Webvan

Case Analysis by: Jarui Desai

The Webvan Case discussed the strengths and weaknesses of Webvan, a new online grocer that was “arguably the most ambitious e-commerce initiative to date.” This case went into detail about the history of Webvan and how it was started, the goals that the company had in order to change the online business and grocery industry, and the dilemmas that they faced alongside the competitors that they were against. After having all the information reviewed and analyzed, the conclusion of this topic is that Webvan should have started off at a small scale and then expanded their business over time, but because they had high hopes of profit and success, they ended up expecting more than they received. Due to this reason, Webvan should try and merge with their fellow competitors in order to expand their business and increase their following or then expand their business in a greater fashion so that they are diversifying their portfolio of products they sell. There are a few reasons as to why these two options may be the best course of action at this time for the company, and will be addressed below alongside the reason as to why the business is currently failing.

To begin discussion, we will address how Webvan came to be a business. Louis and Tom Borders had come together to start their own bookshop in Ann Arbor, Michigan. Since that point in time, these two brothers had revolutionized how bookstores worked around the world. Louis, a mathematics graduate from the University of Michigan, had created a new technology that had revolutionized how business worked in their store and changed the game of the bookselling industry itself. He had come up with a new and sophisticated computer inventory system that would not only record all the purchases made by each store, but then it would constantly update the inventory and used artificial intelligence technology in order to suggest what books and items should be kept in the store based on selling patterns. This ensured that they would stock up on items that would probably be hot sellers and then reduce the amount of stock on items that don’t sell very often. This is how they engineered their whole business and which is why they were widely successful in their efforts. Using the same type of thinking, Louis decided that he really wanted to take up a new challenge. Seeing that retailing through the Internet had started to become a new and upcoming phenomenon, he realized that there had to be a more efficient and cheaper way to deliver products to people’s doorsteps. This is when he decided to start his own business and try and reinvent the grocery market. Borders knew that this would be a great feat considering that this business was dealing with a $453 billion market (Mallach).

To begin this journey, Borders knew that he had to come up with a list of goals he needed to accomplish before he started this business. Everything had to be systematically planned out so that there would be no problems when the business was up and running and he was able to accomplish all that he wanted to (Goldratt). One of the first goals Borders had was to create a sophisticated distribution and information system that would help to optimize e-commerce. This is something that he was able to implement in his bookstore, so it was another technology that would really make his business as efficient as possible, which would hopefully result in as much profit as they were expecting. Then, he decided to construct a few fulfillment centers around the country so that they would have areas that they should ship the goods from and he wanted to have it to the point where the groceries would be at the doorstep in less than an hour. This would not only entice customers to pick this company, but it would also show others that being this efficient of a business was possible. The automated warehouse that they did create was state-of-the-art and had the capacity to serve an entire metropolitan market area within a 50 mile radius. Not only that, but Borders had hired a workforce that dealt with online processes so that there would not be a problem with the system once people started making transactions and orders. In order to achieve total optimization, Borders decided to try and automate as much of the business as he could so that it would be easier for the employees and easier for him to manage this whole business (Cash). This aspect of the business dealt with a few stakeholders right off the bat. Not only would it impact Borders and the amount of effort he would have to put into this business, but it would affect the employees that he had hired to assist in achieving this goal. This new business would affect other competitors that were already in the market, as well as the actual consumers of this service once the business was up and running.

Once the business was actually started Borders wanted to focus on two distinct areas- operations and customer service. Louis had excelled in these two areas in regards to running the bookstore, so he had figured that he would focus on the two aspects that helped make him and his brother as successful as they had been in the past. As stated earlier, Webvan had 80 software programmers that were in place in order to automate, link, and track every part of the grocery ordering and delivery process. The 330,000 square foot distribution center that they wanted to put in place was then the focus of their business since it was a $25 million investment. In the building, conveyor belts, or refrigerated trucks, and docking stations were all kept in order to keep the business process running as smoothly as possible (Mallach). Having 60 vans in place, helped drivers ship out the items quickly and with the same precision as was expected. They had forecasted that the facility would be able to handle 8,000 orders a day, which would general an annual revenue of $300 million. This forecast itself was shown to change up the business and revolutionize the whole process because in comparison to this new e-business setup, a conventional stand-alone supermarket only brings in around $12 million a year.

The customer service aspect of this business was supposed to thrive just as it had in the bookstore and add on to the operations side of the business. They hoped to ship the item the next day within a 30 minute time period. Additionally, he had hoped to cut costs of delivery for customers so that they were more inclined to buy products. The delivery fee for orders over $50 was $0m while the delivery fees for orders under $50 was $4.95, which is still quite a reasonable price in order to get the products that the customer desired. In the future, Borders expected his system to provide personalized shopping lists that would appear after a customer had made an initial order. This idea, would help boost business because the customer would then look at other similar products and be more inclined to buy those. This goes around the way that the normal grocery store is set up. In a traditional store, items are kept around the building in a purposeful manner, but since this is an online business, they would not be able to have the same set up, which is why a personalized shopping list would be ideal to generate the same amount of revenue that the traditional grocery store would in such a manner. And lastly, Webvan had decided to partner with some Bay Area suppliers in order to ensure that the quality of produce of fresh meats, fish, and baked goods was up to par. These are all of the goals that Webvan had that they were able to achieve and provide the customer with. This helped to gain business, by positively impacting the people who invested their money into this business, but it also would positively impact Border and the employees of the business as a whole. It negatively impacts the competitors due to the fact that Webvan was on the top of the top in this business and they had greater technologies that would impact the market in new ways (Morgan).

