Adam Passanisi

Dr. Barker

CIS 410 -02

3/1/18

Case #4: Webvan

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In today's world, technology is having drastic changes on our lives and the world around us. Through the internet and other devices, such as smartphones and personal computers, we now have nearly instant access to all kinds of information. With one click of a button, you can now know the weather, sports scores, and news from anywhere on the planet. This constant access and connectivity is not only changing how we perceive the world, but also how perform certain activities. Many companies have taken advantage of this, such as Amazon and eBay. Now, Webvan is attempting to join them by bringing grocery delivery to the e-commerce market. Louis Borders created Borders Books and transformed it into one of the most popular bookstores worldwide but now he is looking to energize the grocery industry. The prototype for delivering the groceries is based on a distributed center where a distribution center in several markets would piece together the order and then send it out to a customer within the radius. Currently, Webvan is struggling to make money but have received a boost from their recent IPO of more than $8 billion. Will they be able to keep the momentum or will they continue to lose money?

Even though technology is changing what people buy and how they buy them, some products and services will always be bought in person. These products, such as cars and houses, depend on first-hand knowledge of the product before it is bought. This is known as tacit knowledge. People use this knowledge when they are making important purchases and they want to be absolutely sure that they are making the right choice. This is one problem with grocery shopping over e-commerce. Many people are particular about the foods that they eat.

Therefore, they most likely would not trust another person, let alone a machine to handle their food. For example, if you enjoy your apples a certain way, based on color or ripeness, you wouldn't want to just buy a bag online. You would want to hold them and see them before you make your purchase. Another problem with e-commerce grocery shopping is that many people have a bounded rationality about going to the store and buying their food. Bounded rationality is where people are so used to a certain behavior that they refuse to learn a new way of doing it. People are used to the 'old way' of doing things, and buying groceries at a grocery store is no different. So even if there was a quicker, and more convenient, way of ordering groceries, many people would still go to the physical store simply out of habit. My point to all of this is that Webvan is entering into a market that may not benefit from the internet and e-commerce like the other industries have. The market is going to be smaller than the others. According to *e-Business 2.0* by Ravi Kalakota, "Winners go after very large market opportunities. When it comes to market opportunity, bigger is obviously better."This has to do with the two points above: bounded rationality and tacit knowledge. Also, people who shop online usually have an idea of what they want to buy, which in turn decreases impulse buying. This will hurt a retailer, especially one who banks on a large average order to turn a profit, such as Webvan.

For Webvan an incredibly important step for them will be to create a mission statement. This mission statement will declare the industry they are competing in, their core competency, and their generic organizational strategy. For their industry, they are competing in the retail industry. Their core competency will be to provide quick and convenient grocery delivery to their customers. They will achieve their core competency through the differentiation strategy. According to Ritika Tanwar, "Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique." Webvan is attempting to create a competitive advantage over the other grocery stores and retailers by having their orders delivered to their doorstep the day after the order was placed.

The organizational structure of Webvan would be considered a divisional structure. According to *Building the Information Age Organization* by James Cash, "the divisional structure groups diverse functions, such as manufacturing, research, and marketing within each division." The divisions in this case would be the different distribution centers placed in different metropolitan areas around the world. Even though the distribution centers ultimately report to corporate at the headquarters, they are essentially their own company. They each have their own sales and expenses, and the number of customers varies between distribution centers. Each division would make their own decisions, as long as they are in line with the overall Webvan strategy. Therefore, there is a sense of accountability for each division. Cash writes, "Each division can be held accountable for its performance by defining it as a revenue center, cost center, profit center, or investment center."

For Webvan, there are four main stakeholders: the employees, the customers, the executives, and the shareholders. The employees will be the people who are delivering the orders to the homes, as well as keeping the distribution centers stocked with the appropriate food items. They will be impacted because whatever decisions are made will directly affect how they do their job, as well as the activities they perform. Next, you have the customers. The customers will be those that use the system to order groceries. They will be affected since they are the ones using the system and having their food delivered. Then, you have the executives. They will be the ones making the major decisions regarding the organization and its strategy.

Obviously they will be directly affected. Finally, there are the shareholders. The shareholders are the ones that provide finances to the company, as well as elect the CEO and other corporate members. They will be directly affected since they have a share in the company's profits, and also because they put their own money into the organization. Therefore it's vital to them for the company to do well.

