Home Delivery Gains GROUND

THIRD-PARTY DELIVERY SERVICES SEEN AS **COST-EFFECTIVE** AND **CONVENIENT SOLUTION.** > By Pan Demetrakakes

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Retailers eager to satisfy shoppers' growing expectations for home delivery are relying on a range of third-party alternatives.

When it comes to home delivery, the last mile is the hardest, and aside from Amazon, no retailers' supply chain infrastructure was purpose-built to pick, pack and make residential deliveries. As a result, third party delivery services have emerged as an increasingly popular and inexpensive option for retailers to offer home delivery. This is especially true among supermarket operators who recognize that home delivery—in addition to store pick-up—is quickly becoming a service shoppers expect.

There is a lot of activity in the space currently, with a superior business model yet to emerge. Company such as Instacart, Shipt, Uber, Lyft, Deliv and Google give retailers the capability to offer home delivery. With the exception of Google, most are "crowdsourcing" companies that offer work on a per-trip basis, coordinating assignments through phone apps.

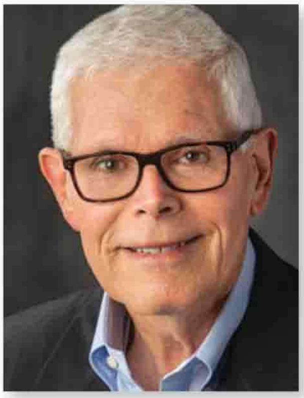
Google's model is different, relying on the company's Google Express platform launched several years ago. Earlier this year, the company began offering fresh grocery deliveries from Costco, Whole Foods and Smart & Final stores to select neighborhoods in San Francisco and Los Angeles.

Among the crowdsourced offerings, Instacart has emerged as the most popular option among supermarket retailers.

"I had a conversation with one retailer who basically let Instacart shop their stores," says Bill Bishop, head of the Brick Meets Click consultancy. "His attitude was, 'I'm going to let them come in, I'm going to give them a minimum amount of data, they can do the shopping, and I will enjoy incremental sales because somebody is providing that service to customers who might otherwise not come to my store.'"

Third-party delivery services in the grocery sector sometimes have started without the knowledge or cooperation of the retailers. This has led to some uncomfortable situations, notably in the summer of 2015, when Shipt began advertising deliveries from Publix stores in Tampa and Orlando without having any formal relationship with Publix. It became especially awkward when Shipt found itself unable to fill Publix orders in Tampa Bay due to over-

Instacart is emerging as the leading third-party delivery service for grocers.



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—**BILL BISHOP,** *Brick Meets Click*

whelming volume after launching service there in August, 2015.

But cooperation between retailers and third-party delivery services is now more common. Publix is fully on board with Instacart, concluding an agreement for service in Miami that began July 12. Instacart also has delivery partnerships with Whole Foods Market, H-E-B, Target, Food Lion, Costco, Petco, Binnie's Beverage Depot, Total Wine and more. It delivers in about two dozen markets, recently expanding into southern New Jersey and Fort Lauderdale, Fla. Shipt still does deliveries from Publix and other retailers without a formal agreement, but "we launch all new markets exclusively with retailers that we have a formal partnership with," says CEO Bill Smith.

The firm's most recent agreement is with Meijer, where those who pay a $99 annual membership fee receive unlimited one-hour deliveries from among 55,000 items. Meijer began offering the service at 25 Detroit-area stores on September 15.

"We believe our relationship with Shipt will provide many of our customers an all-encompassing service that will save them time and add a new convenience when shopping at Meijer," says Michael Ross, vice president of digital shopping and customer marketing.

LOW PRICES, TINY MARGINS

The low cost of crowdsourced third-party services enables retailers to offer delivery at rock-bottom prices. That's important, because the tiny margins in grocery retailing don't leave room for delivery costs.

Instacart provides shoppers to pick customer orders—either the driver who will deliver the order or, in the case of larger retail partners like Whole Foods, a dedicated in-store shopper who collects the order and passes it on to a driver, says Andrew Nodes, Instacart's head of retail accounts. Instacart provides comprehensive service, including data integration and digital interface, Nodes says.

"With Instacart, we offer a turnkey solution. We say that we are the retailer's best friend," he says. "What that means is, we can help with the actual launch process. Making sure that data files are ready to be on placed up on websites, so we have a good-looking site that's turnkey for the actual retailer—we'll handle that piece for them. In stores, we have very trained personnel who have the ability to pick the ripest avocados and make sure that bread isn't put at the bottom of bags."

Instacart makes its money at both ends, collecting fees from both retailers and their customers. The retailer fee varies; Andronico's Community Markets, a chain of six supermarkets in the San Francisco Bay Area, pays about $9.50 per order picked by Instacart personnel. Because the crowdsourced pickers/drivers are paid by the trip, and because Instacart gets subsidized by consumers as well as retailers, it can deliver groceries at a lower cost than most retailers could themselves.

