THE MARKET THAT WASN'T:

THE NON-EMERGENCE OF THE ONLINE GROCERY CATEGORY

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ABSTRACT

We examine the non-emergence of a potential new market category. In the late 1990s the entrepreneurial firms that attempted to sell groceries online attracted significant resources, made meaningful technological advancements and generated immense publicity, yet online grocery retail still failed to emerge as a stand-alone market category. Drawing on multiple primary and secondary data sources, we elaborate on existing frameworks of category emergence to investigate how the social construction of a market category offers a partial explanation for category non-emergence. Our explanations are rooted in the instability and contestation of the underlying beliefs, logics, and bases for legitimacy that can typify an emerging market's focal actors and audiences. Our findings suggest that under such conditions of instability and contestation, if a core identity frame fails to emerge for the category as a whole, then in spite of significant advances in other areas, a new market category may still fail to emerge.

Key words: category non-emergence, social construction of markets, collective identity

Increasingly, scholars have turned to questions of how new market categories emerge (Kennedy, 2008; Khaire & Wadhwani, 2010; Navis & Glynn, 2010; Santos & Eisenhardt, 2009) and why other new markets fail to emerge. Market categories are important in defining the economic and social space in which firms operate; however, they are fraught with challenge and uncertainty (Aldrich & Fiol, 1994), even as entrepreneurs attempt to establish and legitimate them (e.g., Haveman, Rao, & Paruchuri, 2007; Lounsbury & Glynn, 2001). New market categories can fail if they do not gain legitimacy (Navis & Glynn, 2010), cultural recognition (Wry, Lounsbury, & Glynn, 2011) or resonate with the consumers or investors they seek to influence (Dowd, 2003). And yet, in spite of the recognized non-emergence of some market categories (cf., Leblebici, Salancik, Copay, & King, 1991), we know little about the dynamics of failure or why some market categories fail to thrive. Our study is an attempt to redress this gap.

Our research setting is that of online grocery services. When Webvan popularized this service category in 1998, it quickly became an "e-commerce icon" (Swartz, 2001) and "category builder" (Daye & VanAuken, 2009). Initial forecasts (Forrester Group, 1998) projected sales for the sector of $10.8 billion by 2003; other entrepreneurial firms, notably HomeGrocer.com and Peapod, also sought to establish a leadership position in this emerging market. However, by 2001, Webvan shut down, sought Chapter 11 bankruptcy protection and "secured its title as the biggest dot-bomb ever" (LeClaire, 2002). But this failure was more than that of a single entrepreneurial firm: "the battle to build a new category was lost" (Daye & VanAuken, 2009) and it would "take more than a new model to remove the stigma from online grocery shopping" (LeClaire, 2002). What happened?

Early on, online grocery service launched with the seeming promise of market category emergence. The trajectory was fueled by the exuberance of the times for e-commerce;

technological capabilities to reach customers anywhere, anytime, while taking the hassle out of the shopping experience. Annual growth, measured by the number of online grocery shoppers, was trending upward and paralleled that of the emergent market category of satellite radio (Navis & Glynn, 2010). Figure 1 charts this growth over time for both market categories. While the growth of satellite radio trended upward, in the familiar S-curve pattern (Rogers, 2003), to eventually become "real" as a market category (Kennedy, 2008), online grocery services did not. Consumer growth, which had steadily increased as new firms established themselves as online grocery retailers, fell off precipitously in mid-2001 and collapsed and online grocery services failed to emerge as a new market category. Ironically, this occurred in spite of its initial publicity and acclaim, optimistic forecasts, attraction to consumers, and profit potential. Our aim is to understand how this happened, and especially, the mechanisms that drove this process of market failure.

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We examine the trajectory of online grocery services over time, from its inception in 1989 through its crash circa 2001. In addition, we extend the timeline beyond the concept of online grocers as a market category to its eventual hybridization with "bricks and mortar" supermarkets. We chart the major players and especially, the entrepreneurial firms, investment community, alliance partners, traditional grocers, mainstream media, and consumers, over time, using a variety of archival, real time materials (e.g., press releases, annual reports, supermarket news and the media). We focus in particular on the key actors, practices and meanings associated with online grocery services.

The challenges that online grocers confronted are not unlike those confronting entrepreneurial efforts more generally; these challenges center on developing technology and

labeling and fixing the meaning of the new category (Kennedy, 2008; Leblebici et al., 1991; Meyer & Rowan, 1977; Van de Ven & Garud, 1993). Online grocers faced the technological need to develop the Internet, warehousing, inventory, and logistical capabilities to deliver customized orders to a variety of consumer locations—and to do so rapidly. Generally speaking, online grocers succeeded in developing and implementing the new technology. Given this, our attention turned toward understanding the efforts directed towards the social construction of the market, and particularly the dynamics attending to its definition, identity, membership, logics and practices.

We view the formation of a new market category as a process of developing and legitimating a collective identity that is generally used to describe how the practices of certain groups of actors are culturally defined and segregated from other practice-actor constellations in a field or market (Fligstein, 1996, 2001)—as, for example, "between groups such as classical versus nouvelle cuisine chefs (Rao, Monin, & Durand, 2003), Boston trustees versus New York money managers (Lounsbury, 2007), and industrial versus craft brewers (Carroll & Swaminathan, 2000)" (Wry et al., 2011: 449). Collective identities are particularly important in market categories because they demarcate "producers into clusters, enabling them to identify a set of rivals and help consumers to compare alternatives… In turn, the cultural recognition of a collective identity provides a focal point for valuation, criticism and sanction by external audiences (Pólos, Hannan & Carroll, 2002)." We explore how collective identities may account for the non-emergence of new market categories. Drawing on Wry and colleagues (2011), we theorized that, if a clear, focused and prototypically defined collective identity could enable market emergence, the lack of such an identity may hinder it. To foreshadow our findings, we show how a contested collective identity—and the generation of alternative and competing

category meanings and labels—seemed to play a role in the failure of the category to emerge as legitimate or culturally recognized. Thus, our work responds to calls in the literature, which have identified the "scant" empirical evidence to date illuminating these processes (Wry et al., 2011).