In order for Webvan to come up with an organizational strategy, it first needs to examine the environment in which it competes. To do this they should focus on Porter's Five Forces: the supplier, the customer, substitute products, rival competition, and the threat of new entrants into the industry. First, Webvan should focus on their suppliers and figure out how much bargaining power they have with them. Looking at the situation, it appears as though the suppliers have the bargaining power over Webvan. Because the suppliers are selling their goods based off a differentiation strategy, the purchasers, Webvan in this case, would not be very price sensitive. According to Porter, one of the factors of a supplier's power is to be able to raise prices without affecting demand. Because Webvan is attempting to use differentiation to separate themselves from their competitors, they are less likely to worry about the price of products. Next, they need to evaluate their customers and who has the bargaining power in this relationship. In this case, Webvan has little power over their customers. This is due to the many options that customers have in terms of where they buy their groceries from. Not only are there other online grocery delivery companies, but there are also bricks and mortar stores, such as Kroger and Whole Foods. Because of these options, customers have the ability to switch to another company without much giving up much. Substitute products, or in this case grocery stores, are something that Webvan should keep track of. The threat of substitute products is very high. As technology improves, companies will find ways to use this technology to improve how they provide value to the customers, whether through service or products. New entrants are also an environmental force that Webvan should be aware of. The threat of new entrants is actually relatively low. In order to have a presence in the e-commerce world, you need to have infrastructure (hardware, database, applications) and services, such as a way to facilitate credit transactions. These can be very costly. Finally, Webvan needs to be aware of rival competition. Currently, they are falling behind their competition since Peapod.com has a larger share of the market.

To help Webvan improve their profits, as well as their market share, there are several options that they can take. The first option is to focus their efforts on differentiating themselves on one specific area. Instead of trying to differentiate on both operations and customer service, they should only focus on customer service. Very few companies in the e-commerce, and retail industry overall, succeed in being successful in every business dimension. "To succeed, a company's e-business design must be focused. Once this focus has been decided, commit the resources required for its implementation." (Kalakota, 115) The next option that Webvan could undertake is to implement a generic strategy; a blocking strategy would be helpful in this case. "In order to sustain a competitive advantage, a firm can pursue some subset of three generic strategies: *block, run,* and *team-up*."(Afuah & Tucci, 71) The third option that Webvan has is to do nothing.

For Webvan the first option of shifting focus is very appealing overall for the four stakeholders. For employees, they will probably fall in the group who find it appealing. This is because no longer do they have to focus on excelling on two things (operations and customer service); they can just put all of their focus on one. Customers will also have a positive response to this shift in focus because due to technology, they are expecting better customer service. The faster that Webvan can deliver the goods, the happier the customers will be. According to Kalakota, “Customers count speed of service as a key reason for doing business with certain companies.” The next stakeholder is the executives. They will probably have a positive attitude about this option since it has the potential to grow and retain the customer base. Finally, the stakeholders will probably have a favorable opinion of this since it means less money spent.

The next option that Webvan could undertake is to implement one of the three generic strategies for companies participating in e-commerce: the run strategy, block strategy, or the team-up strategy. Webvan should use the block strategy in this case. Implementing this strategy will affect every Webvan stakeholder in some way. For employees, this decision will more than likely be a positive one. This is because their jobs are not likely to change from this strategy. Next, the customers. This strategy will affect the number of possible choices they have for buying groceries since this block strategy eliminates the possibility of other companies imitating Webvan’s business model. This decision will be most favorable to the executives and shareholders, though. With this strategy in place, they don’t have to worry as much about the environment. They should still be aware of what’s going on, but now they can put more focus on what they do and how they add customer value to their products.

The last option for Webvan is to not make a decision: do nothing. Doing nothing for Webvan will be a disastrous decision for Webvan simply for the fact that they are currently not making money. “The goal of an organization is to make money, and everything else we do is just a means to that goal,” says Alex in *The Goal*. (Goldratt, 59) If the company is not making money, then why does it even exist in the first place? For everyone involved, this would have a negative effect. Executives and employees would lose their jobs. Customers would lose on a potential innovative product, and shareholders would lose money. Nobody wins with this decision.

As technology improves, so will the way that businesses use it to create new products and provide new services. It will also become easier for businesses to imitate these services/products. This is known as imitability. “Imitability is the extent to which the technology can be copied, substituted, or leapfrogged by competitors.” (Afuah & Tucci, 79) Everything else that helps an organization make a profit, including brand name, manufacturing, and distribution channels, are known as complementary assets. In the retail industry, where Webvan is competing, these assets are crucial to a business’s success. Fortunately for Webvan, their service is fairly low on the imitability scale, so their solution should be to implement a block strategy. “In the block strategy, a firm erects barriers around its product market space.” (Afuah & Tucci, 71) Webvan should implement this, focus on creating a reputation for fast and reliable delivery, and then begin to expand.