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RICE EPICUREAN ONLINE SHOPPING: DECADENCE OR DESTINY

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ABSTRACT

This case study describes the experience of a family relying on an online grocery shopping service offered by an eight-store grocery chain in Houston, Texas. The grocer, Rice Epicurean, is able to field a sophisticated web shopping experience inexpensively and quickly by relying on an Application Service Provider, MyWebGrocer, for the underlying information technology. Using a business familiar to almost all students, the case provides an opportunity to explore application service provision, customer relationship management, evolving online business models in the grocery industry, and the emerging trend towards “bricks and clicks” Internet business models.

Keywords: grocery, business models, order fulfillment, application service provider, customer relationship management, bricks and clicks, online shopping

Editor's Note: A teaching note is available from the first author to faculty so requesting it who are listed in the MISRC-ISWorld Faculty Directory.

I. INTRODUCTION¹

With his ten-month old daughter asleep on his shoulder, Larry Cantera² hit the return key on his PowerBook computer and quietly closed the cover. Another week's grocery shopping finished! The following afternoon a Rice Epicurean delivery van driver would arrive at the

¹ This case was written from public sources and unless otherwise noted, materials were not provided nor approved by Rice Epicurean managers.

² A fictional name for a real Rice Epicurean customer.

Cantera's apartment door. Their nanny would check the items against a receipt, give the driver any coupons, and put the groceries away.

The previous day, Cantera had told a friend about the scheme.

"Since Julie was born our lives became more hectic. With both of us working, grocery shopping became even more of a burden. On most weeks my wife or I were going to the grocery store twice a week. I did one big run on Saturday, when everyone else in the world was in the store. From the time I stepped out the door until I had the groceries home and in the fridge took about two hours. Later in the week we'd be shopping for bread, cold cuts, milk, and whatever we had forgotten.

Last week I spent fifteen minutes completing the on-line order. My wife maybe spends another five minutes going over with me anything special she thinks we need. After six weeks I have pretty much everything we ever order on our master list at Rice Epicurean."

Cantera defended paying a \$15 delivery charge.

"Our first order hit a free delivery promotion scheme. We paid full price for the second delivery but then received three more delivery promotions. So our out-of-pocket costs for grocery delivery for the first month were pretty modest. The grocery store is about 4 miles away so I could come up with a small savings on gas and wear and tear on the car. And when Julie is a bit older, we won't miss talking her out of candy purchases at checkout.

But the real benefit is our time. If we can save three, or even only two hours a week, it's worth the 10% premium – particularly if we end up spending that time with our daughter."

II. RICE EPICUREAN BACKGROUND

In September of 2002 Rice Epicurean Markets, was the self-reported oldest family-owned chain of supermarkets in Houston, Texas. It traced its roots to Rice Boulevard Market opened in 1937 by William H. Levy, grandfather of the current owners. In 1937 Rice Boulevard was a dirt road in a largely undeveloped future suburb of Houston. Sixty-five years later, that store, considerably increased in size, sat in the middle of one of the most desirable living areas in Houston. In 1957 a second store was opened. Its first customers included rice farmers living west of Houston; by 2002 those rice fields became Houston's prestigious Galleria area. Rice Epicurean's other four stores were located in similarly well-to-do neighborhoods, including one almost across the street from a recently opened giant HEB Central Market. The six stores ranged in size from 20,000 to 42,000 square feet³.

Founder William Levy sought to provide quality products and personal service to his customers. With its founding in 1988 the Rice Epicurean chain continued that tradition.

"For Rice to now compete with the larger chains, we re-created ourselves in a successful effort to be the best grocery store in town... each store operated by Rice Epicurean Markets is still merchandised to be in tune with its particular neighborhood. The charge card system with monthly billing, introduced in 1964, remains in effect. Rice Epicurean Markets prides itself on the growing number of employees who have been with the chain for 20 years or more and can tell you by name, the customers and their families who have shopped with them for many, many, years."⁴

³ This section draws on material from the History page [http://www.riceepicurean.com/about_rice/about_home.html] of the Rice Epicurean web site.

⁴ http://www.riceepicurean.com/about_rice/about_home.html

The stores, while smaller than other Houston chains, sought to maintain a rich inventory of typical grocery store items as well as gourmet products, chef prepared foods, high quality bakery products, and, in most stores, full service meat departments. Home delivery was not new to Rice Epicurean as Phil Cohen, director of loyalty marketing and customer services, explained.

