

## **Approaching Baltic grocery market through online platform**

**Ulvis Kairovs**



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*Suggestions for Rimi Baltic e-commerce department on how online grocery platform can be introduced in Baltic States*

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## **Preface**

The beginning of 2016, while being in the middle of my module of food chain consultant, in food supply management class, we came across food retailer topic, particularly talking about online store formats and distribution channels. As having a more than three-year working experience in a retail company, I was intrigued by the topic and wanted to explore it more.

After open debate with my course coordinator Pat Burgess, and several articles, related to online grocery later, a conclusion referring to article made by Business Insider about Walmart incapability to keep up with the upcoming trends, was summoned – that in 2016, most of the retailers will be aiming to establish a truly “seamless” shopping experience (Taylor K. (1), 2016). Also, my conclusion was supported by McKinsey interview with online grocery pioneer Christian Wanner, where Christian concluded the interview with (Lopez G. E. et al., 2014 ):

*“in the coming years, retailers will need to work on what we call multichannel or cross-channel or omni-channel – that is, harmonizing the channel experience for the customer.”*

After have carried out a short research on e-grocery, I took initiative to share my findings with one of the largest traditional retail chain company in Latvia – Rimi Baltic, in order to have an opportunity to establish thesis collaboration with them.

Research is carried out for CAH Vilentum University of Applied Sciences in order to obtain a bachelor degree at the specialization of International Food Chain Management.

## **Acknowledgment**

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## **I Glossary**

- E-commerce - Electronic commerce;
- EA - Euro area;
- EU – European Union;
- FMCG – Fast moving consuming goods;
- NFC – Near field communication;
- SKU – Stock-keeping units;
- VAT – Value added tax;
- VNI – Visual Networking Index;

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### III Summary

The aim of the research is to provide a solution for Rimi Baltic on which the company can base its decisions about e-grocery approach in Baltic market. The research paper does it by answering the main research question: What approach mechanism should Rimi Baltic use in order to approach Baltic market? E-grocery is developing fast and is facilitated by increasing digital literacy, and to maintain market position, traditional retail chains need to face this challenge.

In order to answer the main research question, several sub-questions are answered. Sub-questions include: description about e-grocery in historical and global context, including description about emerging trends; description about multi/cross/omni -channel retailing; description about Baltic market, including – institutional area, economical area, retail space and consumer behavior analysis; describing Rimi Baltic operations within Baltic states; and conducted interview with pure online retailer – Picnic.

E-grocery is a worldwide phenomenon and can provide companies new revenues and value-producing opportunities. It is becoming a race where companies strive to gain first-mover advantages. But e-grocery is also facing several challenges, which can be extended to Baltic market, due to the fact that the nature of retail industry doesn't differ significantly. Several studies have stressed out that e-grocery needs to become more fluent in people day to day activities, thus enhancing seamless shopping experience – omni-channel.

Descriptive and statistical analysis were applied in order to analyze e-grocery in global and Baltic market context. E-grocery global context findings were used as motivation for developing Baltic market analysis model which consists of four dimensions. Second and third chapter findings in correlation with fourth chapter, where information about Rimi Baltic and qualitative analysis - interview with the pure online grocer, was a motivator for creating approach mechanism to Baltic market.

From conclusion of descriptive and statistical analysis, general message was created and was kept in mind when the market approach was created. In market approach, three emerging approach consideration themes were concluded, taking into account previous chapters conclusions as motivators, in order to highlight the points which are the “must-have” for the Rimi Baltic when approaching Baltic market through e-grocery.

It is concluded that Rimi Baltic is advised to approach the e-grocery market by providing click and collect service. Click and collect is a service where products are purchased via smartphone application or web-page and are collected by the buyer at the point of sale (retail store). Click and collect services are not limited to certain cities, whereas home delivery relies on cities which have high population density. As there are no studies about home delivery efficiency and profitability in Baltic market, it assumed, that the success of home delivery in Baltics is highly questionable due to the nature of home delivery, which involves variable costs and unsolved “last mile” issue. Taking into account Rimi Baltic directions and company philosophy, the most sustainable approach would be click and collect and most prominent markets, for such service, are Latvia and Estonia. It is mainly due to the fact, that Rimi Baltic holds larger market share in these countries, whereas in Lithuania, half of the market is obtained by Rimi Baltic rival competitor and, potentially, Rimi Baltic holds higher rate of failure. Due to the nature of uncertainty and a limited amount of studies that suggest or warns about potential risks, Rimi Baltic is also advised to carry a research on consumer behavior in Baltic market in order to identify factors that are attracting customers to use e-grocery service.

## 1 Introduction

*“in the coming years, retailers will need to work on what we call multichannel or cross-channel or omni-channel – that is, harmonizing the channel experience for the customer.”*

(Lopez G. E. et al., 2014 )

As traditional retail chains are making huge investments in e-commerce, for example – Walmart is investing USD 1.2 billion to 1.5 billion in e-commerce to develop it, e-commerce, particularly e-grocery, is still making small sales percentage of traditional retail chain sales, estimated around 5% (Taylor K. (2), 2016). Nevertheless, the e-grocery market is growing fast and is expected to reach EUR 80 billion by 2018 and it is expected that e-grocery will take up to 15-20% of total fast-moving consumer goods (FMCG) market by 2020 (Desceras A., 2015). The reasoning why e-grocery is growing fast, from author's point of view, is linked with the ability to shop more convenient, where customers are being provided with the possibility to use self-checkout, contactless payments, online platforms or other shopping channels. Traditional retail chains are acknowledging the importance of establishing several different distribution channels for customers and providing them under multichannel, cross-channel or omni-channel shopping experience, moreover, the quest to find most suitable “seamless” experience is accelerated by the fact, that information technology is progressing with exponentially increasing digital literacy alongside with it.

While Rimi Baltic takes more cautious approach towards e-grocery in Baltics, it is important to take into account, that e-grocery attracts the most profitable customers, customers who prioritize convenience over price or promotions (Lopez G. E. et al., 2014). As said by Bill Grimsey, former chief executive of Wickes, describing why large traditional retail chains must take e-grocery serious:

*“Do Morrisons have a choice to stay out of the online food shopping business? The answer is unequivocally no. If they don't, Tesco, Sainsbury's and Asda will be taking shoppers, what Morrison could have earned.”*

(Rankin J., 2013)

By end of 2015, Rimi Baltic launched an application for mobile devices where customers can select specific Rimi store and select its stock-keeping units (SKU). But the current state of the application still doesn't allow to purchase selected products, thus putting Rimi Baltic in less attractive position, regarding e-grocery, than its rival competitors, who is already providing multichannel experience. Example – e-maxima.lv, the company which is sharing the same market share amount as Rimi Baltic, have established online store platform, offering more than 6000 SKU (LETA, 2015), is providing home delivery and click and collect possibilities. Rimi Baltic is acknowledging the importance of e-grocery, but as explained by Rimi Baltic e-commerce manager Thomas Munch, the company aims to grow e-grocery services in an evolutionary manner.

Previously illustrated state of play of e-grocery indicates that it is and will serve an important role in future as competition is getting more fiercer and growth of e-grocery shopping is and will be driven by Millennials and generation Z (Nielsen, 2015). Taking into account current direction of e-grocery, and the fact, that Rimi Baltic haven't introduced fully operating online performance platform regards to sales and several other channels which could be linked to e-grocery. It is possible to conclude that in current position Rimi Baltic holds a problem in retail space, where the company hasn't utilized all capabilities where it could have linked current distributions channels together across several existing channels via the e-grocery platform. This research will try to address the issue and provide a possible solution(s), which could later be used by the company.



## 1.1 Research problem and demarcation

There is already several articles and research studies describing importance of e-grocery and market patterns within the Europe, Asia, and US, such as Nielsen; McKinsey; Syndy, IGD's, Elsevier (articles published within the archive), science direct, etc., therefore the study is not intentionally concentrating on information what is already presented, but instead it is focusing on defining the knowledge gap. Due to the rapid evolution of e-grocery, there can hardly be found any studies which relate to e-grocery in the Baltic States.

E-grocery is worldwide phenomenon and is facing several challenges, and these challenges can be extended to Baltic market as well, due to the fact that the nature of retail industry doesn't differ significantly from country to country. Most of the times execution of e-grocery is what differ from country to country due to characteristics of each country, which is be described in the further literature review.

Current e-grocery industry is growing at a fast pace. In order to keep up with market demand, traditional retail chain companies have extended their services across different sales channels. Rimi Baltic holds vast majority of sales channels, but recent movements in the direction of mobile services have yet to grow. Research stress this issue and tries to understand and come up with solution on: Which sales channels need to be taken into account when introducing e-grocery platform in the Baltic States in order to provide sufficient e-grocery platform to Rimi Baltic customers.

Beneficiaries of the research is traditional retail chain company in Latvia – Rimi Baltic, particularly company e-commerce department.

One of the challenges, expressed by McKinsey in the review about “The Future of Online Grocery in Europe”(Galante N. et al., 2013), is convenience. But at the same time convenience isn't everything, and it can play only a crucial role if quality, assortment, price and the convenient delivery system is in place. Figure 1 supports the statement and shows, that for the company it is important to have sufficient product assortment, provide prices in reasonable range and services linked to e-grocery shouldn't be provided at high cost.

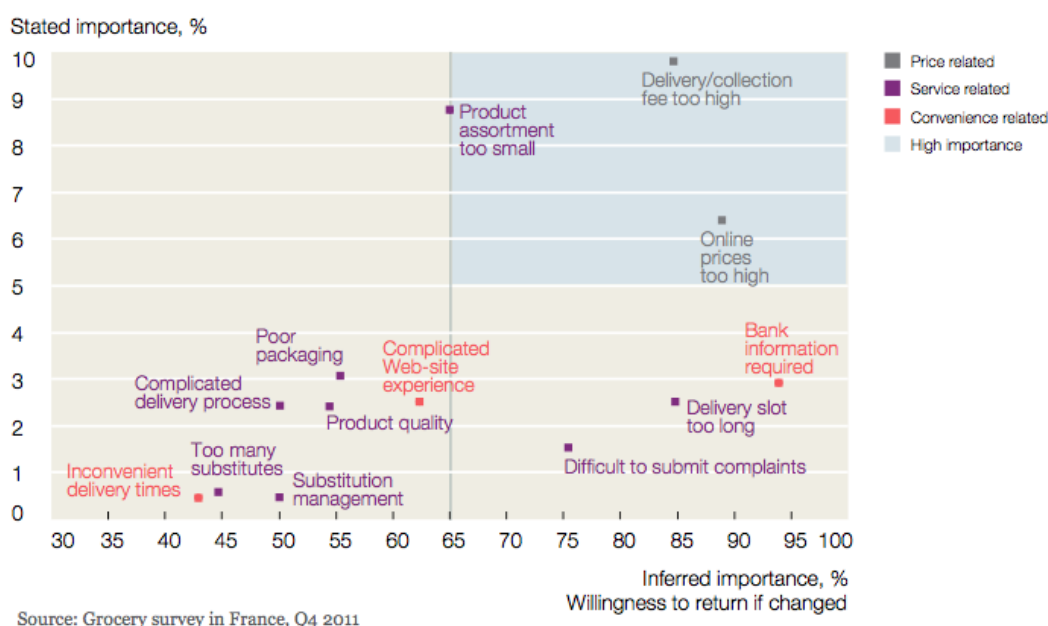


Figure 1. Online non-shoppers in France who have tried the service and stopped

Nielsen report “The Future of Grocery” a global survey<sup>1</sup> were conducted, where one-quarter of respondents are already ordering grocery products for home delivery, and more than half (55%) are willing to use it in the future. 14% are already using automatic online subscription service, in which orders are routinely replenished at a specified frequency, and more than half (54%) are willing to do so in future. A smaller number of consumers are using “click and collect” services in which customers order groceries online for pick-up and pick them up in-store or using a drive-thru. 10% of respondents order online for curbside pick-up, where customers don’t have to park, and purchased products are handed as customer pulls up. However 57% of respondents are willing to use in-store, 55% drive-thru and 52% curbside pick-up in future (Nielsen, 2015).

Additionally to Nielsen report claims, Cisco Visual Networking Index (VNI) Forecast predicts that by 2020: there will be 1.5 mobile devices per capita; global mobile traffic will increase nearly eightfold, where 98% of mobile traffic will be generated by smart devices; nearly 67% of mobile devices will be smart devices (Cisco White Papers, 2016). Cisco and Nielsen projections show clear evidence that the economic value of e-grocery by 2020 could significantly increase.

Syndy report “The State of Online Grocery Retail in Europe” is projecting four trends that are shaping the e-grocery industry.

1. Trend: Business model diversity expands in Europe. Meaning that successful business models are replicated and adopted by newcomers or well established traditional retail chains;
2. Trend: Omni-channel removes boundaries and time-frame in grocery retailing. Companies aim is to create online – offline experience as seamless as possible. Memorizing every customer configurations and saving the across all channels, thus providing most suitable service wherever customer is;
3. Trend: Mobile transaction gain momentum, accounting for 1 in 5 online grocery orders. It is estimated that in 2015 global mobile purchases will be worth EUR 100 billion and will be accountable for 8 percent of total e-commerce sales;
4. Trend: Delivery model optimization continues in online grocery retail. As described in Nielsen report, 25% of the world’s grocery shoppers have tried home delivery and 55% are willing to try it in future. However for companies it is hard to achieve economic profit while providing such service due to low population densities, complicated logistics schemes and unwillingness from customers to pay extra for such service.

Nevertheless, e-grocery in western Europe is growing fast and shows great growth potential in future (Descera A., 2015).

