

Hyper-local Services in Indian Retail: high octane to harsh reality

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Abstract

The increasing use of internet and mobile devices has helped online retail growth in India in a big way. Having got used to any-time, anywhere ordering, convenient payment modes and delivery at desired destinations, the consumers are also demanding quicker deliveries. While it is difficult to manage the supply chains across the country, the hyper-local segment aims to procure goods from the nearest vendor and deliver in the shortest possible time. The initial euphoria and flush of funds saw the setting up of a large number of hyper-local units. The ground realities, however, are forcing them to rework their plans, with a number of consolidations and shut downs. This paper studies the factors behind the initial flurry and the issues that affect the sustainability and success of this segment.

Keywords: online retail, hyper-local, start-up, logistics, mobile ordering

Introduction

The retail sector has emerged as one of the largest components of the Indian economy contributing to 10 per cent of the GDP and 8 per cent of the employment. Its estimated total market size is US\$ 600 billion in 2015 ^[1], with a CAGR of 7.45% since 2000. It is expected to have an accelerated growth with CAGR increasing to 11%, and become a trillion dollar market by 2020. Organized retail, which is mere 8% of the total retail, is likely to have better penetration garnering 24% of the retail pie by 2020 ^[2]. The organized sector consisting of brick-and-mortar, online and omni channels is expected to have a CAGR of 32%. The online retail alone could see a staggering 63% growth with 175 million online shoppers purchasing merchandise worth \$60 billion by 2020 ^[3]. While the time-strapped city dweller is resorting to the online purchase as a convenient mode, the spread of mobile culture is enabling the rural and other buyers to have a wide choice even in the absence of nearby retail outlets. The effective use of technology has helped the e-commerce activities across the supply chain, inventory management, customer experience and overall operations. It is estimated that a five-fold growth in the number of online units is needed to serve the customers with improved delivery capabilities.

The diverse demography, growing consumer base and advancements in digitization is providing a unique opportunity to the e-commerce players in B2B and B2C segments who are setting up online platforms, delivery and reverse logistic chains, fulfillment centres, payment channels and allied services. Innovative digital solutions are emerging to tackle the infrastructural shortcomings and provide a comfortable buying experience to the consumers. The increasing mobile culture is driving the brick-and-mortar players to enable online ordering while the online retailers are looking for local tie-ups for pickups and returns.

Amongst the various industry verticals that are vying for the prime position in the Indian e-commerce, hyper-local start-up group seems to be a major contender for market share and investment. The hyper-local space is a platform to procure and deliver products as well as services by matching the immediate

demand with the nearest available supply in the most optimized manner. This model aims to deliver everything from groceries, food, electronics, medicines, laundry, household repair services and others, directly from nearby stores and service providers in the shortest possible time with least shipping cost. After the E-commerce boom in 2013 and the materialization of m-commerce in 2014, it was the turn of hyper-locals in 2015 with hype as well as honest attempts to provide viable services. While the concept was attractive, the implementation has not been that simple, with shrinking funds and shut downs. The initial euphoria and the ensuing realization, including the intermediate bravado, could be seen in the samples ^[4] of news reports, interviews and discussions during the past two years. The hyper-locals primarily began in the food ordering and aggregation arena and are mostly operative in four kinds of businesses: food ordering, grocery ordering, home services marketplaces and logistics providers. The present study focuses on the hyper-local start-ups allied to the online retail product offerings, viz., food, grocery and logistics.

Study Objective

To understand the factors behind the hyped up interest and the operational problems that need to be addressed to ensure sustained and successful operations.

Study Type

Exploratory-cum-descriptive

Data acquisition

Wherever possible, operation features checked by directly accessing official websites of the selected hyper-local services; secondary data taken from the web resources including the official study reports, company web sites, newspaper articles and blogs

Study group

About 150 hyper-local and related units were considered, from among the companies listed in resources like Crunchbase, Tracxn, etc., along with those covered in news articles and

reports from Livemint, Stratos, VC-Circle and various business publications. The relevant data related to their locations, products & services, operations, funding, etc., were collated by cross-verifying information from different sources, including their own web portals. The analysis and observations based on a study of 140 companies is presented in the following sections.

