

DITCH THE DISCOUNTS? – A STUDY TO ANALYZE WHAT DETERMINES CONSUMER PREFERENCES BETWEEN OFFERS AND SERVICES PROVIDED BY ONLINE GROCERY STORES.

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Abstract: India's online grocery market is expected to reach a large market size in the coming years. With the advent of internet facilities in mobile handset devices, there is no doubt that grocery retailing in India is witnessing a revolution. Successful brands like BigBasket, Grofers, Nature's basket etc. strive to serve us by bringing grocery to our doorsteps.

With increase in the number of customers and a rise in competition in the market, a question arises about the reasons for us to select a particular brand over the other. Do customers simply DITCH THE DISCOUNTS? And prefer the convenience of online grocery services? Or do they purchase keeping in mind the availability of offers and discounts in products? It will be notable to think about what service provider's focus on, do they only care about fine tuning services or providing more discount?

This research tries to give an insight into a consumer's psyche and whether demographics are a major decider in finding out preferences between offers and services while choosing a particular online brand. It also tries to analyze different business models that have been implemented in India and which ones have seen a greater success story.

Keywords: Discounts, Hyper Local Business Model, Inventory Based Business Model, Online Grocery Shopping, Services.

1. INTRODUCTION

The overall grocery market in India is worth US\$ 360 billion making it the 6th largest in the world and it is expected to go up to US\$ 1 Trillion by 2020. Although online grocery retailing is still at its nascent stage, it is expected to reach around 2 per cent of the overall grocery market by 2020 which is an approximate size of US\$ 10 billion.^[1] India is also endowed with the double advantage of a young population (65% below the age of 35) and has the second largest online market with 460 million users.^[2]

The trend has come from the west, where online grocery has been on the rise. In India too, this service has been provided by local kirana stores. But there are a few unmet needs while ordering from them, like the unavailability of a facility to view the products before ordering; not having many choices to select from specially the lack of exotic or imported items and finally, no organized system of accountability, responsibility and promptness is offered by them.^[3]

The current online service strives to give an overall experience to the customer with many advantages like- specialty and exotic items, on time delivery with flexible slot options, quality of product and packaging, quality customer support, product catalogue, hassle free return policy, service quality of website and app, convenience in repeat purchase to name a few.

Apart from these, customers also find value proposition in the prices offered by online grocery stores. Cashbacks, discounts, bundle packs, loyalty programs are few of the monetary benefits of online grocery. Online grocery businesses have very low profit margins. They are negligible and in some cases negative. A large part of being successful in the industry depends on the business model being followed. If it is an inventory model, advantages from economies of scale and procurement in bulk can reduce cost but profits are dragged down by the expense of maintaining an inventory, warehouse, website and applications. In the marketplace model inventory expenses are cut down, but a premium amount is paid to stores and warehouses to register as a vendor for your business (at least initially).

All models, be it hyperlocal or inventory based strive to achieve one thing and that is to increase consumer utility by either improving service quality or passing on discounts to the final consumer. But, companies will have to do much more than just offering plum discounts to lure first-time customers to their website. Quality of products and reaching customers on time continue to remain the most important factors in retaining customers in the long run.

This research aims to draw a trend as to which online grocery shop customers prefer. Do they choose an online grocery because of the services provided or are they more eager to benefit from discounts and offers? Is there a demographic trend seen in the kind of choices made?

This paper even tries to analyze the producer's point of view about which direction is better to capture the market, should they ditch giving discounts and only go for services? Or is the combination of the two required? Online business model setup can even help us further know which model has had better success in India.

The analysis has been done by taking 289 responses and 8 industry personals from across India and primarily Pune city. Secondary data has been taken by numerous articles and research material from the internet.

2. LITERATURE REVIEW

Many research papers have been written on why people are attracted towards online shopping and what are the features they find most beneficial.

Take for example, [Sharma, 2015]^[4] throws light on how consumers buy goods from the online shopping website on the basis of factors like offers and discounts, variety of product available, free home delivery, website user friendliness and cash of delivery payment option. The ability of online grocery services to be of support to the aged and the disabled is also something that is noteworthy. At times families find it hard to travel with large amount of groceries in hand due to the lack of any mode of transport and some might even find difficulty in carrying products or finding a space to park their vehicle while shopping.

The benefits are abundant, though there still are a few reasons why people might prefer physically purchasing products as they might doubt the quality of goods sold by online retailers, some might even consider grocery shopping as an "outing" and not a chore and hence would not like to miss out on the opportunity.

