Market Watch

Food-related business on the Internet, October 2001

Summary

The Internet has revolutionized the way consumers shop and the way many businesses conduct their operations. Business-to-business transactions represented more than 90 percent of total e-commerce in 1999. An estimated 39 million US consumers, or 18.5 percent of the total US population aged 16 years and over, made at least one online purchase in 1999. This number is projected to increase to 100 million by 2003. Farmers’ use of the internet has increased dramatically in the last 4 years. While 13 percent of total US farms had Internet access in 1997, 43 percent had Internet access in 2001.

A January 2001 study found that food and drink accounted for 11 percent of consumers’ online purchases in the US. Online sales of food items, however, have grown more slowly than sales of other products.

Consumers purchase food and drink items online from full-scale grocers or from specialty food sites. Internet-only grocers have not been successful in the past year, with several companies ceasing operations, merging, or cutting back expansion plans. Specialty sites, located primarily in the US, sell a variety of exotic meats from alligator to zebra. Many of these sites are maintained by farmers marketing their products directly to the consumer.

In a fall 2000 survey of its 300 member businesses, the American Meat Institute found that 83 percent of the surveyed companies were interested in e-commerce and 66 percent reported that they will be moving to some kind of e-commerce strategy by 2002. An industry magazine reported in October 2000 that most of the few dozen trading and information web sites for the perishable food industry had only started up within the past year. Some of these e-markets offer meat products from countries such as Spain, Argentina, Zimbabwe, and China. The sites basically serve as brokers, with some using an open auction format while others provide areas where members can negotiate deals privately.
Introduction

The Internet has revolutionized the way consumers shop and the way many businesses conduct their operations. One example is the travel industry, where the Internet has allowed consumers to become their own travel agents.

Fifty-eight (58) percent of all US households owned a personal computer in 2000 (WSJ). An estimated 39 million US consumers, or 18.5 percent of the total US population aged 16 years and over, made at least one online purchase in 1999 (White, Census). This was an increase of 130 percent from 1998 (White). It is projected that by 2003, the number of consumers making an online purchase will have reached 100 million (White). In rank order, the products most frequently purchased over the Internet are books, CD’s, and computer equipment (FMI).

The percent of online shoppers that have bought groceries online is estimated to range from 2 percent (bought groceries online in the past year) to 10 percent (Swartz, FMI). Although groceries include non-food items such as beauty aids and household cleaning supplies, 88 percent of online grocery shoppers have purchased food items (FMI). A January 2001 study found that food and drink accounted for 11 percent of online retail purchases in the US (Edwards). Online sales of food items have grown more slowly than sales of most product categories (Ward).

It is estimated that more than 90 percent of total e-commerce in 1999 was business-to-business (B2B) (Census). In October 2000, USA Today reported a total of about 1,000 B2B online marketplaces in 70 industries (Amato).

Between 1997 and 2001, the share of farms with Internet access more than tripled to a total of 931,300 farms in 2001 (ERS). While 13 percent of total US farms had Internet access in 1997, 43 percent had Internet access in 2001. Of farms with Internet access in 2001, 14 percent used the Internet to purchase agricultural inputs and 14 percent conducted agricultural marketing activities over the Internet, such as direct sales of commodities, on-line auctions, and commodity price tracking. Feeder cattle may now be purchased at numerous online auctions, some of which have regularly scheduled auctions and some of which simply list cattle for sale.
Consumer purchases of food items using the Internet

Types of food products purchased online

Among online grocery shoppers responding to a 2000 survey by the Food Marketing Institute, the most popular food item purchased was dry goods. One-third of the respondents had bought frozen foods or meat online. However, 45 percent of shoppers who bought groceries online reported that they would never purchase produce, and 42 percent said that they would never purchase meat via the Internet.

Types of online grocery stores

Consumers can buy groceries online via several different types of online grocery models (ACDG). In the “warehouse direct delivery model”, groceries are stored, picked, and delivered from a warehouse that is not open to walk-in traffic. These types of grocers are called ‘internet-only’ grocers. The “mail-order model” entails online ordering by the consumer and delivery by mail or courier service. Products can be distributed nationally or internationally from a single location. A traditional retail store serves as the source for the “store-based delivery/pick-up model.” Existing stores are used to supply product for the online orders, which may be delivered or picked up directly by the consumer. Finally, the “third party, store-based delivery” is similar to the previous model. But a third party, instead of the retailer, provides the delivery to the consumer.

