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FOOD INDUSTRY MANAGEMENT

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# The Decision to Enter Consumer Direct Initiatives by Supermarket Companies

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# Abstract

In the mid to late 1980s, as computer networks grew and online services were developing, companies including supermarkets started to view home shopping as an exciting, new competitive venture. Now, food retailers are struggling with the possibility of providing a home shopping or consumer direct service for their customers. The decision for a supermarket company with traditional land-based stores to enter the online realm of marketing, however, represents a tremendous commitment.

Through the use of a mail questionnaire, this report documents the factors and conditions that would motivate a supermarket company to engage in an e-commerce initiative. While questions evaluated retailer perceptions through the use of Likert scales, the survey also elicited written comments from respondents. A comparison is made between the responses of those retailers already engaged in consumer direct, and those who are not currently engaged in consumer direct.

A significant finding of this study is that almost all respondents, 92 percent, most of whom were medium to large grocery chains, believed they will eventually involve themselves in consumer direct. The majority of respondents indicated interest in developing a consumer direct service with a third party, whether a consultant or a partner, although the majority of these preferred to fully own their consumer direct service and consult with a third party consultant. Very few were interested in fully developing a consumer direct program on their own.

Motivating factors to entering consumer direct varied somewhat. Companies already providing consumer direct services stated their primary motivating factor for adopting consumer direct was "to develop closer retailer-customer relationships," while non-providers chose "generating incremental traffic/sales" and "to remain the market leader."

When asked the likelihood of incorporating various methods of operation, consumer direct providers may be willing to expand their methods to incorporate alternative ordering methods for customers without access to online ordering. In addition, providers clearly indicated that they would prefer to fill orders from a centralized warehouse facility as opposed to store shelves. Non-providers, however, would be more likely to pick from a retail store, at least initially. A relief to the complexities of routing deliveries could be to develop scheduled deliveries. And according to survey results, scheduled deliveries may appeal more to companies currently providing consumer direct than those not currently providing consumer direct.

Clearly most respondents felt that consumer direct had the potential to effect relations. Yet when asked how, they were by no means certain which if any suggested changes may appear. The most strongly felt attitudes were that "more information sharing regarding product movement" would be likely to occur as well as "consumer direct will create an opportunity for expansion of new products." This uncertainty provides an open field for manufacturers to define relationships which will assist the development of the consumer direct channel including developing new methods of new product introductions, online product displays, ads and promotions, meal solution development, and more. In return, consumer direct providers will have to be willing to provide product movement information to manufacturers to help them develop these strategies and trade relations.

# Acknowledgements

We gratefully acknowledge the contribution of Nestlé who provided funding and support for the development of this project. We also thank the executives who participated in the project by filling out many survey questions. Their willingness to share their knowledge and expertise has fostered this ongoing research in consumer direct.

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# Section 1: Introduction and Review

## The Study

In today's food industry, many U.S. retailers and wholesalers are grappling with the question of whether to enter the business of consumer direct food retailing. Consumer direct, or home shopping, is a distribution channel for food. Businesses receive consumers' grocery orders remotely, usually via computer, and deliver the orders to the consumers' homes or other convenient consumer pick-up locations. While several forces in the industry appear to favor implementation of such an enterprise, many companies have implemented it and have yet to achieve any profits.

The decision of a supermarket company with traditional, land-based stores to enter the online realm of marketing represents a tremendous commitment and revision of established business plans. It is one fraught with risk and is not to be made casually. Therefore, this project was conceived and conducted in order to provide additional information to companies interested in providing consumer direct services. This information will aid retailers and wholesalers in their decision to enter a consumer direct food distribution venture. Specifically, this study will provide an overview of the socio-economic forces driving the revival of consumer direct, a status report of the industry today, and a survey of executive opinions on the requirements for the success of a consumer direct venture.

To achieve this last goal, the study employed a survey of 24 retailers and grocery wholesalers. Specifically, researchers examined executives' attitudes about consumer direct, including:

- factors that motivate participation in consumer direct programs,
- economic and demographic conditions for successful consumer direct programs,
- development and implementation, and
- potential impact of consumer direct programs on vendor-retailer relationships.

It should be noted that for the purposes of this study, researchers used Andersen Consulting's definition of consumer direct:

> "*Consumer direct is a full service channel that helps consumers simplify their lives by providing groceries and related products without going to a land-based store, usually aided by a personal computer or other automated ordering system.*
>
> —Andersen Consulting (1998)

## Previous Work on Consumer Direct

The turn-of-the-century grocer, knowing customers personally, frequently provided home delivery for his customers. Over time, with the beginnings of the self-service supermarket and changes in competition, urbanization, and transportation, the role of home delivery as part of a successful business strategy was greatly diminished. For the most part, this personal touch persisted often only with local, independent supermarkets as a special service for elderly or shut-in consumers. Thus, home shopping was not viewed as a profit center but as a service for special customers (Linneman, *et al*., 1995). In the mid- to late-80s, as computer networks and online services were developing, companies—entrepreneurs as well as established supermarkets—started to view home grocery shopping as an exciting, new competitive venture, and many retailers became interested in experimenting with it as a potentially new profit center. However, a decade and a half later, home shopping, or consumer direct, still has not generated the number of customers or profits which many believe are its potential. This belief is only accentuated by the abundance of dialogue and research regarding consumer direct.

Park, *et al*. (1996) surveyed retailers about their current operational methods for home shopping. The researchers pointed out many inherent problems with the then current methods but noted the potential benefits of additional computerization of online ordering. They also conducted consumer focus groups in market areas which contained home shopping services. Consumers using home shopping services were very happy with having the service available, although they did express problems with operations, including delivery times, ordering, and receiving the wrong items. Of those consumers who did not use home shopping, some had never heard of or tried it, some who had, quit after being dissatisfied with the service. However, emerging market trends and consumer interest lead researchers to conclude that home shopping appeared to be an idea whose time had come.

Andersen Consulting researched consumer direct services as leader of a consortium of 17 grocery retailers, manufacturers and wholesalers interested in the consumer direct model. This consortium, Consumer Direct Cooperative or CDC, evaluated consumer interest in consumer direct. In 1998, after 2 years of research, they identified 6 consumer groups segmented by who uses consumer direct in order to examine the consumer's decision to participate. The segments, constructed according to consumer attitudes, suggest limitations in trying to anticipate consumer demand by solely using demographics. The segments included:

- shopping avoiders–consumers who dislike shopping,
- necessity users–consumers who, while they might like shopping, are limited in their ability to go to the store for many reasons,
- new technologists–consumers who are typically young and very comfortable with technology,
- time starved–consumers insensitive to price who will pay extra to free up time in their schedules,
- responsibles–consumers with time on their hands who feel shopping is one of their jobs, and
- traditional shoppers–older consumers who both avoid technology and genuinely enjoy shopping in a store.

The CDC reached the conclusion that consumer direct has the potential to generate $85 billion in sales within 10 years or approximately 8-10 percent of the grocery market share (Andersen Consulting, 1998). They also concluded that supermarket retailers will have primarily 3 options to compete against consumer direct:

1) join the battle by launching their own consumer direct service,
2) change the format of their stores to reflect what consumers want, or
3) keep doing the same thing but compete primarily on cost.

Linneman and Kirschling (1999) surveyed over 100 supermarket operators about their attitudes towards home shopping programs. About 80 percent of those surveyed said home shopping would account for less than 5 percent of sales in their market area by the year 2007, a far cry from the 8-10 percent predicted by Andersen Consulting. Retailers' attitudes about current home shopping appeared ambiguous. While larger supermarket operations were largely dissatisfied with current programs, they were optimistic about future performance. Compared with results from a similar 1997 study, 60 percent of larger operations in 1999 planned to expand their home shopping programs as opposed to 40 percent in 1997. Linneman and Kirschling hypothesized that one reason for the dissatisfaction on the part of the larger retailers was they expected their consumer direct program to be profitable, which to date has not happened.

Many in the industry have discussed reasons why consumer direct has not been able to become profitable. Most agree that operationally the logistics of consumer direct are expensive and challenging. However, many appear to disagree about the consumer demand for the service. Linneman and Kirschling (1997) reported that two-thirds of consumers would rather be doing something else besides shopping for groceries. Despite this feeling, consumers have not embraced current consumer direct programs in overwhelming numbers. Linneman and Kierschling believe, however, that the problem is that retailers are not promoting the service adequately rather than unwillingness on the part of consumers.

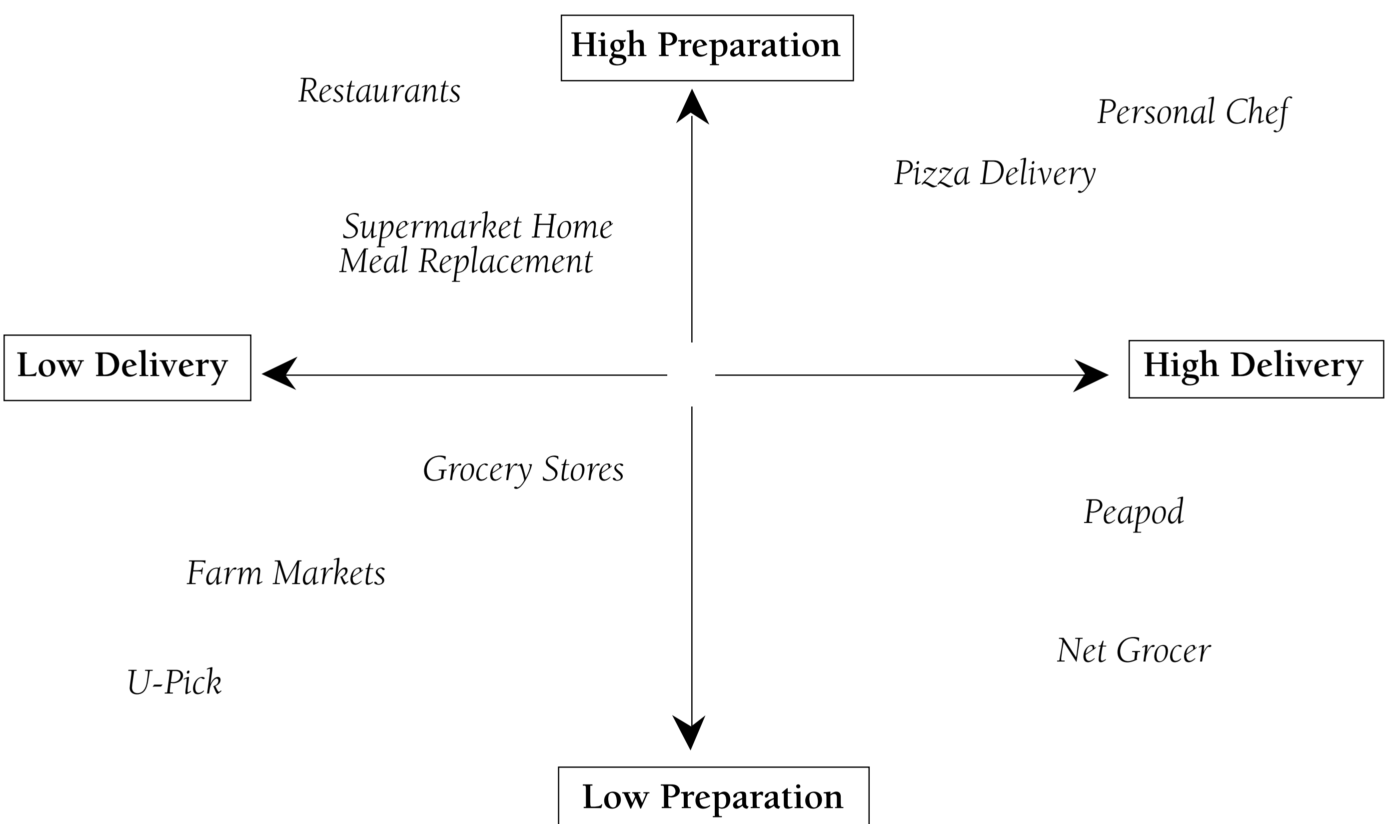
Conversely, a recent study by PricewaterhouseCoopers conducted among Internet users found that only 18 percent of primary household shoppers were interested in home delivery of any kind (Bubny, 2000). And just 11 percent said they would be willing to pay more for products or services that save them time. As a matter of fact, 21 percent of Internet users said that nothing could make them more likely to buy groceries online. In a study conducted by the NPD Group Inc. for *Supermarket News*, consumers indicated the features that would make the supermarket shopping experience better. Less than 10 percent of respondents said online shopping would make it much or somewhat better. Home delivery for no extra charge received a few more respondent votes garnering between 20-22 percent, but when a charge is added, respondent interest dropped to approximately 15 percent (*Supermarket News*, 2000).

