

ONLINE GROCERY RETAIL BUSINESS MODEL, SUPPLY CHAIN STRATEGIES AND GROWTH DRIVERS FOR ONLINE GROCERIES (CATERING TO BIG BASKET)

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ABSTRACT

Purpose : to find the impact of online grocery shopping on the traditional method of brick and mortar shopping. To find the difference in the supply chain of online grocery and retail selling. To compare and contrast the pros and cons of online grocery and retail selling. The article gives us an insight on what online grocery shopping is majorly concentrating on Big Basket and how their supply chain works.

Findings : Indians spend almost 50% of their income on groceries making it the largest consumer segment. E-retailing is expected to be valued at almost \$3-5 billion over the next three or four years. The largest e-retailer in India (Big Basket) has received a funding of \$300 million by Alibaba China's e-commerce giant.

Keywords: *online retail, business model, e-retail, e-retail supply chain.*

1. ONLINE GROCERY RETAIL

Traditionally people used to go to a nearby brick and mortar store to get the groceries they need, a farmers market to shop veggies and fruits etc. but the trends changed and shopping from a supermarket or hypermarket became a big deal. Later the trends changed and now even things like groceries are available online and they will be delivered probably within minutes. People now want everything at their doorstep and get all they want conveniently. Technology luckily has made things easier. The new and simplest way to shop for groceries is just to do it online.

Online grocery retail is the selling of groceries like pulses, vegetables, meat etc. online. It is more like a virtual store where a customer can pick and choose what they want and add it to their virtual cart, after they are done choosing they can view the items in their cart and proceed for the delivery of their chosen products. They will have to enter the address to which their products have to be delivered. The retailers then give information on when the product can reach them. The customer can set a convenient time for him so that his products can be delivered. They can then choose their payment options such as debit/credit card payment, online banking, cash on delivery etc. once the order is placed the list of products ordered are packed and gets ready for delivery and reaches the customer within the time slot selected by him.

2. GROWTH DRIVERS

Technology is advancing at a very high pace, this is highly advantageous for businesses that are selling online. Millennials want everything at their doorstep and don't want to put in any effort. Convenience and time-saving is the priority of the people of today's era. This is where e-retailers find the opportunity to innovate businesses such as e-groceries (Big Basket), e-deliveries (Dunzo), and as such. A survey by Periscope by McKinsey surveyed an approximate of 2,500 people and around 70% preferred shopping groceries online rather than a brick and mortar store. An average Indian spends almost half his income on groceries and daily needs. E-business is also receiving a lot of investments for its growth and expansion. All these may serve as drivers for groceries to be sold online.

Drivers:

- Growing technology
- Increased use of internet
- Ease of delivery of products (this makes people prefer e-shopping over brick and mortar)
- Competitive pricing in comparison to brick and mortar stores.

3. GENERAL BUSINESS MODEL OF ONLINE GROCERY RETAIL (SCM OF OTHER GROCERY RETAILS)

There are 3 types of models in online grocery:

1. Inventory based model : In this model, the company has its own inventory and they manage this according to the demand of the products. Purchases are made directly in this model and then stored in the warehouse. Time-based delivery is done as soon as the order has been placed by the customer. Big Basket follows this model.



2. Hyper local model : In this business model, the company does not own the warehouse, instead agrees on a tie-up with the local stores for order fulfilment. This business model has some variants explained below:
 - Delivery only business model like Grofers & Peppertap- They have their own delivery boys and tie-ups with local merchants. The delivery boys of these companies source the items from these shops and delivers to the location. These companies agree with the vendors to have exclusive warehouses for themselves which would be located separately from the physical store. By this, they establish a deeper relationship with the vendors with assured supply of items.
 - No cold store, no delivery boys- This type of business model does not have any warehouse nor even delivery and delivery staff. More than an e-grocer, this is the platform where the small local grocery stores go online and consumers to order from the convenience of their home. As soon the customer opens the app, it fetches their location details and shows grocery stores with offers. The current leading player in this business is Aaramshop.

- Mixed Model: Companies use both the above mentioned models. However in order to maintain the costs, the inventory is generally relatively smaller in size as compared to the companies which has adopted to inventory based models.



3.1. PROS AND CONS OF ONLINE GROCERY AND RETAIL

Models	Pros	Cons
Inventory based model	<ul style="list-style-type: none"> Consumers know which products are available More suitable for monthly orders Requires least manpower. 	<ul style="list-style-type: none"> Capital intensive Cold storage requirement Unavailability of products may lead to loss of customers.
Hyperlocal	<ul style="list-style-type: none"> Similar to marketplace model, hence no extra cost of inventory management Purely demand based, so no wastage of products The retailer can provide any brand or product as long as they can source it from another store based retailer. 	<ul style="list-style-type: none"> Not suitable big orders as it will be hectic curating all the items, packaging and delivering will be a trouble The retailer cannot assure the availability of the products during the order time because they will have to check it from the store.
Mixed model	<ul style="list-style-type: none"> The retailer can provide any brand or product as long as they can source it from another store Lower inventory management costs as size of inventory is small. 	<ul style="list-style-type: none"> Procurement management becomes more expensive as the company should invest both in the inventory management as well as the delivery staff who can buy and curate products based on demand.