USDA, APHIS, VS, Center for Emerging Issues, October 2001
Food Distributor Magazine reported in March 2001 that internet-only grocers had not been successful in the past year, with several companies ceasing operations, merging, or cutting back expansion plans (Edwards). This was further substantiated in July 2001 with the failure of HomeRuns.com and Webvan, until then the internet’s largest and best-funded grocer (Swartz). However, existing supermarkets (store-based delivery/pick-up) were entering the online ordering market. Several examples include Royal Ahold (Chicago), SUPERVALU, Publix Super Markets (Orlando), Pick ‘n Save (Milwaukee), Harris Teeter (Atlanta, North Carolina), Albertson’s, and Bashas (Arizona). An example of Albertson’s online shopping site is shown above.

Specialty food sites

A survey of people who visited specialty food and drink sites in 2000 showed that 26 percent of the respondents had made at least one online specialty food or beverage purchase within the previous six months (White). These consumers made an average of 4.4 purchases during that time period. The most commonly purchased items were coffee/tea/cocoa, seasonings, and chocolate/candy. Eight (8) percent of survey respondents purchased meat products online and 7 percent purchased fruits/vegetables. A total of about 620 companies were identified as the source of the most recent online purchase.

There are many specialty sites that sell a variety of exotic meats from alligator to zebra (e.g., www.888eatgame.com). However, this is not mainstream grocery shopping. This kind of shopping is basically identical to shopping by mail-order catalog. The difference is that consumers can readily access specialty catalogs from around the world. Import and export regulations apply just as they do to any imports and exports.

Some examples of sites that offer exotic meats include exoticmeats.com (exotic meats from around the world), indianvalleymeats.com (reindeer, venison, buffalo), atlanticgamemeats.com (deer, elk, bison), brokenarrowranch.com (venison, antelope, boar), kingsnatureranch.com (bison, ostrich, elk), nativegame.bigstep.com (buffalo, elk, caribou, kangaroo, rattlesnake), and farmedvenison.com (venison). These businesses are all located in the US and meats are shipped in coolers by air to arrive within 2 days.

Many specialty food sites, including some of those mentioned above, are maintained by farmers marketing their products directly to the consumer. Of 18 web sites visited that sell exotic meats, about half appeared to be individual farmers or farmer cooperatives. One of the sites that offers more exotic meats such as lion, bear, and zebra reportedly obtains these meats from animals that are raised privately in the US (Hullverson).

Also found on the Internet are specialty sites that offer common meats, but that cater to niche markets such as ‘natural’ beef or grass-fed beef. Most of these sites appeared to be maintained by ranchers located in the US. A cursory search for kobe beef, for example, yielded US ranchers who sell domestically-produced kobe beef but no individual Japanese producers. However, this observation may be due to a language issue in that Japanese producers may market their product in Japanese.
Internet use by food-related businesses

In the food industry, about 100 online marketplaces emerged in 2000 (Amato). Advantages to businesses from e-commerce include speeding up and standardizing communication, thereby reducing errors and time-consuming activities such as data entry, phone tag, meetings, and visits to stores or manufacturing plants (Edwards). According to a former Kroger CIO, companies that are buying agricultural products through an online exchange are already reducing up to 70% of their transaction costs (Amato). In addition, the Internet is global, allowing access to suppliers around the world. It is egalitarian, allowing an independent grocer the same access to suppliers that Walmart has. And Internet access is cheap and easy.

An industry magazine reported in October 2000 that most of the few dozen trading and information web sites for the perishable food industry had only started up within the past year (Waltner). The sites basically serve as brokers, with some using an open auction format while others provide areas where members can negotiate deals privately. Some of the e-markets offer additional services to facilitate the entire trading process, such as insurance and transportation.

Some examples of B2B e-markets in the meat, poultry, & dairy industries

An online exchange of meat and poultry, called Provision X, was opened for business in April 2001. The founders of the site are Excel Corp., Farmland Industries, IBP, Gold Kist, and Tyson Foods. However, the exchange is open to all packers, processors, distributors, and retailers for buying and selling meat and poultry.

