HOMEGROCER.COM: AN ANATOMY OF A FAILURE

Terry Drayton, the co-founder and original CEO of the now defunct HomeGrocer.com, left the meeting charged and hopeful. He had just met with the original management team and co-founders of HomeGrocer.com to discuss the possibility of reviving the online grocery business. Although the company was a victim of the dot.com bust and a unsuccessful merger with Webvan a few years back, there was now growing interest from investors in possibly funding an online grocery venture.

Terry and his team had originally started HomeGrocer.com in Seattle in 1997. They raised over $440 million in venture capital, opened eight distribution centers, and established operations in six locations on the West Coast of the United States in a relatively short time. They had plans for more locations and were in midst of a fast rollout when HomeGrocer went IPO on March 9, 2000. A month following the IPO, the NASDAQ dropped 35% from a high of 5,132 and the opportunity for a secondary round of funding disappeared. Lacking cash to deliver on the growth plans laid out in their IPO prospectus, they tried to weather the financial crisis by merging with Webvan, a California-based online grocer launched in 1999.

Webvan had a larger capital base with a market capitalization of $8.8 billion at its 1999 peak compared to HomeGrocer.com's market capitalization of $725.5 million at IPO. Webvan took control of the merged entity. Webvan managers then transitioned all of the HomeGrocer distribution centers to Webvan technology and created a single Webvan brand to chagrin of HomeGrocer executives. However, no matter what they did, they kept burning through cash quickly and their share price declined rapidly, it went from a high of $26 in December 1999 to $4 at the time of the merger (August 2000) to 5cents a share in January 2001. In June 2001, less than a year after the merger was announced, Webvan filed for bankruptcy.

Terry had learned a great deal through the process of founding HomeGrocer.com. He strongly believed that he and his team had done many things right and they were so close to "cracking" the online grocery model. As Terry drove home from his meeting, he wondered aloud about what he might do differently if given the opportunity. He reflected on his experience in founding HomeGrocer.com, trying to isolate the "critical" mistakes that he and his team would avoid this time around. He was confident that he could do "pull" this off, if given another chance.

Research Associate Greg Fisher and Professor Suresh Kotha, Olesen/Battelle Chaired Professor, both from the University of Washington's Foster School of Business, prepared this case. The case was developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

THE COMPANY BACKGROUND

Terry Drayton and his friend Mike MacDonald founded Homegrocer.com, an Internet-based grocer, in 1994. Terry, having just sold Crystal Springs Water Co., a company that delivered bottled water to businesses in and around Vancouver, British Columbia, was looking to start something new. On a cold, snowy, wintery day in 1994, Terry's wife, a busy mom, challenged Terry that he should be delivering groceries instead of bottled water so that moms like her didn't need to venture out in a snow storm to buy groceries. The idea intrigued him, so he discussed it with Mike MacDonald, president at Concord Sales, the largest food broker in British Columbia, Canada. Mike, too, was intrigued, so he and Terry put up some initial capital, and Terry wrote a business plan. Mike's friend, Ken Deering, who had computer and technology expertise, joined them as vice president of systems. They called their new venture HomeGrocer.com.

Initial Funding. By April 1997, Terry raised $350,000 in seed capital funding primarily from friends and family. Needing more money, he then targeted venture capital (VC) firms in Vancouver. However, the team moved their operations to Seattle, Washington to be in a more "techno-friendly" city. At this time, a number of respected Wall Street analysts and investment bankers were touting how the Internet had the potential to fundamentally "disintermediate" incumbents in many industry supply chains. To many, disintermediation simply meant "cutting out the middleman" in a supply chain. As Mary Meeker, the respected Morgan Stanley stock analyst, notes:

> [I]t is important to understand the drivers of supply and demand, and therefore how Internet-based distribution may affect this chain and whether there will be disintermediation….For example, Amazon.com would be classified as a disintermediary, as it removes the inventory chain to the bookstore (e.g., brick-and-mortar Barnes & Noble stores) and potentially creates better unit pricing (than the traditional stores), better service, and so forth, while reducing the capital tied up in inventory. [It is] pretty simple — less overhead, more efficiency, better prices for consumers.[1]

Comments such as these got investors excited and fueled a buoyant venture capital industry for funding online ventures. In May 1998, Terry raised $4 million in Series A (first round) funding. Noted Tom Alberg, a respected VC investor from Madrona Ventures in Seattle and an early investor in HomeGrocer.com:

> Well, we had already invested in Amazon.com so we were beginning to see that online commerce could work. This [venture] was much different because everything from the delivery to the inventory to a whole lot of issues … but nonetheless, lots of people are frustrated with the regular grocery stores and the lack of inventory sometimes and having to carry [grocery] bags out, and parking and everything else. So we thought there was an opportunity and that it could be a really big business. But unlike Amazon.com though, you can't serve the whole country from one warehouse initially. You've got to start by building out in cities. So we really realized it was going to take a lot more capital. But we were attracted by Terry's idea of doing it in a relatively low-capital way.

Four months later, the HomeGrocer.com team raised another $6 million in Series B funding with Kleiner Perkins Caufield & Byers, the legendary Silicon Valley VC firm, as the lead investor in this round. This was followed by a series C funding round. By this time, the market was abuzz with hopes for the Internet-grocery business, and HomeGrocer.com attracted the attention of

[1] M Meeker & S Pearson. *The Internet Retailing Report*. Morgan Stanley US Investment Research. May 28, 1997

Amazon.com; Jim Barksdale, an early executive with Netscape and former senior executive with Federal Express; and John Malone, the legendary Cable TV operator and Liberty Media Investor. Notes Terry:

> [W]e actually went out to raise $20 million, but everybody wanted to own more of the company, so the round kept going up. And it was just the math, Amazon.com insisted on owning 35% and so we had a valuation in mind and so we just had to raise way more money – actually $52.5million – than we ever intended.

Soon a Series D financing round followed in April 1999, in which HomeGrocer.com raised another $110 million. The primary investors during this round of financing were CBS Inc., Knight-Ridder Co., Softbank Co. of Japan, Benchmark Capital, Sequoia Capital, and others.

With the frenzy about Internet-based ventures in full swing in the United States, Terry raised a considerable amount of money, $172 million. Terry's original business plan called for $15 million in funding from venture capitalists followed by an IPO to secure another $50 million in capital. Terry also assembled a very impressive board of advisors that included Jeff Bezos, founder of Amazon.com; the legendary John Doerr from Kleiner Perkins Caufield & Byers, from Silicon Valley; Jim Barksdale; and Martha Stewart, among others.

Going Live in Seattle and Expanding. According to Terry's business plan, the company was to spend the first 12 to 15 months getting its first distribution center in Seattle up and running, then begin rolling out new facilities every three months. The idea was to learn as much as possible from launching and managing the first distribution center and to perfect the model before replicating it in other regions. In May 1998, its website went "live," and commercial operations officially began with a staff of 60 people. HomeGrocer.com attracted 300 customers during the first month of operations and found that, on average, each customer ordered three times per month at an order value of $75 per order. According Terry's original plan, the Seattle facility would break even at about 1,100 orders per day (See **Exhibit 1 and 2**).

In May 1999, HomeGrocer.com entered Portland, Oregon with a new distribution similar to Seattle. A few months later in September 1999, it entered California with a distribution center in Orange County. In California, the company employed a more automated system where items were picked in zones and batches, and conveyors were used instead of people walking around doing the picking. Also, instead of using a 50,000-square feet facility, it now used a facility double that size. The company was doubling the number of employees every five or six months and by November 1999, it had 1,000 employees on payroll.