It is important for traditional retail chain companies to foresee and acknowledge the importance of digitalization as digital technologies can provide new revenue and value-producing opportunities. E-grocery is becoming a race where companies strive to gain first-mover advantages or not to be left behind (Speville de M., 2015). If company decide to exclude it self from the e-grocery race, it may end up with suffering business model due to the fact, mentioned by Christian Wanner and Marc de Speville, as high spending customers are lured away by competitors that are online (Bishop B., 2016).

Described articles indicate and supports the statement that e-grocery is growing fast and must be taken into account in order to keep up with the competition. The Baltic States still can be characterized as a place for early movers due to the fact that there are only a few e-grocery players, thus giving an opportunity to Rimi Baltic to seize first-mover advantages and strengthen its market position in future.

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<sup>1</sup> Nielsen global survey were based on respondents with online access in 60 countries

## 1.2 Research question

The study does not contain hypothesis, instead, it is concentrating on main research question: What approach mechanism should Rimi Baltic use in order to approach Baltic market? Thesis aim is to analyze different distribution channel performance across several sales channels, taking into account worlds e-grocery accomplishments in a global context and try to address these trends to Baltic market.

### *Sub-questions*

In order to achieve main research question, several sub-questions need to be answered:

- What is the current state of the e-grocery? Taking into account: e-commerce history; achievements in global context; current directions of e-grocery; characteristics of different distribution channels such as, multi-channel, cross-channel, omni-channel, perception of e-grocery;
- What are the characteristics of Baltic market regards to retailing? Taking into account such characteristics:
  - Demographic, economic aspects;
  - Development of e-grocery in different contexts, such as: institutional context; economical context; spatial context; consumer patterns;
  - Involved stakeholders in retailing and e-grocery;
  - Perception of generations;
- How Rimi Baltic is performing in Baltic States and what sales channels Rimi Baltic currently hold?
- Which traditional retail chain companies in Europe which can be accounted as equal to Rimi Baltic, and with which features these companies manage their e-grocery services (if are)?;
- How online based retail chain companies manage their e-grocery service? (If possible, interview with the company will be conducted);

The aim of the sub-questions is to contribute to answering the main research question. In the case of answering main research question successfully, thesis end result should provide a possible solution for Rimi Baltic, taking into account current assets, how the company should approach Baltic market through the e-grocery platform.

The study could provide an additional information to Rimi Baltic by indicating current e-grocery trends and possible alternatives solutions while entering into the market.

### *Alternatives*

It is possible that study could lead to a suggestion which doesn't answer main research question and suggests that the company would benefit more from not intervening into the e-grocery industry, due to the lack of the market maturity, low population density, and complicated logistics schemes requirements.

Another alternative is that Rimi Baltic should make the subsidiary company, and rather than changing current logistics structure and business model of the company, Rimi Baltic creates a brand new company which operates apart from the parent company. Such business model is used by Rimi Baltic rival competitor Maxima in Latvia.

## 1.3 Research objectives

The thesis is serving as a research report to Rimi Baltic, where the company is advised on how it should approach Baltic market through an online platform and which sales channels could be most promising and suitable for the company, taking into account global e-grocery trends and

market characteristics. The study is presented to Rimi Baltic after successful thesis defense, and the presentation is held at Rimi Baltic main office building for e-commerce department.

In the process of answering main research question, as mentioned previously, study doesn't particularly concentrate on information which is already available, therefore it takes into account as it is and is linked to the topic. Main objectives of thesis are:

- Describing management of distribution channels and sales channels and understanding which of the models are more appropriate to Rimi Baltic, taking into account company existing sales and possible future channels;
- Describing current e-grocery trends and barriers and to what extent they apply to Baltics;
- Developing an approach for Rimi Baltic on how company should approach Baltic market through online, which sales channels should be emphasized in process and forecasting possible future sales channels;

Research is contributed as an advice for Rimi Baltic and it will be up to Rimi Baltic e-commerce department to decide if company will take provided information into account.

#### **1.4 Research design and methodology**

In regards to research methodology, in the study process, in order to support main research question and sub-question, analytical and descriptive analysis is applied to outline e-grocery trends and barriers. Due to the actuality of the topic, most of the relevant information is searched and acquired through desk research. Reviewed literature mainly is surveys, publications and articles related to e-commerce and e-grocery, provided by McKinsey, Nielsen, Syndy, Elsevier, Science direct and other relevant sources.

Statistical information is used in order to support and explain Baltic market characteristics. Data is acquired from national data surveys and EUROSTAT. Most of the sources can be found online, therefore search engines such as: Google Scholar, iSeek, DMOZ, are used. Rimi Baltics is also contributing their findings to research topic and are sharing information in order to reach clearer answer to main research question.

Qualitative research is conducted where one pure online - Picnic grocer representatives is interviewed. Interviews was semi-constructed, and questions of the interview concentrates on:

- How e-grocery is managed by the company;
- What are the key elements that must be taken into account;
- What are the key elements that determines company e-grocery business model success;
- What kind of sales channels company are using;
- What are the barriers for e-grocery, particularly in the company;

All interviews are recorded in order to provide evidence, if necessary.

Descriptive analysis and statistical analysis, and outcome of interviews is used in order to develop a proposal to Rimi Baltic. The aim of the proposal is to clarify characteristics of the possibilities for developing e-grocery business model for Rimi Baltic.

#### **1.5 Structure of the research**

The first chapter is general description about thesis topic and invites reader by briefly explaining the current situation of e-grocery and the problematic within the Baltic States.

The second chapter consists of literature view and descriptive analysis. Since the topic is very recent, in order to provide solid basis for the thesis, chapter provides extensive e-grocery review in global context. It includes the characteristics of e-grocery global market and concludes with emerging key findings.

The third chapter analyses the Baltic market retail environment characteristics. In order to carry out a market analyses, institutional area, economic area, retail space and consumer behavior was analyzed.

The fourth chapter introduce information about the Rimi Baltic, and concludes with presented review of interview. The chapter is preparatory stage for introducing proposal.

The fifth chapter contains the proposal development which is presented through discussion of results. Chapter suggests how Rimi Baltic should approach the Baltic market.

The sixth chapter introduce conclusions of the study by answering the main research question and the sub-questions in a coherent manner.

The seventh chapter provides recommendations to company on how to approach the Baltic market and suggests additional research on specific points.

## 2 Overview of e-grocery

Since early 1980's, when the internet was first introduced, over a period of time it has developed a unique set of characteristics, such as flexibility, interactivity, and personalization (Dhanapal S. et al., 2015). Moreover, the internet has become a place to do trade, which in the course of time have created a new type of businesses and accelerated the speed how business is done. It allows retailers to offer an unlimited range of products and services to consumers from all over the world at any point in time. It is deemed to be the most significant direct marketing channel for the global marketplace (Lim Y.M, 2010). Internet-based business model is called e-commerce (electronic commerce), which allows individual or legal entity to conduct business over an electronic network, typically known as the internet. Usually, e-commerce business transactions occur as business-to-business, business-to-consumer, consumer-to-consumer or consumer-to-business (Rouse M., 2012). E-commerce allows business to enhance their primary activities by distributing the information to bigger masses, by providing better and more efficient distribution chain for company products or services.

### 2.1 In historical context

In order to understand today's industry innovations, it's useful to recognize retailing sector in historical context. In this section, the report will mainly focus on describing the beginnings of grocery sector and how the knowledge of the 20<sup>th</sup>-century retailing pioneers is passed on e-commerce business models nowadays. Historical context is based on McKinsey report - Retail 4.0: The Future of Retail Grocery in a Digital World (Desai P. et al., 2012).

#### *Early signs of the modern supermarket*

In beginning of 20th century, grocery company called Piggy Wiggly, at a time (1916) when grocery shoppers presented their orders to store clerks at the desk which then went to collect the items from shop shelves, is known as one of the early retail innovators by introducing more modern approach, where shoppers could serve themselves, by providing open shelves, checkout stands and price-mark on every item in the store. It was also a time when manufacturers recognized the crucial importance of packaging. Later other retail chains seeing the success of Piggy Wiggly, started to adopt the same concept, thus accelerating the business model and leading to lower prices, larger stores, parking lots, category management, in-store promotions, which took over US and Europe.

#### *When super-large is not enough*

In 1963 Carrefour opened its doors in suburbs of Paris and Walmart made its first appearance in the US, their idea was to keep "everything under one roof" by introducing hypermarket model, which was a step forward in terms of space utilization, productivity, efficiency, and cost management. Over the course of time, hypermarket has introduced countless innovations such as private label products, multi-format offerings, category killers and more complex supply chains.

#### *Rise of the game changer*

In 1970's term e-commerce was used to describe the process of conducting business transactions electronically using technology from the Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT), it allowed businesses to exchange information and make transactions such as purchase orders and invoicing (Spirecast, 2009). In 70's videotext were introduced, which allowed sharing information between two parties, and at that time, it was named as "concept of teleshopping", which revolutionized the way business work. Throughout the 80's development of ATM, credit cards, telephone banking was a significant step towards e-commerce. In 90's Tim Berners-Lee revolutionized the whole digital world by introducing world wide web. In 1994 company called Netscape released a browser which allowed anybody to visit a web-page by typing webpage name in navigator bar. It was the time when e-commerce started to really accelerate with introductions of security protocols and high-speed internet connections (Spirecast, 2009). One of the pioneers of e-commerce where companies such as eBay (e-auction) and

Amazon which were launched in 1994. Particularly Amazon took a great risk by challenging, at that time, existing kings of the retail world and by 1997, Amazon had generated USD 15 million in revenue and e-commerce had become a buzzword that showed new potentials to revolutionize retail industry.

Nowadays besides social space of the internet, it is estimated that three-quarters of the economic value of the internet are captured by manufacturing, financial services and other industries (Hamilton D.S. et al., 2016). Digital services and products have become the backbone of the modern global economy. Digital infrastructure is changing the way how people live, interact and perform their tasks. Services which are digitally deliverable have also been catalysts for the growth of the economics in Europe and is estimated that by 2018, app sector will employ 4.8 million people and will contribute EUR 63 billion to the European Union (EU) economy (European Commission (a), 2014).

E-commerce is a new potential for any company to attract new customers or seize new market niche and non-food retailers already strive with opportunities what e-commerce brings, while traditional food retail chain struggles to enter in e-commerce, thus establishing e-grocery. E-grocery is growing and potent distribution channel that uses direct access methods to allow consumers to shop quickly and take delivery of grocery products without ever leaving their homes, using digital devices as the primary method of communication (Schulz S., 2005). It took more than a decade for e-grocery to become mainstream and successful, where e-grocery companies need to have more sustainable approach by carefully managing its logistics, pricing and customer loyalty.

#### *Personalized retailing*

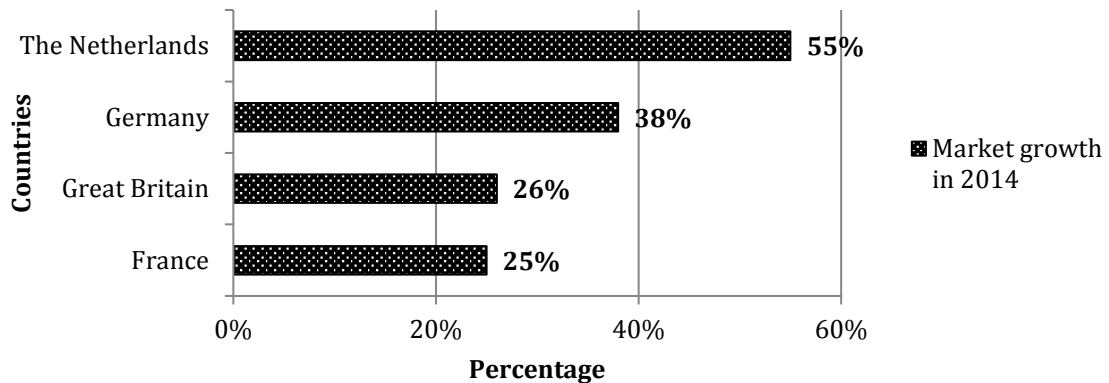
As retailing competition is getting higher and higher, involved players try to obtain new market shares by introducing more innovative approaches, where brick and mortar retailers are experimenting with virtual stores, converting existing store into warehouses or "dark stores". In a combination with customer data and complex algorithms, e-grocery players try to create a system which knows what customers wants by analyzing purchasing patterns and even following day to day activities. In 2016, retailer aims are to create customer experience as seamless as possible, providing relevant information wherever their customers are and whichever of sales channels they will use - information will stay the same.

## **2.2 In global context**

E-grocery is a new wave of a competitive threat to any traditional retail chain, and it is pure market competition which will make it economically viable, but to meet the online threat, established retail chains will need to shape their current business capabilities. The previous paragraph describes, that online shopping has been around for two decades, but so far online shopping has had less impact on grocery retailers. Only in recent years, e-grocery have started to appear as an economically viable business model, and it is one of the reasons why many traditional retail chains have set new priority - to establish e-grocery with the aim to seize new market opportunities in near future. With that in mind, companies still are seeking for right formula on how to tackle e-grocery.

The rapid growth of digital mediums and the applicability of it have created a significant impact on how e-grocery business model should be developed. In many cases, it is not enough if traditional retail chain establishes an only e-grocery platform. E-grocery must be outstanding in order to attract and retain its customer. And not only product distribution is what matters, but features such as web design and functionality also matter. High-quality photographs of products, clear labeling of brands, prices and pack sizes, and smart algorithms (Galante, 2013), which recognize your buying patterns. It is an experience which is built for the customer, and convenience is a core element of the e-grocery value proposition.

