India entry strategy in online F&G space for an American food & grocery giant

Case Study by

Ishan Jain

jainishan113@gmail.com

Agenda

- ✓Introduction
- ✓India – An Overview
- ✓Online Grocery Market in India
- ✓A Cluster Analysis for Market Entry in Indian e-F&G sector
- ✓Recommendations & Conclusions

Introduction

❖Client situation

- An American food and grocery (F&G) giant to enter Indian Online F&G Space.
- Client is considering a hybrid model of brick and mortar and e-commerce.

❖Our engagement

- To perform an assessment of the current e-F&G landscape in India.
- To conduct cluster analysis of Indian Urban Agglomerations and Metro Cities to identify 10 clusters in assisting for market entry.
- To short-list primary entry locations that are suitable to commence operations based-on the market size.

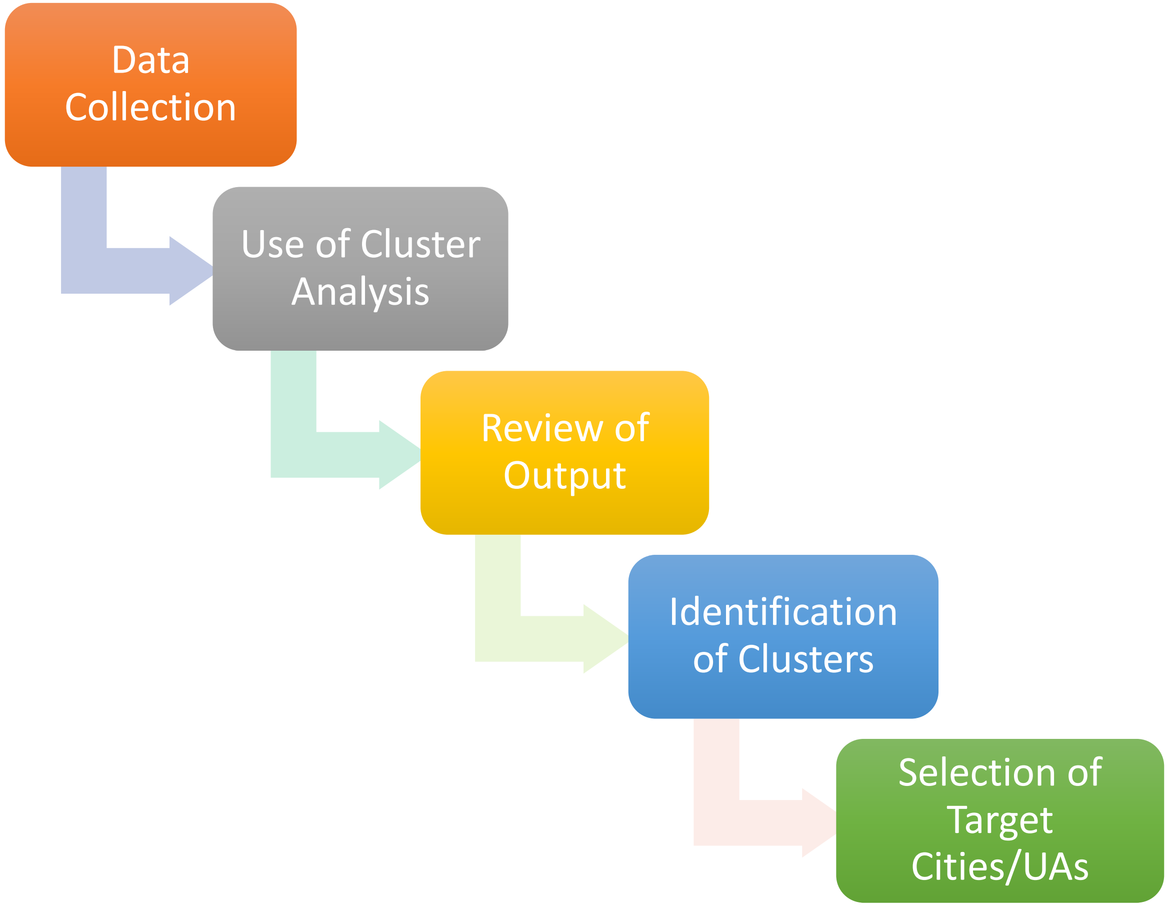
❖Client benefits

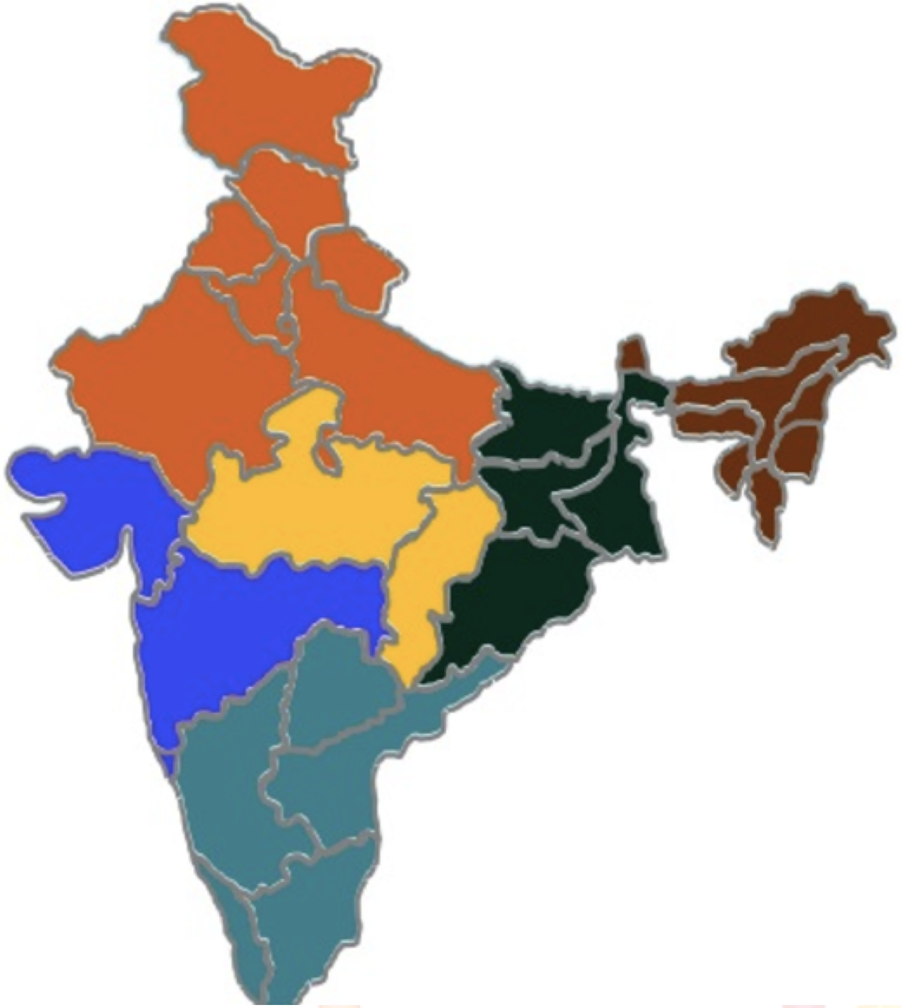
- Clear understanding for the client of doing business in India including details for Indian internet and smartphone users growth, factor of production, competitive landscape, and history of e-grocery in India.
- Based on the filtering listing criteria, a list of locations that the client could consider to commence operations as per clustering technique.
- Discussion on predictors of success in Indian online F&G space.

