

# How to Win in Online Grocery

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UNIVERSITY  
*of* VIRGINIA

DARDEN SCHOOL  
*of* BUSINESS

April 11, 2022

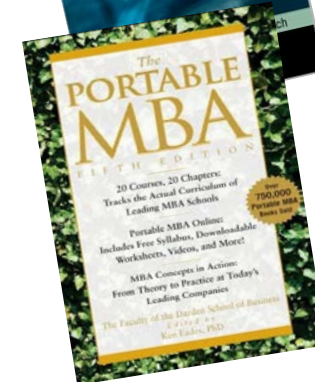
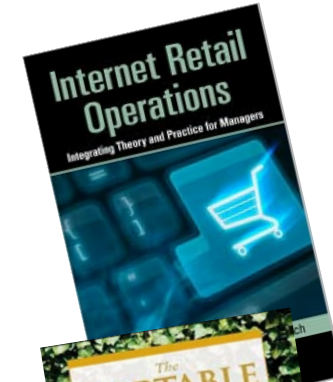
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# AGENDA

- Introduction
- Online Grocery History
- Amazon & Grocery
- Pandemic Growth
- Fundamentals Matter
- Strategic Conclusions

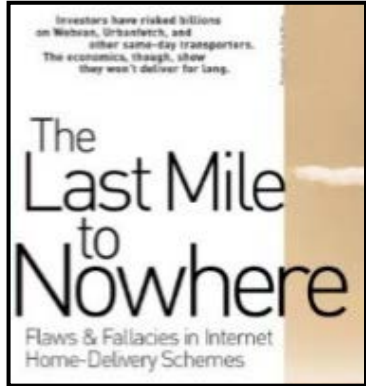


**Tim Laseter**  
*Professor of Practice & Executive Advisor*





# Twenty Years Examining eCommerce & Last Mile



MIT Sloan Management Review

MAGAZINE SPRING 2007 • RESEARCH FEATURE

## 3 Critical Issues in Internet Retailing

Special Report: The Future of The Web

Timothy M. Laseter, Elliot Rabinovich, Kenneth K. Boyer and M. Johnny Rungtusanatham

strategy+business

## What FreshDirect Learned from Dell

And what other e-tailers might learn from make-to-order pioneers.

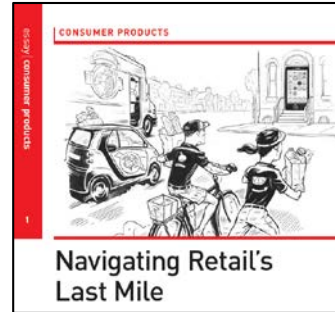


erg, and Martha Turner

## Lessons of the Last Bubble

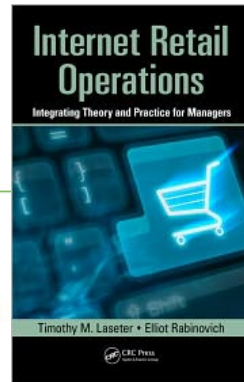
Smaller bets can make the next technological boom more productive and enduring.

by Tim Laseter, David Kirsch, and Brent Goldfarb



## What Mom-and-Pop Stores Can Teach Grocery Chains

To stave off online competitors, supermarkets should work with their suppliers and get back to personalized service.



Timothy M. Laseter • Elliot Rabinovich



## The Rise of the Last-Mile Exchange

Keeping up with the growing volume of e-commerce will require delivery companies to disrupt their long-standing business model.

By Tim Laseter, Andrew Tipping, and Frederick Cuijck



ONLINE JULY 10, 2017

## A Strategist's Guide to the Digital Grocery

As Amazon and Walmart disrupt the grocery industry, smart retailers can compete by plying their wares in a technologically enabled way.

By TIM LASETER, STEFFEN LAUSTER, AND NICK HODSON

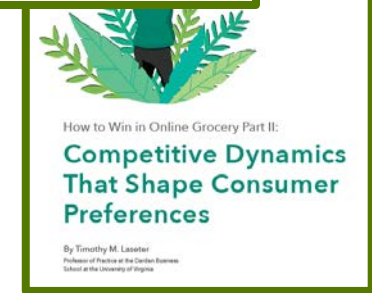


Takeoff

## How to Win in Online Grocery

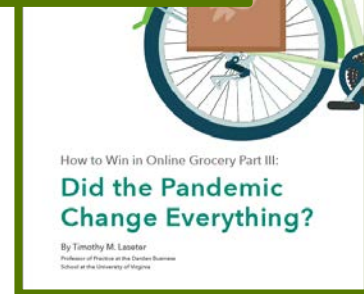
Online grocery offers a significant opportunity which may favor the incumbents, rather than the world-renowned online leader, Amazon.

By Timothy M. Laseter  
Professor of Practice at the Darden Business School at the University of Virginia



## How to Win in Online Grocery Part II: Competitive Dynamics That Shape Consumer Preferences

By Timothy M. Laseter  
Professor of Practice at the Darden Business School at the University of Virginia



## How to Win in Online Grocery Part III: Did the Pandemic Change Everything?

By Timothy M. Laseter  
Professor of Practice at the Darden Business School at the University of Virginia

Booz | Allen | Hamilton



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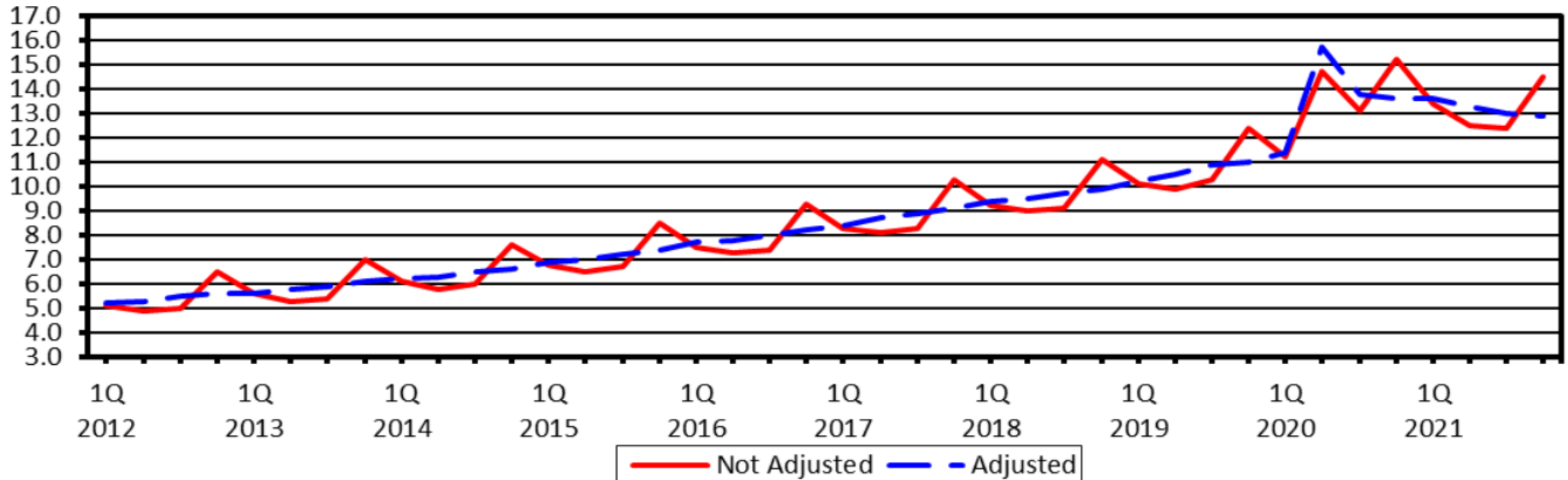
strategy& Formerly Booz & Company