2. Hyper-local evolution in Indian Retail

With increased purchasing power and a willingness to buy, the Indian consumers have patronized organized retailing through brick-and-mortar stores and online platforms. The time-starved clientele of online retail enjoying the any-time anywhere ordering, also expected the products to be delivered at the quickest possible time. The E-Commerce players responded with two-day and one-day services, and even same day delivery, albeit at a premium cost. However, the logistic and supply-chain issues put hampers in the last mile delivery, and even the first mile part, viz., pick up from sellers. At either end, the supply chain may have to reach out to hyper-local levels which could vary with demography and geography. In the case of FMCG and daily use items, the procurement could be from the neighborhood. Through techniques like Geotagging [5],

sellers close to the buyers could be identified reducing the logistics cost and delivery time. Customer can see all the sellers, from nearest to farthest, and choose based on factors like price, delivery time.

As the E-commerce retailers were trying to fit in solutions for local deliveries in their nation-wide supply chain plans, the hyper-local start-ups emerged to combine the online ordering advantage with the familiar comfort of neighborhood stores [6]. Through efficient service and quicker delivery, the hyper-locals were seemingly getting better market penetration. They were definitely attracting the investors' interest who needed new avenues away from the e-commerce majors with flip-flop valuations. With profitability still in question, the investors expected the business to break even on increasing average order size. The success of US-based groceries delivery start-up Instacart in raising funds and the FoMO factor (Fear of Missing Out) were also possible reasons for heavy investments.

Online grocery and food delivery start-ups were the favored segments. The bulk of the funding was in the first half of 2015. While the actual amount was not disclosed in many cases, an indicative summary of major funding received during 2014-16 is given in Table 1 below.

Table 1: Hyper-local Funding

Hyper-local type	Funds received (US\$ million)	Hyper-local entity examples
Food	106	Bite Club, Grab.in, HolaChef, Spoonjoy, Swiggy, Tinyowl
Groceries	188	Big Basket, Grofers, Localbanya, PepperTap, Tokri
Logistics	177	Chhotu.in, Delhivery.com, Goodbox, Opinio, QikPod, Runnr, Shadowfax
Mix	220	Jugnoo (Jugnoo Fatafat, Jugnoo Meals), Ola (Ola Cafe, Ola Store), Zopper

The hyper-local USP mainly lies in the seamless blending of online services with off-line vendors. A big opportunity exists in their association with the local pop-and-mom stores that are part of the US\$ 600 billion unorganized retail. In fact, the mobile-internet culture has forced even the brick-and-mortar players to offer online ordering and local delivery. While Amazon and Flipkart made a foray through apps for grocery ordering, the brick-and-mortar leaders like Future Retail, Reliance Retail and More are trying out omni-channel options enabling online ordering. Both outlet based and the online retailers have started using the services of hyper-locals for last mile delivery and reverse logistics. E-commerce majors are also investing in hyper-local start-ups as seen from the following examples.

E-Com Major	Hyper-local	Nature of interaction
Snapdeal	Peppertap	Investor, Series B US\$ 36 million, Sep 2015
Paytm	Jugnoo	Lead investor, Series B US\$ 10 million, Apr 2016
	Delhivery	Use as 3 rd party logistics provider & eKYC partner
	Xpressbees	Use as 3 rd party logistics provider & eKYC partner
Alibaba	Delhivery	talks regarding investment and logistic tie-up
	Xpressbees	talks regarding investment and logistic tie-up

Hyper-local start-ups have mostly begun in food aggregation and online grocery. Food chains and restaurants could expand their customer base without hiring delivery persons or setting

up infrastructure. Food hyper-locals even offer to get different items from different sources while the ordering cart is made. In a grocery hyper-local platform, the neighborhood stores, including retail outlets, could list out their products along with discounts and special offers. The hyper-local ventures can find a huge potential in the grocery segment where the online players have only 1% share of the \$600 billion market.

Hyper-local players such as Delhivery and Grofers, along with Online Grocer like Big Basket, are present in many cities. Tying up with them is beneficial to sellers with inventories “across the country and closer to the buyer”. The sellers are released from the burden of managing and keeping their inventories across the various platforms they do business with. For the FMCG brands selling offline, hyper-local services provide an additional sales channel and closer connectivity with customers. Getting a realistic measure of the customer behavior, these manufacturers could manage their online marketing and supply chain more effectively. On the flip side, a bad hyper-local alliance could drive away the loyal customer base and spoil the brand reputation.

The hyper-local companies could contribute to the overall economy and nation building along the following lines [7].

