Noah Anderson  
Dr. Robert Barker  
CIS 410-50  
04 March 2022

# Webvan Case Study

# Mission Statement and Background

Webvan is a company that a provided online grocery delivery service using a differentiation-focus strategy. The company began after Chairman Border’s Book company had a large success selling online with an advanced AI system that helped cater to customer’s needs. They were not the first to come up with this business idea, but they believed they could take their success from Border’s Books and bring it to different industries as the internet gained traction in 1999.

# Generic Strategy

Their generic strategy was differentiation focus strategy. They focused on standard supermarket items, nonperishables, produce items, etc. to be delivered in a timely manner to their customers, replacing their normal in-person supermarket ship. After each customer placed their order they stored the information and then made it easier for the customer on their next order. They aimed at offering a higher level of customer service to justify the extra expense in their service.

# The Problem

Webvan installed a distribution center prototype containing 4.5 miles of conveyor belts, temperature sensitive rooms for specialty items, and more technological advances costing more than $25 million for the single prototype center. While this center was able to serve as many customers as 20 supermarkets, doubled the selection of supermarkets with half the labor, the losses in 1999 were forecasted to be $35 million compared to forecasted sales of $11.9 million. As this kind of service was still new, it was hard to know if further investment in more distribution centers would be worth it in the future. They were able to gain a reasonably sized customer based quickly, but the overall online grocery delivery industry needed to grow in order for this to be worth the investment.

# Five Forces

## Competitive Rivalry

Although the internet was still gaining speed in 1999, there were already some companies that were leading the online grocery delivery service industry. Peapod controlled 44% of the market, originally starting with a personal-shopper model, where professional shoppers would go into stores to purchase the customer’s items, and then transitioned to a warehouse model similar to Webvan. Webvan had solid growth and distribution method compared to other competitors. One of the things they did to combat competitors was focus on customer satisfaction, this differentiation set them apart (Tanwar).

## Threat of New Entrants

Threat of new entrants was low in this industry. To break into the online grocery delivery industry a company needed a well-developed system to deliver, store, and acquire the goods that were to be sold to customers. This was done either through partnerships with grocery store chains or through purchasing from produce and supply sources, which required storage space and equipment to preserve sensitive items. Hgh barriers of entry were internal economies of scale as well, in order to be profitable you needed lots of sales so you were able to balance out expenses (Tanwar).

## Threat of Substitutes

The threat of substitution was high. There were other companies offering online grocery delivery services before Webvan. Each company offered slightly different features, some focusing on nonperishables and were able to deliver nationwide, installing drop-off fridges in your garage or home to eliminate the specific scheduling of deliveries, pickup from common areas such as stores or offices, etc. Brand loyalty was required to be successful in retaining your customer base and not being substituted.

## Bargaining Powers of Suppliers

Suppliers played a key role in some companies as they only operated through having a partnership with grocery store chains. For these companies in the industry, the suppliers, grocery store chains, had a large amount of bargaining power. For companies using the distribution center model, they were dependent on their suppliers providing the goods they delivered to their customers. This also allowed suppliers to have bargaining power and control prices.

## Bargaining Power of Customers

The customers had a large amount of bargaining power. Since there was a large amount of grocery delivery services to choose from, they were able to determine which fit their needs and wants. Since this service was more of a luxury, and not a necessity, there was not much stopping customers from going back to their normal grocery shopping. This made companies add additional features to cater to customers and add extra value to separate from the competition.

# Stakeholders

The first stakeholder group is the shareholders. After Webvan’s IPO launch their profits, growth, and overall success was very important to anyone of their shareholders and investors as it directly affected their portfolio and returns. Louis Border was a top shareholder in the company, being the Chairman, but also had more on the line than just money. He invested his reputation, time, and knowledge into making Webvan successful.

The second group of stakeholders is the employees. The employees are directly affected by any changes in Webvan’s model, which could be changed based on their growth and success, or lack thereof. Job roles, placement, or availability can be changed from increases in automation, organization changes, and more.

The third group of stakeholders is the customers. The customers are affected by any change in the company. Positive changes in processes, increased automation, better technology, etc. increase delivery time and product quality and increase customer satisfaction. Overall success in the company benefits the customer as the company will be able to adopt new technologies, increase supply, and more.

# Alternatives

## Alternative Do Nothing

The first alternative is to do nothing and continue Webvan’s operations as is. This would mean keeping the distribution center model, as they already have the prototype. This decision will only succeed if the predictions of the online grocery market growing more and gaining grocery market share are exceeded, as that is what the system is dependent on. Otherwise, they may fail without the increased grocery market share.