In the report "The State of Online Grocery Retail in Europe" made by Syndy, it is reported that growth of e-grocery in 2014 consists of double-digits. The report analyzed four European countries and have reported that the Dutch market grew the fastest, see figure 2, with 55% growth.



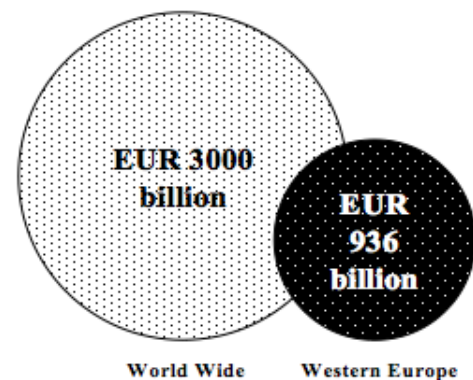
Source: Authors illustration based on Syndy data

Figure 2. E-grocery market growth in Western Europe in 2014

German market has grown by 38%, after comes British market with 26% growth and French market has grown by 25%. These are significant numbers showing that western Europe is advancing fast in e-grocery. Morgan Stanley research report estimate that in 2016 - 34% online shoppers are going to buy groceries over the internet, which is 13 percentage points more than in 2015 – 21% and e-grocery can become next big opportunity for e-commerce (Morgan Stanley, 2016).

In the context of future, it is understandable that grocery retail industry is growing and by 2020 is expected to reach USD 11.8 trillion (EUR 10.39) worldwide (Johnson, 2015). Most of growth will be driven by low and middle-income countries.

In 2014 global grocery market was valued at EUR 3 trillion, while western Europe grocery market was valued at EUR 936 billion, figure 3. Due to immense creation of e-grocery market value, the global e-grocery market is expected to reach value of EUR 80 billion by 2018 and will represent 15 - 20% of grocery retail industry by 2020 (Desceras, 2015).



Source: Authors illustration based on Syndy

Figure 3. Grocery retail market sizes in 2014

Currently e-grocery market consists of two type of players: traditional retail chain with a dedicated e-commerce business model, or a partnership with third party; and pure online players, concierge service providers, producers and niche/category specialists. Also, well established logistic, technology and e-commerce companies are emerging into e-grocery business.

Although e-grocery have gained traction only in late years, it is already showing prominent future. To understand what makes e-grocery economically viable, in next section profitability of e-grocery in a global context is reviewed.

#### *Profitability of e-grocery*

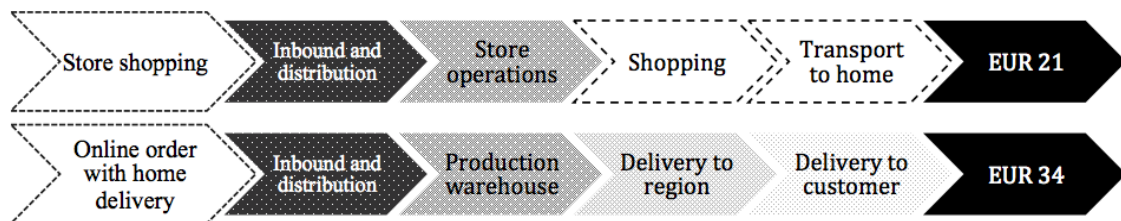
For many years cost of e-grocery barriers overweighed the benefits of e-grocery, but with customer demand for e-grocery shopping steadily increasing, many pure online retailers have been stepping into the market to address this demand, thus giving incentive for traditional retail chain grocers to enter into the e-grocery business as well (Oliver Wyman, 2014).



E-grocery profitability is mostly driven by two primary reasons - demand and supply. As described in previous paragraphs, e-grocery in current states shows prominent role in the grocery industry as demand for online grocery purchasing is only increasing. But for companies to retain its newly attracted customers to its service is easier said than done.

From demand standpoint, firstly potential customer can easily be offset by charging a premium price for services. Mainly traditional retailer charges additional fees for e-grocery service due to the fact that it is used to cover the costs of the supply chain. Secondly, convenience is what determines if service will be used. If provided services, such as home delivery isn't convenient for the customer, it might find easier to visit the closest store than to wait for products to arrive in undesirable time. Home delivery is a challenge to any grocery retailer and cannot be ignored, as stated in the first chapter, in a global context, there are 55% of people, who still are willing to try home delivery in future. Thirdly, depending on what kind of e-grocery business model company choose to take, but in most cases of in-store pickup, possibility of out-of-stock remains heavily. Furthermore, customers may find irritating that original product cannot be replaced or is replaced with a substitute which is a product what customer do not prefer. These are only a few points which impact the profitability e-grocery from the demand side.

From supply standpoint, largely, profitability is determined by a business model which is acquired and used. In many cases, traditional retail chains still are using business models which are meant for brick-and-mortar businesses, meaning that traditional store-based shopping model is applied to e-grocery. But the differences are in operating costs – the cost of employees, the cost of rent, utilities – are countable as fixed costs. Meaning, that traditional brick-and-mortar retailer needs to reach break-even point to cover all the costs and slowly it can grow into profitability. While, on the other hand, in e-grocery, costs of - order processing, picking of orders, transportation – are variable costs and is accumulating as performance is increasing (Vuijst, 2014).



Source: Authors' illustration based on Strategy & analysis

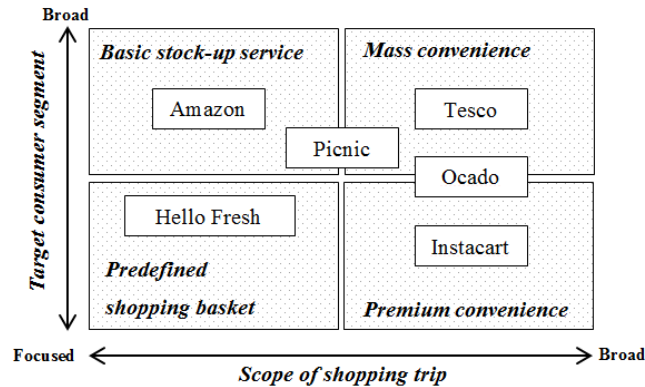
Figure 4. Cost-to-serve for traditional store shopping and e-commerce

To compare the differences of physical store purchases and e-grocery purchases, figure 4 shows the procedure involved in two situations. Costs are calculated on an EUR 100 basket, and on average, e-grocery service with home delivery, if traditional in-store shopping model is applied, costs are EUR 34, which is EUR 13 higher than the costs of traditional in-store shopping (Vuijst, 2014). Figure 4 illustrates that if traditional retail chain companies apply the same business model as which they have been using so far, in future, it can lead to significant losses due to the fact, that the model can't reach the break-even point, mainly because of involved variable costs.

Profitability is a controversial topic in e-grocery and mainly because of the reason that it is hard to pre-describe which business model will work and where it will work. For companies to reach the desired level, the right solution may be deconstruction - a fundamental reset of the business model by taking apart each involved process and tailoring it for specific market (Rodriguez, 2013). Profitability is also defined by companies value proposition. The value proposition can be broken down into four segments - mass convenience; premium convenience; basic stock-up service and predefined shopping basket, see figure 5.

A mass convenience is where the most of the traditional retail chain will be. Mass convenience can be characterized by broad product range, same prices, and same promotions. A crucial point for mass convenience, as defined in previous paragraphs, is to understand that by applying the

same business model, which is used for in-store shopping model, can lead to operating loss. Tesco is a traditional retail chain which is still struggling to make e-grocery profitable. In 2015 Tesco reported that its online ordering business grew by almost 20% in 2014, and at the same time it is still damaging the profits. Tesco has made budget cuts and reshaped its relationships with suppliers in order to find profitability, but in current state, the market is too small to make significant profits (McDonald, 2015).



Source: Authors illustration based on Strategy& analysis

Figure 5. Value proposition of current and emerging e-grocery models

To address operational costs issue, mass convenience online grocery retailer may need to differentiate their tactics for pricing, distribution, and promotion. Meaning, that e-grocery must take into account, that gross margin value for the same product can differentiate from in-store shopping to e-grocery shopping, and mostly is influenced by different pick-up costs and distribution costs. Large bulky items, low absolute margin items, slow-moving items and items with promotional discounts in a combination of pick-up and distribution costs leads to creation unprofitable baskets. Furthermore, mass convenience has broad range of customers, meaning that it attracts different customer groups, while e-grocery aim is to attract most profitable customer groups, which through mass convenience perspective is not easy.

Premium convenience is a more tailored approach where service are provided to a smaller group of target customers. Because of pre-specified operational tactics, companies can cut out unnecessary costs and focus on providing specific service for targeted customers. Instacart is a grocery delivery company which allows its customers to shop online from major grocery stores and then selected items are delivered within the same day. Instacart gross margin profit is achieved by increasing its efficiency and the "items per minute" that its shoppers can load into a basket. But besides these tailored market approach and improvements made in the process, the company is still only profitable in 10 of their 19 markets. Nearly in half of the market where the company operates is either at the break-even point or is losing money (Ranj, 2016). The situation of Instacart tells, that even if customers are willing to buy premium for service, it is not determinant that it will deliver profitability.

Basic stock-up service operates with less SKU but still communicate with broad customer segment. Its aim is to provide basic or/and non-perishable food items, which has no specific characteristics for keeping them in inventory, thus allowing to have efficient picking and more resilient business model. A company such as Amazon uses creates profitability through facility automatization, where products are picked up by machines, thus enhancing more efficient operations management.

A predefined shopping basket is an approach, where product range is specified and are provided for small target group. Such company is Hello Fresh who provides meal kit delivery service offering meal kits with included ingredients, recipes. From reviewed companies, Hello Fresh is known for showing real profitability within business, where company maintains its gross margin

around 50-55% and in 2015 have generated USD 290 million in revenue. Mainly it is result of keeping operation costs fairly stable as revenue increases (Vellanki, 2015).

In the spirit of building sustaining long-term profitability, the company should recognize its value proposition and tailor the operational model accordingly to it. When the operational model is developed, two variables shall be taken into account such as - pickup and delivery costs. And it is a reminder, that in e-grocery business, by being first doesn't give competitive advantages. It is more important to create customer base and understanding what they buy, what are their shopping patterns and what kind of services they demand, before investing capital in fixed assets. As business model grows new establishments can be made, keeping in mind actual capabilities of the company. When the business model is more or less stabilized, reduction of costs can occur in order to create more efficient e-grocery model.

Food for thought is addressing last mile issues related to profitability - such as improving content distribution from the distributor to retailer and product distribution to client. Cutting out unnecessary costs which occur in the creation of product content. While product content could be universally shared through Digital Product Content system by the manufacturer (Goater, 2016).

#### *Delivery and picking models of e-grocery*

In order for e-grocery to execute its service, it needs to acquire delivery model. Most e-grocery retailers offer two options for receiving their product, through – pickup points and home delivery. From retailer standpoint, the most preferable delivery model is click and collect, however for customer point of view, it is home delivery. Table 1 list some of the delivery models which have established a dominant position in global markets.

Table 1. Different e-grocery delivery models

<b>Delivery model</b>	<b>Pros</b>	<b>Cons</b>
<u><i>Click and Collect</i></u> Executed by using in-store pickup	<ul style="list-style-type: none"> <li>▪ Small initial investments;</li> <li>▪ No duplicate stock-keeping;</li> <li>▪ Low floor space requirement;</li> <li>▪ Flexible staff planning</li> </ul>	<ul style="list-style-type: none"> <li>▪ Double workload for replenishment;</li> <li>▪ Challenging data synchronization;</li> <li>▪ Faster out of stock;</li> <li>▪ In-store congestion;</li> </ul>
<u><i>Click and Collect</i></u> Executed by stand alone pickup	<ul style="list-style-type: none"> <li>▪ Flexible (longer business hours and more locations);</li> <li>▪ Convenient for consumer;</li> <li>▪ Increases the number of touch-points with consumers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ High initial investments;</li> <li>▪ Lower consumer willingness to use compared to home delivery;</li> <li>▪ Time intensive;</li> <li>▪ Involvement of more stakeholders;</li> </ul>
<u><i>Home delivery</i></u> Executed by retailer	<ul style="list-style-type: none"> <li>▪ Preferred by consumers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Very high initial investments;</li> <li>▪ High maintenance costs;</li> <li>▪ Requires scale of operations;</li> </ul>

Source: Authors made based on Syndy data

Table 1. Different e-grocery delivery models

<b>Delivery model</b>	<b>Pros</b>	<b>Cons</b>
<u><i>Home delivery</i></u> Executed by third party	<ul style="list-style-type: none"> <li>▪ Small initial investments;</li> <li>▪ Flexible – demand driven;</li> <li>▪ No floor space requirements;</li> </ul>	<ul style="list-style-type: none"> <li>▪ Complex stock monitoring;</li> <li>▪ In-store congestion;</li> <li>▪ Dependence on thirds parties;</li> </ul>

		▪ Limited process of optimization;
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Source: Authors made based on Syndy data

Additionally to delivery models, in Nielsen report – The Future of E-grocery, 55% of respondents are willing, in near future, to try drive-thru pickup and 52% are willing to try curbside pickup, and with these numbers it is possible to do assumption, that additionally to in-store pickup, these kind of models can be established as well.

