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Webvan Case Analysis

Executive Summary

Webvan was an online grocer that was “arguably the most ambitious e-commerce initiative to date”. It was founded by Chairman Louis Borders, who was also the founder of Borders Books. Borders Books created the most sophisticated computer inventory system in the book retailing business to date where it used artificial intelligence technology to adjust the store’s inventory. Louis Borders wanted to utilize this technology in hopes to eliminate store costs and create a more efficient way to assemble customer orders, store them in transit, and deliver them to homes within a 30-minute window (Webvan Case). With that, Webvan did end up facing some important strategic choices for the immediate future and needed to also decide how to compete with other companies.

Overview

Webvan began as a very small company, and within five months of operating, more than 10,000 people had signed up for the service. Bill Ready believes that “Small businesses play a critical role in the global economy, contributing to economic opportunity, diversity and the overall health of our communities (Ready). While this was partially the case for Webvan, they did experience some financial hardships as they were expected to amount to $11.9 mission, which is less than large grocery chains make in one day. Borders decided that he wanted to ensure sustainability for his company and began doing some further research.

At that time, the online grocery market was slowly emerging. This industry originated in the late 1980s when the small local companies started taking orders over the phone and sent out “professional shoppers” to purchase and deliver the orders. Internet usage began to grow rapidly at this time as well, so it transformed the grocery delivery business into an online version. The primary goal of the latest trends within this industry was to achieve a sizable customer base, respectable levels of customer service, satisfaction, and repeat usage. High-capacity customer distribution centers began rolling out, in addition to national expansion programs.

This change in the industry also opened a lot of opportunities; the main one being convenience. Customers were able to get their groceries in a timely manner without having to leave their homes. They would be able to choose their items online and have them either handed to them or left at their door. While, yes, there was a delivery fee, many people were very appreciative of this new advancement as it was one less thing they had to worry about. In addition, for companies, they no longer had to worry about real estate costs and other expenses related to bricks-and mortar. Companies also noticed that those who ordered groceries online visited the stores less often which indicated that online shopping could become habit-forming which would then provide a constant stream of revenue for online grocers. Borders wanted to also ensure that there was a safe, secure online customer experience that offered nearly double the selection of products of a typical grocery store and at comparable prices. To build his business model, he duplicated the best operating practices from a myriad of cyber- and real-world businesses. After some time, George Shaheen became Webvan’s new CEO.

Webvan was able to differentiate themselves from other online grocers be excelling in two areas: operations and customer service. In terms of operations, they had around 80 software programmers that created systems which automated, linked, and tracked every part of the grocery ordering and delivery process. The Webvan model allowed them to operate with half the labor and double the selection of products of regular supermarkets. This, fortunately, was the case as orders were automatically sent to the warehouse where they were picked, packaged, and shipped at a faster rate with the help of conveyor belts and pickers needing to travel less to select the items.

Additionally, Webvan excelled in customer service. Customers were able to order a shopping list of items and receive the groceries the next day within any specified 30- minute period. They aimed to provide their customers with 50,000 products from which to choose compared to a normal grocery store that carried 30,000 items. Based on the customers previous choices, a personalized shopping list was designed to make it easier and faster for them to shop in the future. Although they did well in both operations and customer service, they also faced many challenges along the way.

Analysis/Problem

Like mentioned earlier, Webvan was slowly able to improve and keep up with the rapidly growing industry. However, they did face some obstacles along the way. Their biggest challenge was attracting and retaining enough customers. As customers couldn't "touch and feel" fresh produce, as well as select from other options, it raised some concerns. Additionally, customers felt there was a lack of selection, it took a long time to set up and order, and the cost of delivery was too high. Some even felt that "the demographic population that was most likely to use the online services was also the segment that was least willing to sit around and wait for deliveries" (Webvan Case). Due to these challenges, Webvan struggled to keep up with larger online delivery services and needed to find new approaches.

As this industry began to grow and evolve, new competition came about. Certain companies such as Peapod.com, Streamline.com, Shoplink.com, Netgrocer.com and eGrocer.com were started up and this created more issued for Webvan. While not all of these became the most successful online grocery delivery services, they did become threats. For example, Streamline and Shoplink had very flexible delivery models. EGrocer had collection centers that were in convenience stores, office buildings, drive-through facilities, gas stations, or existing grocery stores. Niche Players sought to counterbalance higher prices by offering delivery in 30 minutes or less and was focused on fulfilling "emergency" or "last-minute" needs. Overall, their main mistakes were targeting the wrong audience, they had a complex infrastructure model, and expanded too fast. Due to both their competition and internal challenges, there were some questions they needed answered.

