Brad Riggs

CIS 410-01

Case: Webvan

Due: Thursday, February 28, 2019

**OVERVIEW**

In 1996, Louis Borders used the funds from selling Borders bookstore to form a new firm named Intelligent Systems for Retail. The Borders brothers had built the computerized inventory system that was used in each local Borders bookstore. They thought the intelligent management of inventory and delivery offered many business opportunities. This is what launched the idea behind Webvan. Webvan was a web-based company that offered online grocery shopping and provided a delivery service. This was a unique idea and seemed to have potential even if it only captured a small percentage of the market, but it was considered to be the biggest dot-com flop ever according to CNET.

**PROBLEM**

Webvan’s biggest problem was expanding too quickly and spending too much money without first getting themselves established and making sure they had the income. They tried to brute force their way into the market assuming they were going to do well. They spent all this money while the grocery business has one of the smallest profit margins of under five percent. They burned through $125 million per quarter and operated at a huge loss. They had extremely large warehouses that were 350,000 square foot each and could supply the equivalent of 18 grocery stores. These were much to big for what they needed. Webvan was only able to operate at one third capacity. They also created issues by creating too narrow of a delivery window because the customers were scattered so they would need more people delivering than they really needed because of this inefficiency. Instead of trying to correct all of their mistakes, they continued to move forward and kept expanding. Webvan merely activated their resources instead of utilizing (Goldratt).

**MISSION STATEMENT**

Webvan’s mission was to sell groceries online which would be delivered to the customer’s home within a 30-minute window of time specified by the customer the previous day. Webvan wanted to be a greater convenience, have a wider product offering, with better prices than a traditional grocery store. Webvan’s business model would be differentiation.

**ORGANIZATIONAL STRUCTURE**

Webvan had a holographic structure since they were opening stores in multiple locations that had their own warehouses in each market and were expanding as quick as they possibly can.

**PORTER’S FIVE FORCES**

***COMPETITIVE RIVALRY***

Webvan had a high amount of competitive rivalry. They had to compete with other online stores and other brick and morter stores. Netgrocery was a big competitor because it could ship to 48 contiguous states in the United States.

***THREAT OF NEW ENTRY***

High about of threat of new entry. Existing grocery stores could have started delivering and wouldn’t necessarily need to invest in the same infrastructure. On top of that, new companies could come into the market with warehouses and software.

***BARGAINING POWER OF CUSTOMERS***

There is a high amount of bargaining power of customers. Customers are already used to going to a normal grocery to shop. If there is no real incentive, the customer will just continue to do what they normally do.

***BARGAINING POWER OF SUPPLIERS***

Suppliers would have a high bargaining power. Webvan would need to keep a huge variety of goods to keep customers coming back and shopping. This gives the suppliers power because Webvan is still establishing themselves which means that supplies could charge them a higher rate if they wanted. If Webvan doesn’t stock a popular item, that could drive customers away. If a customer has to go to the grocery to get that one particular item, they may as well pick up the rest of the order while they are there instead.

***THREAT OF SUBSTITUTES***

There is a high threat of substitutes. Basically any store which a customer can get groceries is a substitute. Customers have a choice on where they could go and didn’t necessarily need to use Webvan when they could drive to the nearest store.

**STAKEHOLDERS**

***Shareholders –*** All of those who are invested in Webvan such as Benchmark Capital, Sequoia Capital, Yahoo, Softbank, Goldman Sachs, Barksdale Group, CBS, Knight Ridder, LVMH, Amazon, and others.

***Customers –*** Anyone who uses Webvan to take advantage of the convenience of online grocery shopping with delivery.

***Suppliers –*** These companies provided inventory to Webvan’s warehouses. Suppliers would need to follow the flow of the market. Selling to Webvan may not necessarily increase their business since everyone already needs groceries. It would likely maintain or possibly give them an edge over those who fail to follow the transition to online grocery shopping.

***Employees –*** All of those working for Webvan in the warehouses, delivery people, executives, and etc.

**ALTERNATIVES**

**DO NOTHING**

The default choice for Webvan is to do nothing. If they were to do nothing, they will continue to spend too much money at a rate in which they will never be able to make enough revenue to turn a profit. They will continue to expand without trying to fix current issues hoping that their problems will sort themselves out once they are big enough. This would ultimately lead to the company collapsing and all of the investors would lose their money and employees would lose their jobs.

***Shareholders –*** Shareholders would lose all of their money they have invested into the company if the company goes out of business due to Webvan not fixing their problems.

***Customers –*** Customers wouldn’t have the convenience of using Webvan for groceries but could still choose another route such as another online competitor or go to the actual store like they once did. This wouldn’t be a huge impact.