"People don't know this, but we've been delivering groceries for a very long time.... we have customers who've been faxing in their orders for years. We have our own delivery vans, and we deliver out of each store" [DeMers, 2002].

Customers could also join the chain's loyalty card program. The "Experience Card" provided lower prices on promotional items, discounts on products and services from Epicurean's Experience partners around Houston and, in some instances, rebate coupons for a certain level of purchases.

III. ONLINE SHOPPING

In the summer of 2002 Rice Epicurean announced, primarily through in-store promotions, its new Home Runs on-line shopping program. It was not the first online grocery in Houston, but, in September of 2002, it was the only one still operating in the city.

Home Runs offered two online shopping options. One, priced at \$15, was home delivery. It was available from individual stores to customers in designated zip codes. The second option was in-store pick-up. This \$7 option was available to any customer who could reach the store. Orders could be placed from Rice Epicurean's web page seven days a week, 24 hours a day. They could be picked up or delivered in one hour time slots as selected by the customer; pickup was available from 9am until 7pm seven days a week and home delivery from noon until 6pm Monday through Friday.

Customers wishing to try out online shopping were directed by a brochure to go to the Rice Epicurean home page [Rice Epicurean, 2002] and click on "Shop Online." A web page identified the four stores that were participating in the program as well as the zip code areas each store provided home delivery to. Once a store was selected the customer was automatically redirected to the Rice Epicurean virtual store run for them by a third-party application service provider, MyWebGrocer⁵.

Once at the MyWebGrocer (MWG) site (Figure 1), a new customer first set up an account by providing her email address, a password, and if, she were a member, her Experience Card number. After registering the customer could begin to shop. Items could be selected from the Groceries, Health & Beauty, and Home Supplies links in an index panel extending down the left quarter of the screen (Figure 2). A customer selecting the Grocery option, for instance, would then be shown a list of 20-some categories of groceries (e.g., baby store, bakery brands, dairy, deli). Clicking on "Produce" would then reveal sub-categories for Fresh Fruit, Fresh Vegetables, Organics, and so on. A subsequent click on "Fresh Fruit" would reveal a list of fruit (apples, bananas, berries...).

Clicking on one of these categories then revealed an alphabetized list of the products in the middle half of the page. Each entry included a picture of the product (if one was available), the vendor and name of the product (e.g., Chiquita® Bananas), some descriptive or instructional information (e.g., "please order the number of individual bananas you want."), the size or weight of a typical purchase (e.g., average 8 ounces each), the price⁶ per pound (e.g., \$.49, the average price each (e.g., \$.25), the price for non-Experience club members (e.g., \$.30 each), buttons to "buy," to "add to [shopping] list," or for "Details" to get a richer description of the product. In some cases a pull down menu was displayed for specifying the weight of the desired order (e.g., for sliced ham from the deli). The "Details" button revealed the products UPC code and, where available, bigger pictures and further descriptive information.

⁵ <http://www.mywebgrocer.com>

⁶ Prices were FTPed from the store to MyWebGrocer at midnight once a week.

Figure 1. Rice Epicurean Home Page

Figure 2: Aisles in Virtual Store for Rice Epicurean

Having found the product, either by drilling down as described above or by using a search feature⁷, the customer could either add a product to the shopping basket by clicking on the “buy” flag next to a product or instead add it to a shopping list that was then available in the current or subsequent visits. From the master list, the customer could add items to the shopping cart, vary the number of items, or remove the item from the master list (Figure 3). Other lists could also be created, for instance, for Thanksgiving dinner or the items necessary for a favorite recipe.

Figure 3: Master List for Customer of Rice Epicurean

Once the order was completed, the customer would go to checkout where, if it were her first visit, she would provide billing and delivery information including name, address, phone number, and credit card information. A secure server at MWG then processed this information.

IV. ORDER FULFILLMENT

Customer orders were accessible to the store from a password-protected electronic workbench located on a secure MWG server (Figures 4-6).

