

Case 4: Webvan

Mission Statement

Webvan was a company that did grocery business and provided delivery with a promise for customers, that orders would be finished processed and delivered within 30 minutes. Webvan was not the first online grocery company, but it aimed providing customers with convenience and groceries and services of good qualities. Orders would be processed in one of their 12 docking stations and none of them would travel more than 10 miles to make sure the product quality was well maintained.

Generic Strategy

Webvan was using a differentiation leadership strategy. Even though there were many special online grocery businesses at the time, Webvan from the beginning tried hard to distinct themselves from others by well-designed operations and quality customer service, and their selection of products was double as the traditional stores. “Service excellence involves selecting a few high- value customer niches and then making a concerted effort to serve them well (Kalakota)”. Webvan had the right vision to provide quality customer service.

Organizational structure

Webvan used a hierarchical functional structure, with its headquarter set up in Foster City, California. Louis Borders recruited George Shaheen as the CEO to run the business.

Porter's Five Forces

Competitive Rivalry: Competition was fierce. Competitors from online grocery business would be Peapod.com, Streamline.com, Shoplink.com and so on, which had their own niche for the market and had a certain amount of market share. Plus, Webvan also competed with the traditional grocery companies too, such as Walmart and Kroger.

Threats of New Entrants: To enter the online grocery industry was relatively easy when ordering through phone and fax was still popular, but Webvan started with a great amount of capital and trust from investors. They built a network of distribution and infrastructure in 26 markets. So, new entrants at the same level were hard, the threat of new entrants was actually low.

Threat of Substitutes: The substitute of online grocery business would be the traditional groceries stores, which was the main way of people getting groceries and what people were more used to. Being able to touch and feel before buying was a big reason to go buying in person. The thread of substitutes was high.

Bargaining Power of Suppliers: Webvan needed to rely on the suppliers for the grocery items.

But they had big warehouses to control their inventory. Webvan had its own trucks and delivery teams so they would not have to rely on companies such as FedEx or UPS for their delivery services. Suppliers power was low.

Bargaining power of Customers: Customer power was high. They had many options to choose from. Most of the time, groceries would not be an urgent need. Customers and time to compare with other online groceries companies or even enjoy their in-person shopping.

Problems and Stakeholders

“Webvan’s goal is to reinvent the grocery business and to expand the boundaries of home delivery. Succeeding in the grocery-delivery business takes more than cash, a savvy advertising campaign, and a cool website (Kalakota).” Webvan started with an ambitious strategic plan and investments. Based on the bright future of online business, hiring 80 software programmers to develop an advanced system and signing a \$1 billion agreement to build in 26 new markets with distribution centers and delivery infrastructure within a short period of time were too risky and impulsive. Their average order size was significantly lower than the goal to be profitable. “In delivering value to customers, it is always important to keep asking how much it costs to deliver the value, how much it costs to acquire customers in each market segment. (Allen Afuah, Christopher Tucci)” The high operational cost and low sales eventually led the company to bankruptcy.

Founder: Borders had great success on his previous business. His intelligent and experiences brought him into a too optimistic and aggressive vision when he decided to start Webvan. The

starting cost was too high and the estimated expected annual revenue of \$300 million was not realistic.

Investors: Investors were correct to see Webvan as a good investment. Big organizations like CBS, Yahoo!, LVMH, Softbank and so on were able to see the booming online business market. However, they saw the potential of Webvan, without evaluating if the strategic plan was practical and feasible.

Employees: employees were under high pressure of meeting the target of processing and delivering order within 30 minutes. Even though infrastructures were built to support the possibilities of accomplishing the tasks. But there were many unpredictable factors in this process, like traffic could be a big cause for delay. They were also required not to take any tips. Employees would be either paid higher or would leave for other opportunities. “Many of the best and brightest executives, developers, and support staff are choosing the high-risk, high-reward route of Internet start-ups over stable corporate career. (Kalakota)”

Customers: customers did benefit from having one more option for groceries shopping. It was not guaranteed that they would come back to Webvan after first purchase. Many orders might be from curiosity. To retain customers was not easy for a new company, especially when the cost was now low. To be delivered within 30 minutes might not be that necessary for customers as Webvan would hope.

Alternatives and Impacts on stakeholders

Alternatives 1: Adjust the strategic plan, sell some assets, install a detailed marketing plan and employee reward plans. Webvan could sell some of the assets, restart within a smaller area and with a more realistic goal. To retain the customers, Webvan could install some promotion plans, such as providing membership benefits, special discounts for next purchases. To make up for not being able to collect tips from customers, employees should receive rewards when they had outstanding performance.

Impacts: Borders might not like the idea of restarting with a smaller scale, but it would be more realistic to develop in a small area then expand. Investors might not like this conservative approach that much since they invested a lot, but at a certain degree this would save them from a bad investment. A smaller scale would mean less labor needed; a number of employees would be laid off in this case. Customers would benefit from this approach, due to high buyer's power.

Alternatives 2: Expand the delivery range using a third party. This is to take advantage of the having the doubled selection of products as the other store. Webvan could remove the fresh products from the selection for customers from outside of their delivering zone and partner with supply chain companies like UPS or FedEx to deliver further.

Impacts: Borders and investors would be excited to expand their business. Having one more possible way to increase revenue. Employees would have more work to process more orders, but they would not have to deliver them, instead they would wait for the third party to pick them up. Customers would be able to enjoy the wide selection of products from Webvan.

Alternatives 3: Add customer self-pickup services. This would be another way to expand their business. “The emergence of self-service as a core customer requirement means that companies need to act quickly to transform and integrate existing applications, processes, and systems to enable self-service (Kalakota)”. Programmers just needed to add a pickup feature within the existing system. In operations, a drive-through and walk-in pickup spots would be added.

Impacts: Borders and investors would not have to invest a lot more thoughts or time for this additional service. Employees in operation would process the orders. Customers could experience the “touch and feel” when they do the pickup and would be more likely to order again.

Selected Alternative and Conclusion

Since Webvan went bankrupt within such a short time, I would pick the conservative alternative 1 “Adjust the strategic plan, selling some assets, install a detailed marketing plan and employee reward plans”. In this approach, selling some assets such as some warehouses and vans could bring in some cash for operations. The reason that Webvan failed was because they were not able to attract/keep enough customers to meet the revenue goal. “If customers are very powerful, they may be able to extract lower prices from a firm or force it to ship products of higher quality than the price warrants (Allen Afuah, Christopher Tucci).” That is why marketing plans were as important as their online system and service abilities. By installing appropriate marketing plans, more customers would try it out. With membership benefits and discounts, customers were more likely to make more orders. The business scale would be smaller in this case, the goal should be more realistic. Even if with the average order of \$71, the increased order numbers by attracting

more new customers and old customers staying with them with a better marketing strategy, would still be able to make the total revenue goal reachable. When the investment has better returns, the business is more likely to survive. Employees would be more motivated with reward plans and provide better performance.

Alternative 2 would not be a bad idea when Webvan had stable business. Webvan needed to be saved before being expanded. Alternative 3 could be added on top of alternative 1. Only adding the pickup service would not be enough to save this business.

Works Cited

Allen Afuah, Christopher Tucci. (2003). *Internet Business Models and Strategies*.

Kalakota, R. (2001). *e-Business 2.0*.