ONLINE GROCERIES --- IS THE TIME RIGHT?

1. Executive Summary

Groceries are, perhaps, the most universal commodity. Thus, competition spurs supermarkets and retailers to go to great lengths to develop new technologies and methods of streamlining both their supply chain and marketing efforts.

Several days ago, internet retailer Amazon.com started selling groceries on its Web site. This was considered as a cautious step into a business that was once one of the greatest failures of the dot-com collapse. For the immediate future, Amazon.com will offer non-perishable items only.

In this paper we are going to review earlier online grocery efforts, analyze whether this is a strong move from both the marketing and e-commerce standpoint, and make recommendations for Amazon’s online grocery department.

2. Background Information

Amazon.com hasn't been a pure bookstore for a very long time. After expanding into fields like music and movies, the company added many other things to satisfy its customers’ needs. And now it has taken another step towards one-stop-shopping nirvana: groceries.

This move does catch many customers’ eyes. We are now are able to purchase groceries from Amazon.com, right next to the site's already impressive array of books, movies, TVs, computers, and various other products. The new grocery store offers only non-perishable items, but there's quite a selection already; everything from cereal, canned soup, and Kraft dinners to toothpaste, diapers, and laundry detergent is available. And Amazon offers free shipping to anywhere in the United States.
3. Situation Analysis

3.1 From a Marketing Standpoint

3.1.1 Market Summary

The competition in the online grocery market is very fierce, perhaps even more so than in the bricks and mortar retail world, where geography limits the number of players in a market.

Amazon is satisfying its market needs by trying to and offering its customers one-destination shopping where they can find everything they need. And since groceries are something their customers have been asking for, they decide to expand their business by entering the online grocery industry. As with any of their stores, they are always looking to increase customers’ selection.

3.1.2 Online Grocery ---- Industry Trends

Some of the trends that may contribute to the growth of online grocery shopping include automating warehouses and offering additional services, and the use of handheld information appliances. Automated warehousing, pioneered by Webvan of California, represents the first major opportunity for a profit margin increase in the grocery industry in many years.

The second trend is allowing grocers to become a one-stop-shop for food, videos, dry cleaning, and a wide variety of home maintenance services (see figure in appendix). This is truly a new channel to the consumer; the companies that can secure a first-mover advantage in the home delivery arena will have the best leveraging power with product suppliers and the providers of home services, especially considering high initial start-up and switching costs.

A third trend pushing the development of online grocery services is the use of handheld information appliances. Pilot programs such as HighPoint rely on the use of handheld barcode scanners to track items as they are used. By moving information services away from the PC, these appliances greatly increase the practicality of online reordering services.

3.1.3 Segmentation and Specialization

There are currently two main segments in online groceries. First, Peapod is leading the pack in full-service grocery delivery. This set of companies can fill orders for almost any type of grocery, but struggles because there is very little profit margin. The second category is led by Whole Foods, and consists of specialty grocers who do not offer fresh products. While these companies will
never become a full-time replacement for a bricks-and-mortar grocery store, they will fill a large and very profitable niche as a high-end marketer of specialty foods.

3.1.4 Situation of Other Online Grocery Stores

During the Internet boom of the late 1990s, investors poured money in to a number of online grocery stores such as Webvan, which once touted an ambitious plan to spend $1 billion on a warehouse network but went bankrupt after the dot-com crash of 2001.

Another grocer from that era, Peapod, survived and has operations in nine states and Washington, D.C., while privately held Fresh-Direct delivers to the New York City area. Some traditional grocery chains such as Safeway also allow customers in some markets to order groceries online.

3.1.5 SWOT Analysis of Amazon’s New Move

Starting as a bookstore, Amazon now is much more than that. It is an auction house, chat room, music store, video store and even a grocery store. In this part, I will do a SWOT analysis of Amazon’s move into the online grocery industry.

