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Study on Emerging Business Trend: Quick Commerce

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ABSTRACT:

Quick commerce (also Q-commerce) or the delivery of everyday essentials (typically groceries) in 10-30 minutes is already prevalent in major global markets. US-based Gopuff, set up in 2013, delivers groceries in 30 minutes and is valued at $15 billion. A clutch of new entrants such as Berlin-based Gorillas and U.K.'s Zapp are already quite popular in their areas of operations, and are now looking to corner a bigger slice of the Q-commerce market. The trend is fast catching up in India as well; the local quick commerce segment is a veritable mix of new players such as Zepto, which is building its business to specifically service instant deliveries, and established ones like Blinkit (formerly Grofers) that have completely rejigged their branding and positioning and are taking aggressive bets on the category. The online shopping made everything possible today as we can get desired products within a day and the customers though process and buying behaviour also drastically changed after introducing online shopping apps. The prior planning method was replaced with instant planning and the delivery time also significantly reduced to days to hours preferable with in 1 hour. Q-Commerce, also referred to as quick commerce, It is a type of E-Commerce and It is a unique business model where the delivery of goods and services is done within 30-40 minutes of ordering. It originally started with food delivery and it still represents the largest chunk of the business. It focuses on the micro to smaller quantities of fewer goods ranging from groceries, stationeries, personal hygiene products, to over-the-counter medicines. It's also a great fuel to encourage gig employment to youth in the country where they can earn while learn as students and competitive job aspirants.

1.1 Evolution of Quick Commerce

First generation, E-Commerce: - This was the generation in which shopping was associated with self-service rather than home delivery wherein people would go and purchase the required items in their own private vehicles, and most of the products were available at their local Kirana stores and the discount was the main factor in this generation and also the average size of the household was 3-4 persons.

Second generation, E-commerce: - In this generation people got to know about the concept of home delivery and slowly and gradually they became habitual of the concept of home delivery which was done usually through large delivery trucks but the discount was still the dominating factor and the average size of household is also same as that in 1st generation i.e., 3-4 persons.

Third Generation E-commerce: - In this generation the delivery time further reduced and it came down to less than 1 hour from 2-3 days and the delivery was done from local stores or warehouses on two-wheeled vehicles and in this generation, the discount was no longer the dominating factor rather delivery time was the one which matters and also the average size of household in this generation was 1 person

Source : https://www.deliveryhero.com/blog/quick-commerce/

1.2 Literature:

Consumers' decision before purchasing on a q-commerce website or a mobile application is a dependent variable that is dependent on three different factors. These three factors include convenience for the consumers, the amount of risk involved (security), and the pricing of the product they purchase from the q-commerce website. Gaining the trust of the consumer plays a vital role in making a positive decision of the consumer about making a purchase (Brahmi & Shefigue, 2022).

The premise is largely the same, with delivery speed being the primary differentiator (Purcarea, 2021). If quick commerce survives the initial hiccups and challenges, to make the business sustainable, it must continue to create private labels. The road to sustainability is arduous. There are no shortcuts. Every major retailer requires a warehouse network (Černikovaitė, 2021; Bhujbal,2022).

The situation raises the question of whether the quick commerce business model will go out of the trend, and people will not be interested in it once the pandemic ends. However, that was not the case because people already experienced the benefits, they got from the quick commerce business model and how convenient it was for their daily life and routine. Customers liked the idea that goods and services were delivered within a few hours to their doorstep, and they didn't have to hassle at all to get their hands on those goods and services (Giampoldaki, et al, 2021).

Almost a decade ago, consumers did not use to be vigilant enough to thoroughly find out about a particular brand or business owner before purchasing from them. However, the tables have turned now, and the consumer of today has become a smart consumer who is more focused on learning more about the brand and comparing the pricing and other features of the products on the competitors' websites (Chen, Wu and Hsu, 2019).

1.3 Objectives:

1) To Study the evolution and importance of Q-commerce in present market

2) To know the various market influential elements with q-commerce.

3) To study various challenges faced by q-commerce in present business world.

1.4 Major benefits of Quick Commerce

Speed: Compared to a conventional retail outlet, q-commerce companies are able to get goods to customers in a fraction of the time. This is due to the aforementioned hyper-local micro-fulfilment centres ('dark stores') dotted around densely populated stretches of cities and positioned in close proximity to those making orders - usually no more than 3km away. This means orders can be fulfilled 25% faster than traditional in-store fulfilment. With every inch of their floor plan optimized for efficiency, dark stores don't need to sacrifice precious square footage to accommodate shoppers browsing aisles. Once orders are ready, couriers are able to easily zip back and forth between dark stores and customers' locations.

