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# Webvan Case

In the late 1990s, Webvan emerged as a promising company that would allow consumers to make online grocery orders and have them delivered to their doorstep. When the company had its IPO on the stock market, it ended its first day of trading with an evaluation of more than $8 billion. This gave them a very high market value relative to their brick-and-mortar competitors such as Kroger. However, a problem for Webvan is that their losses were estimated to be $35 million in 1999, and $302 million in 2001. **The company needed to find a way to sustainably grow and make a profit.**

Webvan's generic strategy for competing is differentiation. They were able to implement the inventory systems and customer service techniques used that made Borders Books a successful company. They believed they could use a similar technique to Borders Books to start up an e-commerce grocer. The company differentiated themselves in operations with the proprietary systems they built to automate the grocery ordering and delivery process. They also differentiated in customer service as they offered next-day delivery, chef-prepared meals, and provided quality groceries at 'everyday' prices.

Being an internet business, Webvan also had many competitors sprout up during the 90s, although they all had slight differences. Peapod had begun shipping items, adding to their service of having personal shoppers who deliver groceries. Streamline and Shoplink delivered a wide variety of products weekly to its customers. Netgrocer shipped nonperishable goods on a

recurring basis to consumers who know how often they need to replenish paper towels, soup cans, etc. Hannaford, a brick-and-mortar chain, offered groceries to be delivered to collection centers. It is apparent that with rapid expansion of the internet, Webvan will have many competitors that it will need to differentiate against. Reaggregation can be an important strategy for the company, as "reaggregation enables new entrants to compete differently, even though they're competing with the same scope of activities as well-established leaders" (Kalakota 11).

There are three main stakeholders involved as Webvan tries to find a solution to grow and remain competitive. Employees of the company are a stakeholder, as changes to company will affect the work that is performed from software development to warehouse logistics. Customers will also be impacted as there could be changes to the ordering process. Shareholders are the final stockholder. Since Webvan has recently gone public, the decisions they make will be reflected in the share price of the company.

Webvan has several options they could choose from to help solve their problems. Webvan could attempt to buy out grocery chains, which would give them access to increased distribution centers and reduce competition. They could also consider selling their brand to a grocery chain. Webvan could also choose to increase their product mix and sell more than just groceries. Finally, they could choose to do nothing.

If Webvan were to attempt to buy out a grocery chain, all stakeholders would be significantly impacted. Current employees will now also be responsible for maintaining brick-and-mortar locations. They would also have to handle the influx of new employees as a result of the acquisition. Customers may have access to more groceries or see lower costs due to the larger distribution network. Shareholders could see a change in share price since the company now has more hard assets.

Should Webvan sell themselves to a grocery chain, the stockholders would still be significantly impacted. Employees would be impacted due to the acquisition and would have to adjust to the culture and policies of the new company they'd be working under. Customers may lose access to Webvan's current offerings, as the grocery chain may change the product offerings available or whom they will deliver to. Shareholders would also be impacted as the buyout would increase the valuation of the company and ultimately its share price.

By adding additional products to its mix, Webvan's customers and shareholders will be impacted, but employees will see little difference. Customers will have increased access to products other than groceries, which could increase the average amount of money spent per order. Shareholders, as with any decision, could see a change in share price or valuation based on how adding additional products would impact the company. Employees will be minimally impacted. When expanding their product lineup, there is essentially no difference logistically in packaging a can of soup compared to a roll of toilet paper. On the software side, there is a marginal cost of zero to add another product to the website. This increased product offering would be beneficial, as "in delivering value to customers, it is always important to keep asking how much it costs to deliver the value" (Afuah-Tucci 73).

Finally, Webvan could choose to do nothing. Customers and employees would not be impacted as there are no changes. Customers would be able to order the same items. Employees would operate the same way they currently do either in the warehouses or in building the website and software. Shareholders should expect no changes in their stock price unless an outside force causes a change in the company's valuation. **Ultimately, Webvan should consider selling itself to a grocery chain.**

While buying competitor grocery stores seems like a good way to increase the company's strength, it is not the right choice for Webvan. Currently, their distribution centers they currently have are only running at around 20% capacity. There is no need to acquire additional distribution availability right now. Additionally, given their sales forecasts, Webvan does not have the capital necessary to purchase competing chains. They would have to take on debt to make that purchase. Taking on debt, combined with their current losses, would have a negative impact on the market value of Webvan.

Next, the company could decide to do nothing. However, this causes similar issues to why Webvan cannot buy out a grocery chain: they simply don't have the capital. The current forecasts for the company estimate a significant increase in losses from 1999 to 2001. This is unsustainable for an organization, and by doing nothing they will eventually go bankrupt. This is discussed in *The Goal* as Goldratt says "The goal of a[n] … organization is to make money" (Goldratt 59). Although the company expects an increase in consumers, they will need to make changes to become a profitable company.

Webvan could also opt to increase their product mix. This would be a fairly good option for the company, as it would allow them to better compete against Peapod, Streamline, Shoplink, and Netgrocer. These four companies provide groceries along with consumer goods. Peapod also had a partnership with Walgreens, which expanded its reach to consumers. This sort of continuous innovation is important, as "continuous innovation results in product leadership" (Kalakota 118). However, with so many competitors in the market and more on the way, it will become difficult for Webvan to differentiate itself in the market. The company may have to change its strategy to being a low-cost provider to remain competitive.

However, brick-and-mortar stores will destroy Webvan as they have much better supply chains. Take Wal-Mart for example: This power of their supply chain is evident as “superb inventory management … helped the company steamroll competition” (Kalakota 14). In the long run, the company will not be able to survive on increased product offerings alone. It would need to have significant supply chain power, which would be best achieved by working with an existing brick-and-mortar that already has a powerful supply chain. This is why Webvan should be sold to an existing grocery chain.

Webvan’s current numbers show they need help. In 2001, Webvan estimates to have $518 million in sales, but still $302 million in overall losses. However, their sales would account for less than a percent of the entire grocery industry. As mentioned above, the company cannot choose to “do nothing” because they are miniscule and weak compared to the giants that are Walmart, Kroger, Hannaford, and other large grocery chains.

However, by selling to an already existing grocery chain, Webvan could significantly reduce the costs of warehousing as the grocers already have operational systems in place. This would allow Webvan to take on a “click-and-brick” pattern, which weaves together the brick-and-mortar and online experiences. This “allow[s] the consumer to buy any time and anywhere” (Kalakota 83). This will help Webvan growth their profits, as most consumers buy their groceries based on how fast they can get them at the lowest cost. This is why many consumers still shop at physical grocery stores.

Webvan is a young company and will take a high risk with any decision it makes. However, given the low margins of the grocery industry, consumer demands, and difficulty of differentiation, it is best to sell Webvan’s systems to an existing chain. This will give the chain a competitive advantage against other chains while allowing Webvan access to a much stronger

supply chain than it could create in a couple of months. Unless Webvan chooses to go down this path, they will likely fail to compete and die.

**Works Cited**

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