Success Factors in Online Grocery Retail

A cross-sectional study of Swedish online grocery retail practitioners' perceptions of factors enabling profitability and market longevity

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Abstract

This thesis investigates the perceived success factors that enable profitability and market longevity among Swedish online grocery retailers. Despite the rapid growth of the industry, online grocery retail still remains a low-margin and operationally complex industry. Addressing a gap in the existing literature, this qualitative study explores how practitioners of online grocery retailers perceive key enablers of success. Based on seven semi-structured interviews analyzed utilizing the Gioia methodology, the findings are framed using the Push-Pull-Mooring and Dynamic Capabilities frameworks, capturing an external and internal perspective respectively. *Market Conditions & External Environment*, *Service & Total Service Offering*, *Customer Attraction & Lock-in Effects*, *Technology & Solutions*, *Products & Total Product Offering*, *Organization & Omnichannel Operations*, and *Financial Strength & Cost Management* were identified as central themes and success factors of online grocery retailers. These factors serve as the groundwork for an updated version of a past framework of success factors in online grocery retail made by Keh and Shieh in 2001.

Keywords: Retail, E-commerce, Online grocery, Profitability, Market longevity

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1. Introduction

1.1 Background

Swedish grocery retailing, defined by the strong positions of incumbents racing against each other to meet changing customer expectations, has long held on to the established format of single-channel physical stores. While physical in-store purchasing still makes up the vast majority of grocery sales the online segment has shown fast growth, experiencing a surge in adoption during the covid-19 pandemic that took the e-commerce share of Swedish grocery retailing sales from 2% to 5% (SCB, 2022). Along with, and enabling this channel-switching behavior, are new and innovative ways for the customer to purchase and obtain her goods. Because of the widely identified growth in the E-commerce grocery market, which comes with regular grocery's many attractive qualities in terms of high shopper frequency than for other types of products and an incredibly wide potential customer base, several actors both new to the space and already established are scrambling to capture market share in this newly opened avenue of grocery retailing.

Notably, it took a pandemic and lockdown orders to at last create exponential growth in the market for online groceries (Tyrväinen & Karjaluoto, 2022), when online shopping for durable goods like electronics or fashion is a natural way of purchasing for many consumers. The barriers to adoption, especially consumer wishes to look-feel-touch fresh groceries and unwillingness to adopt new technology, make customers apprehensive about purchasing their groceries digitally (Keh & Shieh, 2001). From the retailer perspective, reluctance to change their core trading structure based on unclear consumer demand and the high required investment into new picking and logistics infrastructure have made companies hesitant to enter the space. Underlining the last point, most of the new entrants in the early days of online grocery retailing failed due to inherently unviable business models that essentially tried to compete with traditional grocery retailers on price while operating at a loss (Ring & Tigert, 2001).

1.2 The Current Marketplace

As it stands today, several different online grocery retail formats are being employed in the search of profitability and dominance in the marketplace. As incumbents attempt to move parts of their physical store online, transforming into hybrid actors, tensions arise regarding where and how the products are packed and shipped. Established physical grocery retail actors, such as ICA and COOP, have chosen this approach offering groceries online in

addition to their physical format. New actors like Mathem have created a digitally native original offering new to the market with large investments behind them, but are despite rapid growth experiencing major problems on their path to profitability, recording a loss of approximately 1.3 billion SEK in 2023 and 1.6 billion in 2022 (Dagens Nyheter, 2024; Oda Group Holding AB, 2024).

Alongside these companies which are primarily exporting the in-store experience to online, novel formats are appearing and in some cases disappearing as quickly. For example Linas Matkasse, offering pre-portioned cook-at-home meal solutions. It is owned by Cheffelo, a group providing similar meal solutions in other countries, they recorded a profit of approximately 19 million SEK during 2023, but a loss of 154 million in 2022 (Cheffelo AB, 2024). The Swedish actor Matkomfort takes this model further by focusing on convenience, pre-cooking the time-consuming parts of meals to save customers' time and effort (Matkomfort, n.d.). Further actors include Foodora and Wolt, offering same-day delivery on a more condensed assortment of groceries, acting like intermediaries between grocery retailers and the consumer. In 2023 Foodora reported a loss of 324 million SEK, while Wolt recorded a profit of 5 million SEK (Foodora, n.d.; Wolt, n.d.; Allabolag, n.d.-a; Allabolag; n.d.-c). The last-mile delivery company Kavall was active for a short period of time before being acquired by an incumbent, who found the business model non-viable (Karlsson, 2024a).

Distribution and logistics is a major concern and operational cost center for online grocers. Managing and transporting groceries is inherently difficult due to short shelf lives, differing temperature requirements, and quality control concerns. Different models for order fulfillment are emerging as the actors test and evaluate methods for picking and packing orders. Firstly, ICA has invested heavily into a distribution center operated in conjunction with British platform provider Ocado, who provides both the digital framework and a mostly-automated order-picking solution (ICA Gruppen, 2021). Secondly, several other traditional grocers opt for a decentralized order-picking approach managed either in-house or in collaboration with third-party platforms. COOP is one such grocer, allotting orders to stores based on proximity to respective customers. Orders are then picked by store staff and either delivered directly to the customers' home by regional drivers or placed in a pick-up box in the proximity of the store for the customer to collect. Adding the online layer to existing operations can thus create tensions between the parallel formats as workloads increase and costs have to be assigned in new ways. Exemplifying a third way of managing order fulfillment, Mathem works as a single-channel online grocery retailer and manages

their picking and packing manually from large distribution centers, with integrated delivery methods under the same roof.

Mathem is struggling with profitability, and has done so for some time. The company has experienced losses in the billions of SEK and is at the time of writing undergoing a corporate reconstruction (Allabolag, n.d.-b). As an online-only grocery retail actor, Mathem is dependent on funds from investors to survive. This stands in stark contrast to hybrid actors, such as ICA and COOP, who are able to support their online operations with their physical core business. The primary difference between the two most prominent formats, hybrid and online-only, is that the hybrid actors, which have both physical and online stores, all started out as physical retailers. As such, they have existing sustainable operations which they can use to support the online business, both financially and operationally. This stands in contrast to the online-only format, which does not have that possibility.

1.3 Research gap

While ample research exists on traditional brick-and-mortar grocery retailing, as well as on E-commerce in general, online grocery retailing as a phenomenon is relatively new and as such fairly under-researched. Few have looked into and examined what factors enable success or ensure failure across the various formats currently active in the marketplace. Examining the industry, some actors on the market are or claim to be successful and profitable, while others are clearly not. Some of these unprofitable online grocery actors have disappeared entirely, such as the Q-commerce actor Vembla, which filed for bankruptcy in 2022 (Karlsson & Caesar, 2022). Others have been acquired and merged with competitors, such as Mat.se, which was sold off to Mathem (Axfood, 2021). Still, some continue to operate despite reporting losses in the billions of SEK, with the prime example being Mathem, which has survived thanks to substantial new investments and restructuring (Allabolag, n.d.-b; Karlsson, 2024b).

Most of the previous research on the subject matter of success factors in online grocery retailing has either been very narrow in scope, examining a specific factor (e.g. Milioti et al., 2021), or is outdated, having been produced during the inception and early days of the online grocery format (e.g. Punakivi & Saranen, 2001; Keh & Shieh, 2001; Ring & Tigert, 2001). Therefore, there is a need to examine success factors in broader strokes in order to provide a more comprehensive understanding of what drives success in the marketplace.

1.4 Research Question and Purpose

This thesis examines industry practitioners' perceptions of success factors of online grocery retailers, where success factors refer to factors that enable profitability and marketplace longevity. The interview sample utilized are practitioners at Swedish retailers selling groceries online. Thus the research question is:

> *What are industry practitioners' perception of factors enabling profitability and market longevity in online grocery retail?*

To answer the research question a qualitative interview study is conducted, examining potential success factors identified both in existing research and through the interviews. To this end, the study explores the perception of knowledgeable industry practitioners. To structure the findings, an updated version of the existing but outdated framework of success factors and pitfalls in online grocery retail developed by Keh and Shieh (2001) is created.

1.5 Disposition of the Thesis

The thesis is structured as follows: Section 2, the literature review gives a summary of what is known about the topic currently, and gives a comprehensive understanding of the existing literature on what customers of online grocery retail want and the internal operations of the industry. The theoretical frameworks are also presented. Section 3, methodology, outlines the research method, presenting the approach to the qualitative study and why it was chosen. It includes rationales for sample selection, interview design, and data analysis, along with a discussion on the methodology. In section 4, findings and analysis, the data and insights gained from the interviews are presented, with repeated statements grouped into themes and aggregated according to the frameworks. Section 5, discussion and conclusion, addresses the research question by presenting the findings, contribution to literature, managerial implications, limitations, and suggestions for future research.

2. Literature Review

Previous research has largely focused on the physical grocery retail format and the general online retail format as a whole, respectively. Both of these areas are of relevance to this thesis, as online grocery retail integrates aspects of both physical grocery retail and online retail. Accordingly, this chapter reviews the existing literature on what customers want and the internal operations across physical grocery retail, online retail in general, and online grocery retail.

The first section identifies the inherent differences between physical grocery retail and online retail in general to establish what is relevant from each area for this thesis. The second section dives into what customers of online grocery retail want and the internal operations of the industry, including aspects and factors drawn from both the separate physical grocery format and online format. The final section presents the theoretical frameworks that will guide the analysis.

2.1 The Inherent Differences Between Physical Grocery Retail and General Online Retailing

Physical and online retail is inherently different from each other, however technology is blurring the lines between offline and online retail, increasingly driving traditionally offline and online actors to behave as multi-channel retailers (Brynjolfsson et al., 2013).

The two formats differ in various ways. With regard to sales channels, they differ primarily because the online is remote, making purchasing possible almost anywhere. This affects customer behavior, as the online format has a higher degree of convenience. This higher degree of convenience also helps explain the steady adoption of online retail among consumers (Zielke & Komor, 2025; Morganosky & Cude, 2000).

Supply chain management is another prominent differentiator, with online retailers facing a challenging last mile delivery process. Home-delivery or delivery to pick-up points necessitates additional steps in the supply chain, which leads to a more complex and costly logistics process (Vanelslander et al., 2013). Another example is the impact of price promotions and how its effects differ between the two formats. Price promotions tend to be more impactful in physical retail than online retail when comparing the two (Arce-Urriza et al., 2017).

The lack of physical aspects of online retail creates differences to offline formats, especially for grocery retail. Sensory attributes, such as being able to physically see and touch a product, are inherently absent which can significantly affect customers' product evaluation, and ultimately sales (Choi et al., 2024; Spence & Gallace, 2011).