1999 sales were forecasted to be $11.9 million, with a $35million loss. Currently it is predicted Webvan will have a $302 million loss, with sales of $518 million. Even with $518 million in sales, that is only 1% of the grocery industry. Meaning they are still an extremely small part of the industry and will not be able to succeed.

This will cause shareholders to lose their investments in shares or other initial investments of the company. Some may lose all of their investment. Employees will eventually be laid off as the company losses customers and orders. Customers would either switch to other services as they do not want to pay the extra expenses, delayed delivery times, etc. caused over time or will return to their normal grocery shopping.

## Alternative Buy Regional Grocery Stores

Another alternative is to buy regional grocery stores in the markets they want to target. This would change their model to directly picking goods from the store to then be either kept for the customer to pickup or delivered to their door. This would give them the base they need, although another large investment on top of the already existing $23 million distribution center.

If they own the grocery stores, they wouldn’t be in a partnership so they would keep all profits. This is something that other services in the industry were struggling with. Introducing the new system to the grocery store’s existing customers would be necessary in order to establish a customer base, promotions, specials, etc.

The shareholders would benefit from increased overall success, profits, and growth in the company. The initial investment in the stores could bring in even more investors. Employees will be adapting to an entirely new system than what they were used to. The store’s employees would remain employed, they and Webvan’s existing employees would collaborate developing the new system. Customers would be able to use their already trusted store, have more options, but would be limited to what that regional chain offers.

## Alternative Be Bought Out From Large Grocery Chain

Another alternative is trying to be bought out from a large grocery chain. This would integrate the Webvan system into a large grocery chain. This would solve any supplier issues, as they would use the chain’s now. The distribution center would propel the grocery chain to reach more markets and provide accessibility to their already large customer base.

Profits would not be shared as the grocery chain would own Webvan. As the grocery store chain is already established, the adoption of Webvan’s service would be an additional feature to their customer base, increasing revenue and accessing more markets.

Shareholders would have their shares either bought out or transferred to the grocery chain that buys Webvan out. Depending on how the new owners operate, they may entirely lay off all of Webvan’s personnel or transfer them to different areas and processes. Customers would no longer be able to use the service itself anymore, they would have to go through the grocery chain. This may eliminate some customers, bring more customers that are loyal to the grocery chain, and benefit them overall.

## Alternative Exit the Market

## The last alternative would to be exit the market entirely. This would mean selling off their prototype distribution center, not getting involved in online grocer market anymore. This option would ruin every shareholder and investor’s investment. They would get whatever was left back of their investment, but there would be no chance of a return in the future. Employees involved in the distribution center would all lose their jobs. Customers would no longer be able to use the service anymore, online or inside a store.

# Recommendation

My recommendation is that Webvan and Borders exits the online grocery market. The market itself is not as popular as it would need to be to support the massive expenses they were incurring.

2001 forecasted to have $518 million in sales, still with an overall loss of $302 million for the year. $518 million was 1% of the grocery industry, online and in-store (Afuah). They were burning through too many resources too quickly to survive long enough for the market to grow. To reach their target margins, they needed to raise their average order total $30. Without selling customer data and only generating revenue from grocery sales and delivery fees, this was a hard feat (Afuah).

Even trying to purchase grocery chains could pose problems when trying to integrate their distribution center model, this is a large issue for even successful and powerful companies (Kalakota). The existing distribution center could handle more than 8,000 orders a day, had 225,000 items to choose from, and had the potential of $300 million annual revenue. The issue was that the center only ran at 20% capacity, even getting feedback from customers, an essential step in determining effectiveness, wasn’t the biggest help due to the lack of popularity in the market (Goldratt).

They were able to build a customer base of 10,000 in 5 months. They had a successful bookstore model that focused on the customer experience but trying to expand to a market that is much more diverse product wise and has the potential for a larger number of customers was not the proper move.

# Works Cited

Goldratt, Eliyahu M., 1947-2011. The Goal : a Process of Ongoing Improvement. Great Barrington, MA :North River Press, 2004.

Tanwar, Ritika. (2013). Porter’s Generic Competitive Strategies. IOSR Journal of Business and Management. 15. 11-17.

Kalakota, Ravi, Marcia Robinson, and Ravi Kalakota. E-business 2.0: Roadmap for Success. Boston, MA: Addison-Wesley, 2001. Print.

Afuah, Allan, and Christopher L. Tucci. Internet Business Models and Strategies: Text and Cases. 2nd ed. Boston: Irwin/McGraw-Hill, 2001. Print.