# POP QUIZ: *What Percent of US Retail is E-Commerce*

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:  
1<sup>st</sup> Quarter 2012 – 4<sup>th</sup> Quarter 2021

Percent of Total





## POP QUIZ 2: *Who Is This Guy? (And Why Should You Care?)*



# BORDERS®



## **WEBVAN:** *Rising Star to Flame Out in 21 Months*

**November 1999**

***Webvan's Splashy Stock Debut May Shake Up Staid Grocery Industry***

**December 1999**

***How Webvan Conquers E-Commerce's Last Mile***

**July 2000**

***Profit Delivery Stalled, Webvan Hits New Roads***

**October 2000**

***Will Webvan Ever Find a Better Way to Bring Home the Bacon?***

**February 2001**

***Webvan Closes Dallas Operations, Plans Layoffs to Conserve Cash, Reverse Losses***



**August 2001**

***The  
Tragedy  
of Webvan***

# WEBVAN: *Caught in the Hype and Forgot the Fundamentals*





# AMAZON: Decade of Struggle...then Whole Foods

Amazon is going to launch its Fresh grocery delivery service in new markets including Boston and the U.K.

May 14, 2016

After an 18-month launch hiatus, AmazonFresh is expanding once again.



The New York Times

## Amazon to Buy Whole Foods for \$13.4 Billion

June 16, 2017

Give this article



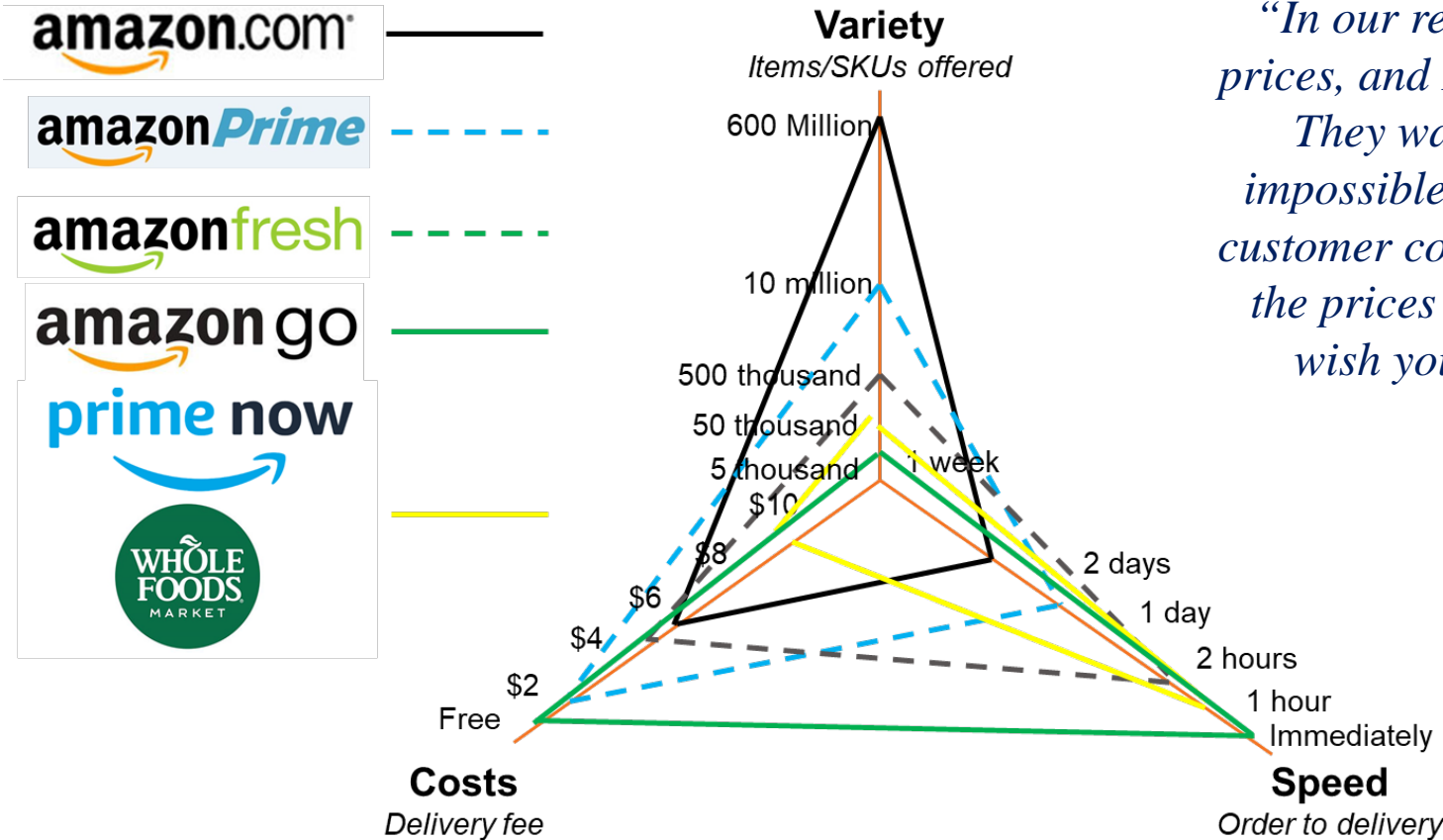
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# AMAZON: Consistent Philosophy...But Fitting for Grocery?

