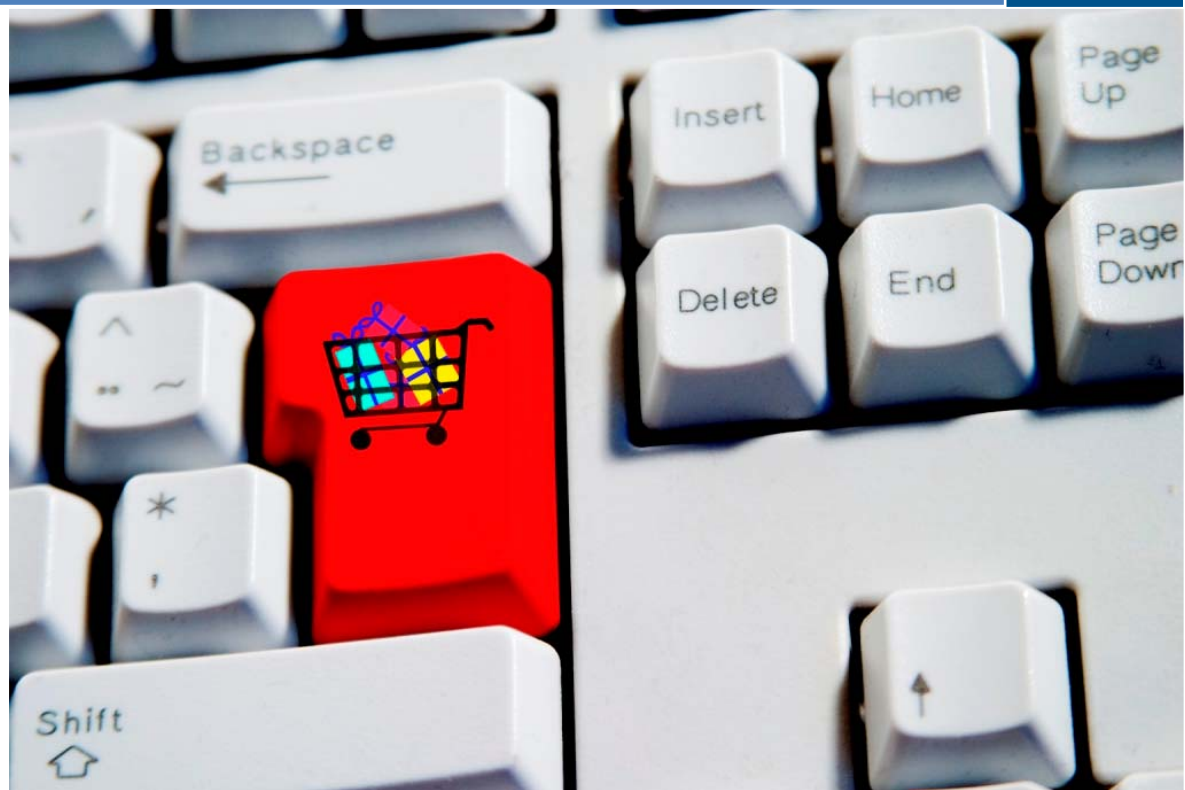


# Retail Therapy

Ultimate Convenience – Online Grocery Shopping



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## Ultimate Convenience – Online Grocery Shopping

*As identified by ACRS research into Australian Consumer Trends (2006), convenience and time have become extremely valuable commodities, and are now major factors for consumers in their choice of retailer and retail channel. From a shopping viewpoint, convenience means an increase in the number of tasks that can be accomplished during a single shopping trip and a reduction in the time required to shop (Retail Forward, 2003). To this end, the online shopfront has become the ultimate convenience format for consumers – it is quicker, there are no queues and there is more variety. Retailers are also relishing online as it represents an additional channel through which they can gain direct contact with the consumer – without the shopper even having to step into the physical store (Morganosky and Cude, 2000). As a result, online shopping has become a widely accepted part of everyday life, with increasing numbers of consumers all around the world shopping for grocery items in this way.*

### **The current state of OGS**

By definition, Online Grocery Shopping (OGS) refers to the use of websites by consumers to purchase grocery products for delivery. Several factors explain the demand for more convenient ways to buy groceries, including greater labour-force participation by women (who have traditionally been the primary food shoppers), a greater number of dual-income and thus higher-income households, and a greater number of single-parent and elderly households with time, mobility and resource constraints. The larger number of consumers with personal computers and Internet access in their homes also makes ordering groceries online a realistic option for an increasing number of households (Morganosky and Cude, 2000).

