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Report Name: COVID-19 Accelerates the Growth of India's Online Grocery Market

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Report Highlights:

India's online grocery market grew by 80 percent to \$2.66 billion in 2020 primarily due to COVID-19 and the resulting lockdown. The sector is expected to grow exponentially over the next few years thanks to expanding internet connectivity and rising consumer demand for convenience, value, safety/hygiene, ease of payment, and product variety. Opportunities for U.S. exporters exist in consumer-oriented products, especially tree nuts, fruits, and packaged/processed foods.

Section I. Market Overview

Rising Urbanization and Internet Connectivity Facilitate Online Grocery Purchases

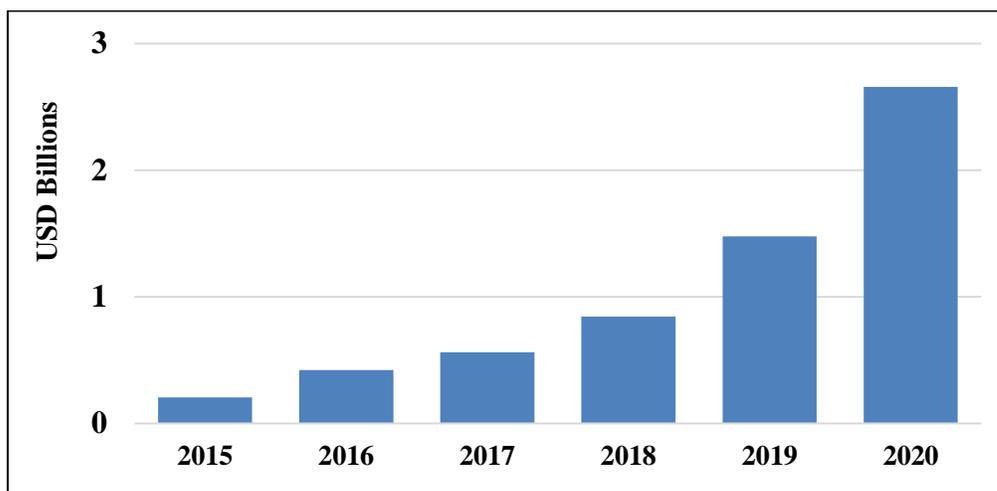
As of March 2021, India's population stands at 1.38 billion, 18 percent of the total world population. According to the World Bank, 66 percent of this population (900 million) lives in rural areas while 34 percent lives in urban ones. On average, India's urban population increases by 2.3 percent every year, while rural population growth continues to decline with only 0.3 percent growth in 2019. This rapid urbanization is facilitating access to a wide range of goods and services for an increasingly younger, "globally-conscious" consumer base whose incomes are growing, and tastes/preferences are evolving. Along with this, internet connectivity is expanding thanks to declining costs of data and mobile devices (the preferred method of internet access). According to the Internet & Mobile Association of India, India has over 504 million active internet users, of whom 227 million and 205 million are from rural and urban areas, respectively. Moreover, nearly 70 percent of the country's internet population are daily users, who primarily use the internet for social networking and messaging. India's rapid digital adoption will continue to grow as local sources estimate that the country will reach 1 billion internet users by 2025. This adoption will accelerate e-commerce use in rural and urban areas for years to come.

India's Online Grocery Sector - A Small but Rapidly Expanding Market

Although online grocery sales represent less than one percent of total grocery sales in India, this sector is expected to experience tremendous growth in the next decade. India's grocery retail sector is considered the third largest in the world and reached sales of \$410 billion in 2020, according to Euromonitor International.¹ The sector is dominated by traditional and unorganized retail formats, specifically hawkers and neighborhood shops called *kirana* stores (similar to mom & pop stores in the United States), which represent 90 percent of the market in sales. The remaining 10 percent is made up of modern grocery retailers (such as supermarkets and hypermarkets) and e-commerce. In 2020, online grocery sales grew by 80 percent to \$2.66 billion as COVID-19 compelled consumers to shop more online due to lockdown restrictions and safety concerns. During this period, consumers shifted their attitudes towards grocery e-commerce and began to see it as the most convenient and safest way to procure essential supplies.

¹ Euromonitor International, Food and Drink E-Commerce in India – Country Report, February 2021

Graph 1. India – Food and Beverage E-Commerce Sales



Source: Euromonitor International

Traditional grocery stores are the greatest challenge to online retail in India as they are neighborhood shops that can be quickly reached to deliver a range of essential and gourmet products. These shops are prevalent in both urban and rural areas and have maintained a loyal customer base, thanks to benefits such as discounts, promotional offers, and personalized service. Moreover, these stores have also *digitized* their operations by accepting credit, debit, and e-wallet payments, and receiving orders through messaging apps, such as WhatsApp. Just a few years ago, nearly 97 percent of grocery sales were made through 12 million shopkeepers around the country. However, this began to shift in 2005 with the emergence of modern grocery stores, which now total over 8,000 and continue to increase in number.

