Case Study

Internet Grocer[1]

Background

Internet Grocer, Inc. was formed in 1993 to capitalize on a perceived opportunity that would result from growing use of the Internet. The concept for the venture was based on the founders' belief that significant unserved demand exists for home delivery of groceries. They believe that expanding use of the Internet will prove to be the critical success factor for a grocery home delivery venture.

Traditionally, home delivery of groceries has not been economical except in a few unusual markets. While the concept of home delivery is attractive to consumers, attempts to offer home delivery generally have not been successful. Most efforts have been carried out by individual grocery stores base on telephone orders from their customers. Taking orders by phone is time consuming for both the customer and the merchant, products selected by the grocer for delivery often do not measure up to the customer's expectations, and it is difficult for customers to "shop" without being able to browse through store aisles. As a result, customers might experiment with home delivery, but usually would revert back to shopping at the store after a couple of attempts.

The founders of Internet Grocer see the Internet as the key to building a viable home delivery business on a large scale. Using the Internet, a customer could shop in a virtual grocery store at any hour. A customer's order history could be saved and used as a reminder list for the next order. The venture could process orders and prepare them for delivery at convenient times, even late at night. With a large enough customer base, the venture could offer a broad selection of products. By dealing directly with dairies, bakeries, seafood markets, produce markets, and butchers, it could deliver products to consumers with less handling and could eliminate retail inventories. Perishable grocery items could be brought to a central distribution facility daily, and delivered to customers on the same day. Eventually, the venture could begin to use its customer base as a marketing resource. The Internet site could be used to target advertising to specific customers, and customer choices could be used to study responses to new products and advertising efforts.

Overall, the founders believe that an Internet-based home delivery venture would have tremendous potential. They also realized that others would quickly perceive the opportunity and that creating a profitable and defensible position in the industry would be difficult. They believed that moving quickly to capitalize on the opportunity would be an important determinant of competitive success. Ultimately, their financial success would depend on how broadly and quickly consumers moved to the Internet. However, waiting

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[1] Information and financial statements in this case are based generally on an analysis of actual ventures. Descriptions, statements of opinion, and financial projections were developed by the case writer and do not necessarily reflect the views of any industry participant.

for Internet use to reach high enough levels to sustain the venture would simply hold the door open for others to enter the market first.

Balancing the risks, the founders decided to enter the grocery home delivery business in early 1994 by entering one metropolitan market. They planned to use the first year to develop the basic software, and to refine the concept. They would open in a second market in 1995. From that point forward, their plan was to try to stay ahead of the competition. With operations in two markets, they would continue to work on software development and the business concept. At the same time, they would keep an eye on the market. The idea was to allow the Internet user base to grow as much as possible before making a more aggressive financial commitment to serve a larger number of markets, but to be ready to move quickly with an expansion program if it appeared that someone else was thinking about entering. In part, waiting would give them the ability to make complete use of new Internet capabilities as they developed.

Early Performance

For its first market, Internet Grocer targeted a U.S. metropolitan market that experiences cold and wet winters and has a high proportion of computer-literate residents. To build traffic and manage costs, it entered into arrangements with a grocery retailer and other suppliers, where the retailer and suppliers would allow Internet Grocer to take advantage of their warehousing facilities. The retailer and other suppliers would pay Internet Grocer a small percentage on the revenues it generated for them. For the most part, Internet Grocer acted as an order taker and delivery service for its retailer and suppliers. The founders were satisfied with this model and planned to continue its use as demand for the service grew.

As of the end of 1994, the company's first fiscal year, Internet Grocer had enrolled 1,100 customers, all of whom paid annual memberships and service fees related to delivery cost. Grocery revenues in 1994 reached slightly over $1 million, offset exactly by grocery expenses. It also generated nearly $300 thousand in membership and service revenues. Expenses during the first year were substantially higher than revenues and Internet Grocer ended the year with a loss of more than $1 million.

The first-year loss came as no surprise. Internet Grocer's ultimate profitability would depend on two revenue streams, membership and service fee revenues and marketing services revenues. Ultimately, profitability would depend on achieving significant scale both within individual markets and in terms of the number of markets served. Attempts to generate marketing services revenue could not begin effectively until the venture served more markets and had more members per market.

Late in 1995, Internet Grocer entered its second market. By the end of the fiscal year, it had reached 3,200 members, primarily from the initial market. The venture continued to lose money, but the member base was expanding and losses were declining as a percentage of revenue, as well as on a per member basis. The trends from the first two years continued through 1996. Exhibit 1 contains summary financial statement information for the first three years of operation. Exhibit 2 examines annual sales and profitability per member, based on year-end memberships.[2]

Previous Financing

Initially, Internet Grocer was financed by capital investments of the founders. By the end of 1995, however, cash was being consumed at a rate of about $250,000 per month and the venture was in need of a significant amount of additional financing. In early 1996, based on Internet Grocer's initial performance of the second market entry and continuing growth in the initial market, the founders attracted about $14 million of additional financing from a group of angel investors. They had projected that the financing round would be sufficient to get them through two years of operations in their current markets, but would not enable them to expand into new markets.

The Search for Additional Capital

Because of the significant angel investment, the venture finished 1996 with almost $10 million of cash and marketable securities on hand. By that time, however, the cash "burn rate" was around $2.5 million per quarter. It appeared that the time was right for initiation of a more aggressive expansion program. Such a program would require a significant amount of additional investment. The founders believed they had a window of several months during which to arrange the financing.