⁷ Searches could be done by brand name (e.g., Cowboy Caviar), product name (“Original Recipe”) or UPC code (e.g., 9171700100)

Figure 4: MWG Manager's Workbench: Main Screen

Demo Store 1
Manager's Workbench

Orders
Products
Customers
Reports
Etc
Print

Manage Customers - Search Customers

Find By: Customer Email ▼

Search For: Cantera

View Customer

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Figure 5: MWG Manager's Workbench: Customer Search

Demo Store 1
Manager's Workbench

Orders
Products
Customers
Reports
Etc
Print

Manage Customers

Customer:	Actions:
<p style="margin: 0;">Larry Cantera 1 Main St Houston, TX</p>	<p style="margin: 0;">Edit Customer Account</p> <p style="margin: 0;">Create Customer Discount/Charge</p> <p style="margin: 0;">View Customer Discounts/Charges</p> <p style="margin: 0;">Shop for the Customer (password will be requested)</p> <p style="margin: 0;">Select A Different Customer</p>

© 2002 MyWebGrocer.com. All Rights Reserved.

Figure 6: MWG Manager's Workbench: Customer Functions

Once retrieved from the site, the orders, sorted in shelf-sequence order, could either be printed or loaded on to handheld devices⁸. These then guided the pickers in pulling the items from the store shelves. After they were picked, the order items would be scanned and the Experience Card and Credit Card information entered. A printed point-of-sale receipt was then available to accompany the order as was an exception report providing (in pre-printed form) a six-digit order number, the scheduled time and date of delivery, and the name, address, and phone number of the recipient. Blanks were provided for filling in the local details about the order including the number of bags and their location (e.g., freezer, cooler). Any substitutions made by the picker were handwritten on this form. This form was printed from a secure server on the MWG site⁹.

Technology requirements for the store were minimal. In addition to the optional handheld, stores required an Internet-connected PC for accessing the workbench and for transferring prices, weekly ads, and so on. A small kernel of code was also necessary for interfacing the handhelds to the system.

V. MYWEBGROCER

CEO Rick Tarrant founded MWG in October of 1999. His sister-in-law, a mother with three young children, suggested that if he and his brothers wanted to do something commercial with the Internet that they could build something so that she could shop at her local grocery store without ever having to get out of her SUV.

At the core of Tarrant's business was the information-processing engine behind the on-line shopping experience now available at Rice Epicurean and many other stores throughout the US. Offering a non-exclusive relationship and operating on a fee per transaction basis, MWG played the role of Application Service Provider for chains that could either not afford or did not wish to develop an on-line shopping application. In October of 2002, MWG's retail partners were all grocery stores or chains, but the firm saw long-term opportunities in other forms of retail [Spindler, 2002b].

A sample store on the MWG site provided prospective retail partners first-hand experience with online shopping. The MWG web site also explained some of the benefits to prospective shoppers.

"The easy-to-use customer interface will accurately reflect each store's inventory and pricing, including specials and frequent shopper program discounts. The Shopping Solution has been designed to work for multiple stores in different geographic areas, offering different inventory at varying prices. Inventory and price changes are made easier than in traditional brick and mortar stores!"

MWG claimed that the time required to set up a virtual store varied from two weeks to 45 days¹⁰. MWG personnel, including an Account Executive would *"install and setup the Internet Shopping Solution and train store personnel, or fulfillment center management, in the most efficient methods for order fulfillment."* (see Sidebar 1 for examples of tasks necessary in the implementation). The sheer number of items carried by each store complicated this process¹¹.

⁸ If stores had handheld devices available these could direct pickers to the appropriate shelf and, by scanning, ensure the correct product had been picked.

⁹ See [Intel 2002] for a somewhat vendor slanted description on MyWebGrocer's technical architecture.

¹⁰ Retailers, however, reported that the time required to actually get ready for going on line could be considerably longer, particularly for multiple-store operations. Among the issues were working with grocery wholesalers to set up the price list to be transferred to MWG. One retailer estimated they had spent between six months to a year in getting the system in place.

