Indian e grocery market report **2020**
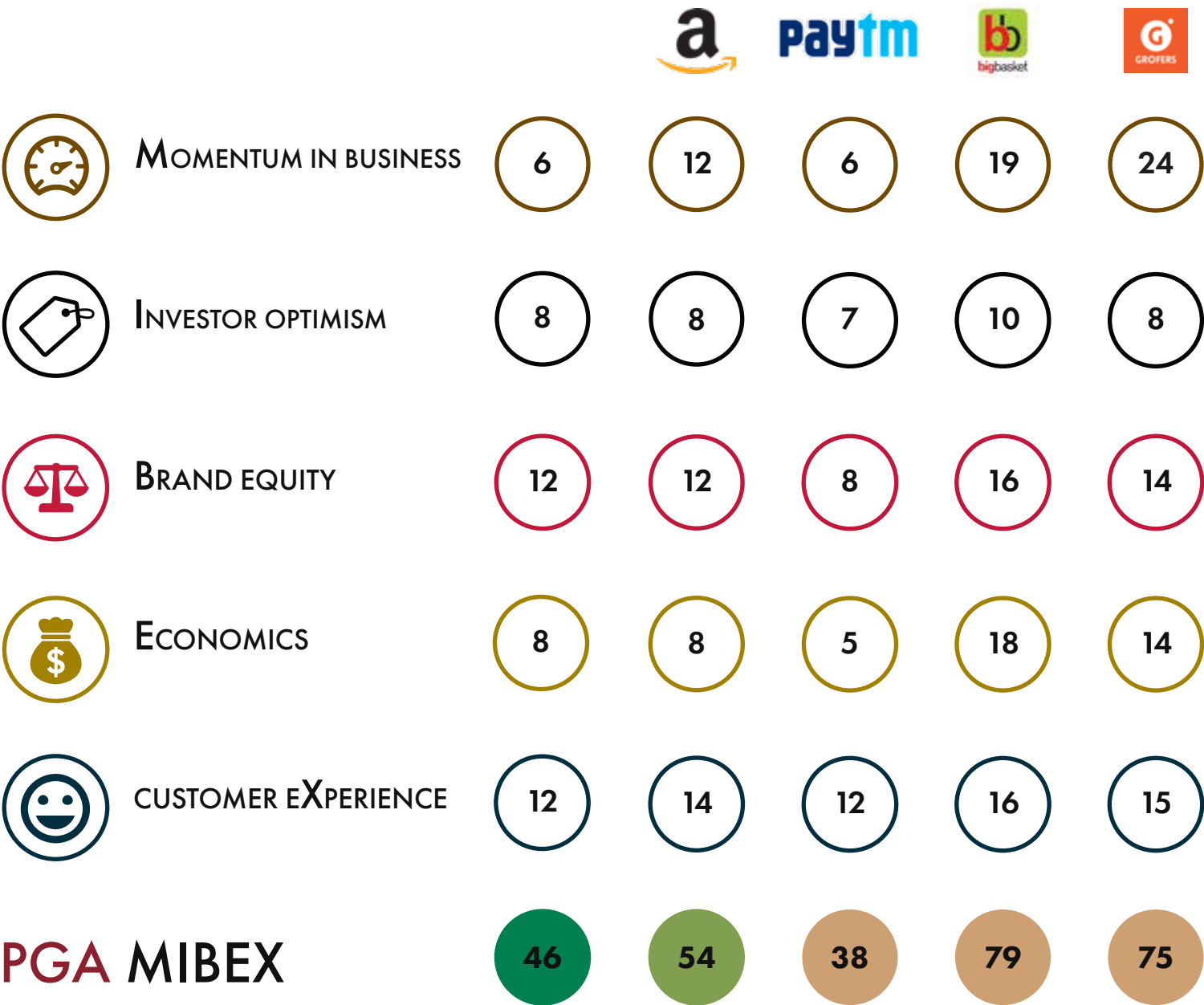
BUY

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EXECUTIVE SUMMARY

- **e grocery market is riding the internet wave and is growing rapidly**

  - Sized at **USD 600M** in **FY17** and **USD 900M** in **FY18,** e grocery market is expected to grow **@70% CAGR** to reach **USD 7.5B** by **2022**

  - The strong growth is being driven by increased investments in the space, FDI through large players, emergence of more successful inventorbased models, improved consumer understanding by players, higher consumer awareness and comfort level with shopping

- **BigBasket is the leading player in the Indian e grocery market (~$300M GMV) with a market share of almost 35%, followed by Amazon and Grofers at 20% and 17%respectively**

  - Large investment in 'private label brands' and better supply chain control driving BigBasket's profitability
  - BigBasket is also driving 20% of their GMV through HoReCa channel – selling directly to B2B customers
  - Amazon sells groceries through 4 different channels – Amazon Prime Now, Amazon Prime 3P, Amazon Pantry and Amazon.in. **63%** of Amazon's grocery is sold through Amazon.in
  - Grofers shift from 'marketplace' model to 'inventory' model removed their dependency on sellers and improved margins. Further, Grofers has shown **100%+** growth in **FY17-18** to grow to **$150M+ GMV** in **FY18**

- **At 60%, 'packed food & beverages' is the biggest category in e grocery space, followed by 'non-food FMCG' and 'freshfood' contributing 25% and 15% market share respectively. 'Private label brands' as a model offer higher margins (7-15% higher depending upon category) and better supply chain control as compared to 'marketplace' and 'inventory' and online players are betting big to drive profitability through this**

EXECUTIVE SUMMARY

- **Online grocery customers are more sticky – 80% of online grocery shoppers buy 1-2 times a month online and >50% of their monthly grocery spend is online**

  - >50% in metros buy from vertical focused players but in smaller towns, grocery is still bought through horizontals majorly

  - Typically, online share of wallet even in the high spenders has capped at ~70% of total monthly spend, where consumers prefer to spend the remainder 30% offline

  - Discounts, quality, and variety are the top three reasons to buy grocery online

  - There is strong habit forming – even after comparing prices, customers order from the portal they are comfortable with

  - Three reasons offline purchase happens is handpicking of fresh items, offline store experience with family and urgent / immediate needs

- **Margins in the category still remains a challenge – no player is currently profitable, and all are making losses of up to 10-30% of their GMV**

  - Typically, at an AOV of $20, at best total buy-sell margins are ~15-20%, but $1.5 is the average delivery cost and $2 is the average fulfillment cost per order – and this varies less by order size / value.