2.2 What Customers of Online Grocery Retail Want and Internal Operations

What customers of online grocery retail want refers to aspects driving the positive patronization and perception of retailers, purchase intention, sales, and financial performance of online grocery retailers. While the operations are closely related to these aspects, as the customers' "wants" often directly affect operations, operations also involve internal aspects like efficiency and productivity, not directly experienced by the customers. To explore what customers of online grocery retail want, and the subsequent operations performed to meet those needs, this chapter is divided into 4 sections. Each section explores aspects affecting the performance of online grocery retailers, categorised based on key business dimensions. Literature on online retail, physical grocery retail, and online grocery retail is explored. As online grocery retail stands at the intersection of online retail and physical grocery retail, it is of relevance to explore previous research not only on online grocery retail, but also on online and physical grocery retail separately.

2.2.1 Customer Experience and Service Encounter

Existing research within the area of physical retail is to a degree focused on the differences between different store types and formats, how these affect sales, and how these differences change and shape the industry's competitive landscape (Koschmann & Isaac, 2018; Huddleston et al., 2009; Reynolds et al., 2007). Attributable to the intensely laborious nature of brick and mortar stores, the service encounter has naturally been high up on the research agenda. Employee behavior, motivation and job satisfaction has been studied extensively, and a positive correlation between these factors and financial performance has been established, with customer satisfaction and customer loyalty acting as stepwise mediators (Avgoustaki & Frankort, 2023; Haugan & Klemsdal, 2024; Söderlund, 2018; Bitner et al., 1990; Simon et al., 2009; Söderlund, 2010). As such, factors related to employee behavior, for example the handling of service failures, addressing customer needs, and acting proactively, can be identified as potential success factors in the physical grocery space (Bitner et al., 1990; Söderlund, 2018). Notably, employees acting proactively is not inherently applicable in the online grocery context due to the sales medium but could be analogged to other customer touchpoints.

The customer experience, not only affected by the service encounter, is indicated to have an affect on the performance and sales of physical grocery retailers. Studies have indicated factors such as convenience of shopping, provided customer assistance, store ambience, brand image, and value-added services as driving sales (Narayan & Chandra, 2015).

The service aspect has also been shown to bear relevance for the online format, albeit in a slightly different manner. Customers have been found to base the quality of *e-service*, the online retail equivalent of service, on how the retailer handles website design, order fulfillment, customer service, and security/privacy matters (Blut, 2016). Other literature has been of the same nature, classifying process quality, outcome quality and recovery as dimensions of e-service. It is suggested that these dimensions are evaluated by customers based on design, information accuracy, privacy, functionality and ease-of-use of their website. Handling of service recovery in case of breakdown also affects perceptions of the online retailer (Collier & Bienstock, 2006).

When examining the online grocery retail format, prior research shows that online grocery purchase intentions are relevant to bear in mind. Purchase intention has a strong positive relationship with actual behavior (Morwitz et al., 2007). Research indicates that social influence and perceived usefulness (Loong et al., 2018), price value (Li & Ohlsson, 2017), ease-of-use, trust, positive emotions, subjective norms, and attitude affect the online grocery retailing purchase intentions (Tyrväinen & Karjaluoto, 2022). Thus having the potential to drive sales, financial performance, and therefore success.

2.2.2 Operations and Supply Chain

The existing literature encompasses research beyond the direct customer experience and service encounter. Factors pertaining to the retailers' operations and supply chain/logistics, such as store location, the facility, and processes have been identified as some potential critical success factors in the physical grocery retail. These factors work as determinants for customers when selecting retailers (Jimisiah et al., 2016). Notably, factors such as store location, being a unique aspect of physical retail, holds less relevance for the online grocery retailer.

Other research concerns even more tangible operational aspects, for example last-mile logistics operations in online grocery retailing, and the way decentralized and centralized order fulfillment-approaches affect operations. Centralized approaches have clear cost and

efficiency benefits compared to last-mile operations, especially in sparsely populated areas (Yong et al., 2024).

To actually have the products included in an online assortment in-stock and available for purchase is of great importance to online retailers (Kaushik et al., 2020). But in the cases where a stockout occurs, research shows care should be taken when picking one's stockout policy. The research comparing the effects of different stockout policies examines the difference between having stock-outs immediately visible to the customer with no replacement suggestions, only having stock-outs visible after purchase attempts; and stock-outs being immediately visible, with a replacement item suggested. The result of previous research indicates that online grocery retailers should pursue open and convenience-oriented stock-out policies, so as not to lose sales (Breugelmans et al., 2006).

Research by Punakivi and Saranen (2001) examines home delivery options, specifically the difference between manned or unmanned reception of groceries. The conclusion was made that there exists significant differences in cost levels between the two alternatives, with unmanned reception allowing for more flexible delivery times and route planning, and thus lower costs.

2.2.3 Product and Value Proposition

Existing research in the area of physical retail shows that product quality and the relative value for money is of great importance to attract customers and keep them (Jimisiah et al., 2016). The product quality needs to be balanced with price, so as to achieve an acceptable level of value for money. But the prices also need to be considered and viewed as affordable by the customer in order to generate sales (Narayan & Chandra, 2015). The same goes for online retailers, previous research indicates that product pricing and low-cost shipping is of importance to customers' choice of retailer patronage, driving profitability (Kaushik et al., 2020; Lou et al., 2012).

Prior research has examined the effects of different revenue models, including subscription and pay-per-order models, among online grocery retailers. It has been shown that subscription models incentivize smaller and more frequent orders, generating more value for the customer, increasing retailer revenues and higher adoption rates. While the pay-per-order model is more beneficial for high-margin retailers selling products in more sparsely populated markets, with higher delivery costs (Belavina et al., 2017).

With the parallel existence of both online and offline grocery retail, consumers often do not accept retailers charging higher prices online than offline, which is problematic for retailers due to increased price information availability (Fassnacht & Unterhuber, 2016). This, in part, helps describe why profitability is hard to achieve in online grocery retailing, as the two formats have different cost structures. The inherent format cost structure of online grocery retailing leads to something called "The twin killer costs problem", which outlines that picking and delivery costs are variable in online grocery retailing, as each customer entails increased costs that do not go down as the customer count goes up (Ring & Tigert, 2001). This means that the concept of economies of scale is not applicable to the same degree as in offline formats. The refusal to accept these inherent higher prices may serve as a partial explanation to the profitability issue faced by many online grocers. The problem goes beyond customers simply refusing to accept higher prices in online grocery retail, there are also indications that they tend to expect and demand even lower prices online than offline, as equal pricing is seen as unfair (Huang et al., 2005).

2.2.4 Business Performance

Existing research has established factors of high-level nature, determining the performance and success of physical grocery retail. These high-level constructs include market based performance, inventory productivity, space productivity, labor productivity, gross profit, operating cost, operating profit, and profitability performance (Hernant, 2009). These higher-level factors measure store success as derived constructs of store performance, and aim to disaggregate total operational performance into more understandable measures.

Wang (2008) constructs a success model for e-commerce, identifying information-, system- and service quality as the core factors driving net benefits, i.e sales, in online retail. These factors are mediated by their effect on perceived value and user satisfaction, which in turn drive the net benefits directly and indirectly through intention to reuse (Wang, 2008).

2.3 The Frameworks

In this section we present the theoretical framework for this thesis, including the frameworks which will be used to analyse and structure the findings of the study. These frameworks will help develop the analysis and classification of the factors driving success in online grocery retail.

2.3.1 Keh and Shieh's Framework on Success Factors and Potential Pitfalls

Keh and Shieh (2001) explore the opportunities and challenges of online grocery retailing, highlighting both success factors and potential pitfalls that influence profitability and operational sustainability (appendix 1). The study is relevant to understanding both financial and operational difficulties faced by the online grocery retailers of that time, as well as their competitive positioning relative to traditional supermarkets operating offline. Notably, the study was published in 2001, therefore the digital context and consumer expectation environment which it was written for has changed dramatically since. The study represents the most comprehensive and widely-encompassing framework for understanding what factors drive success found in literature, but because of the reasons listed above it is not necessarily relevant any longer. Using this framework as a starting point of reference will thus enable comparisons between the current business climate and the past.

The authors first identify several success factors for online grocery retailers. These include *first-mover advantage*, *access to capital*, *strategic alliances*, *the right website*, *superior service*, *value-added information*, *warehouse/logistics structure*, and *differentiation through niching* (Keh & Shieh, 2001).

The authors describe *first-mover advantage* as helping companies establish brand recognition and capture market share early on in an industry's inception. *Access to capital* is vital as financial support is required to support the initial growth and often unprofitable initial years of operations, before economies of scale may be achieved. *Strategic alliances* enable firms to leverage partnerships with related actors to improve operations and create synergies. The authors also bring up the importance of having *the right website*, referring to the quality of the website and how well the consumer can interact with it. This forms most of the customers' perception of the e-service quality. The aspect of *superior service* is pushed as an important factor as it is a major differentiator between different online grocery retailers, with the power to drive customer relationships and repeat purchases. Providing *value-added information* is identified as another success factor, the information needs to be valuable to the customer and will as a result help attract purchases. *Logistics structure* and efficiency is identified as a critical factor for success, particularly regarding the last-mile part of the supply chain, which is one of the largest and most important cost-centres for online grocers to manage. Lastly, *differentiation through niching* means satisfying an unmet need or serving an underserved segment of the market (Keh & Shieh, 2001).

The article also outlines six potential challenges that threaten online grocers. These are identified as *seeing, touching & smelling products*, *delivery*, *financing*, *technology*, *security*, and *privacy & seasonal influences* (Keh & Shieh, 2001).

One challenge presented by Keh and Shieh (2001) is consumer reluctance to buy perishable goods online, as many grocery shoppers prefer to inspect fruits, meats and vegetables before purchase. The hurdle of *delivery* and related issues experienced by the customers is another potential pitfall. It is challenging for retailers to provide accurate and narrow delivery windows, and delays frequently occur. Just as access to capital is identified as a success factor, it is also a challenge as *financing* the business by attracting investors can be difficult. The *technology* aspect of the model refers to the technological level of consumers' online devices, with regard to the capability to load and display images and websites in general. The article by Keh and Shieh (2001) further discusses *security* and *privacy* concerns, related to the distrust in online shopping prevalent at the time. Lastly, *seasonal influences*, which refers to the potential fluctuations of sales throughout the year. Keh and Shieh (2001) suggest that online grocery sales are significantly higher during the winter months and warrants consideration when planning inventory and assortment.

