Webvan Case Study

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CIS 410-01

10/18/18

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Overview

Webvan was founded by Louis Borders, co-founder of Borders Books, in 1998 and was seen as a new challenge for him following the success of his chain bookstore Borders Books. Within the first five months, Webvan had registered 10,000 customers within the San Francisco area. This market was not pioneered by Webvan and there were existing competitors. Webvan's main facility was located in San Francisco and cost the organization $25 million to build. Within this space, there were miles of conveyor belts, areas catered to the needs of specialty products, and the capacity to serve as many customers as 20 traditional supermarkets. This facility would serve as the prototype for the other facilities Borders was planning on building. Webvan received quite the premium on its initial IPO offering, despite the mounting losses it was experiencing.

Mission Statement

The mission of Webvan is to offer nearly double the selection of products found in a typical grocery store at comparable prices by creating a safe, efficient, and secure online customer experience.

Generic Strategy

The generic strategy that Webvan follows is differentiation because of the focus they put on operations and customer service. According to Porter, differentiation is aimed at the broad market that involves the creation of a product or service that is perceived throughout its industry as unique, which Webvan was attempting to create through its focus on customers and operations (Porter). Every component of the grocery ordering and delivery process was automated, linked, and tracked by a proprietary system that was developed by Webvan itself. They built a distribution center for $25 million in the San Francisco area which would serve as the prototype for the 26 other centers that were planned. This distribution center utilized the proprietary system to service customers within 40 miles of the area. This range allowed Webvan to service as many customers as 20 local supermarkets. This proprietary system was designed to effectively meet customers' needs while still operating efficiently to increase the profits of the company. These distribution centers had the potential to generate $300 million in revenues because they could handle a capacity of more than 8,000 orders a day, yet they only required half of the labor cost that a traditional supermarket would need. Customers were able to receive their orders the next day within a specified 30-minute time frame. After placing orders, a personalized shopping list was designed to provide the customer with faster and easier services. Services like these were designed to increase the value and increase customer satisfaction, which is a main component of the internet enabled business model (Afuah).

Organizational Structure

Webvan operations under a functional organizational structure. Common activities within the organization are grouped together. Louis Borders functioned as the CEO with the rest of the organization decomposed into groups such as operations, customer service, and inventory management.

Porter's Five Forces Analysis

1. <u>Competition – High Threat:</u> Within the market, there are already many companies operating in the space and selling groceries. These other companies may operate in either a brick-and-mortar style or online. Webvan is competing with local markets and with other online groceries that can ship to all 48 contiguous states.
2. <u>New Entrants – High Threat:</u> Anyone who is able to raise the capital to create an online grocery business would not have difficulties starting up. They would need access to the internet, IT infrastructure, and warehousing to store the inventory. With there being existing competitors in the market, new entrants would need to focus on differentiating themselves from the competition. According to Porter, it is usually easy for new rivals to enter the market when there is a common technology base (Porter).
3. <u>Substitutes – High Threat:</u> Customers have the option to visit a brick-and-mortar grocery store or order groceries online and have them delivered. There are plenty of options for a customer to choose from to receive their groceries.
4. <u>Suppliers – High Threat:</u> Webvan serves as a reseller for the goods that they stock in inventory, resulting in a dependency on suppliers for their needs. This dependency allows suppliers to fluctuate their pricing and force Webvan into dealing with it.
5. <u>Customers – High Threat:</u> There are plenty of competitors to Webvan resulting in options for customers if they are not pleased with the provided inventory selection, pricing, quality, etc. They can easily go elsewhere for the same products at similar or cheaper price points.

The Problem

Since its inception, Louis Borders was thinking how to ensure the sustainability of Webvan. The possible options for new revenue streams were considered often along with additional products and delivery markets to pursue long term. Webvan has become a public company and is now experiencing pressure from investors. This pressure will contribute to the overall direction and strategic decisions that drive the future of Webvan. Webvan has many strategic decisions it is facing such as purchasing regional grocery chains, accepting potential takeover offers, and developing additional product lines. According to Goldratt, the goal of an organization is to make money now as well as in the future and because of the growing and unpredictable market Webvan must determine what their strategy is to navigate and thrive in this space (Goldratt).

The Stakeholders

1. <u>Louis Borders:</u> As the founder of Webvan, Borders makes the decisions that guide the company forwards or backward along with the other executives. The success or failure of the organization has an impact on his reputation.
2. <u>Shareholders:</u> Current Webvan shareholders are losing money. The organization's stock has decreased significantly following the surge it experienced during their initial IPO.
3. <u>Employees:</u> The employees are responsible for the day to day operations of Webvan. If the company is not doing well, it will be forced to implement layoffs which jeopardizes

the reliability of jobs for employees. However, if the company does well there could be potential for growth and promotions.

