

FINANCE AND COMMERCE

Business News

August 25, 2009

Gopher Grocery delivery closes in on profitability

by [Scott Carlson](#) Staff Writer

Gopher Grocery is heading down the road less traveled.

In an industry littered with casualties, the 3-year-old, St. Paul-based online grocery deliverer has more than 5,000 residential and business customers. Company officials expect to generate \$1.3 million in sales this year. And most important, they hope to post a profit for the first time.

For 2010, [Gopher Grocery](#) is forecasting annual sales growing to about \$2 million. And it's catching the eye of other business people. Minnesota Cup organizers recently named the company one of three finalists in their general business division for the 2009 entrepreneurs' competition. The statewide contest is designed to seek out, support, celebrate and promote Minnesota's newest and most innovative business ideas.

The overall grand champion of the 2009 Cup competition, which began with more than 1,000 applicants spanning six categories, will be named in September.

The honor is just deserts for William Orkin, Gopher Grocery founder and president, who was passed over in an entrepreneurs' contest four years ago at the University of Wisconsin-Madison, where he was pursuing an MBA.

"The judges didn't think there was any need for grocery delivery," he recalled. "Luckily, persistence pays off."

Indeed. Orkin, 35, isn't the kind of man to shy away from a big challenge or take no for an answer. Among his personal accomplishments: sailing across the Atlantic Ocean in 22 days in a 42-foot sailboat, ascending to the Mount Everest base camp at 17,650 feet, and finishing the 2003 Switzerland IronMan race in 11 hours, 51 minutes.

Scott Litman, a co-founder of the Cup, said the judges were intrigued with Gopher Grocery because its operations.

"We think they are innovative, interesting and different," he said.

Orkin contended his company has set itself apart from competitors by not carrying a warehouse full of grocery inventory. Instead, the company's warehouse in St. Paul's Energy Park district serves as shipping depot or transfer point for receiving and sending out groceries, he said.

"We rely on various suppliers and our relationships with them. We fill our (grocery) orders on demand; that ensures the food is fresh and we keep our fixed costs low," Orkin said. "That is the key to our business."

Orkin said Gopher Grocery has taken its inventory savings and plowed them back into keeping down the prices of its groceries.

At its start, Gopher Grocery carried about 3,000 products; today, the company offers 11,000 to 12,000 grocery items. Gopher charges \$2 per delivery on orders of \$50 to \$100; delivery orders of more than \$100 are free.

Orkin considers supermarkets his primary competition. Despite the failure of numerous grocery-delivery services, Orkin is convinced there is niche for the service. He noted that about 2 percent of people shop for groceries online in the more than \$600 billion annual U.S. grocery market.

Grocery delivery "is one of the fastest growing segments in the online world," said Orkin, who launched Gopher Grocery with a Small Business Administration (SBA) line-of-credit and money from family and friends.

Industry sources report that online grocery delivery is about a \$6 billion to \$9 billion a year industry; Jupiter Research expects to see that figure grow to about \$13.5 billion by the year 2012.

Gopher Grocery

Business: Online grocery delivery service

Headquarters: St. Paul

Founded: 2006

Work force: About 20

Average customer order: About \$130

Projected 2009 revenue: \$1.3 million

Competitors: Supermarkets and CobornDelivers.com (formerly SimonsDelivers.com)

One measure of Gopher Grocery's success is its high percentage of repeat customers. In June, 81 percent of the company's patrons were repeat customers accounting for 92 percent of that Gopher Grocery's revenue that month.

"This is due to our conscious effort to focus on retaining current customers by driving one-to-one customer loyalty, even at the expense of acquiring new customers," Orkin said.

Colleen Thurston, of Minneapolis, is among Gopher Grocery's repeat customers who have found the delivery service to be price competitive. The 68-year-old retired print shop worker noted that she can't drive because of health problems, but also lives on a limited income.

"I am pleased with the food, the prices and the service," said Thurston, who has been a Gopher Grocery customer for two years.

Whether Gopher Grocery can survive in the long run remains an open question, said Dave Brennan, co-director of the Institute of Retailing Excellence at the University of St. Thomas in St. Paul.

"Unfortunately, for most firms, the path has been bumpy and most have fallen by the wayside," Brennan said, citing Web Van and SimonDelivers as two examples. (SimonDelivers is now CobornsDelivers.com.)

Brennan said a key challenge facing grocery-delivery services is maintaining competitive pricing, especially as more consumers trade down on groceries by seeking out generic offerings.

"Gopher Grocery perhaps fits a niche but it remains to be seen if the niche will be big enough and sustainable enough for the longer term," Brennan said.

Said David Livingston, a Wisconsin-based grocery expert: "I think most people prefer to pick up their own groceries."

But Orkin, who first thought about starting his own grocery-delivery service after watching the launch of Peapod in Chicago, begs to differ. From his days as an account manager at Procter & Gamble in the late 1990s, Orkin knows from market research that typically people consider shopping for groceries to be an onerous task akin to cleaning the bathroom.

As a result, Orkin said he has every intention of seeing Gopher Grocery travel down the road for the long haul.

"We expect 50 to 100 percent growth in the next several years in the Twin Cities," he predicts. "Once we have proven (we can succeed) in the Minneapolis market, we will extend nationally and hope to roll out to other states and cities."