Webvan

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Case 4

Louis S. Ries

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# Overview

Webvan was an online retailer, an e-commerce business that focused on selling food (i.e. groceries) online as well as a variety of other goods founded in the apex of the dot-com bubble in 1996 by Louis Borders. Borders previously had considerable experience in inventory management and customer service through his successful business, Borders Books. With this experience in mind, Borders believed that he could reduce costs, and build greater economies of scale using large distribution centers to service major metropolitan warehouses around the globe. “Organizations usually become vitally dependent on some form of core technology as a means of converting organizational inputs into outputs” (Morgan). He aimed to maximize the scope of how far groceries could be delivered. Using his analytical expertise, Webvan developed more efficient ways to assemble customer orders, store them while in transit, and deliver them to homes within a short timer of the order being placed. “Successful firms are finding ways to continuously improve the value they offer their customers” (Cash).

# The Problem

Webvan is needing to decide whether it should use the capital revenue from investments in the company to purchase regional grocery chains, distribution centers, and warehouses in the markets it is interested in pursuing, or to spend money on developing new infrastructure from scratch. “Internal financial measures such as profitability and return on assets are indicators of organizational effectiveness” (Cash). These measures had not shown any evidence that Webvan’s business model could be successful with projected sales in 1999 of $411.9 million and a net loss of $35 million.

# Industry Competitive Analysis

## Mission Statement

Webvan’s mission is to establish itself as an online grocery market that rivals traditional brick and mortar grocery markets through improved inventory management and customer focus learning. In other words, Webvan intends to improve the “speed of service, convenience, personalization, and price” (Kalakota) within the grocery industry.

## Generic Strategy

Webvan follows the differentiation strategy. Any E-Commerce business selling physical goods must focus on differentiation to compete in the environment. This is primarily due to that brick and mortar based businesses are more capable of purchasing stock in bulk and are thus have more negotiating power over price than online retailers.

## Organizational Structure

Webvan has a functional structure. Business operations and warehouses are centralized. This allows the firm to have to employ fewer people than traditional stores which gives the opportunity to transfer cost savings to the end consumer.

## Competitive Rivalry: High

The grocery market is highly competitive for customers. The main competitor for online retail of groceries is Peapod.

## Threat of New Entrants: High

The threat of new entrants is high. There is a huge hype about online retail as the next massive thing, and the cost to startup is insignificant compared to brick and mortar solutions.

## 

## Threat of Substitutes: High

The threat of substitution is high. There are a wide variety of existing brick and mortar based businesses to purchase groceries from.

## Bargaining Power of Suppliers: Low

Suppliers have low bargaining power due to the number of alternative grocery stores Webvan can go to in a local area to purchase groceries to fulfill customer orders.

## Bargaining Power of Customers: High

Customers have high bargaining power

# Properties of the Internet

## Mediation

Webvan operates using business to customer transactions.

## Universality

Any customer within a limited range of the nearest warehouse associated with Webvan can take advantage of the accessibility of the online retailer with the convenient ability of staying at home and spending the time between order and delivery doing other actions they would otherwise not be able to perform.

## Network Externalities

The services provided by Webvan to customers do not increase in value for the customer with the number of customers utilizing the service.

## Distribution Channel

Since Webvan is not selling intellectual content, but physical goods, the internet does not act as a distribution channel for services rendered and has no distribution effect.

## Time Moderator

Webvan’s customers can create a shopping list and submit an order at their convenience and it be shipped within the end of the next business day in a specified thirty-minute timeframe.

## Information Asymmetries

Customers can easily view the prices of Webvan’s goods and compare them against their regional grocery chains and online competitors and then determine if the cost of the service is positively advantageous for them over making a trip to the grocery store themselves.

## Infinite Capacity

The benefit of infinite virtual capacity is perceived through the rate at which orders can be processed. This capacity is limited after the point of purchase by the ability of the local warehouse to complete orders in a reasonable time.

## Low Cost Standard

The marginal cost of an online transaction is zero (Economies of zero). As a retailer of groceries, Webvan must compete on price and capitalize on cost savings including less labor per region.

## Creative Destruction

Webvan has the opportunity to blend brick and mortar grocery stores at best, but has states that they will never be able to fully replace physical grocery stores. The intent is to claim a high market share while lacking the expectation of outdoing traditional grocery retailers.

## Transaction-Cost Reducer

By performing orders online, the time it takes to perform a transaction is significantly reduced as customers are no longer required to wait in line to complete purchases.

# Internet Enabled Business Model

## Profit Site

Webvan offers a wider selection compared to most grocery stores, and leads on customer service.

## Customer Value

Value is added to the customer by the business being located on the internet, allowing the easiest level of access to customers, and the wide selection of groceries available. Value is negatively impacted by shipping costs and the wait for delivery of goods.

## Scope

Scope is limited to a ten-mile radius around each existing warehouse owned and operated by Webvan. Potential scope is global through expansion.

## Pricing

Pricing is menu based. All customers pay the same rate for goods purchased.

## Revenue Sources

Webvan’s only revenue sources come from the marginal sale of goods and shipping costs.

## Connected Activities

“To offer better value to the right customers, a firm must carefully choose *which* activities it performs and when it performs them” (Afuah). All activities done by Webvan are connected through a single centralized system.

## Capabilities

Webvan as an online retailer is capable of lower variable costs and a larger selection of goods than brick and mortar grocery stores.

## Sustainability

Webvan’s business model is highly imitable and complimentary assets have a very low cost. There best option is to follow the run strategy.

## Cost Structures

“A firm’s cost structure expresses the relationship between its revenues and the underlying costs of generating those revenues” (Afuah). The truly variable costs are low compared to that of a physical store. Having warehouses and a distribution center, Webvan has many of the fixed costs that a physical grocery store would have such as utilities, but also has operating expenses for machinery to facilitate moving groceries through the warehouses and distribution centers. The goal of Symantec, as is with any organization is “to make money now and in the future” (Goldratt pg301).

Key Stakeholders

## Webvan Shareholders

Shareholders, particularly the hallmark investors (e.g. CBS, Yahoo!, LVMH, Softbank, Sequoia Capital, Benchmark Capital), want to see Webvan expand and produce profits.

## Louis Borders

As the founder of the company, Borders had made a huge investment into Webvan through time and money. He wants to see the firm survive and acquire a greater market share.

## George Shaheen

As the CEO of Webvan, Shaheen has a reputable stake in the success of Webvan.

## Webvan Employees

Employees of Webvan have high stake in the success of the firm, which without, would result in them being without a source of income.

## Webvan Customers

Through goods purchased, customers are also stakeholders in the company.

## Webvan Contractors

Contractors such as those of the Bechtel Group are dependent on the success of Webvan for revenue. The failure of Webvan could out them a significant income from their contract.

# Solutions

## Do Nothing

The business is currently forecasting heavy losses and will be forced to file bankruptcy if costs are not decreased or revenue does not increase significantly.

## Acquire Existing Brick and Mortar Based Businesses

Additional infrastructure is necessary to obtain a larger market share, which is part of Borders’ goal. The acquisition of existing physical locations would be a quick, low cost way to achieve this.

## Develop New Infrastructure from Scratch

Compared to acquiring existing brick and mortar businesses, developing infrastructure from scratch would be very costly.

## Attempt to be Acquired by a Larger Organization

A larger organization may be able to support the infrastructure needed for Webvan to be successful. A larger organization would have more funding to do so.

# Recommendation

It is my recommendation that Webvan attempts to be acquired by a larger organization. They are currently lacking a proven business model and can not rely on what would take a miracle that their finances will turn around quickly enough for them to become profitable.

# Work Cited

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