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| Webvan Case | |
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Introduction

Webvan was looking like a gamechanger in the online grocery industry but it was not ready for the changes. “The last determinant of firm performance changes. Its role is more indirect than direct. Change impacts business models or their environments, which can translate into higher or lower profitability” (Afuah). Webvan is a company that specializes in delivering foods to customers through internet grocery shopping. Webvan was considered the most ambitious e-commerce initiative in its time. Webvan was a company in a highly competitive market that was looking to make a name for itself despite low sales and big losses. In a market with grocery industry leaders and growing online competitors, Webvan was looking for a way to thrive.

Its Founder and chairman, Louis Borders, was eager and highly confident in the company, he believes the company would prevail over its competitors by expanding aggressively. Borders felt he had a high responsibility in the company’s growth and expenditures. He was trying out different ways Webvan would get its sales up, increase its market value, and beat its tough competitors.

Webvan faced many different important strategic decisions affecting its immediate future. Webvan also needed to offer more than its competitors to stay in the market. Its losses were greater than its sales despite its massive investments, Webvan could still not make a profit. Webvan’s 1999 sales were expected to amount to $11.9 million while its losses would amount to $35 million. These sales were less than large grocery chains make in one day.

Industry Competitive Analysis

**Mission Statement**

Webvan's mission was to provide a safe and secure online customer shopping experience that offered more than traditional grocery stores at similar prices. Borders wanted to offer a more efficient and cheaper way to deliver products to people's doorsteps.

**Generic Strategy**

Webvan wanted to sell groceries online through a generic strategy of differentiation rather than cost leadership. The strategy of aggressive expansion is a way for them to quickly gain market share and possibly a way for them to edge out their competitors initially. For them to be successful, they needed to compete on more than cost.

With the use of an Internet-Enabled Business Model (IEBM), Webvan can do some combination of cost leadership and differentiation. “A business model is about the value that a firm offers its customers” (Afuah)

It wanted to differentiate itself in two areas in the online grocery market:

* Operation (inventory Management)
* Customers Service

Like Louis Borders book company, Border books, which pioneered technologies and strategies that revolutionized the bookselling industry. Borders sought for a challenge that would change the traditional grocery industry and the online grocery shopping

industry. Borders Books used artificial intelligence technology to constantly adjust the store's inventory as each store’s purchases were recorded.

It also had an exceptional customer service that hired people who were passionate about books and music. All the potential employees were required to take a music or book quiz. This process ensured a well-informed and trained staff. Borders books selection and service competencies converged when attending to special customer needs.

Borders Books was the second-largest book and music retailing chain in the United States in 1999. Louis Borders transferred the inventory management and customer focus learning he established in the bookselling business to the new online grocery business.

**Porter Forces**

Competitive Rivalry - the competitive rivalry in this field is very high. During this time, many companies provided similar services as Webvan. The rivalry was also high because any company could enter the market. *high*

Bargaining Power of Customers - Customers know how to shop in grocery stores and find good prices. There is also a lot of grocery substitute options available, so the buyer power is high. *high*

Bargaining Power of Suppliers - Webvan does not have a high enough market share to make demands from its suppliers. Even though they are many suppliers of different food products, Webvan does not determine the prices, so if the suppliers increase the price of the goods Webvan will have to find a different supplier (which is

very challenging because customers have selective brands) or increase their price. *Medium*

The threat of New Entrants – The threat of new entrants is high. The internet became more popular in the 90s, customers began shopping online. The rapid growth of the internet also led many to try out the grocery delivery services. New markets will also need a large capital to start so there is a little bit of a barrier. *Medium*

The threat of substitutes – Everybody needs food. If they could get the food without leaving their homes, they would be happy with the new option. Even though customers could shop at other online grocery stores or traditional stores, Webvan was more efficient and faster. *Low*

**Stakeholders**

**Employees –** Webvan employees had programmers that created the proprietary systems that automated, linked, and tracked every part of the grocery ordering and delivery process. Webvan also had pickers and drivers for the daily operations

**Shareholders –** Bought the stocks during the anticipated IPO. They have a critical stake in the success of failure of the company. They could also lose funds if Webvan is unable to make up for its loss.

