

Supermarket Strategic Alert
Special Report

2001

FROM THE REGULAR AND SPECIAL EDITIONS

January 1999 through December 2001

A Tangled Webvan

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Special Report: 2001

A Tangled Webvan

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...Overview

Webvan burst on the scene in mid-1999 with an ambitious pedigree. Louis Borders, found of the bookstore chain that bears his name, decided that the supermarket industry was ripe for revolution and insiders were hampered by lack of creativity. Borders set an ambitious goal: revamp how groceries get from the manufacturer or grower to the customers' kitchen.

To be fair, at the time, his vision confirmed what general business pundits had been saying as technology became more affordable and consumer-friendly. Although industry insiders acknowledged that some conventional grocery warehouses were dinosaurs, but with real estate costs and current margins, they could not fathom the \$1 billion commitment to Bechtel to build new ones from scratch. Insiders always reiterated that custom assembly of grocery orders—especially perishables—was an idea ahead of its time, especially if profitability were ever required.

Still, Borders optimism prevailed. George Shaheen, head of Andersen Consulting and a business person who understood what made good and bad business propositions, joined to lead the company. Webvan began its rollout from Oakland CA and its state-of-the-art distribution center. As it marched eastward, questions arose—from how it would face off with other delivery services to how much money it would really take. Along the way it acquired Homegrocer.com, which gave it a stronghold in the Northwest, as well as the skills of other venture capitalists and Amazon as a shareholder.

From that point on, confidence inside and outside the grocery industry began to falter. The debut market—San Francisco—was put under a microscope and discovered to be farther from profitability than even early skeptics could have predicted. Service cut backs did not help. Delayed expansion only focussed more attention on the weaknesses of the business proposition in San Francisco.

And so it happened on April 5, 2001. Webvan's first annual report carried the ominous line: Webvan 'has suffered recurring losses and negative cash flows from

operations that raise substantial doubt about its ability to continue as a going concern.' On July 9, 2001, after restructuring, a new chief executive and shareholder approval for a reverse stock split, it was over.

...Webvan's life story

New delivery services

Webvan (www.webvan.com), led by bookstore co-founder Louis Borders, unveiled an online grocery and pharmaceutical site. The site features 20,000 products and prepared meals for sale online, and offers delivery in the San Francisco Bay area, where there is a concentration of busy, Web-savvy and quality-conscious consumers. Users can place their orders online and choose a 30-minute window for delivery within seven days of placing the order.

Tampa-based Internet Home Delivery (IHD), in association with Webstop.com (www.webstop.com), a Web site specializing in the grocery industry, will offer delivery to Florida's West Coast. Webstop has created a way for neighborhood grocery stores to compete with online grocery mega-warehouse firms by offering a dedicated delivery fleet and simplified Web site ordering system. In addition to dry groceries and perishables, Internet Home Delivery will offer UPS package pickup, labeling and shipping from its customer's homes. IHD also provides a hard copy list for orders to be faxed or phoned in for members without PC's.

Source: *SN Daily News*, June 8, 1999. Webvan Unveils On-line Grocery in San Francisco. *The New York Times*, June 6, 1999. Bookshelves to Grocery Shelves, by Matt Richtel, p. BU-2. *PG Daily News*, June 9, 1999. Internet Home Delivery Announces Initiation of Service.

Home Shopping: Executional difficulties

The New York Times concludes that today's Web-based grocers are not much competition for bricks-and-mortar stores. First, they must overcome entrenched consumer behavior. Consumers prefer to touch and see produce before they buy. Second, because the Web-based distributors are tiny compared to Kroger and Safeway, they rarely offer as sharp pricing...and add on a delivery charge. Today's shoppers look for sharp pricing. Third, time is money in the minds of shoppers and it takes as much time on the computer to buy 50 items as one would spend driving to and shopping the nearby store. After trying eight services, one columnist thought a clerk at a nearby bricks-and-mortar store had the right idea: why not call in the order and avoid the delivery charge levied by the Internet service.

Trained observers believe the industry is going through a period of costly trial and error, and even untrained observers would agree. Players enter the arena regularly, and even the old-timers have yet to turn a profit. For companies that have gone public, shares have plummeted to about half of IPO pricing. Shoppers applaud the concept, but don't support the execution with their shopping dollars.

The Wall Street Journal credits Web firms with finally facing reality: with customer acquisition costs high, defection must be avoided. The easiest way to lose a customer is not to deliver. And relying on third parties for delivery heighten that likelihood. Hence, the latest round of real estate activity: Web firms building warehouses. When Peapod learned that as much as 10% of ordered groceries went undelivered, it began building warehouses—and now has that percentage down to 2%. Amazon is spending \$300 million on facilities in Nevada, Kentucky and Kansas.

Webvan has placed a \$1 billion order for facilities. Deciding to invest is one thing...but actually operating the shipping and warehousing facilities is something else. Books and CDs are simple compared to odd-shaped toys or apparel, where returns average 30%. Further, the very visionaries who create Internet start-ups are ill suited to logistics, where careful and precise planning are hallmarks. Internet startups have little trouble recruiting logistics personnel given equity promises and more—they just have trouble retaining them.

Source: *The New York Times*, September 10, 1999. Need Asparagus? Just Click It, by Dana Canedy, p. C1, C18. September 22, 1999. Untangling the grocery Web, by Marian Burros, p. F1, F11. *The Wall Street Journal*, September 8, 1999. Virtual Realty: Web Firms Go On Warehouse Buying Boom, by George Anders, p. B1, B8.

Webvan: Finally the IPO...then

After delays due to regulatory obstacles, Webvan completed its initial public offering at \$15 a share (above the \$11-13 predicted range) and rose 65% on the first day of trading to \$24.875—valuing the company at \$7.9 billion. While arguably a good showing for an un-sexy industry such as groceries, it pales by comparison to technology IPOs such as Cobalt Networks, which went public the day before at \$22 and rose over 500% to \$128.50. Analysts believe the reception to Webvan reflects the reality that selling groceries online is not a slam dunk and that the technological and logistical challenges of delivering fresh food daily have yet to be adequately addressed.

Still, at the end of the day the Webvan market valuation was almost half of the two industry bricks-and-mortar leaders, Kroger and Safeway. Even industry insiders say that this will serve as a wake-up call, possibly motivating other land-based operators to get more aggressive about Internet selling. This open-minded segment points to the high price Delhaize recently paid for Hannaford, explaining that it is justified by Hannaford's direct delivery expertise through its Home Runs. Skeptics associate Webvan's initial run up to the fact that it pulled its backing from pro-Web investors who are notorious for stomaching losses. Wall Street analysts who follow supermarkets look less kindly on companies that project millions in losses for more than a few quarters.

Webvan reported sales of \$4.2 million from June 2 through September 30 from a single warehouse in Oakland CA. New distribution centers are planned this year for Chicago, Atlanta and Seattle, with a total of 26 planned overall. The company does not project profitability until 2001.

By November 14, Webvan topped The New York Times' weekly list of laggards, the 10 companies on each of the major financial exchanges to lose the most value in the prior week. Webvan topped the list, falling to \$17.50, losing 29% of its value. It was not alone on the list: Peapod dropped 25+% to \$8.625.

Source: *The New York Times*, November 6, 1999. Webvan Stock Price Closes 65% Above Initial Offering, by Matt Richtel, p. C6. *The New York Times*, November 14, 1999. DataBank, p. BU 19.

