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Indian e grocery market FY18 Reporting

20th June, 2018

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Executive summary

- **e grocery market is riding the internet wave and is growing rapidly**
 - Sized at ~**USD 600 M** in FY17 and ~**USD 900 M** in FY18, e grocery market is expected to grow @~**70% CAGR** to reach **USD 7.5 B** by 2022
 - The strong growth is being driven by increased investments in the space, FDI through large players, emergence of more successful inventory based models, improved consumer understanding by players, higher consumer awareness and comfort level with shopping grocery online, increasing order values, and better service levels through supply chain innovation, and private label sales
- **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 'fresh food' 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**
- **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



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

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

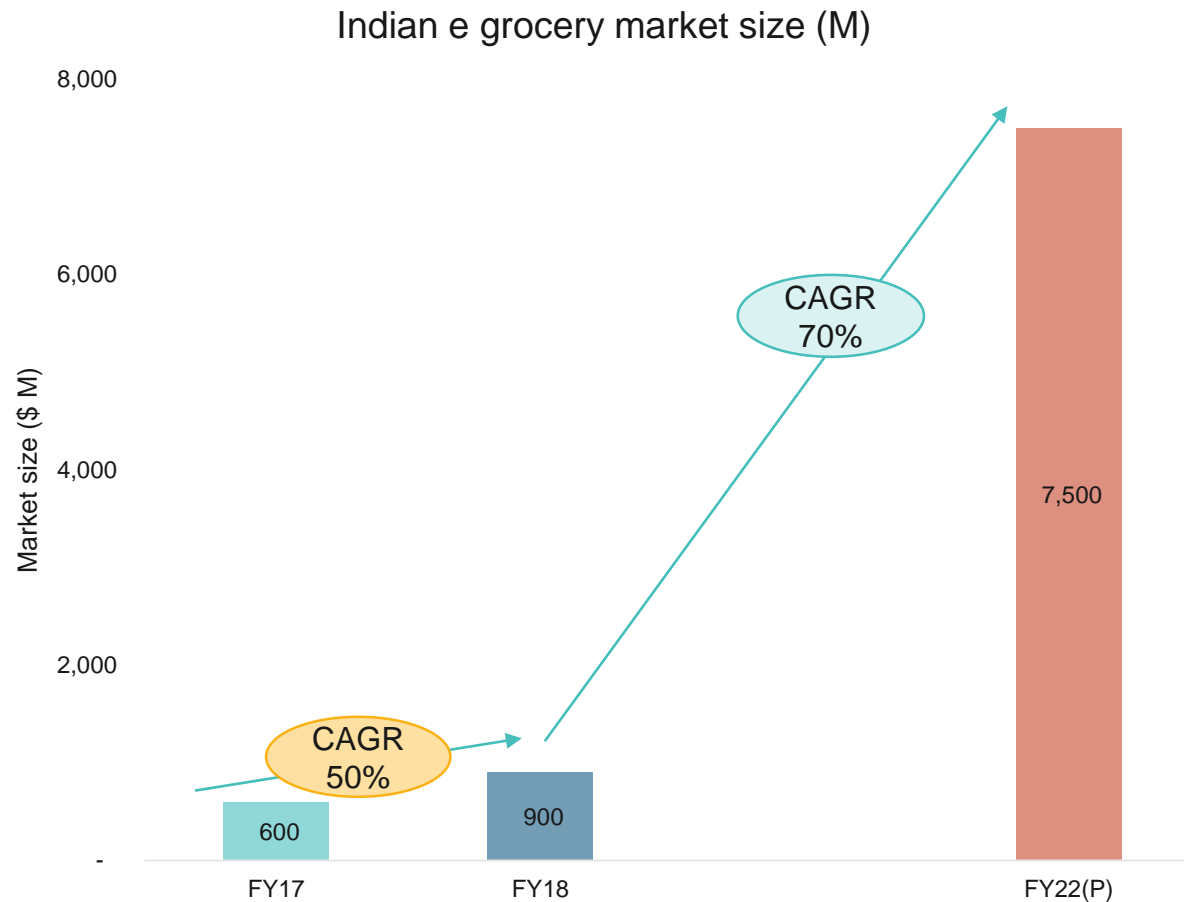
Non- FMCG



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



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 non food 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.