  - Further, there is a $2-3 fixed cost per order (marketing, G&A, etc.). This makes driving positive economics tough for players

  - Driving increase in AOV, selling higher ticket size products, increased penetration of private label, supply chain cost efficiency, and bringing in ancillary revenue streams have been some measures players are using to improve economics at a unit level

SUMMARY: BIGBASKET LEADS PGA MIBEX WITH 77 POINTS FOLLOWED BY GROFERS AND AMAZON WITH 75 AND 43 POINTS RESPECTIVELY

	amazon	Paytm	bigbasket	GROFERS
MOMENTUM IN BUSINESS	6	12	6	19	24
INVESTOR OPTIMISM	8	8	7	10	8
BRAND EQUITY	12	12	8	16	14
ECONOMICS	8	8	5	18	14
CUSTOMER EXPERIENCE	12	14	12	16	15
PGA MIBEX	46	54	38	79	75

PGA MIBEX is out of 100 points

MIBEX denotes a composite score showing the business strength and momentum of a business in its space

ONLINE GROCERY MARKET DEFINITION: GROCERY IS NOT A CATEGORY, IT IS A SUM OF MULTIPLE CATEGORIES

ONLINE GROCERY CATEGORIES

SOLD ONLINE WEB / MOBILE

Fresh Food: FnV, Meat dairy and breads

Fruits

Vegetables

Fresh Meat

Fresh Dairy

Packaged food and beverages

Staple	Spices	Edible oil	Health food	Juice
Frozen meat & Seafood	Biscuits	Dairy	Soft drinks	Eggs
Cereals	Chips	Tea & Coffee	Dry fruits	Sauce, Jam & pickles

Non food

FMCG

Cleaning essentials

Personal care

Non - FMCG

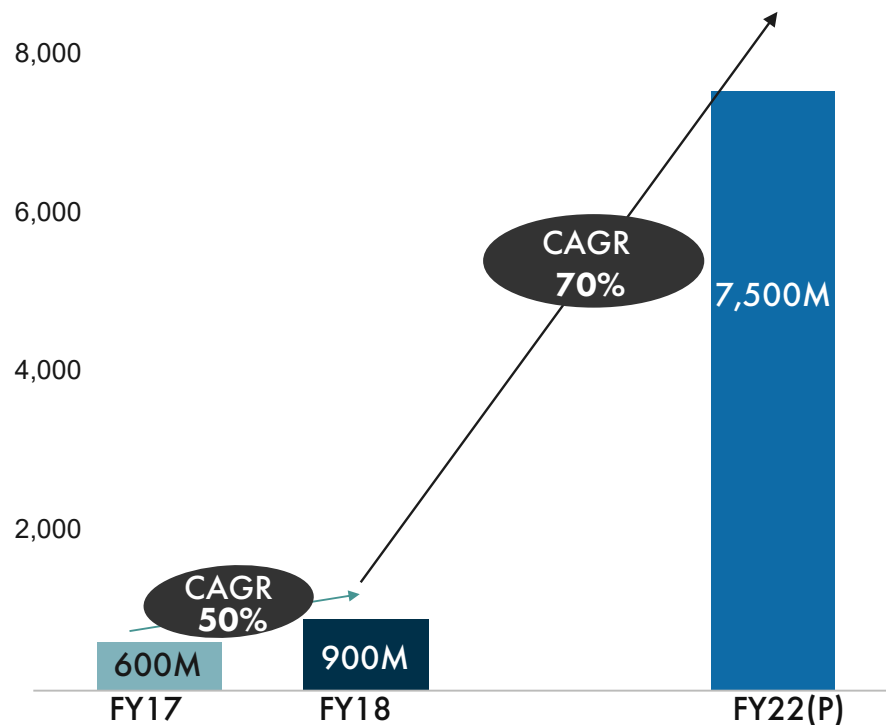Plastics

INDIAN E GROCERY MARKET IS CURRENTLY SIZED AT USD 900M (FY18); EXPECTED TO GROW AT A CAGR OF 70% TO REACH USD 8B IN 2022

Market growth

INDIAN E GROCERY MARKET SIZE (M)

CAGR **70%**

CAGR **50%**

- 600M — FY17
- 900M — FY18
- 7,500M — FY22(P)

Market growth drivers

SUPPLY CHAIN AND PRIVATE LABEL

- Better economics and supply chain control on private label products
- Improved customer experience by same day and next day delivery

INVESTMENT AND INFRASTRUCTURE DEVELOPMENT

- More than $800M investment in e grocery market in 2018
- Government support- 100% FDI in marketplace model under automatic route
- Increasing internet penetration – 21% in FY14 to 36% in FY18
- Increasing GMV share of Tier II and Tier III cities

Note: For Flipkart grocery - regular Flipkart and Flipkart supermarket are both included; For Flipkart grocery - Amazon Now, Amazon 3P and Amazon pantry are considered ; For Amazon and Flipkart regular personal care is not included

KEY TRENDS WE ARE OBSERVING IN THE MARKET

Supply side trends

Private label: Amazon, Flipkart, BigBasket and Grofers all are increasing private label brands given their profitability

Multiple channels of selling: Amazon is selling groceries through Amazon Now, Amazon 3P, Amazon Pantry and Amazon.in. Flipkart is selling groceries through Flipkart Supermart and Flipkart.com.

Supply chain experimentation: All e grocery players are experimenting with supply chain. Flipkart Supermart has a single fulfillment center and multiple cross docks . BigBasket is consolidating all small warehouses. Grofers is also trying to consolidate fresh food, non fresh food and nonfood warehouses. Amazon has a dedicated Now channel.

Move towards inventory model: While Grofers has moved from marketplace model to inventory model, Amazon Pantry, Amazon Prime Now, BigBasket and Flipkart Supermart have always followed the inventory model with respective shares of 80%, 100% (excluding 3P), 92%, and 100%.

Focus on customer value proposition: BigBasket and Grofers both have launched their loyalty programs to provide additional discounts, better offers and flexible delivery timings. Grofers' subscription-based loyalty program reached 1.5L members in just 90 days.

Improving share of HoReCa in GMV: BigBasket and Grofers are doing institutional sales and continuously increasing their share-BigBasket and Grofers HORECA contribution to GMV is 20% and 10% respectively.

KEY TRENDS WE ARE OBSERVING IN THE MARKET

Demand side trends

Increasing AOV driving profitability: Increase in AOV is reducing the variable cost per order and thus driving profitability. Grofers has doubled its AOV to INR 1,400 this year by focusing on monthly sales.

Improving customer repeat rates: Customer repeat rate is improvingand is between 2-3x for all players in the vertical category.

Increasing share of wallet: Online grocery buyers spend 50% of theirgrocery budget in online grocery purchase and this is increasing.

