

Webvan Case Write-Up

CIS 410

3-01-18

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Webvan is an American based company that was created in 1997 and is taking part in the internet service boom of the 1990's with their online grocery delivery. Webvan recently underwent an extremely successful IPO (Initial Public Offering) and the company's chairman Louis Borders, the founder of Borders book store, is trying to figure out which path to take the company now that expectations have been raised. While the company may only be two years old it managed to secure an 80% premium on it's first day of trading with a market valuation of over \$8 Billion which is almost half of some of the bigger grocery chains such as Kroger.

Webvan's major strength is that they have a well developed organizational structure due to Mr. Borders history. While they were outpacing their rivals in certain markets Mr. Borders is concerned about whether the company will be able to continue to perform positively now that they've had a successfully IPO and probably given their major grocery store chains (i.e. Kroger, Winn Dixie, Publix) a wake up call on the importance of online grocery shopping. Webvan's main decision as a company would have to be whether they want to attempt to block off incoming competitors, team up in order to strengthen their customer base and market share, or to move out of areas where they are struggling in favor of strengthening their original markets.

One of the main considerations the company has in situations like this are the outside forces that may impact or be impacted by any decision made. The easiest way to categorize these would be through Porter's Five Forces: suppliers, customers, new entrants, substitutes, and intra-industry competition. (Team FME, 6) Because the decision they are presented with is what path the company should take in order to ensure it's future success and growth almost all

of the five forces will both affect and be affected by the decision that Webvan decides to make as a company.

Webvan is a grocery delivery service, which means that they have to obtain their goods from some source. They are also based on the web which means that they have to have a website and servers to run their company in order to keep in business. Because of this they have two separate groups of suppliers, those that supply their intangible goods such as internet service providers and electricity, and those that provide the actual goods that their service is based around. Since they deal in mass quantities of goods Webvan would likely be focused on wholesale suppliers so that they can get bulk quantities for cheap prices. The customers of the company would have to be the customers they sell their products to. The main goal online grocery services would like to achieve with their customers is to have consistent return customers. As we learned with Goldratt the goal of an organization is to make money (really to survive) but currently speaking Webvan has no profit for the past two years so whatever decision they decide to make should be based around expanding their customer base to a level where they can maximize their profits. (Goldratt)

As for new entrants into the business they face the same issues as mentioned in the Five Forces, they usually come across some form of an entry barrier. (Team FME) However, these entry barriers would be very low due to the fact that it is still an emerging industry and the rules of online grocery services have not yet been set. This means companies such as Kroger (who would also be an alternative to their service) can decide to start an online grocery service and given the success of the IPO for Webvan they are likely to look into expanding into the industry. Concerning substitutes this industry holds a unique perspective due to the fact that it

is not a new idea such as software or a revolutionary piece of hardware but instead is a service based industry that has developed out of an already thriving grocery industry (everyone needs food).

As for competition in this industry there are several companies that are currently on Webvan's radar. The first company they mention is Peapod, a company who shares a lot of their customer base and locations but has been in business a lot longer and therefore has a much larger customer base than Webvan does. Some of the other companies named are Streamline, Shoplink, Netgrocer, and eGrocer. While Webvan may have a lot of different companies that are competing with them, most of them have specific rules to the products that they provide. For example, NetGrocer supplies all of their goods on Federal Express' three day delivery. On top of that they only supply non-perishables so there are specific products that they will not supply to their customers because of the risk of the products expiring during the delivery process. In the Five Forces it is mentioned that a company must learn to innovate their systems in order to stay a strong competitor in the industry. (Team FME, 11) The most obvious inclusion of this rule would be that Webvan must continuously find a way to diversify the products that they can ship in order to stay competitive in their industry.

There are a total of five main stakeholders in Webvan's decision. The first and most obvious stakeholder is the one who is the main decision maker in the form of the chairman Louis Borders. He is the founder and head of the company and therefore the decision of which direction to take Webvan falls on his shoulders and the company could thrive or go out of business based upon his decisions at such a critical point in the life of the company. The second group of stakeholders are the most affected by the company's decision, the customers. The

third group of stakeholders in the decision are the suppliers and wholesalers of the company, an improvement in the sales of the company would mean an increase in the purchases of the wholesalers product which is good for business. The fourth and fifth groups of stakeholders involve different forms of competitors. The first being their actual competitors in the industry. If they choose to team up they could merge with a competitor, if they choose to block they could harm competitors, if they chose to run it would help them. The final group of stakeholders would have to be the remaining alternatives such as Kroger and Publix, depending on their decision they could help or harm the other competitors.