Introduction

❖Methodology

- Based on data collection from different sources, a detailed quantitative research is conducted across 53 urban agglomerations/cities to estimate internet users, smart phone users and potential online F&G customers.
- K-mean clustering is used to divide urban agglomerations in 10 clusters. The following parameters are used to perform clustering:
    - Current Internet User Base (2017)
    - Current Smart phone User Base (2017)
    - Current Customer Base (2017)
    - Current Market Size (2017)
    - Market Size in 2020
- Based-on the above, the clusters were ranked in the order of market size to identify target market.





India – An Overview

Why India?

431 million	• Indians have been elevated from poverty since 1985[1]
~467 million	• Size of the Indian workforce – the second largest in the world[1]
1/4th	• of the world's population of under 25 year olds live in India[1]
38.2%	• of the Indian population is urban[2]
450x	• Increase in the cell phone subscriber base from <2 million in 2000 to 865 million[1]
3x	• Internet user growth in India is expected to be 3x the world average[3]
~20%	• CAGR of internet users in India[3]
23%	• CAGR of India's smartphone market[4]

1. Market Entry in India, An KPMG Report, Rome, March 6th 2015. Accessed on Sept 30, 2017.
2. http://www.worldometers.info/world-population/india-population/
3. The future of internet in India, 2016, An NASSCOM Report. http://www.communicationstoday.co.in/images/reports/20160820-nasscom-the-future-of-the-internet-in-india-19082016.pdf
4. Global Technology and Telecom Report by Morgan Stanley, Summarized at http://indianexpress.com/article/technology/tech-news-technology/india-second-largest-smartphone-market-2017/

India's Internet Landscape Statistics

55%

Internet Penetration in Urban India[1]

7%

Growth in Internet Users in Urban India[1]

17%

Internet Penetration in Rural India[1]

22%

Growth in Internet Users in Rural India[1]

10

Internet users per 100 people[2]

61

Mobile subscribers per 100 people[2]

5

Personal computers per 100 people[2]

1. Internet in India - 2016, An IAMAI & KANTAR IMRB Report. http://bestmediainfo.com/wp-content/uploads/2017/03/Internet-in-India-2016.pdf
2. Online and upcoming: The Internet's impact on India, 2012– 2015, A McKinsey Report.
3. The future of internet in India, 2016, An NASSCOM Report. http://www.communicationstoday.co.in/images/reports/20160820-nasscom-the-future-of-the-internet-in-india-19082016.pdf

India's Smart Phone Landscape Statistics

1+ billion

India's mobile phone subscriber base[1]

