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GROFERS: RE-ENERGIZING KIRANA STORES THROUGH M-COMMERCE[1]

Reema Khurana and Susmi Routray wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Starting in 2014, the food and grocery (F & G) industry in India began experiencing a surge in the e-grocery, or online grocery, market. Before that time, existing e-business players largely avoided the online grocery market because of its complex logistics requirements and issues related to last-mile delivery, or reaching customers in remote areas. The rise of online grocery businesses raised concerns for brick-and-mortar stores, especially local *kirana* stores, or corner stores, about becoming redundant in the future. With limited or no technology adoption, these kirana stores had no way of going online. An online grocery business start-up, Grofers India Pvt. Ltd. (Grofers), came to the rescue of these local stores with an m-commerce, or mobile commerce, model for groceries. Grofers was the first company to launch its grocery business through a mobile application (app) with on-demand delivery within 90 minutes. The company provided a mobile platform for kirana stores, and the recent surge in the online grocery market was a welcome trend. However, with the Indian e-commerce industry experiencing losses, what chance did Grofers have to be sustainable and become profitable? With very low margins in the grocery business compared to lifestyle products, in addition to last-mile delivery and returns complexities, would Grofers be able to carve out a niche in the grocery industry with its innovative model? Could it be successful enough to lead the way for other ventures?

RETAIL INDUSTRY

The F & G market was growing at a compound annual growth rate of 14 per cent and was estimated to grow at 17 per cent annually by 2015.[2] F & G was the highest contributor to the overall retail industry at 69 per cent in 2013 (see Exhibit 1). Hypermarkets and supermarkets, which were categorized as organized retail or modern retail, were the best suited retail structures for the online grocery segment. However, their contribution to the total retail industry was only 10 per cent.[3] In addition to hypermarkets and supermarkets, malls, specialty stores, convenience stores, and e-grocery companies were also considered modern retail, so F & G was a major part of the modern retail segment.[4]

According to the published report *Retail 2020: Retrospect, Reinvent, Rewrite*, by the Boston Consulting Group and the Retailers Association of India, India's retail industry was expected to grow from US$600 billion in 2015 to $1 trillion by 2020,[5] with concentration in large cities (see Exhibit 2). Overall retail growth was expected at approximately 12 per cent per year, but supermarkets, hypermarkets, and other modern retail outlets were expected to grow twice as quickly, at about 20 per cent per year. Smaller grocery stores were predicted to grow at roughly the same pace as overall retail, at about 10 per cent.[6] The *India Retail Report 2013* stated that the F & G market would approach ₹17,120 billion[7] in 2014 and would reach ₹27,419.61 billion in 2015.[8] In 2011, the Indian household expenditure on F & G was 48 per cent of household income, which was the highest in the world.[9] According to Hari Menon, chief executive officer (CEO) of BigBasket.com, "Organized retail is only 15 per cent of overall retail here (India). Rental costs are really high, and that is really impacting business. The whole model looks very suspect. Online companies will go after these modern trade customers, who are most likely to shift."[10] Consumerism and urbanization had changed the mindset of Indian consumers; they were now open to modern retail, which created great potential for online grocery retailers.

ABOUT GROFERS

Grofers had followed an on-demand delivery model through mobile commerce since its inception in January 2013. It connected consumers to local neighbourhood shops. It had a unique idea in which items such as fruit, vegetables, snacks, cold drinks, personal care products, home products, and baby care products were delivered to the doorstep of the consumer within 90 minutes of ordering.[11] Customers were also able to send Twitter tweets while shopping online, a unique feature offered by the Grofers website. Grofers allowed the user to pay online through a debit or credit card, or through the online payment service PayUMoney.[12]

The concept of an on-demand grocery start-up basically meant that whatever grocery products the customer ordered would be delivered to their doorstep within the promised time. Grofers did this by working with 250 vendors and offering almost 20,000 products in different categories.[13] Grofers.com promised 90-minute delivery of the ordered products, provided that the products were available from a vendor within a six-kilometre radius.[14] Delivery charges would not apply if the order total was at least $3.75; otherwise, a $0.75 fee would be added for the order.[15]

