

Grocery checkout (gco) inc. essay



**ASSIGN
BUSTER**

Grocery Checkout Key Issue Nathan Felder must decide whether or not it is in his best interest to listen to his investors and attempt faster growth. Alternatively, he needs to be able to defend to his investors that maintaining status quo is best for the company because it avoids the risks associated with the growth options. The final decision the needs to be made is whether or not he sells the company. Analysis External Analysis: Porters 5 forces helps to reveal the opportunities for growth.

They are as follows: Rivalry- Grocery Checkout's main competitors are Loblaw's and Valu-Mart. Their proximity to the University of Western Ontario makes them accessible to the students, but by public transportation or their own cars. The distance is too far for students to walk. These companies are larger than Grocery Checkout in size and annual sales and if Grocery Checkout becomes profitable with their online business model there is no reason for these companies to not also begin offering online grocery shopping and delivery services.

Threat of New Entry- The Grocery market is extremely competitive, with food sales increasing yearly. The large supermarket grocery stores have economies of scale, which makes it harder for new smaller companies to enter the grocery market. Grocery Checkout has a unique niche where it is the only online grocery store in London right now, but other companies that can't compete with the supermarkets may think of the online rout to gain an advantage. The capital required to run and online store is considerably less than the capitol required to run a supermarket.

Supplier Power- Since all of Grocery Checkout's suppliers are small and local, there is no real supplier power. Grocery Checkout has great working relationships with these local suppliers so there is little chance that these suppliers will all of a sudden start charging higher prices for their services. There are many suppliers in the grocery industry so if one of the suppliers did start charging higher prices, Grocery Checkout can simply choose another supplier.

Buyer Power- Grocery Checkout has many suppliers to choose from in the London area so they do have some buying power. It is also easy for them to compare prices with other suppliers so if for whatever reason they do not like the prices they are paying for their products, they can negotiate with other suppliers and hopefully reach a contract where they pay less for their products, thus increasing their profitability. Threat of Substitutes- Grocery Checkout is in the unique situation where it is the only online grocery business in London.

If customers want to purchase their groceries online and have it delivered to their home, then they could only do so using Grocery Checkout Inc. There are no substitutes for this unique business model. Holistic analysis of external environment - The Canadian grocery market is dominantly run by supermarkets. 74% of all grocery shopping is done in the traditional grocery store atmosphere. This makes it hard for Grocery Checkout to compete with the big chains, but they have found a niche market segment where they have had some success.

If the other chains start using the online method of grocery shopping, it will be hard for Grocery Checkout to compete because the big chains have more capital and better buying power than Grocery Checkout, so they would probably be able to sell their products cheaper and be able to get the groceries to their customers quicker. Internal Analysis: The VRINE analysis will help to reveal the internal capabilities of Grocery Checkout. It is as follows:

Valuable- The capability of Grocery Checkouts online grocery business is valuable in the London market because it enables them to meet the market demand of customers wanting their groceries purchased online and then delivered to them. This allows Grocery Checkout to compete in the Grocery market in London even though they are not as big as the traditional supermarkets. **Rare-** Grocery Checkout's online business model is very rare in the London market. No other competitor has an online business model so this gives Grocery Checkout a competitive advantage if only for a temporary time.

If they succeed, other companies will probably go the online route as well. This temporary competitive advantage will contribute to above-normal profits for Grocery Checkout, until other grocery supermarkets nullify the advantage. **Inimitable-** The online business model that Grocery Checkout currently has can be imitated by competitors. It has not yet been imitated because the competitors are waiting to see if it is truly profitable. They are also waiting to see if their customers will prefer the online route instead of the traditional grocery-shopping trip at one of their supermarkets.

The factors that limit the ability of competitors to imitate resources or capabilities like high cost, property rights, time and casual ambiguity are not there. The competitors are just giving this specific market time to see if it is in their best interest to imitate this online business model. Non-substitutability- The Grocery Checkout business model cannot be substituted using a different combination of resources or capabilities. Buying groceries online and then having them delivered to your front door cannot be mimicked. You either buy them online or in the traditional grocery store.

Exploitability- Since Grocery Checkout is the only online grocery destination in London, they can exploit the full potential of their resources. Grocery Checkout's organizational structure, systems and processes generate a competitive advantage when they are working together, but not when in isolation. As long as Grocery Checkout is the only online grocery business in London, they should have no problem exploiting their resources. Once other grocery chains start the online model, they will have more problems exploiting their resources.