Morganosky and Cude (1999) examined the distribution of new, intermediate, and experienced consumer direct users between 1998 and 1999 in order to assess the consumer demand for an online home shopping service operated by a land-based supermarket retailer. In 1998, the majority of users were new (51%) having used the service for less than 6 months. Thirty-five percent were intermediate users (1-6 months), and only 14 percent were experienced users (more than 6 months). However, in 1999 the experienced users were the largest group with 43 percent, while 29 percent were new and 28 percent were intermediate. While this study did not measure consumer demand potential directly, it suggests that consumers are looking for ways to save time, and once experienced with consumer direct may be satisfied enough to stay with the service.

To many executives in the food industry consumer demand for convenience includes one-stop-shopping store formats, altered store layouts that provide quick-stop kiosks stocking food staples, and home meal replacement products. Retailers also realize that convenience to many shoppers moves beyond preparation to include ease of procurement. Consumers are interested in an easy and stress-free shopping experience which includes store layout, ease of checkout, close parking and travel time, etc (Park, 1998).

Park (2000) suggests that the industry should look at its strategic offerings in terms of providing solutions to consumers' desires for these conveniences. To help companies understand how their company may be competitively placed in regards to providing consumer conveniences, Park suggests the examination of two primary functions of convenience, namely preparation and delivery.

**Figure 1.1 Retail Expressions of Convenience in the Food Industry**




Source: Park, 2000

One may examine the retail landscape of convenience on a two dimensional map, as shown in Figure 1.1. Different competitors in the food system are positioned by their ability to provide ease of food preparation and delivery to consumers. The bottom left quadrant represents companies which, in general, provide food with relatively little preparation and make no attempt at placing their products at the door of their customers. For example, individual farm stands require consumers to travel to each specialized stand, collecting enough raw components for a meal. On the other hand supermarkets have gathered together numerous products within convenient driving distance to most consumers. The food is more prepared and processed and supermarkets offer a variety of conveniently packaged food items. They therefore provide additional conveniences in terms of preparation and delivery than do farm stands. Other competitors in the food system, such as restaurants, provide fully prepared meals to consumers and may provide home delivery in addition.

Consumer direct is meant to provide even greater convenience by eliminating travel, parking and checkout lines and providing the right food selection with delivery directly to the consumer's house. Consumer direct companies, in general, are positioned in the lower right quadrant, providing delivery to consumers' doors, but delivering the same products as found within supermarkets.

Thus, companies interested in providing a consumer direct service, must first recognize that providing convenience to consumers is the key. Further, this may involve more than the simple delivery of groceries. Consumer direct satisfies only part of the convenience issues surrounding grocery shopping. It might not satisfy many other procurement and product issues that coalesce to motivate shopper behavior.

# Forces Driving the Growth of Consumer Direct

From these previous works, it is evident that three major forces have evolved which, combined, make consumer direct a much more viable channel of trade than ever before. First, demographic changes have led to still more increases in the demand for convenience, while, secondly, advances in technology have led to increases in home computer penetration and cyber-shopping. Thirdly, competition in the grocery industry has become even more intense as retailers outside of the traditional supermarket industry encroach on sales by adding more food offerings to their own store formats. This increase in competition has lead food retailers to look for alternative strategies to gain consumer spending.

## Convenience Drivers

The demand and ability to pay for convenience has never been greater than today. In 1998 disposable personal income per capita rose to $19,834, a real increase over the 1990 level of $17,928 (U.S. Census Bureau, 2000). Household income has also increased in real terms from $52,377 in 1990 to $56,902 in 1997 (U.S. Census Bureau, 1999). These increases in real income have enabled time-stressed households to continue investing in convenient, time saving devices, foods, and services. Since most consumer direct retailers have not found a way to shop for and deliver food directly to consumers at a price the same as or cheaper than going to the grocery store, this increased ability to pay for convenience may yet prove to be important.

Women remain the primary food shoppers and meal preparers (FMI, 1997). Couple this with the fact that the majority (59.8%) of women 16 years and older are also employed outside of the home (U.S. Census Bureau, 2000) means households continue to be time-stressed as they struggle to fit in work, household chores, and family time into their day. The percent of single-parent households has also increased from 8 percent in 1990 to 10 percent in 1998, and these consumers face extreme time pressures associated with caring for a family while trying to work and maintain a household without spouse support.

## Technological Drivers

Dramatic changes in technology have greatly impacted the way that the food industry has responded to increased demands for convenience. In most industries catalog shopping by paper catalog and phone service has been awkward and time consuming for both consumers and providers. Even early computer ordering systems were time consuming with slow baud rates and sparse information with little room for visual or graphic information. Therefore, in many cases the "convenience" of ordering from the home was mitigated by the "inconvenience" of the process of ordering. But continued development of computer technology and consumer access to this technology have allowed consumer direct grocery companies to provide functional online ordering systems with bar scanners and listings of products, prices, and services that have never been available through other ordering systems.

In speaking of increased access, it is not surprising to find that the proportion of households with a home computer is increasing (Figure 1.2). In just 4 years, from 1995 to 1999, the percentage of homes with computers increased from 31 to 50 percent. Of course not all homes with computers are online, however, the percentage of online homes increased from only 7 percent of homes in 1995 to one out of every three U.S. homes in 1999 (Briones, 1999).

Personal computers and the Internet are not the only technological advances with the potential to impact development of consumer direct. Voice recognition and web-enabled cell phones can be used in-home, on the road, on vacation, or anywhere. Imagine speaking to a built-in home computer system and ordering groceries without ever having to flip a switch or hit a button. Wireless systems are already being used extensively in warehouses to track product, while satellite tracking has been implemented in transportation and trucking industries. Future uses of these technologies may have a large impact not only on consumer direct ordering systems but also on order picking, and delivery. What these impacts will be and how they will influence companies' decisions to enter into consumer direct are yet to be seen.

In general, shopping over the Internet is gaining acceptance. A report by Ernst and Young (2000) states that cyber shoppers are now evenly distributed between men and women (Table 1.1). This is a change from 1995, just 5 years ago, when more professional men than women were making online purchases (Selling National Accounts Monthly, 1995). Further, cyber shoppers do not appear to be limited to the younger crowd. Fifty-seven percent are aged 30-49—an age group comprising the majority of American households and above average household spending on goods and services (Russell, 1999). Admittedly, relatively fewer U.S. consumers age 60 and over shop over the Internet compared to their younger counterparts, with only 6 percent of cyber shoppers being 60 or over (Figure 1.3).

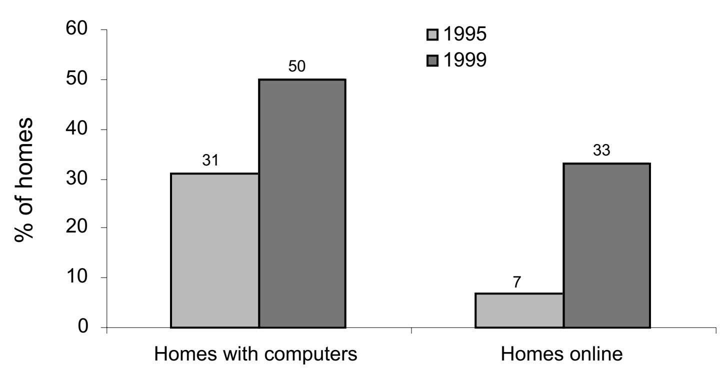
Cyber shopping is also not limited to the wealthy. As a matter of fact, the income group with the largest percentage of cyber shoppers (34 percent of cyber shoppers) has an annual household income of $30,000-$49,000 (Table 1.1), not an income group considered to be extremely well-to-do. Only 18 percent of Internet shoppers, however, have a household income of under $30,000, while 23 percent have $50,000-$69,000 and 25 percent have $70,000 and over.

## Competitive Drivers

Changes in consumers and technology are not the only factors at work furthering the development of consumer direct. One should also note that the supermarket industry has grown increasingly competitive during the 1990s. Much of the competition is coming from different retail formats such as warehouse clubs, supercenters, and superdrugs which feature food and encroach on the turf of traditional supermarkets (Kaufman, 1998). Interest in consumer direct by supermarkets has been sustained as they continue to search for new strategies to compete effectively against these new formats.

Supercenters and the other new, retail food formats are not the only competitors to the traditional supermarket. The rapid increase in consumer cyber shopping and rising stock prices for Internet companies has attracted a significant number of consumer direct start-up companies dedicated solely to online grocery shopping. Generally, these

**Figure 1.2 Percent of U.S. Homes With Computers and Online Access**




Source: Briones, 1999

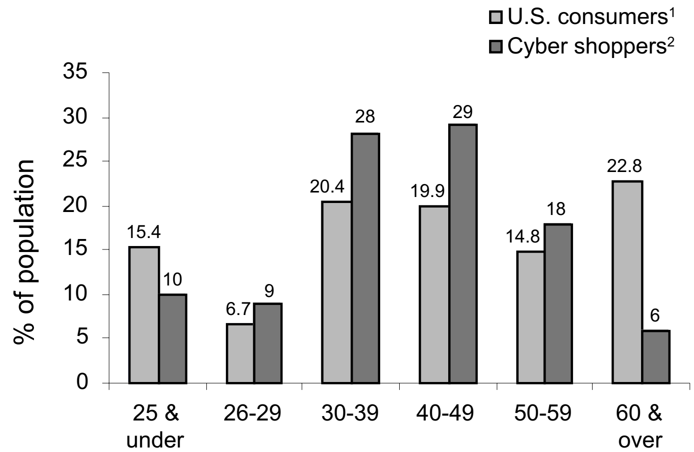
**Table 1.1 U.S. Consumer Profiles**

| | % of U.S. consumers[1] | % of cyber shoppers[2] |
|---|---|---|
| Gender | 2000 est. | |
| male | 48.9 | 50 |
| female | 51.1 | 50 |
| Age | 2000 est. | |
| 25 & under | 15.4 | 10 |
| 26-29 | 6.7 | 9 |
| 30-39 | 20.4 | 28 |
| 40-49 | 19.9 | 29 |
| 50-59 | 14.8 | 18 |
| 60 & over | 22.8 | 6 |
| Household income | 1998 | |
| under $30,000 | 38.7 | 18 |
| $30K-$49K | 22.6 | 34 |
| $50K-$69K | 14.9 | 23 |
| $70K or over | 23.8 | 25 |

[1] Estimated from U.S. Census Bureau, (1999 and 2000). Age category reflects distribution of U.S. consumers 18 or over only.