Apart from the reason for shopping online, very few have spoken about the importance of focusing on either discounts or services provided by service providers and about the relevance of a particular business model over the other. As rightly pointed out by the paper [Fox, 2002]^[5] that, "Irrespective of the scale of operations, e-grocers will only survive if they provide real value to consumers. With the small profit margins in groceries, competition on the basis of price should not be used to obtain a competitive advantage since this would hurt the industry as a whole" Thus online grocery retailers have to get the balancing strategy right, keeping the warehousing and logistic costs under check. [Kumar, 2015]^[6]. In this research paper we will try to analyze if excellent services are the way to go forward, since offering discounts can be harmful for the company in the long run.

Various business models of online grocer have also been experimented in India. The success of these business models have multiple factors coming into play. Take for example, in the US in many locations, Walmart^[7] has started a system which allows customers to shop online, then pull up at their local store to grab their order. This model works best considering the sparse population and the vast distance between various locations making grocery delivery in a short time a relatively difficult task.

In India different models have been used - like an asset light model which links local wholesale and kirana stores and focuses only on logistics of delivering on time e.g. Local Baniya^[8] or holding your inventory of goods and increasing your stock keeping units (SKU) by either running a "dark store" or a "brick and mortar" and then delivering products e.g. BigBasket and Nature's Basket.

This research aims to give an insight on the trend seen in customers, by taking the example of Ron a student, and seeing his preferences between discounts or services while ordering online and the various business models.

3. PATTERN SEEN WHILE CHOOSING BETWEEN SERVICES AND DISCOUNTS



Ron is representative of a student or an individual with less than 3 lakhs as salary.

The preference of 56% towards discounts and offers as opposed to 43% in services is indicative of the fact that students value both Discounts and Services almost equally, with discounts taking a slight upper hand.

DISCOUNTS or SERVICES?

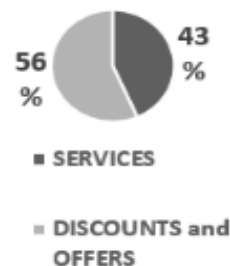


Fig.1 Preference between service and discounts

Students are generally at a crunch for cash and find ways to minimize their expenses while shopping online. A list of 100 respondents were taken and it was seen that many of them preferred multiple vendors over single vendor and only shopped online once in a while, hence most of them might use online medium and take advantage of the first time user discount rates and might hence shift from one vendor to another.

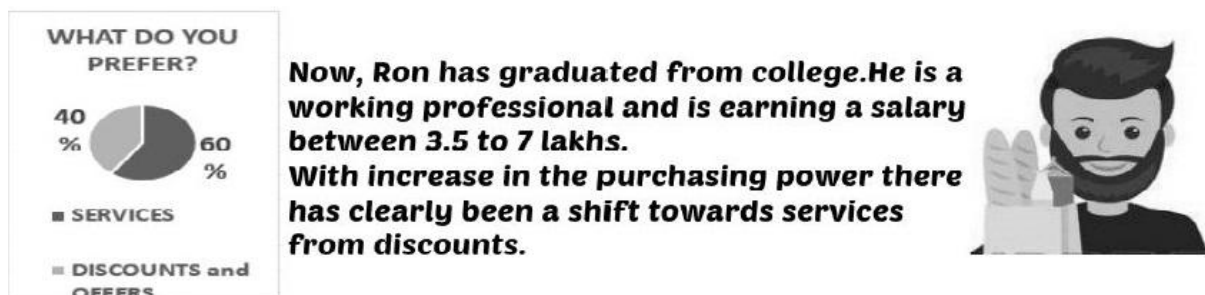


Fig.2, Preference between service and discounts by a Working professional with salary between 3.5-7 lakhs.

Majority of people in the same bracket as Ron, are between the age of 18-30 years. They are mostly unmarried and shop groceries for themselves. There is no clear liking between choosing a single vendor or a multiple vendor as at this age they don't mind experimenting and taking advantage of different sites. However while choosing online they give primary importance to quality of products and on time delivery of the goods ordered.