In addition, Instacart offers full digital and other information technology services to its retail partners, which is why Suzy Monford, CEO of Andronico's, says, "I can't say enough good things about them." Instacart helps retailers build a mutual online platform, stocks it with a complete library of product photographs, manages order tracking and shares a transaction log at the end of every day.

"They're still very nascent, but in my perspective, and certainly in our experience, they have the best IT and the best online platform for shoppers and for retailers," Monford says. "Probably what they excel at the most is onboarding retailers."

Shipt maintains similar connections with its retail partners, Smith says. "We work with our retailers to stay up to date with current pricing and to ensure a consistent experience for Shipt members. Retailers provide us with a recurring data feed that includes product and pricing information," he says. "We work with the retailer's existing systems to get data on item availability, out-of-stock products, etc."

WHOSE CUSTOMER?

However, the integration of information platforms and sharing of data between Instacart and its retail partners raises a question that some find troubling: At the end of the day, who owns these data—and the customers that generate them? Since the customer orders through the delivery service's app, takes delivery from the service's

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driver, and never pokes her nose in the store, will she think of herself as a customer of the grocer, or of the delivery service?

"You've got the question about, if you're going to let Instacart control that customer interaction they'll start to see that customer as their customer," says Randy Burt, a partner in the retail practice of A.T. Kearney.

Bishop says the question involves both data sharing and the overall issue of customer affinity. "The question becomes, what does the third party do with the data that comes when they build transactions with customers?" he says. "Do they share that information back to the retailer or not? By then the third party is actually maintaining the relationship with the customer. You're calling Instacart or Shipt or Uber. And so it's the third party that owns relationship at that point. A number of retailers have been shy about letting the third party have that because they see it as an extension of their brand."

Donna Zambo of Wakefern Food Corp. agrees. Wakefern, a cooperative of four banners comprising 335 stores in the Northeast, is conducting a pilot program with Instacart. Speaking at a panel at June's FMI Connect show, Zambo, Wakefern's director of digital commerce and innovation, said that with quick speed to market and no capital investment, partnering with Instacart is a great way to test home delivery, but added that a disadvantage is that "they own the customer experience and customer data. To really personalize with the customer—you lose that with Instacart."

Another panelist, Diana Walcott, vice president of information technology at Albertsons, said that Albertsons has considered using third-party delivery, but agreed with Zambo's concerns: "At the end of the day, your customer touchpoint is out of your hands. The screen experience and the personal experience is gone."

PICKERS ON THE PAYROLL

An alternative to the delivery driver picking the order is having store personnel do so. In most cases, that's not economical. Craig Boyan, CEO of the Texas-based H-E-B supermarket chain, explained why in a seminar at the recent United Fresh conference. H-E-B recently partnered with Instacart to do home delivery.

"It takes probably the average customer a half hour to pick their items in an H-E-B [store]," Boyan said. "If you imagine the total fully loaded cost of [an employee] at $20 after benefits, that means it costs you $10 to pick and maybe it costs you $15 to deliver. We are not making $25 on a basket. We don't have the margin to cover that. The average [supermarket] retailer makes a penny or two. We have a buck or two on a $100 basket."

On the other hand, Andronico's is experimenting with an Instacart model by which Andronico's personnel pick all the orders using Instacart's phone app, and Instacart's role is limited to delivery. The incentive is that Instacart charges Andronico's "less than $6" per order, CEO Monford says, compared with $9.50 for orders picked by Instacart drivers.

Monford acknowledges that this represents a tradeoff between labor costs for order picking and the lower Instacart fee, and says this is something she will evaluate going forward. "I'm going to test that tipping point," she says. "When I have to invest in incremental labor, then I'm going to look at that ROI."

PURE DELIVERY

Using third parties as "pure" delivery services, without involving them in assembling orders, opens up more options for retailers. Uber and Lyft, which have both established themselves as ride-sharing services, are looking to get more into product delivery. Walmart is using Uber in test markets in areas of Phoenix, and is testing Lyft in Denver. This is Lyft's first venture into grocery delivery; Uber has a delivery service called UberRUSH, but it delivers mostly durable goods and restaurant meals. In addition, Walmart's Sam's Club unit is doing a test market in Miami with Deliv that includes grocery delivery.

The ultimate option for retailers would be delivery that's completely self-owned and operated. But for most retailers, that's not realistic in the foreseeable future.

"It would be advisable when you have enough scale, but I think it would be hard to make the ROI work," says A.T. Kearney's Burt. "Especially with so many different third-party options that can get scale by having sort of a vertical service that crosses retailers." **RL**

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