

eGROCERY: EVOLUTION, REVOLUTION OR HALLUCINATION?

November 2000

Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics. Recent reports have included an analysis of the impact of the arrival of the German supermarket chain Aldi in Australia.



The lead researcher on this report was Tim Morris, one of the founding partners of Coriolis Research. Tim graduated from Cornell University in New York with a degree in Agricultural Economics, with a specialisation in Food Industry Management. Tim has worked for a number of international retailers and manufacturers, including Nestlé, Dreyer's Ice Cream, Kraft/General Foods, Safeway and Woolworths New Zealand. Before helping to found Coriolis Research, Tim was a consultant for Swander Pace and Company in San Francisco, where he worked on management consulting and acquisition projects for clients including Danone, Heinz, Bestfoods and ConAgra.



The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*



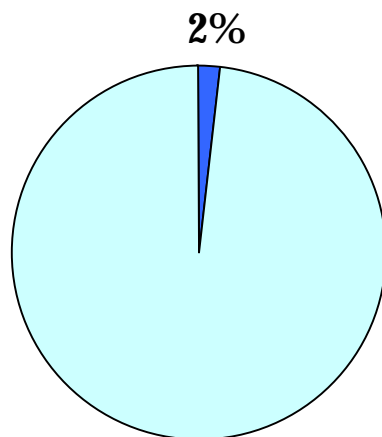
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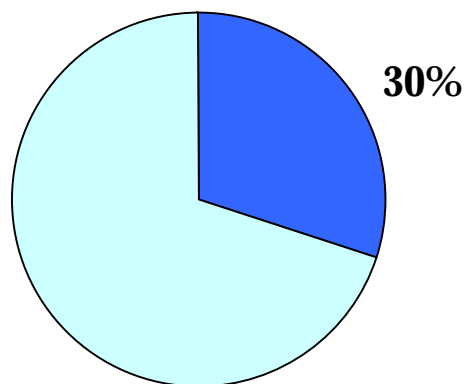
Projections of the potential for eGrocery vary widely

eGROCERY MARKET SHARE IN 2020

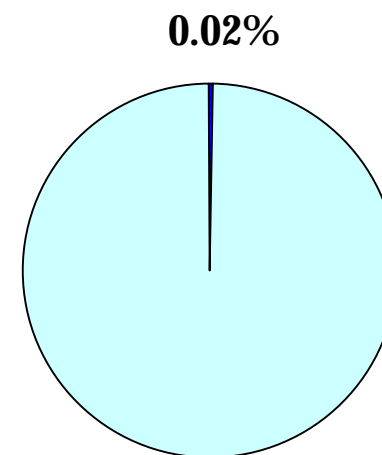
EVOLUTION



REVOLUTION



HALLUCINATION



We believe that, at best, eGrocery retailing will be a niche business

- I. Revolutions based on technological change can and have occurred in grocery retailing**

- II. Internet grocery retailing appears to be a rapidly emerging new channel**

- III. The financial viability of the concept is still unproven**

- IV. The impact of this evolution on traditional supermarkets will be limited, however, both manufacturers and retailers should carefully consider the consequences**

I. Revolutions based on technological change can and have occurred in grocery retailing

- Major shifts in food buying behavior have been a result of technological change**
- The companies that have recognized and adapted to these changes have prospered**
- Successful concepts have shown massive and rapid growth**
- The supermarket proved to be an irresistible proposition for most shoppers that beat home delivery once already**

Major shifts in food buying behavior have been a result of technological change

FOUR ERA'S IN FOOD RETAILING

	Transport	Appliances	Media
1850's	Railroad	Electric Oven Can Opener	Newspaper Magazine Telegraph
1940's	Automobile (Truck)	Refrigerator Freezer	Telephone Television
1970's	-	Microwave	-
1990's	"Information Superhighway"	Personal Computer	Internet Web pages

The companies that have recognized and adapted to these changes have prospered

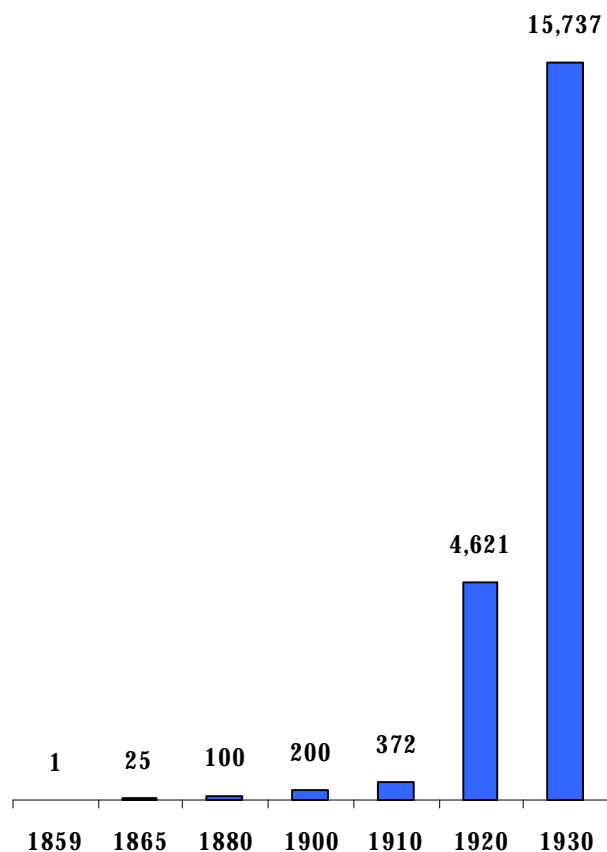
FOUR ERA'S IN FOOD RETAILING

Transport	Implications	Companies
Railroad Newspaper	<ul style="list-style-type: none"> • Massive increase in food production in remote areas • Emergence of regional and national brands • Specialized production; economies of scale • Long distance spot orders; elimination of middleman • Mail order catalog sales 	Sears Roebuck A&P Nabisco Hormel Pillsbury
Automobile Television Refrigerator Freezer	<ul style="list-style-type: none"> • Shoppers can buy more than they can carry • Shoppers go to best price, not where convenient • Interstate trucking - railroad for perishables • National promotion of national brands • Reduce need to buy on daily basis • Increase perishable item unit sizes 	Safeway Kroger P&G Birds Eye
Microwave	<ul style="list-style-type: none"> • Heat food very rapidly • Growth of convenience culture 	Stouffer's Lean Cuisine
Internet PC	<ul style="list-style-type: none"> • Timely information on demand 	Webvan?

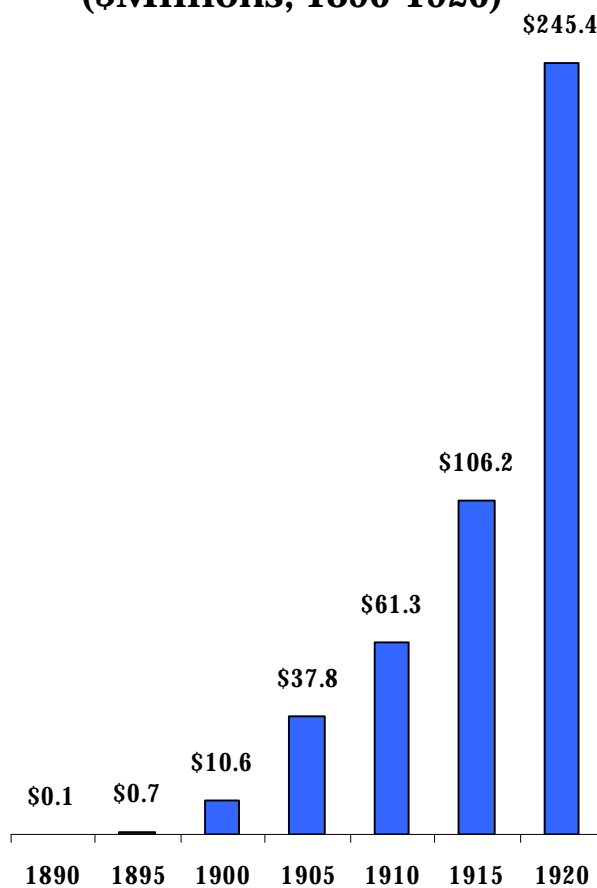
Successful concepts have shown massive and rapid growth

PAST REVOLUTIONS IN RETAILING

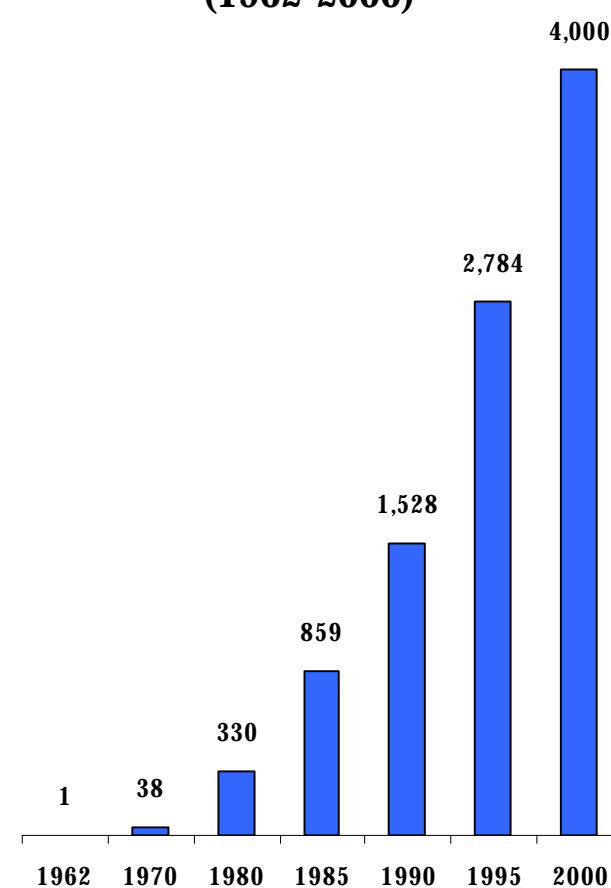
A&P Store Numbers
(1859-1930)



Sears Roebuck Sales
(\$Millions; 1890-1920)

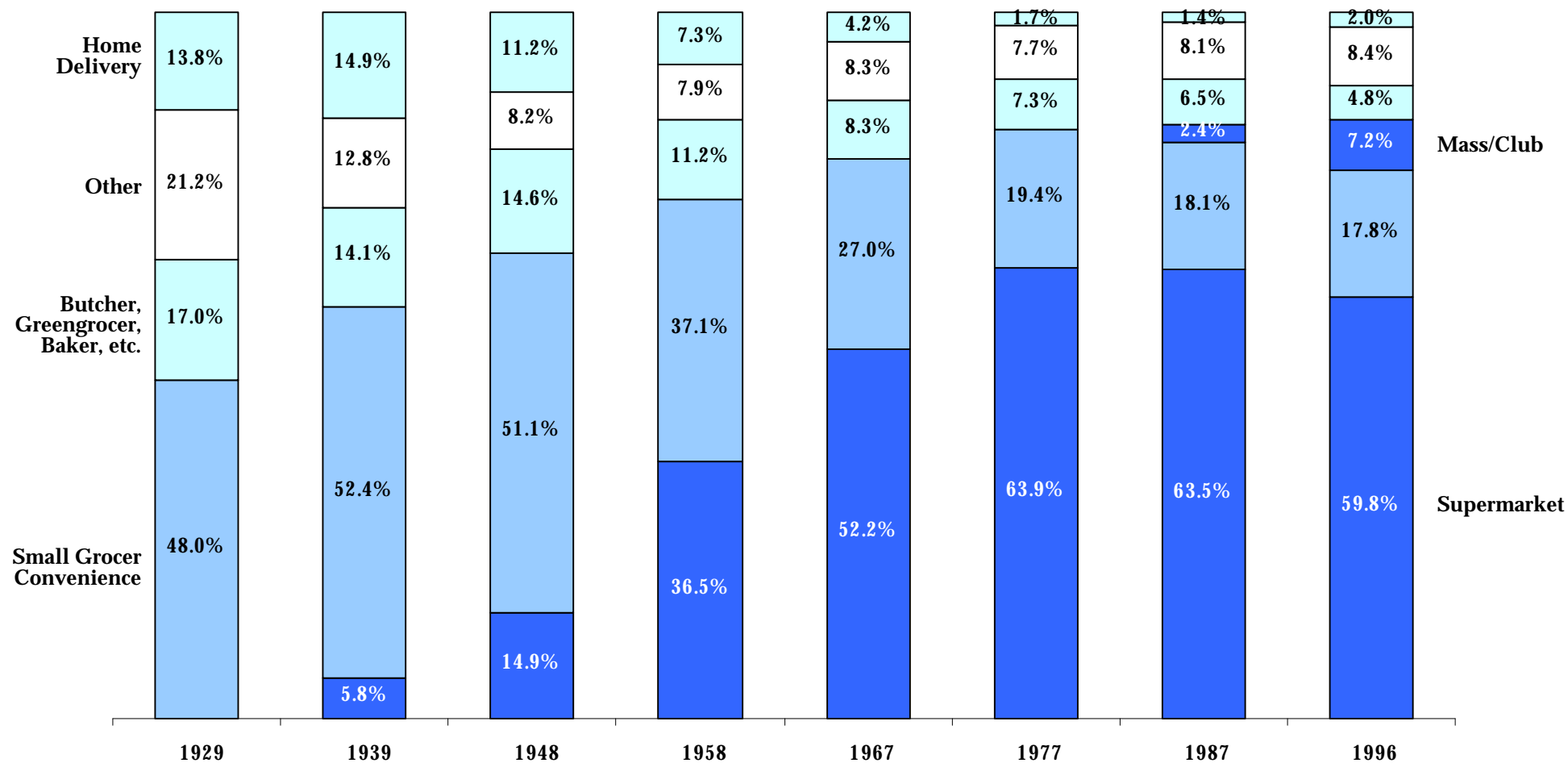


Wal-Mart Store Numbers
(1962-2000)



The supermarket proved to be an irresistible proposition for most shoppers...

FOOD AT HOME MARKET SHARE¹
 (% of sales by channel; 1929-1996)



...that beat home delivery once already

WHY DID IT FAIL THE FIRST TIME? c1940

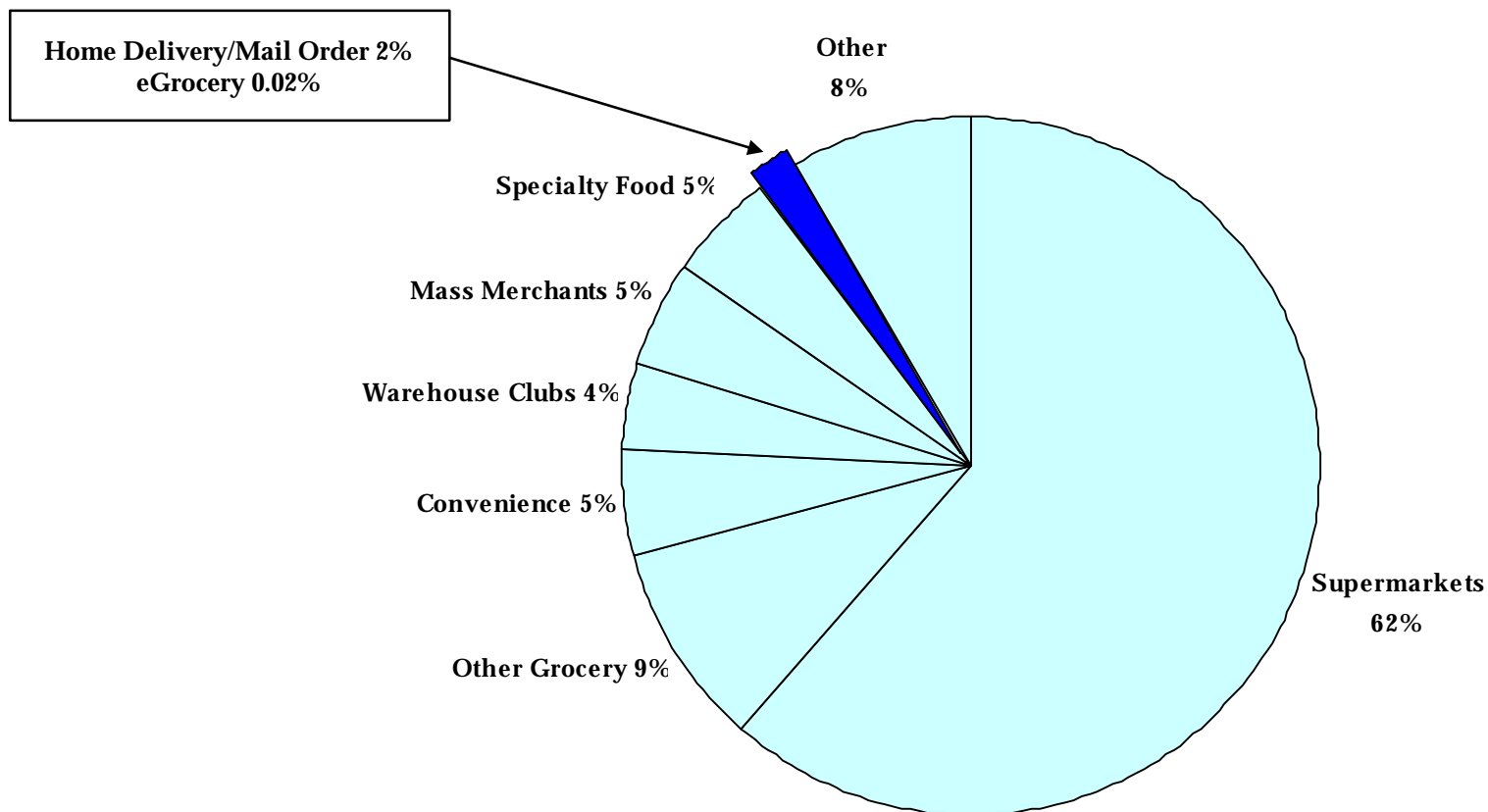
	Home Delivery	Supermarket
Convenience	<ul style="list-style-type: none"> • Wait for delivery boy • Women entering workforce 	<ul style="list-style-type: none"> • Get in now • Get it on the way home from work
Cost	<ul style="list-style-type: none"> • Cost of product + cost of picking + cost of delivery 	<ul style="list-style-type: none"> • Large volume/economies of scale • No service, no frills, low prices
Accuracy	<ul style="list-style-type: none"> • May forget to order items • May not get correct items 	<ul style="list-style-type: none"> • Visual clues to order • Get what you pay for
Logistics	<ul style="list-style-type: none"> • Usually small local grocery • Need to pick order • Buy through wholesaler 	<ul style="list-style-type: none"> • “Super” market • Factory to store • Buy in truckload quantities

