



Relay Foods Interview: Growth of Online (Local) Grocery

Online grocery isn't just for big brands and big retail: Relay Foods delivers local foods and experiences



Whereas the e-grocery business model failed miserably in the dot-com meltdown of the late 1990s, the drumbeat for a profound shift in how shoppers purchase groceries is sounding loudly today as several influences converge at once: whether it's Amazon's new distribution centers and ongoing immersion in food retail, Walmart's expansion into the same areas, or the overall consumer movement to omni-channel consumption, it's likely that food shopping will not be the same in the near future. This is especially true for legacy brands purchased from traditional food retailers: Web-driven price transparency will increasingly influence consumers to shop from lowest-cost national brand providers—digital or physical. And yet what about the burgeoning demand and market for all foods "local"? Aside from regional, fresh, organic delivery in select urban markets, very few online resources exist like Charlottesville, VA-based Relay Foods, the self-described online marketplace and grocery delivery service that specializes in connecting



consumers with local food producers. To find out what Relay is doing today, and where online grocery is going next, we recently interviewed Relay Co-founder, President and COO Arnie Katz.



Relay is fairly new to the grocery business, isn't it? When did you begin your service?

Arnie Katz: We served our first customer in January 2009—but the first two years were really a pilot focused on honing in on our proof of concept. We learned a tremendous amount from our successes and mistakes and made continuous improvements until we were confident that we could provide an amazing experience to the customer, at a good price and quality point, while also achieving unit economics that would allow us to make a profit. In January 2011, we started to invest significantly in the business when we were convinced we had achieved a business model that had the capacity to scale rapidly.



You have a wide range of farms and local producers that you deal with—it must be quite an undertaking to interact with them and communicate what's available. Do you find that consumers are focusing on any one area of products in terms of categories?

To your first point, it's amazing what smart and lean use of technology can achieve. From the beginning, we focused on building a robust infrastructure to communicate accurately, quickly, and clearly with local partners. Our technology, hand in hand with our team's efforts to form effective working relationships with these farmers, artisans, and retailers, makes our communication incredibly effective regardless of the size and sophistication of our partner.

As for your second point, the biggest trend is that consumers want to connect with their food and know where it's coming from. Whether they're shopping for produce, bread, meat, wine, or anything else— they just want to know what the story is behind their food. Food transparency will continue to be a major trend as the local food movement continues to expand.

Relay is proud to be at the forefront of the movement that is changing the dynamics of the current food distribution system from one that favors industrial farms to one where the value of the market is more equally shared with local, community-oriented suppliers.

When you say they're interested in the stories behind the food, do you feel they're just as interested in the story about the farm or is it more about the products themselves?

Well, I think it's both and even more. Consumers' lives today are complicated in so many different ways. The advent of the Internet, email and SMS (texts) blurs the differences between work and home time, and this adds stress to folks' lives. The hectic quality of daily life gives people a longing for simplicity: the days when you could go to the market, get to know your farmer, and trust that the produce and meats were raised responsibly on his or her farm. The days when the milkman would reliably deliver milk every day from the local dairy.

In addition to this nostalgia for simpler shopping, more and more people are becoming convinced that traditional grocery stores are letting us down in finding the sweet spot of quality and price. "Value" used to convey high quality at a reasonable price, but consumers are finding that now "great value" just means a low price with no regard for quality.

Relay satisfies the desire for food transparency and value you can trust without the legwork it used to entail. Consumers can get to know their local farmers and artisans from the convenience of their couch, with a glass of red wine in hand.

Finally, customers are starting to become a lot more conscious about nutrition and how food is directly related to personal health. Therefore, providing simple-to-digest information related to the nutritional makeup of the food has become critical as it gives customers tools they can use to make important decisions related to what they should and should not eat.

About Relay Foods:

Call it online grocery retailing 2.0, but Relay Foods, which sources and delivers locally-grown foods in Virginia, Maryland, Washington, D.C., and Philadelphia, seeks to pick up where Webvan left off. According to *Forbes*, Relay, founded in 2007, "sources its groceries from a select group of local mom-and-pop outfits—think artisan bread and cheese makers, family farms, organic butchers—and delivers their products to a few strategically placed drive-thru pick up locations like health clubs, hospitals, corporate parking lots and commuter-friendly stops where customers can easily drive through and pick up their groceries in 30 seconds."¹ Of interest, Relay digitally profiles each local producer with photographs and narratives, thereby building connections between shoppers and small local brands. Such content captures opportunities inherent in the ongoing shopper interest in authentic, local food stories, products and experiences.