4. ABOUT BIG BASKET

Big basket is the largest online grocery supermarket in India. It was launched in 2011, quiet about the time when e-commerce was in its nascent stage in the country. Big basket was founded by Hari Menon, VS Sudhakar, V S Ramesh, Vipul Parekh and Abhinay Choudhary. Big basket is headquartered in Bengaluru and delivers to various cities in India such as Hyderabad, Mumbai, Pune, Chennai, Delhi, Noida, Mysore, Coimbatore, Vijayawada-Guntur, Kolkata, Ahmedabad-Gandhinagar, Lucknow-Kanpur, Gurgaon, Vadodara, Visakhapatnam, Surat, Nagpur, Patna, Indore and Chandigarh Tricity city limits. Big basket was launched at a time when India’s busy workforce in cities

was finding it difficult to allocate time to buy groceries and home essentials. Big basket gave them the flexibility to place their order anytime and get the things delivered at their preferred time. Big basket offers groceries and food supplies in various categories such as fruits & vegetables, food grains, oil, masalas, bakery items, beverages, branded foods, personal care products, household supplies, eggs, meat, fish, etc. Big basket currently offers more than 18,000 products across various categories and features more than 1000 brands in its catalogue. Big basket comes with the promise of lowest rates and prompt delivery services.

Hari Menon is the CEO of Big basket. He is an alumnus of BITS Pilani. V S Sudhakar is a cofounder and deals with senior management decisions at the organizational level. Vipul Parekh is an alumnus of IIM Bangalore and heads the Finance & Marketing department. Abhinay Choudhary is an alumnus of IIM Ahmedabad and he heads the new initiatives at Big basket. V S Ramesh is an engineering graduate from Karnataka University and he heads logistics and supply chain at Big basket.

Big basket has received funding worth around \$526 million. The investors include Alibaba Group, Abraaj Group, Ascent Capital, Bessemer Venture Partners, Brand Capital, Helion Venture Partners, ICICI Venture, IFC Venture Capital Group, Lion Rock Capital, Paytm Mall, Sands Capital Management, Sands Capital Ventures, Trifecta Capital and Zodius Capital. There are talks about additional funding of around \$200 million, post which, the company would be valued at around \$900 million.

Big basket acquired Delyver in June 2015 for an undisclosed amount. Delyver was also an online grocery store and its specialty was using local stores to deliver groceries to people. Now, all business assets of Delyver have been merged with big basket.

4.1. BIGBASKET'S USP

- A culture where employees think like grocers who have gone online and not just techies who happen to sell grocery
- The company considers technology as a key enabler but SCM as the major area of focus in the online grocery business
- Single-minded focus on quality of fruits and vegetables helped BigBasket to earn a reputation in the market
- They are capping its expansion to 25 cities to focus on backend execution and improve unit economics.

4.2. BUSINESS MODEL OF BIG BASKET

1. **Dropship model** – In this model there is zero inventory of the products. They just pick the products from the vendors, pack and ship the products as per order received from the customers.
2. **Inventory model** - From large scale Warehouse where numerous products are available, they shift it to small godown where they are used to procure or store the products. Later it gets packed and shipped as per customer orders from the Warehouse itself.
3. **Hybrid model** - The mix and match of the above two models.

4.3. SUPPLY CHAIN STRATEGY AND MODEL



Big Basket follows inventory model currently. They started from just in time model but moved to an inventory model considering their expansion and large base of consumers. Additionally, they maintain warehouses to stock products which they purchase from different vendors. Their vendors include big firms like P&G, HUL etc. along with small mandi vendors and kerana shops. Moreover, procurement totally depends on the type of products and from where they have to be sourced. To maintain margins, generally it is preferred to procure items from farmers directly. The whole chain starts early in the morning and they have proper team who benchmarks different prices, so that procurement could be done efficiently considering cost and time.

Running a big chain in such a business is very difficult, so Big Basket has tied up with local grocery stores to serve consumers as soon as possible, which is called as *hyper local strategy*. They are working on express delivery so that they can deliver products in as much as less time possible like rice, lentils, cooking oil (basic items) etc. in 60 minutes. Acquisition of DELYVER (strong two-wheeler network) was done for the same purpose.

4.4. STRATEGIES USED:

- *Minimising the risk of perishability*- Fruits and vegetables are procured only on order, except for those with a longer shelf life like onions and potatoes. This reduced their loss of stock by 3-4%.
- *In house logistics*- Big basket has its own fleet and warehouses, giving them better control and better margins.
- They focus on *weekly purchases rather than impulse buyers* to combat wafer thin margins so that the minimum order size exceeds a particular level.
- Big basket offers *high margin products* to buyers, such as pet food, they focus on *private label brands* such as *Fresho* for vegetables, meat and *Royal & Popular* for staples; thereby earning higher profit margins.
- Hub and spoke model for efficient and fast delivery with warehouses in each city of operation was recently introduced with a 60 minute express delivery targeting the weekly purchasers that typically revolves around items with a short shelf life such as milk, fruits and vegetables.

5. COMPETITIVE SCENARIO

Ola and Paytm shut their grocery delivery businesses in march and June 2015, respectively. Flipkart followed suit in February 2018. Amazon launched its own service in Bangalore in February 2018 through a separate app called Amazon Now. It hasn't yet taken the industry by storm. Local banya, one of the direct competitors, also discontinued operations.

Grofers, the closest rival to the the BigBasket, had to heavily scale back operations, while PepperTap shut down.

6. CONCLUSION

To conclude, we can see that this segment is a hotbed for investments as we already spoke about the investment that Big basket is making followed by Grofers who has raised their investment to \$226.5 million according to an estimate. So far this year online groceries have raised \$385.7 million compared in a mere of \$50 in 2017. The growth that has been observed in the development of online groceries would intrinsically increase and there is no looking back to it. As we know it's a hard category for products such as fresh fruits and vegetables that has a local sourcing and a planned supply chain and inventories we can sense that eventually this segment may consolidate into a few players. Meanwhile there are niche players emerging in this sector like DailyNinja with online milk delivery app who is growing in the market. If one is able to provide quality products and a reliable, well-managed timely service, the model can be very efficient as the percentage of repeat customers can be very high.

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