

# **Grocery Lessons for the Internet**

Speech by  
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Let me begin by taking you on a brief journey backwards in time – back 50 or 60 years ago.

It's early in the morning, say between nine and ten. Somewhere in south Dublin, a housewife picks up her phone and rings her local grocery shop.

The person at the other end knows her well, and they have a minute or two of chit-chat before getting down to business – which is to give the lady's shopping list for the day.

With no hurry at all, she will pick her way down the list, working either from memory or from notes she has already put together. From time to time, the shopkeeper may intervene with a suggestion or two about something she maybe has forgotten, or to tell her about something new or special that the shop has just got in.

Eventually the list is complete, the two people say their goodbyes, and the housewife hangs up.

Then, sometime later in the day, a boy on a bicycle will call to her door, and deliver the shopping she has ordered.

And later again, at the end of the month, the shopkeeper will send her a bill for everything she has bought during that month.

End of the journey in time. Now let me fast forward to today.

Somewhere in south Dublin, a housewife sits down at her home computer and clicks on to Superquinn.ie. It could be any time of the day or night, she is not restricted to business hours. And of course she (or he, as the case may be) can make the connection not just from home but also from work or from anywhere there's an internet connection.

Once connected, the shopper sets out her shopping list, by clicking on a range of choices that are presented to her. If she's shopped this way before, she will have her previous list offered as a handy starting point. From time to time, her attention will be drawn to new products or those on special offer.

At the end, she chooses a delivery time, and makes a payment by credit card.

And sometime later, within the time range she has chosen, a van will draw up to her door and deliver her shopping.

When I say this is something that happens today, I mean just that. Superquinn.ie is a living reality, and has been up and running for over two years now. Already we have close to 50,000 customers registered to use the service; already it accounts for nearly 2% of Superquinn's entire business.

It is here, it is successful, and it is profitable.

So there you have two pictures of life in Ireland, fifty years apart.

It's very easy to draw a straight line between these two situations and see one as the inevitable consequence of the other. But in fact the road between the two is a tortuous one, with many pitfalls along the way. And as always, the lessons are to be learned from the pitfalls.

The first thing to note is that the earlier model failed – completely; the company concerned went out of business and its shops were taken over.

The model failed because it no longer matched the needs of its time – which were for a growing number of customers wanting a better range of goods, but above all at a better price. Things were getting better for people during the 50s and especially in the 60s, but money was tight. And they were prepared to forego the luxury frills of buying their groceries in return for dramatically lower prices.

Those lower prices were delivered mainly through the concept of self-service.

Instead of the shopkeeper doing the work, the customer herself did it – by picking the goods off the shelves herself, putting them in a trolley, and eventually carting them home herself.

Gone was the selection of the goods by the shopkeeper, the assembly of the shopping by him, the delivery of the goods by him, and the waiting to get paid until, the very earliest, the end of the month. The shift of effort went from the shopkeeper to the shopper, and the shift of cost went from the shop to the shopper.

Within a decade, the face of shopping in Ireland was transformed. And in broad terms, it didn't change all that much until the arrival of the internet.

Now let's take another journey back in time, but a much shorter one – back less than ten years, back to the time when the world wide web began to open up the apparently unlimited potential of the internet to change our lives.

In those heady early days, at the beginning of the internet era, there was a lot of talk about how, within a matter of a few years at most, our lives were going to be completely changed in every possible way.

First for the chopping block was going to be the supermarket model of grocery shopping, which had held unchallenged sway for half a century or more. Now, virtually overnight, all that was to be swept away. Tomorrow's shopper wouldn't actually go shopping at all, but instead would do it from home. Today's supermarkets would become obsolescent, maybe turning back into the bingo halls that we used to turn into supermarkets a generation ago.

This was one of the big promises of the short and doomed dot.com era. Of all the spectacular financial failures of that period, some of the biggest were in the grocery business. Literally billions of dollars were thrown down what proved to be a drain, in one of the quickest and most grandiose business failures in history.