In order to execute the delivery, the company needs to decide also on what kind of picking model it is going to use. Pickup can be characterized as following:

- In-store, by the retailer: where employees pickup orders directly from the retail shelves, and order are delivered to the specific store. This pickup model is directly linked with click and collect delivery model which is executed by in-store pickup;
- In-store, by a third party: where contracted third party individuals pickup the orders in-store. Usually, this method is used in brick-and-mortar collaboration with online pure players;
- Dark store or warehouse pickup: orders are collected and executed in designated warehouses or dark stores; use of dark store can be a way to increase efficiency on how orders are executed, due to the fact that dark stores are built with an efficient layout in mind.

In summary, click and collect delivery method could make more economic sense than home delivery. Traditional retail chains acknowledge that and based on their capabilities, as the first choice, when prioritizing fulfillment programs, are following delivery models (Forrester, 2014):

- buy online, pickup in-store;
- Buy in-store, ship to customer (from distribution center or another store);
- Making real-time in-store inventory information available online;
- Buy online, ship from store;

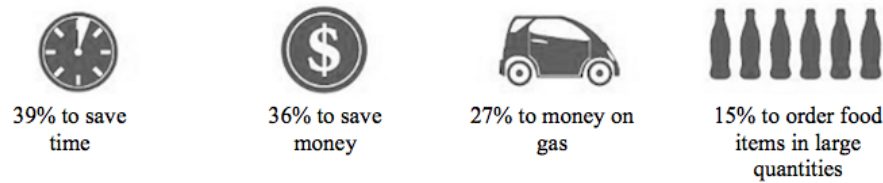
These are obvious choices because home delivery causes a lot of effort and costs. The probability that company will not be profitable with it remains high. Home delivery involves personnel, acquisitions, and maintenance costs, and in many cases, retail companies decide to cooperate with logistics service provider, if possible to find (Saskia S. et al., 2016). The success of home delivery is also determined by how efficiently it is operating. Determinants for viable home delivery or any delivery model are given with logistical feasibility which comes from high population density, the scale of order and prudential operations.

As regards to click and collect, eventually this model will reduce the delivery costs but not fulfillment costs and the extent to which the costs will be reduced depends on an ability to meet customers expectation (Oliver Wyman, 2014). Also, it is determined if click and collect points are owned by the company, in that case – costs can be reduced significantly, but if not, then not.

#### *Perception of online purchasing*

Nowadays the e-grocery shopping is tapping into pure convenience drives (Hartman group, 2015). Figure 6 shows, that 39% of respondents of The Hartman Group – The Online Grocery Shopper report, prefers e-grocery because of possibility to save time, 36% see as an opportunity to save money, 27% to save money on gas and 15% to order food items in large quantities. Figure 6 also suggest that the potential e-grocery customers could be households – young urbanites, suburban families.

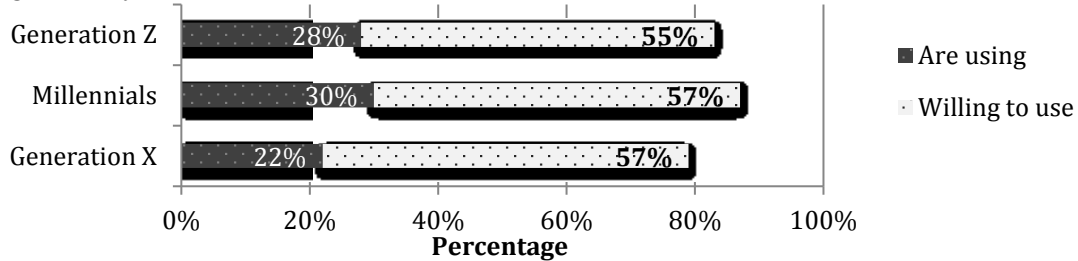
Furthermore, potential development of e-grocery in future can be justified by the perception of generations. Millennials (21 – 34 years old), generation Z (15 – 20 years old) and generation X (35 – 49 years old) express and shows high commitment for e-grocery, as on average almost 57% are willing to use home delivery in future, figure 7.



Source: Authors made illustration based on The Hartman Group illustration

Figure 6. Drivers to use e-grocery

Older generations, such as - baby boomers (50 - 64 years old) and silent generation (65+ years old) in comparison with younger generations, willingness to use e-grocery in future is significantly less.



Source: Authors illustration based on Nielsen Company data

Figure 7. Willingness to use home delivery in 2014

If click and collect delivery service is compared to home delivery service in terms of usage, between two youngest generation, then the current outcome is that it's used by 10 percentage points less than home delivery. And it could be justified by reasoning, that in most customers views, home delivery seems to be more convenient, as it is pre-described in figure 6.

But customer expectations is not easy to meet, that's why e-grocery have recognizable emerging challenges, which need to be addressed accordingly, taking into account grocery retailer capabilities.

#### Challenges within e-grocery

Although technologies in e-commerce have significantly evolved and revolutionized the buying and selling processes, the nature of internet still have brought industry to light, but fundamental challenges within the e-grocery business model. Not all challenges can be acknowledged and most of them come in working process, but following current actions of e-grocery, challenges can be characterize (Wulfraat, 2014; Rodriguez, 2013) :

- creating convenience for consumers by designing an e-grocery service which could potentially save time, it serves as a complement to day to day activities. It includes encouragement of customer engagement with e-grocery, customer profile data management, tailored into forecastable suggestions;
- addressing issues which are related to consumers satisfaction - negative perception of e-grocery, such as:
  - difficult to select needed products; products aren't seen before bought; substitution products aren't what the consumer initially wanted;
  - these issues need to be addressed by enhancing fresh food presentation, by providing consistent quality assurance and nurturing customers into acceptance of service provided. Fulfillment centers and store associates must be trained rigorously on how to select, pick and pack fresh products;
- providing product pricing which is the same as in-store shopping, and it is a concern to mass convenience retailers, as they will be compared to discounters. Pricing needs to be differentiated between lower and higher margin product categories. In order to cover the costs of undesirable baskets, more emphasis on non-food high margin products could be made;

- addressing issues with delivery method, such as: providing the customer with a short time window for the delivery and ensuring that customer doesn't have to be home when delivery arrives; providing home delivery service at reasonable pricing. Success of delivery is also linked with companies ability to enhance customer engagement process by providing intelligent campaigns to each personalized customer segment which would generate more shopping;
- understanding value proposition. How company intentions will be achieved, will operations be efficient, flexible, scalable. Is company capable to delivering the business model, is there sufficient capital behind the project;
- response to customers. Fast response to faulty delivery or unsuccessful delivery is crucial in terms of retaining customers. Also, well-established customer response management can improve the performance of the company in future as a company directly can review feedback of the customer.

Additionally to challenges with e-grocery services - raising concern are privacy and data protection, which is a challenge for any e-grocery player on how to ensure that vital elements for a successful online transaction can be protected. Online security, privacy protection and after-sales service are challenges that must be addressed before introducing the business model to customers (Jun, 2011).

These are some of the challenges which e-grocery industry is facing now, but as new trends are approaching market, new challenges will arise.

#### *Trends of e-grocery*

Trends can be understood as general directions in which, particularly in the case of research, e-grocery is developing or changing. E-grocery trends can be pre-determined by the customer or any other involved entity as long as new directions or changes shows significant importance or need for it. In the first chapters literature review, it is described that e-grocery is receiving four important trends in Europe: diversification of e-grocery business model; potentials of omni-channel; digital literacy; and delivery model optimization.

As digital world consumption is increasing alongside with digital literacy, justified by the fact that in 2015 data about mobile devices, where smart device were accounted for 89% of the mobile data traffic and it is forecasted that by 2020 global mobile data traffic will increase nearly eightfold and there will be 1.5 mobile devices per capita (Cisco White Papers, 2016). It can be justified that tablet and mobile shopping could/will outweigh desktop purchases (Thompson, 2016). Current analysis and events suggest that companies should start to think about application development or how to optimize its performance. In 2015, on "Black Friday"<sup>2</sup>, IBM accounted that nearly 60% of all online traffic is accountable for online shopping and made were accounted for 34% of all online sales (Faull, 2015). In 2016, Walmart launched OneOps open-source cloud platform, which is aiming to create more resilient system in order to withstand digital data traffic peaks, which do occur in events, such as "Black Friday". Meaning that company like Walmart is ensuring that its mobile presence is not only great in functionality, but also agile and secure in a process of providing the service.

Creating seamless customer experience for shoppers who prefer to shop across multiple channels - thus enhancing and building omni-channel. According to ICSC report, omni-channel customers tend to shop more frequently and spend 3.5 times more than single-channel shoppers (ICSC, 2014). Because of the fact, that in future e-grocery will be driven by millennials and generation z, many retailers have already started a research on how to connect smartphones with in-store shopping (Karolefski, 2015). To achieve such level, a company needs explore the usage of near field communication (NFC) technology and to fully adopt omni-channel philosophy, where each customer shopping preferences are personalized, shopping baskets are analyzed and the information is shared across all shopping channels, meaning that the information what customer

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<sup>2</sup> Popular shopping day after the last major holiday before Christmas season in the U.S.

receives through an application, would be received also in brick-and-mortar grocery store. And this can be achieved if company has acquired sophisticated intelligent algorithm.

The question of delivery still keeps coming back and it seems that it will remain imperishable for the coming years as companies still try to figure out how to make home delivery viable, which is overwhelmingly most preferred delivery model, economically viable. It is a precedent with two sides - supply and demand, counteracting each other - retail industry cannot afford it to deliver it, but customers demand it.

There are many other trends of e-grocery, but these can be characterized as three key trend elements of e-grocery in 2016.

### **2.3 In characteristics of e-grocery retailing**

To conduct any retail business, a retail company need to establish a way of bringing products or service to market so it can be purchased by the consumer. Sales can be direct - product sold directly to consumer or channeled - where the product is sold through different entities before reaching end consumer. When a company decides to add more sales channels, it is entering in multi-channel, and based on how sophisticated the operations are, the company can have: multi-channel; cross-channel and omni-channel. These channels are described in following section (Fran, 2013; Arson, 2013; Frattaroli, 2009; clouddtags, 2016):

- multi-channel: if a company have more than one sales channels, it is already in multi-channel retailing. These channels aren't necessarily linked together, the aim of multi-channel is to sell products across all channel, and not necessarily the same pricing or marketing is applied;
- cross-channel: is the more complicated approach, and can be characterized a consistent experience with a retailer across all channels made available by the company. Meaning that provided service stay the same across all channels - same pricing, layout, etc;
- omni-channel: most sophisticated and advanced retailing nowadays, providing ability to simultaneously use two channels - mobile application while doing in-store shopping. Omni-channel is perceiving all things, starting from collecting customer data to allocating it to guide creation for next purchases.

Nowadays as the competition is getting more fiercer, retail companies need to acquire more complex approaches to stay ahead of competition. And while each of retailing channels models can give benefits, they also bring downside with them as well. For cross-channel retailing, increasing salient issue is cross-channel free- riding. It is when consumer use one retailer's channel to prepare a purchase and then switch to another retailer's channel to purchase, and it can substantially erode profit margins (Heitz-Spahn, 2013).

### **2.4 Key findings**

Key findings serve as a summary for whole chapter indicating key factors which influence e-grocery, and can be taken into account for further study. In a global context, e-grocery is a new wave of a competitive threat to any traditional retail chain. Current engagements around the world show prominent future for e-grocery. While there is a sensational feel for e-grocery, to address market demand adequately, companies are searching for the right formula on how to tackle e-grocery. E-grocery cannot sustain only with its establishment, nowadays it needs to be outstanding – as convenience wise and design wise. Therefore, **time and convenience** can be taken into account as a first key factor. The Hartman Group suggested, that 36% of online shoppers cite that time saving is one of their primary reasons to use e-grocery. Online ordering is often profiled as one of the ways how to save time since customers can order products from anywhere (Boyer, 2006). Time-saving associated with a reduction in physical efforts makes perceive online shopping more convenient (Mahmood, 2014).

At the moment, the e-grocery market consists of two type of market participants, such as: traditional retail chains and pure online retailers. Both participant models can act as independent executives or be part of alliance and act through partnership. Also, the e-grocery market is getting only more competitive, because, although many traditional retail chains don't see economic sense to invest heavily into e-grocery, pure online retailers are "jumping" into market and act as an incentive for brick-and-mortar retailers to take on this challenge. Meaning, that in order to compete with other market actors, more emphasis is put on the quality of service and products provided. **The quality of service** can be considered as a fundamental element, therefore, it is also a key factor for e-grocery.

On top of all the issues, comes question about profitability. In research perspective, profitability consists of: demand and supply. From the demand side, the e-grocery company needs to take into account, that measures, such as – premium charge; delivery model convenience; product range and its availability, and substitutes to it, matters. It leads to **product quality**, which is an important aspect for the customer and can be considered as a key factor for e-grocery. From the supply side, e-grocery is influenced by business model, which company adopts. E-grocery involves operational costs, which most of the time aren't fixed costs, so in order to make e-grocery economically viable, companies need to deconstruct its operations and tailor them according to companies plans and market specification. Furthermore, to improve operational costs, companies should differentiate their tactics for pricing, distribution, and promotion.