Metro vs non metro buyers: >50% online grocery buyers in metrospurchase their groceries from vertical players whereas in smaller town its still purchased through horizontals

Online capping of penetration: Online share of wallet even in the high spenders has capped at ~70% of total monthly spend, where consumers prefer to spend the remainder 30% offline

Drivers to buy grocery online: Discounts, Quality, and Variety are the top 3 reasons to buy grocery online
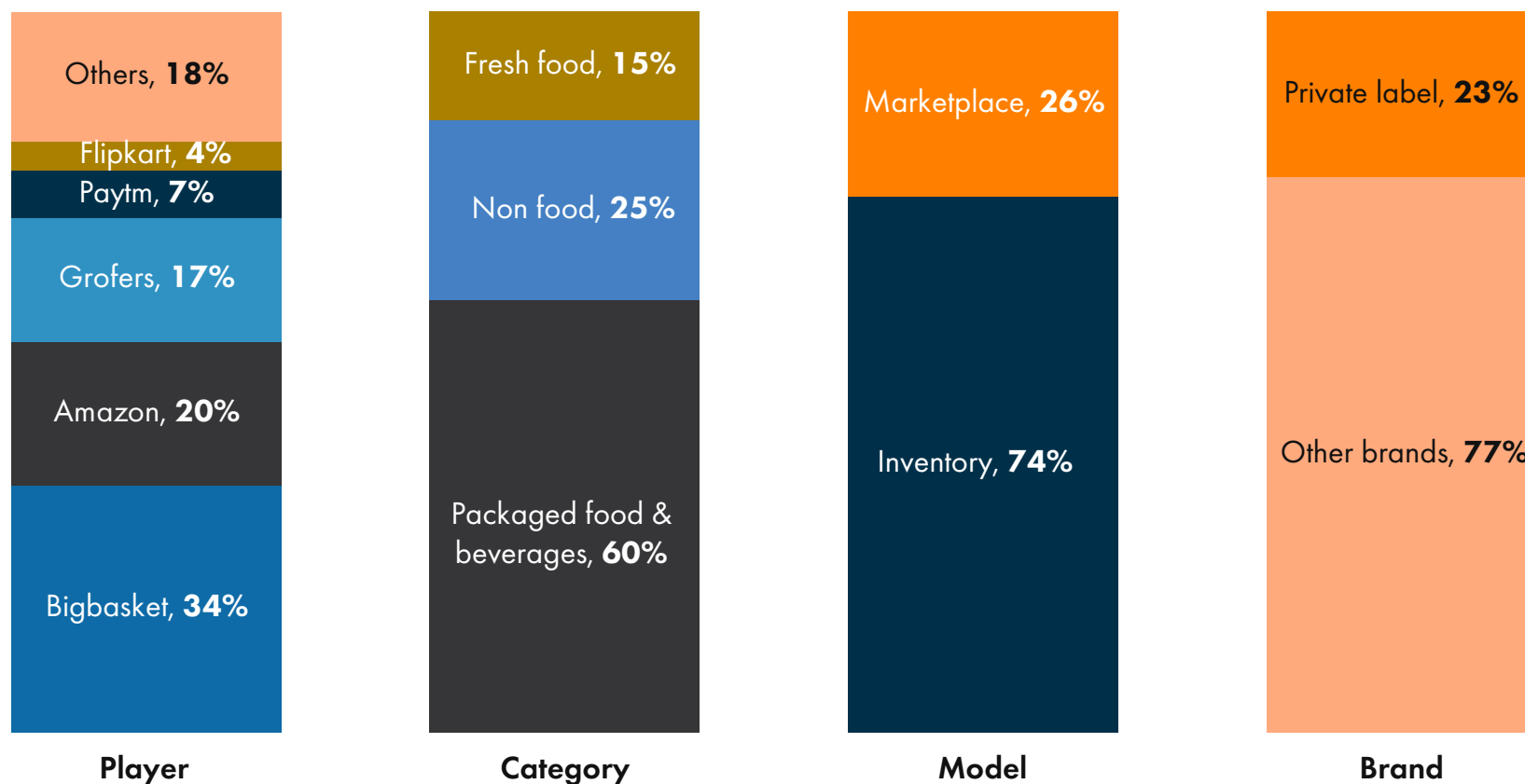
Habit forming category: There is strong habit forming – even after comparing prices, customers order from the portal they are comfortable with

Reason people shop offline: Three reasons offline purchase happens is handpicking of fresh items, offline store experience with family and urgent / immediate needs

OVERALL SEGMENTATION OF E GROCERY MARKET ON THE BASIS OF PLAYER, CATEGORY, MODEL AND BRAND FY18
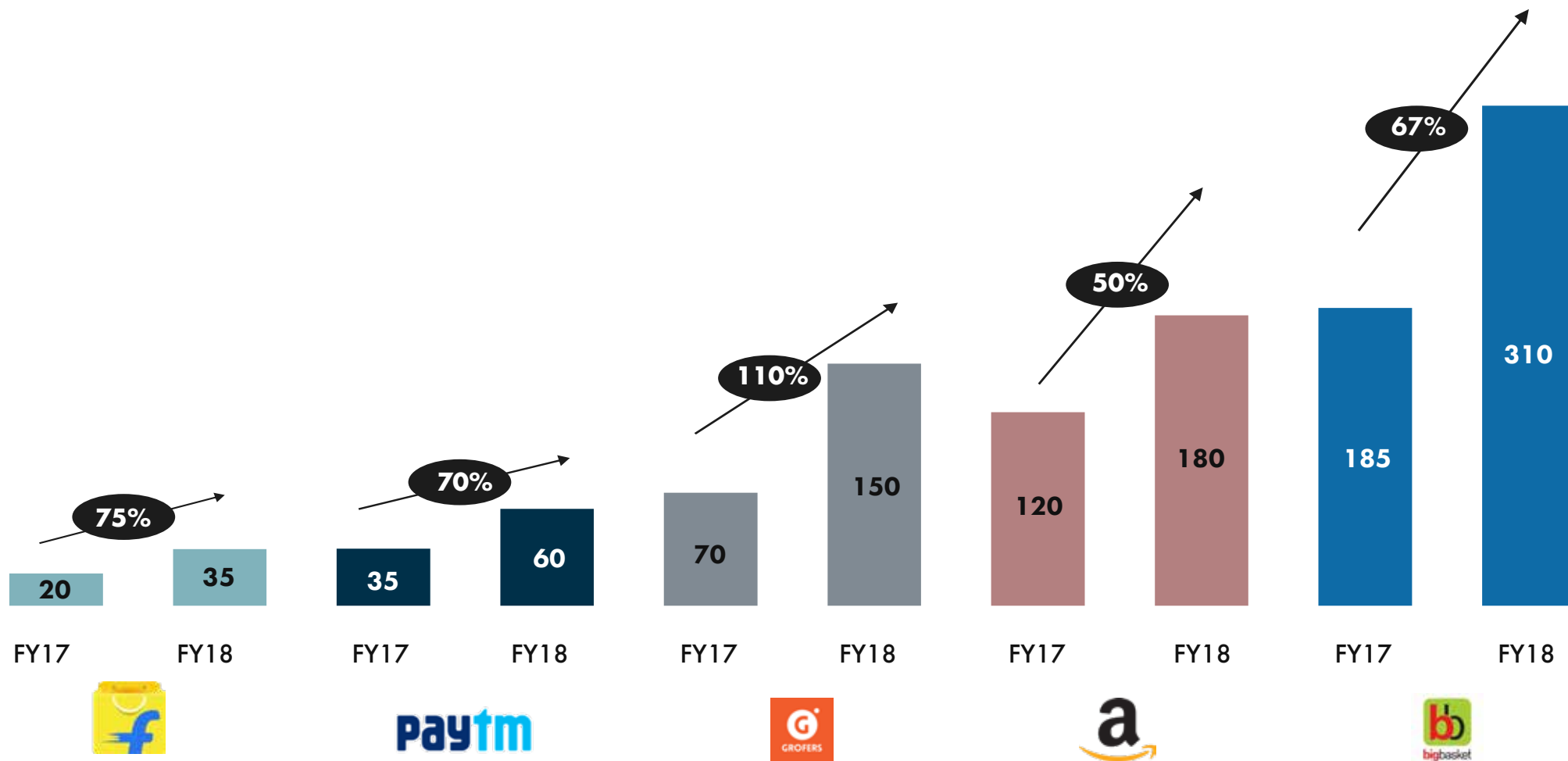
INDIAN E GROCERY FY18 GMV (100%)

