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CIS 410

Webvan

Case 4

Background/Mission:

Webvan is a store chain that sells their products online. The things they sell range from groceries to digital music and movies. They provide home shipping and enable customers to make all their purchases without leaving their homes. Founded in 1990, Webvan's mission is defined as providing its customers their deliveries "the next day within a 30-minute window" (Webvan).

Business Strategy:

An obvious differentiation generic strategy is employed by Webvan. Traditional retailers and grocery stores at the time did not offer deliveries of these products. By innovating a new style of selling goods and providing customer service, Webvan pushed the idea of the traditional store and made a distinct niche in the market that they had every ability to fill.

According to Afuah and Tucci, "product features, timing, location, service, product mix, etc." are all capable of being differentiated from competitors (Aufah, Tucci). Webvan seeks to differentiate in all of these aspects as a retailer who sells other peoples' products. The efficiency boosts alone by moving to an online retail model improved efficiency twofold, and the labor costs are significantly lower compared to a fully staffed brick and mortar store. Even with next-day 30-minute window deliveries to boot, Webvan sought to further differentiate by expanding its stock to nearly double the products of competing retailers (Webvan).

Porter's Five Forces:

Competitive rivalry is high in this case. Rival businesses included Brothers, eGrocer, Hannaford Bros., Netgrocer, Peapod, Shoplink and Streamline among others. "The larger the number of organizations involved in a market the greater the level of rivalry" (FME). Webvan was not the only company who saw the value in online grocery commerce, and it shows. The risk of losing regular customers was high because customers faced little to no switching costs.

Threat of new entrants was high in this case. The internet at this time was a burgeoning resource, and everyone and their mother had a website. Companies without an online presence could make one in no time at all, and if any bigger names wanted in on the money, they could toss their name in. Webvan itself was born from the ease of new entrants into the market, as they wanted to compete with "seasoned competitors such as Peapod and Streamline" (FME).

Threat of substitutes was high in this case. Webvan was competing with the centuries-old brick-and-mortar stores, which had easily and widely recognizable brand name presence and longstanding logistics/distribution methods in the form of their suppliers, so switching altogether was not going to be viable for loyal lifetime customers. It also meant investors could be less risky and invest in an already established grocer instead of a new online startup like Webvan.

Bargaining power of suppliers was high in this case. The only function of a grocer is to stock other peoples' goods by charging to place their products on shelves (or on their website, in this case). Suppliers knew that Webvan couldn't retain customers as easily and therefore wouldn't have enough revenue to be able to make regular supply orders, so the apprehension was justified. Grocery store chains rely almost entirely on customer purchases for profit, and since not a lot of people were buying from Webvan (which we will discuss in the next section), buyers were clearly skeptical.

Bargaining power of customers was high in this case. As mentioned previously, buyers had near-zero switching costs if they wanted to choose another grocer, and using the Internet, customers can know in an instant which store has the lowest prices. Also, customer purchases make up most of a grocer's income, as stated earlier, so customer money is the only thing keeping a company like Webvan afloat.

The Problem:

Webvan isn't making any money, despite early promises of high profit margins. They anticipated 1999's sales to amount to $11.9 million and losses would come out to around $35 million (Webvan). These earnings are lower than what a traditional large grocery chain usually makes in a single day, so Webvan's earnings are not exactly up to snuff. Despite all this, Webvan believed they could compete in the grocery industry.

Webvan had incredible competition in brick-and-mortar stores, but also in Internet grocery stores. The Internet forecast at the time estimated that while some 53.5 million people were online in the United States, fewer than 500,000 had ever made an online food purchase (Webvan). This only added to the issues faced by Webvan, as online grocery shopping was a rarity at the time.

Stakeholders:

The stakeholders involved in Webvan's situation are its employees, customers, investors and executives. The effects of the executives have the potential to affect every shareholder involved.

What to Do and Why to Do It:

Webvan has a few options as far as their pursuit of success, but the two main options I can see are to do nothing or pursue a joint partnership with another online grocer.

Webvan obviously cannot afford to do nothing. As stated earlier, they face a harsh competitive environment with a limited pool of customers. By doing nothing, the lack of profit would surely force them into bankruptcy. The price of goods would be driven up to increase margins, which would turn customers away because of the high competitive rivalry and low switching costs. After that, the investors and executives lose even more money, employees are laid off, and the company goes belly-up.

Pursuit of a team-up is the final option and the one that I would recommend. "Teaming up means forming some kind of partnership (e.g., joint venture, strategic alliance, or an acquisition) with a firm that has the important complementary assets. It can also mean offering the firm for acquisition by another firm that has the complementary assets" (Afuah & Tucci). These complementary assets can include brand recognition, product line, manufacturing, distributing, etc. and could be an invaluable asset in Webvan's success moving forward from here, as "those firms that own complementary assets are more likely to make money" (Afuah & Tucci). Despite the relatively small customer pool, a merger of Webvan and another larger online grocer could prolong both their lives by combining customer bases and assimilating assets. It's certainly a better option than doing nothing.