Creating customer value in online grocery shopping

Bill Anckar
Pirkko Walden and
Tawfik Jelassi

Introduction

With the Internet as a commercial medium, new ways of doing business have developed in almost every industry sector. In some sectors, new and efficient Internet business models have gained a strong foothold, whereas in others, business is done on the Web primarily in identical manners as on the physical markets. Shanklin and Griffith (1996), Vassos (1996), Klein (1998) and Phau and Poon (2000), just to mention a few, have stressed that product characteristics are important for the feasibility of Internet trading, highlighting the need for an examination of the nature of the offering when developing Internet strategies. As far as the suitability of groceries for e-commerce is concerned, differing opinions have been presented in the academic and the business press since the mid-1990s: some authors and industry representatives have conveyed a view that grocery e-tailing is about to become big business (Andersen Consulting, 1998), perhaps even the biggest online market (Killgren, 1999), while others (e.g. Corral, 1999) have been far less optimistic about the future of electronic grocery shopping (EGS). Although there may be a continuing uncertainty about the viability of EGS (Baker, 2000), the widespread demise of online grocers, including many big players and ambitious projects (see Ring and Tigert, 2001), has certainly made the pessimistic view prevalent among researchers, industry representatives, and investors. According to Baker (2000), even Internet industry research and consulting firms, which have been virtual cheerleaders for online sales growth in many retail and service segments, have been conspicuously lukewarm about online grocery sales, at least in the near term. Ring and Tigert (2001) assert that a number of factors seem to be significant reasons for the collapse of many pure play Internet grocery retailers: First, they have failed in achieving a competitive advantage over the traditional "bricks and mortar" food retailers on those dimensions that drive the consumer store/channel choice process. Second, they have failed in developing profitable business models and, third, they have dramatically overestimated the size of the market for grocery shopping from the home. As a result, no company has so far succeeded in making a profit in this business (Baker, 2000; Ring and Tigert, 2001).
Of all the categories of goods that companies have attempted to sell over the Internet, few have been trickier than groceries (Baker, 2000). Several factors seem to hinder the suitability of this product category for e-commerce: First, groceries are and will always remain tangible offerings, meaning that a full commercial cycle is unattainable via a network. Second, groceries are perishable products, which would suggest that consumers generally prefer to physically examine the quality of the products prior to the purchase (Canedy, 1999; Baker, 2000). And even though some e-grocers may guarantee a superior product freshness and quality, one must bear in mind the fact that consumers have different preferences: While one customer may prefer his bananas green, the other wants them ripe. It could, of course, be argued that the lacking possibility for quality assessment on the Web does not constitute a shopping impediment for all types of groceries, but since consumersrationally want to buy all the groceries from one and the same source, the obstacle remains, at least in part, whenever one of the products in the virtual shopping cart is of a high-perishable nature. Third, due to the tangibility and the perishable nature of the offerings, the e-grocery business will remain local in character. Fourth, due to the high operational costs involved in e-grocerying (cf. Kämäräinen et al., 2001), prices are unlikely to be competitive on the Web. As a result, budget-conscious consumers will not easily embrace EGS. On top of all these hindrances, Web grocers must overcome consumers’ die-hard shopping habits (Ahola, 1999; Canedy, 1999).

On the other hand, the enhanced shopping experience may strongly favour e-commerce solutions for groceries. Exploratory research by Aylott and Mitchell (1998) confirmed grocery shopping to be stressful, with the greatest stressors in physical settings being crowding and queuing. In a survey conducted by the founders of the online grocer Peapod.com, the consumers regarded grocery shopping the chore they dislike most next to going to the dentist (Corral, 1999). Given these circumstances, most online grocers have, thus far, stressed the convenience benefits in their Internet strategies, rarely accentuating other potential methods for creating customer value in the marketplace. Yet, although some convenience benefits of EGS are undeniable, we still need to see empirical evidence suggesting that the simplicity and rapidity of shopping online offers greater consumer benefits than the lost flexibility arising from the buyer having to be at home when the products are delivered.

