Webvan

William Brown

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# Introduction

Webvan was founded by Louis Borders, the founder of Borders Books, and is an internet based company that combined grocery shopping with home delivery. Borders was confident that Webvan could prevail over existing online grocery competitors by extending their company aggressively by following a first-to-scale workflow. Although they experienced minimal sales and big losses, shares of the two-year-old company went to an 80% premium on the first day of its trading. As the day ended, Webvan had a total market value of $8 billion.

# Problem

Webvan faced many different strategic decisions affecting its future. Because Borders goal was to make Webvan a sustainable company, he was considering the different ways Webvan could create new revenue streams and if there were any markets that they could penetrate and be successful in for future development and products. Webvan had a few choices to make for themselves, and ultimately their problem is figuring out what their strategy should be in navigating and growing in their new and somewhat unpredictable market.

# Generic Strategy

Webvan adhered to the differentiation strategy, hoping to separate itself from other competitors in the online grocery market in two distinct areas: operations and customer service. Webvan had improved its operations by developing automated, linked, tracking systems that can track every step in the grocery purchasing process. This improvement leads into their customer service enhancements. Along with grocery tracking, Webvan aimed to provide its consumers with 50,000 products to decide from instead of the normal 30,000 items. The purchases could be delivered the next day, and the customer could either be home or away, meaning it wasn’t a hassle for the customers for deliveries to be made to a customer’s home. Ultimately, Webvan attempted to differentiate itself from its competition by driving quality gourmet online groceries with everyday grocery prices attempting to provide improved “speed of service, convenience, personalization, and price” (Kalakota).

# Internet Enabled Business Model

When looking at the Internet Enabled Business Model we look at the choice of profit site, value, scope, revenue sources, pricing, connected activities, implementation, capabilities, sustainability, and cost structure in the context of Webvan.

# Profit Site

The profit site is what an organization does better than its competitors. In the case of Webvan, the product site would be the focus on operations as well as customer service. Webvan hoped to undercut the traditional grocery store industry by providing large distribution centers that would be able to support double the selection of a normal supermarket with half the labor required.

# Value

The purpose of value is to maximize customer satisfaction. This can be done either by cost leadership or through differentiation. Webvan approached this using differentiation and strived to set itself apart from other competitors. In its attempt to outperform other online grocery competitors, Webvan provided more personalized service, fast grocery delivery, and a large product mix.

# Scope

The scope of a business is usually bounded by geography, however as stated in Cash, “Long distance networking minimizes geography as a constraint in doing business.”(Cash, 247) Webvan was only limited to sales primarily in the range of its distribution centers. Webvan initially created a prototype distribution center in Oakland, CA with an approximate range of 40 square miles around the San Francisco area. This center represents their scope and although limited at first, the goal was to spread these services to the North American market, as well as internationally which would require distribution centers in those areas which meant that organizations could reach more people than previously possible.

# Revenue Sources

Using an internet enabled business model allows an organization to create revenue that traditional stores are unable to share. Online advertising is an example, and selling customer data is another, although Webvan specified that they would not sell any customer data or receive online advertising fees.

# Pricing

Using the internet enabled business model allows a business to drive variable cost down. The approach followed in menu pricing, where what you see is what is costs, which eliminates negotiation and provides efficient and quick sales process.

# Connected Activities

The primary activities performed by Webvan are user customization and the fast delivery process. These activities were designed in a way to give Webvan a competitive advantage.

# Implementation

Implementation in an organization depends on the relationships between strategy, structure, systems, people, and environment. These different pieces working well together is key to the success of failure of an organization. Regarding Webvan, it looks like their strategy and structure were acceptable, but they failed to recognize that the market they were attempting to enter did not have a sufficient market for Webvan to prosper.

# Capabilities

The capabilities of an organization must be in line with the goal and strategy of that organization. For Webvan, the cost necessary to provide the capabilities needed to run the company were far costlier than Webvan’s profits due to a lack of market.

# Sustainability

The sustainability of an organization can be broken down into run, team up, and block. Any organization must decide which of these strategies to buy into in order to survive. A sustainability strategy Is chosen by looking at an organization through the Complementary Assets Model. This model determines what sustainability strategy an organization would be best fit for depending on its limits and complimentary assets. Webvan attempted to follow the run strategy, by hiring a large amount of talented people (80 new software programmers) to design its systems. However, it did not have the profits to keep up sustained innovation.

