CIS 410

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Case Webvan

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Webvan

Back to 1971, Louis Borders and his brother Tom opened a “serious” bookshop in the central of Ann Arbor, Michigan. The bookshop was friendly, well-informed store staff that could help the customers to find the book they are looking for, or they can browse the whole bookstore by themselves for hours. The first Borders bookstore was known as one of the most finest bookstores in the world. Louis has developed a software that could track the inventory and predict the future trend of sales. They sold their company to Kmart in 1992. Then Louis started a new company named Intelligent System which focused on using the software system managing the inventory and delivery the product and started looking for investors. Louis has obtained $3.5 million from Benchmark Capital, $150 million from other investors including Yahoo, CBS and Knight-Ridder. He named the new company “Webvan”, with a starting capital with $1.2 billion.

Webvan provided online grocery stored that offered customers a more convenient way to get their groceries, and a wider variety of products. “The internet has become the driver for E-commerce thanks to the invention of the World Wide Web as a principal means of sharing information”(Cited from “Electronic Comerce”, by Zwass). They also offered a better price than other stores which cost 5% less. The core function is that they have a free delivery within 30 minutes. At Webvan’s peak, they offered services in 10 U.S. markets. However, Webvan got their first order in June 1999, and shut down in June 2001. It burnout approximately $1 billion during 2 years.

1. The competition in the industry

Although the online grocery industry was relatively new in late 1990s, a number of companies competed with Webvan. Such as Peapod.com, Streamline.com, shoplink.com etc. The companies compete fiercely to maintain their power in the industry. And the competition could also help with identifying the profitability. These reasons make the competition within existing firms a stronger force. “When we analyze situations as loops rather than lines, we invariably arrive at a rich picture of the system under consideration.” (Cited from “Image of Organization”, by Gareth Morgan). The firms need to have competitive advantages on the basis of diversity, the development within the sector and the barriers related to entrance in the market. They need to attract customers, with using their product or services, to occupy a larger market share competing with other brands. With more customers get used to use their services, building the customers loyalty, they could get more profit. The brand also need to analysis their competitors’ product, their strengths and weakness with the strategies they use, and the competitors’ market share.

2. Potential of New Entrants into The Industry

The potential of new entrants into the industry is low. The startup capital and maintain the warehouse is high which means they need a large number of investors and a core algorithm software. On the other hand, there are several existing firms in the market that also create barriers to the new entrants and prevent them to have a chance to enter the industry. The size and reputation of the existing brand is also important to prevent new entrants. The access to raw materials, building the warehouse in different cities, and the technical standard barriers makes the threat of new entrants lower. The customers are looking for cheaper price product which means the strategy of the firms are low cost leadership. This creates a barrier for the new entrants and make it more difficult to break.

3. Power of Suppliers

The bargaining power of the suppliers are high. Even though there are lots of suppliers offers the same product, Webvan is to small to have bargaining power to their suppliers. They do not have a high market share that could make the suppliers demand them to sell their products. The customers of Webvan are also looking for famous brand of product and just order them from Webvan, if Webvan do not have the product from a specific brand, the customers might be lost. So the bargaining power of suppliers are high and they can also increase the price of the products without negotiate with Webvan as long as Webvan could not find a substitute suppliers for their product line.

4. Power of Customers

The bargaining power of customers are high. The switching cost for the customers are low because all they need is a new account in the competitors of Webvan and they could get the same product from them. The number of customers is also limited, and the products in the industry are standardized and undifferentiated. The customers are looking for a cheaper price of products in different online grocery stores. That could force Webvan has a lower price than their competitors to attract more consumers and take more market share. This all factors increase the bargaining power of the customers.

5. Threat of Substitute Products

There are lots of available Webvan substitute that provided the same services. Due to the switching cost of the customers are low as well, the threat of substitute product is high. The companies that has the same technologies but have a better service, or a better price and quality, could replace Webvan. Webvan would under constant threat of being replaced by other companies. High threat of substitute product also made a limit of the profitability to Webvan, due to use the price leadership strategy. It also affect the growth potential of the industry.