In short, I think it's about back-to-simple, when you knew all the facts you needed to know about your food, and you got it from folks you could trust.

[1An Online Grocer for Web 2.0. Just Don't Call It Webvan 2.0., Forbes, 6/1/2011](#)

As a part of your shoppers' wanting to know about where products are coming from, do you notice them ending up at the farms and producers you represent? Or do they just seem to experience them via your website?

Customers develop a rapport with us as a company and feel comfortable trusting the information and the stories about vendors that we share on our website and through social media.

That said, we also encourage our customers to engage with the producers face-to-face as much as they can. We have links to our farmers' websites, and we arrange and co-sponsor farm tours so that our customers can "shake the hand that feeds them." We believe this person-to-person relationship is an important aspect of food buying, as it allows customers to tangibly understand what goes into the food they serve at the dinner table.

Do your customers seem involved with the farm tours?

Yes, the farm tours almost always sell out and are very popular. They are not expensive, as it is not our intention to make money from them. In addition, our customers receive weekly emails from us with blog entry stories about the farmers—they can see those stories on Facebook and Twitter as well. Most of our marketing centers on providing stories like these. In the future, we will add videos and other social elements to the experience.

We noticed that you offer some Whole Foods Market products on your site—do you function as personal shoppers in that respect?

Yes, Whole Foods is one of our partners and they post many of their items on our website. Expanding their reach into the community beyond their storefront is an important benefit obviously from the partnership.

That's interesting. I'm not aware of Whole Foods offering



delivery at this point.

I believe they did try home delivery at a certain point—maybe 10 to 12 years ago. But, as you know, it's hard to achieve the unit economics that make home delivery viable.

With regard to other grocers, do you feel that they're watching you, and are aware of you as competition?

I'm not really sure if they are watching us or not. More importantly though, I don't think many fully sense the seismic shift that is taking place in the grocery retail space. They see the rest of retail going online, and yet food and grocery is much slower in this transition, and many believe that brick-and-mortar grocery chains are safe for now. However, the momentum for online grocers is building, and I think the industry will shift online faster than many anticipate or imagine possible.

When you say momentum—are you saying from the consumer side? We see huge synergy right now between consumers, technology and behaviors that relate to online shopping and food.

Of course, consumers' willingness to change their habits and move online for their weekly grocery purchasing is critically important, but the momentum in online grocery is also coming from the investment side. A few years ago, if you went around the country talking about online grocery, many in the investment community were skeptical. Now that's changing and this space is clearly a focus for many institutional investors. The momentum is building: there is significant activity that is still not visible if you look at the numbers and metrics from 30,000 feet view. After all, this is just the beginning. Companies like Relay still have a small market share. But this shift is going to happen very quickly—sooner than many think. And it has a lot to do with the synergy that you mention—consumers are ready to make the change.

So now there's financial momentum. What about technology and other changes occurring that have momentum? Have things improved such as in order processing and communicating with shoppers?

Well, on one hand, this isn't rocket science—there isn't anything being done today that wasn't possible 10 years ago. On the other hand, the degree to which consumers and producers are experienced and

comfortable with technology clearly makes a big difference. As consumer spending in other sectors continues to shift to the online marketplace, grocery shopping online seems less and less foreign. Mobile technology, faster web platforms, powerful social media tools, and many other tech advances clearly make integrating online shopping into daily life a much simpler process than it used to be.

It's interesting to us to see how shopping behavior is changing. Many believe that consumers shop linearly with a list, and that they're influenced to buy through specials in stores. We're finding this isn't necessarily true anymore. Consumers shop any time of the day and in any location or situation—do you find your shoppers behaving this way?

I think these behaviors reflect consumer readiness for the online grocery channel. As you point out, using available technologies, shoppers can start the next order before they receive the first one. When we polled our customers, more than half reported that they would start an order one day, then add to it as items occurred to them over the course of the week. Our site even allows customers to shop collaboratively, with multiple users adding to the same order. As we continue development on our mobile app, I think we'll continue to see this non-linear shopping trend grow, with customers shopping from anywhere at any time.

And of course, our site requires engagement with groceries in a non-traditional space—our customers shop from the couch, or do their shopping from bed, or from their desk on lunch break. Other exciting non-traditional features on our site are designed specifically to create culinary curiosity that also affects shopping patterns. Our produce, artisan and tasting boxes, our chef-inspired ready-to-cook meals, intelligent search and recommendation functions and an amazing library of incredible recipes are all dedicated to revolutionize the way people shop for their food.

