Success and Failure of Pure-Play Organizations:
Webvan versus *Peapod*, a Comparative Analysis

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ABSTRACT

Many businesses have failed in pure play markets, on-line grocery retailers or e-grocers among them. E-grocers face many problems which the traditional brick and mortar grocery stores do not. This paper compares a success and a failure in the e-grocery business. The subjects of this comparative case study are Webvan, an e-commerce failure, and Peapod an e-commerce success. This report investigates these four aspects of Webvan and Peapod: managerial decisions, logistical infrastructure, technological systems, and marketing strategies.

INTRODUCTION

Many businesses have failed in pure play markets, on-line grocery retailers or e-grocers among them. E-grocers face many problems which the traditional brick and mortar grocery stores do not. Pure play organizations conduct their activities completely online via the Internet (Turban). A comparison between a pure play failure and a success will add to this body of knowledge and provide insights that might be helpful for managers seeking success in the emerging, internet enabled future. The subjects of this comparative case study are Webvan and Peapod, both pure play e-grocers. In the quest to become the number one online grocer, Webvan and Peapod managed their way through a tangled web of operational changes. From spring 1999 to summer 2001, both companies entered and exited markets, changed CEOs more than once, revamped business models, modified product offerings, and struggled with operating capital. Webvan is an interesting failure; it was started in 1999 by Louis Borders, founding partner of Borders Books. The company spent an extraordinary amount of money during its short tenure as the largest and most promising pure play e-grocer. In contrast, Peapod managed to survive at a time when other

E-grocers did not. A comparison of these companies should demonstrate favorable and unfavorable e-commerce strategies.

METHODOLOGY

The current study is a situational analysis of the operations of two e-commerce businesses. The analysis was performed based upon an exhaustive literature review. Areas of particular interest are marketing, management and strategy, technology, and logistics. The operations and activities of both firms will be compared in each of these areas. Similar studies include levels of quality and perceived innovation in the e-grocery business (Ogawara, et al), models of success, and supply chain cases.

MANAGEMENT AND STRATEGY

Market Management

Marginal profit, which is the difference between revenues and expenses, is a critical component of any company's success. In the retail grocery business marginal profit can be as slim as 5 percent. In order to maximize this ratio, Webvan and Peapod controlled their sales through a variety of strategic market openings and closings. While Webvan may have over extended by using a strategy that stretched its resources across an entire nation, Peapod also had to be restrained in its expansion by its primary stockholder, Royal Ahold, in order to match product availability with the sales market.

Based on their hub-and-spoke delivery model, Webvan began building distribution centers. From their headquarters near San Francisco, CA, Webvan attempted to reach across the United States quickly announcing plans to move into Chicago, Dallas, Washington, D.C., and Seattle in November 1999. Despite rising expenses and shrinking margins, they expanded into Atlanta in May 2000, only one month before acquiring HomeGrocer for $1.2 billion dollars. This expenditure led to an increase in the existing debt. However, overspending and lackluster stock market performance forced Webvan to start cutting costs by closing some operations. The Dallas market was the first to be closed in February 2001, followed by Atlanta in April 2001.

Peapod experienced similar expansion as they began to open markets to the west of their home in Skokie, IL until April 2000 when they sold majority interest to Royal Ahold, an International supermarket operator, based in The Netherlands. Fortunately, Peapod had not yet invested in the western territories. The new strategy was to stay east of the Mississippi River and close to an Ahold supermarket presence. This strategy paid off as Peapod expanded into other east coast markets.

Leadership

In the search for the right mix of business savvy and leadership, Webvan and Peapod shared similarities, at one time each was managed by its founder, each promoted a Chief Operating Officer, and each tried to recruit outside talent to lead the internet grocery business.

Webvan built a war chest of capital in terms of investment dollars and infrastructure. Webvan, in fact, was so attractive to the market they were able to steal Anderson's CEO, George Shaheen in the 4th quarter of 1999. Under his leadership, Webvan successfully launched the company's initial public offering of stock, expanded into more than a dozen new markets, and added new products to their line-up. On the downside, Shaheen is credited with driving them into debt before leaving with a huge severance. Webvan's COO, Robert Swan took over the top spot in April 2001 only a few months before the company filed for bankruptcy in July 2001 (Alsop).