Although grocery retailers have offered home delivery services since the 1950s, grocery shopping via the Internet dates back to the late 1980s. The first online grocery shopping service was Peapod Foods, established in 1989 in the U.S. Since this time, Peapod has become a true multi-channel entity, offering call centre, email, and print support, and currently has over 150,000 members in the U.S. The Peapod service is offered in eight markets nationally: Chicago, San Francisco/San Jose, Columbus, Boston, Houston, Dallas, Austin, and Long Island, with big plans for expansion. Peapod offers the full range of products typically found in the local supermarket and delivers seven days a week.

## OGS Growth

OGS has been an attractive retail channel in many markets around the world, most notably the U.S., Europe and Australia (Kurnia, 2003). In Australia, online sales are forecast to account for about 8 percent of the total grocery market by 2007-08; this equates to potential sales of \$1.3 billion. Australia currently has 38 OGS sites (41 currently operate in the U.S), with many only recently becoming profitable for operators. Volumes of grocery items delivered by Australia Post on behalf of Coles Online and Shopfast (Coles' online grocery business) and Homeshop and Greengrocer (Woolworths' online grocery business) are reported to have experienced a steady increase (IBISWorld, 2007b).

In Australia, the two major supermarket chains, Coles and Woolworths, offer an OGS service to consumers. In addition, a number of pure online retailers such as Shop Fast, Groceries 4 U, Aussie Shopper, and MyGrocer have been established to serve more specific regions of Australia. Shop Fast, for example, delivers to Sydney, Central Coast and Wollongong and soon to Brisbane and Melbourne, while Aussie Shopper focuses on the Sydney and Brisbane areas. Most of these virtual supermarkets offer competitive prices on a wide range of grocery items and emphasise the freshness and quality of their products, as well as the convenience they can offer. Furthermore, some offer incentives such as free delivery or movie tickets to customers with orders over \$100. However shoppers should beware that these sites are not necessarily independent and in fact some of the major OGS are owned or linked to Australia's leading supermarkets.

Grocery products currently account for 4.8 percent of all goods purchased via the internet in Australia, with growth of 2-3 percent over the past few years. This growth has been fuelled by more consumers each year using faster Broadband connections and the profusion of easier, more navigable websites that encourage browsing and buying online (Inside Retailing, 2007). However, there are many Internet shoppers in Australia that have not yet taken to OGS. A Nielsen/NetRatings' survey of home Internet shoppers in March 2004 showed that food and grocery items were one of the least popular online purchases (Manktelow, 2005).

Although the majority of Australian consumers may not have shopped online for grocery items, many have experienced benefits of online shopping for other products and services. In fact, online retail sales totaled \$11.65 billion in Australia 2005-06 - an increase of 8 percent compared to 2004-05 (IBISWorld, 2007a). At over \$11 billion, the Web is now the largest remote buying channel. It is therefore reasonable to expect that consumers' positive experience shopping online for other products may foster greater use of OGS in the near

future. Trends such as an ageing population, dual-income families and increasing need for convenience will also fuel the move to online.

### **Benefits of OGS**

OGS offers many benefits to consumers, particularly in terms of convenience and time saving. In addition, retailers will also reap significant benefits as it will lead to more efficient use of personnel and simplification of building infrastructure. Although OGS has not been widely used in Australia, it has many potential benefits to the Australian consumer (Kurnia, 2003; Palmer, 2000). These include:

- Less chance of getting distracted by specials and impulse buying
- Cumulative spend is always visible, making it easier to stick to a budget
- Home delivery at a convenient time
- Shopping at any hour of the day from any location with Internet access
- A variety of payment options: online when ordering, by EFTPOS on delivery or via a customer account
- Customised or standard shopping lists
- Access to recipes
- Notification of special offers
- Broad selection of products
- Drive-in type pick-up terminals
- Time independence in placing orders
- The opportunity to see related items that were not originally on the shopping list

### **The OGS Business Model**

Each OGS site fits one of two descriptions: online retailer or online grocery shopping service. Online retailers are virtual supermarkets, existing only in an online format – they typically pick and fill consumer orders through the use of a warehouse that stores a variety of products. Australian examples include Groceries 4 U and FoodDirect. Some online retailers in the U.S. have expanded their offer to also include services such as dry-cleaning and video rentals. Some even provide consumers with a special unit, containing refrigerated and frozen sections, which is installed in the consumers' garage at no extra cost so as to minimise spoilage if the goods are delivered when no one is home (Kurnia, 2005).

