Practitioner Paper

Targeting tourists: An exploratory study of a proposed online grocery delivery service

Gary L. Geissler
Received (in revised form): 7th September, 2001
Reviewed paper

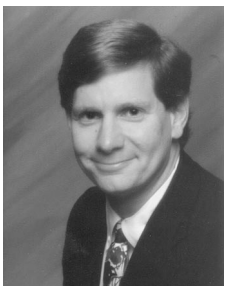
Department of Marketing and Advertising, College of Business Administration, University of Arkansas at Little Rock, 2801 South University Avenue, Little Rock, Arkansas 72204-1099, USA
Tel: +1 501 569 3356; Fax: +1 501 569 8898; E-mail: geissler69@comcast.net

Dr Gary Geissler *is an assistant professor of marketing at the University of Arkansas. He earned his PhD from the University of Georgia. His research interests include various consumer behaviour and advertising issues, such as how consumers perceive and use the Web as an advertising medium and how marketers use the Web as a relationship marketing and niche marketing tool. Services marketing, including travel and leisure, is another area of interest.*

ABSTRACT

While the Internet and the Web continue to grow in importance, marketers are becoming more realistic about the difficulties associated with generating profits online. The online grocery market is a prime example of such struggles. There is a need to examine the viability of online grocers targeting their marketing efforts to specific consumer segments and to smaller niche markets. A concept test among 141 target consumers is used here to provide a preliminary evaluation of a proposed online grocery delivery service designed exclusively for Alabama Gulf Coast tourists. The findings indicate that the service concept is appealing only to a small subsegment of consumers. Concept refinement may broaden its appeal. Nevertheless, niche marketing may be an appropriate strategy for the proposed service, as well as for many online businesses.

KEYWORDS: tourist, vacation, Internet, Web, niche marketing, online grocery industry



INTRODUCTION

The Internet and the Web continue to gain acceptance as viable channels for conducting business. Business-to-business and business-to-consumer revenues are rising rapidly. Internet-generated revenue (ie all business conducted electronically) is predicted to increase from an estimated $370bn in 2000 to over $1trn in 2002.[1] Service industries will account for an estimated $220bn in sales by 2003.[2]

Among the growing number of online services, the online grocery market is expanding quickly. According to Forrester Research, the 'online replenishment channel' (ie online grocery and personal care sales) is predicted to grow from $1.1bn in 1999 to $27.1bn in 2004. Apparently, the '80/20 rule' generally applies to this market — that is, approximately 80 per cent of the 2004 sales estimate will come from only 4.8 million up-scale shoppers, a relatively small portion of total online grocery shoppers.[3]

Competition is intensifying in the online

Journal of Vacation Marketing
Vol. 8 No. 3, 2002, pp. 277–286,
© Henry Stewart Publications,
1356-7667

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

grocery industry, despite difficulties achieving profits among large online grocers. Even Peapod, the longest-running online grocer and one of America's leading Internet grocers, has struggled to be profitable. Web-based grocers view storefronts as unnecessary and have opted to utilise an online-only channel approach. Some large supermarket chains have developed their own online grocery delivery services. One such chain is Albertson's, which is headquartered in Boise, Idaho, and serves 37 states. Recently, 17 grocers across the USA and Canada introduced Web-based delivery services that facilitate customer orders from their cellphones.

A current trend among large 'bricks-and-mortar' grocers appears to be partnering with or acquiring struggling Internet grocers. For example, Royal Ahold acquired Peapod, rescuing the latter from the brink of bankruptcy. Royal Ahold is a Dutch food specialist with a global network of food retail and food service companies in the USA, Europe, Latin America and Asia. Safeway, a Fortune 50 company and one of the largest food and drug retailers in North America, invested $30m in GroceryWorks, an Internet-based grocer operating in Texas since January 2000, to form a strategic alliance with an Internet expert.[4] In a recent press release, it was announced that Tesco will, in turn, establish a new strategic relationship with GroceryWorks.com. Tesco is the number one food retailer in the world, and Tesco.com is the largest and most successful e-grocer in the world.[5]

Amid the difficulty of achieving profitability online, e-services (ie services designed for the Internet) are also beginning to re-examine their business models. Specifically, online grocers will probably need to reorganise in order to focus marketing efforts on consumer segments rather than on brand and product categories, as many 'traditional' retailers do. More online grocers are realising that to be successful not only must they master Internet technology, but also they must effectively implement appropriate marketing strategies. More research is needed to examine the viability of both large and small online grocers focusing their marketing efforts on specific consumer segments and smaller niche markets.

