Cyber-entrepreneurship: Nettimarket.com venture in Finland

On a typical snowy day in early January 1998, as he was driving towards Helsinki, Aki Teranto spotted a poster on the motorway for Internet grocery shopping. The slogan read: ‘Don’t stand in line any more, just go online!’ He thought: if it is possible to sell groceries online in Helsinki, why would it not be possible to do so in Turku? A few months later, with the help of two partners and his wife Eija, Aki launched Nettimarket.com, the first Internet grocery shop in the Turku area. Today, the business is still in its infancy, but the signs of growth are already visible.

Company background

Aki had hardly any experience in the food or retailing business. He had been a truck driver for ten years, transporting food products for Veljekset U. Saari, one of the largest transportation companies in the Turku area. His job often took him to Sweden, and, in 1995, on one of his trips, he came across a type of flooring material, typically used to surface concrete floors, which he thought would have good market potential in Finland. He then decided to leave his job as a truck driver and, with a partner, founded his first company in May 1996. The flooring material company has been doing well: ‘We make our living out of it,’ says Aki.

After reading the poster on that winter day, Aki pondered the idea of launching an Internet grocery store in Turku. Since there, was as of yet, no competition there, he thought he might potentially gain a first-mover advantage. He had made up his mind before arriving home, upon which he informed his wife of his project. He did not carry out any analyses or benchmarking. He felt that he had a great idea and he was set to implement it. Nettimarket.com was founded in January 1998 with an initial capital of FIM25,000\(^2\) and with two employees: Aki as the managing director and his wife Eija as the logistics manager.

Neither Aki nor Eija had any knowledge of information technology (IT). They both had a high-school-level education and were totally computer-illiterate. Aki learned about computers through self-study. ‘Some of my visitors think that I am a computer wizard,’ says Aki. ‘Actually, I never took a single course on the subject, but I spent all my weekends studying computer programming. My wife encouraged me, although she doesn’t share my passion for computers!’

Aki and his wife wanted a name for the company that reflects the nature of its business, so they selected Nettimarket (i.e. ‘the net market’). After the decision was taken to go into virtual business, Aki founded the company together with a partner, Jarkko. Aki’s share is 60% of the company while Jarkko’s share is 40%. Jarkko has a similar background to Aki’s; although at first he did not play an active role in the company’s operations, he

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1 Turku is the fourth largest city in Finland and has approximately 180,000 inhabitants (including in the suburbs). Helsinki, the capital, has a population of one million, including in the nearby cities of Espoo and Vantaa (see Exhibit 1).

2 On 22 May 2000, the exchange rate of the Finnish Markka was as follows: US$1 = FIM6.5775.
joined the team just before Christmas 1999 and now works at Nettimarket.com during the evenings and at weekends. Jarkko’s wife Paivi has also joined the business and assists Eija in her duties.

Aki’s and Jarkko’s personal contributions were the share capital, which was assessed at FIM 25 000 (approximately US$ 4100). The next step was to apply for a loan of FIM200 000 and, three months later, for another loan of FIM200 000. So far, total investments amount to FIM425 000, which can be broken down as follows:

- Software: FIM110 000.
- Three PCs: approximately FIM50 000.
- Two printers.
- Phone installations.
- Server costs: FIM1500 per month.
- Leased van for goods delivery.
- Rented office space (100 square metres): FIM3000 per month.

**The business model**

Aki was convinced that, for reasons of convenience, customers prefer the ‘one-stop shopping’ concept, especially when shopping for groceries. Therefore, an electronic market that allows customers to shop directly from producers is not conceivable in the grocery business, hence ensuring a strong role for wholesalers, distributors and retailers. Aki thought that most Internet grocery stores operate mainly as extensions of an existing physical retail business, aiming at attracting new customers and/or serving existing ones better. In Finland, these stores include www.eurospar.fi, Mestarin Herkku and s-kanava.net. This ‘extended retailer’ business model seems to be a logical solution in the early stages of electronic commerce, as online sales are still very limited and warehousing costs constitute a financial risk for start-up e-tailers. In fact, it is hard to imagine today a Finnish grocery business that operates only through the Web and generates enough revenues to justify maintaining its warehouse.

