A study of case examples and best in class execution

ONLINE GROCERY RETAILING

In the EU and the US 2011

A highly disruptive business model whose time has now come

OCTOBER 2010

ResearchFARM
RETAIL ANALYSTS

THE KEY QUESTIONS

NESPRESSO

Profitability

How long does it take an online operation to **become profitable**? Is ten years a golden rule? Do players such as Morrisons or Tegut, ramping up online now need to look to the long term or will they, as they are starting rather late with online be able to reap benefits much sooner, as customers are now more used to online grocery and the technology has evolved in leap and bounds?

Who is the most innovative and profitable online grocery player, setting a clear bench-mark for all others? (In our opinion it isn't TESCO or a UK/US player.)

Will grocers missing the online bandwagon be able to grow in future? Or is online grocery just a costly diversion? Can retailers in general **grow in future without being multichannel**?

Techonology

Who leads technological development? What will the impact of m-commerce and apps be on online grocery going forward?

How many clicks should an online site feature from visit to check out?

What is most important for online grocery shoppers? Price? Convenience? Substitutes? Fees? Or time slots?

Opportunities

Is there an opportunity in the long tail? Is there growth in **specialty foods** such as foods targeted at consumers with certain **dietary needs** or high end, **premium products** such as wine?

What exactly are the FMCG players up to (P&G, Alice, Nestle)? Are they are threat to online grocers?

What exactly is Amazon playing at? Who is the target customer in the US?UK and Germany? Is it in essence a B2B or B2C operation?

Logistics

How much does assembling a typical online order cost a player such as Sainsbury's? What is the average basket size of leading US or EU players?

Should retailers go for in store picking or dedicated DCs from which to fulfill their orders?

For a grocer going into the online arena is click and collect a superior and preferable option to partnering with a logistics provider operation such as Ocado? Or is the in house delivery operation preferable to these two options?

While click and collect is currently the fastest growing delivery option, will this also be the case further down the line? How will the future pan out? What is the benefit of going for click and collect (like Wal-Mart tries to do)? Is Chronovillage – the new Auchan initiative a good idea to entice customers to impulse shop more?

OCADO

DISCOVER WHERE TO PLAY, HOW TO WIN

OVERVIEW

Whilst only some of the profiled players are profitable, the real reason why grocers pile into online food is that their key customers, the very shoppers who spend the most - usually the older segments of the population, looking after a family and bigger household, usually from the upper socioeconomic background, the more affluent customers with the biggest basket size - expect online grocery capabilities and home deliveries or click & collect and being able to order on the go from their mobiles, home or work PCs.

Shoppers spending across channels are also the ones who show most loyalty to a given grocer, when they are given the option to shop cross channel by this retailer. Indeed many retailers have found that the multichannel shopper is the most valuable customer to have and that online does add to rather than cannibalize existing sales. For most retailers it is all about keeping these customers and not losing them online to the competition.

That said with **many technological changes** in the pipeline or already available online grocery is set to become a profit driver in its own right – innovative cooling solutions, new storage initiatives, falling delivery costs, cheaper, more efficient fleets and customer acquisition costs falling are just some of the new growth ingredients combining to revolutionize the grocery sector.

Click & collect was viewed by many as a hybrid model that was destined to become obsolete in a few years time, but in fact click & collect is actually the fastest growing fulfillment model at the moment. Why? Because consumers value the convenience of having their order assembled and ready for pick up on their way back from work without having to wait at home at a specific time slot. Click & collect combines convenience and spontaneity. For retailers it eradicates costly home delivery and gets round the problem of keeping to dedicated time slots.

TESTIMONIAL

« The report is comprehensive yet succinct and to the point. After having identified drivers of change in online grocery as well as sizing out the opportunity, it then goes on to give detailed strategic recommendations before delving into competitor analysis, highlighting success factors and addressing outstanding threats. »

Industry source, high level executive, Strategic Insight Department

BENEFITS

THIS REPORT WILL ALLOWS YOU TO...