This study is relevant to this thesis as it provides a comprehensive analysis and framework for analyzing the structural challenges inherent to online grocery and the strategic environment that still shape the industry today. However, the insights provided by the study focus on the considerations prevalent at the time of writing. Given the changes brought on by, for example, advancements in technology as customers now order instantly from their phones or the much more mature market for last-mile delivery, it is relevant to examine how much of the framework is relevant today, what is not, and what potential new critical factors have arisen since.

2.3.2 Critique of Keh and Shieh and Propositions for Change

The framework proposed by Keh and Shieh (2001) was created almost at the inception of online retailing, and so reflects the market environment at that time. Because of the dramatic changes in the past 24 years to the online space, their factors need some reinterpretation to be relevant as a starting point for this study. The division of factors as either being success factors or potential pitfalls is another point of contention, as a factor done well can lead to success, but that same thing done poorly can be destructive to the retailer. An example of this is *access to capital* being a success factor while *financing* is classified as a pitfall, as those

two factors are often one and the same. Consequently, remaking the framework with aggregated neutral factors that can be either positives or negatives can more accurately and understandably reflect the reality in the marketplace.

Some of the proposed factors are plainly outdated in a modern environment. *First-mover advantage* is no longer relevant as a success factor in an industry with the maturity and number of actors online grocery has. *The right website* can be analogged to having good digital user-interfaces, which is still relevant for achieving customer satisfaction. To better understand the themes focused on at the time of writing, and to facilitate comparison with the results of this thesis' study, Keh and Shieh's framework can be restructured and aggregated as illustrated in figure 1.

Figure 1: *Aggregation of Keh and Shieh's Success Factors and Pitfalls*

Financial Position & Management	**Technological Factors**	**Customer-dependent Factors**	**Internal Operational Factors**
● Access to Capital ● Financing	● Technology ● The Right Website	● Superior Service ● Seeing, Touching & Smelling Products ● Privacy & Seasonal Influences ● Security	● Value Added Information ● Warehouse & Logistics ● Differentiation ● Strategic Alliances ● Delivery ● Seasonality

For the purpose of this study Keh and Shieh's (2001) framework on success factors and pitfalls will be the focal point of the discussion. A thorough comparison of this study's result and Keh and Shieh's framework is presented, and an updated framework.

2.3.3 Push-Pull Mooring

A relevant framework to consider is the Push-Pull and Mooring (PPM) framework, originally used to examine the drivers of consumer switching in general, but has also been adapted to examine the drivers of consumer switching in online grocery retailing specifically (Rosengren & Singh, 2020). In this adaptation, push effects refer to factors that motivate consumers to switch from a given retailer. This includes poor customer service, issues with the delivered product, price perceptions and technical issues. Pull effects draw consumers to a specific retailer, this includes alternative attractiveness and word-of-mouth. Lastly, the

mooring effect concerns factors hindering retailer switching, including switching costs and prior switching behavior.

For the purpose of the present study the PPM framework is utilized to classify and contextualise the findings in order to provide interpretation on how they affect customer switching behavior from physical to online stores, and attract or deter customers of online grocery retail. This will be referred to as the external or the customer-centric perspective in this thesis, and help to contextualize the findings in that external dimension.

2.3.4 Dynamic Capabilities

Dynamic capabilities is another framework which will be utilized to contextualize the findings of this study. Dynamic capabilities refers to the internal organisational processes that enable firms to thrive in rapidly changing and competitive environments (Teece, 2007). The dynamic capabilities consists of three categories; sensing, seizing and transforming, all of which help firms integrate, build, and configure competences to address their competitive environments. Sensing refers to the continuous scanning and interpretation of internal and external signals, in order to identify opportunities and threats. This can be done through technological monitoring of the environment and internal operations. Seizing is about mobilizing resources and capturing value by acting on the identified opportunities and threats. This includes investments in new products, services, and business models. Lastly, transforming, which is about renewing and changing the organisation's structure and capabilities to maintain marketplace relevance and competitiveness (Teece, 2007).

Dynamic capabilities are relevant in the context of online grocery retail as it is an industry that has undergone significant changes during the last three decades since its inception. For the purpose of this study the Dynamic Capabilities framework is used to analyse, capture and contextualize the internal enablers of success. This refers to how the identified factors for success based on the interviews bear relevance for the internal operations of online grocery retailers. By relating the identified factors to the capabilities of sensing, seizing, and transforming, a structured basis to capture an internal perspective, also referred to as operational- and capabilities-centric perspective, is established.

3. Methodology

The following sections outline the research approach of the thesis, the selection of research methodology, the data collection, interview design, the interviewees, analysis of the data, and discussion on methodology.

3.1 Research Approach

This study employs a qualitative research approach, utilizing semi-structured interviews to explore area experts' perception of success factors in online grocery retailing. Given the nature of the study, qualitative research is well-suited for capturing industry professionals' perception of factors driving success. The study is designed as a cross-sectional study (Bell et al, 2019, p. 58), looking at the professional perceptions of active business people in order to systematically analyze the challenges and strategic decisions of market actors.

3.2 Selection of Research Methodology

Utilizing interviews was necessary as the study tries to capture the practitioners' professional perception of the matter and interpretation of the current industry and market situation. In this case, in-depth interviews are beneficial as they help answer "how" and "why" questions, as described by Guest et al. (2017). By looking beyond the surface-level observable and quantifiable relationships, and instead performing a qualitative in-depth investigation, it is possible to identify possible causal chains. Furthermore, unwillingness of the interviewees to share information on the inner workings and operations of the online grocery retailers they work at meant that examining the perception of the interviewees on success factors was deemed most suitable.

Employing a cross-sectional design study means that multiple cases are studied at a single point in time to capture the variation of different situations and subjects. This is done in order to understand similarities, reveal patterns of association and capture themes across actors and how they operate (Bell et al, 2019, p. 58). This study further aligns with the cross-sectional design approach by performing semi-structured interviews with professionals across multiple cases in the industry in order to understand the differing approaches to achieving market viability and answer the research question (Bell et al, 2019, p. 61).

3.3 Data Collection and Interview Design

The basis for the data collection process was the findings presented in the literature review, which means that the design and starting point of the interview questions was based on the

operational aspects and the wants of the customers identified in existing literature. From this basis, the interviews were exploratory in nature and meant to examine and discover factors beyond the ones identified in the literature review. In order to achieve a probing exploratory effect, the semi-structured interview approach was utilized. According to William (2015) this encourages more open-ended discussions, allowing for new concepts and trends to be uncovered gradually. The questions themselves were also kept open-ended, as to let the interviewees answer freely and keep the interview process flexible (Bell et al., 2019, p. 436).

As Gioia et al. (2012) proposes, the questions posed in the interviews and the discussion directions which the interviewees were nudged towards were allowed to gradually change based on the findings from the interviews as they were performed. By discovering new insights and relevant directions during each interview, and allowing this to influence the subsequent interviews, the research can reach an as close to all-encompassing perspective as possible. As such, an iterative process has been employed where the collection and analysis of the data have taken place in parallel. This is done by having previous stages of data collection, i.e interviews, be analysed and used to refine subsequent phases of data collection and analysis (Bell et al., 2019, p. 359). See appendix 2 for the interview guide.

The interviews were conducted in Swedish, and recorded and transcribed according to the guidelines on data protection provided by SSE Office of the General Counsel. They are transcribed utilizing the transcribing function of Microsoft Word, as this allows for both repeated and more thorough examinations of what the interviewees say (Bell et al., 2019, p. 445). The use of their native Swedish language during the interviews was to allow for the interviewees to express themselves in an as clear way as possible and to preserve their exact wording and meaning. The quotes used in conjunction with the presentation of the findings have been painstakingly translated from Swedish to English.

3.4 Interviewees and Subject Selection

Due to our need for professional industry insights, criterion sampling is utilized. Criterion sampling is a type of purposive sampling which means that the cases used must meet certain criteria (Bell et al., 2019, p. 390). For this study, case selection is based on both the company and the interviewee's role.

The companies included 4 major actors in the online grocery retail industry in Sweden, with mixed success between them in terms of currently reaching profitability. These companies

include both hybrid and online-only actors. The choice was also made to include companies providing services, empowering online grocery retailers' operations by enabling business critical services. As such the companies included in the study are active in the online grocery retail market and have many years of experience operating in said market.

Seven interviews were conducted in total. The interviewees were chosen based on their current professional position and their high level of potential market insight. The diversity and variation of their positions was taken into consideration in order to achieve a comprehensive perspective of the state of the industry and a multitude of perceptions. The positions held by interviewees include owners, head of operations, head of e-commerce, and others. See appendix 3 for a presentation of the interviewees. A higher emphasis was put on interviewee 1's answers due to their comparatively more extensive experience with online grocery retail. See appendix 4 for a summary of interviewee 1's answers.

Six of the total seven interviews were conducted online, using Microsoft Teams and Zoom. This was done out of necessity, to ensure flexibility of the interview process and to increase participation due to the convenience and accessibility of participating from a location of their choosing. The remaining one was performed physically, at the workplace of the interviewee.

3.5 Data Analysis

To perform the data analysis, the interviews and transcripts are processed and analyzed using the Gioia methodology (Gioia et al., 2012). By going through the gathered data numerous times, repetitions, similarities and differences, and theory-related material was discovered. This forms the basis for the establishment of first order concepts, as described in the guidelines presented in Bell et al. (2019, p. 519). These first order concepts are then categorised into second order themes, based on patterns and similarities identified between the concepts. Lastly the themes are aggregated into dimensions, identified as overarching topics, covering all of the aspects of relevance which emerged during the interviews. Noteworthy is that the Gioia methodology is often used for inductive processes, but was deemed applicable for the context of this thesis and its iterative approach.

In this thesis' case, first order concepts are the notions about what can affect online grocery retailer performance, explicitly and implicitly discussed by the interviewees. The second order themes are based on the analysis and aggregation of the first order concepts from the interviews, grouping them into categories. The aggregated dimensions together cover all the relevant topics discussed throughout the interviews. For this thesis, the aggregation of themes

into dimensions is done twice. This is done to capture both an external, customer-centric perspective on how to attract customers; and also to capture the internal, operational-centric perspective including the internal ways of working and procedures, and their role as organisational capabilities.

The PPM framework (Rosengren & Singh, 2020) forms the basis for the customer-centric aggregation, classifying the themes into the categories of push, pull and mooring. The second aggregation is operational-centric and based on the Dynamic Capabilities framework (Teece, 2007), classifying the themes differently based on the dynamic capabilities sensing, seizing and transforming.

