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Webvan Case Analysis

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Introduction

Louis Borders, founder and CEO of Borders Books, believed that with the insurgence of the internet in the early 1990s, online retailing would never become big unless it was made more efficient (Afuah 261). Borders determined that he was able to use his knowledge of customer focus learning and his inventory management skills from Borders Books to be successful in the online grocery market, in which he ended up founding Webvan. Webvan was created as an up-and-coming online grocery supplier that aims to provide a secure online customer experience that offers nearly double the selection of products of a typical grocery store at comparable prices (Afuah 264). On November 5, 1999, Webvan completed its IPO, gaining a market value of more than $8 billion (Afuah 259). Borders knew that even though the market for online grocery shopping was flooded with competitors, he would be able to find success if his company was the first to scale.

Problem

The current problem that Webvan has is that they are faced with several important strategic choices that they can choose from. Each decision that the company makes will have an affect on their current stock prices, and reputation for future investors. Webvan could choose to do nothing, use its large market capitalization to buy regional grocery chains, choose to sell the company to a larger grocery chain, or continue with their current product lines (Afuah 269). Webvan must decide on something, as it has been forecasted they will have sales of $518 million by 2001, with an overall loss of $302 million (Afuah 265).

Mission

The mission of Webvan is to provide a secure online customer experience that offers nearly double the selection of products of a typical grocery store at comparable prices (Afuah 264). Webvan aims to deliver their customers orders within a 30-minute window (Afuah 264).

Porter's Five Forces Analysis

Threat of New Entrants: High

The threat for new entrants into online grocery shopping industry is high, as this market is relatively new and has great potential, so companies will look to join in to become the top supplier of online groceries.

Threat of Substitute: High

The threat of substitutes for the online grocery shopping industry is high, as many companies are looking to join the online grocery shopping industry. Also, customers can shop at the traditional grocery store, instead of buying their groceries online and having them delivered.

Bargaining Power of Suppliers: Low

The bargaining power of suppliers for Webvan is low, as there are many different food source companies that they can look to purchase from. The number of suppliers is high, so their bargaining power is low, as they are competing with other companies (Porter 1).

Bargaining Power of Customers: High

The bargaining power of customers is high as there is a wide variety of different grocery stores that the customers can choose to shop at. Customers can choose another online grocery provider if their overall pricing is cheaper than Webvan, and they can also choose to shop at their local grocery store if delivery prices are too high.

Competitive Rivalry: High

The competitive rivalry for Webvan is high because of the heavy volume of new entrants into the online grocery shopping market. Webvan must compete with these new entrants, as well as traditional grocery stores when it comes to the pricing of their products. Webvan must compete with other online grocery companies such as Peapod, Streamline, Shoplink, Netgrocer, Hannaford Brothers, and eGrocer (Afuah 268).

Stakeholders

Louis Borders, Founder:

Borders is a critical stakeholder for Webvan as he makes decisions for future change within the company.

Webvan Employees:

The employees are a major stakeholder in the company, as they determine the flow of operations.

Webvan Customers:

The customers of Webvan are major stakeholders as they determine the future success of the company. If customers deem that Webvan is not worth the price, they will shop elsewhere, negatively affecting company growth, and vice versa.

Webvan Shareholders:

Webvan shareholders play a major factor in the future of Webvan, as they support the company's finances. After Webvan completed its IPO in 1999, the company shot up to an 80% premium on its first day, ending with a market value of more than $8 billion (Afuah 259).

Alternatives

Do Nothing:

With this alternative, the company can choose to keep their current business infrastructure. In their current state, it has been estimated that they will have sales of $518 million by the end of 2001, with an overall loss of $302 million. If Webvan continues what they are doing, investors will likely be deterred from future investments with Webvan if they end up reporting an overall loss of $302 million.

Purchase of Regional Grocery Chains:

In this alternative, the company can choose to use its large market capitalization to purchase regional grocery chains that present favorable offers. In purchasing regional grocery chains, Webvan can eliminate some competition in the regions of purchase, and can use their existing distribution centers, eliminating the need to purchase further construction of distribution centers. Webvan can increase their overall market span by purchasing more regional grocery chains, increasing the number of potential customers. This alternative is costly, as Webvan is required to invest more of their capital into purchasing regional grocery chains, putting the company at further risk of losing investors if net profit does not increase.

Takeover Offer from Large Grocery Chain:

In this alternative, Webvan can possibly look to get purchased by a large grocery chain. Webvan's large market value may pose as an issue when looking for buyers but is still possible if a large grocery chain is looking to invest big to dominate the industry.

Additional Product Lines:

In this alternative, Webvan can continue to add product lines to their inventory. In looking for new products to add, they can focus on products that other online or traditional grocery stores do not have in their inventory. Webvan can look to add products other than traditional groceries to gain new customers. Implementing new products is risky because if they spend a lot of their capital on products that don't end up selling, their overall losses will likely increase.

Effect of Alternatives on Stakeholders

Do Nothing:

If Webvan were to do nothing, Louis Border will likely have to make change in the company, as it is currently estimated they will lose $302 million by the end of 2001. The employees will likely by negatively affected by the company's decision to do nothing, as with no change, the company is going to fail, and employees will slowly lose their jobs. The customers will not be affected by Webvan doing nothing, as they will still be able to purchase from them. Shareholders will likely be deterred from investing in Webvan after they see the company's statements at the end of the year.

Purchase of Regional Grocery Chains:

If Webvan were to purchase regional grocery chains, Border will likely have to hire new employees for each regional grocery store purchased, as well as management to keep track of each distribution center. With the introduction to more distribution centers in multiple regions, customers will be able to purchase from Webvan if they previously were not able to. If the company still experiences net losses at the end of the year after purchasing more regional grocery stores, shareholders will likely be deterred from further investments.

Takeover Offer from Large Grocery Chain:

If Webvan were to be bought out by a larger grocery store chain, Border will no longer be the CEO. Employees may be relocated or hired/fired/promoted depending on what the new owner of the company does. Customers will likely still purchase from the new company if they offer the same products that Webvan was offering them. Shareholders will be positively affected by the buyout of Webvan if this increases overall share value for the company.

Additional Product Lines:

If Webvan were to add products to their current product line, Border and employees will have to do research on which products to add. More employees will likely be added, as there are more product lines that must be distributed. Shareholders will be positively or negatively affected by this change depending on how well the new products sell and how they affect overall net profits/losses.

Best Alternative

The best alternative that Webvan can choose is to get purchased by a large grocery chain because it provides the company with the most benefit with the least amount of risk. Based on the estimated $302 million that the company will lose in their current state, doing nothing is the worst possible option that they can choose from, as they will continue to fall if nothing changes. If Webvan were to purchase more regional grocery stores, they are going to be putting themselves in an even bigger hole if sales don't increase by a substantial amount. If the company were to add products to their inventory for sale, they are putting themselves at more risk for loss if the products don't end up selling. The only option where they aren't putting the company at a high risk for losing money is to sell the company. It is clear that this market is not working out for Webvan, so getting out of the market is the best alternative to save money. In *The Goal* by Eliyahu Goldratt, it is stated that the goal for a company should be to make money now, as well as in the future. Webvan is not making money now, so their goal is not reaching what it should.

Work Cited

Porter, Michael. *Porter's Five Forces*. 2013.

Afuah, Allan, and Christopher L. Tucci. *Internet Business Models and Strategies: Text and Cases*. McGraw-Hill, 2003.

Goldratt, E. M., and John L. Cox. *The Goal.* Gower Publishing Company, Limited, 1993.