According to private estimates, the Indian online grocery sector is expected to reach \$20-25 billion by 2025. This sector's burgeoning growth is supported by rising urbanization and incomes, busier lifestyles, greater internet connectivity, the entrance of offline grocery chains, and changing consumer attitudes that demand greater convenience, product variety, safety/hygiene, and value.² The sector is highly dynamic with domestic and foreign firms competing to expand their market share and presence. Major online grocery retailers include BigBasket, Grofers, Amazon India, Flipkart, and Jio Reliance, along with emerging retailers such as Nature's Basket, DMart, More, Easy Day, and Milk Basket.

Online Grocery Business Models

² Trade Brains, [Online Grocery Market: Overview & Future in India](#), March 2020

Model	Description	Examples
Inventory led	Retailer procures and stores a wide range of products from vendors in large quantities. Thus, enabling buyers to purchase in bulk.	Big Basket, Grofers, DMart
Marketplace led	Retailer provides a platform for third-party vendors to list and market their products. This model results in high transportation and logistics costs due to the high volume of low-value deliveries, which erodes margins. Local contacts suggest that for this model to be sustainable, retailers need the right mix of stores/vendors who supply quality products at relatively close proximity to customers. Quality control can be difficult to maintain for the retailer as the third-party vendor is ultimately responsible for the product.	Amazon India, Flipkart Supermarket
Hyperlocal led	Retailer and consumer are both based in a limited geographical area. Offline retailers, including traditional and modern grocery stores, are increasingly adopting this model.	Foodhall, Nature's Basket

Offline Retailers Enter Online Grocery Sector

While e-commerce offers greater convenience, traditional and modern retail outlets are able to offer/facilitate product sampling, impulse buying, and personalized service, which is especially necessary for the marketing of new high-value food products. Nonetheless, offline, or traditional/modern retail outlets have recognized the need to establish marketing channels through e-commerce to satisfy consumer demand for convenience and safety and to retain market share. Retailers such as DMart, More, and Nature's Basket were previously present in the market only through physical grocery store chains around the country. Today, these retailers have their own e-commerce platforms, through mobile apps and websites, to reach online consumers. Other grocery stores have chosen not to invest in developing their own platforms; instead, they are marketing their products through food delivery aggregator apps, such as Zomato and Swiggy. These apps helped many large grocery chains and small shops alike enter the hyperlocal online grocery market amid movement restrictions due to COVID-19, allowing them to reach consumers at home without the need to establish in-house delivery services. Other grocery chains have leveraged their partnerships with major online retailers to enter the e-commerce market. For example, Big Bazaar, a major hypermarket, and grocery retail chain owned by Future Group, is now listed under Amazon India, which enables consumers to shop for Big Bazaar items online. In the major cities of Delhi, Mumbai, Bengaluru, and Hyderabad, Big Bazaar via Amazon is even offering 2-hour delivery. The entry of physical grocery retail chains has significantly increased competition in the online retail market as consumers have greater brand awareness/familiarity with established physical grocery chains than newer online retailers.

The Impact of COVID-19

In 2020, India's online grocery retail sector experienced significant changes as result of COVID-19, resulting in sectorial consolidation and massive sales growth. This growth delivers significant opportunities for exporters and processors interested in expanding their presence in the Indian grocery retail market through a streamlined, trending marketing channel. Moving forward, consumers are expected to increasingly rely on e-commerce for their grocery purchases due to the adoption of digital lifestyles and the rise of dual-income households, that are increasingly demanding ready-to-eat food products. However, most e-commerce sales will be limited to major cities, such as New Delhi, Mumbai, and Bangalore, in the short term as these retailers expand their supply chain/logistical systems to service the majority of India's postal codes and regions. While the majority of online grocery purchases are composed of dry, packaged food staples (such as grains and cooking oils), COVID-19 encouraged consumers to purchase fresh fruits, vegetables, meat, poultry, dairy, and gourmet foods online. As such, the sale and variety/availability of these products will continue to expand as consumers open up to the idea of purchasing more fresh products online.

Given the surge in online grocery sales in 2020, competition significantly increased between online retailers, who sought to distinguish themselves through discount/loyalty programs, faster deliveries (including same day deliveries in select cities), easy returns policy, free/low-cost deliveries, ease of payment, cashback offers, and safety. In particular, online retailers highlighted their ability to provide hygienic, contactless, and express deliveries at consumers' doorsteps given the COVID-19 situation.

