CASE REPORT 6

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Summary

Webvan was the brain child of Louis Borders, founder of Borders Books, to extend new products into the San Francisco area via delivery and personalized grocery experience. With early success, Webvan became Fried's adopter by creating a service inside Peapod's existing territory and thusly was primed for an initial public offering (IPO) with more than 10,000 people signed up in a span that "rivaled Peapod, Inc." (Banks, Driessen and Oh). Their projected sales were expected to be $11.9 million for the first year surpassing a traditional grocery chain and marking a new niche market in convenience. This niche market is in the middle of a frenzy with several competitors moving into the market coupled with Louis Borders' success and reputation with the Borders Books franchise, Webvan was ripe for capital investment.

Webvan's mission was to utilize "the retailing management expertise to crack the online grocery code" (Banks, Driessen and Oh) and deliver groceries within a half an hour.

Problem

With the pressure for success after the IPO, Webvan is taxed with the pressure to expand into brick and mortar regional grocery chains or push forward with the distribution centers expanding additional product lines. This strategic development crossroads leaves Webvan in a conundrum to navigate unknown territory with newer technology and dare to over the traditional grocery stores ensconced in bounded rationality.

Generic Strategy

Based on the experience of the visionary, Louis Borders, the structure of Webvan is holographic with a dash of functional in the new CEO from Andersen Consulting, George Shaneen. With few successful preceding companies and the internet being new in expanding channels, there really isn't a well-defined structure. Webvan's generic strategy clearly was differentiation. Their sales pitch was to bring the customer their groceries within 30 minutes. Their specialty was operations and customer service.

Porter's Five Forces presents:

Competitive Rivalry: High

Webvan is entering a new market with one already successful and virtually national company, Peapod, Inc. versus several other regional companies competing in the same arena with minor differentiation.

Threat of New Entrants: High

Webvan is a relatively late adopter to this niche market which none of the brick and mortar have delved into yet.

Threat of Substitutes: High

Webvan isn't only competing against the other delivery services and brick and mortar shops, they are competing against tacit knowledge and bounded rationality.

Bargaining Power of Suppliers: Low

There are several suppliers for groceries and multiple relationships potentially available.

Bargaining Power of Customers: High

There are several choices for the buyers like the brick and mortar stores, other online grocery, growing your own.

IEBM

1. *Profit Site:*

   According to *Internet Business Models and Strategies, t*he profit site is the relative advantage of a firm to its suppliers, customers, rivals, complementors and virtually the same strategic information that *Porter's Five Forces offers* (Afuah and Tucci). It compares the position of the company in terms of the current market. Overall, Webvan is maneuvering within a highly competitive arena with several options for customers and huge overhead and competing against tacit knowledge and bounded rationality.
2. *Customer Value:*

   The customer value is defined by how the company offers something distinctive or at a lower cost. Webvan was on the right track with differentiation by planning for several distribution centers and a lofty goal of saving the customer time by reaching them within a half an hour. The customer value sits with its convenience for busy people. The value would come the more people use it, the more valuable it will become.

3. *Scope:*

   The scope of Webvan would be the service mix that supports differentiation. Currently the demographic most likely suits young, upwardly mobile people who are more open to new shopping experiences. Speaking to Webvan's plan for the future, they are seeking urban areas with short distance ratios between warehouse and the customers.

4. *Pricing:*

   Webvan utilizes menu pricing which is a set price without negotiation. According to Afuah, "there is also the possibility that the menu price is too high" potentially cutting off new buyers however, "customer preferences can be detected more easily" (Afuah and Tucci). The value is truly on time saved and how do you put a price on time.

5. *Revenue Sources:*

   Webvan left money on the table with the revenue sources by missing out utilizing the advantage of the brick and mortar grocery chains by selling "shelf space" but with optimized product placement within the web page and selling demographic information to vendors. In addition, they had potential to sell space for advertisers. Thusly, the only revenue stream to be found is the pricing strategy is marginalized at 4% with a potential to 12% (Banks, Driessen and Oh).

6. *Connected Activities:*

   "A firm must perform the activities that underpin the value", with the assumption that activities in delivery are consistent, this drives back to the product mix differentiation and timed delivery. It offers 24-hr-a-day shopping with special attention to customer service in customization on their account and a requested delivery window.

7. *Implementation:*

   Webvan's mission stated that it wanted to differentiate at the operations and the customer service. There's minimal reference within the case to determine the true effect of the systems and people. The potential of innovation is endless in examining the internet portal and creating a bridge between the traditional shopping and online shopping.

8. *Capabilities:*

   Afuah states, "to perform activities [...], firms need resources" (Afuah and Tucci). The resources for Webvans resources were tangible with the distribution center, hub-spoke delivery system within 40 miles and the knowledge base in Borders in franchising and proven expertise in customer service. The core competency in differentiation with operations and customer service didn't give Webvan enough of a competitive advantage with "razor thin" margins (Banks, Driessen and Oh).

