

Quick commerce last mile delivery: Indispensable or superfluous?

By Komal Nanwani, Ankit Raj, Ganesh N Prabhu | Dec 21, 2022

Researchers at IIM-Bangalore ran an experiment to understand the perspectives of Q-commerce users. Here are their findings and suggestions for players in this highly competitive arena



Q-commerce services became rising stars in the startup world as more customers were nudged toward online shopping during the last two pandemic years. Image: Amit Verma

Quick Commerce or Q-commerce companies door deliver essential groceries within 10 to 30 minutes. Major Q-commerce players in India include JioMart from Reliance, Bigbasket from Tata, Amazon Fresh from Amazon, Flipkart Supermart from Walmart, Swiggy Instamart from Swiggy, Blinkit from Zomato, Nature's Basket from Spencer, DMart Ready from DMart, Dunzo, and Zepto. The Q-commerce market is estimated to grow from \$0.3 billion in 2022 to \$5 billion by 2025. However, as per a McKinsey report, all the significant players in Q-commerce continue to have negative EBITDA while offline grocers have a positive EBITDA of 5-8 percent. Profitability has remained a key challenge for online grocery players. High cash burns on quick delivery are not

only happening in India. Many online last-mile delivery players worldwide have also not been able to make this business profitable.

Q-commerce services became rising stars in the startup world as more customers were nudged toward online shopping during the last two pandemic years. These customers are not returning to their old habits anytime soon as Q-commerce is a faster and more convenient option for buying essential groceries. Q-commerce is positioned at the intersection of ecommerce apps and innovations in last-mile delivery. This shift in consumer behaviour during the pandemic is expected to be sticky due to the ease of shopping and accessibility of last-mile delivery.

Growth drivers for Q-commerce groceries are growing ecommerce penetration in semi-urban India, rising income, comfort with technology among youth, increasing urbanisation, changing customer lifestyles, and low delivery fees. Competitors offer cash-back schemes, flexible returns, and same-day delivery of replacements due to inadequate quality or damage when delivered. However, 10 to 30 minutes quick delivery usually requires a higher cost of last-mile delivery and a reduced range of products that can be delivered compared to next-day delivery.

Q-commerce companies are racing to invest in new technologies that can optimise their supply chain and logistics operations. This is expected to increase the range of products offered on quick delivery and reduce the delivery cost over time. While they experiment and learn, they have to keep their delivery fees low enough to attract customers to the quick delivery option. Unless they reduce the cost of delivery rapidly or make more margins from the products they sell, the cash burn incurred due to low delivery fees while they learn can soon become unaffordable to their investors. Raising delivery fees to cover costs is an option, but the stickiness of Q-commerce in the face of higher delivery fees is yet to be tested in India.

Online grocery delivery players use four business models.

1. **Inventory Model (Big basket, Blinkit, Amazon)** where orders are processed and sent from warehouses with inventory bought and sold by ecommerce companies.
2. **Hyperlocal Model (Dunzo, Swiggy)** where last-mile delivery is by delivery partners picking orders from neighbourhood physical stores.
3. **Multi-vendor Marketplace Model** where orders are directed to neighbourhood physical stores that deliver locally using their internal staff.
4. **Hybrid Model (Swiggy Instamart)** blends the inventory and hyperlocal formats to deliver within 30 minutes.

We conducted an indicative online survey of 70 users in Bangalore and open-ended interviews with 25 users to understand the perspectives of Q-commerce users. We included only the four players that are promising delivery within 30 minutes in Bangalore. Our survey of 70 local users found 58 percent of primary users of Swiggy Instamart, 17 percent of Blinkit, 14 percent of Zepto, and 11 percent of Big Basket. Surveyed users expected the Q-commerce process to be smooth, quick, simple, logical, and secure. Other essential requirements were real-time order progress updates, accessibility, precise tracking information, and simple returns for inferior goods.

