

e-Everything: e-Commerce, e-Government, e-Household, e-Democracy

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Nettimarket.com (Finland): A Virtual Grocery Retailer

Tawfik Jelassi

ENPC School of International Management,
28, rue des Saints Pères, 75007 Paris, France
Tawfik.Jelassi@enpc.fr

Pirkko Walden, Bill Anckar

Institute for Advanced Management Systems Research
Abo Akademi University, Data City, FIN-20520 Abo, Finland
Pirkko.Walden@abo.fi, Bill.Anckar@abo.fi

Abstract

On a typical snowy day in early January 1998, as he was driving towards Helsinki, Aki Teranto spotted a poster on the motorway for Internet grocery shopping. The slogan read: “Don’t stand in line anymore, just go online!” He thought, if it is possible to sell groceries online in Helsinki, why would it not be possible to do so in Turku¹? A few months later, with the help of two partners and his wife, Eija, Aki launched Nettimarket.com, the first Internet grocery shop in the Turku area. Today, the business is still in its infancy, but the signs of growth are already visible...

¹ Turku is the fourth largest city in Finland and has approximately 180,000 inhabitants (including the suburbs). Helsinki, the capital, has a population of 1 million, including the nearby cities of Espoo and Vantaa (see Figure 1).

Company Background

Aki had hardly any experience in the food or retailing business. He had been a truck driver for ten years transporting food products for Veljekset U. Saari, one of the largest transportation companies in the Turku area. His job often took him to Sweden and, in 1995, on one of his trips, he came across a type of flooring material, typically used to surface concrete floors, which he thought would have good market potential in Finland. He then decided to leave his job as a truck driver and, with a partner, founded his first company in May 1996. The flooring material company has been doing well: "we make our living out of it", says Aki.

After reading the poster on that winter day, Aki pondered the idea of launching an Internet grocery store in Turku and, since there was as of yet no competition there, he thought he might potentially gain a first-mover advantage. He had made up his mind before arriving home, upon which he informed his wife of his project. He did not carry out any analyses or benchmarking. He felt that he had a great idea and he was set to implement it. Nettimarket.com was founded in January 1998 with an initial capital of FIM 25,000² and with two employees: Aki as the managing director and his wife, Eija, as the logistics manager.

Neither Aki nor his wife, Eija, had any knowledge of information technology (IT). They had a high-school level education and were totally computer illiterate. Aki learned about computers through self-study. "Some of my visitors think that I am a computer wizard," says Aki. "Actually, I never took a single course on the subject, but I spent all my weekends studying computer programming. My wife encouraged me, although she doesn't share my passion for computers!"

Aki and his wife wanted a name for the company that reflects the nature of its business, so they selected, Nettimarket (i.e. "the net market"). After the decision was taken to go into virtual business, Aki founded the company together with a partner, Jarkko. Aki's share is 60% of the company while Jarkko's share is 40%. Jarkko has a similar background to Aki's, and although at first he did not play an active role in the in the company's operations, he joined the team just before Christmas 1999 and works at Nettimarket.com during the evenings and at weekends. Jarkko's wife, Paivi, has also joined the business and assists Eija in her duties.

Aki's and Jarkko's personal contributions were the share-capital, which was assessed at FIM 25,000 (approximately US\$ 4,100). The next step was to apply for a loan of FIM 200,000 and, three months later, for another loan of FIM 200,000. So far, total investments amount to FIM 425,000, which can be broken down as follows:

1. Software: FIM 110,000
2. 3 PCs: approximately FIM 50,000
3. 2 printers

² On April 7th, 2000, the exchange rate of the Finnish Markka was as follows: US\$ 1 = FIM 6.216.

4. Phone installations
5. Server costs: FIM 1,500 per month
6. Leased van (for goods delivery)
7. Rented office space (100 square meters): FIM 3,000 per month.

