SUPPLY CHAIN CONFERENCE

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Hilton Orlando Lake Buena Vista
Orlando, Florida

OMNI-CHANNEL TRACK

Trading Partner Alliance
FMI and GMA
9 Million SKUs......and counting
Agenda

• History of Online Grocery Fulfillment
• Market Trends
• Types of Online Grocery Fulfillment
  – Click & Collect (personal shopper)
  – Home Delivery (from store)
  – Drive or PUP Pickup Points
  – Home Delivery (from dedicated DC)
• United Kingdom Major Companies
• French Market
• United States Major Companies
• Example Solutions
• Question & Answer
History - Online Grocery Fulfillment

Post 1950’s
• Home delivery common at local or regional level
• Milk most common delivery
  – Butchers, bread shops, grocers, etc.

Late 1990’s
• Frozen grocery started to take off
• Internet led resurgence in home delivery
• Webvan started in 1999
• Ocado begins operations in the U.K. in 2000
• By 2006, all major U.K. grocers enter market
What caused Dot Com Grocers to fail?

Webvan, HomeGrocer, Publix Direct

• Customers too far apart
  ✓ Tried to cover everybody everywhere
  ✓ Increased transportation costs
  ✓ 30 minutes window (customers wanted delivery at home and at night)

• Internet access
  ✓ <2% broadband connected
  ✓ 22 seconds to load a page with “dial up”
  ✓ Too long to place order

• Purchasing
  ✓ Grocery shopping is a social experience
  ✓ Produce is a tactile experience (fish, vegetables and meat by sight)
  ✓ Freshness matters

Idea was not wrong and Technology was not there

Dot Com Grocers were ahead of their time

Home Delivery is Great, but has its Limitations
Market Trends

“In 1998, I opened my first hypermarket. We had 50,000 to 60,000 SKUs in one store, from electronics to food. Today, you can get many of these things online, so you don’t need to go to the store.” Dick Boer, CEO Ahold

• UK and USA account for 75% global home shopping market
  ✓ 1.5% of global grocery market
• UK Online Grocery is the largest market in Europe
  ✓ Four major companies
  ✓ Tesco only one to make profit
• 6 million people shopped online in 2009
• 2009 average UK online grocery order $80 per week
• U.S. E-Commerce for food and consumables increased 16.9% from $13.6 billion in 2011 to $15.9 b in 2013
• By 2017, E-Commerce will continue its aggressive growth rate of 12.1% a year
• Grocers offering smart-phone apps
Trends – Customer Profile

- People in cities
- People with changing lifestyles (new jobs, injury, seniors, just had a baby)
- People with money and/or time-pressed
- Millennial Generation / Generation Y
  - 18 – 35 age group
  - Smaller households
  - Don’t like to shop - “Convenience is King, Loyalty is Fleeting”
  - Tech savvy – digitally connected
  - Willing to pay more for attributes that they value
  - Will make up 19% of U.S. population by 2020
    (baby boomers will sink below 20% by 2020)
- Ordering can be done anywhere
Types of Online Fulfillment

In-store picking

- **Store to home**: Grocers use existing stores to supply online shoppers

Warehouse picking

- **Warehouse to home**: Online start-ups (and some bricks-and-mortar) deliver from warehouse

Pickup

- **Click-and-collect**: Online shoppers collect goods at grocery stores
- **Drive-through**: Some grocers are adopting this time-saving approach

Only available to bricks-and-mortar retailers

Source: A.T. Kearney analysis
Click & Collect – In store picking

Most common solution, enabling retailers to soft-trial the concept

**Advantages:**
- Limited Investment
- Full range available
- No double stock-keeping
- Limited floor space requirement
- Flexible staff planning
- Perfect for limited order volume

**Disadvantages:**
- Labor intensive
- Double workload for replenishment
- Creates out-of-stocks and challenging data synchronization
- Negatively affects shopping experience in-store “congestion”
- Sales cannibalization with adjacent store
- Customers must accept they “can’t handle the produce and other perishable items and pick according to personal criteria
Home Delivery – from store
Second most common solution

**Advantages:**
- Convenient
- Full range available
- No double stock-keeping
- Limited floor space requirement
- Flexible staff planning
- Typically dedicated staff – highly focused
- Get fresh items to consumer more quickly

**Disadvantages:**
- Truck fleet needed
- Negatively affects shopping experience in-store “congestion”
- Slow picking process
- Only one or two hour window delivery time
Warehouse to Home

Advantages:
- Convenient
- Full range available
- No double stock-keeping
- Limited floor space requirement
- Typically dedicated DC staff – highly focused
- Get fresh items to consumer more quickly

Disadvantages:
- Truck fleet needed
- Distribution Center based pickings = high fixed cost of investment
- Longer travel times to customer homes
- Only one or two hour window delivery time
- Need high DC utilization for payback
Drive (Store or Pickup Point)

Advantages:
• Convenient
• Full range available
• Shoppers collect goods at time of their choosing
• Orders can be prepaid online or at pickup
• Limited floor space requirement

Disadvantages:
• Only one or two hour window delivery time
• Customer can’t handle produce or other items
• Cannibalization of nearby retail store
UK Major Companies

- $277 bn in 2013, an increase of 3.7% from 2012 (IGD.com)
- 4.2% of market or $11.7 bn in 2013
- 7% of market or $19.4 bn by 2016
- Estimated 39% of people bought groceries online in 2013 (Mintel)
Tesco