The second type, online grocery service, is store-based and is typically offered by brick-and-mortar supermarket operators. Consumers' orders are usually picked from a local supermarket and the consumer is given the option of either picking up the order at the store

or having it delivered to their home or place of business. The cost of using OGS service varies, depending on the individual retailers and services required. Australian examples include Coles Online and Woolworths' Homeshop.

### **The OGS format**

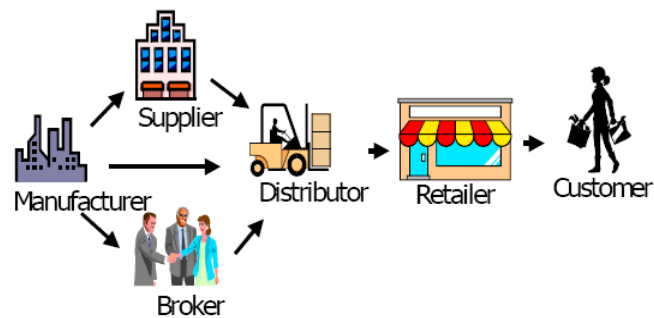
Online grocery ventures use the Internet to provide improved personalised service and convenience to consumers. They aim to leverage information technology to provide (Palmer, 2000):

- Front-end interface for improved personalised service;
- Back-end logistical order-fulfillment; and
- Delivery and billing processes.

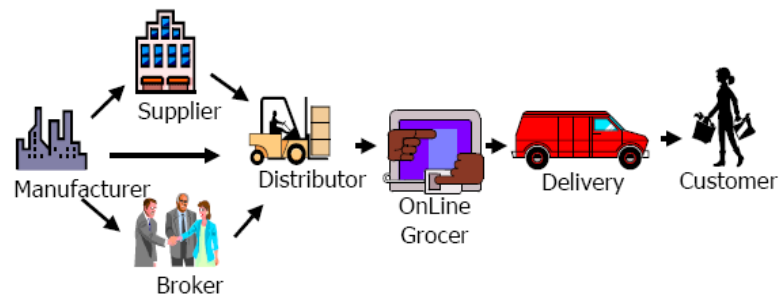
In addition to these improvements, retailers also gain valuable transaction-level consumer information for improved marketing. The move to the Internet also offers a different set of costs and benefits for both grocer and consumer. According to Palmer (2000) from the grocer's standpoint, the key issue is always the overall cost structure involved in getting the groceries to the customer. Direct costs include the payments to wholesalers and distributors for aggregating the products and delivering them to the distribution centers and final delivery to retail stores. The costs for traditional grocery vary based on transportation costs. Traditional grocers also have the cost of putting the product on the shelves, staffing the checkout lines and the carrying costs of the physical retail space.

For pure online groceries, the arrangement of goods is more efficient, leading to a lower cost for the product. Online grocers can develop distribution mechanisms that do not require retail space and provide fulfillment services to end customers from distribution centers specifically designed for individual picking, packing and shipping. The economic model therefore shifts, with savings on the supply chain and additional costs for delivery. For those grocers with both traditional and online offerings, the handling and logistics are often separated given the different needs for display versus picking and packing. A comparison of the traditional and online value chains can be seen in the following figures.

## Traditional Retail Supply Chain



## Online Grocery Supply Chain



Source: Palmer (2000)

From the customer's standpoint, the key issue is the overall cost of the online shopping process. These costs can include time, travel and product prices. The total cost of a basket of goods offered by online and traditional grocers will differ depending on the good selected and the transportation cost. For the customer to see a benefit the cost of delivery must outweigh the time cost associated with shopping in-store.

## OGS Consumers

The first study of online grocery consumers was done by Park et al. (1998), who conducted focus groups with U.S. consumers with experience in OGS. The study found that 'Hi-Tech Baby Boomers' performed OGS for reasons of convenience or because of the novelty. This group typically ordered items online from home and experienced a reduction in the ordering time as they ordered online more frequently. Moreover, they were generally satisfied with delivery and felt that the delivery fee was justified by the convenience. On the other hand, the older/physically challenged consumers, who usually had low incomes and lived alone, shopped online because of the physical constraints of visiting a grocery store. Unlike the first group, they did not feel that the convenience they experienced from shopping online could justify the high delivery cost (Kurnia, 2003).