The angel investor group had introduced the founders to a venture capital firm that was attracted by the business concept and early indications of performance. In early 1997, the founders provided the venture capital investor with a business plan that included several years of quarterly financial projections. The founders are hoping for an initial public offering at a point when the venture: has opened in at least six markets; has achieved significant total revenues; has proven the merits of its (yet to be implemented) marketing services concept; and is approaching profitable operation. The founders' pro forma analysis (Exhibit 3) shows additional capital needs of $22.7 million and a target public offering in early 2000.

Along with the financial projections, the founders provided a statement of the assumptions that underlie the projections. The assumptions are detailed in Exhibit 4.

The Venture Capitalist's Assessment

The venture capital investors are impressed with the Internet Grocer concept and it appears that the founders are doing a good job of turning the concept into reality. They also recognize that the venture has not yet faced a serious threat. They also are comfortable with the founders' desire to build a solid track record before attempting to go public. Based on their qualitative review, they are interested in attempting to negotiate an arrangement for additional financing. However, a number of more technical questions still needed to be answered.

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[2] Downloadable Excel files are available for exhibits 1 through 3, 5, and 6.

First, it is clear to the venture capitalist that Internet Grocer's projections of how much it will need are based on an assumption that the future will be similar to the past and that they will be able to achieve the aggressive expansion program they have planned. In the view of the venture capitalist, the projections of cash needs in Exhibit 3 are based on an optimistic forecast of performance and growth. The group is uncertain how the financial needs of the venture would be affected if the growth targets for new markets cannot be achieved; the growth rate of new members is less than projected; the profitability of sales is less than projected; and the new marketing services efforts generate less revenue than projected.

Second, it is clear to everyone that new investment capital is not needed immediately. The venture can operate for at least a few months with its existing assets. The venture capital investors see no reason to make a financial commitment before it is actually needed by the venture. The firm has not approached other investors, and the venture capitalist can better assess risk and potential return by waiting until the cash need is more pressing. Delaying commitment could also put the venture capitalist in a stronger negotiating position. The venture capital group wants a more comprehensive estimate of when cash will be needed by the venture.

Third, the venture capitalist believes that the venture is unlikely to succeed unless it can generate at least 200,000 memberships by the first quarter of the year 2001 and quarterly grocery revenue of at least $100 million by that date. The investor would like to find ways of anticipating the venture's ability to achieve or not achieve these levels of success as early as possible so that investment funds are not wasted on a venture that ultimately will not be very successful.

Finally, if, over time, the venture requires total new investment of more than $25 million before an IPO is possible, the venture capital investor believes it will be difficult to work out a deal with the founders that will result in an attractive return to the venture capital fund. The venture capital investor would like to develop criteria for investing that would help filter out the risk of needing to make a cumulative investment of more than $25 million as early as possible.

Specific Concerns

In reviewing the assumptions used by the founders in the pro forma analysis, the venture capitalist has identified the following specific concerns:

1. With respect to each expansion into a new market, the venture capitalist believes, based on other experience, that the likelihood of completing the expansion is only 80 percent, instead of 100 percent as assumed in the projections.

2. The founders may be wrong about the growth of Internet use. Thus, the 10 percent per quarter base growth in members is uncertain. The uncertainty can be

represented to the satisfaction of the venture capital investor as a normal distribution with a mean of 10 percent and standard deviation of 1.5 percent.

3. Customer retention is subject to significant uncertainty. While losing 10 percent of last year's members is plausible, actual losses of members could be anywhere from 5 percent to 40 percent. The venture capitalist is willing to assume a distribution with a peak at 10 percent but also allows from scenarios ranging from 5 to 40 percent.

4. Orders per customer per quarter, which is projected to be 5, could be as low as 2.5 and as high as 6.5.

5. While expected revenue per order is reasonably tied to the base quarter level of $95.42, actual order size is uncertain. The venture capitalist believes the uncertainty can be represented as a normal distribution with a standard deviation of $10 around the base. While this approach ignores the quarter-to-quarter uncertainty, it provides a reasonable approximation of the average over time.

6. Membership and service fee revenues, which are projected to be 25 percent of grocery revenues, could range from 20 percent to 30 percent, with approximately equal likelihood.

7. Product marketing revenues are untested and therefore subject to considerable uncertainty. The actual ratio of marketing services revenues to grocery revenues could be from as low as half of the projected percent of grocery revenue to as high as twice the projection. If the outcome is low (high) in one period, it is expected to be low (high) in all.

8. The variable component of operating expenses could range from 10 to 20 percent, with a peak at 15 percent.

The venture capitalist believes the other assumptions are either likely to be accurate or are less critical to the success of the venture.

Assignment

How would you advise the venture capital investor with regard to the four questions: 1) timing of financial needs, 2) cumulative financial need, 3) whether to invest, and 4) conditions under which it would make sense to stop investing?