300 million

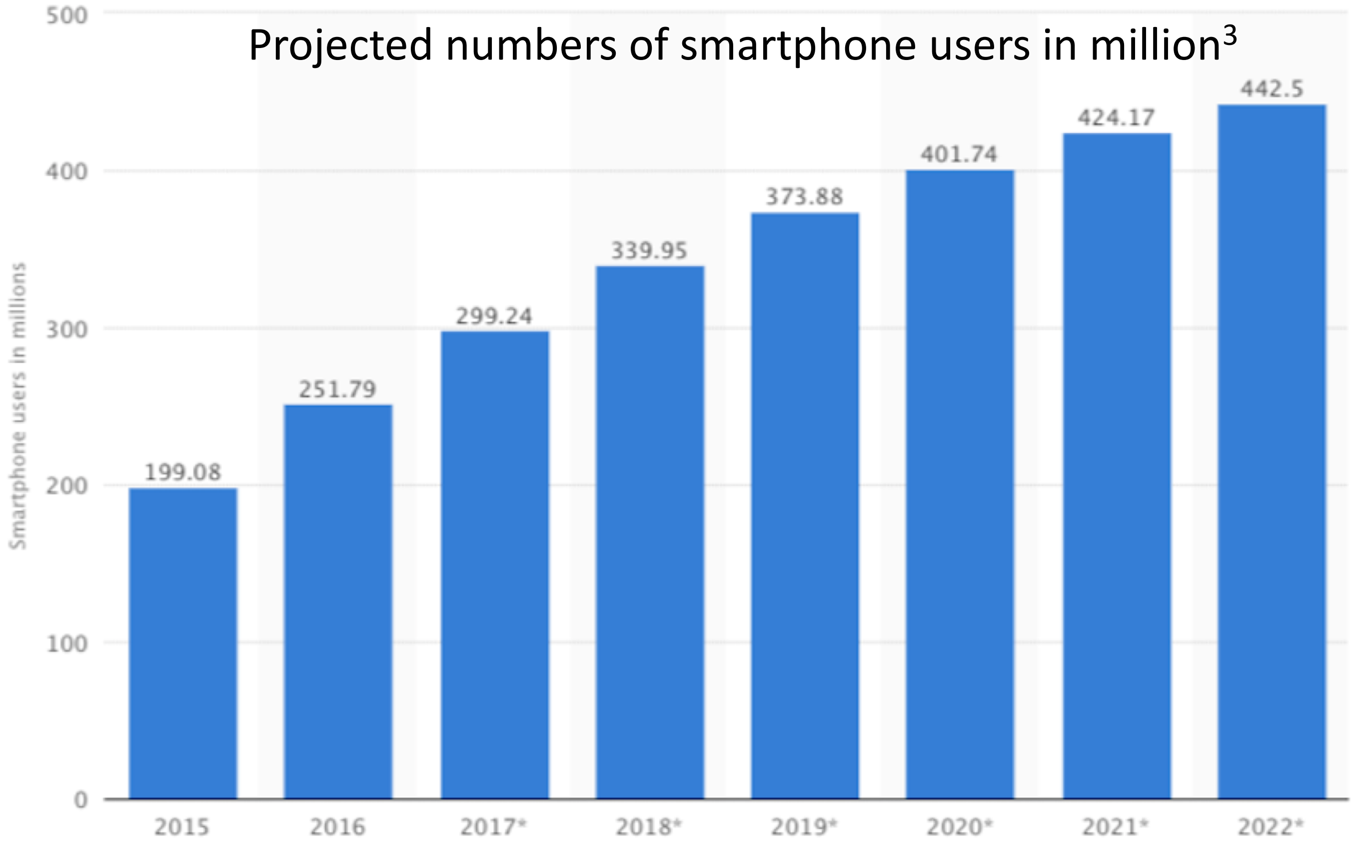
Current smart phone use base in India[2]

5.5+ billion

Mobile users in India by 2022[2]

~450 million

Smart Phone users in India by 2022[3]



1. An TRAI annual report, 2015 – 2016. http://www.trai.gov.in
2. [Hindustan Times Article]titled as More than 5.5 billion mobile users by 2022, India to lead, July, 18, 2017.
3. https://www.statista.com/statistics/467163/forecast-of-smartphone-users-in-india/
4. http://www.iamwire.com/2015/01/rise-internet-penetration-changing-face-digital-india/108808

Online Grocery Market in India

India Online Grocery Market Overview

Drivers

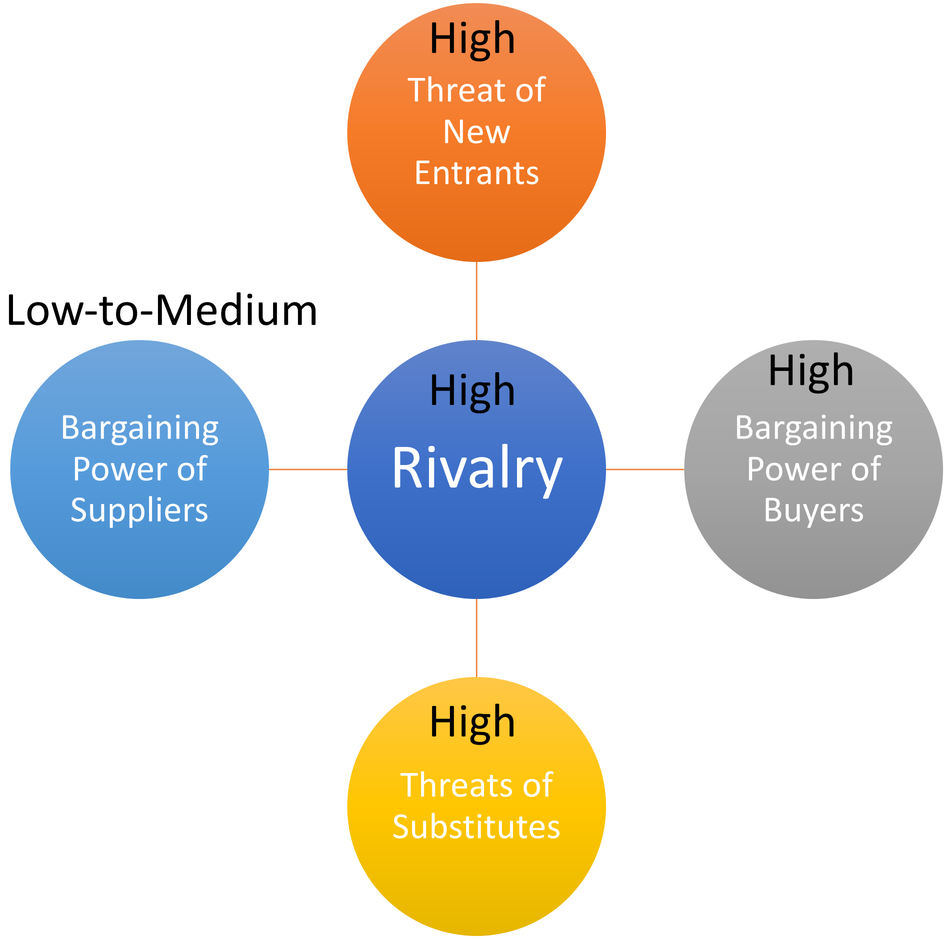
- Growth in E-Commerce Industry
- Rising Smartphone Users
- Rising Penetration of High Speed Internet Services

Challenges

- Domination of Traditional Stores and Push-Cart Vendors
- Lack of Proper Infrastructure
- Home-Makers are not Tech-Savvy
- Competition from Top E-Commerce Firms
- Thin Gross Margin and High Marketing Cost

Trends

- Attracting Heavy Investment
- Smart Shopping
- Competitive Delivery Service and Timing



