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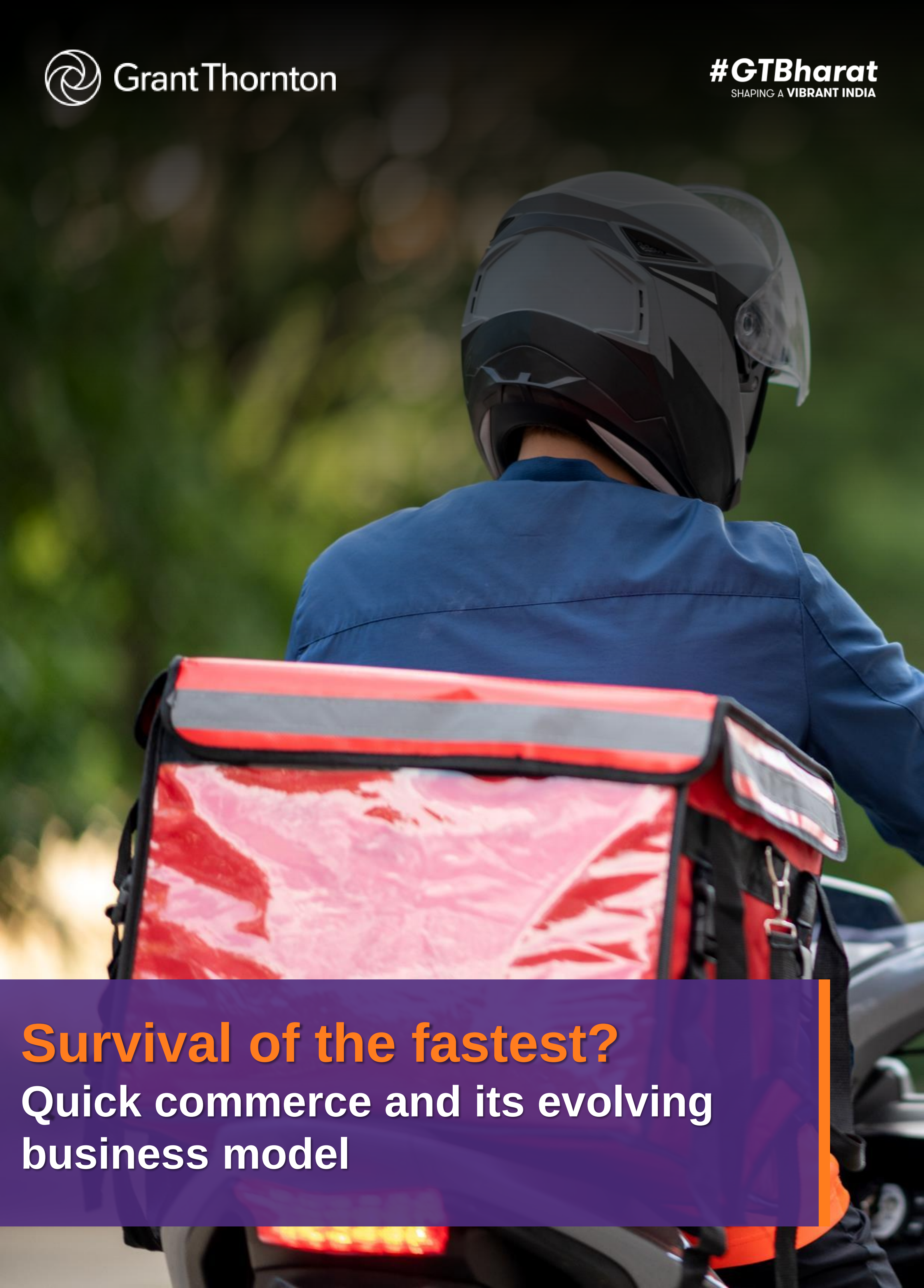

Survival of the fastest?

Quick commerce and its evolving business model

Executive summary

Driven by technology, pandemic-induced restrictions and the ever-increasing ask for convenience, consumer behaviour has undergone significant changes in the last few years.