[2] Ernst & Young, 2000.

**Figure 1.3 U.S. Consumer Age Profiles**




[1] Estimated from U.S. Census Bureau, (1999 and 2000). Age category reflects distribution of U.S. consumers 18 or over only.

[2] Ernst & Young, 2000.

new dot-coms do not have food distribution and food marketing experience, but they do have computer and programming expertise which are vital to developing online ordering and distribution systems. Probably the best known examples of these companies are Webvan, NetGrocer, Peapod, and Streamline.

These new entries into the grocery industry have spurred several traditional supermarket retailers to add or expand their own efforts in online grocery shopping. Already stressed by competitive formats entering the traditional food industry, supermarkets must make a strategic decision about whether to provide consumer direct programs to their customers.

# Consumer Direct Today

Consumer direct providers today include food retailers, grocery wholesalers, and "pure" dot-com grocery providers. And their methods for providing consumer direct services are almost as varied as the number of providers. Established retailers such as Schnucks, in the St. Louis area, and Albertsons, which has trial operations in Fort Worth and Bellevue, have established consumer direct programs which are solely owned and operated by them, while some grocery wholesalers provide start-up assistance for their independent supermarket operators.

However much of the aggressive expansion and initiative in consumer direct has come from the dot-com providers, primarily Webvan. Webvan, recognized as one of the best financed and largest of the dot-com providers, is also one of the most aggressive players in this new food marketing channel. The company has made the commitment to build and operate their own centralized warehouses from which to pick and deliver product. In contrast to this, Peapod, the first consumer direct company still to be in existence, starts most of its operations in various market areas by aligning with a local retailer. Using this arrangement, Peapod primarily picks grocery orders from retail shelves and delivers directly from the store to the customer's home. NetGrocer employs yet one more model. It picks from a single warehouse and only offers a limited assortment of non-perishables products which it then delivers via Federal Express in 1-4 business days.

Streamline and ShopLink, both originally located in the Boston area, operate slightly different delivery methods. Rather than allowing the customer to select a delivery window (e.g. Peapod customers receive their deliveries within a pre-arranged 90 minute block), they operate pre-scheduled delivery routes. Delivery is provided even if the customer is not at home to receive their order.

Much of the pressure on traditional food retailers can be attributed to the dot-com providers, many of whom are expanding their territories into prime, metropolitan market areas around the country. These strategic moves are made in an attempt to be the first or primary provider of consumer direct in untapped markets. In addition, mergers among pure dot-com providers are starting to occur as they attempt to grow customer base and market share. For example Webvan, based out of San Francisco, recently announced its purchase of HomeGrocer, based in the Seattle area. Since September 2000 Webvan has had a operations in 13 cities.

Moves such as this have increased the rate of competition in the online grocery business spurring retailers to reevaluate their position on whether or not to provide consumer direct to their customers. And if they do opt to provide consumer direct, how could they best achieve this?

Once a retail company chooses to provide consumer direct, possible methods of entry into consumer direct appear to fall within three arrangements:

1) provide consumer direct in-house with no other investor,
2) provide consumer direct with assistance from consultants or experts in logistics and/or programming, or
3) form a joint venture or alliance.

Although a number of retailers have already established trial operations of their own, in recent months few retailers have initiated consumer direct operations solely on their own. Indeeed, use of the second and third arrangements appear to be escalating. In mid-April 2000, Ahold USA agreed to purchased majority stock in Peapod (Springer, 2000) and installed an Ahold executive as CEO of the company. In another move, retailer Safeway and dot-commer GroceryWorks signed an agreement in June 2000 to create a strategic alliance between the two companies ("Safeway and GroceryWorks Sign Definitive Agreement," 2000).

When making the decision to enter into a consumer direct initiative, a retail food company has numerous concerns. In particular, they must consider why they want to provide consumer direct, what it would take to become a successful provider of consumer direct, and how this decision might impact operations. To evaluate these concerns, we elicited opinions from industry executives through the use of a mail questionnaire. ■

# Section 2: Methodology

A WRITTEN SURVEY WAS DEVELOPED to identify and document food executives' attitudes about the factors necessary for a successful consumer direct program. The survey gathered executive attitudes about the following themes:

- factors which motivate participation in consumer direct programs,
- economic and demographic conditions to successful consumer direct programs,
- development and implementation, and
- potential impact of consumer direct programs on vendor-retailer relationships.

The survey was personally delivered by Nestlé sales representatives, as cooperators in the research, to companies in the grocery retail and wholesale industry. Twenty-four usable surveys were returned. Responses were separated into categories: consumer direct providers, and consumer direct non-providers. The respondents' representation of the industry is discussed below. Questions using numerical or interval scales were analyzed using the simple difference between two means. Nominal responses using frequencies were analyzed using the Chi-squared test. The significance level used was p=0.05. For additional information, Appendix A contains tables presenting means and standard deviations.

## Respondent Profile

The large majority of respondents, 74 percent, had over $1.5 billion in annual sales. Twenty-two percent of respondents had $300 million-$1.5 billion in annual sales, and 4 percent were companies with less than $300 million in annual sales.

Respondents were evenly split between retailers and wholesalers. The number of stores owned by retailers ranged from 90-980 stores while wholesalers conducted business with a range of 140-35,000 stores. In the average store, including both retailers and wholesalers, 11,842 customer transactions per week were conducted.

The Chain Store Guide (1998) indicates that 92.8 percent of U.S. supermarkets have less than $300 million in annual sales, 4.6 percent $300 million-$1.5 billion and only 2.6 percent have greater than $1.5 billion. From the information above, it is evident that the average respondent to this survey is much larger than the average industry retailer or wholesaler. In spite of the large discrepancy between respondent profile and U.S. industry profile, all respondents were considered relatively homogeneous in terms of size. While survey results do not include many representing the small firms (annual sales of less than $300 million) the results could be said to be representative of medium to large grocery retailers and wholesalers.

Respondents were asked if they currently had a consumer direct (CD) program defined as the following:

> "*Consumer direct is a full service channel that helps consumers simplify their lives by providing groceries and related products without going to a land-based store, usually aided by a personal computer or other automated ordering system.*
>
> – Andersen Consulting (1998)

A significant number of respondents, 41.7 percent, indicated that they have implemented a consumer direct program. Although over half of the respondents, 58.3 percent, said they did not currently offer consumer direct, most of these companies intended to become involved. When asked if they plan to add consumer direct, 85.7 percent of those without it currently said, yes, they intend to offer consumer direct services within the next 3 years.

## Profile of Consumer Direct Providers

The profile of the companies offering consumer direct differed in some key aspects from those not offering consumer direct. Over two-thirds of the companies engaged in consumer direct were retailers (70%) while only 30 percent were wholesalers. Only 36 percent of the non-providers were retailers. It may be possible that retailers, having consumers as customers and stores to support trial projects in consumer direct, have been able to implement and test consumer direct on a trial basis. Wholesalers, being one more step removed from the consumer, may not have had the consumer information base to effectively implement consumer direct. They may also have trouble developing warehouse space for fulfilling individual orders needed for consumer direct. In spite of these constraints, some wholesalers do provide consumer direct services and some support their independent retail customers with web systems developed for online ordering.

The groups of respondents differed significantly along other characteristics including location and store traffic. Those respondents involved in consumer direct had a greater proportion of stores located in urban areas and they had stores with a greater number of customer transactions (Table 2.1). These two may be correlated as urban stores typically have greater traffic than stores in rural and suburban areas. There was no significant difference by company size.

The greater propensity of companies to be involved in more densely populated areas appears logical. Areas of higher population densities will have more of the companies' target consumers, in many cases upper income, dual worker households with children. They will also have greater stop densities thereby making deliveries more efficient (Dell, 2000). Industry participants believe that consumer direct may only be viable in more densely populated market areas conducive to the benefits that consumer direct offers such as eliminating travel to the grocery store, parking hassles, and carrying bags up or down stairs or in from the car, and where costs for conducting consumer direct, including delivery costs, are minimized.

Because of the different composition between providers and non-providers (one being predominantly retailers and the other wholesalers) some of the differences in responses from the groups may be attributed to managerial or operational differences between retailers and wholesalers. ■

**Table 2.1 Respondent Profiles of Consumer Direct Providers Vs Non-Providers**

| | Consumer direct providers | Non-Providers of consumer direct |
|---|---|---|
| Retailers | 70.0% | 35.7% |
| Store location | | |
| urban | 28.3% | 14.9% |
| suburban | 43.9% | 43.5% |
| rural | 27.8% | 41.6% |
| Transactions per store | 14,615 | 9,377 |

# Section 3: Results

RESPONDENTS WERE ASKED THEIR ATTITUDES concerning major factors affecting the development of consumer direct programs in the U.S. Of specific interest were determining what factors motivate a company to participate in consumer direct. Also, what are companies' opinions about the development and implementation of consumer direct programs. Lastly, what could be the impacts on inter-industry trade relations by entering into the consumer direct market channel.

## Motivational Factors to Participate in Consumer Direct

### Motivations for Adoption

When asked to indicate "the relative importance of each of the following reasons in your decision to adopt a consumer direct program," companies felt the most important motivating factor was to generate incremental traffic/sales (Figure 3.1). On a scale of 1 to 5 where 1 = "unimportant," 3 = "average importance," and 5 = "very important," generating incremental traffic/sales averaged 4.6 in importance.

The next two factors in order of importance were "remain the market leader" with a score of 4.4 and "to develop closer retailer-customer relationships" with a score of 4.3. Respondents reported "market area traffic/roadways/parking" was the least motivating factor with a score of 2.8, just below "average importance."

One of the motivating factors generated noticeably different responses between providers and non-providers of consumer direct. Companies currently providing consumer direct scored the importance of using consumer direct programs to develop closer retailer-customer relationships significantly higher than those not providing consumer direct. Those with consumer direct indicated that developing closer relationships was 4.8 on a scale of 5.0. The response from companies without consumer direct was only 3.9.

A similar question asked of home shopping providers 5 years ago yielded similar results. Park, *et al*. (1996) reported responses to the following 4 factors:

- enhancing store image,
- increasing customer loyalty,
- increasing store sales,
- being financially profitable.