If customers are to give up traditional purchasing methods, then they must be offered certain value-added features in the virtual marketspace that are not attainable or available in the physical marketplace. A commonly stated consumer benefit of electronic commerce is the possibility for *price reductions*. This may take place as a result of: (1) increased competition as more suppliers are able to compete in an electronically open marketplace; (2) reduced selling prices due to a reduction in transaction costs; and (3) manufacturers internalizing activities traditionally performed by intermediaries. However, to date, virtual grocery stores do not generally offer prices lower than those of physical stores. The ‘extended retailer’ business model does not allow for price reductions in electronic markets, since in the traditional retail grocery stores customers play an important role in the distribution chain as they collect the goods and carry them home themselves. In Internet grocery shopping, the pick-up and distribution of goods become the responsibility of the seller and result in additional overhead costs. As the
extended retailer still has to pay for the cost of running a bricks-and-mortar business (i.e. physical infrastructure overheads and personnel costs), Web-based grocery shopping is likely to remain unprofitable at least in the short run. Furthermore, it is likely to remain highly local due to the transportation costs of grocery goods.

In Aki’s mind the ‘extension’ strategy is not a good one, since it would not make sense for the grocer to undertake services (such as goods pick-up, checkout, delivery, etc.) that customers have been carrying out themselves. Aki’s strategy is therefore quite different; it is based on a partnership with a wholesaler since this solution eliminates warehousing costs (and risks), high physical infrastructure overheads, and checkout staff payroll. Aki negotiated with a wholesaler and even managed to rent the required office space within the wholesaler premises. For the wholesaler, Nettimarket.com is yet another customer, although it has a special relationship with it. As long as the wholesaler does not consider Aki as a competitor (a situation that may well change in the future), the two parties can co-exist and enjoy a mutually beneficial relationship. Aki does not believe that the role of grocery wholesalers will disappear in the future with the widespread availability of virtual grocery stores.

Theoretically, Aki’s business model enables Nettimarket.com to compete on price. However, this is not yet the case, as the limited sales have forced Aki to charge an 18–20% margin, hence selling most items at a higher price than found in physical grocery stores. With smaller margins, Nettimarket.com cannot survive. Nettimarket.com’s strategy is to operate as a truly virtual shop, offering customers the best products, a large selection of goods, premium customer service, just-in-time delivery and even ecological benefits (reducing traffic). The basic idea that underlies Nettimarket.com is similar to that of Amazon.com: instead of people going to look for books, make the books come to them.

The operational system

In order to build his Internet grocery shop, Aki looked for good software solutions. However, he found the offers that most consulting firms were making very expensive: his budget could not afford the several hundreds of thousands FIM price tag. He eventually bought a software solution developed by SuperWeb, a Finnish software company offering e-commerce solutions. This software platform was rather similar to solutions used by most virtual grocery shops. It is based on the so-called ‘shopping basket logic’, through which customers add the selected products to a virtual shopping cart. The content of the basket may be modified and the total value of its content is conveniently displayed throughout the system. The order administration contains the order ‘life span’ all the way from ordering the goods to the printing of the collection list and the dispatch document. Aki wanted to have real-time data on visitors to the web site, the orders they placed and their current status, as well as the sales turnover. He also needed the capability to print the bills and receipts, and to track customers’ buying patterns. As customers register with Nettimarket.com, their personal information is stored in a customer database used by Aki to establish a one-to-one marketing relationship, and hence to personalize the Nettimarket.com service. The database also enables Aki to track customers individually, interacting with them and integrating their feedback into their database record.

Customers can place orders by phone, fax, email and through the Internet. The first time a customer uses the Nettimarket.com website, they need to register in order to place an order. Nettimarket.com provides a round-the-clock service in quite a wide geographical area that encompasses the cities of Turku, Kaarina, Naantali and Raisio. This space is divided into service areas according to postal codes.

In order to purchase products online, shoppers navigate through the hierarchical Nettimarket.com Web pages (see Exhibits 2 and 3). The lowest-level menu allows the shopper to initiate the commercial transaction by selecting the goods to order, specifying their quantity and placing them in the virtual shopping cart. Furthermore, a search engine assists the shopper in finding the products of their choice (see Exhibit 2, lower left-hand corner). The search is

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3 Although one of the software offers made to Aki was a solution used by a competitor, it did not meet the quality requirements of Nettimarket.com. Furthermore, this solution was almost ten times more expensive than the one that Aki finally acquired.

