The following Case Study was researched and created by Hannah Choi, Sergey Mann and Danlin Huang. The Case Study focused on the failed company Webvan and what led to it's demise. We performed a SWOT analysis, looked at competitors and learned why the company faced a surprising downfall during the rise of the Web.

Webvan Case Study

"It's going to be $10 billion. Or zero."
–Louis Borders

Hannah Choi l Sergey Mann l Danlin Huang

Webvan: Case Overview

1997
Idea of Webvan is born

1999 April –July
Webvan attracts $120 million in funding and an additional $275 million by high-profile backers

1999
Webvan expands into 4 new regions and acquires Homegrocer.com

2000
Q3-Webvan fails to meet its break even target operating income

2000
Q1-Q3: Changes Business Model- Webvan@Work, creative marketing strategy, changes in delivery window

2001
July 9th-
Webvan Closes

Webvan was a delivery service focused on groceries. It failed tremendously in their efforts due to high costs and unsustainable expansion methods

Situation Analysis

Strengths

- Proprietary technology
- Management team
- Exclusive vendor relationships
- Funding
- Large product range
- Short delivery window
- Infrastructure

Weaknesses

- Large product range
- Expensive distribution centers
- Groceries are perishable
- High delivery costs
- People can't pick out produce
- People not used to buying groceries online

Opportunities

- Expand to other product categories
- Other geographic markets
- Strategic partnerships

Threats

- Grocery stores start delivering
- People ultimately prefer grocery stores

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Market Size: Online Grocery Purchases

1998	1999	2002	2003	2004
$235 M	$519 M	$3.5 B*	$10.8 B*	$16.8 B*

2015 Actual
$7 B

* Estimate *International Data Corporation (IDC)* *Statistica*

Consumer Behavior and Trends

Target Audience

- Webvan's target consumer was the **'soccer mom'**
- Specifically, individuals with **disposable incomes and no free time**
- The market for online grocers was also expected to **increase**
- According to Shaheen, people saw grocery shopping as **inconvenient** and valued their time

Time Valuation

Key Findings

From this consumer forecast, Webvan's ideal customer would use the service out of **convenience**. Because these busy individuals have little to no time for shopping and are **willing to pay more for this service**.

Webvan: Competitive Advantages

- Convenience: 30-minute delivery window
- Information technology
- Products with higher quality and more options

Strategic Uncertainties

Customer Preferences

- Will people want to buy groceries online?
- Will people reorder a 2nd time?

Building Critical Mass

- Market penetration
- Distribution center capacity

Viability of Pricing Model

- Delivery Costs
- Average Order Size
- Gross Margin
- Net Profit

Breaking Even & Managing Cash

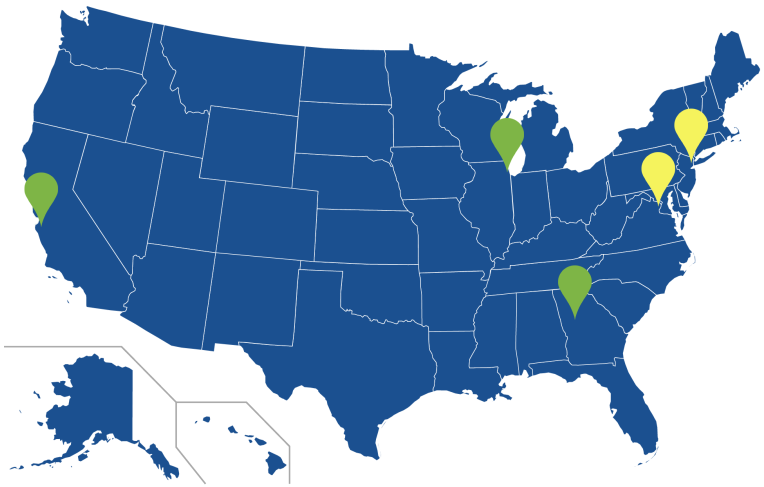
- How fast distribution centers become profitable
- Cash burn rate

Webvan: Strategies

Use highly automated distribution centers to reduce costs and increase efficiency

Attract customers first with groceries then expand to other products

Webvan: Strategies (continued)



Establish a customer base in one region then expand across the country

Strategic alliances with eve.com, Kellogg, Kraft Foods, the Clorox Company, etc.