Guaranteed availability of required , relevant products: It is not just quicker delivery on offer, but items are more likely to be available, due to investment in AI and technologies that monitor demand and adjust inventory in real-time. Intelligent software identifies demand patterns, and the companies can respond by ensuring items are supplied accordingly. They also make use of mobile technologies to keep their legion of couriers - who play a pivotal role as the face of the brand - informed, up skilled and providing a high level of service to customers.

24 *hour operation*: Dark stores can operate 24 hours a day, 365 days a year - they are not limited to set daily opening hours like brick and mortar retailers This round the clock availability resonates with the 'always-on' culture Smartphone technology has given rise to - people are awake at all hours with smart phones within arm's length at all times.

Ease: If you could choose between stopping your current activity, rummaging around for keys and cards, tying laces, walking a block or two, then around the store in search for your items, being unable to locate them so engaging with a staff member for help, queuing, paying, bagging items, then walking back home, **or** remaining exactly where you are, opening an app and pressing a few buttons - which would you opt for Ease is the fundamental - and very enticing - value proposition that q-commerce companies offer time-scarce customers.

1.5 Drivers for Quick Commerce industry growth

Assuming that Quick Commerce is more likely to appeal to middle-high income households residing in Metro & Tier-1 cities, Redseer estimates that the addressable TAM in value terms was ~USD 45bn in CY21, i.e., >7% of the total grocery market.

The TAM calculation excludes consumers in lower tier cities who are more focussed on value, indulge in limited impulsive purchases (lower SKUs per order), and have little willingness to pay for convenience. This is on top of the fact that order density per store is likely to be significantly lower than that for top tier cities due to lower population density and limited tech penetration.

This fledgling industry has low-profit margins for a few reasons, but principally because the last mile of shipping is the most expensive part. Labour and warehousing costs are significant. Also, the average price of an impulse-driven order, typical of quick commerce, is low. These convenience purchases are not the 'big shop'. Several advances will have to be made to achieve profitability higher average order values and higher-margin baskets will need to become the norm. Improved supplier terms are needed–terms closer to those of omniretailers, even faster picking and delivery will need to occur, and higher customer satisfaction in the form of fewer delivery delays and missing items. To survive in this increasingly competitive playing field, companies will have to rely on unique selling propositions like ultra-fast delivery times, an enhanced customer experience, a unique range of products, and local and/ or sustainable brands.

The ambitions of quick commerce players may evolve out of the narrow niche they have already carved out. Nevertheless, even with the current niche, the business model has the potential to be profitable, even if it is a losing proposition at the moment and companies are rushing to create a loyal customer base, stake out territory, collect customer data and create brand awareness.

As they scale up, these companies will increase their margins through increased buying power, advertising on their platforms, and partnerships. Continued reliance on new tech will also allow their inventory management and pricing to be optimized. Tech-enabled variable pricing strategies will allow them to capitalize on factors such as buying history, time of day and even changing weather patterns. A rainy day, for instance, will provoke more orders.

1.6 What's the Outlook for Q-Commerce in India

In descending order, the following players are on the springboard of success:

- Zomato and Swiggy**:** both grocery and food delivery platforms boast of a large fleet which has high utilization rates. They offer membership benefits to their customer base to keep the customers they acquire.
- BigBasket and Blinkit(ex-Grofers)**):** Big Basket and Grofers had an early start in expanding their warehouses. Some of these can convert to mother hubs that communicate with the dark store network. Unlike Swiggy and Zomato, however, their rider fleet is considerably smaller despite stocking a more diverse catalog of household staples.
- Zepto, Dunzo**:** According to a study by AI-platform Bobble, Zepto holds the record for user growth(946% within 90 days). In terms of the time spent on the app, Dunzo beat all the other q-commerce players, Zepto included with the entry of food and grocery-delivery players such as Swiggy and Zomato, India's gaining on its American counterparts, i.e.Uber Eats and Gopuff. Put simply, the idea of convenience shopping is shaping up. To quote Pranay Jain, who serves as Avendus Capital's Director,

Traditional E-Commerce Vs Q- Commerce

Technically, q-commerce is part of e-commerce, but with innovative methods for last-mile deliveries. Quick commerce's superfast delivery model separates it from the more traditional e-commerce setup. There are several other areas where the two function differently.

*Need for Quick Commerce***:** Traditional e-commerce offered consumers ease of ordering from a broad selection of products, across different categories and with a wide range of SKUs, at the best possible price. While this model has dramatically transformed the consumer's purchasing experience compared to offline channels, it mainly works on the concept of bulk pick-up from far-off locations and bulk-drop within a large delivery radius.