Holistic analysis of internal environment- Since Grocery Checkout is the only online grocery store in London; they have a competitive advantage over their competitors. They have the resources that are valuable, rare, non-substitutable and exploitable, so as long as they are the only online grocery store in London, they can be a successful company for many years to come. Internal and External Analysis: A SWOT analysis will help to reveal the internal capabilities of Grocery Checkout as well as external opportunities and threats that face Grocery Checkout.

Strengths * Only online grocery store in London * Strong balance sheet * Improving earnings over time * Substantial customer base * Strong current ratio for 2009 * Strong profit growth * Strong debt to equity ratio|

Weaknesses * Company not really well known outside of University of Western Ontario * Age of receivables increased for 2009| Opportunities *

Growth with on campus store * Growth with Facebook advertising| Threats * Large chains starting the online grocery business| Holistic analysis of SWOT-

Grocery Checkout has a very strong balance sheet and income statement.

They are constantly getting better each year with their financial ratios and Grocery Checkout's expenses related to revenues are below the industry average. (Industry Canada - <http://www.ic.gc.ca/cis-sic/cis-sic.nsf/IDE/cis-sic4451bece.html>) Alternatives and recommendations Decision criteria:

Revenues- Grocery Checkout should attempt to maximize revenues when looking at the following alternatives. Expenses- Grocery Checkout must be able to minimize expenses when looking at the following alternatives.

Capabilities- The resources are available for the growth options below.

Sustainability- If Grocery Checkout cannot sustain high revenues and low costs, then the alternatives below are not acceptable. Options for growth- Grocery Checkout improved its distribution network and order fulfillment system, so it is possible to handle more customers. Alternative #1- Facebook advertising: One of the options Nathan Felder can attempt to grow Grocery Checkout is to start advertising on Facebook. Pros: * Based on the calculations in appendix #1 I would choose the CPM (pay-per-views) model.

The annual cost to Grocery Checkout for this form of advertising would \$15,622 while the revenues would be \$61,855. This would give a gross profit of \$46,241. * According to Facebook statistics, there are almost 100,000 Facebook users between the ages of 18 and 25 living in London and its surrounding area. This is a massive amount of people that would view Grocery Checkout's ads on Facebook. Cons: * The other option that faced Nathan was the CPC (pay-per-click) model. This model is not good because the costs associated with it are \$19,710 while the revenues are only \$11,563.

This gives a gross loss of \$8,147. Alternative #2- Add a mobile application: Grocery Checkout can attempt to create a mobile application so customers could order groceries on their smartphones. Pros: * Almost every student at Western owns a smart phone, so it would not be hard for people to obtain the app on their phone. Cons: * From the calculations in appendix #1, Grocery Checkout would need about 139 new customers to break even on the \$10,000 up front cost to make the app. * It could be hard to get 139 new customers for Grocery Checkout to break even on their new app.

Alternative #3- Build an on-campus location: Grocery Checkout has the option to build a physical store on the campus of the University of Western Ontario. Pros: * From the calculations in appendix #2, it would be beneficial for Grocery Checkout to build the on-campus location. They would be able to pay off the initial investment in 2.7 years, which is not long at all. They would also have a return on equity of 36.7%, which is extremely good. * Adding this new on-campus location would generate an extra \$50,000 a year in cash. If demand was great enough, there is a possibility of expanding

into other university markets, which would only increase Grocery Checkout's profits. Cons: * Forecasts may not be accurate and Grocery Checkout could lose a bit of money if the online customers still want to just stay online and not attend the on-campus store. Sell option Alternative #4- Grocery Checkout has the option to sell the company to larger chains for their 3, 500 customer list or to a savvy entrepreneur who might want to take over. Pros: * From the calculations in appendix #2, grocery checkout could be sold for around \$200, 00, about 10 times it's operating cash flow. * Nathan Felder's own financial security is becoming more and more important so selling the business would give him a lot of cash that he could grow on his own without the Grocery Checkout business. Cons: * Once he sells the business, he is no longer CEO of a company that had developed a sustainable online business model with a substantial customer base. Status Quo option Alternative #5- Grocery Checkout has the option to just maintain status quo and not follow any other options. Pros: If the sales reached 1. 5 million dollars in the upcoming year, it would result in net earnings of \$37, 500 (1. 5 million times 2. 5%). This is an increase from last year. Cons: * If no growth options are attempted, Grocery Checkout's sales can become stagnated. If they do not increase like they have been, Grocery Checkout can experience their first year in which they do not increase in net earnings, which would not satisfy the investors. Recommendation Grocery Checkout should attempt faster growth by advertising on Facebook and building the on-campus store.

