University of Louisville

Webvan Case Analysis

Mahamud Osman

CIS-410-50

March 5, 2022

Mission Statement

Webvan is a grocery company that is committed to offer a safe, secure online customer experience that will present twice as much the selection of products that's offered by traditional grocery store while offering similar prices.

Stakeholders

The stakeholders of Webvan consist of customers, employees, investors, Louis Borders, and George Shaheen.

Customers

Customers rely on Webvan to perform their mission statement and offer the online grocery service that attracted them to do business with the company.

Employees

Employees are a part of Webvan because they are content with the benefits that they are offered in exchange for the work that they do. Employee's trust Webvan to continue to offer in term with the agreed upon conditions.

Investors

Investors have poured in millions of dollars in the trust that Louis Border will produce a profitable business. Hallmark investors such as CBS, Yahoo!, LVMH, and venture capital firms such as Sequoia Capital and Benchmark Capital have invested well over $120 million all together.

Louis Borders

After acquiring so mush assets from his previous venture with Borders Books, he is investing his hard-earned money into a new company in a relatively new industry.

George Shaheen

A previously veteran of Anderson Consulting forwent retirement in the company to join as the CEO of Webvan to undertake their obligations.

Generic Strategy

Webvan operates in a differentiation strategy with a functional organizational structure. Webvan were able to take advantage of this structure as they observed the “functional form works well when the organization’s dominant competitive issues stress functional expertise, efficiency, and quality (Cash & Fried). There are several ways Webvan attempts to differentiate themselves from the rest of the industry. Webvan emphasizes on operations and customer service (Ritika).

The operations system has introduced a 330,000 square foot distribution center located in Oakland, California to help serve customers in the San Francisco Bay Area that are 40 square mile radius. This distribution center would be the protype to the further planning of next 26 centers intended by Webvan. The operations system was created by Webvan software developers to help create an exclusive system that can automate, connect, and trace every aspect of the company’s delivery and ordering process.

Customer service differentiates as it allows customers to create a shopping list of products to receive the following day with any selected 30 minutes time period. Customer’s delivery doesn’t necessarily require their presence as products could drop it off at an address at any specified time. Customers are incentives with free shipping when order exceeds $50 dollars and only charging a fee less than $5 dollar when order did not. Webvan also looked to minimize customers shopping experience by creating personalized shopping list and a customized recommendation.

History

Webvan was founded by Louis Borders a mathematics who possessed a degree from the University of Michigan and has done graduate work at the Massachusetts Institute of Technology. Webvan was founded in 1996 (BrainFeed). Before establishing Webvan, Louis Borders was already recognized as bookselling industry pioneer as he utilized his technologies and strategies skills to revolutionize his company Borders Books. Borders sought out for a new challenge as he procced to develop an online grocery company with very ambitious characteristic compared to anything available at the time. Currently traditional grocery retained most of the market. There were very little online grocery services. The most common at the time was Peapod which was consider a pacesetter in the industry along with smaller services right behind. The attributes of early online grocers consisted of taking orders by phone and fax while hiring specified shoppers then having local companies deliver products. The existing companies for the most part partnered up with traditional grocery stores ultimately affecting their profits and market share. Webvan and eGrocer are the newest the industry as seasoned companies hope to say competitive as Webvan hired on George Shaheen as the CEO. (Cash & Fried)

The Problem

As Webvan looks to turn their ambitious vison into reality they face a few challenges. Webvan are competing with off-line grocery presence that’s well established. Webvan looks to gain greater market share. Online grocery industry needs to attract and then retain enough customers. There are a few things online grocery cannot implicate one being the “touch and feel” aspects of grabbing fresh produce. Other issues criticized by customers involves lack of selections, the time spent when setting up orders and the cost delivery when compared to the value of the service (Cash & Fried). Webvan after receiving so much investment money with a market value greater than $8 billion dollars on November 5, 1999, were expected to deliver on their promise. Border needed to explore more potential revenue streams and plan for long term implementations.

Industry Competitive Analysis

Competitive Rivalry

Webvan were in competition with traditional grocery store company who had majority of the industry, along with various existing online store that all share different characteristics. There were some online companies that were joining the industry at the same time as Webvan such as eGrocer. Peapod and Streamline.com were the online competitors that were already established. Safeway, Inc., Kroger Co., and bricks-and-mortar supermarket chains were the traditional industry controllers.

Threat of New Entrants

Threat of new entry is relatively high as a great deal of bricks-and-mortar supermarket had the option to join in the online idea as they saw beneficial. Potential companies and investments were observing the market to see where they saw possible capitalization. As the dotcom bubble grew this also lead for more outsiders for motives to join the industry.

