

# Home shopping

Operational costs need fine-tuning if new-age shopping is going to live up to the hype and revolutionise UK food retailing. Andrew Don reports.

The margins are tight, the risks enormous. This is the main reason for the majors' cautious approach to home shopping up until now.

Globally it is the UK - along with the US - that John Hollis, partner and director of Andersen Consulting's Smart Store Europe, says is making the biggest inroads for full-basket grocery shopping. Other countries have sectoral strengths such as Germany - furthest down the line on frozen - and the Dutch on alcohol.

However, it is the UK that is laying the infrastructure for national services. The vastness of the US and sparse spread of population dictates regionalised schemes there.

Many home shopping players and analysts believe only e-shopping will provide the key to potentially profitable operations long-term. Everything else, from phone and fax schemes to order and collect, is seen as the bait to "reel 'em in" and the field project from which to learn.

Most retailers are testing or rolling out one or more types of home shopping from mainstream players such as Tesco, Asda and Sainsbury's to smaller groups such as Booth's and Budgens, niche operators such as The Fresh Food Company's Organic Nation scheme and a plethora of smaller fry.

All the variables for the future of food retailing are so vast, they cannot possibly be given justice here with multitudinous implications for everything from property to inventory.

The very concept of a food retailer could change as they push further into higher margin areas with the logistics involved in delivery requiring a higher return per sq cm of van space per mile covered.

Scale, however, dependent on the ultimate penetration of home shopping, could bring gains through surplus property sales or reallocation and the use of cheaper warehouses on industrial sites contributing to the off-set of logistical costs.

But this is far off in the future and is a scenario modelled on the assumption that

the City, the UK's financial centre, will be patient - not one of its better-known qualities.

Even now, there are hints that e-shopping will send major food retailers further down the range diversification route already taken by Asda in its conventional stores and which its takeover by Wal-Mart is likely to accelerate.

Sainsbury's admitted to Financial Times Food Business that expansion into higher-value white goods, clothes and other items is one way forward it could choose with its extension into home shopping. Iceland's latest "Talking Foods" catalogue, for instance, features toasters, kettles, kitchenware, televisions, radios, telephones and videos.



One of Safeway's Palm Pilots

Estimates vary widely on medium-term grocery market penetration from 3%-5% of the total sector in 3-10 years to 20% with most forecasts veering towards 10%. Clive Vaughan, Retail Intelligence analyst, says: "Even 2-3% of the total food market is a couple of billion pounds and is a sizeable

market."

But forecasters can only guess: predictions are fairly meaningless at this stage. The media has been sucked into the IT industry's own self-interested hype - but it is the big five food retailers that have gained the most in the past two decades which have the most to lose.

Analysts doubt any of the mainstream players are making a profit or breaking even in this new area. The companies guard their expected break-even points fiercely and refuse to divulge many figures. A company might, for example, claim it is breaking even, but as Asda home shopping director Octavia Morley points out, when you operate home shopping from a branch, it depends "how you allocate the costs."

Evidence from most players so far indicates that basket size generally increases but the main shop might be less frequent, although Tesco says if families with children are used to shopping weekly they will shop electronically weekly too.

Closer analyses would suggest this presents a potentially bigger top-up market for well-located convenience stores and high-street supermarkets which could be beneficial for groups with a mixed portfolio but tough on the out-of-townies.

All will need the kind of volume business they have with their store networks to make a service specialising in low-value, low profit-per-unit goods a financial success. As Maureen Mitchell, senior manager for home shopping at Sainsbury's, says: "The economics are tight."

Sainsbury's, Somerfield and Asda have decided dedicated picking depots rather than store-based home shopping is more viable longer-term. Sainsbury's expects to open its first early next year. Asda already has a 49,000 sq ft one in Croydon, Surrey, which delivers as far as Sutton, Kingston and Bromley with another under construction in Watford and two others planned inside the M25. Somerfield is planning to build a network across Britain in 12-18 months.

Somerfield 24-7 chairman Martin Gatto

says industrial rents at about £4.50-£5.50 per sq ft are three times less than retail rents.

Morley says: "We have looked at US competitors and a number of UK operations and believe the more profitable long-term ventures are specialised picking centres."

