Case 3 Analysis: Webvan

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**Webvan Overview**

Webvan was an online grocery-delivery company that serviced homes. Webvan quickly expanded in the beginning and showed a lot of promise financially. After their initial public offering, stock shares increased to 80% premium on the first day of trading. The founder of Webvan also founded the Borders book company, which is interesting because Borders didn’t take advantage of the online world of internet marketplaces the way Webvan tried to. The online grocery business was mostly unknown territory for Webvan, as the internet hadn’t been around long in 1999.

**Webvan Mission, Generic Strategy, and Organizational Structure**

Webvan aims to provide their customers with convenient home deliveries of grocery orders they place online. Webvan’s model followed the generic strategy of differentiation because they offered a service that wasn’t very common yet. During this time, new opportunities arose for companies like Webvan that wanted to take part in “moving the stages of corporate value chains into the realm of information processing, saving money and time in the process” (Zwass, Electronic Commerce: Structures and Issues, pg. 13-14).

**Porter’s 5 Forces**

During this phase of the Age of Technology, threat of new entrants and competition is High because there is a lot of unmarked territory for internet orders and deliveries. Without a solid plan for surviving long-term, companies “that face radical or competence-destroying technological changes” will have “difficulties hanging onto any competitive advantage” they had before the change. Webvan doesn’t want to be left behind, so they must consider their dilemma carefully. The threat of substitutes for this specific service is somewhat low, but Webvan has to convince customers that they would rather purchase their groceries online than in person. Customers who only want their groceries delivered have low bargaining power, but if they have convenient grocery stores in their community, their bargaining power goes up. Suppliers of Webvan have high bargaining power as well, since Webvan needs to offer certain basic products, so they have to pay what the wholesale suppliers want for them.

**Webvan’s Dilemma**

Webvan’s early successes were attributable to the hype about getting your groceries delivered directly to your home. Borders didn’t necessarily have a long-term plan in mind for staying relevant and sustainable as other competitors inevitably joined the online grocery industry. Online grocery stores offer less products than traditional physical stores, and customers have to pay for delivery. Webvan needs to decide whether they will invest in physical locations, stick with their current online/delivery processes, or allow their company to be purchased by a larger company that has the resources to expand. As stated by Zwass, “expansion of commerce and technological innovations are two of the levers of economic growth” (Zwass, pg 18). Webvan already successfully took advantage of techonology, but how will they expand their commerce?

**Stakeholders**

The stakeholders in this case mainly include the Webvan employees, investors, and customers. Employees at this point were delivery people, administration, programmers, and procurement plus other supporting roles. Investors would be concerned it Webvan didn’t have a plan to stay sustainable as the internet usage increased drastically. Customers place grocery orders through the Webvan website and receive deliveries at their doorstep.

**Alternative Actions**

**Option 1: Do Nothing**

Webvan could continue with their current business model and stay online only. This might be the most costly option in the long run, because they are on track for huge losses at this rate. Webvan may choose this option if they cannot afford to invest in physical grocery stores, due to increased transaction costs. If Webvan only used the internet for their procurement/distribution, their costs stay lower because “information on buyers, sellers, and products can be obtained more easily” and their products can be “’shipped’ over the Internet” (Afuah and Tucci, Chapter 3, pg. 37-38)

**Stakeholder Impact:** If the current model stayed the same and the company lost money, employees would eventually lose their jobs if the company goes out of business. Every firm that uses the internet to do business “should have an Internet business model “which will “give [them] a competitive advantage in [their] industry” (Afuah and Tucci, Chapter 4, pg. 51). Investors might keep their funds, knowing Webvan might not survive future competition. Customers might be alright with this option, since they could continue making online delivery orders for the foreseeable future. Online businesses like this have replaced “more traditional modes of interaction, eliminating armies of clerks” and other employee roles (Morgan, Images of Organization). Customers may be interested in this new idea of placing orders online and avoiding in-person interactions.

**Option 2: Open physical store locations**

Webvan may invest in establishing grocery stores in communities where there is a demand for it. They could continue their online order and delivery services, while offering a convenient local store that would likely have more products than the online catalog.

**Stakeholder Impact:** Employees might have a larger workload even with the new hires, so an appropriate management model needs to be in place for employees to thrive with this option. Also, if Webvan opened physical stores, they could provide a lot more jobs to the communities. Investors would probably choose this option for Webvan, since it is the best chance for staying sustainable long-term. Customers would most likely prefer this option because they would have more flexibility between delivery/in store and they have more products to choose from.

**Option 3: Sell their company to a larger corporation**

At this point, current Webvan administration and owners haven’t been in the business for long. They may have a vision with a lot of potential, but not enough resources or power to make it happen. With the right pitch, they could get offers from sturdy companies that have the funds and employees to keep Webvan afloat for a long time.

**Stakeholder Impact:** Investors would probably see this as a low-risk, viable option. If a company purchased Webvan and their assets, allowing them to pay off any debts, Webvan could avoid a potential bankruptcy. Employees might not be thrilled with this option since management would change, and they would be a part of a bigger, more bureaucratic organizational structure. Customers may not see a huge difference between this and the ‘do nothing’ option if the transition is smooth.

**Recommendation: Open physical store locations and continue online/delivery services**

The option that gives Webvan the best chance at staying sustainable is to invest in physical grocery locations as well as providing their current services. Allowing a buyout would be the easiest option, but if their vision has a lot of promise, they may lose out on future profits if they settle for a fixed amount. Webvan needs to make a decision, and doing nothing should be the last resort if neither other option is a possibility. Without changing anything about their current processes, Webvan might acquire lots of debt and make way for the newer online delivery companies. Opening store locations in communities that need grocery stores would improve their reputation and could help spread the word about their online services.