**Case Analysis: Webvan**

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**Problem Statement**

In 1999 and the following years to come, Webvan had to immediately make careful strategic decisions about where to go moving forward with the company as they faced the potential to either completely change the ecommerce of grocery or completely fail and shut down the business altogether. The chairman, Louis Borders, had a few options he could choose, and the following will explore the possible options Webvan could implement, and which one is most advisable.

**Industry Competitive Analysis**

I. **Mission Statement**

Webvan is an online grocery shopping business that offers home delivery to its customers while operating on a differentiation strategy, which is one of the three strategies (differentiation, cost leadership, and focus) that focuses on creating a differential advantage to compete against competitors by making themselves unique, whether through their service or product (Tanwar 12). Through differentiation, Webvan relied on customers repeating purchase behavior based on an advantage, which in their case was saving online shoppers time and allowing them to stay at home. Their differentiation strategy was focused on operations and customer service. Although Webvan was looking to reduce costs where possible, they did not employ a cost leadership strategy because they were not looking to produce a commodity that was identical to commodities produced by others but for a lower cost. They also did not focus on one thing so well no other business could compete, as would be the case if they employed a focus strategy.

**II. Five Forces**

The following is an analysis of how Porter’s five forces would have affected Webvan’s decisions. Porter’s model consists of power of suppliers, power of customers, threat of new entrants, threat of substitutes, and competitive rivalry.

The first, power of suppliers, explains the relationship between supplier and buyer where if the supplier holds bargaining power, then they can influence prices in the market and availability of supplies (Team FME 23). Webvan’s business model was based on stocking a warehouse with thousands of food items, allowing for a large range of selection for customers. They did not produce these products themselves and were rather the distributors of the items. This means their suppliers would have had significant power over Webvan as they could control the prices of the products that they sold to Webvan. Therefore, Webvan would have had to take power of suppliers into consideration when making decisions about how to cut costs.

The second force, power of customers, explains the relationship between customer and seller, where if the customer holds bargaining power, then they can influence prices and quality of products in the market (Team FME 25). Webvan’s customers would not have had much buying power and influence over the price of food items sold because these would have been close to standard prices at any grocery store. They also would not have been able to influence delivery prices much as that would have been a required fee as part of the delivery service. If customers wanted food delivery, they would have had to settle for the prices Webvan offered.

The third force, threat of new entrants, describes the threat companies face when there are new entrants in the market who can increase the bargaining power of customers. Current sellers in the market will try to erect entry barriers, such as copyrights, patents, or contracts (Barker). The e-business of online grocery shopping was a new prospect at the time, and there was a threat of many new entrants. Webvan was one of those new entrants, and so they would have had to take the bargaining power of consumers, which was high since there were many new entrants, into consideration when making business decisions.

The fourth force, threat of substitutes, explains how the threat of substitute products or services, which meet a consumer’s need but in a different market, can affect the competitive environment and subsequently profitability for the producers of current products or services by allowing consumers to choose the substitute products or services instead. Webvan would have been heavily concerned with this force as customers had significant power over Webvan. The substitutes available were traditional grocery stores with in-person shopping. Most customers would have preferred the traditional shopping experience, and unless Webvan was careful to offer some sort of incentive and advantage of online shopping, it would have been very easy for consumers to turn to substitutes.

The last force in the model, competitive rivalry, describes the threat to existing sellers in the market by other competitors in the same market. Webvan was competing with a few other online grocery businesses at the time, including eGrocer.com, Peapod, Streamline, and niche players such as Pink Dot and EthnicGrocer.com. Some were less established than others, but Webvan still needed to make sure they were offering a strong advantage to their customers over their competitors.

**III. Organizational Structure**

A firm’s organizational structure is determined by the environment. It is the way in which businesses deploy assets in an environment in order to achieve their organizational goals (Barker). Because Webvan focused on building differential advantage to offer the best services for their customers, they would have likely had a divisional structure in their organization, where they are organized around multiple markets and each division of the organization has resources that replicate every other division (Barker).