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 improving and is between 2-3x for all players in the vertical category.



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



Metro vs non metro buyers: >50% online grocery buyers in metros purchase 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

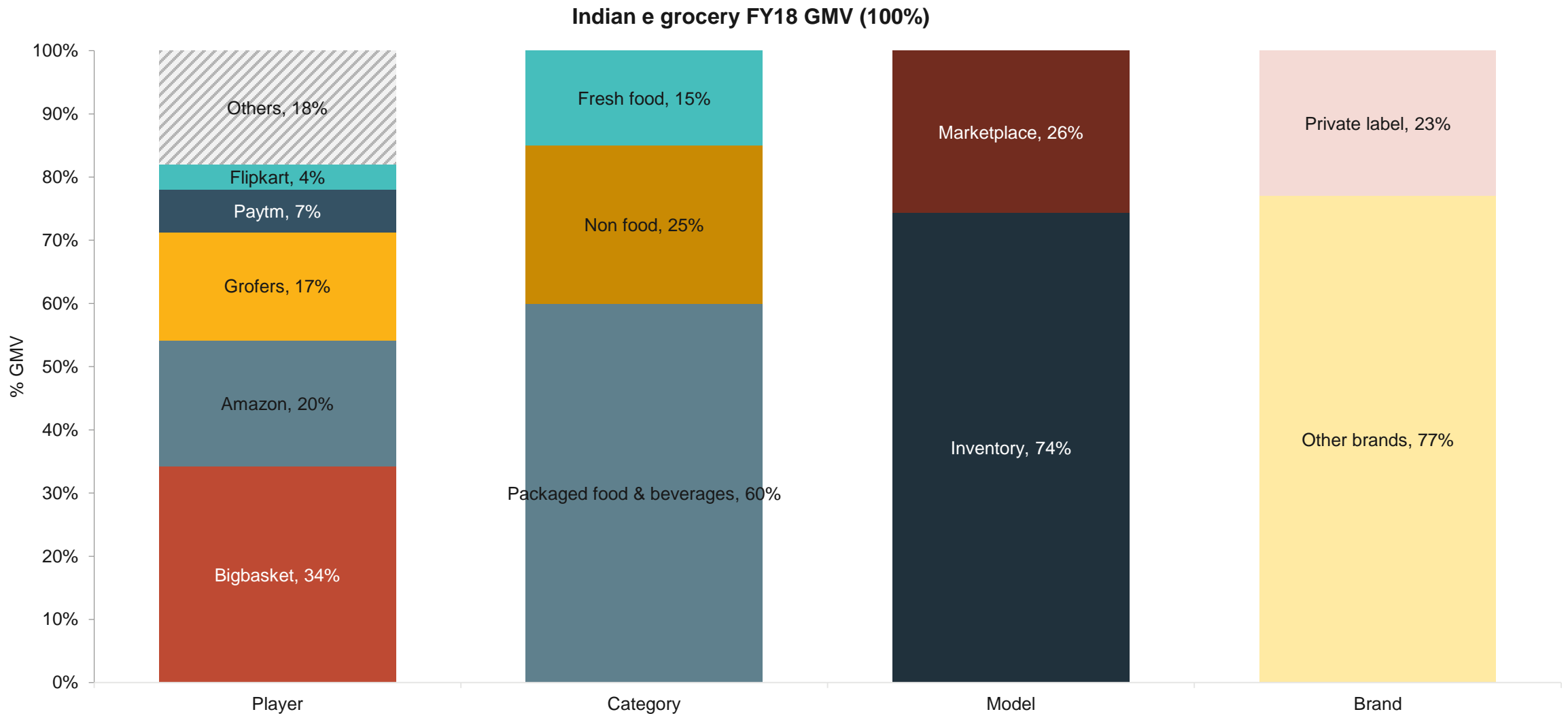


Habit forming category: There is strong habit forming – even after comparing prices, customers order from the portal they are comfortable with



