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Case Analysis: Webvan

**Business Issue**

The issue Webvan is facing is that their business has a lot of rivals, making it challenging to get a sizeable portion of the market. All their rivals are attempting various methods of differentiation, some of which are successful while others are not. Given that they are a publicly listed company and are the subject of intense scrutiny, Webvan is aware that they must act for their business in order to increase market share— “you cannot get there unless you have a map”. (Fried). Worst of all, Webvan’s lost $35 million in 1999, and in 2002 lost $302 million. Should they invest in local supermarkets? Should they try to be acquired by a current grocery store? Should they leave the industry? These are the decisions Webvan will need to make that will have a significant impact on their near-term future.

**Introduction to Webvan & their Mission**

By offering a system that enables consumers to make an order online and then have that purchase delivered to their home, Webvan aimed to completely transform the way groceries are transported from the shop to the customer's cupboard. Differentiation is the generic method used by Webvan. Webvan has effectively distinguished itself in the online grocery sector in operations and customer service by leveraging the knowledge of the chairman of Webvan, Louis Borders.

Companies that use the generic strategy of differentiation aim to be unique in their business, showcasing qualities of their product or service that is appreciated by the customer (Tanwar). When e-commerce, or online shopping, took off in the 1990s, organizations wished to seize this new chance and be in the lead. By having groceries delivered to doorsteps the day after the order was placed, Webvan was hoping to get a competitive advantage over the other grocery stores and brick and mortar shops.

**Porter’s Five Forces**

Threat of New Entrants: This force is strong for Webvan because, despite the fact that the online grocery market was still relatively young, there were numerous competitors vying with Webvan to capitalize on the market’s vast potential. The new market's technological foundation made it simple for new competitors to enter the market. As a result, Webvan must discover and implement the optimal strategy for success in this new industry before a competitor does.

Threat of Substitutes: This force is also strong for Webvan since there are numerous rivals who provide comparable services, and the cost of switching is minimal for consumers. Consumers can also purchase things from traditional brick-and-mortar retailers. As a result, Webvan must guarantee that their approach to this new business is valued by customers.

Bargaining Power of Suppliers: This force is minimal for Webvan since there are several sources from which they might obtain their product, and switching suppliers would be inexpensive. As a result, Webvan's suppliers are unable to impose substantial modifications without first contacting Webvan and agreeing on conditions.

Bargaining Power of Buyers: This force is strong for Webvan since the switching costs for consumers is almost nothing and there are other feasible solutions that provide a comparable service. As a result, Webvan must provide above average customer service to its consumers in order to keep them from switching providers.

Rivalry Among Competitors: Another strong force for Webvan because there are many rivals vying for customers to patronize their online grocery delivery service. Because there is essentially no switching cost, consumers may pick and choose as they want. To maintain their market share, Webvan must increase their product distinctiveness and service.

**Organizational Structure**

Webvan’s organizational structure is classified as a divisional system because “the divisional structure groups diverse functions, such as manufacturing, research, and marketing within each division” (Cash). In this scenario, the divisions would be the many distribution hubs located in various metropolitan regions throughout the world. Besides the fact that the distribution centers report to corporate at their headquarters, they are effectively their own firm. Each distribution center has its own sales and expenditures, and the number of consumers varies. Each center would be free to make its own decisions if they were consistent with the overall Webvan goal. As a result, each division has a sense of accountability.

**Stakeholders**

Webvan and Mr. Borders: Webvan is a clear stakeholder because the decisions they make can make or break them. Choosing one option may gain them market share, boosting throughput via sales and revenues, and allowing them to become larger and better than they are currently (Goldratt). On the other side, a move they make might put them more in debt and force them to declare bankruptcy.

Shareholders: Shareholders are very important stakeholders since they are the company's owners. If the firm succeeds, their returns will improve, but if the company fails, they lose money. Depending on how the company takes the opinions of their shareholders into account, they could have a great influence or no impact on what Webvan decides to do.

Customers: The customers are stakeholders that would lose their preferred method of food shopping if Webvan went bankrupt. On the other hand, if Webvan starts earning more money and attempts to be competitive with competitors, their pricing may fall.