I agree that shopping is no longer a linear experience, which requires a different kind of engagement from us and the other players in the space.

How would you compare Relay to Peapod or FreshDirect?

Peapod is selling mass-market CPG brands as a luxury service due to their home delivery fees and the economics of home delivery. It's a different value proposition. They are competing on price and selling the same things you can get at any grocery store.

One of the inhibitors of growth for Peapod, at least in my view, is that home grocery delivery is a luxury service. They're asking people to pay a \$10 delivery fee on top of the grocery order to deliver to a customer's home. Yet Peapod is trying to position itself as the market leader in price, so the two facts presented together—luxury service and price focus—don't work.

Relay is a brand that is improving people's lives by making their lives simpler, better, healthier and happier. We are not about selling CPG items and moving them as quickly and cheaply as possible. We are about making people's lives better. Our success is attributed to our customers, not to the brands we carry on our virtual shelves.

FreshDirect is a company we admire, and they are perfectly positioned to meet New York City's online grocery demand. Their current business model won't work as well in suburban cities such as Atlanta, Dallas and Los Angeles. But they may still figure it out—they are a young company, after all.

Yes, the Peapod service delivers the same products as seen in Ahold's stores. We've spoken to consumers who use it, and they mainly seem to appreciate the convenience.

Yes, and yet the kind of consumers who are willing to pay that \$10 delivery fee also tend to desire a high-end experience, so that's the confusing part. If you think about Relay, we are a luxury brand at a mass-market price. We sell you a better, happier life. Our service allows for more time with your kids, and better health and nutrition for families, the community and the environment. Because we operate by delivering to central, cost-efficient pickup locations, customers are able to purchase a luxury product at a reasonable price. Compare that to Peapod, which offers a mass-market experience at a luxury price.



In terms of growth, what sort of limitations would you face? For example, in the world of local foods, they say aggregation of local products is a big deal.

Well, we've shown we can grow local supply chains in multiple markets simultaneously. So I wouldn't say it's a no-brainer, but I wouldn't say it's a significant risk, either. Our main challenge is to get to scale—that's where most players before us have failed. Once we get there, the economics of this business will actually

play better to our consumer's advantage.

So, with the current business model, you can just keep going?

Yes, we now serve the mid-Atlantic region. Our recent acquisition of Arganica Farm Club enabled us to expand into the greater Washington, Baltimore and Philadelphia areas. Next, we plan to expand up and down the East Coast and, subsequently, across the country.

If you were looking down the road in five years, what do you think will be happening in food?

The online grocery business is going to be very, very big. Better food will be available on the virtual shelves of these grocers and the connection to the food will only intensify. Gone are the days when farmers were squeezed because they had no brands of their own. Also, as in many other industries, there will be a revival of small business—small artisan shops with one to three employees producing food locally and adding value to their communities.

Where do you think Amazon and Walmart will fit in terms of online grocery?

From the outside, it seems that both companies see online grocery as a critical part of their business model. Walmart has been successful so far in making brick-and-mortar work on a large scale, but not yet online. Both companies are looking at how to enter the online grocery space and are currently experimenting. This is going to be a very large industry in terms of size. My guess is that Amazon and Walmart will take a significant portion of the mass-market share of the online grocery industry.

Our Takeaway

Relay Foods is working synergistically at the intersection of several profound consumer-driven trends currently underway within technology, food culture and food retailing. Consider:

- Consumers are increasingly seeking higher-quality, holistic food experiences, parts of which include locally-produced foods and beverages with narratives behind them. Our recent research on organic and natural buying habits shows that for today's consumer, buying local bridges natural and organic values and ties in the sentiments of supporting one's community, economy and environment.
- Shoppers are changing their behaviors in terms of how and when they shop. Grocery shopping is no

longer a linear process but a behavior that occurs at any time of the day and from any location—thus, online grocery is a natural outgrowth of this evolution.

- Price competition within commoditized food and beverage brands will intensify as retailers like Amazon and Walmart scale up on online ordering and delivery. Conventional grocers that attempt to compete on price alone within such brands will increasingly find shoppers opting for home delivery, assuming basic needs are met in terms of delivery scheduling and costs. Unique, locally-produced foods and beverages will continue to demand high consumer involvement, which implies significant growth potential in the days ahead for services like Relay.

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