India's Online Grocery Market - Major Retailers

Retailer	Background/Description
<u>Amazon India</u>	Amazon India offers fresh fruits and vegetables, dairy, meat, grains, beverages, cooking supplies, snack foods, packaged food items, and a large selection of imported food products. At present, Amazon India delivers groceries to over 64 cities throughout the country. ³
<u>BigBasket</u>	BigBasket is India's largest online grocery retailer with over 18,000 products and 1,000 brands, including fresh fruits and vegetables, food grains, bread, dairy, spices, seasonings, packaged products, beverages, gourmet foods, poultry, and meat. This retailer operates in over 26 cities and procures fresh produce from over 8,000 farmers through 37 collection centers around the country. ⁴ In 2020, BigBasket reached sales of over \$1 billion with a 35 percent share of the online grocery market. Local contacts estimate that over 6 million consumers actively shop from the site with 300,000 daily orders. ⁵
<u>DMart Online</u>	DMart is a prominent supermarket chain with 216 stores across 72 cities. DMart

³ <https://www.financialexpress.com/industry/sme/amazon-ramps-up-delivery-of-groceries-to-64-cities-other-essentials-to-41-cities-heres-updated-list/1934449/>

⁴ <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/bigbasket-targets-revenue-of-rs-6300-crore-in-fy20/articleshow/69344488.cms?from=mdr>

⁵ <https://kr-asia.com/bigbaskets-ingenious-journey-to-crack-indias-complex-e-grocery-market>

	recently entered the online grocery market through its DMart Ready site and mobile app.
<u>Easyday</u>	Easyday is a multi-format retailer with 523 stores across 12 states and its e-commerce and mobile based application.
<u>Flipkart-Supermart</u>	Walmart-owned Flipkart Grocery offers over 7,000 products across 200+ categories, including food staples, snacks, beverages, packaged foods, personal care products, dairy, and eggs to over 50 cities. At present, the online store has over 100 million registered users and 100,000 sellers, with 10 million daily page visits. While groceries represent a portion of Flipkart's online retail sales, it is one of the company's fastest growing categories.
<u>Grofers</u>	Grofers is a leading online grocery retailer that operates in over 33 cities and manages a network of over 5,000 partner stores, which ensures fast deliveries. The retailer offers over 1,800 stock keeping units (SKUs), including household items and a wide variety of food products. It has developed its own line of private label brands (eight total), that account for 40 percent of its revenues. Grofers sources these private label products from 200 manufacturer partners and stores them in its network of 33 warehouses.
<u>JioMart</u>	JioMart is a joint venture between Reliance Retail, India's largest retailer, and Jio Platforms. JioMart was launched in 2020 and is present in over 200 cities across India. It supplies a wide range of products, including fresh fruits and vegetables, snacks, beverages, dairy, and essential groceries. JioMart is particularly interested in expanding its presence in the food retail market by partnering/suppling neighborhood <i>kirana</i> stores. As such, Reliance Industries recently finalized a \$5.2 billion agreement with Facebook to empower JioMart in its effort to connect with 30 million kirana stores through Facebook's WhatsApp platform.
<u>Nature's Basket</u>	Nature's Basket is a premium food retail chain that operates online and through 31 physical stores in Mumbai, Bengaluru, Pune, and Kolkata. Its online grocery store and mobile app platform supplies groceries to 125 cities across India. The retailer is known as a provider of premium domestic and imported foods, including fresh fruits and vegetables, meat, seafood, organic products, processed food products, organic foods, bread, poultry, gourmet/exotic foods, and dairy (including imported cheeses).
<u>Paytm Mall</u>	Paytm Mall is an online retail store with an expanding grocery section owned by Paytm, a leading digital payments firm.
<u>Spencer's Retail</u>	Spencer's Retail is a multi-format retailer that supplies a wide range of groceries, including gourmet foods, patisserie, wine, liquor, organic foods, and grocery staples. Spencer's currently operates 120 stores, including 37 hyperstores in over 35 cities.
<u>StarQuick</u>	StarQuick is the TATA Group-owned online grocery arm of Star Mart, a chain of brick-and-mortar stores spread across India. StarQuick offers a range of 10,000+ grocery items, including fresh fruits, vegetables, meat, chicken, fish, organic products, personal care products, cosmetics, and household essential products.
<u>Zopnow</u>	Zopnow is a unique online grocery store which connects consumers to hypermarkets. It operates in over 29 cities and can deliver fresh and frozen groceries within three hours.