We seek to contribute to the literatures on entrepreneurship, market evolution, and identity in a number of ways. First, we offer one of the few studies to detail how, in spite of considerable entrepreneurial effort, new market categories can fail to emerge. Online grocery services offer a particularly intriguing case, for it was not primarily for want of technological, resource or consumer support that failure occurred; none of these factors seems to fully account for non-emergence. Rather, it seemed that the social construction of the market category—and its attendant configuration of actors, practices, and meanings—that offers at least a partial explanation. Second, our research supports a theoretically reasoned but empirically untested account for new market evolution, that of collective identity mobilization (Wry et al., 2011). Such a perspective resonates with scholarly interest in processes of meaning-making in markets that culminate in its realization (Kennedy, 2008; Navis & Glynn, 2010), but adds nuance by revealing how coherence—rather than competitive contestation—can drive new opportunities. Moreover, it offers the counter-intuitive logic that entrepreneurial firms may be disadvantaged by initial efforts to distance themselves from their competitors by emphasizing their differences. Finally, our work contributes to our understanding of identity dynamics by focusing on the collective level, exposing how identity at this higher level of abstraction is constitutive not only of individual organizations' identities but also of the category, as a set of common social facts that define and bound a particular bundle of actors, practices, and meanings. We embed the collective identity of the market within the broader dynamics of institutionalism and,

particularly, show how the coherence and comprehensibility of collective identities affect category emergence, establishment and legitimation.

Our paper unfolds as follows. We begin by conceptualizing the non-emergence of markets, highlighting first the role of technological imperatives and next, the social construction of the market. We draw attention to the role of collective identity in mobilizing entrepreneurial new meanings as they relate to firms' organizational and collective (market) identity claims and their associated legitimation. Following, we explore these ideas in the history of online grocery services and the ultimate failure to establish a thriving market category. We focus on the contestation of meaning within the entrepreneurial community and how, we believe, this eventually resulted in its collapse. Finally, we draw out implications for theory and practice.

CONCEPTUALIZING MARKET CATEGORY NON-EMERGENCE

That new markets emerge at all is an incredible feat of entrepreneurship. Originating as "unstable, incomplete and disjoined conceptual systems held by market actors" (Rosa, Porac, Runser-Spanjol, & Saxon, 1999: 64), new market categories need to be stabilized, identified, legitimated, proven viable, and made "real" (Kennedy, 2008; Kennedy, Lo, & Lounsbury, 2010) in order to succeed (Navis & Glynn, 2010). The realization of new market categories is hinged to efforts that are technological and socio-cognitive in nature (Leblebici et al., 1991; Meyer & Rowan, 1977; Van de Ven & Garud, 1993).

Technological advancements play an important role in prompting and enabling the pursuit of new market opportunities (Schumpeter, 1934; Tushman & Anderson, 1986; Utterback & Suarez, 1993). Tushman and colleagues (Anderson & Tushman, 1990; Romanelli & Tushman, 1994) describe how new technologies can disrupt the status quo and initiate cycles of

industry evolution. Such cycles begin with a period of contestation around the appropriateness of competing technologies and standards variants. From these initial "eras of ferment," dominant designs eventually emerge which provide an important foundation for subsequent periods of sustained, incremental product and process innovation. These cyclical patterns are then repeated through time as new technological discontinuities are introduced, such that "the dying technology provides the compost, which allows its own seeds, its own variants, to grow and thrive" (Tushman, Andersen, & O'Reilly, 1997: 12).

Amid these evolutionary cycles, firms operating in nascent market categories face several technological hurdles. These include establishing the new market's inter-organizational relationships, developing its technical infrastructure, and procuring the necessary funding to support the entrepreneurial firms' operations until they become self-sufficient, profitable entities. Moreover, the inherent dynamism of nascent market spaces creates urgency to satisfy the core technological imperatives, solidify a competitive edge, and demonstrate the viability of the business model to investors and other relevant audiences. And yet, "technology change has implications beyond the technology itself" (Tripsas, 2009: 442). Beyond firms' technological imperatives to establish economic exchange structures, there is a need to establish the socio-cognitive structure, which defines and bounds the nascent market category (Kennedy, 2003).

Market categories are defined not only in terms of their dominant technologies but also in terms of their collective identity, i.e., claims of "who we are" and "what we do" (Navis & Glynn, 2010). More formally, collective identities consist of actors and practices that are framed and understood as more or less defining, as well as divergent actors who pursue a range of practice variants (Wry et al., 2011). Thus market categories are understood both in terms of their central, defining features—i.e., prototypical representations of the category—as well as their

boundaries, that delimit the extent of variety or deviations from the categorical prototype. This dual character of market categories—core prototypes that exemplify the shared features of its members as well as its tolerable deviations, bounded by the category—set up the essential tensions in socially constructing the market.

Prototypical actors are critical in market category formation and legitimation because they come to be identified as the key organizational producers and advocates of prototypical practice. The development of a collective identity prototype frame, along with growth in the kinds of practices and actors associated with a collective identity, increases its likelihood of attaining cultural recognition (Wry et al., 2011). Thus, legitimating a new market category becomes more likely when there is a core categorical prototype such that firms recognize their similarities to this prototype, engage in practices consistent with the prototype, and make public their membership claims (Kennedy, 2008; Navis & Glynn, 2010; Wry et al., 2011). And, it would seem that the reverse is also true: When core areas of practice are inchoate and boundaries unsettled, the emergence of prototypical actors is more difficult because a category lacks the basis for commensuration and stratification (Espeland & Stevens, 1998; Lamont & Molnar, 2002; Wry et al., 2011). Building on this theorization, we empirically investigate the role of prototypicality in market category non-emergence, asking: *In market category non-emergence, how does categorical prototyping—in actors and practices—figure in the development of collective identity, meaning, and legitimation?*

The emergence and legitimation of a new market category has often been tied to growth in membership or prevalence of a form (Hannan, 2005; Hannan & Freeman, 1977; Pólos, Hannan, & Carroll, 2002). However, growth can be a double-edged sword, enabling the visibility and strength of a category but disabling its coherence, particularly with the introduction

of diverse actors and practice variants. Such diversity can erode—or challenge—the category's prototype and boundaries, thereby incurring an "illegitimacy discount" (Zuckerman, 1999). However, when diversity occurs in the service of elaborating the category prototype, it can anchor the core while delimiting the heterogeneity. This was evident in studies of the movements for nouvelle cuisine (Rao et al., 2003; Rao, Monin, & Durand, 2005), money management (Lounsbury & Crumley, 2007), craft brewing (Carroll & Swaminathan, 2000), and grass-fed products (Weber, Heinze, & DeSoucey, 2008). Extending this line of logic, Wry et al. (2011) propose that a new collective identity is more likely to emerge and be legitimated when diversity is able to extend the prototype frame of a collective identity without diluting prototypical practices or making its boundary ambiguous. As well, they argue that, for collective identity legitimation, the reverse will be true. Thus, building on this theorization, we empirically investigate the role of prototypical divergence in market category non-emergence, asking: In market category non-emergence, how does deviance from categorical prototyping—in actors and practices—figure in the development of collective identity, meaning, and legitimation? We turn now to investigating our two research questions in the context of online grocery services.