## Fundamental Values & Tradeoffs



*“In our retail business, we know that customers want low prices, and I know that’s going to be true 10 years from now. They want fast delivery; they want vast selection. It’s impossible to imagine a future 10 years from now where a customer comes up and says, ‘Jeff I love Amazon; I just wish the prices were a little higher,’ [or] ‘I love Amazon; I just wish you’d deliver a little more slowly.’ Impossible.”*

**- Jeff Bezos**

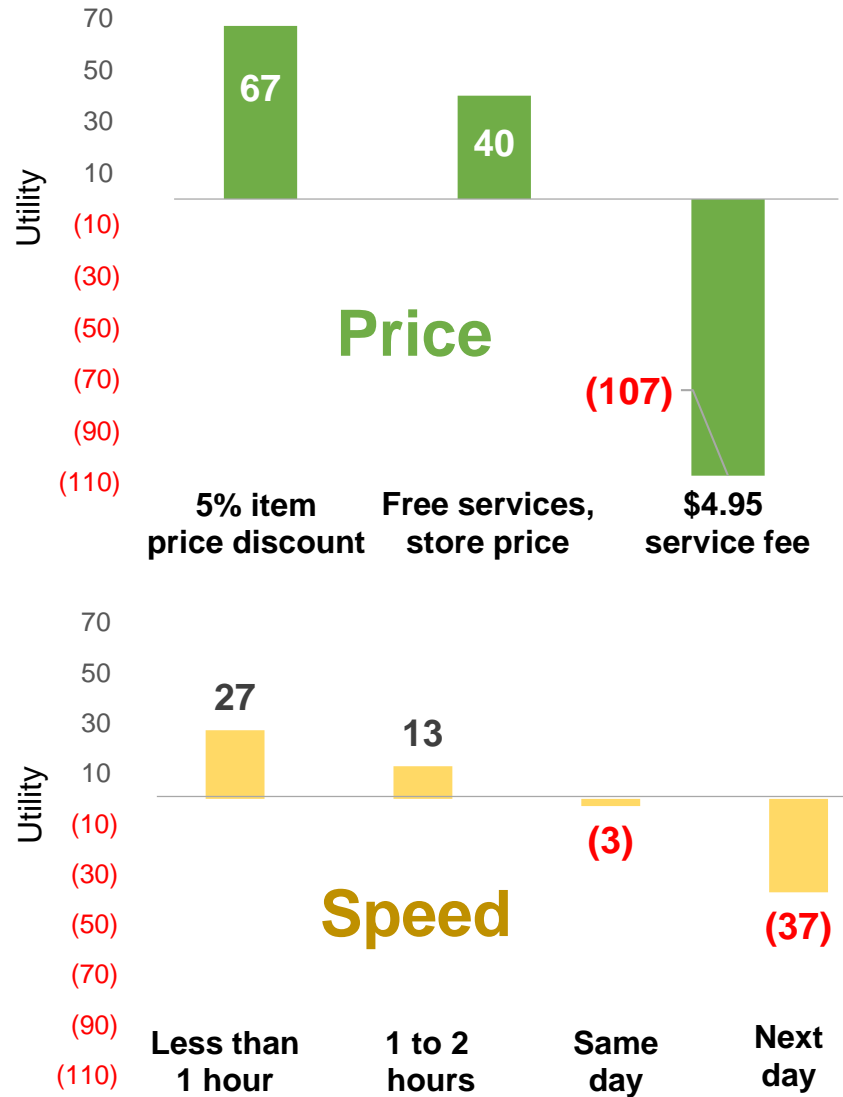


Source: Inc. Magazine (2017)

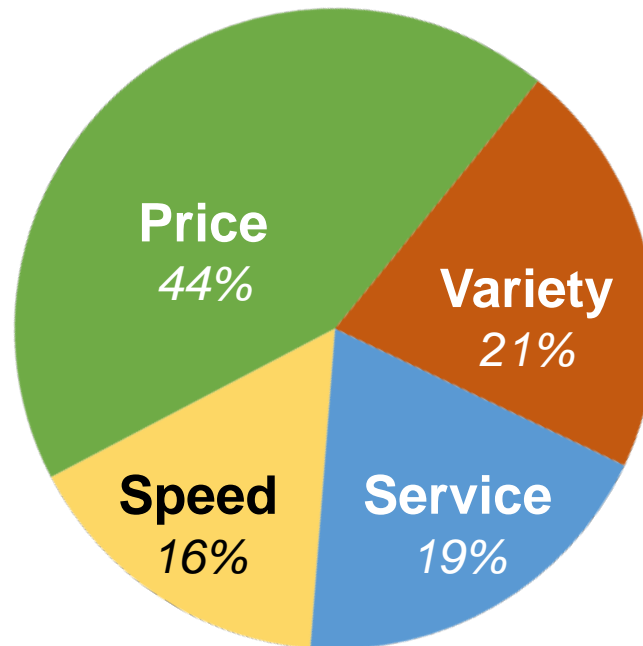
Sources: <https://www.scrapehero.com/how-many-products-does-amazon-sell-worldwide-october-2017/>  
<https://www.cnet.com/news/amazon-says-over-10-million-items-now-eligible-for-one-day-delivery-in-us/>  
<https://tinuiti.com/blog/amazon/amazon-fresh-prime-pantry/>  
<https://www.gartner.com/en/marketing/insights/daily-insights/amazon-goes-grocery-shopping>  
<https://www.scrapehero.com/number-of-products-amazon-prime-now-june-2018/>



# 2020 SURVEY: Price Matters Most; Variety Less in Grocery?



## Conjoint Survey Attribute Weighting & Utility Scores



Source: How to Win in Online Grocery (2020)