Over the next few months, the company opened a series of new distribution centers: a second facility in Orange County, a second in Seattle, two in Los Angeles, and one in San Diego. In total, the company had opened eight new distribution centers at a rate far faster than Terry's original business plan had indicated. Notes Terry:

> The biggest consequence of raising a lot of venture capital was with all this money everyone expects you to grow that much faster. That's very difficult to do in a logistics intensive business like HomeGrocer.com, especially when your business is not yet fully baked. If you're the entrepreneur, what you'd love to do is stuff it [the money] all in the bank and take your time, and knowing that you don't actually have to go spend more time raising money. You can instead focus on the perfecting the venture. Venture capitalists don't like that. They want you to go full speed all the time with the gas pedal pegged to the floor.

Competitors. There were a number of other companies in the United States that were also attempting to perfect the online grocery retail model. These included Peapod, which delivered products from existing retail stores; Netgrocer.com, which delivered only non-perishable packaged items using courier services such a FedEx or UPS; and Webvan, the grand project of Louis Borders, cofounder of Borders Books and Music. Webvan had attracted large amounts of venture capital from high profile VCs with the promise of revolutionizing retail by creating a web-based storefront selling "everything from groceries to palm pilots." With a massive warehouse in the San Francisco area, a company owned fleet of trucks, and a highly sophisticated automated picking system, Webvan was considered to be HomeGrocer's fiercest rival. Both companies were striving to be "first to market" in establishing a web based retailing presence in the biggest cities in the United States.

Going Public Early. As the investment climate for Internet initial public offerings (IPOs) remained strong, the company prepared to go public. HomeGrocer.com's financials revealed that it lost $7.9 million on $1.1 million in revenue in 1998 and $84 million on $21.6 million in revenue in 1999. HomeGrocer.com's board decided to bring in an "experienced" CEO to replace Terry and a new CFO prior to its public offering. Terry was not completely pleased with the idea, but was supportive nevertheless. Board member John Doer, representing Kleiner Perkins, Barksdale, and Terry looked for candidates with relevant logistics, financing, and management experience. For CEO, they hired Mary Alice Taylor, a former CIO at Citigroup and a senior executive of operations at Federal Express, someone Barksdale had recommended. They also hired Dan Lee, CEO of Mirage Resorts for 10 years prior, as CFO (See **Exhibit 3**). According to company executives, this was common practice followed by investment bankers in Wall Street during that time: Internet companies would recruit executives from "old-line" businesses and then take "new-line" businesses public and garner a few hundred million in increased market capitalization, just like that.

HomeGrocer.com went public on March 10, 2000. The stock opened at $12.88, reached a high of $16.25 on day one, but closed at $14.12. HomeGrocer.com's top-management team wanted to raise between $500 and $600 million in capital, but instead they ended the day with $268 million.

The Stock Market Collapses. In April 2000, the NASDAQ index 'tanked' with the Internet "bubble" bursting.[2] Overnight the Wall Street mantra for Internet businesses changed from "Get Big Fast" to "Find a Path to Profitability." HomeGrocer.com had spent the past 18 months gearing up for a rapid rollout, but slowing it down would take time and effort. Further, the company lacked the capital needed to achieve positive operating cash flows on its eight distribution centers. It projected needing between $300 and $500 million in additional capital to remain a viable operation, and when, or if, the financing window would reopen was unclear. With such uncertainty, 4th-quarter growth plans were put on hold. Also, during this time competitors began to compete head-to-head in the new markets.[3] Without additional capital, HomeGrocer.com was now at risk of being able neither to support its large workforce nor fund its

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[2] Peapod, one of the early entrants into the online grocery business, lost its CEO, Bill Malloy (former COO of AT&T Wireless). As news of his resignation spread, the company's share price dropped drastically from $12 to $4. Internet grocers around the U.S. such as Webvan, Peapod, Streamline, and GroceryWorks.com began to feel the impact. Safeway, one of the nation's largest grocery chains, acquired GroceryWorks.com, and Royal Ahold acquired a controlling interest in Peapod. Further, Webvan, Peapod, and Streamline saw their stocks drop below their IPO prices. Webvan shares had come down to around $12, a 20 percent drop from its $15 IPO price. Peapod, the grand daddy of online grocers, was trading around $8.50, down 45 percent from its June 1997 IPO.

[3] HomeGrocer had planned to enter Dallas in May, where they would compete with GroceryWorks and Peapod. HomeGrocer had plans to enter Atlanta during the Fall 2000, where Webvan was already operating. They had plans to enter Chicago, which was Peapod's "stomping ground". Webvan had also announced plans to enter Chicago. More importantly, Webvan had plans to enter the Seattle market in October, HomeGrocer's home turf.

expansion plans as described in its prospectus. The management and the board were concerned that lawsuits from investors were also likely if the expansion plans were not carried out.

These were difficult times for HomeGrocer.com. The company had only $257 million in cash on hand, and financial losses were mounting. By this point, HomeGrocer.com had over 2,300 employees, and the company's stock was trading at $5, a number representing a 64% drop in value in a month. Terry left the company due to differences with the new CEO. It was under such conditions that Mary Alice Taylor began exploring ways to move forward.

THE U.S. GROCERY INDUSTRY IN THE LATE 1990s

The Traditional Grocery Industry

The United States grocery industry is a mature, extremely competitive and fragmented industry, with low profit margins. **Exhibit 4** provides an overview of the grocery industry, and **Exhibit 5** compares grocery store sales between 1988 and 1998. In 1998, retail supermarket sales were approximately $449 billion. Grocery retailing had experienced growth in real sales during only four of the last ten years, and net profit margins remained rather thin at 1% of sales. The industry was (continues to be) highly fragmented. For instance, in 1997 wholesale industry revenues were $315 billion, of which SuperValu, the largest wholesaler, captured only a little over one half of a percent, while servicing 4,800 stores. Starting in 1992, the wholesale industry has witnessed an average of 20 acquisitions annually. In 1997 alone, 40 mergers and acquisitions occurred. Following the trend set by wholesalers, retailers are also engaging in mergers and acquisitions.

According to reports published in 1998, the United States population was expected to decline with an average birthrate of 1.3 for every two people. Continued survival and growth of firms competing in the grocery industry had to therefore result from cost-containment efforts, increases in economies of scale and scope, a greater penetration of existing markets, and larger than average purchases from consumers. Additionally to increase revenues, grocers increased the breadth and depth in fresh produce, meat offerings, organically grown products, and relied on private-label products with higher margins.

To reduce costs, retailers looked to their supply chains and stepped up pressure on wholesalers to reduce costs and to pass some of those savings on to them. Wholesalers responded by implementing efficiency-driven tactics such as bar coding and scanning, onboard computer systems for delivery trucks, and new delivery trucks with multiple compartments and climate controlled trailers. They adopted just-in-time concepts that minimized non-value added inventory costs such as product shortages, obsolescence, and spoilage. The grocery wholesale and retail businesses had become deeply interwoven and interdependent. Despite streamlining activities, wholesalers and retailers still had to contend with slim-operating margins.

