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| **VIET NAM NATIONAL UNIVERSITY**  **UNIVERSITY OF INFORMATION TECHNOLOGY**  **INFORMATION SYSTEMS FACULITY** |

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| Thesis  **Topic:**  **The Path to Disaster: A Startup Is Not a Small Version of a Big Company**   |  |  |  |  | | --- | --- | --- | --- | | **Lecturer** |  | **:** | **Lý Tuấn Khoa** | | **CLASS** |  | **:** | **MSIS3033.O21.CTTT** | | **Team** |  | **:** | **1** | | **Members** |  | **:** | Trần Trung Kiên - 21522249 | |  |  |  | Phạm Kim Long - 21521099  Lý Tuấn Khoa - 21522225 | |  |  |  |  | |
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**The Path to Disaster: A Startup Is Not a Small Version of a Big Company**

In the tale of business, Webvan's collapse serves as a cautionary narrative, highlighting the stark differences between startups and established corporations. During the frenzied days of the late 20th-century dot-com bubble, Webvan emerged as a beacon of promise, armed with the ambitious goal of revolutionizing the retail grocery industry through the novel concepts of online ordering and same-day delivery. With an unprecedented financial backing surpassing $800 million, the company embarked on a mission to reshape consumer behavior and redefine one of the economy's largest sectors.

Despite meticulous planning, substantial investment, and what appeared to be flawless execution, Webvan's journey ended in calamity. Within a mere 24 months of its highly anticipated initial public offering, the company found itself bankrupt and defunct, leaving behind a trail of questions about what went awry.

The demise of Webvan was not merely a failure of execution; rather, it epitomized the dangers of adhering rigidly to traditional business paradigms within the startup realm. The company zealously embraced the conventional new-product introduction model, a strategy deeply ingrained in the fabric of corporate America for decades. Rooted in the manufacturing ethos of the 20th century, this model delineates a linear progression from product development to customer delivery, operating under the assumption of well-defined markets and known customer bases.

However, startups inhabit a realm characterized by uncertainty, where the rules of engagement differ markedly from those governing established enterprises. Unlike their corporate counterparts, startups grapple with the formidable challenge of identifying their target audience and navigating uncharted market territories. Despite this reality, many startups persist in adhering to the traditional product-centric model, utilizing it not only as a blueprint for product development but also as a roadmap for customer acquisition, sales projections, and fundraising endeavors.

The inherent flaw in this approach becomes glaringly evident in hindsight: by fixating on product development and adhering rigidly to the dictates of the new-product introduction model, Webvan and numerous other startups inadvertently neglected the fundamental question of "where are the customers?" In their relentless pursuit of growth and scale, they failed to grasp the essence of the startup ethos – the imperative of customer-centricity and market validation.

The consequences of this oversight were dire, culminating in the spectacular implosion of Webvan and the squandering of billions of dollars in investor capital. The cautionary tale of Webvan serves as a stark reminder that startups are not merely scaled-down versions of established companies; rather, they constitute a distinct breed with unique challenges and imperatives. To navigate the treacherous terrain of entrepreneurship successfully, startups must eschew the dogmas of the past and embrace a paradigm shift towards customer-centricity, agility, and adaptive resilience. Only then can they chart a course towards sustainable growth and enduring success in an ever-evolving business landscape.

During the concept and seed stage, founders transform their passion and vision into the foundational elements of a business plan, often starting with simple sketches on napkins. They meticulously define the product or service concept, considering features, benefits, feasibility, and potential customers, which are informed by statistical and market research as well as customer interviews. This phase also involves strategizing how the product will reach customers, including discussions on competitive advantages, distribution channels, and costs. The business plan evolves to encompass market analysis, competitive positioning, and financial projections, with detailed spreadsheets forecasting revenue and expenses. With creativity, dedication, and strategic planning, founders aim to attract investors to fund their venture. Webvan exemplified this process, successfully securing substantial funding through its compelling story, experienced founder, and thorough planning, leading to impressive investment rounds totaling $393 million before its IPO.

In the product development stage, the company shifts focus from discussions to action, with Marketing refining market strategies and targeting initial customers, often through focus groups and collaboration with Product Management on market requirements. Marketing also begins creating sales materials and hiring PR agencies, while Engineering concentrates on specifying and building the product. This involves a detailed process, starting from the founder's vision, expanding into engineering specifications, and culminating in implementation. Once underway, this process can run continuously for 18 to 24 months, making product revisions challenging. In Webvan's case, Engineering tackled building automated warehouses and designing the website, leveraging cutting-edge technology to streamline the delivery process. In the same time, Webvan initiated a marketing program aimed at enhancing brand recognition, attracting trial users, fostering loyalty, and increasing repeat purchases, aligning with their comprehensive business plan.

In the alpha/beta test stage, Webvan's Engineering team diligently followed the classic waterfall development model. Their goal was to meet the first customer ship date. Concurrently, Marketing worked on crafting a comprehensive marketing communications plan. They set up the corporate website and initiated a vigorous public relations campaign to generate buzz around Webvan's entry into the online grocery market. The branding activities began to take shape, positioning Webvan as an exciting and innovative player in the industry.

During the beta testing phase, Webvan enlisted the help of a small group of outside users to test their product. This allowed them to ensure that the product functioned as intended. Marketing provided Sales with the necessary support materials, and the sales organization started scaling up outside the headquarters. Sales signed up the first beta customers, some of whom were even willing to pay for the privilege of testing a new product. The selected distribution channel began to take form, and the revenue plan outlined in the business plan became a focal point for measuring progress.

With the product in a semi-functional state, Webvan transitioned into the "big-bang" spending mode and officially launched the product and the company. A grand press event marked this significant milestone, capturing the attention of the industry and the public. Marketing implemented various programs to create end-user demand, further fueling the excitement surrounding Webvan's innovative grocery delivery service. Meanwhile, the company hired a national sales organization and set sales quotas and goals. The board began evaluating company performance based on sales execution and its alignment with the business plan.

Building a robust sales channel and supporting marketing activities required substantial financial resources. Unless an early liquidity event occurred, further fundraising was necessary. The CEO of Webvan took on the task of seeking additional capital from the investor community. This entailed showcasing the product launch activities and the company's plans for scaling up the sales and marketing teams. The CEO's efforts were crucial in securing the financial support needed to sustain the company's growth.

In June 1999, just a month after starting the beta test, Webvan launched its first regional web store. The company wasted no time and filed for its public offering a mere 60 days later. The IPO proved to be a resounding success, with Webvan raising a staggering $400 million and attaining a market capitalization of $8.5 billion on the day of its IPO.

However, despite the initial triumphs and high market value, Webvan's journey would soon take a turn for the worse. The challenges they faced, including fierce competition and operational difficulties, would ultimately lead to the company's bankruptcy and demise.

Webvan's startup process serves as a reminder of the many complexities and risks inherent in the startup world. It highlights the importance of adaptability, agility, and a deep understanding of market dynamics. While Webvan's story ended in failure, it continues to provide valuable lessons for aspiring entrepreneurs and serves as a cautionary tale in the annals of business history.