The Business Model

Aki was convinced that for reasons of convenience, customers prefer the “one-stop shopping” concept, especially when shopping for groceries. Therefore, an electronic market that allows customers to shop directly from producers is not conceivable in the grocery business, hence ensuring a strong role for wholesalers, distributors and retailers. Aki thought that most Internet grocery stores mainly operate as extensions of an existing physical retail business, aiming at attracting new customers and/or better serving existing ones. In Finland, these stores include www.eurospar.fi, Mestarin Herkku, and s-kanava.net. This “extended retailer” business model seems to be a logical solution in the early stages of electronic commerce, as online sales are still very limited and warehousing costs constitute a financial risk for start-up e-tailers. In fact, it is hard to imagine today a Finnish grocery business that only operates through the web and generates enough revenues to justify maintaining its warehouse.

If customers are to give up traditional purchasing methods, they must be offered certain value-added features in the virtual market space that are not attainable or available in the physical marketplace. A commonly stated consumer benefit of electronic commerce is the possibility for *price reductions*. This may take place as a result of: (i) increased competition as more suppliers are able to compete in an electronically open marketplace, (ii) reduced selling prices due to a reduction in transaction costs, and (iii) manufacturers internalising activities traditionally performed by intermediaries. However, to date, virtual grocery stores do not generally offer prices lower than those of physical stores. The “extended retailer” business model does not allow for price reductions in electronic markets, since in the traditional retail grocery stores, customers play an important role in the distribution chain as they collect the goods and carry them home themselves. In Internet grocery shopping, the pick-up and distribution of goods become the responsibility of the seller and result in additional overhead costs. As the extended retailer still has to pay for the cost of running a brick-and-mortar business (i.e. physical infrastructure overheads and personnel costs), web-based grocery shopping is likely to remain unprofitable at least in the short run. Furthermore, it is likely to remain highly local due to the transportation costs of grocery goods.

In Aki’s mind the “extension” strategy is not a good one, since it would not make sense for the grocer to undertake services (such as goods pick-up, checkout, delivery, etc.) that customers have been carrying out themselves. Aki’s strategy is therefore quite different; it is based on a partnership with a wholesaler since this solution eliminates warehousing costs (and risks), high physical infrastructure overheads, and checkout staff payroll. Aki negotiated with a wholesaler and even

managed to rent the required office space within the wholesaler premises. For the wholesaler, Nettmarket.com is yet another customer, although it has a special relationship with it. As long as the wholesaler does not consider Aki as a competitor (a situation that may well change in the future), the two parties can co-exist and enjoy a mutually beneficial relationship. Aki does not believe that in the future, the role of grocery wholesalers will disappear with the widespread availability of virtual grocery stores.

Theoretically, Aki's business model enables Nettmarket.com to compete on price. However, this is not yet the case as the limited sales have forced Aki to charge an 18-20% margin, hence selling most items at a higher price than found in physical grocery stores. With smaller margins Nettmarket.com cannot survive. Nettmarket.com's strategy is to operate as a truly virtual shop, offering customers the best products, a large selection of goods, premium customer service, just-in-time delivery and even ecological benefits (reducing traffic). The basic idea that underlies Nettmarket.com is similar to that of Amazon.com: instead of people going to look for books, make the books "come" to them.

The Operational System

In order to build his Internet grocery shop Aki looked for good software solutions. However, he found the offers which most consulting firms were making very expensive: his budget could not afford the several hundreds of thousands FIM price tag. He eventually bought a software solution developed by SuperWeb, a Finnish software company offering e-commerce solutions.³ This software platform was rather similar to solutions used by most virtual grocery shops. It is based on the so-called "shopping basket logic" through which customers add the selected products to a virtual shopping cart. The content of the basket may be modified and the total value of its content is conveniently displayed throughout the system. The order administration contains the order "life span" all the way from ordering the goods to the printing of the collection list and the dispatch document. Aki wanted to have real-time data on visitors to the web site, the orders they placed and their current status, as well as the sales turnover. He also needed the capability to print the bills and receipts, and to track customers' buying patterns. As customers register with Nettmarket.com, their personal information is stored in a customer database used by Aki to establish a one-to-one marketing relationship, and hence to personalize Neetimarket.com service. The database also enables Aki to individually track customers, interacting with them and integrating their feedback into their database record.

³ Although one of the software offers made to Aki was a solution used by a competitor, it did not meet the quality requirements of Nettmarket.com. Furthermore, this solution was almost ten times more expensive than the one that Aki finally acquired.

