

Timothy Mahan

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Webvan Case

Webvan was not anything new in the late 90's, plenty had come before it, some had even managed to stick around, but none had hit anywhere near the mark Webvan

was aiming for. Webvan was attempting to break into the market and dominate by utilizing the internet in a way others in the business of grocery delivery services had yet to take advantage of. By using the internet for taking customer orders, Webvan could put the purchased items together and deliver within a thirty-minute time frame of a customer's choosing the next day. The idea was of a revolutionary nature for sure, the biggest problem with Webvan was they were operating on a differentiation strategy in a low cost environment. Groceries are commodities in the United States. The taste of Lucky Charms doesn't change from Kroger to Walmart, it's the same no matter where you go. While differentiation is not always a bad idea in a low cost environment, it is a bad idea when the perceived value of the service is low, and people are not generally accustomed to having their groceries delivered. The problem boils down to Webvan trying to compete in the grocery delivery business like Borders did with bookstores, through rapid growth and a large selection of products. Unfortunately, the demand just was not there for grocery delivery the way there was for Borders bookstores. Webvan needs to team up with an established grocer and act as the delivery system for a customer base already acquired by such a company. Otherwise, the best thing to do is close shop and sell off the assets, as no

Customers have a lot of power over Webvan. With substitutes and lots of intra industry competition weighing in, customers have more options, and being that Webvan is a new company competing with a new model that utilized a technology still unfamiliar to many people, the customers who did use Webvan would hold a lot of sway, which may have even lead Webvan to deliver other goods like flowers and such. This is bad for Webvan; you want customers to hold the least power possible. Next we look at substitutes, which in this case are giants. Companies like Kroger

and Safeway were well established brick-and-mortar businesses that had an advantage over Webvan, which Borders saw as their weakness. This was people had to actually go to the store to get their food. Webvan sought to make money by saving people time, but people can be picky about the food they buy, especially when dealing with perishables. So substitutes had an advantage just because of their business model. Intra Industry competition was also something to contend with. While there didn't appear to be much in the way of Webvan in the San Francisco Bay area (aside from maybe Peapod) it was still something to worry about. Just about anyone with a van and some spare time could offer services similar to Webvan, and for close to what Webvan was charging. The only thing Webvan had going for it was guaranteed delivery windows, but that does not mean much when someone else can charge a bit less for more flexibility. Suppliers would also have a large sway over Webvan. As Webvan was not established, and it used an unproven business model, it would be easy for suppliers to sway what products Webvan had available to sell to customers, and it with little bargaining power behind it, suppliers could charge Webvan a premium for bulk orders compared to other entities. Since Webvan would not be moving the bulk of a supplier's inventory, especially in the beginning, there is little incentive for suppliers to play nicely with companies like Webvan. Again, New entrants are a constant threat. Anyone with a van and some spare time could do what Webvan was doing without all the infrastructure costs. Already established substitutes could also break into the online grocery order and delivery business with little investment in their already well established infrastructure. It seems that in every way, at least when considering Porter's forces, continuing to run Webvan does not look like a good idea.

There are four major stakeholders in the Webvan venture. First we have Investors, and there are a great many in Webvan. These are individuals like Borders, as well as venture capitalist groups. If the company does not do well, then the investors will be unhappy, unhappy investors are more likely to fire whoever is in charge of the company and sell the company to someone else to get the problem off their hands. Next we will consider Borders. Webvan was his brainchild, and a lot of personal time and possibly even his own money has gone into seeing this project through. There is a considerable amount of personal time and energy to consider here for Borders. The employees of Webvan depend on it for income, it is important that employees be considered in any evaluation of the direction Webvan should take, as that direction will directly impact employees. Finally, the customers need to be considered. Any firm that wants to stay in business needs a way to acquire money from customers. If customers are not happy, Webvan will not do well, so it is important customers are always in consideration when making decisions about the future of the company.

There are four alternatives to consider here, the first is to do nothing. This is to continue to do things Webvan has been doing them. Unfortunately, this will not work. Webvan is hemorrhaging money, losing more each year it's been operational. To do nothing would be to continue to invest heavily in an already underutilized infrastructure in a business that cannot seem to attract enough business to even cover operational expenses. Quite simply put, to do nothing is to close Webvan, and soon. Investors will definitely not be happy with this option as it will most likely mean they'll lose money, and a considerable amount at that. Borders will lose his company, he will also lose his job and some money too, but losing the company would probably be the worst of it. Employees would lose their jobs, which means

they are unhappy, and now out looking for work because the company failed.

Finally, customers will be unhappy as now they have fewer options for obtaining groceries. This plan is to the detriment of all stakeholders, it is not a viable option.

The alternative is to simply close up shop and sell off the assets in an attempt to recoup some of the investors' money. This is not the best alternative either, but one definitely worth considering, especially when the company is headed toward massive loss and no profit. This option is also worth considering, because to keep the business at least limping along, major changes would be required, changes that the leadership might not be prepared for. It would be a kind of reengineering effort, one that would steer Webvan away from its independent, self-reliant distribution model. According to Michael Hammer in *The Reengineering Revolution*, reengineering must occur top down. The change has to be pushed from upper management, and seeing as how Borders has only carried his bookstore model from one industry to another, it is unlikely that he would be convinced to abandon the model that worked for him previously before it is too late. It is not that there is anything necessarily wrong with Borders, people just have a strong tendency to stick to what they know. The vast investments in infrastructure and a homegrown inventory system served Borders well in the book industry, but in the online age it simply is not enough to compete and stay in business, especially when the value provided by the model used is marginal at best. Webvan and its management seem to think for some reason sales will eventually turn around, and the company will be able to pull itself out of the grave it has been digging for a couple of years. The problem here is something Scott Adams discusses in *The Dilbert Principle*. You make up assumptions that follow along with the business plan to keep your job. That's the idea, stay employed. The big problem here is, staying employed in this manner will

