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Voluntary Public

Date: 5/26/2017

GAIN Report Number: IN7064

India

Post: Mumbai

Online Grocery Market Growing with Unique Means to Reach Dispersed Consumers

Report Categories:

Agriculture in the Economy

Agriculture in the News

Food Service - Hotel Restaurant Institutional

Retail Foods

Snack Foods

Fresh Fruit

Promotion Opportunities

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Report Highlights:

India is the fifth largest online grocery market in the Asia Pacific region and one of the fastest growing. India's online food and drink market grew to \$135 million in 2016 and is expected to cross \$464 million in 2021.

Introduction

Best food and grocery e-commerce product prospects: fresh fruits and vegetables; snack foods; tree nuts and dried fruits; biscuits and cookies; ready to eat/serve convenience foods; sauces and condiments; “natural” or gourmet foods and beverages, health and nutrition bars; chips; jams and spreads. Source: Trade contacts

Background on Retail and Internet Growth in India

With a population of 1.27 billion, India is the world’s second most populous country after China. An estimated 855 million Indians live in rural areas (67 percent) and 415 million (33 percent) in urban areas. Urbanization is taking place at a fast rate. The first ‘World Cities Report 2016 – Urbanization and Development: Emerging Futures’ by UN Habitat projects an extra 300 million new urban residents by 2020 in India. Already, too, the report indicates that India’s urban areas contribute 60 percent of the country’s GDP. According to the World [Factbook](#), India’s GDP Per Capita on purchasing power parity (PPP) basis was \$6,700 in 2016. The Government of India published estimate indicates that real per capita annual disposable income grew 7.4 percent from 2014 to 2015 to Rs. 93,293 (\$1,371).

According to the ‘Internet in India 2016’ report jointly published by the [Internet and Mobile Association of India](#) (IAMAI) and Kantar [IMRB](#), the number of internet users in India was estimated at 432 million in December 2016 (269 million from urban and 163 million rural). The number is expected to reach between 450-465 million by June 2017.

Rural area internet growth is attributed to increasing availability of cheaper smartphones. According to a report published by the Boston Consulting Group, 87 percent of connected rural consumers use only their phones to access the internet. According to a statement by the Ministry of Electronics and Information Technology, India internet connectivity currently ranks in 155th position but the country aims to be in the top 5 over the next 5 to 6 years though the Digital India campaign to educate consumers on the use of internet and smart phones as well as encourage companies to make affordable data plans that enable deeper penetration across the country.

According to a recent statement by Google’s Vice President, “there are only 200 million Indians who are proficient in English and they are already on the internet. Almost every new user that is coming online, roughly nine-out-of-ten, are not proficient in English. So, it is fair to say that almost all the growth of usage is coming from non-English users.” Google estimates that by 2021, content consumption in Hindi will be bigger than consumption in English. A study conducted by Google, in partnership with KPMG, highlights the emergence of this trend. “India today has 234 million Indian language users online, compared to 175 million English users and the user base of local languages will continue to grow at 18 percent annually to reach 534 million in the next four years.” The study has found that adoption of internet through local languages has been led by services such as messaging (169 million), digital entertainment (167 million), social media (115 million) and online news (106 million).

Mobile commerce (M-Commerce) growth outpaced overall growth in Indian internet retailing in 2016. Analysts expect it is likely to jump to 45-50 percent in 2017 against the current growth of 30-35 percent for ecommerce sales. This is attributed to higher penetration of less-costly internet-enabled smartphones (source: Euromonitor).

Retail Sub Sectors – Kirana, Online, Brick and Mortar, Omni-channel

India's food retail sector is dominated by small kirana stores and government-run food distribution outlets supplying essential commodities. India's 12 million shopkeepers account for nearly 97 percent of all retail sales. The emergence of larger chains and stores began in 2005 and the sector has grown to over 3,000 modern retail outlets in 2016.

