

MARKETING



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High hopes: Hy-Vee CEO Ron Pearson stands ready to get the Iowa-based company plugged in, with the help of subsidiary Electricfood.

Sugar Daddy

Electricfood.com wants a slice of the online specialty foods market, and thanks to the brand-muscle of parent Hy-Vee, it might just get it. **BY JOANNE HELPERIN**

As CEO of Electricfood, Michael Hurwitz has most of what a dot-com entrepreneur could wish for. He's got the freedom to run his company, a specialty foods site that launched last summer. He has a state-of-the-art Website and a fancy office in Los Angeles. And—oh yeah—



www.electricfood.com

Hurwitz has a parent company that's one of the 40 largest privately-held companies in the United States, according to *Forbes*.

Electricfood is wholly owned by West Des Moines, Iowa-based Hy-Vee, one of the nation's top 15 grocery chains with annual sales in excess of \$3.5 billion. Never heard of them? You will.

Here's why: The unusual pairing of companies—one Midwestern, established, and powerful, the other "on the coast," online and risky—is one example of how marketing partnerships between the "two" economies *might* work. Electricfood is leveraging Hy-Vee's respected 70-year-old brand, marketing resources, staffing, and distribution capabilities

in the hope that this muscle will catapult the startup from obscurity to celebrity. In return, Hy-Vee gets a marketing boost: It will use Electricfood to help bring its offline image, not to mention a segment of its business, online.

Generally confusing

They aim to capture a share of the current \$200 million online specialty food and gift market, which is expected to grow to \$1 billion by 2003, according to Jupiter Communications. But that may not be easy: Electricfood has entered a confusing online marketplace where distinctions between categories are unclear to the consumer.

Specialty food sites, for one, aren't like online grocers such as the recently merged Homegrocer.com. Specialty sites sell unusual, high-quality epicurean goodies that can be shipped nationally, not everyday perishables. In addition, the category is cluttered with "generalist" specialty food sites (a valid oxymoron), which target a broader audience, as well as with such ethnic cousins as EthnicGrocer.com or KosherSupermarket.com and specific gourmet niche sites, such as Godiva.com or Omahasteaks.com.

As a generalist site, Electricfood aims to set itself apart in the marketplace by being the first to make the stuff of a champagne taste available to those on a beer budget. Its combination of content, community, and ecommerce is designed to appeal to a broad audience—average cooks and aspiring gourmets alike—hence its motto, "Between Everyday and Gourmet." Bringing specialty foods to the masses is something Hurwitz says his pricey, high-end competitors, such as Tavolo.com or DeanandDeluca.com, haven't been able to do.

Electricfood's initial push is to market to Hy-Vee's customers. Then, after saturating the upper Midwest, it will roll out nationwide. It will face several hurdles: It must first convince Midwesterners—traditionally late adopters of technology—to shop online. It must then create a national, stand-alone brand amid the category's clutter. It also faces competition from sites, such as Cooking.com, that sell items

PLAYERS

The menu at specialty food sites varies widely. Many offer newsletters, catalogs, discussions with chefs, gifts, cooking tips, cookbooks; all feature articles and recipes. They're different from such ethnic and niche sites as EthnicGrocer.com, KosherSupermarket.com, and Godiva.com. All ship goods through third-party carriers.

■ **Cooking.com:** www.cooking.com **Location:** Santa Monica, Calif.
Business: The Amazon.com of cooking, with cookware, accessories, specialty foods, outdoor dining necessities and small appliances. Content partners include *Fine Cooking* and *Food & Wine* magazines.

■ **Greatfood.com:** www.greatfood.com **Location:** Seattle
Business: Greatfood.com offers perishables air-shipped in specially cooled crates, a unique feature. It emphasizes gourmet foods and community features for cooks. Acquired by 1-800-flow-ers.com in December.

■ **NetGrocer:** www.netgrocer.com **Location:** North Brunswick, N.J.
Business: With a motto of, "No Lines. No Carts. No Hassle," NetGrocer is a cross between a general grocer and a specialty site. It has strong packaged goods relationships: Mead Johnson, Nabisco, Gerber, and others use NetGrocer to sell their products.

■ **Tavolo:** www.tavolo.com **Location:** Novato, Calif.
Business: With a motto of, "Everything for Cooks," Tavolo has a comprehensive cooking and shopping site, with kitchenware, tableware, and exclusive editorial from the Culinary Institute of America. It has a powerful advertising and content connection with American Express Publishing.

besides food, or that have a national retail presence, such as leading organic retailer Whole Foods Market.

Hy-Vee CEO Ron Pearson doesn't want to hold Electricfood to a specific timetable for expanding beyond the Midwest. Many online retailers, he says, bite off more than they can chew, evidenced by the widespread fulfillment problems seen last Christmas. "We made up our mind that we wanted to be a player in ecommerce," Pearson says. "We just want to be sure we're doing it successfully as we move. We have never failed at anything we've set out to do."

Pass the beans

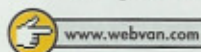
Pearson's faith in the idea is all the more impressive considering that it wasn't his in the first place. In spring 1999, Hurwitz, now 34, approached Hy-Vee about building a site, although it wasn't coincidence that brought him to the chain's doorstep. His father, Louis Hurwitz, started specialty foods wholesaler Lomar Distributing in Iowa 42 years ago, and remained its president after Hy-Vee bought the company in 1990. The younger Hurwitz, while he had worked at other jobs after college, knew the specialty niche cold, having grown up in the family business, wholesaling to major gourmet and

grocery chains, learning fulfillment, sales, merchandising, and management of Lomar's 7,000-product line.