leave the company broke, and the people making unrealistic assumptions that people will turn around and begin buying food online because it seems to be more convenient. These assumptions do not take into account Bounded Rationality, which Barker brought up in class. The idea is that there are some things people won't do, quite simply because they cannot see themselves doing it. For a lot of people, it would be difficult, if not totally out of the question to purchase such goods as perishables without even seeing them first. That is part of the reason you go to the grocery store, pick up non-perishables, inspect the perishables before purchase. For a lot of people, buying without seeing just isn't an option in this case. If Webvan just closes shop, Investors would not be happy, but they would recoup some of the money invested in Webvan if it were to close shop and sell off its assets. Borders would lose the company, but not before running it into the ground. He could get out somewhat ahead of where the company is going otherwise. Employees would also be without work, which is not good at all, but again, no different from doing nothing. Finally, customers would be unhappy as the new service they may have come to enjoy would no longer be available. Closing down shop is not the best idea by a long shot, but it may be the only option if Borders is unwilling to consider either picking a specific line of products, like non-perishables or partnering with an already established brick-and-mortar to finally turn a profit.

The next alternative to consider is picking something specific to deliver, and sticking to it. Other companies have been successful with this, and getting into that line of the online grocery order/delivery business might be difficult considering there are other, well established companies shipping non-perishable via UPS all over the country. This may be one of the only ways Webvan could conceivably pull a profit out of all the investing. By specializing, Webvan can look for ways to cut costs that

would otherwise be incurred from carrying an excessively diverse product line. This would be a move in the opposite direction Webvan was previously going, which was to diversify as much as possible. The problem with such diversification early on is the mission of the company becomes somewhat muddled, and the initial project of establishing a workable business model is never completed. Louis Fried talks about this in his book *Managing Information Technology in Turbulent Times*. Consider stabilizing Webvan as a project, where it earns more each year than it spends, the development of Webvan has to stop at some point, at least for a time or the organization will be subject to scope creep. If the company never moves on from development, and implements piece after piece, the project will never be complete. There is not any attempt at mastery before adding additional services, there also isn't an end in sight to the installation in infrastructure. With this, Webvan has a chance to make some money, but likely not enough to satisfy investors. Borders will also likely get fired from the company he worked to start, which wouldn't be ideal for him. Customers would enjoy the ability to purchase some things at reasonably low prices, but would likely still be dissatisfied by a lack of variety since Webvan would have to choose some specialty (even if it is just non-perishables). Finally, employees would keep their jobs, so they'd be happy at least.

In order to succeed in e-commerce, Webvan is going to have to lower costs for customers, while simultaneously minimizing problems for the customer. This is what Kalakota describes in *e-Business 2.0 Roadmap for Success* as operational excellence. Achieving operational excellence lowers the cost of Webvan doing business, savings which could be passed to the consumer and increase the usage of Webvan. The easiest way to do this would be to partner with already established brick-and-mortar companies that have the infrastructure already. There is no sense

in reinventing the wheel when these brick-and-mortars have already spent the time and capital to build a network of suppliers and locations which are convenient enough for most customers to travel to already. By utilizing an already established infrastructure, Webvan could leverage assets more efficiently, by investing more in technologies that would aid in processing and fulfilling orders even more efficiently. Transactions would also be more efficient, as Webvan could simply take inventory from local stores, or add what it needs to the likely discounted order of the major grocery outlets it partners with. Finally, Webvan could have leveraged intelligence shared by the major grocers like Kroger to better market products to customers. In every way, it makes more sense to partner with major grocers, and add value where they haven't thought to add it yet. In this way, Webvan would participate in a larger grocer as a sort of subsystem as Morgan describes in Images of Organization. It is a whole system within a larger business process, that furthers itself and the larger organization through its efforts. Technically, Webvan would be the subsystem of the technology subsystem, but it would still interface with Kroger in a mutually beneficial way. In this manner, Webvan can utilize structures already in place to take a larger cut of what it was trying to take from other companies by cooperating with them. This would be about the only way Webvan could prosper in the late 90's. If the partnership is successful, Investors would see Webvan's profitability increase, which would be ideal and please the investors. Borders would have started another successful company, even if it is more of an interface between grocer and online shopper. Employees would keep their jobs, and customers would be able to receive the full benefits of major grocer offerings at reasonable prices through Webvan. Everyone wins here. The best thing for Webvan to do, would eventually be to sell out to a major grocer. Eventually, Kroger and Safeway would seek to cut out the

middle man, best to build the system and sell it than ride the system until you're replaced.

Of all the options, partnership with at least a major grocer seems to be the best idea. There is an already established infrastructure to work with, and a grocer would likely accept a partnership as it would lower risk in a venture, since Webvan would ideally put up a majority of the capital up front for getting the joint venture off the ground. Doing nothing and picking a specialty, such as flowers or non-perishable food items are unrealistic. Others have specialized and haven't gotten anywhere solid with just selling one or two kinds of items, a lack of variety is unappealing, but easier for a company just starting out. Doing nothing will certainly lead to the end of Webvan. Closing the doors and selling off the assets is the next best option, as it saves everyone time and gets investors back the most possible if the company were to close eventually anyway. If a partnership with a major grocer isn't established, the sooner the company closes, the sooner it quits losing investor money. Partnering with an established company is the best way to go, it's easier than building from scratch, lowers risk, and gives Webvan a partner who knows the business already. Past that, there isn't anything to be done but close down and go home.

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