Barron's examines reality vs. potential

A *Barron's* reporter tried Webvan and Peapod and pointed out some of the advantages: (1) No surly stock clerks or slippery aisles. (2) No loading bags into the car and lugging into the house. (3) No deciding between paper and plastic. (4) No standing in express checkout lane behind someone cashing a check.

Still there are shortcomings: (1) Delivery is problematic. (2) There is no national alternative—yet. In fact, there are no national supermarket chains, in part because of regional differences and physical constraints, despite ambitious attempts on the part of established companies and start-ups. (3) As for the new idea: well, it isn't. In the mid-1980s, entrepreneurs founded San Francisco Grocery Express, which became the first online grocer when Prodigy debuted.

But like those before and after it, logistical challenges and the inability to build to scale brought down the concept. Webvan is the latest incarnation—applying world-class logistical technology to delivery and using the Internet as the order form.

Source: *Barron's* November 15, 1999. Wired for Wursts, by Mark Veverka.

Webvan: The jury is still out

Skeptics believe the only new part of the concept is the hype of the Net, with the same barriers to success (traffic congestion, high labor costs and the inability to serve a broad customer base) looming. Optimists believe if Webvan delivers on its promise of same-day delivery at prices 5% lower than local brick-and-mortar store, it has a chance to succeed. The company says it can squeeze out labor and real-estate costs,

creating operating margins to 12%, compared with the industry average of 3% or 4%. But already, the company cannot deliver on its 30-minute window, which means that popular delivery slots, like 7 p.m. to 7:30 p.m., sometimes must be scheduled two days in advance.

If experience is any guide, look to Peapod: In operation since 1989, Peapod recently announced that without additional financing, it may run out of money in the third quarter of next year. Being first often guarantees competitive advantage. However, despite being the first and open for business in eight markets, Peapod has achieved only \$69 million in total sales—a fraction of the \$400+ billion business.

And in the end, land-based operators know that convenience, price and in-stock assortment count for a lot. It may not be delivery glitches or subjective assessments of produce picking that bring these players to their knees. Both of these operations require customers must be at home to receive their groceries. So much for convenience. In terms of price, an unscientific comparison by the San Francisco Chronicle found Webvan almost even with land-based retailers, while a trial by McMillan/Doolittle actually found Webvan to be 10% higher than Safeway. Webvan doesn't accept coupons ; Peapod does—but in a complex transaction that could turn off the 20% of shoppers using them. In-stock positions plague both start-ups. And then, someday investors may demand they show a profit.

Source: *The Wall Street Journal*, November 8, 1999. Webvan's Splashy Stock Debut May Shake Up Staid Grocery Industry, by George Anders & Robert Berner, p. B1, B4. *SN*, November 15, 1999. Big Webvan IPO Attracts Attention, by David Ghitelman, p. 6.

The last mile

The Wall Street Journal observes that dot.com companies are constructing delivery networks that could revolutionize the way Americans shop and cripple freight and delivery services...if they succeed. If they fail, the return of home delivery (remember the milkman?) could qualify as one of the most expensive Internet flops. Companies forming their own delivery networks include Webvan, HomeGrocer, Peapod, Streamline, GroceryWorks, Kozo and UrbanFetch. They offer grocery delivery as well as dry cleaning, film developing, flowers, video rental, snacks and shoe repair in certain market areas. The actual delivery comes from the latest in technologically designed warehouses and/or store shelves and is transported in everything from multi-zone temperature-controlled vans to backpacks of bicycle messengers. Grocery retailers who are testing their own delivery systems include Albertson's and Kroger. Barnes & Noble is boasting same-day delivery of books ordered online in some areas. Some exterminating services and local utilities are considering deploying their fleets for local delivery. The elusive piece of the puzzle is profit.

FedEx, UPS and other shipping and delivery services have avoided this home market for years—knowing from experience that profits are slim. Residential areas mean delivery locations that are far apart, requiring a truck to spend an entire day driving to deliver a single load; few people are home to sign for deliveries, requiring multiple attempts in some cases. Bottom line—no profit. It worked for the milkman, as it currently does for the US Postal Service, because they stop at every home. For FedEx or UPS, a \$15 charge creates a profit when there are 200 closely grouped deliveries in a commercial area.

Still, the bottom line is the consumer who fervently claims delivery charges for grocery and similar items are unacceptable. Webvan et al. claim they can be profitable once they get past the startup phase and have volume. But those familiar with the models note that delivery can cost these companies up to \$20 per delivery, and with groceries delivering only a 3% margin themselves, the math is depressing. A day in the life of a Webvan delivery person (as observed by a Wall Street Journal reporter) confirms that it takes a strong mind and body: often multiple trips up flights of stairs in walk ups, parking problems, traffic jams, screaming children...and pranksters who order only a pack of gum to test the system.

The Economist echoes the importance of the last mile, noting that setting up a Web site is child's play compared with the complexities of the back office. Many Web merchants lack retail experience and the naivete shows in buying software or hardware solutions that are not scalable. While established catalog

merchants present a fertile area from which to recruit logistics personnel, even they cannot work miracles with inappropriate resources. The right solution costs a lot of money, which gets back to the elusive factor: profit.

Source: *The Wall Street Journal*, December 15, 1999. The Milkman Returns, by Douglas Blackmon, p. B1, B6. How Webvan Conquers E-Commerce's Last Mile, by George Anders, p. B1, B6. *The Economist*, December 18, 1999. Wish fulfillment, p. 113-4.

Media opinions

According to *Business Week*, Webvan and PlanetRx are among six Internet startups to watch because of their potential. Webvan's point of difference is the speedy delivery it promises at appointed times. *Business Week* says 'this grocer could...become the FedEx of E-commerce.' PlanetRx is praised for saving shoppers a trip to the drugstore.

Barron's advises not counting bricks-and-mortar retailers out when it comes to the Internet, adding 'traditional merchants are finding that it's hip to be square as Web aficionados begin to recognize the underlying strengths that old-fashioned retailers can bring to bear on the Internet, such as supplier relationships, customer bases and efficient distribution and fulfillment systems.' Traditional retailers bring a sound foundation to their Web efforts. Although some say that Walgreens, Wal-Mart, the Gap and others have been slow to accept Web-selling, others say they have been cautious and have set up good hybrid systems. Walgreens get kudos for figuring out that people want to order prescriptions over the Web to avoid waiting in store for verification and preparation, but want to pick it up from the local store for immediate use. This service will be available late summer. Everyone awaits Wal-Mart's redesigned site, set to debut in the fall.

Source: *Barron's Online*, June 21, 1999. Plugged In: Reports of the Death of Old-Style Retailers at the Hands of the 'Net Are Greatly Exaggerated, by Mark Veverka.

Hot company: homegrocer.com

Fortune toured the country to find a dozen hot technology companies, one of which was homegrocer.com. The founders insisted on building their own warehouses and hiring its own drivers/delivery people. These features set the company apart because it stocks and tracks warehouse inventory in real-time, reflecting inbound shipments and customer orders. Its drivers not only deliver but advertise, distribute promotional offers and wear surgical slippers when they make deliveries so they don't stain customers' rugs. With 10,000 customers in the Portland and Seattle areas, it is not the biggest of online grocers, but it does have backing from the venture capital firm that brought the world drugstore.com and has significant investments from Amazon. Orders of more than \$75 are delivered free and shoppers can choose from 15,000 SKUs.