Customers can place orders by phone, fax, e-mail and through the Internet.⁴ The first time they use the Nettimarket.com web site, they need to register in order to place an order. Nettimarket.com provides a round-the-clock service in quite a wide geographical area that encompasses the cities of Turku, Kaarina, Naantali and Raisio. This space is divided into service areas according to postal codes.

In order to purchase products online, shoppers navigate through the hierarchical Nettimarket.com web pages (see Figures 2 and 3). The lowest level menu allows the shopper to initiate the commercial transaction by selecting the goods to order, specifying their quantity and placing them in the virtual shopping cart. Furthermore, a search engine assists the shopper in finding the products of his/her choice (see Figure 2, lower corner on the left-hand side). The search is based on criteria including the generic name of a product (e.g. olive oil), its price range (e.g. less than FIM 30), and its weight (e.g. 500 ml). In case a specific product is out of stock, the system suggests to the customer possible substitute products. In order to initiate the processing of the transaction, the customer must confirm his/her order and specify the mode of payment among the following options: ATM-card, credit card (Visa, MasterCard and EuroCard), Solo system (Merita Bank), or cash (on delivery of the goods). Corporate customers may also choose to be invoiced. Upon receipt of the customer order confirmation, Nettimarket.com sends an e-mail message acknowledging receipt of the purchase order.

In order to simplify the buying process for customers, the system keeps a record of previous purchases. In case the customer wants to buy the same goods as he did on his previous "visit", through just "one click", his entire product list is moved to the virtual shopping cart. Moreover, the customer can put together several "product baskets" in advance, and move the basket into the cart by just "one click"⁵. The system also allows the customer to specify the product characteristics in free text format (e.g. "I prefer my bananas green").

Aki is the only person in the company who maintains the web site and updates product and customer information, discount lists and order processing. He also updates all the informational content of the web site, including the e-mail messages sent to the customer. Through these messages, customers (who have agreed to receive such information) are informed every Monday about the special weekly offers on the Nettimarket.com web site. Furthermore, the (SuperWeb) system provides Eija with a list of products ordered, specifying their respective quantity (or weight), which she uses to collect the goods from the wholesaler's outlet.

Product Portfolio

Nettimarket.com's online catalogue contains approximately 6,000 products, a product portfolio that is typically less than that offered in a physical supermarket

⁴ To place orders through the Internet, customers need to use a Pentium-based PC, an Internet (preferably with ISDN) connection of 33.6 kb/s, Internet Explorer version 4.0 or Netscape version 4.0 or a later version.

⁵ One click on the mouse will transfer the entire list of products to the virtual shopping cart.

store.⁶ This product portfolio size, which is limited to that of Nettmarket.com's wholesaler (Wihuri Oy⁷), puts Aki at a disadvantage vis-à-vis physical retailers and also potential online competitors with a larger product assortment. Aki, however, feels that neither his Internet business nor other virtual grocery stores should be compared to physical supermarkets. For him, virtual grocery stores aim primarily at attracting customers who need to buy their everyday groceries; he does not believe that web stores will be able to compete with physical hypermarkets for weekend shoppers. For the latter, who typically buy from a physical store a large portion of the groceries needed during the week and also often look for gourmet items, product assortment is an important shopping criterion. Moreover, Aki acknowledges that shopping by impulse is very important for some customers, especially at weekends and during holidays, a feature that cannot be fulfilled by virtual stores.

Order Fulfillment and Delivery

Nettmarket.com suffers from a significant drawback: its online product catalogue is not linked to the wholesaler's warehousing system. This situation led to not being able to inform customers upon ordering whether their order can be fully delivered or whether some of the items are out of stock. In the latter case, and if already specified by the customer, a substitute product gets delivered provided it is in the same price range as the initially ordered product.

Nettmarket.com delivers the goods to the customer household typically within a couple of hours of receipt of the order, sometimes within the day. The company uses different handling and packaging means for the goods, depending on whether they are dry, refrigerated, or frozen goods. In all cases, Nettmarket.com tries to ensure short delivery times from its premises to customers' households.

Goods deliveries take place between 10 a.m. and 7.30 p.m. on working days. No deliveries take place on weekends and holidays. Nettmarket.com requires that an order be placed at least half an hour before the required delivery time, which typically ranges from one to four hours. Since the volume of deliveries is not very high (on average, forty delivery "tours" per week), Aki has not felt the need yet to use a computerised routing optimisation system.

