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# Local Answer to a Global Hype

- On Convenience, Growth and Sustainability

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## Local Answer to a Global Hype – On Convenience, Growth and Sustainability

Like other business sectors, the supermarket sector too is witnessing rapid influences of online trend. In India, major cities like Bangaluru, Mumbai, Delhi, Hyderabad and Pune are exposed to many online business models. The paper presents an analysis of these influences, attempts to reason out the phenomena, and suggests a simple but effective solution that can impact lives through its social innovation approach.

### Online Business – The Global Phenomena

The online giant Amazon took 15 year to record its first quarterly profit in 2009. Last year in 2015, Amazon recorded its first annual profit. The Indian counterparts like Flipkart, Snapdeal have also proved to be strong survivors, yet awaiting profitability. BigBasket, the online grocery store too is walking strong on this path. Growing expenditure on delivery logistics, inventory and infrastructure, making the offer look attractive to customers, and advertisements seem to play a major role in the growing cost of running an online business. While all these majors tread on the tough path, the question ‘Is online business truly sustainable?’ pops up inevitably.

It’s worthy to note that Amazon has greatly diversified from being an online bookstore that it started as. Apart from being an internet retailer, Amazon provides cloud services (AWS), supplies to businesses (Amazon Business), runs retail website for others (Marks & Spencer, LACOSTE, Bebe, etc.) and allows retailers across the world to sell on its site as an aggregator. It is also a software development company that meets its own requirement. With a deeper look, it is clear that Amazon has well-invested in itself. Every expertise it garnered in the areas of web hosting, online retailing, infrastructure know-how and e-commerce, has been channelized into a new revenue generating method or a new Amazon business, typically in a B2B context. AWS, Amazon Business and Amazon’s decision sell online as an aggregator of businesses have contributed largely to the survival of Amazon as internet retailer. In fact, in 2015 when Amazon recorded its first annual profit, the largest contribution came from AWS, the cloud service provider. Meanwhile, Amazon also has grown up into a mature online retailer and has accounted for 60% of the America’s online business growth in 2015. Although on record the profit is not significant, one must note that Amazon has been earning well enough in order to spend more and more to invest in itself! With

Amazon's recent decision to open a series of brick & mortar bookstores in Seattle, the company that was responsible for the shutdown of hundreds of bookstores has come around a full circle!

The lesson is clear; it is indeed hard to make an online business profitable, at least in its present form. However, the trend has definitely impacted the buying behavior of people, which is clear from the trend of ever increasing growth in the business in this sector. Although online buying trend is here to stay, the effort needed to make online business sustainable is enormous. The rest of the paper will discuss the Indian context vis-à-vis the trends in online grocery.

### **Online Grocery – A Tougher Business**

While online business is tough, online grocery is tougher! The good part is that the demand for online grocery is much greater than that of other products such as electronics, clothing, apparels or books; simply because, grocery is a primary need and the frequency of buying grocery and other daily essentials is very high compared to that of other products. However, grocery is a low margin sector and there is a clear need for much more efficient inventory management, products include perishable goods or they have a limited shelf-life and one must adhere to strict delivery schedules. All of these put together make online grocery a more difficult proposition.

### **Online Grocery – Trends Evolving in a Dynamic Environment**

There are successful online supermarkets such as BigBasket in India. Of many such businesses that have come up in last half a decade or so, BigBasket is one that has made its presence felt. While BigBasket is yet to reach profitability, many others have retraced the path. Apart from the pure online model as that of BigBasket, many hyperlocal businesses mushroomed in this period. Many of them disappeared equally quickly! Not just the cost of running such business models, the fact that there too many players in the game also contributed to the failure of these businesses. Bangalore was the most common target for all these businesses. All of them targeted the Bangalore customer base around the same time and naturally, had to divide the same customer base among themselves. Unrealistic promises such as delivery in 90 minutes, generous discounts offered to lure customers, high costs incurred on delivery logistics/workforce brought them down further. As a result, not many of them sustained. However, customers continue to look for saving time and effort involved in buying daily essentials and they are loving it for the convenience

such businesses offer. The younger generation seems to treat it as a way of life. So in all probabilities the online trend is here to stay.

In Bangalore, Amazon Business is already supplying FMCG goods to most of the local supermarkets and has positioned itself comfortably as the distributor of retail goods. Simultaneously, it has kicked off Amazon KiranaNow that sells grocery online, sells typical FMCG products, and also encourages retail businesses to sell their products through Amazon online. Effectively, Amazon is selling the same goods to consumers through its online channel and to retailers through Amazon Business, trying to its position in both B2C and B2B markets. In a way, local businesses are buying from one of their competitors!

Similar efforts made by BigBasket include a 'private label push' where BigBasket sells its own grocery brands 'Fresho' and 'Royal' to grocery stores in the city. It won't be a surprise if BigBasket starts following Amazon's path supplying FMCG products to local supermarkets in imminent future.