The present study presents findings from a consumer evaluation of a proposed online grocery delivery service designed exclusively for tourists vacationing along the Alabama Gulf Coast. Service options include ordering groceries, prepared meals and other supplies via the company website. Prepared meal alternatives are the fastest-growing product category in grocery retailing and are relatively profitable. Thus prepared meals would be a mainstay of the product offering. Consumers would be charged a premium and a service charge for this delivery service.

The primary research objectives were to:

— gather and analyse Alabama Gulf Coast tourist demographics and consumer behaviour
— conduct a consumer evaluation of an online grocery delivery service concept.

Managerial implications are introduced and discussed.

NICHE MARKETING

This study highlights niche marketing within the broader context of segmentation, targeting and positioning. Market segmentation basically involves identifying groups of consumers who have similar characteristics (eg demographics, lifestyles, benefits sought) internally, but are distinct from other groups. Narrowly defined groups of consumers or sub-segments are called niche markets. Marketing programmes are targeted toward selected market segments and niches. Products and services are positioned in consumers' minds relative to competitive offerings. All of the marketing mix (ie product or service, price, promotion and distribution) helps define the positioning strategy.

Niches are relatively small and usually attract only one or two competitors, as opposed to larger segments that normally attract several competitors. Niche marketing may be a viable strategy for smaller companies and start-ups to pursue small groups of consumers that larger companies ignore or could not serve profitably. However, both small

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

and large companies can practise niche marketing. Some large companies have proactively turned to niche marketing because it can be profitable, although it generally requires that the companies be decentralised and often change their way of doing business. Other large companies have reacted to smaller companies taking small pieces of the market. In essence, companies have to niche or risk being niched.[6]

An attractive niche is comprised of customers who have a distinct set of needs and are willing to pay a premium to the company that best satisfies their needs. While an attractive niche has some size, profit and growth potential, it is not likely to attract other competitors. Also, the nicher should gain certain economies through specialisation.

Niches that were too small to be served profitably in the past are more viable today as marketing efficiency continues to increase, especially with Web-based marketing. Relatively lower start-up costs on the Internet may make it more profitable to serve even seemingly minuscule niches. Successful nichers tend to be very dedicated to their customers and offer superior performance, responsive service, punctual delivery and customer intimacy.[7] The Web may be more conducive to building strong customer relationships than other targeted media, such as direct mail.[8] A key to targeting a niche market successfully via the Web is to choose a hard-to-find product or service that customers do not need to see or touch.[9]

NEW PRODUCT (SERVICE) DEVELOPMENT PROCESS

The new product development (NPD) process guides this investigation. The NPD process is crucial to the success of new products, which have an estimated 80 per cent failure rate.[10] New products fail for numerous reasons, including ignoring negative research findings; overestimating the market size; poorly designing the product; incorrectly positioning the product; and inadequately supporting the product after its launch.

The NPD process helps place the proposed concept test into perspective. A key success factor for new product (service) introduction is a well-defined product or service concept. A company must carefully define and assess the target market, product (service) requirements and benefits before proceeding.[11]

Although minor variations in terminology are found in the literature, there is general agreement concerning the basic steps in the NPD process. The first step is idea generation. Ideas must be internally screened to gather management's initial reaction to various issues, such as capital investment requirements and whether the new product or service is compatible with existing products or services. Once an idea has passed management's initial review, the idea should be analysed more formally in terms of market potential and financial considerations. A thorough market analysis is of critical importance.

The second step of the NPD process involves concept testing. Ideas that pass the internal screening are developed into concepts to be evaluated by target consumers. A concept may be eventually developed and refined into a physical prototype or a service offering. Often, consumers initially evaluate a concept in the form of a verbal description of a proposed product or service. It typically consists of attributes, benefits and positioning.

Here, the founders of a proposed online grocery delivery service are planning to target a niche market of tourists vacationing along the Alabama Gulf Coast. Consumer benefits are thought to be primarily convenience and time savings. The service would be positioned as a more convenient and less time-consuming, albeit premium-priced, alternative to grocery shopping and meal preparation in advance of or during a beach vacation. As part of its new service development process, the company is interested in having target consumers evaluate the following concept statement:

> 'We would like to get your opinion about a new online grocery delivery service designed exclusively for beach vacationers.

