WEBVAN

CIS 410-50 Case 4

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**The Problem**

The online grocery industry has been around since the late 1980s. Orders were taken by phone or fax and were delivered to consumers or were held in the store for store pickups. There were many competitors in this market, but Webvan was a company that received large investment in its early years that made them stand out. Louis Borders, Webvan’s Chairman, already had a successful business with Borders Books and was energized by this success to go into the grocery industry. Unfortunately, analysts and grocery industry experts were unsure about the future and potential of the online grocery market. Market projections had high variability and “Industry Analysts estimated online grocery sales of $156 million in 1998, less than 1 percent of the entire grocery market” (Afuah). The biggest challenge in this industry was also attracting customers and encouraging repeat purchases. Other challenges such as the elimination of “touch and feel” through online shopping, lack of selection, delivery costs, and the number of competitors are some of the big issues. Webvan’s issue is to be able to successfully implement an online business model that will overcome these challenges.

**Industry Competitive**

**Mission Statement**

Webvan is an online grocery business that provides quick delivery service to online shoppers nationwide.

**Core Competency**

Webvan is a very aggressive company in the grocery industry through Border’s past success. He “signed a $1 billion agreement with Betchel Group to build distribution centers and delivery infrastructure in 26 new markets over the next two years” (Afuah). Through the chairman’s previous experience in business and customer service, they have a major advantage among its competitors. Webvan was able to differentiate itself in operations and customer service.

**Primary Markets**

Webvan provides products and services nationwide to online shoppers.

**Generic Strategy**

Webvan uses a differentiation strategy. The default generic strategy from retail business to consumer companies is differentiation because if a consumer is purchasing an undifferentiated good, they can easily purchase it somewhere else. “Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout the industry as unique” (Tanwar). Webvan is attempting to appeal to a large range of customers by having a large product selection as well as excelling in operations and customer service. They are able to differentiate themselves in operations their automated and organized distribution centers and differentiate in customer service through fast delivery and drop offs.

**Porter’s Five Forces**

**Supplier Bargaining Power**

Supplier bargaining power is high for Webvan. Since they are mostly centered on distribution and service, the products that they work with are from suppliers and therefore they rely heavily on those suppliers. In order to get a large range of products, they must also interact with multiple suppliers.

**Buyer Bargaining Power**

Buyer bargaining power is high for Webvan. Webvan is already competing with companies that have been in the industry for a lot longer and have more customers. Buyers will have multiple options and because their services are similar, buyers will go to whatever is cheaper unless the competition or Webvan is able to attain consumer loyalty.

**Threat of New Entrants**

Threat of new entrants is low for Webvan. There are already many competitors in the industry that will make it difficult for a new industry to enter. Current competitors also have the technology and innovation to survive in this industry, making it expensive for new entrants to survive or become a threat.

**Threat of Substitutes**

Threat of substitutes is high for Webvan. There are a lot of competitors in the industry that provide the similar service as they do. They could also be substituted by traditional grocery shopping as well. Analysts have also said that less than one percent of the grocery industry comes from online grocery shopping which shows the online route is not the most popular among consumers.

**Threat of Infra-Industry Competition**

Threat of infra-industry competition is high for Webvan. Major competitors include Peapod, streamline;shoplink, netgrocer, Hannaford Brothers, and Niche Players. Peapod was the oldest and largest online grocery company and have more customers than anyone in the industry. Webvan will have to think of a way that will make them equally matched to a well-known name in the industry to be able to effectively compete with the limited resources of online shoppers.

**Stakeholders**

**Webvan Employees**

This includes company employees, management, and executives. Employees will be affected because they are closely connected to operations whether it be delivery or in distribution centers. Management and executives will be affected because they will have to think of ways and make decisions on how Webvan will differentiate itself enough to become a big name in the grocery industry.

**Customers**

This includes all of the customers that Webvan provides services and products to. They will be negatively or positively affected depending on what strategy Webvan chooses to follow.

**Shareholders**

Shareholders are concerned with the success of the company and are dependent on the success of Webvan for their financial gain. “Every decision made would directly affect the company’s stock price and standing among Wall Street analysts and individual investors” (Afuah).

**Alternatives**

**Do nothing**

This would mean that Webvan does nothing and continue with their current process. They will continue to loss money as gross sales and predicted sales were not at all closely matched and the average customer size as well as repeat customers were below average. They had an overall $302 million loss and an average order size of $71 (with a target average of $101). The probability of Webvan achieving financial success with this route is extremely low.

1. **Impact on stakeholder: Webvan Employees**

Employees would be affected with possible job cuts throughout the company in order to lessen the damage of loss profit. With the decline of the company, more people will lose their jobs every month and this includes management and executives.