The order fulfillment process, from receipt of the order to delivery of the goods to the customer household, requires on average 45 minutes of "personal service". At the beginning, Nettmarket.com required a minimum order of FIM 100, but today there is no such minimum, but orders of less than FIM 100 are charged an extra fee of FIM 7. There is a delivery charge of FIM 20 per order, but for orders exceeding FIM 400, delivery is free of charge.

⁶ The online catalogue also contains 1,000 product photos or labels.

⁷ Oy (abbreviation for *osakeyhtiö*) means joint stock (or limited) company.

Eija is in charge of the order fulfillment and delivery process. She collects the goods from the wholesaler's outlet and puts them in specially designed bags (that she and Aki made out of a special fabric to last at least 5,000 deliveries). These bags were tailor-made taking into account the space available in the delivery van and the most frequently bought goods. For transporting ice cream and other frozen food products, insulated bags with refrigerants are used.

Initial Difficulties

In the summer of 1999, although it was growing, Nettimarket.com faced considerable financial problems. With 500 registered customers and only 200 regular online shoppers, the customer base was too small to sustain the business. Furthermore, the number of customers was growing very slowly, with on average just three new shoppers per month! Although the number of daily visits to the Nettimarket.com web site ranged from 40 to 200, only 1 to 5 orders were placed every day. This situation resulted in daily gross sales of FIM 1,000 to 2,000. In spite of the above difficulties which could have been seen as sufficient reasons for closing down the business, Aki still believed in eventually making Nettimarket.com a success.

Serving the Elderly and Disabled: Business Expansion through a Municipal Decision

In Finland, recent increases in social expenditure have led to keeping the elderly and the disabled at home or with their families as long as it is more cost-effective to do so. For the same economic reasons, patients are also released from hospitals and returned to their homes earlier than before.

Elderly and disabled people who depend on home-helpers' assistance constitute an important customer segment for online grocery stores such as Nettimarket.com. Aki was thus pleased to know that the Turku social welfare office decided to outsource the shopping tasks initially performed by the home-helpers employed by City Hall. This decision was motivated by the increased demand for home-helpers. The latter typically visit their customers a couple of times per week to perform tasks ranging from taking care of the physical and mental health of the elderly to housekeeping and grocery shopping. Such shopping takes on average 45 minutes.

In order to make the home-helpers' work more effective at the 4,000 households involved, the city of Turku decided to try, over a 15-month period, Internet-based shopping.⁸ The social welfare office, which operates in the four Turku areas (North, South, East and West), decided to run the e-shopping trial only in the North and West areas. Out of the nine Internet retailers (including Nettimarket.com) who participated in the bidding organised by the City of Turku, only three had some experience in online shopping. The goods delivery fees that these retailers offered

⁸ A similar test was carried out by the cities of Helsinki and Espoo.

ranged from FIM 20 to FIM 42.70; Nettmarket.com fee was FIM 27 with a guaranteed 30-minute delivery.

Nettmarket.com competitors in the bidding were Halinet Oy from Helsinki and Ruokamarkkinat Oy. "I got the idea for my business when I was working at the social welfare office of the city of Lohja", said Harri Vilkkö, managing director of Halinet Oy, a logistics service provider. "Home-helpers can make better use of their time [with the elderly or disabled] than waiting for their turn in a grocery store." Halinet, which works with Ruoka.net (an online grocery shop), is in charge of delivering the goods to the elderly and disabled, educating the home-helpers and providing the city with the required IT equipment. Ruokamarkkinat Oy, which has been operating through the Internet since March 1998, is a subsidiary of Wihuri Oy, the wholesaler of Nettmarket.com.

Regarding financial transactions, the City of Turku did not specify the payment methods. The customer specifies the mode of payment among a number of options. Purchasing orders are made mainly through the Nokia 9110 Communicator mobile phone, which is a wireless device with a large back-lit screen enabling telephone, fax, e-mail and Internet communications. To use the Communicator, customers choose the Internet provider and the web site application they are interested in and fill in the subscriber information. After this it is possible to work on the Internet and to surf almost whenever and wherever the user likes.

