

Fooddelivery.com: Bringing Back the Good Old Days

The Food Industry Center sponsored two seminars this year that focused on e-commerce, specifically on the business of buying groceries online.¹ **Rick Brindle, Vice President e-sales, Nabisco Biscuit and Snacks** pointed out in a recent seminar that “e-business is business.” It is about increasing productivity and sales, reducing costs and enhancing customer satisfaction and loyalty. Last fall **Simon Foster, Head Delivery Boy (President and CEO) of Simondelivers.com** said, “this business is all about taking steps and stops out of the supply chain. It is about delivering fresh products fresher, delivering service to people’s door and saving consumers’ time.”



Rick Brindle

Believe it or not, more groceries are sold on-line now than in the late 1990’s. Sales have tripled since 2000, up to \$1.6 billion in 2003.² One of the major changes is that in the early days of Internet grocery sales computer programmers and venture capitalists were looking for products to sell. They adopted the food business as a venue in which to practice their skills and pursue their dreams. Now, food companies at all levels of the supply chain, including retailers, are selecting computer and Internet technology that is appropriate for their own business model.

Managing web sites that are user friendly, so consumers actually spend less time online than they would going to a store. As well as managing delivery routes and personnel in a way that delivers true service to the consumer is bringing back business-to-consumer e-commerce within the food industry. Simon estimates that he saves 55,000 customers 2.5 hours a week in shopping time and five million gallons of gas over a year.

There are few “pure play” grocery.com companies left. NetGrocer and Freshdirect on the East Coast and SimonDelivers in the Twin Cities of Minnesota are the only companies known at this time which operate successfully without a major partnership with a brick and mortar store. Simon Foster identified some of the secrets to success.

- Build the business around scheduled delivery routes.
- Develop loyal customers who adopt a habit of ordering weekly.
- Establish delivery routes when the customer base is dense enough to make it profitable to send delivery trucks out into a neighborhood.

- Use a supplier that utilizes advanced information technology, and engages in joint planning and forecasting.
- Establish special arrangements to order superior fresh breads and meats daily.
- Create a dialogue with people, a dialogue in person through the delivery people and a dialogue online through an interactive web site.

Simon estimates that it costs \$60 to acquire a new customer even though sixty percent of his new customers come from word of mouth. Another fifteen percent result from direct mailings, ten percent from delivery people building up their route, and another ten percent from media advertising.

On-line grocery businesses are expected to succeed because sellers are figuring out how to make money in this business and consumers are learning to trust on-line



Simon Foster

companies to deliver top quality product and service. On the financial side, Brindle pointed out that grocery stores who add on-line shopping (so-called “clicks and bricks”) can raise their annual revenue by more than a half million dollars and realize a net gain of more than \$400,000 after incurring the additional costs of picking and delivering groceries to

people’s homes.³ Even though less than 2 percent of U.S. households currently shop for groceries on-line, consumers who shop on-line spend five times more per order than the average transaction in a store (\$125 compared to \$25).

The typical on-line grocery shopper currently spends 26 percent more overall, on groceries than their off-line peers and has a higher than average income. Simon estimates that the average income of their customers is \$55,000 per year.

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Up Coming Events

June 8-12

FMI/TFIC

Managing the Total Store:

Leadership Course

Earle Brown Center, St. Paul Campus

CO-DIRECTORS' NOTEBOOK

Obesity and the Food Industry: Developing a Pro-Active Strategy



The Crisis

Chronic diseases resulting from obesity are taking a large and growing share of U.S. healthcare expenditures. The Surgeon General reported that in 1999-2000 64.5 percent of adults were overweight or obese. Currently, more than 44 million Americans are considered obese, reflecting an increase of 74 percent since 1991. During the same time frame, diabetes increased by 61 percent, reflecting the strong correlation between obesity and diabetes. In addition, overweight and obesity are associated with increased risk of heart disease, stroke and joint problems.