Source: *Fortune*, July 5, 1999. Cool Companies 1999, by Henry Goldblatt & Jane Hodges, p. 92-110.

New distribution facilities for Webvan

Webvan, an Internet grocery company with 10,000 customers in the San Francisco area, is paying Bechtel \$1 billion to build highly automated warehouses that will stock 50,000 items each in 26 markets nationwide. Webvan already operates a 330,000-square-foot facility in Oakland CA. It offers customers the ability to order online 24 hours a day for delivery seven days a week within a 30-minute delivery window and up to five days in advance. The deal received publicity because although Webvan was started two years ago with investments from CBS, Knight-Ridder and SoftBank of Japan, it only began shipping groceries on June 2. Bechtel is a well-respected construction group with everything from the new Hong Kong airport to Chilean copper mines on its resume.

As is typical of such ventures, no financials have been published. Webvan's management says its warehouse will cut 10 percentage points of costs relative to traditional grocers. By the end of July Webvan had raised another \$275 million in exchange for a 6.48% stake in the company. That results in a capitalization of \$4 billion. For perspective, Winn-Dixie has a market cap of \$6 billion. The Wall Street Journal notes that

skeptics—and some realists—view the deal with awe and disbelief: disbelief because Webvan would have to do eight times the volume of a typical store to be successful...and scale is particularly difficult to achieve in the online grocery business; awe is because of Webvan's apparent access to capital. Business Week examined the Oakland operation and believes that while the facility makes sense, logistics remain the key challenge. A reporter who tested the service gave it high marks for on-time and courteous delivery—but not all items ordered arrived and some were smashed. A New York Times Magazine reporter also placed an order, and then went to Oakland to see it processed. The operation was impressive, fascinating and as automated as billed, but...the purchase was more expensive, forced fewer choices than the local market and did not arrive until the next day.

Source: *The Wall Street Journal*, July 9, 1999. Webvan Taps Bechtel..., by George Anders, p. A3, A10. July 23, 1999. Internet Grocer Webvan Group Sells Interest..., by George Anders, p. B2. *The New York Times*, July 10, 1999. On-Line Grocer Is Setting Up Delivery System..., by Lawrence Fisher, p. C1, C14. July 24, 1999. Webvan Group Raises \$275 Million..., p. C3. New York Times Magazine, July 25, 1999. A Byte to Eat, by Jack Boulware, p. 18-9. *SN*, July 19, 1999. Webvan Is Rolling Out..., by Patrick Sciacca, p. 1, 21. *Business Week*, July 26, 1999. Can You Sell Groceries Like Books? by Linda Himelstein, p. EB44-50.

Pure Play Consolidation

Analysts and observers believe Webvan's acquisition of HomeGrocer signals the beginning of consolidation in the Internet grocery sector. Webvan agreed to pay \$1.09 billion in stock for HomeGrocer, both acknowledging a major part of their motivation was that capital markets had dried up. Their union puts about \$1.3 million into a cash chest—sorely needed for operations through the end of the year. Despite endorsements from analysts, the deal did not raise the stock price of either company—both of which are trading below their IPO prices. Company executives heralded the deal, saying it 'creates an even more attractive shopping proposition for consumers.' Analysts were quick to point out that consumers probably have no idea how different the two business models are. Webvan's model calls for 25-35 highly automated super-warehouses. HomeGrocer's model delivers from small warehouses where orders are handpicked.

High profile venture capital firms had backed both ventures. The most interesting fallout is that Amazon (formerly 27% owner of HomeGrocer) gains a stake in the combined company. Recently Webvan announced plans to add other lines beyond groceries (specifically books and videos), which are Amazon territory. Up until now, the companies had targeted different markets for expansion. This deal puts the combined company into Atlanta, Baltimore, Bergen County NJ, Chicago, Dallas, Fort Worth, Los Angeles, Orange County CA, Portland OR, Sacramento, San Francisco, San Diego, Seattle and Washington DC.

Internet reporting was far less enthusiastic, making the following points: (1) The Standard said Seattle newspapers 'drooled' over the deal, saying that customers would get greater variety and shorter delivery windows, both of which are unlikely given that in the end the company wants to make money. (2) The Street said 'the deal won't make the expensive challenge of selling food online any easier...since home delivery is a hard game, particularly outside of dense urban areas.' (3) The Street added, 'the idea of seamlessly combining the two philosophies is fishy' because the companies have spent so much time publicly criticizing each other's business model. (4) E-Commerce Times believes the company will need more cash before next June because it has underestimated logistics challenges.

Technologically inclined shoppers like the services, noting families can exchange shopping lists at work to determine final lists and delivery times, such as requesting delivery before kids leave for school or last-minute lunch items. Even better they like the \$25-off coupons they get when they fail to use the services for various periods of time.

Observers look to Europe where some services claim to be profitable. Those models are based on central warehouses and deliveries in dense urban areas. These observers note that US computer-savvy tends to be concentrated in suburbs or exurbs, suggesting that the possibly successful European model does not translate to the US where delivery fleets, distances and acceptable time windows cannot be replicated profitably.

The bottom line, according to Gomez Advisors, a company that scores Web sites' performance based on customer and business measurements, is (1) Webvan's site provides the best overall Internet grocery experience. (2) The optimal business model for online grocery shopping remains undecided. (3) Free recipe and meal nutrition information are minimum requirements for grocery sites on the Web. (4) Near-term there will be a proliferation in van-based delivery services.

Source: *The Wall Street Journal* June 27, 2000. Webvan Sets Deal to Buy HomeGrocer, by Jim Carlton, p. B6. *The New York Times*, June 27, 2000. Webvan Will Acquire HomeGrocer.com, by Lawrence Fisher, p. C10. July 3, 2000. New Economy, by Constance Hays, p. C4. *The Standard*, June 27, 2000. Webvan's Knockin', But Is It Rockin'? by Jen Muehlbauer. *E-Commerce Times*, July 21, 2000. Webvan Scrambles for Cash, by Paul A. Greenberg. *Ideabest*, July 3, 2000. Checking Out Internet Grocery's Evolution, by Matt Stamski. *SN*, July 3, 2000. Net Rivals Webvan and HomeGrocer To Merge, by Jon Springer, p. 1, 13. July 24, 2000. Webvan, Homegrocer Remain Optimistic Despite Losses, by Jon Springer, p. 20.

Webvan: Atlanta status report

Webvan's Atlanta invasion has exceeded sales expectations. Over 2000 customers have signed up. But even with the company reporting sales of the last quarter totaling over \$28 million, up from its start-up quarter last year of \$380,000, its loss still widened to almost \$75 million. Observers believe it is 'burning through a heart-stopping \$30 million per month.' Webvan's stock price on the NASDAQ hovers around \$5 a share, well off its high of \$34. Besides spending \$30 million a month, the company is getting tarnished by other older Web businesses, which have yet to show profits or even diminishing losses.

