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the Retail Food Industry Center
Advancing Knowledge About Processing,
Distribution, Sales, and Food Service

TRFIC NEWSLETTER

University of Minnesota

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Making House Calls (Part Two)

The Peapod Story

Where time is money – or more than money – as it is for a growing number of people, the appeal of online grocery shopping is clear. “Peapod customers typically take 37 minutes online to enter their grocery



Russ Ruby

orders,” according to Russ Ruby, Vice President for Sales and Marketing at Peapod, the oldest Internet grocer. Ruby met with members of TRFIC’s Steering Committee on September 30, before presenting “The Peapod Story: Shopping for Groceries on the Internet,” at a TRFIC seminar.

The company has delivered more than one million orders since 1989, when brothers Andrew and Thomas Parkinson founded it in the Chicago suburb of Evanston, Illinois. Now operating in nine metropolitan areas nationwide, Peapod delivered more than 750,000 orders in 1999 alone.

Who buys groceries from Peapod? **Demographic figures suggest that those pressed for time make up a large fraction of customers.** More than half have at least one child under 18. Over fifty percent are employed full time and two-thirds have spouses who are employed full time. More than sixty percent live in households with at least two earners; nearly forty percent are in households with incomes exceeding \$100,000, while less than twenty percent have household incomes under \$50,000. Most striking is that unlike most Internet activities, women outnumber men by more than two to one. **The industry’s rapid growth despite the presence of delivery fees, which have been a part of the industry from the beginning, strengthens the impression that customers are willing to trade money for time.** (Delivery fees seem to be disappearing, at least for large orders, something that may be necessary if this rapid growth is to continue).

One consumer niche often discussed for grocery delivery companies is the housebound, particularly the elderly, but this does not seem to be a major market segment. Five-sixths of the customers are between 25 and 50 years old. Nearly three quarters of the customers are married, and only twenty percent live by themselves.

What is a typical online grocery shopping session like? Most customers shop between 8PM and 1AM, usually once every week and a half to two weeks. The average order size is \$117. More than half of the customers use a personally tailored list of frequently purchased items to speed up the ordering process. After placing the order, they typically spend more than a half an hour exploring links on the Peapod web site.

The number one issue for people considering ordering groceries online is the quality of perishables, especially produce. Peapod addresses this concern at the ground level with the policy “The customer is always right.” If a customer is unhappy with a product, Peapod will credit the account or replace the product. At a higher level, Peapod takes a “Best of Market” approach. Often, this involves an alliance with a local firm that has a reputation for quality (see article on page three).

Primarily an online, web-based shopping and delivery business (Motto: “You order. We shop. We deliver”), Peapod is well placed for two other businesses. **The land rush atmosphere surrounding e-commerce has created a great interest in licensing software that Peapod has developed for itself.** Peapod has already come to an agreement with the Australian grocery, Cole Myers, for setting up a web based delivery service and training its staff to operate it.

The underlying technology has put Peapod in an enviable position for developing cutting edge interactive marketing services for retailers and manufacturers. Instead of mass market promotions, the online environment makes it possible to tailor promotions more narrowly to those most likely to be interested, based on past and current purchases. **Peapod is getting usage rates as high as thirty eight percent for the online equivalent of traditional coupons,** and trial rates of up to twenty percent on new products that manufacturers have placed only with Peapod.

But the business that will make or break Peapod is grocery delivery. Long a money loser, Peapod’s delivery operations are now profitable in Chicago and some of its more mature markets. As consumers gain confidence in the product and become accustomed to the convenience of online grocery shopping, Ruby and other pioneers on the e-grocery frontier are confident that the Peapod concept will continue to grow and deliver profits. ■



Jean D. Kinsey

DIRECTOR'S NOTEBOOK

by Jean D. Kinsey

Board Meeting in Historical Setting Looks Ahead to the Future

In an afternoon packed with good food to eat and good food for thought, the annual meeting of our Board of Advisors was held in Stillwater, Minn., at the offices of CUB Foods. Stillwater is the location of the original CUB store, called Hooley's. John Hooley told us about how the Hooley Market started by serving the Stillwater Prison as well as the community. While the location was historical, discussion concerned our industry's future, including genetically modified foods, e-commerce, mergers and consolidations, supply chain management, slotting fees, and food safety.



John Hooley, Former President, CUB Foods

Presenting preliminary results from our nationwide consumer survey, Dr. Ben Senauer indicated that lower prices and fast checkout are the two most important factors in improving grocery shopper satisfaction. The most critical factors in choosing a store are cleanliness and produce quality.