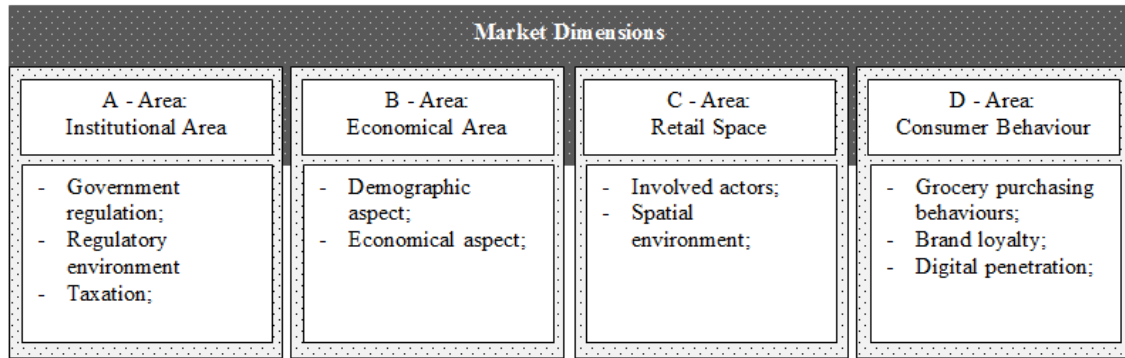
As grocery market mostly consists of traditional retail chains, for companies, when deciding to approach market through e-grocery, acknowledgment of value proposition is important step to understand further actions regards to the business model that is needed to successfully execute planned intentions. Therefore, **value propositions** can be considered as a key factor for e-grocery. The research proposed, that current e-grocery value proposition consists of four dimensions, such as: mass convenience; premium convenience; basic stock-up service; predefined shopping basket. Also, companies value proposition can be allocated between two or more dimensions, and the importance of it is to acknowledge it. As e-grocery is perceived as more convenient way to shop, online shoppers also demand wide range of products, and accessibility to a wider range of products also gives an e-grocery competitive advantage, as many physical stores cannot compete with it. Therefore, **assortment of products** can be also considered as a key factor for e-grocery. But large product assortment again raises the question about profitability, more specifically gross margin value between different type of product categories. Therefore, companies need to take into account, how order baskets are made and how to avoid unprofitable baskets.

As generations (z, y and x) gives prominent future to e-grocery, e-grocery success is not only determined by the quality of service, but also of the design of user experience. By having effective design layout with merit functionality, and excellent user-friendliness, could serve as a fundamental factor for competitive advantage thus increasing the success of e-grocery (Colla, 2012). Therefore, **design of e-grocery** can be considered as a key factor for e-grocery.



### 3 Baltic market analysis

The market analysis aim is to reflect the e-grocery environment in Baltic countries – Latvia, Estonia, and Lithuania. To examine the possibilities of e-grocery growth in Baltic states, taking into account discussed characteristics of global e-grocery in the previous chapter, and taking DESTEP analysis as a motivation, framework of four market dimensions is developed in order to understand the possible growth for e-grocery in Latvia, Estonia, and Lithuania. Framework consists of dimensions, such as: institutional area, economical area, retail space and consumer behavior, see figure 8.



Source: Authors illustration

Figure 8. Four market dimension

The market analysis will serve as an evidence for further market approach mechanism development. Each market area consists of sub-points, which are taken into account when the analysis is carried out.

#### Market dimensions discussion

A-area: Institutional area – important area to be analyzed, due to the fact that legislation differs between EU member states and is mostly set by national authorities. Important note, that conducted business between member states provides the ability to exempt service from VAT. Institutional area includes points, which are:

- Government regulation: conditions of the legislative framework. Research will focus on finding significant difference in legislation between three member states;
- Regulatory environment: overall nature of obligatory rules;
- Taxation: overall discussion about fiscal policy in each country, more focusing on value-added tax (VAT);

B-area: Economic area – two market aspects, which influence economic area within the three member states, are analyzed, such as:

- Demographic aspect: discussion about current demographic situation, population density in cities, age structure, taking into account what is stressed out in the previous chapter, that two generations (z and millennials), will have a decisive role in the development of e-grocery;
- Economic aspect: discussion about current gross domestic product (GDP) per capita, GDP per capita in purchasing power standards (PPS) and gross wages/income in three member states;

C-area: Retail space - area which describes competitive level in Baltic states, taking into account:

- Involved actors: discussion about involved market participants in three member states and brief description of their provided services and operational channels;
- Spatial environment: discussion about how services, from general point of view, are provided;

D-area: Consumer behavior – set of measurements which determines the current behavior and potential behavior. Analyzed elements are:

- Grocery purchasing behaviors: decision-making patterns within the states;
- Brand loyalty;

- Digital penetration: discussion about the internet and mobile penetration within the three countries.

#### *Limitations*

It is possible, that provided information may differ in the real world, due to nature of available data. Found information should be taken into account as the approximate estimations.

### **3.1 Institutional area**

#### *Regulatory environment*

Regulatory framework between three member states – Latvia, Estonia, and Lithuania, doesn't differ significantly. Each national government has set out national trade guidelines on how retail business needs to be carried out under national legislation. As regards to e-commerce, in the year 2000, the Electronic Commerce Directive (Directive 2000/31/EC) were adopted, which sets up an Internal Market framework for electronic commerce. It establishes harmonized rules on issues such as the transparency and information requirements for online service providers (European Commission (b), 2016). In each country, companies also need to comply with customer right to change its mind – “cool-off” period of 14 working days, where the customer can withdraw from the contract and return purchase to the seller (European Consumer Centre of Estonia). Retailers, in general, are also obliged to acquire special purpose license if decides to sell alcohol and tobacco products. But overall, there are no significant differences in specific laws that regulate commercial activities within three member states. The National regulation also imposes that companies need to follow HACCP (Hazard Analysis and Critical Control Points).

#### *Taxation*

Taxation in Latvia, Estonia, and Lithuania differs, but not significantly. Baltic states are under EU VAT regime. Estonia has a standard VAT rate of 20% and is applicable to all supplies of goods and services, which are not qualifying for a reduced 9% rate. Reduced 9% rate applies to accommodations, books, certain periodicals, listed pharmaceutical products and medical devices (Estonian Chamber of Commerce and Industry, 2016). Latvia has a standard VAT rate of 21% and is applicable to all supplies of goods and services, which are not qualifying for reduced 12% rate. Reduced 12% rate applies to medical supplies, public transport, books, newspaper and periodicals (Valters, 2016). Lithuania has a standard VAT rate of 21% and is applicable to all supplies of goods and services, which are not qualifying for a reduced 9% and 5% rate. Reduced 9% rate applies to public transports, books, newspapers, periodicals and accommodation services. Reduced 5% rate applies to pharmaceutical products, medical equipment for disable persons (Avalara VATlive, 2016).

#### *In conclusion*

From a general point of view, there is a national regulation which applies to all type of grocery retailers, and there are no significant differences in legislation between three analyzed countries. As regards to taxation, compared to Latvia and Lithuania, Estonia has smaller VAT rate, which shouldn't cause an additional administrative burden for Rimi Baltic operating in all analyzed countries.

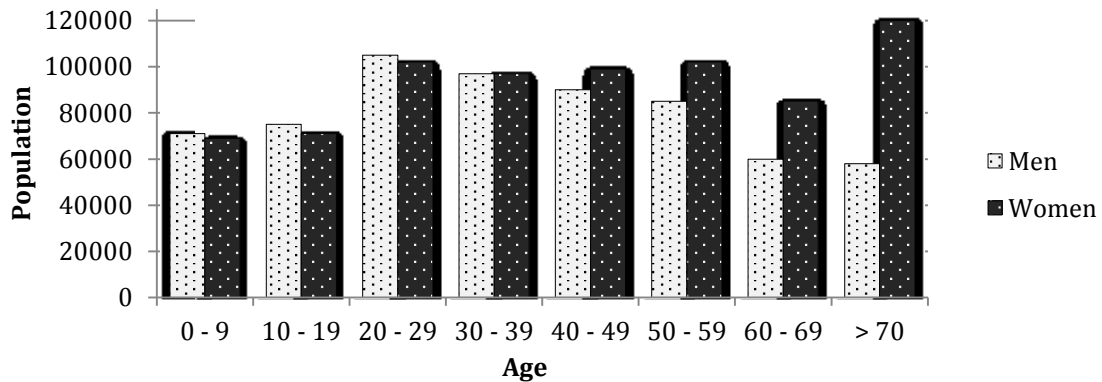
### **3.2 Economical area**

In order to understand the economic power within three countries, in next section demographic and economic aspects are discussed.

#### *Demographic aspects*

From a demographic point of view, reviewed items are: country size; population; population in cities (only cities who population exceeds 100 thousand are listed); and age structure.

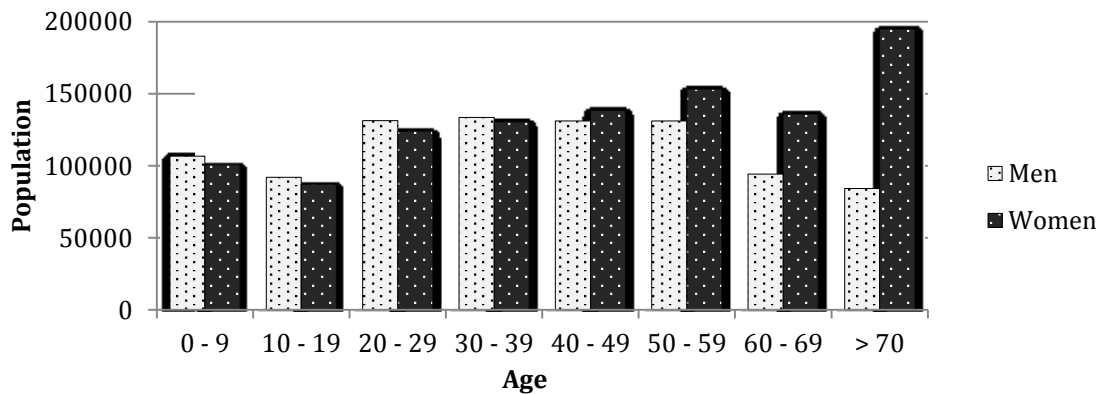
Compared to three member states, Estonia is the smallest country and is 45 thousand km<sup>2</sup> in territorial size. Population wise, in Estonia, there are 1.340 million people living, which is the lowest number of Baltic states. In the beginning of 2012, there were 817 thousand people living in cities, and most populated city is Tallinn with a population of 394 thousand people and Tartu with a population of 101 thousand people (Statistics Estonia, 2012). As regards to age structure, see figure 9, there can be seen significant drop between generation y (21-34 years old) and z (15-20 years old), which could influence further development of e-grocery platform.



Source: Authors illustration based on Estonia.eu statistics

Figure 9. Age structure of population of Estonia, 2011

Latvia's population is 1.986 million people and is 64 thousand km<sup>2</sup> in territorial size. Largely, most of the population concentrates around capital city – Riga, also, based on information from the national bureau, the population is only increasing in the capital city region. In the capital city, the population is 701 thousand people, and population density there is 2290 people per km<sup>2</sup>. Riga is the only city which has people over 100 thousand, close to this number is Daugavpils, which has 98 thousand people (Central Statistical Bureau of Latvia, 2015). Latvia also experience a drop between generation y and z, see figure 10. But shows more prominent future, as youngest generation, is showing an increase.



Source: Authors illustration based on Latvia CBS statistics

Figure 10. Age structure of population of Latvia, 2015

Lithuania's population is 2.828 million people and is 65 thousand km<sup>2</sup> in territorial size. Compared to Latvia, Lithuania population is more spread across different municipalities. Vilnius is the capital city of Lithuania, and have 542 thousand people living in it, and population density is 1.392 thousand per km<sup>2</sup>, Kaunas has 378 thousand people living in it, Šiauliai has 133 thousand people and lastly Panevezys has 119 thousand people living in it (countrymeters, 2016). As regards to age structure in Lithuania, currently it consists of:

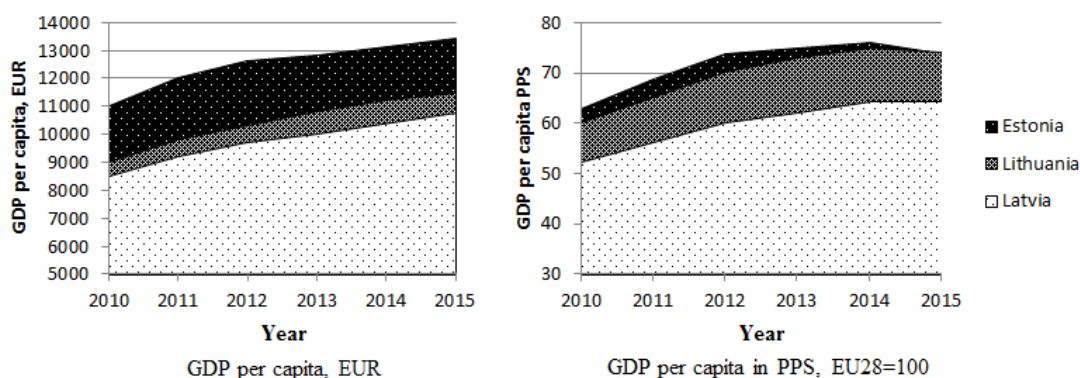
- 0 – 14 years old: 13.5%, where 243 thousand are male and 230 thousand are female;
- 15 – 24 years old: 12.5%, where 224 thousand are male and 214 thousand are female;
- 25 – 54 years old: 44.7%, where 782 thousand are male and 785 thousand are female;
- 55 – 64 years old: 12.2%, where 193 thousand are male and 235 thousand are female;
- 65 years old and over: 17%, where 207 thousand are male and 389 thousand are female;

The general conclusion of demographic aspects is that population density is the highest in capital cities, Latvia has more than one-third of its population living in the capital city, while in Lithuania the population is spread out more evenly across five major cities. As regards to age structure, all countries experience a similar situation, where significant drop in numbers of generation z are observed. This is largely due to the fact, when all countries regained its independence, the birth rate was strongly affected by the harsh economic situation. For upcoming years, Baltic country economy will be based on generation x and y.

