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Research on Future Digital Strategy of Immediate Grocery

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Abstract: *This paper discusses the digital strategies of an imaginary delivery grocery company called Immediate Grocery. Moreover, the characteristics and advantages of Immediate Grocery are also illustrated in this paper. The Five-Force model further presents the competitive capability of the Immediate Grocery's digitalization. The digital strategies elaborate the detailed process of digitalization and resulting consumption ecosystem. In addition, this paper explores an innovative business model that is necessary for traditional business in current Internet time, especially after the pandemic of COVID-19.*

Keywords: *Immediate Grocery, Digitalization, Five-Force Model, Consumption ecosystem, In-use information, Digital profile*

1. Introduction

Immediate Grocery, a company that provides grocery delivery service, aims to bring convenience to the daily lives of busy urban dwellers, by delivering fresh foods with the same quality of products available in local supermarkets. Our company provides two kinds of services, one is to deliver fresh groceries, and two is to specialize meal plans for each customer and delivery the pre-portioned and receipts for costumers to cook. The idea is based on some modern companies that have introduced this service in the US such as "Amazon Fresh" and "Walmart's Grocery". In China, however, "Tencent" and "Alibaba", two of the biggest companies in China, have not ventured into such a business model, providing an opening for Immediate Grocery.

Immediate Grocery is an online platform that connects consumers with local grocery stores. Imagine this scenario: Amy, a busy worker, wants to have a healthy diet but doesn't have time to buy ingredients from the local grocery. Amy can go to the Immediate Grocery's website to buy fresh ingredients for her preferred diet. Immediate Grocery will then deliver her order as soon as possible. Amy benefits by saving her time from shopping but also enjoying a meal made with fresh ingredients. Immediate Grocery benefits by expanding its business with every satisfied customer like Amy. While this business model may appear similar to other online delivery models such as those of "Amazon Fresh" and "Walmart's Grocery," Immediate Grocery has some distinctive and differentiating attributes. Essentially, it attempts to provide groceries that are targeted to a customer's meal preferences, rather than just being an alternate distribution approach compared to brick and mortar grocery stores.

2. The Market Opening

As mentioned above, there are only a few companies that provide the online grocery service, most of which focus on generic markets and sell their own products. However, Immediate Grocery connects with local grocery, and residents living nearby are Immediate Grocery's main consumer group. Operating in an innovative business model for China and maybe even in the world, Immediate Grocery has a bright future because it not only makes consumers' lives more convenient but also helps many local grocery stores who do not have an online presence to stop losing customers who prefer online shopping.

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3. Background

3.1 Traditional Industry

In the traditional sense, a grocery store refers to a retail shop that sells either fresh agricultural products or preserved food. To differentiate grocery stores from supermarkets, grocery stores do not sell non-food related products, including clothing and household items. In addition, unlike the supermarkets, grocery stores often directly get their agricultural products from the farmers, ensuring the freshness of fruits and vegetables. Traditional groceries bring together the supplier and the consumer. However, the underlying business models of traditional groceries did not change much since the 20th century, until when supermarkets were born. After that, other innovations were relatively minor such as the introduction of self-service that was quickly adopted by all supermarkets. A lack of major innovations may be one of the factors that have contributed to a continued decline in the growth of the grocery market industry. According to the supermarketnews.com, "In 2018, the traditional grocery retail channel — supermarkets, fresh formats, limited-assortment stores, super warehouses, and small grocery stores — saw sales decline 1.1% to $547.63 billion, lowering dollar share 1.7% year over year to 43.8%, Inmar said in its 2019 Future of Food Retailing Report[1]. The channel's total store count dipped 0.5% to 40,379". The share of traditional grocery in the market continually decrease over the course:

Dropping from 90% to 44% in 2018, the chart shows that the traditional grocery channel has lost more than half of its food retail market share since 1988. As shown in this graph, traditional grocery stores can no longer hold their leading position among all grocery businesses.