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

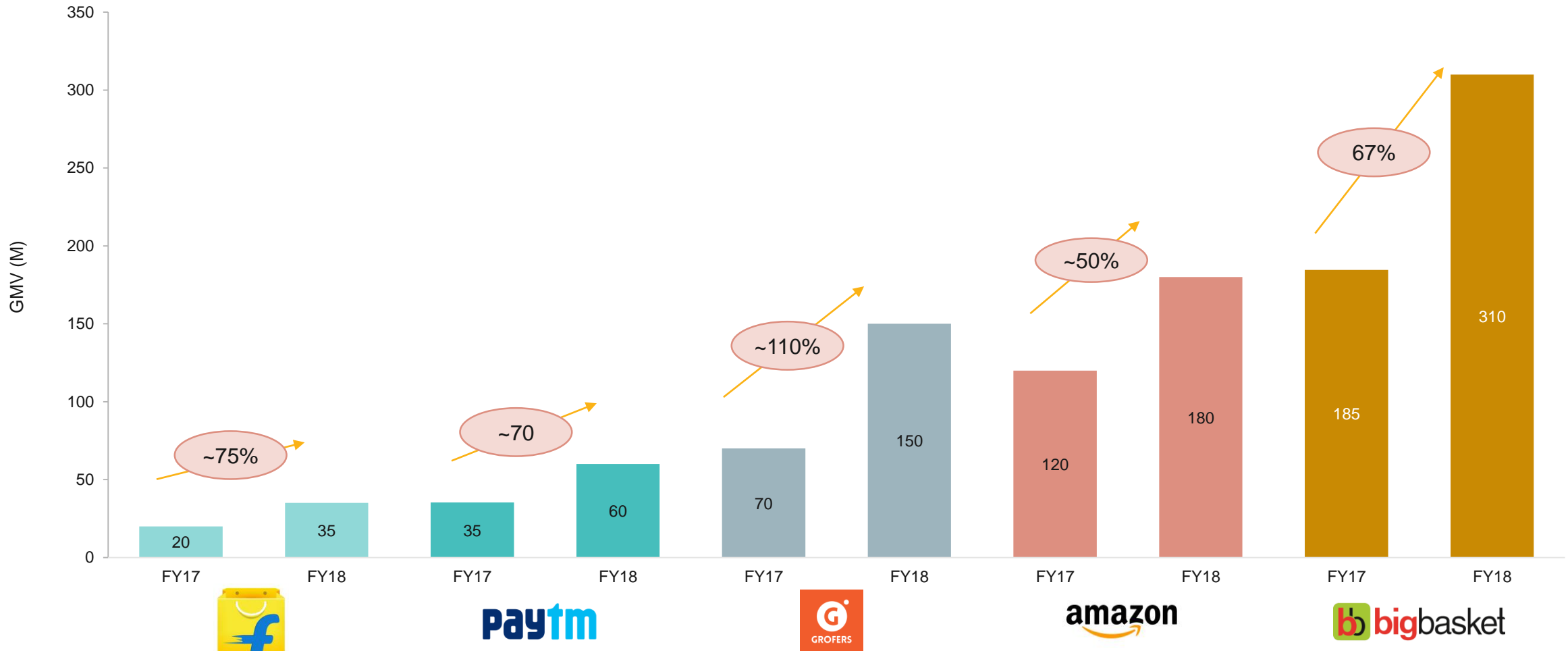


Note: For Flipkart grocery – Flipkart.com and Flipkart supermarket are both included in calculation; Amazon grocery- Amazon Now, Amazon 3P, Amazon Pantry and Amazon.in are considered for calculation

