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Webvan Case

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**Executive Summary**

Webvan is an internet-based company that allows users to shop for groceries online and have them shipped directly to their front door. In November of 1999 they made their first initial public offering (IPO) and made headlines across the business world. Even though they had low initial sales and high losses, shares were at an 80% premium on their first day of training. After the first day of trading Webvan had a market value of $8 billion.

Webvan was founded by Louis Borders who also formed Borders books. Louis believed that Webvan could beat other competitors by expanding aggressively. Borders believed in the internet market first-to-scale not first-to-market counted the most. During the first five months in San Francisco approximately 10,000 people had signed up.

Webvan immediately faced many different important decisions that would decide their future. Borders wanted to discover any new possible revenue streams and markets that the company could join. Webvan could decide to buy up grocery stores but they decided to not go this route. The strategy that Webvan decided to follow was differentiation. Webvan wanted to differentiate themselves through operations and customer service. On the operations side, Webvan used programmers to create systems that automated, linked, and tracked every part of the grocery process. The first distribution center was built in Oakland California and was over 300,000 square feet. On the customer service side, Webvan wanted to provide its customers 50,000 items compared to about the 30,000 that you would get at a traditional grocery store. They also offered the ability to either drop off your groceries while you were home or away.

**Mission**

Webvan’s mission is to provide a safe secure online customer experience that offers nearly double the selection of products than a traditional grocery store at comparable prices.

**Five Forces Analysis**

Threat of New Entrants: High

There is a high threat of new entrants due to the rapid growth of internet use in the 1990s. This helped change the grocery business and opened the opportunity for online versions. As more customers use the internet for e-commerce, businesses are trying to capitalize on the efficiencies that are provided by the internet.

Threat of Substitutes: High

There is an extremely high threat of substitutes since customers can shop at numerous amounts of both brick-and-mortar and online stores.

Supplier Power: Low

The supplier power is low since there are many suppliers of different food products that produce what Webvan needs to achieve their goals.

Buyer Power: High

The buyer power is high for the same reasons, there are numerous stores that consumers can shop at for their needs.

Degree of Rivalry: High

Rivalry would also be high for the same exact reasons, there is crazy competition and constant threat of new competition in the market.

**Organizational Structure**

Webvan’s organizational structure is functional with Louis Borders as the CEO. If Webvan was going to successfully continue, then they would need to become a holographic structure. Each distribution center would need to operate independently of the others in its geographic area. In s holographic structure, growth comes from market saturation and unit duplication (Cash). If the consumer interest for an online system like Webvan’s declines, then this suggests that this business model is not suited for the current business climate.

**Stakeholders**

Webvan’s most obvious stakeholder are its shareholders. The main stakeholder however is Borders, Webvan’s parent company. If Webvan tanks, then Borders will take a huge hit as well.

**Problem Areas**

Webvan has several problem areas. First, after their founding Louis Borders attempted to apply similar ideas that had been successful with Borders books internet enabled business model to Webvan’s While the internet does offer benefits to many different types of companies, the two are completely different. In the early 2000’s purchasing books online was in the typical consumers scope but buying groceries online was not. Webvan expanded rapidly for the sake of expansion with little plan on the future and business continuity. Borders followed a “Get Big Fast” approach and it generally worked for them, but Webvan is not Borders. Most lively, Louis saw the success of Borders and thought that his strategy could work again. He was more excited about the newness of the technology instead of its usefulness to the average customer (Afuah and Tucci). Because of its large investment with little to no return, Webvan must act to save itself and its parent company.

**Options**

*Option 1:* Continue Operation & Cut Expansion

The first option for Webvan is to stop expanding and focus on increasing the capacity of their current systems. Webvan has invested $25 million on its first distribution center and it has the services, products, and infrastructure required to support their E-Commerce business model; however, there is no profit (Zwass). If Webvan wants to recover its losses and continue operations, then they need to restructure. One possible way they could do this is to raise their prices on quality items. If successful, there still may not be the success forecasted by the IPO, but it would be an attempt to avoid bankruptcy. It is very unlikely that Webvan would be able to recover their losses and earn a profit. This is an option, but it will most likely fail.

*Option 2:* Continue Expansion

This option would involve Webvan continuing their business as they currently are. If Webvan continues as usual, then by the predictions, in 2001 sales would be $518 million with an overall loss of $302 million for the year. The $518 million would be less than 1% of the grocery market, this is virtually nonexistent. If Webvan were to continue, then they would eventually run out of money and go bankrupt. Webvan shareholders would lose their investments and all the employees would lose their jobs. In turn, Borders would get a bad reputation and their business could be tainted for the future to come. Also, the Bechtel group would lose out on the contract and Webvan customers would be required to choose another retailer.

*Option 3:* Sell and Liquidate

Webvan’s last option would be to cut their losses and attempt to sell and liquidate their current assets. As they are currently operating there is no chance for them to survive. Their losses will only increase, and bankruptcy will come. Once their assets are recovered, they could try a different model, this is only if Louis Borders really wants to continue Webvan’s operations. This could have a negative effect on stakeholders. Therefore, the best option would be to recover the investment loss so that Borders can continue without failing as well.

**Conclusion**

Webvan is a great example of how bounded rationality can limit a successful Internet Enabled Business (Afuah and Tucci). Webvan may have the services, products, and infrastructure to build the framework of an E-Commerce business, their lack of consumer need resulted in failed execution (Zwass). The founders of Webvan should have analyzed the environment better before taking the leap of such a risky investment.