The aim of the paper is twofold:

1. To identify different ways to create customer value in EGS, and to show how the business model of a company will set limits to whether – and to what extent – the firm will be able to offer value-adding services for consumers.

2. To build an understanding of the practical problems and opportunities in e-grocerying by presenting the case of a Finnish entrepreneur who started an Internet grocery business with no previous experience of the industry. His company is a start-up virtual grocery shop with a business model unattainable by the big industry players. The paper reports on the experiences of the company and the outlook of the entrepreneur after two and three years in business, respectively.

Nettimarket.com: the background

Nettimarket Oy (www.nettimarket.com) is a virtual start-up grocery shop operating in Turku[1], Finland. The company was founded in 1998, by the owner/manager, Aki Teranto, and his wife, Eija. Teranto picked up the idea of a virtual grocery business as he read an article about an online grocery shop that had been opened in the Helsinki[2] region. At that time, Teranto was working as a floor munter for a small but profitable company, founded in 1996, which he still owns together with a partner. Prior to that, he had been a truck driver for one of the largest transportation companies in the region of Turku. Teranto’s decision to start an online grocery business was made spontaneously and instantly without analyses of any kind. Feeling that he had a great business idea, he was determined to implement it right away.

When Nettimarket was founded, Teranto had no experience from the food or retailing business. Nevertheless, he was a true entrepreneur who believed in the business opportunities offered by the Internet, especially as there were first-mover advantages to be obtained. Neither Teranto nor his wife has an academic degree or a
business education; their educational background is limited to a high school diploma. When Nettimarket was founded, neither of them had any experience in information technology. They were, on the contrary, totally computer illiterate. However, Teranto was convinced that it would be possible to learn enough about computers and software by self-tuition, and in a few months, after having spent all his weekends studying computer programming, he turned into a computer wizard without attending a single course in programming.

Nettimarket.com started its operations with an initial share-capital assessed to FIM 50,000 (appr. USD 7,000), and with only two employees, Teranto as the president and his wife as the logistics manager. In addition to this, they were granted a bank loan of FIM 400,000 to finance the initial operation, which called for investments such as software (FIM 110,000), hardware, a leased van, office space rentals, etc.

Four sources of customer value in EGS

In several industry sectors, the slow growth of B-to-C e-commerce (as compared to early predictions) has surprised and disappointed many companies that have invested heavily in e-commerce applications, and many experts whose growth predictions have been proven far too optimistic. A viable reason for the reluctance of consumers to trade on the Internet lies in the fact that the initial Web services have offered little – if any – added value for potential customers in comparison to traditional methods of shopping. From the perspective of a single grocery retailer, online or offline, customer value can be created in four different ways; namely, by offering:
(1) competitive prices;
(2) a broad and/or specialized assortment;
(3) superior shopping convenience; and
(4) superior customer service (in all these four broad categories, a comparison to physical retail outlets as well as competing online grocers is implied).

It should be noted, however, that a company’s way of operating in the marketplace – the chosen business model – will set limits to whether, and to what extent, the firm will be able to offer each of the suggested customer benefits.

Most of the Internet grocery shops in Finland, as well as in many other countries, are operating as extensions of existing physical retail businesses. This "extended retailer" business model seems to be a logical – or convenient – solution in the early stages of e-commerce, as the e-sales still are very limited and storage costs may constitute a great risk for start-up Web retailers. In fact, it is hard to imagine a Finnish grocery business today being profitable enough to justify the maintaining of a stock of its own by operating solely on the Web. As a virtual start-up, Nettimarket.com had the opportunity to choose a quite different approach, which, as will be discussed in the next sections, to a great extent shapes the company’s logical modes of competition.