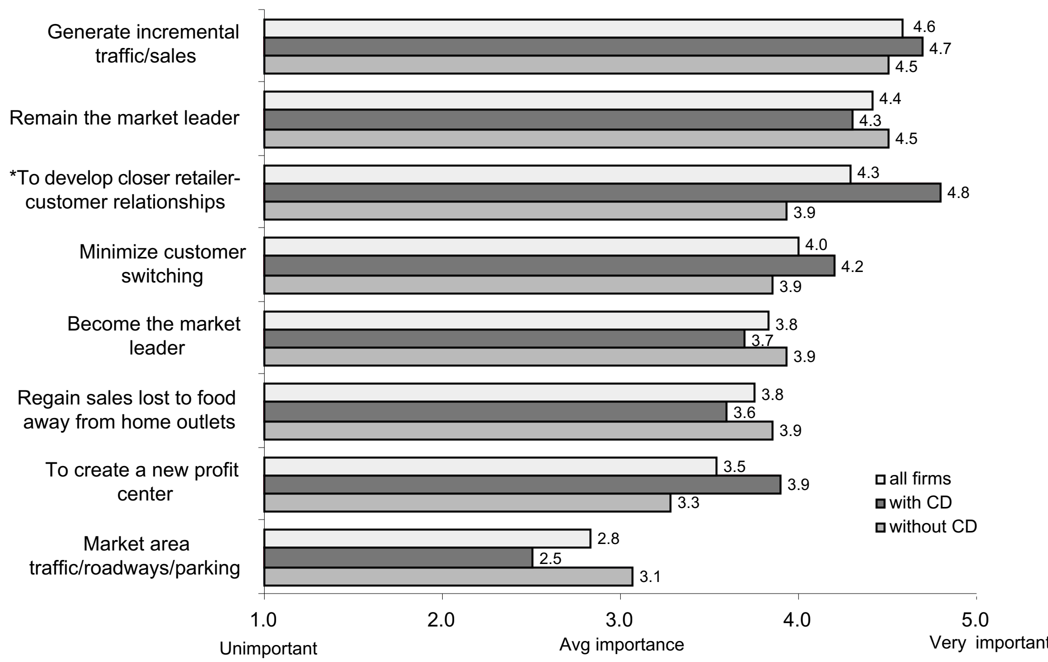
Home shopping retailers at that time felt increasing customer loyalty and enhancing store image were the most important factors contributing to the firm. The least important was being financially profitable.

The leading 2 factors are apparently still considered quite important. Current consumer direct providers responded that "developing closer retailer-customer relationships" and "generating incremental traffic/sales" were their most important motivating factors, and these correspond very closely to those from the 1996 study. In addition, instituting consumer direct for the purpose of creating additional profits did not rank highly in either study.

### Market Characteristics

In the mid-90s when interest in home shopping was starting to escalate, market density was considered an important issue to those offering the service. Food Emporium's

Figure 3.1 Importance of Motivating Factors to Adoption of a Consumer Direct Program




*Significant difference between consumer direct providers and non-providers

Michael Rourke stated, "Manhattan was the obvious place [to introduce the program] because of the density of population and the difficulty of getting groceries" home from the store. He also indicated that future roll outs would likely be in urban areas (O'Leary, 1995). In addition, P&C opened home shopping services choosing Syracuse, NY in part because of its population density (O'Leary, 1995).

Large markets were also considered necessary because they housed the volume of the consumer niche targeted by home shopping companies. This niche included "two-income, computer literate couple, families with more than two children, and senior citizens" (Koprowski, 1995) and "dual-income professionals and families, especially those with children; people who are physically challenged; and the mature market" (Food Marketing Institute, 1995).

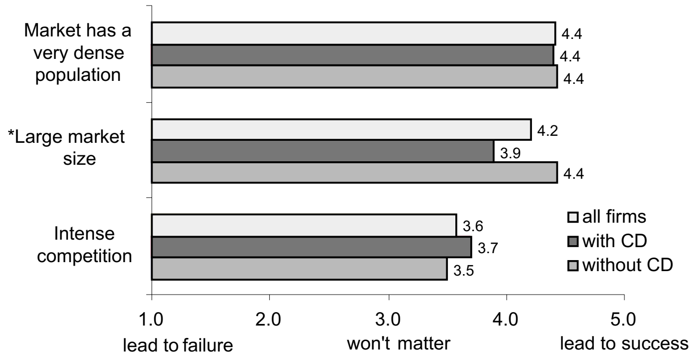
To understand companies' current opinions about important market characteristics, survey respondents were asked to indicate how certain economic and demographic conditions would affect the success of a consumer direct program. On a scale of 1-5 where 1 = "will lead to failure," 3 = "won't matter," and 5 = "will lead to success," those conditions focusing on market area, "dense market population," "large market size," and "intense competition," all scored greater than 3 (Figure 3.2). Therefore, these conditions serve as positive contributors. Of these three conditions, respondents believed that population density and market size were more apt to lead to successful programs with scores of 4.5 and 4.3 respectively. Intense competition scored 3.6. Non-providers scored "large market size" significantly higher than did consumer direct providers, 4.4 versus 3.9.

Current results indicate that these factors are still considered important for a consumer direct service. Even after experience with consumer direct, providers are still of the opinion that population density and market size are important to successful consumer direct.

## Socio-Economic Factors

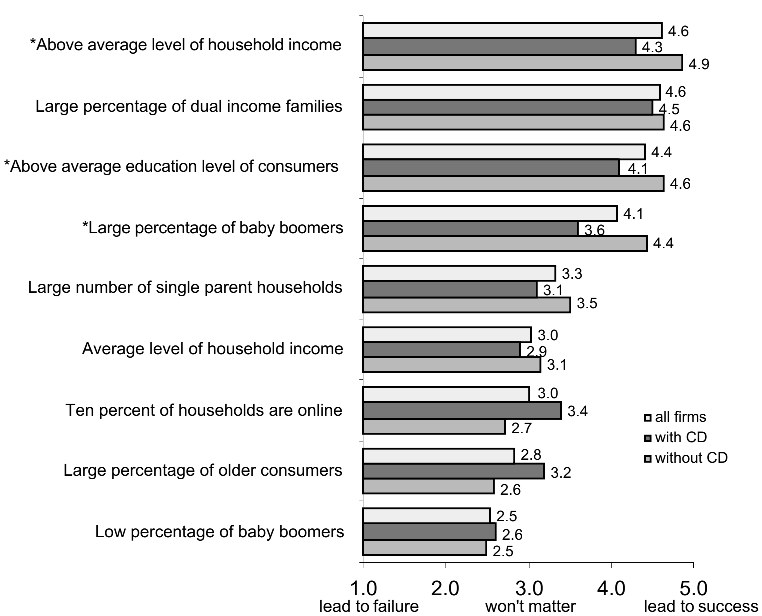
Of the demographic conditions presented to respondents, income level was rated to have the most impact on the success of a consumer direct program. For all firms, "above average level of household income" scored 4.7 and "large percentage of dual income families" scored 4.6 (Figure 3.3). Dual income families, besides increasing household income

**Figure 3.2 Impact of Market Area Conditions on Success of Consumer Direct**




*Significant difference between consumer direct providers and non-providers

**Figure 3.3 Impact of Economic and Demographic Conditions On Success of Consumer Direct**




*Significant difference between consumer direct providers and non-providers

over a single earner, also have less disposable time for shopping and meal preparation. Other important factors which respondents believe would aid consumer direct programs were above average education level (4.4), and large percentage of baby boomers (4.1).

The remainder of the market demographic forces surveyed did not score as well and tended to cluster around 3.0, "won't matter." These included:

| | |
|---|---|
| • large number of singe parent households | 3.3 |
| • average level of household income | 3.0 |
| • ten percent of households are online | 2.9 |
| • large percentage of older consumers | 2.8 |
| • low percentage of baby boomers | 2.5 |

Non-providers of consumer direct appeared to differ slightly by being more extreme in their opinions about the influence of demographic factors on the success of consumer direct. They scored demographic factors leading to success higher than did current consumer direct providers and at the same time scored demographic factors which "won't matter" lower than did consumer direct providers.

In particular, non-providers responded significantly stronger to the following three factors than did providers:

- above average level of household income
- large percentage of baby boomers
- above average education level of consumers

Non-providers felt these factors were significantly more important to success than did current providers. In fact, these characteristics correspond well with the current cyber shopper, a large percentage of whom have above average household income and are of boomer age (see Table 1.1). It could be that current providers are more cynical about the importance attached to these economic and demographic conditions. They may have found that a number of additional factors, such as operations methods and logistics, promotions, and advertising, contribute significantly to the success of consumer direct and may have rated the impact of economic and demographic conditions somewhat less crucial to success.

# Development and Implementation of Consumer Direct

## Consumer Direct Development Model

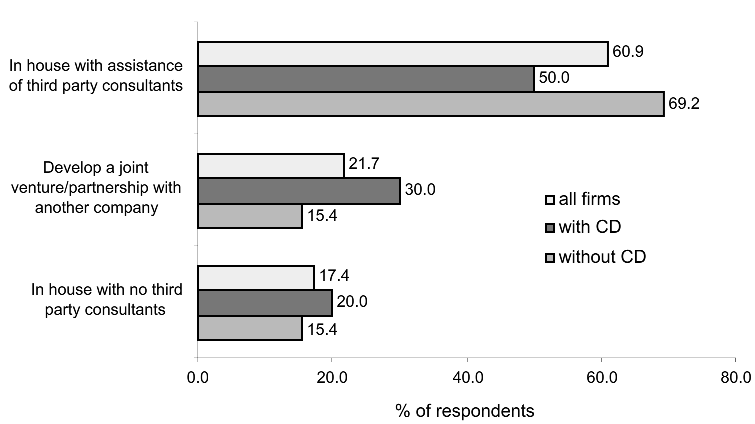
Companies interested in adopting consumer direct will be moving into a channel where there is little shared experience and not much publicly conducted research. The lack of public information, the newness of this trade channel, and the lack of expertise in the food industry with specialized technology and logistics may encourage companies to seek this expertise outside of traditional grocery channels. One option may be to seek assistance from consultants, another may be to form a joint venture or partnership with another company which can provide the expertise or financial backing needed.

Executives were asked how they would develop a consumer direct program by selecting one of the following:

- in-house with no third party consultants
- in-house with the assistance of third party consultants
- develop a joint venture/partnership with another company

The majority, or 60.9 percent, of the respondents reported their preference to keep functions in house with the assistance of a third party consultant (Figure 3.4). Respondents also provided comments that conveyed a desire to use their own current resources and only seek assistance from experts when encountering unfamiliar territory.

**Figure 3.4 Method of Developing a Consumer Direct Program**




*"Establishing a consumer direct venture requires a detailed look at many different logistical issues. Third party consultants can assist a retailer in answering those questions and solving issues before you open for business."* — *Respondent*

*"We would need the technical expertise to develop the software or we may need to purchase software. The marketing and coordination would be to our advantage to execute through our business because of our relationship with vendors and retail stores."* — *Respondent*

*"A critical element to success will be the interface and ease of use to place an order for the consumer. We are good retailers with strong mass logistic expertise. We are not Web page masters and our logistical expertise is not portable to consumer direct."* — *Respondent*

The remaining opinions were closely divided between establishing a joint venture or partnership (21.7%) or developing consumer direct in house with no third party involvement (17.4%). In commenting on why their company might want to establish a joint venture or partnership, some respondents envisioned cooperative work among major players in the food channel.

*"Joint venture/partnership offers my company the opportunity to take advantage of the resources provided by another company, to expand the knowledge base, and reduce investment costs for both companies. The venture also enhances the partnership/business relationship between the two companies."* — *Respondent*

*"Retailers have tendencies to see through tunnel vision. In order to better understand and develop a long term winning strategy for the future, we must see the consumer direct process from every corner. A partnership between retailers, manufacturing, and consumer will help find solutions to future consumer direct problems."* — *Respondent*

Others expressed their interest in maintaining total control and ownership of the consumer direct program and utilizing internal company resources:

*"Our interest is to learn this business and use this learning as a competitive advantage. We want to earn/own the learning not pay someone else to do this for us."* — *Respondent*

*"As with other programs we have developed, we would develop consumer direct in house using identified industry best practices as a base. We have many resources in the information technology and merchandising areas. This internal expertise could be utilized."* — *Respondent*

## The Target Consumer

Most people in the industry understand that many consumers feel a desire to make grocery shopping more convenient. Consumer direct has the potential to simplify the lives of these consumers. Although costs may be saved in some areas of the distribution system by having a consumer direct program, added costs exist in other areas such as order picking and delivery. Because of these added costs and the radically new change in the actually process of shopping, companies target those consumers who want and can pay for the service. Who are these consumers?