4 To place orders through the Internet, customers need to use a Pentium-based PC, an Internet (preferably with ISDN) connection of 33.6 kb/s, and Internet Explorer version 4.0 or Netscape version 4.0 or a later version.
based on criteria including the generic name of a product (e.g. olive oil), its price range (e.g. less than FIM30) and its weight (e.g. 500 ml). In case a specific product is out of stock, the system suggests to the customer possible substitute products. In order to initiate the processing of the transaction, the customer must confirm their order and specify the mode of payment from the following options: ATM card, credit card (Visa, MasterCard, EuroCard), Solo system (Merita Bank) or cash (on delivery of the goods). Corporate customers may also choose to be invoiced. Upon receipt of the customer order confirmation, Nettimarket.com sends an email message acknowledging receipt of the purchase order.

Exhibit 7.2 The main Web page of Nettimarket.com.

Exhibit 7.3 The main Web page of Nettimarket.com.
In order to simplify the buying process for customers, the system keeps a record of previous purchases. If the customer wants to buy the same goods as they did on their previous ‘visit’, through just one click their entire product list is moved to the virtual shopping cart. Moreover, the customer can put together several ‘product baskets’ in advance and move the basket into the cart by just one click. The system also allows the customer to specify the product characteristics in free text format (e.g. ‘I prefer my bananas green’).

Aki is the only person in the company who maintains the website and updates product and customer information, discount lists and order processing. He also updates all the informational content of the website, including the email messages sent to the customer. Through these messages, customers (who have agreed to receive such information) are informed every Monday about the special weekly offers on the Nettimarket.com website. Furthermore, the (SuperWeb) system provides Eija with a list of products ordered, specifying their respective quantity (or weight), which she uses to collect the goods from the wholesaler’s outlet.

Product portfolio

Nettimarket.com’s online catalogue contains approximately 6000 products, a product portfolio that is typically less than that offered in a physical supermarket store. This product portfolio size, which is limited to that of Nettimarket.com’s wholesaler (Wihuri Oy), puts Aki at a disadvantage vis-à-vis physical retailers and also potential online competitors with a larger product assortment. Aki, however, feels that neither his Internet business nor other virtual grocery stores should be compared to physical supermarkets. For him, virtual grocery stores aim primarily at attracting customers who need to buy their everyday groceries; he does not believe that Web stores will be able to compete with physical hypermarkets for weekend shoppers. For the latter, who typically buy from a physical store a large portion of the groceries needed during the week and also often look for gourmet items, product assortment is an important shopping criterion. Moreover, Aki acknowledges that shopping by impulse is very important for some customers, especially at weekends and during holidays, a feature that cannot be fulfilled by virtual stores.

Order fulfilment and delivery

Nettimarket.com suffers from a significant drawback: its online product catalogue is not linked to the wholesaler’s warehousing system. This situation led to not being able to inform customers upon ordering whether their order can be delivered in full or whether some of the items are out of stock. In the latter case, and if already specified by the customer, a substitute product gets delivered provided it is in the same price range as the initially ordered product.

Nettimarket.com delivers the goods to the customer household typically within a couple of hours of receipt of the order, sometimes within a day. The company uses different handling and packaging means for the goods, depending on whether they are dry, refrigerated or frozen goods. In all cases, Nettimarket.com tries to ensure short delivery times from its premises to customers’ households.

Goods deliveries take place between 10 a.m. and 9 p.m. on working days and between 9 a.m. and 3 p.m. on Saturdays. No deliveries take place on Sundays or holidays. Nettimarket.com requires that an order be placed at least half an hour before the required delivery time, which typically ranges from one to four hours. Since the volume of deliveries is not very high (on average, 40 delivery tours per week), Aki has not yet felt the need to use a computerized routing optimization system.

The order-fulfilment process, from receipt of the order to delivery of the goods to the customer household, requires on average 45 minutes of ‘personal service’. At the beginning, Nettimarket.com required a minimum order of FIM100, but today there is no such minimum; however, orders of less than FIM100 are charged an extra fee of FIM7. There is a delivery charge of FIM20 per order, but for orders exceeding FIM400 delivery is free of charge.