Price level

If customers are to give up traditional purchasing methods, they must be offered some value-added features in the marketplace that are not attainable or available in the marketplace. A commonly stated consumer benefit of e-commerce is the possibility for price reductions resulting from increased competition as more suppliers are able to compete in an electronically open marketplace (Turban et al., 1999), as a result of reduced selling prices due to a reduction in operational costs (Brynjolfsson and Smith, 2000), and manufacturers internalizing activities traditionally performed by intermediaries (Benjamin and Wigand, 1995). This benefit is in line with the facts that:

• competing by price is the most frequently used method in the grocery business; and
• groceries are everyday necessities for which most consumers are loath to pay a premium (Baker, 2000).

In general, however, virtual grocers have not been able to offer prices lower than in the physical stores, but rather the contrary, due to the pricing policy and/or the favored "extended retailer" business model, which does not offer possibilities for price reductions on electronic markets: In traditional retail grocery stores, the customer plays an important role in the distribution chain as he collects the products himself and carries them home, whereas the seller is responsible for these elements in the distribution chain in EGS. Naturally, these tasks cause significant
"killer" costs for the grocer (Ring and Tigert, 2001; Kämäräinen et al., 2001).

As the costs arising from the physical retail operation, e.g. high rent (due to attractive location, fancy interior), cash-counters, customer service, stock maintenance costs, etc., remain for the extended retailer, the Web operation may remain unprofitable despite possible delivery charges. Certainly, new customers may be attracted by the convenience in e-shopping, but since the grocery business remains highly local even on the virtual markets (due to transportation costs), many of the Web customers may in fact be established, regular customers who actually become less profitable for the business when shopping electronically.

In Teranto’s opinion, the extended retailer strategy favored by a majority of the pioneer online grocers in Finland (and globally) is foiled to failure for the reasons mentioned above. Why would one want to shift services such as collecting items and weighing fruits back to the grocer once the customers have agreed to accomplish them? Instead, he strongly believes in the Nettimarket business model, which is founded on a partnership between a grocer operating only on the Internet and a purely physical wholesale business, Whuri Oy, which has rented Nettimarket an office space in the same building where the wholesaler has its outlet. When an order has been placed, the Nettimarket staff collects the ordered items directly from the shelves in the wholesaler’s outlet. The benefits of this business model are obvious: no warehouse costs and risks, low rent for localities, no cash-counter personnel, no loss of products, no burglary, etc. At least theoretically, this business model offers Nettimarket the possibility to compete on price. However, this is not yet the case, as the limited sales have forced Teranto to charge high margins (18-25 percent) on his products, selling most items to a somewhat higher price than in most physical retail grocery stores in the area. With smaller margins, Nettimarket cannot survive given the current customer base. Although Teranto recognizes the fact that a competitive price level in comparison to physical outlets would constitute an important consumer benefit, he does not see this particular benefit as the most essential one in the e-grocery sector. Instead, he is convinced that e-grocers do not have to undercut the physical retailers’ prices in order to attract customers, but that e-shoppers are willing to pay a slightly higher price than in the marketplace (alternatively a delivery fee) in order to reap convenience benefits and other advantages. Moreover, he is convinced that no e-grocer – irrespective of the business model – will ever be able to compete on price due to the high order assembly and delivery costs.

**Product range**

Nettimarket offers an assortment of approximately 6,000 products, a lot less than a physical supermarket generally offers. As a direct limitation of Nettimarket’s business model, the choice of products available through the store is limited to the products offered by the wholesaler with whom Nettimarket co-operates. This, of course, puts Nettimarket at a disadvantage, not only to the physical retailers, but also to potential Web competitors with a larger product assortment, as studies have shown that the assortment is an important factor in store choice (Arnold et al., 1983, 1998), and as the wider selection of items and the wider availability of hard-to-find products has been seen as an important consumer benefit of e-commerce (see, for example, Alba et al., 1997).