Exhibit 1

Internet Grocer - Historical Financial Statements			
Market Data	**1994**	**1995**	**1996**
Markets Served	1	2	2
Members (year end)	1,100	3,200	8,100
Orders	11,500	30,700	76,300
Households in Trade Area	5,000,000	11,000,000	11,000,000
Income Statement	**1994**	**1995**	**1996**
Grocery Sales	$1,068	$3,339	$7,154
Member and Retailer Services	$297	$862	$1,721
Interactive Marketing Services	$0	$0	$0
Total Revenues	$1,365	$4,201	$8,875
Grocery Expenses	$1,068	$3,339	$7,154
Grocery Operations	$655	$1,320	$3,570
General and Administrative	$338	$589	$1,515
Marketing and Selling	$107	$227	$602
System Development	$134	$210	$347
Depreciation Expense	$68	$188	$305
Other Expenses	$1,302	$2,534	$6,339
Other Income			$637
Total Expenses	$2,370	$5,873	$14,130
Operating Income	($1,005)	($1,672)	($5,255)

Exhibit 1 (continued)

Balance Sheet	**1994**	**1995**	**1996**
Cash and Marketable Securities	$225	$632	$9,788
Accounts Receivable	$32	$55	$535
Prepaid Expenses	$17	$42	$67
Other Current Assets	$32	$74	$179
Current Assets	$306	$803	$10,569
Property and Equipment at cost	$1,060	$1,955	$2,034
Accumulated Depreciation	$68	$256	$561
Property and Equipment, net	$992	$1,699	$1,473
Total Assets	$1,298	$2,502	$12,042
Accounts Payable	$213	$495	$1,252
Accrued Compensation	$19	$63	$170
Other Accrued Liabilities	$41	$78	$243
Deferred Service Fees	$29	$43	$80
Current Liabilities	$302	$679	$1,745
Equity	$996	$1,823	$10,297
Total Liabilities and Equity	$1,298	$2,502	$12,042
Cash Flow	**1994**	**1995**	**1996**
Operating Income	($1,005)	($1,672)	($5,255)
Plus Depreciation Expense	$68	$188	$305
Less Increase in Receivables	$32	$23	$480
Less Increase in Prepaid Expenses	$17	$25	$25
Less Increase in Other Current Assets	$32	$42	$105
Plus Increase in Accounts Payable	$213	$282	$757
Plus Increase in Accrued Compensation	$19	$44	$107
Plus Increase in Other Accrued Liabilities	$41	$37	$165
Plus Increase in Deferred Service Fees	$29	$14	$37
Net Cash Flow from Operations	($716)	($1,197)	($4,494)
Cash Used in Investing	$1,060	$895	$79
Increase in Cash Balance	$225	$407	$9,156
Net New Financing	$2,001	$2,499	$13,729

Exhibit 2

Internet Grocer - Performance per Member			
Market Data	**1994**	**1995**	**1996**
Orders/Members	10.5	9.6	9.4
Grocery Sales/Members	$971	$1,043	$883
Total Revenues/Members	$1,241	$1,313	$1,096
Operating Income/Members	($914)	($523)	($649)
Operating Cash Flow/Members	($651)	($374)	($555)