Webvan: Implementation Process

1
- Attracted **vast funding** from high-profile investors/companies
- Value Proposition: convenient, fast and reliable grocery delivery

2
- Found target customer base: Soccer Moms
- Initiated **'free delivery'/ promotions** in order to attract these consumers

3
- Constructed Distribution Centers in a partnership with Bechtel
- Hired an engineering team to lower costs on **SKU location tracking**

4
- Developed a relationship with suppliers and wholesalers
- Lower frequency of deliveries making the exchange **more cost efficient**

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Strategic Uncertainties: Changes in Original Assumptions

1

Effectiveness of Automation

- Only 35% of products fully automated process
- Design issues: bins tip over, design errors, heavy equipment (soil)

2

Individual Distribution Center Profitability

- Expected Oakland DC to be profitable 6-12 months (others 60 days)
- Break-even: 4,000 orders per day | revised to 3,000
- Actual: 2,500 orders per day

3

Market Penetration

- Expected profit with 1-3% household penetration
- Later estimates: 10-12%
- Bay Area: 6.5% tried (3.2% placed a 2nd order)

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Strategic Uncertainties: Changes in Original Assumptions

4

Average Order Size
- 1999: $81
- Projection: $102
- 2000: $112

5

Delivery Costs
- Expected cost per order of **$5-6**, actual likely **up to $20**
- Nov 2000: raised minimum order for free delivery from **$50 to $75**
- Increased delivery window **from 30 to 60 min**