Porter's 5 forces for Market Attractiveness

Indian Online Grocery Business Model

Business Model	Companies	Pros	Cons
Inventory based model	• Big Basket • Amazon Groceries • Big Bazaar	• Consumers are able to choose among various brands/products. • Suitable for monthly orders, higher spending per transaction. • Higher Margins. Private Labels.	• Cold storage is costly. • Forecasting demand and supply to maintain inventory is a challenge. • Same day delivery and high delivery cost.
Hyperlocal model	• Grofers • ZopNow	• No wastage of unsold inventory as products are purely demand driven. • Can also purchase products from other retailers. • Retailers can provide any brand.	• Higher operational challenges. • High logistics cost. • Inventory mismatch between stores and retailers. • Unable to process larger orders. • Investment in technological upgradation of stores.
Hybrid model	• Local Banya	• Lower inventory cost – small sized. • Flexibility to purchase any brand or product from multiple retailers.	• Procurement management is more costly. • Cost of acquisition of new customer is high.

Indian Online Grocers

Company Name	Current Status
Supermarket Grocery Supplies Pvt. Ltd. (Bigbasket)	Inventory based model. Operations in 27 Metro Cities. 18,000 SKU. 10,000 Brands.
ZopNow Retail Pvt Ltd (ZopNow)	Hyperlocal model. Partnership with More and HyperCity, Operational in 11 cities.
Reliance (Fresh Direct)	Hybrid model- Brick and mortar stores & Online stores across India. 6,000+ SKU.
Amazon Groceries	Inventory based model - Currently in four metro cities. 5-10% off on groceries.
Satvika Bio-Foods India Pvt Ltd (Naturally Yours)	Organic and Healthy Foods only. Founded in 2010. Operational in 23 Indian UAs and Cities. 100+ selected SKU. service over 3000+ pin codes across India.
Aaram Shop Private Limited (Aaram Shop)	Hyperlocal model. Founded in 2011 and has connected with 3,000 retailers across 30 cities in India. Expanded to South-Asian Countries.
Grofers India Pvt. Ltd. (Grofers)	Hyperlocal model. Founded in 2013. Operational in 20 Cities. Decided to shut-down operations in 9 cities including Ludhiana, Bhopal, Kochi, Coimbatore and Visakhapatnam.

References: Individual Companies' Websites and Press Releases.

Indian Online Grocers

Quick scale is a recipe for failure in e-grocery			
Failures		Successes	
Ask Me (2015)	50 Cities in 1 yr	BigBasket (2011)	26 cities in 6 yrs
PepperTap (2014)	75 cities in 1 yr	Peapod (1989)	10 cities in 27 yrs
LocalBanya (2011)	20 cities in 1.5 yrs	LeShop (1997)	4 cities in 19 yrs
WebVan (1997)	26 cities in 1.5 yrs	FreshDirect (1999)	5 cities in 17 yrs
HomeGorcer (1997)	30 cities in 1 yr	Ocado (2000)	8 cities in 16 yrs

Reference: Factor Daily's Article on 'How a stubborn Amazon is carving out the grocery market in India and what incumbents are doing' by Sunny Sen, Aug 17, 2017. https://factordaily.com/amazon-bigbasket-egrocery-in-india/

How India's e-grocery business shaped up in six years

The economics behind online grocery

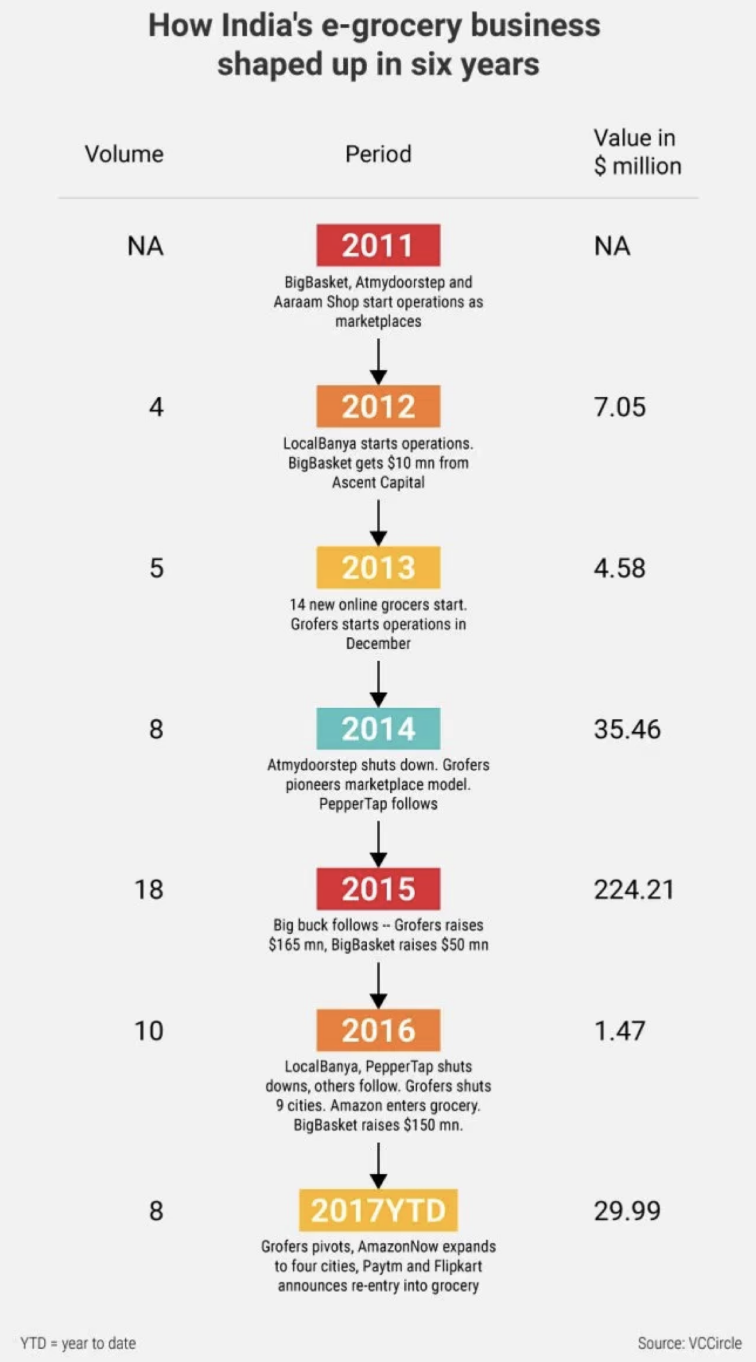
1,024 Average order value (INR)

