



Deliver Us From Waiting

Amazon and Instacart are upping the stakes on grocery delivery

by **LEN LEWIS**

Back in the day, two knights would have slogged it out to see who would become champion and win the hand of the fair maiden. These days, the field of battle has changed and no one gets killed, but competition in the grocery delivery wars to win the favor of consumers can still be a matter of life or death.

E-commerce represents less than 2 percent of the \$500 billion in total food store sales. Its success to date is more theoretical than real and, despite its most ardent proponents — IBISWorld forecasts average annual growth of 12 percent for the online grocery industry — it has yet to revolutionize people's lives.

BETTING ON PRIME

While the failures of Webvan, Kozmo and HomeGrocer in the early 2000s still haunt the halls of home grocery delivery, newer entrants like Instacart and AmazonFresh are making inroads with new and different delivery models.

Amazon uses proprietary warehouses and trucks to deliver its own stockpiles of grocery items, similar to the way it delivers other products. The company is a master of logistics

and keeps overhead for AmazonFresh relatively low, according to industry observers, though the addition of perishables will increase costs.

In October, Amazon expanded service from its Seattle home base and several major West Coast metro areas

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to limited points in New York City, where it will compete with FreshDirect, which has been around since 2002 and is said to generate about \$500 million in sales.

Amazon is also competing for New

York customers with Instacart and Google, the latter of which doesn't sell perishables at this point. That lowers Google's operating costs, but puts it at somewhat of a competitive disadvantage.

However, Google Express enables shoppers to place orders online or by using a mobile device and promises same-day shipping on all orders for \$4.99, a \$10 monthly flat subscription or \$95 per year. Amazon Prime charges \$99 annually, but Amazon is thinking about grocery as a gateway for customers to order higher margin goods. Amazon Prime is already reaching an estimated 30 million households in the United States, with membership growing about 53 percent globally over the past 12 months, according to a report by Ben Schachter, an analyst at

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Macquarie Securities.

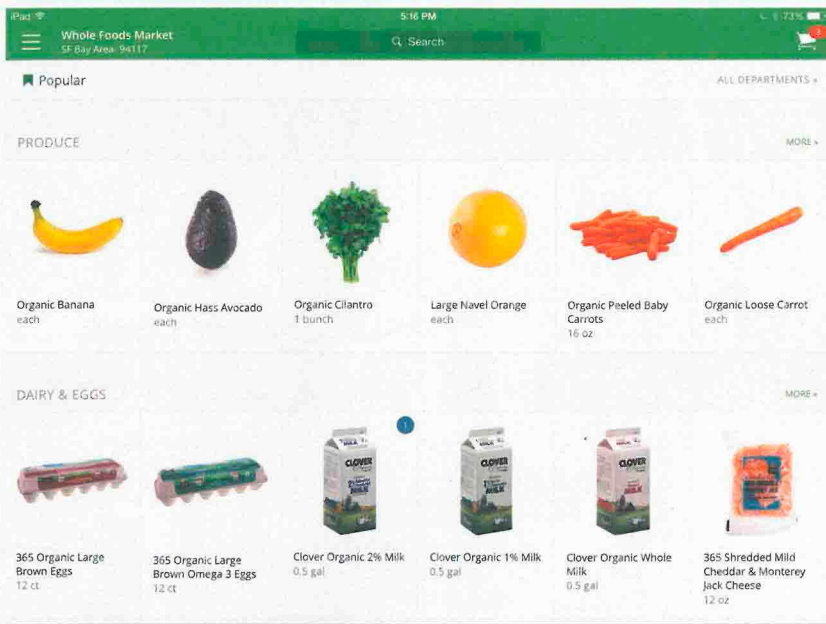
Schachter estimates that Prime membership, with an average annual growth rate of 12 percent, could cover half of all U.S. households by 2020. “Study after study has shown Prime members to be Amazon’s best customers,” he says, noting that they spend nearly twice as much as other Amazon shoppers.

uses for distribution center employees. Apoorva Mehta, CEO and founder of Instacart, is a former Amazon supply chain executive.

Industry observers believe that Instacart’s relatively low-cost business model is the reason for its rapid expansion and ability to compete with Amazon and other delivery services, including Walmart’s. On the other

personal shopper is in the store. Additionally, Instacart will email or text customers if deliveries are running late; customers can also track their orders through Instacart’s website and mobile app.

The company is continuing to broaden its operating territory, but its partnership with Whole Foods Market is currently the shining star in the home delivery firmament. Commenting recently on first quarter results, Whole Foods said online delivery through Instacart has hit \$1 million since the partnership began in September, with online delivery sales accounting for as much as 5 percent of sales in some stores.



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FRESH, NOW

Instacart’s delivery model is less mainstream. The company, which racked up sales of about \$100 million last year, uses the idea of the “sharing economy” to keep operating overhead to a minimum. Instacart doesn’t hold product in distribution centers and has no bricks-and-mortar stores. Instead, some 4,000 personal shoppers pick up goods for customers at participating stores.

Instacart’s personal shoppers use a smartphone app that lets them navigate efficiently around partner stores, powered by an algorithm reportedly similar to the one Amazon

uses, the company depends on the quality of its workforce — most of whom don’t have paid time off or health insurance, and could be less invested in the company’s success.

Instacart charges \$3.99 for delivery within a two-hour timeframe and \$5.99 for one-hour service. It also does automated substitutions if an ordered item is not available. The Instacart model is based on profiting from both the delivery charge and getting a share of the sale from supermarket partners.

One of the advantages of the service is the customer’s ability to add items after an order is placed, up until the

CONVENIENCE MATTERS

On a macro level the online grocery business has a long way to go and still lags far behind Europe and South Korea, according to a new report from dunnhumby. Most of the growth has been concentrated in categories like frozen meat, baby food and baby care products. On average, this group’s sales grew 21 percent, indicating that households with newborn children are a key demographic.

The question among industry observers is how much longer consumers will pay for delivery at a time that free shipping for online purchases is increasingly prevalent.

“Across the globe there’s a marked increase in multichannel grocery shopping, particularly among time- and sleep-starved parents who benefit most from being able to shop anytime without leaving home,” says Julian Highley, global director of consumer knowledge for dunnhumby. But while 26 percent of consumers said household products are important grocery items, only 8 percent said they would buy a product for the first time online.

STORES

Len Lewis is a veteran journalist and author covering the retail industry in the U.S., Canada, Europe and South America.