WEBVAN

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Executive Summary

Webvan is an ecommerce grocery business that allowed customers to purchase groceries online and would be delivered based on their order. Despite its successful initial public offering (IPO), Webvan faces financial difficulties in making the company profitable. Webvan is operating at a loss due to the deficit of grocery sales lacking to cover its high operational expenses. Webvan is also part of the overall online grocery sales that covers only 1% of the entire grocery market sales against brick-and-mortar stores. We will analyze various aspects of Webvan, identify their problems, create alternatives, and propose a solution.

Problem

Webvan is concerned about the sustainability of its future. The company is unable to attract and retain customers to use their online grocery delivery business. Grocery consumers are unaccustomed and disapprove the usage of an ecommerce grocery service. They believed that online grocery lacked a selection of products, an increased amount of order time compared in-store, high-cost delivery service, and deemed incapable to replace the desire to "touch and feel" items. Webvan would struggle to compete in the narrow 1% grocery market share with razor thin margins and high competition from other ecommerce grocery business. The company's main source of revenue was solely from sales of grocery products and delivery fees which kept them afloat, but not enough to reduce costs or expenses. They have also forgone the opportunity for another revenue stream of selling customer data to 3rd party firms which allows network externalities based on the traffic and goods purchased through Webvan's customer accounts.

Industry Comparative Analysis

Mission Statement

Webvan is an ecommerce grocery business dedicated to providing a variety of products and produces through grocery delivery by accessing the internet which promises a fast, easy, and secure purchase process.

The Webvan Model (Organizational Structure)

Webvan maintains a functional structure. According to Cash, “functional form works well when the organization’s dominant competitive issues stress functional expertise, efficiency, and quality” (Cash, 29). Webvan currently has a warehouse distribution center is set up using automated proprietary systems, strategically placed “pickers” to assemble orders in plastic boxes or totes, and a conveyor belt that transported the bins and totes throughout the warehouse which showed the company coordination mechanisms routine. They did not have much to do with the external environment besides delivery which is a good principle for a functional organization.

Porter’s Five Forces

Generic Strategy

Webvan’s generic strategy is differentiation which is mainly highlighted through their unique customer service, offers, and delivery operations. Webvan customers are provided up to 50,000 products compared to most normal groceries stores that can only carry up to 30,000 items to choose from. Webvan offered high-quality produce, meats, fish, and baked goods from highly regarded partnered Bay Area suppliers. The company also has its own culinary director, who was responsible for creating chef-prepared meals that catered to the lifestyle and tastes of Webvan customers. This created a market position for Webvan as a quality-driven gourmet online grocer with everyday grocery prices thus differentiating itself from competitors.

Webvan provides a personalized shopping list catering to customers based on previous place orders and traffic patterns on the website leading to faster and easier shopping services and encouraging users to shop for goods that may interest them. Customers received placed orders the next day which had the option whether deliveries could be attended or unattended, meaning that the customer could either be home to receive the order, or the Webvan associate could drop off the order while the customer was away from home. These orders would have a proprietary system that automated, linked, and tracked every part of the grocery ordering and delivery process that kept customers informed. Webvan automatically offers free delivery for orders made above the $50 while charging $4.95 for orders made under the limit regardless of location that is within their boundaries which helps attract customers despite potential loss in revenue from delivery services.

Threat of New Entrants

The threats of new entrants are very high in the e-commerce grocery market. The rapid growth of the internet in the 1990s help facilitated the rise of e-commerce allowing businesses to create websites with little to none marginal costs thus removing transactional costs. New competitors would enter the ecommerce grocery industry such as “eGrocer” and Webvan with low barrier entries that planned to take advantage of the growing increase of internet users and consumers due to computers becoming ubiquitous worldwide. These new entrants intended to establish a sizable customer base and repeated high usage of ecommerce grocery believing that it would steal a sizable chunk of off-line grocery markets and create new market opportunities.

Bargaining Power of Suppliers

The bargaining power of suppliers are considered to be low. Grocers have multiple resources to get goods and products from such as suppliers and local brick-and-mortar stores, and Webvan is no exception regardless whether being an off-line or online grocery business. Webvan has placed multiple distribution centers and delivery infrastructure across the country allowing the company to supply various line of goods and products. They also have exclusive partnerships tied to multiple suppliers such as the Bay Area suppliers ensuring high-quality produce, meats, fish, and baked goods.

