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Webvan Case

Webvan is an online grocer. The company's aim is to gain market share in the grocery industry by having customers place orders online and then having the groceries delivered to the customer's place of residence within a 30 minutes time frame of the customer's choosing. The coordination of these tasks is critical to business success (Afuah, pg. 38). Webvan is using the replacement effect approach (Afuah, pg. 35). This solution sounds simple enough, however there are multiple ways to approach this problem. One solution is to have employees go to grocery stores and pick out the items ordered. Other smaller online grocery delivery services have adopted this approach. However this process does take longer to complete because an employee would have to drive to a grocery store, walk around the store to find the items, check-out, then drive to the destination. However slow this system may be, it works.

Webvan' s approach is to build their own grocery store infrastructure. By eliminating instore costs, Webvan believes they can increase their margins over traditional grocery stores. This follows the thinking of the internet as a transaction-cost reducer (Afuah, pg. 37) This infrastructure would not be a traditional grocery store with isles and customers walking around. It is a warehouse that is designed to be as efficient as possible. The warehouse would be built in large metropolitan areas, in order to maximize the customer base. The goal is to retrieve all the items from a grocery list, from one warehouse, in the quickest time possible, and then have the items delivered to the customer at a time of their choosing.

This approach sounds perfect. You have everything you need in one place, the order is assembled in one place, and is delivered the next day. However, Webvan first had to build this grocery warehouse. This is a big investment. Also, Webvan has to design the software that makes the company work, as well as investments in hardware, delivery trucks, the actual groceries, training employees, etc.

The cost of delivery must be considered. The fleet infrastructure as well as fuels costs and insurance all add to the bottom line. There are numerous other issues. What if the customer is not home when food is delivered? How to keep perishable from perishing in transit? How can you beat grocery stores prices while not charging a delivery fee?

Webvan' s primary problem is how to transform offline grocery shoppers into online grocery shoppers, and secondly, how to make this service profitable. The internet at this time was still an emerging product. Not everyone was connected to the internet or knows how to use the internet. Webvan' s business will be more valuable if more people use the internet (Afuah, pg. 34). "Shopping remains relatively uncommon as a principal motivator for Web use, and it is believed that ease of access should ultimately determine the success of Web shopping." (Zwass, pg. 13). When a person thinks about grocery shopping, they don't think of surfing a website, they think of going to a physical store. Webvan needs to change this way of thinking by way of an aggressive marketing campaign. It is not easy to change a consumer's behavior, and one mistake is all it takes for that consumer to revert back to previous habits. Webvan' s costs are far outpacing their revenue. Obtaining a larger market share as quickly as possible is necessary for the company to survive.

Webvan' s mission is to provide the consumer a completely online grocery shopping experience and to deliver goods at the time of the customers choosing.

Webvan' s generic strategy is Cost-Leadership. Webvan is striving to reduce costs by using warehouses instead of grocery stores and by emphasizing efficiency (Tanwar, pg. 12) in its warehouses and delivery times. The grocery market is extremely cost sensitive. If a consumer can find the product else where for a cheaper price, that is where the consumer will go. Efficiency with low prices is Webvan's approach.

Five Forces Analysis.

Competitive Rivalry is high. There are many grocery store chains and numerous online grocery store services as well.

Threat of New Entrants is high. The grocery store market does not require a high level of expertise. The only challenge would be acquiring investment to start a new company.

Threat of Substitutes is high. If your competitor can offer a product for a lower price, then the consumer will purchase that product at the lower price.

Bargaining Power of Suppliers is low. The grocery market is extremely competitive and whoever can provide the product at the lowest cost wins.

Bargaining Power of Customers is high. If Kroger can beat Webvan' s price, then the consumer will choose Kroger.

Organizational Structure

Webvan has a functional structure. There is an IT Department that develops software. There is an operations department that puts together grocery orders and delivers the goods. There is a finance department that raised the funds for the $8 billion market value. Each department is divided according to its function (CP, pg. 108).

The stakeholders in Webvan are Investors, Employees and Customers. The Investors contributed to a market capitalization of $8 billion. The investors have much to lose if Webvan cannot reach a grocery market share that will make the company profitable. Employees have invested much time and effort to develop and implement in house software systems, learning how the warehouse functions, delivering goods, and conducting customer service. Customers have changed their behavior and rely on Webvan' s services.

The First Alternative is to do nothing. This alternative will result in the collapse of Webvan. Webvan is not growing its customer base quick enough to keep up with its costs. Investors would lose billions. Employees would lose their jobs. Customers would lose a service they have relied on.

The Second Alternative is to implement an aggressive marketing campaign in order to gain market share. Webvan' s only hope of survival is to gain market share. This must be done as quickly as possible. The infrastructure and systems have all been setup to be successful, the problem is lack of customers. In a cost sensitive market, low cost and convenience must be emphasized. An aggressive campaign that offers free delivery on all purchases, rather than those over $50 would attract new customers. Because Webvan is a web-based company, Webvan needs to change the behavior of grocery store customers. Many people are accustomed to the experience of going to a grocery store to make their purchases, by offering free delivery with lower prices will change consumers' behavior. This move may be costly in the short term, but it could have lasting effects in the long term. Investors would see market share grow and new customers added, staving off the possibility of the company collapsing. Employees would see a rise in activity and improved job security. Customers would experience even lower prices.

The Third Alternative is to partner with an existing offline competitor. This would increase Webvan' s market share and it gives Webvan time to try to change consumer behavior. By partnering with an existing company this would provide funding that Webvan needs but also give it a window into why the offline grocery store is successful. By combining the IT infrastructure that Webvan has built with the existing operations of a successful company, a more practical business model for delivery of groceries could be designed. However there will always the problem of the cost of the last mile, and if the consumer actually wants to change their behavior when it concerns buying groceries. The only problem with this is that the company that does partner with Webvan would also acquire the physical infrastructure that Webvan built. Infrastructure that a grocery store chain would already have in place and wouldn't need. Investors would benefit because Webvan would have a successful grocery chain partner whose brand would be established and would this make the marketing of grocery delivery more effective. Webvan also wouldn't have to file for bankruptcy. Employees would benefit because they would keep their jobs, although it would be likely that the warehouse employees would lose their jobs. Customers would benefit by still having the Webvan service be available to use.

Webvan should follow the third alternative. They need to partner with a recognizable brand. This would give them a better marketing position and also provide Webvan with another voice on how to make the operation successful. Up to this point Webvan has been losing too much money and a new voice within the company is needed.

The first alternative would result in Webvan going out of business (which is actually what happened).

The Second alternative would not solve Webvan' s financial woes quickly enough. Webvan is losing too much money too quickly. Marketing is expensive and it takes time to see results. Webvan does not have the time to conduct a years long marketing campaign to improve brand use and recognition.