Group that is the construction firm hired to build the facilities. The many employees of Webvan such as “pickers,” delivery drivers, Warehouse employees, etc. Lastly, the Consumers that are paying for the service to have the groceries delivered to their houses for them.

**Possible Alternatives:**

One alternative for Webvan to consider is to change the overall system. Instead of creating huge distribution centers that would add huge overhead expenses. Webvan could create a partnership with an existing grocery store. While the store employees would pick the groceries off the shelf and store them for the delivery drivers. Webvan would be in charge of hiring and keeping the delivery drivers. This could still give the customer higher service because the delivery driver could still be a Webvan “ambassadors.” While being different than existing companies to create a new level of brand loyalty. This also would lower the overhead that would be otherwise created in the first company design.

Another alternative would be to merge with other online grocers to create a bigger percentage of the market. This could mean organizing all the other systems into one. Or it could mean replacing the Webvan model with another company’s model. Either way, the percentage of the market would be increased due to less competition.

Additionally, to the listed alternatives above Webvan can continue with the current plan and create the new distribution centers that housed the groceries and create a warehouse where the delivery drivers could go and pick up orders and deliver them to the houses. This creates more overall work and does not leave the profit margins to be desired.

**Recommendation:**

I would recommend that Webvan partner up with existing grocery stores. This could work in several ways; it could be an advantage of being part of the membership program as well as a stand-alone service. With the service of the customer being the main focus of Webvan. They would have less competition because they would be already collaborating with the biggest competitors, the brick-and-mortar grocery stores. And while other companies hire “personal shoppers,” Webvan gets the best picks of the products before the products even hit the grocery store shelves. And with no overhead costs for a huge building, Webvan can focus on its customers and employees to give the best service possible.

Work Cited

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