Marvin Weaver

Dr. Robert Barker

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Webvan Case Write-Up

Background / Problem

Webvan is an internet-based company that offers online grocery shopping with a home delivery service. Webvan was founded by Louis Border, the founder of Border Books, Webvan was a subsidiary of Border Books, it operated in the e-commerce field, allowing customers to handle their grocery shopping completely digitally, and their groceries would be delivered to their house the following day during a specified time period during the day. The concept of Webvan was an amazing concept, but even with a great concept they struggled to be profitable. In spite of a successful IPO, on November 5, 1999, Webvan was having a difficult time turning their services into a profit, even though Webvan as a company was valued rather highly compared to its actual market impact. Webvan had been operating in the San Francisco area for approximately five months. Within that five months they managed to amass more than 10,000 clients. Which was fairly impressive due to the fact that it took Peapod, Inc., a Webvan competitor, ten years to obtain a client base of 100,000 households.

The problem Webvan was facing was that there are a lot of competitors within their industry and due to that they were having a hard time amassing a good amount of the market share within the industry. All the competitors within the industry were trying to find ways to differentiate themselves from their competitors, sometimes it would work and other times it would not. Webvan is realizing that they need to find a way to gain a chunk of they market share within the industry, especially now that they are a publicly traded company and they have all eyes on them. Webvan is not sure which decision they should make in order to turn a profit, should they try and acquire local grocery chains in the area that are trying to peruse, should they consider selling Webvan to a competitor so that Webvan does not fail? It is important that Webvan has a plan and they implement it as soon as possible, because “you can not get there unless you have a map” (Fried). Another option they might consider is starting to add other products to their online marketplace such as: movies, CDs, video games, toiletries, or even outdoor products. The one thing they can be certain of is that they need to implement a course of action before they go under completely as a company.

Industry Competitive Analysis

Competitive Rivalry: High

There are a lot of other online groceries stores within the industry that Webvan presides. They provide very similar services that Webvan does, such as Peapod. “The organizations ability to adapt to changing conditions is key to long-term organizational effectiveness.” (Cash). There are many other companies within the market like Streamline or Shoplink, which deliver grocery to your home weekly for a monthly fee. They also provide other service besides groceries.

Threat of New Entrants: Low

The market for online grocery delivery was new and untested. In addition, it requires a large amount of capital in the form of setup costs, which deterred many prospective entrants into the market. However, because this is an online business anyone could theoretically enter the market due to the internet.

Threat of Substitution: High

The market is dominated by tradition retail stores and supermarkets. The only differentiation that Webvan has on traditional grocery buying was the home delivery service that they provided.

Bargain Power of Suppliers: Low

The bargaining power of suppliers is low because there are many suppliers of produce and groceries within the industry. If a supplier starts charging too much for their products Webvan could just go to a different supplier that would not charge them as much.

Bargain Power of Customer: High

Customers have a high bargaining power because if Webvan starts charging too much for their services they could go to another online grocery store to find better prices. Or they could just go to a traditional grocery store and buy the groceries themselves.

Internet Enabled Business Model

Profit Site

Webvan's profit site would be to focus on operations and customer service. Webvan is attempting to compete with traditional grocery stores and other online competitors by providing large distribution centers that would be able to "serve as many customers as 20 normal supermarkets" (Afuah).

Customer Value

Webvan attempted to outperform supermarkets by offering a delivery service. Webvan hoped to outperform it competitors by marketing themselves as the "quality-driven gourmet online grocer with everyday grocery prices." (Afuah). Another aspect that Webvan attempted to use to differentiate themselves from their competitors was employing a culinary director, who created chef-prepared meals that would cater to the lifestyles and tastes of their clientele.

Scope

Webvan's scope was approximately 40 square miles around the Bay Area of San Francisco. Webvan's distribution center was built in Oakland, California. This distribution center was a prototype for Webvan, as they planned to build 26 other distribution centers. Their end goal was to be able to serve entirely in North America and then eventually expand into South America and across the Atlantic to Europe and Asia.

Revenue Sources

Webvan received revenue from the sale grocery and their delivery fees. They made the mistake of not utilizing any form of online revenue. Webvan did not take advantage of the highly profitable online advertising as well as selling demographic data collected through online sales. "Webvan received revenue solely from sales of grocery products and delivery fees. The company did not intend to sell its customer data to third-party database firms, nor did it receive online advertising fees, since it wanted to remain neutral among the different product brands that it sold online." (Afuah).

Pricing

Webvan uses the internet enabled business model which allows businesses to cut down on variable costs. Especially, with the use the software because once it is developed it can be used repeatedly.

Connected Activities

The main activity Webvan provided was their delivery service. "To offer better value to the right customers, a firm must carefully choose which activities it performs and when it performs them" (Afuah). Webvan designed these activities to get a competitive advantage over their competitors.

