

Reflections on: Online Grocery Shopping

by Mark A. Fox

This paper is included in the First Monday *Special Issue #6: Commercial applications of the Internet*, published in July 2006. *Special Issue* editor Mark A. Fox asked authors to submit additional comments regarding their articles.

Read the original article here http://www.firstmonday.org/issues/issue7_9/fox/index.html


This article often appears among the most widely-read First Monday articles. We are surprised—perhaps even baffled—by how often this article gets linked to by other sites and by how often would-be eGrocery entrepreneurs contact us with questions. No doubt one reason the article is so widely referenced is the open, free-content of First Monday. However, it is clear that many of those looking to enter this business are attracted by what they—misguidedly—view as the low entry costs. These would-be business owners believe that a vehicle and an operational web-site will start them on the road to riches. This is clearly not the case. The effective delivery of groceries necessitates that food items be delivered to customers in undamaged form. To ensure this objective necessitates timing the selection of the grocery items themselves, timing the delivery itself, and ensuring that the groceries are transported in a way that does not damage their quality. Peapod.com, probably the most successful eGrocery service, notes that:

[orders are] shopped at the last possible moment and carefully packed by hand in bags and special temperature-controlled containers, paying close attention to delicate and temperature sensitive products.

Our trucks are specially equipped to make sure that your groceries stay secure and at their optimal temperature all the way to your home where your driver brings your grocery bags right to your door (Peapod, "How Your Products Stay Fresh").

Economies of scale are also necessary for success in the eGrocery business. For example, regarding deliveries, if large vans are used they can service many more customers, at lower cost than do smaller vehicles that would require constant restocking. This is also a reason that eGrocery services tend to concentrate on servicing concentrated areas.

Finally, it appears that success in the eGrocery business is linked to vertical integration, i.e., operating a grocery store/warehouse and delivery service, or to alliances with existing grocery stores. This allows for profits to be derived largely from the grocery products themselves. It also allows for grocery warehouses to be situated in locations where the cost of real estate is considerable lower than for traditional grocery stores. For example, Peapod serves customers with two 75,000-square-foot warehouses in Lake Zurich, Illinois and Gaithersburg, Maryland (Peapod, "About us").

It is hardly surprising that few eGrocery services have prospered. We suspect that if there is potential for higher profit margins associated with eGrocery delivery services then this may be achieved through focusing on demographics that place a premium on such a service. 

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