2nd Generation eCommerce	3rd Generation Q-commerce
2-14 days delivery	10-60 minutes delivery
High range of product selection	Small range of product selection
Industries like Fashion, Beauty, Entertainment	Industries like Food & Beverage, Grocery
Delivery Truck	Motorcycle, Bicycle
Huge Warehouses	Local Stores Several Small Warehouses

This means that delivery timelines often get stretched to more than a day and, in many cases, the available delivery slots are either inconvenient or non-flexible and, sometimes, not even communicated to the consumers. As a result, despite lucrative promotions run by online platforms, a sizeable proportion of consumer wallet spends that include unplanned, indulgence-related or fresh-products (lowshelf-life), are primarily catered to by the neighbourhood brick-and-mortar (*kirana*) stores. However, the Covid-19 pandemic led to the evolution of consumer expectations due to restrictions on movement or general reluctance to venture out. Consumers began to explore online channels even for purchases that required instant fulfilment. This led to the emergence of Quick Commerce platforms, who promised to deliver high-in demand and high rotation products (mainly related to grocery) within a few minutes of order placement. Assuming that this change in consumer purchasing behaviour is permanent post-covid, and seeing the vast underlying opportunity size, a host of new-age companies have of late joined the Quick Commerce bandwagon.

The biggest problem with Q-commerce is that margins for a lot of products are low, but delivery costs are high. “To make margins work, one will have to ensure that the average order value increases,” says EY’s Pahwa. For companies to start making money per order, the cost of delivery should be efficient, adds Amit Nawka, partner, deals and India start-up leader, PwC. Besides, having the right assortment of products that caters to local taste is imperative. “Choosing the right SKUs (stock-keeping units) and making them available will be important,” adds Kearney’s Mathur.

Perhaps, poor economics is the reason behind big players such as Amazon or Reliance’s lack of enthusiasm to venture into the space. Indians typically spend about $850 billion on merchandise every year, of which $550 billion is spent on food and grocery alone, says Arvind Singhal, CMD, Technopak Advisors. The bulk of the food and grocery pie is led by purchase of staples and edible oil packs which are largely planned purchases. As far as non-food products are concerned, they form less than 10% of consumer spending. “People will subscribe to Q-commerce only to buy items that they have run out of. Besides, most Indians have access to kirana stores. Nobody can beat a kirana when it comes to merchandising,” says Singhal. The size of the total e-commerce market today stands at $40-45 billion, which is less than 5% of the total retail market. Online grocery GMV is only around $2 billion, led by BigBasket. “The average transaction value is very low for instant grocery deliveries.

1.7 Characteristics that define Quick Commerce

- Lightning fast delivery
- Small selection of goods
- Two-wheeler friendly
- Fulfillment via local warehouses
- Fewer products, more frequent purchases

1.8 Quick Commerce Challenges

- Fulfilling hundreds of on-demand orders
- Finding the right delivery partners
- Ensuring on-time deliveries within 60 minutes
- Tackling on-ground dynamics

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1.9 Quick Commerce Supply Chain Illustration:

Quick Commerce business model:

Inventory-led model Vs Marketplace Model

Parties	**Inventory-led model**	**Market place model**
Agent /Principal	Platform operates as a principal	Platform operates as an agent for offline retailers
Assortment	Curated assortment of 2k-4k SKUS	Not fixed as platform has no control over partner store inventory
Capex	Platform does capex to build supply-chain, dark stores and inventory	Store partner does capex on store and inventory
Inventory risk	Platform takes the risk	Store partner takes the risk
Gross margins/take-rates for platform	High	Low
Possibility of stock-outs	Low	High
Quality control	Better than marketplace model	Inferior to inventory model
Customer experience	Better than marketplace model	Inferior to inventory model
Typical delivery time	10-30 Mins.	30-60 Mins.

Multichannel retailers wishing to expand into q-commerce have two main options: They can partner with an existing q-commerce provider, or they can build their own q-commerce operations. The partnership model has many advantages and we believe it will be the preferred strategy for most multichannel retailers. Thus, platforms are highly attractive for customers, they encourage customer loyalty and they have good customer reach.

1.10 Conclusion:

The Q-commerce market is thriving at the moment. However, it is not without its challenges. By honing in on your USP, finding exclusive opportunities, and running a tight ship from a supply chain and inventory management perspective, you can truly flourish in this sector.

Quick commerce has many benefits but is not without its challenges. The leading challenge is profitability. Someone has to cover the cost of faster delivery and the added cost of hyper-local inventory warehousing. But for many customers, free delivery has been the accelerator to conversion. While your current customers may spring for quicker delivery windows, will you be able to acquire new customers without dangling the "free delivery" carrot? And on the other side, if you as a business are covering all delivery costs, that needs to be factored in as well. In well-established FMCG companies, there is sanity in pricing; there is a floor on pricing, and it cannot be reduced below a certain threshold. But in commodities, there are no such restrictions and many new-age players are just driving top lines, selling way below buying cost and operating at 1-2 percent gross margins. With the kind of cost structures involved, there is no line of sight for profitability for them. A lot of startups and unicorns got listed with crazy valuations both in India and globally in the last couple of years.

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