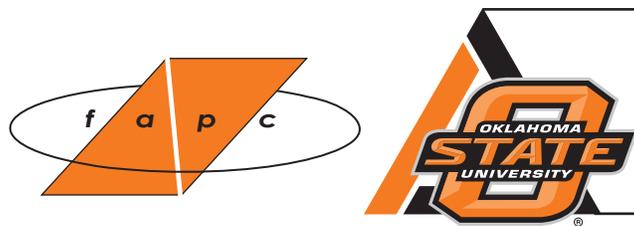


Robert M. Kerr Food & Agricultural Products Center



FOOD TECHNOLOGY FACT SHEET

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Ready, Get Set, Click: Grocery Shopping Online

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Introduction

Today's consumer, becoming more pressed for time than ever, is seeking convenience-meal solutions through various marketing channels. Currently, there is an obsession with crunching minutes into seconds. Convenience is of utmost importance to many consumers. At the same time, grocers have been looking to broaden the channels of trade for their products. They know from consumer surveys that one of the least favorable ways shoppers want to spend their time is in the grocery store. Together, these trends have led to the recent increase of consumer-direct shopping sites on the Web.

In 1998, it was estimated that Internet grocery sales were at a level of \$150 million (Greenberg - "E-commerce goes Local"). As more and more consumers acquire personal computers and become more familiar and comfortable with e-commerce, the level of Internet grocery sales is expected to increase. According to Jupiter Communications Company, annual online sales of grocery items could reach a level as high as \$3.5 billion by the year 2002. Does this signal drastic structural changes in the supermarket industry? Does this mean the end to the local neighborhood grocery store? No, it does not. Although some structural changes may occur, utilizing today's Internet and computing technologies is just another way grocers can capture a share of the consumer's food dollar.

Grocery shopping online is a fairly recent addition to the food marketing system whose future is dependent upon the changing attitudes and preferences of the modern day consumer. There is a vast amount of information available through industry publications to give a wide array of data and expert opinion (see the list of references at the end of this report.)

Is Home Delivery Back?

In the not-so-distant past, many grocers offered home delivery as a service mostly to their customers that were elderly or "shut in." And the menu of items ordered were typically limited to the basics that the shopper knew they needed for their cupboard; a basic list they could read over the phone. This service was more prevalent in metropolitan areas where the larger population base could help make this an affordable service to offer. That is not to say that grocers in small towns did not offer similar services to those in their community that were in need.

With today's Internet technologies, shoppers can browse from their computer the thousands of items in inventory and select a full

cart of items that they can have delivered to their door. Some grocery sites are even implementing sophisticated computer software programs that can suggest accompanying items to add to what they have already placed into their electronic cart. These are termed as collaborative, potato salad, cole slaw and soda online, the filter can scan the database to find other similar combinations of purchases. It could find that there have been 4,000 purchases containing these items and that 3,000 of these purchases have included cobbler or pie. In seconds the search engine can recommend to the shopper to add cobbler or pie to the cart.

Delivery of these items doesn't come in a basic delivery vehicle anymore either. Companies such as Webvan, HomeGroger, Peapod, Streamline, GroceryWorks and UrbanFetch are delivery grocery items using anything from multi-zoned temperature controlled vans to backpacks on bicycling carriers. Large chains such as Albertson's and Kroger have been experimenting with their own delivery systems as well. However, it is worth noting that not all online grocery purchases are delivered direct to the consumer's home; rather, the majority of online sales are picked up personally by consumers at a supermarket of their choice at a designated date and time.

Grocery shopping online goes beyond shopping at any given retailer's site as well. In November 1999, Priceline.com introduced its sister site WebHouse Club. For a \$3 per month membership fee, shoppers can enter the prices they want to pay for specified items and brands. Usually within a minute, WebHouse Club can confirm a qualified brand at the requested price. The club member's credit card is charged and a personalized list can be printed from the member's computer and be taken to any participating merchant. Transaction fees, as well as the difference between the retailer's price and the club member's bid price, are paid by participating manufacturers.

It's Not All Roses

Critics of online grocery shopping argue that the future of Internet grocery sales is limited. Too many shoppers like to pick up, feel and smell what they are about to buy. Yet, trusted brands of dry goods can do quite well in Internet sales, but what about the issue of cost for this service? While we are consumed with the notion of paying for convenience, very few of the many e-commerce sites today offer or are successful at same day delivery.

Also of note, e-commerce sites have done well in the non-foods arenas, such as books and music, not only because shoppers can

shop conveniently at their home computer but also because consumers can buy online at a price lower than what can be found in the local merchant's store. With the average margin for retail groceries only being at 3 percent, it is not likely that e-grocery systems will remain affordable for many consumers. Eventually, added costs for these services will have to be passed onto the online consumer. Considering large amounts of capital that have been invested into e-grocery ventures, it is the opinion of some that there will be only a few large players will survive. The chances of regional chains and smaller mom and pop e-tailers succeeding in the cyberspace arena seem slim.

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