Case Study – WebVan

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Webvan is a company that was incepted in the 1998 and 1999 timeframe. Webvan was started by Louis Borders, who was an entrepreneur who was successful in his previous venture, Borders Books, in addition to his brother Tom Borders. Louis, who helped make Borders Books what it was, wanted to transform the online grocery industry. He felt that with his expertise in operations, information systems, and customer service, that he could take part in the $453 Billion off-line grocery market and take some of that online. Webvan believed that with their operations and customer service that they would be able to make a solid stance in the already created online grocery delivery industry.

While Webvan was trying to revolutionize some of its concepts and differentiate itself, it was one that was new inside an already competitive industry with tight profit margins. Therefore, when looking at Webvan and evaluating the rivalry among competitors, you will see that this is high. This is because Webvan is entering an industry that was already established with many other players with their independent strategy. Next, evaluating the threat of new entrants, we will see that this is high as well. This is because it was semi-easy to start a basic website and delivery service. It would take minimal infrastructure other than a website and a few people with cars to take a piece, even if it was small, of the industry. This is important because Webvan is looking to keep and retain customers, even if another company comes in and takes just a neighborhood away, that can do substantial harm to Webvan's bottom line. Next of Porter's five forces is the threat of substitutes. The risk of substitutes is exceptionally high in this industry. This is because it is not hard to buy or obtain groceries. Whether someone is going shopping and wants to do it themselves in the grocery store or walks down the street to get a few items from the convenience store, Webvan and the industry itself is very vulnerable to substitutes. Next is the bargaining power of buyers. In the case of Webvan, the bargaining power is substantial due to the fact of the high threat of substitutes. If a consumer doesn't like what Webvan is doing or had a bad experience, it won't take much for them to stop buying, or lower their order. Next, like an initial startup, the bargaining power of suppliers was high. While suppliers wanted their products to be sold by Webvan and be accessible to their consumers, Webvan didn't have the status of being a well-known company or having an extensive supply chain. Due to this, most suppliers held bargaining power.

Webvan's mission and strategy was to be the leading online grocer by having a large selection of food, both perishable and non-perishable, in addition to other options such as household goods and supplies. Webvan wanted consumers to create an account and start ordering their groceries from them. Webvan believed that by having their warehouses and distribution centers with it's innovating design, that they could cut cost on labor, among other factors that a traditional grocer wouldn't be able to. This made Webvan believe that an independent distribution center would be profitable within nine months of inception. Another crucial part of Webvan's strategy was to have a sophisticated ordering system online that would be able to track every part of the ordering, packing, and delivery of an order. This was mimicked off of the Borders Books system in which they were able to see complex information about books, their location within the network of Borders Books, among other concepts. However, according to Afauh and Tucci 60, Webvan was participating in the menu pricing model. This meant that their products were in a database with a set price that was non-negotiable. Another critical part of Webvan's model was their organization being a form of Engineering, as seen in Images of Organization, Morgan 25. Webvan's model was a form of engineering, where they designed the organization of a network of moving parts where they needed to be operated as precisely as possible.

Webvan's organization structure was mainly a heigharical structure, with the CEO being at the top, and parts of the organization trickling down from there. This kept every aspect of the Webvan business centralized, where information flowed top-down and data flowed bottom up. This type of organization, according to Morgan, would allow the organization to increase efficiency as they broke work into its smallest parts. In the case this could be seen by having individual employees picking items at the warehouse and only doing that within a small specified area since they had rotating carousels of items around them.

Webvan had many stakeholders. The most notorious stakeholders were the individuals who bought stock in Webvan since the company went public. This meant that each decision that was made would impact the company's stock and also meant they were being held accountable externally for all their actions. The next vital stakeholders in the company were the company's customers. These stakeholders were also critical as they were the ones driving and supporting Webvan, but also the individuals with needs. Another key stakeholder within the company were the company's employees, who were frequently considered ambassadors of Webvan. The last key stakeholder with Webvan was the Bechtel Group, an engineering and construction firm. This is the firm that Webvan signed a $1 billion contract to build their distribution centers, 26 to be exact over two years. This would put a strain on Webvan to perform to be able to maintain the grown and pay the $1 billion contract.

In my opinion, Webvan had many problems, which can be looked at and evaluated at many different angles. The first is that Webvan tried to model itself off a brick and mortar bookstore that had a decent information system. This, in my opinion was one of their first mistakes as the industries were utterly different. The next was that Webvan tried to get too creative and cookie-cut their distribution centers without proper testing. Many companies that are successful use trial and error before making a big purchase or cookie-cut their distribution center or store. In the case of Webvan, they designed a warehouse, and before fully getting the grasp of how it would operate, they signed a huge contract. Lastly, I believe that, according to Afuah and Tucci 71, that they were operating under the wrong strategy. I believe that Webvan was operating under the Block strategy. They were more interested in creating unique databases and systems in addition to their own set of distribution centers and forms of doing things. They were trying to develop a system that was not easy to imitate, however after reviewing the complementary asset model, Afuah and Tucci 79; their imitability was high as there were many other companies that were similar to them. After evaluating I also noticed that their complementary assets were freely available. Their customers had a little switching cost to go between online grocers or even go back to brick and mortar stores. When comparing these two to the complementary asset model, Webvan should be "running." This means that they should continuously be inventing new items or deals for their consumers to retain them. This was not what they were doing as it can be seen as stated before, they were trying to block other companies, in an industry that requires you to run.

While Webvan was trying to build itself, after inception and being operational for several months, revenue sources and income was not hitting its projected targets. While Webvan began to struggle, there are some options that Webvan could look at to possible save itself from trouble. One option would, of course, be do nothing. This would let Webvan stay on the current path it is on and see where things go from there. This would, of course, have an impact on its stakeholders as the price of stock would more than likely decline as they are not off to a great start. This would also affect its consumers as they would more than likely not return to use Webvan's services as they may not see perceived value. This would also have an impact on its employees as some may start to get laid off or see deteriorating conditions. Regarding their $1 billion contract, Webvan would more than likely still pay and receive warehouses that are operating at less than half of capacity. The next option that Webvan has is to generate new revenue sources. In this case, this could be done through advertising on their website, selling of data, etc. While this may not always be a steady stream of data, it would increase income for the company, which would satisfy shareholders. It would more than likely not have a profound impact on consumers, at least one that is not easily noticeable. Next, their employees would possibly have higher job satisfaction as they would know their company is doing okay. Lastly, it wouldn't have an impact on their $1 billion contract with the Bechtel Group, other than they would have money to pay for it. My last perceived solution for Webvan is to create new customer value to increase the likelihood of a steady revenue stream. This can be done through quality, which is under customer value in the internet-enabled business model. Currently, customers and consumers are spending $76 per order, which is less than what was expected. This could be because people don't impulse buy since they aren't walking down the aisle and choosing items they didn't necessarily need. This form of customer value could be exclusive discounts that they could receive by being a member, or maybe bundling with a new product line such as delivery of medicine and prescriptions. The impact this would have on shareholders would be significant as it would more than likely raise the evaluation of the company and increase stock prices. This would, of course, increase consumer satisfaction, which would, in turn also increase employee satisfaction as they would be busy working for a stable company. This would also have a good impact on the Bechtel Group as the warehouses they were going to build were more than likely going to be used.

After evaluating, I believe that the best option would be to create new customer value through the quality of the services offered. Of course, this can also be achieved with other features and costs of prices. With this, this would have a positive impact on all shareholders associated with Webvan at the time.