Morganosky and Cude (2000) conducted a study to determine the key reasons for shoppers switching from shopping in-store to online. The findings indicate that shopping online appears to be the ultimate in streamlining grocery shopping, convenience and saving time. A group of respondents also indicated that physical constraints had been their primary reason for shopping online, including long-term disabilities and short-term difficulties in driving and lifting groceries. Another group reported the presence of children as their main reason to shop online. The study further suggested that better educated and higher income consumers were more likely to shop online for time saving and convenience aspects. Other benefits from shopping online mentioned by respondents include greater accuracy, a more peaceful experience, better ability to monitor total spending and better planning.

From an Australian study of online shopping in general, Morgan (2000) reported that male grocery buyers are more likely to purchase goods online compared to female grocery buyers. Moreover, people living in city areas are more likely to purchase products and services online compared to those in the countryside. The study further indicated that 63 percent of Australian grocery buyers aged 18 to 34 are likely to use online shopping in the future compared to those aged above 35. According to a recent survey on Household Use of Information Technology (ABS, 2005), about 5 percent of Australian consumers aged 18-24 purchase food, groceries or alcohol online. This compares with 11 percent of consumers aged 25-34 and 12 percent of consumers aged 35-44. A reported 9 percent of consumers aged 45-54 purchased these types of goods online, while 7 percent of consumers aged 55-64 bought groceries in this way.

## **Conclusion**

Several competing models appear to be emerging in OGS in Australia and globally. Each has a slightly different approach to the product line, retail/wholesale channel management and delivery fulfillment mechanism. A critical question is which model will provide the most compelling efficiencies generating customer loyalty and continuing profits. The total cost of shopping by consumers is certainly a factor and depends on how the individual consumer develops the equation for attributing travel, shopping and product costs. Total expenses for grocers using different models will vary depending on the elements of the value chain included. Some will pay more for the picking, packing and delivery while others will incur costs of operating physical stores (Palmer, 2000).

Larger chains and cooperatives may also benefit from economies of scale, and some direct-to-customer models can take advantage of lower wholesale prices. The main advantage of the internet-only stores is high accessibility for those consumers that have Internet connection from both the home and office. OGS firms need to develop and exploit economies of scale by higher market penetration to reduce their fixed costs/revenue ratio and better utilise their existing distribution channels. New alliances and integration with traditional grocers or wholesalers may also provide opportunities through access to fulfillment processes and automated warehouses.

Although still very much in its infancy in Australia, the online grocery retail format appears to be very relevant in the Australian market as today's consumers continuously emphasise the importance of convenience in grocery shopping. Likewise, a number of problems in grocery shopping are commonly cited by Australian supermarket shoppers, including waiting in queues and slow service, and therefore consumers are demanding a way that enables them to save their time in grocery shopping. These problems and others addressed by Australian grocery shoppers can be eliminated through the effective use and uptake of OGS. Research shows that once the first grocery shop is made online, there's little incentive in turning back.

**About the author**

Having recently completed her grocery shopping online for the first time, Carla is particularly interested in the benefits that OGS can bring to busy Australians. She is particularly interested in how new retail formats can benefit Australians and the impact that they have on traditional retailers. As a Researcher at the ACRS, Carla is responsible for managing and coordinating both primary and secondary research projects, including research design, data collection and analysis, research report writing and presenting. In her time at the ACRS, Carla has researched various topics such as online retailing, multi-channel retailing, automotive retailing, and consumer and retailer trends.



## About the Australian Centre for Retail Studies

The Australian Centre for Retail Studies provides research driven education to those involved in the retail sector through broad based research and information generation, management education programs and the promotion of retailing as a career.

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- Management development programs
- Presentations, conferences and seminars
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- Study tours

The ACRS builds skills, knowledge and understanding at all levels of management from first line appointees to CEOs; because of its unique retail focus the Centre offers advantages over other general management training providers.

## Enquiries

Please contact us if you have any enquiries about Retail Therapy or the centre itself. Also if you would like further information about this paper or contributing please feel free to contact **Jeff Rogut**.

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