Asda's home shopping concentration within the M25 motorway orbiting London and the south-east home counties is logical in a region where it has low store penetration and where, as Morley points out, "you have a lot of homes close together".

Vaughan agrees. "Dedicated depots are the way to go. They are operationally cleaner but you have got to be incredibly efficient because ultimately people will not want to pay for delivery. When your average shopping basket is £50, a £5 delivery charge is a 10% increase. Multiply that by 52 weeks a year and it mounts up, particularly if you go to stores to pick your own fruit and veg."

Tesco did look at the warehouse option but it points out it has 600 stores across the UK, unlike Asda which has poor coverage in the south. Home shopping manager Helen Bridgett also believes: "There is not the capacity in the market to justify a warehouse. As soon as there is we would consider it."

It could be argued that paranoia is dragging the established players kicking and screaming into this new area for fear of a competitor or new arrival getting there first and doing it bigger and better.

Vaughan says: "If you want to be serious you have to put the level of investment in depots. But are you going to see many millions of pounds invested for 5% of the market? That is the dilemma and food companies in the US and Europe are tackling the same issue."

However, it will not necessarily follow that the hare will steal the march on the tortoise.

Iceland, the first food retailer to have a national scheme, albeit based on a small range which the company selects and not the customer, has enjoyed incremental business from its scheme because it was quicker than the others.

But longer-term Vaughan says: "Why would you use Iceland if Tesco and Sainsbury's provide those goods?"

But Somerfield's Gatto says: "There is no reason why those who are not in the market early and do it well should not hold on to their customers. Those that don't do it well

will lose them. What will qualify you for success is operational excellence and not necessarily having a well-known brand."

Or you have to be the only provider of your kind of service. The Fresh Food Company, based in Portobello Road, west London, offers a national full-basket organic shop, with a range you would be hard-pressed to find anywhere else on the same scale, albeit at higher prices.



Safeway's home delivery service

Proprietor Toby Young says: "There are people who think we are too expensive but other people who say this is the price of the service and I am not going to get this service anywhere else."

The economics of home shipping are complex but broadly speaking the costs are those of:

- acquiring and retaining customers
- taking orders
- fulfilment of orders
- delivery of order whether picked in store and collected by customer or delivered from store to depot to home or office. (Distribution costs are higher because there is more single item picking and smaller distribution runs) call-centres labour dedicated depots

Next Generation Home Shopping, by Datamonitor for Reuters Business Insight, argues that costs will diminish over time as usage of grocery home delivery services becomes more widespread. "But at present there is little doubt that those running these services are losing money at a rate which would be inconceivable in even a new superstore," it says.

Tesco has already decided to cut the cost of order taking. All new customers will only be able to order electronically. Tesco electronic ordering embraces the Internet and a regional trial on NTL's Shopping Channel but it could ultimately extend into many other areas via mobile telephones and other hand-held devices, as could all the

others.

But Iceland home delivery retail operations manager Colin Watts believes customers want various ways to place an order - not just electronically.

Russell Ford, managing director, adds: "Home shopping is not profitable for any start-up business while they are spending money to attract customers and it cannot be profitable for any major food retailer in the first few years of developing a loyal customer base."

While Ford says he is confident Iceland Home Shopping will contribute profit, it sees it at the moment as an important service development fulfilling its ambition of being "the most accessible food retailer".

Ford says home shopping is unlikely to be a threat to traditional shopping until a food retailer makes a healthy profit when economies of scale are achieved.

Some of the gadgetry already employed is ingenious. Safeway is testing Palm Pilots, hand-held mini-computers with scanners and electronic pens attached - at about £250 apiece which are free to the customer - enabling shoppers to select orders anywhere from the toilet to the Tube ready to send by modem.

The handy scanner device means they can swipe the barcode, for example, of a bottle of wine they are enjoying at a dinner party - even if it is a non-listed product or another company's own-label - and it will endeavour to source that product or its equivalent and add it to the customer's personal list.

A clever part of Safeway's Palm Pilots is that it collects data of customers with similar shopping habits and makes personalised suggestions of other products that could be of interest therefore driving extra potential sales.