¹¹ Typical grocery stores carry anywhere from 35-50,000 stock keeping units (SKU's) including many such as deli or bakery items or store brands that are store or chain unique. It has been estimated that there may

SIDEBAR 1: PARTIAL LIST OF STEPS IN GETTING A STORE ONLINE

[Spindler, 2002a]

1. Grocer provides a file of products handled in each store. This includes UPC code, description, size, unit-of-measure, department and movement over some period of time. MWG matches this against their own library of products, identifies the non-matches or poor descriptions, ranks them by sales volume, sorts by department, and returns to retailer for better descriptions of the most important items.
2. MWG has a discussion with the grocers IT department about how often prices change, including weekly specials, and arrange to get a feed of information matching what the grocer uses to feed his POS in-store. We begin getting these files, either by email or FTP, as soon as possible. Once set up this process is automated.
3. In cases where the retailer has a planogram of the store MWG aligns aisles with products. If they do not have accurate data MSG asks the store manager to fill out an electronic survey. Pickers can update changes from the handheld.
4. Grocers provide MWG with files of new products and of discontinued products. This too is eventually automated.
5. For new products MWG asks retailers to use a scheme called content exchange to ensure new and revised products descriptions, images, ingredients, sizes are correct and current. Using UPC codes grocers could check to see if the item was in the MWG database. If not they, or a third party, could provide a graphic, description, and so on.
6. MSG works with store category managers to make sure descriptions of perishables are kept current.
7. MSG works with operations and merchandising managers to set up rules of engagement for such issues as privacy policy, hours of operation, substitution policy.
8. MSG sets up the each store using the above factors and tests it with real orders from employees. Here pickers are taught how to pick efficiently and how to handle customer service issues.
9. MSG provides advice on how the store should market the program.
10. Online shopping at the store is launched.

VI. THE ECONOMICS OF ONLINE SHOPPING

MWG felt the economics of the scheme were compelling. Among the new costs were labor for picking and delivery, equipment, storage space, and a transaction fee paid to the service supplier. Mike Spindler, President of MyWebGrocer, explained the breakdown of costs [MyWebGrocer.Com, 2002]:

"Generally we have found that a picker can pick two, \$100 orders each hour from beginning to putting them into the car, if they are picking single orders. If loaded labor costs are \$15.60 that means labor runs about \$7.80 per order. If they are picking multiple orders simultaneously than that cost/order decreases significantly."

be a total of 700,000 or more unique SKU's across US grocers and that approximately 25% are replaced each year. Splinder [2002b] reported that MWG had about 140,000 SKU's in their database thus far.

"Most grocers already have ample computing and communication systems in store. Incremental gear would include a handheld picking device, a drive-up call box and when volume warrants a cooler/freezer combination up by the pickup aisle. If delivery is contemplated a vehicle is necessary."

In September of 2002, the MWG site described a per transaction fee of \$4.00 and a minimum number of transactions per month. The fee was the same for home delivery or in-store pick-up. Other expenses included a small installation fee and whatever money the retailer chose to spend on advertising and promotions¹². The hand picking systems, provided by Symbol Technology, cost about \$1,250 per machine¹³ and a call box and coolers and freezers at the pickup location could run anywhere from \$8-12,000 per store.

VII. HARVESTING THE BENEFITS

Spindler believed the retailer received benefits from order size: .

"The average order is greater than \$100 per basket for online shoppers. Even the top 10% of in-store customers average only about \$60 per basket" [Spindler, 2002B].

Spindler's supposition about increasing market basket size is reported [MyWebGrocer, 2001], as being verified independently:

"A Bain & Company study looked at very loyal Jewel shoppers who had switched to Peapod (offered, at the time, through Jewel). Those shoppers were spending 45% of their overall replenishment requirements budget at Jewel each week when shopping in store. After the switch to the online purchase/delivery combination offered by Peapod these same shoppers bought 65% of their weekly requirements through that outlet."

While MyWebGrocer explained the increased per basket revenues by increased purchases of products that might previously have been bought elsewhere, Cantera's experience suggested an alternative explanation.

"We are trying to get by on just one delivery each week. I suppose paying with real money rather than with my time may make us keener to reduce the number of weekly transactions with the store. First, because I didn't want to spend \$1,500 a year on grocery deliveries and second because I wanted to get the maximum benefit out of the \$750 that we were proposing to spend. We are also trying to buy things at the grocery store we might have, in the past, bought from the drug or baby store – particularly heavy things like formula or bulky things like diapers."

"That means we are freezing more things, looking at alternative storage schemes -- say to keep bananas from ripening too fast --, and also asking for help from Rice Epicurean. For instance, each week I order a dozen bananas in two bunches. The system allows me to attach a note to any item ordered. In this case I have a standing request to the picker to look for two bunches that are of varying degrees of ripeness."