Today, none of the online grocery retailers in Finland offers a product range that is notably broader than the one offered by Nettimarket. However, if the large grocery chains decide to embrace Internet commerce, there is certainly a potential that online stores could, in fact, offer a much larger assortment than any physical retail outlet in Finland, and hence offer customer value even in terms of the offered product range. According to Esa Mattsson, a Spar-retailer, who has argued for a chain-wide, centrally-operated EGS system, the central warehouse of Spar Finland, for instance, offers a selection of approximately 30,000 products, all of which can be ordered by Spar-retailers across the nation to be delivered in one to three days. Owing to limitations in shelf space and stock maintenance risks, most of the large physical grocery retailers in Finland are unable to offer a selection exceeding 10,000 different items. A comprehensive, centrally-operated online system (available for all chain-retailers for a fee), which would allow customers to order products available in the local store for delivery within a few hours and an additional
15,000-20,000 specialty goods for delivery within one to three days, would grasp the heart of e-commerce by offering a service that is more or less impossible to implement for physical retailers. Similar thoughts have been presented by Hamilton (1998), who believes that specialty foods, items that are novel, foreign or challenging to track down locally are the groceries that will do well online. Especially in peripheral regions, where hypermarkets with great product ranges are not available, the consumer benefits of a large assortment e-hypermarket could be substantial.

Teranto, however, feels that neither his store nor Web grocery stores in general should be compared to physical supermarkets. In his opinion, Web stores are likely to primarily attract customers buying their everyday groceries – he does not believe that Web stores will be able to compete with physical hypermarkets for weekend shoppers. At weekends, when customers tend to buy a large portion of the groceries needed during the week, are prepared to spend more time in the store, and are looking for gourmet items, the assortment becomes an issue of vital importance. Impulse buying is an issue closely related to the store assortment, and although Teranto acknowledges the fact that shopping by impulse in some cases may be an important source of revenue for hypermarkets, and even a passion for weekend shoppers, he does not feel that a virtual grocery shop can – or even should try to – achieve impulse shopping, which he sees as a marketplace, not a marketspace phenomenon.

Shopping convenience
The concept of shopping convenience is multidimensional, meaning that there are several aspects that must be considered in this regard. A first basic point to be made is that customers, when shopping for groceries, naturally want to buy all products (i.e. the whole shopping cart) from one and the same source for reasons of convenience. Owing to this one-stop-shop preference, the electronic market scenario, according to which customers increasingly will do business directly with producers, is not a conceivable option in the grocery business, indicating that the role of wholesalers (and retailers) will remain strong, as business models characterized by a complete disintermediation are unlikely to emerge in this particular industry sector.

An indisputable consumer benefit of e-commerce is the greater shopping convenience resulting from the possibility to shop from anywhere, anytime. As shopping for groceries has been recognized as a low involvement chore (Broniarczyk et al., 1998), which is highly disliked by most consumers (Schwartz, 1997; Corral, 1999), the opportunity for a faster and more convenient shopping experience certainly stands out as a fact that strongly favors e-commerce in this sector. Thus far, indeed, most online grocers seem to have stressed these convenience benefits in their Internet strategies, somewhat unrealistically expecting a mass-market of consumers to perceive the benefits of not having to stand in line at the supermarket as a sufficient motivator for choosing a cyberstore instead of a physical retail outlet. Nevertheless, convenience and time savings have been pointed out as the two main advantages of EGS by Verhoef and Langerak (2001), and were cited as the primary reasons for buying groceries online in an exploratory study among consumers that have already embraced EGS (Morganosky and Cude, 2000).

As customers generally dislike shopping for groceries, they have a desire to accomplish the task as fast as possible. For this reason (aside the price level and the geographical location), people typically tend to do their regular shopping in only one or a few stores, which increases their shopping efficiency, as they have some prior knowledge about the assortment and the location of different items. Producers and marketers spend enormous resources on package design, with shapes and colors generally being novel and rather static in order to facilitate the product identification process for customers. As a result of these assisting features in shop orientation and product identification, the consumer can easily find the products he is looking for during his physical shopping round. However, whereas the visualization of the products is the main search apparatus and a high-importance issue in physical grocery stores, the product search is done primarily by other means in the virtual world, mostly by the product name or category. As a result, the shopping convenience is far from optimal, especially as the customer may not even know the name of the product he is searching for.
but can still easily recognize the package on the shelf.