None of this happened here, I might say. We were on the sidelines, absolutely spellbound by what we saw going on in the States. We watched with our mouths open as new entrants to the grocery business raised vast sums of money with apparently no bother at all, and watched equally gob-smacked as they spent that money building a vast infrastructure that we were told with great confidence was going to become the model for future grocery shopping.

Looking back, the approach was quite logical. If you are shopping over the internet, you don't need the shop to be on your doorstep or down the road. Since the goods are going to be delivered to you anyway, it doesn't matter if they come from ten miles away or perhaps even 50 or a 100 hundred miles away. And of course, since the goods are going to be delivered, you don't need a shop at all –

you just need a giant warehouse, a central distribution facility, where you can automate the whole process and gain vast economies of scale.

That was the theory, and turning it into practice proved horrendously expensive. There were two basic problems with this approach.

The first was that what you needed was not an ordinary distribution warehouse, like the ones that grocery firms do increasingly use nowadays to centralise their distribution. We have a central distribution facility in Superquinn, a single place where all our suppliers deliver to us and from which we then make up deliveries to our individual shops as they need supplies. However, the key thing about that kind of facility is that what goes out the door is very much the same as what came in the door – goods in quantity, goods on pallets, packed in outers of a dozen or maybe several dozen actual products.

You can handle goods in that kind of quantity fairly easily by automated means. Certainly it is a lot easier than the process required in assembling an individual shopping basket. When you want one bottle of ketchup out of an outer of eight dozen, a fork-lift truck isn't going to be much use to you. You have the choice of doing it with people or doing it with robots. If you do it with people, you straight away lose much of the economies of scale that you hoped for by creating a centralised facility.

But if you do it with robots, which you are only likely to do if people are throwing hundreds of millions of dollars your way, you have to cope with a steep learning curve with totally untried technology.

So that was the first mistake the dot.com grocers made; they didn't do enough homework on how exactly they were going to put the customer's shopping basket together.

The second mistake they made was about how quickly the market would grow for them.

It's hard maybe to remember, looking at it from where we stand now, the absolutely over-weening confidence of the dot.commers. Because they lived in a world that moved very quickly for them, they assumed that the rest of the world would move equally quickly – in changing their buying habits and putting business their way.

The first big lesson to learn from the grocery experience on the internet is that things don't always change that quickly, just because the internet is there.

Now some businesses were indeed transformed overnight by the internet, but I think it's worth looking at why it happened when it did.

People's buying habits change quickly if the terms of trade dramatically change. If suddenly you are offered something you want at a much lower price than you paid up to now, you'll go for it.

That was what made supermarkets work in the first place, but there wasn't the same price advantage in shopping for groceries over the internet. The grocery business today works on large turnover but very small margins, and the money simply wasn't there to offer people a cheaper experience. Indeed, the boot was on the other foot – there was no way you could do people's shopping for them, and deliver to their door, without it costing at least a little bit more.

There wasn't the scope, as there was with Ryanair and the no-frills airlines, and those that followed them, to offer a radically cheaper product.

Neither did grocery selling offer either of the two other advantages than can be guaranteed to change buying behaviour. One is that you are offered something you simply cannot get anywhere else – and that was another thing Ryanair had going for them, they made it practically impossible to buy one of their tickets except over the internet. Given that people were already attracted by the cheaper option, that increased their appeal.

Similarly, the experience of buying a wide variety of goods by auction that was created on the internet by eBay, was something of a type that up to then you simply couldn't get anywhere else.

The other situation where you could expect people's behaviour to change would be if buying over the internet gave them a radically better experience than they could get in any other way. I personally believe that the success of Amazon.com in selling books came at least in part from the fact that many people found it more pleasurable to order books over the internet than they did in going to a bookshop. Suddenly, instead of being met with a triumphant cry of "No, we don't have it" and a distinctly reluctant readiness to order it for you on an indefinite time-scale which could stretch into months, you were met with the guarantee of delivery within a matter of days – and often, indeed, at a specially-reduced price.