Q-commerce companies like Zepto offers 10-minute delivery by using dark stores that do not serve walk-in customers. Delivery partners said they could travel only within a radius of four to five km for a 10-minute delivery from a dark store. Zepto claims that their average distance for delivery is 1.8 km, and the average delivery time is 10 minutes. Over 90 percent of deliveries reach the door in 10 minutes, with delivery partners driving at an average 12 km/hour speed. Blinkit experimented with two-hour delivery in Gurugram in 2021. Their conversion rate for express delivery was nearly double that of regular delivery, indicating that a shorter delivery time positively impacted customer decision-making. Big Basket opened as an online grocery service in 2011, but it opened its first dark store in Bangalore only in December 2021.

Dark stores operate as mini-warehouses strategically located in busy and high-demand areas. Technology helps in finding ordered items quickly within the dark store. The store worker bifurcates food and non-food items and packs them separately. Special attention is given to glass containers or cold storage items. Each crate has a unique barcode that is assigned to one customer. Zepto claims that it manages to package things in just 60 seconds. The delivery partners then check the quantity and expiry date before collecting the items and handing them to the billing desk, which produces two receipts. Delivery partners take the help of location intelligence and geospatial data, maps, and road patterns to make fast delivery. The model is similar for all major competitors in Q-commerce that deliver within 10 to 15 minutes.

Our 25 open-ended interviews with a wide range of users on Q-commerce features indicated that customers liked fast delivery but were willing to order only when the delivery rates were reasonable. Q-commerce companies have significant investments in technology, inventory, and high rent of dark stores in high population density locations. If their delivery charges are increased over time, users may instead wait for their order to be delivered by their competitors with a lower delivery fee and a longer delivery time. "Is quick delivery a service that current users will get used to so much that they will continue to use it even at higher charges?" is yet to be tested. Customers also said they are disappointed if the promised ten-minute delivery is not fulfilled on time, but they may not mind if the promised delivery time is slightly longer. So, Q-commerce companies may need to think critically about promising delivery in under 10 minutes and being late for about 10 percent of their customers. Instead, they can promise a longer time slot (up to 30 minutes) and deliver to 100 percent of customers within that time. However, it appears that competitive pressures are prompting Q-commerce companies to promise delivery in 10 minutes even when their customers may be indifferent between 10 and 15 minutes.

We also identified some pain points faced by the Q-commerce users that we interviewed. Some said that the website or the mobile app was not intuitive, which increased the time that they took to place their order. Some users did not know the name of the item that they wanted to buy in English and, therefore, could not place their order. The website did not enable the use of past grocery orders for placing repeat orders. They could not choose a more convenient delivery window and had to move their ordering time closer to their convenient delivery window. There was no group purchase option. Delivery and refund notifications are not triggered quickly. There was no alternative arrangement for customers who were not tech-savvy to call on the phone. These pain points indicate that while Q-commerce focuses on speedy delivery, they may miss out on aspects that give their users a more holistic and high-integrity experience.

We suggest that Q-commerce companies examine the feasibility of using dark stores to do 15-minute deliveries for other high-demand products like local sweets, pre-cut vegetables, party essentials, meat, ice cream, paan, ready-to-eat foods, and pet food. These can also be private-label products with a higher profit margin. The

30-minute delivery option can be offered by picking up from neighbourhood stores with a higher delivery fee where the willingness to pay for delivery is higher—these include farm-to-home products, medicines, and local delicacies.

Q-commerce companies could benefit by extending operating hours overnight in major cities. Further, they should make their website and mobile app more intuitive as a user may be hurrying to place an order with them. Including features that users appreciate will help create stickiness for their website or mobile app. Suggestions by users interviewed included sharing the shopping cart with others, voice assistance, live tracking of the delivery person, reminders on orders, recommendations while buying, language translator (to show names of recipe items in different languages), filtering by events such as birthdays, chat option with the in-store shopper, rating and tip option for the delivery person, and scheduled deliveries. All these features may not be immediately feasible or viable—the Q-commerce companies need to do controlled trials to test the impact of every feature rolled out on customer acquisition, retention, and engagement metrics. Feasible features can be removed if they are not impactful on important metrics or are too expensive to retain.

Komal Nanwani and Ankit Raj are PGP students and Ganesh N Prabhu is a Professor of Strategy at the Indian Institute of Management Bangalore.