3.1.5.1 Strengths

- Amazon’s first great advantage lies in its preexisting retailing technological and marketing expertise.
- Amazon also has the ability to ship to anyone while other online grocers must specialize by area, such as Freshdirect, exclusively servicing the New York Metropolitan Area.
- Fitting in with its business model, Amazon pledged to keep prices low through a variety of methods. For example, items customers purchase might come in larger packs than they see at a traditional grocery store, and Amazon might ship a product in a manufacturer's original case.
- As a more and more comprehensive site, Amazon provides us a broad selection of whatever we want.
- Customers are influenced and impressed by the top quality customer service offered by Amazon. Regular customers receive annual gifts like coffee mugs and bookmarks and even gift vouchers from Amazon.
- Limiting its online grocery to non-perishable items, all Amazon needs to do is secure warehouse space for a few thousand new products and voila—no need to refrigerate anything, and shipping is handled the same manner as other items.
- Amazon offers a gift service where it will ship products automatically to our list of family/friends on birthdays and anniversaries.
3.1.5.2 Weaknesses

- Amazon's greatest weakness is the long time it takes before the customers’ order comes. In a culture that demands instant gratification, will consumers accept Amazon’s delivery time?
- Another weakness is about its so-called “accurate and time-saving searches”. It is inefficient and boring to search and pull up so many irrelevant items. Consumers have to weed through pages and pages of products that had nothing to do with the original search. Amazon needs to organize their virtual shelves in a more user friendly manner.
- It will take more effort to change consumer buying patterns. Grocery shopping is a habitual act. Most people are still likely to go out shopping for groceries - especially the perishable items.
- Is Amazon straying away from its core business model and stretching itself to thin? By moving into so many new markets, Amazon risks loosing sight of who Amazon is.

3.1.5.3 Opportunities

- With a solid reputation build over the previous years, Amazon has accumulated a significant amount of loyal customers. These customers are very likely to try Amazon’s new offerings. Amazon has the opportunity to leverage an instant customer base.
- Amazon.com has made shrewd investments in leading Internet retailers that are improving the lives of customers by making shopping easier and more convenient: drugstore.com, an online retail and information source for health, beauty, wellness, personal care and pharmacy, at www.drugstore.com; Pets.com, the online leader for pet products, expert information, and services, at www.pets.com; HomeGrocer.com, the first fully integrated Internet grocery-shopping and home-delivery service, with operations in Seattle, Portland, Oregon, and Southern California, at www.homegrocer.com; and Gear.com, which offers brand-name sporting goods at prices from 20 to 90 percent off retail, at www.gear.com. Amazon.com also has a minority interest in Della & James, the leading online wedding-gift registry, at www.dellajames.com.
- As customers experience a greater number of successful Internet purchases, consumers become more familiar with the online shopping. This consumer evolution translates to an ever increasing potential market for online retailers like Amazon.

3.1.5.4 Threats

- Brick and Mortar stores have the advantage of the storefront, face to face events and promotions. Consumers likely to still need BAM stores, presumably looking for specific items or hoping to take advantage of specific promotions.
- Brick and Mortar stores offer an environment for consumers to shop with a friend or spouse / child. The BAM shopping experience allows consumers to interact with each other. Sometimes this interaction and overall experience is just as important as the task at hand - purchasing groceries.
- More and more Brick and Mortar stores are offering online service which means they are
providing the consumers with a more complete shopping network. A BAM with an online option has a distinct advantage of Amazon in that consumers can purchase online with the comfort of knowing a return can be handled at the local store.

3.1.6 Marketing Summary

From the above SWOT analysis, we conclude that the strength of Amazon’s technology, marketing and sheer power of its existing customer base put Amazon in a strong position to add 15,000 groceries to its online store. The opportunities generated by this decision are much greater than the threats. And, Amazon’s strengths provide it with a unique competitive advantage.

3.2 From an E-commerce Standpoint

3.2.1 Opportunities in existing / new systems

Amazon provides us with an end-to-end e-commerce solution that includes Amazon technology and e-commerce expertise. Amazon shopping technology such as one-step checkout, Search and Navigation, Personalization, Ordering and Payments, Wish Lists, and Recommendations will be available to online grocery customers, and order fulfillment and customer service will be operated by Amazon's global network of fulfillment and customer service centers.

Amazon.com, Inc. has a subsidiary called Amazon Services which plays an important role in its online business. It offers the technical platform, operational capabilities and online retailing expertise that powers Amazon’s technologies and expertise to third party retailers. The company's Amazon Enterprise Solution currently powers the online offerings of world-class brands such as Target Stores, The Bombay Company, National Basketball Association, Bebe Stores and other leading retail sites.