E-Commerce Regulations and Guidelines

In January 2017, the Food Safety and Standards Authority of India (FSSAI) mandated that e-commerce 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., an online retailer) may not be required to obtain a license/registration under this rule. However, the online retailer should ensure that no misleading information or false claims pertaining to sellers, brand owners, vendors, importers, manufacturers, and product are included in their platform. The notification also requires e-commerce FBOs to possess a signed agreement with sellers, brand owners, and manufacturers that affirms that the products comply with FSSAI rules and regulations. Online retailers are also required to notify the sellers/brand owners/importers/manufacturers of any consumer complaints that would be subject to expeditious resolution. In March 2020, FSSAI released revised [guidelines](#) on this license registration process.

At present, the Government of India permits 100 percent foreign direct investment (FDI) in B2B and marketplace e-commerce models. Government approval is required for food retail companies engaging in e-commerce, provided that the retailed products are manufactured and/or produced in India.⁶

Section II. Opportunities and Challenges

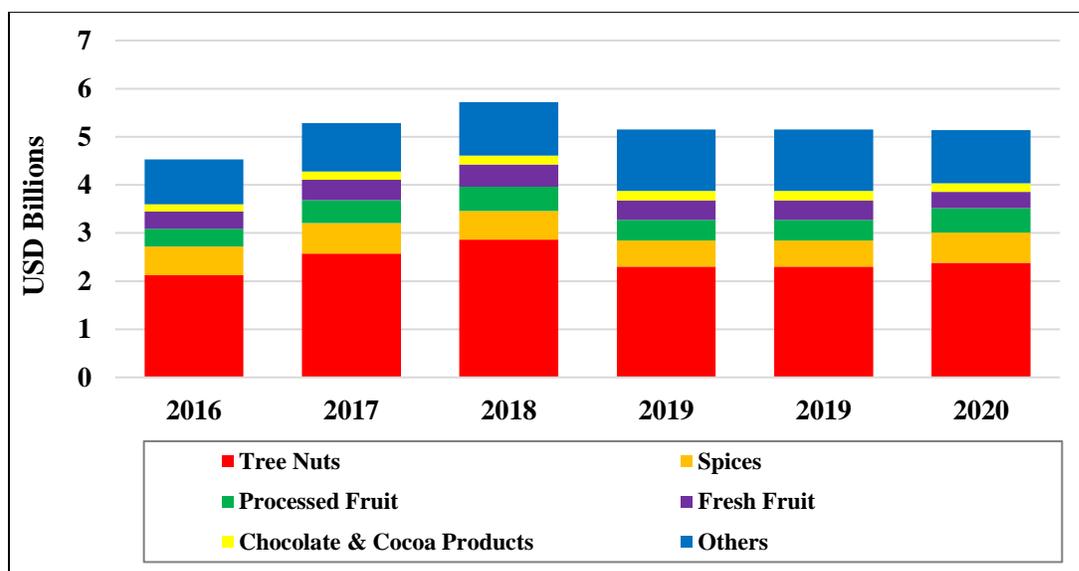
Opportunities	Challenges
Growing number of internet and smartphone users	Inadequate infrastructure, fragmented and long supply chain resulting in delays and food wastage
Online retail is a highly convenient, user-friendly and time saving option	Storage and transportation costs are significantly high
Consumers prefer high-quality and hygienic foods	Maintenance and operational costs for perishables are high and require significant investment in storage and infrastructure
Consumers are willing to spend on quality, high value, and healthy products regardless of price and delivery costs	Low profit margins
Online retail offers easy returns, cashbacks, attractive discounts, multiple payment options, and contactless deliveries	Select online retailers lack quality control of products
Convenient option for consumers with fast-paced and busy lifestyles with limited time available for grocery shopping	Despite convenience and safety advantages, most consumers prefer to shop in person in a physical store
100 percent FDI is allowed in B2B e-commerce and marketplace led e-commerce	High tariffs for consumer-oriented goods and ingredients.

Section III: Best Product Prospects

⁶ <https://www.investindia.gov.in/sector/retail-e-commerce/e-commerce>

According to local contacts, products that are in high demand and/or have most potential include fresh fruits, vegetables, snack foods, tree nuts, dried fruits, cookies, ready-to-eat convenience foods, sauces, condiments, jams/spreads, gourmet foods, and health-conscious foods such as natural, organic, vegan, and vegetarian food products. As a result of COVID-19, consumers are increasingly demanding food products that boost their immunity. At present, U.S. tree nuts and dried fruits are the most popular U.S. food products available in India’s online grocery market. Most of these products are imported raw and processed/repacked under Indian brands. Other U.S. product categories available in India’s online grocery market include condiments, breakfast cereals, seasonings, snack foods, fresh fruits, and confectionary items.

