Online Grocery Retailing: Building the Last Mile to the Customer

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Introduction:

Approximately 80 companies offered online grocery services in Europe and the US by early 2000. Experts estimated that online grocers could capture as much as 10% of the US grocery market between 2005 and 2010, which in 1999 had been valued at US$468 billion. Studies conducted in European markets suggested that online grocery sales could reach €100 billion by 2010, or roughly 10% of the rapidly growing European grocery market.

Despite this potential, many were quite pessimistic about the future of online grocery retailing, and predicted that most online grocers would be bought or simply fail. It was not uncommon to hear predictions such as, "The online grocery market will consolidate among two to three traditional retailers, with players like Wal-Mart stores leading the way."

Even investors, who had initially embraced the industry, began to cross online grocers off their shopping lists in 2000. For example, the stock price of one prominent online grocer, Webvan, had reached $34 in 1999, before tumbling to less than $5 per share by August 2000. Industry analysts believed that a viable business model would be difficult to achieve, since online grocers often had complex fulfillment models and high marketing costs.

Despite the industry's unproven track record, most industry insiders remained confident that online grocery retailing would eventually become a major success. However, some still wondered, "Could online grocery retailers develop a business model that would consistently deliver profits and create value for the customer?"