Still Webvan's management is optimistic and forging ahead: The company acquired HomeGrocer last month. It has announced plans to enter Chicago—a bold move since that is Peapod home turf. Still another 2000 orders of \$100+ a day are needed for Atlanta to break even. (An analysis showed that Atlanta was second behind the Bay Area in Internet shopping.) To date, Webvan's Atlanta hiring policies included offering new employees salaries higher than traditional grocery companies, stock options, catered lunches, \$2400 performance bonuses as well as medical benefits from day one. Such practices elsewhere have gotten people to line up for jobs. Business-building tactics in Atlanta include partnering with local companies for products not available in grocery stores (such as the hot dog manufacturer that supplies the Georgia dome), adding global positioning systems to the 122 delivery vans to battle local traffic and running a multi-million dollar advertising campaign starring local hero Hank Aaron. And then there's Webvan's dream of being the 'last mile' distributor of all things: videotapes, barbecue grilles, CDs...and transit passes.

Source: *The Wall Street Journal*, July 31, 2000. Profit Delivery Stalled, Webvan Hits New Roads, by Jim Carlton, p. B1, B4. *SN*, August 7, 2000. Webvan: Chicago Now, Seattle Later, p. 12.

Editorial Alert: A PricewaterhouseCoopers insert in RetailTech this month contained valuable lessons learned from e-bankruptcies. They were: (1) Money can't buy success. (2) Always do first things first. (3) Globalization is a risky business. (4) Size still matters. (5) There is no first mover advantage. (Peapod is the example here!) (6) Brands alone don't win. (7) Simplicity has great value. And...within a period of 24 hours Webvan announced plans to enter the NYC area including two warehouses and 1900 jobs...and then succumbed to analysts' pressure to focus on achieving profitability in existing territory, despite \$19 million in local incentives.

Webvan: profits before expansion

In the space of 48 hours at the end of September, Webvan announced its entry into the NY metro area, including the leasing of warehouses in the Bronx and New Jersey along with creating 1900 jobs...and then the indefinite postponement of any NY activity. After its about-face, *The Wall Street Journal* analyzed the home delivery sector, concluding that: (1) The smartest move that Webvan has made to date is not buying UrbanFetch.com, a NY-area delivery company, which since the deal fell through has downsized. (2) Time is running out for all players in the sector, which includes Peapod, Webvan, Kozmo, NetGrocer and UrbanFetch, among others. Investors—public and private—are losing patience, as demonstrated by dried-up

funding, increased competition from offline retailers, poor employee morale and customer reluctance to change their entrenched buying habits. (3) Webvan has been particularly hard-hit with its stock price now at 'fire sale' levels of \$3, down from highs of over \$30. The announcement of the NY delay, coupled with a Baltimore/Washington delay, has done little to raise investor confidence despite management assurance that the delays will allow focus—management and financial—on profitability in existing markets. (4) For Webvan, profitability in one market area is now critical—because the business model must be proven. Observers and management agree that the San Francisco home base is the right place to demonstrate this. (5) Outsiders refuse to dismiss alliances with offline retailers who have been late entries in this arena. Established land-based supermarket chains have years of history and storefront identities that brightly colored Webvan trucks and cheerful employees can't match. Another option would be to join forces with another online leader, such as Amazon, where backroom efficiencies could be gained. Many note that Webvan's acquisition of HomeGrocer (in which Amazon is a 30% owner) suggests at least a remote possibility. Skeptics remind optimists that technology and bricks-and-mortar alliances still can't control traffic and bad weather.

Source: *The Wall Street Journal*, October 2, 2000. Will Webvan Ever Find a Better Way to Bring Home the Bacon? By Kara Swisher, p. B1, B19. October 23, 2000. Hungry for Profits, by Sharon Cleary, p. R54. *SN*, October 2, 2000. Webvan to Focus on Profits, Not Expansion, by Jon Springer, p. 1, 45.

Fees at Webvan & GroceryWorks

Both Webvan and GroceryWorks announced new fee structures designed to increase order size and partially offset costs associated with home delivery. Webvan increased its minimum order for free delivery in the San Francisco area from \$50 to \$75. Webvan will charge \$4.95 for delivering orders under \$75. GroceryWorks will charge \$7.95 on orders under \$60 in Texas, up from its earlier \$25 minimum for free delivery. HomeRuns (MA-based delivery service) started the rush on increases last month by announcing a fee of \$2.50 on all orders, with a \$50 minimum order, after offering free delivery for four years.

Separately, Webvan opened its redesigned site that highlights the 11 categories sold. Flowers, tobacco and apparel are new additions to help increase order size and margin. A new logo with WV initials replaces the Webvan's grocery bag and HomeGrocer identification to emphasize the breadth of products.

Source: *SN*, November 13, 2000. E-Grocers Tweak Fees to Increase Order Size, by Jon Springer, p. 1, 4. *SN*, November 20, 2000. Webvan Unveils New Logo, New Site Design, by Jon Springer, p. 13.

Business Week Rates Grocers' Sites

Business Week praised several supermarket-related Web sites for various characteristics in its September e.biz report. Priceline.com was one of ten companies mentioned in the 'products' section for 'transforming inspiration and new resources into gold.' Vice Chairman Jay Walker gains recognition for determination and persistence in allowing brand-indifferent shoppers to save money on everything from airline tickets to groceries to life insurance and gasoline. *Business Week* notes that despite using up \$1.2 billion and watching the value of the stock drop from \$162 per share to the mid-\$20 range, Walker sticks with what he believes in. Dismissed when it started offering airline tickets, the site now accounts for 4% of total airline ticket sales.

Dorothy Lane Markets was one of ten companies praised for Web-savvy customer service: 'making a science out of coddling the customer.' The stores' Web site promotes specials while letting managers put marketing dollars toward discounts for regular customers. The Dayton OH grocer has extended its world beyond the Midwest by its willingness to deliver groceries beyond its usual store radius and has hosted executives worldwide to demonstrate its Web-based backroom management. Its gourmet foods are now sold worldwide, perhaps in part because all e-mail is answered within 12 hours by a 24/7 staff. Sales are up 10%, margins up from 2% to 5% with the elimination of outside advertising for Web promotions.

Tesco and Webvan were two of the five companies praised for 'moving the goods: reinventing the way Product A gets to Point B.' Tesco's approach to online fulfillment is using its regular stores to fill online orders, while Webvan is acquiring or building dedicated mammoth high-tech warehouses. Tesco's method

allows it to reach 90% of the British population immediately, giving it 80% of the online grocery market in that country. Rumors are flying that profitability is just around the corner—the Holy Grail in the grocery business. By contrast, Webvan coordinates home delivery of whatever the customer wants, combining grocery picking with a technology-driven Fedex-like delivery system. Also rumored to have its first warehouse profitable shortly, the company claims operating margins of 5%—well above the conventional supermarket average.

Source: *Business Week e.biz*, September 18, 2000. The Web Smart 50, by Heather Green, Heidi Dawley, Kevin Ferguson, Linda Himmelstein, p. EB35-104.

Webvan not yet profitable

Prior to any official announcement, Webvan warned of lower than expected earnings in the 4th quarter due to decreased marketing expenditures, delivery difficulties and the need to conserve cash. Since the stock has been trading below \$1 for almost 30 days, the stock risks delisting from the NASDAQ. The company has \$200 million in cash which will last only two more quarters.

Profitability in the tech-savvy, harried San Francisco area where the company started is critical to retaining investment community confidence beyond its current venture capital backers. *The Wall Street Journal* reports that for the San Francisco operation to have been profitable in the last quarter, volume would have had to increase 40%. The fourth-quarter loss totaled \$173.1 million, almost twice what was reported a year earlier. The company has reduced its estimate of daily orders required in San Francisco from 3500 to 3200, but reached only 2160 and is postponing further expansion to focus on profitability.