3.2.2 Online Grocery Retailing in Western Europe ---- A Successful Example

Online grocery retailing is one of the largest sectors in British e-retailing. In fact, UK-based Tesco.com is touted as the world’s largest online grocer, and a profitable one at that. Tesco.com fills orders from its stores while chief rival J. Sainsbury uses a combination of warehouse and store fulfillment. Other players in this space include Iceland, Asda, and upstart Ocado which is mounting an attack on the London market. Ocado has funding from UK retailer John Lewis (operator of the Waitrose supermarket chain) and fulfills orders via warehouses.

One reason that online grocery industry may be experiencing more success in the UK than it did in the US is the UK’s greater population density which makes home deliveries more time- and cost-effective.
But from their experience, we may say that Amazon is making a solid move now. Multi-channel retailing under e-commerce is becoming the preferred go-to-market strategy and online grocery without perishable items is a wise and minimizes the initial risk.

3.2.3 Summary

Amazon’s e-business-quality, product-quality, and service-quality all have a significant direct effect on customers’ behavioral intentions to purchase again. Amazon’s new move to sell non-perishable goods at their promised “great” price is a significant step in broadening its customers’ overall product selection. Like what they said, “because we only carry products when we can offer great prices and free shipping, we don’t carry everything (yet!).”

4. Comparison with Earlier Efforts on Online Grocery

In this part, we identify grocers who are either first movers, have a strong financial partner, or have a distinct business model.

- Peapod.com

Peapod is the oldest player in this market and is said to be the market leader. Established in 1989, it delivers to more than 100,000 registered households in eight metropolitan areas. Peapod delivers with their own distinctive green trucks from 7am to 10pm, except Sundays. The company clearly has a first-mover competitive advantage. Peapod used to be rated the number one online grocer because of its 12,500 quality products inventory and its reliable customer service. Another popular feature is the specific packages that customers can choose from.

The great disadvantage of Peapod lies in its poor product information on its websites and the inability to browse the store without registering as a member.

- Webvan.com

Webvan is an Internet retailer providing same-day delivery of groceries. Its major competitive advantages are the large capital base and the extensive use of automation technology, which allows the company to deliver the groceries in a 30 minute time window. Another distributional strength of the company is its exclusive contracts with local producers, which allow the delivery of the freshest meat and fish products. However, Webvan simply could not grow according to its quick schedule while maintaining customer service and efficiency at the same level. It finally ended in bankruptcy.
Streamline.com

Streamline is one of the most interesting players in this market. It delivers a selection of 10,000 groceries in three metropolitan areas (Boston, Chicago, Washington). In addition to the basic groceries, Streamline provides a multitude of services to its customer, including photo-development, dry-cleaning, and UPS-pickup. Streamline also installs a free refrigerator in customers’ houses in order to deliver fresh foods when the customer is not at home. The value added by these extensive services is Streamline's main competitive advantage. Streamline's main disadvantage is that customers might be reluctant to give home access to Streamline employees. Also, Streamline charges a flat service fee of $30 per month for deliveries and only delivers once a week per customer.

Homeruns.com

As noted earlier, Homeruns is different than the other players because it is owned by Hannaford, a major bricks and mortar grocer. Homeruns offers 6000 products and only delivers in the Boston area. The company's major competitive advantage is its use of synergies with its bricks and mortar distribution system. This has allowed Homeruns not only to be fresh and individualized, but also establishes a very cost efficient distribution system. Homeruns has been rated number one by Gomez Associates in the category Bargain Shoppers. Because Hannaford, the mother company, has been acquired by Food Lion, the sixth largest chain in the US, Homeruns is expected to extend its services in other areas of the country. Homeruns main competitive disadvantage is its unappealing Website design and the lack of special features, like pre-specified packages.