Dairy.com advertises itself as the “first and only business-to-business online vertical exchange focused specifically on serving the entire US dairy industry” (dairy.com). This e-market was established in 2000 by Suiza, the largest dairy processor in the US, and a number of its dairy foods partners. The site serves producers, cooperatives, and milk, ice cream, yogurt, and cheese manufacturers. Along with the dairy commodity exchange, the site offers dairy farmer services, supply chain management tools, and other information tools.

Billed as the “first, largest and most comprehensive business-to-business marketplace for the food and agricultural industries”, Foodtrader.com has existed as a web site since 1997 (foodtrader.com). The exchange reports a membership of over 13,000 growers, packers, processors, manufacturers, distributors, importers, exporters, and retail chains in 180 countries. The site offers direct access to buying and selling food products, and other services such as insurance, inspection, and shipping facilitation. Thousands of food products from around the world are available, including meat, poultry, dairy, and fresh produce.

GlobalFoodExchange.com is a B2B marketplace covering meat seafood, dairy, and produce, that reported 1,600 members in October 2000 (Waltner). GlobalFood Exchange charges 0.01 to 1 percent commission on each transaction, compared with a 3 to 15 percent charge from traditional food brokers.

As a result of the expected upcoming increased trade between China and the US, the China Premium Food Corporations is creating a B2B “food portal” called MandarinFoods.com to provide online ordering for exporters and importers, along with other services. The site is designed to introduce US food manufacturers to export opportunities in China and to provide all the infrastructure needed to ease the trade
All regulations that apply to traditional trades also apply to trades conducted over the Internet. The difference is that e-markets make it much easier for a buyer in one area of the country to source products from different parts of the country or even different parts of the world. For example, shown below are some pork products listed for sale by the online broker foodtrader.com. Origin countries for meat products on various visits to the site included Spain, Argentina, Zimbabwe, and China. The site does not provide any special information, such as import regulations, regarding products moving from one country to another.

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>VARIETY</th>
<th>ORIGIN</th>
<th>GRADE</th>
<th>PRICE</th>
<th>PORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>pork</td>
<td>Fully Cooked Loin Back Ribs</td>
<td>United States</td>
<td>A</td>
<td>$4.172</td>
<td>FOB</td>
</tr>
<tr>
<td>frozen pork</td>
<td>IQF Smoked Bacon, diced 6 x 6 x 20</td>
<td>Spain</td>
<td>ask us the price</td>
<td>$1.025</td>
<td>FOB</td>
</tr>
<tr>
<td>frozen pork</td>
<td>IQF York Ham diced 6 x 6 x 20 millimeters</td>
<td>Spain</td>
<td>ask us the price</td>
<td>$1.025</td>
<td>FOB</td>
</tr>
</tbody>
</table>

In a fall 2000 survey of its 300 member businesses, the American Meat Institute found that 83 percent of the surveyed companies were interested in e-commerce and 66 percent reported that they will be moving to some kind of e-commerce strategy by 2002 (GIPSA). It was not reported how many companies currently use some kind of online marketplace.

The future of the Internet in the food sector

One food industry association’s annual report concludes that “All studies point to the fact that, given the chance, consumers will shop online. However, it also seems clear that online shopping may not really take off until those who are now in their teens … are ready to take over food shopping duties. Its also clear that pure-play companies are not the way to go in online shopping and that successful models will be a combination of brick and click” (Progressive Grocer).

Another study comparing online grocers with B&M grocers yielded similar conclusions (Ward). Specifically, it was thought to be unlikely that internet-only grocers will have the mass appeal that online book and music retailers have had. And although brick-and-click retailers are able to offer more products, more cheaply than internet-only grocers, it is unclear if the online strategy will be profitable for these hybrid retailers.

Many specialty food sites are maintained by farmers marketing their products directly to the consumer. Consumers’ interest in purchasing agricultural products directly from farmers, as shown by the rise in farmers markets and coincident with an increased interest in natural or organic products, suggests that these types of sites may increase in number.

Analysts appear to agree that B2B e-markets have the potential to be successful. Theoretically, they provide businesses with substantial savings in terms of time and money. However, at this point, an executive from a food-related B2B e-market summed up the situation by remarking that “This [business] is still at the amoeba stage, and there are no companies that are doing well and achieving critical mass” (Amato). It appears reasonable to expect that B2B e-markets are here to stay. However, the extent to which they will replace traditional trading channels is not at all clear.
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