But the dot-com grocers had none of this going for them.

Their price offered nothing to the customer, and their service wasn't much better. The clunky technology often let them down, which led to a high level of customer dissatisfaction, and – a crucial point – they didn't allow room in their offering for human intervention which could even out of the lumps.

Instead of people beating a path to their door, the general public remained for the most part indifferent. So they didn't achieve the very considerable economies of scale that they would have needed to show any promise of breaking even, and one by one they went spectacularly bust – because their whole business model was based on the assumption that they could grab a very large amount of the available market in a very short time.

To say that those of us who couldn't afford to play these games were relieved by what happened is not exaggerating our response. For a time there, in the midst of the hype, we had maybe begun to doubt our own future. There were few of us that didn't lose at least one night's sleep wondering if our whole traditional business was going to be swept way overnight in a tidal wave of mouse-clicks.

But after the spectacular failures, common-sense began to emerge. A few basic thoughts were the drivers in this:

The first was that instead of a totally new way of doing things, maybe the internet would make it possible for the existing way of doing things to evolve. Instead of clicks replacing bricks and mortar, maybe you could have a fusion of "clicks and mortar" which would provide an umbrella for the change to take place.

The second thought was that while it was certainly true that the public was not going to change radically overnight in its shopping habits, there was equally no doubt that *some* change was going on in the marketplace. The existing supermarket model no longer fitted the marketplace as snugly as it once had.

This was because of a shift in emphasis from money to time. A generation ago, money had been the only consideration. Now emerging was a new breed of customer who had more money than time. This was increasingly brought about by the situation in which households tend to have two breadwinners, rather than one. The time available for housekeeping, and that includes shopping, has for many people been sharply reduced. This is a world in which it becomes attractive to get someone else to do your shopping for you.

And over the years, way back even before the internet, we had tried to respond to this by offering a delivery service from our individual shops. You rang up, placed your order, and we made up the order and delivered it. It was clunky, it had problems, but it answered a real and growing need.

So that example was there for us when, in the aftermath of the dot.com bust, we were left with this unsatisfied need. Maybe, instead of going the whole hog, we could go half-way?

It was out of this thinking that emerged the model we have today. Instead of working out of one centralised distribution centre run by robots, we focus our offering on our existing individual shops. The rather inefficient way of taking the orders over the phone is replaced by an internet website, where the shopkeeper's side of the interaction can all be done automatically.

But once the customer's order is received over the internet, from then on the solution becomes rather low-tech. The order is put together by a human being, who walks his or way through one of our stores putting the goods together in a trolley. These are then transferred to a delivery van, which completes the transaction within the agreed time-frame.

So what we have here is a hybrid approach that I believe is the second big lesson to be learned from the grocery experience. Rather than re-inventing the wheel from scratch and at enormous expense, we took a minimalist approach – building where we could on what was there already, while seeking to add that something special which only the internet could add.

Another thing we did was seek to reduce the risk of our investment by collaborating with others to achieve critical mass. We did not launch Superquinn.ie on its own, but as part of a wider shopping portal called Buy4Now – so the website presence on offer was less like a supermarket and more like a complete shopping centre.

If you get the impression that we felt our way into our internet involvement, you would be exactly right. Having seen the dot.commers rush in and fall flat on their face, we decided to move more cautiously. And we did so with our listening antennae wide open, so that we could learn from our customers about what we were getting right and what needed improvement.

Listening to customers soon revealed, for instance, an interesting flaw in our original approach. In our thinking, we had always tied together two concepts: that of doing people's shopping for them, and that of delivering the shopping to their door. But we soon found out that for a significant number of people all the advantage we offered came from one part of the offer, and that the second part was actually a disadvantage.