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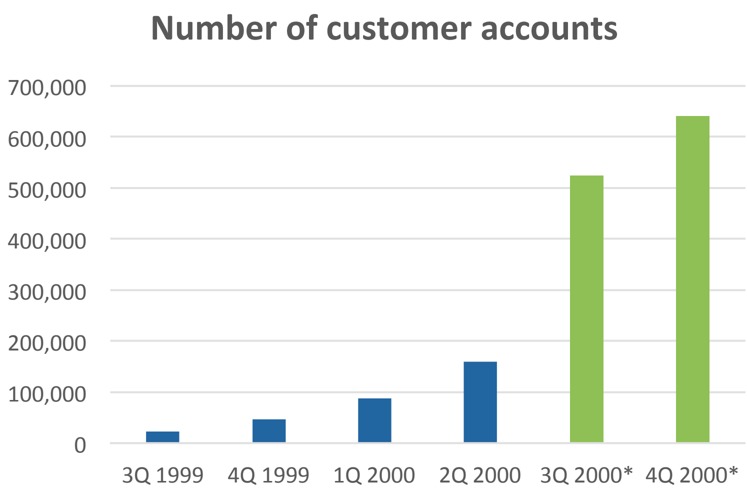
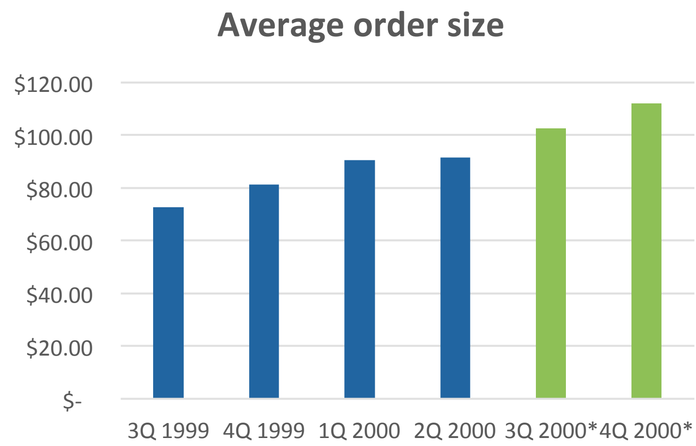
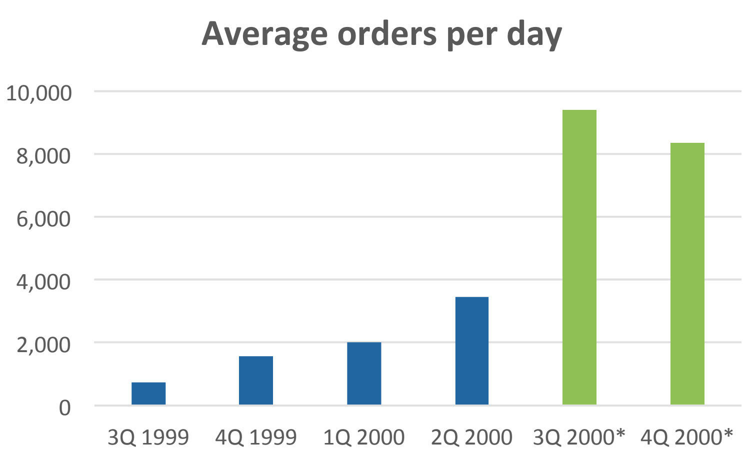
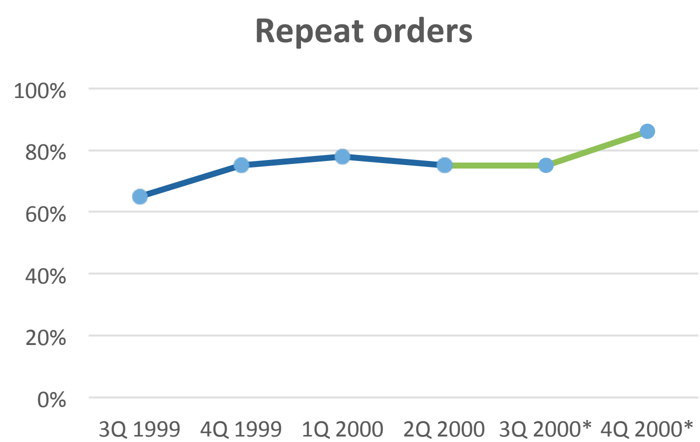
Financial Situation