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

Grofers has demonstrated strong growth in FY18 growing at >100%






Grocery GMV growth from FY17 to 2018



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

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

e grocery players competitive landscape- FY18

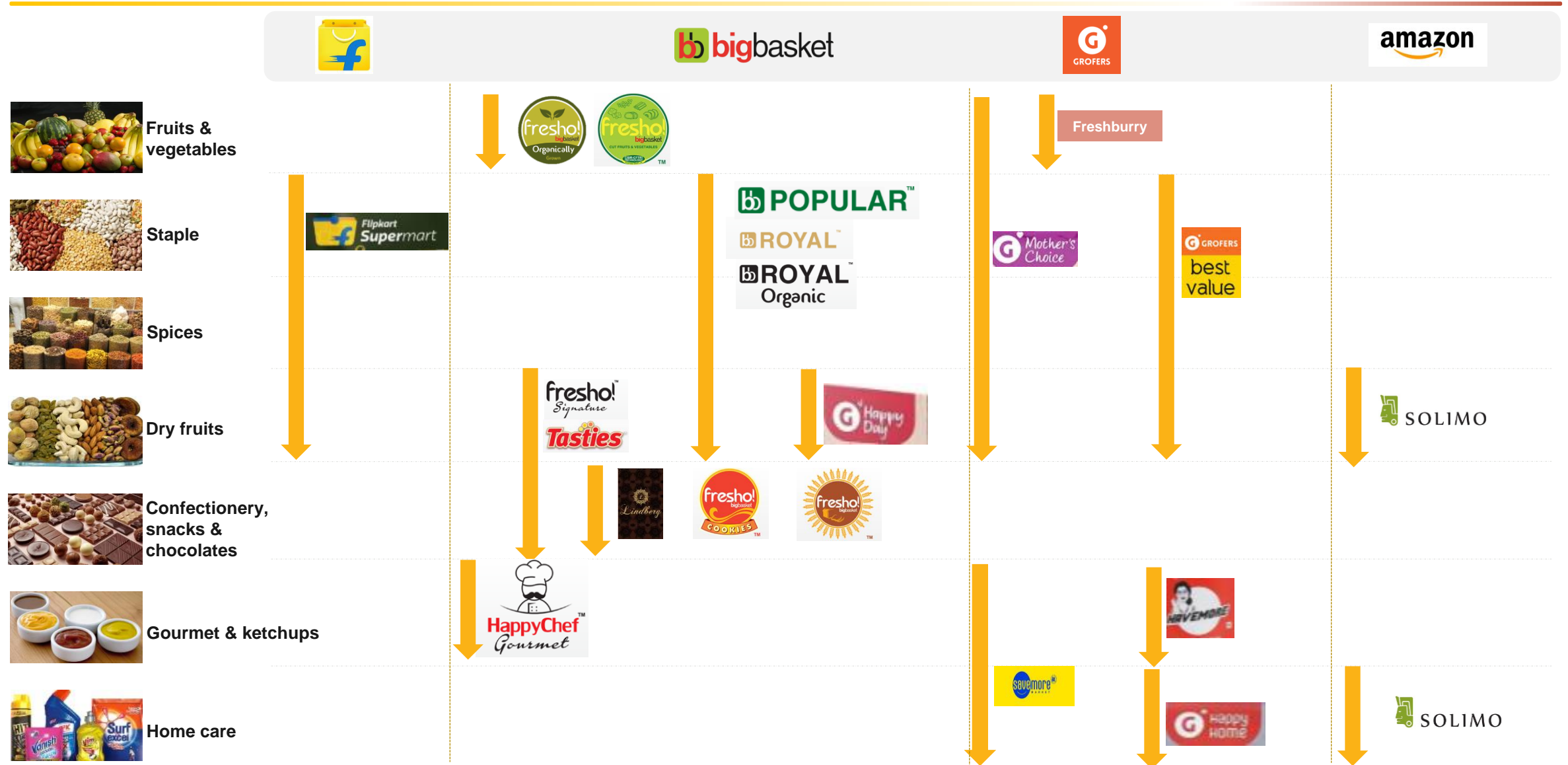
		Overall economics						April 2018 economics			Assortment				HORECA
		FY 18 GMV (\$M)	FY 18 # of orders per day ('000)	FY 18 AOV (\$)	# of PL brands	Marketplace	Inventory	April 2018 monthly RR (\$M)	April 2018 daily orders ('000)	April 2018 AOV (\$)	Fresh food	Packaged food and beverages	Non food	# of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