Player
- Others, **18%**
- Flipkart, **4%**
- Paytm, **7%**
- Grofers, **17%**
- Amazon, **20%**
- Bigbasket, **34%**

Category
- Fresh food, **15%**
- Non food, **25%**
- Packaged food & beverages, **60%**

Model
- Marketplace, **26%**
- Inventory, **74%**

Brand
- Private label, **23%**
- Other brands, **77%**

-

GROFERS HAS DEMONSTRATED STRONG GROWTH IN FY18 GROWING AT >100%

GROCERY GMV GROWTH FROM FY17 TO 2018

75% — Flipkart: FY17 20, FY18 35

70% — Paytm: FY17 35, FY18 60

110% — Grofers: FY17 70, FY18 150

50% — Amazon: FY17 120, FY18 180

67% — bigbasket: FY17 185, FY18 310

	FY17	FY18
Flipkart	20	35
Paytm	35	60
Grofers	70	150
Amazon	120	180
bigbasket	185	310

Note: Note: For Flipkart grocery Flipkart.com and Flipkart supermarket are both included in calculation; Amazon grocery Amazon Now, Amazon 3P, Amazon pantry and Amazon.in are considered for calculation

E GROCERY PLAYERS COMPETITIVE LANDSCAPE - FY18

	Overall economics						April 2018 economics			Assortment				HORECA
	FY 18 GMV ($M)	of orders per day ('000)	FY 18 AOV ($)	# of PL brands	Marketplace	Inventory	April 2018 monthly RR ($M)	April 2018 daily orders ('000)	April 2018 AOV ($)	Fresh food	Packaged food and beverages	Non food	# of SKUs	%HORECA GMV
Horizontals — Flipkart	35	15	7	1	🟢 70%	🟢 30%	6	20	8	🔴 N/A	🟢 25%	🟢 75%	25k+	🔴 N/A
Horizontals — Amazon	180	50	10	1	🟢 45%	🟢 55%	21	60	11	🟢 10%	🟢 50%	🟢 40%	25k+	🔴 N/A
Horizontals — Paytm	60	15	10	N/A	🟢 100%	🔴 N/A	6	17	12	🔴 N/A	🟢 45%	🟢 55%	25k+	🔴 N/A
Verticals — bigbasket	310	35	20	11	🟢 5%	🟢 95%	30	40	22	🟢 25%	🟢 65%	🟢 10%	22k	🟢 20%
Verticals — Grofers	155	~20	~20	6	🟢 10%	🟢 90%	23	~30^	21	🟢 10%	🟢 80%	🟢 10%	6k+	🟢 10%

Note: Note: For Flipkart grocery Flipkart.com and Flipkart supermarket are both included in calculation; Amazon grocery Amazon Now, Amazon 3P, Amazon pantry and Amazon.in are considered for calculation

Sources: Primary research, Secondary research, IBEF report and Praxis analysis

INDIAN E GROCERY MARKET COMPETITIVE LANDSCAPE

Recent activities	**Future plans**

Horizontals

Flipkart (Recent activities)
- Started Flipkart Supermart for employees on Aug 2017
- Currently active in only **1 city Bengaluru**
- Has one **dedicated warehouse** for groceries in Bangalore
- Launched Flipkart Supermart at Bangalore on November

Flipkart (Future plans)
- Planning to expand Flipkart Supermart to other metro cities
- Flipkart is planning to enter into fresh category and also trying to increase its private label contribution
- Plan to service through existing FCs for time being

Amazon (Recent activities)
- Gradually **increased** the number of SKUs under Amazon now to **8,000 within "rush" delivery**
- Current growth of Amazon Now is **5% week on week**
- Opened **15 new FC** specifically dedicated to groceries
- Rebranded Amazon Now as **Prime Now**

Amazon (Future plans)
- Planning to increase products under Amazon Now
- Amazon has got the legal permission to own inventory and will be migrating from Cloudtail to ARIPL and a lot of technologies under Amazon.in (e.g., ARS, forecasting etc.) will be available for Now Prime and Pantry

Verticals

Paytm (Recent activities)
- Paytm started offline to online model which allowed customers to get the online discounts and now moved to seller model
- Deliver **99%** of grocery orders within 3 days

Paytm (Future plans)
- Paytm is integrating BigBasket with its Paytm mall app, where BigBasket will be able to sell like other sellers and provide a basic margin to PayTM
- No plans at all to own inventory and setup a supply chain

BigBasket (Recent activities)
- Transiting from **three layer** supply chain to two layer supply chain
- Increased **HoReCa** contribution to GMV to ~20%
- Consolidating small warehouses of **10 40 k Sqft to >1L Sqft**