METHODS AND DATA

We used a concurrent triangulation research design (Creswell, 2003). This approach employed mixed methods, data sources, and units of analysis within a single study to simultaneously evaluate multiple facets of category non-emergence (Greene, Caracelli, &

Graham, 1989; Morgan, 1998; Steckler, McLeroy, Goodman, Bird, & McCormick, 1992).[1] Our objective was to elaborate existing theory (Lee, 1999; Lee, Mitchell, & Sablynski, 1999). Theory elaboration results in extensions to theory in cases where "preexisting conceptual ideas or a preliminary model drives the study's design" (Lee, 1999: 164). We built on existing frameworks of category emergence to investigate their application in cases of category non-emergence; our focus in this effort was on theoretical concepts and links that have not yet been addressed sufficiently (Gilbert, 2005).

Our data span nearly 16 years, from 1989 through 2005, and include: (1) firm and market category descriptions of founding conditions, technological choices, and early growth; (2) narratives about the firms, told in media accounts, and (3) narratives by the individual firms, related primarily in press releases and annual reports. These story-like accounts (Kennedy, 2008; Lounsbury & Glynn, 2001; Rosa et al., 1999) "function as mechanisms enabling organizational actors and audiences to make sense of, and attribute meanings to, the new market category, make claims about the viability or 'reality' (Kennedy, 2008) of the market and organizations, and offer interpretations and evaluative criteria by which audiences can understand the category and assess its legitimacy (Lounsbury & Glynn, 2001: 554)" (Navis & Glynn, 2011: 446).

We collected the following: 126 Webvan, Peapod, and HomeGrocer.com press releases issued through PR Newswire and BusinessWire; 193 reports from major media outlets (e.g., New York Times); 242 grocery industry trade accounts (e.g., Supermarket News); 432 technology

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[1] At the time of this writing, formal qualitative and quantitative analyses of these data—which are embedded in the present manuscript in its narrative history and associated tables and figures—are well underway but not-yet-completed. Our findings should thus be interpreted as preliminary in nature. More in-depth descriptions of our analytical procedures and results will be provided in subsequent iterations and presentations of this manuscript. We expect such efforts to be largely finalized by end of summer 2012.

trade accounts (e.g., CNET); biographies of the market (e.g., eBoys), and firms' customer and financial information gathered from securities reports and from the Mergent and VentureXpert database. Additionally, we collected data on the product sourcing, inventory management, order fulfillment, and marketing and distribution alliances forged by the online grocery firms. Our objective in using archival data was to access real time, rather than retrospective, accounts of this evolution. These data were further informed through personal interviews conducted by one of the authors with the founders and financiers of a central e-grocer in our study.

We used these data to develop an historical narrative of the online grocery market that sensitized us to the dynamics of meaning construction, legitimation, and identity formation processes in this setting. The narrative additionally revealed discrete periods during our sample time frame. We focused on the core actors involved, including the incumbent grocers, entrepreneurial firms, alliance partners, investment analysts, mainstream media and end consumers, documenting their role in the non-emergence of the category over time.

E-COMMERCE AND THE RISE OF THE ONLINE GROCERY MARKET, 1989-2004

The rise of e-commerce—or the exchange of "information of value between firms and their trading partners, employees, and customers with the absence of geographical and time restrictions" (Barnes-Vieyra & Claycomb, 2001: 13)—paralleled closely the rise and popularization of the online grocery market. In the late twentieth century, advancements in e-commerce led to a technological and cultural upheaval, competing assumptions about market growth, and debates about the salience of the Internet for business. The first commercial Internet transaction occurred in 1995 (Ariguzo, Mallach, & White, 2006) and five years later a new millennia also brought predictions of a "golden age" driven by the growth and diffusion of

relatively inchoate e-commerce business models (Barney, 2002: 629). The opening sentence of Kanter's (2001:1) book on succeeding in the digital cultural of tomorrow captured the zeitgeist of the early dot.com boom period: "Life is now defined by where we stand with respect to the Internet."

The early days of Internet growth and diffusion caused heated debate about the importance of e-commerce. Kanter (2001) argued that the late 1990s and early 2000s were marked by extreme views about how the Internet would shape the world. "Not since the Marxists roamed the earth has the word revolution been used so freely. Evangelists urge companies to 'blow up the business model,' while critics decry the 'toxic excesses of capitalism' in the Internet boom" (Kanter, 2001: 4). Where some management scholars believed the Internet "changes everything" and would lead to the end of the industrial age (Venkatraman, 2000: 15), others warned that the "hype has been almost unbearable" (Barney, 2002: 629).

Amid this period of e-commerce hype, confusion, and later decline, the online grocery market was a prominent marker of unrealized promise and possibility. We identified and demarcated three periods of online grocer category emergence: 1989-1997, covering the period of *pre-emergence* during which the category was in its infancy and firms were in the initial stage of marshaling resources; 1998-1999, covering the *promise of emergence* period during which representations of the category were broadened and the firms hired new leadership teams and expanded their identity claims; and, 2000-2005, covering the period of *realization* during which the category began to dissolve and firms were sold or liquidated. For each period, we examine several factors that affected the category's emergence and also explore shifts in institutional arrangements. We summarize the major themes across each of the periods in Table 1.

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PRE-EMERGENCE: 1989-1997

The first period of development of the online grocery category was characterized by efforts to marshal resources from investors and advance alternative prototypes for the market's formation. Initially, the collective identity of the nascent category was driven by two competing views of how the firms within the market represented themselves: e-commerce firms versus online grocers. The first—largely reflected in the efforts of Webvan and HomeGrocer.com—was anchored in the technology sector, where firms saw themselves as part of the e-commerce dot.com boom whose goal was to radically transform retailing at-large. We refer to this as the "e-commerce" representation of the category, which focused on innovation and technology solutions, claiming identities as technologically advanced online retailers. Firms in this model garnered resources from many of the same investors that were funding other dot.com start ups during this period of Internet expansion.[2] The second view was anchored in the grocery sector, where firms—such as Peapod—claimed identities more closely associated with the grocery business, offering goods via a new online distribution channel. We refer to this model the "online grocer" representation.