~13% Margin on sale

~135 Gross Revenue(INR)

~80 Delivery Cost (INR)

~55 Contribution Margin (INR)



References: Factor Daily's Article on 'How a stubborn Amazon is carving out the grocery market in India and what incumbents are doing' by Sunny Sen, Aug 17, 2017. https://factordaily.com/amazon-bigbasket-egrocery-in-india/

http://kalagato.com/blog/nl86.html

A Cluster Analysis for Market Entry in Indian e-F&G sector

Key Dimensions for City-Wise Analysis

- Key Dimensions
  - Market Size
    - Total City Population
      - Total Uraban Population
        - Urban Households
    - Total Smart Phone Users
  - Market Growth
    - Internet User Growth Rate
    - Cities contribution to GDP & Growth Rate
  - Infrastructure
    - Road Density
    - Distribution & Connectivity
    - Electricity Consumption & Rate
  - Factors of Production
    - Labor Force
    - Number of Raw Material Producers
    - Technical Advancement
  - Other Factors
    - Culture
      - Religion & Languages
    - Competitive Landscape
      - Online Grocers
Local Retailer & National Wholesalers
    - Foreign Direct Investment
    - Regulations and Policy Barriers
    - Quality of Life
      - Life Expectancy
      - Improved Sanitization

Key Assumptions

55%

Internet Penetration in Urban India[1]

7%

Growth in Internet Users in Urban India[1]

17%

Internet Penetration in Rural India[1]

22%

Growth in Internet Users in Rural India[1]

25%

of Urban Online India want Grocery Online[2]

1,630

Average INR spent monthly on F&G purchases per person in 2017[3]

62%

Online Grocery Market CAGR (2016 – 2020)[4]

1. Internet in India - 2016, An IAMAI & KANTAR IMRB Report. http://bestmediainfo.com/wp-content/uploads/2017/03/Internet-in-India-2016.pdf
2. Nielsen Press Release Jan 01, 2013. http://www.nielsen.com/in/en/press-room/2013/DigitalShoppingIndia.html
3. NSS Report 558: Household consumption of various goods and services in India, 2011- 2012. Estimated for 2017. http://mospi.nic.in/sites/default/files/publication_reports/Report_no558_rou68_30june14.pdf
4. IBEF Blog, Dated Dec 9, 2015, by Ravi Capoor. https://www.ibef.org/blogs/online-grocery-market-in-india-on-a-roll

