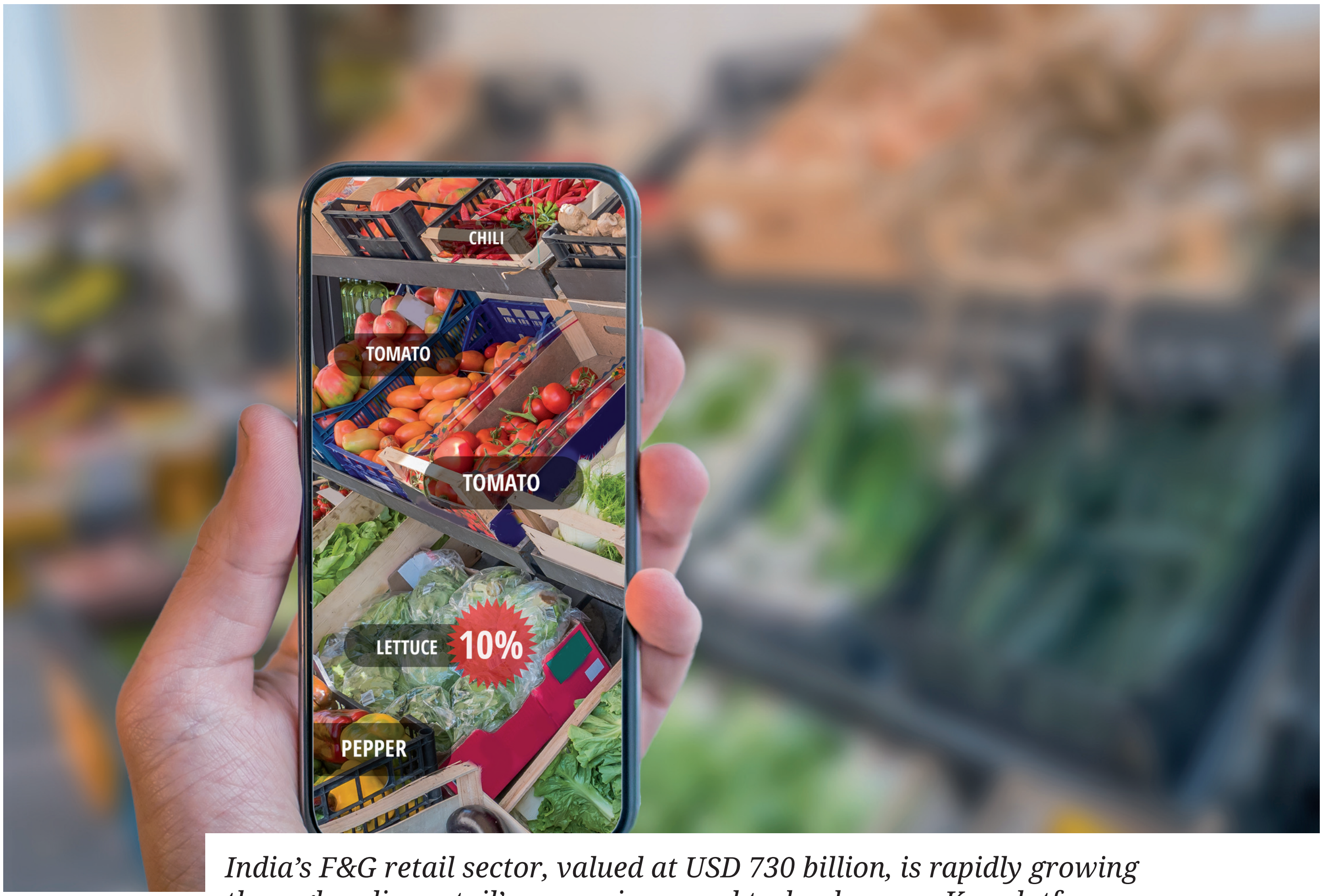
The Online F&G Retail Revolution: Navigating Challenges and Growth



India's F&G retail sector, valued at USD 730 billion, is rapidly growing through online retail's convenience and tech advances. Key platforms like Blinkit, Zepto, Bigbasket, and JioMart aim to expand efficiently and exponentially leveraging tech trends. Opportunities lie in diversification, new market targeting, and robust supply chains, positioning the sector for sustained growth, ensuring convenience, variety, and post-pandemic reliability.

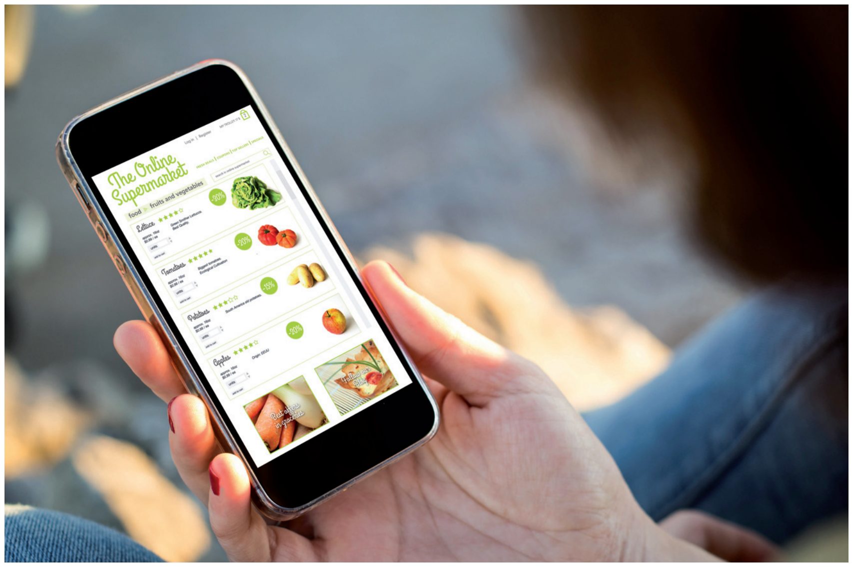
By Baqar Iftikhar Naqvi

Food and Grocery (F&G) constitutes the largest segment within the retail sector in India, encompassing a significant two-thirds of the total retail expenditure and a market size of USD 730 Billion in 2023. Growing at a rate of 8-8.5% per annum the market is expected to cross a trillion dollars by 2027.

This growth can be attributed to various factors. These include the persistent increase in per capita income, the ongoing urbanization process, the rise in nuclear families, the shift from unpackaged to packaged foods leading to price increases, and a noticeable inclination towards premiumization.

Regarding categories, staples and fresh products remain the primary players in food retail, making up roughly 75-80% of the total consumer expenditure on Food and Grocery (F&G). However, emerging categories like packaged snacks, confectionery, and beverages are experiencing significant growth, with a compounded annual rate of 15-16%, nearly twice the overall F&G category growth rate.

The Food and Grocery (F&G) sector in India is thriving, comprising two-thirds of retail spending with a market size of USD 730 Billion in 2023. It's on an 8-8.5% annual growth trajectory, and poised to cross a trillion dollars by 2027.



"Convenience" is one of the biggest trends shaping the market, especially in the mid to premium segment, and it is changing not just what we eat, but also how we shop. Convenience foods including snacking items, ready-to-cook & ready-to-eat products, beverages etc. are taking more shelf space both in retail stores as well as our kitchens.

