**Case Study Analysis of**

**Webvan**

CIS 410-50

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**Executive Summary**

Webvan is running full steam ahead with a blindfold on. They are bound to a $1 billion agreement for distribution centers without a proven business model and relying on assumptions of demand (8,000 orders per facility, daily) and logistic feasibility. Besides these problems there are fundamental issues with Webvan’s business model. To get back on course Webvan needs to:

* Stop all current and future plans for expansion until the business model is proved viable
* Identify what customer value is being generated for their target market
* Re-asses who their current target market is and if they are truly reaching them
* Re-asses their capabilities and ensure they match the true demand for their services
* Find a means of sustainability through logistics and service driven customer value3

The above mentioned points that Webvan needs to visit are needed to get Webvan back on track. As of now, with the business deals that are in place with the unproven business model, I would recommend selling the operations to a competitor and getting out while you still can. Since selling the operation to a competitor may not be an viable option because of the obligations to investors and/or tied to fulfilling their contract with Bechtel Group, we’ll focus on how to make the business work with the poor decisions that are already in place.

Webvan needs to differentiate itself from its competitors. The number of competitors that are facing Webvan are numerous. In order to survive Webvan must provide superior customer value while maintaining profit margins. By performing certain activities that are enabled by the internet, Webvan can create customer value.

*“Conceiving and delivering value to customers entail the performance of many activities that rest on information exchange. Five of these activities are coordination, commerce, community, content, and communication. We will call them the 5-Cs.”* **Afuah & Tucci, Internet Business Models and Strategies, pp. 38**

Of the 5 C’s in the quote above Webvan should implement 3 of the 5 to produce customer value; coordination of logistical operations, commerce, and communication with customers.

Currently Webvan’s target market is defined as “Anyone who buys groceries”, but this target market is too broad. To attract everyday grocery shoppers and have them put their trust in Webvan to pick out the best produce and not mess up a shopping run is putting a lot of faith in a company. It might be convenient to order food from them, but it is infinitely more annoying and inconvenient if something is wrong with the order or the selected produce is subpar. After all, food is consumed, and you have to trust that whoever is getting your ingredients is getting the best ingredients available.

*“A firm can differentiate its products in eight different ways: product features, timing, location, service, product mix, linkage between functions, linkage with other firms, and reputation”* **Afuah & Tucci, Internet Business Models and Strategies, pp. 55**

To put the average shopper at ease you have to offer more value than just convenience and time saving. You have to differentiate by offering a service that you trust to shop better than you, for cheaper, and more conveniently. This strategy will focus on differentiation through location, service, product selection; all of which will begin to build a brand reputation which will also be used for differentiation.

**Webvan Mission Statement**

Our mission is to provide the desired groceries selections from the convenience of our customers’ homes. Our goal is to provide our customers with the security of knowing that when they order groceries through Webvan, that they will receive exactly what they want, when they need it, at a competitive price.

**Porter’s Five Forces**

Competition – Competition remains very high because there are many competitors trying make a claim on a ‘transforming’ grocery market. The available market may have been overestimated as well, meaning each competitor will have to work harder than planned to gain their estimated potential share.

* Peapod was the oldest and largest online grocery player that utilized existing grocery stores and workers (called pickers) to collect orders and deliver to customers. Later Peapod changed models to warehouses (much smaller than Webvan’s) to run operations from. Their failure is attributed to running out of funds after 11 years.
* Stremline.com/ Shoplink.com indirectly competes with Webvan in that they provide a wide variety of services, including grocery delivery. To use the service customers needed to install refrigeration/shelving in their garage. High fixed and variable costs make streamline less attractive.
* Netgrocer.com is a sort of “automatic pantry re-stocker” and ships anywhere in the contiguous 48 states using FedEx 3 day shipping. In utilizing an existing logistics and transportation infrastructure Netgrocer avoids many of the burdens that another competitor face.
* Hannaford Brothers uses collection centers as means of distribution. By doing so orders were able to be clustered together.
* At eGrocer.com orders were fulfilled by the grocer of the customer’s choice and then picked up at the store’s location. This model saved the customer time from having to pick out recurring items but also allowed the customer the ability to “squeeze the tomatoes”.