Founded in 1989 by Andrew Parkinson, a brand manager with Procter & Gamble and Kraft, and his brother Thomas, a software company founder, Peapod was equally troubled through the period described as the 'dot-com' days even though they were around long before the 'dot-com' craze began. In September 1999, Bill Malloy, former AT&T Executive Vice President succeeded Andrew Parkinson as CEO. Peapod was hopeful that Malloy's experience in the wireless industry would bring some *techie* experience to the online grocer's board even though Thomas Parkinson was experienced in the technology sector. Malloy left less than a year later making room for Royal Ahold's Marc Van Gelder. The primary reason for Malloy's quick exit was health and mental fatigue. Van Gelder stayed until October 2004 when he handed a healthy Peapod back to Andrew Parkinson, who is still the CEO.

In July 2001, Webvan folded and left Peapod atop the ranks of the internet grocery business. Even though they rarely were in direct competition with each other, various articles and business journals often cited them one after the other from spring 1999 to summer 2001. Currently, Peapod is still expanding operations but e-commerce purists could argue that this company is not truly a *pure play e-grocer* since they never strayed too far from Ahold's traditional storefront infrastructure. However, the Parkinson brothers are credited with a brilliant recovery in the days of the dot com failures, even though they admit that they were around long before e-commerce grocery stores were *a cool idea*.

LOGISTICS

Applying an effective logistic system is essential for virtually all businesses in order to stay competitive and succeed. The logistics aspect of business operations is of particular importance for the success of e-grocery businesses where margins are thin (Hayes, et al). Consumer-direct e-commerce logistics differs from traditional logistics in three important ways: quantities, timing, and demand management. These differences make logistics planning less flexible and therefore more difficult for e-grocery businesses (Caltagirone). The next section of this paper compares the following logistical activities: warehousing, inventory control, and order fulfillment.

Warehousing

Originally, Peapod did not own any warehouses. The company picked and selected orders directly from local supermarkets, thus the need for warehouses was not present (Hayes, et al). Webvan used another approach. Their plan was to build a centralized warehouse and distribution center in every new market they entered. Peapod adopted a centralized logistics model in 1999 when it moved from 12 store locations to one warehouse outside Chicago (Peapod). Peapod's centralized warehouse model is now applied to all of its markets, regardless of size. A basic

difference between the two e-grocers is that Webvan used a mega-warehouse model while Peapod adopted a hybrid store-warehouse model, consisting of independent warehouses and warerooms (Hayes, et al). Warerooms are located adjacent to stores in smaller markets. A wareroom has inventory and replenishing systems separate from the existing stores (Caltagirone; Hayes, et al; Mark; Ogawara, et al).

Using fulfillment centers in conjunction with existing stores has cost advantages over using freestanding warehouses (Hayes, et al). Mega warehouses are more expensive to build, thus Webvan's initial investment outlay in each market exceeded that of Peapod. While Peapod in 1999 spent about $2 million per warehouse, Webvan spent between $25 million to $35 million per warehouse (Himelstein; Platoni). Webvan had plans to build identical facilities in 26 cities nationwide, however, only four of them were actually built and only two were used. In addition, none of the facilities operated at full capacity. Webvan's expansion plans fell short of customer demand. Webvan's warehouses were enormous and capable of replacing eighteen traditional grocery stores (Platoni). Their warehouses were highly automated.

Peapod on the other hand limited new warehouse capacities to 100,000 to 125,000 square feet and was striving for a balance between automation and people (Calragirone, 2000). The hybrid store-warehouse model utilized by Peapod ensured that the company could take advantage of an already in place infrastructure. Peapod realized that the human element was the key to customer appreciation while Webvan prided itself on being so fully automated that humans rarely handled the produce; a strategy that proved favorable for the company. However, the state of the art facilities were designed for the needs of groceries not people, and complaints from workers included cold working conditions and the constant noise level from the refrigeration systems (Platoni).