When it comes to retail channels, convenience-oriented formats are not only increasing their market share but also driving the expansion of the Food and Grocery (F&G) retail market.

Further, it is worth noting that changing lifestyles, shopping habits, and aspirations have significantly influenced customer behavior, leading to a notable shift towards modern retail outlets for purchasing grocery items, as opposed to frequenting traditional kiranas.

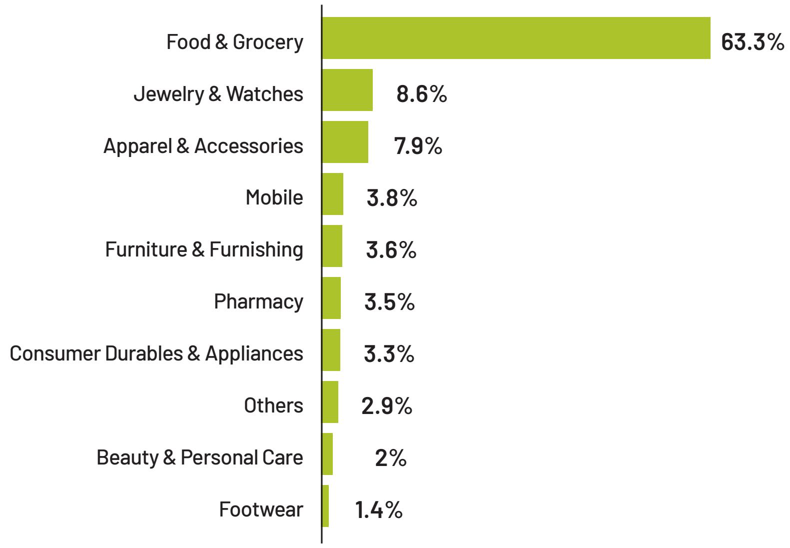
In fact, driven by this trend, family-owned traditional kirana stores have also started modernizing their layouts and displays and wherever possible making the stores self-serviced. While almost all stores in urban areas have started home deliveries, many local retail chains have also launched their apps and are partnering with online aggregators to increase their sales.

These online F&G stores/platforms witnessed a substantial surge in demand during the COVID-19 pandemic due to the closure of physical stores and restrictions on the number of customers they could serve. During the initial lockdown in 2020, this segment experienced a remarkable 75% growth.

Categories such as FMCG and Fresh, particularly fruits and vegetables, witnessed an impressive 145-150% increase in monthly sales. As the impact of Covid gradually diminished in the following years, consumers embraced the comfort and convenience offered by online F&G platforms and quick commerce providers, leading to a sustained preference for online shopping.

These online retail channels for Food and Grocery (F&G) are poised to further expand their reach and boost sales. Time-strapped consumers prefer the convenience of last-minute shopping, avoiding the need for monthly or fortnightly grocery planning and trips to physical stores.

Consumer share of wallet by category



Source: Statista.com

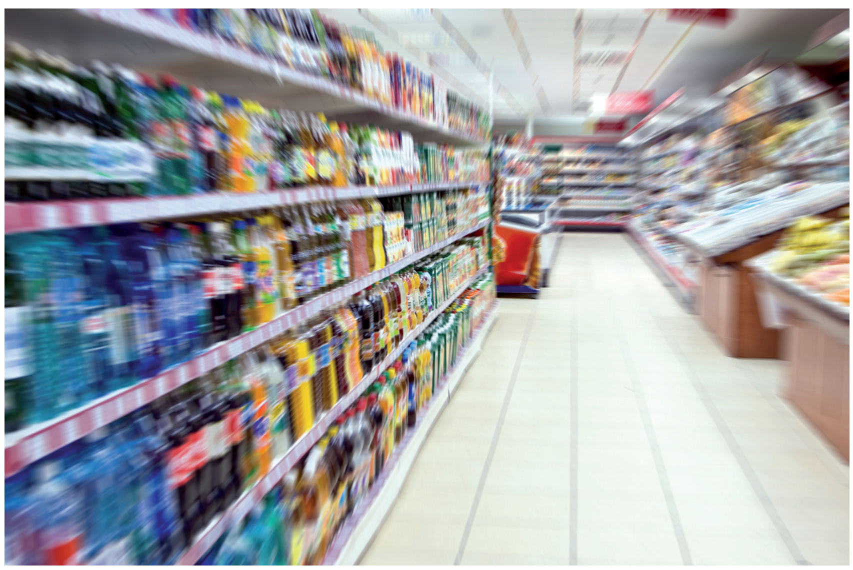
Online F&G stores experienced significant demand during the COVID-19 pandemic, with a 75% growth during the initial lockdown in 2020. Categories like FMCG and fresh produce saw remarkable sales increases. Consumers have continued to prefer online shopping even as the pandemic phased out.

Changing Landscape of the F&G Retail Market

The F&G retail market currently consists of three key segments namely, Traditional or Unorganized retail, Organized or Modern retail, and Online retail.

- **Traditional or Unorganized Retail** constitutes the largest assortment of retail establishments in India, amounting to approximately 12.8 Million in total, covering about 93% of the total F&G market in value terms. These establishments typically span from 100 to 1,000 square feet, with the majority falling under the 500 square feet range. These stores typically cater to the quirks of the local folks, offering personalized and customized service, providing flexible credit options, and making home deliveries for customers. The number of traditional grocery stores in India has witnessed a consistent growth over the last 10 years, experiencing a slight decline in 2020, attributed to the unprecedented COVID-19 pandemic. However, in 2021, the figure made a recovery, reaching a count of 12.8 Million.

- **Organized or Modern Retail** is the second most important segment for F&G retail. This segment started growing in the mid-2000s and remained extremely buoyant and competitive till 2019 (pre-covid days). The segment is engaged in intense competition, as major contenders strive to captivate consumers with alluring deals, offering well-stocked shelves in pristine, brightly lit ambiance, and showcasing a vast assortment of products. As of 2021, supermarkets reigned supreme within modern retail, comprising approximately 49% of the market share, closely followed by convenience stores at 43%, with hypermarkets trailing at 8%. The non-discretionary nature of F&G demand kept the segment resilient even during the peak pandemic in fiscal year 2021, when revenue fell only 3%. The segment currently contributes to about 6% of the total F&G market and is expected to reach a substantial USD 60 Billion by the year 2025, contributing to about 7% of the market.



The penetration of modern retail has remained fairly low in India, as compared to most other Asian countries, e.g. in China modern retail contributed to 57% of total F&G retail. A key reason for this is that modern retail in India is still a very "big city" thing and penetration is limited to a few Metros, Tier 1 & 2 cities, because of operational and other reasons.

Given that F&G is traditionally a low margin business and the cost of retail in India is fairly high, the modern F&G retail formats have always been under pressure. Further, while consumers like the glitz of shopping in large supermarkets and hypermarkets, once in a while, Indian consumers crave for convenience which these formats are not able to provide.

Hence like in many other sectors in India, the market seems to have leapfrogged to the next format/sector i.e; online F&G retail, even though the modern retail formats remain in an evolving stage in India. Also, most modern retail stores have now launched their online sales channel through apps as this helps them leverage their already existent brand recall, customer base, physical stores and warehousing infrastructure, inventory, and other assets.

