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A Study on the Transition of Online Grocery Businesses from Oligopoly to Monopoly

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Abstract: *The concept of online shopping has been executed in the market to increase the convenience of buying any product,with the rise of smartphone users in the market, companies expected a sudden shift of consumers from offline stores to online, so many ventured into the market with seed funding, but in practicality, it did not happen so. It is a cut throat competition between online and offline stores to gain customers. Online stores based their promotion on huge discounts they offered making tremendous losses in the hope of recovering them in the future and gaining loyalty of customers. The same strategy was not adopted by the online grocery stores, their only unique selling preposition being the convenience of buying grocery online. This was not enough for the Indian consumers to shift from brick and mortar stores to virtual stores, because a one-day delivery system was not really convenient groceries include essential product, which a consumer might need urgently, so it is very difficult for us to imagine a consumer depending totally on the online grocery store with the quality of service they are providing right now.*

Keywords: *Online Grocery, Online Business Models, Logistics & Supply Chains.*

1. INTRODUCTION

Online grocery is a successful business model in many developed countries like Japan, France, Switzerland, UK, US etc. Now, the market is set to become an exciting space and experience exponential growth in India with a large chunk of Indian population coming online[1].Despite knowing the fact that selling perishable goods online is far more difficult than selling non-perishables items. It is an entirely different ball game with low-margin and requires expensive investments to build high-end IT infrastructure, an efficient supply chain, quality warehousing and storage facilities, and an efficient delivery system, which again varies from place to place. Retail consultancy Technopak expects the online grocery business to grow at a rate of 25-30 per cent year-on-year in major Indian cities. Research firm IGD predicts that by 2016, the Indian grocery market would overtake Japan to become the third largest market worldwide. India's online grocery market, which is estimated to be less than $100 million at present, is expected to cross $25 billion by 2020[2].In the 1950s and '60s, home delivery of milk and other daily necessities was a staple for many families in North America and Europe. In some markets, the milkman never really went out of fashion. In India, for example, the concept of a merchant delivering groceries and household staples or ready cooked meals to a home is very much alive and well.[4]

When news of Grofers shutting down its operations in 9 cities came in early January this year, the entire hyperlocal community went into a state of shock, With over **$165 Mn in its kitty** after being backed by marquee investors like Softbank**,** Sequoia and Tiger Global, the sudden slowdown for Grofers has already predicted the fate for many others in the hyperlocal grocery market.[4]

"The Indian food and grocery market ranks 6th in the world. As compared to other developed countries that are already sitting at online grocery market in billions of dollars, Indian online grocery market has managed to reach a size of $150-200 million in the past 4-5 years," says Sandeep Agarwal, Co-founder, Pink city kirana. The online grocery space in India has been divided into two major formats i.e. Aggregation and inventory based[3]. Where a majority of the players are working on the former model **(43 out of**

74), only the startups following the latter**(31 out of 74)** were seen to be more sustainable. Hyperlocal is the hot new buzzword in retail hallways, going by the recent spate of well-funded launches in this space[3]. It is a no-brainer that an aggregation model, since it is asset-light, is less capital-intensive than the inventory-led one. Moreover, it is easier to scale up such a model. The new generation of [8] hyperlocal start-ups is coupling aggregation with logistics/delivery, thus controlling even the last mile. Take Zopper, a product-based hyperlocal which started off as a price comparison website for electronics but now is a platform for purchasing products from offline stores. Indian retail is still dominated by brick-and-mortar stores, which, oddly, is an opportunity in disguise for hyperlocal players. Unlike non-hyperlocal e-commerce, these start-ups are not really competing with offline retailers, but are partnering them instead. They can tap into existing infrastructure, acting as a bridge between existing retailers and the consumer.[8]

The other reason why lots of grocery online chains suffer is because they follow GBF (Grow Big Fast) theory instead of cracking the business in one city at a time, PepperTap and Grofers had aggressively expanded to smaller towns.[5] But then they withdrew because of low order volume and high operational inefficiencies in these smaller cities. Online grocery retailing is a capital intensive channel, despite this challenge faced by this channel, it is here to stay. [5].