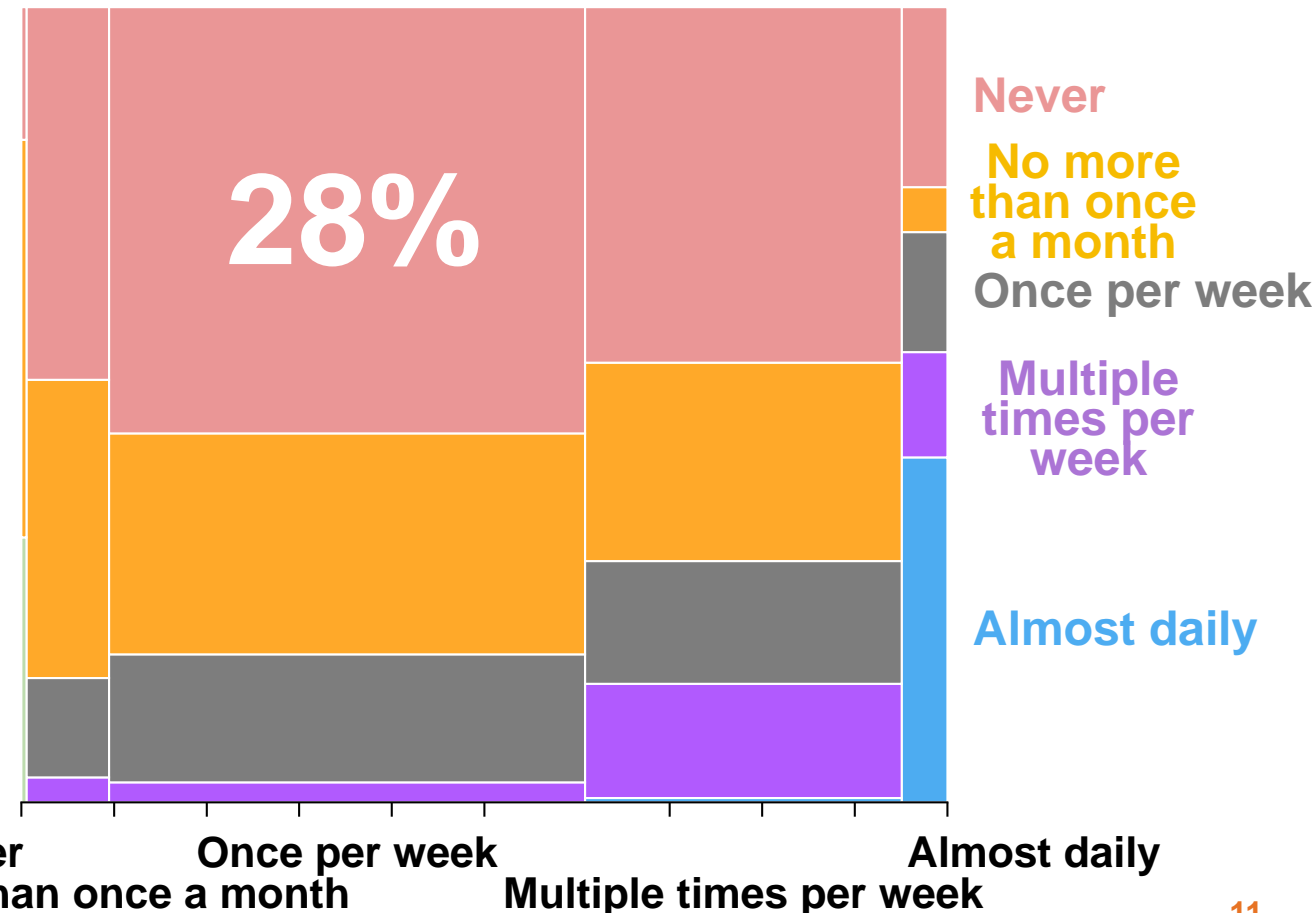


# PRE-PANDEMIC: *Grocery Habits Hard to Break*



How often do you go to a grocery store each month?

How often do you buy groceries online each month?



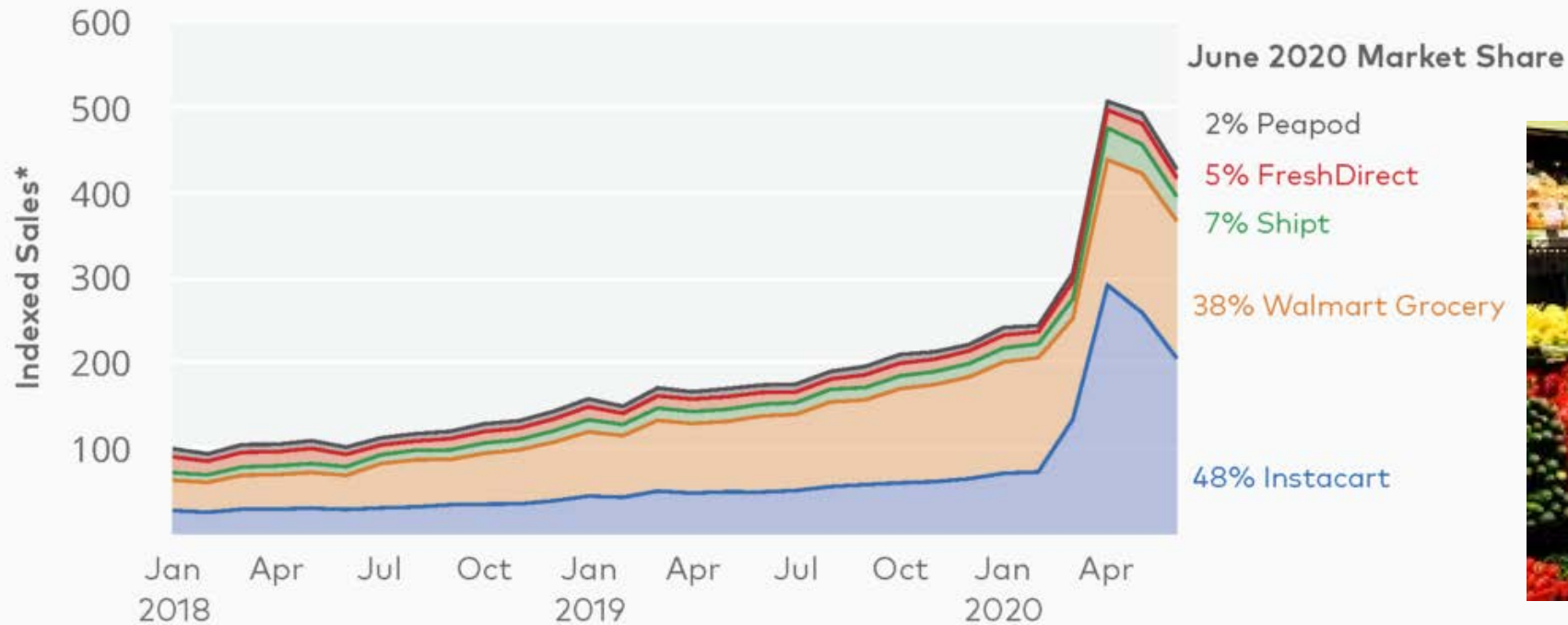
# GROCERY GROWTH: *Still Behind But Accelerating (and Big)?*