Threat of New Entrants – New entrants will plague these companies as long as barriers to entry remain low. The current barriers to entry are just the information system that allows customers to create an order online. Competitors have been able to utilize existing grocers and parcel carriers to implement supply chain logistics. Until a company makes that business model unviable, threat of new entrants will remain high.

Power of Suppliers – Power of suppliers for Webvan is relatively low. They have implemented their own warehouses for their supply and do not depend on any grocers like some of their competitors. Although Webvan needs suppliers for their warehouse, they are not beholden to any particular supplier and can go elsewhere.

Threat of Substitute Products – Threat of substitute products is very high. Not only is Webvan competing with other online grocery fulfillment companies, but they are also competing indirectly with well established brick and mortar grocers.

Power of Customers – Power of customers is relatively low. No single customer will make or break Webvan and only makes up a small fraction of their revenue.

**SWOT**

Strengths – the company has the capacity and logistics in place to seemingly serve many customers (even if it is lower than their estimates of 8,000 per day). The company also has deep pockets form the investments from shareholders. Another huge benefit that Webvan has is that it doesn’t have the baggage associated with converting brick and mortar processes to e-commerce and automated processes.

*“A firm is said to have a pure play Internet business model if, at the model’s conception, the firm did not have an existing bricks-and-mortar business model. With a clean slate, a firm can conceive and execute a business model that is free of some of the baggage that old ways of doing things can carry.”* **Afuah & Tucci, Internet Business Models and Strategies, pp. 7**

Weakness – the company has no proven business model, is tied into a $1 billion agreement for 26 facilities, and running pure assumptions on market size. These weaknesses will prove fatal unless reversable.

Opportunities – If, and this is a big if, Webvan can prove their business model works and that the prospective eGrocer market is as large as estimated, Webvan will have the most formidable logistics of all their competitors as well as plans already in place to expand rapidly.

Threats – There are plenty of competitors already competing and there are little to no barriers to entry because most of the operations can be completed with help from existing infrastructure and the internet.

**Establishing Customer Value –Location, Product Selection**

Customer value is truly all that a customer cares about.

*“What does the digital customer want? Customers want value defined in terms of the whole customer experience and accompanying expectations.”* **Kalakota e-Business 2.0, pp 11**

This might seem obvious, but shouldn’t be discounted as less important than anything else in the business model because in the end it is customer value that will bring a customer back and new customers in.

Location creates value to customers because now from their pc a consumer can place a Webvan order and have it delivered to their location of choice (within the delivery radius of the warehouse). The quote bellow shows how Webvan’s premise can be, at least initially appealing.

*“Whether users are in a jungle in the Congo or in New York City, they use the same point-and-click and create a Web page that can be accessed anywhere in the world.”* **Afuah & Tucci, Internet Business Models and Strategies, pp. 36**

From the quote above we can imagine the power that eCommerce gives the consumer, but with a business such as grocery delivery it is difficult to remove the barriers of location. Produce is perishable and the logistics of delivering anything within a day is a logistical nightmare. The last mile is a huge limiting factor for Webvan, in that they are not truly boundless like the internet. No, Webvan is bound by the distance of making a possible grocery delivery to a consumer within a days’ time and within a 30 minute window of time. But if Webvan’s logistics are sound they can act as grocery hubs that serve its consumers and take away the market share of well established brick and mortar grocers.

*“There is a replacement effect if the Internet is used to serve the same customers served by the old distribution channel without bringing in new customers.”* **Afuah & Tucci, Internet Business Models and Strategies, pp. 35**

Webvan is perceived as a high tech firm with high growth in their future. Stock price risings have proven this. Customers see value in the benefit of having groceries delivered to their door within a 30 minute window. This covers the customer value created through location and product selection. These are readily apparent and not disputed among potential consumers because it Webvan objectively has the same selection as most grocery stores and delivers within a fairly small window of time right to your door. But these two customer value creators alone are not enough to attract more customers.

For the vast number of potential consumers, time savings and selection are not enough to break their grocery shopping rituals. The benefits of time savings are outweighed with the fear of hassle or subpar service. Getting a consumer to make the plunge and trust Webvan with their shopping is the most important piece of their business model. Without convincing customers to use Webvan, it doesn’t matter how efficient your selection, operations and logistics are.