As previously mentioned, the identification of first order concepts and formation of second order themes is done by finding patterns in the performed interviews. This is largely done through the identification of repetition-based similarities. For example, the first order concept of *Assortment as a competitive advantage* was discovered during the interviews. This first order concept is one of several which together form the theme *Customer Attraction and Lock-in Effects*. Below follows 3 quotes illustrating how the interviewees spoke about assortment, which led to the formation of the first order concept:

> *"There also needs to be a low share of produce gone bad and such. And we definitely have the broadest assortment [which drives customers to shop online from us]."* – Interviewee 2

> *"And if we are not there to pull in the customers [with our assortment] there is a great risk that they engage with one of our competitors instead. And suddenly they discover that their assortment is better and think 'Damn, [retailer name redacted] products, that is the shit!', and then the customer disappears from the physical store as well. And at that point you have lost everything."* – Interviewee 1

> *"[retailer name redacted] has a fantastic solution, they are open every day of the week, and they have an assortment of around 10 000 articles [, which attracts customers]. That is way more than they can get from their competitors."* – Interviewee 4

These quotes illustrate how the context in which the assortment was talked about indicates its role as a way to attract and keep online grocery customers. As such it was determined to be a first order concept falling under the theme of *Customer Attraction & Lock-in Effects*. The

other first order concepts of this theme were identified in a similar way and determined to fall under the same theme due the described effects of each concept.

The findings and classification form the basis for the discussion and for updating Keh and Shieh's (2001) framework of success factors and pitfalls, with the established second order themes forming the main points and factors to be included in the updated framework.

3.6 Discussion on Methodology

There are two primary criteria for assessing a qualitative study, trustworthiness and authenticity (Bell et al., 2019, p. 363). Trustworthiness can be divided into four criteria, credibility, transferability, dependability, and confirmability. In order to achieve credibility, the research has been carried out in accordance with good practices (Bell et al., 2019, p. 363).

Transferability, referring to the transferability of the research findings to other contexts, exists to some degree (Bell et al., 2019, p. 365). The research findings work as a thick description, providing a detailed account of a setting that can be used to create general statements of that setting (Bell et al., 2019, p. 597).

Dependability refers to demonstrating the trustworthiness of the research. Adapting an auditing approach, ensuring that records of the research process are kept, and that the process itself is scrutinized throughout (Bell et al., 2019, p. 365). This dependability check has primarily been carried out by the authors writing the thesis, which may be disadvantageous.

Confirmability focuses on the objectivity of the study, to what degree personal values and the theoretical inclinations of the research has affected the research (Bell et al., 2019, page 365). The researchers have done their best to act in good faith, reducing personal bias, and scrutinizing the findings and conclusions independently.

Authenticity is about fairly representing different viewpoints, as to avoid undue higher weighing of certain opinions (Bell et al., 2019, p. 365). This has to a degree been achieved, as the opinions of all interviewees have been weighed the same, with a slightly higher emphasis put on interviewee 1 due to their extensive experience within online grocery retail.

It is also important to keep in mind that qualitative research is a subjective method, and entails the risk of results being difficult to replicate and generalize. This is primarily due to the dependence on the researchers conducting the research, what they choose to focus on; and the restrictive nature of qualitative research, respectively (Bell et al., 2019, p. 374).

Additionally, it is important to note that studying perceptions may entail inaccuracies and bias, due to the subjectivity of the interviewees. There is a risk of the subjective data collected by examining perceptions not matching objective data, and so the congruence between reality and practitioners' perceptions may be low (Starbuck & Mezias, 1996).

4. Findings and Analysis

In the following chapter, the findings of the study are presented. The findings are structured according to the Gioia Methodology (see figure 2), with the first section exploring each of the second order themes identified through the aggregation of first order concepts discovered in the interviews. The second section presents the aggregate dimensions, where the themes are aggregated into the PPM and Dynamic Capabilities frameworks.

Figure 2 - *Overview of Findings Created with the Gioia Methodology*:



4.1 First Order Concepts and Second Order Themes

The identified second order themes are: (1) *Customer Attraction & Lock-in Effects*, (2) *Service & Total Service Offering*, (3) *Products & Total Product Offering*, (4), *Organization & Omnichannel Operations*, (5) *Financial Strength & Cost Management*, (6) *Market Conditions & External Environment*, and (7) *Technology & Solutions*. The presentation of the themes goes through the various first order concepts and is complemented with relevant quotes from the interviews and analysis.

4.1.1 Customer Attraction & Lock-in Effects

For traditional grocery retailers, expanding into the online space is an important part of their omnichannel strategy and offers additional values beyond just trading products for both retailers and customers. Several interviewees emphasised that offering an online alternative helps retailers lock in existing customers as they explore new channels when their shopping preferences evolve. As customers explore the online option for the first time, their default option is most often the retailer they currently frequent, and if that retailer does not have an online offering that customer may be lost to a competitor. As stated by interviewee 1, online customers often have larger basket sizes and values than the average in-store customer, therefore the online customer is seen as extra valuable to retailers. Creating this multi-channel offering is thus thought to extend and leverage existing customer loyalty for the highest Customer Lifetime Value-segment (CLV). Having an online offering is a valuable tool for retailers looking to capture customers and create lock-in effects to prevent customer churn associated with channel-switching.

> *"We see three times the value from a customer who shops in both channels [online and offline] compared to the customers who only shop in physical stores. This applies both in terms of lifetime value and annual spend. The entire omni-customer mindset is highly relevant today."* – Interviewee 1

From the interviews, there are also clear concerns about how customers are attracted to and retained by any given retailer in the online space. As opposed to physical grocery retailing where proximity to store is often the deciding factor for where to shop, online grocers have other concerns. Interviewee 2 stated that having the broadest and most relevant assortment is key to attracting customers efficiently, especially with regard to trendy products where customers find novel products or recipes on social media and then search for those products online. This is in line with Kaushik et al. (2020), who found that the availability of products

in one's assortment is of great importance. The assortment itself creates a competitive advantage in these cases, and works in a cost-effective way as the marketing is already done. Another major cost center that several interviewees chose to focus on are the costs associated with acquiring new customers, a vital activity for future success. The two main types of marketing costs are, according to multiple interviewees, market communications costs and first order-discount costs. Market communications are mainly advertisement activities, which are straightforward and easily managed for centralized actors like Mathem, but can create certain tensions when it comes to decentralized organizations like COOP and ICA. The core problem is the division of advertisement costs, identified by interviewee 2. Any single store can use a portion of their marketing spend to promote their online store, but in doing so they also promote the online offering of the whole organization. This has created the opinion that they should be compensated for the effect on the whole organization of the marketing activity. The second type of customer acquisition cost, first order-discounts, are according to a minority of interviewees mainly a problem for meal-kit providers. While the pure grocery retailers try to get customers to try their service and in that way create a lock-in effect, typically from a 10% discount for their first purchase, meal-kit providers typically work with discounted meal plans for new customers worth up to 1000 SEK. The reasoning behind this type of activity is to show the convenience brought by the product over time and build consumer habits. As shown by Narayan and Chandra (2015), and Zielke and Komor (2025), this reasoning is backed by the literature, as convenience drives not only adoption of online grocery retail but also sales. Managing these acquisition costs is very important to retailers as optimizing marketing spend is vital when it comes to driving the most customer conversion possible in a growing market as new customers are coming in from the offline channel.

> *"There needs to be an extremely low share of produce gone bad and such. And we definitely have the broadest assortment [which drives customers to shop online from us]."* – Interviewee 2

> *"But it varies what customers want, though many are incredibly trend sensitive. The second that damn Dubai chocolate appeared on social media, we saw people start searching for it on our site."* – Interviewee 2

What kind of customer to attract is in contention among the interviewees. As mentioned, there is a general acceptance that the typical online customer has a higher willingness to pay and larger average basket than a typical physical customer. As such, companies initially

targeted their online offerings toward this higher value customer. What emerged post-pandemic however is that there aren't enough of these top level customers to support the online grocery industry. This has led to a shift in focus towards the Big Middle-segment of customers, where enough volume can be found to have viable operations.

4.1.2 Service & Total Service Offering

A majority of the interviewees agreed that providing excellent service is a central part of succeeding in the online grocery market. However, the view on what service is and what parts of it should be prioritized is not completely agreed upon. Interviewee 3 described their online offering as a new and interesting part of their total offering which provides customers who are unable to physically come to the physical store with an additional sales outlet. Increasing their availability to their customers in this way further anchors the store with the customer, and also adds diversification in terms of another leg to stand on in extraordinary times, like during the Covid-19 pandemic. Thus, the online service is in some cases seen as a service provided to the customer by the store. This justifies its existence as it is of benefit to the customer and increases the store's total service offering even though it might be less profitable than if that same customer would purchase the same basket in-store after handling costs. The prevailing opinion among interviewees regarding this matter is that even though the retailer might lose out on single-basket profitability in this way, the customer willing to pay the online premium for their products usually has a high enough CLV to justify expending effort on. Thus, offering an online option is becoming mandatory for stores to stay competitive and match customer expectations on their total offering. Some interviewees also see good reason to limit their available delivery time slots to certain days of the week to compress demand to a more viable position in terms of optimizing delivery routes. As the online part of their business is viewed more as an additional service than a primary focus, they prioritize streamlining online-related operations as not to over-burden store staff with picking and packing activities. Concerns were raised among interviewees regarding a loss of focus on in-store tasks as the online segment grows. Interviewee 3 expressed that online customers tend to have a higher baseline need for manual service and a higher likelihood to complain.

> *"But, I would say that the most important thing is to try to make everything as efficient as possible, so it doesn't take too much time. And for it to be efficient, you can't have too big of a delivery area with too few customers. You need to make sure*

that when you're planning and driving your routes, the delivery area isn't huge." – Interviewee 3

The second definition of service that was more emphasized by interviewees working at larger companies is the standard definition of offering excellent customer service. The customer touchpoints are very different in the online space compared to what retailers traditionally do best, brick and mortar retailing. As such a majority of the interviewees at the larger companies stated that they take procedures like accurate delivery times and service recovery in cases of customer dissatisfaction very seriously. Given the lack of customer control over their purchase, companies should strive to deliver excellent service in product quality, timeliness and the brief customer meeting every time, to leverage the very few opportunities they have in the online setting to create a pleasant customer meeting and give the customer the impression of having received good service. The previous research agrees with this, customer service and order fulfillment is key (Blut, 2016; Wang, 2008).