Clustering of Indian UAs/ Cities

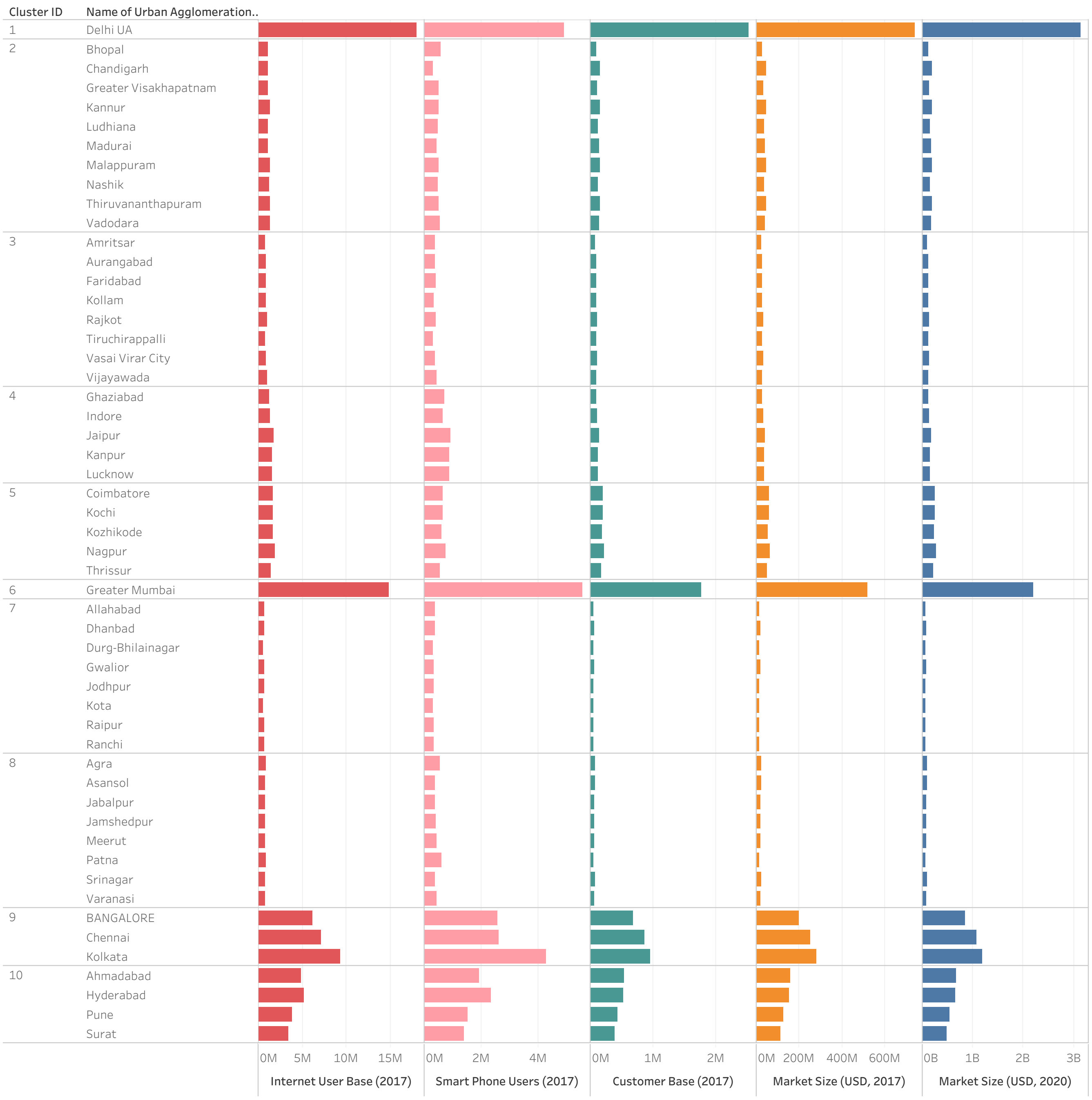
Clustering Process

- ✓ Concentration on 53 Urban Agglomerations (UAs)/Top Cities with population of 1 million
- ✓ Apply K-mean Clustering Algorithms (K= 10)
- ✓ 5 Key Attributes on Demand Side
  - Number of Internet Users
  - Number of Smartphone Users
  - Number of F&G Customer
  - Annual Market Size in 2017
  - Annual Market Size in 2020

Why 53 Urban Agglomerations/Cities?

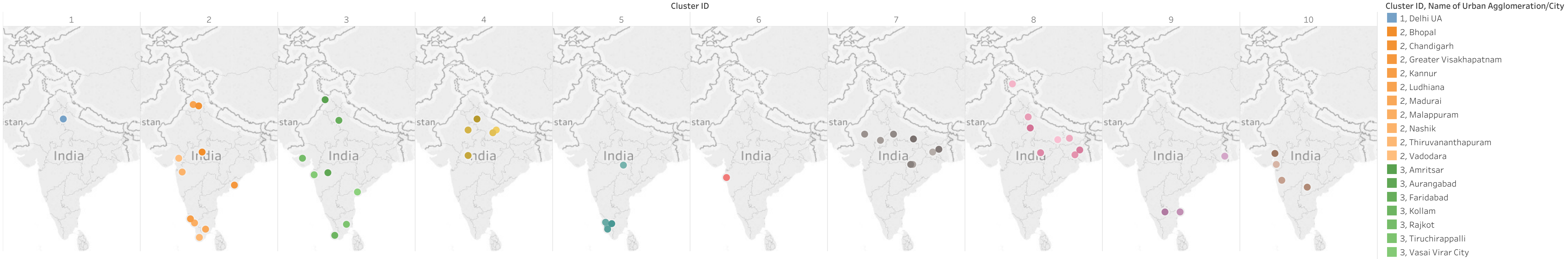
- ✓ Highest online grocery demand from top metropolitan cities
- ✓ Significant operational challenges in Tier 1 cities
  - BigBasket is concentrated only in 25 cities with no plan to expand further.
  - Gurgaon-based on-demand delivery startup, Grofers, has shut down operations in 9 cities

https://inc42.com/buzz/exclusive-grofers-shuts-down-operations-in-9-cities/

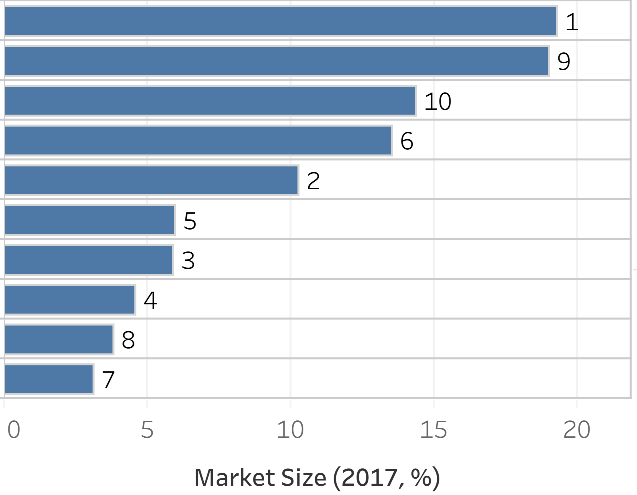


Sum of Internet User Base (2017), sum of SmartPhone Users (2017), sum of Current Customer Base (2017), sum of Annual Market Size (USD, 2017) and sum of Annual Market Size (USD, 2020) for each Name of Urban Agglomeration/City broken down by Cluster ID.

Indian Online F&G Space in 10 Clusters



Level	UA/Cities
Platinum	Delhi & NCR
Diamond	Kolkata, Chennai, Bangalore
Gold	Hyderabad, Ahmadabad, Surat, Pune
Silver	Greater Mumbai
Steel	Ludhiana, Visakhapatnam, Chandigarh, Vadodara, Nashik, Bhopal, Malappuram, Thiruvanthapuram, Kannur, Madurai
Aluminum	Nagpur, Coimbatore, Kozhikode, Kochi, Thrissur
Copper	Aurangabad, Vasai Virar City, Tiruchirappalli, Kollam, Amritsar, Rajkot, Faridabad, Vijayawada
Iron	Ghaziabad, Jaipur, Lucknow, Kanpur, Indore
Tin	Srinagar, Jabalpur, Agra, Varanasi, Meerut, Patna, Jamshedpur, Asansol
Zinc	Kota, Dhanbad, Gwalior, Allahabad, Durg-Bhilainagar, Raipur, Ranchi, Jodhpur