Another dimension of shopping convenience is related to the assortment issue: Customer value can also be created through individually tailored storefronts, e.g. with a specialized assortment. In today's (Finnish) society, an ever-increasing number of consumers have a special diet due to, for instance, allergies (such as gluten-free or lactose-free diets). With Web technology, any virtual grocery store could easily become a specialty store for these customer segments, with systems, on demand, showing only products that fit the special diet of a particular customer. In fact, the product codes used by most wholesalers already today contain such information, making this a feature easy to implement.

Nettimarket is a prime example of an e-grocer stressing the advantages of the virtual shopping experience to the traditional approach. The software solution used by Nettimarket is rather similar to most virtual grocery shops, as it uses the so-called "shopping basket logic", where the customer adds the products to a virtual shopping basket. In addition to the online approach, registered customers can place their orders by phone, fax or e-mail. According to Teranto, Nettimarket's customers benefit from a number of system features:

- they can put together several product baskets in advance and move the entire saved basket into the shopping cart with just one click;
- they can specify the product characteristics in free text format, such as "I prefer my bananas green"; and
- Nettimarket's hierarchical product category lists is designed in a manner that facilitates the customer's search for products.

Owing to the chosen business model and the limited financial resources of Nettimarket, the investments in the software solution had to be rather limited by necessity. Hence, the search process is rather slow. Teranto recognizes the fact that he will have a hard time competing with larger organizations; for instance, the large chains, as far as the shopping experience is concerned, as he cannot afford to develop an EGS system that better would replicate the visual product search characteristic of the physical shopping experience. In the Nettimarket catalogue, approximately 1.000 pictures of the products or labels are available. Product descriptions, however, are not offered.

Customer service

Nettimarket's online product catalogue is not linked to the wholesaler's system, which is a drawback in the design, as the customers do not know if a certain product is in stock when placing the order. If an item is out of stock, a substitute product (which is in the same price range as the product initially ordered) will be sent to the customer, given that the customer has agreed on receiving substitute products when placing the order. Every month, Teranto sends an e-mail message to his customers informing them about the special offers of the month. The content of this message is identical for all customers. No one-to-one marketing with individually tailored services to each of his customers (Peppers and Rogers, 1999) has been carried out so far, although this would be a technically feasible option given the customer database and the current information management procedures.

Nettimarket's deliveries take place between 10 a.m. and 7.30 p.m. on working days, with no deliveries on weekends and holidays. An order has to be placed at least two hours before the requested delivery time, which is specified within a range of one to four hours. On the average, 45 minutes is calculated for "personal service" per order. This includes the whole process from obtaining the order to delivering the goods to the customer's doorstep. There are no restrictions in the order size, but orders below FIM 100 are charged with an extra fee of FIM 7. The delivery cost is FIM 20 per order. If the order exceeds FIM 400, no distribution fee is charged.

A potentially significant consumer barrier to EGS is the fear of bad quality goods being delivered. With the extended retailer model, it seems reasonable to assume that the collectors of ordered groceries will try to minimize the potential storage losses by picking out the "products on top" instead of the freshest ones. Or at least it is reasonable to assume that the rapidity of the gathering process does not allow for a careful choice, as one of the biggest e-grocery challenges is to increase the picking speed and in this way reduce the labor costs of picking (Kämäräinen...
The Nettimarket.com business model does, however, in no way encourage the personnel to deliver groceries of inferior quality, since the company operates without a stock of its own. The rule of the game at Nettimarket is to deliver groceries of extremely high quality at all times – a principle that Teranto is not willing to bargain on. If the wholesaler temporarily is unable to offer high-quality products, the delivering personnel has been instructed to pick up the needed goods from another store, irrespective of the costs involved.

Nettimarket is willing to operate according to the consumers’ needs and wants. This means that if a customer wishes, for instance, to have the groceries unpacked and put in the refrigerator, this will be done. This is, no doubt, an important service especially for elderly and disabled.

