A. SUMMARY OF THE CASE

By 1999 when WebHouse Inc. entered the online grocery market with its unique reverse auction process where consumers were told, “name your own price for groceries”, there were several well established and high profile online grocers already operating. Despite WebHouse Inc.’s unique business model, strong backing from the cash rich Priceline.com, two rounds of substantial financing (one from the world renowned investment house Goldman Sachs), participation by leading packaged-goods companies such as Nestle, Heinz, Kellogg, and Hershey, over 1.5 million customers within the first six months of operation, and several high profile supermarkets chains such as A&P, Waldbaum’s, Gristede’s, and D’Agostino, WebHouse Inc. was on the verge of collapsing. Jay Walker, WebHouse Inc. President and CEO, seemed to have few choices to present to the Board of Directors for the future of the business—try to secure a third round of financing, change the business model, get grocery store partners to underwrite the discounts it provides its customers, or close down WebHouse Inc. in an orderly fashion. In spite of the tremendous personal effort and financial investment from Jay Walker and a strong desire to keep the business afloat, he wondered what went wrong and what else could be done to rescue WebHouse Inc. from the ruins of the dot-com crash and burn where it seemed to be heading.

B. TEACHING OBJECTIVE AND TARGET AUDIENCE

This case would be particularly useful for advanced undergraduate courses, graduate courses (MBA and Executive MBA), and executive seminars in e-commerce business strategies and
models, new venture development, and entrepreneurship. Students will gain a solid understanding of the major practical challenges in these areas along with knowledge of the online retail grocery business industry. Consequently, a key teaching objective is to get students to identify the relevant issues and to apply appropriate conceptual models in analyzing these issues. Students will also be able to describe the key aspects of WebHouse Inc.’s business model and strategies, and to evaluate the extent to which it represents a viable approach to fulfilling the market need for online grocery and still yield a positive return for its investors.

C. TEACHING APPROACH AND STRATEGY

This case could be used to discuss a wide range of issues with respect to business-to-consumer business models and strategies within the context of the online retail grocery market. For example, students could be asked to identify the differences in the distribution channel for groceries in the physical world and in the online environment from several perspectives, including those of the companies and the customer. The case could also be used to gain a complete understanding of the range of online grocery business models and strategies and to discuss the strengths and weaknesses of each model. This discussion could even be extended to compare online business models and strategies with retail grocery chains in the physical world. These differences can be explored from the perspectives of the traditional marketing mix—product, price, place, and promotion.

As noted above, WebHouse Inc. had over 1.5 million customers within the first six months of operation and over 100,000 new customers per week were registering for its services. This case could be used to discuss issues associated with consumers’ attitudes towards the Internet, particularly the adoption of e-commerce.
WebHouse Inc.’s business model intricately depends on very close relationships between retail supermarket groceries in the physical world. The nature of the relationship between these supermarket chains and WebHouse Inc. can be described as a loosely connected network that is primarily transactional in nature. This case can be used to analyze issues and approaches to establishing a new business model based on the close integration of the physical and online operations of the grocery business, and to offer consumers an extended range or full range of shopping options while still maintaining or enhancing profit margins.

D. ANALYSIS
The instructor should get students to read the case ahead of the designated class and prepare answers or discussion points on the questions listed below. In order to maximize their learning experiences, students must be encouraged to integrate and apply relevant conceptual frameworks in their analysis, as well as to think creatively about the questions. The following questions and issues are suggested for class discussion only; the instructor could add other questions depending on the focus of the class.

1. How would you characterize the business model for WebHouse Inc.? What are the key elements of the business model? How is it different from other online business models?
2. Is the business model appropriate given the business opportunity? Why or why not?
3. What are some of the strengths and weaknesses of WebHouse Inc.’s business model and strategy? What is the strategic competitive advantage of WebHouse Inc.’s business model? Are these advantages sustainable over the long run? Why or why not?
4. Describe the supply chain and distribution channel of WebHouse Inc. How does the supply chain and distribution system add value to WebHouse Inc.’s business model? Are these value added elements sustainable in the long run? How can they be increased?

5. What is the “valued added” to packaged-goods companies and retail storeowners derived from participating with WebHouse Inc.? Are these strong enough to ensure a long-term commitment from these businesses?

6. In the case, Jay Walker, WebHouse Inc. President and CEO observed that “When [a shopper comes] to Priceline, you can’t be loyal to one brand… we don’t get a lot of loyal shoppers, we can only give you [manufacturers] non-loyal customers.” Discuss the implications of this statement in retail marketing for consumer goods from the perspective of manufacturers and retail storeowners.

7. As mentioned in the case, WebHouse Inc. has few choices going forward. That is, to secure a third round of financing, Jay Walker must keep pumping more of his personal funds into the business, change the business model, or get grocery store partners to underwrite discounts; his other option is to close down the business. Examine the pros and cons of each option. Are there other options available to WebHouse Inc.? What are the pros and cons of your suggested option(s)? How viable are they?