Kirana stores are the greatest challenge to online retail in India as they are neighborhood shops that can be quickly called on the phone to deliver a myriad of essential products or gourmet sundries. This is prevalent in urban and rural India. Most of the benefits, such as discounts and promotional offers, provided by online grocery retailers are provided by kirana stores. Hence, maintaining a loyal customer base remains a challenge for most online grocery players.

Trade sources report that India in the coming years will see a merge in online and brick and mortar retail. While the online sector offers convenience and value, brick and mortar offers product sampling, impulse buying and personalized service. Establishing omni-channel distribution is another strategy for food and grocery retailers as a majority of consumer's desire convenience at the time of purchase.

Online Food and Grocery Sector

The online food and grocery sector is witnessing rapid growth. According to industry estimates, of the \$500 billion-plus retail market, food and groceries account for 70 percent of sales. Of this, organized, or, modern retail, food and grocery sales are estimated at around \$12 billion and growing at about 30 percent (source: E-Grocery Market – India Report).

According to Euromonitor International, food and drink internet retailing recorded current value growth of 43.2 percent during 2016. India's online food and drink market grew to \$135 million in 2016 and is estimated to grow at the same pace over the next five years. Online food and drink sales are expected to cross \$464 million in 2021. This growth was driven by India's urban consumer base that is familiar with ordering groceries online. The online and mobile applications offered by online grocery retailers have enabled consumers to shop for their groceries, including both edible and non-edible items, on the go and then have their orders delivered within a time slot which is most convenient for the consumer.

The number of registered online food and grocery portals declined in 2016 according to the IMAI after growing sharply during the period from 2014 to 2015 (see [Mobile and E-Commerce Grocery Retail and Food Service Bloom](#), for a selected list of online food and grocery portals). The number of consumers who buy online is expected to cross 100 million by 2017 from 69 million in 2016. Growth is attributed to better logistics infrastructure, improved broadband access, and an increase in internet-ready devices (Source: ASSOCHAM-Resurgent India).

Currently, there are only a few nationwide online retailers in the Indian market; namely, Amazon.IN, Bigbasket, Flipkart, and Snapdeal. Flipkart and Snapdeal do not carry food and grocery items. Amazon.IN carries packaged grocery products and announced it will invest \$500 million in India to sell

third-party and its own private-label food articles that are sourced and packaged locally. Currently, Amazon.IN offers food items through third-party sellers on two platforms, Amazon Pantry and Amazon Now. The company is going to develop infrastructure, including warehouses and distribution facilities such as a temperature-controlled supply chain, and undertake farm-to-fork retailing of food items as part of its plans in India in the food retail sector. Bigbasket.com (BB) carries fresh, frozen, and packaged grocery items and is the largest online food and grocery retailer and the only one operating that imports its own products as well as serves as a marketplace to feature food and grocery products imported by other companies (i.e., it operates on a combination of inventory-led, marketplace and hyperlocal models). In 2015, FAS India office partnered with omni-channel retailer, Godrej Nature's Basket for a "Taste of America" food and beverage promotion. During the 39-day promotion, online sales of U.S. origin foods and beverages were recorded at \$17,520 from around 4,100 SKU's.

Another emerging trend seen in the sector is the emergence of e-wallet players entering into the marketplace model offering food and non-food products in addition to their existing network of mobile recharge and bill payments.

Demonetization Effects Online Grocery

Data suggests that 90 percent of all transactions in India occur with cash. In addition, for online shopping, the number is nearly 80 percent as most online orders are paid with cash on delivery (COD). According to retail contacts, the GOI's move on November 8, 2016, to take high-value currency notes out of circulation sent them into a panic. Now, however, industry sources report this move benefitted many online retailers as people switched over to electronic payments with credit cards, internet banking, and mobile wallets.

With increased comfort of using electronic payment, sources suggest that a majority of consumers find online retailers more convenient as they can still pay COD or with an electronic transaction.