Bargaining Power of Buyers

Buyers tend to be price sensitive and heavily bounded to rationality when it comes to groceries. Webvan will show the price of grocery at prices thus removing any information asymmetries, but if the prices of their grocery are high or products having an unproportionate amount relative to their prices will drive customers away to another grocery business with lower prices. Thus, the bargaining power of customers is very high and influences how a grocery business will sell their products.

Threat of Substitutes

The threat of substitutes is high. Webvan competes in a grocery market share dominated by traditional brick-and-mortar grocery businesses that majority of consumers go to purchase goods. Grocery competitors provide unique services, quality of goods, branding, low prices, and a product mix that sells various nongrocery items from flowers, toys, and intellectual property content such as DVDs and video games that creates customer value for shoppers in both online and offline grocery businesses.

Intra-Industry Competition

Webvan faced against a number of ecommerce grocery competitors. One of the oldest and largest competitor is “Peapod.com”, established in 1989, a company that has scaled up their operations over the last decade by operating in different states across the country and established multiple alliances such as Walgreen that will also deliver nongrocery items from books to medicine. Other ecommerce grocery companies such as “Streamline.com”, “Shoplink.com”, “Netgrocer.com” are companies that are competing to increase their consumer base potential and count by capitalizing on the increase usage of the internet that was ubiquitous. With low entry barriers to enter the ecommerce grocery market share, competitors have the ability to expand what they offer from specialized delivery services and product lines that can sell non-grocer products such as “Peapod.com” and extend their capabilities to meet the needs of grocery consumers while having an internet enabled business model based on a run strategy. “In order to sustain a competitive advantage, a firm can pursue some subset of three generic strategies: block, run, and team-up” (Afuah & Tucci, 71). They also face little consequence or costs if they fail to sustain themselves thus allowing themselves to exit the grocer market easily by shutting down their website and services. Despite the growing trend of ecommerce grocery business, brick and mortar grocery stores still dominate the grocery industry in both market share and sales.

Stakeholders

Employees

Employees have a stake in any decisions or improvements made by the company that has the chance to improve the effectiveness and efficiency of its operational and delivery services. Depending on the company's choices, it could reduce or increase the number of employees in certain areas such as software programmers that operated proprietary systems and "pickers" that assembled orders in plastic boxes or totes which can be due to technological advances, changes in process methods and infrastructure, and increase or decrease in scalability.

Customers

Customers of Webvan have accounts under their website that tracks order history and a personalized grocery list. They are provided with a large selection of products to choose from as well as their delivery service. Webvan customers are affected by the company's strategic decision for the future that will determine the welfare of services, offers, and delivery of the customer.

Shareholders

Shareholders hold significant investor sentiment in Webvan especially with their much-anticipated IPO. These shareholders are major factors that determine Webvan's strategic choices thus determining the sustainability of the company and its potential gain in stock value. If Webvan made strategic decisions that helped promote growth and sales within the company, shareholders will expect to see a steady gain in value of stocks resultingly increasing Webvan's company value. However, if Webvan makes poor decisions, then stockholders will begin to drop or bail, thus leading Webvan to fall in company value and eventually bankruptcy.

Alternatives

Do nothing

If Webvan decides to continue the way they operate then it will continue with the company's intended vision. Webvan's plans is to expand to 26 new markets and has managed a 1 billion dollars agreement to construct distribution cents and delivery centers in these markets within the next two years. Even though Webvan has introduced itself as a public company, Webvan is still bound to meeting the responsibility of its shareholders and their large IPO. Ecommerce is an effective method of creating a free distribution channel that replaces the necessary costs required for both business and a customer through the internet, but has a limited scope. Webvan does not have the capability to deliver groceries within the same day and is still struggling with attracting customers to the ecommerce grocery demographics. The revenue earned is still incapable of increasing sales to cover majority of its expenses and must find a method to do so or else Webvan will face bankruptcy.

Effect on stakeholders

Employees will continue to work with high professional expectations. Employees will work in warehouses or couriers requiring little skill. Webvan customers will continue to receive next day delivery and continue to have low switch costs that makes them use other grocers such as brick and mortar stores. "Customers know they want a timely delivery of excellent service" (Kalakota,171). Customers could potentially see an increase in product-line due to Webvan's expansion into 26 markets thus increasing the number of customers and strong incentive to improve upon needs and wants in customers. Shareholders are seeing a substantial amount of their investment money being thrown into large distribution centers and marketing to narrow customer base resulting in little to no increase in stock value initially, but will drop in value in the late future probably causing shareholders to drop stocks held in Webvan.