¹² The installation fee for a single store varied in October of 2002 from \$2,000-\$2,500 but for chains of 40 or more stores the fee could be as little as \$250 per store [Spindler, 2002b]

¹³ Handheld-equipped chains, depending on volume had from one to five handhelds per store, usually with a spare device available at headquarters. The Symbol SPT 1800 was a ruggedized PDA running the Palm operating system and able sustain up to a four foot drop to a concrete floor. The devices included bar code scanners and wireless connections that could be configured for local or wide area use. Further information on the SPT is available at http://www.symbol.com/products/mobile_computers/mobile_palm_spt1800.html

In addition to greater revenues per existing customer, Spindler felt that retailers would obtain even greater benefit from new customers attracted by the online option.

"Most customers are incremental to the store. In most cases we find that the grocer offering online service will receive the inverse of his normal store market share in incremental customers. In other words if a store has 20% market share in its area, 80% of its online customers have been shopping at other stores.... The customer base is small, generally around 1% or less of total store business, but is growing rapidly, as much as doubling every 6-8 months."

The MWG team also felt the online format tended to attract shoppers who were "willing to pay a premium for the offered service," and who were "not nearly as likely to switch out items already in their shopping lists for similar items that are 'on deal'" [MyWebGrocer, 2001] That, as Mike Spindler explained, translated into higher profits.

"Given that 50% of your online customers are new and a labor rate of about \$16 per hour (loaded), the average order yields a pre-tax profit of between \$8 and \$13 – better by far than in-store current yield" [Spindler, 2002a]

Providing exceptional customer service was a major objective for Rice Epicurean and, for Cantera at least, the online shopping appeared to provide a convincing way to deliver on that promise.

"One thing that surprised me was the level of personal service – far more than I ever experienced in any store, including Rice Epicurean. They have called to confirm product switches and I have called them to request changes. For instance, we are on the border, but just outside of, the store's delivery area, so I called to ask them to make an exception and deliver to us – which they agreed to do. When the groceries are ordered you get both a web page and email confirmation of the order and, when they are delivered, are asked to check them off against the receipt."

Some retailers, however, found this richer interface offered more problems than opportunities as John A. Catsimatidis, the chief executive of Red Apple Group described.

"It's a pain in the neck.... What is particularly tough... is trying to guess a customer's tastes. "Is it ripe, is it too ripe? What size tomatoes do they want? I'm not saying that some day online grocery shopping won't become a reality, but not within the next decade"¹⁴ [Pristin, 2002].

In the middle of August in 2002 Spindler, announced numbers that must have been reassuring to investors, retail partners, and hooked customers:

"We have three record volume weeks in a row and each of the last four weeks have doubled our year ago comparable store volume" [MyWebGrocer, 2002b].

MWG's web site listed over 30 chains and markets throughout the United States that implemented the scheme. Among these were D'agostino in New York, Langanstine's and Robérts in New Orleans, Potash Brothers in Chicago, a Piggly Wiggly in Rome, Georgia, and Supermarketbutler.com in Sacramento.

MWG also had the opportunity to sell manufacturing programs, including advertising and favored product positioning on the web site, but did not yet aggressively promote this capability with manufacturers. They were running programs promoting the program for their retail partners, and were doing so for free. Among the promotions were follow-up surveys, instructions for new customers such as drawing the search feature to their attention if they have not used it, weekly reorder emails (which now accounted for about 40% of weekly online orders), promotions based

¹⁴Red Apple Group is parent to Gristede's, a New York store using the EasyGrocer.com solution for online shopping [Pristin, 2002].

on behaviors such as promoting infant formula if diapers were purchased, and mass promotions the grocer chose to participate in. For instance, a customer who might complain about over ripe bananas could be informed, via the system, that they had been given a \$2 off coupon on their next banana purchase. Pickers could also be alerted, via the handhelds, to customer concerns.