Exhibit 3

Internet Grocer - Pro forma Financial Statements								
Revenue Forecast	**1996 Base**	**Q1-1997**	**Q2-1997**	**Q3-1997**	**Q4-1997**	**Q1-1998**	**Q2-1998**	**Q3-1998**
Forecast of Grocery Revenue								
Markets Served	2	2	2	2	2	3	3	4
Seasonal Growth Factor		1	0	0	1	1	0	0
Forecasted Members	8,100	10,530	11,583	12,741	15,754	27,304	28,876	40,114
Total Orders	40,500	52,650	57,915	63,707	78,768	136,518	144,379	200,572
Price Index	1.000	1.010	1.020	1.030	1.041	1.051	1.062	1.072
Revenue per Order	$95.42	$96.37	$97.34	$98.31	$99.29	$100.29	$101.29	$102.30
Pro forma Grocery Revenue ($000)	$3,865	$5,074	$5,637	$6,263	$7,821	$13,691	$14,624	$20,519
Forecast of Other Revenues								
Service Fees	$966	$1,269	$1,409	$1,566	$1,955	$3,423	$3,656	$5,130
Product Marketing Services Revenue	$0	$51	$113	$188	$313	$685	$877	$1,436
Pro forma Total Revenue	$4,831	$6,393	$7,159	$8,017	$10,089	$17,798	$19,158	$27,085
Pro Forma Income Statement	**1996 Base**	**Q1-1997**	**Q2-1997**	**Q3-1997**	**Q4-1997**	**Q1-1998**	**Q2-1998**	**Q3-1998**
Total Revenue	$4,831	$6,393	$7,159	$8,017	$10,089	$17,798	$19,158	$27,085
Grocery Expenses	$3,865	$5,074	$5,637	$6,263	$7,821	$13,691	$14,624	$20,519
Operating Expenses	$1,021	$1,367	$1,458	$1,558	$1,798	$2,684	$2,831	$3,721
General and Administrative Expense	$517	$495	$500	$505	$510	$641	$648	$783
Marketing Expense	$438	$608	$650	$696	$808	$1,221	$1,289	$1,704
System Development and Maintenance	$311	$343	$368	$395	$459	$692	$734	$973
Depreciation Expense	$194	$110	$109	$102	$96	$91	$137	$129
Other Expenses	$1,653	$1,330	$1,378	$1,431	$1,545	$1,941	$2,019	$2,426
Other Income	$218	$136	$94	$52	$11	$0	$0	$0
Total Expenses	$7,781	$9,191	$10,006	$10,898	$13,026	$20,961	$22,281	$30,256
Net Income	($2,950)	($2,798)	($2,846)	($2,881)	($2,936)	($3,162)	($3,124)	($3,170)
Pro Forma Balance Sheet	**1996 Base**	**Q1-1997**	**Q2-1997**	**Q3-1997**	**Q4-1997**	**Q1-1998**	**Q2-1998**	**Q3-1998**
Cash	$725	$959	$1,074	$1,203	$1,513	$2,670	$2,874	$4,063
Marketable Securities	$9,063	$6,235	$3,492	$708	$0	$0	$0	$0
Accounts Receivable	$535	$511	$573	$641	$807	$1,424	$1,533	$2,167
Other Current Assets and Prepaid Expenses	$246	$737	$787	$842	$970	$1,436	$1,521	$2,000
Total Current Assets	$10,569	$8,442	$5,925	$3,394	$3,290	$5,529	$5,927	$8,230
Fixed Assets, at cost	$2,034	$2,121	$2,142	$2,164	$2,185	$2,890	$2,919	$3,645
Accumulated Depreciation	$561	$671	$780	$882	$978	$1,069	$1,206	$1,334
Fixed Assets, net	$1,473	$1,450	$1,362	$1,281	$1,207	$1,821	$1,714	$2,311
Total Assets	$12,042	$9,892	$7,288	$4,675	$4,497	$7,351	$7,641	$10,541
Accounts Payable	$1,252	$1,776	$1,973	$2,192	$2,737	$4,792	$5,118	$7,182
Accrued Compensation Payable	$170	$186	$196	$206	$231	$333	$348	$450
Other Accrued Liabilities	$243	$304	$325	$348	$404	$611	$645	$852
Deferred Service Fees	$80	$127	$141	$157	$196	$342	$366	$513
Total Current Liabilities	$1,745	$2,393	$2,635	$2,903	$3,568	$6,077	$6,476	$8,997
Total Equity	$10,297	$7,499	$4,653	$1,772	$929	$1,273	$1,164	$1,544
Total Liabilities and Equity	$12,042	$9,892	$7,288	$4,675	$4,497	$7,351	$7,641	$10,541
Pro Forma Cash Flow Statement		**Q1-1997**	**Q2-1997**	**Q3-1997**	**Q4-1997**	**Q1-1998**	**Q2-1998**	**Q3-1998**
Operating Income		($2,798)	($2,846)	($2,881)	($2,936)	($3,162)	($3,124)	($3,170)
Plus Depreciation Expense		$110	$109	$102	$96	$91	$137	$129
Less Required Increase in Cash		$234	$115	$129	$311	$1,156	$204	$1,189
Less Increase in Receivables		($24)	$61	$69	$166	$617	$109	$634
Less Increase in Prepaid Exp. and Other CA		$491	$49	$55	$128	$466	$85	$479
Plus Increase in Accounts Payable		$524	$197	$219	$545	$2,054	$327	$2,063
Plus Increase in Accrued Compensation		$16	$10	$10	$24	$102	$15	$103
Plus Increase in Other Accrued Liabilities		$61	$21	$23	$56	$207	$34	$208
Plus Increase in Deferred Service Fees		$47	$14	$16	$39	$147	$23	$147
Net Cash Flow from Operations		($2,742)	($2,721)	($2,762)	($2,780)	($2,801)	($2,986)	($2,824)
Cash Used in Investing		$87	$21	$21	$22	$705	$29	$726
Net Sources Before Financing		($2,829)	($2,743)	($2,784)	($2,802)	($3,506)	($3,015)	($3,550)
Financing Sources and Uses								
Reduction in Marketable Securities		$2,829	$2,743	$2,784	$708	$0	$0	$0
New Financing Required		$0	$0	$0	$2,094	$3,506	$3,015	$3,550
Increase in Marketable Securities		$0	$0	$0	$0	$0	$0	$0
Cumulative New Financing Required		$0	$0	$0	$2,094	$5,600	$8,614	$12,164
Ready for IPO (test)		0	0	0	0	0	0	0

Q4-1998	**Q1-1999**	**Q2-1999**	**Q3-1999**	**Q4-1999**	**Q1-2000**	**Q2-2000**	**Q3-2000**	**Q4-2000**	**Q1-2001**	**Q2-2001**	**Q3-2001**