Moreover, 15 percent of children and adolescents are obese which is three times the 1980 figure and 4 percent of adolescents now have Type II (adult onset) diabetes. "Obesity and diabetes are among our top public health problems in the United States today," said HHS Secretary Tommy G. Thompson.

Implications For The Food Industry

Although the initial lawsuits filed against the food industry have generally been regarded as frivolous, many health and nutrition experts are calling for government intervention to stop the trend. Consumer advocacy groups are moving to influence how food is marketed and sold in the future. In particular, obesity in children has begun to emerge as a focal point. The Physicians Committee for Responsible Medicine has labeled school lunches as "weapons of mass destruction". Clearly the issue is beginning to capture both the attention and emotion of the nation. Now is the time for the food industry to step up and develop proactive strategies that result in effective ways to address the crisis, and avoid unnecessary and potentially punitive legislation and legal action.

Still most of the food industry is as yet either defensive or non-committal for lack of a sense on how to approach the issue, and a concern over possibly negatively impacting competitive positions. Some larger organizations, (Frito-Lay, General Mills, and Subway) have independently adopted policies, and implemented programs to intervene. But the scale of the problem is so vast that it is unlikely that such individual efforts will result in societal change. The best (and possibly only) chance for the industry to make a significant impact would be to form a coalition and seek ways to work collectively toward effective intervention. **A pro-active strategy needs to be developed to position the food industry to be part of the solution and not to be perceived as part of the problem causing obesity.**

Role of The Food Industry Center

At The Food Industry Center, the Obesity Crisis is at the top of our agenda – few other issues will so profoundly affect the future of our constituent organizations. We view our role as to act as a catalyst for the food industry to initiate a collaborative effort, pool resources, access available grant funding and provide solutions that are greater than the sum of the individual efforts. Therefore we wish to undertake a mission that:

- Provides opportunities for industry level dialogue.
- Foster the development of strategies.
- Conduct research that fills gaps in our understanding of the issues to develop more effective means to address overweight and obesity.

The Food Industry Center is seeking corporate "seed funding" to initiate a series of activities that will result in a "Coalition for a Healthier America". This "seed funding" would be used to host a Summit Conference on Obesity to be held in the Fall of 2003. The format for this conference would be a free and open exchange of ideas on how organizations can work together in the development of strategies. From the output of this conference, the center would work with the industry to crystallize strategies, and convert them into specific initiatives.

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Less than two percent of food is sold on-line but food manufacturers also are selling products on-line directly to consumers and shipping them by FedEx or other delivery services. There will be more and more places for consumers to obtain food, leaving the supermarkets as we know them ever more vulnerable to competition. Lest one is tempted to dismiss the power and attractiveness of on-line shopping it may be well to remind ourselves of some historical quotes

of those who underestimated the power of technology in the past.

"I think there is a world market for maybe five computers." Thomas Watson, chairman of IBM, 1943.

Footnotes

¹ The Food Industry Center sponsors three seminars per academic year. Rick Brindle spoke on February 18, 2003 and Simon Foster spoke on October 29, 2002.

² McLaughlin, Katy. "Back from the Dead: Buying Groceries Online," *Wall Street Journal*, 2/25/02, D-1.

³ Brindle cites sources from Information Resources, Inc., Forrester Research, Inc., and The Food Marketing Institute.

Spring 2003 Program Leadership Board Meeting

Summary of Discussions

On March 13th and 14th, the Food Industry Center's Program Leadership Board convened at the McNamara Alumni Center on the University of Minnesota campus. Charter members of the board (see roster below) welcomed Jim Kamman, Vice President of ConAgra Foods – Refrigerated Division, sitting in for Pat Verduin of ConAgra Foods – Frozen Division, our newest member.

The agenda was divided into three main topics:

- A discussion of industry issues to provide a platform for sharing insights between the organizations represented on the Program Leadership Board, and a context for the development of relevant university education and research initiatives.
- An Integrated Food Industry Program update.
- A review of the Food Industry Center's research initiatives for feedback and guidance.