BigBasket (Future plans)
- Planning to sell groceries through Paytm mall
- BigBasket is planning to launch a vendor portal in few month where vendors will be able to see the real time inventory status of BigBasket
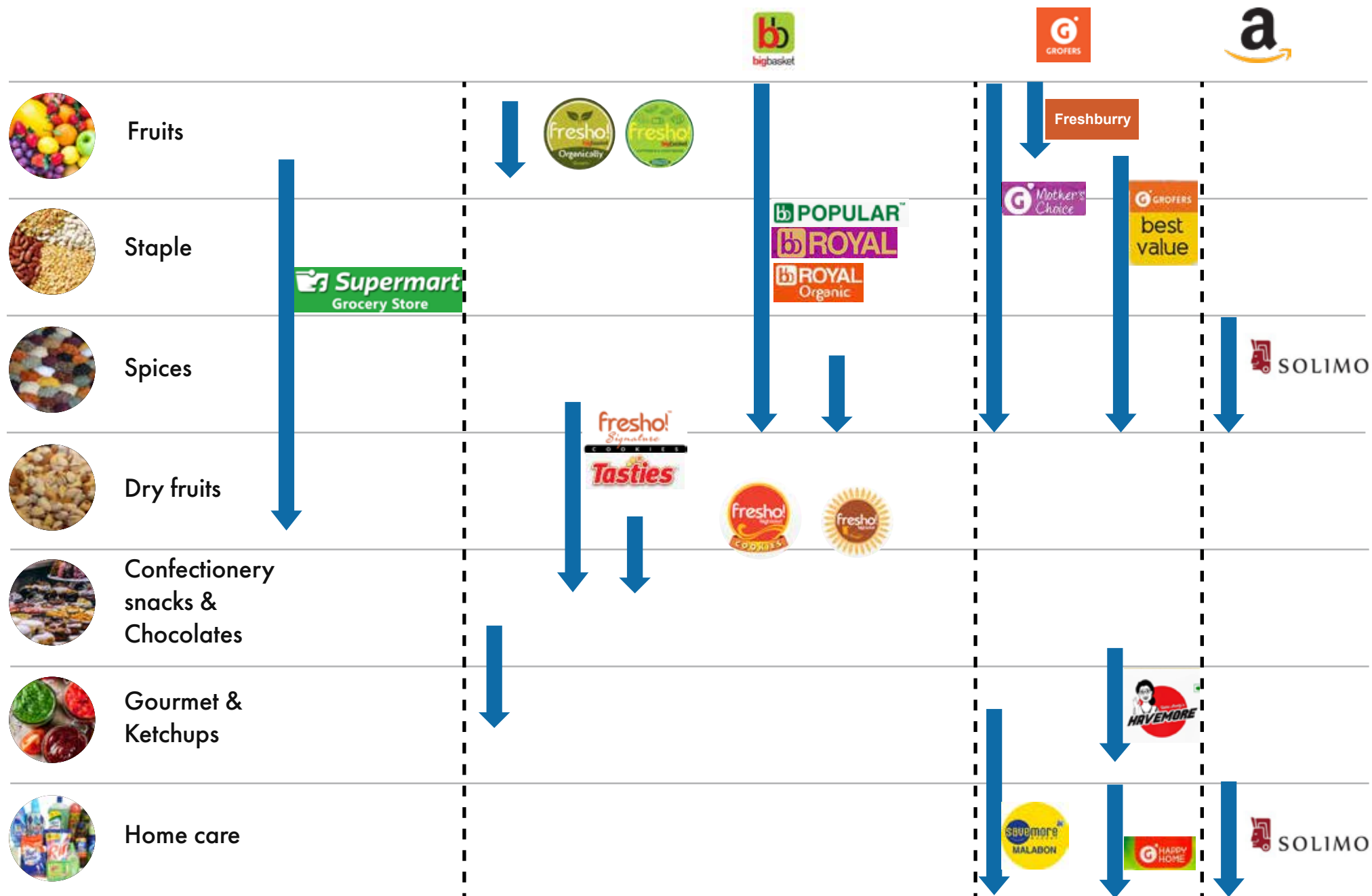- Aggressively push the high margin Private Label business

Grofers (Recent activities)
- Scraped the express delivery model and shifted to **next day delivery**
- Completed the 10 month long transition from marketplace model to inventory model
- Started **grocery stores** in societies in Gurgaon to increase customer outreach but has to close down shortly
- **Pivoted to "monthly purchase" positioning model**
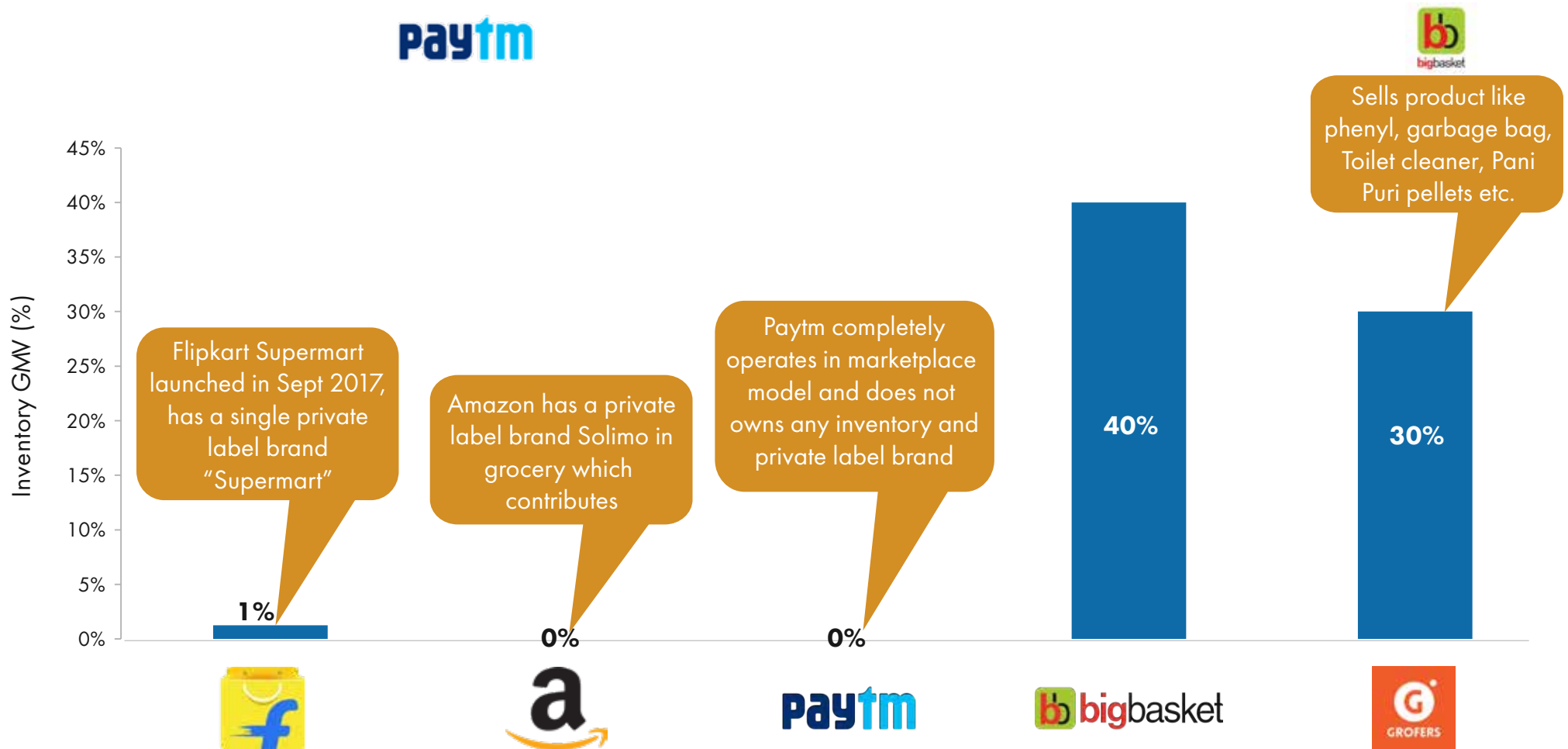
Grofers (Future plans)
- Planning to transiting from three layer supply chain model to two layer supply chain like BigBasket
- Opening 1L sqft warehouse for fresh and non fresh in places like Delhi NCR
- Planning to double the warehousing capacity to almost 2M Sqft

