Logistics Association of Australia Ltd

THE HOME DELIVERY CHALLENGE

The following is the second in a series of articles from Amelia Chan, winner of the Logisitcs Development Award 2000 sponsored by CHEP Australia and supported by Morgan & Banks.

The theme of the September 2000 Council of Logistics Management conference was logistics.com. I would like to share my learnings from my favourite session which covered the challenges of starting up and surviving in the home delivery game. Attendees of this session were privileged to hear the story of Groceryworks.com directly from its founder.

Overview of Groceryworks.com
Groceryworks.com commenced in 1999 in Dallas. It distributes 13,000 food items including refrigerated and frozen. Webvan is its main competitor. Besides the content of this session, what I found appealing was the uniqueness of its founder Kelby Hagar, a thirty year old lawyer, whose common sense and strategic foresight has made his firm able to survive whilst Webvan is buckling.

Critical success factor 1: Stick to target markets with discipline
Groceryworks.com realised that to make money, selective marketing was required to achieve highly densed routes. Thus, Groceryworks.com stuck to geographic constraints and declared it was in no hurry to follow in the footsteps of Webvan's expansionary path. The temptation faced by a new business is to expand distribution. Rather, Groceryworks disciplined itself to limit its offering to its target regions. This involved having to turn down a consumer. However, by recording the zip code of the consumer, Groceryworks was able to later expand into the consumer's region if subsequently the volume increased to a level worthwhile for distribution.

Critical success factor 2: Strategic Alliances
<u>With systems partner</u>
Groceryworks took only just over six months to build the systems, with the pilot site running within 90 days. This very rapid ramp-up was in part due to Groceryworks choosing to align with EXE Technologies, the largest supplier of grocery e-fulfilment software in the world.

<u>With suppliers</u>
As GroceryWorks does not have manufacturing facilities, its product is bought-in. Nor does GroceryWorks have processing facilities; for example, it does not

have the set-up for meat-cutting. Thus, it is critical that Groceryworks partners with its suppliers to ensure consistently fresh product is delivered to the Groceryworks DCs on-time. Massive communication was necessary in this critical part of the supply chain.

Safeway
Besides increasing drop density, the other goal was to increase drop size whereby customers bought more of their shopping basket from Groceryworks. Thus, Groceryworks.com had to offer a price to consumers which was similar to what they would pay in a supermarket. To offer consumers comparable prices, GroceryWorks had to lower the costs at which it bought in the goods.

In June 2000, GroceryWorks formally entered a partnership with Safeways to become the grocery giant's exclusive online grocery channel. GroceryWorks' logo shows the name of Safeway's operations, Randalls and Tom Thumb.

Benefits for each partner
This partnership enabled GroceryWorks to leverage off Safeway's buying power, and in turn to offer consumers a price-point which was very close to that of a supermarket. Safeways would benefit in the partnership as it can leverage off GroceryWorks' superior on-line expertise in web merchandising, web fulfillment and home routing systems without investing in capital.

Room for the competitor to co-exist
But wouldn't Safeways view GroceryWorks as a competitive threat? I don't think so and presume that Safeways did the calculations to assure itself that even if GroceryWorks was operating at its maximum capacity, it would reach only x% of the market. Indeed, GroceryWorks also realises that online will always ever be one channel; that shoppers still desire the sensory experience of touching what they buy, and socialising while shopping.

Critical success driver 3: The front end
The front-end of order placement represents the interface with the customer. A poor front-end is the most common reason for consumers not using on-line shopping. For example, consumers do not wish to wait for images to download before making an order. Yet, traditionally the front-end for e-tailers has proved to be more problematic than the back-end of order fulfillment.GroceryWorks uses a standard front-end, rather than a custom-made suite. Further, GroceryWorks has a Shopfast section which features only the top 250 items that consumers buy. Shopfast is particularly useful for repeat users who know what they are looking for, and past orders are also saved.

Critical success driver 4: The back end
Home delivery is a driver intensive sector, and attracting drivers in a country which faces a more serious driver shortage problem than Australia, is one of GroceryWorks' successes.GroceryWorks treats its drivers as sales personnel since the driver represents the only personal interaction with the customer

base. As such, drivers are paid up to $2 above the industry norm plus a bonus based on delivery in full and on-time.

Interesting learnings for GroceryWorks

GroceryWorks had not anticipated the volume of heavy products that would be sold on-line. Consumers were buying bigger sizes on-line than they normally would at the supermarket. This was contrary to expectation that on-line would provide the opportunity to order smaller quantities more often. In particular, mothers and the elderly benefited from the driver delivering bottles right onto the kitchen counter.

On-liners find going to the supermarket inconvenient. The new form of inconvenience which has arisen for on-liners is the need to be present at home for the delivery. Groceryworks is investigating convenient pick-up alternatives for its consumers, such as at the local store.

Interesting learnings for Australia

Sticking to target markets with discipline is even more critical for Australian on-liners than their US counterparts, since the population density of Australia is significantly lower than the US.

Entering strategic alliances is precisely what Australia's Greengrocer.com, a distributor of fresh groceries, has done. In December 2000, it formed a partnership with Woolworths' on-line arm Homeshop.

- Greengrocer will be able to leverage off the retail giant's buying power by sourcing at least some of its fresh product from Woolworths' wholesaling division AIW. It will also be able to offer consumers dry goods, thus positioning itself as a one-stop-shop.
- Woolworths will be able to have access to Greengrocer's superior on-line expertise and its loyal customer base of 60,000.
- It is good to see the successful Australian on-liner Greengrocer.com following a very similar strategy to the American Groceryworks.com by forming an alliance with a major retailer.

Most Australian firms would benefit from sharing with competitors. Here was the CEO of Groceryworks openly sharing his learnings with direct and indirect competitors. In another session I attended at the Conference, the panel of speakers which comprised transport competitors, openly discussed the possibility of sharing order cycles and logistics assets to optimise the use of capacity in the industry.

Future papers

The next set of papers I provide will focus on the lessons I learnt during my site visits to TNT Logistics Italy, Lavazza coffee, Benetton and CHEP Europe in retail stores.

If you would like to discuss any of the issues in this paper, please feel free to contact Amelia on amelia.chan@kellogg.com