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

You would be able to conveniently order groceries, prepared meals, and other supplies through a Web site. You could place your order before you depart for your vacation, and a package would be delivered directly to you on your day of arrival. Orders for groceries and other basic supplies would need to be placed three days in advance of your arrival, and prepared meals would need to be ordered ten days in advance. This service is designed to save you time in terms of shopping for groceries or preparing meals in advance. You would be charged a premium and 20% service charge for this delivery service.'

BACKGROUND

Founded in 2000, this company would provide an alternative shopping and delivery service for groceries, prepared meals and vacation supplies to tourists vacationing in the initial target region of the Alabama Gulf Coast. The idea is to help provide a more enjoyable vacation, free from the time-consuming and inconvenient activities of grocery shopping and meal preparation. Based on prior research, the owners believe that target consumers would be more predisposed to using an online grocery service on vacation than at other times of the year.

A research study conducted by the owners indicated that the Alabama Gulf Coast is primarily a regional destination, drawing tourists mainly from Alabama and a few surrounding states. Nearly all of the tourists drive to the area. Only about 10 per cent of the tourists packs major grocery items prior to departure. The average time spent shopping and cooking meals during a stay is 4.75 hours. Also, 80 per cent of those surveyed have Internet access at home or at work, and 45 per cent have purchased online.

The Gulf Coast Convention and Visitors Bureau conducts an annual survey among visitors to the area. A profile of the typical tourists reveals that they are families with more than one child, and tend to make repeat visits each year. They drive an average of 3.5 hours from their homes, and they stay an average of 4.5 days. The average visitor is attracted by the family atmosphere and reasonable cost of the area, and is highly satisfied with the overall experience.

Based on these studies, the company will target dual-income families with children. The annual household incomes of these target consumers average $50,000 and higher. Company research reveals that these tourists tend to spend the most money on vacations, have access to the Internet and appreciate convenience.

There are several possible reasons why a consumer would consider online grocery shopping for a vacation. First, consumers may be unfamiliar with local grocery stores, and they may not have a preference for these stores. Second, there may be more value placed on time savings during vacations. Shopping for supplies and groceries is a time-consuming chore, often done the day after arriving. Third, it may be more convenient for tourists simply to order a customised package of groceries and other items for delivery on the day of arrival than to have to prepare and pack such items in advance. Thus the service would probably appeal to tourists who value the advanced planning, time savings and convenience associated with prepared meal alternatives and product customisation.

METHODOLOGY

This research study was exploratory in nature. A test was designed to provide a preliminary consumer evaluation of the service concept. Specifically, the concept test was used to gather the following information:

— initial reaction to the service concept
— purchase intent
— reasons for purchase interest or lack of interest
— amount of service charge and mark-up consumers are willing to pay
— Alabama Gulf Coast tourist demographics and consumer behaviour.

An in-person survey was conducted among tourists at two beach locations along the Alabama Gulf Coast. A total of 141 surveys were completed among qualified consumers. Respondents were randomly re-

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

cruited and qualified according to whether they were 18 or older, on a family vacation and Internet users. The screening questions ensured that certain characteristics of the respondents closely matched those of the target consumers.

A range of age and income groups were sampled. The largest proportion (26 per cent) of respondents were 35 to 44 years old. Most (73 per cent) of the respondents were 35 or older.

Over half (54 per cent) of the respondents had total annual household incomes of $50,000 or more. Respondents were also asked whether they had ever made a purchase via the Internet. Most respondents (58 per cent) had made at least one purchase online. As mentioned above, management felt that families with total annual household incomes of $50,000 or more would be an appropriate target market.

The survey instrument was pre-tested among a sample of target consumers. The questionnaire was refined so that it was easy to understand and complete. The survey data were entered and analysed in a SPSS 10.0 statistical program.

KEY FINDINGS

Alabama Gulf Coast tourist behaviour

A tourist profile was compiled based on responses to questions concerning their demographics and consumer behaviour (see Table 1). On average, qualified respondents vacationed with around four people, including themselves. Over half (54 per cent) of the respondents stayed at either a hotel or a motel. The remaining respondents stayed at a condominium (28 per cent), rented beach house (14 per cent) or somewhere else (eg a trailer park or an owned home) (4 per cent). The duration of stay averaged 4.7 days.