The first two years

In the summer of 1999, the business was, although growing, struggling with considerable financial problems. The customer base was far too small (500 registered e-customers of which 200 were ordering more or less on a regular basis), and growing too slowly, with only three new customers, on an average, registering each month. At that time, the number of daily visitors on Nettimarket’s Web site differed within a range of 40 to 200. On an average, however, only three orders were placed daily, the gross sales being only 1,000 FIM per day. In one week, less than 40 delivery tours took place, meaning that there was no need for formal routing.

Serving elderly and disabled: business expansion through a municipal decision

The Finnish society is committed to taking care of the elderly and the disabled. The growth in social expenditures has been rather brisk, and changes have been made in the social protection system. The elderly and the disabled are kept at home or with their families as long as possible, as this is considered to be cost-effective for the society. For economic reasons, patients are also returned from hospitals to their homes sooner than before. The outcome of these changes has been an increased demand for home-helpers, who are trained persons visiting their clients on a regular basis, typically twice a week. They are employed by the city of Turku, performing a variety of tasks ranging from physical and mental health care to common housekeeping tasks, including daily shopping. It is estimated that it takes, on average, 45 minutes for a home-helper to do the shopping for the client, which reduces the available time for health care and housekeeping tasks.

According to Heikkilä et al. (1998, 1999), elderly and disabled who rely on the assistance of home-helpers constitute an important customer segment in EGS (cf. Morganosky and Cude, 2000). And, indeed, experiments have been carried out in different parts of Finland in order to test whether the daily shopping by the home-helpers could be rearranged by making use of the new commercial services available on the Web. In the summer of 1999, the city of Turku announced its intention to outsource the shopping tasks previously performed by the home-helpers to an online grocery retailer. The new shopping methods would be tested for a trial period of approximately 15 months, involving 4,000 elderly and disabled from two social welfare districts of Turku.

The city arranged a competitive bidding among potential online retailers. Of the nine retailers that submitted offers, Nettimarket turned out as the winner. The project started in October 1999, and came to mark a surge in Nettimarket’s business. Suddenly, the customer base had grown significantly, with approximately 1,300 new registered customers in October-November 1999. With a modestly calculated average order of FIM 100 per customer/week, sales were expected to reach FIM five million/year. Without the municipality’s decision, Teranto calculated that the business would have started to generate profit in the year 2002. Up to this point, Teranto’s floor company had both given him and his wife their living and helped to keep Nettimarket.com in business, so there was no fear of bankruptcy, but the times would have been tough.

As was expected, the introduction of new shopping routines involved some initial difficulties, and gave rise to several complaints by the home-helpers and the elderly, mainly due to their reluctance to change. According to Tuija Hassinen-Laine, the home-helping services manager of the city of Turku, the home-helpers were, at first, rather anxious.
Results and experiences after the third year

By the beginning of 2001, Nettimarket’s personnel had grown from two to 11 people, the growth being fueled by the municipality’s experiment. The elderly and disabled aside, the customer base had grown very slowly, and Nettimarket.com was still not making a profit. The number of deliveries per day amounted to approximately 180 on an average day. As all the deliveries were handled with only two vans, the need for a proper routing system had been highlighted.

Since the City Hall’s assessment of the e-shopping experiment was positive, the city of Turku decided not only to continue, but also to broaden the EGS experiment for the elderly and disabled, and therefore organized, in October 2000, a new bidding for the period 1 February 2001–31 December 2002. Again, Nettimarket won the bid, primarily because of its expertise and quality of service, but also because the company offered the lowest delivery fee (FIM 38,50). Furthermore, Nettimarket offered the city’s social workers and home-helpers free training in how to place orders through a computer or a mobile device. With the geographical expansion of the experiment, which now covers four social welfare districts of Turku, the company has been able to double its turnover. For Teranto, if everything goes well, it means that he could finally start paying himself a decent salary.