### *Economic aspects*

In economic part, statistical analysis is used in order to review items such as - GDP per capita, GDP per capita in PPS and income. Information related to GDP is gathered from EUROSTAT.

In Baltic states and in Europe overall, GDP growth rate have reached a plateau, and nor significant increase or decrease can be foreseen in future. In order to understand the wealth of each member state, GDP per capita as the measurement is used to indicate directly productivity and indirectly living standards. None of the Baltic states have reached the average of EU-28, which is EUR 26.300 thousand per capita. As seen in figure 11 (see left figure), Estonia has highest GDP per capita, which in 2015 was EUR 13.400 thousand per capita. Lithuania has EUR 11.500 thousand and Latvia has EUR 10.800, which is well bellow average.



Source: Authors illustration based on EUROSTAT

Figure 11. GDP per capita and GDP per capita in PPS

A similar situation can be observed in the measurement of GDP per capita in PPS (Purchasing Power Standards), see figure 11 (see figure on right). In 2015 lowest purchasing power was in Latvia - 64, where Estonia and Lithuania have the same purchasing power 74.

The average wage in EU Euro area (EA) is EUR 1681 per month. Estonia is the only country, which comes close to EU EA by having EUR 1091 per month, after comes Lithuania with EUR 748 per month, and lastly Latvia with EUR 631 per month.

The aim of these three measurements is to give an idea of current economical power in each member state. EU average measurement represents the Western Europe, and from gathered information, it is possible to conclude, that Baltic States lack behind. It is important, because, Western Europe e-grocery industry is developing fast and reasoning behind that could be, that there is also real market, who is able to pay a premium for services, while in Baltic states, people might want to have home delivery, but there will be a small group, who will be able to pay for it.

### *In conclusion*

All member states show a significant decrease in younger generation birth, meaning, that e-grocery will need to spread provided services adequately to interested generations, meaning, that generation x and y might be more interested in online shopping through web-page. Also provided services needs to be taken into account, that most of the population in member states wouldn't be able to pay for premium services. Conclusion from gathered information is limited and might not represent real situation as it doesn't describe the income level in capital cities.

## **3.3 Retail space**

As digital literacy is increasing, the internet offers new opportunities not only for traditional retail chains but also to other stakeholders within the supply chain and pure online retailers to enter into e-grocery field (Saskia S. et al., 2016). This section reviews market participants and spatial environment of the grocery industry. Information about market share in Baltic states is provided by Rimi Baltic.

### *Market participants*

Baltic states mostly consists of traditional retail chain companies. In each member state, there is presence of such major food retail chains:

- Estonia: Rimi; Maxima; ETK/Coop; Selver; Prisma; Stockmann; Rautakirja OY;
- Latvia: Rimi; Super Netto; Maxima; IKI; Aibe; Mego; Beta; Elvi; Stockmann; Prisma; Sky Supermarket;
- Lithuania: Rimi; Maxima; IKI; Norfa; Aibe; Prisma;

These are major market participants, which has an influence on the market. Table 2 shows the market share of each market participant. In Estonia largest market share takes Estonian consumer association (ETK) with 24%, second largest market share is taken by Maxima with 23% and after comes Rimi with 22%. In Latvia largest market share is taken by Maxima with 37% and Rimi with 35%, these are two dominant retail chains in Latvia. In Lithuania half of the market is taken by Maxima with 50%, after comes IKI with 20%, Rimi 11%.

Table 2. Market share of market participants in Baltic states

ESTONIA		LATVIA		LITHUANIA	
Company	Market share	Company	Market share	Company	Market share
ETK/Coop	24%	Maxima	37%	Maxima	50%
Maxima	23%	Rimi	35%	IKI	20%
Rimi	22%	Elvi	12%	Norfa	16%
Selver	19%	IKI	12%	Rimi	11%
Prisma	13%	Prisma	4%	Prisma	4%

Source: Authors made based on Rimi Baltic data

Some of the listed major retail chains already provide e-grocery service, either through click and collect or home delivery service. E-grocery is provided by Maxima, which provides home delivery service, and Selver, which provide click and collect service. Most of the retailers provides e-grocery service through a web-page, which could serve as a disadvantage in future as e-grocery puts emphasis on convenience in relation to seamless shopping experience - omni-channel.

### *Spatial context*

Most online offers are accessible in cities where there is highest population density. Currently, e-grocery is available in Riga, Tallinn, and Vilnius. Most of the listed major traditional retail chains are use the digital medium to inform its customer about upcoming and existing actions: discounts, latest information, etc.

Maxima is one of the largest competitors to Rimi, and is leading market in two Baltic states. Maxima currently is providing home delivery service in capital city – Riga and Tallinn and in its region. Delivery of order depends on the delivery location and delivery is delivered in eight specified times, in 8:00 am to 10:00 pm time frame, daily. If the order value is lower than EUR 39.99, then buyer needs to pay for the delivery fee, which is EUR 3.99.

While Maxima provides home delivery, traditional retail chain Selver provides e-grocery service with a click and collect option. Buyer, finalizing its basket, can select how products will be received by choosing: receiving products at e-Selver dispensation place or, Selver also provides home delivery with cooperation with the courier, which delivers products within Tallinn. If basket value is lower than EUR 39.99, buyer needs to pay additional EUR 4.50 fee.

In Lithuania, Maxima provided services are handled by a company called “Barbora”. They provide home delivery service within Vilnius. The minimum basket value is EUR 19.99 and delivery fees ranges between EUR 1.49 to EUR 1.99, depending on selected delivery time. Purchases above EUR 44.99 are delivered for free. Most of the orders are fulfill within the same or next day. Contrary to existing e-grocery platform which provides it services through a web-page, “Barbora” provides its service also through the application.

#### *In conclusion*

Dominant traditional retail chain in retail space is Maxima, holding a leading market position in Latvia and Lithuania. Maxima also ensures that it is leading in e-grocery, by operating in all Baltic states and providing most preferred delivery system – home delivery. For other major retail chains, especially, Baltic Rimi, in order to retain its profitable customer, the company needs to address the demand for convenience establishing e-grocery platform.

### **3.4 Consumer patterns**

In order to understand consumer patterns within Baltic states, internet access, digital penetration, brand loyalty and purchasing behavior is reviewed in following section.

#### *Purchasing behaviors*

Purchasing behavior can be characterized as decision-making pattern that accumulates consumer needs and desires and is influenced by factors such as the social role, social environment and norms. In general, Baltic countries disposable income is rising and consumers are spending more on goods and services. As income is rising, compulsive buying behavior emerges in Baltic states. Study of compulsive buying behavior in Estonian market (Raudsepp et al., 2015) reveals that 8% of respondents are addicted to shopping, and compulsive buyers are mostly influenced by materialistic factors. This can be observed in all Baltic countries, for people buying things give a lot more pleasure. Regards to Latvian consumers, they are generally confident about their financial situation, giving them the incentive to spend more on goods.

On average in 2013, Estonians spent EUR 542 online, Latvians spent EUR 545 online and Lithuanians spent EUR 766 online (Ecommerce Europe, 2014).

#### *Brand loyalty*

Brand loyalty is linked with purchasing behavior and in Baltic states is influenced by a lack of choice of products in the communist era. This factor affects consumer behavior, and can be accountable for one of the reasons for high retail growth in Baltic states, as shopping was a way to demonstrate social change. It is observed in Baltic states that: consumers’ brand attitude formation is not strongly oriented; and store loyalty is not strong also (McKenzie, 2010).

#### *Digital penetration*

As noted in Nielsen and Cisco report, digital literacy is increasing. In Estonia, 82% of the population has access to the internet, where 240 thousand people are e-shoppers. In Lithuania,

77% of the population has access to the internet, where 470 thousand people are e-shoppers. In Latvia, 76% consumers have access to the internet, where 330 thousand people are e-shoppers. In Latvia digital penetration levels for internet is 74%, for mobile is 25%, for smartphones is 11% and for the tablet is 2%. In Lithuania digital penetration level for internet is 76%, for a mobile is 50%, for the smartphone is 7% and for the tablet is 4% (Ecommerce Europe, 2014).

### **3.5 Outcome – General message**

Gathered information gives light description about current environment for the e-grocery platform. To answer posed question in beginning of the chapter - taking into account retail space in Baltic States, biggest competitors gives an incentive for Rimi Baltic to approach e-grocery market in order to retain its profitable customers. But Baltic market analysis findings share concerns about success of e-grocery.

From regulatory framework standpoint, Baltic states doesn't impose any administrative burden for traditional retail chains or pure online grocery companies to be active in the states. Conditions can be characterized as "normal".

Regards to an economical aspect, environment for sustainable e-grocery growth in Baltic states are questionable. While it is observed, that leading traditional retail chain like Maxima is establishing e-grocery with home delivery service in all Baltic states and gives incentive to other traditional retail chains to enter into this market. The question arises, do companies can reach profitability, taking into account that purchasing power in Baltic states is almost half of the EU-28 average, the average income in Baltic states is about half the EU average. A possible answer could be found, if income per generation and living conditions in capital cities would be analyzed. Also, it would be recommended to analyze the perception of existing home delivery services in Baltic states capital cities.

Regards to digital literacy, in Baltic States, two-thirds of the population have access to the internet, but only one-fifth of them are online shoppers, which is low number, compared with EU member states. But it can be assumed, that in near future, there will be more online shoppers as e-commerce becomes more convenience and through competition quality of service is increasing. Also important to note, that high internet access and increasing mobile device usage could open new opportunities for the traditional retail chain to attract new customers, meaning, providing services across several channels – in-store to web-page to the mobile device.

## 4 Inputs of preparatory stage

The aim of the chapter is to describe the nature and involved actions of the traditional retail chain – Rimi Baltic. Also, a review of the interview is shortly described in order to give insight about key elements which determines successful e-grocery. Results of this charter are used to develop a suggestion model for Rimi Baltic e-grocery platform.

### 4.1 Rimi Baltic

Rimi Baltic is a traditional retail chain selling food and non-food products. Rimi Baltic is ICA Gruppen subsidiary company, established as a joint venture between ICA and Kesko Livs in January 2005, Rimi Baltic have grown into one of the leading retailers in the Baltic States. Currently, Rimi Baltic is represented through three companies: Rimi Eesti Food; Rimi Latvia and Rimi Lietuva. Table 3 shows the amount of stores represented in each country.

Table 3. Rimi Baltic store distribution in Baltic states

	Rimi Baltic	Rimi Eesti Food	Rimi Latvia	Rimi Lithuania
Total number of stores	259	86	119	54
Rimi hypermarkets	74	15	31	30
Rimi supermarkets	93	26	43	24
Supernetto	90	45	45	-
Distribution centers	5	2	2	1

Source: Authors made based on Rimi Baltic data

Rimi Baltic sales is carried out through three store profiles:

- Rimi Hypermarket: offers everything under one roof at fair prices. A broad range of competitively priced foods, combined with non-foods such as houseware and sporting goods. The store has three formats: large, compact and small. Approximately provides 30 - 45 thousand SKU;
- Rimi Supermarket: stores offer a broad range of inspiring foods with a focus on fresh foods and good service for everyday needs. Located close to customers' homes and workplaces. Approximately provides 12 - 18 thousand SKU;
- Supernetto: stores are discount stores in Latvia and Estonia. A sharp price profile and a good selection of everyday items. The store offers approximately 2.5 thousand SKU.

Currently, Rimi Baltic, in total employs 11521 people throughout the Baltic states. Rimi Eesti Food employs 2786 people, Rimi Latvia employs 5496 people, Rimi Lietuva employs 3239 people.

#### Key functions

In order to reach leading retailer role in Baltic states, Rimi Baltic direction are described in their vision and mission statements, which are: vision statement - to make every day a little easier. And mission statement - to be the leading retailer in the markets where we are active, with a focus on food and meals.

To maintain sustainability in company, Rimi Baltic has developed a set of core values, which are:

- Simplicity - *we think simply first*. Simplicity means honest attitude towards each other and efficiency in daily work;
- Entrepreneurship - *we create opportunities*. Entrepreneurship means to be owner of own workplace;
- Commitment - *do it from the heart*. Commitment means positive attitude and desire to do work better.



These key functions define the company and helps them to achieve example-company status. In 2015, Rimi Baltic have received Corporate Social Responsibility Initiative of the Year award for an excellent initiative and its integration into the whole supply chain that has significant outreach, impact, and serves as a source of inspiration for companies in Latvia.

#### *Sales channels*

The company aspires to do cross-channel retailing, to attract new or retain existing customers, Rimi Baltic uses several information distribution channels. Information is distributed through the physical and digital environment.

Regards to physical information distribution, the company uses its buildings to display information on signboards. In in-store purchases, whether in self-checkout or in cashier line, information about discounts or new products is displayed on screens or is distributed through the in-store radio. For the older generation, Rimi Baltic also provides regular leaflets, display information about discounts and new products.

Regards to digital information distribution, the company uses several social media outlets to distribute promotions. Rimi Baltic have established its own food blog, where several famous Latvian chefs recommend food recipes. Also to distribute information more efficiently, Rimi Baltic uses web-ads, e-mail marketing. In beginning of 2016, Rimi Baltic have launched an phone application, where preferred store SKU are displayed.

#### *Future activities*

Regards to the future activities, Rimi Baltic has planned to engage its customers with self-checkout machines and is planning to introduce contactless payment system by 2017.

#### *In conclusion*

Rimi Baltic is a responsible company who cares about the workplace, community, environment and marketplace where it is involved. Company actions are executed in a sustainable manner taking into account profit, environment, and society. These are key takeaway points, which are needed to be transferred also to e-grocery in order for the company to maintain its image. Company sustainability also reflects in its pursues towards an evolutionary approach, meaning, before introducing retail innovations into the market, company takes into account market maturity and consumer behavior.