This change has led to the emergence of the quick commerce (Q-com) model. To understand how Q-com influences consumer preference, Grant Thornton Bharat conducted a survey across various platforms, garnering over 1,500 responses. Our experts also interacted with various local *kirana* store owners and select Q-com service providers to understand their response to this evolving business model.

The analysis highlights how consumers are slowly evolving in their buying journey. Discounts and offers are the main influencing factors when ordering from Q-com players. The majority of the respondents use Q-com to fill gaps in their pantry loading or use it while making impulse purchases. With the increased scope of private equity (PE) investment and consolidation, this business model has caught the interest of a lot of start-ups and established brands.

To tackle the emergence of such players, local *kirana* stores are working on improving their operational efficiency and have started to focus on 30-40 minute deliveries and digitalisation of business processes.

The near future will witness the survival of the fittest. Q-com players will slowly start focusing on basket size and last-mile delivery models since, currently, 50-70% of the gross margin is taken up by delivery costs. Only those companies that are able to improve unit economics and manage inventory overload, all while adhering to or slightly altering delivery timelines, would be able to thrive in this dynamic space.

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Key highlights

82%
users ordered snacks using Q-com

68%
ordered fruits and vegetables using Q-com

81%
users were driven by discounts and offers while using Q-com

40%
quoted non-adherence to delivery time as a pain point

7-10%
increase in revenue was witnessed by *kiranas* with their own version of Q-com

75%
kirana stores did not witness a cost increase on providing delivery service

The Indian Q-com landscape

India's[1] Q-com market is expected to witness a 15x growth by 2025, reaching a market size of close to USD 5.5 billion. According to this report, an increase in consumer demand to fulfill top-ups, along with impulse purchases, is driving the growth and expansion of this space,. Most of this demand is generated by millennial and Gen-Z consumers in mid-to high-income households (INR 5 lakh to INR 2 crore) in metro and tier-1 cities.

Q-com players currently service around three lakh orders daily. It is no surprise that most of the established Indian fast-moving consumer goods (FMCG) companies have reported a higher share of sales in the e-commerce model picking up pace. The Indian Q-com market has attracted a total of USD 4283.52 million in investments, since the start of FY21, representing increased PE confidence. As of now, three companies offering Q-com in their portfolio have achieved unicorn status.

1.RedSeer

What's in the basket and why?

Food items dominate Q-com baskets

Snacks (82%) and fruits and vegetables (68%) are the top two products ordered on Q-com portals. This implies that Indians are mostly using Q-com as a top-up service for their households.

Only 56% Indians choose to buy personal care products using these services while only 54% purchase staples. The above trend indicates that impulse or spontaneous buying among consumers has increased with convenience and choice.

Delivery time and quality are the pain points

Delivery time and quality of the final product came out as the main concerns. Nearly 40% of respondents quoted non-adherence to the committed delivery time as their biggest pain point while another 33% of the respondents were irked by the quality and freshness of the products. This preference will put immense pressure on Q-com platforms to improvise their last mile deliveries as well as efficiently manage their stock keeping units (SKUs).

Discounts and offers sway users

The push for consumer acquisition is currently driven by aggressive pricing. Around 81% of the respondents highlighted discounts and offers as the main reason to buy products using Q-Com. It is interesting to note that although the dependence on impulse buying and instant deliveries is high, consumers are not entirely evolved as their primary reason revolves around cost.

Shift on consumer dependency in *kiranas*

70% respondents noted a fall in dependence on traditional retailers. Only 23% still prefer a local convenience store for immediate order fulfillment. Given the current free pricing for Q-com deliveries, around 30% of our respondents order every alternate day with another 40% preferring to order once a week.

The evolving business model of *kiranas*

Kirana stores (traditional retailers) have often been associated with friendly neighbourhood shops. These stores had to face stiff competition from the new Q-com platforms that are equipped with better technology, a deeper supply chain, superior inventory management practices and deep pockets for offering discounts.