4	5	5	6	6	7	8	9	10	11	12	13
1	1	0	0	1	1	0	0	1	1	0	0
50,573	75,658	80,337	100,426	125,497	176,496	211,325	248,831	338,579	456,360	522,351	593,233
252,867	378,291	401,683	502,130	627,483	882,479	1,056,627	1,244,155	1,692,893	2,281,802	2,611,756	2,966,163
1.083	1.094	1.105	1.116	1.127	1.138	1.149	1.161	1.173	1.184	1.196	1.208
$103.33	$104.36	$105.40	$106.46	$107.52	$108.60	$109.68	$110.78	$111.89	$113.01	$114.14	$115.28
$26,128	$39,478	$42,339	$53,455	$67,468	$95,834	$115,894	$137,827	$189,413	$257,858	$298,096	$341,933
$6,532	$9,870	$10,585	$13,364	$16,867	$23,959	$28,973	$34,457	$47,353	$64,465	$74,524	$85,483
$2,090	$3,553	$4,234	$5,880	$8,096	$12,458	$16,225	$20,674	$30,306	$43,836	$53,657	$64,967
$34,750	$52,901	$57,157	$72,699	$92,431	$132,252	$161,092	$192,958	$267,073	$366,158	$426,278	$492,383
Q4-1998	**Q1-1999**	**Q2-1999**	**Q3-1999**	**Q4-1999**	**Q1-2000**	**Q2-2000**	**Q3-2000**	**Q4-2000**	**Q1-2001**	**Q2-2001**	**Q3-2001**
$34,750	$52,901	$57,157	$72,699	$92,431	$132,252	$161,092	$192,958	$267,073	$366,158	$426,278	$492,383
$26,128	$39,478	$42,339	$53,455	$67,468	$95,834	$115,894	$137,827	$189,413	$257,858	$298,096	$341,933
$4,569	$6,578	$7,014	$8,688	$10,796	$15,058	$18,074	$21,371	$29,116	$39,389	$45,432	$52,015
$790	$930	$939	$1,082	$1,093	$1,241	$1,391	$1,544	$1,700	$1,859	$2,021	$2,187
$2,100	$3,037	$3,240	$4,021	$5,004	$6,993	$8,400	$9,938	$13,552	$18,346	$21,166	$24,237
$1,205	$1,751	$1,880	$2,348	$2,942	$4,138	$5,005	$5,963	$8,188	$11,162	$12,968	$14,953
$173	$163	$207	$195	$238	$224	$267	$307	$346	$383	$418	$452
$2,820	$3,739	$3,962	$4,751	$5,748	$7,751	$9,204	$10,809	$14,526	$19,492	$22,510	$25,827
$0	$0	$0	$0	$0	$0	$14	$90	$236	$548	$1,092	$1,811
$37,785	$55,676	$59,581	$74,540	$93,290	$131,239	$158,220	$187,669	$256,606	$347,942	$401,521	$459,793
($3,035)	($2,775)	($2,424)	($1,840)	($859)	$1,013	$2,873	$5,289	$10,467	$18,216	$24,757	$32,590
Q4-1998	**Q1-1999**	**Q2-1999**	**Q3-1999**	**Q4-1999**	**Q1-2000**	**Q2-2000**	**Q3-2000**	**Q4-2000**	**Q1-2001**	**Q2-2001**	**Q3-2001**
$5,212	$7,935	$8,574	$10,905	$13,865	$19,838	$24,164	$28,944	$40,061	$54,924	$63,942	$73,857
$0	$0	$0	$0	$0	$965	$5,976	$15,709	$36,545	$72,769	$120,739	$183,997
$2,780	$4,232	$4,573	$5,816	$7,394	$10,580	$12,887	$15,437	$21,366	$29,293	$34,102	$39,391
$2,464	$3,557	$3,816	$4,752	$5,940	$8,333	$10,068	$11,984	$16,435	$22,384	$25,995	$29,966
$10,456	$15,724	$16,962	$21,473	$27,199	$39,716	$53,095	$72,073	$114,407	$179,369	$244,778	$327,211
$3,682	$4,429	$4,474	$5,244	$5,296	$6,089	$6,897	$7,720	$8,560	$9,415	$10,287	$11,175
$1,507	$1,670	$1,877	$2,072	$2,310	$2,534	$2,801	$3,108	$3,454	$3,837	$4,255	$4,707
$2,174	$2,759	$2,596	$3,172	$2,986	$3,555	$4,096	$4,613	$5,106	$5,579	$6,032	$6,468
$12,631	$18,483	$19,558	$24,645	$30,186	$43,271	$57,192	$76,686	$119,513	$184,948	$250,810	$333,678
$9,145	$13,817	$14,819	$18,709	$23,614	$33,542	$40,563	$48,239	$66,295	$90,250	$104,334	$119,676
$536	$751	$795	$977	$1,189	$1,630	$1,946	$2,291	$3,082	$4,125	$4,745	$5,420
$1,050	$1,518	$1,620	$2,010	$2,502	$3,496	$4,200	$4,969	$6,776	$9,173	$10,583	$12,119
$653	$987	$1,058	$1,336	$1,687	$2,396	$2,897	$3,446	$4,735	$6,446	$7,452	$8,548
$11,384	$17,074	$18,292	$23,033	$28,992	$41,064	$49,607	$58,946	$80,888	$109,995	$127,114	$145,764
$1,247	$1,409	$1,266	$1,612	$1,194	$2,207	$7,585	$17,740	$38,625	$74,953	$123,695	$187,915
$12,631	$18,483	$19,558	$24,645	$30,186	$43,271	$57,192	$76,686	$119,513	$184,948	$250,810	$333,678
Q4-1998	**Q1-1999**	**Q2-1999**	**Q3-1999**	**Q4-1999**	**Q1-2000**	**Q2-2000**	**Q3-2000**	**Q4-2000**	**Q1-2001**	**Q2-2001**	**Q3-2001**
($3,035)	($2,775)	($2,424)	($1,840)	($859)	$1,013	$2,873	$5,289	$10,467	$18,216	$24,757	$32,590
$173	$163	$207	$195	$238	$224	$267	$307	$346	$383	$418	$452
$1,150	$2,723	$638	$2,331	$2,960	$5,973	$4,326	$4,780	$11,117	$14,863	$9,018	$9,916
$613	$1,452	$340	$1,243	$1,579	$3,186	$2,307	$2,549	$5,929	$7,927	$4,810	$5,288
$464	$1,093	$259	$936	$1,188	$2,393	$1,734	$1,916	$4,451	$5,949	$3,611	$3,970
$1,963	$4,673	$1,001	$3,891	$4,904	$9,928	$7,021	$7,677	$18,055	$23,956	$14,083	$15,343
$86	$215	$44	$182	$212	$441	$317	$345	$790	$1,043	$620	$675
$198	$469	$101	$390	$492	$994	$704	$769	$1,807	$2,397	$1,410	$1,536
$140	$334	$72	$278	$350	$709	$501	$548	$1,290	$1,711	$1,006	$1,096
($2,702)	($2,189)	($2,236)	($1,416)	($389)	$1,757	$3,314	$5,690	$11,257	$18,967	$24,857	$32,517
$36	$748	$44	$770	$52	$793	$808	$824	$839	$855	$872	$888
($2,739)	($2,937)	($2,281)	($2,186)	($441)	$965	$2,506	$4,866	$10,418	$18,112	$23,985	$31,629
$0	$0	$0	$0	$0	$0	($2,506)	($4,866)	($10,418)	($18,112)	($23,985)	($31,629)
$2,739	$2,937	$2,281	$2,186	$441	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$965	$2,506	$4,866	$10,418	$18,112	$23,985	$31,629
$14,903	$17,840	$20,120	$22,306	$22,747	$22,747	$22,747	$22,747	$22,747	$22,747	$22,747	$22,747
0	0	0	0	0	1	1	1	1	1	1	1

