

# TECHNOLOGY & LOGISTICS

## Roundy's Is Safeway's Latest Gift Card Client

By JULIE GALLAGHER

PLEASANTON, Calif. — Milwaukee-based Roundy's is the latest food distributor to sell gift cards from other non-grocery retailers under a program designed and marketed by a subsidiary of Safeway here.

On Nov. 26, Roundy's began selling gift cards of various denominations from 23 retailers, including Nordstrom's, The Home Depot, and Bed Bath and Beyond, at its Pick 'N Save, Copps Food Center and Rainbow Foods supermarkets in Wisconsin and Minnesota.

Safeway, through its gift card subsidiary, Blackhawk, has franchised the program to "well over 25 chains," said Don Kingsborough, chief executive officer of marketing service, Safeway, and CEO of Blackhawk. He declined to name the others.

Safeway has also established a significant gift card business at its own stores. During the past three years, the retailer has sold in excess of \$100 million worth of gift cards from 35 non-grocery retailers, branded for and redeemable at such chains as Starbucks, The Home Depot and Toys "R" Us, said Kingsborough. Safeway earns a commission equal to a small percentage of each sale, he said.

Currently, Safeway offers gift cards in all of its 1,800 stores, but not all 35 gift cards are available in all stores. Safeway also sells its own gift cards redeemable at its stores.

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## RETURN OF THE PURE-PLAYS

Unfazed by famous flops of the past, some independent online grocers with no links to established chains are making inroads on traditional retailers

By JULIE GALLAGHER

Can groceries be successfully sold in the ethereal world of cyberspace — without any ownership connection to established brick-and-mortar supermarkets?

That question has been posed ever since Peapod set up the first online grocery service in 1989, predating the Internet.

The answer has certainly been sobering for the hardy start-ups that have tried so-called pure-play online food retailing operations. The examples of online-only grocery ventures that have crashed and burned are legion, including the granddaddy of flameouts, Webvan, as well as Streamline, ShopLink, Priceline's WebHouse, HomeGrocer and Kozmo. Peapod itself was on the brink of extinction when it was rescued in 2000 by the deep pockets of Ahold. Even this year, independent online grocers have struggled, according to M+M Planet Retail's "Global Grocery E-Commerce Trends, 2004."

Of course, having the financial backing and brand loyalty of a traditional operation is no guarantee of

online success, as the decision by Lakeland, Fla.-based Publix to pull out of the online grocery business demonstrates.

Still, today's growing online food operations tend to be run by the Albertsons, Safeways and Peapod-Aholds of the world, as well as by companies like MyWebGrocer and HometownGrocers.com that set up online shops for established retailers. Overall, online grocery sales will account for 0.4% of the \$570 billion food retail market this year, or \$2.3 billion, according to Jupiter Research, New York.

"Hands down, the cost of doing this is the biggest prohibitor for independents looking to offer this service," said Christine Overby, senior analyst, Forrester, Cambridge, Mass. "Retailers offering this service can use their store as a warehouse. So they've already invested in part of the operation before launching the service."

And yet, just when you're ready to write off pure-plays, they begin to re-emerge. Motivated by the

growing number of broadband Internet users, several independent online operators are tapping into consumer needs sometimes neglected by brick-and-mortar companies.

Probably because of its location in the media capital of the world, New York-based FreshDirect has become the poster child for the new breed of grocery purveyor. The value proposition of FreshDirect includes a relatively low delivery fee of \$3.95 to \$4.95; offers of specialty items obtained direct from farms, dairies and fisheries; and groceries priced up to 25% less than those offered in traditional supermarkets.

Operating out of a 300,000-square-foot, refrigerated warehouse and delivering to 86 New York ZIP codes, FreshDirect achieved profitability a year after it opened for business in 2002. The online operator is even giving brick-and-mortar businesses in its area a run for their money.

In September, SN reported that New York-based Gristedes' blamed its second-quarter 2004 sales drop of 8.2%, in part, on aggressive competition from an Internet grocer it previously identified as FreshDirect. (See story on Page 44 for more on FreshDirect.)

Thus, traditional supermarket companies, already worried about competition from Wal-Mart Stores in the physical world, may have to start looking at new online

retailers sprouting up in local markets as a kind of stealth competition. Moreover, traditional retailers interested in the online selling game could do worse than study how operators lacking the foundation of physical stores are starting to make online shopping work.

#### NATIONAL MARKETPLACE

In addition to locally based, mostly urban, online grocery sellers, some independent operators like Netgrocer.com and Grocery Direct are attempting to serve a national audience with nonperishable goods.