Eija is in charge of the order-fulfilment and delivery process. She collects the goods from the wholesaler’s outlet and puts them in specially designed bags (which she and Aki made out of a special fabric to last at least 5000 deliveries). These bags

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5 One click on the mouse will transfer the entire list of products to the virtual shopping cart.
6 The online catalogue also contains 1000 product photos or labels.
7 Oy stands for ‘osakeyhtiö’; it means joint stock (or limited) company.
were tailor-made, taking into account the space available in the delivery van and the most frequently bought goods. For transporting ice-cream and other frozen food products, insulated bags with refrigerants are used.

Customer perspective

Since the start of Nettimarket.com, Päivi Hennula has been one of Aki’s regular customers. Living outside Turku, Päivi has been buying from Nettimarket.com almost all the grocery needs of her household of four (including her husband and their two young children) since December 1998. ‘It was quite a struggle at the beginning, but I did not give up,’ she said. ‘It was difficult to find products and it took a lot of time to order goods. Also, the shopping list disappeared during the process and the system did not work the way it was supposed to. I was seriously wondering whether it would ever work. Being an IT professional, I was well aware of all the system problems that could happen. I was really delighted when it finally worked. For me, buying groceries through the Net makes my life a lot easier.’

Päivi ‘visits’ Nettimarket.com once a week. For her, virtual shopping saves her a lot of time compared with going to a physical store, as she used to do. ‘By shopping at Nettimarket.com, I save more time than I could have imagined. I spend all this extra time with my children. We now do a lot more enjoyable things than going to a store.’

Päivi’s buying behaviour has also changed drastically. In the past, she never enjoyed shopping for groceries and her decisions were made on the spot in the store. She used to buy a lot more groceries than she actually needed, but she does not do that any more and spends less money on groceries. ‘For example, I used to buy a lot of doughnuts and other bakery products,’ says Päivi. ‘But today, I order the ingredients through Nettimarket.com and I do the baking together with my children. It gives us all a lot of pleasure. Honestly, before [having the possibility to order through the Net], I simply did not have time for baking donuts or bread. As I now bake my own bread and plan more carefully my weekly shopping list, my grocery bill has decreased by more than 30% per month, which really was an unexpected bonus.’

‘Some people think that it is important to choose your own vegetables and fruits,’ continues Päivi. ‘I do not share this view. In the store, I hate standing in line waiting for my turn to get fresh produce weighed or to pay for my groceries. Now I only go to the store to buy some gourmet items, which are not yet available through Nettimarket.com. I really enjoy it because I go there only when I want to, not feeling obliged to do so as was the case with groceries.’

Initial difficulties

In the summer of 1999, although it was growing Nettimarket.com faced considerable financial problems. With 500 registered customers and only 200 regular online shoppers, the customer base was too small to sustain the business. Furthermore, the number of customers was growing very slowly, with on average just three new shoppers per month. Although the number of daily visits to the Nettimarket.com website ranged from 40 to 200, only one to five orders were placed every day. This situation resulted in daily gross sales of FIM1000–2000. In spite of these difficulties, which could have been seen as sufficient reasons for closing down the business, Aki still believed in eventually making Nettimarket.com a success.

Serving elderly people and disabled people: business expansion through a municipal decision

In Finland, recent increases in social expenditure have led to keeping elderly people and disabled people at home or with their families as long as it is more cost-effective to do so. For the same economic reasons, patients are also released from hospitals and returned to their homes earlier than before. Elderly and/or disabled people who depend on home-helpers’ assistance constitute an important customer segment for online grocery stores such as Nettimarket.com. Aki was thus pleased to know that the Turku social welfare office decided to outsource the shopping tasks initially performed by the homehelpers employed by City Hall. This decision was motivated by the increased demand for homehelpers. The latter typically visit their customers a couple of times per week to perform tasks ranging from taking care of the physical and mental health of elderly people to housekeeping and grocery shopping. Such shopping takes on average 45 minutes.
In order to make the home-helpers’ work more effective at the 4000 households involved, the city of Turku decided to try, over a 15-month period, Internet-based shopping. The social welfare office, which operates in the four Turku areas (North, South, East, West), decided to run the e-shopping trial only in the North and West areas. Of the nine Internet retailers (including Nettimarket.com) who participated in the bidding organized by the city of Turku, only three had some experience in online shopping. The goods delivery fees that these retailers offered ranged from FIM20 to FIM42.70; the Nettimarket.com fee was FIM 27, with a guaranteed 30-minute delivery.