According to Teranto, the individual customers still tend to show no interest in EGS, and although he welcomes all individual customers, he does not feel that they will provide a customer base sufficient to build Nettimarket’s future upon. Instead, the sales in the business-to-business sector have expanded rather rapidly, with companies and day nurseries constituting important target groups. At the moment, however, Nettimarket’s key priority is to make the service provided to the elderly and disabled a great success. To boost this service, Teranto is planning to introduce a delivery service for prescriptions and medicines as well. With this service, prescriptions for medicines would be sent directly to Nettimarket (or picked up by a company representative), after which the driver would take it to the pharmacy and deliver the medicine to the customer.

In March 2001, the business had finally turned profitable. In order to accomplish this, Teranto had, however, been forced to raise the margins on his products from approximately 18 percent to 25 percent. Nevertheless, he does not believe that this will affect the customers’ willingness to use his services, as he feels that the primary value of EGS lies in the services provided, and not in low prices. Once customers realise this fact, they will, according to Teranto, start shopping online.

Competition

To date, Nettimarket.com has only two competitors operating in the Turku area: Ruokavarasto (www.ruokavarasto.fi) and Ruokanet (www.ruokanet.com). Ruokavarasto, which is part of Ruokamarkkinat Oy, is the largest privately held grocery retail chain in Finland, with more than 140 physical retail stores operating by the brand name Ruokavarasto. Currently, the Internet grocery operations of Ruokamarkkinat Oy is considered to be an extension of its business model, since the core of its activities still consists of traditional (physical) retailing. The product range offered by Ruokavarasto.fi is identical to the assortment available in the physical Ruokavarasto stores, and all the goods are sold at the same competitive price as in the physical outlets. Ruokavarasto has
rapidly increased its Web operations, now delivering groceries to eight cities in the southern part of Finland. The second rival, Ruokanet, was at first operating only in the Helsinki area (approximately 160 km east of Turku), but has recently broadened the geographical scope of its business to cover the Turku area, as well. Ruokanet’s business model is rather similar to Nettimarket’s; the company is an Internet start-up with no bricks-and-mortar retail outlets or inventories of its own. The goods are picked up from a wholesale outlet. The delivery services have, however, been outsourced. In 2000, Ruokanet was still making a loss (VSYL, 2000).

In Teranto’s opinion, going online is too challenging a task for the large retailers and wholesalers operating in Finland, as the Web business is unlikely to generate profits given their scale of operations. The online grocery market being far too tiny for today’s big offline grocers, Teranto feels that small virtual start-ups, with a local focus and business models unattainable by the large players, have a competitive edge. According to Teranto, it takes a true entrepreneur, one like himself, who is willing to work with low expectations, at a low salary, and accepting long working hours to turn an e-grocery business into profitable.

Conclusion

Nettimarket’s business model offers – theoretically – opportunities for competing on price and customer service, but at the same time sets limits to the company’s opportunities to compete by a large or specialized product range or a superior shopping experience. In practice, however, Nettimarket.com has had to charge higher prices than its physical and virtual competitors due to the small and slowly growing customer base. And, indeed, in these early years of e-commerce, it seems to be the paradoxical case that extended retailers may actually be able to offer a more attractive price level than the virtual start-ups due to the modest customer base and high start-up costs of the latter. The Nettimarket example thus provides a good example of the difficulties facing virtual start-ups in many industry sectors: Due to their business models – with potentials for cost savings – customers expect low prices, but as the companies cannot offer low prices given the small customer base, customers keep out.

This study has highlighted the importance of finding and targeting the right customer groups for the specific product/service. In contrast to what has been commonly proposed and predicted, the customers who shop for groceries online purely for reasons of convenience tend to be surprisingly few. In the Nettimarket case, the overwhelming majority of the customers are the elderly and disabled which are part of the municipality’s project, and who shop online by necessity.

Notes

1 The fourth largest town in Finland, with approximately 180,000 inhabitants, suburbs included.
2 The capital of Finland, with approximately one million inhabitants, including the nearby towns of Espoo and Vantaa.

References

Peppers, D. and Rogers, M. (1999), The One to One Manager, Currency Doubleday.