Table 1: Alabama Gulf Coast tourist profile (n = 141)

Number of people in group	Mean = 3.9
Type of accommodation	%
Hotel	34
Condominium	28
Motel	20
Rented house	14
Other	4
Duration of stay	Mean = 4.7 days
Number of times dined out	Mean = 5.4
Number of times cooked (n = 63)	Mean = 4.8

During their vacation, respondents dined out an average of 5.4 times. Of those respondents who had cooking facilities, they cooked an average of 4.8 times during their stay. It is assumed that some meals were prepared in advance.

Service concept evaluation

Respondents were asked to evaluate the aforementioned concept statement about the proposed service. First, respondents were asked: 'What is your initial reaction to this online delivery service?' Opinions are best described as mixed. Positive responses focused on favourable convenience and time-saving perceptions. A typical comment was:

> 'That would be great. It would save me a lot of time. I could have a real vacation for a change.'

Negative comments primarily concerned the perceived high price for the service and the ten-day advance ordering requirement for prepared meals. A representative comment follows:

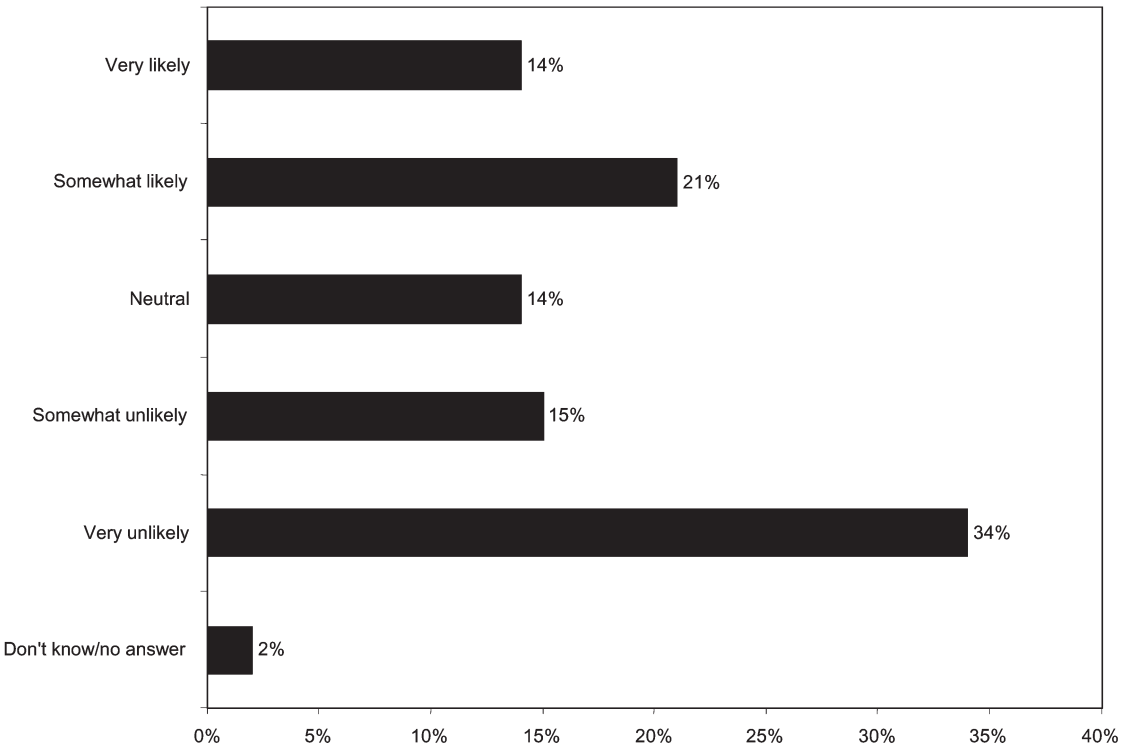
> 'It sounds like they're double-charging. There's no way I would pay that much for delivering groceries. And, why in the world would you need to order meals so far in advance?'

Some respondents appeared to be neutral concerning the service. They indicated that they were not sure about the price, the quality and selection of the food and ordering online.