When companies were asked to define their "ideal" target consumer, the composite response was a consumer aged 35-54, with household income of over $60,000, at least 4 years of college, and living in a household with 3-5 people. Other demographic profiles were viewed favorably, however.

Respondents were asked to select all age groups they thought would apply to their consumer direct target consumer. On average, the overwhelming majority of firms (87.5%) reported that ages 35-54 would include the ideal consumer (Figure 3.5). Two-thirds (66.7%) reported that younger consumers aged 21-34 would also fit with the ideal target. And even consumers 55 and over received marks from 37.5 percent of the respondents.

The target household income, on average, was $60,001-$80,000, selected by 83.3 percent of all respondents (Figure 3.6). In addition, 79.2 percent of respondents felt household income of $80,001 and over would also constitute target consumers. Fewer companies felt that lower incomes should be included as target consumers. Only 58.3 percent of respondents would include $40,001-$60,000 in household income and only 12.5 percent would include household incomes of $20,001-$40,000. Current consumer direct companies felt strongly about this opinion as 90.0 percent of current providers felt incomes over $80,001 and incomes $60,001-$80,000 would include ideal consumers.

Answers from respondents quite closely reflected age and income profiles of current online grocery shoppers. Morganosky and Cude (2000) studied online grocery shoppers from one company. They reported that in 1999, shoppers from this company were 82.7 percent female (Table 3.1), only slightly higher than the average store shopper of whom at least 73 percent are female (Janoff, 2000), and the ages of these online grocery shoppers reflected the target ages from this survey. The largest age group of online grocery shoppers as reported by Morganosky and Cude was 35-44 which comprised 37.6 percent of shoppers. In addition, 30.3 percent fell into the age group 34 & under and 21.1 percent of shoppers were age 45-54. Only 10.9 percent were 55 or older.

**Table 3.1 Profile of Online Grocery Shoppers**

| | % online grocery shoppers |
|---|---|
| **Gender** | |
| male | 17.3 |
| female | 82.7 |
| **Age** | |
| 34 & under | 30.3 |
| 35-44 | 37.6 |
| 45-54 | 21.1 |
| 55 or over | 10.9 |
| **Household income** | |
| under $30,000 | 11.7 |
| $30,000-$49,000 | 21.1 |
| $50,000-$69,000 | 17.8 |
| $70,000 or over | 49.4 |

Source: Morganosky and Cude, 2000

The large majority of respondents to this study preferred households with annual incomes of over $60,000. Closely corresponding, Morganosky and Cude found almost one-half of online grocery shoppers had incomes of $70,000 or more.

Companies were also asked about targeting consumers by education levels. Nearly all companies, 91.7 percent, included consumers with a 4 year college degree as targets (Figure 3.7). All companies with consumer direct programs included education levels of a 4 year college degree as being target consumers while 90.0 percent felt consumers with greater levels of education should also be included. Fewer respondents considered consumer groups with less than a 4-year college education to be target consumers

Size of household was an important demographic factor. Nearly all companies, 91.7 percent, felt a household size of 3-5 people would constitute an ideal target (Figure 3.8). Assuming a household with 2 parents, this size would include 1-3 children. Households larger and smaller than this were not considered by as many companies to be ideal candidates. Less than forty percent felt 6 or more should be

Figure 3.5  Ideal Consumer Age

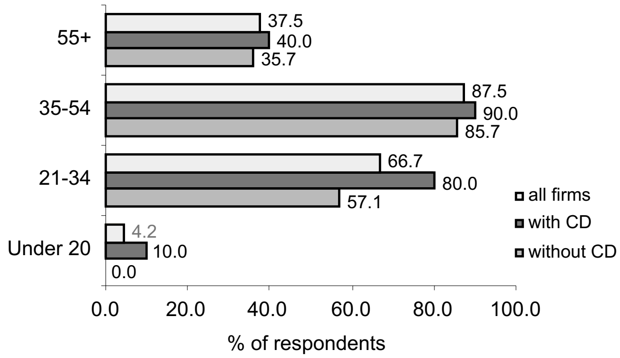



Figure 3.6  Ideal Household Income

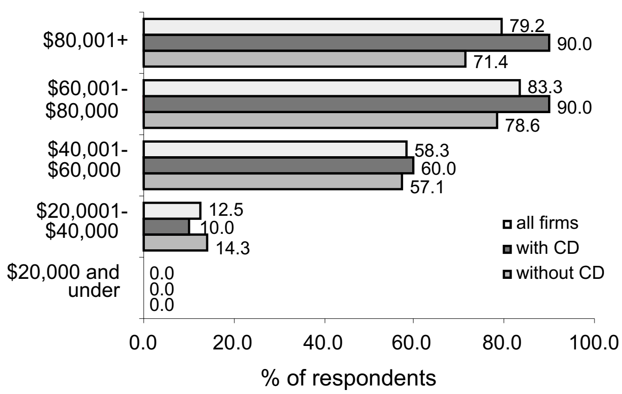



Figure 3.7 Ideal Consumer Education

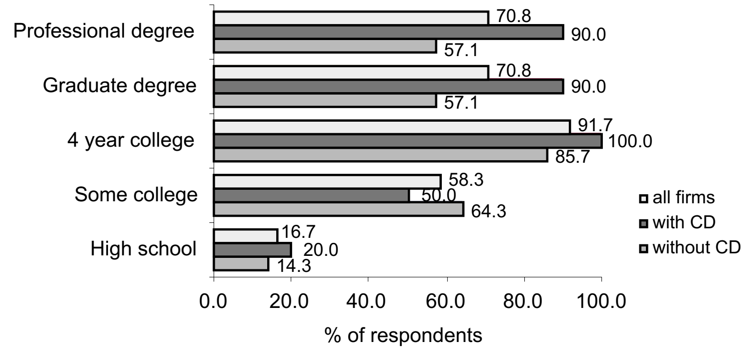
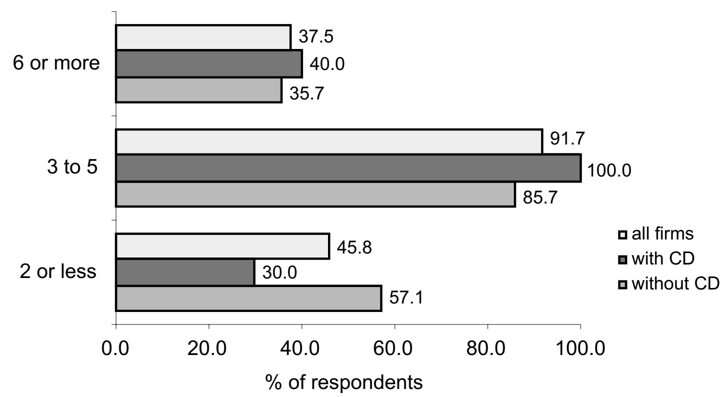



Figure 3.8 Ideal Household Size




included, and 43.5 percent felt 2 or less should be included as targets. Moreover, only 30.0 percent of companies already providing consumer direct indicated that 2 or fewer people per household should be included in the target household size.

## Operations

The basic operational procedures of firms providing consumer direct include: receiving consumer orders, order fulfillment, and delivery. Methods for carrying out these operations vary depending on the firm. Respondents were asked to indicate the likelihood of incorporating certain methods or features into their ideal consumer direct operation. Executives responded on a scale from 1 to 5 where 1 = "not at all likely," 3 = "probably," and 5 = "absolutely."

Ordering methods presented in the survey were: telephone, fax, computer, and automatic replenishment. Each method scored at least a 3 (probably) or higher indicating that company executives felt all the ordering methods would probably be instituted in their consumer direct program. Ordering via computer won almost universal approval, as, on average, companies scored computer ordering 4.9 (Figure 3.9). Ordering via fax and automatic replenishment scored 3.9 and 3.8 respectively, however, ordering by phone scored just 3.0.

Currently, placing orders by phone is labor intensive and is much more costly than the other ordering methods (Linneman and Kirschling, 1997). This may be the reason why it was scored much lower. Park, *et al*. (1996) discussed difficulties involved in providing home shopping orders by telephone. Difficulties included the need for paper catalogs. Paper catalogs are expensive to issue, they lack product information and labeling due to space considerations, they may not contain current prices or indeed complete product listings, and new product information is seriously delayed or lost.

Companies currently offering consumer direct may appear to be more generous in accepting a broader range of possible ordering methods, however, the differences were not significant. Current providers scored automatic replenishment and telephone ordering methods 4.2 and 3.4 respectively.

Filling customer orders is usually handled by picking the products directly from an existing retail store or from a central warehouse dedicated solely to consumer direct. Warehouse picking eliminates customer traffic and product shelving by store employees. On average, responses to either order filling method were similar; warehouse picking scored 3.7 while retail store scored 3.5 (Figure 3.10). The responses by type of firm varied though. Firms providing consumer direct scored warehouse fulfillment significantly higher than

**Figure 3.9 Likelihood of Incorporating Various Ordering Methods**

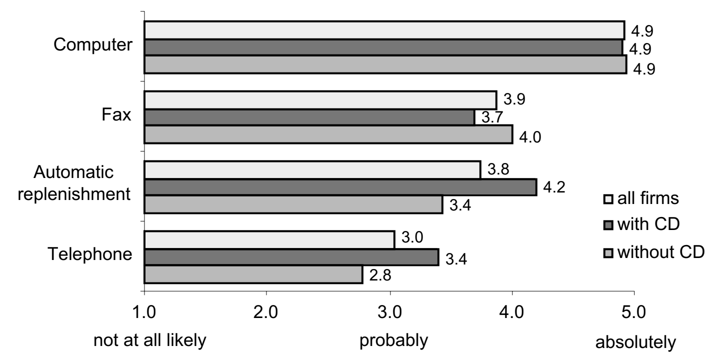
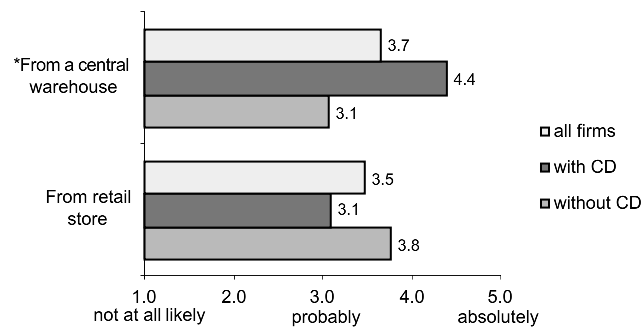
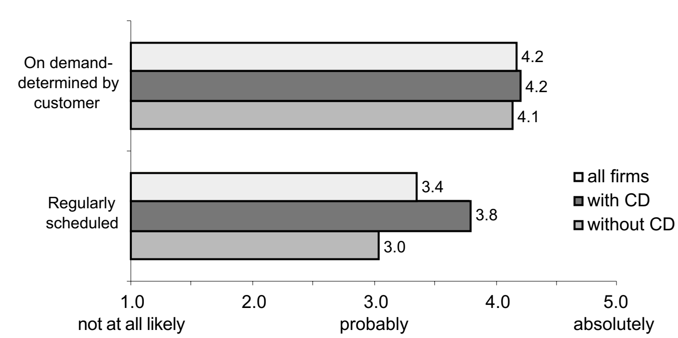



**Figure 3.10 Likelihood of Incorporating Various Picking Locations**




*Significant difference between consumer direct providers and non-providers

**Figure 3.11 Likelihood of Incorporating Various Delivery Schedules**

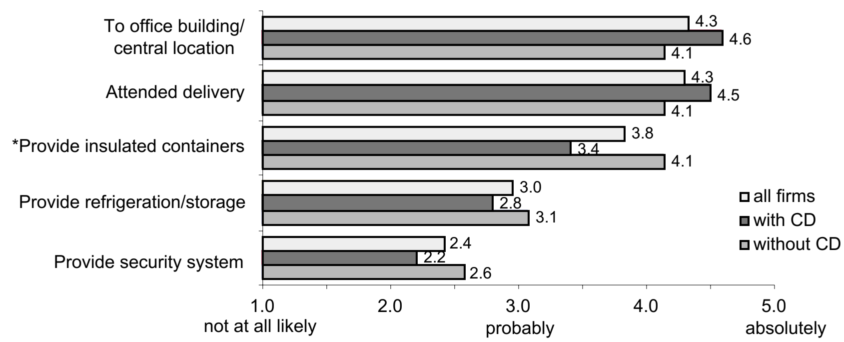


firms not providing consumer direct, 4.4 versus 3.1. Mirroring this, fulfillment from retail stores was scored lower by firms providing consumer direct, 3.1 versus 3.8, although this was not significant

For ease of entry, supermarket companies which have provided consumer direct likely started testing consumer direct services by picking from their current stores. Also, companies which have not provided consumer direct may prefer to test consumer direct first by picking from their own stores and not make an immediate investment in a central warehouse until they have committed to providing consumer direct. Therefore, the difference in responses could be a reflection of the level of entry of the 2 groups.

