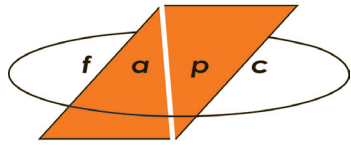


# Food and Agricultural Products Center



## FLASH!!

OKLAHOMA STATE UNIVERSITY™

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## Online Grocery Shopping is Still Alive...and Apparently Growing

STILLWATER, Okla. – Online grocery businesses strove to make their mark in the rapidly expanding e-business sector in the mid to late 1990s. At the time, advocates hailed the next generation of the retail grocery industry.

Critics viewed the movement as a fad, using the common arguments that consumers want to pick their fruits and vegetables and examine the expiration dates on meat and dairy products, said Rodney Holcomb, agricultural economist for the Food & Agricultural Products Center.

“Like many Internet business ventures, several high-profile online grocery businesses experienced a business ‘boom’ followed by a devastating ‘bust,’” Holcomb said. “Webvan Group, Inc. is a perfect example. After a highly publicized launch, the venture failed to meet its projections and eventually declared bankruptcy in 2001.”

Nationwide supermarket giants such as Kroger and Wal-Mart still do not offer online grocery shopping services, and Florida-based Publix closed its online service last summer in South Florida due to low business volume.

“Failed efforts and the apprehensive stance of some industry leaders have led many to believe that grocery e-marketing is a dying fad, but the fact of the matter is that this business segment is quietly growing stronger,” Holcomb said.

Albertsons, Safeway, Peapod and relative newcomer Freshdirect.com have all expanded their coverage areas and seen online sales growth in the past two years.

Safeway.com head Mitch Rhodes claims that sales doubled last year and are expected to double again this year to a level nearing 5 percent of total Safeway sales.

Peapod LLC, which acts as a delivery service for a number of supermarket chains in the Northeast, claims to have more than 150,000 active members in its delivery range.

Jason Ackerman, co-founder of Freshdirect.com, claims that his company’s current 100,000 active customers is a 400 percent increase over last year.

All of these e-grocery players have been slowly but successfully expanding their markets along both the East and West coasts, Holcomb said. Additionally, these groups have found some success in Midwest and Southwest cities such as Minneapolis, Chicago and the Dallas/Ft. Worth area.

A recent *Houston Chronicle* article quoted Patti Freeman Evans, a Jupiter Research analyst, as saying that 2004 online grocery sales should reach \$2.4 billion with expectations of \$6.5 billion by 2008. While these numbers respectively represent only 0.4 percent of the 2004 estimated total grocery market of \$570 billion and 1 percent of the 2008 forecast of \$641 billion, the projected increase represents an annual growth rate of 42 percent.

These online grocery shopping estimates are based upon changing consumer shopping habits that will be determined by two factors: how online providers make their services even more convenient and how low they can keep the service charges.

According to the article, most online services charge less than \$10 for a delivery. These costs are expected to stay low, but the service providers hope to woo new customers with the quality of their services.

For example, some services offer shopping lists that can be kept online for easy purchasing the next time. Also, the companies promote the freshness and quality control benefits associated with the various climate zones in their warehouses and delivery trucks. The businesses want their customers/members to value the fact that their ice cream is delivered to their house still frozen, yet their non-refrigerated items are not also chilled.

For those in the business of providing online grocery shopping services, the best areas for future growth appear to be where population densities and Internet use are both high, Holcomb said. This explains

why the areas in and around New York, Baltimore, Philadelphia and Chicago have been targeted for expansion efforts by successful online grocers.

“However, the industry will still face quite a chore in getting consumers in less densely populated areas to buy into the concept, and most consumers still do not trust someone else to choose their produce for them,” he said. “Regardless, recent growth experienced by a handful of firms is striking up quite a bit of interest for a retail sector that is characterized by low margins and stifling competition.”

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