To run the e-shopping experiment, the City Hall needed a budget of FIM 77,000 to acquire sixteen Communicators (of which Nettmarket.com bought two)⁹, and FIM 2.4 million to pay for the goods delivery to customers' households during the trial period. Some of the elderly will contribute FIM 10 per delivery, resulting in a net cost for the social welfare department of approximately FIM 1.5 million.

In October 1999, the city of Turku selected Nettmarket.com for its Internet grocery shopping service for the elderly and disabled during the trial period from October 1999 to the end of December 2000. This has marked a surge in Nettmarket.com business, with approximately 1,300 new customers in just two months (October and November 1999). The fees from goods delivery alone generated FIM 1.3 million, and with a conservative average order of FIM 100 per customer per week, sales in year 2000 were expected to reach FIM 5 million. For Aki, the City Hall's decision was a stroke of luck since, prior to this, he did not expect his business to break even before the year 2002. Furthermore, he would have had to rely on his floor-building company to support his family and to also keep Nettmarket.com running.

The city of Turku decided to continue the Internet grocery shopping service for the elderly and disabled and therefore organized a new bidding regarding the period of 1.2.2001 – 31.12.2002. By the time of deadline November 10th, 2000 only three Internet retailers had taken part in the bidding: Nettmarket.com, Halinet Oy and Outi Hietamäki. Nettmarket.com won the bid, because of its expertise and quality of service in e-retailing. Nettmarket.com was also able to offer the lowest fee FIM 38,50 for the delivery (even though the fee had increased from FIM 27 to current

⁹ The unit price of the communicator device is FIM 5,500.

sum) and a variety of methods of payment. Furthermore, for the city's social workers and home-helpers Aki offered training without a charge in placing the orders with the Communicator.

The Internet grocery shopping service for the elderly and disabled involves 450 customers and deliveries sum up about FIM 1,500 monthly. The expenses from this service for the city are annually FIM 693,000, of which FIM 180,000 can be deducted as revenue of the city's service fee of FIM 10 per customer. Therefore the total yearly expense of the Net shopping service for the city of Turku is FIM 513,000.

Currently Nettimarket.com employs 11 people. Four staff members (including Paivi, Jarkko's wife) take care of picking up the goods from the warehouse according to the orders; two of them work on the morning shift and the other two on the evening shift. Besides Aki and Jarkko (the latter working only in the evenings and at weekends), there are two additional staff members who process the orders arriving through e-mail messages. Three drivers, using two leased vans, are in charge of the goods delivery. Currently, there are 75 delivery "tours" per week; this number is expected to reach 120 "tours" in the near future. To cope with this drastic sales increase, Nettimarket.com needs to use a computerised routing optimisation system. In addition to determining the routes, the system could also facilitate setting up the delivery timetable, a task that is becoming more complex especially due to the fact that in most cases, the home-helpers have to be present when the goods are delivered.

Competition

To date, Nettimarket.com has only two competitors operating in the Turku area; they are Ruokavarasto (<http://www.ruokavarasto.fi>) and Ruoka.net (<http://www.ruoka.net>). Ruokavarasto, which is part of Ruokamarkkinat Oy, is the biggest private grocery retail chain in Finland and was established in 1970. In 1988, it became a subsidiary of Wihuri Oy, the wholesaler of Nettimarket.com. Ruokamarkkinat Oy is operating in the southern part of Finland and, in 1998, had a total sales turnover of FIM million 1,300. Currently, Ruokamarkkinat Oy operate more than 130 physical retail stores by the brand name Ruokavarasto. Its Internet grocery operation 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.fi has rapidly increased its web-operation, now delivering groceries to eight cities in the southern part of Finland.

The second rival of Nettimarket.com is Ruoka.net. This online grocery store is based in Helsinki (approximately 160 km east of Turku) and by the end of year 2000 it had broadened the geographical scope of its business to also cover the Turku area. According to its CEO, Timo Surma-Aho. "Operating a virtual store over a large geographical area is difficult, especially managing the logistics

associated with it. But the time was right for us to expand the business." But, it remains to be seen how long they will continue to operate in Turku area. Ruoka.net has been making a big annual loss.

In the area of Turku, several supermarkets currently compete mainly on prices. They were able to drive out numerous small grocery stores that relied on service to build their customer base. For Nettmarket.com, providing customers with a unique, value-added service is its main competitive positioning.