The price of each unit makes it an expensive outlay per head and the company is researching whether customers would pay for them or it might offset the charge against points accrued on the ABC loyalty card. It is also looking how the software could be integrated with customers' own portable electronic devices.

Safeway does not believe delivery is the way to go. "Our competitors are not breaking even on the basis of delivery," says spokeswoman Paula Cressy. While Safeway accepts some people want delivery, it wants the benefit of people coming into its stores.

Sainsbury's expects to eventually go the

electronic-only route but does not want to limit itself at this stage in the belief it can learn more about what its customers want by widening the options to begin with.

The internet scheme, which has major corporations among its customers, enables those employees to order goods for delivery to their workplace, facilitating considerable savings because all deliveries go to one place.

Its other service, a home delivery scheme from 20 metropolitan branches whereby customers do their own shopping but leave it at a dedicated desk for delivery within a two-hour time-frame to suit, might sound half-hearted.

But it is aimed at those who are reliant on public transport and have difficulty lugging home huge bags of shopping or people who shop in their lunch hour and cannot take the food back to work.

Spokeswoman Carol Hubbard says: "It is difficult to say if it is profitable per se. You can argue profit is not what we are there for. If you do not do these things you would probably lose the customer."

All the stores brush off suggestions they could be committing hara-kiri after acquiring bricks and mortar at phenomenal expense. They sound convinced that most people will always want to physically shop and that it is up to them to make stores more interesting with cafés, pharmacies, crèches and other facilities. They also argue the population is ageing and many of these people will want the human interaction that "real" shopping brings.

But Hollis says: "It will force the supermarkets to think hard about the amount of space they take in stores. You would not want to invest big time in bricks and mortar at the moment."

Morley says: "Our honest belief is supermarket shopping will persist for a long time. This is a portion of the market that will not really threaten retail business if we do it in a reasonable way."

Tesco says its first 11 stores will break even this year. All other stores are expected to achieve profitability within their second year. Bridgett says: "It will take stores 2-3 months to get to the right level: drop density, picking, productivity and store capacity."

She says non-electronic ways are too expensive for taking orders: "We do not have problems in getting the stores to capacity with Internet only."

Somerfield's Martin Gatto disagrees: "Those just based around the Internet and stores will not work. There will always be customers who want to phone their orders. There will be some customers who will never use a computer or have digital television."

However he believes in 5-10 years 90% of orders will be electronic and the remainder call centre-based.

Safeway gets past the most frequent criticism of home shopping. This is that customers cannot buy on impulse and that they like to touch, smell and see fresh produce. Its Collect & Go service operating from Basingstoke and Reading gives shoppers the opportunity to select their own if they wish while other items are picked and packed for them. This also gives the stores the degree of impulse purchasing which other home shopping services can lose out on.

Cressy points out that a frustration for customers of delivery services can be the non-availability of a crucial item that is central to a dinner party theme. The customer can end up with all the trimmings

for Sunday lunch but not the main roast. Safeway's collection service overcomes this by letting the customer know at a dedicated desk so that they can pick another joint themselves.

Asda's Morley says: "The thing that most upsets the customer is when they do not get what they order or your delivery is late." Another problem is that most people want deliveries for 7-8pm. Vaughan says: "You have a tremendous peak loading which is an issue that will hold this back."

People - the supermarket's employees - are key in making home shopping a success. Every person the customer deals with from the telephonist to the driver can risk jeopardising a shopper's relationship with a store - always a danger where you subcontract.

Iceland has thought about this issue and uses all its own staff and vehicles. "What we look for in a driver is "a personality with a licence," says Ford.

Tesco believes likewise. Bridgett said: "I tried out resources run by other companies in the early days, with deliveries using drivers from agencies but we were not impressed. If you do not get the driver right you lose the customer."

No one denies it is an experimental market that requires a constant eye on the ball. Tesco's Bridgett says: "You just have to stay close to what is going on and stay awake all night so you can move in the morning."

Hollis concludes: "I think it is a phoney war at the moment where everyone is trying bits and pieces but no one is operating the model they will have to operate to scale when things take off."

