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**Case: Webvan**

# Introduction

Webvan is an online grocery store that incorporates internet grocery shopping and home delivery (Afuah & Tucci, 2003). They made their headlines across the business world on November 5, 1999, to make their initial public offer. It first operated in San Francisco, and registration was done by more than 10,000 people to access their services. The founder of Borders Books, Webvan’s chairman Louis Borders, felt terrible since they were making tiny sales and significant losses at first. He found themselves finding new ways of making the business sustainable in the highly competitive venture they had started.

# Before Webvan

In 1971, the Borders brothers, Tom, and Louis, opened a bookshop in Ann Arbor, Michigan. Customers were offered excellent and well-informed store staff who helped them look for book sections they required. Louis's study of mathematics and his graduate work at MIT made him employ knowledge and strategies which changed the retail industry (Aspray et al., 2013).

## ***Inventory management at Border Books***

Borders Books developed an advanced computer system that used artificial intelligence to adjust store inventory in the book retailing world. It made it possible to add more books that were selling and eliminate the books that never sold. The technology created space and allowed them to stock more books, music, and video titles.

## ***Customers Service***

Borders Books offered exception services. They focused on hiring well-educated book lovers. Potential employees had to pass either a book or music quiz. In case a specific resource is not available at a particular store, the computer system searches for it in the entire Borders Books chain. If it cannot be found in the inventory, a salesperson would ask publishers, wholesalers, small bookstores, and suppliers. When the item was found, it was secured and shipped to the location convenient to the customer.

# The New Challenge: Webvan

The traditional offline groceries were still common. The online grocery market emerged during the 1980s. Small local stores were taking orders by phone. Shoppers would then pick up the orders from the available grocery stores. In 1990, Peapod emerged as the first online grocery, and since then, the smaller companies have been following the trend (Lunce et al., 2006). The development was spearheaded by fast internet growth in the 1990s. New competitors, Webvan, and eGrocer ventured into the market. They were eager to use the internet and soon developed websites with products they were selling.

The market offered new opportunities that new ventures could undertake. Online grocery channels offer consumers convenience as the wait time was reduced, companies like Webvan took 30 minutes to deliver an order. The habit of online shopping was forming, which provided a constant revenue.

Despite the hype, the industry's biggest challenge was to gain new and retain the right no of customers to use the new services. The competition was so stiff that other companies were forced to diversify beyond groceries.

# The Webvan Model

Webvan differentiated itself in operations and customer service.

## ***Operations***

In Webvan, a proprietary system that automated the company's operations from ordering to delivery was created by the software programmers. A central distribution in Oakland, California, used this system to process orders in the San Francisco Bay Area market. They used this distribution center as an example to develop 26 others. The model could serve customers as many as 20 regular supermarkets.

Once an order was placed via the web, it was automatically directed to the warehouse where “pickers” who assembled orders and color-coded them depending on the type of preservation used (Pullman & Wu, 2012). They picked orders from bins in the warehouse. The conveyor belts transported the orders for loading in trucks. The trucks transport the orders to either of the 12 stations. Vans later took the orders directly to the customers.

## ***Customer Service***

Customers’ orders were processed within 30 minutes. The delivery persons were prohibited from accepting any customers' tips since they were supposed to be the company’s ambassadors. Webvan provided customers with a wide range of products. Customers could also personalize their shopping lists, and this provided more comfortable shopping services for time-limited customers (Blanchard, 2011). Meals were prepared to cater to Webvan’s customers. Webvan also used highly regarded suppliers in the Bay area to provide high-quality products.

# Stakeholders

There are a few stakeholders involved in the Webvan organization case. The primary players are the Employees who comprise of the programmers and staff members, shareholders, and the suppliers. The fewer stakeholders make the running of the business easier as communication channels are established well.

# Competition

The online grocery sales were new, but several companies offered Webvan competition to serve the vast market. Peapod.com, one of the oldest and largest online grocery players, served most customers in Chicago. A customer had to use additional software to use their services. Streamline.com and Shoplink.com focused on lifestyle solutions and simplifying the lives of most families. They delivered to a wide variety of customers' doorsteps once a week. Netgrocer.com employed a warehouse delivery strategy. They used Federal Express to ship deliveries to all the 48 states.

# Effects of Online Grocery

The development of online shopping for groceries altered the functionality of the bricks and mortar supermarkets (Lee & Poh, 2019). The businesses were encouraged to take massive bets on the internet. Most stores are utilizing this new technology to offer less costly service delivery.

# Porter Five Force and Industry Competitive Analysis.

In an online grocery store, the supplier has no power to drive up the prices because there exists a competitive rivalry from other similar companies ("Porter’s Five Forces of competitive position analysis," 2013). Customers may also find a close substitute from other companies such as eGrocer or the industry veteran, peapod.com. The buyers also have no power to control the prices of products in the market. They are already provided with all the information they need before they place an order. The presence of various companies in the market that offer close to similar products creates competition, and a company has to diversify to remain relevant in the market. Webvan started preparing meals to capture their loyal customers' fast food needs. Each company has a threat to substitute products in the market, and this is because of similar products offered across the companies. A new entry into the market will erode profitability. The big companies acquire small ones to maintain profits.

# **Porter’s Generic Competitive Strategies**

The online grocery market has proved to be competitive, with several companies taking advantage of technology advancement. Many companies offer best policies such as free delivery for orders above $50 and charge less for goods worth less than that. Porter describes three ways in which businesses achieve sustainable competitive advantage (Tanwar, 2013). They involve:

## ***Cost leadership Strategy***

It involves the efficiency of a business. Webvan has to produce a high volume of standard products to take advantage of the economies of scale. It makes the products low cost and available to a large market. Methods of reducing costs in the business are applied, such as location-based order placing. Webvan should also put certain products on offer to attract customers.

## ***Differentiation Strategy***

Due to the flooded market in the online grocery companies are forced to extend their product sold. The new products are supposed to be different from the ones available in the other companies. It helps improve the brand and increase market shares. Webvan created chef-prepared meals that served Webvan’s customers' lifestyle. They also partnered with highly regarded suppliers in the Bay Area.

## ***Focus strategy***

In this strategy, the company chooses a few target markets to pursue. It reduces the risks of substitutes from competitors. Webvan has mainly focused on the Bay Area and even partnered with the highly regarded suppliers in the area. It helps them build a brand that can be hard for other companies to compete in the region.

# Conclusion

With the high competition in the market, Webvan may employ various policies to remain viable. Cost leadership strategy helps reduce the prices of certain products in the store. Since they have already entered the market and existed in the market, they should expand since it is cheap to use an Internet-Enabled Business Model. Absorption is another action they need to consider to reduce the competition in the market. Small upcoming online grocery businesses should be acquired to control the market. This process is the safest as one can use the other company's technology to develop the parent company. With the constant advancement in technology, new trends are available every day, Webvan should not shy away from using the latest technology.

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