# INSTACART: *Winning During the Pandemic*

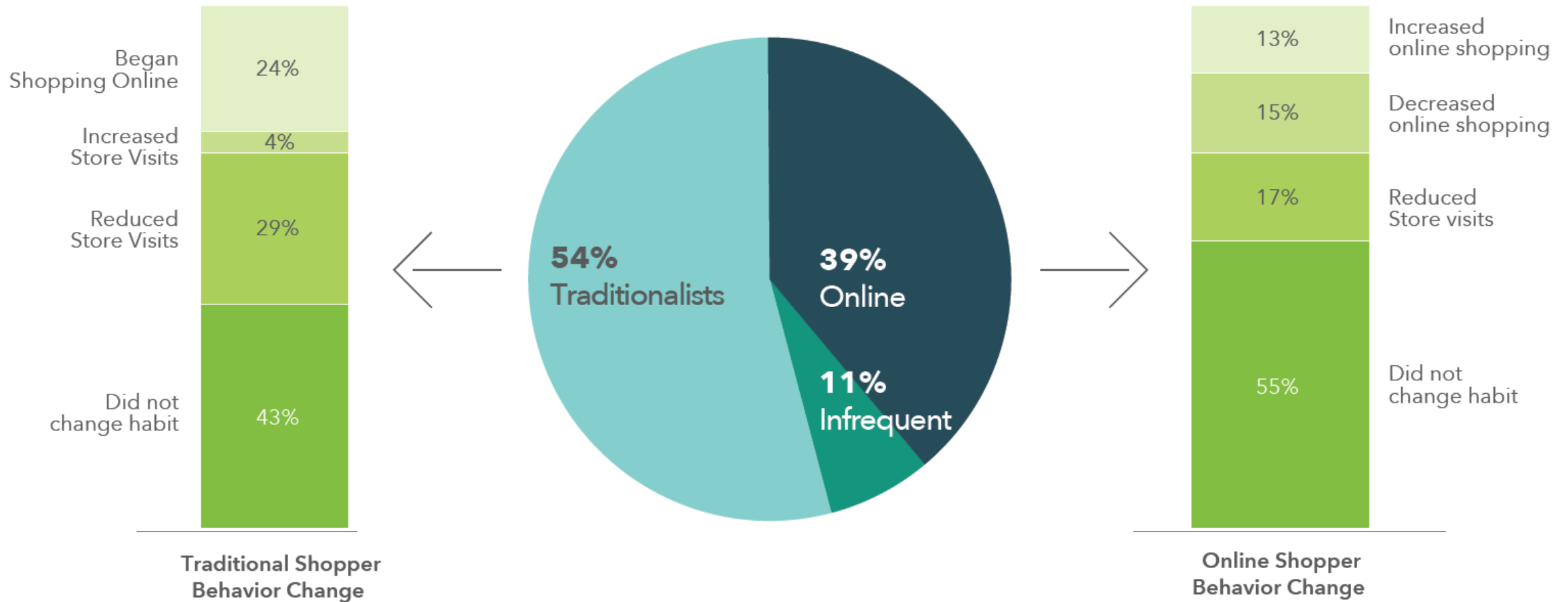
### Grocery Delivery - Monthly Sales



\*indexed to U.S. grocery delivery sales from January 2018 (=100)

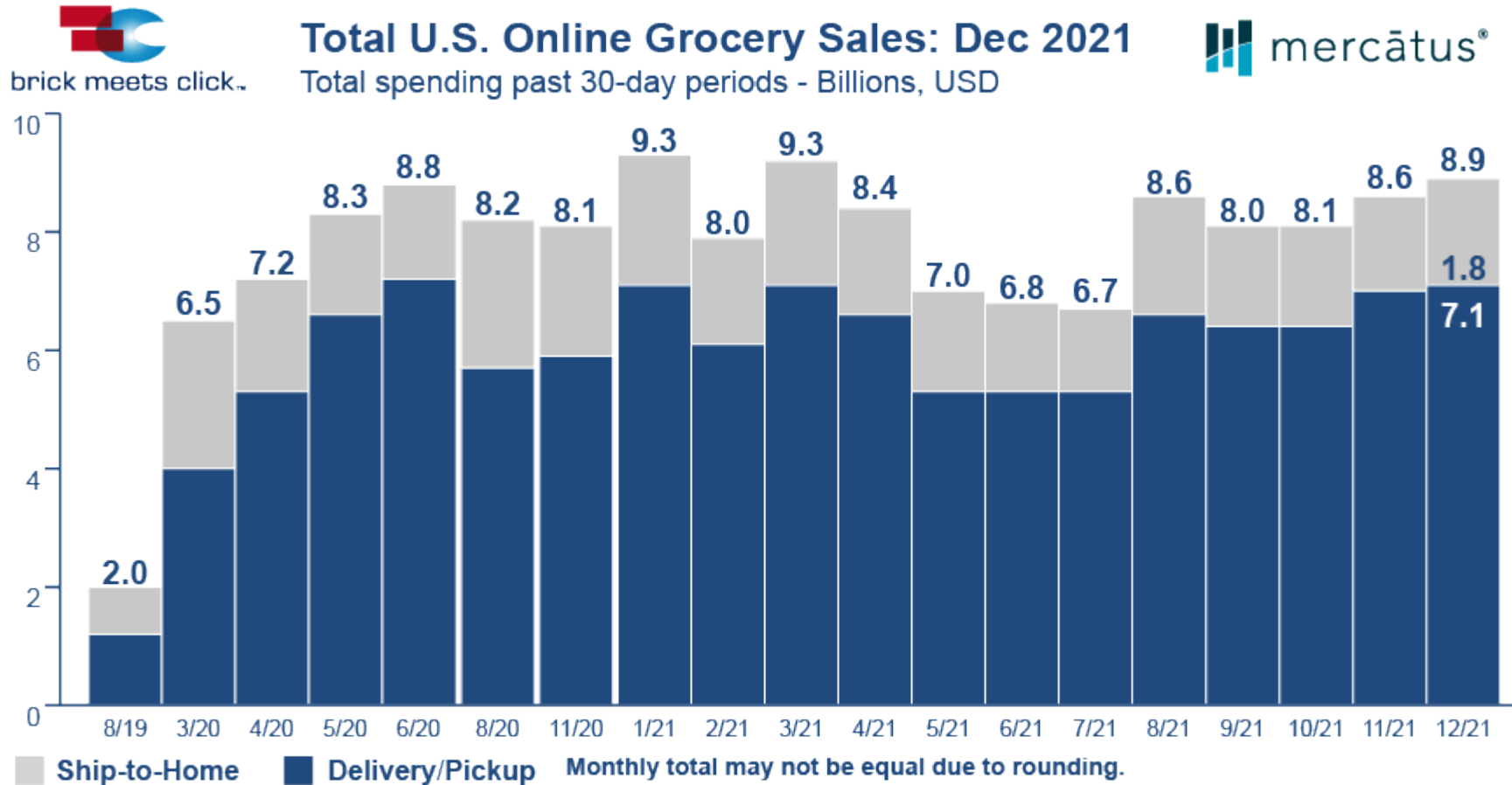
# Despite the Pandemic Nearly Half Did Not Change

## Pandemic-driven behavior change





# U.S. ONLINE GROCERY: Sales Now Stabilizing?



**Delivery** includes first- and third-party providers (e.g. Amazon Fresh, Albertsons, FreshDirect, Instacart, Shipt)  
**Pickup** includes in-store, curbside, lockers, and drive up  
**Ship-to-Home** includes common (e.g. FedEx, UPS, USPS) and other parcel couriers

**Sources:** Brick Meets Click/Mercatus Grocery Shopping Survey, Dec 2021; Brick Meets Click Grocery Survey Jan-Nov 2021; Mar-Jun, Aug, Nov 2020; and Aug 2019



# INSTACART: Challenged Post-Pandemic...But Why?

THE WALL STREET JOURNAL.

