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Case 4: Webvan

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**Problem**

The problem that Webvan is facing is that there is lot of competition in the industry and they are concerned for a possible future bankruptcy. They realized that they have to do something different than rest of the competitors or they won’t survive. “industry competition is so fierce that companies have to fight for the business of potential customers” (Genever). Webvan had recently become public so they have big pressure of investors to make the company profitable. Their overall problem is that which strategy should they pursue, and which would be best in this new and unpredictable market.

**Industry Competitive Analysis (ICA)**

**Mission Statement**

The mission for Webvan is to provide good online customer experience with about double the products than a grocery store at competitive pricing. So basically, they wanted to excel in an online grocery store industry.

**Porter’s Five Forces**

**Bargaining Power of Customers:** High

Customers have high control or bargaining power in this industry because there are multiple different substitute online grocery options available. Customers could also go to the store in person if they could find better price or service there.

**Bargaining Power of Suppliers:** Low

Suppliers had a really low bargaining power because there are many suppliers for food products. Webvan could easily switch to a different supplier if their supplier doesn’t offer them good services or good products.

**Threat of new entry:** High

The threat of new entry is relatively high because of rapid growth of internet usage and very little barrier for people to create a new grocery online store. There is very little investment to get started in this industry and new competitor could differentiate their products to make steal Webvan’s customers.

**Threat of substitutes:** High

The threat of substitute is high for Webvan. There are many options for consumers to do their grocery shopping whether its online or in store. So, someone could easily steal Webvan’s place in the industry.

**Competition:** High

The threat of competition is also high. There is really high competition in this industry. There are lot of online and instore grocery companies that could offer better pricing and better services to consumers than Webvan.

**Stockholder Analysis**

There are different stakeholders in the Webvan.

**Founder/CEO** – Louis Borders is the founder of Webvan and he makes important decisions for the company and ensures the company’s success and that it is going on the right track.

**Employees** – The employees are the most important asset for a company. Good employees would eventually make the company very successful.

**Shareholders** – Shareholders of Webvan have a large in stake in the company and they would want the company to succeed so they could profit off of it.

**Customers** – Customers make the business. Webvan relied on the customer loyalty for their business to succeed.

**Solution Alternatives**

There are multiple solutions for this problem. Regardless, the main goal for the company is to maximize profit, increasing efficiency, and get a great return on investment. I have three different solutions for this problem.

**Alternative 1 :** Do nothing

One of the solutions is to do nothing. This solution would mean that Webvan would continue running their business as they are doing it now. “The effort involved in taking action could be more work than sorting it out if the problem did occur. You have to weigh up whether it is really worth investing time and effort in moving forward with a solution when the alternative is to sit tight and carry on as you are.” (Account). This would be considered a safe choice to not try anything new, but it could also make them go out of business slowly because they couldn’t fix their issues. Ultimately, this route would lead them to bankruptcy. And the shareholders would lose all of their investments.

**Stakeholder Consequences:**

Employees – Using this solution could result in lot of people losing job because company could eventually go bankrupt there would be no jobs left.

Shareholder – Doing nothing would make the shareholder very unhappy that the company isn’t doing anything to grow the company and their investments

Founder/CEO – founder would also be unhappy with this decision because he could be held responsible if company’s growth starts declining.

Customers – Customers would just change the place that they do their grocery shopping if the company goes bankrupt. They would be affected very little.

**Alternative 2**: Sell business to competitor

Another solution would be to sell their business to a larger grocery chain or their biggest competitor. I think this option should be considered if there are no other options left. This option would allow them to get money on the current valuation. “There are plenty of financial and strategic components to consider, but ultimately your decision rests on your overall comfort with the sale.” (Wood). So basically, they could cash out their valuation and not have to worry about losing business later on and therefore also losing the valuation.

**Stakeholder Consequences:**

Employees – They would have to adapt to how new company does things. Some employees would be happy with this change while some would be unhappy and decide to leave the company.

Shareholder – This decision would make shareholders happy because they could at least get their investments back rather than having to lose all of it from the bankruptcy.

CEO – He would be happy with this decision because if he couldn’t find any other solution then this would be the best way to solve the problem without making any losses.

Customer – They would be happy to see that new company would bring in new services and better pricing.

**Alternative 3**: Purchase other grocery chains

The final alternative would be that they would try to purchase other online grocery store or brick and mortar stores. This option would be most expensive but if they are able to achieve the goals effectively then they could grow very quickly. “Creating a portfolio of supply chains can also strengthen product development” (Phillips). Buying the competition would also increase their customer base and they could reach areas that they haven’t been able to reach.

**Stakeholder Consequences:**

Employees – More employees would need to be hired because of this company expansion

Shareholder – This option would increase the stock price and thus it may also increase shareholder’s investment.

CEO – This approach could help them cut out the middleman and compete with retail store prices.

Customer - They would be happy to see that Webvan is available in more areas.

**Recommendation**

My recommendation for Webvan is to just exit out and sell their business to the competitor. Even though this feels like a last resort option I think due to the current condition of Webvan the best option would be to just exit the market. I think that they would be able to cash out their all of their investments until it starts losing business. “Selling to a competitor may offer a quick exit - without the need for you to stick around very long after the sale to show the new owner the ropes.” (Lieberman). Webvan isn’t very likely to grow their business in the future. They weren’t making any money and their growth also stopped and they were getting closer to a bankruptcy. The risk outweighed the rewards, so I believe it was the best option to just sell the business and exit from the market.

**Rejected alternatives**

Doing nothing wouldn’t help the organization in any way but it would just delay the inevitable. Webvan would slowly start to lose their growth which would be bad for the company.

I didn’t go with option with purchasing other grocery chains because I think it would have been too much expensive and the success of the company wasn’t guaranteed, and it would be in big debt would lead to losing all of their investments in the company.

**Work Cited**

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