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MinuteGrocer: Estimating Economic Value to the Customer

Value-based pricing suggests that the price of a product or service should be related to what the customer is willing to pay for it. In other words, what value does a product or service hold for your customer? This case explores nuances of calculating Economic Value to the Customer (EVC).

MinuteGrocer

MinuteGrocer started operating in 2017 when there were already many big players in the online grocery delivery industry such as Instacart and Amazon Fresh. The COVID-19 pandemic boosted business for this industry—including MinuteGrocer—so that in 2021, its market value was almost $3 billion.

The MinuteGrocer customer shopped for groceries on the company's website. These grocery orders were then purchased by MinuteGrocer from participating retailers in the customer's geographic location and delivered to the customer by a gig-economy driver. As of 2021, MinuteGrocer had partnered with over 500 retailers so that it could deliver from 45,000 stores across 4,000 cities in North America.

However, in 2021, after the COVID-19 pandemic leveled off, growth significantly slowed for the online grocery delivery market, including MinuteGrocer, as customers returned to in-store shopping. Therefore, MinuteGrocer was rethinking its pricing model.

MinuteGrocer's marketing team was concerned that the current monthly pricing model was not capturing the EVC. Specifically, they wanted to consider two scenarios: 1) the current pricing model of a 3.5% service fee and a 5% tipping norm, and 2) an alternate pricing model with a 2% service fee and a flat $5 tip per order.

They also wanted to delve further into how some expenditures may bother consumers more than others —for example, the monthly fee versus the service fee versus the money they spend on tips. Last, they felt

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