The Market for Online Groceries

According to a 1998 report by IDC, a market-research firm, the number of individuals using the Internet in the United States was forecasted to grow at a compound annual growth rate (CAGR) of over 23% in 2003, and the number of individuals making purchases online was forecasted to increase at a CAGR of approximately 28% from 21.1 million in 1998 to 72.1 million in 2003. Forrester Research, a Cambridge, Massachusetts research firm, forecasted that the total United States Internet-retail commerce was likely to grow from approximately $20.3 billion in 1999 to approximately $184.5 billion in 2004, representing a CAGR of over 55 percent. It estimated that online-grocery spending would grow at a CAGR of over 100% over the next five years, from

$513 million in 1999 to $10.8 billion by 2003. Despite its size in absolute terms, this spending was expected to represent less than 2% of the total United States market for grocery products in 2003.

Forrester categorized the online-grocery industry into to two segments: full-service retailers and specialty stores. Full-service retailers are those selling a complete range of grocery products, including perishables. They provide home, office, or pick-up delivery options. Specialty stores, in contrast, offer a limited selection of gifts, hard-to-find items, or bulk replenishment products via the PC and ship directly to consumers. **Exhibit 6** provides a detailed breakdown of total electronic grocery spending in the U.S. for the years 1999 to 2003. It also highlights the total number of households buying groceries electronically. At that time, Forrester Research estimated that households buying groceries would reach over 16 million households by 2003.

Despite such bold projections, some were skeptical about whether the online grocery industry was ripe for online sales. Traditional bricks-and-mortar retailers were slow to embrace the Internet as a medium for selling groceries. Albertson's and Hannaford Bros were among the few traditional grocers that experimented with the online model. One of the major uncertainties facing the industry was if and when other major chains may enter the online space. Traditional retailers had significant buying power given their ability to source products at a lower cost compared to new entrants. This in theory could offer them significant advantages if they did choose to compete online. For example, Walmart, the world's largest retailer, had moved into the grocery business in the mid-1990s and because of their purchasing power had captured a significant share of the market in a short time. Many now wondered whether Walmart may enter the online grocery retail business given their expertise in IT and procurement systems.

While some detractors of online grocery retailing cited a declining population growth rate as a deterrent to the business, others focused on the fact that the demand for online groceries was unclear at best. Notes Tom Alberg:

> I think there's always been people who have said, "It [online markets] will never work for groceries. Margins are too low, how can you purchase at the same competitive prices?" And a lot of which is true but there's also online advantages obviously. You don't have to have the expensive space, parking lots, and as many employees. [These] are huge advantages.

Also, online grocers were not exactly responding to pent-up demand. The demand in this context had to be created. Because the service was novel, potential customers first needed to be informed of its existence and availability. Then they needed to gain enough trust to place their first order. Many questions about the transaction process also needed to be answered. However, irrespective of such concerns, a number of online grocers emerged to sell over the Internet and deliver to the customers' homes. However, at that point, there was little head-to-head competition among these new entrants because each focused on servicing a distinct geographical region.

HOMEGROCER'S ONLINE APPROACH

HomeGrocer.com was established as a full-service online grocer offering perishable and non-perishable items. The company enabled customers living within a designated region to buy groceries via its website and then delivered purchases to their homes. The company invested heavily in developing its website so that many aspects of the online-shopping experience were familiar to customers used to buying goods in a traditional grocery store. The website was user-friendly and time-efficient and allowed access to 9,000-12,000 items with an intuitively organized list (a traditional store carried over 100,000 items or SKUs). The customer could either "browse the shelves" or use the "search" function to locate items.

Customers would go online, order groceries, and select a 90-minute window between 1 p.m. and 9 p.m. the following day to have the items delivered. Orders over $75 had no delivery charge, and orders under $75 had a $10 delivery charge.

The "Online" Value Proposition

The key advantages were convenience, quality, and service. HomeGrocer.com enabled customers to shop "24/7" without leaving home. Goods were delivered directly to customers' homes, meaning that they no longer needed to carry heavy grocery bags when shopping. Because perishable items were never displayed in a store and were handled a maximum of two times before arriving at a customer's home, the fresh items were much higher quality and lasted longer than items purchased in a traditional grocery store. John Landers, the vice president of marketing, noted:

> Clearly, our produce was fresher than those bought at a traditional grocery store. We operated on a just-in-time inventory basis and did not require surplus merchandise for display. Theoretically [in a traditional grocery store] customers could select produce to their liking from the available produce by touching and scrutinizing. However, customers damage a good deal of produce by this inspection and are limited to selecting from a picked-over assortment. HomeGrocer.com pickers were able to select fruit to the customer's specifications without damaging the rest of the produce.

HomeGrocer.com focused on "quality" customer service. This entailed being very responsive to customer requests, following up after a delivery was completed, and training drivers to be very sensitive to customer needs. The driver was seen as a company representative since he was the only employee the customer ever saw. Delivery personnel were instructed to deliver the groceries all the way into the kitchen or pantry, after asking the customer whether they may enter the house. Further, donning surgical booties over their shoes was mandatory to leave no impact on the customer's home. This made quite an impression on HomeGrocer's customers. Observed Ken:

> This is a "loyalty point" that our customers appreciated. About 97 or 98% of all deliveries were taken to the kitchen counter. … The drivers were told, if you're going through the laundry room, put the soap there, and if you've got the big 20-pound dog food, ask if it goes in the garage and then just put it in the garage. And again, we'd get comments from people calling and saying, "I can't even get my husband to haul the dog food in." Then, they'd say, "The best thing about your business is I never have to pick up another 20-pound bag of dog food in the store, and the driver puts it in garage. He knows that's where we keep it." Or, "I can't believe he took the time to put the soap on top of my washing machine on the way out the door."

In addition to this, each first-time customer received a phone call from a customer-service representative to make sure she was completely satisfied with the order.

Marketing the Service

The company focused on families with incomes over $75,000. It targeted busy middle to upper class families with school-age children and both parents in professional occupations. Such families were typically short on time, spent enough on groceries to make buying online attractive, and had access to the Internet at home. Market research told the company that in these homes, women make the buying decisions. The website was therefore designed to appeal to women. Notes Ken:

> The venture chose to build a standalone brand and took on traditional supermarkets as its competitors by providing customers with an alternative to buying groceries from a store. HomeGrocer's pricing and positioning was similar to QFC, better and more expensive than Albertsons, but not as expensive as Larry's, which was the local (Seattle's) Whole Foods equivalent at the time HomeGrocer.com was launched.

Initially HomeGrocer's advertising and promotion focused on the convenience of buying online. After Jon Landers joined as VP of marketing in November 2008, the company also began promoting the freshness and quality of the products. John decided to stress this advantage by sending out free sample produce bags with each order. Notes Deering: "This was great consumer marketing and played to the idea that if customers trusted a grocer's produce, they would be happy to order prepackaged food from the company."

Customer Acquisition

The HomeGrocer.com team put a great deal of effort into customer acquisition. In addition to distributing free fresh produce bags in targeted neighborhoods, they gave away coupons to encourage customers to buy and eliminated delivery charges for first-time buyers. This was, however, a costly exercise. The company was spending about $300 per customer in acquisition costs but then struggling to retain the customers. Many would stop buying after three or four purchases. Picking up on this, Landers implemented a psychographic profiling process, using GIS (Geographic Information Systems) mapping, to ensure the team was targeting areas with customers with the appropriate psychographic profile. This move helped bring down acquisition costs and improved customer retention rates, but it did not entirely solve the problem.