# Cost Structure

A firm’s cost structure expresses the relationship between its revenues and the underlying costs of generating those revenues. For an organization to stay in business it must create a profit. The underlying goal of an organization is to “make money now and in the future.” (Goldratt). Webvan had been set for failure from the start, with distribution centers costing more than what Webvan could manage to profit.

# Porters Five Forces

* Threat of New Entries: High
  1. Rapid growth of the internet and its usage transformed the grocery delivery business into an online option. By hiring the right people, brick and mortar stores could enter the market and benefit from the efficiencies that come with using the internet.
* Threat of Substitutes: High

1. Customers can shop at several different brick and mortar stores as well as other online grocery competitors.

* Supplier Power: Low

1. Supplier power is low because there are many products Webvan depends on to achieve their goals.

* Buyer Power: High

1. Buyer power is high because they have several substitute grocery options available to them.

* Degree of Rivalry: High

1. Rivalry is high due to a threat of new entrants as well as existing online grocery commerce and brick and mortar stores that adopt the new technology as the internet grows.

# Critical Stakeholders

* Webvan Shareholders
  1. Shareholders of Webvan have stock in whether the company succeeds or fails and are looking for a profitable return on investment.
* Louis Borders

1. As the founders of Webvan, Borders has a stake in the company for profitability as well as his reputation.

* Webvan Customers

1. Webvan relies on customer loyalty, so the customers have a stake in the future of the organization.

* Webvan Contractors

1. Bechtel Group, a construction firm, has a major stake in Webvan due to a $1 billion agreement to build distribution centers and delivery infrastructure in 26 new markets over 2 years.

# Available Options

1. Do Nothing
   1. This would involve Webvan continuing their current business process without changing anything. Following this process would level Webvan essentially broke due to their increasing costs and minimal profits. This would cause Webvan shareholders to lose their investments, employees to lose their jobs, Borders would now be the ex-founder of a failed company, and the Bechtel group would lose their contract. This route seems the least satisfying for any party involved.
2. Purchase Regional Grocery Chains
   1. This involves purchasing regional chains in order to diversify brick and mortar stores and its current online market. This option would allow Webvan to use existing supplier chains as well as distribution centers that were used for other grocery stores allowing Webvan to support several times the orders they currently except in hopes to remove bottlenecks, which are defined as any resource whose capacity is equal to or less than the demand placed upon it (Goldratt). This process is costly and could prove difficult for Webvan as they continue to produce losses and not profits. If Webvan chose this option, they would be able to create more expanded infrastructure, as well as tap existing customer bases. If this option was successful, it would allow for Webvan stockholders to gain from increased profits, Borders will maintain a good reputation, and the Bechtel group will keep and maintain its contract.
3. Attempt to Get Bought Out
   1. This would call for Webvan to actively look for an organization to acquire them such as Kroger. This option greatly depends on which organization took interest in purchasing Webvan, and a successful company could create a success story out of Webvan’s failing business. This would allow Borders to limit his risk and either be relived of duties or repositioned within the company. Employees may get laid off but many could have the potential to stay. The shareholders could greatly benefit or not benefit at all depending on how well the buyout goes and for how much.
4. Exit the Market
   1. Exiting the market would call for Webvan to liquidate all of its assets and leave the market completely. Since Webvan experienced financial losses and was forecast for more losses, Webvan could cease all production and liquidate. This would allow for shareholders to experience a minimal loss of their investment, but leave Borders open to take some heat due to the failing of his company. Employees would be laid off and customers would have to find a new place to shop, and Bechtel group would lose out on their contract.

# Recommended Option

I would recommend that Webvan leave the market. Even though Webvan had an innovative idea that in the future would become more prevalent, they didn’t possess the capital to support themselves and were experiencing losses because of it. Leaving the market would be the best option since Webvan wasn’t able to make any sort of profit and not many companies would want to buyout a company that had only ever experienced financial losses unless it was for their software or capabilities. Before Webvan entered the market, there was already a struggle for businesses to perform well in the market. “Of the 53.5 million people who were online in the United States, only 435,000 ever purchased food online. This number represented less than 1 percent of the 14.5 million users who had made purchases online” (Afuah).

Based on the statistics, online grocery shopping wasn’t going to be a very profitable market platform due to the lack of customers and it seems like it would be time to exit for Webvan. With losses occurring and even more expected, Webvan must stave off bankruptcy to still provide a return to shareholders and keep them from losing all investments that were put into Webvan. Webvan entered a market where there weren’t many people to sell to and invested too much into a very minimal market base.

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