- **Benchmark** by comparing your KPIs with those of the outstanding players profiled in the report and shows best in class execution.
- **Identify** pitfalls and highlights opportunities with market sizes and forecasts to 2015, to target the growing niche about to become mainstream.
- **Learn** from established players. As key drivers for success and the points of difference in operating are clearly laid out, these can be incorporated into your own model.
- **Understand** the competition and what the future will bring.

WHO SHOULD BUY THIS REPORT ?

- Retailers (strategic insight/market research, buyers, online operation departments)
- Logistics providers
- Property companies
- FMCG players
- Financial services industry
- Telecoms and IT services providers

OUR CLIENTS

ABOUT RESEARCHFARM

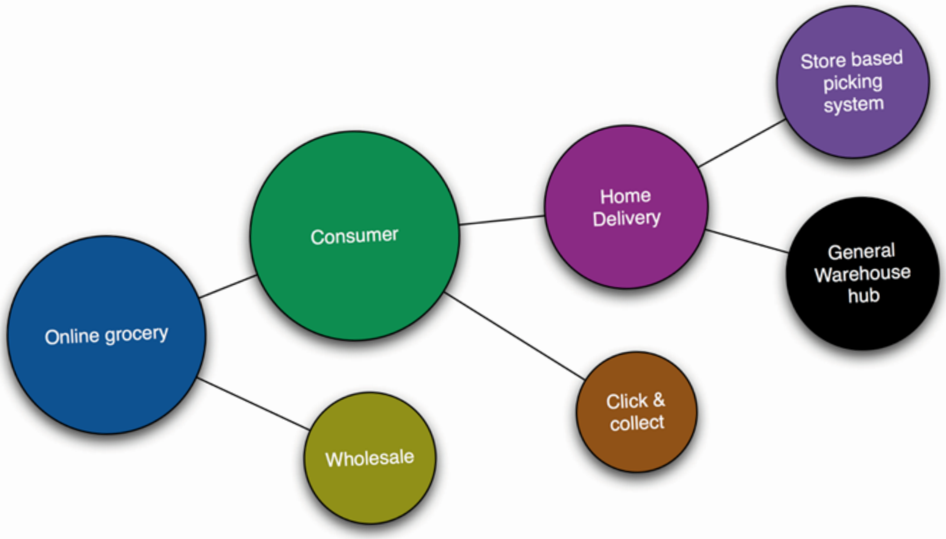
ResearchFarm is an analyst firm specialized in the retail sector. We have worked in this area for several years and have acquired a great deal of invaluable experience and knowledge. Our close relationship network of retail analysts allows us to deliver the best insight to our clients.

ON-THE-GROUND EXPERIENCE

Our experience includes 1000s of store audits. This unique expertise allows us to spot issues but also to share and reapply best practices.

SAMPLE PAGES

Decision matrix



This decision matrix shows where strategic potential lies from the perspective of grocery players. After having identified the growth opportunity of online grocery, the next key decision to take is who to primarily target: end customers or hotels, restaurants and catering, i.e. become truly multichannel or focus on wholesale or a combination of both.

For both options then businesses need to decide whether they want to offer home (or business) delivery services or whether they want to operate a click & collect model, with partnering agreement opportunities in high footfall locations such as traffic hotspots (train stations) and so on. Again a combination of both might make perfect sense.

If the home delivery option is chosen, then another key issue arises whether to fulfill deliveries from a central warehouse location, a hub, or whether to use a store based picking system. For click & collect and wholesale the fulfillment question is of course exactly the same and as vital.

US – FreshDirect

Sales:
US $250m

250,000 customers
6m orders

FreshDirect started off in New York City in 2002, is strongly growing and profitable. In 2009 the company generated more than USD250m in sales. Privately held the company has been profitable since 2008 and increased profitability in 2009.