Discussions with some of the *kirana* store owners highlighted how they are mastering their unique version of a Q-com model.

01 Traditional retailers have set customer expectations at **30-45 minutes** for the delivery of their products

02 Many retailers use around **30%** of their existing staff for home deliveries

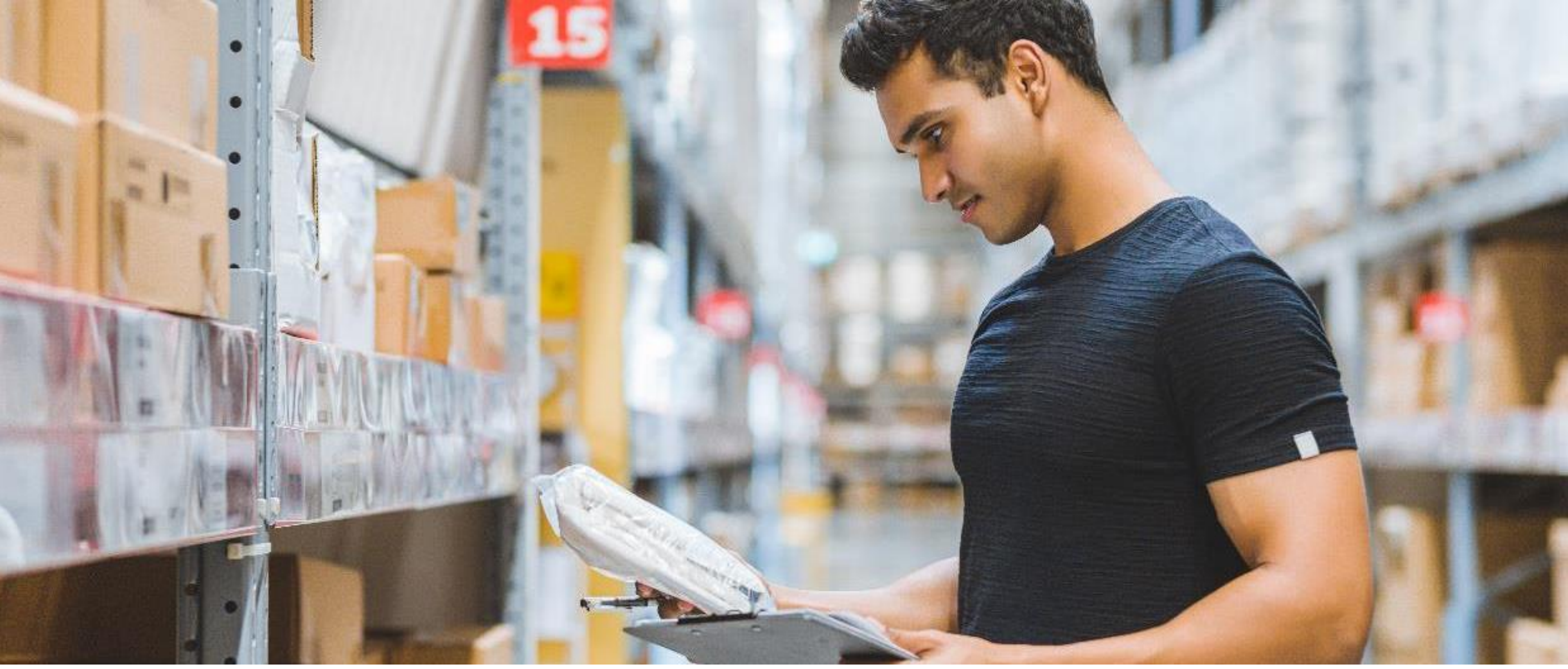
03 **60%** said that delivery service and continued customer loyalty helped them compete with the new Q-com players

04 Most traditional retailers have witnessed a **7-10%** increase in their revenues by offering their own model of Q-com

05 *Kirana* stores have adopted the latest payment methods, such as Unified Payments Interface (UPI), WhatsApp Business, etc.