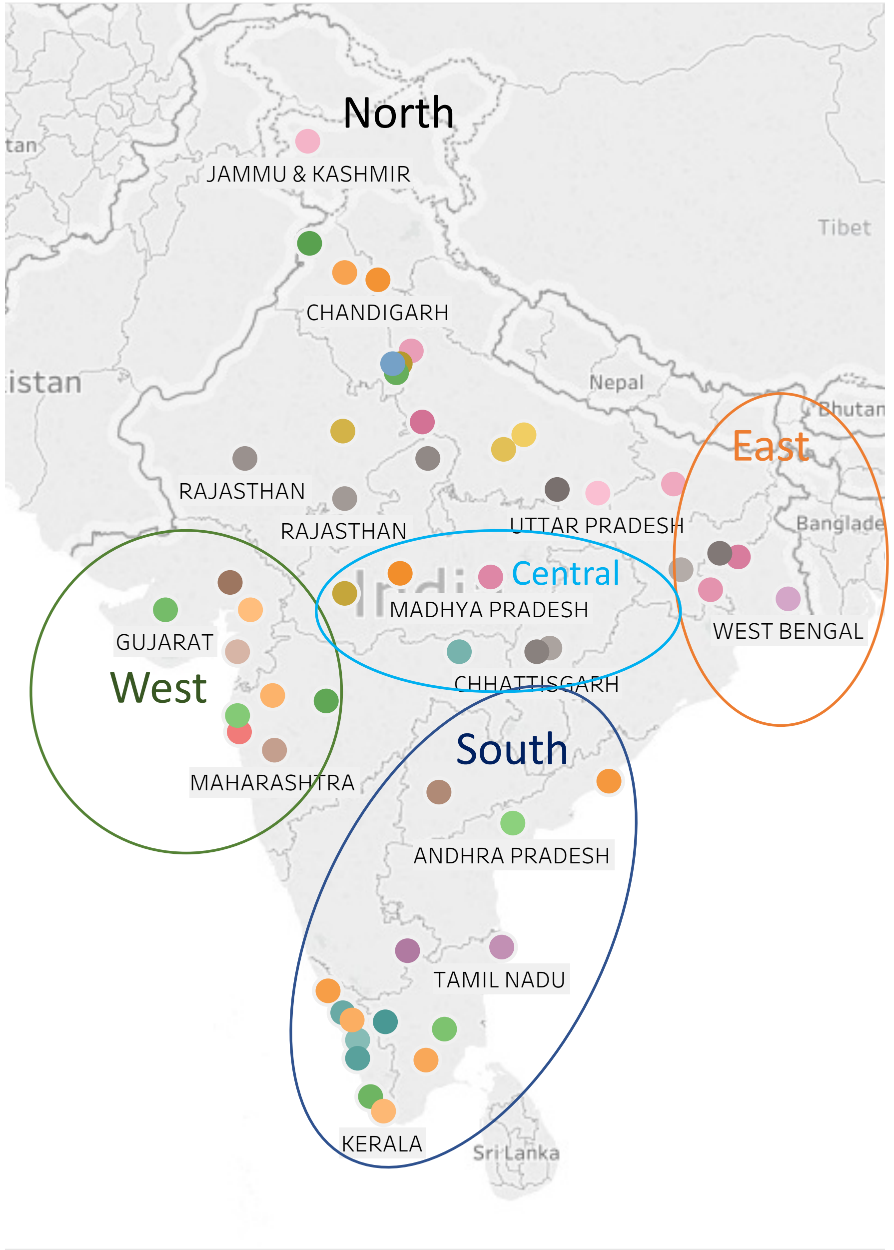
Market Size for each Cluster broken down by Level and Cluster ID. The marks/bars are labeled by Cluster ID.

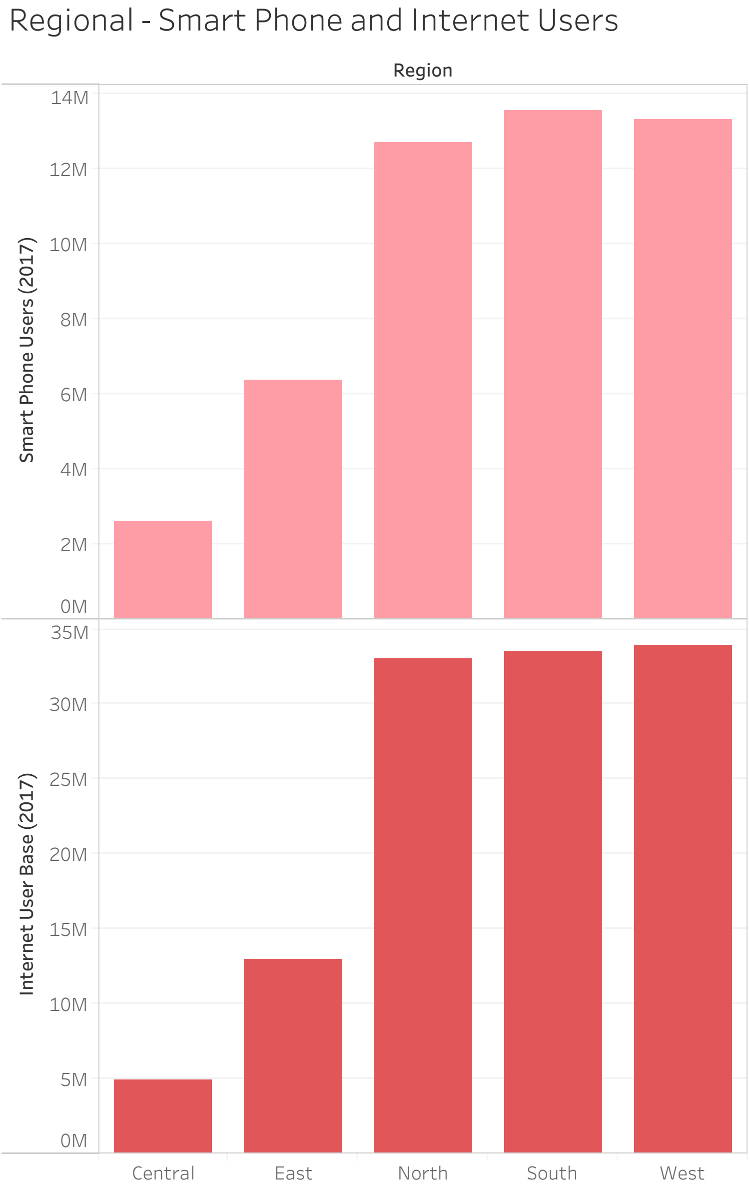
Level	Platinum	Diamond	Gold	Silver	Steel	Aluminum	Copper	Iron	Tin	Zinc
Cluster ID	1	9	10	6	2	5	3	4	8	7