One of the signature activities of TRFIC is the Supermarket Panel. Consisting of individual supermarket stores that answer a confidential questionnaire each year, the panel enables us to track store performance against management practices. At the Board meeting we presented the results of our first year's panel – a pilot study of 100 stores – from which we have designed a longer term involvement and data collection activity. Dr. Paul Wolfson and Dr. Robert King were primarily responsible for analyzing the data collected to date. Five indexes were used to measure the adoption of various management practices – ECR readiness, Environmental practices, Quality control (of consumer service), Service offerings, and Food and safety handling. In every case, the self-distributing retailers had the highest index score compared to single store independents or multi-store retailer groups.

Those stores with higher index scores also tended to have the highest performance measured in weekly sales per square feet, sales growth, inventory turns and sales per labor hour. An exception was in the service offerings index, where those with more service

offerings had sales per labor hour of \$81 versus \$96 for those with low service offerings. This confirms a tradeoff between service and labor costs. Also those without frequent shopper programs had higher sales, sales growth, and sales per labor hour.

These are just some of the insights we are gaining from the Supermarket Panel. A full report of the first year's results is being prepared even as we are sending out the next round of questionnaires. The goal is to build a set of longitudinal data (same stores over time) so we can identify how the rate of change in technology adoption and other practices corresponds to performance. In this rapidly changing industry this study will help to predict business success, measure productivity, and identify how well consumer needs are being met.

The new Dean of the College of Agriculture, Food and Environmental Sciences, Charles Muscoplat, shared his vision about foods of the future – foods designed to prevent disease and improve health. Indeed, the leaders in this industry span the supply chain from basic genetic research to retail stores.

Michael Wright, our board chair, leads our Center as he does in the food industry. We appreciate him and all of our board members, and thank them for their guidance.



Charles Muscoplat

Board Chair
Michael Wright

Board of Advisors: Michael Wright – Chair, Sidney Applebaum, H. Brewster Atwater, John Block, John Farguharson, Jack Gherty, Ray Goldberg, Ellen Haas, Tom Haggini, Tim Hammonds, George Hoffman, David Hughes, Joel Johnson, C. Manly Molpus, Ron Pedersen, Dale Riley, Steve Sanger, Lloyd Sigel, Roger Stangeland, Paul Walsh, John Woodhouse, Tom Zancha

*Making House Calls (Part Three)***Filling the fridge the e-way in the Twin Cities**

Pressed for time like shoppers across the nation, it is little wonder consumers in Minneapolis and St. Paul are picking up the pace in the e-grocery arena. Now, thanks to a growing array of online grocery services in the Twin Cities, they can buy groceries without walking out the front door – and that is just the beginning.

Options range from checking weekly specials, browsing recipes and finding the best route to a store, to ordering and arranging home delivery online.

For those who want the comfort and convenience of grocery shopping with the flick of a finger, there is **Simon Delivers** (www.simon-delivers.com), a New Hope-based company which filled its first order last February. Founded by Simon Foster and Bruce Clark, the operation began with a small customer base of friends and relatives, and is now rapidly growing across the Twin Cities area. The company buys from suppliers based on customer orders, which must be in by 10:00 p.m. for next-day delivery. Early in the morning, suppliers bring the merchandise to Simon Delivers, where orders are assembled for delivery.

Peas in a pod?

Simon Delivers and Peapod are alike in several respects. Orders placed over the Internet are filled at a warehouse/distribution center and delivered to customers' homes in a narrowly specified time window. Both companies give very careful attention to the cold-chain, ensuring that foods stay at the correct temperature throughout the delivery process.

And both have made arrangements allowing customers to buy from specialty food companies as part of a larger order. Peapod has done this most extensively in the San Francisco Bay area, working with Andronicos, an upscale store, for produce, deli, bakery, and meat, poultry and seafood. Peapod also works with Walgreens in pharmacy and a variety of other non-grocery areas. In the Twin Cities, Simon Delivers partners with local bakeries, including Great Harvest and the Turtle Bread Company, and with local agricultural organizations to offer an extensive variety of organic and locally grown products. Rather than contract out, as Peapod has done with Andronicos, Simon Delivers prepares its own meat and seafood orders. In both companies, these items are cut and packed early in the morning on the day of delivery.

Delivering convenience

One area where the younger firm has taken the lead is in unattended deliveries – deliveries when the customer is not at home. Unlike Peapod, Simon Delivers lets customers make whatever delivery arrangements they are comfortable with; attended delivery only, unattended delivery outside the home, or, if requested, the driver will put the groceries in the refrigerator or pantry when the customer is out.

Bag Boy Express (www.bagboyexpress.com) provides ordering and delivery services to all communities within twenty miles of Minneapolis. The brainchild of former bag boys Tim Ricker and Bill Streiff, Bag Boy Express was started two years ago, when Ricker and Streiff graduated from college.