- World’s largest home grocery delivery company
  - ✔ 49% UK market share (#1)
- Started in 2005
- 2008 opened first DotCom DC
  - ✔ Now have six in London area
- Majority of orders picked at store level, but heading to dedicated order fulfillment stores (strictly for Online ordering)
- Opened Click & Collect in Poland, Czech Republic and Slovakia 2013
ASDA

- Second largest UK home delivery company
- Majority of orders picked at store
- 4.8 million customers in 2013
- 28% of orders placed through smartphone

Ocado - Morrisons

- Started in 2000
- CAGR 22% 2007 - 2010
- Dedicated CFC with 30,000 SKUs
- 18,000 orders every day
- $1.15 b in 2011
- Licensing agreement with Morrisons
France Major Companies

Primarily Drive Thru or Drive-In Concepts

- 66 million people in France
- 20% of population using Online Grocery
- 33% of French online shoppers collected goods in-store in 2013
- $8.8 bn in 2013
- Predicted to reach $14.6 bn by 2016 (IGD)
France Trends

French grocery retailers have high expectations for their Drive format. Independents lead the race with fast growing openings and future plans.

- **2,000 Drives** in operation in France at end of 2012, generating a turnover of EUR2 billion (USD2.6 billion).
- Intermarche has 800+
- Systeme U has 700+. Expect $1 billion generated in 2014
- Leclerc has 400+. 4% of sales attributed to Drive concept
- Carrefour 500+
- Chronodrive
US Major Companies

- 2013 market value $15.9 bn (Forrester Research)
- About 10% of grocery customers shopped online
- Forecast of $28.2 bn by 2017
- Major metropolitan areas covered
- Nobody offers nationwide coverage…….yet

“Supply Chain Commerce” – getting the product closer to the consumer
Peapod

• Started 1989 in Chicago by brothers Andrew and Thomas Parkinson
• Acquired by Ahold (Dutch grocer) in 2000
• Largest Online Grocer with revenue >$500 million (globally Ahold expects online grocery sales to reach $2 billion by 2016)
• Delivery charges are free first 60 days
  ✓ Orders over $60 = $9.95
  ✓ Orders over $75 = $7.95
  ✓ Orders over $100 = $6.95
• Average basket size is $157. Customers typically shop twice a month
• 6am to 9pm delivery
  ✓ 2 hour time slots
• 500,000+ customers
freshdirect

- Largest “dedicated” grocery home delivery company in USA
- Founded 2002
- Located in New York
  - Delivers to homes & businesses in NY, NJ and Philadelphia
  - Pick up available from Long Island City DC
- Orders packed and sealed in cardboard boxes
- 5% NY grocery sales
- 3.1% market share of grocery home delivery
- Times delivery slots available
  - Min $30 and $50 order size
  - Delivery charge $5.79 to $6.79
Safeway
- Largest grocery home delivery company for store owner
- Started in 2000 with purchase of Groceryworks.com
- 2001 Tesco invested 35% into service
- 2002 launched home delivery
- 2006 Safeway purchased Tesco share
- Orders picked in local store

CoburnsDelivers
- Formerly SimonDelivers
- Delivers to Minneapolis/St Paul
- Provides express pick up in 2 locations
- 400,000 orders per year
- 10,000 SKUs
- 70,000 items per day
- 2 hour order lead time
AmazonFresh

- Started in 2006 in Seattle
- Operating Seattle, Los Angeles and San Francisco
  - Limited coverage
- “Prime” membership for $79 per year gives unlimited two-day shipping
- Amazon’s “Prime Fresh” promises same-day delivery or next day early morning for $299 annually (minimum order of $35)
- 500,000 SKUs (more than just groceries)
- Orders by 10 a.m., deliveries by 6 p.m.
- Orders by 6 p.m., deliveries by 6 a.m. next day
- “Attended Delivery” is a 1 hour window
  - Miss the 1 hour, $25 restocking fee
- “Doorstep Delivery” is a 3 hour window
- Expected to roll-out to 20 largest metropolitan areas by 2014
Retail Store picking concepts

- Start with paper or RF
- Rates from 30 to 70 items per hr.
- Migrate to Voice
- Rates from 60 to 110 per hour
- Totes can be refrigerated
- Typically 6 per order
- Store or DC
Retail Concept – Drive & Automation
Tesco – Enfield U.K.
Tesco- Enfield U.K.

- “Dark Store”
- Orders cart picked to totes
  - Multiple orders picked simultaneously
- Totes consolidated into a buffer
- Totes manually consolidated in chill and freezer chambers
- Truck loading
  - Totes retrieved from buffer
  - Chill and frozen manually retrieved from chamber
  - All sorted to delivery truck
Tesco video - Enfield
Tesco video - Enfield
Tesco – Enfield U.K.

- 4,000 orders per day offering 30,000 SKUs
- 130 picks per hour
- 170 picks per hour with consolidation buffer
- Average 7 totes
Summary

- Companies are adapting E-Commerce as a sales channel
- Order delivery is moving from days to **HOURS**
- Different Solutions for different countries and metropolitan areas
- Retailers can start small with order fulfillment solutions, then complement with automation
- CONSUMERS ARE DRIVING THESE CHANGES

THANK YOU FOR YOUR TIME