

Chapter 1

Digital Transformation of Grocery Delivery Services in India: Understanding the Past, Present, and Future

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ABSTRACT

Demographic shifts in economies across the world, the penetration of the Internet, cheaper data, and the availability of digital payment options have made online grocery services attractive. The pandemic precipitated customer behaviour towards online grocery services due to the convenience offered. Post COVID-19, businesses have switched over to hybrid working adding to the appeal of these services. Attractive discounts and reward points complemented by flexible delivery models have managed to lure a sizeable section of the users. The competition between unorganized, organized, and online grocery retail has now intensified. E-grocers are using technology to accurately forecast and drive demand, manage inventory efficiently and make informed decisions based on an understanding of consumer behaviour. E-grocers are also resorting to personalization to make product recommendations, satisfy customers, and build loyalty. This chapter attempts to map the digital transformation of the grocery sector to understand how the market has evolved over the years and where it is headed.

DOI: 10.4018/979-8-3693-7683-6.ch001

INTRODUCTION

The retail sector in India accounts for 11% of GDP. The digital world has made consumers seek convenience in their purchase transactions, leading to a monumental growth in online shopping. Across the globe, consumer expenditure on online business increased from \$65 billion in 2019-20 to \$100 billion in 2021-21. This is expected to reach \$250 billion as per Red Seer Consulting. The grocery sector trailed other e-commerce businesses.

The retail market in India accounts for 10% of the nation's GDP. Additionally, the retail sector provides jobs for 8% of India's population.

The predicted grocery retail spending in India in 2030 is approximately \$1.10 trillion. This prediction aligns with a report from the Boston Consulting Group's Retailers Association of India. The total grocery retail sales are predicted to reach INR 85.46 trillion in 2030. This figure considers the growth rates of modern and traditional grocery stores, as well as online grocery sales. India's grocery retail market had a 7.2% CAGR between 2020-2022. India will be the second-largest grocery market globally by 2036 if the current compound annual growth rate (CAGR) persists.

According to a 2021 forecast by The Institute of Grocery Distribution, U.K. (IGD), India ranked as the third-largest grocery retail market in the world as of 2022. In 2022, the market size of India's grocery retail was \$656 billion. The supermarket format is the most prevalent in the Indian grocery market. In 2021, supermarkets accounted for an estimated 49% of the Indian grocery market. This is followed by convenience stores at 43% and hypermarkets at 8%. It is predicted that India's online grocery market will increase at an annual compound growth rate of 37.1% between 2021 and 2030. India's "quick commerce" market, which promises grocery delivery in 10-15 minutes, is expected to further boost the growth of online grocery shopping.

The online grocery market is expected to grow at 57% CAGR and reach \$18.2 billion by 2024. The market (as per Mintel) will be worth £22.4 billion by 2025. India's online grocery market is expected to grow at a CAGR of 37.1% from 2021 to 2028.

Kirana Stores (Neighbourhood Stores): Dominating the Indian market

90% of India's grocery retail sales happened in neighbourhood Kirana stores. These stores offered fresh produce, free delivery to consumers' homes, informal credit and an understanding of customer needs at a personal level. But things changed during the pandemic.

While modern grocery retail outlets in India numbered more than 8,000 in 2021, this is dwarfed by the estimated 12.8 million traditional grocery retailers, such as Kirana stores and corner shops. However, despite their prevalence, traditional grocery retailers experienced a decline in 2020, dropping from 12.83 million stores in 2018 to 12.64 million in 2020, potentially due to the COVID-19 pandemic. This number rose again in 2021 to 12.79 million stores.

Kirana stores in India will remain significant due to personalized service and proximity. Organized and online formats will drive substantial growth, fueled by factors like urbanization, increasing disposable income, and technological advancements. While traditional "kirana" stores still hold a large market share (around 61% in 2019), organized grocery retail is on the rise. This growth is fueled by factors like foreign direct investment, changing consumer preferences, and urbanization. Large, organized retailers are partnering with local Kirana stores to leverage their strengths, such as proximity to customers and

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