- **Online Retail** is the newest kid on the block and the flavor of the season for F&G retail, largely driven by quick commerce players like Blinkit, Zepto, BigBasket now, etc,. Unlike most other categories, F&G for a very long time remained insulated from the ecommerce revolution, given the high penetration of unorganized and organized stores with delivery facilities, and the unit economics for low margin F&G products being not very lucrative for the online channel. However, COVID 19 changed the game as orders on online platforms surged by three to four times and average order values also increased by about 25%.

In 2022, 95% of online F&G sales were from metros and Tier 1 cities. The Southern region of India led in revenue share, driven by a young IT workforce. Western India is poised for rapid growth, with millennials and working women adopting online F&G platforms. The North and East regions follow with their shares of revenue.

In the year 2022, the online F&G market in India was estimated to be worth USD 6.8 billion, which is less than 1% share of the overall F&G market. Projections based on diverse statistical data indicate a remarkable growth trajectory, with the market expected to skyrocket to an astounding USD 37 billion by 2028, contributing to about 3.5% of the overall F&G market.

This forecast indicates an exceptional Compound Annual Growth Rate (CAGR) of 32% projected for the period from 2023 to 2028. The e-Grocery segment has witnessed substantial growth in the number of active users, surging from 12 million in 2019 to 23 million in 2022, with expectations to surpass 50 million by 2025.

Rise of the Online F&G Market in India

The driving forces behind this remarkable surge in the online F&G market include the rapid proliferation of internet accessibility and smartphone adoption, the increasing ease of online payments, improving enabling infrastructure for logistics across the value chain till the last mile, the evolving lifestyles of consumers and the transformative impact of the COVID-19 pandemic.

The extensive array of products available on online F&G platforms, and the competitive pricing strategies employed by key players are further swinging customers towards online retail.

The online F&G sector primarily operates through two thriving models: the hyperlocal/quick commerce and the marketplace model. In the hyperlocal model, also known as quick commerce, companies like Blinkit, Zepto, BB

2.2 ONLINE F&G RETAIL REVOLUTION

Now, and Instamart play pivotal roles. These platforms provide quick local delivery, catering to the immediate needs of consumers within specified vicinity. These platforms either operate through dark stores or through partnerships with retail stores in each locality they service. Generally, they offer a limited assortment, about 2200-3000 SKUs, and delivery timelines are a few minutes to a few hours at the outset. Quick commerce players largely cater to last-minute or unplanned purchases and adopt a cluster based model for expansion players and delivery is within a few hours to a few days. Marketplaces largely cater to the planned purchases.

In between these two models, and swinging more towards marketplaces are models like Milkbasket, Otipy, Supr Daily etc. which offer morning delivery, the order being placed by the previous midnight. These players also aggregate products in their own warehouse and then deliver the orders placed by the customer.

Further, within quick commerce model (well almost), there are niche F&G players like Licious, FreshtoHome, Jalongi etc, who largely offer meat and meat-based products. They offer only private labels and deliver through dark stores and in partnership with quick commerce stores.

On the other hand, marketplaces in this sector, such as Amazon Fresh, Flipkart, BigBasket, and JioMart, function as comprehensive platforms where a wide range of grocery and FMCG products are made available from various suppliers. They either deliver from their central warehouse or use the drop ship or seller shipment model. The assortment size is generally much larger than quick commerce

Geographic Distribution of Online F&G Retail

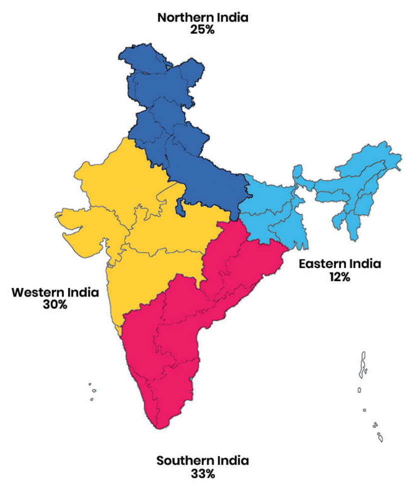
In the year 2022, almost 95% of the online F&G sales came from metros and Tier 1 cities.

The southern region of India emerged as the dominant force, commanding the highest share of revenue at 33%. The Southern states also steered India when it came to modern F&G retail adoption and driven by their young IT workforce, with Bengaluru and Chennai being cities with the densest population of digital consumers, also leads when it comes to online F&G retail adoption.

The flourishing of this territory can also be attributed to the presence of prominent industry gaints like Bigbasket and Amazon and that most concept testing starts in these states. Among the cities in South India, Bigbasket reigns supreme as the go-to online F&G platform, particularly in Hyderabad and Bangalore.

In second place, the Western region of India commands a 30% share of revenue and is poised for rapid growth, with a projected CAGR of 37.3%. This remarkable surge is primarily fueled by the increasing adoption of online F&G platforms among tech-savvy millennials and working women. Notable cities in the Western region, such as Pune and Mumbai, are at the forefront of this trend. The North and East regions follow, with 25% and 12% shares of revenue, respectively.

Region wise revenue share of online F&G platforms



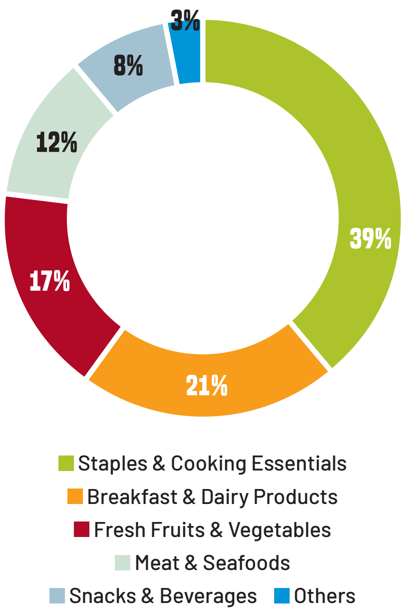
Source – Upriver Ecommerce Research Data

India boasts a considerable population of working professionals who greatly prefer the convenience and simplicity of purchasing groceries online. These factors are anticipated to pave the way for substantial expansion within the online grocery market in western India, in the foreseeable future.

Category Share in Online F&G Retail

Online F&G platforms feature a range of product categories, with Staples and Cooking Essentials emerging as top-selling categories. These are closely followed by Breakfast & Dairy Products, among others. Notably, these platforms have expanded their offerings beyond groceries and begun to onboard and sell additional categories such as beauty and personal care products.

Category share on online F&G channels



Source: statista.com

Evolution of Online F&G Market Over the Past Twelve Years

The evolution of F&G ecommerce channels in India has been characterized by a multitude of significant developments that have shaped the landscape. These developments have paved the way for a transformative experience for consumers, revolutionizing the way they procure their everyday household necessities. The last twelve years of evolution of online F&G retail in India can actually be classified under four main phases as follows:

Phase 1: 2011 to 2013 - Concept Testing & Initiation

During this phase, F&G retail witnessed the birth of first few online grocery platforms such as BigBasket, Grofers and LocalBanya. Most of the players first tested their Minimum Viable Plan or concept in a single city and then post corrections in the model, spread to other cities. These groundbreaking platforms revolutionized the shopping experience by presenting the novel concept of ordering groceries online and having them conveniently delivered right to the doorstep of consumers. This marked a paradigm shift in the way people approached grocery shopping, providing them with unparalleled convenience and saving them valuable time. The icing on the cake was the deals and discounts offered to lure consumers to shop on these platforms.

