The traditional supermarkets threaten the existence of the virtual supermarkets

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The traditional supermarkets that enter the Web have significant advantages over the virtual supermarkets as they have a consolidated distribution chain

From the very beginning, electronic commerce of high-turnover goods was viewed as one of the most attractive businesses within B2C and a number of businesses were started, with very different results. In the United States, most of the companies pioneering the on-line distribution of groceries were start-ups, such as Peapod or Netgrocer, which soon found themselves grappling with severe operational and financial problems. One example of such companies is Webvan, which had to file for bankruptcy.

At present, in Spain, the supermarket chains that offer on-line sale services do so on a trial basis in selected towns and cities, with the aim of gradually extending the business to other areas. The grocery supermarkets offering on-line services are Condisline, Mercadona, Caprabo a casa, Alcampo, Eroski and El Corte Inglés's portal. In addition to the traditional supermarkets, there are start-ups specialised in specific market niches, offering a certain type of product, such as todomarisco.com or elvino.com's shop.

The profile
The profile of the target user is a young couple where both partners work, with children, medium-high purchasing power and little free time. The service also targets executives with little free time who are responsible for buying grocery items. The main advantages for the customer of the on-line service is the speed and convenience of buying groceries without having to leave your home or office. Given these advantages, the user readily accepts minor changes in product range and prices, and also rates positively home delivery and the possibility of choosing the delivery time with a small margin for delays.

The start-ups have been able to enter the sector thanks to the reduction in entry barriers made possible by distribution over the Internet, since they do not need an extensive range of establishments to reach the customer. For their part, the traditional companies have adopted the Internet as a natural extension of their business. Their advantage lies in their knowledge of the food retail market and the experience accumulated in refining and competing in the traditional business concept. The advantages of the traditional companies versus the start-ups are to be found in the logistics and purchasing areas.

Unlike the virtual supermarket, the traditional supermarket has the distinctive feature of self-service by the users. This feature is crucial since on-line retailing not only requires home delivery but also picking (physically picking the products from the shelves and
putting them in the trolley), which in the traditional supermarket is a task performed by the user. Initially, the supermarkets use their existing logistics structure for home deliveries and the existing store structure as warehouses. In addition, the picking is carried out at times of low traffic. For the start-ups, the absence of any prior structure forces them, unless they sign cooperation agreements, to open a centre specialised in distribution and storage, which implies a fixed cost even before having started to sell. This fact weakens the start-ups' starting position. The low penetration of users who buy groceries on-line prevents the start-ups from turning their investment to account and limits their day-to-day activities, both because of the control by investors and because of the underlying financial problems.

In Spain, the market share of the hypermarket and supermarket chains is approximately 37%. The sector's concentration, particularly after the recent mergers, leads us to the traditional companies' second advantage: their bargaining power with suppliers. The companies that are already consolidated on the market can buy at lower prices, which means higher margins and pricing flexibility. This gives them a powerful weapon for drawing customers as they can run special offers on a daily basis at the best price.

Condisline and Caprabo have been more successful because they have been able to exploit their structural advantages to obtain a higher short-term return. It also appears that the points programmes and customer cards have assured supermarkets a high level of customer loyalty, who become very unwilling to change. It therefore seems, once again, that the traditional markets entering the Internet have a better chance of succeeding because they know the sector and have a larger supporting infrastructure.

**The Question**

"¿How will the on-line supermarkets differentiate themselves in order to avoid a price war?"

**Ignacio Fernández, Manager, PricewaterhouseCoopers**
The key for avoiding price-based competition is to satisfy the customer's needs and concerns. In the case of on-line supermarkets, I would highlight three factors for differentiating themselves from their competitors: trust, convenience and complementariness. The consumer must feel that his on-line purchase or transaction is secure. This trust is dependent upon two factors: technology (security in the connection or in the data processing), and quality of the products purchased and their handling until delivery. Convenience implies ensuring that the on-line purchase will be simple to make and that it will be delivered at the time and place agreed. It is also necessary that the on-line and traditional channels be complementary. In general, customers are not on-line or off-line but rather multi-channel, with a greater predisposition to buying by one channel or the other. These channels must be focused on supporting each other mutually.

**Marco Bertini, IESE Professor**
The price war on the Internet has basically been the consequence of mistakes in the decisions made by managers. When e-commerce started, managers sacrificed margin to pursue a critical user mass. Today, when it has become patently clear that the
expectations about this critical mass were far above what was practically feasible, companies, pressured by the investment banks, have no choice but to react in a highly competitive manner. In the new economy - and in the traditional economy, too - the most competitive weapon continues to be price. In the second Internet wave, companies must learn from these mistakes and remember once again that, just as in the traditional economy, it is reasonable to charge a premium for those services that provide added value to the user. Brand will continue to be a key factor in differentiation. It will also be necessary to differentiate through the provision of innovative services, although always charging a fair price for them.