#### TESCO

Tesco Direct operates home shopping through 22 stores, mostly in south-east England. Regional trial on NTL's Shopping Channel

#### COSTS & INVESTMENT

Hopes to have 400 new Volkswagen L135 MWB vans by February. Uses own drivers. Currently has 50,000 grocery home shoppers. Claims each existing store involved will break even this year and other stores will be profitable in their second year. 20 staff per store for home shopping full-time. Own vans and own drivers. £5 charge

#### PLANS & FORECASTS

Roll out to 100 stores by next February. All new customers restricted to Internet only as it phases out fax and ephone-based ordering.

#### J.SAINSBURY

#### Orderline

9 stores within the M25. Orders placed by fax, phone or Internet for collection or delivery. Customers create own catalogue with hand-scanners in-store from which they can later add or subtract. Claims "many thousands" have signed up. Anticipates eventual switch to e-shopping only.

#### COSTS & INVESTMENT

Say it does not expect to break this year. Distribution sub-contracted to Ryder which supplies vehicles and staff. JS trains and manage the staff. Four vehicles per store. £5 charge for orderline and £3.50 to deliver goods paid for at the checkout

#### PLANS & FORECASTS

Plans to open 80,000-100,000 sq ft picking centre within M25 at a cost of £7-£10m offering 15,000 products. Will open others as and when necessary. Forecasts 5%-10% of households using home shopping over next 5-10 years. Investigating interactive television.

#### SOMERFIELD

300 stores deliver to customers who shop in-store. Currently operates as Somerfield Direct and Flanagans. To be rebranded as Somerfield 24-7 in September. Digital national TV shopping channel on British Interactive Broadcasting's Open goes live in September. Internet ordering goes live in October.

#### COSTS & INVESTMENT

Doesn't expect to make profit for three years.

continued on page 16

★ CASE STUDY

Cost of converting Bristol depot £2m. When renting depots expects rental of £4.50-£5.50 per sq ft. Expects to lose £5m in first year and more in year 2. Charges up to £5 per order. Own vans and drivers. Has 15 vans operating in London and will double that in the capital. No charge for those who shop in store and ask for delivery if they spend more than £25 and live locally. Expects to see home shopping increase average basket by £50 to £80.

**PLANS & FORECASTS**

Aspires to control up to 25% of home shopping market within five years with sales of £3bn. Converting existing warehouse into home shopping depot in south-west Bristol and will have a second warehouse in north London by April in addition to existing Flanagans depot in Wandsworth. Might open a 3rd London picking centre. Looking for network of depots over 12-18 months throughout Britain. Will purchase or lease.

**WAITROSE**

Intranet service for employees in partnership with large companies such as Microsoft, BMW, BA, Virgin Atlantic, BBC. Carried on 3,500 computers. Must be within 10-15 miles of a branch and ideally have a surface car park. Some 12,500 items available. Each van can deliver up to 80 average family weekly shops.

**COSTS & INVESTMENT**

1) Home delivery service from 20 shops in metropolitan areas. Customers do the shop themselves and leave their trolleys at a dedicated checkout where they give their account card details. The store will deliver within a 2-hour window.

2) Testing Call & Collect for phoning and faxing orders through for collection at Wokingham store with a choice of 18,000 items from catalogue.

1) No delivery charge. Minimum order of £5. This service has the cost advantage to the retailer of delivering to one company site. Each company must have a minimum of 300 desktops

3) Free delivery but minimum order is £50 otherwise it costs £5.

Average store does more than 200 deliveries a week.

**PLANS & FORECASTS**

1) Anticipates continued expansion following "phenomenal" response. More and more companies said to be signing up.

2) Running at capacity. Deciding whether to invest more and expand

3) Future unknown at this stage. Still seeing if it works

**MARKS & SPENCER**

Home delivery in 20 stores. 2-hour delivery slots from 10am-8pm.

**COSTS & INVESTMENT**

£3-£5 charge depending on distance of home from store. Uses Exel Logistics operating as Storeforce with 31 vehicles

**PLANS & FORECASTS**

Looking at Internet

**ASDA**

Test on Internet using CD-Rom and has catalogue-based fax and phone-based ordering service with a choice of 65,000 items. Delivers to Croydon, Sutton, Kingston and Bromley. owns 21 vehicles.