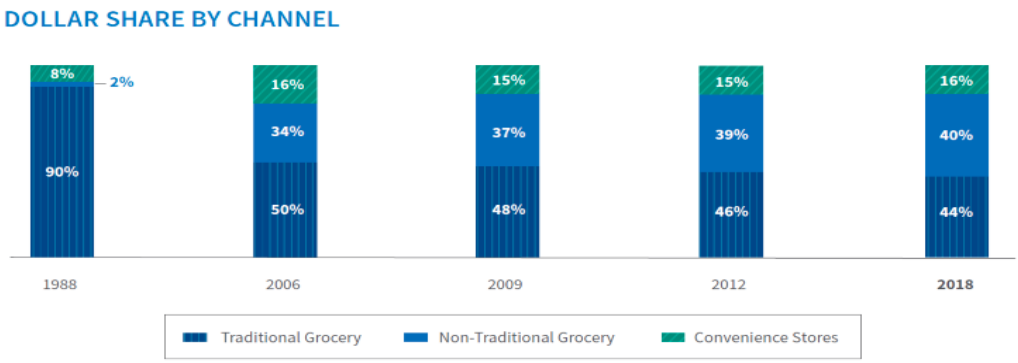

Figure.1 Enterprise competitive advantage acquisition model [1]

3.2 The Expanding Online Groceries

In the 1990s, as one of the largest retail sections, grocery stores were considered as the area with great potential by the technology companies, since people have to visit grocery stores regularly and spend a larger amount of money accumulatively. Especially, for those who do not enjoy shopping, online, and delivering grocery meet their demands. In 1997, as one of the earliest movers, HomeGrocer.com made an impressive start —— with over 1 million dollar revenues a day by the mid-2000[2]. However, HomeGroce.com declared bankruptcy in July 2001, like other early home delivery companies. For these companies, they neglected the high costs involved in its underlying supply chain, related to paying for people going to the supermarket, picking up ordered products, delivering them to homes. In addition, there were additional costs related to warehouses and vans. Other shortcomings included low net margins and overestimation of the online grocery market, which was only 0.19 percent in 2001[2]. Later on, other companies entered this market with a hybrid model——a partnership with the traditional supermarkets. With this corporation and relying on independent contractors to pick up products and delivery them, online delivery companies were able to curtail the high costs, but the net margin was still relatively low compared with a physical store.

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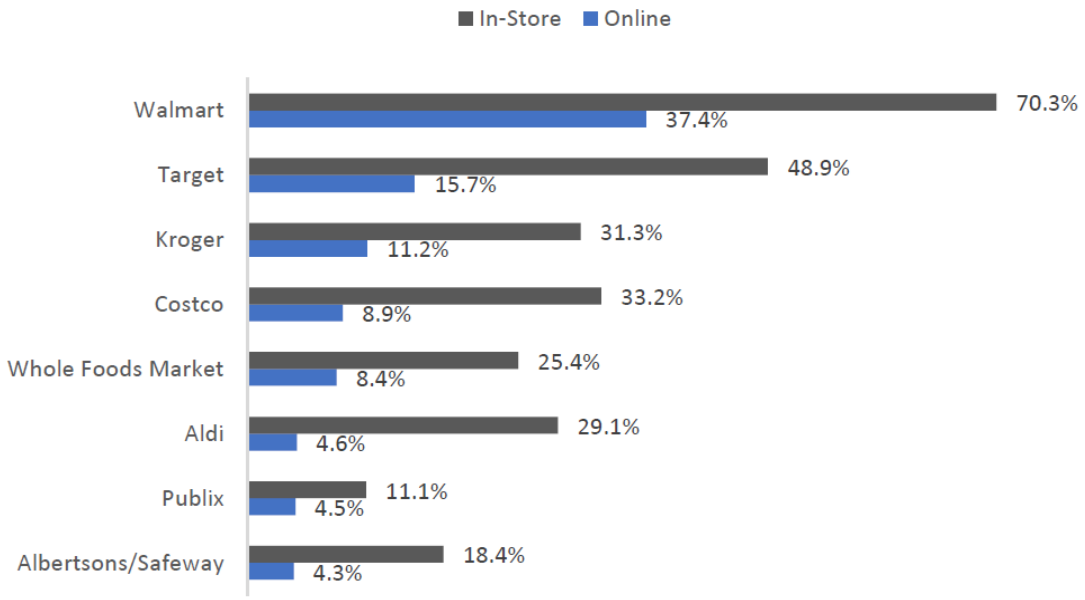