9. *Sustainability:*

   There are three strategies for sustainability – block, run and team-up. To "maintaining a competitive advantage" there optimally should be a combination of all three strategies. As shown in class, the Complementary Asset Model should determine the sustainability of survival. The theory is based on how imitable an asset is and whether or not it's freely shared or closely guarded. Webvan's sustainability is highly imitable and not free demonstrating that their sustainability should be team-up. Blocking isn't considered because the firm must create barriers to protect its market. Fried's strategic positioning hovers between adopter and inventor. Webvan is adopting from other successful organizations but inventing a new way to use them in combination.

10. *Cost Structure:*

    Kalakota states that "it costs six times more to sell to a new customer than to sell to an existing one" (Kalakota and Robinson). The cost structure according to Afuah expresses the relationship between its revenues and the costs" but if it costs six times each new customer because there so few existing customers then exploitation of the operations and customer are going to have to compensate (Afuah and Tucci).

Stakeholder(s)

Critical Stakeholders of Webvan include:

- Webvan employees
- Louis Borders
- Webvan Investors
- Webvan Shareholders
- Webvan Customers

Alternative Actions and Outcomes

1. *Do nothing:*

   Webvan continues on in its current state surviving on a 4% margin with expectations of 12%. Capital assets with a $25 million distribution center offering 50,000 different products 66% more than the normal grocery store with prospects to build 26 more and they can deliver any time the customer states within 30 minutes whether or not they are home. As of September 1999, the average order was $71 but to meet forecast expectations Webvan needed to meet approximately $101 per order (Banks, Driessen and Oh). With Webvan's refusal to share customer data to third-party firms nor receive online advertising fees, they essentially doomed themselves. Those additional revenues could potentially make up the difference to help finance the future vision.

2. *Consider takeover offer from traditional grocery chain:*

   An overestimated valuation temporarily will protect from a hostile takeover in addition, the unknown of the online grocery potential will also allow Webvan some growth. Based on advice from Wall Street, traditional groceries were not even considering extending their services into the internet realm until it had been well documented. This would require a "business process redesign" by the traditional grocery chain in order "transform the business processes […] more effectively" (Morgan). An overinflated stock price plus a redesign investment may seem like too much to handle when grocery chains may perceive an attack with new entrants in the market.

3. *Buy regional grocery chains:*

   "Sometimes, a firm simply cannot all alone" and Webvan should consider a strategic alliance with regional grocery chains (Afuah and Tucci). This theory "team-up" is supported by the sustainability in the Internet Business Model by Afuah. By potentially forming new alliances with regional grocers, Webvan could continue ward any takeover attempt in addition to exploiting the infrastructure already in existence. This could potentially allow for attaining a new competitive advantage by further "managing the continuous transformation" of Webvan in rethinking and adapting the distribution center (Morgan).

4. *Add additional product lines:*

   By creating a multichannel integrated experience and balancing production with market demand, Webvan has leveraged itself out of a future. A new product mix could potentially lead to the right type of mix for its current customer base. But bringing in new product lines when there is no demand, perhaps Webvan should look internally at their mission statement to differentiate themselves by "operations and customer service". While a new product line would benefit the customer, they should "listen to the customer's perspective and use it as the best arbiter of success" (Kalakota and Robinson). If the demand for the services are not there, regardless of which product mix there is, maybe Webvan would find out that the customer doesn't fully opt into the online grocery purchase.

Recommendation

My recommendation would be to buy regional chains to expand the operations infrastructure furthering their mission and make better use of the potential internet revenue stream. This would potentially moderate the barriers of tacit knowledge of smelling the fruit and bounded rationality with coupon clipping from traditional grocery shopping allowing for multiple channels to educate the customer. By providing an "order is that of proprietary value-added networks (VANs), established by vendors to deliver services" Webvan could extend their products through the regional grocery store (Zwass). The switching costs between the traditional grocers to the online grocer are hard to determine because of seasonal sales and items purchased every day. The additional information is required and constant vigilance to maintain a new routine. By educating the customer with a new process incorporated into something they trust, the value add leads them to loyalty that Webvan needs to push their margin to 12%.

In addition to purchasing regional grocers, Webvan needed to utilize the internet "economy of zero" to the fullest and failing to do so was to their detriment. By creating a multichannel revenues and exploiting the sunk costs of the internet infrastructure, Webvan should not have left revenue on the table. By refusing to allow advertisers and selling to third parties perhaps led to a "myopia and the inability to take advantage of opportunities for revenue growth in new lines of business" (Kalakota and Robinson).

Personally, I still can't pull the trigger on purchasing my groceries from online. Some of the products are cheaper but others aren't and I'm not willing to do the math to figure it out. Bounded rationality keeps me going to the grocery down the street with coupons in hand. However, by introducing the online service perhaps with a pick up at the local grocer combines the two effectively and teaches the customer to trust in the new process.

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