Inventory Control, Order Fulfillment, and Delivery

Peapod's original in-store picking model was ineffective. Employees had to mirror consumers' behaviors in supermarkets; walking the aisles and placing ordered goods into shopping carts. The grocery retailer was responsible for inventory replenishing, and Peapod's pickers were competing with supermarket shoppers for stock, making product shortage a problem, thus resulting in unsatisfied customers (Caltagirone). This logistics inefficiency inspired the Webvan founders to implement a different system. Webvan believed that automation of the order fulfillment process was the key to success. They saw an opportunity to gain a 10 percentage point edge in profit margins over traditional supermarkets and e-grocers that were using the in-store logistics model. Efficiency would allow the company to keep prices down, limit surcharges, and cover their cost of delivery (Anders). Peapod's earlier logistics model made sense even if it was ineffective. It focused on web site development and delivery logistics rather than procurement and warehousing, thus Peapod was able to affordably test markets before making large investments in them. The in-store picking system implied low fixed cost, flexibility to expand, without inventory and facility management issue. Peapod's original distribution model was applied through 1998, when sales volume and competition created the need for an updated logistics model. By transferring the inventory ordering, receiving, stocking, and replenishing responsibilities to themselves, the company gained better control, and thus was better able to fulfill customer's orders (Caltagirone).

In Webvan's warehouse goods were placed on rotating carousels. Heavier items were stacked on shelves arranged by the frequency in which they were ordered. Different pickers were involved in filling each order. The orders were transported on conveyor belts and were tracked by a high tech tracking system consisting of scanners that read bar codes (Himelstein; Platoni). Peapod also applies a system where products are organized in frequency of ordering and products are arranged by type not by brand (Caltagirone). Webvan's order automation system was estimated to have ten times the productivity of a traditional "shopper" wheeling a cart through a store or warehouse. Webvan carried around 20,000 separate products in inventory. In an attempt to attract customers, the company devoted an entire section of their warehouses to cooking heat-and-serve meals. However, the heat-and-serve meals were not a success among customers, and were eventually dropped from the product line. Declines in profit also led Webvan to switch from freshly cut to prepackaged meats (Platoni). With sales declining, the company also decided to diversify its inventory to higher margin items.

Home delivery is, in addition to picking and packing operations, the major operating cost for e-grocers (Punakivi and Tanskanen). Most e-grocers have operated their own delivery networks including owning their own transportation fleet. During Peapod's early days, the founders drove their own cars when delivering orders to customers (Peapod). Later when customer demand increased, the company invested in vans. Webvan also invested in its own vans. Webvan's goal was to become a home-delivery network provider and saw itself as a future competitor of companies such as FedEx and UPS. Webvan used large trucks to ship orders from warehouses to staging areas within each market; from there goods were loaded into smaller vans and taken to customers' doorsteps (Anders).

Customer delivery by e-grocers can–be arranged in four different ways: attended delivery, unattended delivery, in-store pick up, and third party pickup locations. Attended delivery being the most popular form of service provided. Both Peapod and Webvan provided attended as well as unattended delivery (Hayes, et al). Peapod still offers these two delivery methods.

Attended delivery requires that the customer be waiting at home to receive their order (Andelin). To ensure convenience for the customer, the delivery needs to be scheduled within a specified time period. It is likely that the narrower the time window and the more prompt the delivery is, the higher the customer satisfaction is, which has a positive influence upon the repeat purchase rate. Webvan promised their customers to deliver within a 30 minute time window (Hayes, et al), which at the time was more precise than other online grocers (Anders). At the same time, Peapod operated with a two hour delivery window. In an attempt to save money, Webvan increased their delivery window to sixty minutes (Platoni; Punakivi and Tanskanen). In order to achieve efficiency, attended delivery requires a certain density of customers to reside within the target market (Andelin). Webvan was unable to create sufficient demand to cover their initial investment and their 30 minute delivery window led to inefficiencies with regard to delivery. Peapod's more conservative two hour delivery window was more attainable and routes could be planned more efficiently.

Unattended delivery has been found to be the most cost efficient e-grocery home delivery model. The model facilitates greater delivery efficiency than attended delivery. The problems involved

with this model are, however, high initial investment cost, low utilization rate, and slow growth of demand (Punakivi and Tanskanen). Peapod used durable bins with dry ice and cooler inserts to ensure product quality for their unattended deliveries. The bins are collected during the customer's next delivery. If the bins are not returned, the customer is charged (Peapod). Both Webvan and Peapod offered delivery service everyday of the week (Caltagirone; Peapod).

