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Webvan is a company that is trying to change the grocery industry. While there are some intra-industry competitors in their space of online grocery shopping, they are tiny in comparison to the total grocery market. Their purpose is to push consumers to online grocery shopping and steal away a hefty portion of the grocery market from brick and mortar grocery stores by focusing on time and convenience. However, with many people set in their ways with their tacit knowledge of how to grocery shop, customer acquisition costs or CAC which “generally refers to sales and marketing costs that are incurred in the process of acquiring a customer”(Olenski) are very high and therefor getting customers to switch from traditional grocery shopping is very difficult. This is a problem because Webvan now has a ton of capital from investors who will want quick profits and they’re also sinking a ton of money in their distribution centers. This has caused them to see significant losses in the early going. Webvan doesn’t know their market as well as they should as far as customer tendencies and how difficult it is to get people to do something different once they’ve been doing it a certain way their whole life. Had they known their customers better, the projections for average order size wouldn’t be so far off and the fact that the people who would online shop typically are the same people that don’t want to wait for delivery would be known. Knowing your customer is very important because “You may find that your prototypical customer is slightly different from what you assumed”(Kokemuller). This will make predictions become very different from reality. They are trying to win over customers by offering low prices which they make possible by not having nearly the amount of staff that traditional grocery stores must have everyday and also by leveraging convenience over time. Webvan does not have even close to a big enough market share as far as the number of consumers they have acquired and are using their service to operate in this massive space. Webvan must team up or accept the idea of being bought by a larger retailer that has the customers and the infrastructure needed to sell goods of this nature.

Since Webvan already has a distribution center model, they don’t really need someone to step in with physical infrastructure to save the day. They simply need customers, and quick. This way, they don’t have to worry about losing the majority of their possible revenue by getting bought by a brick and mortar grocery chain. They need to team up with other online grocery businesses to compete with the massive brick and mortar stores. Before explaining further which decision Webvan should adopt, one must first understand the business and the environment that it resides in. To do this we will look at Porter’s five forces (Porter).

First, we’ll begin with the suppliers for Webvan. In the grocery industry, foods come from a variety of different places. With most foods, the suppliers will operate on a low-cost basis so they don’t have a ton of bargaining power over Webvan from the perspective of, there are other companies making products to sell in groceries that Webvan can choose instead unless they wanted to go to specialty foods. Consumers are spending less and less of their disposable income on food, meaning their searching around for lower priced food. Due to this, suppliers absolutely have to try and supply the foods at low costs. In fact “Americans spent just over 10% of their disposable income on food in 2003. This amount equals the lowest level recorded since 1929, and is well below the peak level of 25.2% experienced in 1933.” (Miller) Americans just aren’t spending as much money on food as in the past compared to their income level especially on commodity foods. If Webvan sticks to common commodity foods, their suppliers don’t have a ton of power over them because their model itself is built on being able to supply it at the lowest cost.

Next, we’ll look at the intra-industry competition that Webvan faces. There are quite a few competitors mentioned in the case. Competitors that are significantly larger than Webvan from a customer base perspective have an advantage over them currently due to how difficult it is to convert customers in this space to a somewhat foreign seeming idea of buying groceries online. The case mentions that one competitor has spent 10 years acquiring one hundred thousand customers, there’s probably a reason for that. Webvan has large amount of capital to take over as the leader in the online space, but not the customers yet.

Third, we’ll look at the threat of new entrants. With the capital that Webvan needs to complete the tasks that they complete, they keep some power over this force. However, the software side is easy and doesn’t cost a lot of money to replicate. This creates a gap in security as far as their market share goes strictly on the software side. To counter this, Webvan has built a massive distribution center that cannot be replicated by just anyone. This environmental threat will continue to exist as long as they’re an internet based company, but they can continue counter it if they proceed how they have been operating physical structure wise.

