Webvan

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Executive Summary

Webvan is an online grocery delivery company started by CEO of Borders book Louis Borders in 1997. In 1999 Webvan went public with an Initial Public Offering (IPO) which valued the company at well over $8 billion dollars. The goal of this case analysis is to determine what course of action Webvan should take following its IPO in its pursuit to expand and become profitable.

Industry Competition Analysis

Webvan Mission

Webvan's mission is last mile delivery of groceries direct to customers' homes over the internet. It does this by establishing warehouses in large cities situated geographically close to its customer base. Webvan targets middle class and above consumers with little time to go out and shop for groceries.

Webvan Strategy

Webvan's generic strategy is by cost leadership and differentiation. It seeks to offer comparable to lower prices than its competition and offer a larger variety of products from the convenience of their home.

Webvan Organizational Structure

Webvan is a vertically integrated functional structure where common product type are grouped together. Webvan is a subsidiary of Borders Books.

Webvan Competitors

Webvan has many competitors in a growing market. Chief among these was Peapod and Netgrocer. Peapod started before Webvan and already has a sizeable market share at the time of Webvans entrance into the market. Netgrocer has a similar strategy to Webvan but charges for orders by weight and only ships non-perishable goods to customers' homes. Other competitors include Streamline and Shoplink who deliver goods to customers' homes for a monthly fee and include non-grocery items like postage stamps, videogame rentals and dry cleaning services, eGrocer which takes online orders and fulfills them using nearby established grocery stores, Pink Dot who specialized in quick delivery of last-minute orders, and EthicGrocer which focuses on providing hard to acquire regional food stuffs.

Supplier Power

Suppliers have a great deal of power in the grocery market. They negotiate heavily with customers in large areas and buyers tend to pay a large amount to ensure goods are sold exclusively to them.

Buyer Power

Buyers have a great deal of power as well as they are very price sensitive and will pick a more inconvenient offer for a cheaper price. This means that Buyers have a high amount of power in the grocery market.

Threat of Substitution

The major threat of substitution to online grocery shopping comes from traditional grocery stores who are already well established. Webvan should be very weary of these substitutes are they are the primary market in which online grocers will attempt to take market share from. These companies are already well established in consumers' minds and hold a great deal of power in the market for groceries.

Threat of New Entry

Webvan already has a number of competitors in the online grocery industry and it is not expected to curtail anytime soon due to the rapid influx of investment money and growth of the internet.

The Problem

After its IPO Webvan is faced with the pressures from outside investors to expand its market share and reach profitability. In the years leading up to its IPO Webvan has operated only in the San Francisco Bay Area and managed to get 10,000 customers to sign up in less than 5 months. However as is not usual for a startup company Webvan has been running at a large loss for its entire existence. According to industry analysts the online grocery market only generated sales of $156 million in 1998 which represented less than 1% of the total overall sales of the grocery market. Additionally if projections are correct Webvan will only see sales of $518 million by 2001 which would still put the company at a $302 million loss for the year. This level of expenditure is not sustainable over the long run and Webvan must make changes if it wishes to continue to exist. Moreover CEO George Shaheen and much of Webvans upper management have no experience running a grocery business much less an online one. George Shaneen was the head of a Consulting group before becoming CEO of Webvan

Stakeholders

Borders CEO Louis Borders

Webvan CEO George Shaheen

Webvan Employees

Webvan Investors/Shareholders

Webvan Customers

Solutions

Do Nothing

By doing nothing Webvan will continue on its current trend of hemorrhaging money and likely will go out of business in the next few years. Clearly this will negatively impact all of Webvan's stakeholders negatively and should not be the course of action taken

Close Down

By closing down Webvan will obviously cease to exist which while a general negative to all Stakeholders may be a prudent course of action given the financial outlook. Closing down now would minimize losses to Stakeholders which could have been even worse had Webvan stayed in business and continued to lose money. Investors would be able to recoup some of their lost investment and Borders would be able to sell off Webvan assets to minimize its losses. Employees would still be without a job which is a negative but it is unclear whether continuing to operate would just be postponing the inevitable. While this option is not the ideal one it should only be taken if the alternative of acquisition fails.

Get Bought Out by Competition

If Webvan can market itself as a company worth purchasing by a larger more established firm in the online market or grocery market it could allow Borders and Webvan investors to re-coup all of its investment in the company if desired. Employees may or may not be retained depending of the whims of the buyer. An acquisition by a larger company could also insulate Webvan from losses and allow it the time it needs to continue to expand and grow its business and give it access to a larger pool of resources to build upon and expand into other markets.

Proposed Solution

The solution I propose is twofold firstly being that Webvan should look for potential buyers to acquire the company. The sale strategy would likely stem from a combination of potential market growth in both online retail and grocery shopping as well as on demand last mile delivery services. Additionally the companies' large valuation at IPO would be an attractive prospect for a potential buyer. If Webvan fails to secure a buyer for its business then Borders should shut down Webvan in order to minimize losses and attempted to recoup as much money as it can from the sale of Webvan assets. While the closure of the company is not ideal it doesn't appear that Webvan has a strong future without outside intervention and major changes. Doing nothing would likely result in the eventual demise of the business with investors sustaining more losses than if it was closed earlier.

Works Cited

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