Route Planning

E-grocers that route their own shipments must create dynamic routes in order to meet short time windows (Hayes, et al). Missed delivery times were one of Webvan's most frequent customer complaints (Platoni), despite that the company had an advanced delivery optimization system (Hayes, et al). The routing software utilized by the company would show the customer time windows during which deliveries already were scheduled to the customer's neighborhood. Having customers select these time windows would increase efficiency, but since incentives for selecting the particular windows were not offered, customers had no reason for picking the time windows in question (Hayes, et al). It was not until two month before the company ceased operations that the company decided to implement an incentive system (Punakivi, et al). To increase efficiency, none of Webvan's couriers traveled more than ten miles in any direction from the docking stations (Himelstein). Peapod also uses customized software to manage delivery efficiency. Peapod saw their biggest logistics challenge as making efficient deliveries-as opposed to Webvan that focused more on order fulfillment (Caltagirone). Peapod offers incentives such as reduced shipment costs for individuals selecting strategically timed delivery windows (Peapod).

From the beginning, Peapod understood the importance of evaluating and continuously changing their business practices as customer's expectations for the e-grocery business changed (Caltagirone). Their supply chain is designed to maximize flexibility for the customer. Webvan's operations were more focused on creating efficiency, and their infrastructure necessitated rapid growth to cover expenses. When markets failed, their service deteriorated. In an attempt to save money specialty products where eliminated, delivery windows increased and product quality deteriorated. Customer growth requires customer service. Webvan failed due to lack of flexibility in meeting customer service demands. Their huge initial investment in top if the line logistics technology kept them from adapting to customer demands. If Webvan's expansion had been delayed until their business model had been tested, or if their facilities had been developed on a smaller scale, the company might have survived (Platoni), and with a more cautious plan, investment would probably have been stronger.

Technology

Webvan invested heavily in technology and supportive infrastructure from the beginning. They spent hundreds of millions of dollars to build a high-tech grocery distribution system complete with specially designed warehouses and software applications (Greene). Webvan's most valuable asset was its proprietary software. Designed to take orders, manage warehouses of goods, and deliver groceries to the doorstep, their system was far more developed than that of Peapod (Cecil). On the contrary, Peapod started investing moderately in technology, placing more emphasis on its business processes. For years, Peapod didn't get much benefit from internet

services. The e-grocer was requiring customers to download client software or send for a disk before they could try out the service. However, in September 1998, Peapod finally launched a fully-functional web-based version of the service. Peapod customers could now shop directly online, and have groceries delivered to them for a fee without having to go through the hassle of downloading client software or waiting for a disk to be delivered (Fox).

Webvan was doomed to fail from the start because it never understood the value chain of the grocery business. Benchmark funded Webvan for the sole reason that one of its partners, David Bierne, was impressed by Louis H. Borders and his vision of a new way to run a grocery business. Instead of figuring out how Borders' ideas might fit into the grocery business value chain, which Peapod – a dot-com survivor – is now doing in conjunction with its traditional grocery partner, Ahold, Webvan invested $830 million in elaborate new systems without ever testing the business model (Rizzo).

Proprietary Software Applications and Distribution Networks

In July 1999, Webvan made a strategic decision to build massive, highly automated warehouses with sophisticated inventory software, for $35 million each. More that 20 warehouses were built at a cost of approximately $1 billion USD. Webvan's fully automated and temperature controlled distribution centers allowed for processing roughly the volume of 18 supermarkets. The distribution centers were filled with miles of conveyor belts carrying bins of products. Orders were processed with proprietary software, using automated carousels and conveyors for order picking. Employees knew which products to pick via a computerized system of lights. The system, illuminated by electronic lights, displayed what racks the ordered products were on, and which products should be placed in the bins. The movement of the racks of items and the conveyor belt are controlled by logistics software installed on network computers and scanners. Webvan claimed that their workers never had to move more than 19.5 feet to fill orders because of their warehouse management and automated pick and pack systems (Hayes, et al).