Base: US Internet users ages 18+ who have bought groceries in-store/online in the past 12 months (1,803 in-store and 695 online)
Source: Coresight Research

Figure.2 Percentage of Grocery Shoppers in-store V.S. online [4]

As the fastest-growing product category online, digital grocery sales already reached $23.9 billion in 2018 and are expected to reach $59.5 billion in 2023. According to the Coresight Research[3], about 36.8 percent of consumers bought groceries online in 2019, and there is still a large proportion of potential online grocery shoppers. Within this 36.8 percent of consumers, 72.4% of them are not frequent users of the online grocery, since they only buy a small portion of grocery online[3]. It is not hard to imagine that most of the Internet users consider online grocery as an alternative method to shopping, but the reason for them to try the method is apparent—time saving and convenience. Companies also need to guarantee the freshness of items and affordable delivery prices. Although more younger generation started using online delivery, physical supermarkets still have their strategic advantages, including the large economies of scale and existing infrastructure. However, since the start of 2020, the growth of digital grocery seems to be an inevitable fact due to the pandemic. According to the Retail Feedback Group[4], 50% of market shoppers ordered groceries online in the past one month, and not to mention the Generation Z (66%) and Millennials (61%).

4. Five-Force Model for the Immediate Grocery Business

4.1 Rivalry among existing competitors

There are two types, competitors, for Immediate Grocery. Firstly, other traditional grocery companies are the main threat to business because they accumulated a large amount of money and higher brand loyalty through these years. Secondly, other online grocery companies which were founded by other large companies or consortium such as Amazon fresh. These companies have experience in online retail and lots of capital support. Most of the products in this business are daily necessities, so the difference in quality and price is not large, and the switching cost is low. Since Immediate Grocery mainly provides online delivery services and do not open offline physical stores, the fixed cost is very low. Thus, the barriers to exit are relatively low.

4.2 The Threat of New Entrants

This business provides home delivery service of daily goods, the difference between each product is not obvious, the switching cost is low. However, it is a scale intensive industry. For Immediate Grocery, it is not easy to develop scale similar to what the large grocery chains have already developed. The domain knowledge needed to operate this business is also difficult to acquire. The reason some big

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companies haven't entered this market yet is that they are not familiar with this industry or have not to control the technology for this business now. For example, JD said it would open the online grocery company in 3-5 years, yet they don't have a specific plan because of technical problems [5]. If these companies enter this industry someday, it is also a big threat to the Immediate Grocery. However, Immediate Grocery entered the market early and have already cooperated with local traditional companies for a long time.

4.3 Bargaining power of buyers

Buyers are the consumers of groceries. The total number of buyers for this business is large, and the purchase amount of each buyer is small, so the buyer has less influence on the price level. Since provide home delivery service of daily necessities is provided, the price elasticity of such goods is relatively small. A consumer also needs to pay the logistics costs, and if the logistics cost is high, consumers may not choose our company but a traditional supermarket. Although some companies have already entered this market and have higher brand loyalty, customers still can switch to Immediate Grocery easily due to low switching costs. Therefore, the bargaining power of buyers is relatively low.