While Peapod has exclusive supplier relationships, Bag Boy Express buys from most of the the major Twin Cities chains (Lunds, Byerly's, Rainbow) as well as at Kowalski's in St. Paul. They used to shop at Cub Foods but found that the large size of the stores made it difficult to shop quickly and efficiently, which is necessary if low fees are to permit a profit. Because prices vary from store to store, the web site does not list prices for the roughly five thousand items displayed. Members pay the cash register total (with a \$20 minimum), and non-members pay a slightly higher fee, typically by credit card. Group discounts are available for multiple orders to the same address. According to the founders, the company is growing at the rate of one to two customers per week.

Options abound

Most of the large chains and many grocery stores in the area have web sites, most often used to display information like addresses, phone numbers, hours and weekly specials. On some, customers can draw a map to make finding the store easier. Many offer coupons as well as recipes, which show dietary information and can be used to make shopping lists organized according to the store's layout. Other stores are posting schedules of special events and classes, promotions and shopping suggestions.

In what is likely to become an increasingly popular service, **Kowalski's Markets** (www.kowalskis.com) customers can place an online order to be picked up at one of the stores between 3PM and 7PM on any of the next four business days.

As the frontiers of Internet commerce and retail food meet with fascinating and far-reaching implications for both, nobody knows what direction the future will take. But with the Twin Cities just beginning to enter the online arena, local retailers have one clear advantage: they are learning from the experiences of pioneers in Chicago, Boston and San Francisco, to the benefit of companies and customers alike. ■

Some Twin Cities e-grocery addresses**TRFIC Seminars**

Wednesday, March 15, 2000,
2:00 to 4:30 P.M.

Professor David Hughes
Wye College, University Of London
Earle Brown Center – Room 155

Thursday, May 11, 2000
2:00 to 4:30 P.M.

Austin Sullivan, V.P., General Mills, Inc.
Chairman, Biotechnology Task Force
Grocery Manufacturers Of America
Earle Brown Center – Room 42

DID YOU KNOW?

- About one-fourth of all retail food web sites sell no more than 10 items, and more than half sell no more than fifty items. At the other end of the scale, fewer than 5% sell more than one thousand items, and no more than 10% sell more than 500 items. (Source: forthcoming TRFIC working paper by KK Sinha and Greg Heim).
- For about one-fifth of these web sites, the primary food category is beverages, including coffee. For about one-sixth, it is candy or baked goods. Meat and seafood are the primary category for only about one-seventh of the sites. (Source: KK Sinha and Greg Heim, forthcoming).
- Given current cancer rates in this country, better dietary choices could prevent as many as 375,000 cases per year. Just eating the recommended 5 daily servings of fruits and vegetables could reduce rates by 20%. (Source: American Institute for Cancer Research, www.aicr.org/report2.htm)
- In 1980, the largest category of agricultural imports (by value) was coffee, at \$4.2 billion. By 1998, this figure had fallen to \$3.4 billion, and the new leader was vegetables and preparations, at \$4.4 billion, up from \$0.9 billion in 1980. (Source: USDA).
- The leading export in both years was corn, but the dollar value had fallen from \$8.5 billion in 1980 to \$4.4 billion in 1998. (Source: USDA)
- The agricultural trade balance – agricultural exports minus agricultural imports – fell from \$23 billion in 1980 to \$15 billion in 1998, due to a much faster rise in imports than in exports. (Source: USDA)
- Per capita cheese consumption has more than doubled in the last generation. In 1970, it was less than 12 pounds per person, per year. In 1980, it exceeded 17 pounds, by 1990 it was more than 24 pounds, and in 1997 it was 28 pounds per person, per year. Much of this is apparently due to increased consumption of pizzas, as per capita consumption of mozzarella was seven times as great in 1997 as 1970: 8.4 pounds vs. 1.2 pounds. (Source: USDA)
- Since 1970, the amount of beer we drink first rose, and then more recently fell. In 1997, the average person drank just under 34 gallons per year, down from a peak of 36.6 gallons in 1980, but up from the 1970 figure of 30.6 gallons. For wine, the peak was 3.5 gallons in 1985. The 1997 figure for wine was 3.0 gallons, but the trend has been upward again since 1993, when it bottomed out at 2.6 gallons per person. (Source: USDA)
- Between 1990 and 1996, the number of grocery stores fell by 2.5%, to under 130,000. At the same time, the number of grocery store employees rose by more than 8% to 3 million. In 1996, grocery stores on average had about 23 employees apiece. Payroll rose by 25%, to more than \$40 billion. (Source: *County Business Patterns*, US Dept. of the Census)
- During the same period, the number of eating and drinking establishments increased by nearly 16%, while the number of employees increased by slightly less than 15%, and payroll rose by nearly 40%. (Source: *County Business Patterns*)

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