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Waiting for online grocery market to ripen

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news analysis Yet another online grocery store opening its virtual doors this week faces the challenge of wooing a general public that doesn't seem ripe for buying bananas or bread online any time soon.

Online entrants--including yesterday's online debut [Webvan](#)--are trying to grab a share of the multibillion dollar U.S. grocery market. But companies trying to enter the market face an uphill battle that includes narrow margins, expensive expansion costs, and cost-conscious consumers.

[Jupiter Communications](#) estimates that the online grocery market will grow from \$350 million in 1999 to \$3.5 billion in 2002. Although the latter figure would make groceries one of the largest online commerce categories, it would still represent less than 1 percent of the total grocery market in the United States, according to Jupiter analyst Michael May.

May said the customers willing to shop for groceries online value convenience over cost. However, most grocery shoppers are price conscious and may balk at more expensive prices and delivery charges typical of online grocery stores, he said.

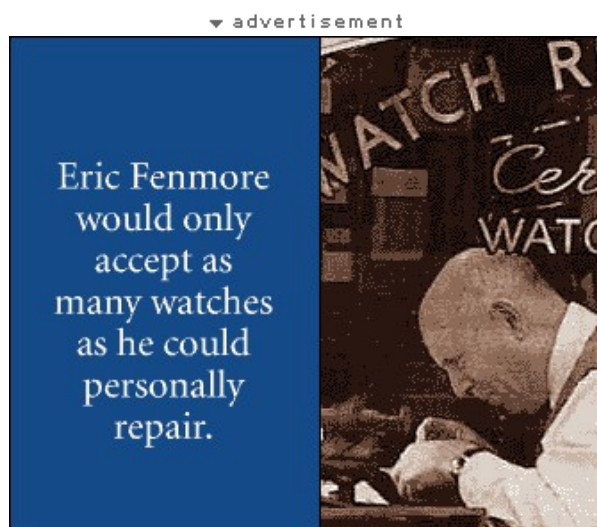
"It hasn't been compelling for most consumers," May said.

But Louis Borders, founder and chief executive officer of Webvan, said that studies indicate most consumers

don't enjoy grocery shopping. Borders, who cofounded the [Borders](#) bookstore chain, said shoppers will be attracted to Webvan because of its low prices and wide selection.

Webvan has lowered its costs compared to other on- and offline grocers by creating an automated distribution center, he said. The online store will offer some 30,000 items, as well as a selection of prepared foods.

[Forrester Research](#) analyst Evie Black Dykema said Webvan's automatic distribution system will help it hold down costs, with prepared foods and specialty items boosting its margins.



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"It hits all my buttons," Dykema said. "I'll wait with bated breath to see if they can achieve it."

That's because Dykema calls the online grocery market a "laggard category," arguing that it will take a while for consumers to catch on and for the businesses to turn a profit.

Like other online grocery stores, Webvan will initially serve customers in a single geographic area. Borders, who is focused on the San Francisco Bay Area, said the company plans to expand into the Atlanta market in the first quarter of next year and to be in ten total markets by the end of next year.

However Jupiter's May said that online grocers like Webvan will face challenges expanding their operations. Unlike an [Amazon.com](#), which can sell books nationally out of a few regional distribution centers, online grocers will face the added cost of opening distribution centers in each area they serve.

"It's an excessively difficult category to scale," May said. "They're going to have to invest in every market they want to tap."

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