Although all sales were done via the Internet, generating web traffic was not critical for generating sales. It was a time before email marketing or Search Engine Marketing. To drive traffic to the company's website, HomeGrocer.com used traditional media including direct mail pamphlets, newspapers and TV ads. It also used unconventional marketing in the form of Peach Parties (a form of Tupperware parties for early Internet users) and extensive sponsorships of local community organizations (e.g., donating apples and water to a school PTA member, who handed out direct mail pamphlets that generated $25 for the PTA if people tried HomeGrocer.com). Later they entered into partnerships with AOL and Amazon.com.[4] Discussing these partners, Terry had the following to say:

> These were basically the big players in the Internet and especially for customer acquisitions. We had Amazon.com as a shareholder, [and so] we had to deal with them. We signed a big AOL deal because at that stage AOL was so dominant, they were about 40% of the overall market, but for us they were all our target customers, and so it was probably a disproportionate share. Most people who used AOL thought that it was the Internet at the time.

[4] Also, HomeGrocer.com entered into negotiations with Safeway, a deal that would have given the startup venture leverage in procuring groceries from wholesalers because of Safeway's buying power. But there was a catch, Safeway didn't want HomeGrocer.com to file for public offering, and HomeGrocer.com was getting ready to do just that. By November, HomeGrocer.com began working with Morgan Stanley to go public. Hence, its deal with Safeway never materialized.

Even though they were able to create customer interest and get people to explore the company's website, there were still barriers to overcome to get people to order online for the first time and then get them to repeat the process again and again. For many people buying groceries at a store was just such a natural way of doing things that they struggled to move away from the practice. One of the board members called this the "gallon of milk problem":

> Your significant other is on his way home and you call up and say, "We're out of milk. Could you please stop and pick some milk on your way back?" And then he stops to buy a gallon of milk. While he is buying a gallon of milk, he does some more shopping. If he goes in to buy the gallon of milk and he ends up buy more. Because of this, this family ends up not shopping as it should online that week. .

As HomeGrocer began planning their expansion beyond the West Coast they conducted some market research using "focus groups" in Atlanta, Georgia. They discovered that some woman were concerned what the neighbors might think of them if they bought groceries online and had it delivered to their homes. They were concerned that their neighbors might think they have got "so lazy" as to shop online. In other words, HomeGrocer's management discovered that there were many behavioral and social concerns that were limiting their ability to acquire and retain customers. .

Operations and Delivery

HomeGrocer.com opted to build its own distribution centers and purchase its own refrigerated trucks for deliveries. The distribution centers were built close to the neighborhoods the company planned to service. Because of the high upfront investment in infrastructure and systems, it needed to reach approximately 1,100 orders per day, with an average order value of $100 per order to break even at a single facility. After 1,100 orders per day, the model was projected to become profitable. The first facility, about 55,000 square feet, was rented in Bellevue, a district outside of Seattle.

Being small, HomeGrocer.com did not have the same relationships with wholesalers that bricks-and-mortar counterparts had. Thus, it generally paid more for items than the traditional grocery chains because quantities were smaller. In spite of the increased cost of goods sold relative to larger retailers, HomeGrocer's original business plan projected net profit margins of 7% over the long term (compared with 1-2% for traditional grocery chains). Higher projected margins resulted primarily from lower location costs, and from not having retail displays. Some saving was also attributed to not having to hire check out cashiers.

Logistically, the business concept presented the entrepreneurial team with a number of significant challenges. HomerGrocer.com's top-management recognized and agreed that the most complicated part of their business was the supply chain and their employees' ability to correctly deliver groceries and items the customer ordered online. To meet this challenge, they built dedicated facilities, invested in specialized distribution equipment, and ordered specially modified trucks to deliver items.

When an order came in, a single picker would start from one end of the facility and pick all the items, working his way to the other end. In many instances they would not have one or two items from an order in stock, and HomeGrocer.com employees would need to rush off to the store to buy an item to complete an order. Many of HomeGrocer's competitors would simply ship incomplete orders if they did not have item in stock, but because of the company's obsession with customer service, it insisted that all customers receive exactly what they ordered. However, this had significant cost and time implications. The pickers were spending up to 50% of their time filling the last one or two items on most orders.

The delivery truck was temperature-controlled with different compartments at three different temperature levels – a freezer section for frozen food, a cool section for produce, and one at room temperature for dry goods. Each refrigerated truck would deliver 30 to 40 orders to customers in a narrow geographical area. In this respect, the online grocery business was a departure from other Internet retail businesses (such as Amazon.com) that focused on a wide geographical area. HomeGrocer.com had an impressive 98% accurate delivery record. According to Terry, the company was a pioneer in the technology it adopted. However, software development lead to significant cost overruns, and website development alone reportedly cost $750,000. HomeGrocer.com also used a sophisticated third-party program (such as the one used by UPS) to route deliveries efficiently.

POST INTERNET BUBBLE OPTIONS FACING HOMEGROCER

With the stock market meltdown starting only days after HomeGrocer.com's March IPO and with no ability to raise more capital, the company's top management team under Mary Alice Taylor faced limited options. One option was to scale back expansions and focus on reaching profitability by improving existing operations. Recalled Terry:

> The biggest thing was we'd just gone public and when you go public you issue a prospectus in which you make all sorts of commitments. Ours was primarily the markets and distribution facilities we committed to opening. And so one of the biggest questions and hardest discussions we ever had with the investment bankers was if and when the market would "re-open." We needed more capital to do that so if it was going to bounce back we would be fine as long as it didn't take too long. But we had to do our financing probably within five or six months. And so there's that whole thing of "Is the market going to re-open in time?" Or, as we used to say, "Or is it ever going to re-open?" In April 2000, the bankers said, "Oh, it may be a blip, maybe by the summer or perhaps next month." And then by about June 2001, it was "it's all over, who knows when it will re-open." That's why they supported the Webvan deal: There was nowhere else to get the money needed to open all the facilities [that we had committed to opening].

The company executives at one point entertained the idea of declaring Chapter 11 and restructuring the company. They had contracts on 15 or more distribution centers that were expected to open over the next year, which necessitated significantly more capital. However, since the company had just gone public, to declare Chapter 11 now would pretty much guarantee lawsuits from stockholders. The company's board members were sure to oppose this route.

Another option was merging with a wealthier competitor, such as Webvan (see **Exhibit 8**). Louis Borders, the entrepreneur who had founded the Borders Books and Music Chain, had started Webvan with a bold vision of "selling and delivering anything and everything." For him, delivering groceries was just the beginning, a way of getting into the consumers' homes. His plan for Webvan was audacious, for he "sought to outsmart the biggest players around, from Amazon.com and Wal-Mart to UPS and the U.S. Postal Service."[5] Within a few months of launching Webvan, he was able to raise over $1 billion in capital from private investors that included marquee VC firms such as Benchmark and Sequoia Capital.

Recalling the discussion that had taken place, one of the executives who wanted to remain anonymous noted:

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[5]M. Helft. "The End of the Road." *The Industry Standard*, July 23, 2001.

> [Webvan] had done a secondary offering. They had tons of money and the combined business had tons of cash in it. … We had eight operating centers, they had one and they were trying to get organized to do the second one. And so, if we merged things together, [we would be] able to get out from most of the commitments we had made. And so we could say, "Oh, well now that we've merged the companies, everything's changed and we've got to cut back this and we'll only open their facilities and away we go." And so we thought, "Here's our green."