Tim Lase

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BUSINESS

## Instacart Won the Pandemic but Rivals Are Catching Up

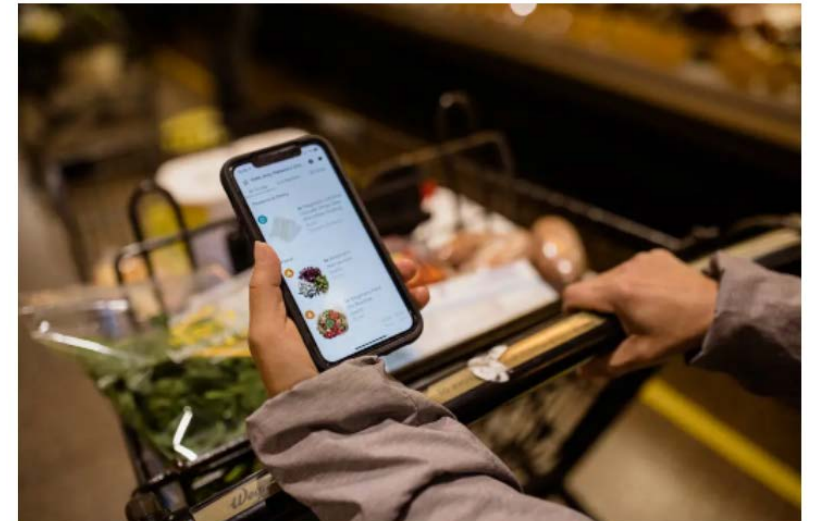
Grocery-delivery firm, which rode a pandemic boom to become sector's biggest app, works to forge its future as competition mounts



The New York Times

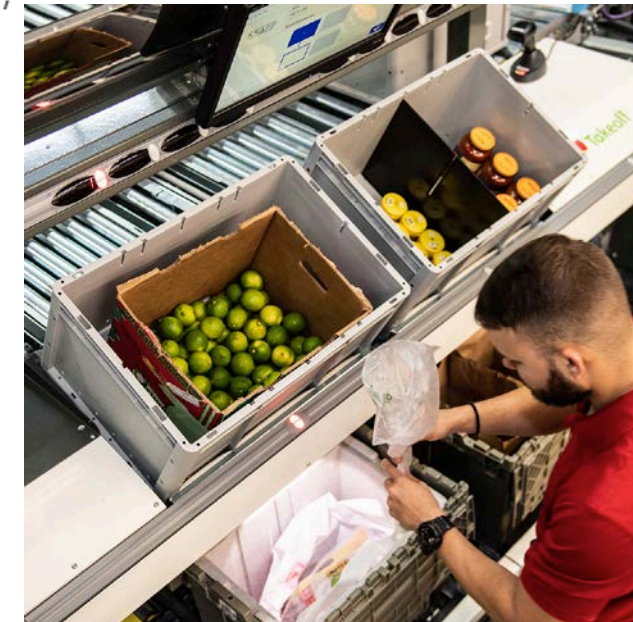
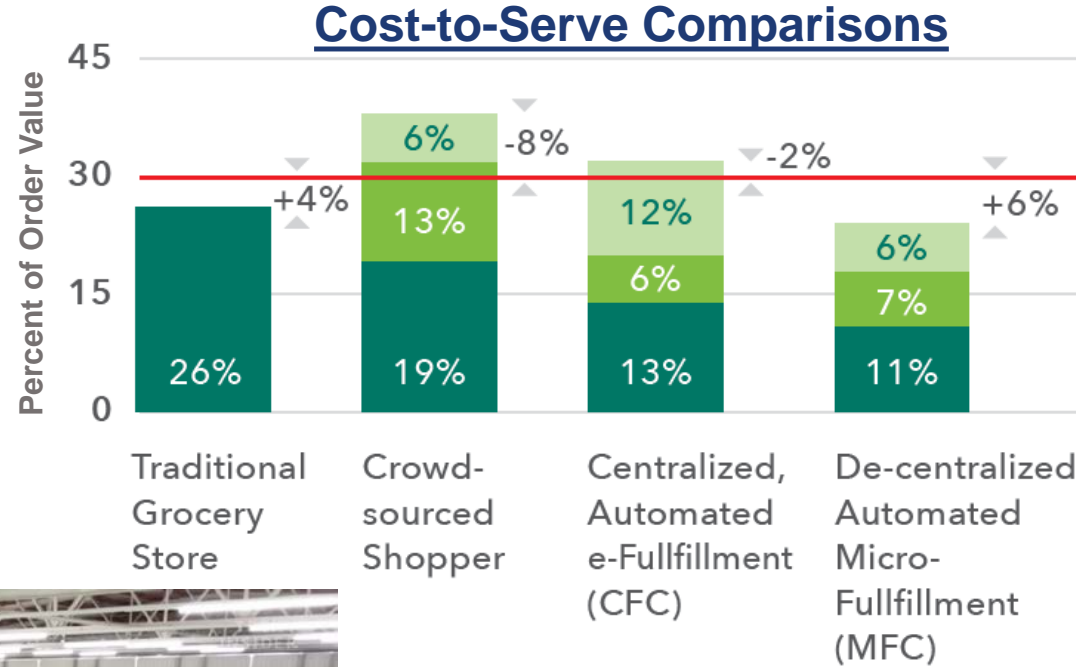
## Instacart Cuts Its Valuation by 38 Percent, Citing 'Turbulence'

Despite the company's fast growth during the pandemic, the market for technology stocks appears to have cooled.





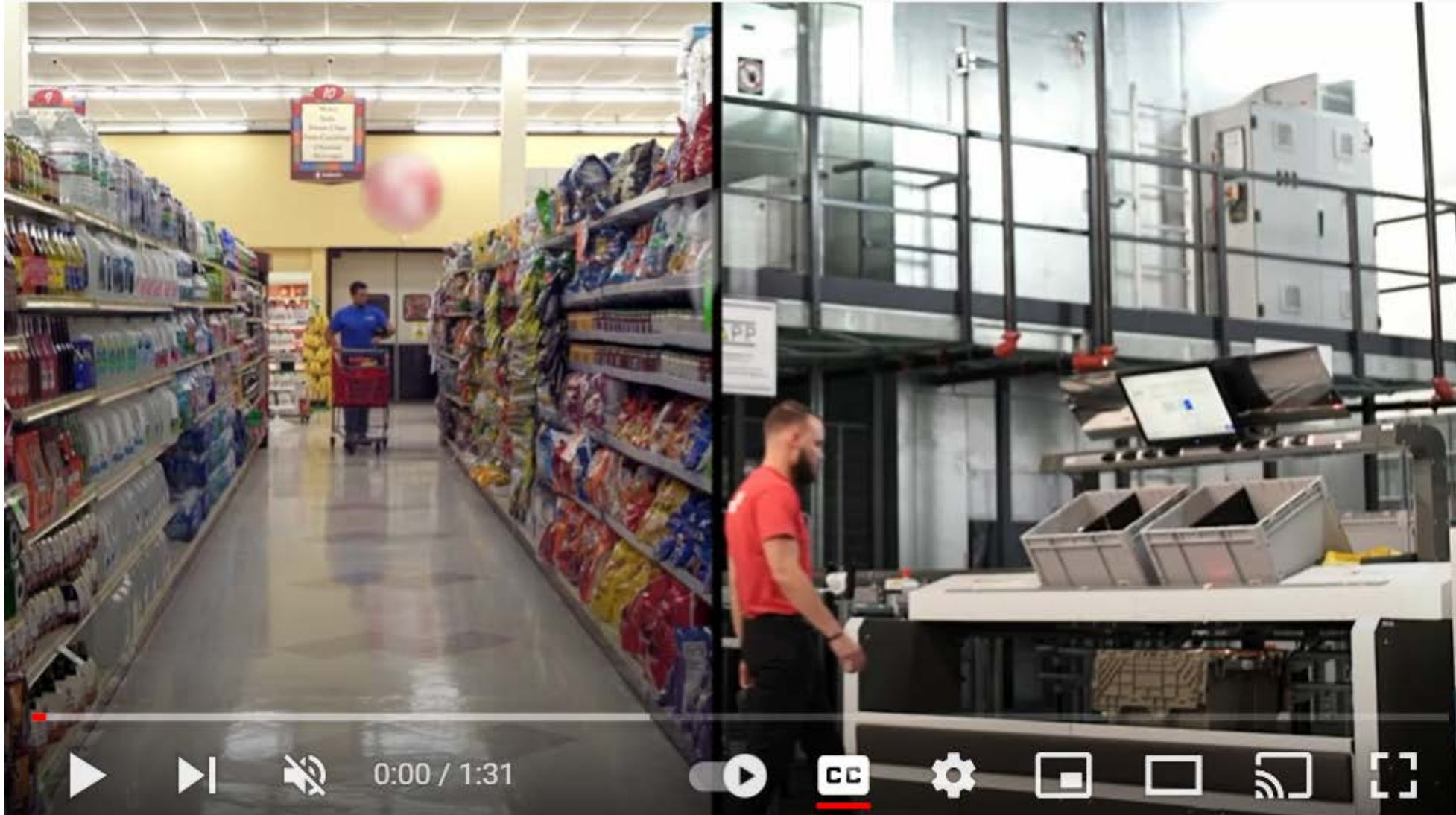
# PICKING COST: Core Element of Cost-to-Serve