In other words, we found that not all the people who wanted us to do their shopping for them found it convenient to be home at a set time to take delivery. In

fact, so long as we'd do the shopping for them, that they would be quite happy to pick it up themselves on their way home from work. This was the kind of discovery you can only make by listening to customers carefully: in the ordinary way, you wouldn't think that you can add value by giving people less, but that's the way it proved to be for some of our customers.

The upshot was that we added an option we call "click and collect" – which in effect is the internet service with the delivery left out. Instead of waiting at home for delivery, the customer calls by to collect it whenever it suits them.

I have no doubt at all that, as grocery sales grow on the internet – as I am sure they will – the actual details of how the offering is made will change over time, as we learn better to match customers' needs as they continue to evolve.

But there is something else I have no doubt about, and this is the major lesson that the grocery business can offer from the internet. The lesson is that, despite the dotcom bust, the Information Age is here to stay – and will increasingly dominate every part of the way we live our lives.

The onset of the Information Age, more than a decade ago, was something that excited me more than perhaps anything else over the past half-century. This was because I saw in the information age a unique opportunity for this country to eliminate the geographical disadvantage it had always suffered from – our remoteness as an island nation, isolated from key world markets and centres of intellectual activity.

In the Information Age, I believed then and I believe now, Ireland could rise above that historic disadvantage. In a new world where distance didn't matter any more, we could compete on equal terms with anyone. If we chose, we could be a world leader – despite our remote location, despite our small size.

I was delighted, as the 1990s wore on, to find that others shared this vision – and eventually that it became adopted as a national objective. Looking at the prospects now, however, I feel that the initial enthusiasm about the possibilities of the Information Age has gone off the boil. As a result, we are tragically in danger of missing this opportunity to become a leader in the new age.

It is almost as if we took the dot.com bust too seriously, thinking that that failure undermined the whole project, instead of being a speculative sideshow that's the inevitable accompaniment to great new ideas. Yes, dot.com is dead, but the Information Age is still alive – and still remains an opportunity for Ireland, if we are prepared to grasp it.

The litmus test for us in this regard is how we approach broadband. Within the last few weeks, we saw the latest surveys show that Ireland is dropping fast down the league table of broadband penetration – and this should worry us greatly.

If we are to become a world leader in the Information Age, we must adopt the new technology and make it a way of life. We cannot lead the Information Age while remaining a nation with dial-up connections to the internet. To attempt that would be like saying we want to lead a motorised civilisation by all riding bicycles – without the right technology, we simply cannot live the experience.

There is a world of difference between a high-speed "always-on" experience and one that is at snail's pace and only there when we go through the hoops of dialling up and logging on.

We need, and quickly, to get broadband into our schools, into our homes and into our businesses. Our aim should be to create a totally new way of living – if we want to lead the Information Age, we must be prepared to live it. We cannot do this by wishing it to happen.

If we are looking for an example in all of this, we should look carefully at Singapore. Faced with very many of the same challenges as we are, they made the decision to become a broadband community and they are a long way along the road to making it happen.

Of course, in Singapore they do have the advantage of owning their national telecom system – and so they can tell it to do what they want it to. For better or worse, we here in Ireland no longer have that capability. But that fact should not blind us to the reality of this new age – we must be prepared in advance for it. If we are to take a leadership position. If we wait behind to follow, we will always be followers and we will have lost that once-off opportunity to lead the way.

As a nation, we have to recognise that our national interest in the Information Age is not exactly the same as the commercial interest of those who provide our telecoms services. Our economic future depends on our being able to bridge that gap – between what the national interest demands, and what purely commercial motives will supply.

Bridging that gap will not be easy. We may need to go even further than the State providing basic infrastructure on which commercial entities can piggy-back. It may even be necessary for the State to actually subsidise the provision of broadband to the public, in order to make it available at a sufficiently attractive price to spur rapid and widespread growth in take-up.

Such an approach may seem ironic to some of those who have observed the State get out of the telecom business over the past decade. But if we want to control this national resource from the point of view of the whole community, it is hard to avoid the conclusion that the State must once again get deeply involved.

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