Purchase regional Grocery Chains

This option allows Webvan the opportunity to get within the brick-and-mortar grocery industry. “These regional chains already possessed supplier networks as well as their own distribution centers. Webvan could possibly leverage some equipment from these distribution centers while attempting to replicate its existing distribution centers. This option would also eliminate a few competitors in these regions” (Afuah and Tucci, 269). Even though Webvan could buy a grocery chain, the company is operating at a loss and lacks the proper funds to purchase without acquiring more debt. What if they don’t get enough revenue to cover these costs? However, it could be a great opportunity for them to acquire the funds to grow Webvan while still operating in the brick-and-mortar industry which allows for the company to steal parts of sales and market share in both ecommerce and brick-and-mortar grocery for profit. “The goal of an organization is to make money, and everything else we do is just a means to that goal” (Goldratt, 59).

Effect on Stakeholders

Webvan employees will expect to merge with the newly acquired grocery chains. This means there will be more employees to task with responsibilities to get same day groceries out in a few markets. Shareholders will see a bit of a different strategy, one that they haven’t been seeing in the past. Webvan trying to gain greater market share could drive a customer base and increase revenues while lowering costs. This allows the stocks shareholders hold to increase in value which resultingly helps the company’s value grow and possibly creates a sense of sustainability. By acquiring the grocery chains, Webvan must also handle the demand and responsibilities of the chains existing customers. These customers may experience process and response time to be slower due to the increase in scalability handled by Webvan in which they much carefully analyze to determine their customer strategy.

Exit the Market

This requires Webvan to create an exit strategy that will cease all operations and liquidate assets in order to break even. Webvan is currently operating at a loss while being part of an industry that only captures about 1 percent of the total grocery store market share. Out of the 53.5 million people who are online in the United States, only 435,000 purchased food through online services which is also relative to the ecommerce market share in the grocery industry. Forecasts also predicts more loss in the near future up to 35 million dollars based on high operational costs and low initial grocery sales. Webvan has also refused selling customer data to 3rd party organizations, which is potentially a large revenue stream, due to their determination to remain neutral among different product brands that it sold online. By exiting the market, it'll mitigate any losses of those who hold certain stakes within the company such as its shareholders and employees. Exiting the market would also prevent Webvan from going bankrupt allowing the company to liquidate before its eventual fall in company value. An ability to influence the outcomes of decision-making processes is a well-recognized source of power" (Morgan,254). This makes exiting the industry or market easier to handle with little to none cost, especially when Webvan is an ecommerce.

Effect on Stakeholders

Employees will be laid-off from Webvan who will acquire notices about their jobs ahead of time. This will make all employees cease operations and seek other companies to employ in. Customers may take advantage of the company shutting down by purchasing discounted goods through the website, but eventually stop using Webvan and seek other grocery businesses to purchase from. Shareholders will take the value of their stocks at the very moment the company is shutting down, and may benefit from their high IPO or take little loss in stocks depending on the current state of the company the moment it declares its closure.

Recommendation

"Despite the hype of Internet companies and e-commerce as the "wave of the future," analysts and grocery industry experts were unsure about the actual growth potential of the online grocery market" (Afuah and Tucci,263). I recommend that Webvan should exit the market. Webvan has operated with a loss at the very beginning of their company and currently shows no signs of positive change in their future forecasts. The industry of ecommerce grocery is an unstable experimental market that has shown significant signs of financial and operational struggles through businesses operating in the industry. Webvan is operating ahead of its time which lacked the level of technology to meet its goals. Many customers still prefer brick-and-mortar stores because of the opportunity to evaluate goods by "touching and feeling" and the potential to take advantage of numerous sales and price negotiations that can't be had through ecommerce grocery businesses. The ecommerce grocery business catered to a specific and small demographic that was accustomed to ordering online or were unwilling to visit a grocery store for varied reasons. If Webvan exits the market now, they will prevent a loss for their shareholders, not declare bankruptcy, and be able to liquidate their assets to try and break even. This give the opportunity for Webvan's CEO and previous board members to use the money recovered from exiting the market to invest in a new business venture that can be profitable.

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