Food Industry Issues

In a rather spirited discussion the group built on a theme raised in the Fall 2002 Meeting that the industry has *focused almost exclusively on efficiency and productivity to the near exclusion of top line growth*. Organizations are now structured with people and skill sets that are based largely on cost savings. However, the financial rewards associated with the *cost savings are diminishing*. A few of the questions raised were how does the industry get back to "the business of selling something to somebody" – "how do we deliver something better to the consumer?"

A related topic involved industry *Recruiting and Retention*. From the perspective

of several board members, the food industry has done a dismal job of positioning itself as an attractive place to pursue a career. If the industry were to market itself in a more positive light, the truth might make a very compelling case for attracting top job prospects.

Keys to retention seem to be the development of Training Programs and the fostering of a Team Environment. Those organizations that have done a good job in creating a sense of enthusiasm and commitment tend to be the ones that are growing.

It was suggested that the universities that have a food industry emphasis (e.g. University of Minnesota, St. Joseph's, Western Michigan, Cornell, Portland State, USC and Arizona State) should create a share group, and even possibly explore ways to connect with Trade Associations. Collaboration and connectivity would likely go a long way toward increasing the profile of the industry, and channeling resources to resolve industry needs.

Integrated Food Industry Program Update

The Food Industry Center, in conjunction with the College of Continuing Education has proposed a Micro MBA Program for SUPERVALU. The curriculum for this program would incorporate content from several retail and food industry specific courses offered by the various colleges and departments represented by The Food Industry Center. SUPERVALU is currently reviewing the proposal.

With respect to graduate and undergraduate programs, several potential program elements were presented and discussed, including:

- Internships
- Group projects
- Graduate student consulting

At the next Program Leadership Board Meeting, a detailed overview of the current course

offerings will be presented, and discussion will focus on curriculum development.

Research Initiatives

Current and proposed research initiatives were presented, and the Program Leadership Board provided feedback. These initiatives included:

- The 2002 Supermarket Panel Findings, and efforts to field the 2003 Supermarket Panel.
- Customer satisfaction tracking.
- Planning for an Industry Summit on the Obesity Crisis, scheduled for October.
- Consumer segmentation research to identify insights for the development of more effective weight intervention programs.
- Development of research and education programs around better understanding the Urban Market and Ethnic Markets.

The next Program Leadership Board Meeting is scheduled for October 2nd and 3rd, again at the McNamara Alumni Center.

Program Leadership Board Roster

Jay Buchingham – Old Dutch Foods
 Henry Edwards – Ahold USA
 Steve Frank – Jennie-O Foods
 Bill Goergin – A.C. Nielsen
 Diane Harper – General Mills
 Scott Haws – Land O' Lakes
 David Jenkins – The NPD Group
 Larry McCurry – Unilever
 Libby Pidegon – SUPERVALU (Chairperson)
 Jeffrey Poore – Nash Finch
 Scott Portnoy – Cargill
 Darrell Schaller – International Multifoods
 Pat Verduin – ConAgra Foods
 *Dennis Degeneffe – PLB Coordinator

CURRENT TFIC WORKING PAPERS AVAILABLE ON-LINE OR FOR PURCHASE:

03-01: E-Commerce: A New Business Model for The Food Supply/ Demand Chain

This paper is about the development of e-commerce in the food industry, the economic concepts and goals that it meets, and the changes it brings to the industry. E-commerce both fosters and demands vertical coordination. It changes the historical supply chain into a supply/demand loop while it lowers the cost of food. Policy issues arise around monopoly power, privacy, a diminution of variety, and the demise of small, undercapitalized firms.

03-02: The Growing Middle Class in Developing Countries and the Market for High-Value Food Products

The largest global growth opportunity for high-value food products is the emerging middle class in many developing countries. Using data for Lima, Peru, 20 percent of households are classified as middle or upper class. Monthly expenditures by the middle class on more expensive foods, such as fresh fruit and red meat, and especially for high value-added products, such as food away from home, are substantially higher, markedly so in some cases. In China there are some 290 million people in the emerging middle class, in India 91 million and in Brazil 58 million.