The newest example of a national online grocer is Scottsdale, Ariz.-based Harvesting America, which began operating Nov. 1. Harvesting America makes nonperishable grocery deliveries available to every ZIP code in the continental United States via UPS delivery. Its president and chief executive officer, Fred Weih, confidently projected that Harvesting America will become profitable by the second quarter of 2005.

Companies like Harvesting America are trying to reach consumers lacking an online grocery service in their area. Of the 95% of online consumers who have never or no longer buy groceries online, 36% blamed the lack of availability of an online service, according to a study prepared by Forrester's Overby, "What's Holding Back Online Groceries?" (See chart.)

"We've found there is a lot of latent demand for online grocery shopping among specific groups of consumers," said Overby. "For instance, consumers who val-

ues for the service are provided by Value Center Marketplace, a three-store independent also based in Madison Heights.

Harvesting America does

### Why don't you buy groceries online?



Base: U.S. online consumers who don't or no longer buy groceries online (multiple responses accepted). Source: Forrester's Consumer Technographics Q4 2003 North American Study.

ue convenience are incredibly interested in it, but the actual usage is still small because there is a lack of availability in the marketplace."

Harvesting America's fulfillment model includes a partnership with Madison Heights, Mich.-based Groceries-Express, itself a national online retailer that specializes in Michigan-made products. Groceries-Express handles everything from software to picking, packing and shipping of orders for Harvesting America. Gro-

not charge shoppers for delivery, instead collecting a monthly subscription fee of \$14.95.

Online-only operators like Harvesting America still lack the ability to market their services to shoppers in a physical store setting. To compensate for that, Harvesting America has devised a "Shoppers Telling Shoppers" loyalty program, which grants financial incentives to customers who get others to subscribe to the delivery service.

Weih described this as a cost-effective program that will allow his company to avoid the expensive methods of past online efforts. "E-commerce companies that attempted to get into the grocery home delivery business were investing between \$100 and \$150 to acquire a new customer," he said. "They used television and radio ads, and those were too expensive."

To become eligible to receive referral incentives, customers must become "affiliates" in the Shoppers Telling Shoppers loyalty club, paying an initial \$99 membership fee and a \$19 yearly renewal. Affiliates then receive

up to 50% of the monthly fee paid by subscribers whom they've referred.

"It's natural to tell a friend about a good deal, and it helps to perpetuate growth," said Weih. "In the early stages of our business, we've gained several hundred affiliates and customers. So the word is spreading like wildfire." Weih expressed hope that the program's popularity will reach organizations that will treat the incentives program as a fund-raiser.

Also in the works are plans to add a restaurant benefit to the affiliates program, allowing affiliates to purchase \$25 gift certificates to certain restaurants for \$10.

#### LONG RUN IN TWIN CITIES

One of the longest-lasting of the pure-play operators serving a local market is New Hope, Minn.-based SimonDelivers.com, which opened in 1999 and serves nearly all of the Minneapolis/St. Paul metropolitan area.

SimonDelivers has experienced considerable growth, according to Chris Servais, senior director of operations, SimonDelivers. Although he would not say if the company is profitable, Servais explained that between 10% and 15% of the households in the areas it serves have tried the service at least once.

The company derives some of its revenue from delivery fees. It requires a minimum order of \$50, for which it charges a \$7.95 delivery fee. Orders over \$80 are charged a \$5 delivery fee.

About 60% of the goods that SimonDelivers offers are provided by Minneapolis-based SuperValu. The remainder is provided by other suppliers and stored at SimonDelivers' 140,000-square-foot distribution center, which the company calls its SuperStore.

Some of its suppliers produce goods on demand for the online grocer. "Bruegger's Bagels monitors our bagel orders throughout the day and night," said Servais. "It bakes the right amount of orders, and they're brought fresh to our SuperStore."

SimonDelivers' fulfillment model is helping it to achieve

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## Nancy on Online Shopping

On its Web site, SimonDelivers.com includes a testimonial from a shopper named Nancy. She is a working mom with two kids, and has been using the online service since 1999.

Here's some of what Nancy had to say:

"With the Web Store always open, I build my weekly order a little at a time. We have a board in the kitchen where I jot down what we need, and then I add those items in our order at night, after the kids are in bed. Sometimes, I add to our order from my computer at work, and we've even ordered while on vacation.

"I like knowing my groceries are packed in temperature-cooled totes. My frozen stuff always arrives frozen, and my dry goods are packed separately from my meats and produce.

"When the bright-yellow SimonDelivers truck pulls up in front of our house, my kids go wild. They run out to meet our Neighborhood Service Representative, who has been known to bring along kiddie tattoos, balloons and treats. It's wonderful to have someone carry all the groceries — including water-softener salt, dog food, and cases of water and pop — right into the kitchen.