If HomeGrocer.com merged with Webvan, the combined company would have $650[6] million in cash, possibly enough cash to weather the storm and move the combined entity toward profitability. But the two companies had very different cost structures. Notes Terry:

> At that stage one of the key metrics was average order size. You need at least a $100-order to generate $30 in gross margins to pay for the picking, to pay for the shipping and all that. [Webvan] was only running in sort of the $78 or $80 range, and then their picking costs were high because they had these really automated facilities that maybe if you are moving staggering numbers of orders you would get there. But it's kind of like it cost you $100,000 a day whether you pick anything or not, so divide it by 500 orders and all of a sudden it's really expensive to pick your orders. Whereas, if we had about 500 orders a day, we were doing fine; at a 1,000 we'd break even. I think they needed 3,500 orders a day to break even. And no facility ever, in any of the markets we were operating, ever got close to 3,500. We did about 2,100 in Seattle once, which was a record for one day.

Webvan and HomeGrocer.com had been fierce competitors for the past two years and "merging with the enemy" seemed like a bitter pill to swallow for certain members of the HomeGrocer.com management team.

In June 2000, HomeGrocer.com announced a merger with Webvan in an all-stock deal, which involved 138 million Webvan shares valued at $1 billion on June 26, 2000. Webvan was to exchange 1.076 shares for each share of HomeGrocer.[7] For Webvan, the deal both eliminated a tough competitor and gave it an immediate presence in six new markets. The combined company would also save a projected $20 million to $30 million annually in redundant overhead costs.

By September, the acquisition of HomeGrocer.com by Webvan was completed. At the time, Webvan's stock price was at $3.88. As a result, the purchase of HomeGrocer.com was now only valued at $535 million, substantially less than Webvan's initial offer of $1.2 billion. George Shaheen, CEO of Webvan, remained the president and CEO of the merged entity. The company operated in 13 markets by the end of the year and would open just two new distribution centers in 2001 (see **Exhibit 9**). The new goal was to operate 25 facilities by the end of 2002, depending on whether additional funding could be raised. At the time of the merger, Webvan had about $650 million in cash, and HomeGrocer.com about $150 million. Webvan ended up as controlling entity, and its executives then began calling the shots on how to proceed as a merged company.

The Death Spiral. With Webvan management in charge, things started to unravel rather quickly. First, Webvan switched from the HomeGrocer.com platform technology to its technology. With this change, however, customer orders dropped from 1,000 per day to 500 immediately following

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[6]K. Hobson. "Out to Lunch? Webvan/HomeGrocer Deal Doesn't Deliver All the Answers." *TheStreet.com*, June 26, 2000. http://www.thestreet.com/tech/internet/977452.html

[7]As the deal was announced, Webvan's stock fell 16 percent to $7.31, while HomeGrocer's declined 15 percent to close at $6.88.

the change, and then orders dropped to 300 per day within a week. This happened the first time in HomeGrocer.com's San Diego facility, but was then repeated – without modification – seven more times. Notes Terry:

> This was one of the stupidest things Webvan ever did. Webvan's technology did not work with AOL. The 'Buy' buttons and the checkout on the website did not work so clients could not make purchases, even if they wanted to. Plus it was brutally slow since they only tested it on T1 and T3 lines used by their developers. They did not test it under the conditions in which a normal AOL, soccer mom user would experience using a dial-up modem. We [HomeGrocer.com] had an in-house lab that we always tested the releases with representative users. I could forgive them for inadequate testing on the first conversion but not for repeating the mistake 7 more times over the following months. Unfortunately, Webvan management repeated this mistake with every facility with the same result and the end result was 50% immediate drop in sales, and down to 33% drop within a week. How stupid can you be?"

Second, Webvan had kept all HomeGrocer.com employees (with a few exceptions) on at a 50% premium of their original salaries, but they did nothing. Notes *The Industry Standard*:

> It [Webvan] kept employees with identical jobs on both sides, paying scores of workers retention bonuses and time-and-a-half on their already high salaries – even as many of them had little to do. "The last month I sat in my office answering maybe one question a day," says Mike Smith director of distribution HomeGrocer. Shortly after the merger, Smith had gone to Foster City, Calif., to meet with his counterparts. At the meeting, five Webvan employees introduced themselves and described their responsibilities. When his turn came, Smith said: "I am director of distribution, and I do all of your jobs." It was all part of a culture where money was no object.[8]

Notes Tom Alberg: "They were spending too much money, and they weren't changing. I mean, there was a lot of talk about it. Well okay, that's not working obviously. Well, aren't they going to change? No, they're not going to do it. [Webvan's CEO basically said something like] well you [HomeGrocer] guys failed. There's always a winner in every space and I'm the winner."

Third, by December, the media began reporting that more cuts were expected at HomeGrocer.com as Webvan worked to establish a single brand and further integrate the two technology platforms. HomeGrocer.com had operations in six locations and Webvan in one location. Further, the HomeGrocer.com brand, symbolized by its Peach logo on its website and on its trucks, was gaining customer recognition in its markets. Notes the *Industry Standard*:

> Blinded by their grand vision, Webvan's execs made a string of bad decisions. Even as it was running out of money, the company spent millions on a rebranding campaign to avoid being pegged as a mere grocer: The marketing push promoted Webvan's sterile new blue-and-green "W" logo. Gone were Webvan's earthy grocery bag and HomeGrocer's fuzzy peach.[9]

Many of HomeGrocer's customers in Seattle, Portland, and California were unsure about this change.

Fourth, as cash was beginning to run out, management finally initiated some cutbacks, which made matters worse. For example, they cut marketing expenses by 28% during the last quarter of 2000, and as a result total orders fell by 8%, and orders from new customers dropped 48%.

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[8] Quoted in M. Helft. "The End of the Road." *The Industry Standard*, July 23, 2001.
[9] *The Industry Standard*, July 23, 2001.

By January 2001, Webvan postponed the planned opening of facilities in Washington DC, Baltimore, and New Jersey to conserve cash. However, there was some good news; in March 2001, the Orange County facility #2 turned a profit – the first and only stand alone Internet grocery operation to do so. Despite this good news, the company released a dismal annual report in April 2001 that included a warning from its auditor expressing "substantial doubt" about the company's ability to survive the year. In the annual report, Webvan stated that it probably would need to raise an additional $5 million to $15 million by the year's final quarter. Investors were not in the mood for Internet-based ventures, and the company failed to raise the money. Noted *The Seattle Times*: "The gloomy outlook is reflected in Webvan's stock, which closed this week at 12 cents, a far cry from its all-time high of $34. The company has warned that its shares are in danger of being delisted from the NASDAQ if the stock doesn't start trading above $1."[10]

On April 13, George Shaheen resigned, and the company laid-off 1,150 employees. Robert Swan became the CEO, but he, too, was unable to stop the bleeding and turn the company around. In May, Terry had made a presentation to Webvan CEO Robert Swan suggesting ways to rescue the company, including re-branding operations under the HomeGrocer.com name and hiring many former HomeGrocer.com executives. He even offered to buy back the company's facilities in Seattle and the HomeGrocer.com name. However, nothing came out of that meeting.

