Webvan Case Write-Up

Background / Problem

Webvan is an internet-based company that offers online grocery shopping with a home delivery service. Webvan was founded by Louis Border, the founder of Border Books, Webvan was a subsidiary of Border Books, it operated in the e-commerce field, allowing customers to handle their grocery shopping completely digitally, and their groceries would be delivered to their house the following day during a specified time period during the day. The concept of Webvan was an amazing concept, but even with a great concept they struggled to be profitable. In spite of a successful IPO, on November 5, 1999, Webvan was having a difficult time turning their services into a profit, even though Webvan as a company was valued rather highly compared to its actual market impact. Webvan had been operating in the San Francisco area for approximately five months. Within that five months they managed to amass more than 10,000 clients. Which was fairly impressive due to the fact that it took Peapod, Inc., a Webvan competitor, ten years to obtain a client base of 100,000 households.

The problem Webvan was facing was that there are a lot of competitors within their industry and due to that they were having a hard time amassing a good amount of the market share within the industry. All the competitors within the industry were trying to find ways to differentiate themselves from their competitors, sometimes it would work and other times it would not. Webvan is realizing that they need to find a way to gain a chunk of they market share within the industry, especially now that they are a publicly traded company and they have all eyes on them. Webvan is not sure which decision they should make in order to turn a profit, should they try and acquire local grocery chains in the area that are trying to peruse, should they consider selling Webvan to a competitor so that Webvan does not fail? It is important that Webvan has a plan and they implement it as soon as possible, because “you can not get there unless you have a map” (Fried). Another option they might consider is starting to add other products to their online marketplace such as: movies, CDs, video games, toiletries, or even outdoor products. The one thing they can be certain of is that they need to implement a course of action before they go under completely as a company.

Industry Competitive Analysis

Competitive Rivalry: High

There are a lot of other online groceries stores within the industry that Webvan presides. They provide very similar services that Webvan does, such as Peapod. “The organizations ability to adapt to changing conditions is key to long-term organizational effectiveness.” (Cash). There are many other companies within the market like Streamline or Shoplink, which deliver grocery to your home weekly for a monthly fee. They also provide other service besides groceries.

Threat of New Entrants: Low

The market for online grocery delivery was new and untested. In addition, it requires a large amount of capital in the form of setup costs, which deterred many prospective entrants into the market. However, because this is an online business anyone could theoretically enter the market due to the internet.

Threat of Substitution: High

The market is dominated by tradition retail stores and supermarkets. The only differentiation that Webvan has on traditional grocery buying was the home delivery service that they provided.

Bargain Power of Suppliers: Low

The bargaining power of suppliers is low because there are many suppliers of produce and groceries within the industry. If a supplier starts charging too much for their products Webvan could just go to a different supplier that would not charge them as much.

Bargain Power of Customer: High

Customers have a high bargaining power because if Webvan starts charging too much for their services they could go to another online grocery store to find better prices. Or they could just go to a traditional grocery store and buy the groceries themselves.

Recommendation

I would recommend that Webvan sell to a competitor, because it would be the best decision for all the parties involved. Under the current circumstances Webvan cannot stay afloat doing nothing when their 1999 expected sales are $11.9 million and their losses are expected to be $35 million. They would have to shutdown and all the stakeholders would be impacted in a negative way. They cannot risk buying a grocery chain because they do not have the capital to obtain a grocery chain without taking on some major debt and potentially bankrupting both