Business Week/e.biz profiles 15 tech companies that have fallen from favor because of lack of cash and calculates their 'cash burn' rate. The majority can be described as technology infrastructure or service companies—those that provide the backbone for Web communications or Internet service providers. Also on the list is Webvan. The magazine estimates that it has enough cash to maintain operations through June and would need \$80 million to last through the end of the year.

Source: *SN*, January 1, 2001. NetGrocer Seeks Brick-and-Mortar Alliance, by Jon Springer, p. 1, 4. *SN*, January 1, 2001. Peapod, p. 4. *Chicago Tribune*, December 28, 2000. Peapod to sever connection with Jewel, by Ameet Sachdev. *SN*, January 1, 2001. HEB.com Cruises Toward Launch, by Peter Perrota, p. 19, 21. *SN*, January 15, 2001. Web Watch, by Christine Blank, p. 39-40, 45. *Grocery Headquarters*, January 2001. Who will survive? By Alison Paddock, p. 18-21. *SN*, January 15, 2001. Webvan Sees Revenues Declining in 4th Quarter, by Jon Springer, p. 1, 71. *The Wall Street Journal*, January 25, 2001. Cash Supply Shrinks While Webvan Losses Continue, by Nick Wingfield, p. B1, B4. *The Wall Street Journal Interactive*, January 25, 2001. Webvan Posts 4th-Quarter Loss, Postpones Expansion of Service. *Business Week/e.biz*, January 22, 2001. Dead Companies Walking, by Peter Elstrom, p. EB 63.

Unions in the New Economy

Unions may gain a foothold in the New Economy because the stock price of so many startups is so low. Bottom line, with options under water, unions' bargaining for higher wages doesn't look so bad. Unions point out that the backbone of many New Economy companies is Old Economy infrastructure. That means warehouse and delivery personnel, distribution center staff and customer service employees. Many of these people were lured to the startups for stock options that are now worthless. However, labor unions face a problem. Earlier attempts to organize Webvan did not work. Now union organizers are waiting; the situation is so fluid they don't know which employees will be there long enough to be targets.

Still, Peapod is actually the prototype for successful unionization among dot-coms. Four years ago the union in the Northeast did manage to organize a dot-com there that was eventually acquired by Peapod. Now the union represents workers at Peapod. Webvan recently moved a group of workers between cities in Southern California. The union claims the move was to dilute their organizing efforts, which a majority of the delivery workers supported. The union filed a complaint with the NLRB...and is passing out brochures at the company warehouse in Oakland.

Source: *The Wall Street Journal*, January 2, 2001. Dot-Com Route Is A Mixed Blessing For Union Organizers, by Nick Wingfield & Yochi Dreazen, p. A9, 14

Continued Web Grocer Meltdown

This month Webvan announced that it would pull out of the Dallas market area to conserve cash and help reverse its losses, thereby cutting 220 jobs. The e-grocer remains in nine other cities. Peapod will pull out of San Francisco and is simultaneously asking Royal Ahold, its majority owner, for more cash to continue operations in remaining markets through 2001 and attain profitability by 2003.

For those keeping a scorecard, this leaves Webvan without significant competition in the San Francisco Bay area, possibly improving its profitability and survival there. In Dallas, it leaves GroceryWorks (a Safeway partner) without significant competition. PublixDirect will enter the Atlanta area by the summer of 2002, complicating Webvan's efforts there. Market watchers says the Publix brand name will be a distinct advantage.

Outside e-commerce observers, unencumbered by the reality of the supermarket business, say the biggest problem these operators face is the overpromise of delivering at a certain time—the elusive 'last mile.' Also inventory management remains a challenge. Moving past groceries to higher margin products only complicates the situation.

Creative thinkers and venture capitalists fed off each other creating an 'arms race mentality.' Now both are scaling back expectations and designing coupons instead of kitchens of the future. Futurist automation does not pay off either: Highly automated equipment in freezer areas slows to a crawl at low temperatures making the equipment slower at picking and packing than parka-clad employees.

Source: *The Wall Street Journal Interactive*, February 21, 2001. Webvan Group to End Service In Dallas in Cash-Saving Effort, by Nick Wingfield. *The New York Times*, February 21, 2001. Online grocer Quitting Dallas, p. C7. *Chicago Tribune*, February 22, 2001. Peapod To Quit San Francisco Market Amid Quarterly Loss, by Ameet Sachdev. *E-Commerce Times*, February 20, 2001. Web Delivery Services in Crisis, by Lori Enos. *Atlanta Journal Constitution*, February 23, 2001. Publix plans Web-based food service, by Renee DeGross. *The New York Times*, February 19, 2001. Some Hard Lessons for Online Grocer, by Saul Hansell.

USA Today predicts more partnering

USA Today observes that online grocers are partnering or being bought out by supermarket chains 'faster than shoppers go through tubs of Rocky Road.' Webvan is currently the only major exception. A partial list of these alliances follows: (1) Stater Bros. (155-store Southern California chain) began online sales with delivery service WhyRunOut.com. (2) Safeway is the sole supplier for Texas-based GroceryWorks.com. (3) Royal Ahold took a majority stake in Peapod when it was struggling.

During 2001, online grocery sales are estimated to hit \$2 billion, less than a mere 1% of US grocery sales. Jupiter Research believes 'the fear of losing market share will motivate most of the big players.' This explains why so many grocery chains are building their own online enterprises: a sale is a sale and losing it to the competition is not an option. (1) Publix will launch PublixDirect this summer in Pompano Beach FL, expanding to Orlando in 2002. (2) Supervalu (wholesaler and retailer) will begin online shopping for select stores in the next three months. Customers will shop online and pick up groceries at the store. (3) Albertson's offers Seattle customers pick up privileges through Albertsons.com and also offers home delivery in Seattle and Dallas/Fort Worth.

Still, skeptics remain: (1) Kroger, the largest grocery chain in the US, is only experimenting with online shopping in Denver. (2) Winn-Dixie has no online plans.

Source: *USA Today*, February 12, 2001. Online grocers run for cover. Partnerships with traditional chains offer security, by Michelle Kessler, p. 1B.

Christian Science Monitor sees benefits

James Turner—computer consultant and avid Web surfer—summarizes online grocery shopping from a consumer standpoint for the *Christian Science Monitor*, adding that online-grocery services are one of the most useful Web applications for the disabled, over-scheduled or those who dislike lugging groceries and are prepared to pay not to do so. The glitch is that such services have yet to prove themselves money-making propositions. (1) Full-line grocers (Webvan, Peapod, etc.) are suffering. Many have shut down. (2) Specialty/niche retailers offer unique products and charge more than most grocery services because special packaging is used to keep perishables fresh during cross-country deliveries. (3) Nationwide services such as NetGrocer ship via FedEx, usually offering only non-perishables. (4) Local services are available in defined areas. Often with specific instructions they can meet unusual needs, but substitutions do occur. Delivery and pick up options vary; some require being at home to receive the goods.

Source: *Christian Science Monitor*, February 12, 2001. Online grocers try to extend their shelf life, by James Turner.

Webvan cure?