Even though online sales make up less than 1 percent of the nation's total food sales, Pearson liked the idea for Electricfood. It would provide the old-school company a painless way to obtain incremental revenue from Internet users, beginning with Hy-Vee's roughly 10 million customers in the Corn Belt.

Will the Corn Belt go for items sold on the site, such as Ojai Cook's Citrus Herb "Lemonaise" or Santa Barbara Jalepeño Stuffed Olives, and in a big enough way to sustain further growth? Hurwitz complains, "People forget about Minneapolis, about Kansas City, about St. Louis, about Des Moines. There are people who love to cook. It doesn't mean, 'Well, I'm in Iowa so I'm just going to have pork and beans.'"

Even if Midwest consumers will pass the beans in favor of *haricots verts*, there are few in the Corn Belt who would be disappointed by Electricfood's thrift-minded business model. At a time when ecommerce sites spend an estimated \$30 million to \$40 million just to get up and running, Electricfood plans to save millions of dollars by leveraging its parent company's assets, including:



www.webvan.com

Customer base. Hy-Vee gives Electricfood access to its customers, who make approximately 13 million purchases each month, through in-store promotions. These include grocery bag stuffers, receipt backs, and interactive kiosks. This gives Electricfood tremendous contact with potential customers and the potential to offer those customers to other businesses. For example, Electricfood is working on a partnership with a major consumer portal (yet to be named), which would use the in-store kiosks to offer customers free ISP service with a co-branded home page. It also has a deal with *TV Guide's Celebrity Dish* magazine, in which Electricfood gets the magazine's content and the magazine gets preferred placement on grocery line racks, on free recipe cards, and other advantages.

Media relationships. Electricfood can use Hy-Vee's advertising subsidiary, Meyocks & Priebe, to create ad campaigns and place media buys, then use Hy-Vee's volume buying power to negotiate the best rates on regional television, radio, print, and outdoor ad campaigns. Pearson estimates that Hy-Vee spends \$30 million to \$50 million in advertising annually, although he won't name its exact marketing budget for the startup.

But Hurwitz estimates he'll initially spend 70 percent of Electricfood's budget on in-store promotions, 15 percent on offline advertising, and 15 percent on online ads and promotions. Once the regional stores have been penetrated, the company will decrease the percentage spent on in-store promotions.

Brand equity. Hy-Vee is a trusted brand in a part of the country where reputation is everything. Hurwitz believes that Midwesterners, many of whom aren't yet online, are more likely to let a homegrown company bring them onto the Internet than some slick out-of-towner.

Product procurement, distribution, and fulfillment. Using Lomar's extensive experience in specialty foods and its existing central fulfillment center, Electricfood can obtain products, then store, pick, and ship them efficiently and economically, keeping

both prices and profits acceptable in a business where margins are notoriously thin. Maintaining a miniwarehouse within Lomar's larger one keeps Electricfood's inventory ownership at absolute minimum and avoids the multimillion-dollar expense of building a new facility.

Second helpings

Once Electricfood proves itself regionally, it will venture outside the protective reach of its parent and go national. But its business plan calls for it to stop just short of the top 10 markets, where local retail shops already have a strong presence. "Why would you go after an L.A. or New York market," asks

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Hurwitz, "where people can go to Trader Joe's, Bristol Farms, Pavilions, or Gelson's within 15 minutes?"

Hurwitz wants to go beyond the typical affiliate marketing deals and be the first online specialty foods company to syndicate its content through "online pantry shelves." Essentially, these would be co-branded mini-stores that allow consumers to purchase a special selection of foods from pop-up windows within other sites—without launching a new browser window. So sports sites, for example, might feature a pop-up window with gourmet popcorn or a sports-themed party pack. "It's definitely a state-of-the-art approach to affiliate relationships," says Forrester Research senior analyst Evie Black

Dykema. "But of course, it's [only] a baby step for others in the category to follow suit."

Hurwitz also hopes to broaden Electricfood's appeal by combining it with the online grocer approach, offering Hy-Vee's more commonly found groceries on the site. By year's end, though, the parent

itself expects to offer local delivery for 50 to 60 of its 200 grocery stores through its corporate Website, Hy-Vee.com, so it's unclear what will be gained later by putting those stores under the Electricfood banner.

But food isn't the only Hy-Vee owned asset that Hurwitz wants to subsume under Electricfood. Hy-Vee's subsidiaries, Florist Distributing and Drug Town, can provide flowers and over-the-counter drugs. There's even a bank—Midwest Heritage—in case Hurwitz persuades headquarters to do "e-money." Those moves would pit Electricfood against Net retailers in different categories and change the marketing dynamics drastically. But that plan is in its earliest stages, and in traditional conservative fashion Hy-Vee is proceeding cautiously.

That matches up perfectly with the sentiment of Internet retail analyst Vernon Keenan of San Francisco's Keenan Vision, who asserts that the outlook for retail online food sites is dim at best. He notes that the huge advertising budgets required to educate consumers have killed off more than a few new B-to-C companies, even those with deep-pocketed partners and parents. And then there's the distribution issue, the bane of online food sales. "Within two to three years," Keenan projects, "the only firms that will survive are the ones that have a completely new distribution model and fulfillment system, without making compromises for existing offline systems."

Despite the naysayers, Electricfood and Hy-Vee won't be the last online/offline, specialty/grocery combination plate. If the recent Safeway and Royal Ahold deals mean one thing for all food retailers, it's that if you're not yet marketing through the Web, it's time to wake up and smell the cappuccino. ■

Deals

In April, Netherlands-based international food provider Royal Ahold invested \$73 million in the original online grocer, Peapod of Skokie, Ill. Within days, U.S. grocery giant Safeway announced a \$30 million investment in Dallas-based GroceryWorks.

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