"But then there is the service. It is also incredibly important to make it all work. For it to be attractive to customers they need to feel like it is good." – Interviewee 3

4.1.3 Products & Total Product Offering

All of the interviewees alluded to offering high quality being a vital success factor for online grocers. The main focus of their work geared towards increasing their quality is twofold, with the first aspect being quality of products offered for sale. Given the absence of physical interaction in online grocery retail, the control over individual product selection is limited, as pointed out by interviewees 2, 3 and 6, as well as in the literature (Choi et al., 2024; Spence & Gallace, 2011). Customers who receive products that are anything less than perfect are likely to be very dissatisfied. As grocery is a much less standardized industry than other product archetypes sold online, one interviewee brought up a need to build trust with consumers by delivering to the standards the customer expects every time. The retailer that interviewee represents has an almost completely automated product-picking system that solves this concern by having staff manually inspect produce like fruits and vegetables upon delivery to the warehouse. Other measures aimed to combat product inferiority include inputting best before-dates on all products into the automated system. The automated software can then pick according to FIFO to manage product in-and-outflow.

> *"I would say it's largely the product offering and the degree of freshness that is important. There needs to be an extremely low share of produce gone bad."* – Interviewee 2

Further related to products is the product offering. Many interviewees state customers expect at least the same number of SKUs found in an average size grocery store, which according to the same interviewees usually carries around 7 000 - 18 000 SKUs. Customers also expect to find familiar brands at competitive price levels similar to what they are used to from in-store experiences, consistent with previous research by Fassnacht and Unterhuber (2016). Pricing is thus of great importance. This can be problematic for online grocers whose cost structures differ significantly from those of physical stores, making competitive pricing more difficult. Displaying this vast number of SKUs in a way that fits on a phone screen is an issue expressed by interviewee 2, an online merchandiser. Compared to a physical store, the interviewee stated that as retailers are unable to work with store layout to force a physical customer journey, they now have to work with easily navigable categories that the customer can peruse effectively. Digitally native actors are agreed to have the best apps in terms of usability and customer satisfaction, which is a definitive advantage in the online grocery marketplace.

> *"But the customer also expects the same prices [online] as in physical stores. People are, I would say that the customers are less price sensitive but more price conscious. They just don't want to feel like they're being fooled."* – Interviewee 2

The second aspect of product quality explored by multiple interviewees is the sales medium presented to the customer, usually in the form of a mobile phone application but to a lesser degree of customer usage also web pages. The digital interface of the company is what the customer builds most of their first impression of the retailer on. Factors like ease of use, lay-out and attractiveness plays a major part in attracting customers and increasing their perceived value of the service, as discussed by Collier and Bienstock (2006). By working with tools available in an online setting like displaying accurate product recommendations based on previous purchase data, retailers can increase both sales and customer satisfaction. This wealth of data is lauded by several interviewees as a great advantage that online has over traditional retailing as every single purchase is logged and connected to a known individual, which enables retailers to customize marketing and offers to them personally. On the other hand, having only the app as a customer interface makes it a vital part of the customer

experience, so poor quality and friction related to the in-app experience is extremely detrimental to retailer performance. Interviewee 4 pushed the importance of continuously working on and improving the digital customer interfaces, in order to avoid friction.

> *"Now we're testing the possibility to give feedback, people can give thumbs up or thumbs down on how it works directly in the application. Yeah, it's tricky, but this way we know how it's working. So in that sense we can basically push out improvements and bug fixes without affecting outflow too much."* – Interviewee 4

Taken together, the quality of products delivered to the customer and the quality of the customer's interface with the retailer are top priority concerns for actors within the online grocery space, according to the interviewees. As such, it can be assumed that offering high quality consistently in these categories is a success factor for online grocers.

4.1.4 Organization & Omnichannel Operations

When asked about what their motivations are for being active in the online space and why it is an attractive business avenue to pursue, two answers were thematic across all respondents. Firstly and most obviously, because of the volume of general grocery retailing and the increasing online share, it is a potentially lucrative area to do business in. Secondly, interviewees claimed that they wanted another financial leg to stand on if another crisis like the pandemic were to come again. Interviewee 3, who had implemented an online offering just a year before the pandemic just to trial it, said the store suddenly found itself overwhelmed by online orders as the pandemic struck.

A majority of interviewees were in agreement that optimizing their organization and their operations are major concerns, which tangents the research by Hernant (2009), putting emphasis on operational productivity as key. The tight margins inherent to the grocery business is a major driver of this concern, and the additional costs associated with online grocery retailing exacerbates that fact. Seeing as how most of the companies within the space are not or are barely profitable with regard to their online operations, they work actively with streamlining their organizations and operations further.

> *"It simply doesn't work, we work in an industry with razor-thin margins, so going back to the old style grocery retail where someone handpicks your items, points at the fish and all that, it just isn't viable."* – Interviewee 1

Organizationally, there are major inherent differences between the actors due to ownership structures, as explained by multiple interviewees. For some actors, their central organizations operate as support functions to stores under the same brand. Due to this organizational structure, any actions proposed by the central organization have to first be marketed internally to stores to get their approval before final implementation. Conversely, purely online-based companies with less complex organizations don't have to get organizational buy-in in the same way in order to adopt changes. This is perceived by interviewees as both positive and negative depending on their perspective, as key decisions relating to the whole company are often more successful if approved by a larger part of that organization. Complexities in organization can however lead to complexities in decision making, leading to a situation where actions aren't being taken by the broader organization after implementation. Multiple interviewees spoke about this difference in perspective as a tension within their companies.

> *"We didn't want to use it. [...] The problem was kind of that the central organisation, maybe the CEO or whoever came up with this idea, hadn't really aligned it with the store managers."* – Interviewee 3

The organization also dictates how operations are performed to varying degrees. In one case described by interviewee 3, the central organization had invested considerable resources in an automated warehouse, expecting to achieve organizational buy-in. However, this was not accomplished to the desired degree due to profit-sharing and cost allocation concerns, leading to a situation where the tensions between the central organization and the stores becomes detrimental to the organization as a whole. A competitor picks and packs online orders through their existing store network, which strongly reduces cost of initial investment to implement an online offering, as discussed by another interviewee. However, tensions are created in this organizational structure as well as cost-allocation for staff hours and workload becomes unclear. Pure-play digital actors have an easier time when it comes to this alignment issue as the whole organization is focused on the same singular way of working. Automation plays a role for these actors as well, as streamlining the picking and packing process enables vital cost-savings.

> *"But there are some stores who do not join [the central logistics hub]. They are self-picking stores, and there are definitely plenty of those that are profitable. [...] For*

[the central logistics hub] it is all about volume, we need more orders, we need more stores to join." – Interviewee 2

Several additional operational concerns have been brought up throughout the interviews. With an established high-level operational procedure in place, smaller issues arise that still require attention. Staffing becomes an issue in Sweden as FTEs are contracted to work 8 hours a day, which is misaligned with the unstable demand for groceries which often leans towards the later part of the week. To solve this, some interviewees expressed that companies often work with staffing agencies where they can hire in staff on a per-day basis as workload varies throughout the seasons. Another set of methods most companies use to prevent unfavorable operations are restrictions on how customers can purchase. Many interviewees explained that they apply cost penalties on shopping baskets below a certain threshold to ensure customers are profitable, and apply a dynamic pricing scheme to their delivery slot times to smooth out shipping workload across the day.

"Last year we implemented dynamic pricing on our delivery fees based on the delivery time and time slot [to smooth workloads]." – Interviewee 4

4.1.5 Financial Strength & Cost Management

Being a low-margin and relatively young industry, the interviewees stated that having enough financial resources to stay competitive and relevant for the customer as the online segment of general grocery retailing grows is essential for marketplace longevity. Traditional incumbent grocers have organizational resources and existing infrastructure that they can leverage to gain an advantage over new online-only actors, who often rely on external investment to fund operations. Breaking this down further, incumbents can add the online service to their existing offering with relatively low additional costs compared to new actors, and already have a large support network in place that manages critical business activities like product sourcing and marketing.

"Companies hide the costs in the store part, of course. That's why a lot of them have chosen to shut down their online business, it's an expensive business. It's hard to find the margins that offset the delivery costs." – Interviewee 4

New online-only actors have to rely on external investments, which creates complications as these investments often come with expectations on future performance. However, large investments enable rapid growth prioritizing expansion and customer acquisition. The current

industry perceptions, expressed by a majority of the interviewees, relating to these investment-driven actors are that they lead a "race to the bottom" in terms of sacrificing profitability for an excellent customer experience. In essence, according to interviewee 1, the core value proposition offered to customers is too ambitious for the price charged for it. This has allowed rapid scaling for the largest digital-only actor to occupy a large part of the online grocery market share without showing profitability so far.

> *"Yes, well we started out that way [keeping prices at an economically viable level], but that was at a very early stage, when the competition didn't look anything like today. Doing that today would be suicide."* – Interviewee 1

Regardless of financing, all interviewees stated a need to identify their cost centers and manage cost structures relative to how they have formed their value proposition. Generally, actors who have invested heavily in automated warehouses have a high fixed cost to offset by reaching adequate volume going through their distribution centers. The race is thus on to market their service and acquire customers from wherever they can, which can mean cannibalizing existing customers to other parts of the organization. The actors with more manual operations will in exchange for a lower fixed cost, as they lack automation infrastructure, have a higher variable cost per additional customer. This means that they have potentially lower earnings per customer, at a lower financial risk for the total organization.

> *"Now we have the technology on our side, which means that we can lower the cost of picking products. [...] Having an automated warehouse, like Ocado in the UK, means reducing the costs. There is really no one in Sweden pulling this off, but you may get costs down to [redacted]%. On the other hand you're looking at a massive investment instead."* – Interviewee 1

4.1.6 Market Conditions & External Environment

> *"But that [the growth of the online grocery market] is also what we live on, and right now we are at [redacted]% of the Swedish market. So, our growth [in sales] is natural due to the overall growth of the online grocery market."* – Interviewee 4

The external environment presents a number of concerns for online grocers to be mindful of when conducting operations, which are often out of their control. Just like in traditional grocery retailing, geography is a major deciding factor for where and how customers shop. In the online space, offering a large but financially reasonable delivery area is vital for success.

How successfully actors can implement a broad service area is however dependent on their operations structure. The examined actors with decentralized delivery structures are able to service customers across a larger area than operations with a single centralized warehouse per region, which was highlighted by several interviewees as a major concern. Because of the need to be close to the largest possible customer base to optimize deliveries, most of the examined actors in the online marketplace have centered their operations around the larger cities in Sweden.

Another external matter out of the retailers' direct control is how comfortable potential customers are with online shopping, which varies according to several factors. Exemplifying the value-add of having an online offering, the reluctance of consumers' to shop in-store during the covid-19 pandemic allowed online grocers to capture those customers and dramatically increase sales during that period. As such, interviewees held that even though their online division might not be as profitable as their core operations, it was a vital part of a larger risk-preparedness strategy in case of another unforeseen event. Notably, when online sales levels normalized after the pandemic, they were at a higher level than before.