Establishing enough value to get consumers to use Webvan will require convincing consumers that Webvan can do their shopping faster ***AND*** better than they can. Service will be the cornerstone of convincing customers that Webvan can perform the shopping better than they can.

**Customer Value - Service**

Customer service will be the deciding factor in Webvan’s success. There are too many competitors that perform comparable or even better logistics than Webvan without differentiation through other means. That means should be service. Not only will higher quality of service provide greater differentiation from competitors it will provide the necessary customer value to get average customers to make the switch from their grocer to Webvan.

To attract consumers, it is necessary to build their trust relationship building. To build these relationships it is important to not build a relationship with the consumer, but to build their relationship with their picker. To have a point of contact for your grocery picker creates accountability as well as the ability to receive feedback from customers. This will allow customers to easily resolve issues with the actual picker who fulfilled their order as well as create consistency with customer preferences.

By pairing a customer with a picker this builds stability and trust between the company and its customers. It will be perceived that Webvan provides personalized services and that you have a dedicated grocery picker. This creates accountability as well because if customers continue to have bad experiences with certain pickers, they can request a different service representative and will act as a quality control measure for services that are provided.

**Stakeholders and the Impact**

The stakeholders are many, but some of the key stakeholders and how this decision will affect them are as follows:

1. Shareholders of Webvan – these are the most important stakeholders of Webvan because they have all staked huge amounts of investment into the company with high hopes. Anything less than stellar performance on the part of Webvan will be the demise of the company.
2. Customers – these have stakes in the success of Webvan because they may use the services provided. Customers have very small stakes in the success of Webvan because they can easily switch to another competitor’s service.
3. The local governments – these local governments have stakes in the success of Webvan because like any company, it provides jobs to their constituents and revenue in the form of taxes.
4. The competitors of Webvan – these competitors have a lot to gain by the failure of Webvan. They would have whatever market share held by Webvan released and available for grabs.
5. Webvan employees – Webvan’s employees have a stake in the company’s success for obvious reasons, a job.
6. Bechtel Group – they have a stake in Webvan because they a $1 billion dollar order for more facilities. A considerable amount of work has already been performed by Bechtel Group, even if it is only in preparation for the new facilities they are to construct. If Webvan fails and is unable to pay, then Bechtel Group will face a huge hit to the pocket book.

**Decision**

Webvan needs to differentiate itself from the competition mainly through service (although not to neglect location and product selection. This customer value needs to be implemented simultaneously with a freeze on any further expansion projects or spending until the demand for grocery deliveries is tested.

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| **Task** | **Concerning Situation** | **Suggestion** |
| Freeze all further infrastructure developments | Webvan’s demand for their delivery service has not been proven. At best this is blind leap of faith of $1 billion. At worst it will be a failure of huge magnitudes that will shock many stakeholders that put their trust in Webvan. | Halt plans for the 26 additional warehouse locations by working with Betchel Group. Need to reevaluate the contract and see if there is any way to implement more warehouses as demand is felt out. |
| Build Customer value through Service | Competition is steep in the grocery business. Webvan is only truly differentiated because it has its own warehouse infrastructure and a large product selection independent of a brick and mortar grocer. This could be a huge issue if demand isn’t as expected. | Differentiate Webvan through a personalized service experience. Match pickers with customers so they have a consistent point of contact and can build relationships with the customer. Communication should be encouraged directly from the customer to the picker. |

**Alternatives, Rejected**

1. **To do nothing**
   1. This is not an option because of how deep into it Webvan is. Their stockholders all have huge stakes in the company and doing nothing will run those investments into the ground.
2. **Use time and location as main Customer Value creators**
   1. Differentiating by providing delivery within a 30 minute window is insufficient. Other competitors already offer this service. More needs to be done to provide customer value that is different form the competition as well as enough to pull customers in from the brick and mortars.
3. **Use existing grocers as means of supply**
   1. This isn’t a viable option because of the cost margins that could be expected from relying on existing grocers. Margins would be too thin.