WEBVAN CASE

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Table of Contents

Background

Webvan was a subsidiary of Borders Books, which was created by Louis Border by combining grocery shopping online with home delivery. On November 5, 1999, Webvan completed its much anticipated initial public offering (IPO) and made headlines across the business world. Despite tiny sales and big losses to date, the company shot to an 80 percent premium on its first day of trading. After their first trading day, Webvan had a total market value of more than $8 billion, nearly half the capitalization of grocery industry leaders such as Safeway, Inc., and Kroger Co.2. However, despite its successful starting point, the company experienced net sales with a small profit and a big loss. To remain the top competitor of the market Webvan must differentiate itself and determine a strategic plan that would capture more market shares and customers.

Problem

With the merging of various online grocery competitors, Webvan must develop new strategic tactics in order to excel from other Internet online grocery shopping markets. The biggest challenge in the development of the online grocery industry was to attract customers to use this alternative method of purchasing groceries instead of the traditional shopping method. Online grocery shopping cannot replace the "touch and feel" experience of certain products. Other common customer criticisms of online grocery shopping included lack of selection, the amount of time it took to set up an order, and the high cost of delivery relative to the service's perceived value. (Afuah)

Webvan's huge success in its initial public offering took an unexpected turn when Webvan's 1999 sales were expected to amount to $11.9 million while losses would amount to $35 million. This means that if the company does not implement a new strategic plan to retain enough sales, the company will become bankrupt eventually.

Industry Competitive Analysis

Mission Statement

To serve the online grocery market with "Greater convenience than traditional grocery stores, a wider variety of products, better prices, and free delivery within a 30-minute window. (Clarke)

Generic Strategy

Webvan's generic strategy is differentiation: in the forms of customer service and operation. "Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique." (Porter) Webvan aims to provide 50,000 product lines in comparison to the normal 30,000 product lines and also employs its own culinary director to provide the customer with enhanced catering and meal experience.

Organizational Structure

Webvan has a functional organizational approach because their activities are grouped together. For example, perishable foods must stay frozen until the customer receives the product. Their warehouse distribution center is set up using automated proprietary systems, strategically placed "pickers" to assemble orders in plastic Nguyen 3 boxes or totes, and a conveyor belt that transports the bins and totes throughout the warehouse.

Porter's Five Forces

New Entrant

The threat of new entrants is high because the initial start-up cost of doing business on the internet is very low, and once the site is built the cost of doing business per transaction becomes practically zero.

Substitutes

The threat of substitutes is high. Examples included the traditional offline grocery stores which people are actually more comfortable with.

Customers

The threat of customers and their buying power is extremely high, because of the multiple substitute grocery options available to them. This means that if Webvan did not meet expectations, the customer will simply switch to another online grocery. There is low or no switching costs for changing their grocery provider.

Suppliers

The threat of suppliers is low because there are so many different food suppliers that Webvan can reach out for

Competitive Rivalry

The threat of competitive rivalry is high because they face competition from both online and offline grocery providers. Examples of competitors include Peapod, Streamline, Shoplink, NetGrocer, Hannaford Brother, eGrocer, Niche Player, as well as big grocery chains like Kroger.

Stakeholders

Louis Border: Webvan's Chairman, and the founder of Border's Books and Webvan.

Employees: people that are working and maintain the daily operation and customer service for Webvan. Employees are thoroughly screened and trained before starting work as Webvan's ambassadors and are expected to provide professional service in order to help the company increase its revenue.

Customers: people that are purchasing Webvan's product. The stake of the organization relies heavily on customer purchase and loyalty.

Shareholders: people that take shares in Webvan

Contractor: Bechtel Group which is a major stake in the success of Webvan by signing a $1 billion agreement with Webvan in 1999 to build distribution centers and delivery infrastructure in 26 new markets over the next 2 years

Alternative

Do Nothing

This means that Webvan would remain in its current state with no changes made. This indicates that by 2001, sales would be $518 million, with an overall loss of $302 million for the year. $518 million would be less than 1 percent of the entire grocery market (including brick-and-mortar sales). The high operation cost but low net sales indicated that the company will eventually go bankrupt. This strategy goes against the underlying goal of every organization to "make money now and in the future (Goldratt).

Using the current system, the employees will continue to be trained for professionalism in terms of service, but will eventually lose their current job. A limited amount of customers will continue to seek Webvan's exceptional service in-home delivery but will turn toward other grocery chains when Webvan is bankrupted. Shareholders would suffer a loss in investment because Webvan is operating at a loss. Unless the customer is able to be convinced by the benefit and convenience of online grocery delivery in a short amount of time to boost sales, it is unrecommended for Webvan to continue implementing its current system.

Buy Regional Grocery Chain

By purchasing more regional grocery chains, Webvan will have a distributed operation center. The regional chains already possessed supplier networks as well as their own distribution centers which Webvan can leverage equipment from. It would also eliminate the potential competitors of the region, which can potentially increase the numbers and areas of the target group.

This will create new jobs for people and allow the current employees to maintain their current role. However, the expense of this approach is huge. While it can increase more customer base, create new infrastructure, and eliminated regional competitors, the risk of the failure of this option is high. There is no guarantee that these grocery chains will also experience a sales loss.

Additional Product Line

Webvan can continue on its differentiation strategy by increasing its product line. Adding new products can help attract new customers and increase the products that current customers purchase. The normal grocery offers about 30,000 product lines while Webvan operates with a 50,000+ product line which is nearly double the amount. If the company decides to implement this option, it must spend more effort into advertising products to the customers and differentiate themselves from other competitors.

This decision would increase employees' workload but create satisfied customers because they would have more options of products to select from. Once the customer finds Webvan to be more efficient and beneficial than other groceries. Once this habit forms, it will provide a constant stream of revenue from online grocers (Afuah). The shareholder will benefit if the sales increase.

Exit the Market

This option would involve Webvan leaving the market and liquidating all assets. Webvan is currently operating at a huge loss and exiting the market could prevent the company from suffering from a greater loss and bankruptcy. This means that all the money and resources that were implemented previously would be waste. The statistic shows that "of the 53.5 million people who were online in the United States, only 435,000 ever purchased food online. This number represented less than 1 percent of the 14.5 million users who had made purchases online" (Afuah). The lack of a market in the industry is the primary reason for Webvan to exit and it would allow the company to minimize their loss.

This option indicates that the employees will lose their job and customer will either approach another online eGrocer or go back to shopping physically in person. It will also prevent the shareholders from a great loss in their investments.

Recommendation

I recommended exiting the market because they currently not making any profit despite being the top competitor of the industry. Customers are so used to the traditional offline grocery and the current market does not have enough online presence. In order for Webvan to create profit, they would need to establish incentives for the customer to use their service, while still staying competitive with their competitors. While Webvan tried to use a product mix to differentiate themselves from their competitors by offering 50,000 products instead of 30,000 in comparison to its competitors, statistics indicated that it is not enough and the company is still operating at a huge loss. This proves that the main problem is the trend of shopping behavior still revolves around the offline shopping experience and Webvan lacks the ability to influence the whole market.

"For a chance of success in this marketplace, the firm must identify an actual customer need and the firm's relationship with the customer must build on the key feature of the medium, namely interactivity" (Zwass). Webvan did not successfully identify the customer's demand before entering the online grocery market and this result in their strategic failure. The online grocery industry has high competition and substitution rates and they are disadvantageous to compete with huge chains such as Kroger. Thus, it is recommended for Webvan to exit the market before they experience even more loss.

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