Next, respondents were asked to indicate how likely or unlikely they would be to place an order, if this delivery service were available to them (Figure 1). Overall, positive purchase intent (35 per cent) was somewhat limited. Around 14 per cent of

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

Figure 1 Grocery delivery purchase intent (n = 141)



respondents indicated that they would be 'very likely' to place an order; another 21 per cent would be 'somewhat likely'. These respondents were also asked: 'Why would you be likely to place an order with this service?' Again, the primary consumer benefits appear to be time savings and convenience. Also, some consumers commented that they would prefer to avoid the hassle of shopping at local grocery stores, which often have unfamiliar layouts and crowded aisles during the peak tourist season.

Nearly half (49 per cent) of the respondents had negative purchase intent. Just over a third (34 per cent) said that they would be 'very unlikely' to place an order, while 15 per cent would be 'somewhat unlikely'. Of the remaining respondents, 14 per cent were neutral in terms of their purchase intent, and 2 per cent did not know or did not answer. Reasons for negative purchase intent included perceived overpricing, questionable service quality, unfamiliar concept and the advance ordering requirement.

In addition, respondents were asked: 'How likely or unlikely would you be to order prepared meals, as part of this delivery service?'(Figure 2). Just over a quarter (26 per cent) of respondents were favourably disposed to the idea of ordering prepared meals for delivery. Around one in ten respondents would be 'very likely' to use the service option; 16 per cent would be 'somewhat likely' to place an order. A typical comment was:

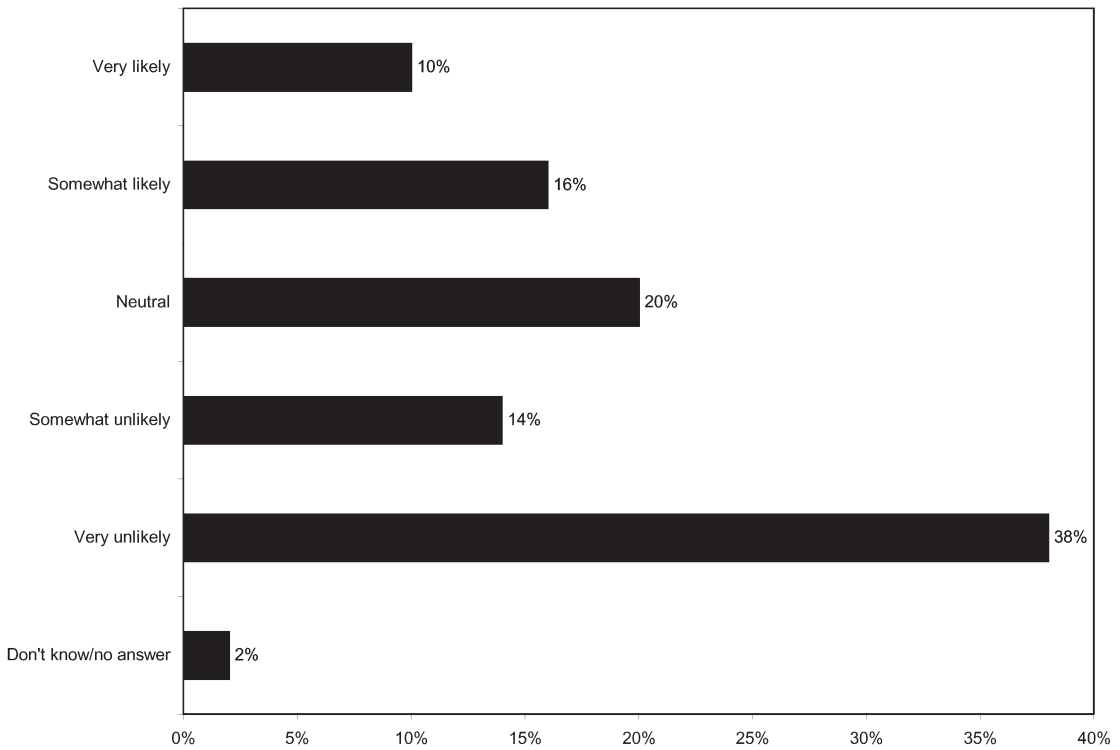
> 'Not having the hassle of cooking or having to deal with crowded restaurants would definitely make our stay more enjoyable.'

