Webvan

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Introduction

Webvan, founded in 1997 by Louis Borders, combines online grocery shopping with home delivery. In the 1990s, Borders realized Internet retailing would never be popular unless a more efficient, affordable, and convenient way to deliver products was found. His belief was that by transferring the inventory management and customer focus lessons he had learned from his bookselling business; he could reinvent the traditional grocery market. Instead of stock clerks and multiple warehouses, Borders imagined giant distribution centers that would serve metropolitan warehouses worldwide.

Webvan pursues a differentiation strategy and as part of their mission, they provide a secure and safe online experience for their customers, while offering more than twice as many products as a typical grocery store. To differentiate themselves in the online grocery market, Webvan planned to focus on two very distant aspects: customer service and operations. In terms of operations, Webvan created systems which automate, link, and track every aspect of grocery ordering and delivery. Pickers would assemble orders in the warehouse and then load them onto trucks for transportation to designated docking stations. They are then loaded onto vans and delivered to the customer's home.

Within just five months of Webvan's launch, it had over 10,000 customers. The company projected sales of $11.9 million in 1999, while losses amounted to $35 million. In navigating and growing in a new and unpredictable market, Webvan faced many strategic decisions affecting both their future and short-term prospects. What are the strategies they should employ to navigate and grow in an unpredictable market?

Analysis

Organizational Structure

Functional Organizational Structure: This organizational framework allowed Webvan to operate under a vertically integrated functional structure. Two of the main divisions were:

I. **Operations**: Integrated and automated grocery ordering and delivery systems that track every aspect of the process.

II. **Customer Service**: Groceries are delivered to customers' homes by delivery drivers.

Porter's Five Forces

Competition: High - Webvan competes with several companies that utilize the same business model.

Threat of New Entrants: High - Webvan's business model is easy to replicate and offer in similar markets, despite its high cost.

Threat of Substitutes: High - Customers can choose to shop in a traditional grocery store instead of online without any additional cost.

Buyer power: High - Customers can easily choose to buy groceries in a traditional store instead of shopping online.

Supplier Power: Low - A wide range of supplies are available in Webvan's network, so they can easily choose which supplier to use.

The Problem

In navigating and growing in a new and unpredictable market, Webvan faced many strategic decisions affecting both their future and short-term prospects. What are the strategies they should employ to navigate and grow in an unpredictable market? Is it wise for Webvan to expand into new categories?

Stakeholders

Investors: Webvan Investors expect growth and revenue from the company if it is going in the right direction, otherwise they will start to lose money.

Employees: As the face of the organization, employees interact with a great deal of customers, which is why they play a vital role in the success of the company.

Customers: Webvan's customers have a financial stake in the company's success.

Solutions

Leave the market

Since Webvan was losing money and financial forecasts predicted further losses, Webvan could leave the market completely and sell all its assets.

Impact on Stakeholders:

Investors: If Webvan had stayed in business and continued to lose money, stakeholder losses could have been even greater.

Employees: Leaving the market would result in employees losing their jobs.

Sell the business

Depending on the company that wants to buy the business, Webvan could use the assets and capital of the new buyer. Moreover, if borders had taken this route, he would not have put his finances at risk.

Impact on Stakeholders:

Employees: Employees could be fired by new buyer which would leave them unemployed.

Acquire a competitor

The company can choose to purchase brick-and-mortar shops or internet-based grocery delivery services and combine resources with them, thereby reducing costs and improving efficiency. They could benefit from this by gaining more market share and possibly being able to negotiate with their suppliers more effectively. However, reworking the e-commerce side of their business will require further investment in their IT infrastructure.

Impact on Stakeholders:

Employees: More jobs will become available for newly hired employees and more advancement opportunities for current employees

Recommendation

From the beginning, Webvan made a multitude of mistakes, including failure to identify an actual customer need. It's in Webvan's best interest to exit the market immediately. Despite competition from other players, Webvan entered the online grocery market when others were already struggling. Considering every force in Porter's model is high, this industry is neither attractive nor healthy for current and new businesses.

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