On July 9, 2001, Webvan filed for bankruptcy and ceased all operations. Over 2,500 employees lost their jobs that day, and 400,000 customers in Seattle, Portland, San Francisco, Chicago, Dallas, Atlanta, and Southern California regions lost their service. Recalls Terry: "By the time we merged, I think we had about $600 million combined in the bank, and they [Webvan] managed to go through all that money from when the merger closed in September 2000 to July 1st 2001." Quoting a former senior technical manager at Webvan, *The Industry Standard* reported the following observation: "We bought them out, we killed their stock, we killed their company, and then we killed ourselves."[11]

Reflecting on the merger and things that happened, Tom Alberg, the VC investor from Madrona recalled:

> We [HomeGrocer] overextended ourselves by trying to open too many markets too quickly. Then we kind of got in this panic situation like, "Oh, we're going to run out of capital." We'd gotten public by then. "We're going to run out of capital, we've got to do this merger." Management just became quite fixated that we had to do the merger as opposed to really trying to find other solutions of really slashing expenses, cutting back our expansion, and just letting Webvan fail. If we hadn't done the merger, Webvan would have failed anyway. It wasn't that clear but if we were getting nervous about how we were going to keep this going, they would have too. … And probably could have gotten some more capital if you'd cut back and so forth. … But really you had both the CEO and the CFO absolutely convinced this was essential or the company would fail. Well, we did the merger and it failed. I think once the merger happened there was no chance of success. I mean it was just preordained. … We invest in a lot of companies that succeed and a lot of them fail and sometimes it's just totally the wrong idea. I don't think web-grocery sales is the wrong idea. It's just hard to execute it. How do you figure out how to do it and how do you do it without spending too much capital to get there?

But another early investor in HomeGrocer.com had a different view of what had transpired:

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[10] *The Seattle Times*, April 14, 2001,

[11] Quoted in M. Helft. "The End of the Road." *The Industry Standard*, July 23, 2001.

> Well, it was the concept that you could capture a significant number of customers at a reasonable price and retain those customers would make this an interesting business. Those were both inaccuracies, but it took us a long time [and a billion dollars] to find that out. … There were two … concerns, one is the "critical mass" issue and the other is the profitability per order issue. … We discovered them along the way and what we hoped, aggressively, as we went along was that volume would solve some of these problems. But we never got a single warehouse to profitability; we were unable to raise the volume in warehouses. But now, there's also a whole issue of route management, where you have to do cluster marketing in order to make the truck route sufficient. So you're actually—you're managing your marketing to be able to work in route clusters and that is really, really hard to do. It's so, so easy to look back and see all the problems. I'll tell you the cost of acquisition per order was never really understood until it was too late. That was the core problem. Every other problem is easier if you can solve *that* problem.

HomeGrocer.com Resurrection?

Soon after Webvan filed for bankruptcy there talk about former HomeGrocer.com employees bringing back HomeGrocer. Many showed strong support for original founder, Terry and his team. Some former "customers" sent emails sent to the *Seattle Post-Intelligencer* with subject lines like "Bring back the Peach" and "HomeGrocer.com resurrection." John Cook, a reporter and columnist at the newspaper noted:

> To call the two-dozen e-mails I received passionate would be an understatement. These online grocery shoppers clearly want to see the well-polished, peach-colored HomeGrocer.com delivery trucks rumbling down their streets again. … [Also] some of the venture capitalists and angel investors I spoke to this week -- including a few who invested in HomeGrocer.com in early venture rounds -- didn't rule out the possibility of making another go of it.

Noted David Billstrom, a managing partner at FBR CoMotion Venture Capital firm in Seattle:

> [I would] definitely take the meeting if Terry knocked on my door. But he would have to look methodically at the failure points of Webvan/HomeGrocer.com and then he would have to show how he would overcome those failure points in the new incarnation. And then, most importantly, he would have to get a track record showing that the new and improved version did not have the problems of the old."[12]

Selling groceries online had proved to be tough in the past, some aspects of the market and technology landscape had changed: Consumers had become more comfortable buying products online; Internet broadband connectivity was widely available; the technology related to processing online transactions had improved considerably, and online tools for managing inventory in real time had advanced and was available. Now, that a couple of years had past since Webwan and HomeGrocer had failed, Terry Drayton and the original HomeGrocer.com team met to figure out whether they should do it all over again. Had they learned enough from the demise of HomeGrocer.com to make it work a second time around? What should they include in a presentation to investors to convince them that they could "crack" this market this time around? They had lived through an exciting experience; now they had to relive it and make sense of what had gone so wrong.

[12] http://seattlepi.nwsource.com/venture/31128_vc13.shtml

Exhibit 1

Financial Projections for Homegrocer.com from the Business Plan ($ 000s)

CORPORATE FINANCIAL PERFORMANCE ($ Thousands)

Year	1998	1999	2000	2001	2002	2003
Number of Centers	1	3	7	15	31	31
Revenue	11,199	49,960	125,718	291,816	634,333	1,125,123
Gross Margin (%)	19.4%	16.7%	15.3%	15.0%	14.7%	12.0%
Net Income Before Tax	(1,349)	(2,901)	(2,821)	(1,065)	2,685	12,467
Net Income (%)	(12.0%)	(6.2%)	(2.2%)	0.4%	0.4%	1.1%
Members	7,700	27,600	69,700	157,000	336,400	547,200
Working Capital	9,622	4,606	44,377	34,289	18,980	25,415
Total Assets	12,149	10,557	57,506	62,185	76,672	92,810
Employees	95	323	800	1,771	3,753	5,684

PROTOTYPE CENTER FINANCIAL PERFORMANCE ($ Thousands)

Year	1	2	3	4	5
Revenue	12,960	30,948	47,108	60,309	72,152
Gross Margin (%)	18.5%	13.4%	13.0%	12.8%	12.7%
Net Income Before Tax	(629)	618	1,962	2,931	3,903
Net Income (%)	(4.9%)	2.0%	4.2%	4.9%	5.4%
Members	8,400	15,600	21,600	26,400	31,200
Employees	91	313	784	1,753	3,733
Working Capital	532	918	2,666	5,616	9,656
Total Assets	2,122	3,215	5,572	8,819	13,038

Extracted directly form the HomeGrocer.com Business Plan dated December 31, 1997

Exhibit 2

Break-Even Analysis for Homegrocer.com from the Business Plan

Analysis Per Center

The financial assumes an average order size of $100 with members shopping twice per month. Only 15% of orders are assumed to be less than $75 requiring a $9.95 delivery fee. A membership of $35 is collected from 90% of members. Hence an average member purchases $2467 per year in products from HomeGrocer.com as shown below:

	Amount	**% of average grocery sales**
Average Sale	$2400.00	100.0%
Average Delivery Fee	35.82	1.5%
Average Membership Fee	31.50	1.3%
	2467.32	102.8%
Average Cost of Sales		
groceries/shrinkage	1735.20	72.3%
delivery	223.20	9.3%
picking	208.80	8.7%
transaction	19.20	0.8%
Subtotal	2186.40	91.0%
Annual Gross Margin per member	**$280.92**	**11.8%**

The above analysis uses costs at the end of one year and excludes all revenues forecast from manufacturer programs. Revenues from these activities are forecast a $1,740,000 in the first year and $600,000 thereafter.

Fixed costs to operate a HomeGrocer.com site are approximately $3 million annually, which are determined as follows:

Annual Fixed Costs to Operate a HomeGrocer.com Center

Cost	**Amount**
Warehouse Rental	$243,000
Triple Net and Utilities	102,000
Warehouse Equipment Maintenance	48,000
Insurance	24,000
Office Equipment Maintenance	12,000
Supplies	60,000
Legal and Accounting	60,000
Communications	90,000
Administration	784,700
Member Services	176,229
Sales & Marketing	1,236,000
Depreciation	137,550
Miscellaneous	60,000
Total	**$3,033,875**

As operating efficiencies improve over the year and some expenses are front-end loaded, actual monthly break-even is forecast to occur in month 14. So each site is forecast to achieve a break-even level of operation in just over one year.