PRIVATE LABEL BRANDS OFFERS HIGHER MARGINS AND DRIVE PROFITABILITY. MAJORITY OF PLAYERS ARE RAMPING UP THEIR PRIVATE LABEL GAME

BB AND GROFERS HAVE UP TO 30 40% EXPOSURE OF THEIR GMV TO PRIVATE LABEL

PRIVATE LABEL PENETRATION AS PERCENTAGE OF INVENTORY GMV

Inventory GMV (%)

Flipkart Supermart launched in Sept 2017, has a single private label brand "Supermart"

Amazon has a private label brand Solimo in grocery which contributes

Paytm completely operates in marketplace model and does not owns any inventory and private label brand

Sells product like phenyl, garbage bag, Toilet cleaner, Pani Puri pellets etc.
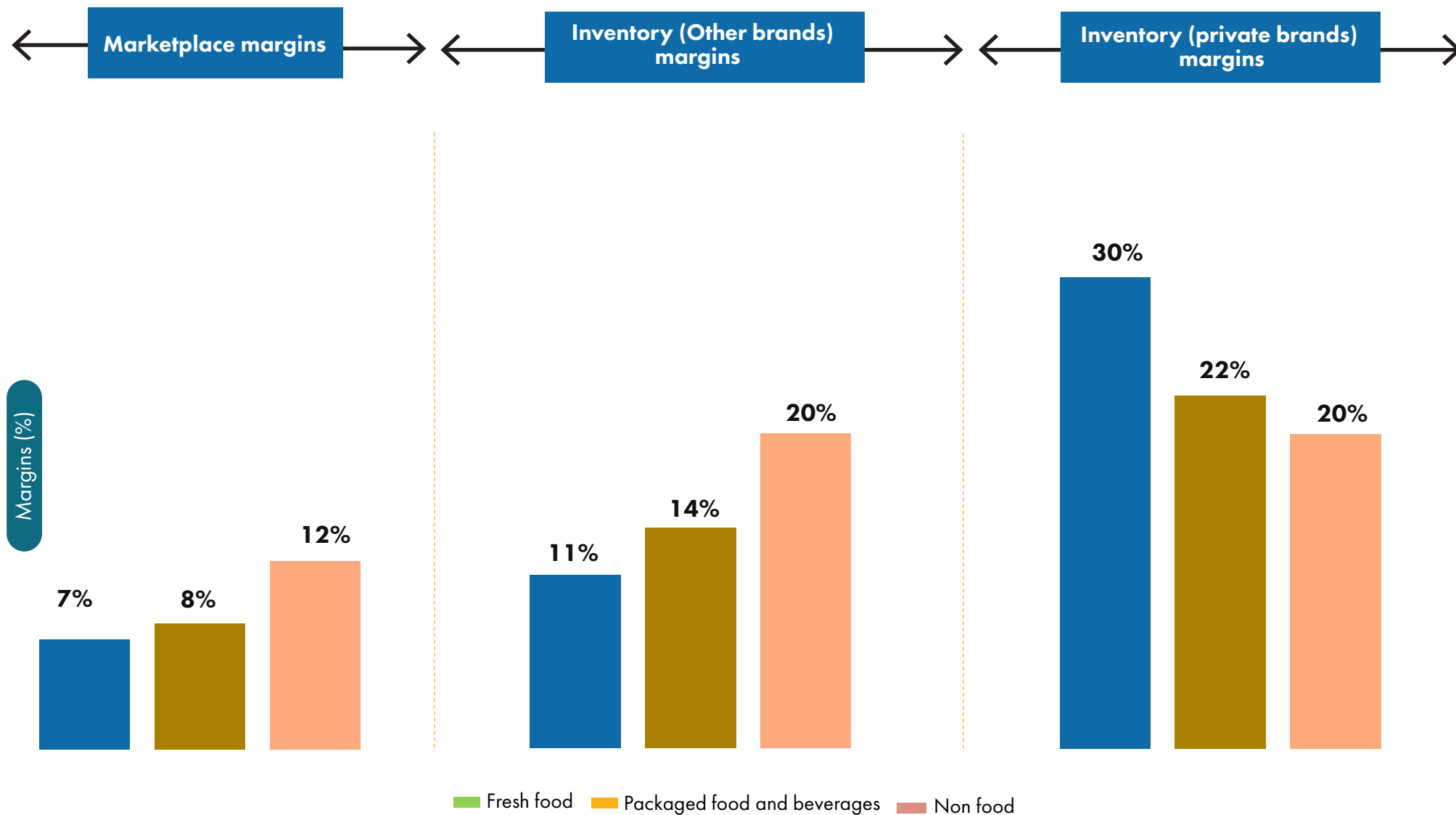
1%	0%	0%	40%	30%

FLIPKART AND AMAZON SELL GROCERIES THROUGH MULTIPLE CHANNELS

	prime video	amazon pantry	amazon 3P	amazon.in	Supermart	f
Categories	Fresh , Non fresh & Non grocery	Non fresh & Non grocery	Fresh, Non fresh & Non grocery	Non fresh & Non grocery	Non fresh and non groceries	Non fresh and non groceries
# of SKUs	8,000	10,000	12,000	25,000+	--	25,000+
Model	Inventory	Inventory	Marketplace	Hybrid	Inventory	Hybrid
FY18 GMV ($ M)	6	31	30	113	3	33
Logistics	Own - Primarily by bikes	Own - Primarily by vans	Own - Primarily by bikes	Own - Primarily by bikes	Own logistic – Generally delivered by van	Own - logistic and 3P in
Other info	• Orders are promised to be delivered within 2 hours • Delivered through Now stores • Orders are fulfilled locally	• Contains a pantry box which needs to be filled for minimum order (Rs.1k) • Orders are fulfilled locally, regionally and nationally	• Now 3P is marketplace model • Amazon representatives are stationed at the brand stores - packers and delivery personnel's	• Amazon.in offers services throughout the country • It is a mix of both marketplace sellers and inventory model • If orders are to be delivered in remote areas - 3P delivery services are also used	• Generally the order is delivered next day • Minimum order value is INR 500 and free delivery is in order above INR 1,000 • Customer can check the order by opening box at the time of delivery	• Traditional Flipkart channel , majority is personal care and home care. Few marketplace sellers also sell Non fresh grocery

Note: For Flipkart grocery – Flipkart.com and Flipkart supermarket are both included in calculation; Amazon grocery- Amazon Now, Amazon 3P, Amazon pantry and Amazon.in are considered for calculation

BUY-SELL MARGINS ON GROCERY ARE LARGELY VARIED – DEPENDING UPON CATEGORY, AND MODEL / INVENTORY OWNERSHIP.