As consumer confidence in online grocery shopping continued to grow, these platforms gradually expanded their product range. Initially, they primarily focused on offering staples and non-perishable items. However, recognizing the increasing demand and evolving preferences of consumers, they ventured into perishable items. Fruits, vegetables, dairy products and even fresh meats were soon added to their repertoire, further enhancing the convenience and variety offered to customers.

Phase 2: 2014-2016 - Channel Expansion

This phase marked the expansion of the online F&G retail channel on two fronts. Firstly, it witnessed the launch of mobile apps which today contribute predominantly to online F&G retail. With the surge in smartphone usage, online F&G platforms swiftly recognized the immense potential of mobile technology. They meticulously crafted user-friendly mobile applications, enabling consumers to seamlessly browse and order groceries on the go. This shift towards mobile platforms further

> *The online F&G market is rapidly evolving, with various models in play. It is expected to resemble existing offline formats, such as full-basket offerings like Bigbasket, instant delivery options like Blinkit, and no-frills offerings like Amazon Fresh. Each model caters to different consumer needs and preferences.*

elevated the convenience factor, allowing users to effortlessly access a vast array of products and services at their fingertips.

Secondly, this period marked a defining moment with the entry of ecommerce giants, Amazon and Flipkart, into the F&G retail market. These industry behemoths astutely recognized the untapped potential within this segment and embarked on a mission to revolutionize the online shopping experience. Amazon & Flipkart launched and tested multiple models in online F&G retail. Their entry intensified the competition among the existing players, sparking a wave of innovation and driving the industry forward.

Phase 3: 2017- 2019 (Pre-Covid) - Streamlining & Growth

In a bid to gain market share and improve margins in a low-margin and high competition business, key players started streamlining and optimizing their supply chains and delivery models. Many online F&G platforms began forging partnerships with local kirana (traditional mom-and-pop) stores between 2017 and 2018. These collaborations aimed to leverage the existing infrastructure and supply chains of these traditional stores, thereby increasing delivery efficiency (time and cost), particularly in smaller towns and cities. This strategic move not only benefited the online F&G platforms but also empowered local businesses, fostering a symbiotic relationship between the digital and brick-and-mortar retail sectors.

In 2018 and 2019, some platforms adopted a hyperlocal delivery model, which revolutionized the concept of swift delivery within a specific radius. This innovative approach allowed platforms to cater to the immediate needs of consumers, effectively competing with traditional kirana stores. This hyperlocal delivery model further enhanced the convenience and timeliness of online shopping, providing customers with a swift and seamless experience.

Phase 4: 2020-Now (Covid and Post Covid): Hyper growth

The year 2020 brought about an unprecedented disruption with the outbreak of the COVID-19 pandemic. Consumers, prioritizing safety and convenience, swiftly turned to online platforms to fulfill their grocery needs. The demand for online F&G delivery services skyrocketed, and the industry witnessed an unprecedented surge in demand. This global crisis significantly accelerated the adoption of online F&G shopping in India and affected the online and offline sectors in different ways.

The COVID-19 outbreak delivered a significant financial blow to the traditional brick-and-mortar F&G retail segment, especially in the early stages of the pandemic. Even retail chains like Spencer's, which operated both online and offline, encountered substantial challenges because of their limited online expertise and delivery infrastructure. Their primary focus had traditionally been on physical stores.

The effects of COVID-19 compelled retail chains to shift their focus towards the online platform, acknowledging the need for a strong digital presence. There were essentially two viable paths to choose from; either collaborate with an existing F&G retail platform or embark on the venture of creating your own e-commerce website. This decision depended on factors such as available resources, technological expertise and the necessity to adapt to the rapidly evolving market dynamics.

Stores like Le Marche and Modern Bazaar serve as prime examples of this adaptation. They smoothly transitioned into the online realm and managed to generate around 7-10% of their total revenue from their digital platforms. By diversifying their sales channels and embracing e-commerce, these F&G retail chains not only mitigated the impact of the pandemic but also positioned themselves for sustained growth in the digital era.

For the online F&G retail platforms, this unforeseen turn of events further solidified their position as a reliable and convenient means of obtaining everyday household necessities and they entered a phase of hyper growth. The online F&G platforms also supported this hyper growth through various measures, including:

- Stronger emphasis on money & user experience. From 2019 to the present, these platforms invested considerable efforts in improving their website and app interfaces, streamlining search functionalities, and enhancing the overall shopping experience. By prioritizing user satisfaction, these platforms aimed to create an immersive and delightful experience for customers, fostering loyalty and trust.

- Continuing the trajectory of innovation, online F&G platforms started harnessing the power of artificial intelligence (AI) and data analytics to optimize their operations. By leveraging AI and data analytics, they could offer personalized recommendations to customers, improve supply chain efficiency, and optimize inventory management. This integration of cutting-edge technologies not only enhanced the overall efficiency of these platforms but also allowed them to cater to the unique needs and preferences of individual customers.

- Furthermore, in a bid to tap into the significant growth potential in smaller towns and cities, online F&G platforms have increasingly expanded their reach to tier 2 and 3 cities, building infrastructure and capabilities to cater to these markets. By offering a wider range of products and services in these areas, they aim to capture the untapped market potential and cater to the needs of consumers outside major metropolitan areas.

- To ensure a steady supply of quality products and promote local and sustainable sourcing practices, online F&G platforms have also embarked on partnerships with FMCG brands and farmers. These collaborations not only benefit the platforms by guaranteeing a constant supply of high-quality products but also support local economies and contribute to sustainable agricultural practices. Also, seeing the growth in the online F&G retail, new players like Jiomart entered the market during this phase. Many like Dunzo, Swiggy, etc. pivoted from other models to F&G retail.