An efficient method of delivery has been long identified as a major challenge to the viability of consumer direct. Delivering on demand is the most common model of delivery currently and entails delivery during a window of time specified or selected by the customer. It may be more costly to implement and operate than scheduled deliveries which can be routed to minimize delivery costs.

**Figure 3.12 Likelihood of Incorporating Various Delivery Methods**

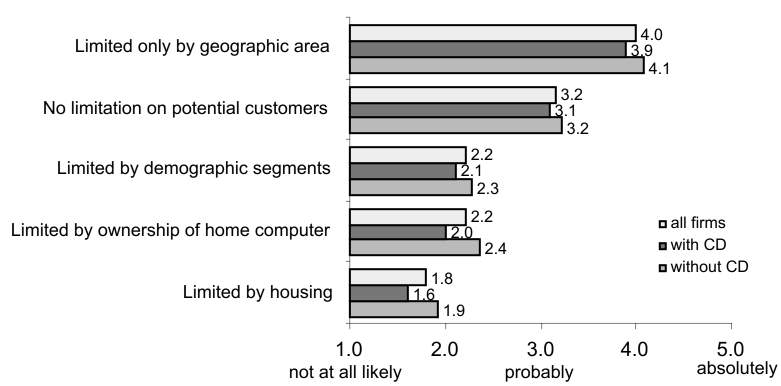



*Significant difference between consumer direct providers and non-providers

When asked the likelihood of incorporating certain types of delivery scheduling, "on demand, as determined by the customer" or "regularly scheduled, as determined by you" executives actually rated both as probable. "On demand" scored 4.2, however, "regularly scheduled" scored 3.4 (Figure 3.11) with no significant differences between current consumer direct providers or non-providers. This would indicate that companies are willing to incorporate both delivery scheduling methods at least to some extent into their operations.

Some current consumer direct operations will deliver to a number of different points or locations depending on the convenience to both customer and consumer direct provider. Delivery locations usually include the home, but could also include businesses, commuter train or bus stations,

**Figure 3.13 Likelihood of Limiting Various Customer Groups**



apartment buildings, or even pickup service or drive-through at the store or warehouse. Executives were asked how likely they would be to incorporate these delivery features in a consumer direct program. They rated delivery to "office buildings or other central locations" and "attended delivery to homes" as the most likely delivery locations to have in a consumer direct program. Both scored 4.3 on the 5 point scale (Figure 3.12).

Unattended delivery providing "insulated containers" and "refrigeration/storage equipment" were both scored as less likely to incorporate, with scores of 3.8 and 3.0 respectively. The likelihood of "providing a security system where delivery person is cleared to enter the home" scored 2.4 indicating that, on average, companies are unlikely to invest in this type of delivery method even though it may eliminate problems with customers not being home to receive delivery, thereby reducing delivery costs.

Companies providing consumer direct programs tended to score all methods of unattended delivery: provide containers, provide storage, and provide security system, slightly lower than did non-providers although only one method, "provide insulated containers," was scored significantly lower, and they had a tendency to rate attended delivery slightly higher than did non-providers.

When executives were asked to consider possible limitations on their consumer direct customer base, their responses indicated a reluctance to limit customers by "demographic segments," "ownership of home computer" or "housing facilities type (no apartments)." These limitations all received scores of less than 3.0, indicating that it is less probable that they would incorporate these limitations in a consumer direct program (Figure 3.13).

Executives did agree that they would limit their customer base "only by geographic area" and would not limit "potential customers." Each received scores of 4.0 and 3.2 respectively, with no significant difference between current providers and non-providers.

## Service and Product Offering

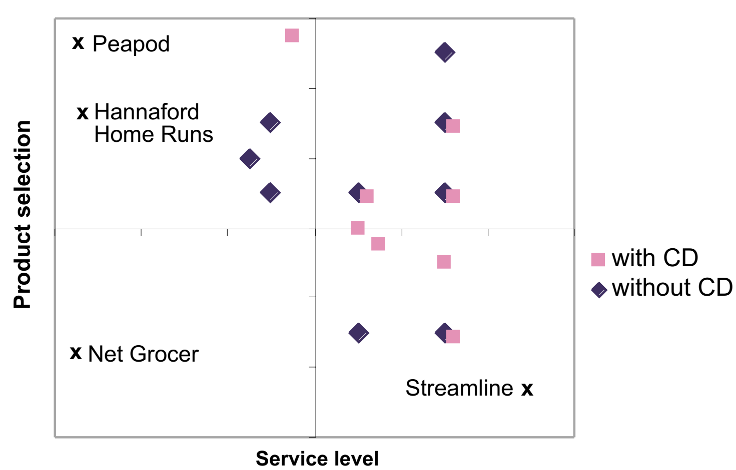
Service level and product selection are two functions used by companies to differentiate themselves from competition. These functions usually include the number service departments in the store, décor, number of clerks, variety of products, etc.. When developing a consumer direct program, companies often think of positioning their program along the same dimensions of service level and product selection.

Respondents were provided a grid with service level along one axis and product selection along the other. Four existing consumer direct companies were plotted on the grid as reference points according to their service and product levels. Companies were then asked to plot where they thought the optimum product/service mix for a consumer direct program would be.

All respondents avoided the bottom left quadrant on the grid, indicating a preference for more service and/or more products in their consumer direct offerings. Most companies currently offering consumer direct placed their optimum service level to the right of the midpoint on the grid while product selection ranged from below and above the midpoint (Figure 3.14). Two-thirds of companies not currently providing consumer direct also plotted their optimum consumer direct program as having service level to the right of the midpoint on the graph with a similar range of responses for product selection which ranged widely below and above the midpoint.

Respondents were then asked specifically, how many SKUs they would offer in a consumer direct program. Responses ranged widely from 60-30,000 SKUs. On average, companies reported 10,424 SKUs should be offered, and there was no significant difference in responses from com-

**Figure 3.14 Optimum Service/Product Mix**




(More than one company may be represented by any one point on the graph.)

panies currently providing and companies not providing consumer direct-10,970 versus 10,005 respectively.

The level of service appeared more tightly distributed on the graph. While there was no quantifiable level of service asked in the survey, respondents were asked to list the types of services they would offer. Suggested services included:

- meal replacements
- video rental
- specialty services-film developing, laundry services
- coupons online
- product samples with trial purchase opportunities
- multiple options of placing the order
- menu service-cooking instructions for meal solutions
- weekly menu suggestions which provide multiple meal solution alternatives
- local, on demand delivery with auto replenishment available
- mail delivery outside geographic ranges
- online deals available on a weekly basis
- bottle return
- frequent shopper discounts
- water cooler rental and refills

Although respondents felt an optimal mix of product and services would contain an "above average" level of services—a level of services beyond those of most reference companies presented on the graph such as Peapod, Hannaford Home Runs and Net Grocer—very few respondents were able to provide a list of services which they would offer that were not frequently offered by the reference companies above.

The industry has predicted that consumer direct shopping will have some significant impacts on shopping behavior. One of these is to decrease impulse purchases. In order to avoid missing out on these very important sales, consumer direct providers must discover how to channel products in front of consumers while they are shopping online or at home.

Current providers as well as non-providers in this study were optimistic about finding ways to maintain impulse purchases:

"*Initially, we're seeing a decline but it won't continue. There are a dozen ways to reinsert impulse shopping opportunities.*"

"*Impulse purchases will be impacted, but the possibility to stimulate additional sales through suggestive selling are limitless.*"

One respondent may have put the issue into perspective with:

"*A better question may be: what are the opportunities that we have never had before?*"

Most respondents believed that impulse purchases could actually be enhanced with proper consumer direct presentations. Impulse purchases could result from selling a larger shopping basket to consumers, a result of capturing a larger percentage of a consumer's total weekly needs, thereby eliminating the consumer's visits to the mass merchandiser or convenience store.

One method of maintaining impulse buying may be to provide complete meal solutions for the shopper:

"*I believe that order forms will be created which will tie products together for 'meal solutions.' The impulse purchases will occur by pricing a complete meal as a basket of products. Additionally, I would expect on-line ordering to include pop-up ads and specials which would result in additional impulse sales.*"

# Impacts on Trade Relations

Consumer direct is a new channel of trade. As such the potential exists for consumer direct to affect retailer-manufacturer relationships. Instead of negotiating for shelf space in the supermarket, manufacturers may have to negotiate for presence on the computer screen. For those consumer direct providers which limit the number of SKUs offered, this means that the likely product winners will be the leading national brand and the private label (Park, *et al.*, 1996). In addition, manufacturers may also need to negotiate position on the computer page, number and types of banners, ads, promotions displayed per page, per customer, per minute and other product marketing strategies. Certain products such as impulse items, special order bakery or deli items may not sell as well off a computer screen as they do in the store environment and promotions for these will need new communications techniques (Orler and Friedman, 1998).

When asked if they believed a change in relationships would occur, on average, 83.3 percent of respondents answered, yes, they did believe that a redefinition or realignment of these relationships will occur (Figure 3.15). Companies already providing consumer direct responded more strongly, as 90.0 percent of them said, yes, a redefinition or realignment will occur.

Open-ended comments illuminate retailers' and wholesalers' views on consumer direct's effects on trade relationships. As one respondent explained, "Manufacturers and retailers will need to work more closely to generate new consumer excitement and new consumer attractions in the retail store. consumer direct operators will require a different set of manufacturer provided marketing tools to advance their business and increase shopper dollar sales and loyalty."