Extracted directly form the HomeGrocer.com Business Plan dated December 31, 1997

Exhibit 3

Executive Officers and Directors[13]

Mary Alice Taylor (49)	Chief Executive Officer and Chairman of the Board
J. Terrence Drayton (39)*	President and Director
Daniel R. Lee (43)	Senior Vice President and Chief Financial Officer
Mary B. Anderson (44)	Vice President of Finance
Rex L. Carter (47)	Senior Vice President of Systems Development & Technology
Ken Deering (40)*	Vice President of Storefront
Robert G. Duffy (39)	Chief Information Officer
Corwin J. Karaffa (45)	Senior Vice President of Operations
Jonathan W. Landers (47)	Senior Vice President of Marketing and Sales
Daniel J. Murphy (53)	Vice President of Merchandising
David A. Pace (40)	Senior Vice President of People Capability
Kristin H. Stred (40)	Senior Vice President, General Counsel and Secretary
Tom A. Alberg (59)	Director
Charles K. Barbo (58)	Director
James L. Barksdale (56)	Director
Mark P. Gorenberg (44)	Director
Jonathan D. Lazarus (48)	Director
Douglas Mackenzie (40)	Director
David Risher (34)	Director
Philip S. Schlein (65)	Director

*Co-founder of HomeGrocer.com. The third co-founder, Mike Macdonald, was no longer involved in the business at the time of the IPO.

Mary Alice Taylor has served as chairman and chief executive officer of HomeGrocer.com since September 1999. Prior to joining HomeGrocer.com, Ms. Taylor served as corporate executive vice president of Global Operations and Technology for Citigroup, a financial services organization, from January 1997 to September 1999 where she was responsible for standardizing and centralizing worldwide operations and leading quality and cost-effectiveness efforts. From June 1980 until January 1997, Ms. Taylor held various positions with Federal Express, an overnight courier service, serving most recently as senior vice president of Ground Operations where she was responsible for all aspects of pickup and delivery operations in North America. Prior to her positions at Citigroup and Federal Express, from 1977 to 1980 she was the financial planning manager of U.S. Operations with Northern Telecom, Inc., a telecommunications company, From 1973 to 1977 Ms. Taylor was the controller at Cook Investment Properties, a division of Cook Industries and from 1971 to 1973, Ms. Taylor served as senior accountant, oil and gas explorations with Shell Oil. Ms. Taylor also serves as a director on the boards of Autodesk, a supplier of PC design software, and Dell Computer. Previously she served on the boards of The Perrigo Company, a manufacturer of store brand items, and Allstate Insurance Company. Ms. Taylor holds a B.A. in finance from Mississippi State University and is a Certified Public Accountant.

J. Terrence Drayton co-founded HomeGrocer.com and has served as its president since the incorporation of its predecessor in January 1997. Mr. Drayton also served as chief executive officer of HomeGrocer.com from January 1997 until September 1999. From February 1996 through January 1997, Mr. Drayton was the President of Terran Ventures, Inc., a venture capital

[13] Taken from HOMEGROCER COM INC 424B4 filed on 03/10/2000 accessed via Hoovers.com

and consulting company, where he focused on activities leading to the formation of HomeGrocer.com's predecessor company. Prior to co-founding HomeGrocer.com, Mr. Drayton was involved for more than ten years as co-founder and senior manager of two of the leading bottled water companies in Canada. From November 1991 to January 1996, Mr. Drayton was the president of the home and office division of Aquaterra, a Canadian bottled water company producing the brand names Crystal Springs and Labrador. From September 1989 through September 1991 Mr. Drayton served as chairman and chief executive officer of Telepost Communications, a publicly traded Canadian film and video post-production company. From March 1986 to May 1989 Mr. Drayton was the co-founder, executive vice president and co-chief executive officer for Laurentian Spring Valley Water. He holds a B.Comm. from the University of Calgary and an M.B.A. from York University.

Daniel R. Lee joined HomeGrocer.com as chief financial officer in November 1999 and was also appointed senior vice president in December 1999. From February 1992 to September 1999, Mr. Lee served as chief financial officer, treasurer and senior vice president of finance and development for Mirage Resorts, a publicly traded company (NYSE:MIR) that develops and operates large- scale resort hotels. From February 1990 to February 1992, he was a director of equity research for CS First Boston, an investment bank. From July 1980 to February 1990, he held various positions with the investment bank Drexel Burnham Lambert, most recently as a managing director. Mr. Lee holds a B.S. and an M.B.A., both from Cornell University, and he is a Chartered Financial Analyst.

Ken Deering co-founded HomeGrocer.com. Since inception, he has held several positions with HomeGrocer.com and its predecessor, including marketing manager from August 1996 to October 1997, vice president of business development from October 1997 to May 1999 and vice president of storefront from May 1999 to the present. Prior to his involvement with HomeGrocer.com, Mr. Deering was an independent management consultant through his firm, Heldeer Ventures, from August 1994 to August 1996. From January 1992 to July 1994, Mr. Deering held the positions of general manager and then vice president of sales and marketing for Offshore Systems, a developer of electronic marine positioning systems. Over the prior 12 years, Mr. Deering held various marketing and operations positions, including six years at Glenayre Technologies, a developer of software for wireless personal communication systems. Mr. Deering has a sales and marketing management diploma from the University of British Columbia.

Exhibit 4

Grocery Industry Overview, 1999

Number of employees	3.5 million
Number of grocery stores	126,000
Total grocery store sales	$449 billions
Total supermarket sales	$346.1 billions
Number of supermarkets ($2 million or more in annual sales)	30,700
Net profit after taxes, 4/98-3/99	1.03%
Typical supermarket size	40,483 sq. ft.
Number of items in a supermarket	40,333
Labor as a % of operating expense	57.5%
Average effective income tax rate (fed, state, local) 4/96-3/97	39%
Percentage of disposable income spend on food	
• food-at-home	6.6%
• food away-from-home	4.2%
Weekly sales per supermarket	$331,411
Weekly sales per square foot of selling area	$9.45
Sales per customer transaction	$10.16
Sales per labor hour	$113.21
Average # of trips per week consumers make to the supermarket, 1/98	2.2
Food basket costs, % of weekly income spent on food	
• Unites States	8.8%
• Canada	10.3%
• Japan	17.6%

Sources: U.S. Department of Labor, U.S. Department of Agriculture, *Progressive Grocer* magazine and U.S. Census Bureau

Exhibit 5

Grocery Store Sales 1988 and 1999

	1988				1998			
	$ Sales Billions	%	Number of Stores	%	$ Sales Billions	%	Number of Stores	%
All Stores	329.0	100.0	148,000	100.0	449.0	100.0	126,000	100.0
Supermarkets ($2,000,000 +)	240.4	73.0	30,400	20.5	346.1	77.0	30,700	24.4
Chain Supermarkets	164.3	49.9	16,850	11.4	274.5	61.1	19,530	15.5
Independent Supermarkets	76.1	23.1	13,550	9.1	71.6	15.9	11,170	8.9
Other Stores (Under $2,000,000)	63.1	19.2	62,600	42.3	53.4	11.9	37,550	29.8
Convenience Stores	25.5*	7.8	55,000	37.2	28.0**	6.3	57,000	45.2
Wholesale Club Stores	n/a	n/a	n/a	n/a	21.5**	4.8	750	0.6

Grocery Store — Any retail store selling a line of dry grocery, canned goods or nonfood items plus some perishable items.
Supermarket — Any full-line, self-service grocery store with an annual sales of $2 million or more
Convenience Store — Compact, drive-to store offering a limited line of high-convenience items. Over half sell gasoline and some sort of fast food. Long hours and easy access.
Independent Supermarkets — An operator of up to 10 retail stores.
Chain Supermarkets — An operator of 11 or more retail stores.