Representations of the E-Commerce Identity

Webvan. In 1996 Louis Borders, the founder of Borders Books, attempted to access funding from Venture Capitalists to start a new business. "The new venture would sell and deliver everything to the home. Soup to nuts, literally, but much more. Fresh fish, high-end

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[2] We classify both Webvan and HomeGrocer.com as assuming an e-commerce identity, yet we recognize that Webvan was more extreme in their adoption of the e-commerce identity. Although HomeGrocer.com embraced e-commerce as its primary identity (as evidenced in the dot.com in the company name, locating the company in Seattle, WA to be in technology oriented city and in the framing of the venture to potential investors), HomeGrocer.com was more balanced in its positioning than Webvan, in that it was described as an online grocery firm and sought to remain focused on the grocery category as opposed to branching out into multiple different retail categories, as was Webvan's stated intention.

consumer electronics equipment, CDs not to be found anywhere else, men's clothing, you name it. Three million separate stock keeping units, or SKU's" (Stross, 2000: 32). The business was initially named Oasis and was described in the business plan as going after "the U.S. retail market," which was a $2.3 trillion dollar market in 1995 (Stross, 2000: 32). Although Borders may have had the personal funds to finance the initial development of the proposed business he decided to seek the backing of venture capitalists. As Borders reportedly said, "In order to be able to attract the best people, you need to have the backing of winners. It's not the money, it's the Rolodex, it's being backed by the venture firms that have a record of knocking it out the park" (Stross, 2000: 35).

Although venture capitalists were drawn in by Borders' grand vision and credibility as an entrepreneur (having founded and sold Borders Books), they expressed concerns about the lack of focus in his plan. In the process of negotiating with the venture capitalists, the name of the business was changed to Webvan and Borders was convinced to focus on "online ordering and delivery. Cut out everything but groceries,…[and] to reduce the number of SKUs" down to 30,000 (Stross, 2000: 36). In 1997, two prominent Silicon Valley venture capital firms, Benchmark Capital and Sequoia Capital provided the first round of funding for Webvan and the company began building a distribution center of 325,000 square feet in Oakland, California. The model for the business was to cut out existing retailers with "an interactive Webstore and highly automated distribution… [providing] high degrees of scalability and efficiency, enabling us to operate with much lower overhead and reduced headcount compared to traditional supermarkets" (Webvan, S1: 1999).

Webvan's identity was associated with retailing broadly, where technology served as the primary means by which the company would disrupt the conventional retail model for how

shopping was done. This was reflected in Webvan's early slogan, where it claimed to provide "the world's market at your doorstep." Very little was reported on the company prior to launch because as Stross (2000) reports: "There were no prelaunch focus groups or surveys planned, no test marketing. Borders was almost pathologically concerned about secrecy, which he believed market testing would compromise" (p. 47).

HomeGrocer.com. At the same time that Louis Borders was building Webvan, Terry Drayton and his co-founders were developing an alternative model for an independent online grocery retail organization, which they called HomeGrocer.com. The idea behind HomeGrocer.com was to create an independent, full service online grocery business that would operate from multiple relatively small distribution centers (roughly 50,000 square feet each) serving specific communities across the USA. The founders intended to keep about 15,000 SKUs, "approximately the same number of SKUs as a Costco store" (author interview, 5/2/08). One of the early investors in HomeGrocer.com recalled: "[W]e realized it was going to take a lot of capital. But we also were attracted by Terry's idea of doing it in a relatively low capital way" (author interview, 12/6/07).

Although the founding team of HomeGrocer.com lived in Vancouver, BC, they moved to Seattle to locate the business in a more technology oriented city in order to attract funding to build the business. The first HomeGrocer.com distribution center was established in Bellevue, Washington, just east of Seattle, Washington. The original HomeGrocer.com business plan indicated an intention to experiment with the model in Seattle, learn from the experience and then build distribution centers down the West Coast of the United States before moving into other regions across the country. The lead investor in one of the company's early rounds of funding was John Doerr of Kleiner Perkins, another prominent Silicon Valley venture investor.

Representations of the Online Grocer Identity

Peapod. In 1989, brothers Andrew and Thomas Parkinson launched a pilot program involving 400 households in Evanston, Illinois, to test the concept of allowing customers to buy groceries over a proprietary computer network and have the groceries delivered to people's homes. They developed a dial-up network that customers could use to access the service from a computer in their homes. They called the service Peapod and partnered with an existing grocery retailer in Chicago, Jewel Food Stores, to provide the service. Within two years, Peapod expanded to San Francisco and partnered with Safeway Food Stores to serve customers in Northern California (Grant, 2000).

In launching the service, the founders of Peapod focused heavily on the ordering and delivery elements of what they were doing. They were not retailers; they merely performed their service on behalf of other retailers and charged customers for the convenience of having groceries delivered to their house. The service cost customers a startup fee of $29.95, a monthly service fee of $4.95, plus a fee of $6.95 for delivery and a five percent fee off their total grocery bill order (Chandler, 1995).

By 1994, nearly 40 Peapod shoppers were working at each of the seven Jewel stores in Chicago and the three Safeway stores with which they partnered in San Francisco. Customers ordered their groceries via an online terminal and deliveries were made according to a 90-minute window specified by the customer (Grant, 2000). Peapod reported that over 80% of the people who initially used their online service chose to keep using it (Chandler, 1995). By the end of 1995, Peapod had expanded its customer base to over 12,000 people in Chicago and San Francisco and had over 450 employee shoppers and drivers filling orders and making deliveries. The 1995 revenues were reported at $15.94 million, and its 1996 revenues were nearly $29.17

million. Peapod used the term “smart shopping for busy people” to reflect its identity as a convenient solution for people with limited time. The company did not look for venture capital funds to establish and grow the business; instead it sought to establish equity relationships with large organizations in the technology (Ameritech), media (A.H. Belo; Tribune) and financial services industries (CIBC) (VentureXpert). It also sought strong relationships with grocery retailers in its geographic markets. Peapod used business metrics and the results of market experimentation as the primary means for establishing the credibility of the business to potential partners.

Peapod continued to grow rapidly, and the company went public in 1997. Its corporate S1securities filing from that year illustrates this growth: “As of March 31, 1997, Peapod had approximately 43,000 members, an increase of 244% since January 1996. Peapod currently offers its online grocery service in six metropolitan markets (Chicago, San Francisco/San Jose, Columbus, Boston, Houston and Atlanta), four of which have opened since September 1996... As of March 31, 1997, the Company had 225 full-time and 1,075 part-time employees.”

Overall, the initial efforts by Webvan, HomeGrocer.com, and Peapod to establish their businesses in local markets—and among the more narrow audiences of their investors and transaction partners—set the stage for the online grocery category to emerge into a legitimate and culturally recognized collective as the turn of the twenty-first century neared.

PROMISE OF EMERGENCE: 1998-1999

The second period of market emergence was characterized by a shift in its focal firms from activities centered on proving the feasibility of the online grocery concept and securing the support of key investors and transaction partners as entrepreneurial firms, to establishing and

entrenching the firms within this market as prominent players and going concerns. The period was marked by increased competition and the broadening of identity claims in the e-commerce and online grocer representations of the market's collective identity. Although each of the three firms in our study were established in different markets, as the firms expanded they moved toward directly competing with one another. For example, Peapod developed a distribution center in the San Francisco Bay area at the time when Webvan launched its service in the same region; the growth plans of all three companies signaled that each would compete head-to-head in a number of markets in the coming year (e.g. Chicago, Atlanta, Dallas and Seattle). Further, the firms' strategies became more similar during this period, and all three firms claimed leadership positions as online grocers.