Q4-2001	Q1-2002	Q2-2002	Q3-2002	Q4-2002	Q1-2003	Q2-2003	Q3-2003	Q4-2003
14	15	16	17	18	19	20	21	22
1	1	1	1	1	1	1	1	1
782,978	1,028,162	1,352,920	1,784,030	2,345,884	3,077,159	4,026,971	5,258,008	6,851,203
3,914,889	5,140,810	6,764,598	8,920,148	11,729,418	15,385,797	20,134,855	26,290,040	34,256,017
1.220	1.232	1.245	1.257	1.270	1.282	1.295	1.308	1.321
$116.43	$117.59	$118.77	$119.96	$121.16	$122.37	$123.59	$124.83	$126.08
$455,813	$604,533	$803,437	$1,070,048	$1,421,114	$1,882,755	$2,488,534	$3,281,767	$4,318,916
$113,953	$151,133	$200,859	$267,512	$355,278	$470,689	$622,134	$820,442	$1,079,729
$91,163	$120,907	$160,687	$214,010	$284,223	$376,551	$497,707	$656,353	$863,783
$660,928	$876,572	$1,164,983	$1,551,569	$2,060,615	$2,729,994	$3,608,375	$4,758,562	$6,262,428
Q4-2001	Q1-2002	Q2-2002	Q3-2002	Q4-2002	Q1-2003	Q2-2003	Q3-2003	Q4-2003
$660,928	$876,572	$1,164,983	$1,551,569	$2,060,615	$2,729,994	$3,608,375	$4,758,562	$6,262,428
$455,813	$604,533	$803,437	$1,070,048	$1,421,114	$1,882,755	$2,488,534	$3,281,767	$4,318,916
$69,104	$91,419	$121,262	$161,261	$213,929	$283,183	$374,057	$493,050	$648,630
$2,355	$2,526	$2,701	$2,879	$3,060	$3,245	$3,432	$3,624	$3,819
$32,212	$42,625	$56,552	$75,218	$99,795	$132,113	$174,521	$230,051	$302,654
$20,011	$26,482	$35,136	$46,736	$62,009	$82,092	$108,446	$142,953	$188,071
$485	$517	$547	$576	$605	$633	$660	$686	$712
$34,267	$45,061	$59,494	$78,836	$104,300	$137,782	$181,714	$239,236	$314,443
$2,760	$4,217	$6,254	$9,033	$12,809	$17,904	$24,739	$33,863	$45,993
$611,486	$808,947	$1,072,875	$1,426,520	$1,892,003	$2,503,898	$3,306,625	$4,357,503	$5,731,252
$49,442	$67,626	$92,108	$125,048	$168,612	$226,096	$301,750	$401,059	$531,176
Q4-2001	Q1-2002	Q2-2002	Q3-2002	Q4-2002	Q1-2003	Q2-2003	Q3-2003	Q4-2003
$99,139	$131,486	$174,747	$232,735	$309,092	$409,499	$541,256	$713,784	$939,364
$281,113	$416,923	$602,176	$853,943	$1,193,619	$1,649,280	$2,257,563	$3,066,167	$4,137,216
$52,874	$70,126	$93,199	$124,126	$164,849	$218,400	$288,670	$380,685	$500,994
$40,083	$53,026	$70,335	$93,534	$124,081	$164,249	$216,956	$285,972	$376,208
$473,209	$671,560	$940,456	$1,304,338	$1,791,642	$2,441,427	$3,304,445	$4,446,608	$5,953,783
$12,080	$13,002	$13,941	$14,897	$15,872	$16,864	$17,875	$18,904	$19,951
$5,193	$5,709	$6,256	$6,832	$7,437	$8,070	$8,729	$9,415	$10,127
$6,887	$7,293	$7,685	$8,065	$8,434	$8,794	$9,145	$9,488	$9,825
$480,097	$678,853	$948,141	$1,312,403	$1,800,077	$2,450,222	$3,313,590	$4,456,096	$5,963,607
$159,534	$211,586	$281,203	$374,517	$497,390	$658,964	$870,987	$1,148,618	$1,511,621
$7,146	$9,395	$12,396	$16,414	$21,699	$28,643	$37,749	$49,667	$65,245
$16,106	$21,313	$28,276	$37,609	$49,898	$66,057	$87,261	$115,025	$151,327
$11,395	$15,113	$20,086	$26,751	$35,528	$47,069	$62,213	$82,044	$107,973
$194,182	$257,407	$341,961	$455,291	$604,514	$800,732	$1,058,210	$1,395,355	$1,836,166
$285,915	$421,446	$606,180	$857,112	$1,195,562	$1,649,489	$2,255,380	$3,060,741	$4,127,442
$480,097	$678,853	$948,141	$1,312,403	$1,800,077	$2,450,222	$3,313,590	$4,456,096	$5,963,607
Q4-2001	Q1-2002	Q2-2002	Q3-2002	Q4-2002	Q1-2003	Q2-2003	Q3-2003	Q4-2003
$49,442	$67,626	$92,108	$125,048	$168,612	$226,096	$301,750	$401,059	$531,176
$485	$517	$547	$576	$605	$633	$660	$686	$712
$25,282	$32,347	$43,262	$57,988	$76,357	$100,407	$131,757	$172,528	$225,580
$13,484	$17,252	$23,073	$30,927	$40,724	$53,550	$70,270	$92,015	$120,309
$10,117	$12,943	$17,309	$23,200	$30,547	$40,167	$52,707	$69,016	$90,237
$39,858	$52,052	$69,616	$93,314	$122,873	$161,574	$212,023	$277,631	$363,002
$1,726	$2,249	$3,002	$4,018	$5,285	$6,944	$9,106	$11,918	$15,577
$3,987	$5,207	$6,963	$9,333	$12,289	$16,159	$21,204	$27,765	$36,302
$2,847	$3,718	$4,973	$6,665	$8,777	$11,541	$15,144	$19,831	$25,929
$49,463	$68,827	$93,566	$126,840	$170,812	$228,823	$305,152	$405,331	$536,572
$905	$922	$939	$957	$974	$992	$1,011	$1,029	$1,048
$48,558	$67,905	$92,627	$125,884	$169,838	$227,830	$304,141	$404,302	$535,524
($48,558)	($67,905)	($92,627)	($125,884)	($169,838)	($227,830)	($304,141)	($404,302)	($535,524)
$0	$0	$0	$0	$0	$0	$0	$0	$0
$48,558	$67,905	$92,627	$125,884	$169,838	$227,830	$304,141	$404,302	$535,524
$22,747	$22,747	$22,747	$22,747	$22,747	$22,747	$22,747	$22,747	$22,747
1	1	1	1	1	1	1	1	1