II. Internet grocery retailing appears to be a rapidly emerging new channel

- Internet retailing is currently a small but growing component of food sales**
 - Internet grocery retailing (eGrocery) is currently a small part of the large and highly competitive food at home market**
 - Only 540,000 households in the United States have ever used the internet to order groceries**
 - Both major internet research firms agree that eGrocery will show massive growth**
- There appears to be strong consumer interest in the concept**
 - Consumer surveys consistently indicate a demand for grocery home-delivery**
 - Convenience appears to play a key role in consumer demand for home delivery**
 - eGrocery has a clear base of target shoppers**
- The eGrocery concept has quickly moved from start-up to consolidation**

Internet grocery retailing (eGrocery) is currently a small part of the large and highly competitive food at home market

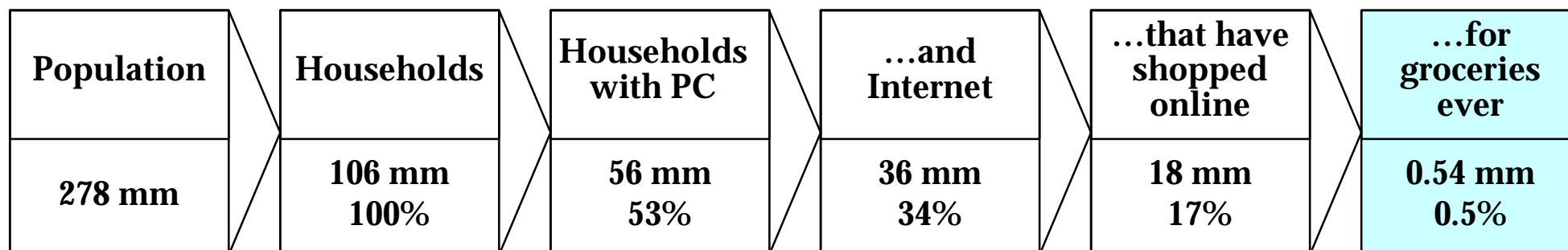
FOOD AT HOME MARKET SHARE BY CHANNEL
 (% of sales; 1999)



TOTAL = \$450 Billion

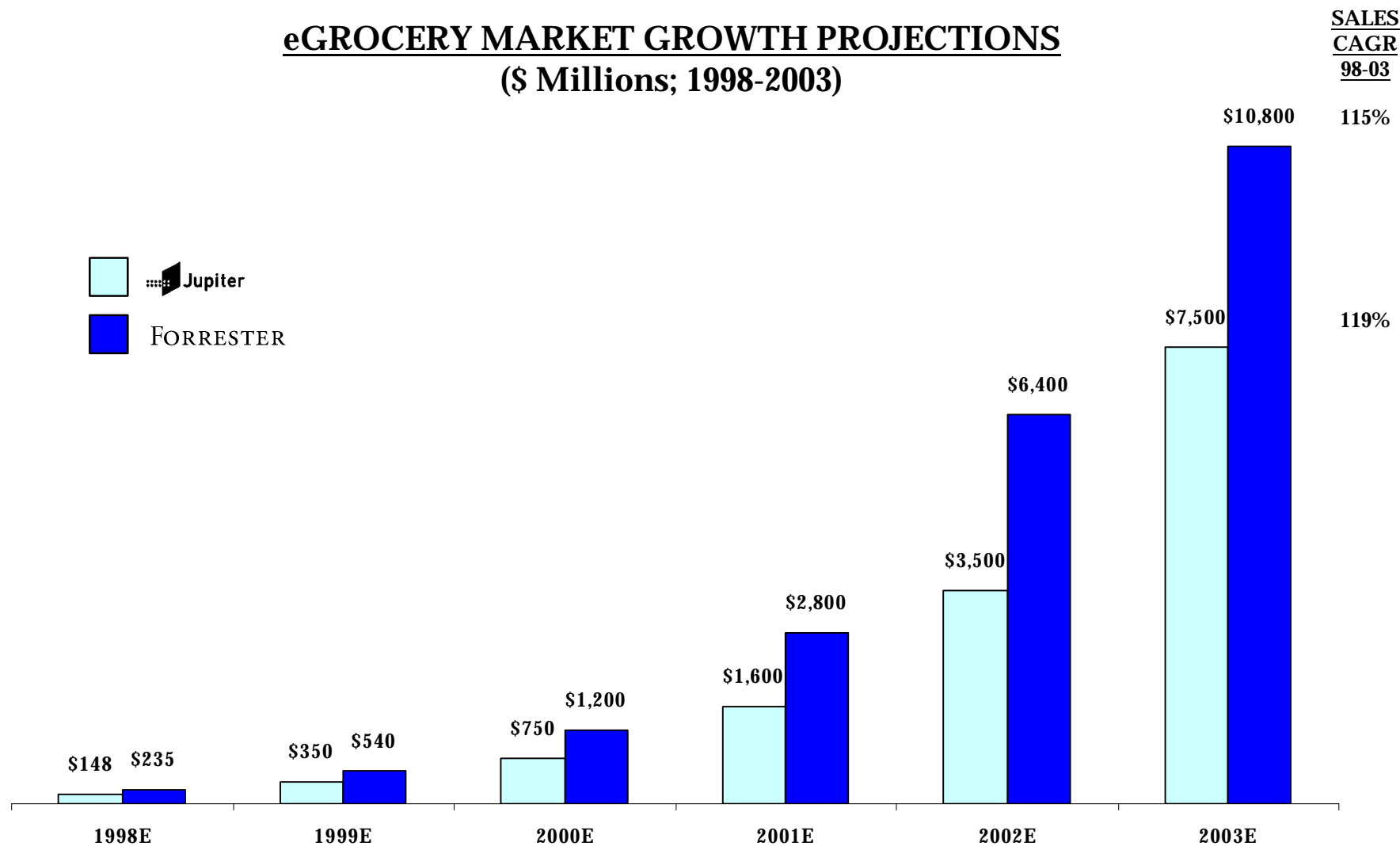
Only 540,000 households in the United States have ever used the internet to order groceries

HOW BIG IS THE MARKET?
 (Millions; % of households)



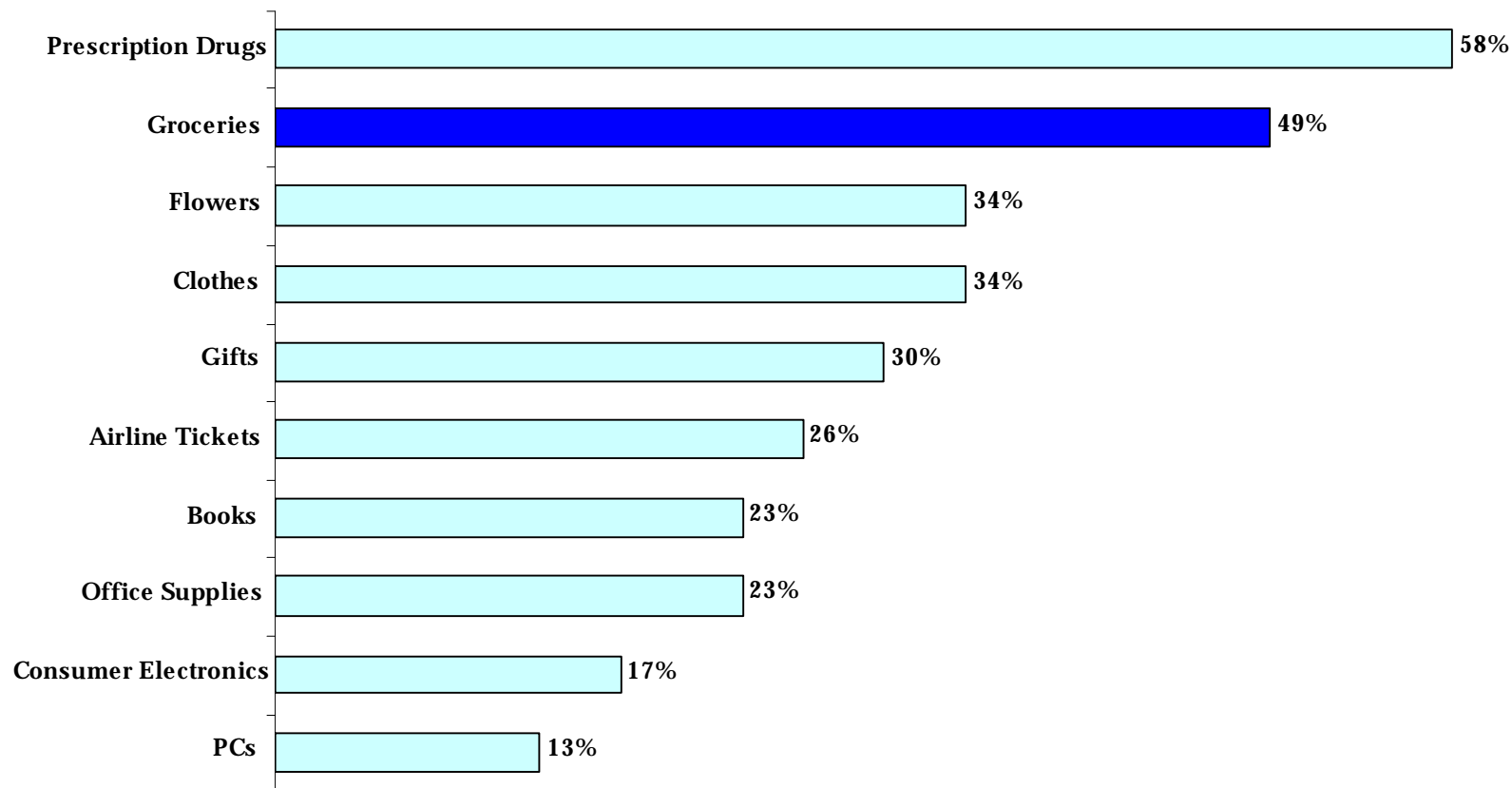
Both major internet research firms agree that eGrocery will show massive growth

eGROCERY MARKET GROWTH PROJECTIONS
 (\$ Millions; 1998-2003)



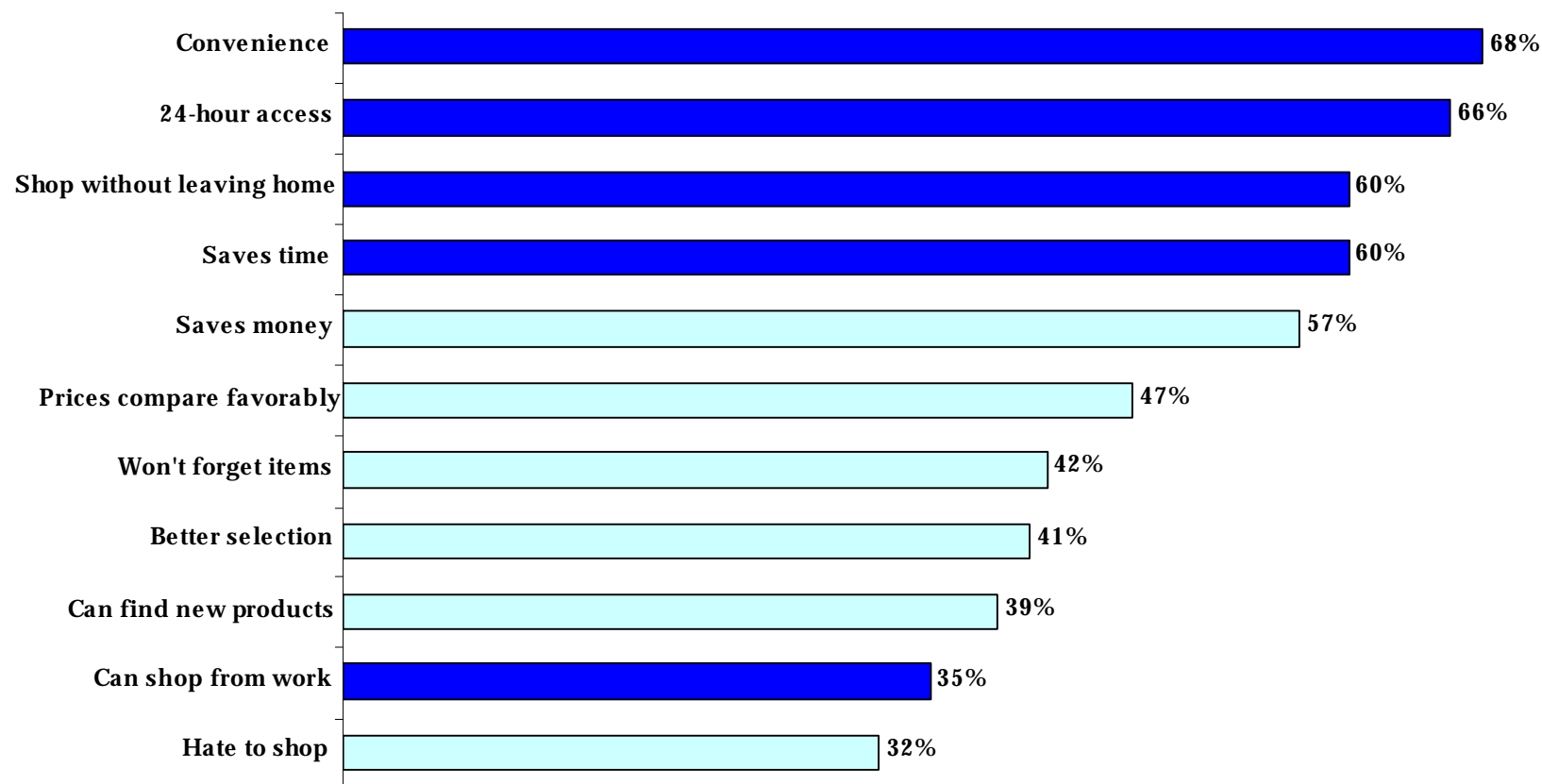
Consumer surveys consistently indicate a demand for grocery home-delivery

DEMAND FOR SAMEDAY FULFILLMENT BY CATEGORY
 (% rating important; survey; March 2000)



Convenience appears to play a key role in consumer demand for home delivery

REASONS SHOPPERS WOULD BUY GROCERIES ONLINE
 (% agreeing; 3/00)



eGrocery has a clear base of target shoppers

WHO IS THE SHOPPER

Solid eGrocery	Solid Traditionalist
<ul style="list-style-type: none"> • Technologically competent • High disposable income • Time starved - willing to trade money for time • Fashion conscious (must be seen doing the latest thing) • Younger, female • White collar, professional 	<ul style="list-style-type: none"> • Afraid of technology • Fixed or low income • Available time - willing to trade time for money • Price conscious (use coupons, shop around, cherry pick specials) • Older, retired • Blue collar, less educated

The eGrocery concept has quickly moved from start-up to consolidation

- **The eGrocery concept appeared highly attractive to a number of investors**
 - **The eGrocery concept is presented as a massive opportunity**
 - **There are clear cost savings from eGrocery/Home Delivery**
- **A core group of leading companies has already emerged**
 - **There are four competing concepts for the structure of the eGrocery supply-chain**
 - **While there are hundreds of start-ups, there is only a small group of well financed, operational eGrocers**
 - **In 1999, six eGrocers captured 90% of online grocery sales**
 - **The leading eGrocers have focused their efforts in the larger urban areas**
- **The channel has attracted investment from five of the top seven grocery retailers**

The eGrocery concept is presented as a massive opportunity

- **“I believe that the Internet grocery business will eventually capture between 10 and 15 percent of the market. Now if we define the market - groceries, nonprescription drugs and home replacement meals - that’s \$650 billion. So if the e-grocers get 15 percent that’s close to \$100 billion.”**

George Shaheen, CEO, Webvan, January 2000

- **“If online retailers captured just 30 percent of the US grocery market, they’d be raking in more than US\$200 billion a year.”**

David Bergh, VP, Grocery Shopping Network, Jan 2000

- **“The market is huge, and if the on-line grocers only get 10% seven or eight years from now, that would be an \$80 to \$100 billion business.”**

Barry Stouffer, Analyst, J.C. Bradford, May 2000

There are clear cost savings from eGrocery/Home Delivery

WHERE DO THE COST SAVINGS COME FROM?