At the time of the interviews, Sweden has seen rapidly increasing food prices as a part of a high general inflation affecting consumers' purchasing power. As online pricing in grocery often entails a mark-up compared to original in-store pricing, several interviewees expressed that macroeconomic factors like global supply chains and general inflation might drive customers away from shopping online. Price preferences for customers might make them switch back to physical low-price retailers instead of the more premium offering that online grocery in reality is.

Taken together, external factors affect online grocers heavily both in terms of challenges and new opportunities to grow market shares. The operational format, cost profile and geographical focus should fit the operational environment actors are active in over time, as the external environment is in constant change with a changing competitive landscape and an unpredictable global future.

4.1.7 Technology & Solutions

Technology was to our respondents a foundational element for achieving any type of success in the online grocery space. Depending on what role respondents have, they focus more on either technology that operates behind the scenes to facilitate operations, or customer-facing user interfaces that can either make or break the customer experience. Overarching both of

these technology use-cases was the ability to track operations through data in various ways. One interviewee was able to show how their business was developing week-over-week in a mobile application on their phone, and stated that this wealth of information was critical to make decisions and develop the business.

> *"Now we have the technology with us, which means that we are able to reduce the production and picking costs."* – Interviewee 1

As it regards internal operations, interviewees pointed to the economic benefit of having a system that optimizes cost-intensive activities. As previously stated, these primarily include picking, packing and shipping. Our interviewees all described different ways of managing these processes, using different systems to fit their individual needs. For the larger actors with greater access to capital, this means adopting automated systems that pick and pack products with autonomy to handle high volumes. For individual stores with an online offering, the managers stated that they want systems that are easy to understand, with certain restrictions on the customer to make operations more manageable for the store. Interviewees of larger organizations also spoke about how important integration across vertical divisions is. The central organization offers and maintains the webshop for both customers and stores, but the orders are packed in stores in many cases and then picked up and delivered by drivers that are employed by the central organization. The complexities inherent to a multi-layered system such as this are negated by using an integrated system that bridges these gaps between business units and coordinates their efforts. For online-only actors, these types of complexities are less prevalent, and their focus is on optimizing the picking and packing procedure through their own proprietary system that gives recommendations on how inventory should be organized in warehouses based on current sales.

Customer-facing technology has seen huge improvements since the inception of online grocery, especially as the medium for shopping has changed from computers to primarily smartphone apps which enable the use of algorithms and smart systems for personalized products displays and recommendations. Interviewees stressed that how user-friendly the app is has become a major decision point for who the customer shops from, in terms of understandability, navigability and appearance. Along with these hygiene-factors for shopping, smart systems now also allow recommendations to be made to customers based on what products they have bought previously or what they currently have in their shopping baskets. These types of recommendations help drive additional sales and can be tailored to

push higher-margin products. Another benefit of smart systems is the ability to manage inventory by identifying products nearing the end of their shelf life and applying dynamic pricing practices to sell those first.

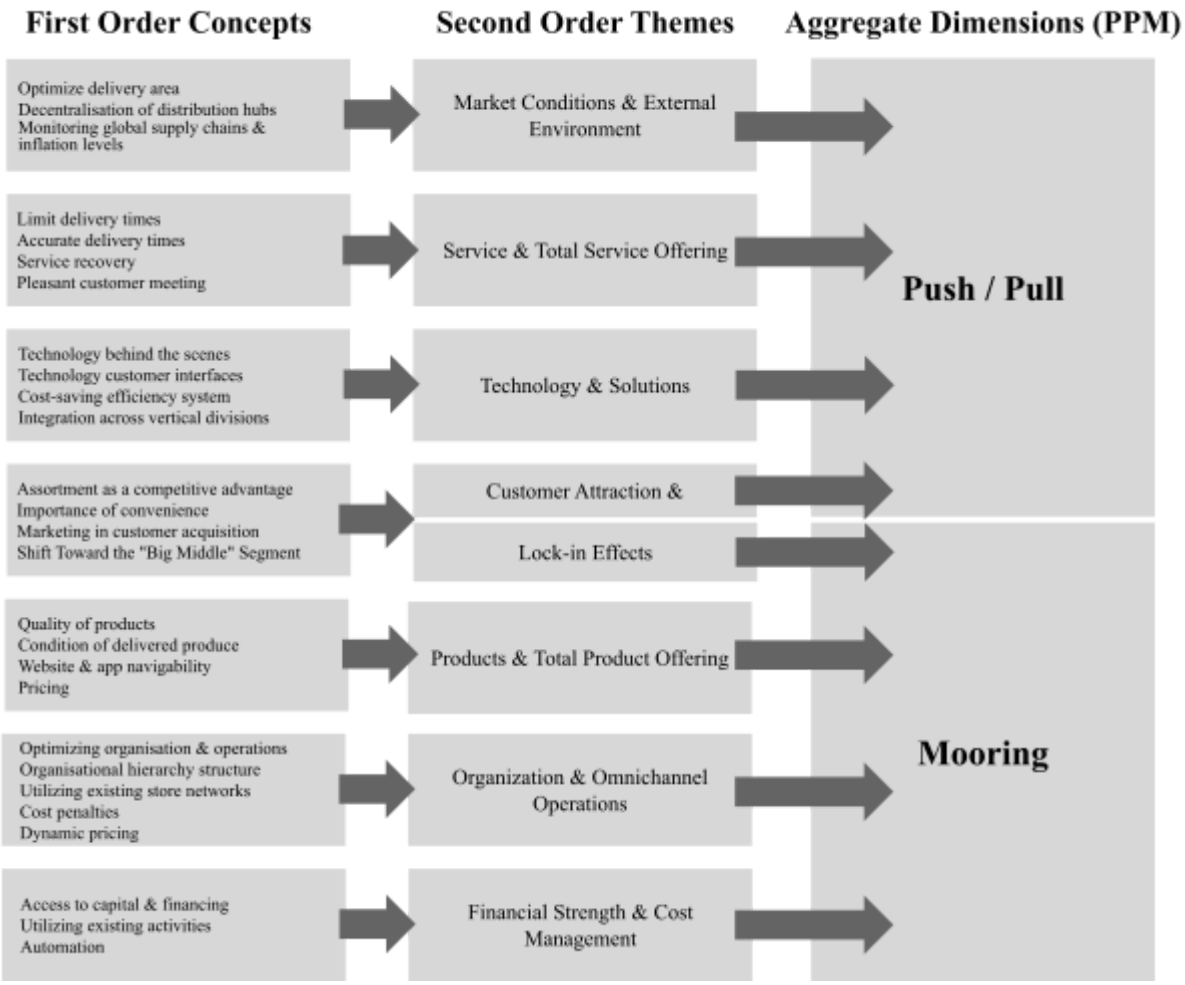
4.2 Aggregate Dimensions

To analyze the findings of this study holistically and to contextualize them, two different perspectives with respective theoretical backgrounds are employed. This is done as success for online retailers comes as a result of performance on two fronts, firstly the external customer-centric dimension and secondly the internal operationational-centric dimension. The conditions for success in these two dimensions differ, and retailers are required to alternate between these two perspectives to balance costs and benefits for both them and their customers. To have an appropriate fit between theoretical background and dimension, the PPM framework is used to classify and contextualize the first customer-centric dimension, and the Dynamic Capabilities framework is used for the second internal operational-centric dimension.

4.2.1 External Perspective – PPM

The first set of aggregated dimensions are based on the Push-Pull-Mooring framework (Rosengren & Singh, 2020), representing the overarching constructs classifying and explaining success factors in online grocery retail with regard to customers. The PPM framework is utilized to provide a structure for categorizing the identified themes, i.e. success factors, which will make them more understandable and help contextualize their individual usefulness. See figure 3 for an illustration of this aggregation. In this figure the themes of *Customer Attraction* and *Customer Lock-in Effects* have been separated, this is done as the nature of the PPM framework distinguishes specifically between which attracts and deters, and keeps customers at a retailer. Notably, this classification faces a degree of the same difficulty that Keh and Sheih's classification did, as a pull factor performed poorly can in effect become a push factor. Since the findings of this study are structured as neutral themes that retailers can perform either poorly or well on from the customer's perspective, the PPM framework is modified to encompass Push and Pull as a single category.

Figure 3 - *Overview of Findings Created with the Gioia Methodology and the Aggregated Dimensions based on PPM*:



Retailers who perform well in the push/pull dimension are likely to gain customers and market share in the short term. These factors are tied thematically by being presented to the consumer prior to their first purchase, and often represent the strengths of online grocery compared to traditional retailing. The theme *Market Conditions & External Environment* influences both the initial accessibility of online grocery retail and likelihood of adoption, thus its placement in the push/pull dimension. *Service & Total Service Offering* exemplifies the push/pull dimension further, as customers are likely to evaluate available delivery slot times and cost before choosing a retailer for their purchase. *Technology & Solutions* falls in the dimension as the technological customer-facing systems tend to be evaluated early on by customers and guides their engagement decision. Lastly, *Customer Attraction* are activities and efforts that are especially aimed at enticing new customers.

The mooring factors are those that foster customer retention over time. Useful for the retailer to create customer loyalty, these factors act as anchors that tie the customer to online grocers.