Business models:

1. Inventory based business model

In this type of model the purchases are made directly from the suppliers and the products are stored in their own warehouses. The inventory can be brought from local vendors, markets, farmers, FMCG companies, distributors etc.

Features of the model:

- There is a direct control of the management over the firm's inventory.
- This will mean that the firm will stock products according to the needs and demands of the consumers. A product which is highly sought after will be stocked more.
- In this model, the profit margin available to the firm is higher than what they can earn in the rest of the models.

Challenges faced in the implementation of the model:

- No fixed buying cycle of the consumers.
- No fixed profit margins.
- Higher risks due to the huge investment in infrastructure. There may be wastage of products that the firm has stocked due to less demand.
- Higher delivery cost for same-day delivery of order.

2. Hyper local model

This is the type of business model wherein companies do not own their own warehouses; rather have tie-ups with local stores for order fulfilment. So in this case, the companies need not invest in stocking up products or maintaining the same. The company will procure the goods from these local vendors as and when the product will be demanded for.

Features of the model:

- Low capital requirement
- Same day delivery as the order is possible
- Strategic tie ups with local stores is necessary
- Analytics for FMCG giants - Using their technology, they can estimate the demands at retail stores and can sell the analytics to FMCG companies, who are always on look-out for such data to improve their supply-chain management.

Challenges faced in the implementation of this model:

- To keep updating the inventory of the store with the application. This can be a constraint faced by the company. This will lead to inventory mismatch.
- Inventory mismatch will lead to non-fulfilment of order. So if a customer orders a product from the application and on the app, contrary to the stock maintained by the store, it shows that the product is available, even though it is sold out, it will lead to many dissatisfied customers.
- A lot of investment would have to be put in to upgrade the technology of the stores that the company plans to tie up with. The company will have to bear the cost of this up gradation and training the shopkeepers and vendors.
- The stores might have a little capital invested in the stocks, and might not be able to fulfill a large order.
- Logistics is a major challenge in this model. Many applications, like PepperTap identify a store located near the application user to reduce the cost of delivery, but then that will lead to less number of choices available to the consumer.

3. Dark store model

A dark store model is generally a large warehouse that is either used to facilitate a 'click and collect' service, where a customer collects on item they have ordered online or an order fulfillment platform for online sales.

Features of this model:

- Improved availability due to lack of competition from in-store customers

- Improved efficiency through use of specialist equipment, bespoke layouts, picking technology and potentially mechanization/automation
- Range extension due to increased storage capacity
- Improved transport efficiency due to consolidated demand

Challenges of this model:

- High operation cost of this model is a very significant setback.
- Selecting the right technology
- The policy of order fulfillment must be defined clearly, i.e. the interval between the order and the delivery.

4. Omni channel

This is a system where in the e-commerce site is paired with a brick and mortar shop. For e.g. Zopnow is a company which uses this model. Here defining an exact price is difficult, (shipping charges may be applicable), and the area of delivery must be decided upon. In this model, both, the offline as well as the online store would be functioning. All the orders will be fulfilled by the stock at the store.

Features of the model:

- Inventory visibility- the inventory will be updated on the app by the store keeper himself.
- Channel specific process- an online order sent for in-store pick up.
- Speedy delivery system compared to the other models and channels.
- Ease of return of goods. The customers will directly deal with the seller.
- Reduced delivery cost

Challenges faced:

- Quality control will be a disadvantage. As the company will not be able to check the quality of the delivered product.
- Technology up gradation and investment in training will have to be borne by the company.

Studying the trend: shift of offline stores towards online

With the sudden increase in number of internet users, realizing the untapped potential of online market, offline firms have seen the trend of shifting towards online stores. An apt example of this phenomenon being, Reliance Fresh, which has gone online only a few months back with the launch of its website www.Reliancefreshdirect.com, limiting their operations only till Mumbai. They source their deliveries directly from Reliance fresh stores which act as their distribution centers. The Biyani Group, one of the India's largest retailer, (holder of big-bazaar) is another example of an offline firm stepping into the online market with their omni-channel model, where existing stores play the role of warehouses. This transition is perfect for a offline retail store looking to expand its reach and cater to a wider market.