Table 1: Selected North American Online Grocers

<table>
<thead>
<tr>
<th>Grocer</th>
<th>Location</th>
<th>Model (changes)</th>
<th>Startup Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery Express</td>
<td>San Francisco</td>
<td>Warehouse</td>
<td>1981</td>
<td>Closed 1986s</td>
</tr>
<tr>
<td>Peapod</td>
<td>Chicago</td>
<td>Other stores to warehouse to own stores</td>
<td>1999</td>
<td>Taken over by Royal Mkt, April 2000</td>
</tr>
<tr>
<td>Streamline</td>
<td>Boston</td>
<td>Warehouse to warehouse, unbranded box</td>
<td>1993</td>
<td>Closed November 2000</td>
</tr>
<tr>
<td>FreshDirect</td>
<td>New York</td>
<td>Warehouse</td>
<td>1999</td>
<td>Bought by Webvan, June 2000</td>
</tr>
<tr>
<td>HomeGrocer</td>
<td>New York</td>
<td>Warehouse</td>
<td>1999</td>
<td>Closed April 2001</td>
</tr>
<tr>
<td>WebHouse Club</td>
<td>East coast</td>
<td>Warehouse</td>
<td>1999</td>
<td>Closed October 2008</td>
</tr>
<tr>
<td>Webvan</td>
<td>San Francisco</td>
<td>Warehouse</td>
<td>1999</td>
<td>Bought Homeringer, closed July 2001</td>
</tr>
<tr>
<td>WebRainOut</td>
<td>San Diego, Los Angeles</td>
<td>Pic from Stater Brothers to warehouse</td>
<td>1999</td>
<td>Bought FixQuick in May 2001; purchased Walgreen’s national distribution November 2001</td>
</tr>
<tr>
<td>GreenWorks</td>
<td>Dallas Zip code</td>
<td>Warehouse</td>
<td>2000</td>
<td>Bought by Safeway (US) in April 2000, in joint venture with Texas (TX)</td>
</tr>
</tbody>
</table>

Table 1 show us some of North America’s online grocery stores. No matter successful or not, they are making early and great efforts.
5. Conclusion

5.1 Is now the time for online groceries?

While the online grocery business will surely grow rapidly with the development of Internet, we believe that it will still be only a minor part of total grocery expenditures into the foreseeable future, especially in the perishable food market.

Unless a radical change in consumer behavior occurs, Brick and Mortar stores do not have to fear online grocery stores to nearly the degree that Brick and Mortar bookstores fear Amazon.com. Besides, more and more Brick and Mortar stores are altering their business models to a more comprehensive one in order to better satisfy customers’ needs.

5.2 Is Amazon diluting its core business (books) by adding so many products?

Amazon was the first Internet bookseller in my mind, and I believe it’s true in most people's mind. I trust them to have any book I'm looking for, although I don't actually believe that they will always have exactly what I want in printers, or jackets, or power tools. But as a fan of Amazon, I would consider trying their different offers.

Branding / focusing on the core business could work very well for Brick and Mortar stores, but this is not always the best choice for e-retailers. The Internet is about researching information, opinions and “prices”. Since books are indistinguishable from one seller to the next, pricing and fast delivery could be all that count.

Yesterday I went to Amazon to find a tech/CD book. It was there "used" for $49.99 + shipping. Then I went to B&N. It was there for $40.99 + shipping. Then I went to GOOGLE some other bookstores, one of which called valorebooks.com and my pricing was $25.73 including shipping. As a consumer, which store would you choose?

This is why Amazon is branching out into so many different areas. It's a matter of survival, not concern over diluting their brand and core business. No one would ever ignore the fact that their core business is books. I believe that good brands often grow on 2 different trees or branches; one is defined by the category and the other by the target audience or lifestyle. We can say that Amazon is defined by the category (books), yet it is also defined by the needs of its target audience (online shopping for other goods). If they can associate the brand with multiple branches, they stand a good chance of evolving the brand and successfully expanding it to fit wider markets.

To me Amazon=books, and I will still go to them for whatever book I need, so in a way the brand / core business "online bookstore" is still working.
6. Recommendation

Amazon has already dabbled in a wide range of products. And I think there is one more that they could consider in the future --- the digital music market.

In my opinion, a large number of customers of Amazon are the group of people who spend a great amount of time on internet every day. They are in demand of the download service. Besides this, from the rapid growth of the MP3 market we could clearly see this demand too.
Bibliography