### **Role of Local Supermarkets and Effect of Online Grocery on Local Business**

The curious supermarkets did participate in Hyperlocal businesses under labels such as Jiffstore (now PepperTap) and GROFERS. In this tie-up, the customers could order from specific stores signed up with the online counterpart. The online business advertised for itself, attracted customers, got orders, and bought from the specific stores and delivered. The supermarkets hardly contributed to running the show. In some situations where order processing & delivery responsibilities were handed over to the supermarkets, the job was not done to perfection.

There has been a definite growth in online grocery businesses. While BigBasket has become a household name in Bangalore, Hyderabad, Mumbai, Pune and Delhi, it is slowly impacting lives in other 20+ cities across India too. ZopNow, SangamDirect, urDOORSTEP are some of the online businesses that are quietly positioning themselves in Bangalore. Recent reports on BigBasket say that the company churns out 20,000 orders a day at an average order size of Rs.1500/-. This translates to a daily turnover of Rs.3 crores. If we assume that a quarter of the entire business happens in Bangalore, the daily turnover in Bangalore alone is Rs. 75 lakhs. If an average supermarket makes Rs. 1 lakh a day, then Big Basket alone works like 75 supermarkets in Bangalore! These figures should tell us how a local supermarket business is impacted by just one strong player. Do the supermarkets feel the pinch? In all likelihood, they do. But many of them are still unaware or even refuse to attribute the dip in business to the growing trend of online shopping.

A typical practice observed in the supermarket businesses in Bangalore is that once a supermarket is established in a particular area, it opens another shop a kilometer away. And another one another kilometer away after some time. Many of the supermarkets have their establishments across the city. Every time a new business is opened in the neighborhood, a dip in business is felt. So, a dip in business is not normally given much attention to and is often attributed to new businesses (mostly its own!) cropping up in the neighborhood.

The supermarkets bank on the impulsive buying nature of the customer exhibited on a supermarket visit. Obviously accepting anything that may hinder impulsive buying is difficult. This is just a myth and future generations are likely to accept online buying as a way of life & certain amount of impulsive buying is observed when people shop for clothing, fashion accessories, personal care & home decor. So, even before the local businesses have woken up to customer attrition, the online businesses would have set a firm foot.

### **The Problem, Social Innovation Approach and a Sustainable Solution**

Despite the fact that it takes a lot of effort, time and money to run an online grocery business successfully, online buying is growing popular by the day even across smaller cities and towns in India. While the customer wants the convenience of online buying, online businesses may not be sustainable in their current form and mode of operation. This issue can be addressed effectively by making use of local businesses. Bangalore is a land of local businesses. Most of the supermarkets here are very popular and typically no customer goes out of these stores without picking whatever she is looking for. Such stores are spaced almost every other kilometer. Each of these stores can easily fulfil the customer demand in the radius of 2-3 kms, provided the customer is given an online access to these stores. These stores typically accept orders on phone and are equipped with small delivery teams too. So, all that they need is some technology help in getting their stores online and they are ready to go! This indeed, is the local answer to a global trend!

The hyperlocal businesses employed the local supermarkets. However, the website displayed a host of goods that did not match the actual inventory of individual stores. As a result, the exact expectation of the customer was not met. More importantly, the supermarkets participated as 'warehouses' and totally

lacked ownership. The customers neither connected with the hyperlocal business nor did they connect to their favorite store.

From a social perspective, making the local supermarkets go online is very important. It helps local businesses survive competition and reconnect with customers that migrated for the convenience of buying online. Local businesses are bound to suffer in the grip of online trend, just as the bookstores did when the online trend caught up.

The other advantage with going online is that the local businesses will get much organized than they are today. Currently the local businesses work in an ad hoc manner and they will have to pay attention to formalizing inventory, infrastructure and resource management in order to ramp up online. This in turn puts the entire business on a much organized framework, helping them move from being a semi-organized sector to a completely organized sector. For a developing country like India where the major chunk of grocery/retail buying happens at these local businesses, it is a big step in social development.

For local businesses, online operation is just another additional function to be handled. They already handle orders over the phone and deliver. Unlike telephone orders, online orders are confusion-free and unburden the hassle of taking down an order. Supermarkets do understand the nuances of packing and delivering and so can handle it well with little effort. Customers also can view the entire merchandise and order accordingly. However, the supermarkets need to ramp up on regular & proper maintenance of inventory. It is also very important that these local businesses learn to deliver within stipulated time and maintain a hassle-free delivery routine. Typically, phone deliveries happen at the convenience of the supermarket that in turn depends on the availability of delivery boys and the rush of orders. But, online business cannot happen in such haphazard manner. Customer expectation is high and local supermarkets must learn to work in a systematic manner and complete the delivery within schedule.

### Finishing Line

Running an online business can be difficult especially when one has to cover a large area for delivery. However, the local businesses can meet the local online demand effortlessly. Minimum investment on technology, a keen interest on good inventory & delivery management will definitely put local businesses on the online business map. While it's common that every form of business faces some kind for online competition, supermarkets face a multifaceted threat from online businesses. Not just the online

supermarkets, but also the online stores that sell specialized products such as baby care, personal care, fruits and vegetables, meat, household décor etc. also compete with local supermarkets. Going online is primarily a customer retention exercise for the supermarkets. But for those who learn fast, it is a business expansion opportunity.

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