SAVINGS













- **No “bricks-and-mortar”**
- **No “expensive” real estate**
- **Low-cost, efficient order creation**
- **Less labor**

COSTS

- **Regional fulfillment centers**
- **Fleet of trucks and drivers**
- **Team of computer programmers**
- **Computerized sorting and picking system**





There are four competing concepts for the structure of the eGrocery supply-chain

COMPETING eGROCERY MODELS

	Store Pick	Dedicated Warehouse	Courier & Mail	One Hour Delivery
Philosophy	Replace the shopper	Replace the store	Replace the supply-chain	Replace the car
Concept	Pick from retail store at night	Pick from custom built warehouse	Mail or courier from national distribution point	One-hour delivery by bicycle or car from store or DC
Average Order Size	\$110	\$100	\$30-40	\$10-15
Costs				
• Capital				
• Labor				
• Delivery				
Examples	Peapod Albertsons.com	Webvan Homegrocer Streamline	Net Grocer Grocer Online	Kozmo PDQuick Urban Fetch





While there are hundreds of start-ups, there is only a small group of well financed, operational eGrocers

eGROCERY RETAILER PROFILES

Company	Geography	Delivery Method	SKU's DC Size	Sales (Millions)	Delivery Cost	Average Order
	SF Bay Area (incl. Sacramento) Atlanta Chicago	Attended delivery	18,000 skus 350k sqft	\$13.3 (99)	\$4.95 \$50+ free	\$90
	Seattle, Portland Los Angeles Orange County San Diego	Attended delivery	12,000 skus 100k sqft	\$21.6 (99)	\$9.95 \$75+ free	\$102
	Boston Suburbs Nth. New Jersey	Unattended - install refrigerator	10,000 skus 100k sqft	\$15.4 (99)	\$30month for 4 deliveries	
	Dallas/Ft. Worth Houston	Attended delivery	15,000skus 120k sqft	\$10.0 (99E)	Free	N/A




While there are hundreds of start-ups, there is only a small group of well financed, operational eGrocers

eGROCERY RETAILER PROFILES

Company	Geography	Delivery Method	SKU's DC Size	Sales (Millions)	Delivery Cost	Average Order
 Why be it all shopping like this?	Seattle Dallas	Attended delivery In-store pick-up	16,000 skus 36+ Retail Stores	\$4 (99E)	\$5.95 \$60+ free	N/A
	Boston, Chicago SF Bay Area Long Island Connecticut	Attended delivery	20,000 skus 50-70k sqft	\$73 (99)	\$9.95 to free	\$106
	Boston Suburbs Sth. Connecticut	Unattended - install refrigerator	12,000 skus 65-83k sqft	\$5 (99E)		\$105
	Boston	Attended delivery		\$10 (99E)		Over \$100




While there are hundreds of start-ups, there is only a small group of well financed, operational eGrocers

eDELIVERY RETAILER PROFILES

Company	Geography	Delivery Method	SKU's DC Size	Sales (Millions)	Delivery Cost	Average Order
	Los Angeles NYC SF Bay Area 8 Others	Same-day (Under 1hr) Attended delivery	20	\$3.5 (99)	Free 10am- 12am	\$10-15
	B2C [New York & London B2B closed]	Same-day bicycle- courier delivery		\$ (99)	Free	B2C \$8 B2B \$50
	Los Angeles	Same-day (30 min) Attended delivery		\$ (99)	\$2.99 6am- 3am	\$20

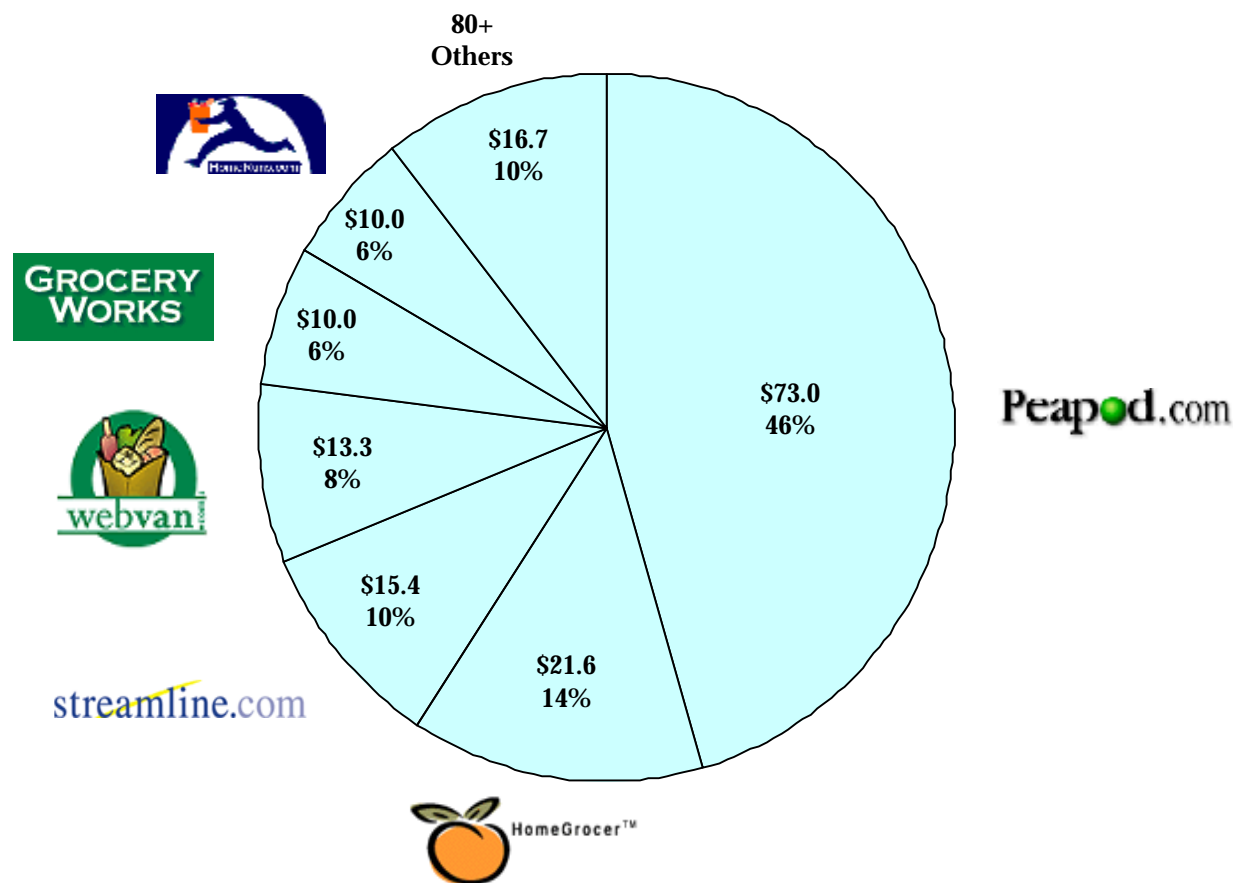
While there are hundreds of start-ups, there is only a small group of well financed, operational eGrocers

eOTHER RETAILER PROFILES

Company	Geography	Delivery Method	Notes
	National	Mail, Courier	<ul style="list-style-type: none"> • Groceries by courier • Started by Israeli Special Forces Commando • 22% owned by Parmalat (for \$30mm) • Sales \$6.5 mm (99)
	National	Mail, Courier	<ul style="list-style-type: none"> • Groceries by courier • Deliver frozen in dry-ice pouch
	National	Print-out coupon	<ul style="list-style-type: none"> • Bid online for each of your groceries • “150,000” customers weekly • Take winning bid to store • Recently shutdown due to losses

In 1999, six eGrocers captured 90% of online grocery sales

1999 eGROCERY MARKET SHARE
 (\$Millions; % of total; 1999)



TOTAL = \$160 Million Dollars








The leading eGrocers have focused their efforts in the larger urban areas

eGROCERY OPERATIONS BY REGION
 (Actively trading; as of Sept 31, 2000)



The channel has attracted investment from five of the top seven grocery retailers

TOP SEVEN GROCERY RETAILER eGROCERY ACTIVITY

Company	Key Action
	<ul style="list-style-type: none"> • Early adopter; launched Walmart.com; national delivery of non-perishables • Relaunching revised website Q4/2000
	<ul style="list-style-type: none"> • Partnership with Peapod and Priceline • Minimal activity
	<ul style="list-style-type: none"> • Launched Albertsons.com in Seattle and Dallas • Building from scratch, good site, committed to concept
	<ul style="list-style-type: none"> • Early partnership with Peapod; purchased 50% of Grocery Works (\$30mm) • Launching Safeway.com powered by Grocery Works in Denver Q4/2000
	<ul style="list-style-type: none"> • Early partnership with Peapod; purchased 51% (then 81%) of Peapod • Struggling Peapod now run by Ahold VP; strong commitment to concept
	<ul style="list-style-type: none"> • Recently purchased Hannaford Bros., founder of Homeruns.com • Parts of Homeruns sold off to investor groups
	<ul style="list-style-type: none"> • Minimal activity

III. The financial viability of the concept is still unproven

- Webvan, which has quickly become the bellwether of the industry, has lost billions and still not demonstrated financial viability**
 - Webvan represents the best chance for an eGrocery revolution**
 - Webvan has everything going for it**
 - Webvan has so far failed to deliver**
- With the popping of the internet bubble, reality appears to have set in, and demonstrating DC profitability has become the key requirement**
- It is still unclear who will ultimately win: clicks or bricks & clicks**

Webvan represents the best chance for an eGrocery revolution

WHY WEBVAN?

Key Strengths of Webvan Model

- **Re-engineered supermarket retailing from the ground up**
- **Contains defensible technology and patents**
 - **Preventing or limiting competition**
 - **Allowing national/international expansion**
- **Achieves lower cost than supermarkets if it achieves required minimum volumes**
- **Recognizes that large scale change comes from:**
 - **Lower cost/Higher profitability than competition**
 - **Better consumer value proposition (\$/convenience)**
- **Replaces labor with capital**

Webvan has everything going for it

- Webvan has impeccable management and financial advisors**
- Webvan has the best business model for eGrocery**
- The company is delivering on customer satisfaction**
 - Webvan offers prices lower than conventional supermarkets**
 - Webvan has the highest level of customer satisfaction of any eGrocer**
- The company is showing strong growth**

Webvan has impeccable management and financial advisors

WEBVAN'S BLUE BLOOD

Founder	First Round Investors (\$400mm)	Chief Executive Officer	Initial Public Offering (\$375mm) ¹
<p>Louis Borders (Founder of Borders Books; MIT educated mathematician; “genius”)</p>	<p>Sequoia Capital (\$50mm)</p> <p>Softbank Corp. (\$125mm)</p> <p>Goldman Sachs VC (\$100mm)</p> <p>Benchmark Capital Knight Ridder Co. CBS Inc. Yahoo! E*Trade LVMH (\$125mm)</p>	<p>George Shaheen (Ex-CEO Anderson Consulting)</p>	<p>Goldman, Sachs & Co</p> <p>Donaldson, Lufkin & Jenrette</p> <p>Merrill Lynch & Co.</p> <p>Bear, Stearns & Co.</p> <p>Deutsche Bank Alex Brown</p> <p>Robertson Stephens</p> <p>Thomas Weisel Partners</p>

Webvan has the best business model for eGrocery

- **Webvan has one of the most technologically advanced warehousing and distribution systems on the planet**
- **Webvan designed its supply-chain using a blank sheet of paper**
- **The hub-and-spoke architecture allows one distribution center to service a 70+ square mile urban area**
- **The model keeps delivery costs below 5% of sales**
- **Webvan has built partnerships with a number of key manufacturers that give the supplier real information and input**
- **Webvan's model has been praised by the analysts, even when they question the details**

Webvan has one of the most technologically advanced warehousing and distribution systems...

- **“A single worker, standing at a pod, will be surrounded by motorized carousels holding 8,900 grocery items, many conveyer belts, a host of electronic-eye bar code scanners and 16 bins that collect shoppers’ orders. In just one hour, the worker should be able to pack 450 grocery items - nearly 10 times the productivity of a traditional “shopper” strolling a cart through a store or warehouse.”**

Food Industry Report, April 1999

- **“The automated warehouse gives us a 10 percentage-point edge in profit margins over traditional supermarkets, allowing the company to keep prices down, avoid surcharges and cover delivery costs.”**

Kevin Czinge, Chief Financial Officer, Webvan, April 1999

- **“We’re taking the grocery industry and completely reengineering it from the inside out. There’s nothing that resembles this distribution and delivery system. We’re conquering the last mile of e-commerce.”**

Mark Zaleski, SVP Area Operations, Webvan, June 2000

...on the planet

- **“The Webvan facility is a combination tech-head’s wet dream and chef’s fantasy. Workers carry small, handheld computers. Radio transmitters from a large computer tell the workers what items to put in the totes... Freeways of conveyer belts carry partially filled totes to workers in other parts of the warehouse... Workers in white frocks and hair bonnets cut fresh meat... Employees in a 70-degree room sort tropical fruit. Other workers in a bakery and a kitchen for prepared meals fix sumptuous-smelling treats.”**

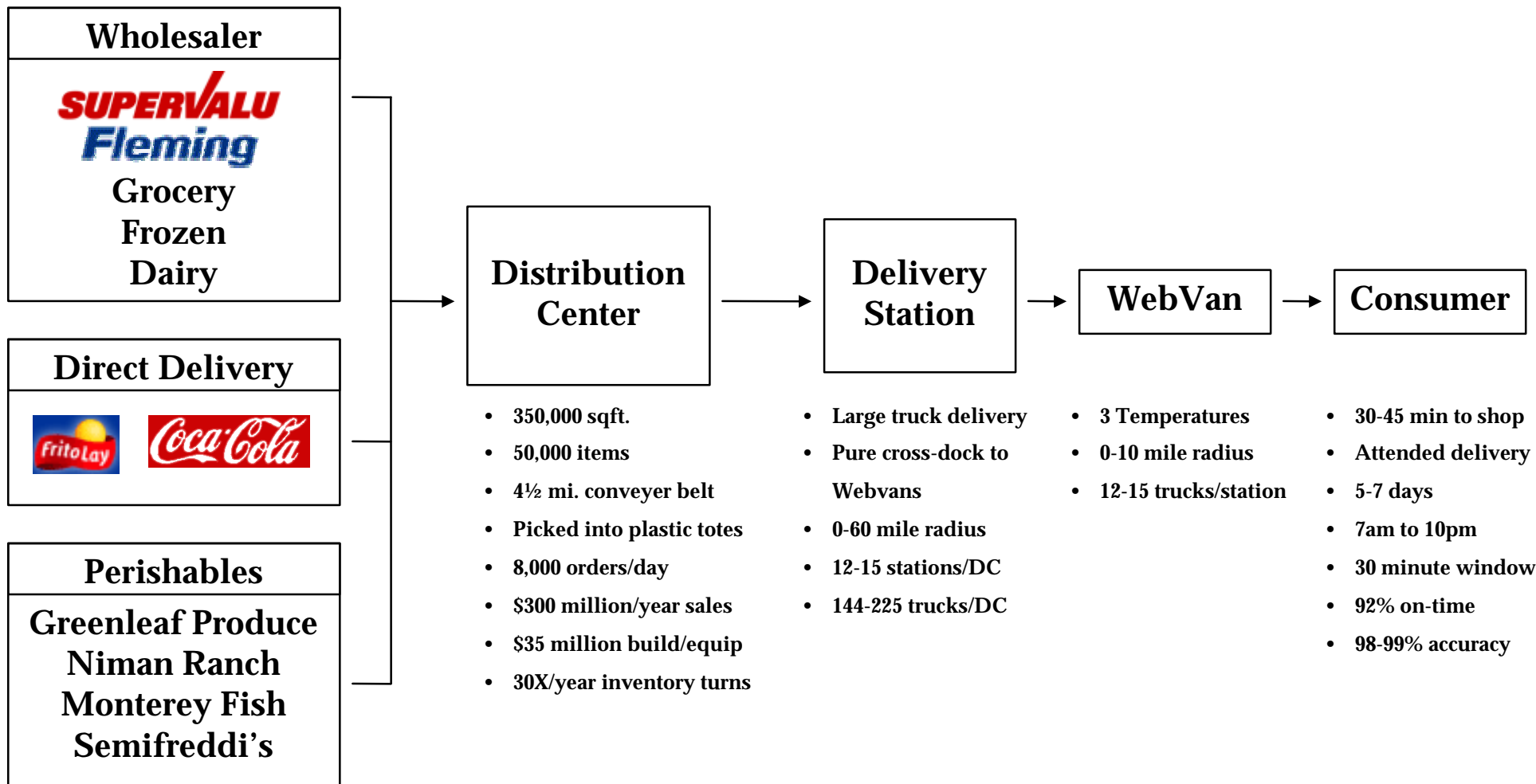
Tom Davey, Red Herring, March 2000

- **“The Oakland distribution center for Webvan is an impressive sight. Covering an area of 330,000 square feet, it is divided into three broad, colour-coded segments. Yellow is for “ambient”: dry goods, the heavier of which (such as soft drinks) are manipulated around by giant insect-like “mechpods.” Green and blue are respectively, for “chilled” and “frozen”... The center processed some 2,000 orders a day, involving up to 20,000 totes... The contents of the order are computerized. That triggers a system of lights, as the tote travels around the warehouse, to show the packers precisely what needs to be added to the tote at each point... None of the 150-odd packing workers needs to move more than 19 feet to fill each item in an order.”**