Explaining Omni-channel model in brief:

A store like Reliance fresh has 6000 grocery products to offer including fruits, vegetables, cereals, pulses, packaged food, dairy products, house hold cleaning items and personal care products. It has started its operations in the areas of South Mumbai, Navi Mumbai and Thane. The online store provides different payment options like net banking, credit/debit card, cash on delivery, store credit and meal coupons. It also provides the option of scheduling deliveries in a time slot of 2 hours and 30 minutes. No shipping charge is applicable now, although earlier there was a provision for the same. Their offline retail stores act as warehouses for the purpose of online deliveries, depending on the availability of the product. The delivery personnel work in the offline stores during free their time.

Comparison between Big basket (catering only to the online market) and Reliance Fresh (omni-channel model: catering to both online and offline market)

1. Offline stores

Having the presence of offline stores, is advantageous for a firm like Reliance fresh, because it cuts down the asset and inventory holding cost of the firm. Big basket on the other hand, has to maintain warehouses which do not cater to walk-in customers. In case of Reliance fresh, walk-in customers can be given discounted prices for items left out, but big basket has no such scheme to offer.

2. Delivery personnel

Outsourcing its complete delivery logistics to start-ups like Shadow Fax, Big basket has cut down expenses on the delivery costs and training costs.

In case of Reliance Fresh, when delivery personnel's are free, their time is utilized in the offline stores.

3. Shipping charges

Earlier Reliance Fresh used to charge Rs25 for deliveries amounting below 750 Rs, but now it has completely scrapped out this charge. Meanwhile big basket continues to charge Rs 20 for orders below Rs 1000, and free above it.

4. Price of the goods

The prices of all the goods offered by both the firms is approximately same. Hence, there is no other incentive for customers to purchase from one store over the other. Availability of the products is the only major factor influencing the buying decision from both the stores.

2. CONCLUSION

After considering all the relevant business models, pricing strategies and concept of online groceries, it still seems that nobody has been able to come up with a sustainable model. There are still challenges left to be conquered:

- Pricing strategies that are sustainable in this cut throat competition
- 90 minutes delivery system of goods
- Warehousing cost and control over inventory

It is very crucial for the future of online groceries in the market to crack these challenges and come up with a solution. It will only see a big shift of consumers from offline to online, if it is able to provide goods at a reasonably lower price, in a shorter time of delivery and improve availability.

One key USP of the online grocery model is the convenience of a doorstep delivery it offers to the consumer. However, that gets nullified by the delay in delivery times. To compensate for this, there are two clear options to all the major companies in this industry – One, reduction of prices through increasing discounts and two, increasing the number of order dispatch points (dark stores) to service smaller areas in quicker times. A perfect harmony in these two factors can help in successfully cracking the 90 minutes delivery model. The unit economics in such a model can only be viable if the average ticket size of an order increases. This brings us back to our first point regarding the pricing strategies. To make the 90 minutes model successful, a bundled pricing or combo pricing makes more sense as it creates a larger ticket value for the order. A case in point, if a delivery cost from point A to point B costs a company Rs 50, it would rather be selling its products at a BOGO offer (Buy 1 Get 1 Free) than a simple 50% discounting.

If we analyze the current market scenario, we can understand that the offline stores are backed up with warehousing facilities but lack logistics, while the Online stores which have ventured into the market, have logistics facility but lack the warehousing facility. It won't be surprising if in future we find online stores and offline stores joining hands in order to provide valuable services. This kind of model, if adopted, could be beneficial to both the parties in order to increase customer reach and for being able to sustain in the market. They can be the perfect combination together in order to create a profitable model for the groceries market. It is only reasonable that some of India's largest online grocery platforms are taking a cue from Amazon and are venturing more and more into the brick and mortar model. A brick and mortar store and a complementary online platform not only cater to a wider market, but one helps out redeeming the flaws of the other by working together.

Although, the research had begun with the hypothesis that not many players would be able to sustain themselves in the market, resulting in complete monopoly of online grocery market by one player, or in other words we can say 'survival of the fittest', but the findings show contrary. It has been found that many players are still entering in the market with different working models, trying and testing new concepts and struggling to increase customer satisfaction, and although many players have left the market because they could not find it profitable, this did not demotivate new players to enter the market. The current market status shows that many new players have gained investment to venture into the online grocery market, and it suggests that the number of players will increase.

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