Note: *Includes HoReCa; ^Excludes HoReCa; Grofers * has reduced the # of SKUs from 12,000 to 6,000; Bigbasket has increased the number of SKUs from 18k to 22k ; * SKUs under Amazon now and Pantry, # of SKUs exclusively under Amazon now- 6K

Indian e grocery market competitive landscape

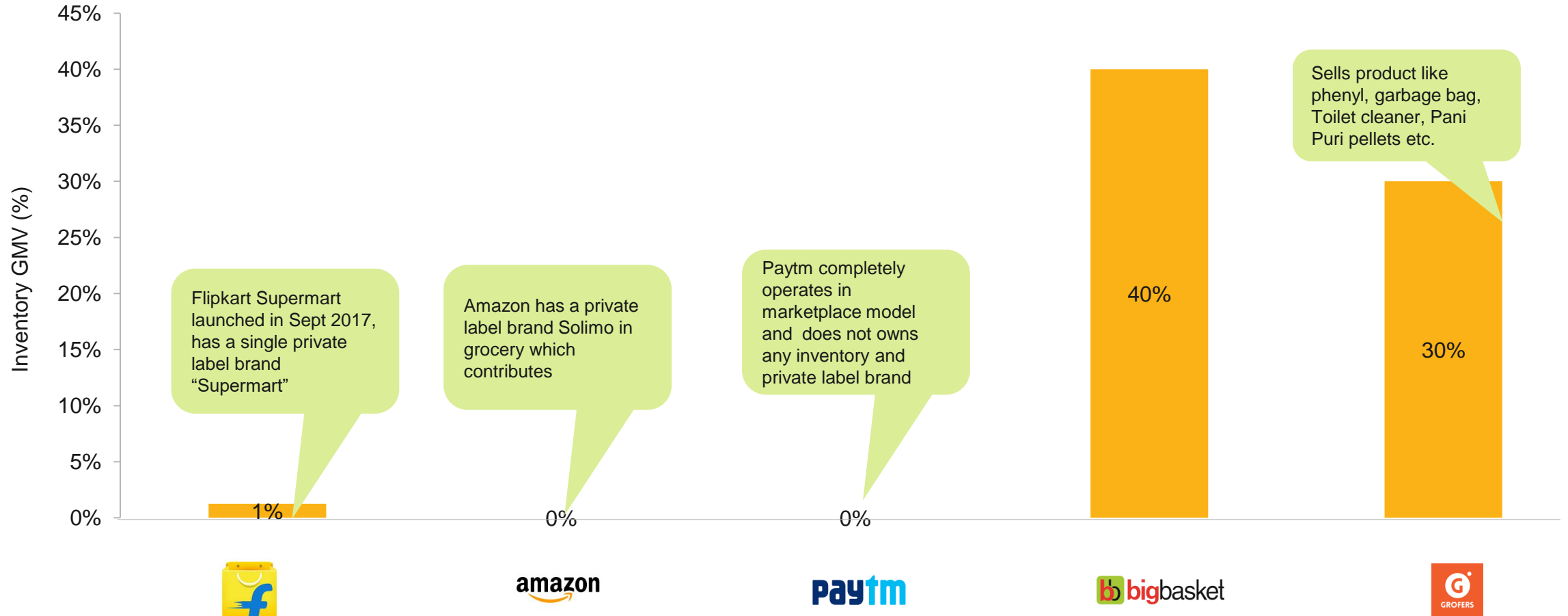
		Recent activities	Future plans
Horizontals		<ul style="list-style-type: none"> Started Flipkart Supermart for employees on Aug 2017 Currently active in only 1 city - Bengaluru Has one dedicated warehouse for groceries in Bangalore Launched Flipkart Supermart at Bangalore on November 	<ul style="list-style-type: none"> 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
		<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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
		<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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
Verticals		<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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
		<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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