The Economist, Feb 2000

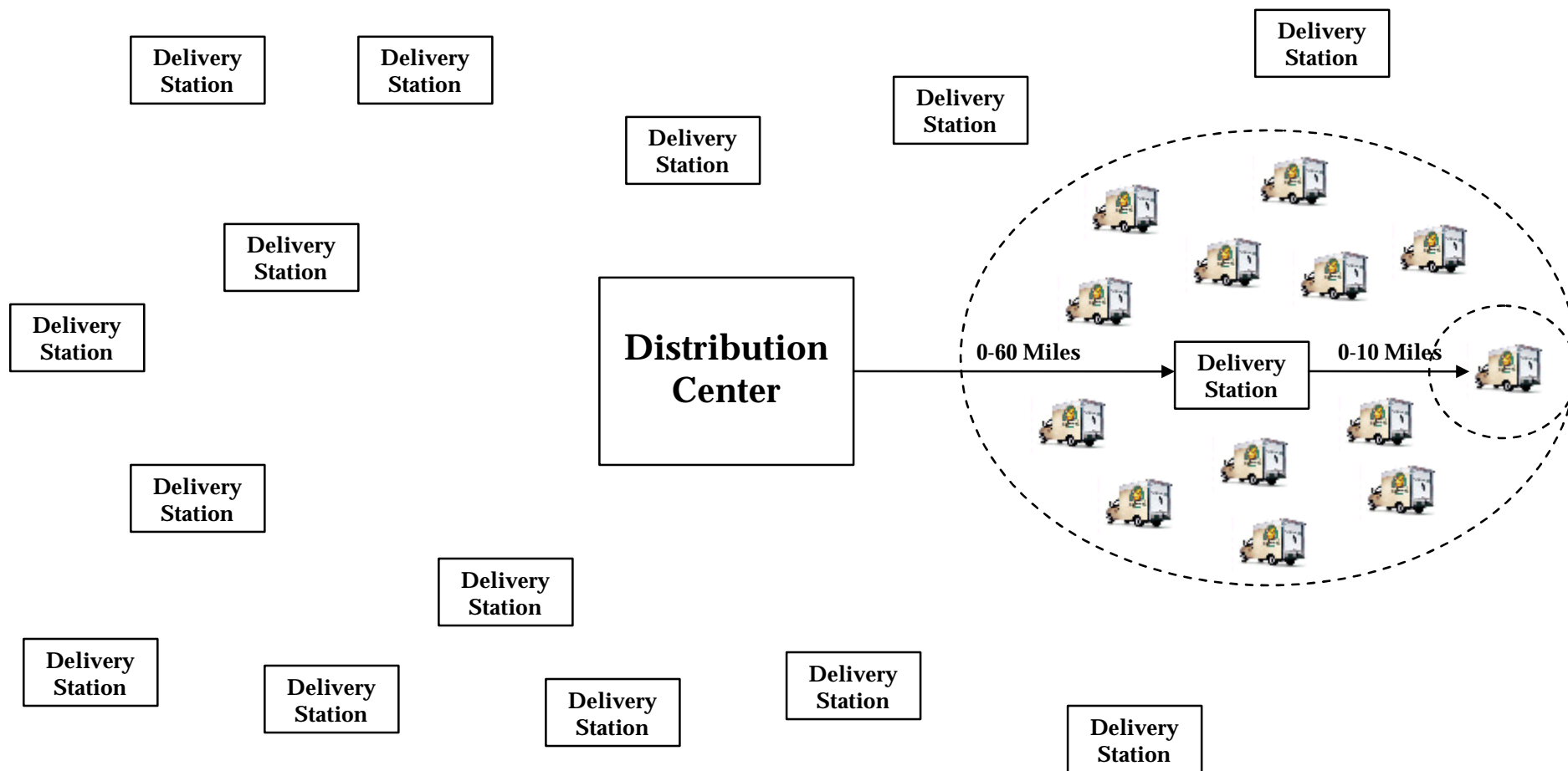
Webvan designed its supply-chain using a blank sheet of paper

WEBVAN DISTRIBUTION SYSTEM



The hub-and-spoke architecture allows one distribution center to service a 70+ square mile urban area

WEBVAN DISTRIBUTION SYSTEM



The model keeps delivery costs below 5% of sales

ECONOMICS OF AN ORDER

	Cost per Hour
Courier wage & benefits	\$17-18
Station manager cost	\$1-2
Van cost	\$2-4
Total cost per hour	\$20-24
Deliveries per hour	5
Average order size	\$90-100
Revenue per hour	\$450-500
Cost as a % of revenue	4-5%

Webvan has built partnerships with a number of key manufacturers...

WEBVAN ALLIANCES

Company	Categories
Kimberly-Clark	Feminine care, facial tissue, bath tissue, adult care
Coca-Cola	Carbonated soft drinks, bottled waters, bottled teas, bottled juice drinks
Pillsbury	Refrigerated dough, frozen pizza, Mexican food
Kellogg	Ready-to-eat cereals
Nestlé	Frozen entrees, pet food
Quaker	Hot cereals, sports beverages
Nabisco	Cookies and crackers
Clorox	Bleach, cleaning products

...that give the supplier real information and input

VALUE OF ALLIANCES TO PARTNER

Key Points

- **Conduct research and gather data**
- **Develop key insights on the emerging online channel**
- **Test new interactive promotional vehicles**
- **Assist with product assortment, merchandising, marketing & supply-chain management**
- **Realize new brand building opportunities**
- **Create a powerful and new personalized shopping experience for customers**

Webvan's model has been praised by the analysts

- **“The company has a big opportunity, strong management and a strong value proposition. STRONG BUY.”**

Henry Blodget, Analyst, Merrill Lynch, Jan 2000

- **“Webvan has the most promising business model... Its business model is basically a dream for the on-line grocery channel.”**

Evie Black Dykema, Researcher, Forrester Research, July 1999

- **“Webvan is in the best position to succeed in the business. It's driving gains and cutting costs. Bricks-and-mortar grocers spend between 4% and 6% of their profits on leasing costs for their space. Webvan needs to spend 1% of their profits on its space, since it's built on cheap land and is so automated. STRONG BUY.”**

Peter Swan, Analyst, Pacific Growth Equities, March 2000

- **“We view Webvan as one of the few true e-tailing enablers... leveraging Web technology to allow customers to shop in a way that was impossible without the internet. Webvan owns every inch of its business, from the time its products are initially purchased from its suppliers to delivery to a customer. BUY.”**

Lauren Cooks Levitan, Analyst, Robertson Stephens, January 2000

... even when they question the details

- “Webvan has done it the new economy way: Raise as much money as you can and bet the ranch. They have determined in advance, without experience, that they have the right model. Webvan is reducing picking costs through a lot of automation. The question is: Is that the best right trade-off, spending lots of capital to lower picking costs? You spend capital to save not that much money. Plus there’s the risk of not getting demand in the first place... BUY.”**

Barry Stouffer, Analyst, J.C. Bradford, Feb 2000

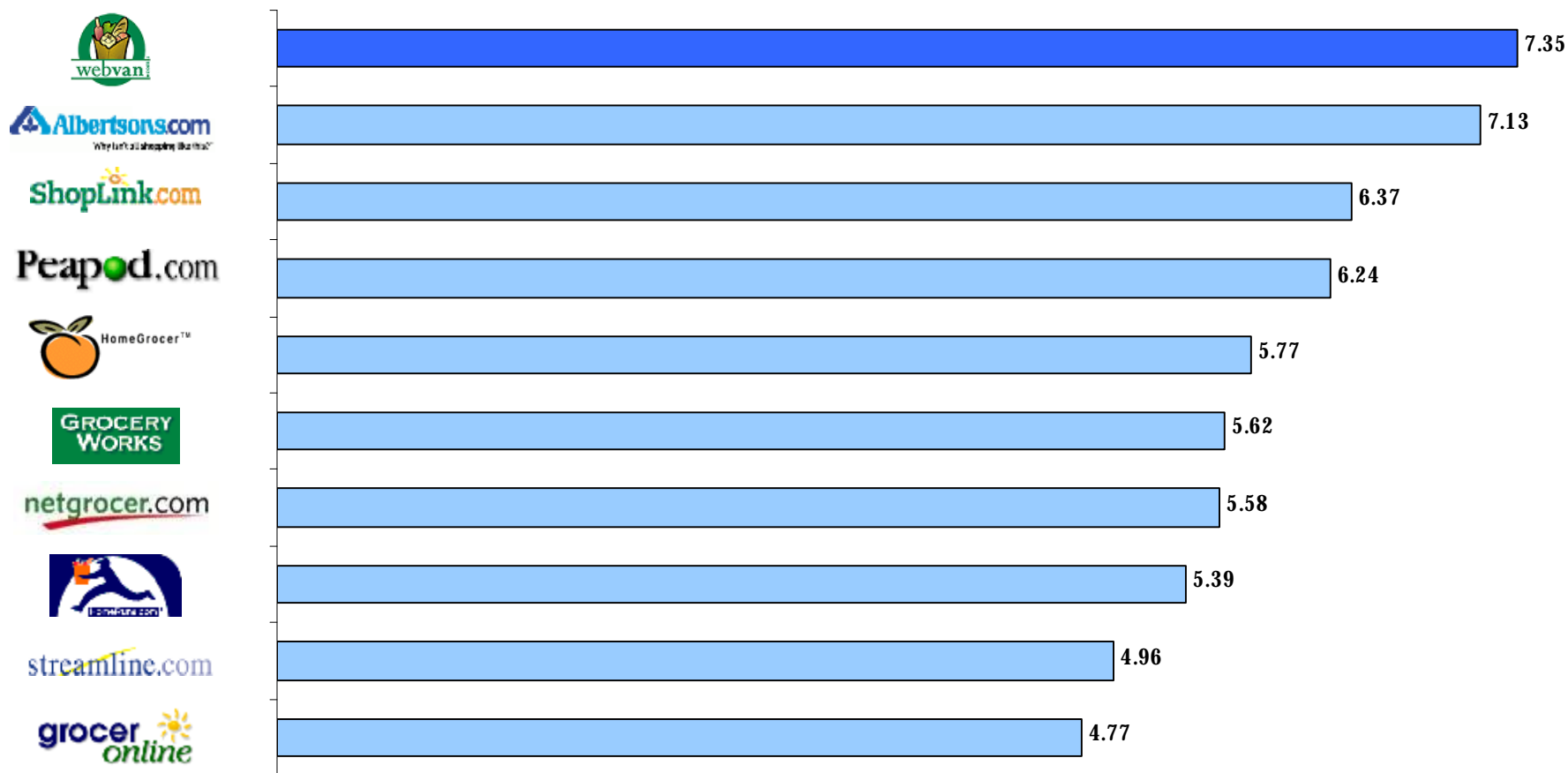
Webvan offers prices lower than conventional supermarkets

SHOPPING BASKET COMPARISON¹ (\$Actual; 25 item survey; 7/99)



Webvan has the highest level of customer satisfaction of any eGrocer

CUSTOMER SATISFACTION RATING¹
 (10 = Perfect; Fall 2000)



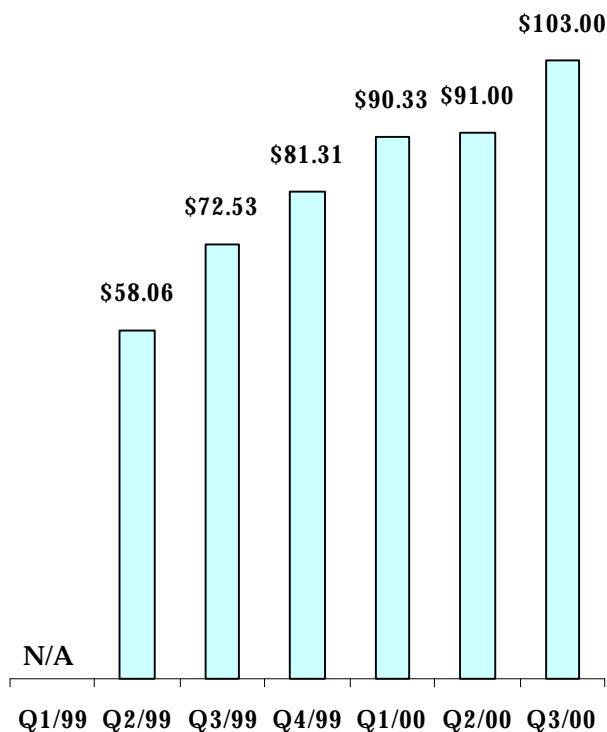
The company is showing strong growth

- The order metrics of the Webvan model are showing constant improvement**
- Webvan has shown very strong sales growth, growing at a compound rate of 340% a quarter**
- Webvan has quickly gained the dominant market position and almost 50% market share**
- Webvan is expanding beyond groceries into higher value goods and services**
- With its merger with Homegrocer, Webvan now quickly approaching a national distribution**

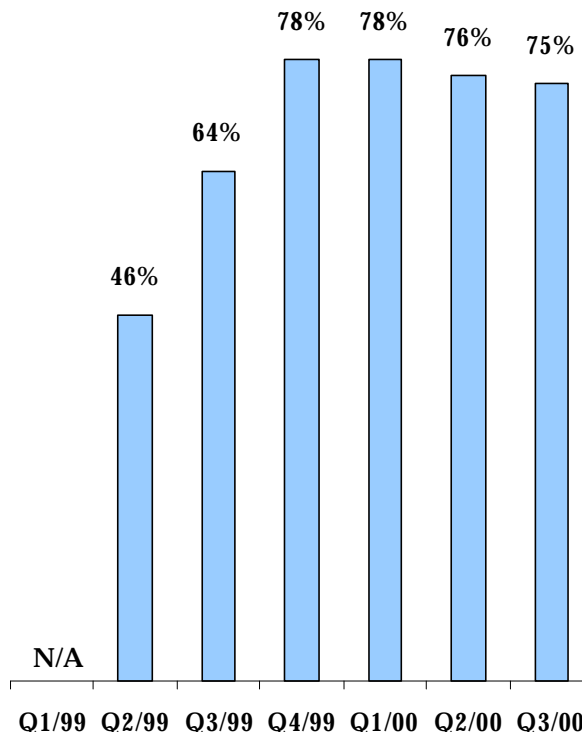
The order metrics of the Webvan model are showing constant improvement

WEBVAN ORDER METRICS¹

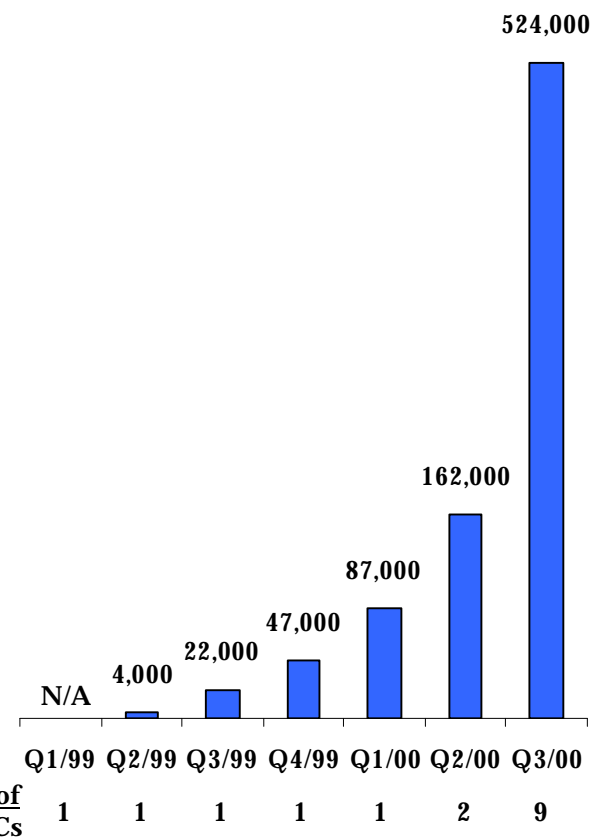
Average Order Size
(\$Actual)



Repeat Purchase
(% of Customers)



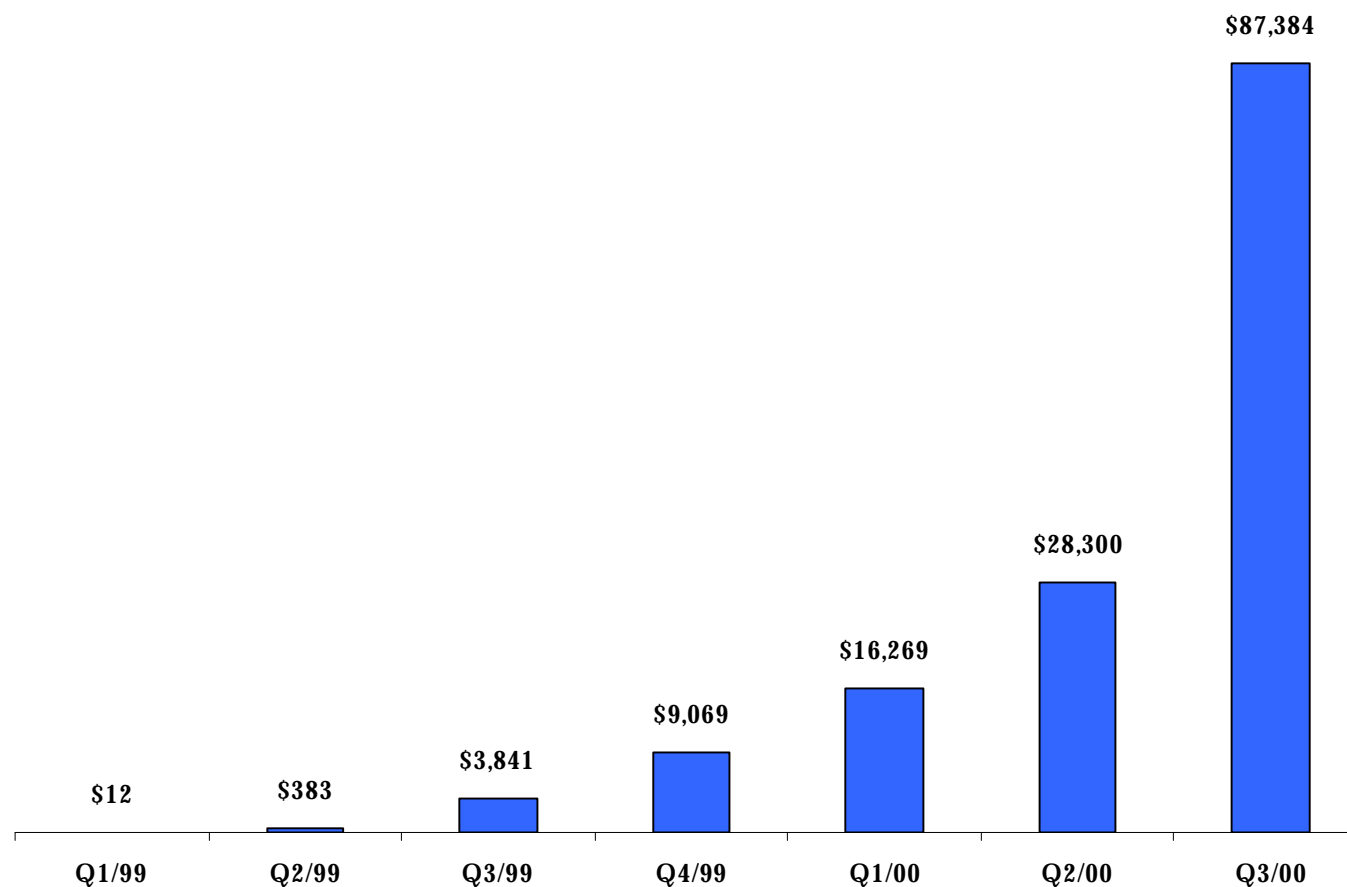
Active Customers
(Actual)