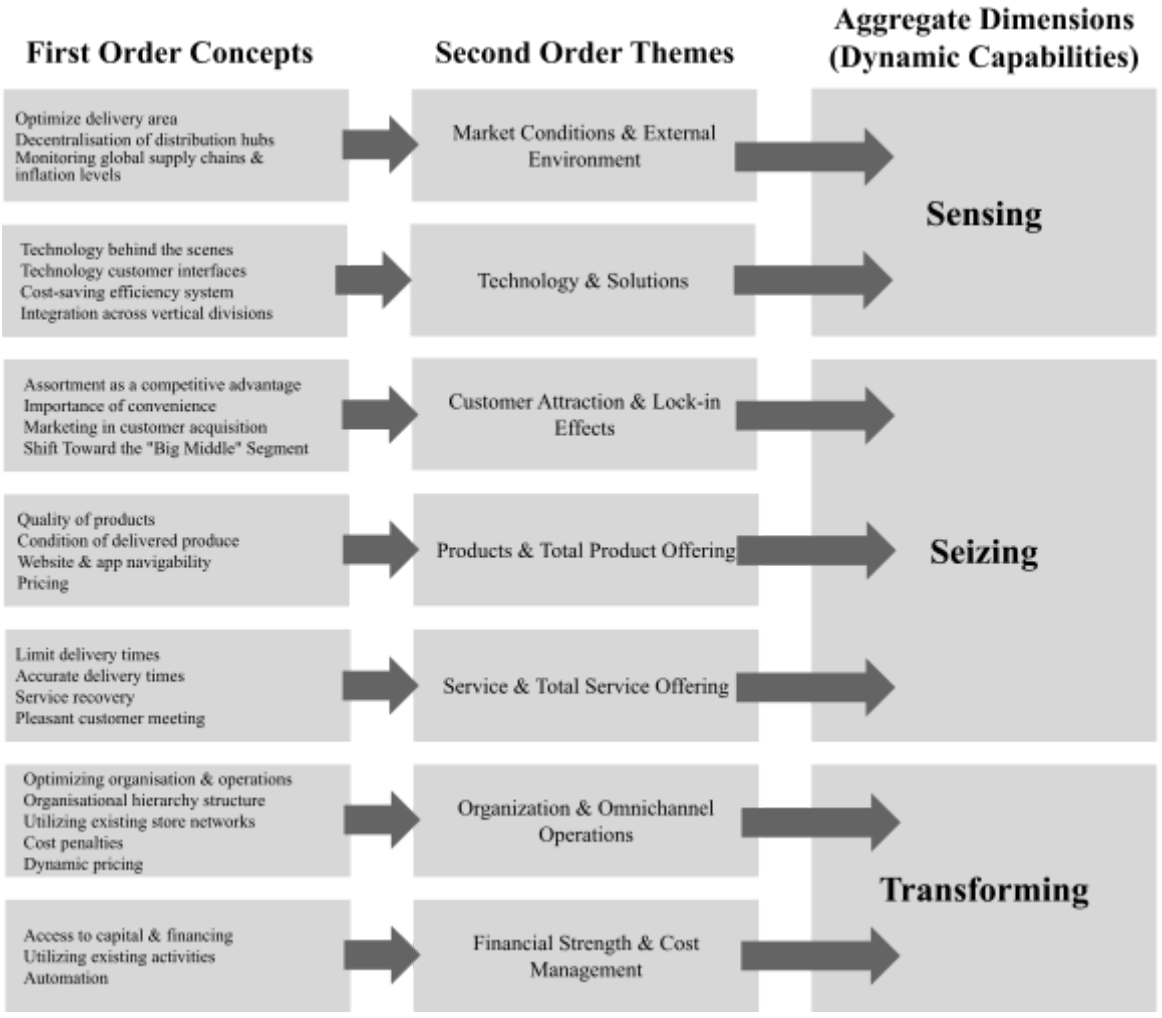
The key mooring factors are several and include *Customer Lock-in Effects* which deepens customer attachment; *Products & Total Product Offering* which generates trust through consistency thus keeping customers. Furthermore, *Organization & Omnichannel Operations* provides an understanding of the importance of retailers consistent performance in offering integrated omnichannel experiences influencing long-term loyalty; and lastly *Financial Strength & Cost Management*, generating operational reliability and sustained existence to enable the retailers' ability to continue to serve customers given the hard economic reality retailers face.

Applying the PPM framework to the consumer perspective in online grocery retailing provides useful insights into what drives both customer adoption and customer retention, two vital building blocks of sustained success in the marketplace. Customer adoption is driven by incentives that the retailer can control, like how they present their service to new customers and factors out of their control, like macro-economic trends that enable higher willingness to pay in customers. Customer retention is driven by the identified mooring factors, and include what the company should focus on after acquiring the customer to drive loyalty. This dual-sided approach to customer-facing performance highlights the importance of both reaching new customers and keeping existing ones, and the differing activities needed to achieve those goals.

4.2.2 Internal Perspective – Dynamic Capabilities

The second set of aggregated dimensions are based on Teece's Dynamic Capabilities framework (Teece, 2007) and aim to contextualize the identified factors with respect to achieving success from the internal, operational-centric perspective. The factors are grouped according to what stage they are most critical in. The purpose of this grouping is to show that the factors are of varying degrees of importance depending on where the company is in its own business lifecycle as well as the current state of the marketplace. See figure 4 for an illustration of the aggregation of themes based on the Dynamic Capabilities.

Figure 4 - *Overview of Findings Created with the Gioia Methodology and the Aggregated Dimensions based on Dynamic Capabilities*:



The success factors associated with sensing are *Market Conditions & External Environment* and *Technology & Solutions*. Accurately anticipating changes in the external environment is critical for retailers when assessing what potential opportunities the market holds for market entry or expansion. In the context of this thesis, success in the sensing dimension refers to the retailer's ability to identify shifts in macroeconomic conditions, distribution and delivery requirements, and the viability of new technologies and their implications for operational efficiency.

The capability consequent to sensing centers on seizing the previously identified opportunities. This means acting on opportunities and creating a viable offering for customers, which is why this dimension is represented by the factors *Customer Attraction & Lock-in Effects*, *Products & Total Product Offering*, and *Service & Total Service Offering*.

Thematically, these factors all have to do with what the retailer has to offer the consumer, and forms their operational core. To succeed in these categories, retailers need to both invest in their marketing, customer-facing activities and their operations to reach customers effectively with their value proposition. This value proposition is formed primarily by the products and services offered to the customer, and their presentation. Success in this dimension is driven by how the complete customer experience is perceived, or in other terms how well the potential opportunities identified in the sensing stage are converted into reality.

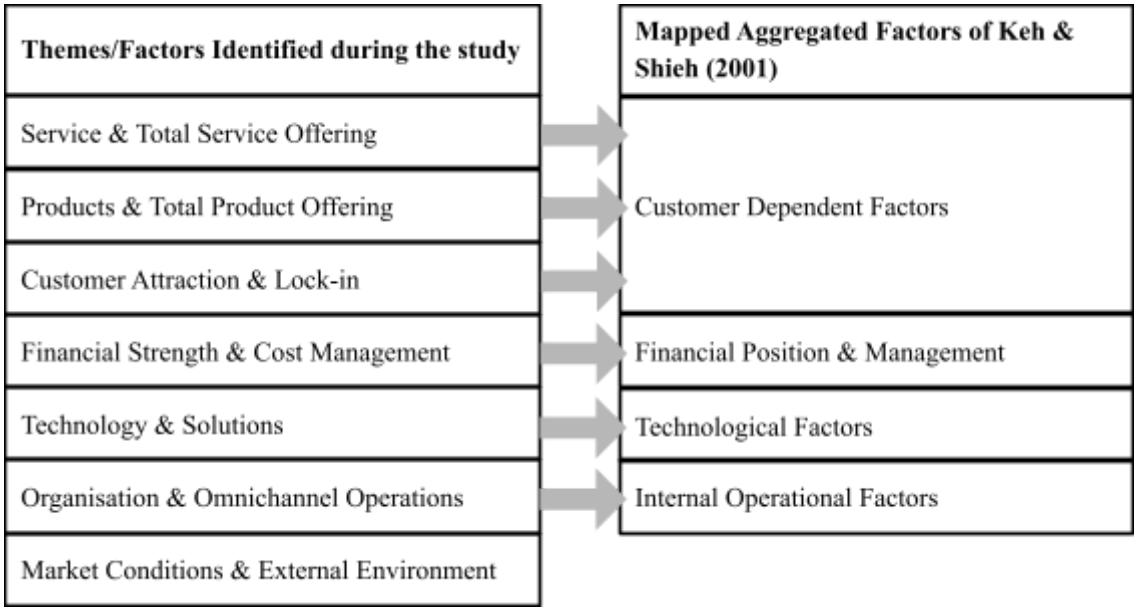
The third and final dynamic capability relates to how well retailers can transform their business as markets evolve. This is reflected by the themes *Organization & Omnichannel Operations* and *Financial Strength & Cost Management*. As online grocery is still a relatively young market, best practices for operations have not yet been cemented and there are still major changes happening in the space related to shifting ownership structures and ways of operating. Continued improvement of operations and overall management can enable online grocery retailers to scale into profitable businesses over time. A strategy for success prevalent in the industry today is to simply stay in business while the online grocery industry grows to profitable volume, requiring significant financial backing and cost-consciousness.

5. Discussion and Conclusion

5.1 Comparison to Keh and Shieh

Since the time of Keh and Shieh's study in 2001, the environment which online grocers operate in has seen changes in every aspect from customer expectations to technological conditions. The four core categories of business-critical factors identified by Keh and Shieh were *Financial Position & Management*, *Technological Factors*, *Customer-dependent Factors* and lastly *Internal Operational Factors*. These categories are well-aligned with several success factors identified in this study at a macro-level, but show several differences on more granular comparison. Certain factors that Keh and Shieh saw as vital were in this study found to be of little concern to contemporary retailers, while some factors that our interviewees considered crucial were left out by Keh and Shieh. An important distinction to make is that while Keh and Shieh defined success as being profitable, this study adopts a wider definition that also includes marketplace longevity, which encompasses those actors who might not yet have a profitable online offering but continue to invest in and sustain online offerings due to other added values like driving customer loyalty or staying competitive with their total offering. See figure 5 for an overview of how the factors identified in the present study relate to the factors of Keh and Shieh.

Figure 5 - *Relationship Between the Identified Themes and Keh and Shieh's Factors*



5.1.1 Customer-dependent Factors

The factors established in this study that represent Keh & Shieh's *Customer-dependent factors* are the themes *Customer Attraction and Lock-in Effects*, *Service and Total Service*

Offering, and *Products & Total Product Offering*. The present study and Keh & Shieh agree on the importance of customer perceptions and attitude towards any given retailer. Customers seem to be equally concerned about product quality and service level today as they were 24 years ago, and this category is consequently deemed to be the most consistently relevant for business performance. Generally, success is defined in this area of online grocery retail by the retailer's ability to provide an outstanding customer experience. This includes a smooth customer journey from the customer becoming aware of the retailer's offering, to making their order without friction, and then receiving their products and finding them to be of at least equal quality to what they themselves would have picked in a physical store. One clear distinction from Keh and Shieh's findings is that many of the interviewed subjects of this study are hybrid actors, who can leverage their online store to provide a complete omnichannel offering in conjunction with their physical stores.

5.1.2 Financials

How well retailers are able to finance their business and manage costs over time is equally important for today's actors as it was to Keh and Shieh, albeit in differing ways. Keh and Shieh's factors of *Financial Position & Management* correspond to the study's theme of *Financial Strength & Cost Management*. In the competitive environment Keh and Shieh examined, actors were self-owned and operated, and raced to reach profitability against a set amount of funding. In the modern Swedish marketplace, large hybrid actors can afford to support a financially weak online segment for a long time, and new ventures have access to a large network of investors, as well as relatively cheap capital from credit institutions.