For developing an e-grocery approach, it is important to maintain the market approach manner in order to be in line with company philosophy.

## **4.2 Interview with Picnic**

#### *Limitations*

In process of research, only one company were interviewed, where in following section, interview with Dico from pure online grocery company Picnic is review. Planned interviews with companies - Ocado, Maxima and Albert Heijn, wasn't conducted due to the companies discrete denial about giving interview

Picnic is pure online grocery company which provides home delivery service through subscription base in the Netherlands, Amersfoort. Interview with the company is a review in summary format.

In order to be successful in the Netherlands, Picnic has defined four key competencies which are needed to achieve the desired level. Key competencies are: communication; tech innovation; growth team; logistics. Each competency is reviewed separately.

### *Communication*

Company organization structure hierarchy tends to be flat, meaning, that higher level positions are accessible to any employee within the company. This helps employees to share ideas with responsible persons, and to facilitate information sharing even more, Picnic uses communication software – Slack. In which, several Picnic departments (acts as channels) and information can be shared with every or specific channel.

Also, important aspect regards to communication are how Picnic communicates with its customers. Their aim is to be very fast in customer response, which is also one of Picnic success factors. The company is able to take into account suggestions and within in day notice, improvements are delivered. Because Picnic communicates with customers solely through an application, the company keeps track with application ratings. If an application is rated lower than 3 stars, Picnic tries to reach out to the customer, by calling them and asking – what could be improved.

### *Tech innovation*

The company is improving its service continuously and most of the improvements are carried out to improve the user experience. Although the company is online grocery retailer, they like to refer themselves as a tech company. As mentioned in communication part, company analyze every received feedback and their aim is to take them into account and improve as soon as possible. Most of the time company is involved in improving the application by limiting the possibility of having service freeze and improving application bugs.

### *Growth team*

Picnic uses growth team in order to bridge the gap between marketing and information technology departments. It helps to gain focus and speed, and in long-term helps to sustain the momentum. Growth team in Picnic acts as marketing and sales team taking into account overall concept of the company. Picnic growth team has achieved outstanding 35% growth per month, which would be harming for the company if growth team wouldn't be in its place.

### *Logistics*

Logistics management is one of the core competencies, where the company puts efforts on being efficient in order to reach sustainable long-term profitability. Furthermore, Picnic provides home delivery without additional charge, although order needs to be at least EUR 25. Deliveries are made three times in one day (one in the afternoon and two in the evening). Logistics route is managed in a manner that the delivery truck's don't repeat the same route. In one day, company can complete 600 deliveries.

Because Picnic is a pure online retailer, their logistics management is in strong connection with warehouse management and is coherent. Picnic is collaborating with a Dutch company called "Boni" which replenishes Picnic inventory. Picnic places order every day in the morning, and products are delivered to warehouse throughout the day. On daily basis, currently, Picnic sells 16 thousand SKU. Currently, the warehouse is divided into three product categories: ambient, chilled and frozen products.

As regards to warehouse product picking – every picker has a scanner on his wrist, and picker can process 12 orders per crate. Picker takes the crate, which has its own identity code, and scanner tells where in the warehouse picker has to go and which products are needed to be picked and in which order it should be put in. After product picking is done, the goods are dispatched to the city where they are loaded into delivery trucks. In the case of product shortage, Picnic picks up the goods for Boni store.

### *In conclusion*

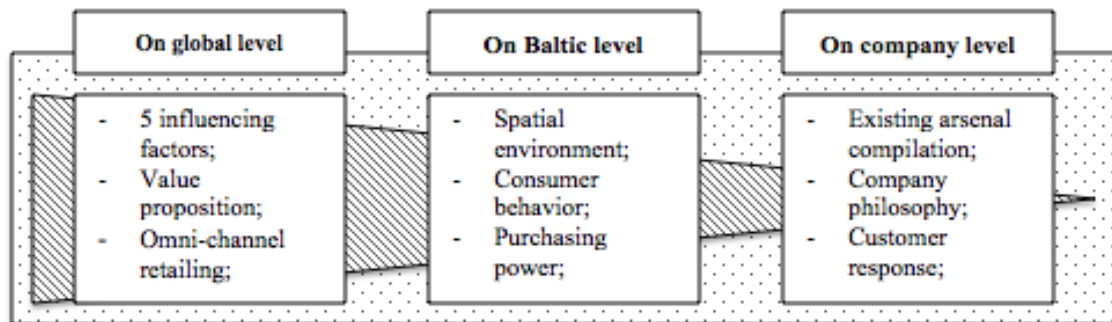
Although Picnic is operating in the Netherlands and the market characteristics in different apart Baltic market, interview still propose valuable information about what helps pure online grocer to succeed in high retail competition environment. From company, such Picnic, it is possible to learn, that firstly it is important to have strong internal and external communication. For internal communication it is important that information can be easily accessible and sharable, whereas for external communication, company needs to acknowledge received feedback and make decisions taking them into account. Secondly main source of conducting the business is application, meaning, that company needs to have strong information technology department which is able to resolve issues fast and efficiently. Thirdly company works in environment which tries to ensure that the visions of separate departments are aligned. This alignment is ensured by growth team. Lastly, and most importantly, company success is also determined how internal logistics is managed. In order to develop market approach, these key elements are taken into account.

## 5 Market approach

The chapter summarizes key emerging items in e-grocery which are taken into account in order to develop a sustainable approach model for Rimi Baltic e-grocery platform. For emerging items, sub-chapter contains three emerging factors from each previous chapter.

### 5.1 Results: Emerging items

The following section is based on the information shared in previous chapters. In order to develop market approach mechanism, three emerging themes are established, see figure 12. Highlighted three considerations serve as a recommendation which should be taken into account before developing market approach mechanism.



Source: Authors illustration

Figure 12. Three emerging consideration themes

Combining researched information about e-grocery in global context with relevant information, three emerging items are listed under first consideration on global level:

- Five customer intention / interaction influencing factors. These factors are what nowadays determines quality of e-grocery service and helps to attract new customers as audience becomes more sensitive on how a company does business. Five factors are: time and convenience – being able to use service anywhere; a quality of service – it is a predictor of customer satisfaction and loyalty to e-grocery; product quality – availability to buy perishable goods which are picked carefully, or in case of necessity, right product substitute is provided; assortment – ability to choose wide range of products; design of e-grocery – web-page or application user friendly layout;
- Value proposition. Companies approach the market by defining its actions through the scope of a shopping trip and targeted consumer segment. Rimi Baltic is mass convenience retailer, meaning, in order to create seamless customer experience, company needs to maintain same image online and offline (in-store);
- Omni-channel retailing. As digital literacy among peoples is increasing, the seamless shopping experience is getting more traction. Possibility to have same shopping experience online and offline gives competitive advantages, between traditional retail chain companies.

Second consideration on Baltic level raises three emerging items regards to Baltic market. These items describe the nature of the Baltic market:

- Spatial environment. Strongest position for Rimi Baltic is Latvia. In Latvia, Rimi Baltic have 119 stores and their market share is 35%. Also, strong position is in Estonia, where the company has 86 stores and 22% of market share. Whereas in Lithuania company holds a less confident position. Lithuania is market where Rimi Baltic should be most careful regards to e-grocery, due to the fact that Maxima has a subsidiary e-grocery company “Barbora” successfully operating there and Maxima holds 50% market share, which could be hard to compete with;
- Consumer behavior. Baltic states consumers are still suffering from the Soviet Union, where shopping is a way to demonstrate social change, which leads to the observation

that consumers' brand attitude formation is not strongly oriented, meaning, that people switch easily between stores. In order to retain the Baltic consumer, Rimi Baltic needs to put emphasis on first consideration emerging item described under five customer intention / interaction influencing factors;

- Purchasing power. Compared to EU EA, Baltic states purchasing power is lower by half, meaning that in three countries, people would be less able to pay for premium service. Also people tend to spend small amounts when do online shopping, which shows lack of maturity in regards to online shopping;

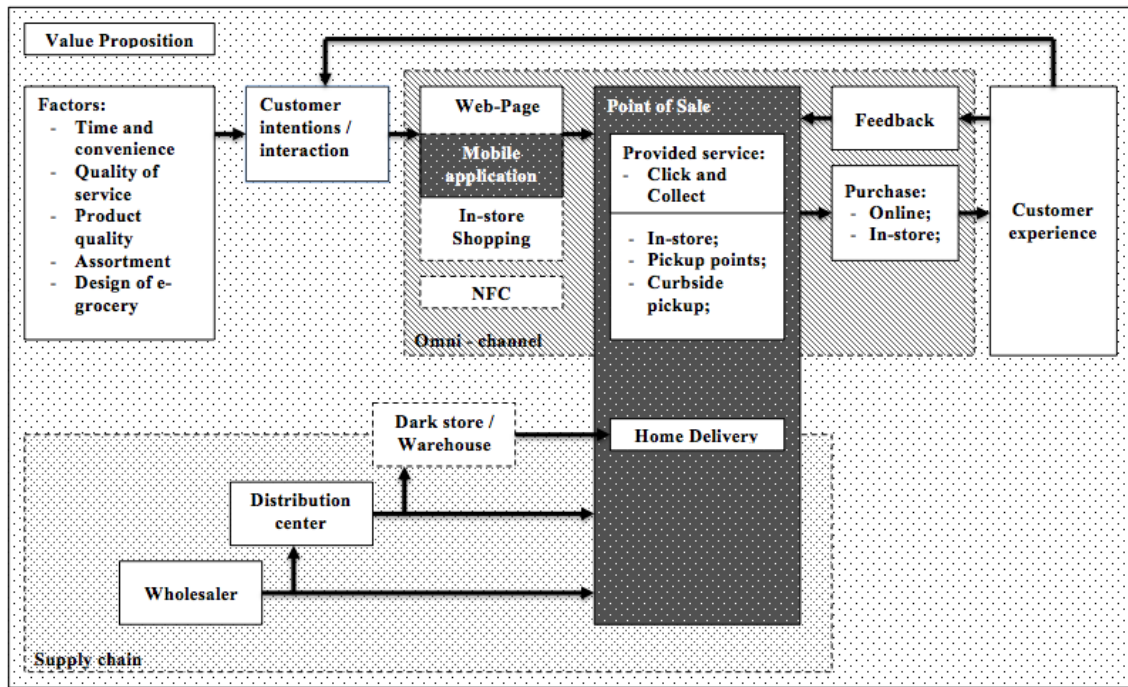
Third consideration is narrowed to company level, where three emerging items are described:

- Existing arsenal compilation. As described previously in the spatial environment, the company has 119 stores in Latvia, 86 store in Estonia and 54 stores in Lithuania. The Company uses cross-channel retailing to distribute information across different sales channels. Rimi Baltic also have an application, which displays customers specified store inventory. Also, application is linked with customers loyalty card;
- Company philosophy. It is important, that core values of the company are represented also in a newly developed business model. It also facilitates to achieve desired goals and long-term sustainability;
- Customer response. For Rimi Baltic to be successful in e-grocery, it is important that company can react fast to customer feedback or complaint. As customers are very sensitive to e-grocery business, especially younger generation, the company must take under consideration how communication with customers will be maintained.

## **5.2 Discussion of Results: Mechanism framework**

Creation of approach mechanism is based on previously described consideration set. In the current situation, in order to approach Baltic market in a more sustainable way, company should apply more evolutionary approach model, meaning, that the company should start with lower investments into the market to see if the market is ready for e-grocery. The following section describes figure 13 (see next page), where the framework of approach mechanism for Baltic market is illustrated.

Approach mechanisms framework is outlined with a value proposition. As Rimi Baltic is mass convenience retailer, it must provide a broad range of goods in e-grocery store, preferably, the same amount which is provided in stores. But, as findings show in research, mass convenience also raises a question about the e-grocery business model. In order for the company to provide home delivery, it should develop a new business model for each country market, meaning, that Rimi Baltic should need to apply deconstruction, where each planned activities (including last mile issues) are analyzed and appropriate approach for the market is made. But, as noted from interviews with the company, Rimi Baltic isn't planning to create additional facilities for home delivery services. Taking that into account, approach mechanisms is created with a click and collect service in mind.



Source: Authors illustration

Figure 13. Approach mechanism framework

Before creating service itself, Rimi Baltic needs to take into account, what are the customer intentions to use e-grocery. There is a wide range of determinants which influence customer intentions, and most of determinants reflect economic and psychological buyers perceptions. Dominant factor for people to do online shopping is convenience – online shopping helps to save time, save money, save car gas money and decreases the physical exhaustion from shopping. Also it important to take into account service quality, as several times mentioned before, customer reactions to online shopping is more sensitive than in real world. Also, another offset can be delivered product quality. In order to address this issue, the company needs to train their employees on how to pick products. And lastly, user experience within the application is also influencing factor for the customer, whereas application needs to be user-friendly.