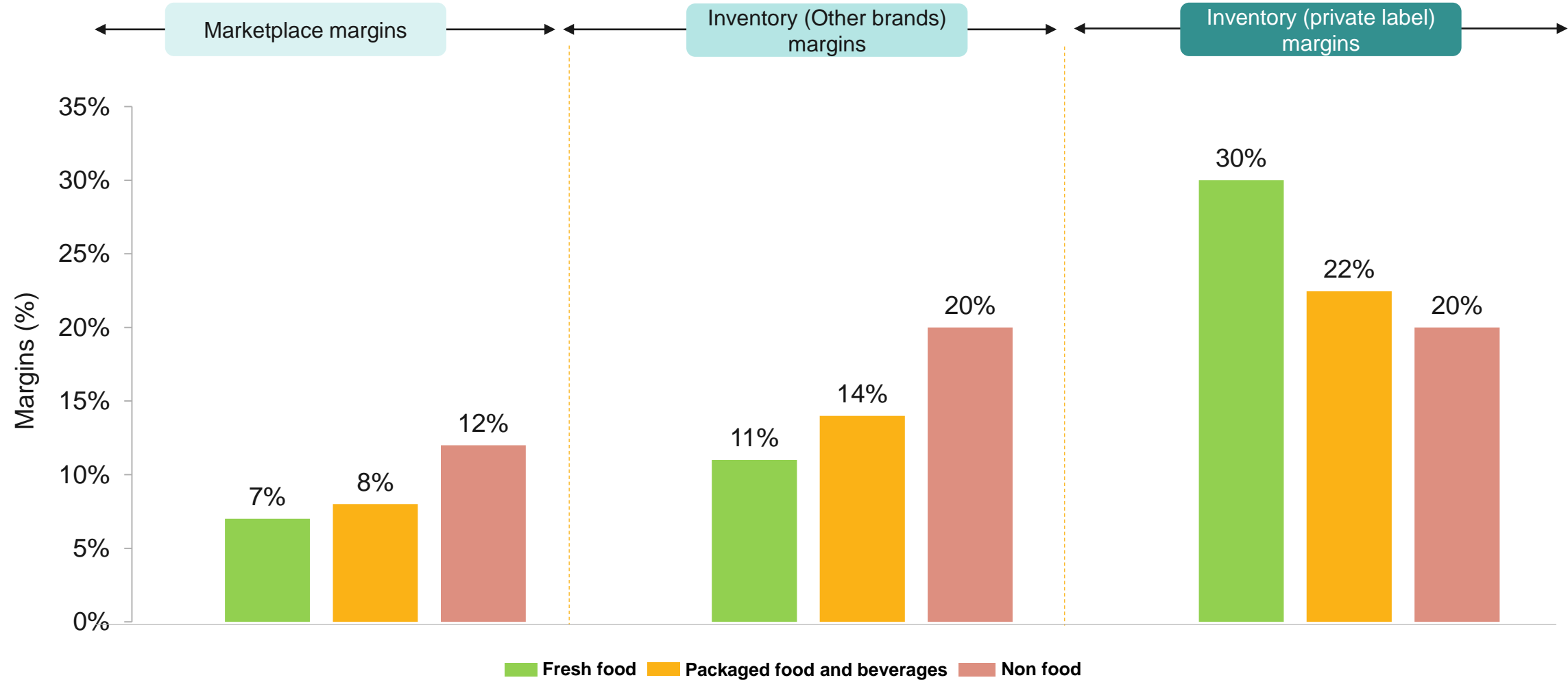
Note: For Flipkart grocery – Flipkart.com and Flipkart supermarket are both included in calculation; Amazon grocery- Amazon Now, Amazon 3P, Amazon pantry and Amazon.in are considered for calculation; Amazon private label brand Solimo grocery GMV contribution is very miniscule and hence not included in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