In 2001, Peapod began installing a $2 million warehouse-management system from M-Group Systems Inc. The company customized the software so that a person filling an order can select a single item, such as one banana, from a crate. Eighteen months earlier, Peapod had installed SmartFlow, software developed in-house that allocates orders to trucks and schedules routes to make sure each trip is a profitable one. Peapod fulfills its orders from semi-automated centralized distribution centers. In its other delivery areas, orders are fulfilled from a network of smaller "quick pick" centers adjacent to Ahold supermarkets (Heun).

To reduce delivery costs to customers and increase delivery timeliness, Webvan delivered its products to consumers via a "hub-and-spoke" distribution network. This network centralized the order fulfillment and decentralized the delivery system, providing a more cost and time-efficient process. The high fixed cost of implementing the warehouse and inventory management software coupled with high facility construction costs gave Webvan a higher breakeven point for its sales. Unfortunately, the expectations and forecast demand were overly optimistic. Webvan executives made the mistake of assuming that people did not want to shop in supermarkets anymore – they were wrong. Consequently, Webvan's facilities were only operating at half capacity, making it impossible to reach breakeven (Hayes, et al).

Because Peapod is a time-saving service and not merely a shopping service, stock-outs are completely unacceptable. To minimize stock-outs, in 1999, Peapod opened two stand-alone warehouses in Chicago and San Francisco with separate inventory and replenishment systems (Caltagirone). The service in Chicago and San Francisco, allows shoppers to utilize an easy-to-use software program from their homes, send orders via a modem, have groceries hand-picked by Peapod employees, and delivered to their door. Because Peapod is connected to the host systems of Safeway and Jewel, the shopping system is real-time and software provides current prices (Rubinstein).

In June 2000, Webvan bought HomeGrocer.com in an all-stock deal valued at about $1.2 billion. While the two companies struggled to decide on which business model would survive, Webvan went ahead and replaced HomeGrocer's web site with its own. Webvan expected this change to be highly transparent and purely cosmetic to the customers; however, the customers did not identify with the new website. As a result, there was a one-third drop in demand for Webvan's products. In addition, the switching cost of learning a new web site and the change in delivery policy, plus other technical difficulties was more than customers wanted to bear. By the end of 2000, Webvan was operating at more than 25 percent below its breakeven point (Hayes, et al). The saga ended for Webvan when they finally realized that their customer base was just not big enough to consume all of the product capacity they had created. Demand was dropping intermittently to the point where they were suffering tremendous losses. Upon filing for Chapter 11 bankruptcy protection, Webvan was forced to sell all of their high-tech information systems and infrastructure for much less than it was worth. On the other hand, Peapod made significant strides in improving its information technology. By connecting with the host systems of companies like Safeway and Jewel, Peapod was able to relieve itself from some of the technology issues and to place more focus on its core competency, which is providing effective and efficient product and service to its customers.

Marketing

Marketing is a key element for any business's success. Internet businesses are no different. Peapod's and Webvan's basic business was providing services to the customers, and their survival depended on customer satisfaction. Gaining and retaining a strong customer base requires that a business know its target market. Both Peapod and Webvan started with right objectives: serving the customers but with time Webvan became very ambitious. Webvan wanted to expand very quickly which proved to be disastrous for the organization in the long run. Webvan closed its operations in 2001 due to lack of funds and investors. Webvan's demise was a result of poor decisions by its managers, bad logistical support and forgetting their focus on customers. The following section is a comparison of Peapod's and Webvan's marketing efforts. An analysis of these marketing campaigns may indicate what could have been done differently that would have permitted Webvan to avoid having to file for Chapter 11 protection.

Peapod defines its primary customer base as a female between the ages of 30 and 54, from dual income households with children (Peapod). Peapod charges customers a delivery fee of $9.95 for orders up to $75, and $4.95 for larger orders. In some markets, delivery is free for orders over $100. The company also instituted a minimum order size of $50.This strategy helps Peapod in

getting larger orders and lower transaction cost with each order. Peapod did a good job in understanding its customers and institutionalizing their thoughts and their needs into the order fulfillment system.