Webvan has shown very strong sales growth, growing at a compound rate of 340% a quarter

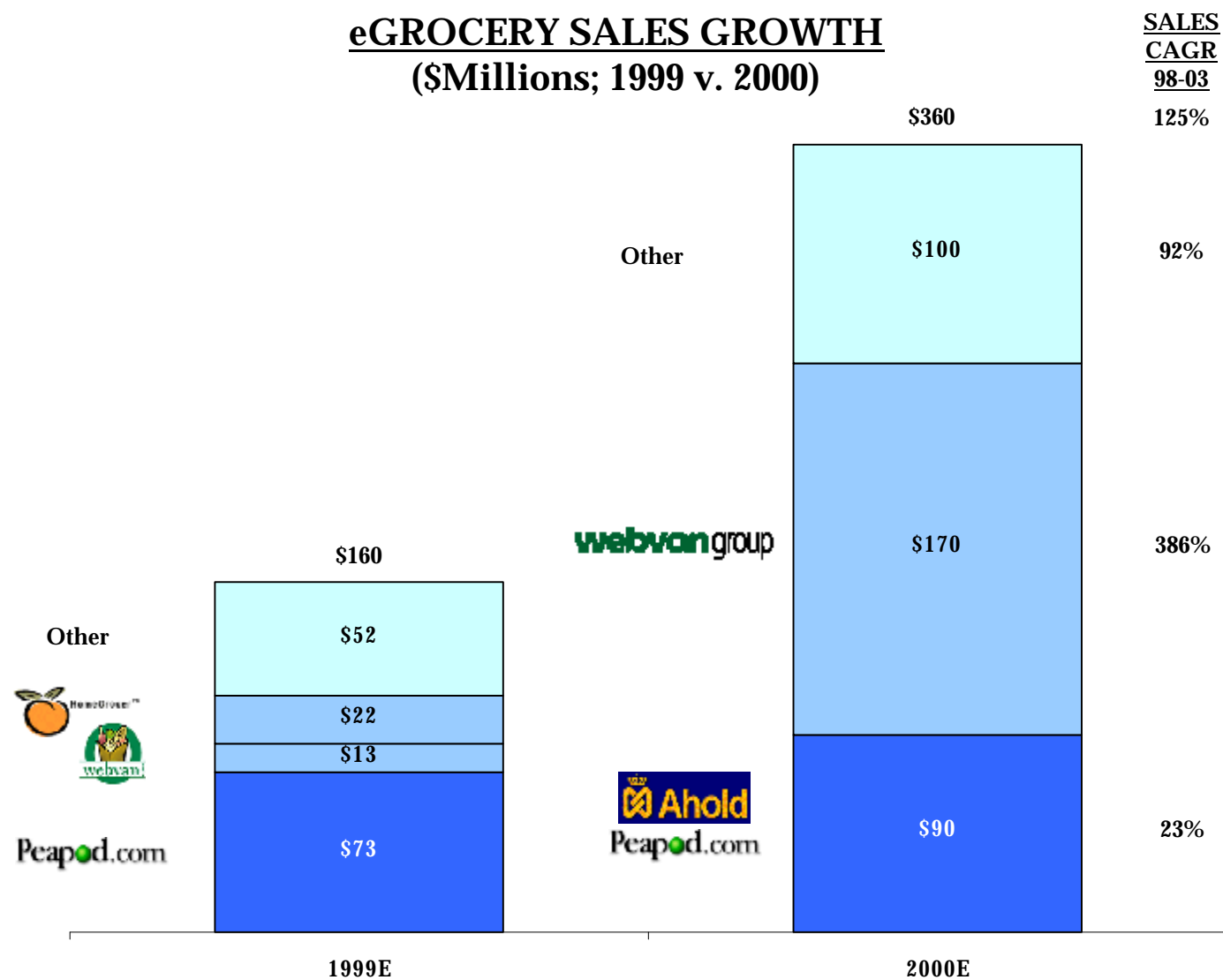
WEBVAN SALES GROWTH
 (\$ Thousands; Q1/99-Q2/00)

**QUARTERLY
 SALES
 CGR
 Q1/99-Q3/00**



340%

Webvan has quickly gained the dominant market position and almost 50% market share



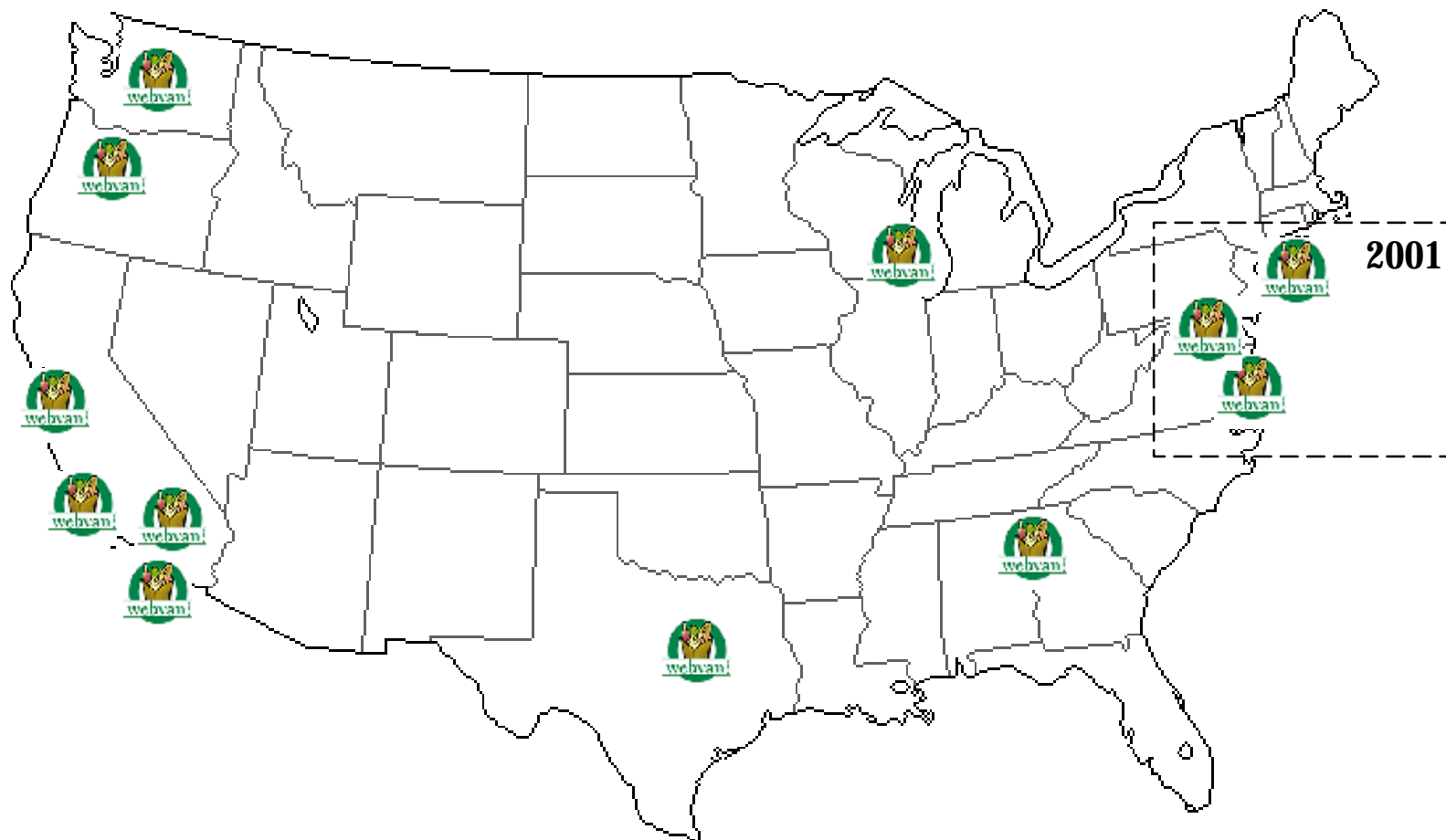
Webvan is expanding beyond groceries into higher value goods and services

EXPANSION BEYOND GROCERY

Grocery	Drug Store	Services	Department Store	Fast Food/ Foodservice
Dry grocery Perishables Non-food Pet Food	HBA OTC Drugs	Dry Cleaning Flowers Stamps (25% of orders) Bus Passes Bridge Tokens	Books Software CD/DVD/Video Appliances Electronics Apparel Office Supplies Hardware Party Supplies Smoke Shop	Chef-prepared Meals

With its merger with Homegrocer, Webvan now quickly approaching a national distribution

WEBVAN GROUP PROJECTED OUTLETS
(Distribution centers by location; company projection; Dec 31, 2000)



Webvan has so far failed to deliver

- Webvan has not shown impressive bottom line performance**
 - Webvan has had massive losses, both on a total and on a per customer basis**
 - Webvan’s capital intensive distribution center appears to very negatively impact center profitability when not operating at full capacity**
 - For the time being, bricks appear to be beating clicks on the top and bottom line**

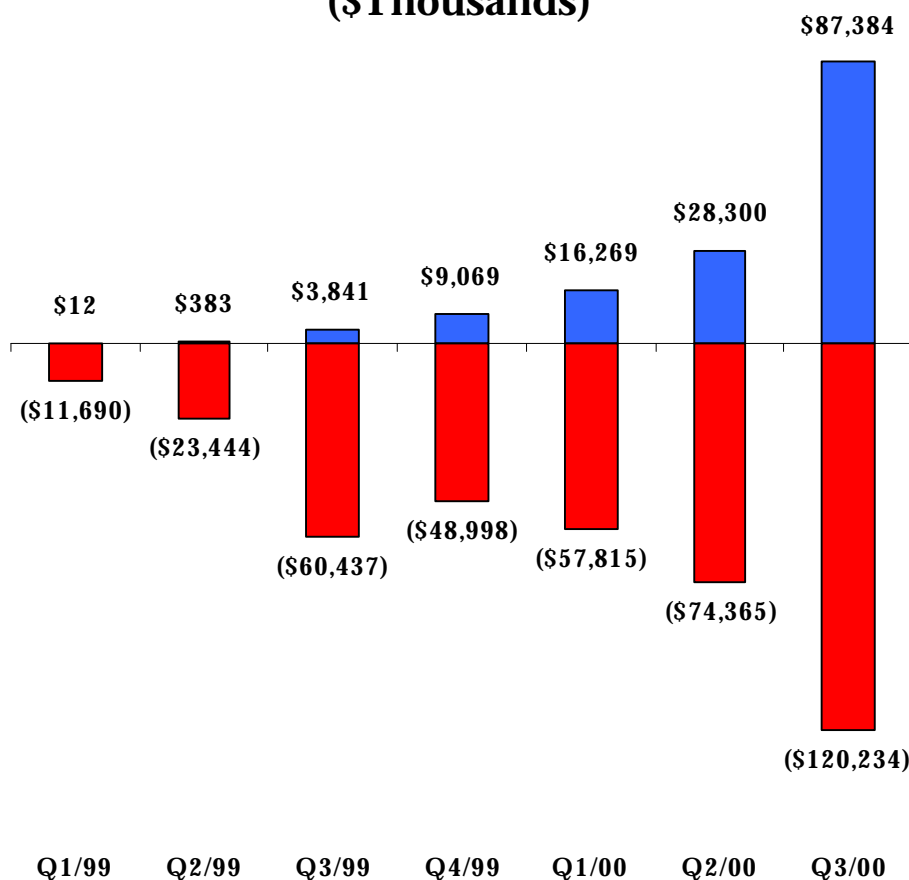
- Webvan’s model has fallen over because it has been unable to achieve high enough penetration**

- Webvan’s stock has not been a good investment**
 - Webvan’s stock has taken a punishing, despite the best efforts of the analysts**
 - Webvan and Homegrocer have seen a combined \$11.3 Billion fall off their market capitalization highs**

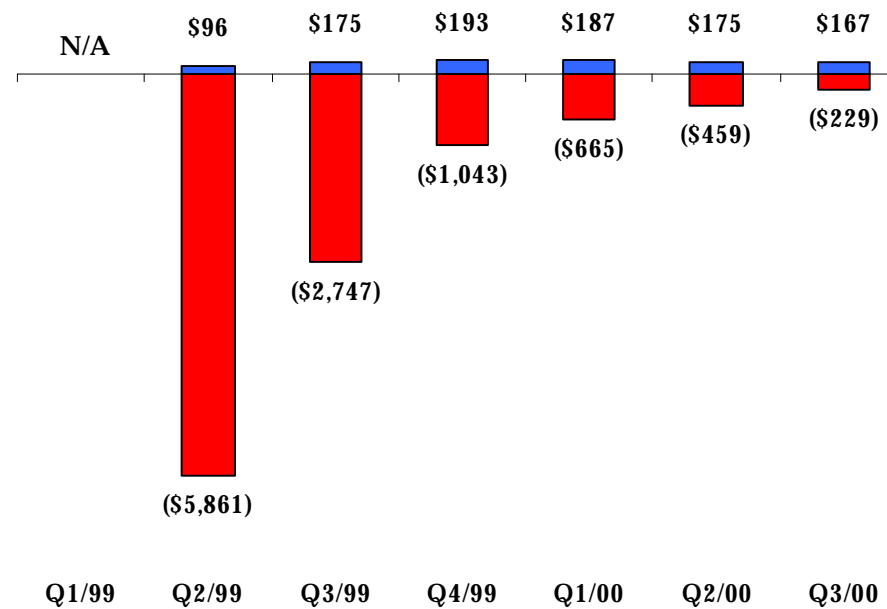
Webvan has had massive losses, both on a total and on a per customer basis

WEBVAN SALES GROWTH

Sales vs. Net Loss
(\$Thousands)



Sales vs. Net Loss Per Active Customer
(\$Actual)





Webvan's capital intensive distribution center appears to very negatively impact center profitability when not operating at full capacity

WEBVAN FINANCIAL PERFORMANCE Q1 2000

	% of Sales	Per order (\$)	Total (\$MM)
Sales	100.0%	\$91.00	\$16,269
COGS	<u>74.6%</u>	<u>67.89</u>	<u>12,138</u>
Gross Margin	25.4%	23.11	4,131
Distribution	125.0%	113.75	20,336
G&A	114.7%	104.38	18,657
Engineering & Software Development	33.9%	46.77	5,523
Sales & Marketing	<u>51.4%</u>	<u>30.85</u>	<u>8,359</u>
Total Operating Expenses	<u>325.0%</u>	<u>295.75</u>	<u>52,875</u>
Loss from Operations	(299.8%)	(\$275.64)	(\$48,774)
Less depreciation of deferred compensation	108.9%	99.10	17,720
Plus net interest income	<u>53.2%</u>	<u>48.41</u>	<u>8,649</u>
Net Loss	355.3%	(\$323.36)	(\$57,815)

For the time being, bricks appear to be beating clicks on the top and bottom line

FINANCIAL PERFORMANCE: BRICKS VS. CLICKS

			
	Model	Q1/2000	FY1999
Sales	100%	100.0%	100.0%
COGS	75%	74.6%	70.5%
Gross Margin	25%	25.4%	29.5%
Operating & Administration	13%	325.0%	22.6%
Operating Profit	12%	(299.8%)	6.9%

Webvan's model has fallen over because it has been unable to achieve high enough penetration

- There are three key components to strong eGrocery sales**
- The Webvan model is only operating at 22% of planned capacity driven by lower order sizes and lower penetration**
 - The average spend per trip is over \$91 dollars, and growing this to \$103 does not appear to pose a challenge**
 - The average Webvan customers is shopping online eight times a year, a similar frequency to Warehouse Club stores, but much lower than at supermarkets**
- In Q1/00, Webvan had orders from 3.1% of Bay Area households, but achieved only 0.55% market share, in a highly computer literate region that includes Silicon Valley, but where it battles two strong supermarket chains**
- To achieve the planned 8,000 orders per day, either existing customers need to buy more frequently or more customers need to be attracted**
- It appears that Webvan customers are unable to commit the time and planning required to shop more frequently and that the service may not be as convenient as initially expected**