06 Around **75%** of the stores did not see a cost increase on account of delivery service

Almost all the stores that were interviewed kept a track of orders through a phone-call booking system and **67%** of them tracked orders through WhatsApp. Various progressive retailers plan on digitalising their order processing interface through the WhatsApp Business. *Kirana* stores are adopting suitable operating models to put up a good fight to retain and grow their consumer base.



A costly affair of operating dark stores

A 20-minute delivery is possible only when stocking points are close to consumption centres

Unlike the traditional e-commerce business, where the supply chain can be configured for the least cost with optimum service equation, Q-com players target the best service (delivery time) at optimum cost, thus changing the equation used to design supply-chain networks.

Q-com players have tried to replicate the model used by food delivery platforms by partnering with retailers. However, this model has not taken off in India on account of the maximum retail price (MRP) regulations and the margin profile of products. These players then started establishing their own micro-warehouses (known as dark stores) to facilitate quick product delivery. This strategy has made Q-com players invest significantly in establishing localised networks of stores for last mile connectivity.

This business model typically involves a mother hub, distribution centre and last-mile delivery stores, or dark stores. Dark stores are usually 800-1,000 square feet warehouses that house around 1,000-1,500 SKUs. Given logistics constraints across most Indian cities, these stores need to be located within a three-kilometer radius of dense consumption areas.

Even with a conservative estimate, the cost of operating a dark warehouse is INR 1.5-2 lakhs a month. The average basket size across most Q-com orders values at INR 400, making the retailer spend anywhere between 50%-70%[2] of the gross margin on delivery costs. With the increasing frequency of buying smaller quantities in every order and maximising deliveries, increasing the scale to offset unit economics become critical levers for profitable operations.

2. A rider expects earnings in the range of INR 1,000 on a day and usually ends up doing ~30 orders. Hence, the delivery cost is usually in the range of INR 35-45 per order. The typical margin for orders on Q-com would be 12-15%, working out to INR 50-60 on an INR 400 basket size.

Six trends to look out for

What does the Q-com space have in store?

Focused micro-market play

Q-com players need to focus on expansion in metros and select top cities as they have a higher share of consumers willing to trade time for a higher price.

Dynamic delivery-lead times

There is a minimum set-up cost for every dark store and to sustain the cost, players are likely to settle for 40–45-minute delivery time in the future for most orders. The increase in delivery time could help in grouping deliveries and, hence, reduce last mile cost.

Improved unit economics

The current ticket sizes and margin profile results in delivery cost eating into two-thirds of the gross margins. Hence, they will need to work on product assortments and private brands and increase frequency through targeted offers. The latest trend we have seen is some of the e-commerce companies offering mobile phones and cosmetics in one hour.