Exhibit 4

Internet Grocer, Inc.

Assumptions Underlying Financial Projections

Revenues

Market expansion: IG will begin a program of rapid entry into new market in 1998, adding two markets in 1998, two in 1999, and one per quarter thereafter, through the end of 2003.

Membership growth: Based on experience to date and projections about increasing use of the Internet, membership is projected to grow at a compound rate equivalent to 27 percent per quarter. Actual quarter-to-quarter growth rates are projected to vary, depending on the growth of Internet use, weather cycles, market expansion, and non-renewal of memberships. We assume a base growth rate of 10 percent in warm-weather quarters (2 and 3) and 30 percent in cold-weather quarters (1 and 4). In addition, we assume membership increases based on the percentage increase in markets from quarter to quarter, and that 10 percent of the member base from four quarters earlier will not renew their memberships.

Orders per member: Based on historical experience, we assume 5 orders per member per quarter.

Average order size: We project order size based on the actual average order size from the fourth quarter of 1996, increasing at the rate of inflation.

Inflation: All relevant price levels are projected to increase by one percent per quarter.

Membership and service fees: Based on experience, we assume that these will run at 25 percent of grocery revenue.

Marketing services revenue: We have just initiated this aspect of the venture. We believe these revenues will increase as our member base and markets grow. We project one percent of grocery revenues this quarter, increasing by one percent per quarter, to a maximum of 20 percent of grocery revenue.

Expenses

Operating expenses: Based on experience, we assume a fixed component of $600,000 in the base period (fourth quarter of 1996) and a variable component that is tied to grocery revenue growth. We project the variable component to run at around 15 percent of grocery revenue.

General and administrative expenses: We project a $250,000 per quarter fixed component and a $120,000 variable component that depends on the number of markets we serve. These amounts are projected to increase with inflation.

Exhibit 4 (continued)

Marketing expenses: We project $250,000 plus 7 percent of grocery revenue. These amounts will also increase with inflation.

System development and maintenance expense: We project $150,000 plus three percent of total revenue, adjusted for inflation.

Depreciation expense: Based on the nature of our assets, we project depreciation at 7.5 percent of net fixed assets in the previous quarter.

Other expenses: Based on experience, other expenses run $1,000,000 plus five percent of total revenue per quarter, adjusted for inflation.

Other income: This is an assumed return on marketable securities of 1.5 percent per quarter, based on current money market rates.

Balance Sheet

Cash: Based on experience, we plan to maintain a cash balance equal to 15 percent of ending total revenue.

Marketable securities: During the forecast period, we plan to invest any excess cash balances in marketable securities.

Accounts receivable: Our financial policies are expected to result in accounts receivable running at eight percent of total revenue.

Other current assets and prepaid expenses: Based on our experience, $350,000 plus six percent of total revenue.

Fixed asset: We project the cost of fixed assets at $800,000, plus $650,000 per each market we open. Projections are based on our experience to date. Costs of fixed assets will increase with inflation.

Accounts payable: Our financial policies are expected to result in accounts payable averaging 35 percent of quarterly grocery expenses.

Accrued compensation: Projected at 10 percent of operating and general and administrative expenses.