The stakeholders of Webvan are the shareholders of Webvan that who brought the stock. And all the investors who put money in Webvan. Also, the CEO, employees and contractors are also the stakeholders. “Three particularly important indicators are the stock price, the price/earnings multiple, and overall market capitalization for the firm.” (Cited from “Strategic

Brand Management", by Kevin Lane Keller). As an internet company that provided online groceries services for customers, the internet provided a large amount of customers comparing with traditional grocery stores. All the online customers need groceries. However, Webvan did not specify their target consumers. They have no clue or surveys that investigate what consumers wanted when conducting grocery shopping. Many grocery shoppers are impulse shoppers which means while shopping, they will grab other items which is not in the shopping lists. They could now show the potential product the customers may need and losing lots of potential profits.

Webvan also required orders to be placed 24 hours in advance. The customers also need to have a specific 30-minute window when they need to stay at home and accept delivery. Which firstly designed to be convenient their customers, however, some time it makes things harder. Many people would tried Webvan once but Webvan could not keep their customers and let them return, not to mention creating customer loyalty or habit to using Webvan.

Webvan also built its own infrastructure rather than using the infrastructure that was already available. The center was 350,000 square feet and fully automated, however there are lots of problem in it. It could only operate at 35% of its capacity in each center. "Any balanced plant faced with 'statistical fluctuations' and 'dependent events' will see throughput going down and inventory going up" (Cited from "The Goal", by Eliyahu M. Goldratt). That lower the efficiency and productivity of each center, also create more cost handling with incomplete orders and more inventories.

Alternatives

1. Do nothing

Webvan could do nothing to change their infrastructure or strategies. That will keep the Webvan on current track and hope something happened to turn around the situation. The profitability of Webvan is low and they also cannot expand the market share and have no bargaining power with their suppliers and customers. Webvan would have a higher cost than its profit and lead it to bankrupt.

2. Reform the structure

Webvan could try to develop new product and attract new customers. They could provide variety of grocery products for the customers. And they also need to reform their new infrastructure. “Reengineering is not solely about creating new business processes, it focuses on creating a new company” (Cited from “The reengineering Revolution”, by Hammer Michael). They need to figure out a better way to manage their product line. That could help Webvan to reduce margin cost and help the product have a lower price. Once its success, the Webvan could have advantages in both differentiation and cost leadership. They provide more products than other competitors, and also have a better price. They also need to reform the customers’ shopping habit, creating more chance to show the product the customer might be interested and show it during they are browsing groceries. It could increase the average amount of each successful transactions, which brings more profit for Webvan.

3. Exit the market

Webvan could exit the market and selling all the assets. Including their product line and customer resources. They have a poor performance in the market, exit the market could stop loss in-time and save potential lost for the investors and stakeholders.

4. Acquiring the competitors

Webvan could use their sufficient capital to acquire a competitors’ company. With acquiring the competitors, they can get the resources of their competitors, including their warehouse, their product line and infrastructure and combine the resources to reduce costs and expand the market. They could also get the customers from the company and turn them to the Webvan’s customers. It brings a larger market share for Webvan which means they will get a higher bargaining power to their suppliers and customers. “Reengineering is about reinventing the business, not making superficial changes or marinal enhancements to the old ways of doing things" (Cited from "The reengineering Revolution", by Hammer Michael). It could also help Webvan to reform the structure and get a better way of doing things such as delivery, web design, etc.

I would recommend Webvan to reform the structure of the company. They have an advantage of early development of having survey of what customer need, and what is the shopping habit of the customers while browsing groceries. It would help them to redesign the website and attract more new customers. Reformat the product line and the delivery would help to keep the customers and let them get used to using Webvan. "brands become iconic by combining all these types of associations into what is, in effect, a myth, tapping into enduring consumer hopes and dreams." (Cited from "Strategic Brand Management", by Kevin Lane Keller). When customers get used to use Webvan to get their grocery, it creates brand loyalty, which is good for long run. What's more, restructure the product line could help Webvan to reduce cost and increase the efficiency and bring more success orders rather than incomplete orders. A greater customer experiences could also attract more new customers. With expanding the market share, Webvan could expand their product, which create differentiation with other competitors. This is also a part of reformation.