There are three key components to strong eGrocery sales

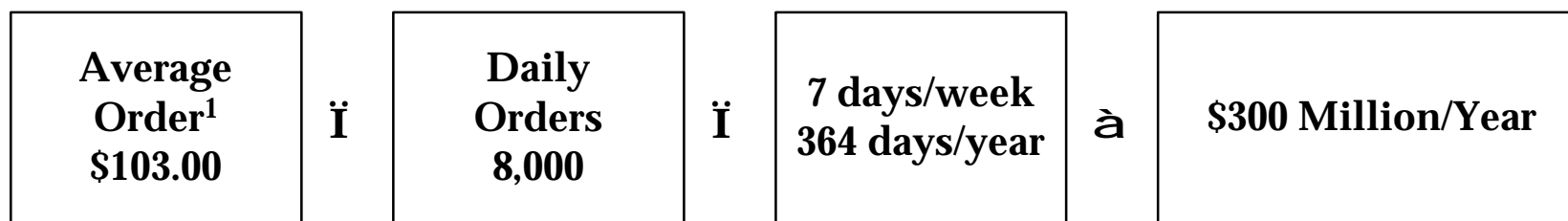
COMPONENTS OF eGROCERY SALES

Component	Variables	Challenges
Order Size	<ul style="list-style-type: none"> • Type of shopping occasion (e.g. stock-up) • Frequency of shop • Household size / demographics 	<ul style="list-style-type: none"> • Growth in frequency or penetration may lower order size • Requires weekly shop/large order • Not set up for large number of small orders
Order Frequency	<ul style="list-style-type: none"> • Consumer planning horizon • Order size • Pack size • Willingness to hold inventory • Disposable income 	<ul style="list-style-type: none"> • Reasonably high level of planning required • Availability of desired delivery slot/window
Household Penetration	<ul style="list-style-type: none"> • Households with computers and internet • Knowledge of service • Household demographics • Consumer behavior patterns 	<ul style="list-style-type: none"> • Households most able to order may be least willing to order <ul style="list-style-type: none"> - Gen X&Y not planning meals - High food away purchase - Breakdown of traditional meals • Shopper will pass traditional supermarket at least two times a day

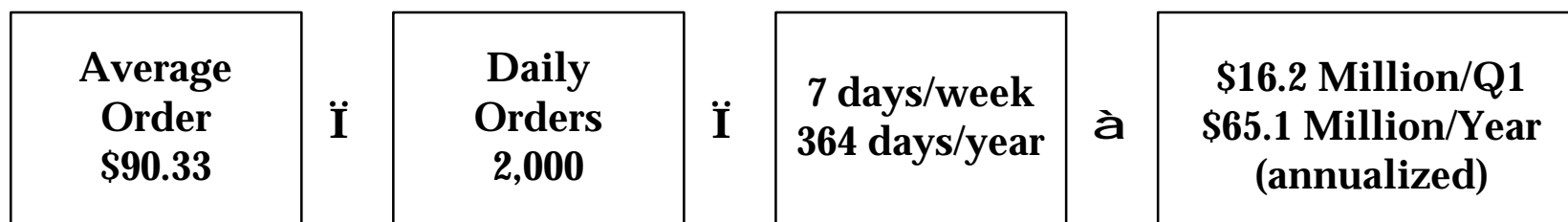
The Webvan model is only operating at 22% of planned capacity driven by lower order sizes and lower penetration

WEBVAN DISTRIBUTION CENTER FINANCIAL MODEL

Prospectus Financial Model



Actual Q1/2000²

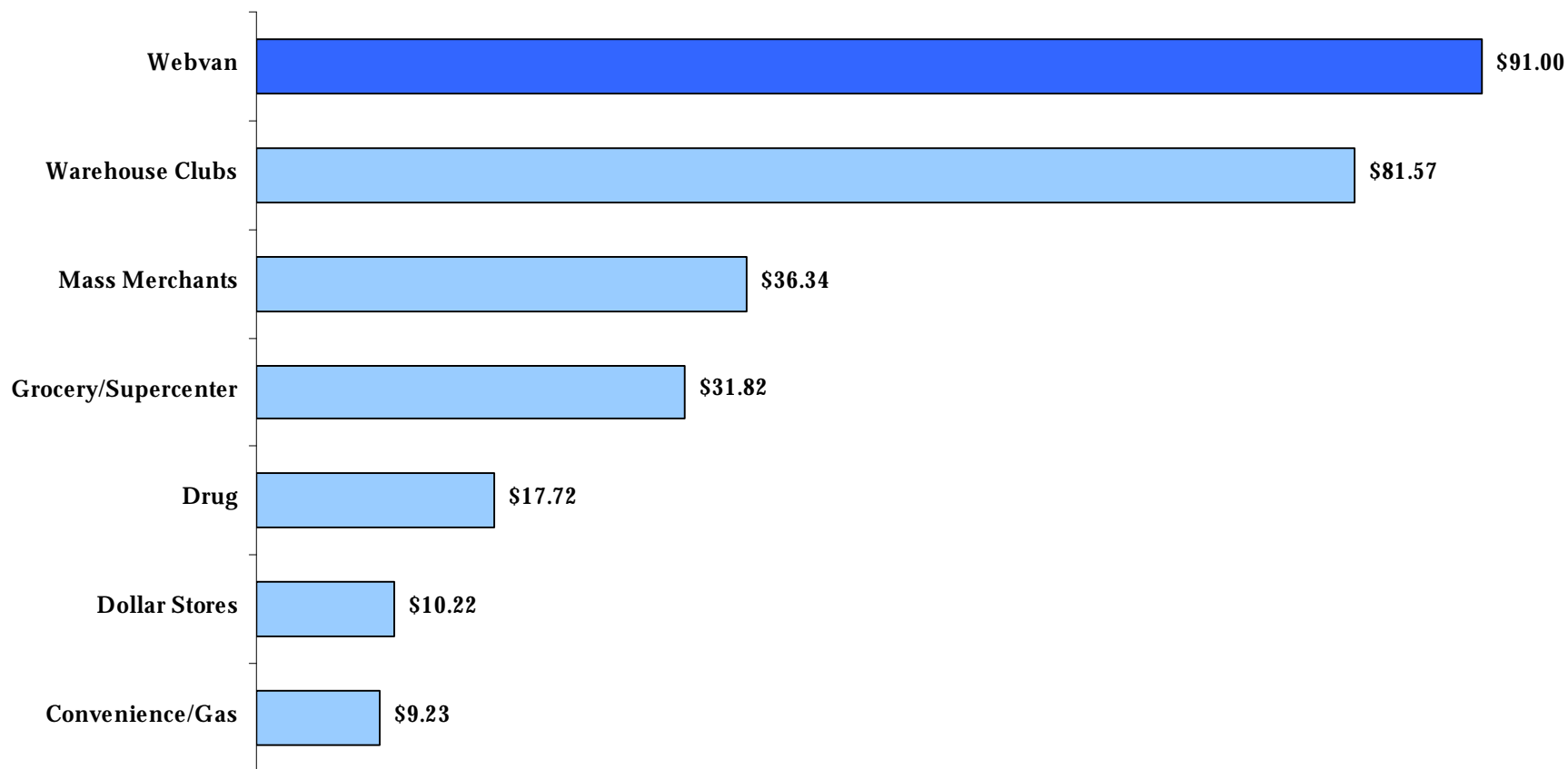


21.7% Capacity

↓

The average spend per trip is over \$91 dollars...

AVERAGE SPENDING PER SHOPPING TRIP BY OUTLET TYPE¹
 (\$ per shopping trip; those that shop channel; 2000)



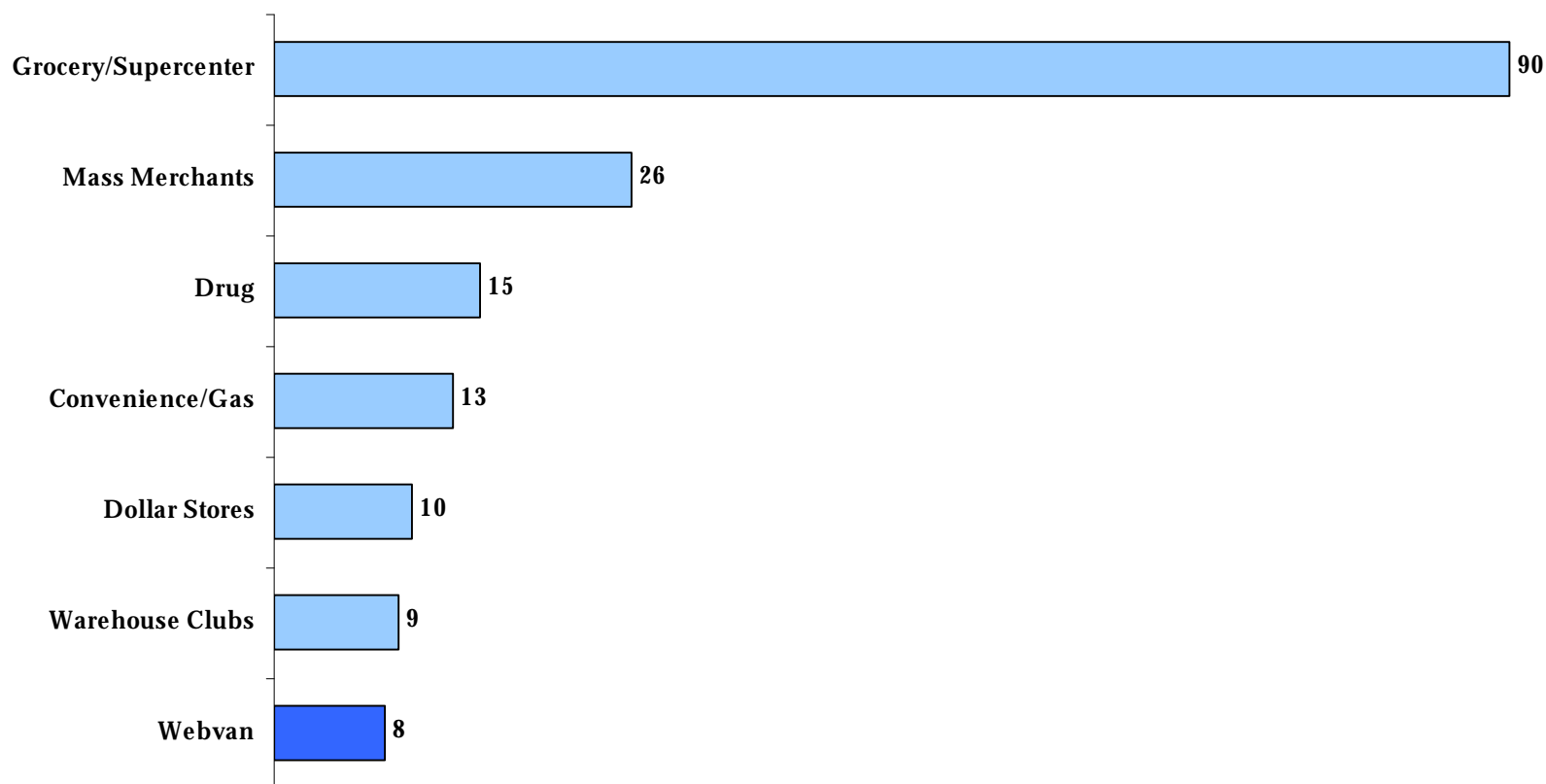
... and growing this to \$103 does not appear to pose a challenge

AVERAGE ORDER SIZE
 (\$ per delivery; Q1-Q2/2000¹)



The average Webvan customers is shopping online eight times a year, a similar frequency to Warehouse Club stores, but much lower than at supermarkets

SHOPPING TRIPS PER YEAR BY OUTLET TYPE¹
 (# of shopping trips; those that shop channel; 2000)



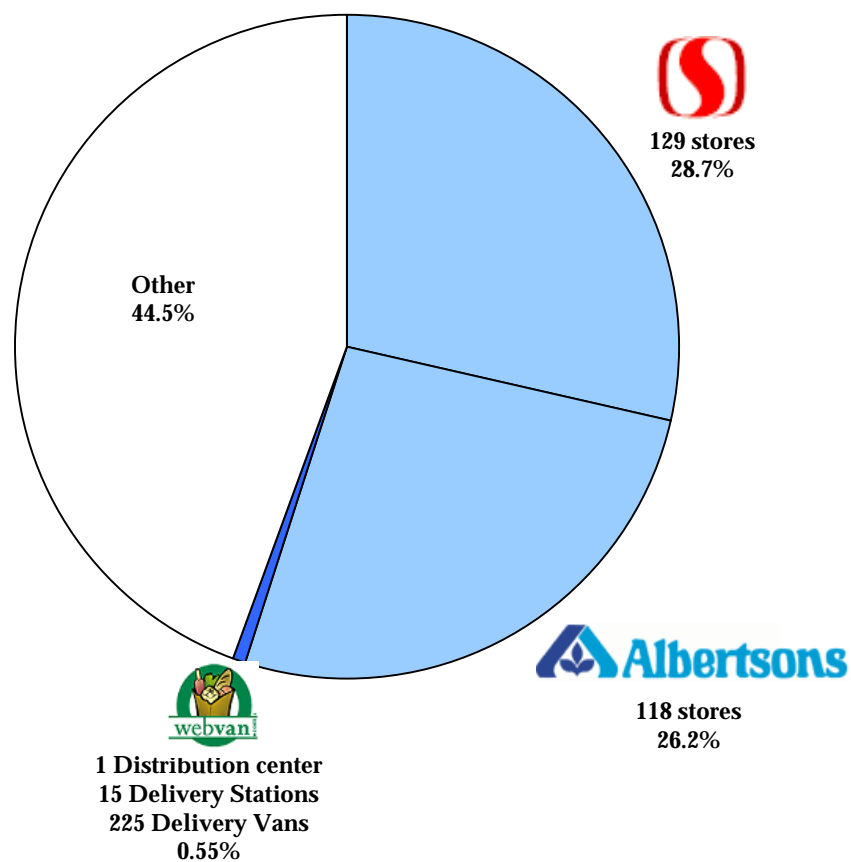
In Q1/00, Webvan had orders from 3.1% of Bay Area households, but achieved only 0.55% market share...

WEBVAN MARKET SHARE - BEST CASE SCENARIO

SF Bay Area Households ¹	2,787,506 HH
Webvan customers	87,000 HH
Webvan HH Penetration	3.1%
Grocery/Drug Store expenditure per HH per year	\$4,250 HH/year
Regional Grocery Sales in Q1	\$2,962 million
Webvan Sales in Q1	\$16.3 million
Webvan Market Share	0.55%

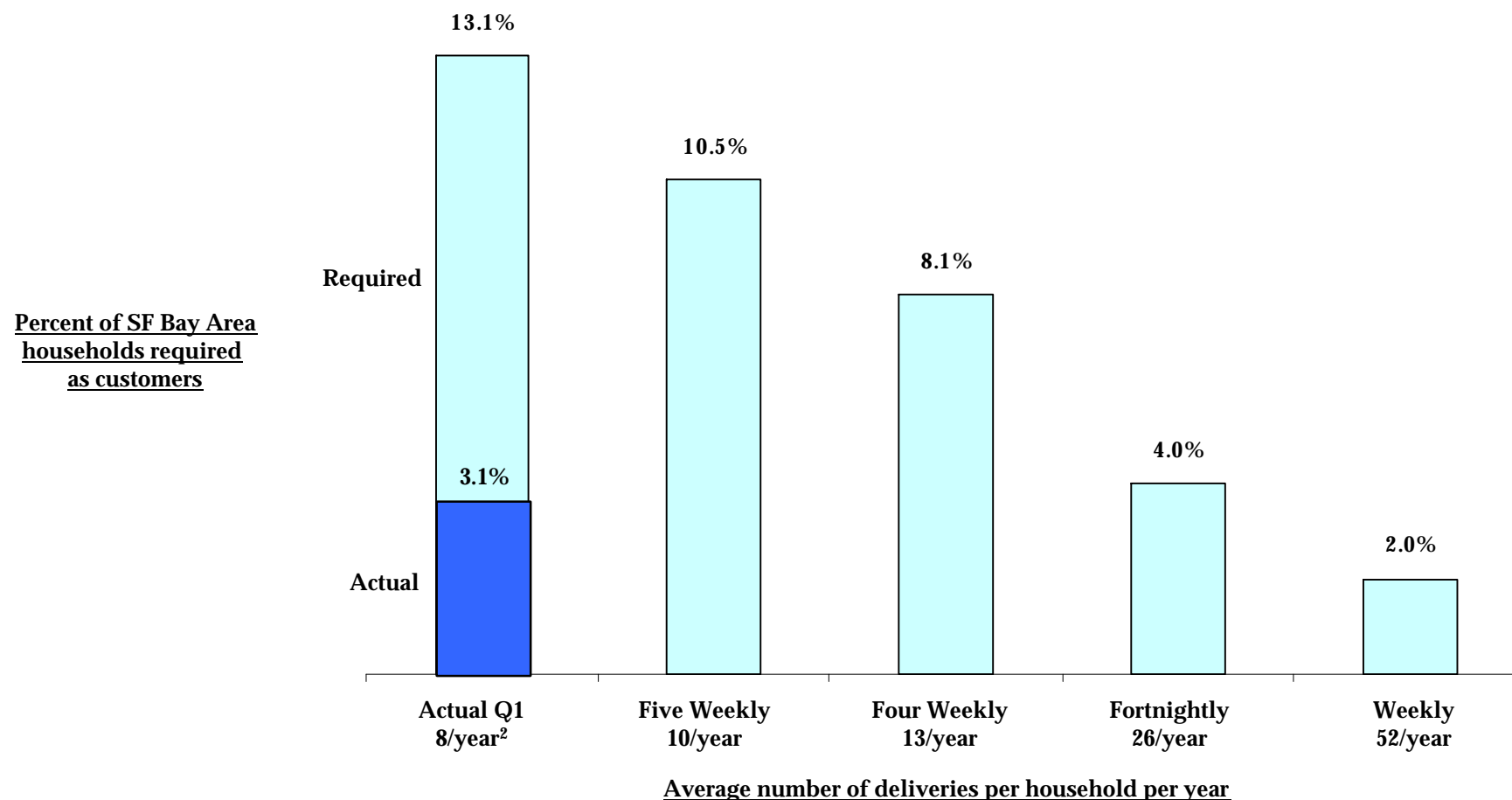
... in a highly computer literate region that includes Silicon Valley, but where it battles two strong supermarket chains