Alternative Solutions

1. *Use the infrastructure that is already built instead of creating a new one* – Webvan chose to create their own infrastructure in hopes it would set them apart from their competitors. Due to this, their system was very weak. Orders were incomplete, totes with orders fell over, products were crushed on the conveyor belts, distribution centers did not work properly, and the design of the centers were never tested in advance. In turn, they could use the existing infrastructures, as well as test and refine early versions before building new ones (ground floor). By using and analyzing existing systems, they could learn from other companies' mistakes, and alter them to work for their company. This would also give them a financial advantage as they can better understand what to spend their money on instead of hoping it all works.

2. *Get to know the industry and customers better* – Webvan had a lack of experience in this booming industry. Neither Louis not his staff had any experience in the retail grocery business. They also did not understand their customers in the sense that people prefer to pick out their own vegetables, fruits and meats, many grocery shoppers are impulsive buyers, many people use coupons, and customers do other things when they are out grocery shopping. One way Webvan could learn more about the industry is knowing what the profit margins are, how many sales can be made realistically within a six month period, how many customers are needs for sales, and what they need to charge per sale (Webvan Case Study). Additionally, to know their customers, they could create focus groups or surveys to understand who their audience is and what they are looking for. If they were to do so, they could learn that every customer is different and has certain needs and wants. By taking some time out of the industry to learn more about this, they could allow themselves to be elite competitors and become the threat instead of being threatened.
3. *Eliminate automation to be more cost saving* – Borders created an inventory system for that would constantly adjust for Borders Books. Based on what they created at the time, he was confident he could reinvent the colossal $453 billion traditional online grocery market. After this large investment, only about 435,000 people ever purchased food online which less than one percent of the users who had made purchases online. This caused financial hardships as they were investing so much into the technology, and workers still had to operate the business and needed to be paid. On one hand, Mary Branscombe mentions that automating things such as customer service as it would "help automate more complex tasks such as risk assessment", as well as better recruiting,

payments, IT operations, and many more (Branscombe). However, a solution for Webvan would be to eliminate the automation they have in place. This doesn't necessarily mean completely, but to an extent where the company can make up for lost finances. Although the company was able to raise $375 million from its IPO where it sold 25 million shares at $15 each, they needed to manage their money better and spend it on things that would improve the company (Ramalingegowda).

Solution

My solution would be Option 2 as it won't cost the company any additional expenses. While it will cost them time, I feel that they were moving at a very rapid pace right from the beginning. By analyzing what other companies are doing, as well as what their customers want, they can better their company, grow, and become successful. I would also choose Option 2 because, from a customer perspective, I have always enjoyed going to the grocery store and making my own choices. If I were to buy online, I may be unaware of the other options of which I may prefer or may be a cheaper cost. Additionally, customers like to be impulsive buyers. Sometimes people forget they need something until they go and see it in a store. I think Option 2 offers the most flexibility while being cost-effective.

Option 3 is a good option, but I don't feel it is the strongest. I think automation is such an important part of our society today, and from where it was to where it is now, it has come a long way. Being able to see inventory is important, but like mentioned above, there are other things automation could be used for to make the customer and worker experience positive. Finally, Option 1 is a good option but is not the best, in my opinion. I feel that while going off an existing infrastructure has its benefits, it could cause some problems. If the existing infrastructure has some underlying errors that aren't resolved, this could lead to additional issues.

Conclusion

Overall, Webvan had its ups and downs. Webvan did not have realistic expectations, predictions were not converted into sales, they over-emphasized on technology, and had high capital-intensive costs (Kamrul). They also experienced challenges of customers not getting their deliveries in a timely manner, it taking too long to place an order, etc. On the other hand, they were able to provide for customers in a way that not many businesses had thought of. Their unique innovation could be seen as a steppingstone for other companies as today, there are many large corporations that provide online grocery services. Unfortunately, the company lost over $800 million, laid off 2,000 employees, and shut down in June 2001 (Kamrul).

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