Marketplace margins ←→

Inventory (Other brands) margins ←→

Inventory (private brands) margins ←→

Margins (%)

Marketplace margins
- Fresh food: 7%
- Packaged food and beverages: 8%
- Non food: 12%

Inventory (Other brands) margins
- Fresh food: 11%
- Packaged food and beverages: 14%
- Non food: 20%

Inventory (private brands) margins
- Fresh food: 30%
- Packaged food and beverages: 22%
- Non food: 20%

Legend:
- ■ Fresh food
- ■ Packaged food and beverages
- ■ Non food

*Note:*For Flipkart grocery – Flipkart.com and Flipkart supermarket are both included in calculation; Amazon grocery- Amazon Now, Amazon 3P, Amazon pantry and Amazon.in are considered for calculation; Amazon private label brand Solimo grocery GMV contribution is very miniscule and hence not included in the calculation

Sources: Primary research, Secondary research, IBEF report and Praxis analysis

ONLINE GROCERY SHOPPERS SHOP 66% OF MONTHLY GROCERIES ONLINE

Q. How frequently do you purchase grocery online ?
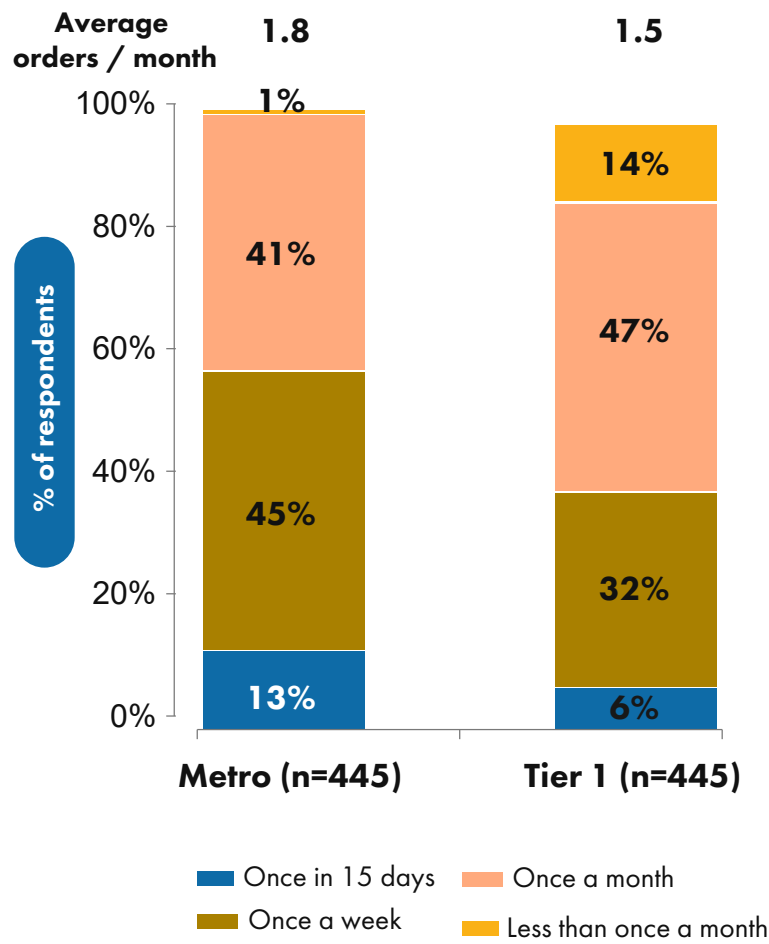
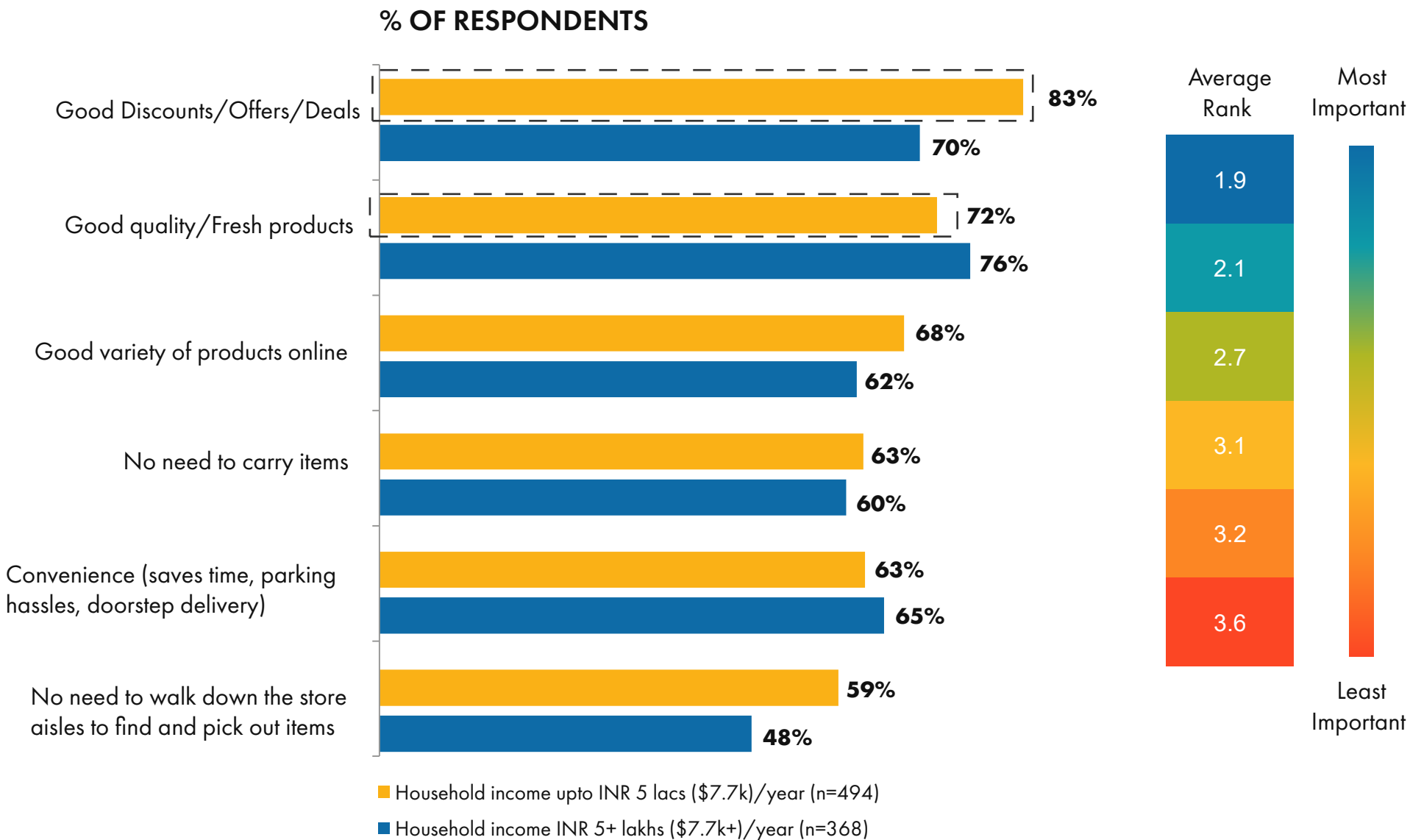**Among online grocery shoppers, 60 - 72% spend on groceries is done online (n=862)**