- Promoting innovation through technology driven service offerings
- Generating more employment opportunities for work force
 - Skilled – IT professionals, analytic and management teams
 - Semi-skilled / unskilled labour for call centres, delivery, etc.
- Enhancing local economy by helping neighborhood stores to scale up their offerings and the associated workforce,

especially in Tier-II and Tier-III cities

- Enabling storage services, delivery networks and allied secondary / tertiary services with focus on quality
- Providing opportunities for training and skill development agencies

3. Hyper-local performance in Indian Retail

Big Basket, Delyver, Chhotu.in, Town Essentials, etc., have been operating for a long time in what we now consider the hyper-local segment. After a slow start, the scene became hyper active in 2014-15 with a large number of units coming up and some of the existing players expanding in a frenzy. As seen in Fig. 1 given below, the group under the present study has 106 start-ups during 2014 and 2015, compared to 33 in earlier years.

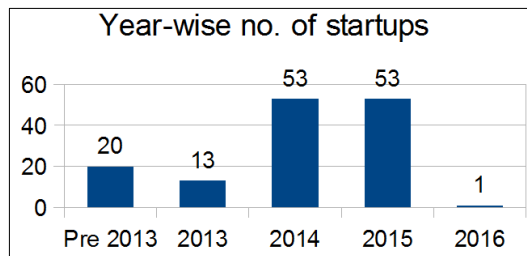


Fig 1: Hyper-local start-ups (year-wise)

The hyper-local units have been broadly classified under the following heads.

Horizontal	Deliver from local stores, Anything to Anywhere (Food, groceries, confectioneries, etc.)
Groceries	Grocery delivery from local stores, wholesale stores, supermarkets; Subscription based delivery of milk, eggs, and other daily needs
Food	Food delivery from restaurants, home/ chefs, local dhabas
Logistics	On-demand delivery, providing delivery persons and other, logistic support
Others	Apps and technical support for various operations; items not covered in the above categories

Many of them started in the food delivery or grocery, initially covering small segments of a city. Later, they expanded to cover more areas and include other product types. Bolstered by the infusion of funds, a few of them ventured to repeat the process in other cities. Most of these companies were based out of major metros, with Delhi-NCR and Bangalore in the lead.

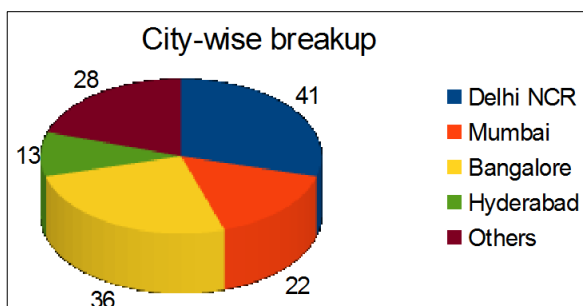


Fig 2: Hyper-local units: city-wise breakup

The number of the units in different service type is given in Fig. 3 below.

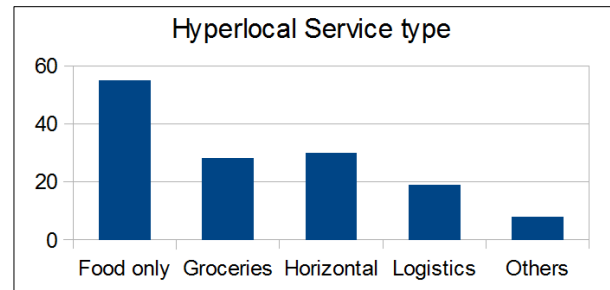


Fig 3: Hyper-local study group break-up based on the services

Food and groceries are considered most conducive for the hyper-local format. The market place model, currently in vogue in online retail, is also adopted by the hyper-local players, especially in the food segment. While food delivery operators tend to charge 10-20% per order, the margin is thin in groceries with 8 to 15% cut for the hyper-local service. The grocery leader Big Basket, however, adheres to inventory model, seeking higher profits through its own products. While discount offers were the primary option to widen the customer base, the commissions were kept minimum to please the vendors. As the operations grew, new challenges had to be faced and solutions have to be tweaked on a case to case basis. Most of the players were boot-strapped units with some Angel funding and were unable to grow beyond a certain limit. Some of them even had to close down due to funds crunch. Even some of the fortunate ones flushed with funds, faltered on strategies and floundered. The following examples could give a picture of the range of problems faced.