4.4 Bargaining power of suppliers

In this business, there are a large number of suppliers scattered in the market. The rate of revenue of the suppliers is not very high. The price elasticity of supply is small. Suppliers can be fragmented. Their products are commodities except for branded products like Coke or Pepsi. Coca-Cola and Pepsi have formed an oligopoly on the Coca-Cola market. Both companies have unique patents and are well received by consumers[6]. Although they are also commodities, their bargaining power of suppliers is much stronger than suppliers of potatoes which is less product differentiation. The value of the input elements provided by the supplier constitutes a large proportion of the total cost of the Immediate Grocery, and it means that the potential bargaining power of supplier is strong.

4.5 The threat of a substitute product

As home grocery delivery services are provided, the products are less differentiated. Thus, there is a large number of substitute products available. Immediate Grocery also charges extra freight fees, which will make it more likely to be substituted. However, compared to other companies, the advantage of Immediate Grocery is to appeal to more young people and workers owing to the convenience and can get every essential without going outside. Another advantage is the unique products such as recipes that can provide users with faster and more convenient ways to make delicious dinner. In conclusion, the threat of substitute products is medium.

5. Digital Strategy for Immediate Grocery

5.1 In-use information

In order to determine the feasibility of new business opportunities, it is crucial to determine where would the company collect its market information. For any startup businesses, the amount of information collected and used is one of the most essential components of the digital strategy. However, the time of efficacy is different between a digital platform and a traditional grocery store.

Instead of post-use accumulated information that's usually collected by traditional grocery stores, a digital grocery platform allows the company to collect in-use information with more effectiveness for a given period of time. In a traditional grocery store, the store would not get any customer feedback or buying habit until the customer has decided to make some significant changes or has already established a long-term buying record. The selling and customer's wish for the kind of product would not be known until a significant amount of time. Also, the traditional method of active gathering information such as phone surveys demonstrated a low rate of response, suggesting that it might be irritating for the customers to actively put in their comments or reviews when they feel it's not valued because traditional grocery often cannot immediately change their product.

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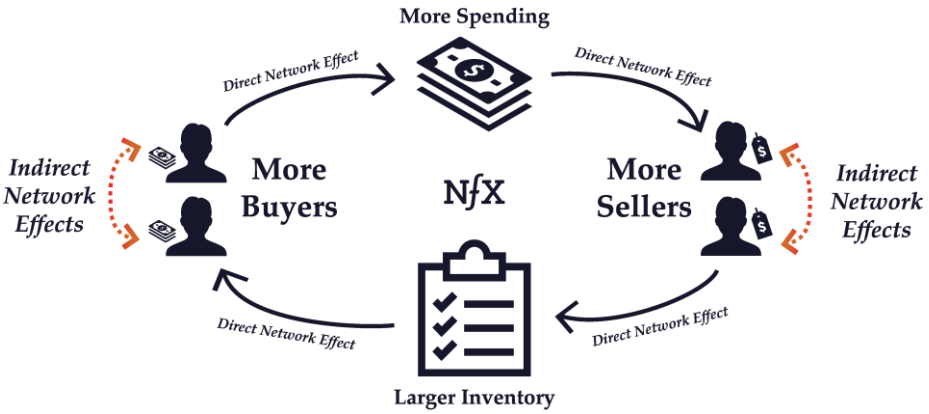

Figure.3 Indirect Network Effects [7]

On the other hand, the information online grocery collects information that is either in-use or can be used to make changes to the product or determine optimal pricing. With a digital terminal gathering all the information, it is easy to locate which products are suitable for which customer, building a one to one relationship between the customer and the products. It also enabled our platform to locate the actual marketable goods, not the ones the producer provided, but the ones the customer needed. The platform also present and record how the customers respond to displays of products naturally in the digital world, understanding the daily needs of each customer without getting information in a contrived fashion in which their shopping desire might be shifted by the physical surrounding of the grocery store.