1. **Impact on stakeholder: Customers**

Customers will not see the immediate financial downfall of Webvan. They will keep receiving their orders and service delivery. Eventually, Webvan may lose products and employees as they will have a hard time maintaining both resources. Customers may look to other competitors and this will be no problem for them as there are many competitors in the industry.

1. **Impact on stakeholder: Shareholders**

The shareholders see that Webvan has been losing money and therefore they have been losing money as well. They will push Webvan executives to make changes that will be profitable for both parties, but until then both are and will be in financial decline.

**Team up with company**

This alternative would mean that Webvan would team up with another competitor that is willing to collaborate with them and join as one organization. Webvan currently has many competitors that are struggling in their own way. Even membership at Peapod have been decreasing. Streamline has issues with customer reservations about privacy, theft and safety. Competitors have their own challenges and if major chains were to work together, the service and distribution combined could become a great powerhouse for financial and reputational success.

1. **Impact on stakeholder: Webvan Employees**

Employee numbers would go up in size in distribution centers and the delivery sector but there may be conflict with the upper management and executives when it comes to delegating power in a now bigger company. There may be bureaucratic conflicts in the beginning of the partnership, but with the right management in place, Webvan has great potential in becoming a successful company.

1. **Impact on stakeholder: Customers**

Customers will see better service and a larger range of products. They will a differential advantage which will attract more customers. If Webvan gives consistently dependable and fast service, repeat purchase behavior will increase.

1. **Impact on stakeholder: Shareholders**

If shareholders see the positive effect this will have in the financial end of the business, they will be content with this decision. With more resources, Webvan has potential to thrive in the grocery industry, giving shareholders a larger profit. If events were to go in the opposite direction, shareholders could possibly lose double the money. This would be risky for the shareholders.

**Exit the grocery industry**

This alternative means that Webvan leaves the grocery industry. There had been more losses than gains since they have first opened business, specially with the $1 billion deal with Betchel. Exiting the market could either be liquidating their assets or get acquired by another company. Either way, Webvan will be out of the competition and will gain some of their losses before they lose more.

1. **Impact on stakeholder: Webvan Employees**

Employees will lose their jobs and will have to be forced to look for a new one in short notice. This will anger many employees.

1. **Impact on stakeholder: Customers**

Customers will most likely not get affected with this as there are many other companies they can choose from with the same service. They will take their business to the other competitors.

1. **Impact on stakeholder: Shareholders**

Shareholders will probably see this option as the safest option. They can clearly see Webvan’s current financial problem and will most likely take their loss now than take a bigger loss later on.

**Recommended Solution**

I recommend Webvan team up with another company. “To sustain a competitive advantage, a firm can – depending on its capabilities, environment, and technology in question – pursue some subset of three generic strategies: block, run and team-up” (Afuah). Webvan has a lot of potential to become a great competitor in the industry. Although online grocery shopping was viewed by analyst is not a primarily popular or growing trend, analyst also see great potential and view Peapod’s stocks as underrated. The use of internet is also growing at the time, so they have the opportunity to become a pioneer as internet usage becomes more popular. “A firm can differentiate its products in eight different ways: product features, timing, location, service, product mix, linkage between function, linkage with other firms, and reputation” (Afuah). By teaming up with another company, they can obtain these 8 ways to become a more differentiation organization. This could also lead to lower product prices which would attract a lot of customers. This might also spark interest with other investors, bringing in more revenue and assets to the company. “The organization’s ability to adapt to changing conditions is key to long-term organizational effectiveness” (Cash). Joining companies would also mean shared knowledge of what works and doesn’t work in this industry, increasing the joint organization’s ability to adapt to increase. The complimentary goals and assets of the joint companies will also help them rise in the competition. Other competitors alone are struggling to survive in the market. Each have great ideas on how to differentiate in the market, but consumers have too many options that they can pick over them and gaining buyer loyalty is very difficult in a differentiation-focused market. In this market customer value is what drives these companies to success, therefore focusing on improving cost, service, features, timing, location, and product mix is off utmost importance for these companies.

**Rejected Alternatives**

Do nothing would lead Webvan to bankruptcy. They are losing millions of dollars and are not meeting their goals for the average customer spending. By doing nothing, they will lose money and customers as they are not doing anything to keep customers.

Exiting the grocery industry would be the safest and easiest alternative. Loss would be minimized, but employees will lose jobs. Liquidizing assets would only benefit those in higher positions, and they will not get an optimal return. Other industries can learn from their mistakes and avoid following their footsteps.

**Citations**

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