Flipkart and Amazon sell groceries through multiple channels

	amazon				f	
	prime now	amazonpantry	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 case of remote areas
Other info	<ul style="list-style-type: none"> Orders are promised to be delivered within 2 hours Delivered through Now stores Orders are fulfilled locally 	<ul style="list-style-type: none"> Contains a pantry box which needs to be filled for minimum order (Rs.1k) Orders are fulfilled locally, regionally and nationally 	<ul style="list-style-type: none"> Now 3P is marketplace model Amazon representatives are stationed at the brand stores – packers and delivery personnel's 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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

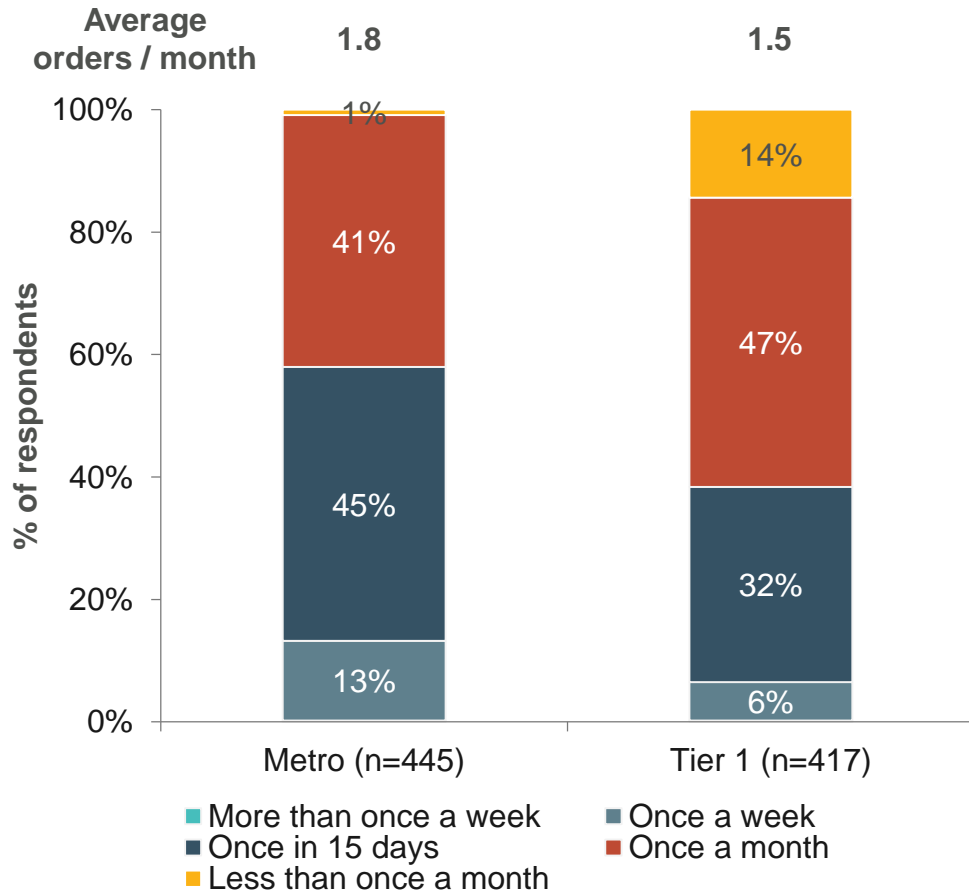
Buy-sell margins on grocery are largely varied – depending upon category, and model / inventory ownership.