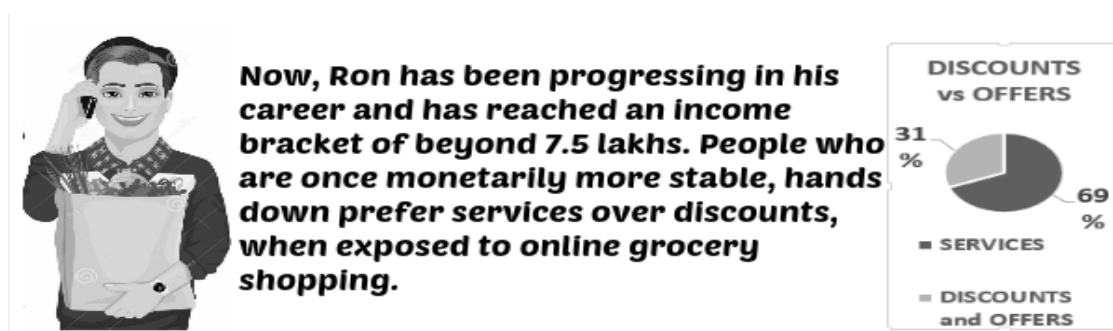


Fig.3 preference of an individual earning beyond 7.5 lakhs.

Most of the working professionals beyond a salary of 7.5 lakhs, irrespective of gender, avail the facilities of online grocery shopping due to the service provided. A higher standard of living enables them to expect higher product quality and a busy/hectic working schedule leads them to give high preference towards "On time deliver" and "Flexible slot options". 70 respondents between the salary of >7.5 lakhs were asked to give their opinion.

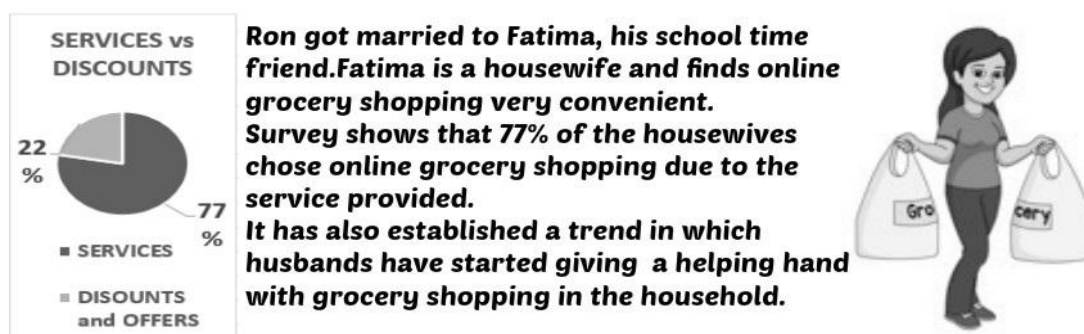


Fig.4 Preference of a housewife.

4. CHOOSING AN APPROPRIATE BUSINESS MODEL

Ron is eager to take advantage of the online grocery trend and start his own venture. The first step is to analyze which business model has worked best till now in India.

The online grocery space in India has been divided into two major formats i.e. Aggregation and inventory based. Where a majority of the players are working on the former model (**43 out of 74**), only the startups following the latter (**31 out of 74**) were seen to be more sustainable.^[9]

Apart from Inventory and hyperlocal models, Hybrid methods have come up which are a combination of the two. Existing large brick and mortar stores foraying into providing online delivery service and online stores establishing their off line outlets for increasing their presence, the methods are indeed a plenty to establish an online grocery business.

Delivery alone does not give enough margin to make profits. Merely being a logistics firm does not help you beyond a point. Integration of backend services is very important.^[10] When news of Grofers shutting down its operations in 9 cities came in early January 2015^[11]. Even the hyperlocal companies who wanted to focus only on the logistics side realized that they would need some kind of warehousing. Grofers is now urging merchants to set up warehouses for them to speed up their procurement and delivery.

Data collected by 8 online grocery providers also shows us that most of them preferred the inventory model over the hyperlocal model.