Nettimarket.com competitors in the bidding were Halinet Oy from Helsinki and Ruokamarkkinat Oy. ‘I got the idea for my business when I was working at the social welfare office of the city of Lohja,’ said Harri Vilkko, managing director of Halinet Oy, a logistics service provider. ‘Home-helpers can make better use of their time [with their clients] than waiting for their turn in a grocery store.’ Halinet, which works with Ruokanet (an online grocery shop), is in charge of delivering the goods to the elderly and/or disabled people, educating the home-helpers and providing the city with the required IT equipment. Ruokamarkkinat Oy, which has been operating through the Internet since March 1998, is a subsidiary of Wihuri Oy, the wholesaler of Nettimarket.com.

Regarding financial transactions, the city of Turku did not specify the mode of payment but the customer has several options (as mentioned earlier). Purchasing orders are made mainly through the Nokia 9110 Communicator, which is a mobile phone with a large back-lit screen also enabling fax, email and Internet communications. To use the Communicator, customers choose the Internet provider and the website application they are interested in and fill in the subscriber information. They can then surf the Internet at any time and almost from anywhere.

To run the e-shopping experiment, City Hall needed a budget of FIM77,000 to acquire 16 Communicators (of which Nettimarket.com bought two),9 and FIM2.4 million to pay for the goods delivery to customers’ households during the trial period. Some of the elderly people will contribute FIM10 per delivery, resulting in a net cost for the social welfare department of approximately FIM1.5 million.

In October 1999, the city of Turku selected Nettimarket.com for its Internet grocery shopping service for elderly and disabled people during the trial period from October 1999 to the end of December 2000. This has marked a surge in Nettimarket.com business, with approximately 1300 new customers in just two months (October and November 1999). The fees from goods delivery alone generated FIM1.3 million; with a conservative average order of FIM100 per customer per week, sales this year are expected to reach FIM5 million. For Aki, City Hall’s decision was a stroke of luck since before this he did not expect his business to break even before 2002. Furthermore, he would have had to rely on his floor-building company to support his family and to keep Nettimarket.com running.

Currently, Nettimarket.com employs 11 people. Four staff members (including Paivi, Jarkko’s wife) take care of picking up the goods from the warehouse according to the orders; two of them work on the morning shift and two work on the evening shift. Besides Aki and Jarkko (the latter working only in the evenings and at weekends), there are two additional staff members who process the orders arriving through email messages. Three drivers, using two leased vans, are in charge of the goods delivery. Currently, there are 75 delivery ‘tours’ per week; this number is expected to reach 120 in the near future. To cope with this drastic sales increase, Nettimarket.com needs to use a computerized routing optimization system. In addition to determining the routes, the system could also facilitate setting up the delivery timetable, a task that is becoming more complex, especially due to the fact that, in most cases, the home-helpers have to be present when the goods are delivered.

Witness accounts of City Hall’s e-shopping experiment

The view of the home-helper services manager

Tuija Hassinen–Laine, the home-helper services manager of the city of Turku, is well aware of the difficulties in introducing an innovative service and the challenge of managing the subsequent resistance. She promoted the Internet shopping idea and tried to...
have all the home-helper districts embrace it. Her supporting argument was that as the proportion of elderly and disabled people steadily increases, there is a need to use efficient platforms and tools enabling the provision of a better service.

At first, the home-helpers were very anxious about placing orders online. Numerous mistakes were made, either by the home-helpers or by Nettimarket.com. For example, some of the orders that were placed by the home-helpers never reached Nettimarket.com or were processed inaccurately. However, once the home-helpers got used to the online purchasing procedure, they started to appreciate the new service. It made their job physically less demanding and the home-helpers now have more time to take care of the health and housekeeping needs of their clients.

However, some customers especially those living near a shopping mall, are not enthusiastic about the online ordering system. In spite of the home-helpers’ efforts to explain the new e-shopping policy, several customers have difficulty understanding it. Furthermore, since they are used to buying special or brand-name products that are not available at Nettimarket.com, some customers demand that the home-helpers be allowed to buy these products in nearby shops as they used to do previously. They also want to be allowed, when taking a walk with their home-helpers, to visit a shop and purchase some goods.

