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E-Commerce Analytics for CPG Firms(C): Free Delivery Terms

The manager of the CPG company E-Commerce analytics group stared at the screen, as a new e-mail message came in. One of the retail account managers just reached out with a request to help figure out if the firm should engage in a “Free Delivery” program offered by an online grocery retailer. Typically, these programs are set up as “Spend at least \$X from brand Y for free delivery.” Behind the scenes, the brand pays the retailer \$5.50 for each such “free delivery,” the value for the brand being a type of advertising promotion where consumers are incentivized to buy more of their product. The CPG company wanted to try this out, but also wanted to ensure at least \$1 in profits was made from each transaction on average (or at least to be profitable after the “free delivery” charge). The account manager asked the E-Commerce analytics group to figure out what is the minimum that an average consumer should spend on the brand’s products to be eligible for free delivery. To help figure that out, the manager looked at a sample of 40 transactions by 3 cohorts of consumers that the retailer provided. Which additional data should the manager request? What is the minimum spend that the manager should recommend? What other terms and restrictions should the manager negotiate with the retailer?

The data

The spreadsheet supplement for this exercise (HBS No. 521-714) contains several tabs. The “Instructions” tab provides detailed instructions and guiding questions to complete the exercise. The “Raw Data” tab contains the CPG firm’s online revenue and margins for the 50 SKUs they sell at the focal grocery retailer. The tabs “Cohort 1”, “Cohort 2”, and “Cohort 3” contain transactions of consumers in three different cohorts. Each transaction details which SKUs were purchased. The “Output” tab allows for a comparison of the different cohorts and understanding of average baskets at this retailer.

Professor Ayelet Israeli and Fedor (Ted) Lisitsyn (HBS MBA 2019) prepared this exercise as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The exercise is not based on a single individual or company but is a composite based on the authors' general knowledge and experience. The citation review for this case has not yet been completed.

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