WebVan Case Analysis

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CIS 410

The mission statement for WebVan is to deliver groceries to busy consumers. Their customers are the population that is much too busy to afford a 40 minute grocery excursion. They do this by having warehouses and workers place the groceries on a truck and the truck delivers the groceries to the customer. They compete based on differentiation in price, which they achieve through a cost leadership strategy (Tanwar, 3). This would ordinarily be unattainable, or at least unfeasible with traditional models, but because of the internet having multiple generic strategies is possible (Kalakota, 4).

The Porter’s Five Forces analysis indicates that WebVan is currently not in great health (Team FME, 6). For starters, their current competitors include Peapod.com, a company who uses grocery stores and convenience stores to deliver their groceries, which are shopped for by ‘professional shoppers’. Other competitors include ShopLink.com/StreamLine.com, these entities compete on a basis where put your grocery order in a storage unit which is given to you for their use. Another competitor they have is NetGrocer.com, who competes by delivering all sorts of non-perishable goods. Finally, they have eGrocer.com as a competitor, eGrocer.com decides a time when you can pick up the groceries and has them ready by then.

The threat of new entrants is high. Unfortunately for WebVan, anybody with a car, some free time and a website could seriously compete with them. This is the case for most web services. WebVan does have an advantage over these small operations in that it has a highly advanced supply chain headed by business and technology leaders.

The threat of substitutes is also high. Companies like Kroger and Safeway, which don’t deliver but they have cheaper prices and immediacy that WebVan lack. There is also the issue of fast food. It’s almost impossible to beat the convenience of an immediate decent meal with passable customer service. There’s also the issue of local sit down restaurants for health conscious consumers.

The bargaining power of suppliers depends on how you want to the facts, but I consider their power to be high. To start the debate, WebVan does have investors backing them seriously, and WebVan’s model allows larger economies of scale than something like Peapod.com, even after Peapod switched to a warehouse model. It is clear however that WebVan does not have the economies of scale that something like Kroger has, coupled with the fact that they are a young company means that a supplier can have their way with them.

The bargaining power of consumers is high or low depending on the customer. For regular users of online grocery services, their bargaining power is lower, since the service and price scaling that WebVan provides is nearly unbeatable in the market since they do not rely on a parent store’s price. However, if someone does not normally use these types of services, they have high bargaining power since they have the ability to switch nonchalantly.

The stakeholders in this case are Louis Borders, as he is the founder of this company and his reputation is on the line. The company itself, the prosperity of this venture holds the livelihood of its employees. It’s competitors are also stakeholders, the outcome of WebVan shows the viability of seriously separating from parent grocery stores, as well as gaining or losing market share.

There are four courses of actions that WebVan can take. The first is to do nothing and continue operations. The second is to sell the company and move along. The third is to acquire several regional chains. The fourth is to switch to smaller and more nimble warehouses and rent out the older larger ones.

The first alternative, do nothing, would have them continuing operations just as if nothing is going wrong. This is foolish because it ignores the fact that WebVan is not even getting close to target sales. This affects Louis Borders because he loses a vast amount of money and accumulates a lot of bad debt. This affects WebVan because it will have to trim employees and costs in an unsustainable way. Finally, this affects the competition because it would positively affect their market share but show that the model is ultimately unviable.

The second alternative is for Louis Borders sell the company to a larger chain and move along. First of all, this feels like an unethical decision - to take investor money and run away with it could affect Borders book store’s health. It affects WebVan drastically, because there is no telling the form that WebVan could end up in after someplace like Kroger snatches them up. To the competition, it shows that the owner had no faith in the business model and that ultimately their market is capped and their idea is flawed.

The third alternative is to purchase local grocery chains. For this alternative, Louis Borders seems to be able to make a decent profit, at the cost of potentially having to lean on a brick and mortar store. WebVan seems to be able to gain market share. To the competition, they would perhaps be inspired to create their own grocery chains because this would likely seem profitable.

The fourth alternative is to convert to more, smaller warehouses. This affects WebVan by adding an additional revenue stream in the form of rent payments other companies would pay them for the larger warehouses. Louis would take a pride hit, but I believe that he would also see a profit from this. The competition is largely unaffected by this decision. Perhaps this would prove to them that WebVan was too ambitious in its vision.

The course of action I would choose would be the second. The key here is that the business needs to survive, and in order to do that, especially in its teenage years when it goes public, that is to make money - for this is the goal of every business (Goldratt, 44). As it stands, WebVan is poised to lose money in the foreseeable future, with the sales predictions much lower in all standards. In order to truly defend, I will compare the other alternatives. I am dismissing the first one because if a business is losing money the last thing they need to be is complacent. The third alternative of buying up local groceries looks attractive at first, but there is still a significant risk involved. Selling the company, while not pretty, ensures that the company will be led to profitability one way or another. Converting the warehouses into renting warehouses simply will not provide enough inflow to justify the decision to buy more smaller warehouses. Simply put, there are no other alternatives which provide throughput in the capacity which it would exceed their operating expenses and inventory expenses (Goldratt, 60-61).

**Sources :**

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