AGENDA

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

Tim Laseter
Professor of Practice & Executive Advisor
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:
1st Quarter 2012 – 4th Quarter 2021

Source: U.S. Census Bureau
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

- Initial public offering: $15.00
- Opening day peak: $34.00
- Filed bankruptcy: $.06

**NASDAQ index**

- Nov. 4, 1999
- July 6, 2001
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. After an 18-month launch hiatus, AmazonFresh is expanding once again.

May 14, 2016

The New York Times

Amazon to Buy Whole Foods for $13.4 Billion

June 16, 2017
“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
2020 SURVEY: *Price Matters Most; Variety Less in Grocery?*

### Conjoint Survey

**Attribute Weighting & Utility Scores**

- **Price**: 44%
- **Variety**: 21%
- **Speed**: 16%
- **Service**: 19%

#### Price
- 5% item price discount: 27
- Free services, store price: 13
- $4.95 service fee: (3)

#### Speed
- Less than 1 hour: (10)
- 1 to 2 hours: (3)
- Same day: (10)
- Next day: (37)

#### Variety
- Curated selection: (27)
- Full store selection: 5
- Expansive selection: (110)

#### Service
- Delivery: 43
- Curbside pickup: (10)
- Instore pickup: (33)

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?

- Never: 28%
- No more than once a month: 16%
- Once per week: 24%
- Multiple times per week: 28%
- Almost daily: 6%

Source: How to Win in Online Grocery (2020)
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)

June 2020 Market Share
- 2% Peapod
- 5% FreshDirect
- 7% Shipt
- 38% Walmart Grocery
- 48% Instacart
Despite the Pandemic Nearly Half Did Not Change

Pandemic-driven behavior change

- Began Shopping Online: 24%
- Increased Store Visits: 4%
- Reduced Store Visits: 29%
- Did not change habit: 43%

54% Traditionalists
39% Online
11% Infrequent

- Increased online shopping: 13%
- Decreased online shopping: 15%
- Reduced Store visits: 17%
- Did not change habit: 55%
HOW TO WIN IN ONLINE GROCERY: PANDEMIC-DRIVEN GROWTH

U.S. ONLINE GROCERY: Sales Now Stabilizing?

Total U.S. Online Grocery Sales: Dec 2021

Total spending past 30-day periods - Billions, USD

- Ship-to-Home
- Delivery/Pickup

Monthly total may not be equal due to rounding.

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

Source: Brick Meets Click, Oct 2021: U.S. Online Grocery Sales Stabilize at $8.1 Billion from https://www.brickmeetsclick.com/oct-2021---u-s---online-grocery-sales-stabilize-at---8-1-billion
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

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.
### HOW TO WIN IN ONLINE GROCERY: FUNDAMENTALS MATTER

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

<table>
<thead>
<tr>
<th>Traditional Grocery Store</th>
<th>Crowd-sourced Shopper</th>
<th>Centralized, Automated e-Fulfillment (CFC)</th>
<th>De-centralized, Automated Micro-Fulfillment (MFC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Order Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Typical Gross Margin</td>
<td>+4%</td>
<td>-8%</td>
<td>-2%</td>
</tr>
<tr>
<td>Cost of last mile</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Cost of pick &amp; pack</td>
<td>13%</td>
<td>6%</td>
<td>11%</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>6%</td>
<td>+6%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

MICRO-FULFILLMENT CENTER: New Cost Tradeoff
LAST MILE: Affects Willingness-To-Pay as Well as Cost-to-Serve

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

TechCrunch
HOW TO WIN IN ONLINE GROCERY: STRATEGIC IMPLICATIONS

STRATEGY: Competitive Action Shapes Consumer Preferences

United Kingdom

France

Vs.
SUCCESS: Cost-to-Serve Aligned to Willingness-to-Pay

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>66.0 Million</td>
<td>65.2 Million</td>
</tr>
<tr>
<td>Area (square km)</td>
<td>242.5 Thousand</td>
<td>551.7 Thousand</td>
</tr>
<tr>
<td>Density</td>
<td>272 per sq. km.</td>
<td>118 per sq. km.</td>
</tr>
</tbody>
</table>
“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”.

1. Equilibrium
2. Emergence
3. Expansion
4. Consolidation

Music & Video
Grocery
Computer Hardware
Furniture
Apparel
General Merchandise

Netflix
Spotify
Amazon Fresh
Walmart
Peapod
Instacart
Overstock
Wayfair
Amazon Prime
Jet
Walmart.com
Google Express
Bonobos
Stitch Fix
Trunk Club