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Webvan

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**The Problem**

Webvan is an organization that received heavy investment early in its life. The belief that they would be successful allowed them to secure major funding. They are struggling to convert that potential and idea into actual sales and success. They are struggling to fit their business model into the grocery industry.

Some factors to consider:

* Webvan’s 1999 sales were expected to be $11.9 million while losses would be $35 million.
* Less than one percent of online shoppers have bought groceries online. This indicates that online grocery shopping could be a bounded rationality problem.
* The savings associated with online ordering were partially offset by expensive home delivery and servicing requirements.

Webvan has not been able to successfully implement an internet enabled business model. I will give my recommendation on how they should proceed.

**Industry Competitive Analysis**

## Mission

Webvan provides grocery delivery for online shoppers by utilizing a developing distribution network and a top-of-the-line website. They are inventors on the software side and need to have a core competency in HR to attract, hire, and retain the best IT personnel (Barker).

## Market

Webvan markets to busy consumers. Their business allows people to cut down time spent shopping and have the goods delivered directly to their home. They require a 45-minute initial setup that allows future orders to be processed quickly and efficiently.

## Strategy

Webvan uses a differentiation strategy. They are trying to appeal to customers by having the best product selection and customer service. Webvan likely isn’t going to be able to outprice traditional grocery stores, but with their convenience and product mix they aim to draw customers to their platform. Their differentiation strategy allows them to generate higher profits than a cost strategy (Tanwar).

## Porter’s Five Forces

**Inter Industry Competition** is a high concern for Webvan. There are already online grocery companies with 10 times the customers of Webvan - Peapod. The case names multiple other competitors in the online grocery industry. Webvan will have to maintain and improve their product differentiation and improve service levels to improve their market share (Bristoll & Newton).

**Substitutes** are a major concern for Webvan. Brick and mortar grocery stores dominate the grocery industry and online grocery shopping accounts for less than one percent of the grocery industry.

**New Entrants** is not a major concern for Webvan. The logistics required to run an online grocery business is expensive. However, online grocery shopping does have a common technology base and that does provide a slight threat for new competitors (Porter). The huge portion of the grocery market that belongs to brick and mortal grocery stores can act as a natural entry barrier. This coupled with the cost of distribution makes new entrants not a threat.

**Suppliers Bargaining Power** is high for Webvan. They are a company that relies totally on suppliers. To obtain the product mix they desire they will have to deals with multiple suppliers. Their distribution network is also not completely developed, so they will have to rely on other companies for that as well.

**Customers Bargaining Power** is also high. There are a lot of options in the industry. The switching costs for customers will be essentially nothing. Webvan does nothing to lock their customers in and at anytime they could return to brick and mortars or a competitor.

Looking at Porter’s Five Forces shows that there are a lot of things that Webvan will be affected by. Competition and substitutes are a major concern for Webvan and both customers and suppliers have high bargaining power. These factors show that Webvan is in a weak position.

**Identifying Stakeholders**

**Webvan Executives** – This group consists of executives at Webvan. In this company executives play an important role. They are the face of the company and have helped secure the major funding. They will be making the necessary decisions to get Webvan profitable.

**Webvan Shareholders** – Webvan has recently gone public and has received major funding. Shareholders will have very high expectations of Webvan to start turning a profit.

**Webvan Customers** – This group consists of all the customers Webvan serves. Their primary interest is receiving the best product and service from Webvan at the cheapest price.

**Generating Alternatives**

1. **Do nothing** – The first option is to make no changes and continue with the current plan. Currently they are losing a lot of money, and it’s unlikely that maintaining this status will lead to success. They are going to need to invest over one billion dollars in infrastructure to serve the customers the way their business plan intends to.
2. **Acquire regional grocery chains** – Webvan would acquire regional chains that already have supplier networks and distribution centers. This would provide help kickstart their logistics and distribution network in new regions. This alternative would be cheaper than starting from scratch and provide Webvan with an opportunity to possible blend the brick and mortar and online experience.
3. **Get acquired by a chain** – If you look at what Webvan is at its core, it’s just an idea. They don’t have the total customers they need, and they don’t have the distribution and logistics to expand that customer base. If a major chain were to acquire Webvan and use their logistics and distribution to combine with Webvan’s model and customer service, then there is great potential for success.

**Analyzing Impact on Stakeholders**

## Do-nothing

**Webvan Executives** – They will continue their current course, losing millions of dollars a year with no solid evidence of a profit being turned in sight.

**Webvan Customers** – Customers will likely not notice a difference soon. They will continue receiving the same service they’ve been receiving. If the organization fails to change what it needs to then customers could begin to see poorer service and eventually go to a competitor or return to brick and mortar grocery shopping.

**Webvan Shareholders** – The company has only been losing money. Shareholders will expect a change and Webvan will need to make some moves to become profitable.

## Acquire Regional Chains

**Webvan Executives** – Executives could see a lot of change. Their strategy will have to change to adapt for the brick and mortar stores as well as change their plan for the future expansion. They would likely need to exit the contract with Bechtel Group.

**Webvan Customers** – Customers will receive better service in terms of potentially cheaper prices and better delivery times.

**Webvan Shareholders** – Shareholders could be unhappy with this decision. It all depends on if this helps turn Webvan profitable sooner. It’s likely that the cost of this investment would not help Webvan become more profitable in the near future which would not make shareholders happy.

## Get Acquired by a Chain

**Webvan Executives** – Executives may be replaced. They may have to start answering to the parent company as well and might not have as much freedom as they did before the acquisition.

**Webvan Customers** – Will certainly see an increase in service and likely cheaper costs. The infrastructure of an established major chain will allow Webvan to reach customers they previously weren’t able to and provide them with faster service and cheaper costs.

**Webvan Shareholders** – Will have to approve the acquisition and will be happy as the target company’s stock usually rises in an acquisition (Murphy). Being acquired will save Webvan hundreds of millions of dollars in costs of developing infrastructure and will likely help them turn a profit sooner; making shareholders happy.

**Solution**

My proposal is that Webvan be acquired by a larger chain. From a sustainability stand point Webvan cannot block or run, they need to team up. The complementary assets required for a logistics network the size Webvan is planning on is massive. Also, the imitability of an online grocery store is high as shown by the many other competitors in the industry. When there is high imitability and tightly held complementary assets, you need to adopt a team-up strategy (Afuah & Tucci). The most ideal situation would be for Webvan to be acquired by a large chain.

If they do nothing, they will have to spend $1 billion dollars on infrastructure, all while not yet proving they will ever be profitable. The early results and lack of success from Webvan will scare away investors and that high share price could come crashing down.

If they only acquire select regional chains, they aren’t doing enough. This is also just more extreme capital investment that would be required when they’re already burning through money. It’s going to be very difficult to convince shareholders this is the right decision.

Being acquired gives Webvan the infrastructure they need and will allow them to focus on their core competency – operations and customer service.

Getting acquired by a chain is also Webvan’s best shot at getting people out of the bounded rationality that is brick and mortar grocery shopping. Bounded rationality is the reason so few people are buying groceries online. Having a major chain that customers are familiar with would likely increase the number of people that are willing to give online grocery shopping a chance.

By themselves Webvan would need to either lower prices or offer such a product mix and convenience that customers become price indifferent. In their current state that seems impossible. Given the state Webvan is in their best option is to be acquired.

**Citations**

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