

In February 2000, Webvan announced its average order size had risen from \$72 to \$80. By June Webvan had spread to Atlanta, Georgia, and Sacramento, California. At the same time it purchased a rival, HomeGrocer.com, allowing Webvan to move into Dallas, Los Angeles, San Diego, Seattle, Portland, and Orange County, California, at a very low cost while eliminating the need to compete with HomeGrocer for customers.

However, Webvan's situation was worsening. On February 21, Webvan shut down the Dallas operation. Atlanta was receiving only half the number of orders it needed to break even, and no site had yet become profitable. Unintimidated and confident of its future success, in August Webvan opened in Chicago. The San Francisco area facility had failed to break even as had been predicted, and the company curtailed its growth plans in order to preserve cash, delaying expansion into Washington, D.C., Baltimore, and New Jersey (even though each had \$35-million warehouses). In November Webvan announced that its average order had risen only to \$91. In addition to groceries, the company was selling drugstore and pet items, books and CDs, electronics, games, and toys. Webvan stock kept plummeting. Webvan was forced into brutal cost cutting. More Webvan centers closed-Dallas on February 21, 2001, and Sacramento and Atlanta in April of that year. The company slashed marketing expenses and started charging for deliveries. Borders had been replaced by Shaheen as CEO, and Shaheen resigned on April 16, replaced by COO Robert Swann. The company noted that only 6.3 percent of San Francisco households had ordered from Webvan, and less than half of them had placed a second order.

On July 9, 2001, Webvan ceased all operations, laying off 2,000 employees and announcing plans to file for Chapter 11 bankruptcy protection. During its short life it had burned through \$1.2 billion in investor capital, making it one of the most spectacular dot.com failures on record. Since then, the company has been liquidating its assets.

Questions:

1. *Describe the Webvan business model and then analyze it using the value chain and competitive forces models. What were the assumptions that drove this business model? (25%)*
2. *Describe the role of technology in the Webvan model. What Webvan problems could computer technology solve, and what could it not solve? Explain your answer. (10%)*