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

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?

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

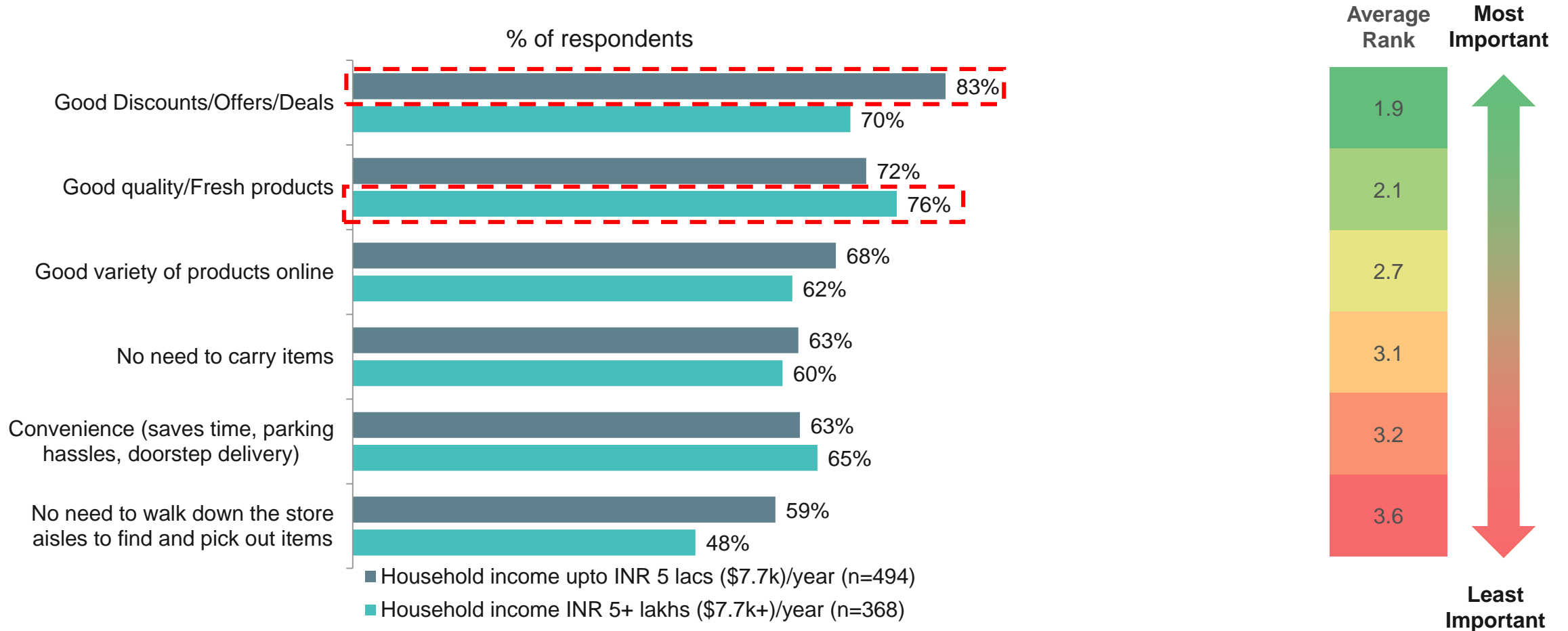
49% of online grocery shoppers have used more than one apps/websites for placing order in last one month

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



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 ensured through good quality of service

Sources of input considered

1. 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

2. Praxis e grocery Market Model (proprietary)

3. 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 1 st of one year and ending on 31 st March of the next year
	M	Million
	B	Billion
	Cr	<i>Crore = 10 million</i>
	INR	Indian Rupees <i>Note: 1 USD is assumed as INR 65 in all calculations</i>

About the authors



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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:

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- 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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Contact us

We will be happy to share perspectives



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