All large retailers and wholesalers in Finland announced their intentions to also do business over the Internet. For example, the S-ryhma group has six online grocery stores that have so far only been serving local markets. Another player, TOK-yhtymä, was last year about to launch its online store but the project got postponed.

For Osmo Laine, President of the Finnish Grocery Retailers Association (Paivittaistavarakauppa ry), the Internet does not play an important role in the grocery business since consumers are generally not interested in embracing the grocery e-shopping service. Some data suggest that many customers have registered for the service but never placed a purchasing order online. Furthermore, during the trial period, several customers dropped off without any obvious reasons, such as quality or service-related problems.

Marketing Activities

Nettmarket.com received a lot of coverage in the local press. Being the first truly virtual grocery store in the region has created genuine media interest, even before the City Hall's decision to have the home-helpers shop online for the elderly and disabled.

At Nettmarket.com, every Monday, Aki sends an e-mail message to his customers informing them about the special offers of the week. The content of this message is the same for all customers; no one-to-one marketing has been carried out so far, although technically Nettmarket.com could do so. Aki relies on online advertising on his own web site; no banners are being placed on other Internet sites. To ensure a minimum visibility for the company, some ads were placed in a local newspaper and the Nettmarket.com web site address is displayed on the delivery vans as well as on the plastic bags in which the groceries are delivered. On the Nettmarket.com site, a frequently asked questions (FAQ) section is now available, but there are only a few posted questions, which might suggest that the system is rather easy to use.

Looking Ahead

Most Nettmarket.com customers are middle aged/career families or young (often single) people. They value quality of life and can be divided into two groups: those who spend (most of) the day at home with their children, and those who are hardly at home during daytime. Several online retailers in Finland consider families with small children as their primary customer target. This customer base has been

expanding very slowly, with the exception of the elderly and disabled people who are part of the City Hall's e-shopping experiment. For Aki, the single most significant barrier to e-shopping is consumers' reluctance to change their attitudes, and this constitutes a major challenge for Internet retailers.

Although Aki welcomes all individual customers, he doesn't feel that they will provide a customer base sufficient to build Nettimarket's future upon. Instead, Aki points out companies and day nurseries as important customer segments. At the moment, however, Nettimarket's key priority is to make the service provided to the elderly and disabled a great success. As to booster this service Aki has been thinking of offering a prescription & medicine –delivery assistance as well. When the prescription is given to the driver or sent to Nettimarket it then will be taken to the pharmacy and the medicine to the elderly customer.

The delivery schedules and the routing had to be optimized and the add-on services as well as the business cost-effectiveness needed to be enhanced. As of March 2000, no deliveries take place on Saturdays anymore and orders must now be placed at least two hours (not just 30 minutes) prior to the desired delivery time. Naturally, a 30 minutes delivery time is no longer possible as the business has expanded. Initially, as Nettimarket only made approximately 5 deliveries per day, they could manage even such a tight schedule.

Since the City Hall's assessment of the e-shopping experiment was positive, Nettimarket.com will also start serving the southern and eastern regions of Turku. Business-wise, this geographical expansion will allow the company to at least double its sales turnover. For Aki, if everything goes well, it means that he could finally start paying himself a decent salary.

Further Improvement

In any start-up business, there are always lessons to be drawn during the initial operational phase. For Nettimarket.com, certain problems need to be solved. Firstly, since the orders placed by the home-helpers through e-mail uses a free text format, Aki must key them in the online grocery shopping system so as to be able to generate the goods pickings lists, the invoices and the delivery notices. This data capture phase is time-consuming, error-prone and expensive and must be redesigned. Furthermore, Aki is also aware that the current shopping procedure relies heavily on the home-helper for: (i) picking up the hand-written shopping list from the elderly, (ii) placing the order over the Internet, and (iii) being present at the goods delivery stage¹⁰.

Aki would also like to upgrade his current operational system by automating some of the task and by having a faster search engine. But this would mean a quite big investment.

¹⁰ Since Nettimarket.com does not offer the service of unpacking the groceries (something Aki should consider doing in the future).

