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Case Study: Webvan

Due: 02/19/2018

CIS410-02

Summary

Mission Statement

Webvan’s mission is to provide the best online grocery service to the surrounding community and to be the most efficient and cheapest way to deliver products to people’s doorsteps (Afuah and Tucci, 260). Selling groceries through the internet would be the way to accomplish this.

Background

Louis Borders started Borders Books back in 1971 that would revolutionize how bookshops were operated. By using his graduate degree from MIT, he developed an inventory management system that would auto-allocate resources where needed (or most desired) and update the system to indicate how much stock was on hand when items were sold (Afuah and Tucci, 261). Borders Books was also a leader in customer service. Employees were required to take a competency quiz based on book or music knowledge to ensure that only those extremely well-versed in the subject were hired (Afuah and Tucci, 261). By doing so, Borders Books became the “second largest book and music retailing chain in the United States…” (Afuah and Tucci, 261).

With increasing sales and great customer service, it is no real mystery why Webvan decided to go into the grocery industry. According to Afuah and Tucci, it was “a new challenge” for Louis Borders, founder of Webvan. In 1998, the company was formed. Starting out, the business amassed 10,000 customers/subscribers to the store within five months; it took Peapod 10 years to gain 100,000 (Afuah and Tucci, 266). The main facility in San Francisco where Webvan started cost $25 million to build that included “4.5 miles of conveyor belts, temperaturesensitive rooms for specialty items, and the ability to serve as many customers as 20 normal supermarkets.” (Afuah and Tucci, 264). This would be the prototype for the 26 other facilities Borders wished to build which should, according to Borders, would make money within the first nine months (Afuah and Tucci, 264).

Problem

What Webvan (and Borders) faced was trying to break into a market that is extremely new but has somewhat been established by other companies. Not only that, but they now feared expectations could fall short for investors if they did not do well. Currently, they are spending way more than selling, and this started in the first year (Afuah and Tucci). Given that they are a holographic, Borders is right to want to expand as quickly as possible, but first they need the income.

Industry Competitive Analysis

Industry Rivals

High: There are already many companies currently selling groceries, both online and brick-and-mortar style. Webvan competes with local markets as well as companies such as Netgrocer that could ship to all 48 contiguous states in the United States (Afuah and Tucci).

Threat of Substitutes

High: Customers could either go to local retail stores for their needs or have goods shipped to them on a certain day and time. Either way they had many options to choose from which made them more than likely not use Webvan.

Threat of New Entrants

High: Now that the internet is in use, anyone with a warehouse and a server can be in the industry. A lot of different retailers were starting to gain clout along with Webvan (Afuah and Tucci).

Bargaining Power of Suppliers

High: Given that Webvan is a reseller and they do not make their own goods, they rely heavily on suppliers for their needs. This increases the likelihood that the suppliers will set their own price and Webvan would have to deal with it.

Bargaining Power of Buyer

High: If buyers don't like the price of goods Webvan sells, they can easily go elsewhere. Doesn't help that Webvan needs to charge a shipping fee for most orders. When consumers see $4.95 added on for shipping, they decide they can shop themselves (Afuah and Tucci).

Stakeholders

Webvan Employees: There is a good chance if the company does not start turning a profit that employees will start to get laid off. After almost three years of operation, Webvan has yet to make money. Since the goal is to make money now as well as in the future, their business model may need to change (Goldratt).

Executives: All those who make decisions that guide the company forward (or backward). This includes, but is not limited to, Louis Borders and George Shaneen. (Afuah and Tucci).

Shareholders: Shareholders are losing money each year. After their initial IPO boom, their stock has gone down significantly. These shareholders are being impacted negatively. (Afuah and Tucci).

Customers: Those who use the online grocer for their grocery, and other needs.

Suppliers: Since Webvan hasn't grown to be a large retailer yet, suppliers stake in the company is fairly low. They could do without the business and be just fine.

Alternatives

Do Nothing: If the company does nothing, they will keep running themselves into the ground. They will never turn a profit and will dive farther into debt, eventually relinquishing all assets. All of the employees will lose their jobs and shareholders will lose out on possibly millions.

Buy Retail Stores: Webvan could start buying out other retail stores in the hopes that it would turn their poor financial performance around. This would be bought for directly from Borders bank account as the company currently has no money to use of its own.

Cut Losses and Leave Market: Webvan could divest all of their products and assets and leave the market. Shareholders would save a lot of money if Webvan did this and the would not have to file for bankruptcy. Again, employees won't be happy about losing a job, and the few customers that do use Webvan will have to search for another online retailer or travel to local stores.

Sell to a Larger Competitor: All assets will be sold to a larger competitor. For customers, they may still be able use Webvan services given that it is held by another corporation, which in turn means employees will be able to keep their jobs. They executives will most likely be fired as a new wave of management will be brought in. Granted, there is also a good chance that the company will split up and not used at all. If Webvan can sell before the stock price drops, it would mean a very decent payout.

Recommendation

My normative recommendation would be to attempt to sell to a larger competitor, given that it would give Borders and shareholders the best chance to save money as well as possibly continuing their online services. They currently cannot buy other retail stores, nor can they do nothing. They could cut their losses and leave, but that provides no benefit to anyone. Selling to a larger competitor gives them the best chance to please everyone.

Sources:

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Morgan, Gareth. Images of organization. Sage Publications, 2006.

Goldratt, Eliyahu M. The Goal.Great Barrington: North River Press, 1984 Print