Randall Stross—contributing editor to *US News & World Report* writing on *The Wall Street Journal* editorial page—proposes a solution for Webvan. He says that the \$212 million that Webvan has on hand is a lot of money and that can best be spent on infrastructure so that the company can provide what it originally promised: timely grocery delivery. As a San Francisco customer, he observes that the only available delivery windows are usually three days hence. Noting that consumers do adapt to change—as they did in the case of ATMs and paying at the pump for gasoline, Stross emphasizes that Webvan's problem is not that it is just trying to modify behavior, but that it cannot force Safeway stores to close. In the other examples, the banks closed branches and the gas stations eliminated registers. Stross' cure is to advertise so that all the satisfied first-timers return to the fold. He contends that many have lost interest because when they do go to order, the delivery is so far off they cannot wait for the goods.

Source: *The Wall Street Journal*, February 2, 2001. Only a Bold Gamble Can Save Webvan Now, by Randall Stross, p. A10.

Webvan starts advertising

Webvan is beginning a 4-6 month advertising push in nine markets with the objective of increasing shopper purchase frequency. Described as 'Ally McBeal-style' TV commercials and radio spots, the campaign is described as targeted...although spokespeople declined to place a price tag on the effort.

Source: *Seattle Times*, March 7, 2001. Ailing Webvan begins ad campaign, by Monica Soto. *SN Daily News*, March 9, 2001. Webvan Launches Television Ads in Nine Markets.

Meltdown at Webvan continues

Deloitte & Touche, Webvan's auditor, included a sentence in the company's annual report saying that Webvan 'has suffered recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern.' Such language is part of a standard clause that auditors use when a company's ability to stay in business through the year is in question. Spokespeople for Webvan say (1) Plans are in place to sharply cut its capital reserve burn rate, but the company sees the need to raise \$5-\$15 million in capital in the fourth quarter to make it through the end of the year. (2) Delisting from the NASDAQ is likely on April 12, since the company was warned on January 12 that its common stock had to sustain a minimum bid price of \$1 or more for at least 10 consecutive trading days, which has not happened. To avoid this, the company can institute a reverse stock split. (3) Webvan will 'vigorously' defend itself against the suit filed by Amazon.

Amazon.com, 6% owner Webvan after its acquisition of Homegrocer.com, has sued Webvan for breaching a marketing contract between the two companies. Amazon is requesting \$6.25 million plus attorneys fees and expenses because HomeGrocer breached its advertising agreement with Amazon. In November 1999 Amazon agreed to promote HomeGrocer's service via e-mail messages to Amazon's customers. In exchange, HomeGrocer agreed to pay Amazon \$10 million in eight quarterly payments of \$1.25 million each.

In December 2000, Webvan notified Amazon that it would stop the payments and Amazon stopped promoting Webvan's business through e-mail messages earlier this year.

On Friday, April 13, Webvan announced the resignation of George Shaheen, the ceo recruited from Andersen Consulting in September 1999. He concluded 'a different kind of executive is needed to lead the company at this time.'

Source: *The Wall Street Journal*, April 3, 2001. Webvan Auditors Question Grocer's Ability to Continue, by Nick Wingfield, p. B6. *PG Daily News*, April 3, 2001. Online Grocer Foresees Grim Future. *San Francisco Chronicle*, April 4, 2001. Webvan Near Collapse, Auditor Says, by Carrie Kirby. *Seattle Times*, April 4, 2001. Webvan facing end of road? by Monica Soto. *SN*, April 9, 2001. Auditor Says Webvan Needs More Capital Soon, p. 6. *Associated Press*, April 13, 2001. CEO of cash-starved Webvan resigns, by Michael Liedtke. *The Wall Street Journal*, April 13 (Web)/16 (paper), 2001. Shaheen Resigns as CEO, Chairman of Troubled Internet Grocer Webvan, by Nick Wingfield, p. B7. *The New York Times*, April 16, 2001. Early Defector to a Dot-Com Is Leaving Online Grocer, by David Leonhardt, p. C2. *E-Commerce Times*, April 13, 2001. Webvan CEO Shaheen Resigns, by Jon Weisman. *SN*, April 23, 2001. Shaheen Exits Webvan, p. 6. *The Standard*, April 2, 2001. Webvan, Check Aisle 5 for a Lawsuit: The Net grocer is sued by Amazon for allegedly breaching a marketing contract, by Miguel Helft. *SN Daily News*, April 5, 2001. Reports: Webvan Fast Running Out of Money.

Restructuring for survival

After the resignation of ceo George Shaheen, Webvan announced a series of changes designed to keep it afloat: (1) Atlanta operations will be terminated. The company had already enlarged the delivery window to 60 minutes, after building this facility costing about \$35 million. Georgia state law prohibiting home delivery of alcoholic beverages hampered profitability since 7% of Webvan sales tend to be in this category. Consumer response was also cooler generally to the service. Webvan also plans to leave Sacramento and Dallas this year as well. (2) The company will lay off 300-400 people in its Foster City CA and Kirkland WA facilities, as well as the 485 I Atlanta. (3) There will be a 25:1 reverse stock split to prevent action from the NASDAQ which threatened delisting because the stock had traded below \$1 for more than 10 consecutive trading day (actually several months). (4) New Economy board member-Timothy Koogle of Yahoo will be replaced by the new ceo Robert Swan of Old Economy General Electric. One venture capitalist will be replaced by another.

These actions should preclude the need to go to capital markets for additional funds during 2001. Webvan did burn through significant cash reserves in the first quarter reduced capital from \$212 million to \$115 million. First quarter 2002 will require about \$25 million. The company will continue to operate in San Francisco (its original market), Portland/Seattle (territory inherited from its HomeGrocer acquisition) and Southern California.

Source: *The Wall Street Journal*, April 26, 2001. Webvan Group Sets Initiatives for Recovery, by Nick Wingfield, p. A3, A10. *The Standard*, April 27, 2001. Webvan Crashes, by Miguel Helft.

R.I.P.—July 9, 2001

By the opening of the business day on July 9, 2001, the word was out that Webvan had shut down operations and plans to file for protection under Chapter 11 of the U.S. Bankruptcy Code.

There will be an orderly wind down of its operations and sale of its assets and business, just days after shareholders had voted on a 25:1 reverse stock split in hopes of avoiding NASDAQ delisting, now inevitable.

In the formal announcement, Robert Swan—recently appointed ceo—explained that although cost cuts had been implemented and the cash burn rate reduced, the number of orders received second quarter 'declined considerably' making capital needs immediate. About 2,000 workers will be terminated as a result of the announcement.

Source: *The Wall Street Journal Interactive*, July 9, 2001. Webvan Shuts Down Operations, Plans to Seek Chapter 11 Protection. *PG Daily News*, July 9, 2001. Webvan Stops Operations. *Dow Jones Newswires*, July 9, 2001. Webvan Grp Shuts Down Opers, Plans Bankruptcy Filing.

Postmortems from an investor and user

Writing as an early investor, a user of the service and *Fortune* technology columnist, Stewart Alsop loves the concept of Webvan. But in his postmortem, he credits management stupidity with the company's downfall. Among the missteps: (1) Rebranding and repainting the trucks while the company was hemorrhaging. Alsop attributes this gaffe to the company not being run by entrepreneurs, who would have been more tightfisted and less image-conscious. (2) Excessive infrastructure, which Alsop saw after he was invited by ceo Shaheen, but was met by someone else who showed him the facility and all the features that were mothballed because of insufficient volume. Alsop believes that a seasoned grocery executive with Web savvy could have led the company properly.