The online grocery shopping portal was launched by Locodel Solutions Pvt. Ltd.,[16] founded by Saurabh Kumar and Albinder Dhindsa, in January 2014. At that time, it was known as OneNumber.[17] Initially, OneNumber aimed to deliver orders to customers from merchants by using a fleet of delivery boys. Grofers shifted that strategy to a business-to-consumer model.[18] The business intended to focus on neighbourhood grocery stores and organized retail chains by providing them with a delivery service. One of the company's founders, Dhindsa, stated the following about the business: "I sensed a good opportunity in this area, as merchants are struggling with unreliable delivery help. We went about building a network with work centres in different parts of the city, and have seven work stations in Gurgaon."[19]

Grofers started with venture capital funding from Sequoia Capital.[20] It was reported in April 2014 that Grofers had received total funding of $45 million jointly from Sequoia Capital and Tiger Capital. The capital was used to increase the grocery options and the technology of the portal. A company called My Green Box was acquired by Grofers, and the delivery app that My Green Box had developed was utilized to build Grofers' business. Grofers' previous model had been to connect with offline merchants through an online technology portal and to deliver goods to the doorstep of the customer.[21]

GROFERS' STRATEGY

According to Sharad Harjai, the company's vice president of marketing, "Expansion is the focus for us—geographically and vertically." Grofers was started in Gurgaon but soon spread to the National Capital

Region (NCR), moved to Mumbai and Pune, and later targeted the Tier 2 cities. “We wanted to enter the Tier 2 markets and therefore have launched in Jaipur, Ahmedabad, Chennai, Hyderabad, and Lucknow as we see them as highly promising markets,” stated Harjai.[22]

Grofers was started in 2014 with initial funding of $500,000 from both Zomato founder Deepinder Goyal and Sequoia Capital. It then received further funding of $10 million from Sequoia Capital in February 2015. In April 2015, more funding was announced from Tiger Capital for the amount of $35 million.[23]

The core business model of Grofers was last-mile delivery for household purposes. It provided logistics solutions to local merchants to be able to deliver goods quickly. “We have a 90-minute promise, as the customers need instant delivery,” said Grofers’ co-founder Kumar.[24] The company started with pharmacy items and soon added grocery, bakery, stationery, hardware, and other products. “We have seen a great response to our service in a short time. We are currently operating with 50+ clients and 500+ deliveries a day,” said Kumar.[25]

In an interview with the online news service *VCCircle*, Kumar’s fellow co-founder Dhindsa stated, “Grofers has been growing at a great pace across Delhi and Mumbai. We now partner with over 150 local merchants and continue to bring more merchants on board. We will continue with our strategy of tying up with local merchants and making the process of delivery smoother for the end consumer.”[26] The company provided assistance to merchants for the upload of product images; many of them were products that the merchants had never sold online.[27]

GROFERS’ SUPPLY CHAIN AND SCALE

Grofers initially operated with a delivery team of 20 young men and an internal dynamic delivery application and tracking system. By December 2015, its delivery team had around 200 members and received over 6,000 orders every month. The company processed more than 30,000 deliveries every month using Grofers’ tracker app.[28] The objective was to have enough points in the neighbourhood from which orders could be picked up and delivered within the stipulated time. This was a favourable strategy for the merchants because they did not need to provide their own delivery service. Grofers insisted on recruiting the delivery team members on its own, rather than using an employment service, even when the company expanded to new cities. “Hiring ourselves helps us keep better control and maintain the standard,” said Kumar.[29]

In December 2015, Grofers had a total of 500,000 stock-keeping units (SKUs), and claimed to be the first company to use this business model. However, more established players such as Delhivery and Tradus were moving closer to Grofers’ territory.

“The entire supply chain is broken,” said Dhindsa.[30] He pointed out that there was a demand for products, and supply was available, but the key challenge was to connect the two. This problem was typical of the Indian context. Western countries avoided this issue because front-end or customer-facing companies were not concerned with the supply side; their concern was only delivery. However, in India, front-end companies like Grofers needed to resolve the back-end issues as well. In order to do this, the companies needed a larger customer base so that it would be feasible to penetrate the back-end supply chain. As Dhindsa said, “We’re probably the biggest retailers in Delhi! We are doing more than 3,000 transactions every day in NCR alone. I think we’d overtake the likes of Spencer’s very soon (per day transactions in a city).”[31] Grofers was operating in both Tier 1 and Tier 2 cities, including Delhi NCR, Bengaluru, Mumbai, Jaipur, Ahmedabad, and Chennai. The average order size was around ₹560, with 6,000 orders per day.