3.1 Grofers

Grofers customer care call centre is based in Gurgaon. When they expanded their operations to Bangalore, the call centre staff could not respond effectively to the local customers who are making queries in the vernacular language.

3.2 Peppertap

Peppertap, a start-up founded in November 2014, focused on grocery and vegetables. During 2015, it received a total funding of \$51.2 million in four rounds from Sequoia Capital, SAIF Partners, Snapdeal and others. It spread to 25 cities, averaging 20,000 orders per day and acquired Jiffstore, whose mobile apps enable buyers to order household provisions from neighborhood stores. During later quarter of 2015, it had to cease operations in many cities and by April 2016 it was fully shut down. The reasons for its failure include the following:

- To attract large number of customers, special offers and discounts have to be given. Since the vendors were not willing to share the burden, Pepper Tap had to use its own funds. Increase in customer base, actually led to increased drain of its funds.
- The partner stores were not fully equipped to be integrated into the mobile app. often the customers could not see the listing from the store and sometimes it was a partial list with essential items missing.
- The two hour delivery promise demanded regular recruitment for the logistics and operations teams which had a sizable attrition rate.

3.3 Tinyowl

Mumbai based food delivery set up in August 2014, received Rs.152 crore from various investors. It was finally acquired by the hyper-local logistics Roadrunnr in May 2016 and the joint operations merging under the new brand name Runnr.

- To increase the customer base, too many offers and discounts were given, burning the cash
- Over-hiring and subsequent firing weakened the founder-employee relationship
- A new version of the app was launched in December with suggestions to order a particular dish from a particular store. Customers found it intrusive and customer base went down drastically.
- Homemade Food, a business in which they were pioneers, was shutdown.

3.4 Ola Café and Ola Store

The food and grocery delivery arms, started June 2015, were to use the Ola cabs for hyper-local delivery, minimizing their idle time. However, the services ceased operating by March 2016.

- Stiff competition from startups like Swiggy, Zomato and Grofers
- Margin per order was very low.
- Ola finally decided to concentrate on its core cab business
- Based on the study of the various developments in this segment, the following observations could be made:

3.5 Operations

a) Advantages

It is possible to do location-based customization using technology

With good vendor – inventory base, quick service at lesser cost is possible

Vendors are happy to have wider customer-base without delivery worries

Vendors get country-wide exposure without need to update different portals

The metro dweller is happy with the quick delivery at no premium cost

Small city buyers get items locally not stocked from the nearest point

b) Threats

Centralized control and planning will not be very effective

Need to keep inventory up to date with the local merchant's stock

The technology may not work well due to lack of knowledge by users (e.g., app for items, even the entire list may be missing)

Delivery and other persons need adequate training

Discounts may not be the best way to retain customer loyalty

Tier-II and Tier-III cities

a) Advantages

Huge untapped market, difficult of e-commerce majors handle globally low cost of operations and availability of cheap labour novelty factor along with offer of latest products and those not generally stocked locally will help

B) Threats

Lack of sufficient funding, need demonstrable path-to-prof

limited market which is not quite responsive pace is slow – no need for, e.g., 1-hr delivery offers people like to go out shopping even for groceries convenience factor does not work

c) Strategies

Phone ordering is fine, but very low comfort level with apps use of vernacular language is very helpful customers from metros could order for their relatives in smaller cities (e.g., Freshboxx receiving orders from Bangalore for delivery in Hubli)

During the past two years, the hyper-local segment has seen expansions & convulsions, closures and some consolidations. Those depending on external funding for sustenance are definitely facing extinction. While technology has played a major role, there has to be viable business and operational plans. While the study has brought to focus the major aspect that affect the success or failure of a hyper-local venture, further work needs to be done analyzing the inter-weaved impact of various factors related to technology, business model, funding and customer needs.

4. Conclusion

The seemingly simple looking hyper-local model has to overcome many obstacles to ensure successful implementation. Start-ups with technology focus are mostly surviving on external funding and need to put realistic business plans in place. Indiscriminate expansion and discount offers will adversely affect cash flow and has been the cause of many closures. There is no hyper-local equivalent of Wal-Mart, eBay or Amazon success stories to follow. Instacart, the US groceries delivery start-up, is yet to prove its profitability while emulating Taobao – Alibaba model is not quite practical in Indian scenario. However, the market size is very big due to the increased use of smart phones and customer shift towards on-demand services. The opportunity is there for a truly “make-in-India” innovation combining technology with business acumen.

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