Source: *Fortune*, August 13, 2001. The Tragedy of Webvan, by StewartAlsop, p. 52.

Webvan auctions: Too little and late

Webvan raised \$3 million from bidders in the Atlanta area for its plastic tote bins, company T-shirts, office equipment, kitchen equipment, two delivery trucks, and a Volkswagen. Two more auctions are planned for Baltimore MD and Oakland CA.

The company is hoping to make more from the auction of its business units, technology platforms and other assets before the August 27 bidding deadline. The crown jewel is Webvan's technology, which includes a range of functions from a completely integrated e-commerce platform to supporting warehouse management and delivery operations. Also on the block: HomeGrocer's technology platform. Even after these auctions, Webvan does not expect to have any funds for stockholder distribution.

Source: *PG Daily News*, August 13, 2001. Webvan Soliciting Bids for Assets. *Ideabest*, August 13, 2001. Bankrupt Webvan Picks Up \$3 Million At Auction.

Webvan: Lessons learned

Based on insights from consultants, industry insiders and outsiders and behavioral scientists, *Grocery Headquarters* concludes there are three lessons learned from the demise of Webvan: (1) Grocery orders don't fulfill and deliver themselves. (2) Consumers don't want to totally alter their existing shopping habits. (3) You can't be everything to everyone. *Frozen Food Age* thinks it was simpler than that: Webvan's model did not cover its costs, despite the fact that shoppers have long been willing to pay extra for convenience. They do it at convenience stores everyday.

Source: *Grocery Headquarters*, August 2001. Is there life after Webvan, by Alison Paddock, p. 57-60. *Frozen Food Age*, August 2001. Dot's All, Folks, by David Wellman, p. 8.

Webvan's legacy

Global retail intelligence consultants at PricewaterhouseCoopers believe the failure of Webvan has given new life to regional online grocers. Specifically, the failure of the 'national' operation suggests that the existing infrastructure of traditional grocery retailers may well be the edge required for long-term success. The consultants fault the Webvan model with requiring a major shift in consumer shopping behavior—something that happens very slowly. The online ordering aspect was not the major behavioral shift required, rather it was planning to be home and waiting for the delivery. Key targets remain those with special dietary needs, mobility problems or lifestyle preferences. Other online ordering models that offer store pickup are judged to be more viable. Further, the group expects Tesco to move beyond its US Safeway alliance, perhaps making an acquisition.

Webvan received bankruptcy court approval to sell its software, technology and related assets to Kaiser Permanente for \$2.65 million. Kaiser's HMO unit bid on the software and other intellectual property after Webvan founder Louis Borders withdrew his earlier \$2.5 million bid. Kaiser plans to use the software and other assets to distribute pharmaceuticals.

Separately, the Alameda County Food Bank will miss Webvan: the defunct grocery distributor contributed 10% of the total food it received. Now the food bank is looking to bricks-and-mortar retailers to pick up the slack.

As its swan song, Webvan is referring former West Coast customers to WhyRunOut.com. Webvan's former customers may elect to have their personal shopping histories and home addresses turned over to WhyRunOut and must sign up by October 24—after which time all Webvan data will be deleted. WhyRunOut fulfills grocery orders in Southern California from six Pink Dot stores and transports groceries for Stater Bros. in Orange County. Webvan referred shoppers to Peapod elsewhere.

Source: *SN*, October 8, 2001. Stores May Succeed Where Webvan Failed, by Dan Alaimo, p. 24. *Seattle Post-Intelligencer*, October 4, 2001. Webvan's sale of assets to Kaiser is approved. *Business Week e.biz*, October 1, 2001. They'll Miss Webvan, p. EB4. *Ideabest*, October 8, 2001. Webvan Sells Technology Assets. *CNET News.com*, October 16, 2001. Webvan delivers customers to start-up, by Greg Sandoval.

...Stock News

Webvan IPO

On August 5, after less than six months in business, Webvan filed for an initial public offering through Goldman Sachs. With sales to-date of \$395,000 and losses of \$33.5 million, the company has a valuation on paper of \$4 billion. The IPO would be for \$345 million...a fraction of what it needs to pay Bechtel for the \$1 billion of warehouses it wants to build nationwide.

Source: *The Wall Street Journal*, August 9, 1999. Webvan Files Plans for IPO Totaling Up to \$35 Million, by George Anders, p. B5. *Executive Technology*, August 1999. Webvan Invests \$1 Billion in DCs, by Patrick Sciacca, p. 19.

Webvan: Not a player yet

The Webvan IPO was postponed, raising the oft-debated issue of what can be said during the 'quiet' period before an initial public offering (IPO). Prior to the era of Internet IPOs, companies about to go public have to be scrupulous about avoiding press mention, fearful of violating regulations that might be considered hyping a new stock. Now, Web-related IPOs are testing the limits. Financial news channels and the Internet are blurring the rules. For example, in the past executives of IPOs never appeared before the press on the day of their IPO. It is now common practice—considered acceptable if it is not promotional and only informative about operations.

Webvan pushed too far. The SEC raised the following concerns: (1) Webvan officials have been featured in various business publications recently, giving out information not contained in the public prospectus. (2) Further, road show presentations to institutional investors have included information not present in the public prospectus. Specifically, the company is making 1500 daily deliveries of about \$80 each making monthly revenue about \$3 million. The prospectus projects \$120 million in year one revenue and \$500 million one year later. Financial experts say the SEC monitors such activities closely and that the Webvan postponement is not the only to have occurred—just very noticeable because of all the pre-IPO publicity. Had the IPO gone forward at \$11-13 per share, the company would have been valued at \$4 billion. The amended prospectus filed on October 12 urges investors to ignore recent news and includes projections prepared by Goldman Sachs that show Webvan amassing losses for three years: \$74 million in losses this

year on less than \$12 million in revenue, \$154 million in losses in 2000 on revenue of \$120 million, and in 2001 \$302 million in losses on volume of \$518 million.

Observers believe this will be a test of public willingness to accept startup losses—regardless of what institutional investors proclaim. Forbes notes that George Shaheen's departure as head of Andersen Consulting for Webvan's top spot underscores what is at stake. He left 10 months short of significant retirement benefits for a possible \$180 million if the firm goes public at \$20. Lest he as former consultant be accused of telling and no doing: he worked in a grocery store during high school.

Source: *The Wall Street Journal*, October 7, 1999. Webvan to Delay IPO in Response to SEC Concerns, by George Anders & Robert Berner, p. C16. *The Wall Street Journal*, October 8, 1999. The 'Quiet' Question: A Debate Reopens over Disclosures..., by Terzah Ewing & Randall Smith, p. C1, C7. *The New York Times*, October 8, 1999. Webvan Is Delaying Its Offering ..., by Matt Richtel, p. C2. *The Wall Street Journal*, October 13, 1999. Webvan Refiles Prospectus... *SN*, October 18, 1999. Webvan Delays IPO..., by David Ghitelman, p. 73. *Forbes*, October 18, 1999. Bagging Groceries, by Robert Lenzer, p. 80. *The Industry Standard*, October 18, 1999. Webvan: Financial Engineering, Net Style, by Miguel Helft, p. 38-40.

Private money for Homegrocer.com

HomeGrocer.com is using money from private investors as it moves to market behind Webvan. It has raised another \$100 million in private funding from its original venture capital backers as well as from Martha Stewart Omnimedia. The funds will go toward leasing more warehouse space, a fleet of delivery trucks and adding personnel.