Other accrued liabilities: Projected to be 50 percent of marketing expenses.

Deferred service fees: Projected to be 10 percent of membership and service fee revenue.

Exhibit 5

Internet Grocer - Common Size Financial Statements			
Income Statement	**1994**	**1995**	**1996**
Grocery Sales	78.24%	79.48%	80.61%
Member and Retailer Services	21.76%	20.52%	19.39%
Interactive Marketing Services	0.00%	0.00%	0.00%
Total Revenues	100.00%	100.00%	100.00%
Grocery Expenses	78.24%	79.48%	80.61%
Grocery Operations	47.99%	31.42%	40.23%
General and Administrative	24.76%	14.02%	17.07%
Marketing and Selling	7.84%	5.40%	6.78%
System Development	9.82%	5.00%	3.91%
Depreciation Expense	4.98%	4.48%	3.44%
Other Expenses	95.38%	60.32%	71.43%
Other Income	0.00%	0.00%	7.18%
Total Expenses	173.63%	139.80%	159.21%
Operating Income	-73.63%	-39.80%	-59.21%
Balance Sheet	**1994**	**1995**	**1996**
Cash and Marketable Securities	17.33%	25.26%	81.28%
Accounts Receivable	2.47%	2.20%	4.44%
Prepaid Expenses	1.31%	1.68%	0.56%
Other Current Assets	2.47%	2.96%	1.49%
Current Assets	23.57%	32.09%	87.77%
Property and Equipment at cost	81.66%	78.14%	16.89%
Accumulated Depreciation	5.24%	10.23%	4.66%
Property and Equipment, net	76.43%	67.91%	12.23%
Total Assets	100.00%	100.00%	100.00%
Accounts Payable	16.41%	19.78%	10.40%
Accrued Compensation	1.46%	2.52%	1.41%
Other Accrued Liabilities	3.16%	3.12%	2.02%
Deferred Service Fees	2.23%	1.72%	0.66%
Current Liabilities	23.27%	27.14%	14.49%
Equity	76.73%	72.86%	85.51%
Cash Flow	**1994**	**1995**	**1996**
Operating Income	-73.63%	-39.80%	-59.21%
Plus Depreciation Expense	4.98%	4.48%	3.44%
Less Increase in Receivables	2.34%	0.55%	5.41%
Less Increase in Prepaid Expenses	1.25%	0.60%	0.28%
Less Increase in Other Current Assets	2.34%	1.00%	1.18%
Plus Increase in Accounts Payable	15.60%	6.71%	8.53%
Plus Increase in Accrued Compensation	1.39%	1.05%	1.21%
Plus Increase in Other Accrued Liabilities	3.00%	0.88%	1.86%
Plus Increase in Deferred Service Fees	2.12%	0.33%	0.42%
Net Cash Flow from Operations	-52.45%	-28.49%	-50.64%
Cash Used in Investing	77.66%	21.30%	0.89%
Increase in Cash Balance	16.48%	9.69%	103.17%
Net New Financing	146.59%	59.49%	154.69%

Exhibit 6

Internet Grocer - Percentage Increase from 1994		
Market Data	**1994-1995**	**1994-1996**
Markets Served	100.00%	100.00%
Members (year end)	190.91%	636.36%
Orders	166.96%	563.48%
Households in Trade Area	120.00%	120.00%
Income Statement	**1994-1995**	**1994-1996**
Grocery Sales	212.64%	569.85%
Member and Retailer Services	190.24%	479.46%
Interactive Marketing Services		
Total Revenues	207.77%	550.18%
Grocery Expenses	212.64%	569.85%
Grocery Operations	101.53%	445.04%
General and Administrative	74.26%	348.22%
Marketing and Selling	112.15%	462.62%
System Development	56.72%	158.96%
Depreciation Expense	176.47%	348.53%
Other Expenses	94.62%	386.87%
Other Income		
Total Expenses	147.81%	496.20%
Operating Income		
Balance Sheet	**1994-1995**	**1994-1996**
Cash and Marketable Securities	180.89%	4250.22%
Accounts Receivable	71.88%	1571.88%
Prepaid Expenses	147.06%	294.12%
Other Current Assets	131.25%	459.38%
Current Assets	162.42%	3353.92%
Property and Equipment at cost	84.43%	91.89%
Accumulated Depreciation	276.47%	725.00%
Property and Equipment, net	71.27%	48.49%
Total Assets	92.76%	827.73%
Accounts Payable	132.39%	487.79%
Accrued Compensation	231.58%	794.74%
Other Accrued Liabilities	90.24%	492.68%
Deferred Service Fees	48.28%	175.86%
Current Liabilities	124.83%	477.81%
Equity	83.03%	933.84%
Cash Flow	**1994-1995**	**1994-1996**
Operating Income		
Plus Depreciation Expense	176.47%	348.53%
Less Increase in Receivables	-28.13%	1400.00%
Less Increase in Prepaid Expenses	47.06%	47.06%
Less Increase in Other Current Assets	31.25%	228.13%
Plus Increase in Accounts Payable	32.39%	255.40%
Plus Increase in Accrued Compensation	131.58%	463.16%
Plus Increase in Other Accrued Liabilities	-9.76%	302.44%
Plus Increase in Deferred Service Fees	-51.72%	27.59%
Net Cash Flow from Operations		
Cash Used in Investing	-15.57%	-92.55%
Increase in Cash Balance	80.89%	3969.33%
Net New Financing	24.89%	586.11%