VIII. COMPETITION

Internet Grocery Shopping was among the biggest casualties of the Dot.Com meltdown of 2000-2001. Among the dead and wounded were Webvan, Kozmos, Streamline, and HomeRuns.Com [Intel, 2002]. Hoovers.Com described the demise of Webvan:

"In summer 2001 [Webvan] turned off the lights and quit filling orders. Its reported 2000 sales were about \$178 million, but it reported a loss of nearly a half-billion dollars...stopped filling orders, shuttered its Web site, and fired its workforce. It later filed for Chapter 11 bankruptcy protection, and in October sold its distribution technology and some warehouse assets" [Hoovers.Com, 2002]

Another Internet Start-up, PeaPod, was still competing in Chicago, New York, Connecticut, Massachusetts, and Washington, DC. Founded in 1989, Peapod initially pulled items from affiliated supermarkets, but more recently the company turned to centralized distribution from its own warehouses.

In April of 2000, Royal Ahold International, a Netherlands-based firm with 9,000 stores in 25 countries, acquired a controlling interest in Peapod for \$73M, the amount of Peapod's previous year's revenues. In July of 2002 Ahold bought out the remaining 52% of Peapod for \$35M. Peapod became a subsidiary of Ahold USA, with some 1,600 hundred stores, primarily in the Carolinas and the Northeastern US and the online shopping and delivery arm for Ahold U.S. stores including Giant Food and Stop & Shop.

Ahold's CFO, Michiel Meurs defended the decision to acquire the remainder of the Peapod stock at 72% above pre-announcement market value:

"By bringing Peapod fully into the Ahold family, we are best positioned to further grow the company successfully and meet increasing customer requirements. Strategically, we are convinced that the web-based grocery business combined with our store network under strong local brands will prove to be a powerful concept to attract and retain loyal customers."

Despite the failures of the dot.com's, several large chains announced on-line trading initiatives and some, such as Ahold USA, were built on the bones of dying dot.coms¹⁵. In September of 2002, Safeway, with 2001 sales of \$34 billion was offering home delivery for \$9.95 in San Francisco, Sacramento, Portland, Oregon, and Vancouver, Washington. It had yet to announce any plans for extending the scheme, including into its Houston stores.

Safeway's online shopping engine was developed by GroceryWorks.Com, a Dallas-based firm that at one time operated distribution centers in Dallas, Fort Worth, and Houston. For \$30 million Safeway acquired, a 50% interest in the firm in the spring of 2000, with the UK-based retailer Tesco in June of 2001 acquiring another 32% for \$20 million. At the time, Tesco reported almost 1 million registered customers in the U.K, processing approximately 70,000 orders per week, and operating its online business profitably on sales of about \$420 million a year [Macaluso, 2001].

In 2001 Albertsons, with \$38 billion in annual revenues, began offering home delivery for \$9.95. By September of 2002 the program was extended to six west-coast markets and to nationwide delivery of non-perishables through its Savon.com site. However, in March of 2002 Albertsons exited the Houston market. H.E. Butt, with over 250 stores in the Southwestern

¹⁵ Further details on the early online grocery shopping business models are available in [Palmer, 2001].

United States, Mexico, and Houston shelved plans for an 8-digit investment in on-line shopping in December of 2000, just a month before the scheduled rollout of its first pilot store in Austin, Texas [McFarlan and Dailey, 2000]

All three of these chains, Safeway, Albertsons, and HEB, were also members of the World Wide Retail Alliance, a B2B organization whose mission, according to its web-site was:

To enable participating retailers and suppliers to simplify, rationalize, and automate supply chain processes, thereby eliminating inefficiencies in the supply chain. Today, the WWRE is the premier Internet-based business-to-business (B2B) exchange in the retail e-marketplace. Utilizing the most sophisticated Internet technology available, the WWRE enables retailers and suppliers in the food, general merchandise, textile/home, and drugstore sectors to substantially reduce costs across product development, e-Procurement, and supply chain processes. Current membership consists of 62 retail industry leaders from around the world with combined revenue of over U.S. \$845 billion" [Worldwide Retail Exchange, 2002].

MWG, itself faced competition, and using MWG or their online competitors, other smaller Houston chains could relatively easily enter the home delivery business. One of the alternative ASP's was EasyGrocer.Com¹⁶ serving less than 100 stores, primarily in New England. Another, WhyRunOut, served a small market segment in Los Angeles [Viego, 2001]

While Rice Epicurean currently appeared to face no major local competition in the home delivery grocery business, other retailers in Houston provided home delivery for many of Rice Epicurean's product categories (e.g., flowers, catering). Specs Liquors, a popular wine retailer, for instance, offered online ordering and courier delivery to most of the same areas served by the Rice Epicurean chain.