Selected comments clearly define some of the issues:

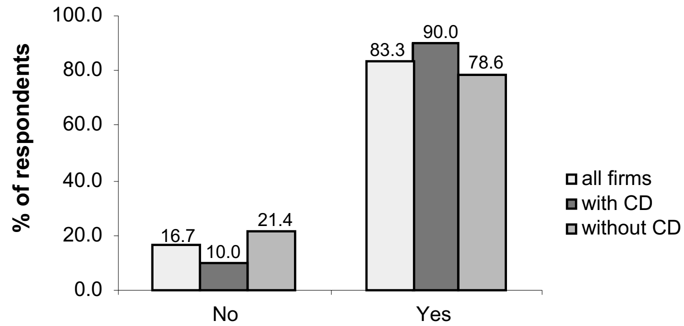
"*Increased emphasis will need to be placed on information sharing from retail to manufacturer to be successful. We can enter this arena but need manufacturer assistance to grow quickly & effectively.*" — Respondent

"*Retailers will look at consumer direct as separate segment of their business requiring administrative and promotional dollars. I see manufacturers having to pay more attention to the channel and create programs and funds to support it.*" — Respondent

"*A change in flexibility of merchandising funds needs to occur for direct consumer interface. media advertising focus will need to micro. Retail headquarters will have to assume responsibility for merchandising that took place at store level, causing a relocation of resources.*" — Respondent

"*Payments made available to sell merchandise will be used differently: not for print ads but for consumer-direct efforts. Focus will be on consumer so product mix will match demand.*" — Respondent

**Figure 3.15 Potential for Consumer Direct to Redefine Retailer-Manufacturer Relationships**




The following are some possible realignments to trade relations. Respondents were asked to indicate the relative likelihood of these occurring:

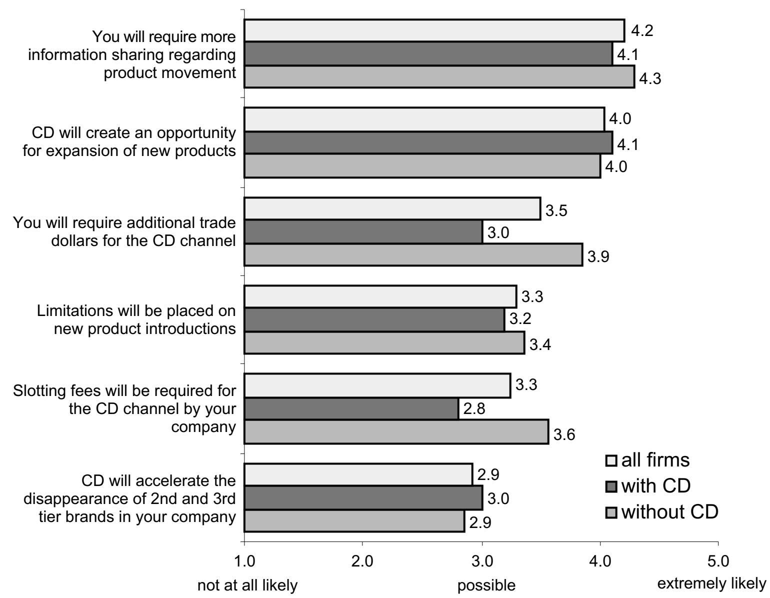
- you (the consumer direct company) will require more information sharing regarding product movement,
- you will require additional trade dollars for the consumer direct channel,
- slotting fees will be required for the consumer direct channel by your company,
- imitations will be placed on new product introductions,
- consumer direct will create an opportunity for expansion of new products,
- consumer direct will accelerated the disappearance of 2nd and 3rd tier brands in your company.

The scale of likelihood responses were from 1 to 5 where 1 = "not at all likely," 3 = "possibly," and 5 = "absolutely." Only two possible reactions received scores much higher than the midpoint. These were "companies will require more information sharing of product movement" which averaged 4.2 and "consumer direct will create opportunity for product expansion" which averaged 4.0 (Figure 3.16).

The possible channel readjustments remaining received scores averaging from 2.9 to 3.5, indications that companies also believe these reactions to be possible but are by no means certain they will occur.

Interestingly, current consumer direct providers scored "you will require additional trade dollars for the consumer direct channel" significantly lower than did non-providers, 3.0 versus 3.9. With their experience in consumer direct, they must have developed some knowledge of the challenges in promoting products online. Yet even after this, they are by no means certain that additional trade dollars will be needed. What cannot be determined is whether the current trade dollars are being channeled to different activities which benefit consumer direct or whether manufacturers currently do not have new, online trade promotions developed enough to even offer any additional trade dollars. ■

**Figure 3.16 Likelihood of Various Trade Relations Realignments**



# Section 4: Summary and Conclusion

THIS PROJECT WAS CONCEIVED AND CONDUCTED in order to provide information to companies interested in providing consumer direct services. The information will, we hope, aid retailers and wholesalers in their decision whether to enter this new food distribution venture.

Some caution, however, is needed in interpreting the information from the survey. The number of responses is less than ideal and definitive statements about groups of respondents are difficult to make. The information revealed by this study, though, is useful and challenges researchers to further pursue specific issues of interest.

In analyzing responses to this survey researchers discovered differences between current providers of consumer direct and non-providers, possibly a reflection of the propensity of certain retailers, the risk takers, to enter the consumer direct market and/or a reflection of actual experience gained by these current providers. One possible explanation of the discrepancy in responses may be that non-providers are more risk averse than current providers who have been early participants in consumer direct. The risk averse need more assurances from the market before making such weighty decisions.

It is entirely possible that those companies who have not ventured into consumer direct have not done so due to self-imposed limitations and their perceptions (whether right or wrong) of the market conditions necessary for success. It is also possible that the general profile of companies offering consumer direct may also be influencing the responses. For example, those already providing consumer direct services were more prone to be retailers than wholesalers. Retailers' attitudes toward the risks and rewards of consumer direct may be different from wholesalers'. Retailers may also have different resources on which to draw, which may also influence their responses to questions.

## Motivational Factors to Participate In Consumer Direct

A significant finding of this study is that almost all respondents, most of whom were medium to large grocery chains, believed they will eventually involve themselves in consumer direct. Almost 92 percent of those surveyed were either engaged in consumer direct operations or intended to add consumer direct within the next 3 years.

Consumer direct may appeal mostly to retailers. Respondents in this study who have already implemented consumer direct are primarily retailers. Only 25.0 percent of the wholesalers included in the study said they operated consumer direct programs, whereas 58.3 percent of the retailers had consumer direct. Why would this be? Being a step removed from the consumer interface, wholesalers may also find themselves removed from the full benefits of consumer direct. The motivations for an established bricks and mortar retail firm to develop a consumer direct service may not apply to a wholesaler.

Adding an expensive program like consumer direct without some tangible rewards such as increased profits would be costly. Yet many companies already providing consumer direct services stated their primary motivating factor for adopting consumer direct was "to develop closer retailer-customer relationships." Companies not already pursuing consumer direct, however, rated this factor as only 3.9. Further research may be warranted to investigate the degree to which consumer direct programs develop better relations. Although it may be difficult to measure this, 'relationships' could be measured using stated objectives such as incremental traffic/sales, minimize switching, regain sales lost to food away from home. Also of interest is whether a consumer direct program yielding better customer relations is any more cost effective than customer loyalty cards or other relationship building devices.

Despite retailers' expectations of closer customer relations, they may still fail to use all the information gathered from home shopping activities to develop these relations. Linneman and Kirschling (1997) at that time reported that less than 10 percent of retailers had databases containing information about their home shopping customers. Less than one-fourth had information about home shopping purchases and only one-half of these used the information.

Motivations may be quite different for pure Internet companies which lack some of the added incentives of land-based competition. While pure Internets may want to establish very close relationships with their customers, they require their consumer direct operation to make a profit or eventually they will no longer be supported by investors. They may not be interested in, for example, "generating incremental traffic/sales," or "minimize customer switching" in the same sense as bricks and mortar retailers.

It seems likely that a primary need for profits will put the pure Internets at a disadvantage to the already established food companies. Companies with existing stores and supply channels are not totally motivated by creating a profit center with consumer direct, but are looking for additional benefits which will enhance the other dimensions of their business. They will be willing to accept zero profits from consumer direct as long as it enhances relations, generates traffic, and minimizes switching.

## Development and Implementation

### *Consumer Direct Development Model*

The majority of respondents indicated interest in developing a consumer direct service with a third party, whether a consultant or a partner. Very few were interested in fully developing a consumer direct program on their own. Most preferred to fully own their consumer direct service and consult with a third party consultant.

Interestingly, current providers may be more likely to develop joint ventures or partnerships than those not currently providing consumer direct. This opens the possibility of providers buying into or investing in operations along with manufacturers, wholesalers, or even pure online grocery companies. One current example of this is the recent investment of Ahold USA in Peapod which was looking for new investors to maintain the company. In addition, Safeway and GroceryWorks have created a strategic alliance making GroceryWorks the exclusive provider of online grocery shopping for Safeway.

### *Target Consumers*

Targeting consumers is vital to developing and promoting consumer direct services. Who are these consumers? Current target profiles reported in this survey match those found in the industry trade press as well as those found by Morganosky and Cude (2000). There are some indications that this target may expand in the future to include younger and older ages, as cyber shoppers, in general, are expanding beyond the hip, techno crowd of earlier years. Due to the relatively high cost of delivery, however, the target consumers for consumer direct may not expand to include the lower income levels. For one reason, Cyber shoppers are often attracted to commodities that can be obtained more cheaply on the Web—books, music, and computers. Hubbard (2000) reported that 47 percent of consumers indicated one of the advantages of shopping on the web was to 'save money'. Further, responses varied according to the items shoppers were buying. According to Hubbard, 36 percent of respondents who shopped for food and/or wine on the web did it to 'save money' compared to 60 percent total of computer shoppers who wanted to 'save money.'

### *Operations*

Survey responses indicate that companies support computer ordering systems well beyond any other consumer direct ordering method currently available. However, opinions about other ordering methods may be a bit ambivalent. Opinions in the trade press about how to receive customer orders vary. Receiving orders over the telephone is clumsy, labor intensive, and time consuming, and there are similar difficulties with receiving orders via fax. Although industry experts have discussed the benefits of automatic replenishment, to date very few consumer direct companies provide this service. Despite these pitfalls, there may be a pattern indicating that consumer direct providers may be more accepting of alternate ordering methods than non-providers. In order to expand their customer base, consumer direct providers may be willing to expand their ordering methods for customers without access to online ordering.

Whether or not they are doing so now, providers clearly indicated that they would prefer to fill orders from a centralized warehouse facility as opposed to store shelves. Non-providers, however, would be more likely to pick from a retail store, at least initially. Ease of entry may be dictating the method of picking for these companies. What will be interesting in the future is how quickly, if ever, these companies incorporate warehouse picking into their operations.

Delivery may be the most critical function in terms of cost and customer satisfaction. It requires trained, reliable, and responsible labor to deliver orders, receive payments and handle any customer issues. And the logistical difficulties of routing deliveries are not to be ignored. Is delivery on demand too demanding for consumer direct providers? Are consumer direct companies trying to be everything to the customer? On average, companies scored delivery "on demand by customer" more likely to implement than "regularly scheduled" delivery. A relief to the complexities of routing deliveries, however, could be to develop scheduled deliveries. And according to survey results, scheduled deliveries may appeal more to companies currently providing consumer direct than those not currently providing consumer direct.

For example, in Japan, the Tokoyo Consumer Co-op home shopping program is extremely successful. The home shopping program successfully uses scheduled deliveries with dedicated drivers for each route. In the U.S., Schwann's, a frozen food manufacturer with delivery services, also uses scheduled routes to make food deliveries to individual consumers. One question may be whether companies would be able to convince the U.S. consumer to be organized or responsible for planning food orders around a scheduled delivery date and time.

Many companies are talking about other mechanisms to make delivery more efficient: unattended delivery, or delivery to central locations like train stations, commuter parking lots, and businesses. These methods are attractive to companies and will probably be employed. The options of providing a security system accessible by the delivery person or storage units are not looked on favorably, however. Issues of liability and difficulty in receiving payment may be 2 primary drawbacks to these last methods. Consumer probes are needed to determine what delivery mechanisms are working and what major issues exist for each mechanism.