Graph 2. Indian Imports of Consumer Oriented Agricultural Products



Source: Trade Data Monitor

Products Not Present Because of Significant Barriers

Several trade restrictions limit market access for U.S. products, such as red meats and dairy. Imports of biotech commodities are also prohibited. For more information on India’s biotech import policy, see USDA FAS India GAIN report [Agricultural Biotechnology Annual 2020](#).

Section IV. Roadmap for Market Entry

A. Entry Strategy

Key factors to consider before entering the market:

- **Can your product come into India and comply with the local laws**
 - ✓ Conduct due diligence when exporting to India and determine if your product has market access in Indian commerce.
 - ✓ Study India's varied laws, particularly those pertaining to foods and beverages.
 - ✓ Review FAS policy and market reports and consider engaging a market research firm to assist with opportunities and challenges.

- **Find the Right Partner**
 - ✓ Identify a reliable importer/distributor who services the food retail sector.
 - ✓ Avoid conflicts of interest.
 - ✓ Consider whether participating in an Indian trade show would be an effective means of identifying a key importer/distributor/partner.
 - ✓ Consider if collaborating/ participating in USDA-endorsed promotional activities would be an effective way to create and/or increase market awareness and penetration.

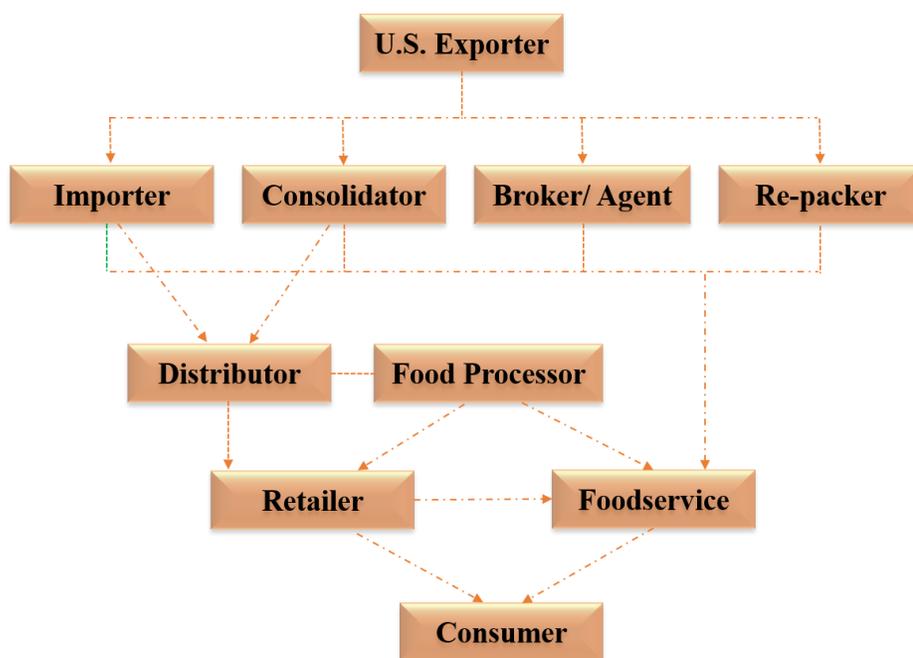
- **Secure Payment Terms**
 - ✓ Until a successful working relationship is established, exporters may wish to consider vehicles such as an irrevocable Letter of Credit, advance payment, payment at sight.

FAS-India's offices do not have the authority to mediate contractual disputes, or to serve as a collection agent when differences over payment or other commercial issues arise. For information about local legal services, please refer to GAIN report [IN6155](#).

B. Import Procedure

Laws regulating Indian imports of food and agricultural products are under the jurisdiction of multiple GOI authorities. For more information, exporters should refer to FAS-India's GAIN report [Food and Agricultural Import Regulations and Standards - Country Report](#) and the GOI's [Food Import Clearance Manual](#).

C. Market Structure



Section V: Post Contacts and Further Information

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For additional information please visit the FAS websites & useful FAS India GAIN reports

- [FAS Homepage](#)
- [FAS India - Exporter Guide](#)
- [FAS India - Retail Report](#)
- [FAS India - Food Service - Hotel Restaurant Institution](#)
- [FAS India - Food and Agricultural Trade Show Calendar](#)
- [FAS India - Food Processing Ingredients Report 2021](#)

Attachments:

No Attachments.