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Webvan Case

Case Overview

Louis Border was the founder of Webvan, an online grocery store that customers in California could order from and be delivered to. The concept of Webvan was a great one, bringing in hundreds of millions of dollars in investments after their successful IPO in 1999. While trying to be competitive in their market, Webvan struggled to keep their claim to a large market share. Holding less than 1 percent of the entire market in their time of operation.

Five Forces Analysis

Competition

Webvan was not only competing with the online grocery industry, but also with the bricks and mortar stores. While online grocery stores were relatively new, most other retailers that dominated the market included companies like Kroger. The online competition included Peapod.com which was the oldest online grocery stores, shoplink.com, netgrocer.com, eGrocer.com, as well as some other "niche" grocers that catered to specific customers.

Threat of New Entrants

There was a constant threat of new entrants. There were many online grocery stores that were established around the same time that Webvan was and there were new ones being created frequently due to the frenzy that was online grocery shopping.

Power of Suppliers

There are many suppliers in the US for produce and other goods that webvan sells. Due to this, the suppliers didn't have much power as Webvan could easily just use another provider.

Power of Buyers

The customers held all the power. Webvan's business model was built around customer needs. Border went out of his way to devise a strategy that would set Webvan apart from its competitors. Efficiency and Customer service were the two main priorities for webvan. Borders tried to entice customers and offer them something that would be significantly better than other online grocery stores.

Threat of Substitutes

The threat of substituted was very high. Customers could easily choose another online grocery company that they feel offered a better alternative. On top of that, if a customer was not satisfied, they could return to shopping at regular brick and mortar stores to shop again.

Main Problem

Although Louis Border had developed a business model for webvan, it didn't "answer the questions" of sustainability (Affuah, Tuchi. 50). The main problem in the webvan case is that they tried to differentiate themselves in a very competitive, new, and unsure market. They had many competitors and enormous expectations from their conception. Webvan lost around $337 million in their first 3 years of business. This was not sustainable, and they needed to make a decision fast in order to save the company and its stakeholders.

Organizational Mission

The organizational mission for Webvan was to become a powerhouse in the online grocery shopping industry. They planned on offering a unique service that could lead to them being 3 times more profitable than the rest of the industry.

Company's Strategy

Webvan's strategy was focused around improved efficiency, operations, and customer service. Webvan operated by using distribution centers in large metropolitan areas. They used proprietary software systems that automated, linked, and tracked the grocery and delivery process of customers. After placing their order, delivery would happen within 30 minutes of a customer's specified time.

Organizational Structure

Webvan used a functional organizational structure. Employees were organized based on skillsets and put in different vertically designated departments and reported to managers and officials. Webvan only used employees at distribution centers, drivers, as well as the software engineers that developed the automated systems.

Key Stakeholders

Webvan's stakeholders within the company would include: Louis Borders, George Shaheen and Webvan employees. Louis borders was the founder of Webvan and the driving force for its inception. He believed that he could recreate his success from the book industry to the online grocery industry. George Shaheen was Webvan's CEO and helped shape Webvan. The employees, customers, and shareholders all held the same roll as key stakeholders. All of those groups would be impacted by how well Webvan does and its ability to maintain success.

Alternatives

Do Nothing

A possible solution for Webvan would be to remain the same and try to keep the company operating the way that it is. This solution is not smart and would resume the significant loss of money for Webvan and result in their downfall.

Sell The Company

Border could consider selling his company to a bricks and mortar company that is interested in getting into the online grocery shopping business. While this would be an easy way out, it may be difficult to find a company that would be interested in purchasing Webvan with its repeated failure. This could result I a changing of philosophies and operations that could ultimately save the company.

Change Operations

Webvan could do what a new owner would do and change their philosophies and operations within the company. Borders would have to abandon his previous module and restart from scratch, analyzing where success is in the market and go from there. This would be difficult in the sense that they would have to wait to collect more data on what is successful in the market before changing and they would be emulating another companies success. This option may delay the companies growth, but it could provide a previously needed sustainability.

Recommendation

I recommend that Webvan sells to a bricks and mortar competitor like Kroger that is willing to pay good money in order to make Webvan succeed. With an established company at the helm, Webvan would benefit in having an owner that's experienced in the industry. This would also give them the flexibility to try different methods and strategies without worrying as much about the financial failure as Borders had to.