**Key stakeholders**

A stakeholder of an organization is anyone who is affected by the organization’s operation and performance, and he or she typically has a vested interest in the company, either internally or externally. The internal stakeholders in Webvan consist of the following: all board members, all top executives, including Chairman Louis Borders, and all employees, including software programmers, “pickers” who assembled the orders, and delivery personnel. All external stakeholders include the community affected, specifically any customers.

**IV. Possible Solutions**

Because the market for online grocery shopping had been deemed by analysts to be so uncertain, Webvan needed to choose a strategic choice going forward to ensure their success and bring their profits up. Currently, they were faced with a significant problem, which was that their average order size was too low. This affected their sales margins, which were only $11.9 million of the expected $300 million in 1999, while losses were forecasted at $35 million. Management predicted that order size would increase, and with that so would sales, over time, but only if things picked up and the business continued to establish themselves in an effective way.

Webvan had the following choices. First, they could buy regional grocery chains in markets using its large market capitalization. This would provide Webvan the advantage of gaining already processed supplier networks and distribution centers. It would also possibly provide some equipment from the distribution centers and would eliminate some competitors in the area. If Webvan decided to go this route, the decision would affect stakeholders in the following ways: the board of directors would be financially impacted in making the purchase of a grocery chain and would be at risk of any potential financial losses in doing so; the top executives would need to deal with a new strategy and business model and would need to make sure it was successfully implemented and translated to all internal aspects of the firm while also hiring many more staff (which could become chaotic if not done well); current employees would likely continue to do the same job with some minor possible adjustments. External stakeholders such as customers would be able to order in more locations and could place orders almost exactly as they would if they went to said grocery store in person.

Another solution Webvan could take would be to take over a large grocery chain. If they did so, they could use their valuation, which was considered significantly high at more than $8 billion. This would affect stakeholders in a similar way to the previous solution, where the board of directors would be financially at risk and top executives would need to shift to a new business strategy and work to effectively implement it, while lower-level employees would not be significantly affected. Customers would be able to purchase in more regions.

Webvan could also consider adding more product lines to their current operation. Doing so could increase sales and increase capacity of their distribution center, which was currently at around only 20%. This would affect stakeholders in the following ways: the board of directors would not be affected financially much, top executives would need to work to decide which product lines to implement, and all other employees would be impacted significantly as adding more product lines would change their current daily operations. Customers would receive new order options, which would positively impact them.

The final option Webvan could choose is to continue their current process as is and change nothing. This means continuing to operate just their current product lines and only open new distribution centers identical to their current one rather than take over from an existing business. This would not impact current stakeholders in any significant way for the short term.

**Recommended Solution**

The recommended solution for Webvan is to choose the first option: buy regional grocery chains in its market and use its large market capitalization. This would allow Webvan to increase sales by reaching greater consumer regions without spending extra on supplier networks and distribution centers. One of the concerns that Webvan had was that their sales would be lower than their losses, and that they needed to reduce their costs wherever possible. However, buying a regional grocery chain would be a one-time cost that they could make up for if their sales went up, which they likely would in this case. Because Webvan uses the Internet in their business model, their costs in terms of this are already significantly low. Economies of zero allows for differentiation strategies to reduce costs because the marginal cost per transaction of using the Internet is virtually zero (Barker). The solution to take over a large grocery chain is too risky as there is not enough market evidence that this would permanently guarantee success. It is also not recommended that Webvan add more product lines as this does not solve their problem in low order rate for the long term. Finally, the solution to change nothing and continue current operations is especially not advisable, for a few reasons. Webvan at this point is not yet well enough established that they have a guaranteed success in remaining a business in the following years. The e-business of online grocery shopping is fairly new and does not yet have significant demand in the market. While it is possible that this will change in the future, and there will be a boom in the increase in demand for such services, this may not happen in time for Webvan to succeed as a business. They need to make a change now, and that change should be to expand into existing regional grocery chains.