Within the Houston grocery industry, Rice Epicurean was a relatively small player, failing to make the *Houston Chronicle's* February 2001 list of the top ten grocers in town. At the top of that list was Kroger (\$1.57B in revenues, 81 stores), Randalls (\$1B, 42), H.E. Butt (\$.7B, 50), Fiesta Mart (\$.6Bm 33) and the since departed Albertsons (\$.56B 33) [Houston Chronicle, 2001]. Rice Epicurean last appeared on the *Houston Chronicle's* top ten grocers list for the 12 months prior to February 1999 [Houston, Chronicle, 1999]; at that time its eight stores and 621 employees were reported as having a 1.9% market share on sales of \$96.8 million.

IX. THE FUTURE OF HOME DELIVERY

A friend asked Cantera if he thought he would still be buying his groceries on-line in a year or two.

"We likely will if someone is there to provide the service, though it would be complicated when our nanny is no longer here to receive the delivery. When we buy a house the store pick-up might be attractive if the store is closer or on the way home from work. It's unlikely we will stop because of the expense. Today my wife and I have a fair amount of disposable income, but. I wouldn't have been doing this when I was living from paycheck to paycheck".

"If someone offered delivery at \$9.95, a wider choice of groceries, or some other significant inducement, we might switch. On the other hand, if we find our store carrying products we have a hard time finding¹⁷, our incentive to stay will increase."

¹⁶ <http://www.easygrocer.com>

¹⁷ A button at the top of the ordering screen (Exhibit 2) encouraged customers to request items they could not find. The store recently began to carry one Cantera requested.

Cantera already faced one test of his loyalty to Rice Epicurean. He recently registered as a member of Upromise¹⁸, a cross-industry loyalty program that rolled up frequent shopper rewards into savings for children's education. By shopping with particular merchants, banks, realtors, phone companies, and so on, he could increase the size of that contribution. Consumer products manufacturers, including Coca Cola ® were participating, but to earn reward points for purchases of those products, Upromise members also had to be members of participating grocer's loyalty programs. Thus far, Rice Epicurean was not participating in the Upromise program but Cantera noticed Upromise logos on the advertisements of several other Houston chains.

Cantera's wife had raised some concerns about the privacy of the family's purchase data. Privacy was obviously a concern at Rice Epicurean, which included several separate privacy notices on their web site (Sidebar 2).

SIDEBAR 2 PRIVACY NOTICES FROM RICE EPICUREAN WEB SITE

Privacy Related Questions and Answers Related to Rice Epicurean Experience Card

"What else are you going to try to find out about me or my family? "

"Your family's grocery purchases are the only thing we want to track. This will enable us to reward you with additional savings customized especially for you and your family."

"Will you give my name, address and e-mail address to other people?"

Absolutely not! Your name, address or e-mail address will NEVER be sold or given to any other marketing agency."

Rice Epicurean Home Run Customer Privacy Policy

"Our customers' privacy is of utmost importance to Rice Epicurean Markets. We do not sell, trade, or rent personal information about individual members (such as name, address, e-mail address) to third parties. During registration and checkout a user is required to give their contact information (such as name, phone number and e-mail address). This information is used to contact the user about the services on our site for which they have expressed interest and to get in touch with the user if we have trouble processing an order. We value our customers and we take their privacy concerns seriously."

Setting his computer aside, and with daughter Julie still dozing on his shoulder, Cantera pondered the future of online shopping. Would it remain a small niche market for the decadent or would in-store grocery shopping go the way of bank clerks, gas jockeys, and pay telephones, largely pushed aside by more customer-convenient or cheaper order fulfillment alternatives. And, if it is to attract large numbers of consumer's, what would be the impact on the still largely fragmented and regional grocery industry? And what role would intermediaries such as MyWebGrocer play; could they survive and prosper in the face of large chains with their own online shopping systems?

Editor's Note: This case was received on October 23, 2002 and was published on October 27, 2002

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EDITOR'S NOTE: The following reference list contains hyperlinks to World Wide Web pages. Readers who have the ability to access the Web directly from their word processor or are reading the paper on the Web, can gain direct access to these linked references. Readers are warned, however, that

¹⁸ <http://www.upromise.com>

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