Fourth, we’ll look at the customers. This is the one environmental threat that will forever haunt Webvan. Customers have many different options to conduct their grocery shopping with. They can stick to Brick and Mortar stores and do what they’re comfortable with for starters. Even some of these traditional stores have adopted the online shopping model. Customers hold a huge amount of bargaining power over Webvan due to the massive amount of places they can shop and the variety of low cost prices they can find.

The last force we have to look at is the threat of substitutes. The substitute here are traditional brick and mortar grocery stores. In this case, the bargaining power over them is huge as well. They already have the customers, they already have a working proven model, along with the fact that it has been thriving for many years. Webvan is trying to basically be the substitute for traditional grocery shopping. This force will hold power over them in most of the foreseeable future especially if they continue to test the waters in the online market.

Now that we understand Webvan as a company and the environment that they reside in, we need to discuss the decisions that are plausible for Webvan as a company to make going forward. I will stick to three most plausible decisions, define the main stakeholders involved in the decision, and lastly, how the decision will affect them and why it’s the correct or wrong choice.

Stakeholders are people that are impacted by changes in an organization. The main stakeholders I will reference are the customers who Peter Drucker describes as the most important stakeholders (Drucker), investors, and corporate employees. These stakeholders are the ones that are most heavily affected by any major decision in the company. These are the people that should be taken into account when deciding any major decision crisis.

The first decision would be to simply do nothing, to not change a single thing about the envisions going forward for the company. They will continue to struggle finding any solid ground in the market to stand on. Customers will continue to be very difficult to acquire. This idea isn’t even plausible due to the already vast amount of losses that Webvan has taken and the fact that these already thriving stores are adopting a similar model on the side. Corporate employees would not be happy due to the losses coming in the near future and the high cost of acquiring customers. Investors won’t see a return in the near future, so they won’t be happy. Customers would stay the same and be relatively happy since they had already committed to this change in grocery shopping. This decision is unacceptable because it will not create a better rapport between the company and its corporate employees or investors.

The next decision would be to attempt to be bought out by one of the larger companies as a subsidiary to their company. This will no doubt fix most of the customer acquisition problems and also help with the fact that they already have plenty of warehouses and suppliers that they are very familiar with. This will allow for the already stable brick and mortar stores to acquire a possible would be competitor and will allow Webvan to acquire a large amount of customers without having to go out and acquire them themselves one by one. This will make corporate happy because their losses will steady and they will become profitable quickly but will give up their future projected profits proportionally to the company that buys them. Investors won’t be terribly happy because their investments wouldn’t see the projected return due to the small amount of equity they had in Webvan compared to whatever company buys them. Customers will be happy because they will continue being able to order online and most likely will see a larger selection when you combine the warehouse model they built already with a large store chain. This decision is somewhat acceptable because nobody is going to be flat out disappointed but revenue gains will come at a slower pace compared to the projections they had originally developed.

The final decision would be to team up with other online distributors. As I’ve said multiple times during this case, the customer acquisition problem is the largest problem any of these online grocery stores are facing. It is borderline impossible to change someone’s habit that they’ve had for years, in fact "change generally is harder as we age because we become more comfortable and familiar in our lives” (Grohol). Even allowing a Brick and Mortar store chain to buy them wouldn’t change this fact. Teaming up with intra-industry online grocery competitors will allow these companies to absorb all of the already switched over customers and combine them to one customer base. In fact, the largest competitor to Webvan is running out of money and will be completely bankrupt in the near future. This means, acquiring their customers and teaming up will most likely be very cheap to do for Webvan right now. They would not have to split the profits with them as much as if they were thriving. Customers will be happier due to the combined great features of both companies. Corporate will be happier because of the larger customer base and subsequent bigger profits. Investors will be happy because they will see quicker returns to their investment.

The clear best case scenario here is to team up with the larger online grocers. Alone they stand absolutely no chance competing with the massive brick and mortar chains in this market. They will be swallowed whole alone especially if these large chains continue adopting the online grocery model. If they team up they will be able to utilize the gain in customer base in a market that customer switching and acquisition is very hard to have success with.

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