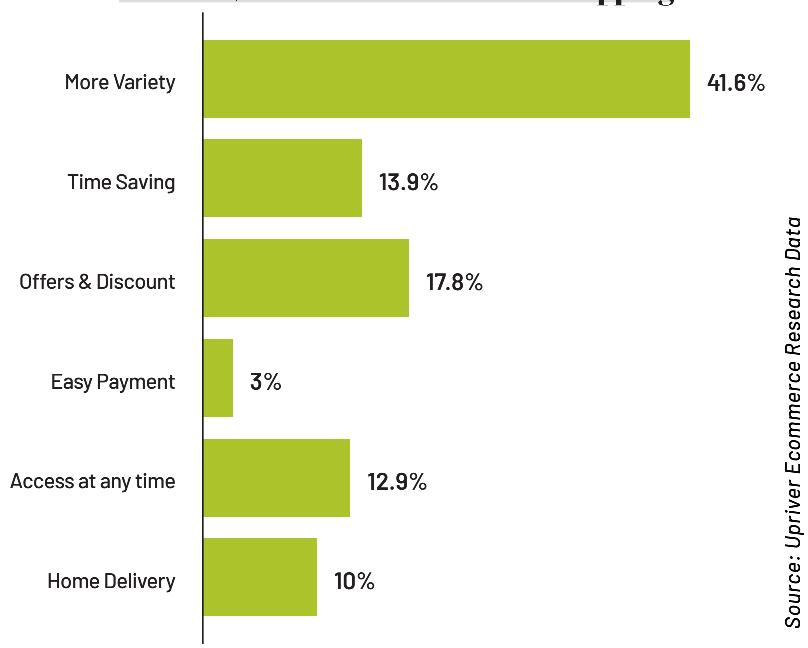
While the online market is still evolving, with various models currently in play, the landscape is expected to resemble existing offline formats, potentially surpassing or enhancing them:

1. **Full-basket Offerings:** Comparable to supermarkets, exemplified by players like Bigbasket. They offer extensive assortments, same-day delivery (often within a few hours), precise delivery slots, and competitive pricing on essential items.

2. **Instant Delivery:** This mirrors convenience stores and small supermarkets in the online realm. Firms like Blinkit & Zepto cater to customers ordering smaller baskets from a more focused selection. The emphasis here is on speed and user experience, especially for immediate, unplanned needs. Instant players are also broadening their offerings, including (warm) meals to capture a larger share of consumer spending and branching into take-out options from restaurants or meal delivery providers.

3. **No-frills Offerings:** The online discounters, represented by companies like Amazon fresh & Flipkart supermarket offer low minimum order values and waive delivery fees, prioritizing affordability in product pricing. However, customers may need to accept trade-offs in terms of assortment variety, delivery options, and additional services.

Reasons / Motivators for Online Shopping



Besides the usual challenges faced by F&G retailers, the online F&G platforms face some additional challenges, as follows:

1. **Growth Beyond "Convenience" Driven Customers:** Over 95% of the current online F&G sales are from Metros & Tier 1 cities and largely from convenience driven consumers, who do not care about getting some extra discounts or deals, trading it for time and convenience. However, given that a predominant part of India's population lives outside these cities and in rural areas, the F&G platforms will have to expand to smaller markets where more price-sensitive customers reside. This is a double whammy. Firstly, since the customers are more price conscious and buy only on offers and discounts, overall the gross margins on consumers basket in these cities will be lower. Secondly, the cost of operations, in smaller and more remote markets will be relatively higher.

2. **Minimizing Storage and Delivery Costs:** Ecommerce is most suitable for products where price is high and weight/volume of the product is low, so that storage and delivery costs are low. F&G, in most cases, falls at the other end of the spectrum, where

product weight/ volume is proportionally high and price us relatively lower than other categories. Minimizing storage costs and delivery expenses is hence crucial for profitability. This requires optimizing warehouse operations, exploring cost-effective transportation and packaging options, implementing dynamic pricing strategies and promotions, maintaining a minimum basket size/value for free delivery and optimizing delivery operations.

3. Ensuring Freshness of Edible Items till Customer's Doorstep: Maintaining the quality and freshness of perishable items during the delivery process is a significant challenge. While brick and mortrar retailers need to maintain freshness only till the products are in their stores, online platforms need to keep the products fresh till the goods are delivered to the customer's house and there could be a substantial time gap between shipment from the warehouse/ dark store to delivery at customer's doorstep. This necessitates robust supply chain management, effective packaging solutions and potentially leveraging technologies like refrigerated transportation. All this not just requires effort but also additional costs.

Online F&G platforms face several unique challenges, including expanding to price-sensitive markets, minimizing storage and delivery costs, ensuring freshness during delivery, and squeezing delivery timelines. Higher inventory spoilage and return rates are also common challenges, along with catering to non-tech-savvy customers and cultivating customer loyalty in a competitive environment.

4. Squeezing Delivery Timelines: Timely and efficient deliveries are paramount to customer satisfaction and one of the key drivers to why consumer's shop online. This challenge involves managing required inventory levels across multiple warehouses/ dark stores, managing a fleet of delivery boys, optimizing route planning, and possibly exploring advanced technologies like drones or autonomous vehicles for last-mile delivery.

5. Higher Inventory Spoilage: Preventing food spoilage and minimizing waste is a challenge for all retailers, but more so for online F&G platforms, as there are delivery related damages and losses as well.

6. Delivery Failures & Return Rates: Online F&G platforms see 12-15% failed deliveries and return rates, something that is not there in brick & Mortar stores. The cost of this reverse logistics could be more than the cost of the product in many cases. Thus for small value items, most F&G retailers will give a refund and may not even pick the product back.

7. Catering to Non-Tech Savvy Customers: Online platforms must find ways to accommodate customers who may not be familiar with technology. This could involve providing extremely user-friendly interfaces, offering customer support, and conducting educational initiatives to bridge the digital divide.

8. Cultivating Customer Loyalty: Building and sustaining customer loyalty in an online environment is extra challenging due to the plethora of options available to consumers. Most consumers shop from multiple platforms and since it is extremely easy to compare prices, offers, delivery timelines etc. consumers tend to compare and shop from the platform that gives the best offers. Establishing personalized experiences, offering loyalty programs, and providing excellent customer service are vital strategies, besides the "hygiene" of offering the best prices.

9. Intensifying Competition in the Online F&G Space: The online F&G sector is becoming increasingly crowded, making it challenging for new entrants to establish their presence. The competition is not just from other online platforms but also from the online arms of modern F&G chains. Established players dominate the market, and breaking into this space requires innovative strategies and a distinctive value proposition. New entrants need to identify and cater to specific niches or underserved markets to gain a foothold. Additionally, partnerships and collaborations can be instrumental in creating a competitive edge.

10. Balancing Profitability with Customer Expectations: With the competitive nature of the online F&G business, maintaining profitability while meeting customer expectations for affordability and convenience can be a delicate balancing act. Offering competitive prices without compromising on quality and service is a persistent challenge. Implementing efficient cost-management strategies and exploring innovative revenue streams, such as subscription models or private labels, can help strike the right balance.

Revenue Streams for Online F&G Platforms

Online F&G retailers use diverse revenue streams to sustain their growth and operations:

1. Revenue from Sellers/Brands

- **Commission on Sales/Referral Fees:** F&G platforms charge a percentage-based commission on sales, ranging from 10% to 35%, depending on category and brand.
- Few online F&G platforms like Amazon and Flipkart charge a closing fee from their seller/brands
- **Advertising Costs:** Brands pay for premium ad placements on the platform, with higher visibility commanding higher fees. Platforms like Amazon run various kind of advertising structures, like PPC (pay per click), Banner Ads, DSP (Display Ads) etc.

2. Revenue from Customers

- **Delivery and Handling Charges:** F&G platforms also charge customers for delivery, starting at a base rate (e.g., Rs. 15) and increasing for expedited or peak-hour deliveries. Surge pricing during high demand and handling charges further boost income.
- **Subscription Services:** Platforms like MilkBasket, offer premium subscription packages to customers with perks like free or discounted deliveries, exclusive discounts, and early access to promotions, ensuring a steady source of recurring revenue while fostering customer loyalty.