During this period, each of the firms' attempted to claim components of *both* the e-commerce and online grocer representations of the market's collective identity. For example, Peapod moved toward a dual identity in online retailing and begin to offer online research services; Webvan claimed it was a technological leader in retailing and HomeGrocer.com made claims about its customer orientation, freshness, and the variety of its products as an online grocery retailer. The firms were largely focused on distinguishing themselves as leading online grocers, but they made broader identity claims than in the previous period.

Representations of the E-Commerce Identity

Webvan. Webvan and HomeGrocer.com both raised significant amounts of private funding in 1998 and 1999. After Webvan convinced Benchmark Capital and Sequoia Capital to provide approximately $10 million for the first round of funding in 1998, the management team went on to raise more than $400 million in private funding from backers such as CBS Inc., Softbank Co., Knight Ridder Co. and Goldman Sachs by mid-1999 (Anders, 1999). With Louis

Borders, a well known entrepreneur leading the venture, prominent investors offering support, and excitement around the Internet as a platform for commerce, the Webvan team found it relatively easy to raise large sums of capital to develop the venture (Stross, 2000). The media and investor excitement around Webvan was further exacerbated when it was announced that George Shaheen, the CEO and 32 year veteran of Andersen Consulting, would be joining the firm as the new CEO in September 1999 (Anders & MacDonald, 1999). The company also hired senior executives from Goldman Sachs & Co., Oracle, Federal Express, Marriot International and General Electric (McAfee & Ashiya, 2006). In November 1999, Webvan went public, and despite generating only $4 million in revenue from operations from a single distribution center in Oakland, CA, it raised $400 million in its IPO. On the first day of trading, the share price rose from $15 per share to $34 per share, giving the company a market capitalization of $15 billion. The IPO garnered significant media attention (Peters, Okleshen, D'Costa, & Shopping, 2005). During this time, Webvan claimed to be "setting the standards for Internet retailing" with their "innovative proprietary business design" (Webvan press release, 12/22/99).

HomeGrocer.com. In May 1998, HomeGrocer.com began commercial operations with a staff of 60 people and the rallying slogan: "Here comes the grocery store." The firm's identity reflected its core focus on groceries, the enabling possibilities of new technology, and an emphasis on customer service. After launching its first distribution center in May 1998, the company required additional capital to grow the venture.

With John Doerr of Kleiner Perkins as a backer, together with the excitement around the concept of e-commerce, HomeGrocer.com raised more than double the capital it intended in its Series C round of funding: "[W]e actually went out to raise $20 million, but everybody wanted to own more of the company, so the round kept going up. It was just the math, Amazon.com

insisted on owning 35% … so we just had to raise way more money – $52.5million – than we ever intended" (author interview, 5/2/08). The company also attracted capital from several celebrity investors including Martha Stewart, Jeff Bezos (the founder and CEO of Amazon) and Jim Barksdale (the CEO Netscape). By the end of 1999, HomeGrocer.com had raised $172 dollars in private capital and had opened its second and third distribution centers in Portland, Oregon and Orange County, California, respectively. As the company opened more distribution centers, the size of the centers increased from 50,000 sq ft to 100,000 sq ft. Soon thereafter it had opened a second facility in Orange County, a second in Seattle, two in Los Angeles, and one in San Diego, with eight more coming the following year. As one of the founders noted, "The biggest consequence of raising a lot of venture capital was with all this money everyone expects you to grow that much faster" (author interview, 5/2/08). In September 1999, Former Federal Express and Citigroup executive Mary Alice Taylor replaced Terry Drayton as CEO of HomeGrocer.com. By the end of 1999, HomeGrocer.com had generated $21.6 million in revenue for the year had lost $84 million in total.

Representations of the Online Grocer Identity

Peapod. Although Peapod went public in 1997 at $16 per share—with a market capitalization was approximately $214 million (VentureXpert)—its shares had lost considerable value by 1998, fluctuating between $4 per share and $13 per share (Mergent). In 1998, Peapod announced a shift in strategy toward the use of centralized distribution centers, the first of which was to be opened in December of 1998 (Liebeck, 1998). Peapod planned to use the centralized distribution center model for all future markets, while existing operations would be gradually converted to centralized order fulfillment. The "new warehouses constitute a fulfillment shift for Peapod from strictly third-party picking to a warehouse-based distribution format" (Liebeck,

1998). In 1999, Peapod moved from 12 store locations in Chicago to one dedicated warehouse on in Niles, IL, outside Chicago. It also moved its San Francisco operations to a dedicated warehouse at about the same time when Webvan was beta testing its service in the San Francisco bay area. Peapod further diversified its offering by selling consumer research services to leverage the information that it was gathering about customer buying patterns. The firm's identity appeared to shift from a focus on service and convenience to being a retailer and information broker. It claimed an identity as the "leading Internet supermarket" that also provides "targeted media and research services to consumer goods companies" (Peapod Press Release, 11/16/98).

Peapod continued to expand into new markets in 1999, but since it had not yet become profitable required more capital for its survival and continued expansion plans (Johnson, Killgallon, & Lockhart, 2000). In September 1999, Bill Malloy, former AT&T Executive Vice President succeeded Andrew Parkinson as CEO of Peapod. The company was hopeful that Malloy's experience in the wireless industry and his recognition as an executive at a large company would bring some experience and credibility to the online grocer's executive team (Lunce, Lunce, Kawai, & Maniam, 2006). The market responded positively to Malloy's appointment and its share price recovered from $6.30 at the beginning of the month to $10.37 following his appointment. Although Peapod had generated $73.13 million in revenue during 1999, it was Webvan and HomeGrocer.com that were garnering media attention due to the capital they had raised. This prompted the Peapod CEO to argue publicly about "how undervalued Peapod is" (Dignan, 1999).

REALIZATION: 2000-2005

The period of decline in the online grocery market was characterized by stalling growth, cutting back, and efforts meet the sales expectations held by the investment community. Peapod continued to draw on its existing relationships with suppliers as a means to garner support from investors, but it also attempted to refocus its business with a greater eye toward profitability. Webvan acquired HomeGrocer.com during the period. Although both of these firms independently raised far more capital than what Peapod raised, they were unable to muster the interest of investors to continue to support the business. The now-combined Webvan was forced to shut its doors. This was true despite the profitability it could demonstrate in various operating locations.