After customer intentions are acknowledged and taken into account, appropriate service must be developed which is represented in customer interaction. As future is moving towards greater mobile device usage, it is still important to notice, that Baltic states economy largely is based on generation x and y, meaning, that people representing this age structure most likely have lived through the personal computer (PC) era and might prefer option to shop through web-page. But nevertheless, digital literacy is increasing and suggests that mobile applications should focus on engaging customers with brand – while solving specific customer problems (Jayaram et al., 2015). To create more seamless shopping experience, its needs to provide the same information online and offline. Rimi Baltic provides loyalty card, which provides several functions, such as – suggests products, which are on discount (usually the same product discounts are displayed on leaflets) and provide additional discounts, when, for example, customers has a birthday. Loyalty card profile is also linked with Rimi Baltic application, meaning, that the same discounts will be accessible through the application. In order to ensure evolutionarily and cost effective e-grocery approach, Rimi Baltic is advised to start with providing click and collect service. The reasoning behind is that:

- Requires smaller investment;
- Do not duplicate SKU;
- Flexibility;
- More space for further innovations;

Due to the limited accessibility to information about e-grocery consumer behavior in Baltic market, after implementing click and collect service, the company is advice to carry out a research

on identifying factors that are attracting customers to use e-grocery. The study should gather empirical data – qualitative data, where responsible employees are interviewed and quantitative from existing customers. It is important to carry out such study in order to better understand customer intentions and to see what is customer satisfaction about service.

Click and collect service is carried out at Point of Sale (hypermarket and supermarket stores) and can be carried out in several options, such as: in-store pickup, where ordered products can be received at customer service desks; at specified pickup point, which can be self-service refrigerator or additional pickup point similar to customer service booth; curbside pick, which is more seasonal service, when products are handed to customer or put into customers car, when it approaches curbside pickup point, which is usually outside of store (usually in parking lot). When service is selected, customers have the option to pay for products by paying through the application, which is the most safest way from the retailer point of view. Or the customer can pay in-store, when receiving goods. Payment can be carried out in two options – either using contactless device (such as mobile phone or credit card) or regular payment methods. When products are bought and received, the whole procedure creates a customer experience. In order to improve service, Rimi Baltic needs to ensure, that customers have an option give feedback about provided service, and in the case of unsatisfactory experience, Rimi Baltic should need to take them into account and resolve as soon as possible. If Rimi Baltic ensures described actions, then it steps closer to omni-channel experience.

For further improvements, in addition to click and collect service, Rimi Baltic could provide home delivery in Baltic countries capital cities. Most prominent city for home delivery is Riga (Latvia), as it has the highest population density. In order to better understand if home delivery in Riga is viable, research about income among social groups in Riga is recommended. Home delivery is most preferred service, but also involves a number of variable costs. And even if variable costs can be covered by high ordering momentum, home delivery still holds the “last mile” issues, which cannot be “fixed” as mostly its relies on buyers behavior. To limit the possibilities of last mile issue, traditional retail chain companies can provide home delivery in collaboration with logistics companies, who distributes products to customers.

Additionally to further improvements, as Rimi Baltic aims to introduce contactless payment in their stores, is NFC. NFC is electronic device communication, meaning, that in in-store shopping customer through stores application can interact with a physical store, sharing information between online and offline environment.

#### *In conclusion*

This research paper is a light indication to Rimi Baltic about how it should approach Baltic market regards to e-grocery service. Most prominent cities for Rimi Baltic e-grocery are Riga and Tallinn, and company should consider developing click and collect service, allowing customers to receive their products in-store at customer service desk. Possible offset as regards to receiving products could be waiting time and how Rimi Baltic employees interact with customers. After service is implemented, additional empirical research about identifying factors which influence customers is recommended to be carried out in order to understand if home delivery could be a possible solution for further improvements.

## 6 Conclusion

This work recommends an approach mechanism framework for Rimi Baltic including the effective and forecasted factors which are influencing the market and business model. In order to answer main research question, following section describes findings from each sub-question. In second and third chapter descriptive and statistical analysis is applied in order to gain relevant information for approach mechanism. In following section sub-question are answered:

- What is the current state of the e-grocery?

Nowadays digital services and products have become the backbone of the modern global economy. For offline companies, getting into e-commerce is a new way how to enlarge its actions and possibly attract new customers and seize new market niches. As technology innovation is increasing, in late years, e-commerce have started to become more relevant to traditional retail chain companies. Currently e-grocery is growing fast and is expected to reach value of EUR 80 billion by 2018, and will represent 15-20% of grocery industry by 2020. The development speed of e-grocery is also facilitated by increase mobile usage among people, it is forecasted that by 2020 will have 1.5 mobile device per capita and 98% of mobile traffic will be generated by smart devices.

Growing e-commerce also puts more pressure on companies which are involved into this business, to stay ahead of competition, companies are not only forced into price wars, but also are required to address market demands, which may not even be economically viable for companies. Nielsen global survey suggest that most preferred e-grocery service is home delivery, but because home delivery involves large number of variable costs, it is a challenge for companies to develop sustainable home delivery model. E-grocery home delivery must be fast and qualitative and can only happen in areas with high population density and high purchasing power. But home delivery raises concerns also from global observation, successful companies such as Tesco, still are struggling to make e-grocery profitable, even premium convenience companies, such as Instacart, is unprofitable in 9 out of 19 markets they operate.

But home delivery is only one side of world e-grocery trends. As digital world literacy grows, customers demand more seamless shopping experience, where customer information is shared across several sales channels (online and offline). E-grocery is one of the industries which have been sucked into the seamless experience whirlpool. For traditional retail chains it is costly to introduce omni-channel retailing, but studies suggest prominent future for omni-channel retailing, as it is more efficient and agile.

Research concluded six key emerging items from reviewed articles and research papers. In 2016, e-grocery is greatly influenced by: time and convenience; quality of service; delivered product quality; company value proposition; provided product assortment; and design layout of e-grocery.

- What are the characteristics of Baltic market regards to retailing?

In order to carry out descriptive and statistical analysis about Baltic market, four market dimensions - institutional area; economical area; retail space; and consumer behavior; was created. Out come of analysis was presented in general message, which concluded that Baltic market doesn't impose any administrative burden for e-grocery and conditions are characterized as "normal". As regards to economical side, substantial drop in younger generation population is observed. Meaning, in order to maintain sustainable long-term profitability, e-grocery should not only be provided through application, but also through web-page. In Baltic states two-thirds of population have access to internet, but only one-fifth of them are online shoppers. Online shopping in Baltic markets is at beginning, at should be taken into account when developing e-grocery business model.



- How Rimi Baltic is performing in Baltic States and what sales channels Rimi Baltic currently hold?

Rimi Baltic takes significant role in Estonia and Latvia, while in Lithuania it holds smaller part of the market share. Rimi Baltic has 86 stores in Estonia, 119 stores in Latvia, and 54 stores in Lithuania. In order to be more sustainable in e-grocery, company should focus on the Latvian and Estonian market. Rimi Baltic holds sales channels which can be characterized as physical information and digital information distribution. Information across these channels is distributed in cross-channel retailing manner, meaning that company tends to distribute the same information online and offline.

- How online based retail chain companies manage their e-grocery services?

From conducted interview and descriptive analysis, research finds, that e-grocery service is sensitive to any audience, meaning, that customers can be easily offset if some of key influencing factors, previously described, doesn't fulfill. In order to limit the consequences of imperfection, company needs to have fast customer response management. This would not only help to retain customer, but also give insight on factors which would be necessary to improve.

- What approach mechanism should Rimi Baltic use in order to approach Baltic market?

Most prominent e-grocery market approach for Rimi Baltic would be through click and collect service. Click and collect service requires less investment than home delivery. Click and collect approach is more subtle approach and gives additional room for company to understand if home delivery would be preferred in Baltic states. Better understanding could be achieved by in future evaluating click and collect service and its created customer segment. Rimi Baltic is already heading in direction of omni-channel retailing, by linking loyalty card data base with newly introduced smartphone application. Loyalty card information is shared across several sales channels, creating omni-channel experience. Click and collect service should be dispatched from Rimi Baltci Point of Sales position (stores).

## 7 Recommendation

Although carried research is limited by the information acquired through global and market analysis, and interviews used, it can still serve as a basis for future exploration. Based on conclusions presented in previous chapter, several recommendations within this research is provided. These recommendations are targeted to research target group – Rimi Baltic e-commerce department.

1. In order to establish create long-term sustainable e-grocery system, Rimi Baltic needs to make sure, that it can fulfill five influencing factors: convenience; quality of service; product assortment; user friendly e-grocery layout; and product quality.

One of the emerging challenges within e-grocery is consumer satisfaction. Wulfraat M. and Rodriguez J.L. argues that e-grocery face challenges which are related to customer negative perception of e-grocery. Inability to selected in-store preferred products and imperfection of product presentation and delivery service easily offset customers as online business customers are more sensitive to how company carries out its business.

2. Rimi Baltic is mass convenience retailer, providing its service with broad range of products to broad range of customers, to ensure omni-channel experience to customers, Rimi Baltic needs to apply the same value proposition to e-grocery.

Omni-channel retailing is most sophisticated and advanced retailing nowadays, providing ability to shop using two Rimi Baltic channels simultaneously. Ability to link together customers online and offline purchasing profile using loyalty card system, would give Rimi Baltic significant competitive advantage. Also Rimi Baltic should put emphasis on engaging its customers to use omni-channel shopping, as according to ICSC report, in long-term, omni-channel customers tend to shop more frequently and spend 3.5 times more than single-channel shoppers.

3. In order for Rimi Baltic to approach market in evolutionary manner, company first need to engage e-grocery market by providing click and collect service.

Click and collect is more “safer” approach than home delivery, due to the nature of home delivery and involved issues related to variable costs, such as “last mile” issue. Click and collect service is provided at Rimi Baltic point of sale - received goods in store. Additionally, research suggests, that Rimi Baltic could experiment with curbside pickup service, thus creating a possibility to gain early mover benefits.

4. Further study about purchasing behavior in Baltic states is suggested in order for Rimi Baltic to build more appropriate e-grocery business model.

Due to the limited accessibility to information about e-grocery consumer behavior in Baltic market, Rimi Baltic is advised to carry out a research on identifying factors that are attracting customers to use e-grocery. Study should gather empirical data – qualitative data should be gathered through interviews with individuals who are already engaged in e-grocery business and survey including respondents (customers) who use e-grocery service.

5. Rimi Baltic should take into consideration use of near field communication and provide possibility to pay for products not only through smartphone application, but also through smartphone wallet, ensuring even deeper omni-channel experience.

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## Appendices

### Appendix 1: Checklist report writing

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Title report:

**When you have checked your report using this checklist, you must add this to your report as an appendix. No form means no mark.**

**Items marked with an \* are so-called killing points. IF there are more than five killing points ticked on the checklist, the report must be improved on all failed parts and must be handed in again together with the old version. N.B: No killing points are allowed in the thesis**

**ASSESSORS: Tick the box of the items which are not sufficient!**

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1. Use of English:

- ☐ Does not contain more than 3 grammar errors, spelling mistakes or typos per 1000 words\*  
**When more than 3 mistakes per 1000 words are found, the report will be marked a fail.**
- ☐ Contains correct punctuation\*
- ☐ Is attuned to the chosen target group (appropriate style)\*
- ☐ Shows a functional and business-like writing style\*
- ☐ Is not written in the "I" form\*

2. The report:

- ☐ Report is properly bound, no staples (hard copy)\*
- ☐ Is free of plagiarism\* (check exam regulations)

3. The cover:

- ☐ Displays the title
- ☐ Author(s) is/ are mentioned

4. The title page:

- ☐ Title is specific\*
- ☐ Author(s) is/ are mentioned in alphabetical order\*
- ☐ Date and place of publication are mentioned\*
- ☐ The sponsor/orderer of the report is mentioned\*

5. The preface:

- ☐ Contains personal reason for writing
- ☐ Contains acknowledgement ("I" form permitted in the preface)

6. Table of contents:

- ☐ All parts of the report are numbered\*
- ☐ The summary and appendices are included
- ☐ Table of contents is clear
- ☐ Page numbers are consistent

7. The summary:

- ☐ Is a concise version of the entire report
- ☐ Contains conclusions
- ☐ Does not contain personal opinions
- ☐ Is well structured
- ☐ Is written business-like
- ☐ Follows the table of contents

8. The introduction:

- ☐ Is chapter 1\*
  - ☐ Invites the reader to read
  - ☐ problem demarcation and justification are clear and specific\*
  - ☐ The problem context is clear and to the point\*
  - ☐ The aim of the research and the report is clear and specific\*
  - ☐ Research methods/ data collection are described \*
  - ☐ The function of the chapters in the report is concisely described \*
9. The (construction of the) core:
- ☐ Chapters, paragraphs and subparagraphs are numbered and clearly structured (with a maximum of three levels)\*
  - ☐ Enumeration levels are clearly distinguishable\*
  - ☐ Chapters and (sub) paragraphs have a fitting title
  - ☐ A chapter covers at least one page
  - ☐ New chapters start on a new page
  - ☐ Sentences are typed in sequence, without hard return within the paragraph
  - ☐ Figures are numbered and have a fitting title, which is put below the figure.\*
  - ☐ Tables are numbered and have a fitting title, which is put above the table\*
  - ☐ Figures and tables are referred to in the text\*
  - ☐ Each appendix is specifically referred to in the content
  - ☐ Pages are numbered\*
  - ☐ Pages have a functional layout
10. The discussion of results:
- ☐ Contains a review of relevant sources
  - ☐ Valid argumentation is provided
  - ☐ Contains a critical evaluation of own findings
11. The conclusions and recommendations:
- ☐ The conclusions are based on relevant facts and / or discussion
  - ☐ The recommendations are based on relevant facts and / or discussion
  - ☐ Does not contain any discussion or information that does not appear elsewhere in the report text\*
12. References:
- ☐ The text is written according to the APA-rules \* (check intranet)
13. The list of sources:
- ☐ Is drawn up according to the APA-rules\* (check intranet)
14. The appendices:
- ☐ Are all numbered
  - ☐ Each have an appropriate title
  - ☐ Do not contain the author's own analyses.
-