"I also like that if we're not home for delivery, our neighborhood service rep knows where to leave our groceries and takes away the empty totes.

"One day, our neighborhood service rep was running late, but we received a call from a SimonDelivers customer service representative. I also get a weekly e-mail reminder about my ordering deadline, which helps me keep in the habit."

# Return of the Pure-Plays

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some unique advantages over its more traditional supermarket competitors, according to Servais. "We turn our inventory over two to three times faster," he said. "Plus, our scrap/shrink percentage is much better than that of a traditional grocer."

Additionally, the money SimonDelivers saves on industrial park real estate, which is less costly than prime commercial real estate used by traditional retailers, helps to fund programs that reward its most frequent customers, according to Servais.

"If a customer ordered seven times in an eight-week period, we supplied their entire Thanksgiving feast," he said. "That includes turkey, pumpkin pie and the whole deal. We designed this incentive program to maintain

customers [online shopping]—purchasing, we know who ordered it, when and how often," said Servais. "It's providing us with some pretty powerful information, and we are focusing on how to best use it as a company." SimonDelivers promises customers it will not sell their information, or share it with outside companies.

Servais acknowledged that changing and maintaining customer habits are SimonDelivers' biggest challenges. "They've been shopping at traditional grocers for most of their lives, and those grocers have spent a lot of money trying to maintain that habit," said Servais. "Online grocers have to be more creative in their approaches to entice people to try, and then keep, shopping online."

Through use of Minneapolis-based Retek's customer revenue optimization tool, SimonDelivers is gaining insight into its customers' online shopping habits and focusing on building programs around them.

"With every single item

ordered it, when and how often," said Servais. "It's providing us with some pretty powerful information, and we are focusing on how to best use it as a company." SimonDelivers promises customers it will not sell their information, or share it with outside companies.

Smaller independent online grocers, such as Plano, Texas-based Melon Seed, also hope to capitalize on their ability to deliver personalized service.

Melon Seed fulfills orders with the help of 10 employees at its 10,000-square-foot warehouse, and charges \$9.95 for delivery, according to Jon Fielder, co-owner of the company.

Fielder, a former airline pilot, launched the company two-and-a-half years ago with his wife, an electrical engineer.

## Roundy's Is Safeway's Client

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"The program is so successful because consumers are already familiar with retail gift cards so they require no sales assistance," said Kingsborough. "We're leveraging existing shopping habits while offering convenience and choice. This saves customers an extra trip to the mall and the repeat purchase rate [of gift cards] is very high after a consumer's initial [gift card] purchase."

Inactivated cards hang on displays within Safeway stores. Gift cards are activated and purchased with a single bar-code swipe and they have no value until the cashier activates them. All codes are pre-denominated and different values are color-coded by the retailer.

Kingsborough described Safeway's gift card program in October at Food Marketing Institute's Electronic Payment Systems Conference at the Walt Disney World Swan in Lake Buena Vista, Fla.

"Offering other retail-

ers' gift cards is an idea that I came up with three years ago," said Kingsborough. "We moved the program into Safeway and then moved it into its own company [Blackhawk] to help other [supermarkets] offer gift cards."

Blackhawk became a Safeway subsidiary last year in order to market this program to other retailers, he said.

Blackhawk has negotiated exclusive gift card distribution agreements with the No. 1 and No. 2 non-grocery brands in many retail categories, said Kingsborough.

"We generally have exclusive contracts with the companies whose gift cards we're offering," he said. "We've partnered with retailers of fashion, home electronics, books, movies and more. We'd like to grow the program and offer gift cards for places like theme parks."

The average consumer will spend 11.5% of the holiday budget, or \$80.45, on gift cards this year, ac-

ording to the National Retail Federation, Washington. This represents a \$100 million increase in gift card spending this year over last. The average gift card purchaser will buy 3.38 cards for a total of \$108.28, said the study.

A recent survey by Deloitte & Touche, New York, of holiday retail spending plans and trends found that for the first time since their inception, gift cards will replace apparel as the gift purchase of choice. According to the survey's results, 64% of consumers intend to buy gift cards this year. In addition to apparel, the interest in gift cards comes at the expense of gifts like CDs, tapes and books, according to Deloitte.

"There is no end in sight to the popularity of gift cards," emphasized Tracy Mullin, president and CEO, NRF, in a statement. "From nephews to nannies, gift cards are a great option for almost any name on a holiday shopping list."

To ease their concerns about using a credit card online, shoppers are allowed to pay at the time of delivery rather than over the Internet. With its two-hour delivery windows, Melon Seed has managed to never make

a delivery while a customer was not home.

"Melon Seed is more intimate than [traditional retailers]," said Fielder. "You can call us up and speak to one of the owners. Try doing that with a large chain."

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