Representations of the E-Commerce Identity

HomeGrocer.com. HomeGrocer.com went public on March 10, 2000. The stock opened at $12.88, reached a high of $16.25 on day one, but closed at $14.12. HomeGrocer.com's top-management team had hoped to bring in between $500 and $600 million from the IPO, but instead they ended the day with $268 million. In their S1 document, the HomeGrocer.com management stipulated: "We intend to initiate delivery service in approximately eight to ten additional U.S. markets over the next 12 months." While this statement was intended to create excitement about the growth prospects for the firm so that investors would be interested in the stock, it also created commitments for the firm. As one member of the HomeGrocer.com management team recalled: "when you go public you issue a prospectus in which you make all sorts of commitments. Ours was primarily the markets and distribution facilities we committed to opening" (author interview, 10/3/07). To deliver on these commitments, the firm had signed contracts to develop a number of distribution centers. When the company did not raise as much

capital as anticipated from its IPO, it was unable to deliver on these commitments and therefore fulfill the contracts it had signed. The HomeGrocer.com board had to decide whether to file for Chapter 11 bankruptcy, wait to find a new source of capital or merge with a "wealthy competitor" (author interview, 5/2/08). They decided to merge with Webvan, and on June 26, 2000 Webvan announced that it would buy Homegrocer for $1.2 billion in Webvan stock. The combined company would be called Webvan Group, Inc. (Webvan Press Release, 6/26/00).

Webvan. The acquisition of HomeGrocer.com meant that by mid 2000, Webvan had a presence in nine markets (eight HomeGrocer.com distribution centers and one Webvan distribution center) and was committed to having a presence in 13 markets by the end of 2000 (Webvan Press Release, 6/26/00). But at the same time, Webvan faced the challenge of integrating the two companies. Interviews with the HomeGrocer.com management team suggested that there were significant challenges with respect to integrating the technology platforms, aligning the cultures and merging the operations of the two companies (author interview, 10/3/07).

Webvan continued to paint a positive picture about its prospects in company press releases, but all through the second half of 2000 its share price was declining significantly. The share price was $9.31 on July 13, 2000 and by the end of the year it had dropped to $0.46 (Mergent). It appeared the legitimacy it had garnered up to this point was being questioned. External audiences' social judgments of the market—in which Webvan was a core representative—had shifted significantly. New standards and rules were being applied to assess whether the actions Webvan and the other online retailers were "desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574), and this was particularly fueled by the questions of the e-commerce model more

generally.

Later in 2000, in response to the declining share price, the company announced that "it would delay its most immediate expansion plans" as a means of "conserving capital financing and focusing on profitability" (Blair, 2000). It seemed that no matter what Webvan management did, the share price did not respond positively. Even though the company began to break-even in some of the distribution centers (as reported by interviewed members of the management team), and in spite of newly-announced partnerships and product line extensions (as reflected in company press releases), it never appeared to reclaim perceptions of legitimacy among its investors (as reflected in the continual decline of the share price).

Webvan continued make claims about "setting a new standard for Internet retailing" over this period, combining the "convenience of online shopping with a personalized courier service," which was enabled through its "relentless focus on customer service, innovation, and value" (Webvan Press Release, 5/24/01). Even though the firm continued to see itself as setting a new standard in retailing, it never managed to convince the investment community that it could do enough to warrant a share price that would prevent the delisting of its shares (in April 2001) (Sandovel, 2001). To prevent being delisted, Webvan applied for Chapter 11 Bankruptcy and in August 2001, the company auctioned off all its assets (New York Times, 2001). With the disappearance of Webvan (and HomeGrocer.com), the option of buying groceries online was no longer available in many of the markets where HomeGrocer.com, Webvan and Peapod had previously operated (Khermouch, 2001).

Representations of the Online Grocer Identity

Peapod. In the first quarter of 2000, Peapod's management team had sought an additional round of funding to help the company cover its cash shortfall. According to reports, it

had lined up $120 million in financing from Rallye S.A., a French holding company with interests in supermarkets (Peapod Press Release, 2/16/00). Thomas Parkinson, the founder and then Chairman of Peapod reports: “On the day were closing (the round of funding), our hired CEO didn’t come to work. He called in sick and was unable to continue working. All the financing collapsed and we only had two weeks of cash left in the company, with 1,500 employees” (quoted in Jordon, 2010: 105). The company’s share price dropped from $7.81 to $3.72 per share on that day (Mergent) and the media speculated that Peapod’s “future is in doubt” (Guy, 2000). The founders of Peapod went to one of their biggest customers, Stop-and-Shop, which was owned by Ahold (a Dutch holding company). “They didn't want to see their whole home shopping business collapse so they invested—they basically bought Peapod” reports Thomas Parkinson, the Peapod founder (quoted in Jordon, 2010: 105).

Ahold inserted a new CEO, Marc van Gelder, and he began a process of consolidation to bring the company to profitability. Peapod exited some markets (e.g. San Francisco), reduced the size of its customer base and integrated heavily with Ahold’s supermarket companies in the USA in the markets where it continued to operate. By late 2000, Peapod claimed to be a “clicks and mortar” company (Peapod Press Release, 10/25/00), embracing an identity that drew on both the old way of doing things and the new way of doing things in the retail space. In early 2001, van Gelder announced “Peapod has made great progress over the past year. We are not the same company we were a year ago. We are now a very focused company, executing under strict operating principles” (Peapod Press Release, 2/28/01). Later that year, Peapod announced that it had started achieving profitability in certain markets (Peapod Press Release, 4/23/00). Thereafter, Ahold bought out the minority shareholders, transitioning Peapod back into a privately held subsidiary. Based on accessible data, it appears that Peapod’s customer base

continued to grow at a moderate but steady rate for the next few years (see Figure 1).

DISCUSSION

Broadly speaking, our research extends existing theories around the entrepreneurial construction of new markets by highlighting critical factors in their non-emergence (e.g., Aldrich & Fiol, 1994; Khaire & Wadhwani, 2001; Lounsbury & Glynn, 2001; Navis & Glynn, 2000; Santos & Eisenhardt, 2009). Our study revealed how socio-cognitive factors played a significant role in new market category dynamics, emergence and establishment, or lack thereof. In spite of developing and implementing the needed technology, solving operational issues, and garnering necessary resources, online grocery services failed as a distinct market category.