3. Other Revenue Sources

- **Private Label and Exclusive Products:** Most F&G platforms create and sell their private-label or exclusive products, maximizing profit margins by controlling production and distribution. These products yield higher profits than third-party brands as platforms source directly from manufacturers.

Closing Fees on Amazon.in

Table 1. For Easy Ship and Self-Ship

Item Price including Shipping Charges (INR)	Easy Ship*	Easy Ship Prime	Self-Ship
0-250	3	8	7
251-500	6	12	20
501-1,000	30	30	41
1,000+	58	58	70

Table 2. For Std. FBA (Excluding Seller Flex)

Item Price including Shipping Charges (INR)	All Categories / Select Categories*
0-250	25 / 12*
251-500	20 / 12**
501-1,000	25 / 25
1,000+	47 / 70***

Table 3. For Seller Flex

Item Price including Shipping Charges (INR)	All Categories / Select Categories
0-250	8
251-500	12
501-1,000	30
1,000+	58

Comparison Between Top Quick Commerce Platforms

Segments	Swiggy Instamart	Zepto	Blinkit
Launch year	Aug 2020	April 2021	Dec 2013 As Grofers
Funding	USD 3.6 Billion in 16 rounds (swiggy + instamart)	USD 566 Million in 6 rounds	USD 1 Billion in 19 rounds
Revenue FY 2022	Rs. 2,036 crores	Rs. 142.4 crores	Rs. 2,620 crores
Profit/ Loss FY 2022	Loss: Rs. 3,629 crores (Swiggy + Instamart)	Loss: Rs. 390 crores	Loss: Rs. 1,440 crores
Operational cities	Total cities - 25+ Bangalore, Delhi-NCR, Hyderabad, Mumbai, Chennai, Ahmedabad, Coimbatore, Chandigarh, Gurugram, Indore, Jaipur, Kolkata, Kochi, Lucknow, Ludhiana, Vizag, Noida, Pune & more	Total cities - 10 Delhi-NCR, Chennai, Gurgaon, Bangalore, Mumbai, Hyderabad, Pune, Noida, Kolkata	Total cities - 25+ Bangalore, Delhi-NCR, Hyderabad, Mumbai, Chennai, Ahmedabad, Coimbatore, Chandigarh, Gurugram, Indore, Jaipur, Kolkata, Kochi, Lucknow, Ludhiana, Vizag, Noida, Pune & more
Payment modes	COD | Netbanking | UPI | Credit & Debit cards | Sodexo | Paytm | PhonePe | Mobikwik | Amazon Pay | CRED Pay | Lazypay | Google Pay	COD | Netbanking | UPI | Credit & Debit cards | Sodexo Meal Card | Simpl| LazyPay | CRED Pay | Paytm | Amazon Pay | PhonePe | Mobikwik | Freecharge | Airtel Money	COD | Netbanking | UPI | Credit & Debit cards | Simpl | Sodexo | Paytm | Mobikwik | Paytm Postpaid
No. of Dark Stores	300	200-250	400

Delivery Fees & Timelines

Platform	Charge head	Details	Operating Hours & Delivery time
Swiggy Instamart	Delivery charge Handling charge	Rs 45 for order < Rs 49 Rs 30 for orders b/w Rs 49-149 Rs 9 onwards for orders > Rs 149 Free for orders> Rs 99 for Swiggy One subscribers Rs 5 handling	<30 mins
Blinkit	Delivery charges High demand surge charge	Rs 15 for orders < Rs 149 Free for orders > Rs 149 Rs 20-50 High Demand Surge Charge	<30 mins
Zepto	Delivery charge Handling charge	Rs 35 x surge multiplier for orders < Rs 149 Free for orders > Rs 149 Rs 15 handling	< 30 mins
Dunzo	Base delivery charge Distance surcharge Packaging & Handling fee	Rs 15 Depending on the distance (Rs 10/km) Rs 3 (depends on the assortment)	<30 mins
Bigbasket now	Delivery Charge Handling Charge	Rs. 25 for orders < Rs. 99 Rs. 9 for orders b/w Rs. 99-299 For orders above Rs. 299: Free Rs. 5 handling charges	<30 mins

Platform	Charge head	Details	Operating Hours & Delivery time
Bigbasket	Delivery charge	Rs 60 for orders < Rs 250 Rs 50 for orders b/w Rs 251 - 600 Free for orders > Rs 600	Same day/ one day later
Amazon Fresh	Express delivery charges	Rs 29 (Min order value of Rs 249)	<120 mins
Flipkart Supermart	Delivery charge	MOV of Rs 400 Rs 50 for orders < Rs 600 Free for orders > Rs 600	Same day/ one - two days later
D mart Ready	Delivery charges	Rs 49 per delivery (MOV is Rs 500)	Same day/ one day later
Jiomart	No charges	No MOV	Same day/ one - two day later
Milk Basket	Delivery charges	NIL for members Rs. 12.72 for non members Rs. 149 for 30 days membership	Every Day early morning delivery

Horizontal (Multi-category) Marketplaces Entering F&G Retail

Market leaders like Amazon and Flipkart swiftly recognized the tremendous potential of online Food and Grocery (F&G) sales. They introduced their own grocery delivery services, Amazon Fresh in 2020 and Flipkart Supermarket in 2019, providing customers with the added convenience of fast and efficient delivery options.

The financial commitments in this endeavor emphasize its significance. Walmart and Flipkart, in a collaborative effort, have invested over USD 270 million in the development of the Flipkart Supermarket model. Meanwhile, Amazon has made a substantial investment exceeding USD 20 billion to expand the global reach of Amazon Fresh and Grocery services.

Leading online F&G platforms like Zepto, Bigbasket, Blinkit, JioMart, and Amazon Fresh have ambitious expansion plans. They aim to broaden their reach, optimize dark store networks, and offer a wider range of services to cater to diverse customer needs.

Even though they entered the F&G market relatively late, their established reputation and long-standing consumer trust provided them with a noteworthy advantage and undoubtedly played a crucial role in their initial successes. However, both of these dominant marketplaces have encountered challenges in capturing a significant share of the consumer's grocery basket.

At present, both Amazon and Flipkart are operating their grocery business in over 70+ cities, demonstrating a concerted effort to establish a widespread national presence and cater to the evolving demands of consumers across diverse regions. This strategic expansion underscores their commitment to becoming prominent players in the online F&G industry in India.

Both Flipkart Supermarket and Amazon Fresh have adopted a hyperlocal business model to

Key trends in the online F&G industry include integrating voice-activated shopping, utilizing data analytics, offering personalized promotions, and focusing on efficient fulfillment centers. Contactless shopping practices have gained importance, and private labels and subscription models are on the rise.

ensure smooth operations. They have strategically established a network of dark stores throughout the country. These e-commerce giants understand the great potential of the Indian online F&G market and have made significant investments in order to tap into this potential.

Amazon Fresh, in particular, has focused on expanding its product range to cater to customers in all tiers of cities. Their commitment to offering a wide variety of choices reflects their dedication to meeting the diverse preferences of consumers.

