The Virtual Aisle Tries Again Online

E-COMMERCE: Buying groceries with the click of a mouse was a dot-com business model that failed. Now two old-time retailers are giving it another try.

BY KAREN BRESLAU

A DRANNA DONAT REMEMBERS the day that Webvan died. The Oakland, Calif., resident had just come home from the hospital with her newborn son in July 2001, expecting to find her familiar green Webvan container of fresh groceries. But it wasn't on the doorstep. When Donat called customer service, a recording announced that the online grocer—which had achieved cult status since its 1996 launch—had gone out of business. For Donat and her husband, Chris, who both had become such believers that they'd bought Webvan's once high-flying stock, the news was a shock. “We were practically in tears,” she says.

Now Donat and other grieving online-grocery fans need weep no more—assuming they live in the correct ZIP codes. Earlier this year brick-and-mortar old-timers Safeway and Albertsons quietly launched online-shopping test programs in the Bay Area and other West Coast markets, including Portland, Vancouver, Los Angeles, San Diego and Seattle (where Albertsons has been experimenting since 1999). The markets were selected to take advantage of the loyal online-grocery shoppers left high and dry when Webvan and Homegrocer, a Seattle competitor it acquired in 2000, collapsed. While Safeway and Albertsons are secretive about the test markets, both say the early results are promising. In only six months, Safeway.com and Albertsons.com together say they've attracted nearly 500,000 registered users—most of them affluent, urban, Internet-savvy consumers like Donat. Even though her neighborhood Safeway is within walking distance of her house, she's already become a loyal Safeway.com shopper. “It's
like a narcotic,” she says. “We're hooked.”

That addictive element explains why traditional grocers have tiptoed back onto retail terrain littered with the tombstones of Webvan, Homegrocer and Manhattan's Kozmo.com, which burned through millions of dollars delivering low-margin candy bars and videos. The current fan base created by the dot-coms is made up of exactly those consumers who've been abandoning boring old supermarkets in droves. They're sophisticated, high-income, working mothers (70 percent of online shoppers are women) on the West Coast, who've been straying in two directions. They've turned to upscale chains for produce and fresh items, while stocking up on staples at discounters like Costco and Wal-Mart.

“The fact that profit margins are being squeezed at both ends makes this a grim time for traditional grocery chains,” says David Kathman, a research analyst for Morningstar.

The easy part of winning back customers is attracting those women who crave convenience and who dread trolling the aisles after work with squirming toddlers. The harder part is turning a profit. While online grocers delivered most orders for free and even tossed in wine glasses and other treats to build brand recognition, Albertsons and Safeway charge $6.95 to $9.95 per order. And forget Super Bowl ads: most marketing takes place in low-cost circulars or over the stores' P.A. systems. “We're not interested in getting big fast,” says Vasant Prabhu, Safeway's president of e-commerce. “We see this as becoming a nice niche market.”

No one spouts the “transformative” rhetoric of the dot-com era. The strategy of Webvan, for example, was breathtaking in scope. Founded by bookstore mogul Louis Borders in 1996, the company went public in 1999 and tried at a breakneck pace to establish itself in 26 markets nationwide, building warehouses and a vast delivery network from scratch. All the while, the company—which briefly enjoyed a market capitalization of $8 billion—was indulging in the usual dot-com excesses, including lavish ad campaigns and bloated salaries. (When Webvan went under last year, many of the 2,900 workers were outraged to learn that former CEO George Shaheen walked away with $375,000 per year for life.)

Safeway and Albertsons have no such ambitions. Prabhu estimates that online shopping could bring in 3 percent of Safeway's overall business over the next five years by serving a few carefully chosen additional cities, such as Chicago, Dallas and Houston. Even with those modest projections, that translates to a billion-dollar online business for a company with 1,800 stores and $35 billion in annual sales. Albertsons, with 2,200 food and drugstores nationwide, eventually plans to offer online service to 60 percent of its customer base, also concentrating on affluent urban markets with a high degree of Internet usage.

Perhaps the biggest departure from the dot-com era is in the business model itself. While Webvan and other online grocers frittered their capital on new warehouses and delivery fleets, Albertsons and Safeway already have stores and trucks. Safeway has teamed with British supermarket chain Tesco—which operates a thriving online business in the United Kingdom—for technical and management support. When a customer places an order, it's routed according to ZIP code to a nearby store. There a specially trained employee—guided by a wireless, handheld computer attached to an
oversize shopping cart—selects the items the customer has ordered. The cart has six compartments, allowing the employee to fulfill several customer orders at once. The orders are then loaded onto delivery trucks, each with several temperature-control zones, and taken to customers' homes.