For Tuija, careful planning is essential when buying online and everybody involved in e-shopping should learn how to plan. For example, customers should write their shopping list in advance so that the home-helpers can send the list online to Nettimarket.com. If a customer forgets to order a specific item that is urgently needed, then they can decide whether the home-helper should go to the traditional store to buy it.

Most of the orders are made through the Nokia Communicator device. For the home-helpers, this purchasing channel is much easier and more convenient than connecting to the Nettimarket.com website. On average, each home-helper orders goods from Nettimarket.com twice a week and typically services six customers daily. The online shopping system has led to providing a better grocery service as well as having more elderly and disabled people benefit from the home-helper services. Although the advantages of the new system clearly outrank its possible drawbacks, the Turku City Hall will make a formal assessment of the system at the end of the trial period.

The view of the customer
Although Anna-Lydia Candolin, one of the elderly people participating in the trial period, placed weekly online orders over a two-month period, several shortcomings in the new e-shopping procedure led her to withdraw from the City Hall’s experiment. First, none of the shopping baskets that were delivered to her between October and November 1999 included all the goods that she ordered; certain items were always missing. Second, little information was shared with the elderly people before the experiment; for example, customers did not know how much to pay for the goods delivery, to whom and when. Third, prices were higher than those offered in most physical retail stores. Lastly, most of the invoices did not match the groceries delivered.

Regarding the first problem, customers were asked in advance whether they would accept substitute products. Since Anna-Lydia did not place the orders herself (she gave her home-helper a written shopping list), she was not even aware of this option and did not know whether she was signed up for this service. Since there was no alternative available to her to regularly get the groceries she needed, she reluctantly rejoined the experiment after a few weeks. However, before doing so, she shared her complaints with Aki, who acknowledged the problems and sent her a complete list of Nettimarket.com’s assortment so as to facilitate her ordering process.

According to Anna-Lydia, by early 2000 she started receiving correct deliveries and the Nettimarket.com customer service has improved. The delivered products have always been of good quality, and staff members have been kind and willing to help. However, she hopes that the prices will go down as the number of customers increase, and that Nettimarket.com will offer elderly people a special service, for example by placing the frozen and refrigerated items in the freezer/refrigerator upon delivery. With the current system, the home-helper needs to be present on delivery to unpack the purchased goods.

Competition
To date, Nettimarket.com has only one competitor operating in the Turku area – Ruokavarasto
(www.ruokavarasto.fi), which is part of Ruokamarkkinat Oy, the biggest private grocery retail chain in Finland, established in 1970. In 1988, it became a subsidiary of Wihuri Oy, the wholesaler of Nettimarket.com. Ruokamarkkinat Oy is operating in the southern part of Finland and, in 1998, had a total sales turnover of FIM million 1300. Currently, Ruokamarkkinat Oy operates more than 130 physical retail stores under the brand name Ruokavarasto. Its Internet grocery operation is considered to be an extension of its business model, since the core of its activities still consists of traditional (physical) retailing. The product range offered by Ruokavarasto.fi is identical to the assortment available in the physical Ruokavarasto stores and all the goods are sold at the same price as in the physical outlets. Ruokavarasto.fi has rapidly expanded its geographical scale and now delivers groceries to eight cities in the southern part of Finland.

In the area of Turku, several supermarkets currently compete mainly on prices. They were able to drive out numerous small grocery stores that relied on service to build their customer base. For Nettimarket.com, providing customers with a unique, value-added service is its main competitive positioning.

Currently, there are only a few online grocery stores operating in Finland. For example Ruoka.net, which is based in Helsinki (approximately 160 km east of Turku), plans to broaden by December 2000 the geographical scope of its business so as to also cover the Turku area. According to its CEO, Timo Surma-Aho, ‘technically everything is ready for this expansion. The only thing remaining is to “plug-in.”

Operating a virtual store over a large geographical area is difficult, especially managing the logistics associated with it. But now is the right time for us to expand the business.’

All large retailers and wholesalers in Finland announced their intentions to also do business over the Internet. For example, the S-ryhma group has six online grocery stores, that have, so far been serving only local markets. Another player, TOK-yhtyma, was about to launch its online store last year but the project got postponed.