Source: Supermarket News (2019) nbcnews.com (2020), Budget Epicurean (2104), Takeoff.com (2020), Knapp (2020)



# MICRO-FULFILLMENT CENTER: *New Cost Tradeoff*



Takeoff

ALERT  
INNOVATION

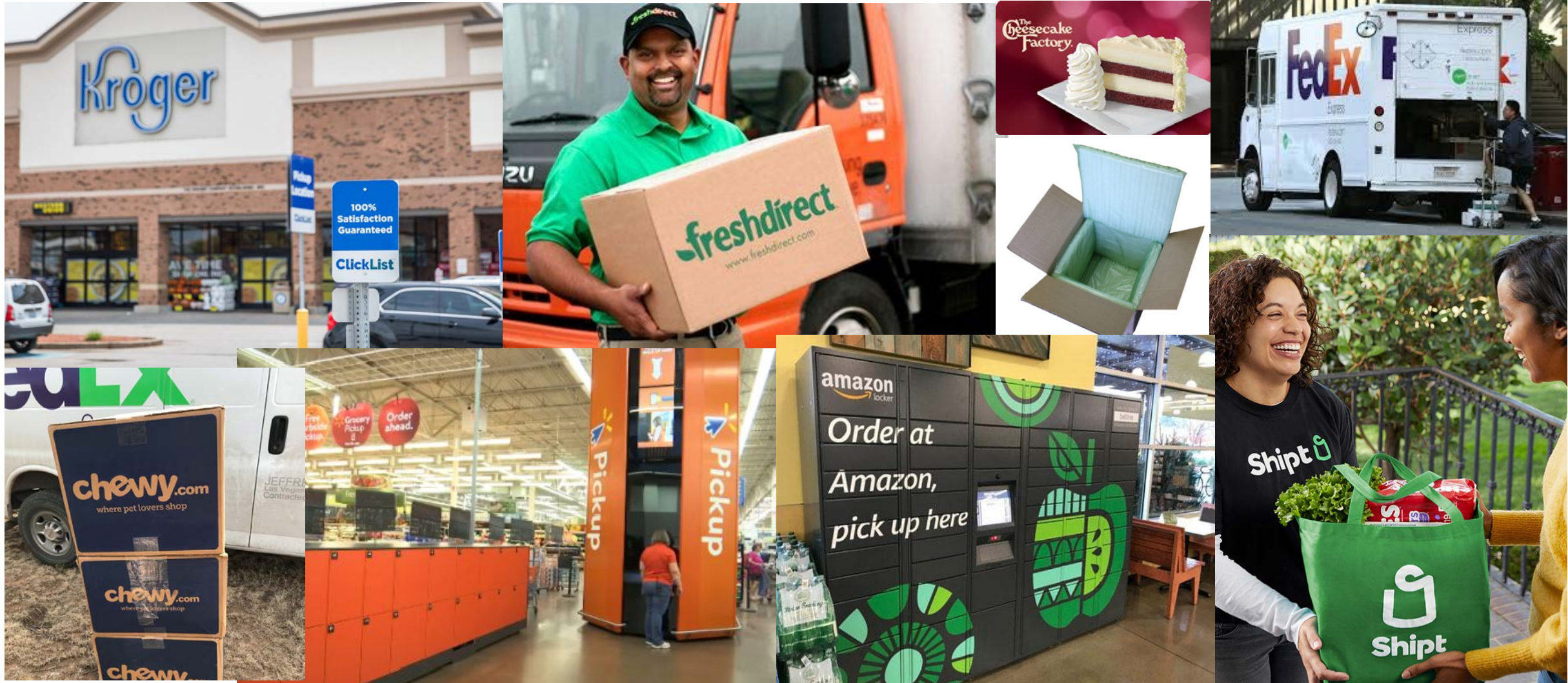
Fabric



DEMATIC



# LAST MILE: *Affects Willingness-To-Pay as Well as Cost-to-Serve*



Source: BudgetEpicurean.com (2014), New York Daily News (2014), Business Insider (2015) Owensboro Times (2018), The Morning Call (2018), Convenience Store News (2018), Orlando Magazine (2020)