Employees: Employees are stakeholders that may lose their jobs if Webvan fails due to a decision they make for their firm. But, if Webvan expands, current employees may be eligible for increases or promotions, which would greatly benefit them.

**Option 1: Investing in Local Supermarkets**

Webvan could potentially solve their problems by purchasing other regional food businesses. This would propel Webvan into the grocery industry's brick and mortar market. This would also provide Webvan with more distribution hubs. But, due to their current financial situation, Webvan would find it quite hard to do so. If Webvan could acquire area food businesses, they could expand and kill some competitors. This decision may go one of two ways. It would assist Webvan in making up for their losses and staying viable, allowing them to continue to expand their online grocery experience. It might also bury Webvan farther deeper than they already are, forcing them to shut down sooner than they would have had to if nothing was done.

This choice has a high level of risk. Mr. Borders would have to research the finest food stores in the area before making a purchase. The most important issue would be to locate their distribution hubs and ensure that they correspond with Webvan's future plans. This choice could determine the fate of a Webvan employees. Buying more stores may change the job of some staff, which may or may not be acceptable to them. Webvan's client base could grow as a result of the acquisition of regional food businesses, but Webvan stockholders may change their minds. They made an investment in the online grocery store market rather than the brick-and-mortar industry. Some shareholders may withdraw their investments, forcing Webvan to make up the difference elsewhere. And, if this alternative did not work out for Webvan, they would be in much more trouble—making this an option that I do not recommend.

**Option 2: Vie to be Acquired by a Larger Grocery Store**

Another option for Webvan is to try to sell the company. Webvan's initial concept was enticing enough to attract over $120 million in funding. Webvan might try to sell to a huge established firm in the hopes that they can solve their challenges and help compensate for some of their losses. With a new owner comes new ideas, products, and tactics that might benefit Webvan. Wal-Mart was an early and significant investor in Webvan. Since Wal-Mart lacks a delivery method, they may buy Webvan and extend their company operations. Webvan could also approach Amazon about a buyout.

This alternative might provide Webvan with a new lease on life. Mr. Borders could possibly remain with the firm regardless of who owns it, seeing as his accomplishment at Borders Books demonstrates his abilities. The majority of Webvan's staff could be kept, as it would take a lot of effort to fire every employee and replace them with new ones. Customers that use Webvan would see no difference. Webvan could introduce new products and services or discontinue existing ones. As a consequence, some consumers will be pleased with the new items, while others may be disappointed that a product or service they frequently used is no longer available. Webvan stockholders might sell or keep their shares. When a firm is sold, there are always complications. This may increase the likelihood of shareholders selling their shares and distancing themselves from Webvan. Again, another option I do not recommend because of the high-risk scenario.

**Option 3, My Recommendation: Leaving the Industry**

Webvan’s best option is to exit the market. This would entail Webvan liquidating its assets and entirely closing down. It's sometimes better to just get out than to keep pushing into something you know is going to fail. Webvan is already suffering from massive deficits, and there is no indication that this will change. Its losses in 1999 were projected to be $35 million, while their losses in 2002 were estimated to be $302 million. According to Webvan's estimates, the company will lose about $100 million more over the following two years. No firm can continue to operate with such losses.

Considering these losses Webvan has already incurred and the losses that are expected in the future, it would be smart to abandon the market. Mr. Borders could cut his losses and consider starting a new firm. To me, exiting the market on their own terms is preferable to bankruptcy. If Webvan leaves the market, its employees will be out of work. This would obviously not make them happy in the short term, but in the long term it would be beneficial to join a company who wasn’t losing a lot of money. Customers that use Webvan would have to shop elsewhere for food. Webvan stockholders would get some of their money back but are unlikely to receive a complete return on their investment. However, the stockholders could escape suffering a significant loss on their investment. Webvan will lose less money if they act quickly. This would be a difficult option to pursue, especially given all of the interests of the stakeholders involved, but it is the safest, easiest, and smartest decision in my opinion.

**Citations**

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