For Osmo Laine, President of the Finnish Grocery Retailers Association (Paivittaistavarakauppa ry), since consumers are generally not interested in embracing the grocery e-shopping service, the Internet does not play an important role in the grocery business. Some data suggest that many customers have registered for the service but never placed a purchasing order online. Furthermore, during the trial period, several customers dropped out without any obvious reasons, such as quality- or service-related problems.

### Marketing activities

Nettimarket.com received a lot of coverage in the local press. Being the first truly virtual grocery store in the region has created genuine media interest, even before City Hall’s decision to have the home-helpers shop online for elderly and disabled people.

At Nettimarket.com, every Monday Aki sends an e-mail message to his customers informing them about the special offers of the week. The content of this message is the same for all customers; no one-to-one marketing has been carried out so far, although technically Nettimarket.com could do so. Aki relies on online advertising on his own website; no banners are being placed on other Internet sites. To ensure maximum visibility for the company, some ads were placed in a local newspaper and the Nettimarket.com website address is displayed on the delivery vans as well as on the plastic bags in which the groceries are delivered. On the Nettimarket.com site, a frequently asked questions (FAQ) section is now available, but there are only a few posted questions, which might suggest that the system is rather easy to use.

### Looking ahead

Most Nettimarket.com customers are middle-aged/career families or young (often single) people. They value quality of life and can be divided into two groups: those who spend (most of) the day at home with their children, and those who are hardly at home during the day. Several online retailers in Finland consider families with small children as their primary customer target. This customer base has been expanding very slowly, with the exception of the elderly and disabled people who are part of City Hall’s e-shopping experiment. For Aki, the single most significant barrier to e-shopping is consumers’ reluctance to change their attitudes; this constitutes a major challenge for Internet retailers.

Although Aki welcomes all individual customers, he believes that they will not provide a sufficient
customer base for Nettimarket’s future. For him, corporative clients, such as companies and day nurseries, are important customer segments that he needs to tap into. However, Nettimarket’s current priority is to make the service provided to elderly and disabled people a great success. The delivery schedules and the routing have to be optimized, and the add-on services as well as the business cost-effectiveness need to be enhanced. As of March 2000, no deliveries take place on Saturdays, and orders must now be placed at least two hours before the desired delivery time. Nettimarket.com’s recent business expansion can no longer accommodate the 30-minute delivery time that was offered initially when the company made only a few deliveries per day.

Following the trial period, if City Hall’s assessment of the e-shopping experiment is positive, then Nettimarket.com will also start serving the southern and eastern regions of Turku. Business-wise, this geographical expansion will allow the company to at least double its sales turnover. For Aki, it would mean that he could finally start paying himself a decent salary.

Further improvements

In any start-up business, there are always lessons to be drawn during the initial operational phase. For Nettimarket.com, certain problems need to be solved. First, since the orders placed by the home-helpers through email use a free-text format, Aki must key them into the online grocery shopping system so as to be able to generate the goods pickings lists, invoices and delivery notices. This data-capture phase is time-consuming, error-prone and expensive and must be redesigned. Furthermore, Aki is also aware that the current shopping procedure relies heavily on the home-helper for (1) picking up the hand-written shopping list from the elderly, (2) placing the order over the Internet, and (3) being present at the goods delivery stage.10

While contemplating whether he will be able to improve the business significantly, Aki wondered whether the Turku City Hall would embrace e-shopping beyond the trial period. Does Nettimarket.com really stand a chance of surviving the emerging competition? Should he seek partners to further enhance and expand company operations? To what extent could he adopt (or adapt) the way American Internet retailers (such as Amazon.com) operate their cyberstores? For Aki, one thing is sure: he has embarked on a long journey and the voyage of discovery has just begun.

DISCUSSION QUESTIONS

1. What suggestions would you make to Nettimarket to further enhance its value proposition?
2. Should Nettimarket broaden its current customer segment? How about expanding its business scope and geographical scale?
3. Does Nettimarket stand a chance of surviving the emerging competition?
4. Should Aki seek strategic partners to strengthen his business? If so, what type of partners should he consider and why?

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10 Since Nettimarket.com does not offer the service of unpacking the groceries (something Aki should consider doing in the future).