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[WEBVAN]

Reinventing the Milkman

Executive Summary

Webvan was founded around 1997 by Louis Borders, who described it as "an online grocer that was arguably the most ambitious e-commerce initiative to date." He had a particular goal in mind, where retailing through the Internet would never become a really big deal unless someone could discover a more efficient and cheaper way to deliver products to someone's doorstep. To him, providing an online grocery channel to consumers was not only more convenient, but additionally many online grocers achieve less overhead by using centralized warehouses and employing fewer employees than traditional stores. Borders set out to convince the industry that he had the retailing management expertise to 'crack' the online grocery code. He decided to duplicate the best operating practices while successfully recruiting experienced top management to help reach his goal.

Problem

The certain issues that Webvan faced were the strategic choices for the immediate future, as Webvan had to bear in mind the pressure of investor sentiment and that every decision made directly affected the company's stock price.

Mission Statement

The mission of Webvan was to provide a “safe, secure online customer experience that offered nearly double the selection of products in a typical grocery store and at comparable prices.” The goal was to meet high expectations and become the dominant player in the industry.

Generic Strategy

Webvan’s generic strategy focuses on the idea of project differentiation. “Building upon Borders’ experience and expertise, Webvan differentiated itself within the online grocery market in two distinct areas: operations and customer service.” (Afuah) Webvan created proprietary systems that automated, linked, and tracked every part of grocery ordering and delivering, and its position as the quality-driven online grocer was its attempt to differentiate itself from its competitors.

Industry Competitive Analysis

Industry Rivalry

In terms of the degree of rivalry, the risk of this occurring is very high, because there is constant competition amongst Internet consumers. eGrocer (along with Webvan) also eventually “sprang up in the marketplace, while more seasoned competitors, such as Peapod, Streamline.com, and Netgrocer.com attempted to stay competitive. The original phone-and-fax players who were already in the marketplace were anxious to take advantage of the Internet channel and soon developed websites with product offerings that included not only groceries, but other items such as videos, music, etc." (Afuah)

Threat of Substitutes

If the risk of competition is high, the threat of substitutes will then be rated very high because the any physical grocery store such as Kroger, Meijer, etc. is always an available option for customers, as well as companies online.

Bargaining Power of Suppliers

When it comes to the bargaining power of suppliers, the threat is fairly low because fortunately Webvan possesses many different forms of goods and services in order to produce profit.

Bargaining Power of Buyers

Because of the infinite amount of substitute options that are available, the bargaining power of buyers will be high. Buyers may be price sensitive, but there are always impulse buys that can occur. "Although mergers and acquisitions often increase the financial strength of the suppliers, the buyers must be aware that specific products may be discontinued or lose support as a result." (Fried)

Barriers to Entry

The threat of new entrants also runs high because "new entrants to the grocery delivery businesses planned aggressive national expansion programs by rapidly rolling out high-capacity customer distribution centers in most major metropolitan areas. Their goal was to steal market share from the enormous off-line grocery market and also to create new market opportunities by providing combinations of delivery services that did not yet exist in the bricks-and-mortar world." (Afuah)

Stakeholders

In this case, Louis Borders has the largest stake in the success of Webvan due to the fact that he was the founder. George Shaheen, CEO of Webvan thanks to Borders, will also be considered a crucial stakeholder but doesn't not have as much of a say as Borders. The general employees of Webvan, which includes anyone that is not considered a manager or executive of the business, also has a large stake in the organization. Shareholders are also considered stakeholders in this situation because those who put money into a business contribute to the financial success of the company, so they have a right to be informed about what all is going on in the company. The customers also have a large stake in the success of Webvan externally because without customers, the company would not survive. (Cash) Lastly, the contractors of Webvan, including engineering and construction firm the Bechtel Group, also have a large stake in the success of the company because of their $1 billion agreement to build distribution centers and delivery infrastructure in 26 new markets in two years.

Alternatives

1) **Do Nothing:** There appear to be issues with the company's current state, and from the looks of it, not making a change would have a relatively large impact. If Webvan decided to continue to run its course as it is (assuming the predictions are accurate), by 2001 it would see sales of $518 million, with a loss of $302 million for that year. Due to high operational costs and low grocery sales, the company would ultimately go out of business at some point because operating at a loss is never a good sign. "You put out so much money and what do you have in your hands? Nothing you can resell, nothing you can offer as collateral." (Goldratt)

2) **Buy Regional Grocery Chains:** If this alternative is chosen, Webvan would have the ability to grow and operate out of more distribution centers. "These regional chains already possessed supplier networks as well as their own distribution centers. Webvan could possibly leverage some equipment from these distribution centers while attempting to replicate its existing distribution centers. This option would also eliminate a few competitors in these regions." (Afuah)

3) **Additional Product Lines:** As of December 1999, sales demand was modest, and the Oak-land, California, distribution center operated at only 20 percent of capacity, so choosing this alternative could improve the capacity percentage as well as the number of customers that use Webvan. Unfortunately there is no permanent guarantee if Webvan

would remain an online grocery company or become the “Last Mile” pioneer for all consumer products and services.

4) **Exit the Market**: Since Webvan seems to be headed towards losses either way, getting out of the market before it’s too late could save shareholders from a significant amount of loss on investment, therefore the issue of bankruptcy would not come into the picture.

Impact on Stakeholders

Taking each alternative into consideration, the effect it would have on the stakeholders in regards to the issues at stake would be a hit or miss. For a company making losses, each alternative could prove to be difficult and somewhat expensive to implement, but could eliminate competition as well as create more infrastructure. Whichever alternative that can eliminate the most risk is the safer way to go that way less damage is done to the market, and the chance of customer base and profits increasing is more likely.

Recommended Course of Action

Based on what I’ve acquired from this case, I would exit the market before it’s too late. Webvan is not making profit with its current situation, so cutting their losses is the safer route to go. Because consumers can easily enter and/or exit the market, Webvan is not worth the distribution networks if they’re not selling enough to make a profitable business. Every stakeholder would benefit from this at some point, as investment would be saved and it would also open up more opportunities to create a more steady firm in the industry. “It seems that successful organizations evolve appropriate structures and processes for dealing with the challenges of their external environment.” (Morgan)

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