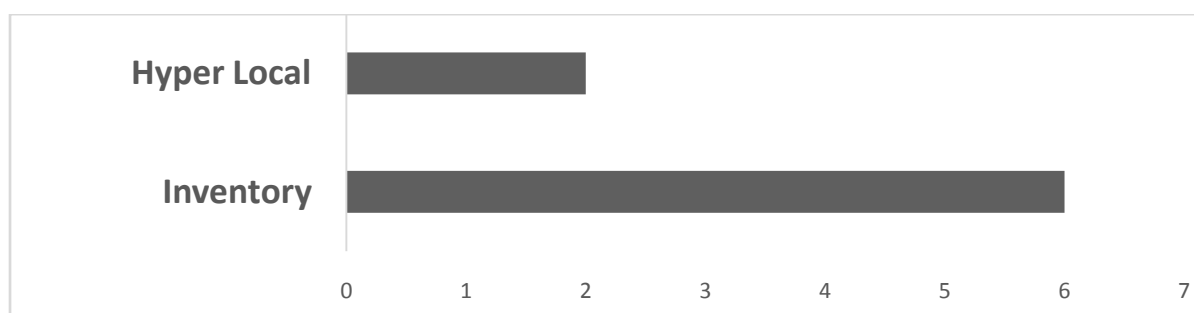


Fig.5 Hyper Local vs Inventory Based

In the Indian market, BigBasket is a prominent Inventory model and functions with the usage of warehouses and dark stores. Other hyperlocal business model examples are LocalBanya and Aaramshop. Survey results from 289 respondents' shows the popularity in terms of usage of various brands. The most popular basket, BigBasket, as mentioned earlier works on the inventory based model and Nature's basket, Big Bazaar, Reliance mart, all are primarily offline stores that have started online delivery service facilities. Grofers being an exception, which is heading towards a Hybrid business model.

This is a complex, execution-oriented business; understanding the execution and supply chain makes the real difference. The customers are not going to go away, which means this online business will be around for a long time. The customer wants instant gratification, one-click ordering with no fuss, and flawless and timely delivery. But, trying to acquire customers by giving discounts is self-defeating and has created a race to the bottom amongst startups.

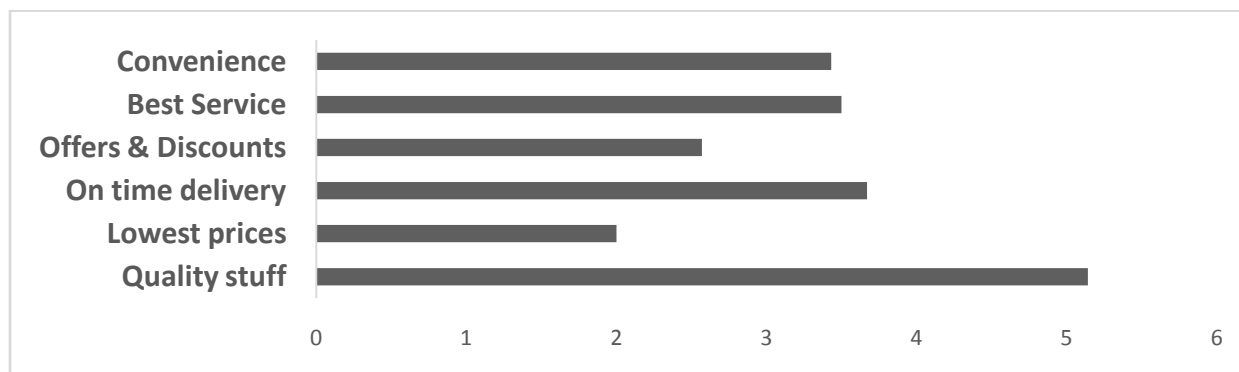


Fig.6 Service Providers and their preferences.

We collected data from 8 service providers and asked them to rank in order of preference among the following factors while providing online grocery. Convenience states the importance of shopping grocery

online wherein you are sitting within the comforts of your home and not going through the hustle of standing in queues and carrying heavy bags. Best service highlights that service providers aim to provide a good customer experience by giving quality app user experience, after sale service and order return/exchange facility. Offers & discounts/lowest prices, is also an important criteria as many customers move online to take advantage of low expenses. On time delivery is a paramount factor as groceries are perishable items and having it delivered on time is necessary. Quality produce is a necessary factor if a customer needs to be retained in the long run.

The data collected states that among all the factors, offers and discounts and giving lowest prices is considered less important as compared to other service related factors.

5. CONCLUSIONS:

From various secondary data available and the survey conducted on 289 respondents it can be concluded that- There is a change in the demographic pattern seen in consumers while choosing between offers and services. Hence providing both discounts and services is imperative in sustaining an online grocery business. Service providers also second the fact that in the long run it is the quality of service that will enable them to flourish in the business. Focusing on only price leads to price wars between companies and further reduces profits in an as it is low margin industry. Hence any startup should plan their business model keeping in mind few of these prominent trends.

In the Indian context, the Inventory model has seen more success than the hyperlocal model, although this is not a definitive way to go forward and online grocery business strategies have seen multiple variations over the year, but an idea about the past success stories will surely help future businesses venturing into this domain.

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