Our analyses revealed that the competing and conflicting identity frames—as online grocers versus e-commerce enterprises—seemed to make the category concept inchoate, both to the firms that populated the new market and to interested audiences of consumers, investors and the media. This lack of a categorical identity frame, that would define and delimit prototypical actors and practices, seemed to thwart entrepreneurial efforts to position the category as distinct from existing market categories, particularly that of supermarkets, retail groceries or new e-ventures like Amazon. Moreover, the absence of clear categorical boundaries seemed to lead to a profusion of variations in actors, practices and meanings that, in turn, led to a confusion about the meaning of the category and its imperative to become "real" (Kennedy, 2008; Wry et al, 2011). Distinct and conflictual identities competed for attention and were associated with different entrepreneurial ventures: e-commerce versus online grocer models by Webvan and Peapod, respectively. Although there were points of commonality among the firms, especially in the operations of centralized distribution centers, using core technologies, and providing

substitutable services, the conflict over collective identity nonetheless reinforced the diversity in the meanings the firms were applying to the market, thus failing to address the underlying need for a clear and recognizable collective identity. Figure 2 depicts this struggle over collective identity and reveals the contrasts between the elements in the identity frames, as well as the points of conflict.

---------- Insert Figure 2 About Here ---------

Our narrative history revealed that such conflicts arise from factors that are both part of the market category and also external to it. Conceptualizations of the new market were embedded in some issues related to the times, at the turn of the last century. For instance, the e-commerce identity defined itself as revolutionary and re-definitional, in sharp contrast to the online grocer identity, which extended the existing retail category to include “bricks *and clicks*.” Similarly, focal logics and practices varied across the identity frames. Online grocers were defined in terms of a more cautious, organic growth strategy that emphasized the human touch, and were grounded in retail hubs like Chicago. By contrast, the e-commerce identity was focused on aggressive, rapid and higher risk growth driven by high-technology and associated with technology hubs like Seattle and Silicon Valley.

We found that these contrasts were more or less sharp depending on the stage of category development. We were able to discern the mechanisms that influenced category development over time, focusing on three distinct periods: 1) pre-emergence, 2) promise of emergence, and 3) realization. Within each period, we focused on how categorical prototyping (and deviance from a prototype) figured into the development of collective identity, meaning, and legitimation. Figure 3 depicts this process of non-emergence.

---------- Insert Figure 3 About Here ---------

Figure 3 shows that in the initial, pre-emergent stage (1989-1997), identity contrasts were sharpest; three distinct concepts emerged: e-commerce (Webvan), hybridization (HomeGrocer.com), and online retail grocer (Peapod). There was tension among the three firms that represented these identities and they actively competed in the new market space.

In the second phase, which started to show the promise of category emergence (1998-1999), there were efforts to find common ground in the arenas of technology and retail; however, there was still considerable variation around the meaning of the category and particularly its prototypical actors and practices. Adding to this confusion was a blurring of the boundaries around the category, raising questions for consumers as well as investors about its viability.

In the third phase, which was a period in which the category might have become "real" (2000-2005), we observed a flattening in revenues following a precipitous fallout in mid-2000. Unlike categories that fully emerge at this stage and become established (see Figure 1 for contrast with satellite radio), online grocers seemed to rebound to the period of pre-emergence.

Our study contributes to three areas of organizational scholarship. First, our findings reinforce prior research suggesting that market evolution is driven by both technical and socio-cognitive elements (Kennedy, 2008). However, we extend these findings by showing *how* categories emerge—and fail to emerge—over time and highlight specific examples from firms engaged in the process of seeking a collective category. Although each of the three firms within our study possessed ample financial resources and technological differentiation, the category itself was unable to emerge as "real." As a result, our study illustrates how contestation and confusion over the core identity frame for the market category contributed to its eventual non-emergence. Thus, our work contributes to the growing research examining process of market category formation and decline.

Second, we contribute to identity research by providing empirical evidence of the mechanisms that lead to collective identity, as well as the consequences of failing to achieving this. While previous research has examined how organizations develop distinctive identities (Albert & Whetten, 1985), little work has explored how collective identities are shaped and developed within a field. Our study points to the criticality of identity in markets and how it can deter emergence beyond the technological and financial imperatives that affect new ventures.

Third, we contribute to entrepreneurship research by showing that the fates of firms are tied not only to their own existence, but to that of the category as well. The challenge is compounded when both firms and markets are new. Our study revealed how intense and early competition over market category definition seemed to fuel non-emergence. We contrast our findings to that of a new market category that emerged successfully, satellite radio, in which the early period was characterized by a lack of such fierce competition and instead, collective efforts to define the meaning of the category identity (Navis & Glynn, 2010). Thus, we round out the picture of market category emergence and suggest the criticality of dampening competition in the initialization of new market spaces.

Limitations and Future Research

Our setting had several unique characteristics, including the high levels of investment required, the historical period of Internet boom and bust, and the limited number of focal firms that had a stake in its emergence. Nevertheless, we feel several advantages inherent in the online grocery market enhance the generalizability of our findings. First, and like other studies in this space (cf., Navis & Glynn, 2010), we were able to trace the non-emergence of the category throughout much of its relevant history, because it occurred fairly quickly and was extensively documented through available primary and secondary sources. This allowed us to conduct an in-depth

analysis and increased the probability that we assessed all the relevant factors in category non-emergence. Second, the setting exhibited characteristics typical of many entrepreneurial endeavors, where market formation is contested in a less regulated environment amid the interactions of multiple, competing firms.

Correspondingly, the limitations of our setting suggest promising opportunities for future research. For instance, interesting extensions of this work would involve examining the robustness of our findings in market categories that required minimal investment for efficient operations, where attempts at emergence spanned temporal periods that were less affected by environmental jolts (cf., Meyer, 1982), or where many more firms had a stake in the legitimation and establishment of the market category. For instance, in the late 1980's, frozen yogurt chains and establishments popped up almost overnight in the US in association with broader cultural trends toward health-consciousness. However, they disappeared nearly as quickly and this type of restaurant category never fully emerged. It would be useful to explore how these contrasting conditions hindered the legitimation and identity construction of the market category. Moreover, recent indicators point to a second wave of such yogurt establishments (Wallace, 2011); this, together with evidence of a similar re-emergence in the online grocery space, suggest important related questions around entrepreneurial efforts at the re-emergence of failed categories.

To conclude, the empirical investigation of entrepreneurship in new market categories is, like the phenomenon itself, in its formative stage. We see our work on online grocers as a step in the right direction. Our research highlights the dynamism of entrepreneurship, in markets and firms, and suggests, perhaps counter-intuitively, that there are advantages to collective as well as competitive entrepreneurial efforts.

