Webvan: Case 4

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The Problem

Webvan is a company that is trying to specialize in home delivery of grocery products. To put it simply though, they are not the best at it and not setup to run quickly and steadily into the future. The outlook of the company is grim, even with their hefty plans of opening many more warehouses to sell to a larger group of individuals. The question that is now being asked, is what to do with Webvan? Should they try to push their way into the future even with the high costs and low return of revenue? Or should they take the losses on the chin and call it a day?

Porter's Five Forces

Competitive Rivalry: Competititve rivalry is high due to the many options for purchasing food. If we are being specific about home delivery the rivalry is low, but since food is the main product, rivalry is still looked at as high.

Threat of New Entrants: The threat of new entrants is pretty low. Webvan is on the forefront of home delivery of food products with their own tech. Therefore, someone else would have to invest heavily to enter into this sector.

Threat of Substitutes: The threat of substitutes is very high. They are trying to enter a sector where there are hundreds of options when it comes to purchasing food. There are supermarkets, mom and pop stores and any other stores that sell food.

Bargaining Power of Suppliers: The bargaining power of suppliers is pretty low. Since food is all around us, finding suppliers of food would not be hard. Webvan can look to the lowest offer that saves them money with ease.

Bargaining Power of Consumers: Bargaining power of consumers is very high. Since they have many different options and do not have to order online, which can be more expensive. Consumers are very price sensitive and therefore their bargaining power is high.

Stakeholder Analysis

Shareholders: Shareholders are anyone that own shares or are invested in the company. The decision of what to do about Webvan is massive, since the money they invested is at stake. If they go broke, they could see very poor returns. If the company is bought out of liquidates, they could at least see money back or profits.

Employees: Employees are the workers for Webvan. Because of what they are doing, Webvan requires less employees than a normal grocery store. If Webvan decides to shut down, these employees would be out of a job but most likely with some payout of some kind. If they run out of money, the employees would be left with no job and no payout. With a buyout, the company could choose to keep them on board, especially if they want the technology to be worked on still.

Customers: Customers are the ones who are purchasing from this company. The decision of the future of Webvan shouldn't result in too many problems. If they close down, customers easily switch to normal supermarkets and stores again. Yet if they're bought out they can probably get products online for cheaper.

Do Nothing Option

The first option they can think about is the do-nothing option. Instead of shutting down they continue running the business is normal. They would also forgo the thought of opening up more warehouses and expanding their reach. For right now this would work, since they still have customers that value what Webvan is doing. “A firm’s cost structure expresses the relationship between its revenues and the underlying costs of generation those revenues” (Afuah). Because of how new this idea is, the costs that Webvan are not setup to last, due to the little revenue they are generating in return.

Option A: Exit the Market

The second option is to exit the market and liquidate their assets. It is recognized that the company will not make it that far into the future with their current setup. Therefore, in order to not end up with nothing they can start the process of liquidation. That was they can come out of this in the positive before things get too bad. They have many assets that currently have good worth at the moment. The goal of the company should be “to make money in the future AS WELL as in the future” (Goldratt 301). Webvan is not setup to make anything in the future, therefore selling before they have nothing is a good option for this company.

Option B: Get Bought Out

The third option would be to actively search for a buyout. This would benefit most in the business IF it can get done. If a company comes in to buyout Webvan they will have a lot to work with. They can utilize and adapt their technology and add their warehouses into their company. Whoever buys Webvan out can decide to further push into the home delivery sector or use their technology for something out. Consumers, shareholders and employees should be extremely happy if the future of Webvan was solved with a buyout. Consumers would probably have a cheaper option for purchasing home delivery if Webvan was used by a larger company. Employees would still have a job as long as the company buying them out allows them to continue their work.

Shareholders would then get shares of a larger company that does not look like it is going out of business.

Recommendation

My recommendation would be for Webvan to liquidate and exit the market all together. Sure, the buy out option would potentially allow their current technology and plans not go to waste, but to hang the future of Webvan on a buyout is not a great idea. Only large enough companies can purchase Webvan with the higher evaluation and by the time it gets setup, Webvan could be broke and worthless.

Therefore, a liquidation of Webvan and dispersal of the remaining money is their safest bet. With the liquidated money they can first focus on paying off any debts they may have incurred. This could be debts owned to creditors, money owed for the warehouse or money for anything else purchased by the company. After that the remaining money can be paid off to shareholders which is what they're here for anyways (Goldratt 60). Typically, employees of companies have shares in their company, so employees should be able to be paid out as well. This leads to the best result for all involved in the company. Sure, some customers may not get groceries as easy as they would like, but it should be a swift switchback to normal shopping methods. As for Webvan, their employees, management and shareholders should walk away in a decent spot.

Works Cited

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Goldratt, Eliyahu M, Jeff Cox, and David Whitford. The Goal: A Process of Ongoing Improvement. 3rd ed. Aldershot: Gower Publishing, 2004. Print.