In May 2001, Webvan increased the delivery fee for an order under $75 from $4.95 to $9.95 and a new $4.95 fee was imposed on orders between $75 and $100. Orders over $100 were delivered free. Webvan had previously increased its delivery fees in November, 2000 (Sandoval, 2001). Any business at the beginning of its life should act consistently and the raising of the delivery fee twice in seven months was takes as a sign that Webvan was not doing well. This inhibits customers from signing up when they feel a business will not be around for long. This led to Webvan losing a numerous customers. Webvan did not have the right strategy for maintaining customers whereas Peapod took every chance to develop itself and to live up to the expectations of their consumers. Webvan's spokesman, Bud Grebey, blamed the change in delivery fees as one of the major reasons for the decrease in orders (Farmer).

Peapod is using interactive technology to change the shopping experience altogether. It lets each customer create a virtual supermarket that best suits him or her. Using a personal computer, customers can shop in the way they prefer. Peapod used every interaction as a learning ground to develop into a better e-grocer. Peapod was in business for a long time and the management knew the grocery business making it easier to convert a brick and mortar business into an online business. Peapod's ownership by Ahold was the missing piece which steered it towards success.

Webvan did not have the working knowledge of the grocery business. The three years Webvan was in business it did not make any effort to learn about customer's expectation. This lack of an initiative by Webvan's management to learn from the customers is one of the reasons for its downfall. Webvan could not earn the trust of its customers. Grebey, the CEO of Webvan in 2001 said that some of the customers thought that they had gone out of business and some new customers thought that Webvan would ultimately close (Farmer). Webvan tried to build a delivery infrastructure and a national brand for low margin commodities without proper planning (Scheraga).

Peapod had 120,000 registered members in the metropolitan areas of Boston; Chicago; Long Island, N.Y.; Fairfield County, Conn.; Washington, D.C.; Montgomery County, Md.; and Fairfax County, Va. in 2001 (Lofstock). Peapod's CEO, Van Gelder, said that the biggest hurdle for them was convincing the consumers that they could shop online and still get the same quality of product they would pick for themselves. Webvan started a series of ads and coupons specials aimed at wooing customers (Sandoval, 2001). However, the problem was that Webvan started too late to implement such strategies to attract or retain customers. The decision to increase advertising exposure came in May 2001 by which time it was too late for customers to regain the confidence that they had lost in Webvan.

Many attempts have been made to supplement the companies' sales with other things besides groceries. In theory, this makes great sense, after all, traditional grocery stores sell many other things besides groceries – so why not online grocers? Peapod found an improved business model in their partnership with Walgreen's whereby Walgreen's would help them with developing the product marketing mix and absorb some of the logistics cost. The Walgreen's deal, announced in

May 1999, was to allow for delivery of prescription drugs, health and beauty items, fresh cut flowers, CD's, and photo developing. Webvan also saw the benefit in adding other products to their product line as well. In February 2000, they added books and CD's to their delivery service. In one surprising turn of events, Webvan decided to add consumer electronics and video games in June 2000 while at the same time incurring a huge expense to buy out HomeGrocers.com (Sandoval, 2000).

Customers want immediate delivery, and Peapod constantly tries to reduce the time from order to delivery by working to improve their logistics systems. Logistical decisions are driven by Peapod's overall strategy and by market and customer requirements, rather than only cost analysis basis. Peapod was progressive and understood the learning curve. Webvan had high expectations and thought they could be successful without any prior experience in the business. Peapod believes in putting in place and training the right management teams and employees as a critical element of success. Logistics work hand in hand with the marketing department to influence customer behavior and, thus, improve supply chain efficiencies. Peapod had sales of $36,000,000 in fourth quarter 2003, a more than 24% increase from the same period in 2002 (Grabarek). Peapod understands that its challenge is making deliveries efficiently, and this goal can only be accomplished when marketing and customer service work hand in hand.

Peapod tried to change every interaction with the customer into a learning experience about the needs of the customer. Webvan was more focused on delivering goods than making sure that they connected with the customer to meet their expectations. In June 2000, George Shaheen CEO of Webvan at that time said that they are an internet retail delivery company, and their strength is in delivery (Sandoval, 2000). Webvan did not define its goals properly and was trying to expand too rapidly without doing adequate market research.

In addition, one of the biggest mistakes that Webvan made was that it tried to change its brand image after only two years in the market. Re-branding was done in an effort to change their image from a grocery service to a general delivery service competing companies such as FedEx and UPS. The customers identified Webvan as a logo with a grocery bag. In 2000, they changed their logo and the appearance of their website. It launched a massive campaign of re-branding by changing the colors of its vans. In a time when struggling to raise capital for its day-to-day operations, changing their logo and website was not a good strategic move (Alsop). Another thing that turned the customers off was Webvan's decision to switch to lower quality suppliers.