### *Service Product Mix*

The service level and product selection are two functions used by companies to differentiate themselves from competition. When developing a consumer direct program companies often think of positioning their program along the same dimensions of service and product.

Survey respondents thought highly of providing services in their consumer direct program, and most considered providing service levels to the right of midpoint on a charted graph. Product selection ranged widely with some companies interested in providing a bare minimum of products and some interested in providing every product in their store or warehouse. Companies need to be aware of their target consumer's desires for certain services and products, as they will need to balance offerings with consumer interests and their own methods of operations.

## Impact on Trade Relations

The impact of consumer direct on retailer and manufacturer relations as a new channel of trade has yet to be felt. Clearly most respondents felt that consumer direct had the potential to effect relations. Yet when asked how, they were by no means certain which if any suggested changes may result. The most strongly felt attitudes were that "more information sharing regarding product movement" would be likely to occur as well as "consumer direct will create an opportunity for expansion of new products." Even the bellwether companies already providing consumer direct were no more certain than other companies as to whether these events would happen.

Respondents reported that the remaining potential impacts including additional trade dollars, new product limitations, slotting fees, and accelerated disappearance of second and third tier brands could occur, but again, this opinion was not strongly expressed, with the average responses landing around the midpoint of our scale.

This uncertainty on the part of retailers and wholesalers provides an open field for manufacturers to define relationships which will assist the development of the consumer direct channel. As the providers do not have clearly defined attitudes as to what is needed, they appear to be looking to manufacturers to provide marketing expertise. These may include developing new methods of new product introductions, online product displays, ads, and promotions, meal solution development, and more. In return, consumer direct providers will have to be willing to provide product movement information to manufacturers to help them develop these strategies and trade relations.

## Conclusion

This report has been instrumental in describing one of the most all-encompassing trends encountered in the modern food system, namely the revival of consumer direct. Consumer direct marketing has the potential to change the way manufacturers, distributors, and consumers think about food. The breadth of its influence mirrors that of the forces driving its potential: consumer convenience, technology, and retail competition. Perhaps the greatest evidence of its potential lies in the interest our respondents have shown in implementing a consumer direct initiative.

However, the decision to enter into consumer direct contains a degree of risk in light of uncertain demand and the necessary capital and operational investments. Indeed, an interesting result of this analysis is the obvious differences between the perceptions of current providers of consumer direct, and perceptions of non-providers. Compared to providers of consumer direct, responses from non-providers repeatedly demonstrated more conservative estimates of optimal market conditions, stricter requirements from industry partners, and a more narrow vision of implementation. This shouldn't be surprising - early adopters of technology are willing to accept a greater degree of risk in their investment. Yet, risk takers and risk avoiders alike seem intent upon implementing consumer direct. Therefore, in the short-run, the industry will likely witness an increased implementation of strategies that reduce the risk of investment, namely, joint ventures with other companies, limited product and service offerings, and delivery limited to pick-ups from a store or other satellite locations.

Finally, we should note that respondents were in general agreement that consumer direct will redefine certain retailer-manufacturer relationships. However, there was no strong consensus on how this realignment might occur. Food manufacturers, therefore, have an opportunity to influence trade relations as they assist their retail partners in the development of consumer direct initiatives. Manufacturers may be eager to negotiate terms of trade (e.g. trade promotion spending, new product introduction, and slotting allowances) while this new channel is in its early stages of development. ■

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# Appendix A

**Respondent Profiles of Consumer Direct Providers Vs Non-Providers: Descriptive Statistics**

| Factors | All Companies | Companies with consumer direct | Companies without consumer direct | Chi-test of Providers vs Non-Providers |
|---|---|---|---|---|
| | *frequency* | | | |
| **STORE LOCATION** | | | | 0.03 |
| urban | 20.7 | 28.3 | 14.9 | |
| suburban | 43.7 | 43.9 | 43.5 | |
| rural | 35.7 | 27.8 | 41.6 | |
| **PRICING STRATEGY** | | | | 0.32 |
| EDLP | 23.8 | 33.3 | 16.7 | |
| High-Low | 52.4 | 33.3 | 66.7 | |
| Service | 23.8 | 33.3 | 16.7 | |

**Importance of Motivating Factors to Adoption of a Consumer Direct Program: Descriptive Statistics**

| Factors | All Companies | Companies with consumer direct | Companies without consumer direct |
|---|---|---|---|
| | | mean (standard deviation) | |
| Generate incremental traffic/sales | 4.6 | 4.7 | 4.5 |
| | (0.59) | (0.48) | (0.65) |
| Remain the market leader | 4.4 | 4.3 | 4.5 |
| | (0.73) | (0.67) | (0.76) |
| Develop closer retailer-customer relationships | 4.3 | 4.8 | 3.9 |
| | (0.97) | (0.42) | (1.21) |
| Minimize customer switching | 4.0 | 4.2 | 3.9 |
| | (0.94) | (0.79) | (1.03) |
| Become the market leader | 3.8 | 3.7 | 3.9 |
| | (1.07) | (1.16) | (1.00) |
| Regain sales lost to food away from home outlets | 3.8 | 3.6 | 3.9 |
| | (0.96) | (1.07) | (0.86) |
| Create a new profit center | 3.5 | 3.9 | 3.3 |
| | (0.95) | (0.88) | (0.99) |
| Market area traffic/roadways/parking | 2.8 | 2.5 | 3.1 |
| | (0.72) | (0.53) | (0.83) |

**Impact of Market Area, Economic, and Demographic Conditions on Success of Consumer Direct: Descriptive Statistics**

| Factors | All Companies | Companies with consumer direct | Companies without consumer direct |
|---|---|---|---|
| | | mean (standard deviation) | |
| Market has very dense population | 4.4 | 4.4 | 4.4 |
| | (0.79) | (0.84) | (0.76) |
| Large market size | 4.2 | 3.9 | 4.4 |
| | (0.54) | (0.57) | (0.51) |
| Intense competition | 3.6 | 3.7 | 3.5 |
| | (1.12) | (1.16) | (1.09) |
| Above average level of household income | 4.6 | 4.3 | 4.9 |
| | (0.42) | (0.48) | (0.36) |
| Large percentage of dual income families | 4.6 | 4.5 | 4.6 |
| | (0.59) | (0.53) | (0.63) |
| Above average education level of consumers | 4.4 | 4.1 | 4.6 |
| | (0.61) | (0.74) | (0.50) |
| Large percentage of baby boomers | 4.1 | 3.6 | 4.4 |
| | (0.73) | (0.84) | (0.65) |
| Large number of single parent households | 3.3 | 3.1 | 3.5 |
| | (0.75) | (0.74) | (0.76) |
| Average level of household income | 3.0 | 2.9 | 3.1 |
| | (0.97) | (0.74) | (1.10) |
| Ten percent of households are online | 3.0 | 3.4 | 2.7 |
| | (1.27) | (1.17) | (1.33) |
| Large percentage of older consumers | 2.8 | 3.2 | 2.6 |
| | (1.22) | (1.03) | (0.34) |
| Low percentage of baby boomers | 2.5 | 2.6 | 2.5 |
| | (0.79) | (0.70) | (0.85) |

**Method of Developing a Consumer Direct Program: Descriptive Statistics**

| Method | All Companies | Companies with consumer direct | Companies without consumer direct | Chi-test of Providers vs Non-Providers |
|---|---|---|---|---|
| | *frequency* | | | |
| In house with assistance of third party consultants | 60.9 | 50.0 | 69.2 | 0.62 |
| Develop a joint venture/ partnership with another company | 21.7 | 30.0 | 15.4 | |
| In house with no third party consultants | 17.4 | 20.0 | 15.4 | |

**Likelihood of Incorporating Various Operational Methods: Descriptive Statistics**

| Factors | All Companies | Companies with consumer direct | Companies without consumer direct |
|---|---|---|---|
| | mean (standard deviation) | | |
| **ORDERING METHOD** | | | |
| Computer | 4.9 (0.29) | 4.9 (0.32) | 4.9 (0.27) |
| Fax | 3.9 (0.80) | 3.7 (0.82) | 4.0 (0.78) |
| Automatic replenishment | 3.8 (1.07) | 4.2 (1.14) | 3.4 (1.02) |
| Telephone | 3.0 (1.18) | 3.4 (0.84) | 2.8 (1.37) |
| **PICKING LOCATION** | | | |
| Central warehouse | 3.7 (1.01) | 4.4 (0.84) | 3.1 (1.12) |
| Store | 3.5 (1.05) | 3.1 (0.88) | 3.8 (1.17) |
| **DELIVERY SCHEDULES** | | | |
| On demand by customer | 4.2 (1.11) | 4.2 (1.23) | 4.1 (1.03) |
| Regularly scheduled | 3.4 (1.43) | 3.8 (1.48) | 3.0 (1.39) |
| **DELIVERY METHODS** | | | |
| Office building or central location | 4.3 (0.86) | 4.6 (0.52) | 4.1 (1.03) |
| Attended delivery | 4.3 (0.86) | 4.5 (0.71) | 4.1 (0.95) |
| Provide insulated containers | 3.8 (0.86) | 3.4 (0.70) | 4.1 (0.95) |
| Provide refrigeration/storage | 3.0 (1.39) | 2.8 (1.32) | 3.1 (1.32) |
| Provide security system where delivery person is cleared to enter the home | 2.4 (1.26) | 2.2 (1.23) | 2.6 (1.28) |

**Likelihood of Limiting Various Customer Groups: Descriptive Statistics**

| Factors | All Companies | Companies with consumer direct | Companies without consumer direct |
|---|---|---|---|
| | | mean (standard deviation) | |
| Limited only by geographic area | 4.0 | 3.9 | 4.1 |
| | (1.04) | (1.20) | (0.92) |
| No limitation on potential customers | 3.2 | 3.1 | 3.2 |
| | (1.30) | (0.99) | (1.48) |
| Limited by demographic segments | 2.2 | 2.1 | 2.3 |
| | (1.20) | (1.29) | (1.14) |
| Limited by ownership of home computer | 2.2 | 2.0 | 2.4 |
| | (1.11) | (1.25) | (1.01) |
| Limited by housing facilities type (no apartments) | 1.8 | 1.6 | 1.9 |
| | (0.83) | (0.70) | (0.92) |

**Potential for Consumer Direct to Redefine Retailer-Manufacturer Relationships: Descriptive Statistics**

| Factors | All Companies | Companies with consumer direct | Companies without consumer direct |
|---|---|---|---|
| | mean (standard deviation) | | |
| You will require more information sharing regarding product movement | 4.2 (1.04) | 4.1 (1.20) | 4.3 (0.91) |
| Consumer direct will create an opportunity for expansion of new products | 4.0 (0.97) | 4.1 (0.99) | 4.0 (0.96) |
| You will require additional trade dollars for the consumer direct channel | 3.5 (0.90) | 3.0 (0.67) | 3.9 (1.03) |
| Limitations will be placed on new product introductions | 3.3 (1.36) | 3.2 (1.40) | 3.4 (1.34) |
| Slotting fees will be required for the consumer direct channel by your company | 3.3 (1.07) | 2.8 (1.03) | 3.6 (1.09) |
| Consumer direct will accelerate the disappearance of 2nd and 3rd tier brands in your company | 2.9 (1.08) | 3.0 (0.67) | 2.9 (1.29) |

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