Popular for its convenience, fresh food and lower prices than many Manhattan supermarkets FreshDirect distributes organics and locally grown food. The company claims to offer 20% lower prices than conventional grocery stores. The retailer also delivers numerous Kosher foods and is a certified sustainable seafood vendor.

FreshDirect is based in a 28,000 sq m building in Long Island City. The online grocer delivers to Manhattan, Brooklyn, Queens, the The Bronx and parts of Nassau County, Westchester County and New Jersey. The company has 2,000 employees, 250,000 customers, and has delivered more than 6m orders.

TABLE OF CONTENTS

TABLE OF CONTENTS

HOW TO ORDER

PRICE

This report is priced **GBP 995** (88 pages, delivered as a PDF file).

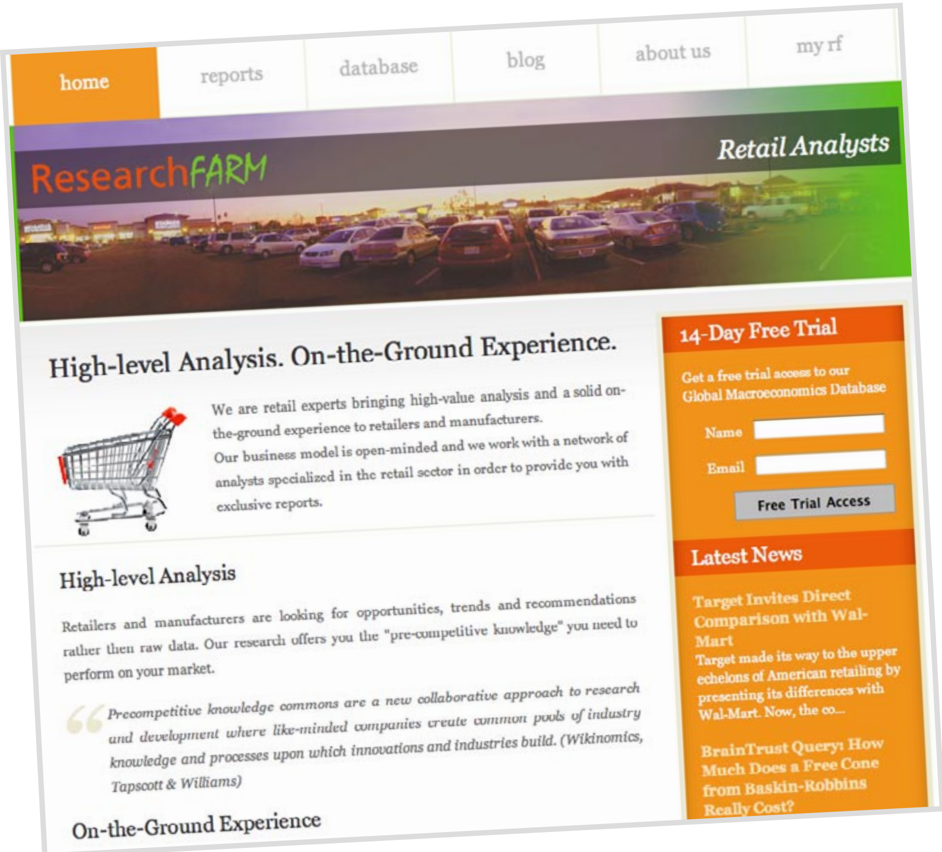
BUY ONLINE

To order your report, please go to www.ResearchFarm.co.uk

<u>Payment modes offered :</u>

- **By bank transfer**
  When checking out, please check ‘invoice’ as payment mode. We then send you an invoice.

- **By credit / debit card**
  Secure payment via Paypal.



CONTACT

ResearchFarm Ltd
Suite 12154 - 2nd Floor
145-157 St. John Street
London EC1V 4PY (UK)
Company No. 6618604

Phone +44 (0)20 3286 9801
Email sales@researchfarm.co.uk
Web **www.researchfarm.co.uk**