While contemplating whether he will be able to significantly improve the business, Aki wondered does Nettmarket.com really stand a chance of surviving the emerging competition? Should he seek partners to further enhance and expand company operations? To what extent could he adopt (or adapt) the way American Internet retailers (such as Amazon.com) operate their cyber-stores? For Aki, one thing is sure: he has embarked on a long journey and the voyage of discovery has just begun...



Figure 1: Map of Finland

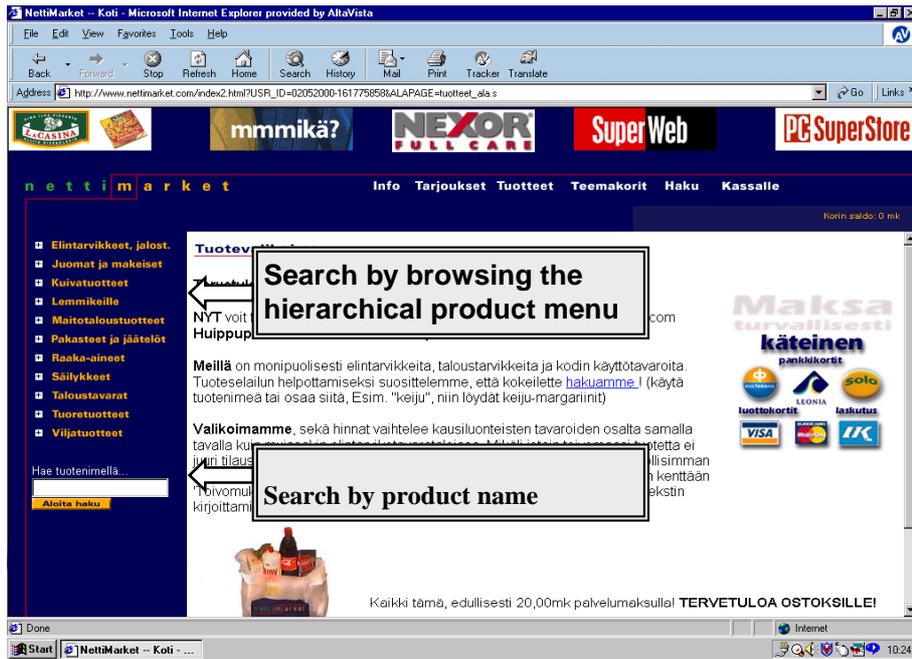


Figure 2: Nettmarket.com main web page.

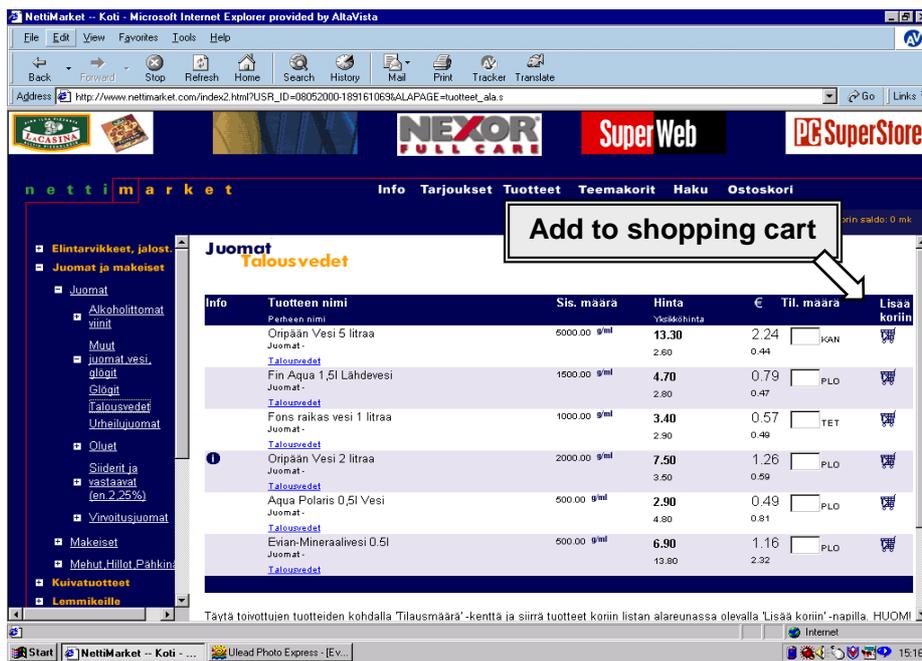


Figure 3: Nettmarket.com shopping page.