**Founder and Chairman –** Louis Borders who developed the expansion strategy. Borders also brought ideas from Borders books. He has the largest stake in the success of Webvan.

**Customers -** Webvan customers could order a shopping list of items and receive the groceries the next day within any specified 30-minute time period. They also provided Webvan services. They determine whether Webvan is a success or not.

Decisions

**Do Nothing**

This option allows Webvan to continue with its poor financial performance and lack of profits. Webvan will be operating with little changes to its current organizational structure. Webvan will eventually run out of investments leading it to go bankrupt. “The underlying goal of every organization to “make money now and in the future” “(Goldratt). The forecast predicted Webvan could have sales of $518 million by 2001, with an overall loss of $302 million for the year.

The once ambitious company will be no more because it's will not be making any money now or in the future due to their high operational costs and low grocery sales. The stakeholders will be also heavily impacted. Shareholders will lose their investments. Employees will lose their jobs. Louis Borders will be view as a failure. Customers will move their competitors. The company will be no more.

**Alternatives**

Exit the market

One of Webvan’s weakness in the grocery shopping market lies in the customers’ ability to either switch between using both online shopping and brick and mortar shopping, which would lower the project revenues. Its customers have a lot of options to choose from, this puts Webvan in a tough position as a struggling business.

Webvan could exit the market to prevent any further loss or waste of investment. The online grocery industry is relatively new and companies like Peapod.com, netgrocer.com, egrocer.com, and more are ready to compete with Webvan and capitalize on its potential. Webvan should cease all operations, liquidate all assets, and shut down if its unable to keep up with its competitors. The customers have more options to choose from and the investors could save money on any further losses. The employees will have a find a new place to work.

Buyout Options

Webvan is still relatively in the industry with a lot of opportunities to consider. two of the opportunities are the ability to sell out to another organization or buy one of its competitors. “organizations are like organisms, we must understand them and managing their need” (Morgan). Webvan needs a brick and mortar chain to strengthen its weakness.

Webvan could partner with an established brick and mortar chain like Kroger Co, Safeway Inc., or Walmart to help reduce operational costs and improve efficiency. This will give Webvan a bigger share of the market and more bargaining right for suppliers. “Like organisms, certain species of an organization are better “adapted” to specific environmental conditions than others” (Morgan) Webvan would eliminate some of its nearby competitors, create more infrastructure, as well as tap into existing customer bases that belong to the brick and mortar chains. This could create a shift in focus for Webvan. It would also lead to a reconstruction of the IT infrastructure with further investments. This option will bring profits and more customers if successful but would very costly if unsuccessful.

Webvan could also get bought out by an established online shipping company like Amazon or a competitor in the online grocery industry. This option is less complicated compared to the last one but very unlikely. The new organization will have to handle the current issues and losses. Webvan will have more assets to capitalize upon this option. This will allow borders to eliminate his risk in the company, allowing the new organization to capitalize on the assets.

Recommendation

My recommendation will be to liquidate all assets and exit the market. This is the best option for Webvan. It will be a tough decision for Borders and the shareholders make but it will help them prevent further losses and risks. Webvan is not a successful company and forecast is predicting its situation will continue to get worse. Grocery Experts and Analysts were also unsure about the growth potential in the online grocery market.

Additionally, of the 53.5 million people who were online in the United States, only 435,000 ever purchased food online. This number represented less than 1 percent of the 14.5 million users who had made purchases online” (Afuah) The online grocery shopping market is very small compared to traditional grocery shopping and very competitive, so it will hard to make profits despite all the massive investments.

Webvan is investing high amounts of money into a market that barely influencing in the grocery shopping industry, this should be a great reason for them to exit and prevent further losses. Webvan is another bankruptcy waiting to happen if they don’t exit the market. The company’s foundation was poor with a lack of profitable customers and it was facing the tough challenge of developing the online grocery industry.

**Citations**

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