HomeGrocer notes that it can move into new markets faster than Webvan because its warehouses are less automated—while Webvan contends its automated warehouses are what can boost profit margins. HomeGrocer believes it can break even on an operating basis after 12 to 15 months in new facilities. Its average order has risen to \$110, with customers ordering 2.5 times per month. HomeGrocer's future depends in part on market reception to Webvan, since HomeGrocer will be Number 2 in the IPO race.

Source: *The Wall Street Journal*, November 2, 1999. HomeGrocer.com Raises \$100 Million..., by George Anders, p. A3-4. *The New York Times*, November 3, 1999. HomeGrocer Adds \$100 Million in Venture Funding, p. C4.

Profitability elusive at Web grocers

Analysts are looking more closely at publicly traded Web grocers and are not impressed. They agree that the industry's low margins limit scalability and access to capital needed for broad geographic expansion. Some have been in business as long as ten years and have yet to make a profit...and have changed their models in the process.

Among the stumbling blocks: (1) lack of volume purchasing and merchandising mix, which lower gross margin, (2) picking costs, which often require labor costing \$10 per hour or vast capital outlays for automation, and (3) delivery costs of \$26.97 per hour when including the truck lease, gasoline, maintenance and insurance. Still, analysts with sharp pencils believe that Streamline and Peapod are making some money on each order. Both face the lack of orders to cover overhead.

Source: *Supermarket Business*, December 1999. Are We On? by David Wellman, p. 35, 38.

Webvan

WebVan was one of eight stocks listed by L. Roy Papp in *Worth* magazine for being overpriced. Papp, a technology believer because he believes technology can drive productivity improvements, believes the Internet is underhyped. Still, specific stocks are overpriced. The problems with WebVan: sales come from a low-margin business and distribution centers are costly to build.

Source: *Worth*, April 2000. Overpriced.com, by L. Roy Papp, p. 66.

Webvan makes hottest list ?!

Each month *Worth* highlights the hottest NYSE and NASDAQ stock, the hottest equity and bond funds. In February, the hottest equity fund is the Potomac Internet Short Fund...because it shorts the Dow Jones Composite Internet Index 'which contains such stinkers as...Webvan.'

Source: *Worth*, February 2001. Net Worth: Winners and Losers Hot List, p. 46.

20/20 hindsight: 'Silly' disintermediation

Worth explains that the venture capitalists in Silicon Valley still have money to put into new businesses, despite the free fall in recent months of earlier projects. Formerly, these companies were fascinated by projects that capitalized on disintermediation. This 'justified' investments in Webvan and the like because they eliminated stores. Now *Worth* calls that 'silly' disintermediation, meaning it cut out necessary go-betweens and, worse yet, built costly new superfluous layers. In looking at the online grocery business, *Worth* favors the Tesco model which makes money. Disintermediation only works if it makes sense. In the Tesco case, that means using existing infrastructure, not creating a new one.

Source: *Worth*, March 2001. What Still Works, by Robert Cringely, p. 36-8.

...From Editorial Alerts

Editorial Alert: Webvan announced national pacts with Supervalu and Fleming to supply its new distribution centers, as well as the current Oakland site. (*Dow Jones Newswires*, January 24, 2000. Press Release: Webvan Grp In Pacts With Fleming, Supervalu)

Editorial Alert: A *Wall Street Journal* reporter lived on food ordered over the Web for five days and says the entire process was a pleasant surprise. Groceries from Webvan, Ethnicgrocer, Koshermeal, Peapod, Food, Waiter and Kozmo passed taste, crushed chip and timing tests. In some cases, the reporter ordered ingredients, other times fully prepared meals from local restaurants. Web site ease of navigability and sophistication varied. (*The Wall Street Journal*, April 17, 2000. Living Off Bytes, by Sharon Cleary, p. R56, R76.)

Editorial Alert: E-commerce is big news everywhere and the grocery industry is no exception. However, it is widely believed that even at its height e-commerce will be unlikely to account for more than 10% of the \$400+ billion in annual US grocery sales. Therefore, *Supermarket Strategic Alert* tries to be very selective in what grocery e-commerce activity it covers—especially since many of these pure-play Internet retailers issue almost daily press releases. With the landscape changing daily, it is difficult to be on top of everything. However, May issues of *SN-Supermarket News* and *Grocery Headquarters* provide helpful reviews of online grocery shopping. They are not summarized here because they contain no new information.

SN-Supermarket News observes that online retailing is no longer a debate of models but rather a race for players to prove they can show a profit. To date, regardless of merchandise strategy, picking model, warehousing set up, delivery methodology or other factors, profits have been non-existent. *SN* profiles Peapod (read with caution because of recent Ahold takeover), ShopLink, HomeGrocer, Webvan, NetGrocer, Priceline's WebHouse Club, Albertson's, Safeway, HomeRuns, Schnuck Markets and IGA models detailing Web address, headquarters, areas served, delivery options, volume, expansion plans major investors and key executives. We recommend scissors and some tape to compile the tables contained in all the articles.

Grocery Headquarters summarizes the 'digital dilemma'—its description of the business-to-consumer choices retailers face in offering online shopping. The cover story includes a state of the industry report, details of the

oft-quoted Ernst & Young study on cybershopper demographics, a profile of ShopLink and how grocery and drug chains are using the Web for non-foods. (*SN*, May 8, 2000. On-Line Comes to Bottom Line, by David Orgel, p. 14, 18-20. Peapod Hopes to Sprout Again, by John Springer, p. 26-7. Liking Upscale, by David Ghitelman, p. 28-34. Home-ing In Nationally, by Jon Springer, p. 36-36-42. Webvan Vanguard, by Jon Springer, p. 43. Streamline Keeping It Simple, by Jon Springer, p. 44. NetGrocer Centers Itself, p. 48. Will Priceline Prevail? By David Orgel, p. 52. Dual Strategy for Albertson's, by David Ghitelman, p. 54. Safeway Works, by David Ghitelman, p. 55. Low Profile for HomeRuns Since Purchase, p. 56. Schnuck Holds Web Site Close to the Vest, p. 56. IGA Keys on Member Web Access, p. 56. *Grocery Headquarters*, May 2000. Digital Dilemma, by Priscilla Donegan, p. 33-30. The state of cybershopping, by Priscilla Donegan, p. 45-50. Another link in the cyberchain, by Priscilla Donegan, p. 53-60. Welcome to the wild, wild web, by Carole Radice, p. 62-8.)

Supermarket Strategic Alert

ORDER FORM

Name _____

Title _____

Company _____

Street _____

City _____ State/Zip _____

Phone _____ Email _____

1 Select the items you want to order

select	product	price	total
	One year subscription to Supermarket Strategic Alert	\$795.00	
	Two year subscription to Supermarket Strategic Alert	\$1500.00	
	2001-1997 CD-ROM Archive (60+ issues) for subscribers	\$400.00	
	for non-subscribers	\$500.00	
	2002 Edition: Year In Review 2001 for subscribers	\$400.00	
	for non-subscribers	\$500.00	
	TOTAL		

2 Choose your method of payment:

check (on a US bank) or money order made out to Pollack Associates

credit card: circle one :



Card # _____ Expiration date _____

Signature _____

3 Send us your order:

Fax or mail your credit card order to:
(212) 202-3501

Mail your check or money order to:

Questions: (212) 734-0753
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