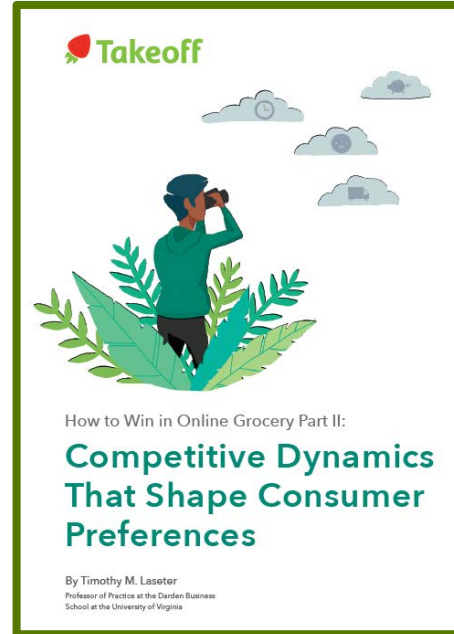


# LAST MILE: *Affects Willingness-To-Pay as Well as Cost-to-Serve*



# STRATEGY: Competitive Action Shapes Consumer Preferences

## United Kingdom



**Vs.**

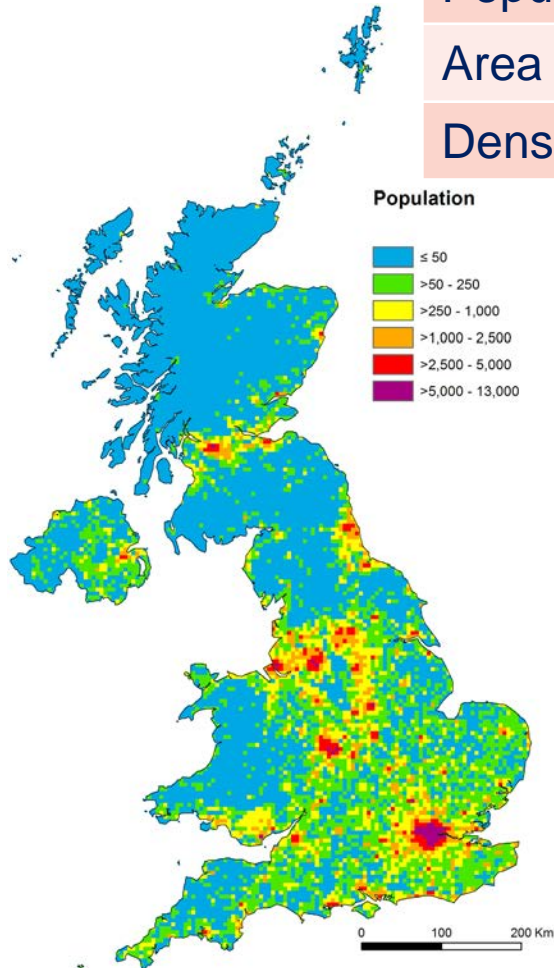
## France



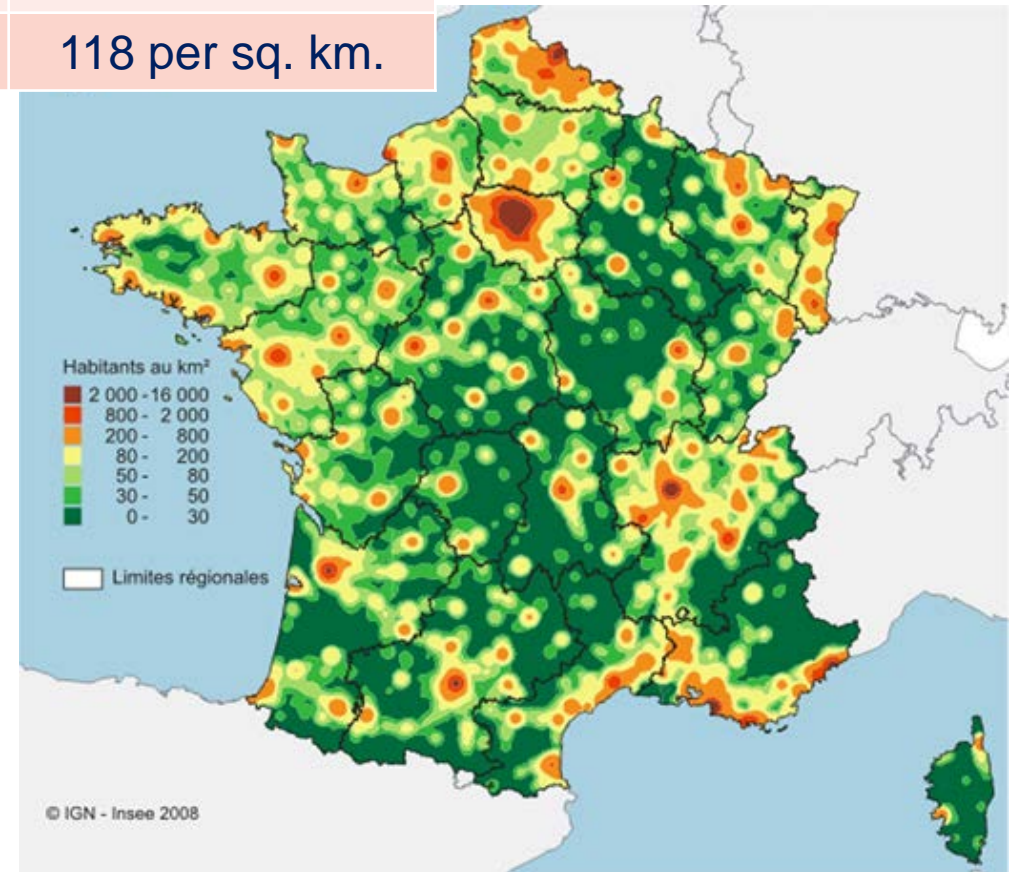
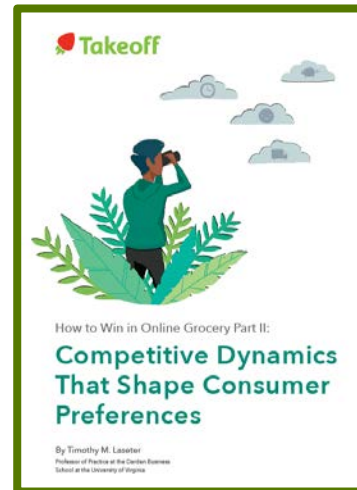


# SUCCESS: *Cost-to-Serve Aligned to Willingness-to-Pay*

	United Kingdom	France
Population	66.0 Million	65.2 Million
Area (square km)	242.5 Thousand	551.7 Thousand
Density	272 per sq. km.	118 per sq. km.



**Vs.**

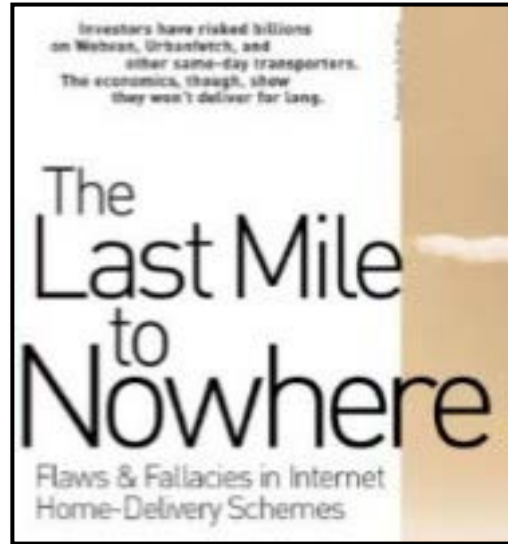




# TIMING: *Patience and Luck*

*“Winning in today’s dynamic economy requires a commitment to refine and adapt the business model continuously to navigate the ever-changing competitive landscape. Eventually, someone will find a value proposition that works — but many others will fail along the way.”*

*strategy+business*  
*Winter 2000 Issue*



## Transition to Digitally-Enabled Convenience

*The internet radically simplifies home shopping, driving volume and scale economies along the whole value chain lowering costs for consumers. Digital technology continues to drive towards “frictionless commerce”.*