Implementation

The thing that Webvan failed at was the environment in which they started their business, this is because when Webvan started their company the environment did not have sufficient market share for Webvan to be profitable. Also, "Webvan did not understand its customer. No focus groups or surveys were done to see what the average American wanted when grocery shopping. If these had been done." (Ground Floor Partners).

Capabilities

Webvan's costs required to provide the capabilities needed to run their company was much higher than Webvan's profit. Webvan's total operating expenses were extremely high. Even though Webvan had the capabilities to serve a large market, but they did not have enough profit to support their capabilities.

Sustainability

There are three sustainability strategies to survives and they are: run, team up, and block. An organization chooses its strategy by using the complementary asset model, which determines what sustainability strategy an organization should use based on the organizations imitability and complimentary assets. After an analysis of Webvan's imitability it shows that the services provided by Webvan are easily replicated, leading to a high imitability. With a high imitability and free complimentary assets Webvan should use the run sustainability model. This is the most difficult option and involves the organization at hand always be innovating to maintain a competitive advantage over their competitors.

Cost Structure

Webvan's miniscule sales revenue was heavily outweighed by the high costs of implementing large distribution centers. "A firm's cost structure expresses the relationship between its revenues and the underlying costs of generating those revenues." (Afuah).

Stakeholders

Webvan

Webvan is by far the large stakeholder in this case because dependant on their decision Webvan could become profitable or go under. Choosing one decision could gain them market share which would increase throughput through sales and revenues and let them grow bigger and better than they already are (Goldratt).

Shareholders

The shareholders have a vested stake in the decision made by Webvan because they are a publicly traded company and the decision they make directly correlates to whether or not investors make money.

Customers

Customers have a vested stake because they rely on Webvan to deliver their groceries, and if Webvan goes under the stand to lose their means of grocery delivery. And vice-versa if Webvan becomes profitable the customers stand to receive better prices on groceries, due to the fact that Webvan could lower their prices to gain a competitive advantage.

Employees

Employees have a vested stake in the decision made because they rely on Webvan as a means of making a living.

Alternatives

Acquire a Grocery Chain

Webvan could attempt to acquire traditional grocery stores that already have a standing in the industry market share. There are a lot of different ways to manage a company, and acquiring other companies is one way to do so (Morgan). This would be a smart move to grow their company because they would acquire the grocery store and whatever distribution centers owned by that chain. It would also help Webvan establish a name for themselves and grow their target audience from the San Francisco Bay Area. It would also immediately increase their customer base because they would obtain all the existing customers that chain had.

Webvan would back this decision because it would immediately increase, they clientele which in turn would most likely result in an increase in profit. Shareholders would back this decision because it would most likely increase their stock price because they will have acquired a good standing grocery chain. Customers could go either way because the acquirement of this grocery chain could lead to them losing ties with their online delivery customer service, but it could also provide them with the profit to expand and grow their online presence. Employees would back this decision because it would provide them with the means to make money and continue to have a paycheck.

Sell out to a Competitor

Webvan has the potential to sell to a larger company either in the industry or looking to get into the industry. If Webvan sold out to a larger company Webvan as a whole would be in the clear but may become integrated into the larger company or because a subsidiary of that larger company. Webvan would back this decision because they would be able to walk away with some money in their pockets The Shareholders could like this decision because they could have an increase in their investment due to a larger company taking over. Customers would be indifferent because they would continue to receive the same service and potentially at a better rate. The Employees could see this as a plus because it could help grow their careers, if the new owner does not come in to the deal wanting to hire a new staff.

Do Nothing

If Webvan does nothing they would continue to run their online grocery delivery company exactly as they currently are. This would be considered the safe option for Webvan, but ultimately would lead to the demise of the company, because they would be restricting their room for growth. They would inevitably go bankrupt and Webvan as a whole would cease to exist.

Webvan would back this decision because in their eyes it is the safe decision. Shareholders would not back this decision because it would completely ruin Webvan's ability for growth, thus making it extremely hard for the stock price to go up. Customers would be indifferent because they would continue to use Webvan until they went out of business. Employees would back this decision because it is seen as the safe decision be management and would result in them maintaining their jobs.

Recommendation

I would recommend that Webvan sell to a competitor, because it would be the best decision for all the parties involved. Under the current circumstances Webvan cannot stay afloat doing nothing when their 1999 expected sales are $11.9 million and their losses are expected to be $35 million. They would have to shutdown and all the stakeholders would be impacted in a negative way. They cannot risk buying a grocery chain because they do not have the capital to obtain a grocery chain without taking on some major debt and potentially bankrupting both

Webvan and the acquired grocery chain. In my opinion, selling to a competitor would benefit all the parties involved. Webvan and the Chairman would walk away with some money in their pockets. The shareholders would most likely see at increase in their stock price. The customers would continue to use their grocery service and potentially receive it at a better price due to better management. The employees would benefit because they would have job stability under the new employer.

Works Cited

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