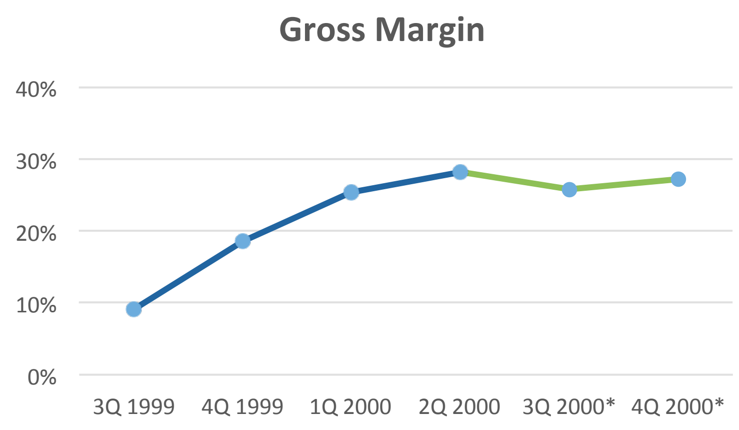


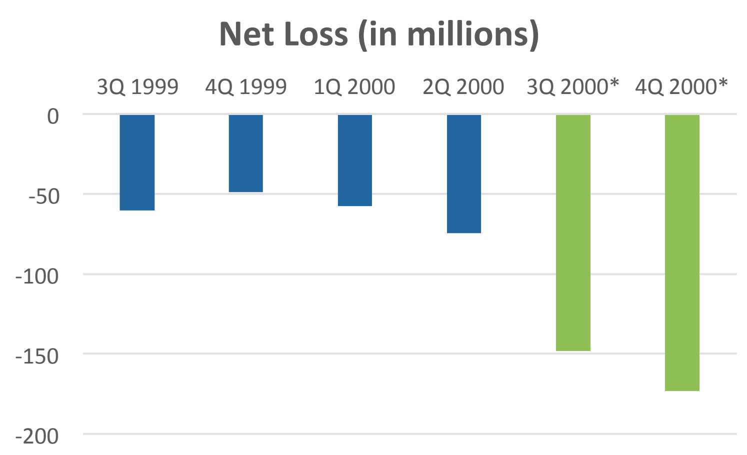


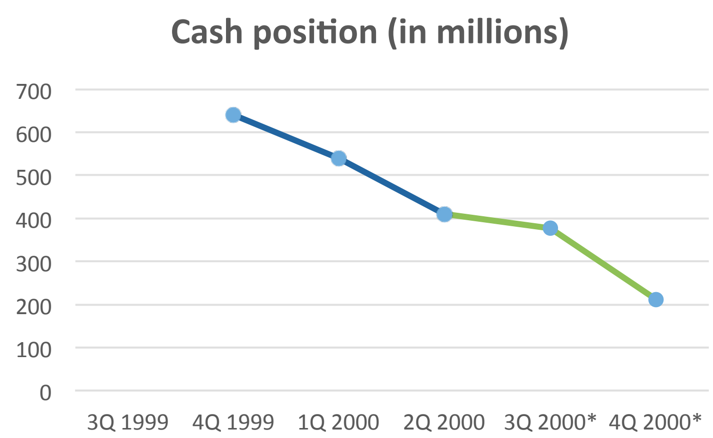


*3Q & 4Q 2000 includes HomeGrocer

Financial Situation (Continued)







*3Q & 4Q 2000 includes HomeGrocer

IPO

Revenue	Market Capitalization
$4 Million	$8 Billion

"They have the sales of two of our stores and one fourth of our market cap"
–Safeway Executive

Webvan: Case Assessment

Case 1	Missing Elements

- The case needed more on Webvan's **growth tactics**
  - We know that they were quick to expand, but weren't given details
- **Key metrics** –more numbers on the profit margins and expenses would help us understand how the business failed and where the funds were allocated
- The case could also include case studies of similar businesses and their weaknesses to help us compare strategies (i.e. Homejoy)
- The marketing strategy of promotions, ice cream socials and coupons was mentioned in the case, but there was little detail on how they marketed to their audience at the start of their business.

Webvan: Update

- All non-perishable food was donated to local food banks
- Colored plastic shipping bins were used for household storage
- George Shasheen served as the CEO of Siebel Systems Inc. from 2005 to 2006; he quit after Siebel Systems merged with Oracle

Present Day: Similar Companies

amazon fresh

- Started grocery delivery in 2007
- Home delivery on the same day or the next day
- $299 Amazon Fresh Prime
- Doorstep delivery and attended delivery

SAFEWAY

- Started online delivery in 2000
- 1 hour delivery window
- $9.95 on orders $150+ and $12.95 on orders under $150
- Save $3 on delivery on 2-hour windows; save $6 on delivery on 4-hour windows
- No DCs

instacart

- Founded 2012
- Use existing store infrastructure
- Delivery fee + individual item markup
- Contractors deliver orders
- $274M raised | $2B value
- Gross margin positive

MOVEBUTTER

- Founded 2015
- Just-in-time: direct from manufacturers, no inventory
- No delivery fee
- Small number of items, high quality
- “How do you trust the Instacart driver to pick the best avocado” Chai Mishra, CEO

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Present Day: Similar Companies

Blue Apron

HOME CHEF

HelloFresh

plated

- Founded 2011-2013
- Target market: busy young professionals and families
- Groceries for a set menu in a box
- Set menu & delivery schedule
- Value Prop: even more convenience