On the other hand, Flipkart is leveraging technology to enhance its seller base through an innovative program that allows sellers to onboard in just 10 minutes. This initiative aims to attract more sellers to the platform, thereby increasing the range and availability of products for customers.

In addition, Flipkart's strategic partnership with Ninjacart is expected to be beneficial for its B2B transactions. This collaboration is projected to strengthen Flipkart's capabilities in serving business-to-business transactions in the grocery sector. By leveraging technology and forming strategic alliances, both Flipkart Supermarket and Amazon Fresh are poised to play significant roles in shaping the e-grocery landscape in India.

Besides Amazon Fresh and Flipkart Supermarket, these platform also offer F&G through their marketplace models, though success has been limited due to the unit economics on the marketplace model.

Growth in Indian Market is aligned to South Asian Markets

As per published reports, the online channel contributes to 6.7% of the F&G market globally. The reports issued by IGD Asia (Institute of Grocery Distribution) estimate that online accounts for 7.6% of total F&G retail sales in Asia in 2023. Asia's online grocery market is projected to grow by about 200% in the next 4 years as the channel is developing at a fast pace, thanks to the wide use of technology and investment in logistics and infrastructure.

The penetration, size and growth of online F&G vary greatly by country. South Korea, leads the pack with penetration rate standing impressively at 20%. Japan is at similar numbers. China, with its huge market size, has a penetration rate of about 6%. These countries will be the most established online F&G markets globally, in terms of both market share and scale. Singapore and Taiwan also have well-developed online F&G channels, benefiting from existing infrastructure and retailer investment. Markets such as India and Indonesia will also become increasingly important due to their scale, but overall share of online in F&G retail will remain under 5% for the next 5-7 years.

While the United States can proudly boast about being home to some of the largest e-commerce companies in the world, it is interesting to note that there has been a rather slow uptake in online F&G market. The latest research from Citi reveals that American consumers tend to show a preference for physical retail stores when it comes to purchasing groceries, which is quite different from their counterparts in other advanced economies. Over the course of the past decade, the penetration of online grocery sales in the United States has seen an increase from 1.8% to 3.9%, but this figure still falls behind the global average of 6.7%. The UK, stands at a penetration rate of about 8%.

Future Plans of F&G Platforms

Zepto:

This player is setting its sights on a potential public listing in early 2025. The company's strategic roadmap includes several key initiatives:

- **Achieving EBITDA Positivity:** Zepto aims to attain EBITDA-positive status within the next 12-15 months, showcasing its commitment to financial sustainability and operational efficiency.
- **Expansion of Dark Stores:** Zepto plans to bolster its infrastructure by adding 40% more dark stores in the forthcoming year. This expansion will enhance the company's capacity to efficiently process and fulfill customer orders.

- **Optimizing Dark Store Profitability:** The company is also focused on reducing the time it takes for these dark stores to become profitable, demonstrating a dedication to maximizing operational effectiveness and resource utilization.
- **Widening Delivery Network:** Zepto aims to broaden its delivery network, ensuring a wider reach to cater to a larger customer base.

Bigbasket:

India's leading online supermarket has outlined an ambitious vision for its future growth, which encompasses the following initiatives:

- **Extensive City Expansion:** Bigbasket aims to extend its network to over 100 cities by 2024, emphasizing its commitment to broadening its market reach and accessibility.
- **Township Inclusion:** The platform intends to add 80 to 100 towns to its existing roster of around 450 towns, further solidifying its presence in smaller urban centers and enhancing accessibility for a diverse customer base.
- **Augmented Dark Store Network:** Bigbasket plans to augment its network of dark stores, the operational heart of its BB Now delivery service, from around 300 outlets to 400 by March 2024. This expansion demonstrates a commitment to enhancing delivery efficiency and service coverage.
- **Fresho Store Expansion:** The company envisions achieving Rs. 12,000 crore in sales by 2026 through 800 Fresho stores situated across 10 tier-1 cities, showcasing its ambition for sustained growth and market dominance.
- **Integration of Services:** Bigbasket is exploring the integration of various services, including the subscription-based BB Daily, into its main app, streamlining the customer experience and providing a seamless, all-encompassing platform.

Blinkit:

This quick commerce platform under the umbrella of Zomato has a dynamic set of objectives for its future evolution:

- **10-Minute Delivery Expansion:** Blinkit is poised to extend its lightning-fast 10-minute delivery service to over 100 cities, prioritizing speed and efficiency in meeting customer demands.
- **Dark Store Growth:** The company intends to bolster its network of micro-fulfillment centers, known as dark stores, by an impressive 40%, highlighting its commitment to swift and reliable order processing.

- **Diversification into Home Services:** Blinkit is venturing into the home services domain, allowing users to schedule repairs, book beauty services, and even hire chefs, creating a comprehensive platform for various consumer needs.
- **Ambitious Growth:** Blinkit's ambitious goal is to grow 100 times its current size within the next five years, reflecting a strong vision for substantial expansion and market presence

JioMart:

As an e-commerce platform specializing in groceries and perishables, JioMart is spearheaded by Reliance Retail and Jio. The platform is gearing up for an extensive set of future endeavors:

- **Expansive Reach:** JioMart aims to broaden its services to cover over 200 cities, underlining its commitment to nationwide accessibility and availability.
- **Diversification into New Categories:** In a bid to diversify its offerings, JioMart is set to venture into new categories such as medicines and small electronic products, catering to a wider range of consumer needs.
- **Onboarding Small and Medium Businesses:** The platform is actively working on bringing small and medium-sized businesses on board as sellers, fostering a diverse and dynamic marketplace ecosystem.
- **Incubation Program for D2C Brands:** JioMart is planning to

launch an incubation program tailored for Direct-to-Consumer (D2C) brands. This initiative seeks to nurture and support emerging brands in their growth journey.

- **Expansion of Private Label Brands:** JioMart is set to bolster its own brand portfolio across various categories, introducing a range of private label products to cater to distinct consumer preferences.

- Additionally, JioMart is in the process of planning around 100 physical stores in Delhi and Mumbai, with a strategic focus on securing locations with lower rent to prevent excessive cash burn in the later stages of expansion.

Amazon Fresh:

The grocery delivery arm of the e-commerce giant Amazon, it is poised to continue its expansion in India with a phased approach. The company recently extended its services to cover over 75 cities, and it has outlined further plans for the future:

- **Expansion to Smaller Cities:** Amazon Fresh intends to extend its services to smaller cities, broadening its reach to previously underserved markets and ensuring accessibility for a diverse consumer base.

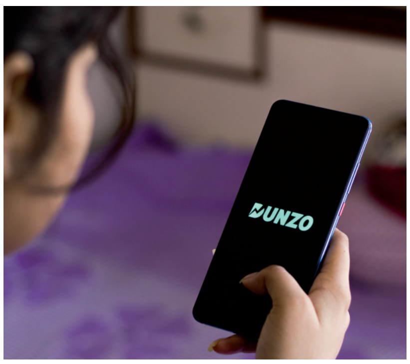
- **Ensuring Full Product Availability:** A key priority for Amazon Fresh is to ensure the availability of a full range of products, meeting the diverse needs and preferences of its customer base.