Technology played a great deal in the success in this new business setup. This e-business was the perfect example of a business-to-consumer relationship. The customer would have access to this e-grocery store 24 hours a day, every day. Not only that, but Borders made sure to address all the 5 Cs when discussing and coming up with a business plan. The business-to-customer relationship that they had set up was there and took care of the commerce end of the Cs. Then comes coordination, which is how they would successfully carry out their processes and accomplish the goal of having the order go through and delivering the goods to the customer on time. The content aspect of this is that they addressed all the goods and areas that are typically hit in a grocery store. Communication is that they tried to have excellent customer service, this would take care of any problems that the customer may have when placing an order or then during the delivery process. And finally, you have community, where the community was something Borders hoped to expand in the future as the business grew as he had hoped (Afuah). These three Cs are aspects that could have been improved upon, and because some where stronger than others, this may have led to the business not thriving as much as Borders had expected. But on the positive side of the spectrum, Borders had hit the technology and utilized it in such a way that it truly did revolutionize the business, whether he knew it or not. By having everything expand on the internet, he was utilizing a new technology in the smartest way possible. He knew that there would only be a up-hill incline with the use of innovative technology, so he hoped to match his knowledge and the efforts that he had kept in the bookstore and use that in this area so that when technology of the internet expanded, he was ready for the change (Ready).

Some of the problems that this business faced will now be discussed in detail. The main problem that occurred with this business is that Borders had too high of expectations for how quickly technology would have expanded. Instead of having a huge boom where everyone would suddenly start to use the internet for all their needs, the internet slowly expanded and e-commerce started to get more popular down the road. By this time however, Webvan was already in trouble. Borders had the idea of going big, and dealing with all potential issues ahead of time so that business would run smoothly once the process had taken off. The problem with this approach is that that, they had to wait, think, and then react to the market’s needs. Webvan invested a lot of money into the market to expand it, and everyone involved had figured that this would be the best way to maximize profits. But again, due to the rush that was kept on this process and business, they should have waited and observed the market and then invest money as they went so that they would know the exact needs of the customers. As the years progressed, the business did make a profit, however with all the money that they had invested into the business, they were losing money rather than gaining it. The true reason as to why it failed was that this business was ahead of its time and the time was not correct. They were rapidly losing cash reserves, continued to have NET losses, and then the company itself was too aggressive about expansion into multiple cities. The business got too big too fast, and they were lacking the customer base to keep the business running how they had expected.

Not only that, but Borders also needed to fully take into account all the competitors that were involved in this market as well. Competition included business such as Peapod.com, Steamline.com and Shoplink.com, Netgrocer.com, Hannaford Brothers and eGrocer.com, as well as a few other niche players. PeaPod.com was the company’s largest competitor. This business had been around longer than Webvan and because Webvan had gained 10,000 customers within the first 5 months, they had expected to expand their base to be larger than PeaPod’s which was around 100,000 customers. This business had taken over 10 years to build that customer base however, so that was one factor that Borders needed to look into. The first being, how long it took for that business to expand into the business that is currently, and how willing their customers were to leave that business and come over to try out Webvan. Not only that, but Borders also had to take into account the other competitors that would start to come into this business. Going back to PedPod though, this business was the largest competitor even though their technology was not as intricate because they kept expanding with the market and they would fill the needs of the customers as the customers would request it. By 1999, they had switched from the personal shopper model to a warehouse model in order to keep up with orders. Then they also lost some membership around 1999, but with that being said, they started to deliver food in temperature-controlled delivery bins and then started to invest their money into other aspects of the business to try and keep their existing customer while enticing new customers. Streamline.com was a business that dealt with not only groceries but other food such as postage stamps, pet supplies, dry cleaning, and video game rentals. They had quite the large base of goods that they dealt with. They tried to diversify their business in order to attract all different types of consumers. Netgrocer.com dealt with a business that was active in 48 states, and used Federal Express’ 3 day delivery. Hannaford Brothers, was using the collection center strategy, where they would be located in convenience stores, office buildings, gas stations and more. They had the advantage of being located in places that a lot of potential consumers would already be visiting. And finally, niche players that entered the market include places such as Pink Dot and EthnicGrocer.com competed on speed and tailed selection.

As we have discussed above, all of these other competitors had one good thing about their business and used that to their advantage to try and expand their customer base. Comparing each business however, Webvan does not compare. Webvan is actually ahead of the game and tries and incorporates a lot of the selling points of other businesses and uses it to its advantage to try and gain a profit. Again, the problem with Webvan was that they expanded too quickly, and did not see the demand of the market. This is the reason as to why Webvan should try to diversify their selling portfolio or then they need to try and team up with another competitor so that they can have the larger customer base and then be able to dominate the market like how they expected. This business model that they have in place is able to work for years to come, however, they need to see the needs first which is something they missed initially. If Webvan expands their market of the types of products and goods they sell, then it’s possible that the business will gain more of a following. This would affect all the stakeholders in a positive regard except for the competition. Then, using the other potential method of teaming up with a competitor, they would not only be able to expand their portfolio a little, but they would also gain the customers of the other business in order to have a larger customer base. By merging the two businesses, they would be able to enable a greater base and with the great positive that Webvan already has to offer, the customer would be most likely to stick to this business rather than move to a different company. This decision would affect Webvan employees a lot and that would impact all the work that Borders had invested into the company. The way in which the company runs would most likely have to change so that it can accommodate both businesses to be a proper blend of both. Not only that but it would affect the business that they would want to merge with and the other competitors because this business is then going to expand (Porter). By implementing one of these options, the goal of Webvan would be to make a smart investment, because of lack of funds teaming up with another company would be better than to buy a company and be more at a financial loss. This would also strengthen the Cs that business need to focus on in order to expand and keep their business afloat.

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