Selver Supermarkets and Curbside Pickup

Selver (www.selver.eu) is an Estonian-based supermarket chain consisting of 34 stores, employing 2500 people, with annual sales of 300 million euros (2010 number) and a net profit of 10 million euros.

Selver is considering the possibility of offering a new service that has recently picked up in other countries like the US and France. The service is called “Grocery Curbside Pickup” and allows customers to order their shopping cart online and pick it up from a dedicated loading bay at their store of choice. Supermarket staff assembles the shopping cart during the hour preceding the pick-up time chosen by the customer.

Curbside pickup is already offered by international retailers such as Harris Teeter in the US. These previous experiences have put into evidence two of the advantages of offering this service, namely:

- In the short term it allows a first mover (innovative company) to differentiate itself in a highly competitive market like grocery retail. This differentiation leads to improved brand image and additional customers.
- In the middle and long term, this system has the potential to bring down costs for retail chains by allowing them to further automate their check-out process and to adopt better inventory management tactics, especially for fresh products (e.g. dairy products, meat).

Selver hired the consultancy firm StrategicPartners to do a market analysis and to assess the potential benefits of offering curbside pickup. As a result of this analysis, StrategicPartners recommended that Selver introduces the curbside pickup service in 10 of their stores with a minimum order size of 30 euros. In the first year, Selver could expect 50 purchases per store per day (350 days per year) and an average basket size (value per order) of 50 euro. Their analysis also showed that 90% of the sales would come from existing customers switching from normal shopping to curbside pickup. In other words, these purchases would occur anyway regardless of whether curbside pickup is introduced or not. The remaining 10% of online purchases would not occur without curbside pickup, meaning that these purchases would bring additional revenue. StrategicPartners also expects that the sales through curbside pickup will double in Year 2, and increase by another 50% in Year 3 (with respect to Year 2). In Years 4 and 5 sales are expected to be the same as in Year 3.

Prepare a business case for this project. For this business case, we can take the baseline scenario as the one where nothing is done. This baseline scenario has zero cash-in and zero cash-out. Therefore it is not necessary to analyze the incremental cash-flows between the baseline scenario (which is 0 in this special case) and an upside scenario, i.e. the scenario where the curbside pickup project is performed. Only the upside scenario (reflecting the curbside pickup project) is needed. The business case should include discounted cash flow, NPV, IRR and payback period. Please use the NPV, IRR and payback period to justify rejection or acceptance of the project.

The following assumptions should be made:

- The discount factor is 25%
- You can assume a gross margin (revenue minus cost of goods sold/revenue) of 12% in this case
- As customers using curbside pickup will pay online and hence shelves would need to be
restocked less often, StrategicPartners assumes that Selver will be able to realize the following cost savings: They will use one cashier/shelf-loader less per store in the first year. One such employee costs 15.000 Euros per year. In the second year, they would save one additional cashier/shelf loader per store. In the third year they would save 3 cashier/shelf loaders per store in total. This number will stay constant for years 4 and 5.

- It has been shown in other countries that customers who use curbside pickup are willing to pay a handling fee. StrategicPartners suggests setting a handling fee of 1 EUR per purchase. The number of purchases increases along with the growth in revenue. If the revenue doubles from year 1 to year 2, this also means, the number of purchases doubles etc. etc.
- To enable curbside pickup, a special area (called pickup bay) will need to be built in each participating store, where shopping carts will be loaded/unloaded. Selver estimates it would cost around 20.000 euros to set up each pickup bay (upfront cost). Maintenance of each pickup bay is expected to cost 2.000 EUR per year.
- Selver would need to pay a project manager to oversee the project in years 1 and 2. The project manager would cost 30.000 EUR per year.
- Marketing the new service is expected to cost 50.000 EUR upfront (this sum will be paid exactly when the project starts). Additionally, 50.000 EUR of additional marketing expenses are expected in the first year.
- Selver would invest 100.000 upfront for software development and 10.000 EUR for software maintenance per year (including cost of servers, which Selver rents from a datacenter provider). No additional costs for IT infrastructure are assumed.
- Each pickup bay will be staffed by 2 full-time employees per store in the first year, each one with a salary cost of 15.000 euros per year. At the beginning of the second year this number would rise to 4 employees per store and it will remain that way in subsequent years.
- For simplicity, you can assume that neither taxes nor depreciation need to be taken into account in the analysis.
- The curbside pickup system will have a lifetime of 5 years.

**Disclaimer:** Although based on a real-world company, the above case study is fictitious and does not reflect the views or plans of the company in question.