However, most respondents (52 per cent) said that they would be 'very unlikely' (38 per cent) or 'somewhat unlikely' (14 per cent) to order pre-cooked meals. One in five

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

Prepared meal purchase intent (n = 141)

Figure 2



respondents (20 per cent) were neutral with regard to the service option.

Many consumers prefer to prepare their own meals or eat out during their vacation. Also, there was a strong negative reaction to the ten-day advance ordering requirement, as the following comment illustrates:

> 'I don't know what I will eat tonight. How am I expected to know ten days in advance?'

In addition, consumers were asked: 'How much of a delivery charge would you be willing to pay for this service?' and 'How much of a mark-up over the retail cost of the groceries and supplies would you be willing to pay for this delivery service?' For the most part, consumers were willing to pay a delivery fee up to 15 per cent of the total order price. This fee amount was generally considered 'standard' or 'customary' relative to other services, such as a tip for restaurant service. Many consumers commented that they did not think it was fair for the company to charge a delivery fee *and* a mark-up. A typical comment follows:

> 'It sounds like they're charging too much with a delivery fee and a mark-up on grocery prices. There comes a point when the cost does not outweigh the time savings.'

DISCUSSION

At a time when even multimillion-dollar online grocery delivery services are having trouble staying afloat financially, Web-based businesses such as this local delivery service would face many difficult marketing challenges and decisions. Overall, a relatively small sub-segment of tourists are favourably

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

disposed to the online delivery service concept. Refinement of the concept may broaden its appeal. For example, consumers perceive that the ten-day advance ordering requirement is excessive. The company must be able to respond much more expeditiously. Large online companies, such as Peapod and Amazon, have helped to create service quality expectations by offering overnight shipping and other services to customers. Today, consumers *expect* a fast turnaround from Web-based businesses. Thus, the challenge for this company and for other practitioners is to meet or exceed customer expectations, as other online businesses continue to 'raise the bar' with regard to service quality.

Also, marketing practitioners must often develop their pricing strategies relative to competitors' prices. In this case, any delivery charge or mark-up should not be too far out of line with fees charged by large online grocery delivery companies, such as WebVan, Netgrocer and Streamline. A nominal handling fee of $5 or so is typical in the industry. Although tourists may accept a premium for the delivery service, they seem to be willing to pay only a single, customary service charge of no more than 15 percent. More than one charge or a higher percentage would probably elicit a negative consumer reaction.

Businesses must first create awareness of their websites. Typically, any materials that include the company name should also include the website address to help facilitate consumer awareness. Specific printed materials include items such as brochures, letterhead, business cards and print ads. Non-print advertising, such as television and radio ads, should also incorporate the Web address.

In this case, it would also be advisable to develop strategic relationships with local real estate agents who book condo and beach house rentals and with hotel and motel managers. Management will need to sell the idea that they provide a value-added service that would help make the tourists' stay more enjoyable. Ideally, the delivery service could engage in joint direct mail efforts and include a company brochure with the information mailed to current and prospective customers by the booking agency. In return, the company could provide links to booking agents on its website.

The online delivery service would benefit greatly from gaining access to the agents' customer databases. The company may need to pay for this information, or it may be included as part of the arrangement. Important information would include arrival times and duration of stay, some demographics, payment method and credit card numbers and e-mail addresses of customers at home and work. Such specific information would aid in direct marketing efforts and in more efficient and timely processing of customer orders.

Moreover, gathering customer information is perhaps the most important step in initiating and maintaining relationships online. Interactivity begins with establishing a customer database and encouraging feedback. Two-way communication is a defining advantage of the Web relative to traditional media.

The company's primary means of communicating with current and prospective customers would be via its website and through e-mail. The website would provide a detailed description of service options and a list of items that could be ordered. The company should design the ordering process to be as easy and quick as possible. Customers should be assured that ordering is secure, as well. Gathering additional customer information with online surveys would provide invaluable data and feedback to profile and target tourists better and to help develop online customer relationships. Gaining permission to send information and updates to customers by e-mail would be prudent, considering the increasing amount of telemarketing, direct mail and especially 'junk' e-mail. 'Permission marketing' is an increasingly relevant and savvy tactic for marketing practitioners to consider.