Threats of Substitutes

The greatest substitutes for Webvan were the off-line grocery stores which people were already accustomed to. Other substitutes were the other online stores that could offer convenience and characteristics that would attract greater customers.

Bargaining Power of Suppliers

Suppliers bargaining power is low as there are a variety of suppliers to chose from. Customers were interested in who was offering the lowest prices and greatest convenience. There isn’t much customer loyal. Customers could receive the grocery service in numerous ways and from numerous companies.

Bargaining Power of Customers

Customer’s bargaining power was high. Customers can choice to stay the traditional route and avoid delivery fees or they can order online and avoid the inconvenienced of traveling to the store. Customers are lead through prices and experience as the companies decide how to operate their services.

Options

Don’t do anything

Webvan can always choose to do nothing. This option is very risky as they see that existing operations is not offering as much promised as Border and investors have envisioned. The sales are modest, and their first distribution center has only operated at 20 percent capacity. To do nothing could diminish their stock price and their standing with Wall Streat and individual investors. In this option for the stockholders can be negatively impacted through job loss and loss of investment.

Introduce Additional Product Lines

Webvan can choose to add more product lines. This could attract more customers as they have a greater number of products to choose from. This would be similar to how Peapod and HomerGrocer operate. Depending on which products they decide to acquire they may need to invest in portable cooling containers. This option could affect the unattended delivery as leaving things outside that are valuable could increase theft and allowing delivers to enter your house could increase invasion of privacy. The stakeholders in this situation will need to learn to operate with policy changes and the use of invested money will increase.

Consider a Takeover Offer

Another option is that Webvan can forfeit their ambitious goal and accept the takeover offer of a larger company. Webvan could accept an agreeable offer from a company like Kroger. Webvan will be happy with the compensation while the assets and resources acquire from the takeover will add to the expertise and expansion of Kroger. Although this abandons the original goals of Webvan, Webvan's aspiration will be realized through a company like Kroger (Barr). A lot of these ideas of online grocery were not bad, they were just ahead of their time so not anyone could pull it off (BrainFeed). The stockholders such as employees will have new bosses and supervisors. The investors may loss control in the operations of things.

Buy Regional Grocery Chains

This option looks to increase the market share of Webvan even quicker by buying out regional grocery chains. Webvan will be able to receive the network these companies have along with their distribution centers. Webvan will be able to leverage this resource and combine it with their existing resources to form greater abilities. This will also eliminate several competitors in the region. This option shows the assets of investors utilized the most and there will be new stakeholders such as new employees.

My Recommendation

My recommendation for Webvan would be to accept an agreeable takeover deal with a larger company. Webvan as a well know and established company can get great deal from a takeover agreement. Anything that they do will affect their stock price and standing among Wall Street analysts and individual investors. The company has a lot of promise and expectations to fulfill. Where the company currently stands, they do not see much guaranteed potential if they don’t take action. With all the capital the company possess they must deliver, but investors are not focused on the development of Webvan but instead in the profit that it will generate. Investors believe in the potential of the online grocery business, but they will be just as fine if the promise is fulfilled through other means. The second-best option being the to buy regional grocery chain isn’t favorable because that would put them in the same position of the larger companies but without the experience and expertise of those companies. Investors could as easily pull out their investments with the other options but with a takeover their investment potential is more assured.

Work Cited

Fried, Louis. Managing Information Technology in Turbulent Times. John Wiley & Sons, 1995.

Tanwar, Ritika. “Porter's Generic Competitive Strategies." IOSR Journal of Business and Management 15.1 (2013): 11-17. Web

Cash, James I. Building the Information-Age Organization: Structure, Control, and Information Technologies. Irwin, 1994

Porters Five Forces - free ebook in PDF Format. Porters Five Forces | Free eBook in PDF, Kindle and ePUB Format. (n.d.). Retrieved February 20, 2022, from http://www.free-management-ebooks.com/dldebk/dlst-porter.htm

BrainFeed, & BrainFeed https://streetfins.com/author/brainfeed/. (2021, April 13). *Webvan: The dotcom bubble's biggest bust*. StreetFins®. Retrieved February 23, 2022, from https://streetfins.com/webvan-the-dotcom-bubbles-biggest-bust/

Barr, A. (2013, June 18). *From the ashes of Webvan, Amazon builds a grocery business*. Reuters. Retrieved February 24, 2022, from https://www.reuters.com/article/net-us-amazon-webvan/from-the-ashes-of-webvan-amazon-builds-a-grocery-business-idUSBRE95H1CC20130618