With the CPM model of advertising on Facebook, Grocery Checkout can earn a gross profit of \$46, 241. If they build the on-campus store, they would be able to pay it off in 2. 7 years while earning an extra \$50, 000 a year in cash.

Both of these alternatives combined would give Grocery Checkout an extra \$96, 241 a year. This is a substantial amount of money for Grocery Checkout and would truly satisfy the investors. Implementation In order to be able to implement the Facebook advertising campaign and the on-campus store, Grocery Checkout must follow certain tasks at different times throughout the year.

Facebook advertising- Grocery Checkout should contact Facebook and let them know they are interested in the CPM model of advertising. Grocery Checkout should then create an advertisement that relates to the online grocery business and how easy and affordable it is have your groceries ordered online and have them delivered right to your front door. If the projected amount of impressions and the conversion rates are correct, then Grocery Checkout just has to sit back and let the Facebook users see the advertisement and buy the grocery items.

On-campus store- Grocery Checkout will first need to invest \$140, 000 in physical assets (shelving, computers, refrigerators etc.), leasehold improvements, programming costs and project management. Grocery Checkout should have no problem acquiring a bank loan for this investment as it will only take 2. 7 years to pay back and the cash flows that will come out of it will be excellent. Once the building is operational, Grocery Checkout will have to staff the store relating to the peak and low seasons. Grocery Checkout will also have to get an electric company to set up utilities for the store.

Once the store is open to the students of the University of Western Ontario, Grocery Checkout will just have to run the store's daily operations. Timetable of events- Facebook Advertising | Q1| Task #1-Contact Facebook| This can be done right away| Task #2-create advertisement| Depending on the creativity of the advertisement, this should be done in the first quarter as well| Timetable of events- On-campus store | Q1| Q2| Q3| Task #1-Acquire bank loan| Getting the bank loan to start the store must be done first| | Task #2-Purchase physical assets, leasehold improvements, programming costs and project management. Once the bank loan is acquired, Grocery Checkout can purchase all that is needed to get the store operational| | Task #3- Hire staff| | Once everything is operational, hire staffing needs for each season| | Task #4- Get utilities| | Contact utilities provider to give power to on-campus store| | Task #5-Run daily operation| | Run daily operations for store| Run Daily operations for store| Contingency Plan- If for whatever reason the Facebook advertising and the on-campus location do not pan out, Nathan Felder should sell his business.

He should be able to get almost \$200, 000 for the company. After the investors get their cut, he can use this money to grow it on his own and help out his growing family. | | | | | | Grocery Checkout Inc. | | | Appendix #1| | | Alternative #1- Facebook advertising| Clicks/day| 120| Annual Sales of CPM model| | Conversion| 1%| Impressions/day| 214, 000. 00 | purchases/day| 1. 2| Days| 365| Annual purchases| \$438 | Conversion | 0. 003%| Average purchase| 110| Average cost per trip for customer| \$110. 00 | Annual sales revenue| \$48, 180 | Annual sales revenue| \$257, 763. 0 | Gross margin| 24%| Gross margin| 24%| Incremental margin| \$11, 563 | Incremental margin| \$61,

863.00 | | | | Annual cost of CPC model | Annual costs of CPM model |
 Clicks/day | 120 | Impressions/day | 214,000 | Cost/click | \$0.45 |
 Cost/thousand impressions | 0.2 | Days | 365 | Days | 365 | Total Costs | \$19,710.00 |
 Total costs | \$15,622.00 | | | | Total sales | \$11,563.00 | Total sales | \$61,863.00 |
 Total costs | \$19,710.00 | Total costs | \$15,622.00 |
 Gross profit (loss) | \$(8,147.00) | Gross profit (loss) | \$46,241.00 |

Alternative #2- Create a mobile app | Cost | \$10,000.00 | Gross Profit | 24% |
 Sales | \$41,666.00 | Average sales/customer (sales/amount of customers) |
 \$300.00 | Customers needed to break even | 139 | Appendix #2 | Alternative
 #3- Build on-campus store Alternative #4- Sell Grocery Checkout PV of
 Grocery Checkout | Cash flow | \$50,000.00 | Debt repayment | \$30,000.00
 | Free cash flow/year | \$20,000.00 | Interest rate | 6% | # Of periods | 15 |
 Free cash flow | \$(20,000.00) | Future value | 0 | Value of Grocery Checkout |
 \$194,244.98 | | |