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Peapod delivers more than groceries

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Online grocers like Peapod, turning a necessity into a virtue, see their in-house local delivery services as a key advantage in Internet commerce. Their drivers making grocery deliveries can drop off other items--prescription drugs, dry cleaning, restaurant meals, even books and CDs--with the fresh meat and veggies.

"Groceries as the core enables you to put trucks on the street," said [Peapod](#) chief executive Andrew Parkinson. "Then you can add other products to deliver, and you can do it cheaper than to drop-ship them," a reference to using an overnight delivery service like [UPS](#) or [Federal Express](#).

For Peapod, a recent agreement with drugstore chain [Walgreens](#) hints at the direction. Peapod, which offers standard health and beauty aids available through most supermarkets, now delivers Walgreen prescriptions in the San Francisco area. Peapod chief financial officer Dan Rabinowitz says the contract allows for adding prescription deliveries in other markets too.

Piggybacking home deliveries has been in the business plans for most online grocers, said analyst George Dahlman, who has a "strong buy" recommendation on Peapod's stock for [U.S. Bancorp Piper Jaffray](#).

"Peapod is farther along than most other [online grocers], because they've been at this game a little longer than others," Dahlman said. "Almost from the day that these companies breathe life, the assumption has been that they're going to work on delivery with fresh food, then move to other categories."

Other potentially fruitful areas on Dahlman's list: CDs, fresh cut flowers, dry cleaning, and photo developing.

Among the ample harvest of Internet grocery services, not all have the same delivery mechanism. Boston-based [Streamline](#), which has filed for an IPO, uses fixed routes and makes deliveries on specific days. [NetGrocer](#) offers only non-perishable goods and uses FedEx.

"We believe it is delivery at the door that's going to win," said Rabinowitz, who calls in-house delivery "a pipe into the home."

But that local pipe also requires a lot of back-end plumbing. Peapod is moving from filling orders by shopping for customers in local supermarkets to establishing its own warehouses to ship from. Trucks and full-time drivers are important too--in some markets, Peapod had employees use personal vehicles to make deliveries.

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That means Peapod and rivals like WebVan must proceed one market at a time, a slow strategy for getting big. WebVan is building a warehouse in Oakland, California, to challenge Peapod, which is building its distribution center in nearby Union City, in the San Francisco area.

The Peapod model can cut across several retail sectors, as the Walgreens relationship illustrates.

"We are the largest online distributor of health and beauty aids and pet products," said Rabinowitz, naming two areas that have been rife with start-ups.

He foresees adding high-end pet products, more office supplies, and potentially garden supplies via partnerships, probably with established brick-and-mortar retailers.

"We become a channel for these kinds of products," Rabinowitz said.

Peapod could even start to take on [Amazon.com](#). Parkinson hints broadly that Peapod may one day stock the top 200 best sellers, dropping books in the bag next to the rutabaga for next-day delivery. He sees adding the kind of inventory of airport bookshops as indicative of items that would have broad appeal but limited selection.

Benefiting from local delivery is not an e-tail-only phenomenon--established physical [retailers that can deliver locally](#) also get a leg up over Net retailers that outsource deliveries to UPS or FedEx. That's particularly true for bulky items like furniture, appliances, and consumer electronics gear.

For example, [Sears](#) today began [selling appliances](#) from its Web site--and delivering them from local Sears or dealer stores.

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