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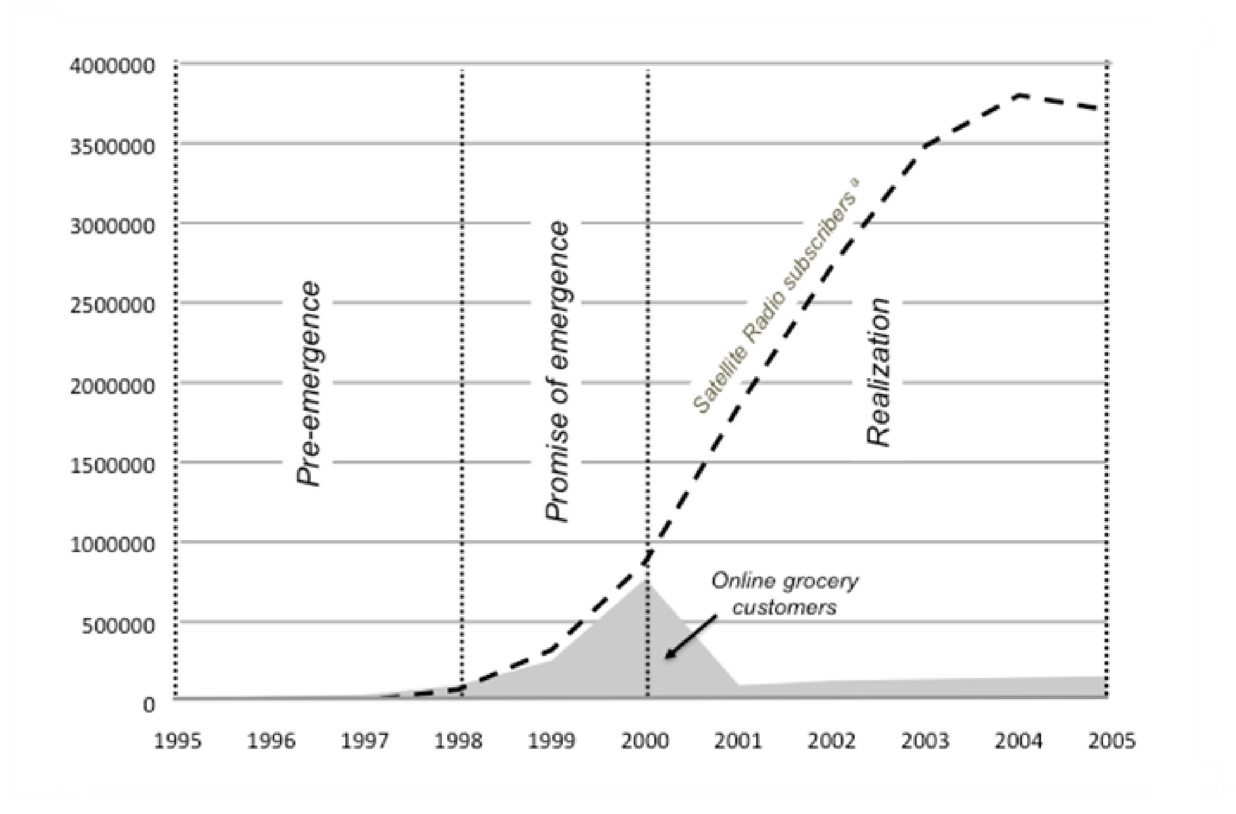
TABLE 1.

SUMMARY OF MAJOR THEMES ACROSS PERIODS

Period	E-Commerce (Webvan, HomeGrocer.com)	On-Line Grocer (Peapod)
Pre-Emergence (1989-1997)	• Anchored in the high tech sector • Fit in with online retailers, but start with groceries • Compete with existing and anticipated e-retailers • Located near technology hubs: Seattle, Silicon Valley • Cater to venture capitalists • Focus on innovation and technology • Radical redefinition of the industry to compete against existing grocers • Prototype across multiple locations and evolve simultaneously. • Identity claims as a service orientated technologically advanced grocery retailer	• Anchored in the grocery sector • Fit in with existing retail grocery structure • Compete with existing grocery retailers • Located near retail/manufacturing hubs: Chicago • Cater to retail partners and consumer groups • Focus on customer service • Incremental redefinition of the industry that fits with existing grocers. • Prototype model by starting with one fully automated delivery center and grow from there. • Identity claims of bringing back the concept of the “milkman" for peoples
Promise of Emergence (1998-1999)	• Shift from initial resource acquisition to growth and firm establishment • Expand identity claims (large variety, efficient, and first class customer service) • Celebrity investors (e.g. Martha Stewart; Jeff Bezos, Amazon; and Jim Barksdale, Netscape).	• Shift from initial resource acquisition to growth and firm establishment • Expand identity claims (hybrid identity as a grocery retailer and consumer research organization).
Realization (2000-2005)	• "Relentless focus on service, innovation and value" • Attempt to be a solo national player (10 markets) • Goal to fix profitability problems.	• "Bricks and clicks" • Aligned with existing grocery retail operations. • Goal to move toward profitability.

FIGURE 1.

THE NON-EMERGENCE OF THE ONLINE GROCERY CATEGORY: TOTAL CUSTOMERS OF WEBVAN, PEAPOD, AND HOMEGROCER.COM PER YEAR



a. Net growth in satellite radio subscribers is shown as an illustrative comparison. Annual subscriber totals were reduced by ten percent for scaling purposes and pre-dated by four years to align with corresponding periods of category emergence.

FIGURE 2.

COMPETING IDENTITY FRAMES IN ONLINE GROCERING, 1998-2005

REPRESENTATIONS OF THE ONLINE GROCER IDENTITY			REPRESENTATIONS OF THE E-COMMERCE IDENTITY	
Expression	Content	Subject	Content	Expression
"Internet supermarket" "Bricks and clicks"	Situated within existing categories	← *Market definition* →	Separate from existing categories	"Revolutionary," "Re-defining," "New paradigm of online shopping"
Testing the model, metrics, delivering on expectations	Substantive, based on tangible demonstrations of progress	← *Legitimacy sources* →	Symbolic, based on tenuous cultural mechanisms	Grand vision, celebrity investors and founders
"Critical to achieving profitability is our focused, disciplined approach."	Cautious, organic growth with an eye toward profitability	← *Growth logics* →	Aggressive, rapid growth with an eye toward market leadership	"We will take steps to aggressively build a brand name on a national scale"
Located near retail/ manufacturing hubs: Chicago	Headquarters reflect operational origins and identity logics	← *Geographic identity* →	Headquarters reflect high-tech origins and identity logics	Located near technology hubs: Seattle, Silicon Valley
Enlisted established grocers as investors and partners	Cater to retail partners and consumer groups	← *Focal stakeholders* →	Cater to venture capitalists	Decisions influenced by prominent investors
"emphasis on the human touch, dedication to customer service"	Emphasis on leadership in customer service	← *Focal practices* →	Emphasis on leadership in innovation and technology	"It is critical that we use the best business systems and processes"

FIGURE 3.

CONCEPTUAL FRAMEWORK OF MARKET CATEGORY NON-EMERGENCE