- **Substantial Investment Commitment:** Amazon Fresh has pledged to invest a minimum of USD 2 billion more in its operations, underscoring its dedication to establishing a strong foothold in the Indian grocery market.

- **Expanding Processing Capacity:** The company is actively working on expanding its processing capacity, bolstering its ability to efficiently handle orders and meet customer demands. This is pivotal for maintaining high service levels.

Dunzo:

A hyperlocal delivery platform, Dunzo is poised for a transformative period ahead, marked by strategic initiatives and operational enhancements:



- **Scaling Mini-Warehouses and Delivery Partners:** Dunzo has set a target of achieving 200 mini-warehouses and enlisting over 30,000 delivery partners for its fresh fruits and vegetable delivery service. This significant ramp-up in infrastructure showcases the company's dedication to efficient and reliable operations.

- **Transition to Revenue-Sharing Model:** Dunzo is undergoing a strategic shift from a dark store-centric quick commerce model to incorporating larger supermarkets and grocery stores on a revenue-sharing basis. This evolution in approach is aimed at diversifying the platform's offerings and expanding its network.

- **Mission of City Accessibility and Local Commerce Efficiency:** Dunzo's overarching mission is to serve as the logistics backbone of cities, making every area accessible and local commerce operations more streamlined and efficient.

Online F&G – Trends

The future of online F&G platforms is being shaped by several key trends that can be classified under the following heads:

- **Technology Trends**

  → **Voice-Activated Shopping Integration:** Online F&G platforms are increasingly integrating with virtual assistants that respond to voice commands. This advancement enables hands-free and practical voice-based purchasing. Consumers can now add items to their shopping lists or make purchases using simple voice prompts. Many platforms like Flipkart are already testing this.

  → **Utilization of Data Analytics:** Online F&G platforms are increasingly harnessing the power of data analytics. This technology enables a deeper understanding of consumer behavior, preferences, and purchasing patterns. By leveraging this data, platforms can optimize advertising efforts and fine-tune inventory management strategies, ultimately enhancing the overall customer experience.

  → **Personalized Promotions and AI-Driven Recommendations:** To enhance customer engagement and loyalty, online

F&G platforms are leveraging personalized promotions and AI-driven recommendations. By understanding individual interests and shopping behaviors, these platforms can suggest relevant products and offers, providing a more tailored shopping experience.

- **Supply Chain & Fulfillment Trends**

→ **Efficient Fulfillment Centers:** To improve delivery speed and lower operational costs, online grocers are strategically establishing more compact and automated fulfillment facilities closer to their customer base. This not only facilitates quicker deliveries but also allows for more efficient order processing.

→ **Conversion of Physical Locations into Dark Stores:** Retailers are transforming their physical storefronts into “dark stores” dedicated to fulfilling online orders. This shift serves to improve inventory control and streamline the order fulfillment process. By repurposing these locations, retailers can effectively meet the demands of the growing online customer base.

→ **Emphasis on Contactless Shopping:** The COVID-19 pandemic has accelerated the adoption of contactless shopping practices. Online F&G platforms are placing a higher emphasis on options like curbside pickup, contactless payments, and deliveries. These measures are not only crucial for safety during the pandemic but are also expected to remain significant even after the pandemic subsides.

- **Merchandising**

→ **Growing emphasis on Private Labels:** Online F&G platforms can enhance their profitability by increasing the diversity and share of private labels they offer. House-branded goods or private labels yield higher margins and provide consumers with unique alternatives. By strategically expanding their range of private label products, online F&G players can differentiate themselves in the market and cultivate brand loyalty. Private labels have gained traction due to their quality and affordability, making them an attractive option for both consumers and retailers. It is expected that private labels will command at least 60% share of all sales over the next 5 years. Online platforms will launch private labels across all categories including groceries, confectioneries, home and kitchen cleaning etc. and push them more aggressively.

→ **Subscriptions:** Adopting a subscription-based model, such as regular grocery deliveries, can bolster client retention, build loyalty and provide a consistent revenue stream. Subscriptions offer convenience and value to consumers while ensuring a predictable income for online F&G players. Subscription models have demonstrated success in various industries, providing a predictable revenue stream and fostering long-term customer relationships.

Online F&G - Opportunities:

The future holds a plethora of opportunities for F&G platforms to explore and expand their market presence. Here are some key strategies that can be leveraged:

- **Diversification beyond Groceries:** One of the significant opportunities for Online F&G players lies in diversifying their product range beyond just groceries. Incorporating non-grocery items like electronics or home furnishings can unlock new revenue streams. By offering a broader spectrum of products, Online F&G players can cater to a wider customer base and enhance their overall value proposition. This diversification aligns with the trend of online marketplaces becoming comprehensive platforms where consumers can find a wide range of products, creating a one-stop shopping destination.

- **Targeting Tier 3 and Tier 4 Markets:** The shift towards digitalization is not limited to tier 1 & 2; even tier 3 & 4 consumers are increasingly embracing online shopping, representing a substantial growth opportunity for online F&G players. With the continued growth in digital technology adoption, untapped markets in tier 3 & 4 cities present significant potential. Online F&G players can expand their reach to these regions, providing access to a wide range of products and services. This move not only taps into an underserved market but also fosters inclusivity in the digital economy.

Opportunities for online F&G platforms include diversifying product ranges beyond groceries, targeting tier 3 & 4 markets, pushing private labels as brands, and improving supply chain resilience and efficiency.

- **Private Labels will be pushed as Brands:** F&G platforms are trying to convert their Private labels into F&G / FMCG brands, which will be sold through other online platforms and even through offline stores going forward. BigBasket tested selling select private label products on Amazon a few months back.

- **Improving Supply Chain Resilience and Efficiency:** Ensuring a robust and efficient supply chain is crucial for timely deliveries and customer satisfaction. Disruptions in the supply chain, whether due to external factors like natural disasters or internal factors like inventory mismanagement, can pose significant challenges. Investments in technology and data-driven logistics solutions can enhance supply chain resilience. Moreover, establishing strong relationships with suppliers and distributors can mitigate potential disruptions.

By strategically embracing these trends and opportunities, online F&G platforms can position themselves for sustained growth and success in the evolving digital landscape. Each of these strategies addresses specific market trends and consumer preferences, allowing online F&G players to stay competitive and relevant in the dynamic e-commerce industry.

Conclusion

The online F&G market is currently experiencing hyper growth. The surge in online grocery usage can be attributed to the preference for convenience, attractive value proposition, and wide product range offered by online platforms. The COVID-19 pandemic further emphasized the importance of hygiene and safety, solidifying the position of online F&G platforms.

Online grocery platforms have been investing in improving user experience, website and app interfaces, search functionalities, and overall shopping experience to create customer loyalty and trust. These advancements have the potential to make the business models more sustainable by increasing order sizes and optimizing order processing and delivery. The growth of the online grocery market has attracted significant investment, with venture capital funds and consumer-packaged-goods companies entering the competition. Those able to secure funding are likely to lead the disruption.

Overall, the evolution of online F&G channels in India signifies a growing acceptance and reliance on online platforms as a convenient and trustworthy solution for fulfilling everyday household needs. As technology continues to advance and consumer preferences evolve, this upswing in online F&G retail is expected to continue, further propelling the industry into new realms.