4. Customers: This industry is reliant on customer loyalty and repeat purchase behavior resulting in the organization's success depending on customer engagement.
5. Contractors: The revenues of contractors are at stake with Webvan as they provide supplies and services to them. Bechtel Group has a contract to build distributions centers and delivery infrastructure for 26 new markets. This contract would be in jeopardy if Webvan were to be unsuccessful.

Alternative Solutions

1. Do Nothing: This alternative would result in Webvan continuing business as is with no change. If the company does nothing, they will be run into the ground. They would continue to not see a profit resulting in more accumulated debt. They have high operational costs and low sales, which would result in the failure of the company.

   Impact on Stakeholders:

   1. Louis Borders: Management would not be pleased, but this would allow them more time to analyze the current system and attempt to minimize their losses. Borders reputation would be flawed if the organization fails.
   2. Shareholders: They would not be pleased with this alternative because Webvan is operating at a loss resulting in their investment being unsuccessful.
   3. Employees: They would continue with their current jobs until the organization fails and they are faced with unemployment.

4. Customers: Existing customers would be indifferent because business would operate as normal and what they are familiar with. If the organization fails, they would take their business elsewhere which wouldn’t be difficult as there are many substitutes available.
5. Contractors: Webvan would remain dependent on contractors to maintain it’s inventory and continue to develop distribution centers. If the organization were to fail, contractors would no longer receive business from Webvan resulting in a decrease in profits.

2. <u>Purchase Regional Grocery Chains:</u> If Webvan were to elect to purchase regional grocery chains, this would allow access to new markets. They would not have to build new distribution centers in the market as they would utilize the brick-and-mortar store. Some competition in the market would also be eliminated with the purchase of regional grocers. By purchasing regional grocery chains, there would be hope that the poor financial situation of Webvan would be alleviated. However, purchases like this would prove to be a large expense.

   <u>Impact on Stakeholders:</u>

   1. Louis Borders: Purchasing regional grocery chains would provide Louis and management with more resources within the market. If this move were to be successful, it would benefit the reputation of Louis and management.
   2. Shareholders: If this move is profitable, shareholders would be happy as their investment would see a return. Otherwise, the profit loss will contribute to the overall unhappiness.

   3. Employees: The employees would continue with their current positions and those within the regional grocers will have the option to be retained and acquire new talent.
   4. Customers: Customers would be given more locations to shop at and the experience would remain similar. Some bargaining power would be taken away as competition diminishes.
   5. Contractors: Bechtel Group would not be happy as it would take away distribution centers growth opportunities and their services would no longer be necessary.

3. <u>Exit the Market:</u> Webvan has been operating at a loss and the future does not seem favorable for them. By exiting the market, this would mitigate future damage and bankruptcy as they would have to liquidate all of their assets. According to Porter, this industry is unattractive and unhealthy due to the high threats in each category (Porter). This does not foster an environment where Webvan can thrive and experience success.

   <u>Impact on Stakeholders:</u>

   1. Louis Borders: This option would not be ideal in terms of reputation, but it allows Louis and management the opportunity to salvage what is left and get out of the industry without losing everything.
   2. Shareholders: Webvan would no longer be operating at a loss and exiting the market gives them the opportunity to liquidate their assets and regain some or all of their investment in the organization. It minimizes the losses they would face if Webvan went bankrupt.

3. Employees: Unemployment would hit employees and there would be a negative mindset. The market is volatile and there was a lack of job security. Employees would have to look elsewhere for employment.
4. Customers: They would have to find a substitute for the services provided by Webvan as they would no longer be in operation.
5. Contractors: Bechtel Group would be unhappy as they would no longer be contracted to build their distribution centers. The suppliers the provide the inventory would also lose out on business.

Recommendation

I would recommend that Webvan exit the market and online grocery industry. They have not fared well and are currently operating at a loss. The lack of profits would make the other alternatives unsuccessful as the organization would eventually lead to bankruptcy. The aggressive expansion to many cities was not sustainable because the business model had not been proven in its original market. Webvan has potential to maintain business by acquiring other grocers, however, they are already lacking profits and that would not be a sound investment because of their lack of strategy and direction. There is a high threat in all of Porter's five forces which is not appealing. The sooner that Webvan exits the industry, the better off they will be. They will be able to recover some the investments by liquidating the assets. Although the company would still be a flop, a lot of the damage that comes with bankruptcy would be mitigated and accommodates the most stakeholders in a positive way. By using the complementary asset model and analyzing Webvan's imitability you see that their services are easily replicated and the assets that they hold are easily accessible (Afuah). According to this evaluation, Webvan must pursue run sustainability to stay competitive, which means there must be constant innovation occurring. Webvan lacked the financial resources despite having the talented personnel. From the start, Webvan was destined for trouble due to their lack of profits, saturated market, and strategic disposition.

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