(Teaching Note)

Synopsis of the Case

This case presents Nettmarket.com, an Internet-based grocery retailer in Finland. It first describes the way this cyber-venture was set up, its business model and revenue structure, and the way it operates. It highlights the marketing difficulties it faced as well as the challenges in fulfilling customer orders. Central to the case is the entrepreneurial leadership that Aki Teranto, the founder of Nettmarket.com, has demonstrated in turning his wishful idea into an operational business. The case concludes by raising questions regarding the long-term sustainability of such Internet-based grocery retailer.

Pedagogical Objectives

- To analyse the business opportunities and risks that Internet commerce presents.
- To demonstrate how to leverage the Internet capabilities along four dimensions: context, content (by providing customers with information on the company and its products), commerce (by offering business-to-consumer, and potentially business-to-business transaction capabilities), and eventually online communities.
- To show how to implement an Internet-based venture and the key factors for its successful operation.
- To analyse how an online retailer can attract new customers and win their loyalty.
- To discuss the value-added of a cyber-venture such Nettmarket.com and its sustainability over time.
- To demonstrate the importance of entrepreneurial leadership in launching a cyber-venture.

Potential Teaching Audience

Due to its general management approach and its business focus, the case is suitable for a variety of courses in such areas as e-business/electronic commerce, marketing, entrepreneurship, operations/service management, and information systems/technology. This case may be used in the final year of an undergraduate programme and in an MBA programme as well.

Suggested Student Assignment

The following questions can be assigned to students for preparation and subsequent class discussion:

1. What factors (business, managerial, technological) were critical for the development and implementation of Nettimarket.com?
2. What would you have done differently than Aki Teranto, the Managing Director of Nettimarket.com, in designing, launching and operating this cyber-venture?
3. If you were Aki Teranto, what actions would you consider for the near- and medium-term to further Nettimarket.com's value-added and increase market share?
4. Generally speaking, do you think that new entrants (such as Nettimarket.com) can sustain their market position and compete with the large, bricks-and-mortar retailers that also offer today online grocery shopping?

Suggested Readings and References

The following articles (or a subset of them, depending on the course subject and the session theme) may be assigned as either background readings or articles for further analysis and discussion.

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Classroom Use

Since this case can be used for a variety of courses, the instructor may pursue only some of the pedagogical objectives stated above and/or give them a different emphasis as to best fit the pedagogical context. The teaching approach may be based on a classroom analysis and discussion of the suggested student questions following the proposed sequence, a different one or only using a subset of the listed questions. Obviously, the instructor's decision depends on the course subject, students' level, time allocated to the case, and learning objectives.

Suggested Teaching Approach

First, the teacher may start the session with an introduction to the e-business/electronic commerce concepts and to the Internet as an e-commerce platform. Depending on the time allocation/availability and the teaching objectives for the session, he may wish to highlight some Internet issues such as regulation, security, reliability, channel costs, e-payments, etc.

Then, the teacher may ask the class the following question: "Would you personally buy groceries through the Internet? Why or why not?" Students' answers to this question typically lead to the formation of two groups in the class: those who are willing to buy such products through the Internet and those who are not.

Students' arguments for or against making such a purchase through the Internet represent the customers' perspective. The class should then focus on the retailer's perspective and analyse the e-business strategy of Nettimarket.com. A discussion should take place regarding the business model of this cyber-venture, its target customer segment(s), revenue structure, marketing approach, revenue structure, strategic alliance with a supplier and with the Turku City Hall, its operations and logistics, the technology it uses, etc. The teacher should ask students about future actions that Aki Teranto should consider to enhance the added value of Nettimarket.com, attract new customers and win their loyalty.

A broader discussion can then follow regarding the medium- to long-term sustainability of Nettimarket.com and, more generally, of players (new entrants as well as established retailers) in Internet-based grocery retailing. This issue typically invites different, sometimes even opposing views from the class and creates some controversy among students. The instructor should facilitate the discussion and seek the arguments for or against a given position on the subject. He/she should conclude the class session with a wrap up of the discussion highlighting the major lessons learned from the case.