Charging for deliveries

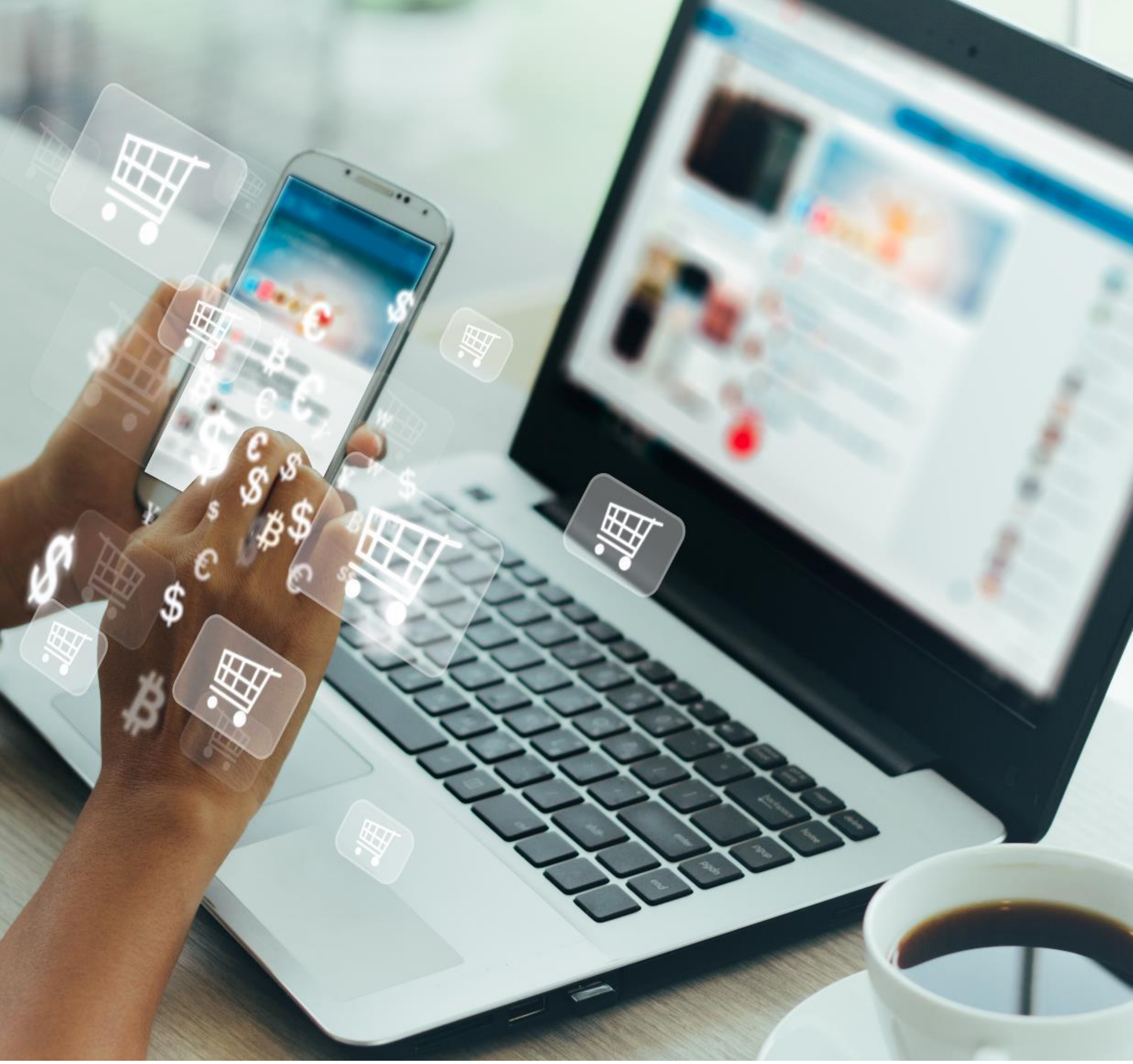
To sustain business models, Q-com companies might have to charge a delivery fee if the ticket size is below a particular threshold. As Indian consumers evolve, paying for shorter delivery times and small purchases could be accepted.

Micro collaborations and alternate revenue streams

A more collaborative experiment between Q-com and traditional players can now be seen. Organised Q-com players will actively look at developing alternate revenue streams, either in the form of advertisements or joint product development with FMCG brands.

ESG considerations

The minimum number of riders and trips for each dark store to be profitable might lead to each store contributing nearly 66 kilos of carbon dioxide per day (unless electric vehicles are used). There will also be increased consumption of plastic and paper bags. This merits some serious action steps by Q-com players to improve their environmental sustainability quotient.



Conclusion

The success of Q-com companies will depend entirely on how efficiently they are able to manage their delivery infrastructure in a cost-effective manner using technology and artificial intelligence (AI). The model has delivered returns to investors and it is going to become a more dynamic space.

Players are likely to focus on the six themes explained above and follow the road to profitability. Going forward, we foresee some consolidation happening in the market with key acquisitions. Since consumers are price conscious, this poses a challenge for the long-term sustainability of Q-com players but on the positive side, the potential is huge, given India’s consumer demographics and segmented demands.

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