***Suppliers –*** This would not have a major impact on suppliers. Suppliers would just chase the section of the market that has the most demand. People will still need groceries. Suppliers may have seen a temporary boost in income while Webvan may have been over buying to keep their warehouses stocked.

***Employees –*** Employees would lose their job when or if Webvan goes out of business for not fixing their issues and choosing to do nothing.

**SELL TO A COMPETITOR**

With this alternative, instead of continuing to spend money to try to expand, Webvan would realize that this is going to be a failure before they drive themselves into the ground. They could sell to the competitor to salvage what they still have left. This would give the idea of Webvan another chance with new ownership and different mindset behind managing the company.

***Shareholders –*** This would allow shareholders to at least make some money instead of losing it all due to them going out of business

***Customers –*** This may keep Webvan around if another company runs the business correctly and customers could continue to enjoy the convenient Webvan service.

***Suppliers –*** Suppliers wouldn’t be affected too much. They would likely continue to supply Webvan to keep the warehouses filled.

***Employees –*** Hiring up executives would likely lose their jobs, employees such as delivery drivers could get laid off assuming the new owners makes the delivery service more efficient. Less drivers would be needed. In general, this would be seen as a pro for the employees because if Webvan stays in business, jobs will be saved.

**Set up Brick and Mortar Stores**

Webvan could setup brick and mortar stores that they sell groceries out of as well instead of just building giant warehouses that may never be used to capacity. They should establish themselves with the brick and mortar store and then once demand gets big enough, build the warehouses they need to hit that demand. Having just warehouses is only an expense. With Brick and Mortar stores, the goods being sold out of the store would more than pay for the cost of storing the goods.

***Shareholders –*** This would minimize costs. Webvan didn’t need huge state of the art facilities to start out. Shareholders would see a higher rate of return if costs were minimized.

***Customers –*** Customers may like it better if they had a store they could go to on top of being able to order online. Sometimes people would want things immediately and not want to wait for a day.

***Suppliers –*** Suppliers would not be affected as much by this, overall it would be minimal impact.

***Employees –*** This could potentially provide additional jobs and additional revenue. Less money would be spent on huge warehouses. If Webvan saved money, they could stay in business and operate at a profit and keep employees instead of laying everyone off.

**DISSOLVE**

With this alternative, Webvan would just dissolve all of their current assets. It already appeared that they were chasing a lost cause that throwing more money at wouldn’t fix. If they were to go through and sell all of their inventory, warehouses, vehicles, and everything the company owned it could potentially get shareholders some of their money back.

***Shareholders –*** Shareholders would still likely lose money but their losses would be mitigated. They could use what is returned to invest into something else that could make them more money.

***Customers –*** Customers would move to a competitor to do their online grocery shopping or just start using physical stores.

***Suppliers –*** Suppliers would continue to follow the market and sell their goods to competitors that take over Webvan’s lost business.

***Employees –*** Employees would be negatively impacted. They would all lose their jobs and have to find a new place of employment.

**RECOMMENDATION**

My normative recommendation would be for Webvan to open physical brick and mortar locations that they could sell groceries out of on top of delivery. Just opening a large warehouse that only generated money through deliveries was not very efficient. Groceries are already a necessity, so opening a physical location and emphasizing on delivery would give them a huge edge over their competitors. If deliveries remained low, they would still have a presence from people physically coming into their stores. They should only deliver within a certain proximity of their store. This would remove the bottleneck of trucks having to ping pong all over the place. The capacity of a plant is equal to the capacity of its bottlenecks (Goldratt). This applies to just about any organization with a bottleneck. The entire bottleneck concept is not geared towards decreasing operating expense, it’s focused on increasing throughput (Goldratt). A lot of choices Webvan made did not look to increase throughput. There was no reason they needed to build as big of warehouses as they did. Utilizing a resource means making use of the resource in a way that moves the system towards the goal (Goldratt). Webvan had a ton of capital and had not previously experienced failure, so they just blindly spent money on assets that they didn’t need that didn’t get them any closer towards the goal of making money. Webvan should have started smaller and adapted as they grew. They extended before they expanded. A business is like an organism, if an organism does not adapt and grow to its ever-changing environment, they will not survive (Morgan). A business is like an organism, if an organism does not adapt and grow to its ever-changing environment, they will not survive (Morgan).

**WORKS CITED**

Goldratt, Eliyahu M., and Jeff Cox. *The Goal: a Process of Ongoing Improvement*. Routelege, 2016.

Morgan, Gareth Images of Organization. SAGE publications, CA, 1986