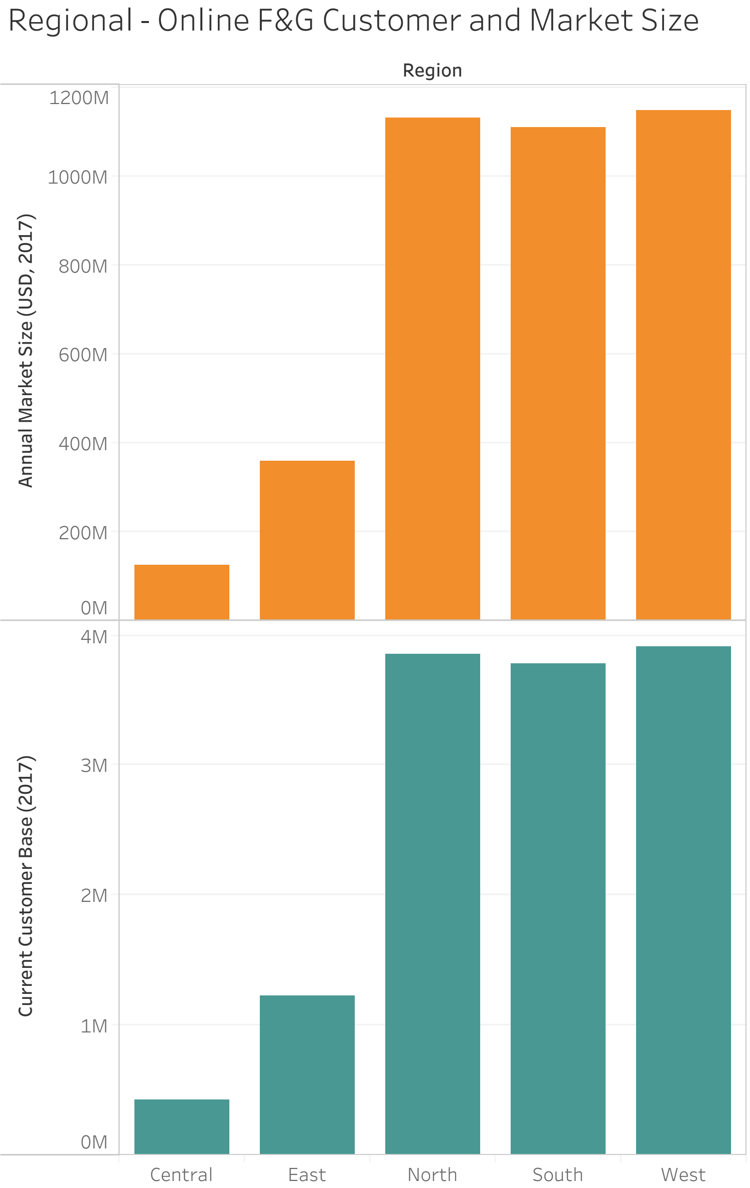
Cluster-Wise Analysis

Cluster ID	Name of Urban Agglomeration
1	Delhi UA
2	Bhopal
	Chandigarh
	Greater Visakhapatnam
	Kannur
	Ludhiana
	Madurai
	Malappuram
	Nashik
	Thiruvananthapuram
	Vadodara
3	Amritsar
	Aurangabad
	Faridabad
	Kollam
	Rajkot
	Tiruchirappalli
	Vasai Virar City
	Vijayawada
4	Ghaziabad
	Indore
	Jaipur
	Kanpur
	Lucknow
5	Coimbatore
	Kochi
	Kozhikode
	Nagpur
	Thrissur
6	Greater Mumbai
7	Allahabad
	Dhanbad
	Durg-Bhilainagar
	Gwalior
	Jodhpur
	Kota
	Raipur
	Ranchi
8	Agra
	Asansol
	Jabalpur
	Jamshedpur
	Meerut
	Patna
	Srinagar
	Varanasi
9	BANGALORE
	Chennai
	Kolkata
10	Ahmadabad
	Hyderabad
	Pune
	Surat

India Online Grocery Market Space, By Regions







Recommendations for Market Entry

Market Entry and Gradual Growth

❖Primary locations for entry - 5 mega cities of India

- Delhi NCR
- Greater Mumbai
- Bangalore
- Kolkata
- Chennai

❖Acquired customer base and achieve operational excellence

❖Strong focus on branding as 'on-time delivery' and 'excellent customer service' provider

❖Gradual expansion to other urban agglomeration as per the cluster analysis

Predictor of Success in Indian Online F&G Market Space

Predictor	Description
Size of Entry Relative to Minimum Efficient Scale	• Quick scaling up leads to operational challenges in Indian online grocery space. • Enter in the largest metro cities in India and quickly scale up for plan of gradual growth.
Degree of Technological Advances	• Online F&G business is more about SKU than advance technological platforms. • High capital is required to develop infrastructure (storage, logistics, supply chain).
Operational Excellence	• Consumers expect same day delivery and quality products at a discounted price. • Supply chain management is necessary for on-time delivery.
Order of Entry	• First mover or second mover, highly demanding Indian consumers have little to no loyalty when it comes to discounted pricing. • Investment climate and multiple government initiatives is suitable for immediate entry.
Strategies to Boost Margin	• Concentrate on monthly rather than daily purchases. • Sell products/offer discount on products with higher margins (pet foods etc.). • Sell in-house brands. Offer customization to customers.
Microscopic focus on Indian Regions	• There are large differences between the regions (North vs. South) that should be taken into account when designing an entry strategy.
Marketing and Advertisements	• Partnership with restaurants, shopping malls, and movie theaters for advertisements. • Bollywood and Sports players as the brand advocates.