Q: Asked to Online shoppers only] How much in INR did you spend on ONLINe grocery across the below mentioned stores/websites/apps in the last month

Average orders / month

1.8 **1.5**

% of respondents

Metro (n=445):
- 13% Once in 15 days
- 45% Once a week
- 41% Once a month
- 1% Less than once a month

Tier 1 (n=445):
- 6% Once in 15 days
- 32% Once a week
- 47% Once a month
- 14% Less than once a month

Legend:
- ■ Once in 15 days
- ■ Once a week
- ■ Once a month
- ■ Less than once a month

Online share of monthly grocery spend	City type
72%	Metro
60%	Tier 1
66%	Overall

49% of online grocery shoppers have used more than one apps/websites for placing order in last one month

Note: More than once a week is taken as 1.25 times a week; Less than once a month is taken as 0.6 times a month; One month is considered to be same as 4 weeks

Source: Praxis grocery consumer database and survey

PRICE & QUALITY ARE THE MOST IMPORTANT REASONS FOR PEOPLE TO BUY GROCERIES ONLINE

Q: Please rank your reasons to shop groceries online. Most important reason should get Rank1

% OF RESPONDENTS

Reason	Upto INR 5 lacs	INR 5+ lakhs
Good Discounts/Offers/Deals	83%	70%
Good quality/Fresh products	72%	76%
Good variety of products online	68%	62%
No need to carry items	63%	60%
Convenience (saves time, parking hassles, doorstep delivery)	63%	65%
No need to walk down the store aisles to find and pick out items	59%	48%

■ Household income upto INR 5 lacs ($7.7k)/year (n=494)
■ Household income INR 5+ lakhs ($7.7k+)/year (n=368)

Average Rank | **Most Important**

1.9
2.1
2.7
3.1
3.2
3.6

Least Important

KEY IMPERATIVES FOR GROCERY PLAYERS

- **There are three types of purchases in grocery in India –** monthly, bi weekly for fresh, and instant. These three are different categories and need differentiated focus to success in each

- **There are multiple opportunities to drive growth in scale –** B2B segment / HoReCa, new categories (e.g., Meat), new regions (Tier II+), shopping formats (instant vs monthly), higher ticket items etc.

- **Variable and fixed cost structure does not linearly much with order size** (both, # items and value), hence driving higher AOVs is very critical to demonstrate economic success

- **Private label drives profitability** – companies can make 7-15% higher margins through private label products. Some specific categories where private label products have been successful are cereals, F&V, meat, non - traditional food items, dry fruits, and homecare

- Having wider range of SKUs, loyalty program, express delivery for immediate needs, reasonable cost and better quality of fresh produce will enable players to **increase their share of wallet with online grocery buyers**

- **Supply chain costs can go up to 20 - 30% of an order value,** typically ranging from $3 5/ order. Driving efficiency in supply chain is critical through levers like warehouse automation, multiple order picking, efficient replenishment, delivery planning etc.

- Loyalty program, faster delivery, low rate of order mismatch / item missing, product availability and better prices are some of the key parameter for **increasing customer repeat rate and stickiness.** Best in class repeat rates are average 3x / month.

- **Finally, online grocery buyer is typically a more loyal customer –** so companies can focus on optimizing their marketing spends on acquisition of customers and less on retention – retention is ensures through good quality of service

SOURCES OF INPUT CONSIDERED

- **Secondary Sources we used to study popular perspectives**
  - Press review: The Economic times, Financial Times, Business line, Financial Express, Mint, Entracker, Money control, Bloomberg quint
  - IBEF
  - Wharton knowledge
  - Euromonitor
  - CRISIL report

- **Praxis e grocery Market Model (proprietary)**

- **Market visits and industry conversations**
  - 20+ Supply chain and logistic managers
  - 50+ Warehouse personnel's
  - 10+ Warehouse managers
  - 5+ Grocery heads
  - 10+ Category managers
  - 10+ Branded suppliers

GLOSSARY OF TERMS

	Term	Description
Industry related	GMV	Sports, Fitness and Wellness
	Fresh food	Fruits , vegetables , fresh meat and dairy
	Non fresh food	Staples , packaged meat , cereals , spices , edible oils etc
	Non food	Plastic and personal care products
	PL	Private label
	AOV	Average order value
	HORECA	Hotel / restaurant / cafe
Units	CAGR	Compounded Annual Growth Rate
	SKU	Stock keeping unit
	FY	Indian Financial Year starting April 1st
	M	Million
	B	Billion
	Cr	Crore = 10 million
	INR	Indian Rupees Note: 1 USD is assumed as INR 65 in all calculations

About the authors

Aryaman Tandon

Leader – Consumer and Digital

Director (Praxis Global Alliance)
Ex-Manager at Bain & Co

- Strong experience in FMCG, grocery, supply chain, online grocery
- Decade of business consulting experience across the globe (India, Australia)

B.Tech. (IIT Delhi)

Madhur Singhal

Leader – Consumer and Digital

Managing Director (Praxis Global Alliance)
Ex-Partner at Bain & Co, BCG

- Deep experience with growth strategy, Go-to-market and overall Digital/Analytics implementation
- >14+ years of experience in creating value for financial investors and family-run businesses

MBA (IIM Ahmedabad, Schulich School), B.Tech. (IIT Delhi)

Praxis Global Alliance is a global business analytics, research and advisory firm. We believe that clients should get a very high ROI on research and advisory spends. We do this by combining domain experts, technology and 'lean cost' delivery approaches.

Our **Consumer practice** covers the full basket (goods and services) of the consumer to bring most meaningful and current insights to our work with Financial investors and Consumer companies. We do this by:

- Conducting proprietary research on various market sub-segments
- Tracking brand stories of legacy brand leaders and emerging winners (online, offline)
- Building comprehensive on-ground IP that enables us to deliver insight at the ground level (e.g. distribution retail network mapped across the country)
- Leveraging innovative web analytics to draw actionable insight
- Combining 'on-ground' practitioner experience with analytics to create 'superior outcomes'

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Praxis Global Alliance is the next-gen management consulting and business research services firm revolutionizing the way consulting projects are delivered. We deliver practical solutions to the toughest business problems by uniquely combining domain practitioner expertise, AI-led research approaches, and digital technologies.

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Contact us
We will be happy to share perspectives

Aryaman Tandon
Director

Leader – Consumer and Digital, New Delhi

✉ aryaman.tandon@praxisga.com

📞 +91 11 4932 3564

Madhur Singhal
Managing Director

Leader – Consumer and Digital, Mumbai

✉ madhur.singhal@praxisga.com

📞 +91 908 221 8254

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