Practice Case 12 (E-Grocery)

Question

The client is a grocery store chain that is considering whether or not they should enter the emerging Internet-based grocery shopping/delivery market in the Boston area. This regional chain is currently one of the leaders in the traditional grocery store market in northern New England.

In their core market, two competitors have emerged in the Internet/at-home grocery shopping business, and are rapidly gaining market share. One of the companies that has already entered this new marketplace is the client's primary competitor in the traditional market. The second player is a chain that does not have grocery stores in the target region, but has entered the Boston area with Internet shopping delivery services.

Should the client enter the market? If so, how, and what concerns should they have? If not, how do they protect market share from the emerging market that is threatening to steal business?

Background

This is a market strategy issue. The interviewer is looking for a discussion of the client's customers, competitors, costs, core competencies and the overall market dynamics. In addition, the candidate should be able to present a solution and identify the key success factors for this solution.

Response

Candidate: The client must first do some preliminary work examining the market for groceries delivered over the Internet. I would like to get a better sense for the company's current customers, as well as potential customers, to see if the Internet is a viable delivery mechanism for the company. Can you tell me more about the client's customers in the area?

Interviewer: The client serves primarily upper-middle class customers.

Candidate: That's important to know. I would guess that prospective users of an Internet-based delivery system are upper-middle class. Can you confirm this and elaborate on the growth prospects for this market?

Interviewer: Your guess is correct. Users of the Internet delivery system are typically upper-middle class. As far as the market is concerned, home grocery shopping among Internet users is growing rapidly and the percentage of homes with Internet access is also growing.

Candidate: We've established that the market is an attractive one, however I still need more evidence before presenting a recommendation. I'd like to now turn to the two competitors described in your opening. Can you explain their current market share?

Interviewer: All three local players (including yourself) have an equal market share - roughly 15%.

Candidate: And can you address recent growth trends among the competition?

Interviewer: The competitor without stores in the target region is gaining market share more rapidly than the company with stores in the target region.

Candidate: We've established pretty convincingly that the market is attractive. I'd like to now focus on our client. Clearly not all companies are prepared to put their operations on the Internet. There are two central issues I'd like to better understand. First, the company's core competencies—does it have the requisite skills to address the Internet user? Secondly, I'd like to understand the company's cost structure. Is such a move feasible for the client? Do you have any information on the company's distribution capabilities? Specifically, is it able to address the Internet market?

Interviewer: The company's current distribution facilities are not adequate for the delivery system.

Candidate: How about the company's employees? Are they sufficiently trained to handle delivery tasks associated with the Internet?

Interviewer: The current employees cannot perform these tasks without more training.

Candidate: Those are some important considerations to ponder. However, given the market attractiveness for Internet groceries, the client would be crazy to pass up this opportunity. Its customers are Internet users, the competition has already shown a willingness to invest in the market, and the competitor with no stores in the region (i.e. totally reliant on Internet sales) is growing the fastest. That said, the company must be willing to invest in this market to succeed. First, it must improve its distribution capabilities. Further analysis must be done as to whether it should improve its current operations or develop a stand-alone capability exclusively devoted to the Internet market. Next, it must develop an inventory management system so that it can effectively track what it orders from suppliers, what customers are ordering, and where the product is delivered (Internet vs. traditional). Finally, it must spend enough money to cross-train its employees so that tasks associated with Internet delivery can be effectively performed.

Interviewer: Are there any other considerations?

Candidate: When the company rolls out its Internet operations, it must not disappoint customers. Many of the Internet-based customers will be cannibalized from the traditional operations. In itself, this is not bad. These customers obviously prefer the alternative, and it's better for the company to retain them versus losing them to competitors. However, failure to deliver on Internet delivery will cause customers to consider switching to the competition. As such, the company must be sure it can effectively deliver on its promises from the moment it enters the Internet market.

General Summary Comments

The candidate does not necessarily have to recommend market-entry for this case. If the candidate believes the company should not enter the market, it must present a compelling business reason why and craft creative alternatives for market share protection. In either case, the key components of market strategy must be understood and addressed.