SF BAY AREA MARKET SHARE¹
 (# of outlets; % of Sales; Q1/2000)



To achieve the planned 8,000 orders per day, either existing customers need to buy more frequently or more customers need to be attracted

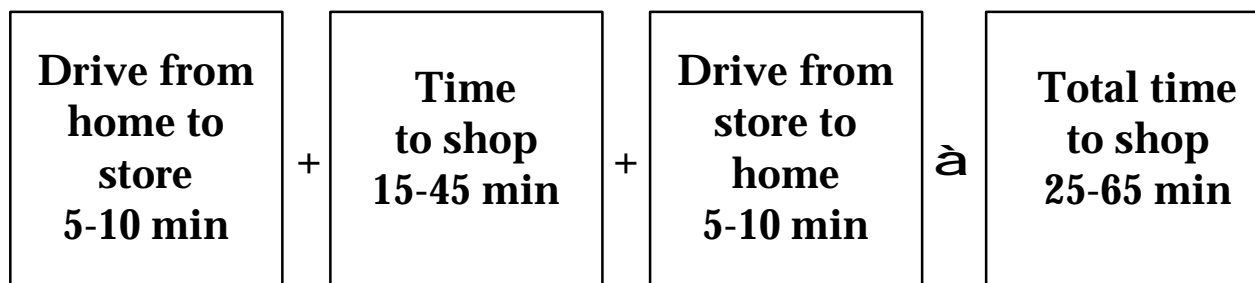
PENETRATION AS A FUNCTION OF YEARLY SHOPPING FREQUENCY¹
 (% households shopping vs. vans/household/year; to achieve planned 8,000 orders/day)



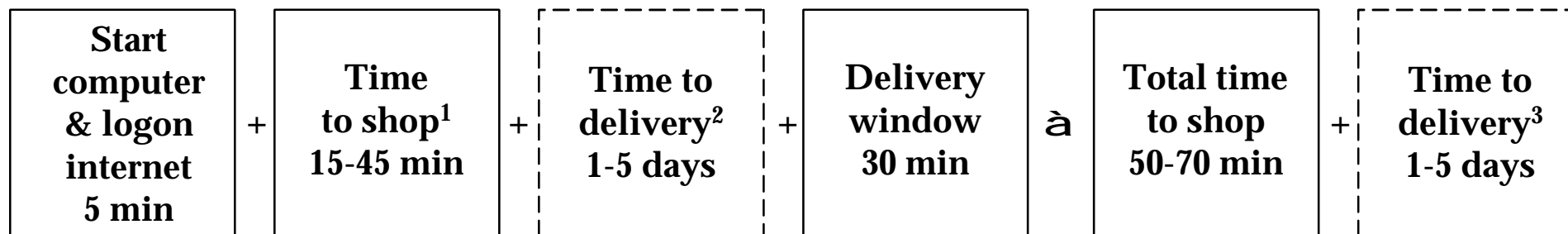
It appears that Webvan customers are unable to commit the time and planning required to shop more frequently and that the service may not be as convenient as initially expected

ORDER PROCESS

Traditional Supermarket

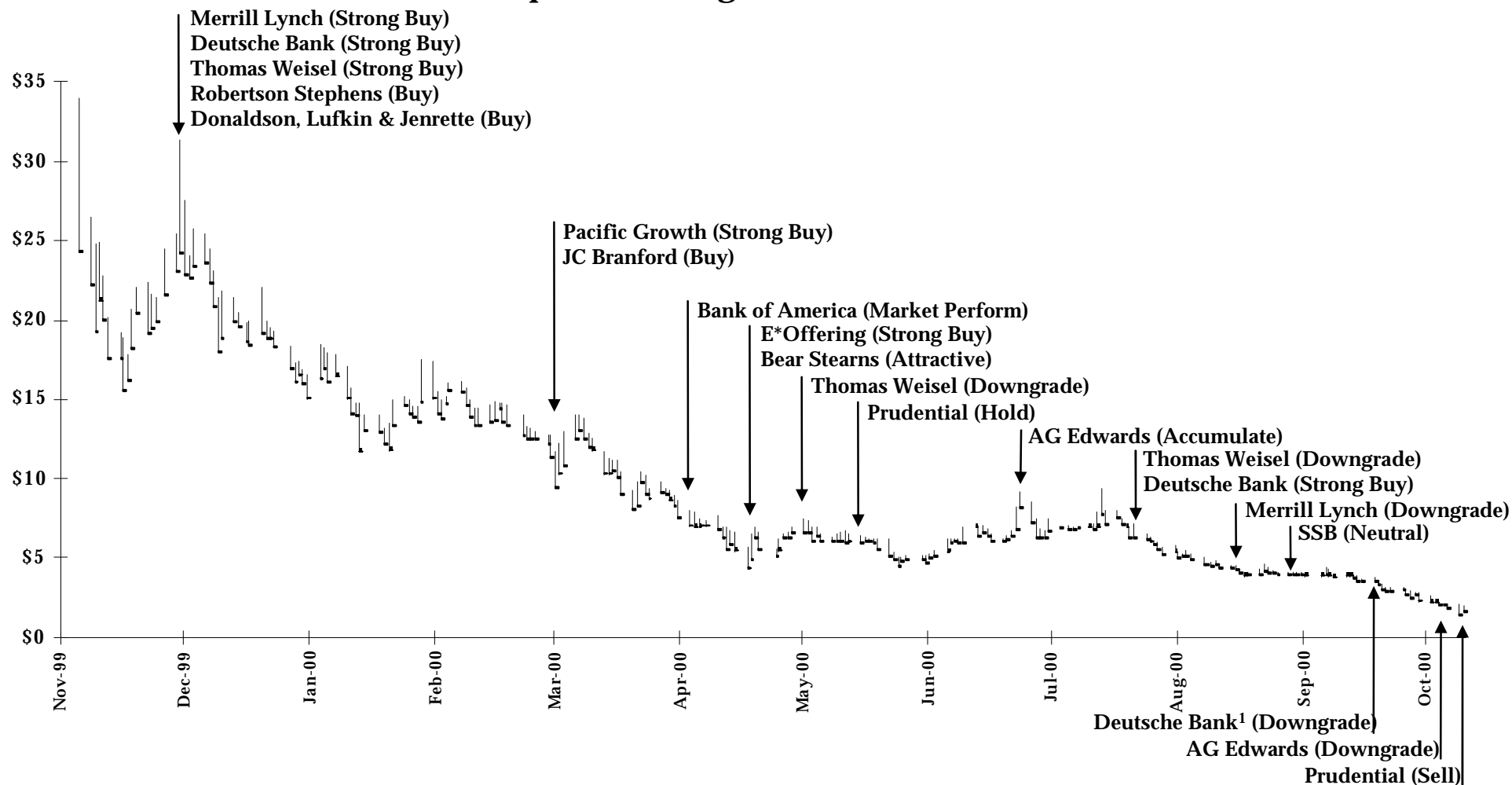


WebVan



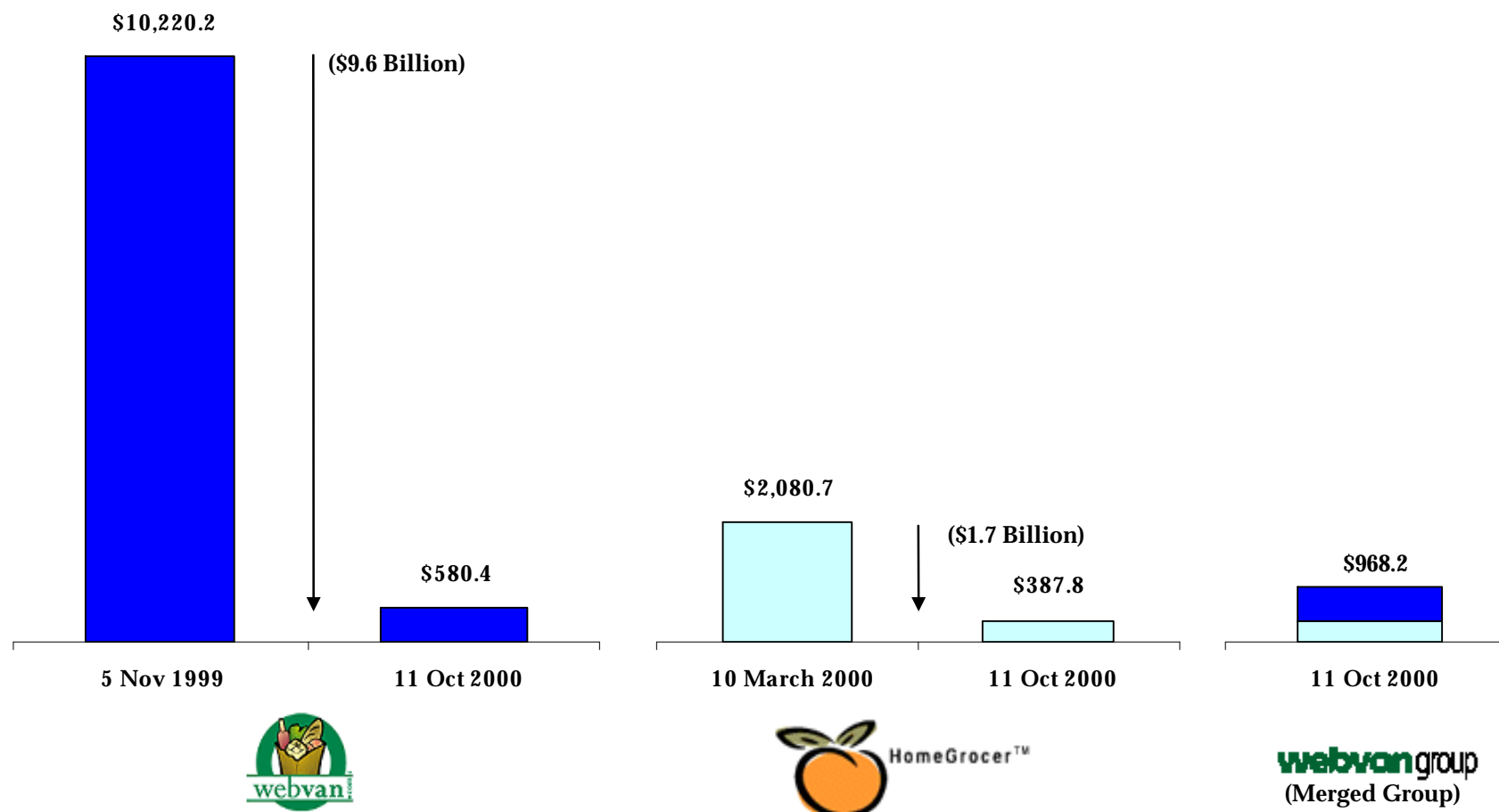
Webvan's stock has taken a punishing, despite the best efforts of the analysts

WEBVAN STOCK PRICE SINCE FLOAT
(US\$ per share; high/low/close; Nov99-Oct00)



Webvan and Homegrocer have seen a combined \$11.3 Billion fall off their market capitalization highs

MARKET CAPITALIZATION HIGHS AND LOWS¹
 (\$thousands; market capitalization; opening day high vs. current)



With the popping of the internet bubble, reality appears to have set in, and demonstrating DC profitability has become the key requirement

- There have recently been a number of high profile failures causing three companies to close all or part of their operations and an ongoing wave of consolidation is taking place**
- A number of people questioned the idea from the very start**
- For the time being, the market appears to be much smaller than previously expected**
- The key everyone is looking for is proof of DC profitability, including Webvan's competitors**

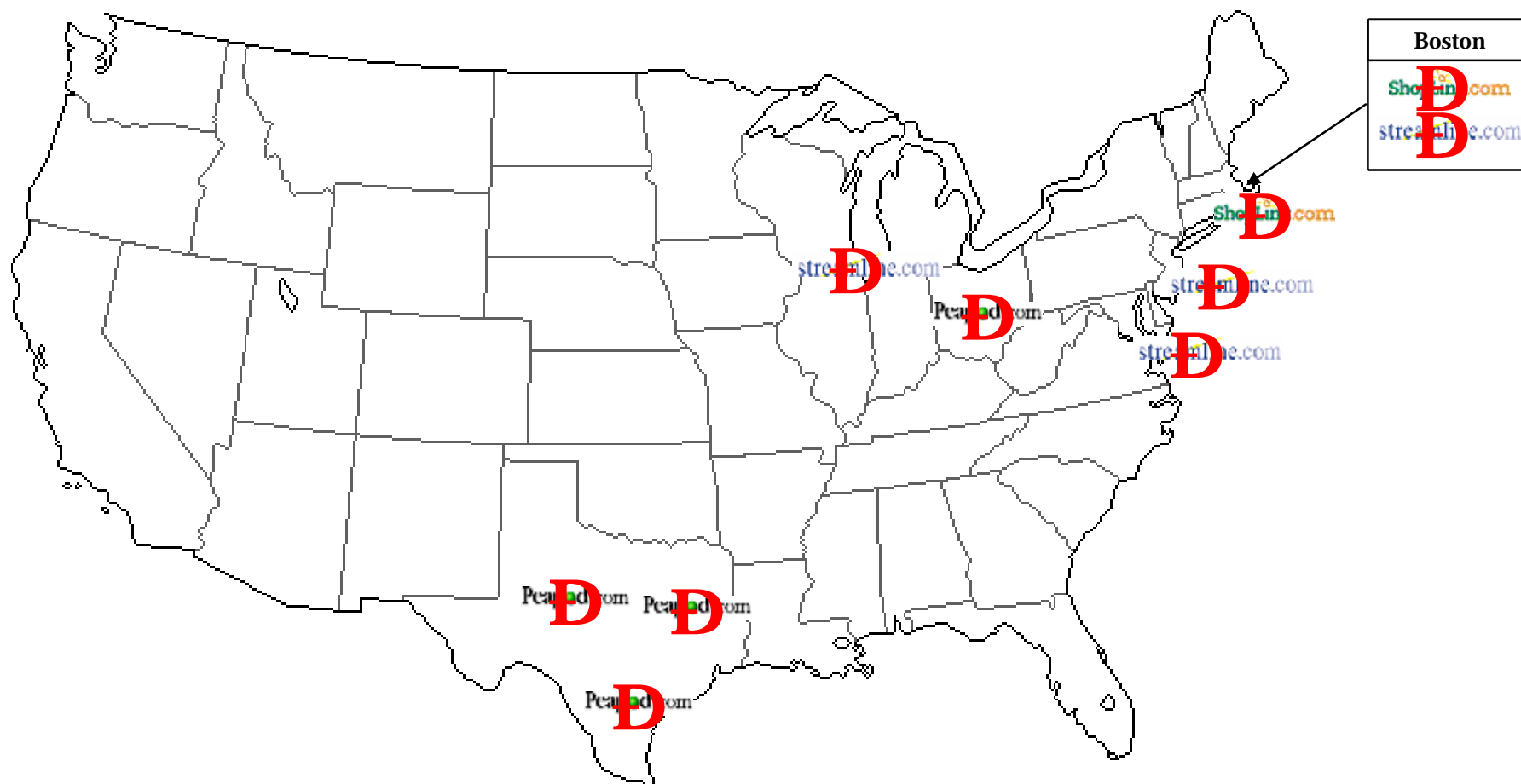
There have recently been a number of high profile failures...