Online Grocery Business Models

In 2016, India was the fifth largest market in Asia Pacific for online grocery retailing at US\$135 million. The leading country was China, followed by Japan and South Korea. Despite the channel being relatively new in India, it was among the top five countries in the Asia Pacific region.

There are three different models currently used by online grocery retailers. These models are 1) inventory-led; 2) marketplace-led; and, 3) hyperlocal-led.

An inventory-led online grocery model procures a wide range of products from vendors and clubs multiple large orders thus enabling buyers to purchase in bulk.

The marketplace online grocery model provides a platform for third-party vendors to get listed with them and sell their products on their online business medium. Amazon.IN is the biggest player in this space. The marketplace model sees high transportation and logistics costs, which sometimes tend to be higher than its margins due to multiple small deliveries. For the model to work successfully, sources report finding the right mix of stores supplying good quality products and close proximity for quicker deliveries is the key. However, sources suggest that it is tough to maintain product quality control in a marketplace model as the seller is primarily responsible for the products.

The hyperlocal model is a platform between local retailers and consumers living in a particular area. Trade sources believe that this model has the potential to increase competition among local kirana stores as Indian households will experiment with using the online grocery space. The challenge for this model seems to be how to increase the frequency and loyalty with which consumers will choose from this online model. According to “India Hyperlocal Market Outlook to 2020”, the compound annual growth rate for the hyperlocal market will exceed Rs. 23 billion (approximately \$354 million) by 2020. This model has the potential of encouraging local entrepreneurship in tier-2 and 3 cities and usage by the rural population towards online food and grocery purchases. According to IMAI, the hyperlocal-led ecommerce business model promises growth for the industry due to their shorter delivery times and availability of stocked goods with local stores.

Indian online food and grocery retailer, Bigbasket, operates on a combination of the above three models, i.e. inventory-led, marketplace model and hyperlocal model. It operates 25 warehouses and 63 dark stores (storage facilities). The company reports to have 3 million repeat customers and is targeting revenue of Rs. 18 billion (approx. \$276 million) in fiscal year 2017 (April-March), more than double of the Rs. 7.5 billion (approx. \$115 million) in 2016. One of the methods Bigbasket has identified to achieving this goal is analytics. With analytics built in-house called “Smart Basket”, this feature populates a customer’s product basket based on their most recent and frequent purchases, alert them if they have not added a product they usually buy and informs them if they are about to run out of a particular product on estimated usage patterns.

E-commerce Regulations and Guidelines

In June 2016, the GOI allowed 100 percent foreign direct investment (FDI) in trading of food products, produced and manufactured in India, through e-commerce. Food Processing Minister, Harsimrat Kaur Badal, stated that foreign direct investment in the food processing sector could cross \$1 billion in the next two years, helped by reforms in FDI space and the streamlining of regulations by food safety regulator, the Food Safety and Standards Authority of India (FSSAI).

In January 2017, [FSSAI](#) mandated that ecommerce retailers with food products listed on their portals hold an FSSAI food business operators (FBOs) license for their entire supply chain and that “last-mile” delivery should be undertaken by trained personnel so that the safety of food products is not compromised at the time of delivery. In addition, FSSAI indicated that entities that are providing listing/directory services (i.e., a market platform) may not be required to obtain a license/registration under the Act. Although they should ensure that no misleading information or false claims pertaining to the sellers or brand owners, vendors, importers or manufacturers or any false images are included on their platform. The notification stated that the ecommerce FBOs will have to possess a signed agreement with the sellers, brand owners, manufacturers that the products comply with the FSSAI Act and its rules and regulations. Ecommerce retailers are required to notify the sellers/brand owners/importers/manufacturers of any consumer complaints that would be liable for expeditious resolution.

POST CONTACT AND FURTHER INFORMATION

For further information about the e-commerce market in India, please contact the following USDA offices in India:

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