**COSTS & INVESTMENT**

Depots are cheaper because they require warehouse planning permission rather than retail. Uses its own staff to pick and deliver. Prior to Internet CD-Rom scheme relied on a call-centre outsourced to Sitel at "a significant cost". for 'phone and fax orders only which it will continue with. Admits it is not breaking even. Delivery is £3.50 or free if the bill comes to more than £150.

**PLANS & FORECASTS**

Rolls out Internet CD-Rom scheme in August. Has 49,000 sq ft picking depot in Croydon, one under construction in Watford, will open in September and two other inside the M25 planned for next spring. These would deliver throughout the M25 region. Long-term hope to roll out further. Exploring digital and cable TV.

**SAFEWAY**

Collect & Go is an order- from-home, by 'phone and fax service for collection from store in Basingstoke and Reading. Possible choice of about 22,000 products. ABC loyalty card used to assess last 3-6 months' shopping to compile individual lists down to the sizes. New shoppers' lists are based on one shop, which they can add their own items to. Can add to list when visiting store. 2-hour delivery windows. Picked and packed in store.

**COSTS & INVESTMENT**

EasyOrder an ordering service using Palm Pilots palm-sized computers with scanners developed with IBM and Symbol Technology. Personalised shopping lists are put into the system which comes with a modem for making an order anywhere there is a phone connection. Orders selected by using electronic pen on-screen. Keypad to add other items and ideas section. Can be used for e-mail and as an address book. Use own staff to pick and pack. £2 charge. 2 hour collection window. Cost £250 for each of 200 customers. 2 hour collection window.

**PLANS & FORECASTS**

Plans to roll out Collect & Go, probably at a rate of about 5 new stores at a time. Looking at digital TV

Looking at other hand-held electronic devices for ordering. Hopes to use data to personalise promotions.

Not ruling out "delivery" in future.

**ICELAND**

**COSTS & INVESTMENT**

1) Digital national TV channel goes live on British Interactive Broadcasting's Open in September

2) National service, including Northern Ireland using talking food catalogue home delivery. Phone/fax order to call centre. Call centre can create a personal catalogue on request. National. Next day delivery within 2-hour window for

orders placed before 1pm. Can order goods not in the catalogue testing Internet shopping with BT employees but looking to go national this August. Delivers within a 10 mile radius outside of M25 and 3 miles within M25.

3) Shop in store and have shopping delivered for free when spending more than £25.

4) Internet Shopping goes national in August £4 "telephone shopping administration charge" Minimum order of £25.

Free delivery when shopping in store for baskets of more than £25.

Deeside Call-centre. Uses 600 of its own staff in store to pick goods. Uses its own fleet of more than 900 vans and its own drivers.

Home shopping cost £20-£25m to set up including fleet, drivers and training. Subsequent on costs were call-centre, catalogue production and marketing. Services 80,000 customers weekly and home delivery contributes more than 10% of sales.

**PLANS & FORECASTS**

Looking at the possibility of dedicated warehouses.

**BUDGENS**

Budgens Direct

Testing Intranet grocery service for companies in Birmingham

**COSTS & INVESTMENT**

Has two depots in Runcorn and Harlow which services its recently acquired Teleshop business which runs local authority contracts for home deliveries to the elderly and infirm.

**PLANS & FORECASTS**

Opening a third storage depot in Tamworth later this year.

**THE FRESH FOOD CO'S ORGANIC NATION**

Delivers wide range of organic produce, including 4,000 key grocery items via 'phone, fax, letter and Internet. UK-wide. Delivers on Thursdays between 8.30am-17.30.

Acts as an agent for organic suppliers. No minimum order

Free deliver included on fixed-price boxes and all bespoke orders of more than £75. Delivery charge £5 for all others.

Sub-contracts Initial Citylink with liveried drivers and vehicles.

Has only four of its own staff, who answer the 'phones based in West London. Fresh produced sourced from Organic Connections, Wisbech, east Anglia. 535 order in the week ending July 10.

Claims profitability from day 1 -by charging the right price". Doesn't advertise, relies on word of mouth and a high PR profile. Lists costs as staff, rent, a lot of IT and delivery company. Food picked up from a certified organic packhouse, part of a co-operative or from producers direct. Some 95% of customers have a standing subscription—the same items are ordered weekly. Delivery vans are shared with other companies to reduce costs..