RECENT FAILURES

	<ul style="list-style-type: none"> • Ending B2C in NYC and London • Focusing on profitable B2B in NYC
	<ul style="list-style-type: none"> • Closed Oct, 2000 after losing \$360 million • Used investor money to subsidize savings
	<p>Houston, TX Dallas, TX Austin, TX Colombus, OH</p>
	<ul style="list-style-type: none"> • Sold Washington DC and Chicago to Peapod • Ceased operation November 2000
	<ul style="list-style-type: none"> • Suddenly shutdown • Ceased operations November 2000

... causing three companies to close all or part of their operations...

eGROCERY OPERATIONS BY REGION
(Actively trading; as of Sept 31, 2000)



...and an ongoing wave of consolidation is taking place

RECENT MERGER AND TAKEOVER ACTIVITY

	<p>É</p>	
	<p>è</p>	 (\$30mm; 50%)
	<p>è</p>	<p>Peapod.com</p> (\$73mm; 50%)
	<p>è</p>	<p>streamline.com</p> (Chicago & Washington DC)
<p>parmalat</p>	<p>è</p>	<p>netgrocer.com</p> (22%)

A number of people questioned the idea from the very start

- **“The current model of neighborhood grocery stores will not be overtaken by Web-based grocers. The distribution pattern for low value-added goods exists for a reason... It will be very tough sledding except for very high-income areas... Who the hell am I to question Webvan when they have an \$8 billion market cap? We’re at \$12 billion, and I’m almost ashamed to say we have \$2.4 billion in EBITDA.”**

Fred Smith, Founder/CEO, Federal Express, November 1999

- **“They’re expecting consumer behavior to change but are expecting the competition won’t change.”**

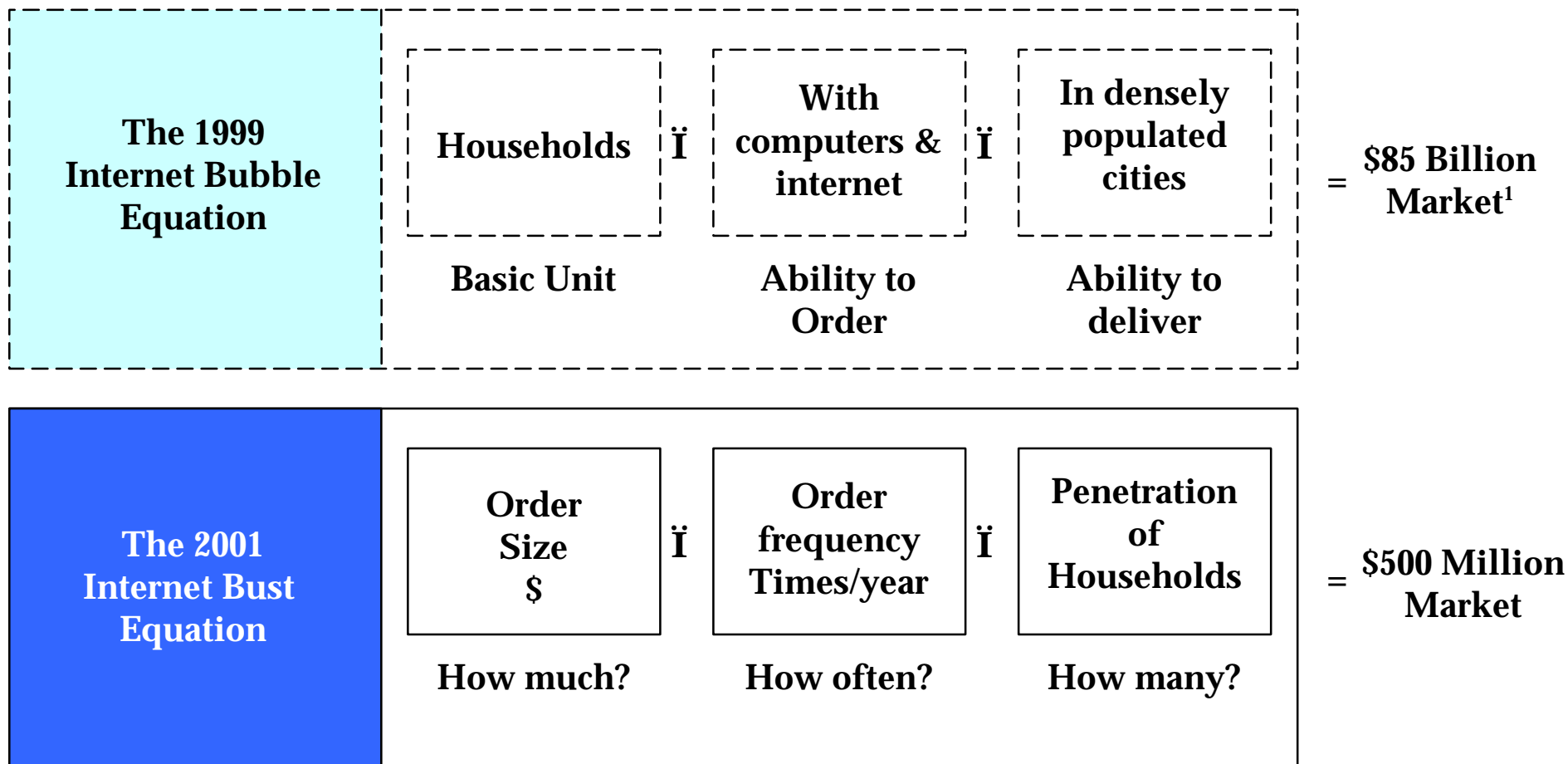
Francis Gaskins, Gaskins IPO News, August 1999

- **“I don’t believe they will be able to operate an online grocery store more cheaply than a bricks-and-mortar store in the next five or ten years.”**

Ken Cassar, Jupiter Communications, July 1999

For the time being, the market appears to be much smaller than previously expected

HOW BIG IS THE MARKET?



The key everyone is looking for is proof of DC profitability...

- **“We’re not overly concerned with the entire company generating profits, but we need to see a distribution center move to profitability. We want to know, can they give the Street any guidance on expected cash flow profitability of a particular distribution center whether it be in San Francisco or Atlanta, or at least at one of HomeGrocer’s facilities?”**

Shawn Milne, E-Offering Analyst, October 2000

- **“The question is whether or not they’re going to be able to turn each of these distribution centers into profit centers.”**

Matt Stamski, Gomez Advisors, July 2000

- **“The problems that I have with Webvan are basically that it’s an unproven business model, and that they haven’t shown yet that they can make money delivering groceries.”**

Mark Rowen, Prudential Securities, July 2000

- **“Does it have enough fuel to make it into orbit?”**

Unnamed Analyst, Wall Street Journal, Oct 2000

...including Webvan's competitors

- **“I don't believe you move forward without profitability. I'm not saying the company has to be profitable. But the model has to be profitable - and you have to prove you have a profitable model.”**

Marc van Gelder, CEO Peapod, ex-Ahold VP, July 2000

- **“Once we have achieved unit profitability, then and only then will we proceed with our rollout strategy.”**

Edward Albertian, President, Streamline, Sept 2000

- **“We recognize that what the market is looking for is both top-line growth and bottom-line performance.”**




Mary Taylor, CEO HomeGrocer, [now on Webvan board], May 2000

It is still unclear who will ultimately win: clicks or bricks & clicks

- Existing supermarkets are still rushing to go online, but appear to be repeating the evolution of the industry
- The brawn of traditional supermarkets appear to be overcoming the brains of Webvan
- If DC-based eGrocery can demonstrate financial viability, we expect significant consolidation to occur as those with better financing or better technology thrive
- Just as Warehouse Clubs evolved from a large number of competing chains into two surviving independents and a division of a retail chain

Existing supermarkets are still rushing to go online...

RECENTLY ANNOUNCED eGROCERY ACTIVITY BY SUPERMARKETS

Chain	Location	Action
	<ul style="list-style-type: none"> • Broward & Palm Beach counties, Florida 	<ul style="list-style-type: none"> • Launching PublixDirect (April 2001) • Building regional distribution center
	<ul style="list-style-type: none"> • Washington D.C. 	<ul style="list-style-type: none"> • Launching co-branded Peapod by Giant
	<ul style="list-style-type: none"> • Dallas, Texas • Houston, Texas • Austin, Texas • Phoenix, Arizona • Denver, Colorado 	<ul style="list-style-type: none"> • Rebranding Grocery Works by Tom Thumb • Rebranding Grocery Works by Randall's • Launching Grocery Works by Randall's • Launching Grocery Works by Safeway • Launching Grocery Works by Safeway
	<ul style="list-style-type: none"> • Charlotte, North Carolina 	<ul style="list-style-type: none"> • Launched Harris Teeter Express Lane • Internet order, store pick-up



... but appear to be repeating the evolution of the industry

THE THREE STAGES OF eGROCERY IMPLEMENTATION

	Stage I Store Pick	Stage II Manual DC	Stage III Automated DC
Strengths	<ul style="list-style-type: none"> • Low cost start-up • Use existing facilities 	<ul style="list-style-type: none"> • Minimize risk • Flexible to low or variable volumes 	<ul style="list-style-type: none"> • Lower total cost than supermarkets • Defensible technology & patents
Weaknesses	<ul style="list-style-type: none"> • Unable to handle large volumes • Clog up existing stores • Cost plus approach • High error rate • No economies of scale 	<ul style="list-style-type: none"> • Hard to achieve lowest cost position • Lower margins than high-volume Stage III 	<ul style="list-style-type: none"> • High initial capital cost (\$35 million/DC) • Requires high minimum volumes to achieve profitability
Examples	<ul style="list-style-type: none"> • Peapod (initially) • Albertsons • Harris Teeter 	<ul style="list-style-type: none"> • Ahold/Peapod (current) • Safeway/Grocery Works • PublixDirect 	<ul style="list-style-type: none"> • [WebVan]

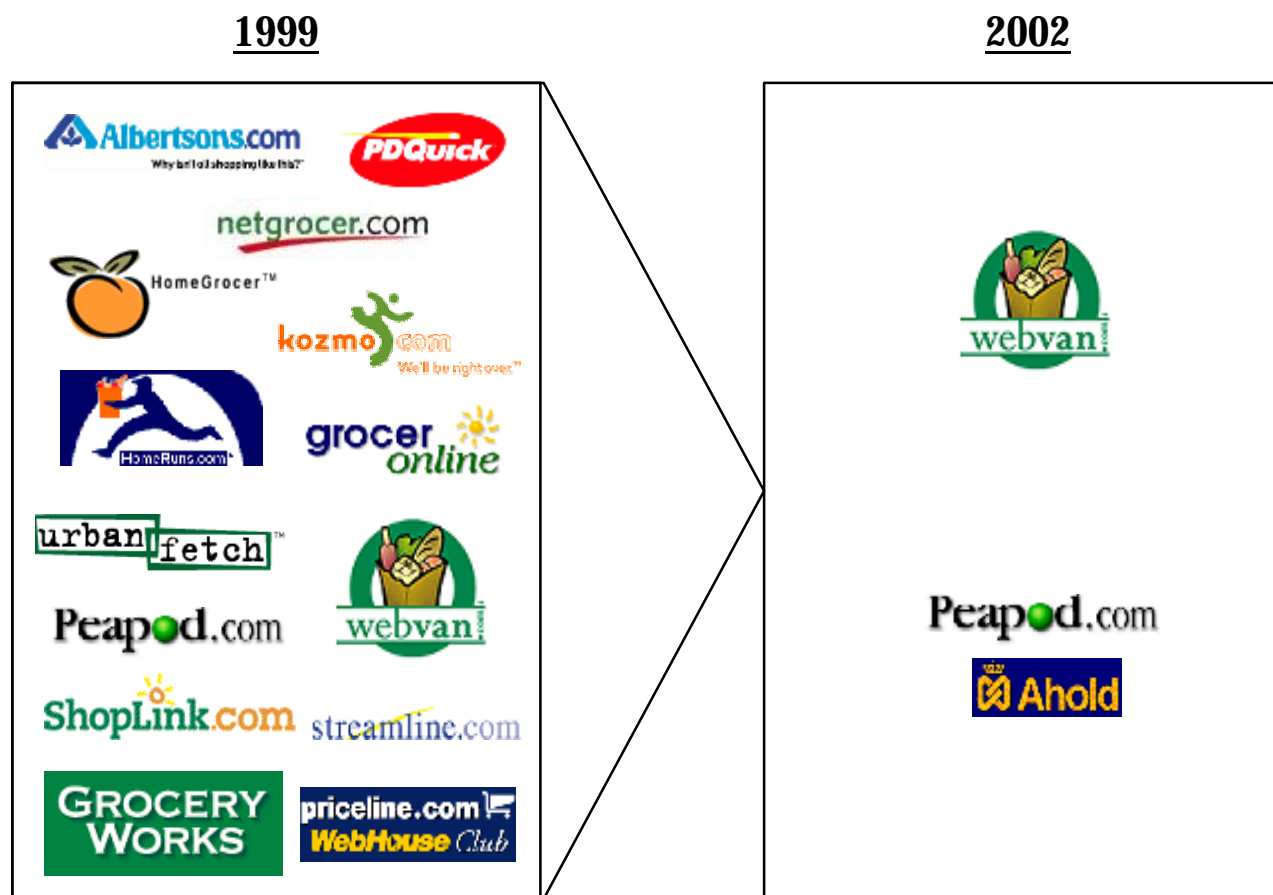
The brawn of traditional supermarkets appear to be overcoming the brains of Webvan

WHO WILL WIN?

	
<ul style="list-style-type: none"> • New-economy mindset and blank slate approach to the business <ul style="list-style-type: none"> - Access to programmers and technology resources via stock options - No commitment to existing system or supply chain - Opportunity to associate new brand with new mind-space • Sustainable competitive advantage <ul style="list-style-type: none"> - Defensible technology - Patent protection - Ownership of critical conveyer belt equipment manufacturer • Well financed through VC and initial IPO but burning cash at a rapid rate 	<ul style="list-style-type: none"> • Existing merchandise volumes and discounts give lower cost of goods • Existing, in-place structures <ul style="list-style-type: none"> - Buying - Warehousing - Distribution - Marketing • Existing consumer relationship <ul style="list-style-type: none"> - Brand - Trust/history - Location • Existing business can cross-subsidize web venture for a long time

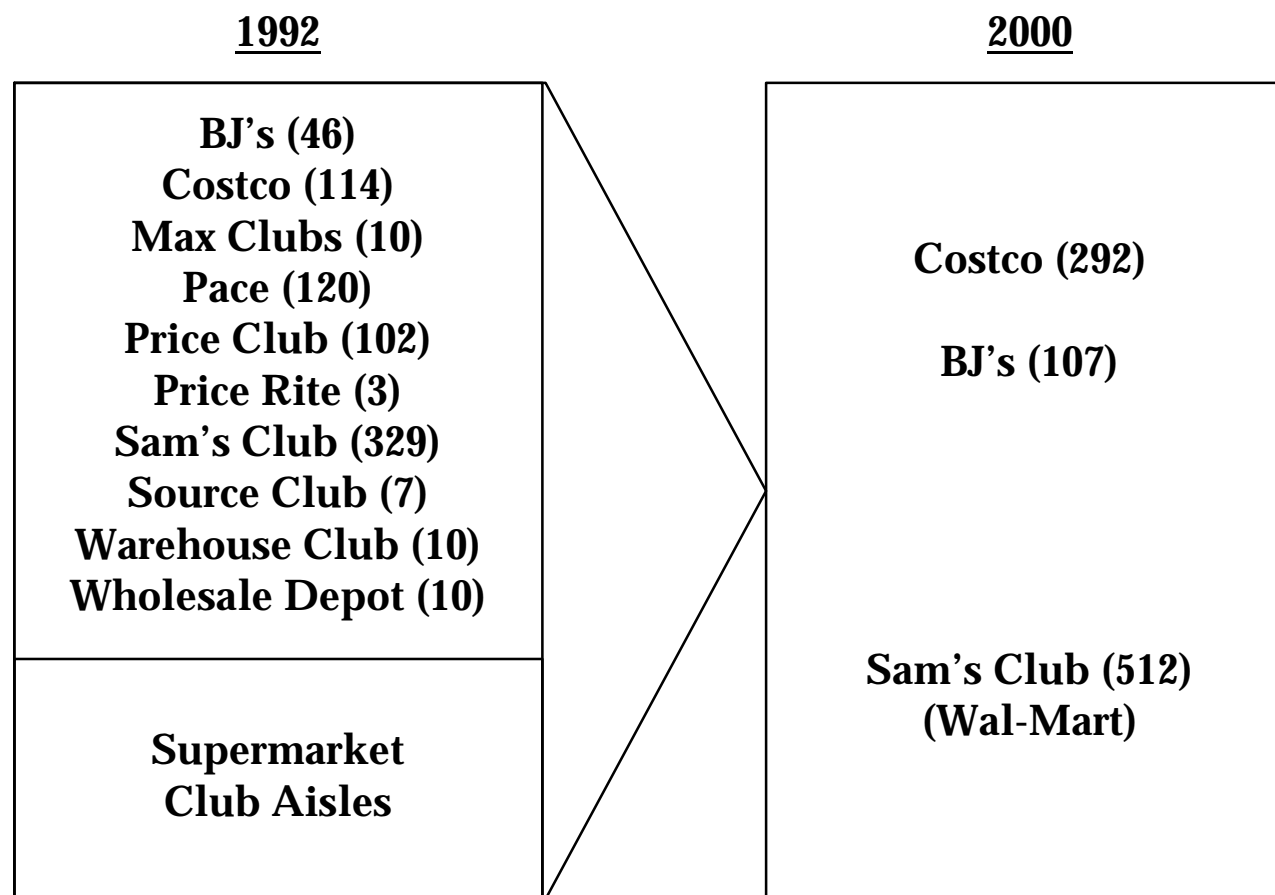
If DC-based eGrocery can demonstrate financial viability, we expect significant consolidation to occur as those with better financing (Ahold) or better technology (Webvan) thrive

POTENTIAL CONSOLIDATION IN eGROCERY



Just as Warehouse Clubs evolved from a large number of competing chains into two surviving independents and a division of a retail chain

CONSOLIDATION IN WAREHOUSE CLUBS



IV. The impact of this evolution on traditional supermarkets will be limited...

THREE SCENARIOS FOR eGROCERY

Hallucination	Evolution	Revolution
<ul style="list-style-type: none"> • Flash in the pan - a case study in internet mania • Consumers unwilling to change • Limited group willing to pay premium for home delivery • Short consumer planning horizon limits order frequency • Can't achieve minimum delivery area household penetration • Concept disappears when cash runs out 	<ul style="list-style-type: none"> • Emerges a new and viable retail channel • 3-5% household penetration; fortnightly orders • DC's achieve limited profitability in 20-40 highly populated urban regions • Market share loss spread throughout market 	<ul style="list-style-type: none"> • Replaces significant percent of supermarket trips • 20-40% penetration; weekly orders • DC's achieve economies of scale and are very profitable • Conventional supermarkets make major changes; large number close

... however, both manufacturers and retailers should carefully consider the consequences

IMPLICATIONS OF SUCCESS

Existing Retailers	Manufacturers
<ul style="list-style-type: none"> • What percent of food sales will this channel finally achieve? • Where will the business come from? <ul style="list-style-type: none"> - Supermarket stock-up shop - Warehouse Clubs - Standard shopping-cart staples • Where won't the business come from? <ul style="list-style-type: none"> - Impulse purchases - Last minute requirements - Convenience foods • Should we launch a home delivery service? <ul style="list-style-type: none"> - Leading edge or bleeding edge? - It there a downside to waiting? 	<ul style="list-style-type: none"> • Manufacturer brands may be a historical anomaly related to self-service supermarkets • eGrocers have absolute control over the point-of-purchase • Items in the regular cart have lock-in • With scale, what percent of sales will ultimately be private label? 20%? 40%? 60%?