There are four decisions that Webvan can make in order to plan out the company's future. The first is that Webvan decides to do nothing. The second is that they decide to focus on blocking new entrants or competitors from expanding into their business areas. The third would be for them to team up with another company to strengthen their market share and stay a threat. The fourth and final decision is that decide to move from areas with high competition and focus on expanding their customer base in already established markets.

If the company decides to do nothing there would not be an immediate effect. However, eventually if nothing changes for Webvan they will lose all investors since currently they are not making any profit and need to focus on expanding. This means that Borders will lose his job as well as his company because they would go out of business. The customers would lose their suppliers and no longer be able to order their products from Webvan. The suppliers would lose a segment of their business because one of their customers would have gone out of business. The fourth and fifth groups of stakeholders would both benefit from

having nothing done because Webvan would likely go out of business which means a competitor who is taking up a portion of the market share would no longer be in existence.

The second option is for the company to decide to block out other entrants into their business territories. While this sounds like we are comparing Webvan to some drug trade by mentioning their territory it makes sense from a business standpoint. Dr. Barker said in class that a business' goal is to survive. (Barker) If competition comes along and Webvan does not have a large enough customer base to compete in one of their areas they will not be able to survive. By blocking others out of entering their areas they are ensuring the company will at least stay the same, if not grow. Because of this we know that Borders would not necessarily lose his job unless they could not expand in their territories. The customers and suppliers would still be able to purchase and sell their products to and from Webvan so they would not necessarily see a change. Competitors and Substitutes would suffer from an increase in the difficulty of moving into territories that Webvan has a strong presence in and because of that they may not be able to expand to those areas at all.

The third option would be for Webvan to combine with another company or one of their competitors in order to strengthen their market share. This would almost certainly mean more business for the company. Because of this we can see that Borders would probably benefit from this because he will be making money and his company would be succeeding. The customers may benefit in entirely different ways because Webvan may be able to offer a new line of products that they couldn't offer originally. The suppliers would see an increase in Webvan's customer base which also means that they would receive an increase in the orders and therefore business. One of their competitors would benefit because they would be combining

with Webvan and gaining market share. The rest would suffer because they would see an increase in the competition in their industry.

The final option would be for Webvan to quit expanding and back away from high competition areas. This would mean that Borders could retreat the company and create solid customer bases in areas they already have a strong presence. The customers would not see much of a change. The suppliers would probably see an increase in the orders made by Webvan because they would be focusing on increasing customers in their own areas. This would be a good thing for both sets of competitors because they would lose a competitor in their areas.

After considering each option the decision I would make if I were in charge of Webvan would be for them to team up with another company in order to increase market share and prepare for the inevitability that is grocery giants becoming new entrants into their industry. This is the best option for many reasons, if they were to do nothing they would see no success or growth in the company that is too young for them to turn an actual profit yet meaning all costs would be sunk costs. While them blocking others from coming into their areas may work against smaller new entrants into the industry they do not have the customer base or power in order to keep out their larger competitors from making their way into a new area they may be in. If they were to run from high competition areas there is not a good chance for them to have an increase in customer growth. They would also not have a chance of keeping out powerful new entrants either. The company I would recommend that Webvan combine with would be their main competitors in Peapod. Peapod is currently the oldest and largest of the online competitors. However, they have a weak point in their development because they switched over to warehouses in 1999 but they do not have the size or organizational structure that

Webvan does and because of that they could benefit. Webvan can take their strength in organizational structure and the promise of their IPO and use it as leverage for Peapod and their large customer base and history. Since Peapod is currently operating with a much larger customer base and much smaller warehouses there's a chance that they are operating at or close to capacity. Webvan currently is operating at around 20% capacity in some markets and because of that an increase in the customer base would allow for them to truly test out their structure and planning to see if it is really compatible with the grocery industry. Plus, if capacity is a constraint that Peapod is having an issue with they will be able to elevate it with the increase in warehouse space and improvement in logistics. In Goldratt's book "The Goal" we learn that once they have been noticed and the system subordinated to them, the next step is to elevate the constraints of a system and Webvan has the ability to do just that for Peapod. (Goldratt) With both companies working together they would be able to dominate the industry and with any luck be able to keep substitutes turned new entrants such as Kroger or Winn Dixie away.

Sources:

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