5.2 Digital Profile and Production ecosystem

With the application of in-use information, our platform can establish digital profiles for each customer and provide specialized meal plans for the individual. The focus of the digital profiles on our platform is to provide costumers with healthy and delicious meals by delivering grocery and providing meal-kit. When first-time users enter our app, they need to finish a quick questionnaire about their favorite meals, so that our platform can acquire basic eating preferences and recommend first meal-kits for costumers better. The same for delivering groceries, costumers can set time to deliver necessities regularly. For example, Kevin sets a two weeks interval to delivery the 500ml milk. Next, costumers can choose to fill out other information, such as how many people in their families and what are their ages, so that our platform can accordingly provide appropriate portions of food. After the basic digital profiles establish, costumers start enjoying our services. Besides that, our platform might provide special sections for people with different requirements, such as allergies, obesity, and diet, which guarantees that our company satisfies every demand. As they order more groceries and meals, our platform will capture more specific information about eating preferences. When our platform captures enough information, our system will automatically associate the chosen grocery items in the cart with the possible meal containing them and recommend that meal or ingredients of that meal to the costumers so that they enjoy faster and more comfortable shopping experiences.

The production ecosystem is also based on digital profiles. With a complete database of digital profiles, our system will make nearly perfect predictions with respect to costumers' preferences.

5.3 Net-work Effect

Another important element is the network effect, a concept that captures how an increase in the usage of goods and services will directly affect the value of the product to others. If there are a lot of people buying a product, then it doesn't mean that there will be more people buying our product. Rather, the customer will naturally trust the company and the product they are selling. This is referred to as the cross-side network effect, a kind of network effect. For instance, Bob, a customer, buys a lot of products from our platform. It will not necessarily mean that the revenue of the company will increase dramatically, instead Bob will find the company trustworthiness, or else he will not buy more products in the near future. This is because Bob might introduce our company to his family, friends, or relatives, which can help expand the customer size of the company. Hence, the network effect is present in the Immediate Grocery. This will be a good innovative way to expand a company since its cost is very low and easy to manipulate.

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6. Consumption Ecosystems

With the expansion of the company, the accumulation of costumers will form a consumption ecosystem, where customers can share their experiences of using our service, such as receipts. The more developed consumption ecosystem is, the more customer it can attract since people will recommend the application to their friends and families, which in turn helps to develop the consumption ecosystems.

There are several ways to develop consumption ecosystems. When our application or platform allows customers to register with Gmail, Facebook, Instagram, in the future, people can choose to share and recommend their favorites meals to their close friends in social media. Another possible way is that our platform can build group chats or Tags, where costumers post their cooked meals and communicate with each other. Both ways can attract more customers based on the digital profile and platform. In a larger scope, grocery stores corroborating with our company can even hold cook competition or community parties, where residents not only share their favorite meals but also grow a close relationship with their neighbors, which increases the coherence of the community. In a national scope, our company will take advice from all costumers and give prizes to customers who provide new receipts online

7. Conclusion

This paper presented the business model for grocery home delivery, which utilizes modern digital technologies and connectivity. At first, the background information demonstrates the history of grocery market and the potentials of this market with the digitalization. Next, the paper shows how such a company can compete in digital ecosystems by introducing the five-force model. Moreover, the demonstration of the digital strategies, including in-use information, digital profiles, and network effects, displays the a blueprint for how the company will operate and develop with the advantage of in-use information. Finally, It develops digital profiles for each family and channels this in both production and consumption ecosystems. With respect to production ecosystems, it predicts and provides timely grocery deliveries. it also makes recommendations for meal preferences. With respect to consumption ecosystems it builds communities of people interested in sharing their recipes and meal preference ideas.

In the future, the digitalized grocery market will be the main trend, and this market expanded greatly starting from 2020. As the global epidemic of COVID-19 becomes the reality, majorities of grocery stores has to join the digitalization for the purpose of decreasing the probability of infection while people can get their indispensable items. For example, in China, the each grocery delivery contributes to slow down the growing number of people who are infected.

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