03-03: The 2001 Supermarket Panel Energy Management Study

Energy costs are a major concern for supermarket operators, since they typically represent the third largest operating expense after the cost-of-goods sold and labor. In September 2001, a supplemental energy management survey was sent to stores participating in the 2001 Supermarket Panel. There are significant differences in energy management and energy costs across stores grouped by ownership group size, store format and region. In particular, the results identify the characteristics of stores that are most receptive to energy management and cost conservation initiatives.

DID YOU KNOW?

• **RFID tags:** Radio Frequency Identification tags are finally cheap enough (about \$.20) and small enough to be used on consumer products like razor blades. The serial number on these tags can be “read” by wireless technology so a single item can be tracked through a distribution channel, off a shelf in a store and home with the consumer. The information about the product that matches the serial number is stored in a central computer, a design innovation by the Auto-ID Center at MIT. This innovative group has also figured out a way to “kill” the information at the point of sale which alleviates consumers’ concerns about being tracked by the tags they wear or the bottles of water they carry. (The Economist, 2/6/2003)

• **Jihanki?** The jihanki or “vending machine” is ubiquitous in the Japanese landscape. They are used to sell almost anything one would want from food and drink to clothes and golf balls. The “convenience” of these vending machines makes them so popular their sales outstrip the sales of all the convenience stores combined. Japanese consumers spend an average of \$730 per capita annually in jihanki. There is one for every 23 people in the country

and the number is growing. (The Globe and Mail 2/25/2003, www.theglobeandmail.com)

• **Asia Adopts Biotech Crops:** Three populous countries in Asia (China, Indonesia, and India) are planting millions of acres of genetically modified cotton. Many Asian countries are earmarking billions of dollars for private and government-sponsored research on biotech crops. With 145 million acres in the world already planted to GMO crops, Asia could lead the way in proliferating food crops that are based on genetically modified seed. China has the technology to grow GMO rice, tomatoes, corn, tobacco, sweet peppers, petunias, and popular trees. The Philippines is the first country in Asia to allow the marketing of foods made with biotech corn.

• **Supersizing at home?** The serving size of popular foods has indeed increased since 1977 both at home and in fast food restaurants. A careful look at the portion size eaten by U.S. consumers over the age of 2 in 1977, 1989, and 1996 reveals that except for pizza, people are eating more per eating occasion – meals or snacks. Total calorie intake increased. With no offsetting change in energy spent, this 11 percent daily increase in calories could lead to a 20 pound

increase per year per person. Calories consumed in meals eaten at home increased 3 percent while calories consumed in snacks increased 73 percent. The largest increases in portion sizes were for soft drinks and fruit drinks, hamburgers and Mexican food. Portion sizes for hamburgers, cheeseburgers and desserts, were largest at home. Portion sizes for salty snacks, soft drinks, french-fries and Mexican food were largest at fast food places. Portion sizes in sit-down restaurants were smaller for all key foods except pizza. (Nielsen and Popkin, JAMA, 289:4, 2003)

• QUIZ:

Who introduced innovations?

- Frozen TV dinner
- In-store pharmacy
- Scanning
- Membership wholesale club
- City of the first Wal*Mart combination food and discount store
- Mandated the current form of food labeling in the U.S.
- Offered irradiated fresh ground beef as a private label in all its locations
- First product to use a bar code.

Answers a. Swanson b. Giant Food
c. Marsh Supermarket in Dayton, Ohio
d. Price Club in San Diego e. Dallas
f. FDA g. Wegmans h. Wrigley's gum

The 2003 Supermarket Panel is online!

The 2003 Supermarket Panel is being conducted via the Internet for those who choose to respond in that fashion. Any supermarket can review and/or participate in the Panel by logging on to <http://foodindustrycenter.umn.edu/supermarketpanel> and registering for access to the questionnaire.

We invite comments and suggestions for gathering useful information.

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