Source *Key Industry Facts – Prepared by FMI Information Service,* April 1999.
Notes:
* Excludes sales of gasoline
** Supermarket items only

Exhibit 6

The Emerging Online Grocer Industry Forecasts

		1999	2000	2001	2002	2003
Online Grocery Sales						
Specialty		$248	$659	$1,548	$3,058	$6,291
Full Service		$265	$473	$911	$1,951	$4,545
Total Revenues		$513	$1,132	$2,459	$5,009	$10,836
Percentage of Industry Total		0.11%	0.23%	0.49%	0.98%	2.05%
Total Number of Households Buying Groceries Electronically (000s)						
Specialty	PC-Based	920	1,839	3,678	6,252	10,628
	Other Net Devices	35	106	318	1,114	4,454
	Total Specialty	**955**	**1,945**	**3,996**	**7,366**	**15,082**
Full-Service	PC-Based	187	327	621	1,242	2,546
	Other Net Devices	6	12	35	124	495
	Phone/Fax	42	42	38	34	31
	Total Full Service	**235**	**381**	**694**	**1,400**	**3,072**
Total	Household doing both	59	115	243	630	1,536
	Total participating household	**1,131**	**2,211**	**4,447**	**8,136**	**16,618**

Source: Forrester Research, Inc

Exhibit 7

HomeGrocer.com and Webvan – A Summary of Revenues and Profits *(thousands $)*

	HomeGrocer			Webvan		
	1998	**1999**	**2000***	**1998**	**1999**	**2000****
Net Sales	**1,094**	**21,648**	**21,215**	**-**	**13,305**	**16,269**
Cost of merchandise sold	1,018	19,515	17,515	-	11,289	12,138
Gross Profit	**76**	**2,133**	**3,700**	**-**	**2,016**	**4,131**
Sales, general and marketing expenses	7,455	59,208	13,899	8,825	104,152	47,352
Technology expenses			6,466	3,010	15,237	5,523
Stock based compensation expense	412	28,158	8,143	1,060	36,520	17,720
Customer fulfilment center expenses	-	-	17,644	-	-	-
Pre-opening expenses	-	-	2,015	-	-	-
Loss from operations	**-7,791**	**-85,233**	**-44,467**	**-12,895**	**-153,893**	**-66,464**
Interest Expense	-172	-384	-663	-32	-2,156	-150
Interest Income	54	2,232	1,688	923	11,480	8,799
Other income/(expense)		-608	-23	-	-	-
Net Loss	**-7,909**	**-83,993**	**-43,465**	**-12,004**	**-144,569**	**-57,815**
Unrealized Gain (Loss) on Marketable Securities				4	-729	990
Comprehensive Loss	**-7,909**	**-83,993**	**-43,465**	**-12,000**	**-145,298**	**-56,825**

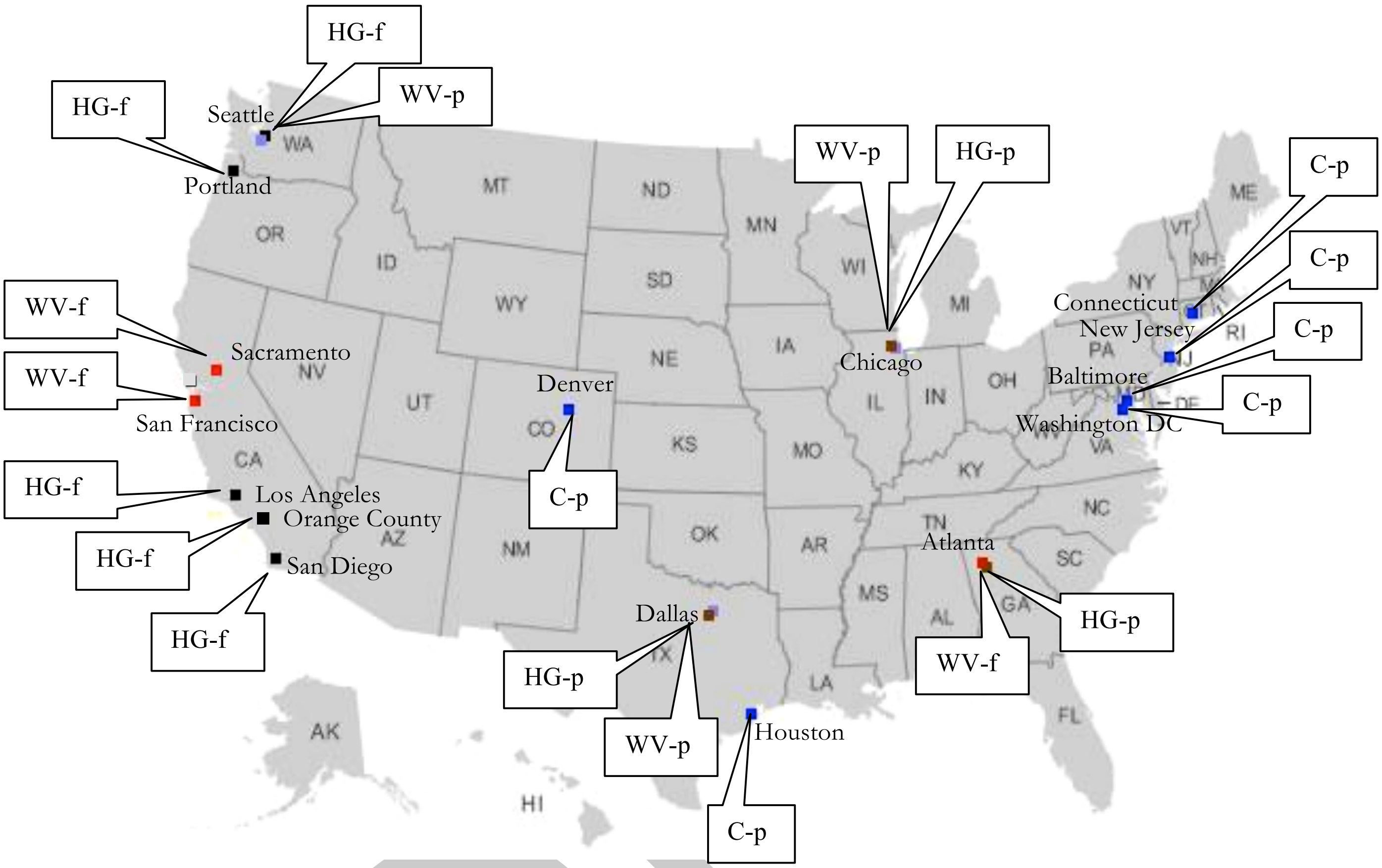
*13 weeks ended April 1,

** 13 weeks ended March 31,

Source: Hoovers.com

Exhibit 8

Map of HomeGrocer.com and Webvan Distribution Centers (2000)



- HomeGrocer.com Facility (HG-f)
- Webvan Facility (WV-f)
- HomeGrocer.com Planned Facility (HG-p)
- Webvan Planned Facility (WV-p)
- Combined Company Planned Facility (C-p)

Source: J.C. Bradford, HomeGrocer.com Basic Report April 4, 2000