5.1.3 Technology

Perhaps the most notable change has happened within what technology is available to retailers since the time of Keh and Shieh's writing. Their focus was on the constraints of the technology used to power online grocery retailing, exemplified by a recommendation to not have too many pictures on the website as to not slow down website loading times. Today, succeeding in the tech-dimension is defined by how well actors can use smart systems to optimize their operations and control cost centers like packing procedures and shipping routes. Technology also influences sales, as accurate product displays and recommendations increase basket sizes. Taken together, technological progress has effects throughout the organization in a modern context, and is a central concern to online grocery retailers. Keh and Shieh's *Technological factors* correspond as such with the present study's theme of *Technology and Solutions*.

5.1.4 Internal Operational Factors

Keh and Shieh's organizational factors are corresponded to in this thesis by the theme and factor *Organization and Omnichannel Operations*. Again, the prevalent ownership structures of the Swedish market mean inherent differences to the companies Keh and Shieh examined, as the Swedish grocery market is dominated by a few large organizations. To encompass the priorities of these actors into the findings of this thesis, the omnichannel dimension was added to the other organizational concerns. Having a strong organization remains important in the same ways as in 2001, with the major contrast being that the present study found a stronger need for cross-functional alignment as organizations here and now are bigger, more complex and departments more specialized.

5.1.5 External Factors

Keh and Shieh did not highlight the larger external environment in their study, something that the interviewees to this study felt was important to the success of their business in several ways. Macroeconomic factors like supply chain disruptions or inflation affect pricing, which reduce the demand for the more expensive online segment, while pandemics catapult demand upwards as customers shift to online grocers. The present findings indicate that changes in the external environment, and how retailers adapt to them, can have a deciding influence on how successful their operations are.

5.2 Revisiting the Research Question

This thesis sets out to answer the following research question:

> *What are industry practitioners' perception of factors enabling profitability and market longevity in online grocery retail?*

To answer this question, a qualitative cross-sectional study has been conducted, analyzing data gathered from semi-structured interviews with Swedish online grocery retail practitioners. The findings and analysis is structured utilizing the Gioia methodology and is contextualised using the PPM and Dynamic Capabilities frameworks. Based on this seven second order themes were identified as success factors of online grocery retailers. These seven themes collectively represent the factors practitioners perceive as most critical for success in current Swedish online grocery retailing. See figure 6 below for a presentation of each of the identified factors.

Figure 6: *The Identified Success Factors and Descriptions for Each*

The Factors	Descriptions
Customer Attraction & Lock-in Effects	Online grocery retailers should aim to attract and retain customers through a broad assortment, convenient shopping, and strategic marketing to build loyalty and prevent churn.
Service & Total Service Offering	It is key to provide reliable, high-quality service including delivery, customer support, and a pleasant customer meeting. This is essential to meet expectations, justify added costs, and to remain competitive.
Products & Total Product Offering	Delivering high-quality, competitively priced products that match expectations and ensuring a smooth, user-friendly online shopping experience is of utmost importance.
Organization & Omnichannel Operations	Efficient alignment between online and offline operations (in applicable circumstances), streamlined organizational and operational structures and procedures, and adaptive processes are essential to ensure profitability and scalability.
Financial Strength & Cost Management	To have access to strong financial resources, applying careful cost control, and automation is key as retailers must handle the industry's inherently razor-thin margins.
Market Conditions & External Environment	Online grocery retailers need to adapt to external factors such as geography, shifting consumer behavior, inflation and crises as these shape the market potential and the long-term growth opportunities.
Technology & Solutions	The importance of integrated operational and customer-facing technologies can not be understated, it enables efficiency, data-driven decisions and personalisation.

5.3 Theoretical Contributions

This study contributes to the existing literature by advancing the understanding of what makes online grocery retailers successful. As the previous literature has had a very narrow focus on specific aspects and factors, this study contributes by creating both a more comprehensive and contemporary view on the matter. In part it validates some of the existing research, confirming the relevance of the factors, the customers' wants and the importance of internal operations identified in the existing research. For example, this includes the importance of customer service, operations, logistics, and the overall value proposition.

Furthermore, the thesis contributes to existing theory by revisiting, modifying and updating the framework proposed by Keh and Shieh (2001). A contemporary model of success factors in online grocery retail is proposed, better aligned with the realities of today. Further contribution is found in the usage of the PPM and Dynamic Capabilities frameworks. The novel application of these frameworks within the context of the Gioia Methodology presents new perspectives on classifying success factors in online grocery retail, from both an internal

and an external perspective.

5.4 Managerial Implications

This thesis is useful for managers and practitioners within the field of online grocery retailing as it presents success factors and actionable ways of working in order to succeed. By investigating the current situation of online grocery retailers, the nature of possible problems can be discovered. Utilizing the findings of this thesis, they can determine areas to focus on depending on their market situation. If the challenge is external in nature, customer-centric challenges of attracting and keeping customers; or internal, operational-centric challenges of optimizing and improving operations, the practitioner can look at the relevant aggregate dimensions and gain an understanding of which factors are of importance to them.

5.5 Limitations and Future Research

This thesis has multiple limitations. Firstly, the research is limited to the Swedish market. There are aspects that are contextually relevant mainly to the Swedish market and the study is as such not generalizable beyond the Swedish online grocery retail market. The findings of the study may as such not be applicable to other contexts. Secondly, the findings represent the current market conditions and perceptions of practitioners. This means that they hold the most relevance during a specific moment in time, as the study was conducted during spring 2025. As technology and practices are rapidly evolving, the insights generated from this study may become outdated, like the study conducted by Keh and Shieh (2001) has become. Thirdly, the study examines the perceptions of a fairly small sample of industry practitioners. It is important to note that the findings of this study reflect how the interviewees, i.e the practitioners, interpret the enablers of success, profitability and market longevity. This may entail bias, and may or may not align with objective data. Furthermore the small sample size may limit the overall generalizability of the study.

The question of replicability of the study is multifaceted. There exists a degree of replicability with regard to the sampling of the interviewees. Interviewing practitioners in the roles which have been interviewed for this study may yield very similar results. However, due to the limited number of practitioners in the roles interviewed, owing to the limited size and number of actors in the Swedish online grocery retail market, replicability may be challenging. Additionally the problem of the interpretive nature of qualitative research and the Gioia methodology means that research performed in a similar way may yield different results, depending on the researchers' subjective interpretations.

Possible future research avenues include complementing this study by looking at other markets. By looking beyond the Swedish market it is possible to examine and establish the success factors of other markets and geographies. Another suggestion is performing a customer-centric study, studying the customers directly in order to examine what the customers want, as a way to complement and contrast the business-side perspective generated by this study. This could be done by interviewing or surveying customers, capturing the customers' perspective on the matter.

Other future research possibilities include examining the success factors established in this study directly in relation to profitability. By performing a quantitative study, utilizing objective data, such as productivity, sales, and profit numbers to establish the relationship and examine possible correlation between profitability and the factors, it may be possible to test the importance of the success factors established in this study. That would however require a great deal of insight into the online grocery retailers' operations, which may pose a challenge in terms of access. The authors of this thesis were unable to include any such measures in this study, as the interviewed practitioners were unwilling to share significant details on their operations.

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Appendices

Appendix 1: ***Framework of success factors and pitfalls in online grocery retailing by Keh and Shieh (2001)*****:**

Success Factors	**Potential Pitfalls**
First mover advantage	Seeing, Touching, & Smelling Products
Access to capital	Delivery
Strategic alliances	Financing
The right website	Technology
Superior service	Security
Value-added information	Privacy and seasonal influences
Warehouse/logistics structure	
Differentiation through niching	

Appendix 2: ***Interview Guide (translated to english)***

Interview Guide utilized (Rough outline):

1. How does the online grocery retail market in Sweden look?
2. Why is the market attractive?
3. What are the biggest challenges cost-wise?
4. What drives the customers to actually purchase from you specifically and not one of your competitors?
5. What drives success in the online grocery retail market?
6. What enables profitability in the online grocery retail market?
7. Do you believe we have missed anything important? Anything that has not been brought up during this interview?

Potential follow-up questions asked:

- How about the aspect of picking, packing and delivering the groceries?
- What are your thoughts on pricing and what is the impact of different pricing models?
- How about the aspect of the quality of produce and products?
- How about the assortment?
- How about the aspect of automation?
- How about marketing?
- How about website design?
- What is the effect of your inner workings and operations as a whole?

Appendix 3: ***Interview sample***

Interviewee	Company nature	Interviewee Position	Years of Online Retail Experience	Date	Interview length
1	Hybrid	Head of e-commerce	25 years	March 21st 2025	35 minutes
2	Hybrid	Online merchandiser	4 years	March 24th 2025	28 minutes
3	Hybrid	Store Owner	6 years	March 26th 2025	1 hour, 14 minutes
4	Online-only	Head of operations	3 years	April 4th 2025	44 minutes
5	Service Provider	Business Analyst	4 years	April 6th 2025	26 minutes
6	Hybrid	Store Owner	3 years	April 22th 2025	49 minutes
7	Hybrid	e-commerce manager	3 years	May 7th 2025	46 minutes

Appendix 4: ***Summary of interviewee 1's answers***

- Stand-alone profitability is extremely difficult to reach in online grocery retailing. There is however value for the grocer beyond the direct profitability in the form of an increased customer lifetime value as customers become more loyal as a consequence of the online offering.
- The cost of delivery and packing are the most challenging problems.
- The primary focus should be on reducing delivery and packing costs through increased efficiency.
- Prices offered to customers shopping groceries online are too low today.
- Utilizing automation is a way to reach success, it does however require massive investments and sales volume. It is a viable way to deal with the challenge of picking costs.
- Customers of online grocery retail want convenience and availability, service needs to be prioritised.
- Effort is required in marketing. To inform the customers of your existence and your offering is key.

AI Transparency Disclosure

AI tools have been utilized for the purpose of this thesis. AI has assisted the authors in the search for and identification of relevant existing literature within the area of online grocery retail in order to speed up the research process. The Stockholm School of Economics Library's Research Assistant AI tool has been utilized for this purpose. Furthermore, AI tools, specifically Chat GPT and Microsoft Copilot, have been used to assist in the translation of quotes from the interviews, from Swedish to English. These quotes have been taken out of their original context and are therefore not traceable to any specific interviewee, and the chats and associated information have subsequently been deleted. ChatGPT has additionally been used for text refinement, identifying syntax and grammatical errors by controlling and checking the authors' text to enable them to enhance text clarity and quality themselves. The authors have made sure to keep the potential problems of AI in mind, acknowledging and avoiding the risk of overdependence and AI's reliance on potentially inaccurate information.