Peapod knows the value of its interaction with the customer, and the driver who delivers the groceries is the face of their organization. Peapod calls it drivers Ambassadors because they are the one who are creating as well as maintaining the reputation of the brand through their interactions with the customers. Ambassadors perform a variety of functions ranging from delivery to marketing to accounting. Peapod takes extra care in selecting these ambassadors who are trained in various skill sets to present the best possible image of the firm (Caltagirone). Peapod and Webvan had same target consumers and they provided the same services. There are various reasons which led to Webvan's demise, an obvious one was their poor customer relationship management. Webvan was working hard to be a good delivery service when it should have been trying to enhance customer relationship. Webvan did not pay attention to delivering what the consumers expected. Peapod took every interaction with its customer as a

chance to develop itself and to enhance its reputation of being a good grocery provider. Peapod's good customer base is one of the major reasons they are still in business today.

SUMMARY

Peapod's more conservative investment approach and the acquisition by Royal Ahold paid off. The company is one of many early e-grocery companies to survive for a longer period. Webvan fell short of customer demand. There are obvious differences between the two companies. Peapod did not stray from its core infrastructure while Webvan expanded too quickly into unproven and unfamiliar areas where they leveraged their business too liberally. Webvan invested in technology and an infrastructure that was too expensive for low margin products. Webvan's founder, Louis Borders, had experience with larger margin products, where profits are not solely dependent on volume. Webvan expected a high adoption rate to their e-grocer business; however, people were skeptical about the lack of control over the quality of the product. Thus, the lack of volume in grocery sales was the prime contributor to the lack of debt repayment. With regard to technology, Webvan did not rely on the experience of others. Neither did they have any experience in the grocery market. Peapod took advantage of external alliances to host their distribution systems, thus they were able to focus on customer relation management. Relying on the development of their own systems, forced Webvan to incur higher costs and resulted in lack of customer focus. Peapod implemented technology gradually based on the growing needs of their customer base, while Webvan initially implemented technology that was out of scale with their product offerings. Webvan had a fully automated route planning system, but the lack of customer concentration led to delivery inefficiencies. Peapod achieved delivery efficiency by forming concentrated markets. Neighborhoods with existing customers were targeted by marketing campaigns to achieve delivery density. Incentives were offered to customers choosing delivery in strategically time slots. Webvan re-branded two years into its existence, making previous marketing efforts wasteful. Re-branding was done in an effort to change their image from a grocery service to a general delivery service competing with companies such as FedEx and UPS. Another reason for Webvan losing customers was deterioration in the product quality in an effort to cut costs. Reducing quality was a cost cutting measure, but they failed to understand their consumers' demographics, i.e., primarily dual income women, who could afford to shop but did not want to bear the utility cost of going to the supermarket. If the quality of product received at their door was at least equal to what they could get at the corner market, they would willingly pay a bit more for the convenience of not having to go to the market. However, if the quality was inferior, there is no reason for them to use the service. To be competitive in the low margin grocery business it is very important to maintain the human touch. Webvan failed in this respect. Webvan could have been successful if they had not stretched their resources across such a large geographic and financial expanse. Louis Borders gravitated toward the idea of a large scale delivery service on the budget and revenues of a grocery store chain. If he would have focused on this vision in the beginning instead of making an attempt to revolutionize the e-grocery business, his capital expenditures may have been recognized as a product that could have been resold to one of the delivery giants or perhaps he could have filled a niche delivery market. From the beginning, Peapod's focus was on groceries. This is where Peapod earned its experience. With Royal Ahold's help, Peapod developed a more profitable model and gained a solid hold on the e-grocery business. By focusing on markets where the parent company had a strong presence, economies of scale and expense side

efficiencies were turned into real profit. Webvan's leadership was unable to develop and maintain a focus; this failure makes the firm's history an interesting topic for this type of study, and that history can provide a thoughtful manager with many insights into how not to succeed in a particular e-commerce venture.

REFERENCES

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