While Webvan went through $1 billion in its efforts to erect 26 automated warehouses from coast to coast, Safeway and Albertsons brag that the fixed costs for their online service are minimal. "We have all the infrastructure in place to create a dot-com service overnight," says Pam Powell, e-commerce vice president for Albertsons. While Albertsons also doesn't expect its online business to become anything more than a high-end niche, Powell says the service is also proving to be a useful research tool. As any e-tailer knows, monitoring customers' behavior online is a lot easier than scurrying behind them in the aisles.

How does the reborn virtual grocery store actually work? Both Safeway and Albertsons offer attractive, user-friendly Web sites, designed to appeal to consumers' familiarity with their stores. At Albertsons.com, shoppers can select their items aisle by aisle (click on "Bakery" or "Deli," and a product list pops up) or they can shop alphabetically, from "Acne Care" to "Zucchini." For holders of its Club Card, Safeway.com offers an additional "my favorites" feature, which allows shoppers to call up a list of products they've bought, complete with memory-jogging photo.

While I had trouble with the virtual-aisle stroll and the alphabetical features on both sites—I have no idea which brand of crumbled goat cheese I buy, I just know there's a cute little goat on the label—once I tried the "my favorites" feature, I was in point-and-click heaven. I completed my Safeway.com test order in 22 minutes. With practice, I figure I could whittle my online time down to 10 minutes. After choosing my items, I was prompted to select a delivery date and two-hour time frame, and was given several delivery options for about a day later. On the morning of my delivery, I showed up at the Safeway that serves my ZIP code to watch over my personal shopper's shoulder as he filled my order. As Safeway's Robert Mitchell guided his cart through the aisles, a touchscreen reading

OVERNIGHT DOT-COM:
Powell, in front of a photograph of the first Albertsons, says the Web is a good way to learn what customers want

data from the store's wireless network told him which products to select for each online customer. It budgets slightly under a minute per item. If Mitchell tries to scan the wrong item—as he did when he accidentally selected a honeydew melon instead of a cantaloupe—the computer will reject it and send him back for the right one.

I was curious to see how Mitchell would handle curve balls, such as the note I entered to consider substituting the 12-ounce box of Kellogg's Product 19 with Special K, depending on which had fewer calories. Robert went with the Product 19, he says, because even though it had slightly more calories per serving, it had less sodium and less sugar. It's an analysis that would never have occurred to me, but I liked his logic. Far less impressive was the produce selection. Using the Web site's "notes" feature, I had specified I wanted my bananas "small and ripe." The ones I got were large and rather firm. I also ended up with a lemon of a lemon—its skin bruised and pocked. My melon, while handsome, was nowhere near as ripe or fragrant as the one I would have selected. Ninety minutes after my order left the store, it arrived at my house, where a courteous driver carried the bags to the kitchen. (This bit of the $9.95 service is not lost on online shoppers, who disproportionately order heavy bottles of water, large-size Kitty Litter, two-gallon jugs of

laundry detergent and lots of paper towels.)

Early reviews suggest my experience was similar to that of other test shoppers. While Webvan and Homegrocer won raves for their fresh, warehouse-supplied produce, Albertsons and Safeway are still working out the bugs. Part of the problem, says Homegrocer founder Terry Drayton, now a technology consultant in Bellevue, Wash., is that store produce is handled too many times before it reaches the customer. After a disappointing produce deliveries, says Sharon Findlay, a Safeway.com shopper from Berkeley, Calif., "I ended up throwing it away." The working mother of two teenagers says she still loves Safeway.com, but buys her produce at one of Berkeley's chic markets while stocking up online on heavy and bulky items. Another major complaint of users: stores do not stock all the items customers can order online. Employees may make "reasonable substitutions," or else omit the item and credit the account. "It's really annoying to find out that something is missing," says Findlay. But it's not nearly as annoying to many shoppers as standing in line or trying to wrestle bags and children into the car—in the rain. For $9.95 a customer, Safeway and Albertsons may have figured out how to make one of the most cherished visions of the Internet era a reality at long last.

With BILL RICHARDS in Seattle