In addition, traditional media could be used not only to create awareness but also to promote Web-based businesses. The challenge for marketing practitioners is to employ effectively an integrated marketing communications (IMC) strategy. Coordinat-

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

ing Web marketing efforts with other marketing communication will help prevent customer confusion by ensuring that a consistent message and positioning are communicated.

For a local online delivery company, media options include press releases and ads placed in local newspapers, preferably in the travel sections. Although relatively expensive, advertising in travel-oriented magazines would be another way to reach the target market. Delivery service brochures could be made available in hotel and motel lobbies and rooms and in condos and rental houses. The latter 'place-based' option implies that the company would need to process orders much more quickly than originally proposed.

Marketing a service to tourists is somewhat seasonal by definition. A key challenge for management would be to find ways to level out sales during non-peak tourism times. One consideration would be to expand the target market to the larger community. The feasibility and advisability of such a strategy would require further investigation.

MANAGERIAL IMPLICATIONS

The euphoria associated with the advent of the Web is beginning to subside, especially in light of recent declines in technology stocks and struggling Web-based businesses. As idealistic visions of marketing to huge global consumer markets with unlimited profit potential wane, a new reality of conducting business online sets in.

Online marketing practitioners are finding that the design and implementation of effective websites involves the creative use of relatively new marketing approaches, such as IMC, and more 'traditional' time-tested ones, such as segmentation, targeting and positioning. Many understand that the 'build it and they will come' approach is not valid in the increasingly fragmented and competitive arena of Web marketing. To be effective, the website must be designed with the target audience as the foremost consideration.

This study illustrates a situation facing many current and prospective e-commerce businesses — the need to employ a highly targeted niche marketing strategy. The service concept evaluated here is not needed or wanted by the entire segment of tourists. However, it is very appealing to a subsegment of these consumers, albeit a relatively small one. Refining the concept may increase its appeal to a broader segment of consumers. Nevertheless, the Web has the potential to provide an effective means of reaching and serving niche markets.

Larger competitors often find a niche market insignificant or too costly to serve. This reluctance may provide an opportunity for specialised, savvy marketers to target the niche market profitably. The challenge for practitioners is to serve these consumers more efficiently than direct competitors, if any. A key to marketing effectively online, as with more traditional forms of direct marketing, is to develop a detailed database of current and prospective customers.

Marketing practitioners are finding that it is not enough to just 'establish a presence' on the Web. The costs associated with buying customer information or with providing incentives (eg free merchandise) to customers to complete a personal information form are undoubtedly more than offset by the long-run profit potential typical of strong customer relationships. This information is needed to develop highly targeted marketing efforts, and ultimately to help initiate, build and maintain customer relationships online.

REFERENCES

(1) ActivMedia Research (2000) 'Seventh Annual Survey of Online Commerce', http://www.activmediaresearch.com.

(2) Forrester Research (2000) 'Forrester's Leading Internet Research', http://www.forrester.com.

(3) Neff, J. (2000) 'Study: Online grocers ring package-goods bell; marketers urged to move dollars to reach time-strapped shoppers', *Advertising Age*, 8th May, p. 80.

(4) Briody, D. (2000) 'Grocers stock online shelves — retailers go shopping for hybrid e-commerce strategies', *InfoWorld*, Vol. 22, No. 17, p. 1.

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016

(5) *Business Wire* (2001) 'GroceryWorks.com establishes new strategic relationship with Tesco PLC', *Business Wire*, 25th June, http://biz.yahoo.com.
(6) Linneman, R. E. and Stanton, J. L. (1991) 'Making Niche Marketing Work: How to Grow Bigger by Acting Smaller', McGraw-Hill, New York.
(7) Simon, H. (1996) 'Hidden Champions', Harvard Business School Press, Boston, MA.
(8) Krol, C. (1999) 'Web becomes crucial to relationship efforts: Miller/Huber's new clientnet formalizes its interactive capabilities', *Advertising Age*, 24th May, p. 52.
(9) Davidson, P. (1998) 'Entrepreneurs reap riches from Net niches', *USA Today*, 20th April, p. B3.
(10) Rasmussen, E. (1998) 'Staying power', *Sales and Marketing Management*, August, pp. 44–46.
(11) Cooper, R. G. and Kleinschmidt, E. J. (1990) 'New Products: The Key Factors in Success', American Marketing Association, Chicago.

Downloaded from jvm.sagepub.com at PENNSYLVANIA STATE UNIV on September 17, 2016