

## Amazon

### Amazon gears up for assault on India's grocery sector

Online retailer aims to tap the rapid shift to digital shopping in \$428bn market



India's online grocery market makes up less than 1% of total grocery sales, roughly \$150m, according to Technopak © FT montage

JULY 7, 2017 by Aliya Ram in New Delhi

In New Delhi's searing summer heat, 67-year-old Ashma Bhagat pours with sweat as she enters her fourth shop of the afternoon looking for bread buns. She emerges empty-handed: "Everyone's decided to run out of buns today."

India is the world's third-largest grocery market with \$428bn worth of sales, and for most of the country's harassed shoppers, buying groceries is a daily battle that involves traipsing around poorly stocked stores in a local market. Yet, Indian consumers have largely ignored attempts by some of the country's biggest businesses to open supermarkets and launch [online grocery websites](#).

Now, however, [Amazon](#) is hoping to succeed where others have failed. Four years after its launch in India, the US technology behemoth is set to receive government approvals that will allow it to extend its [pantry raid](#) beyond the US and Europe.

Amazon's aggressive push into groceries has been marked by heavy investment — including its [deal this month to buy upmarket US grocer Whole Foods](#) for \$13.7bn. According to one person with knowledge of the companies, India's largest online grocer Big Basket is a possible acquisition target.

It is investing heavily in Asia and is poised to expand retail operations in Australia though its plans are more advanced in India.

Saurabh Srivastava, director of Amazon's consumables business in India, says grocery is "a very strategic business for Amazon globally. We are extremely excited about the fact that the Indian government has looked at and opened up the opportunity of foreign direct investment in food."

## **Then the biggest challenge in India is the heat and we don't have a large number of refrigerated vans in the market**

SATISH MEENA, FORRESTER

After decades of state protection, the government of prime minister Narendra Modi last year relaxed foreign investment rules to allow international retailers to sell groceries directly in India on the condition that goods are produced and farmed locally.

The rule change was widely perceived as an invitation for the group to expand its grocery business in the country.

Analysts expect Amazon to invest \$500m in its India grocery business, which will resemble Amazon Fresh in the UK and US, where it delivers refrigerated food to customers on the same or next day for a fee.

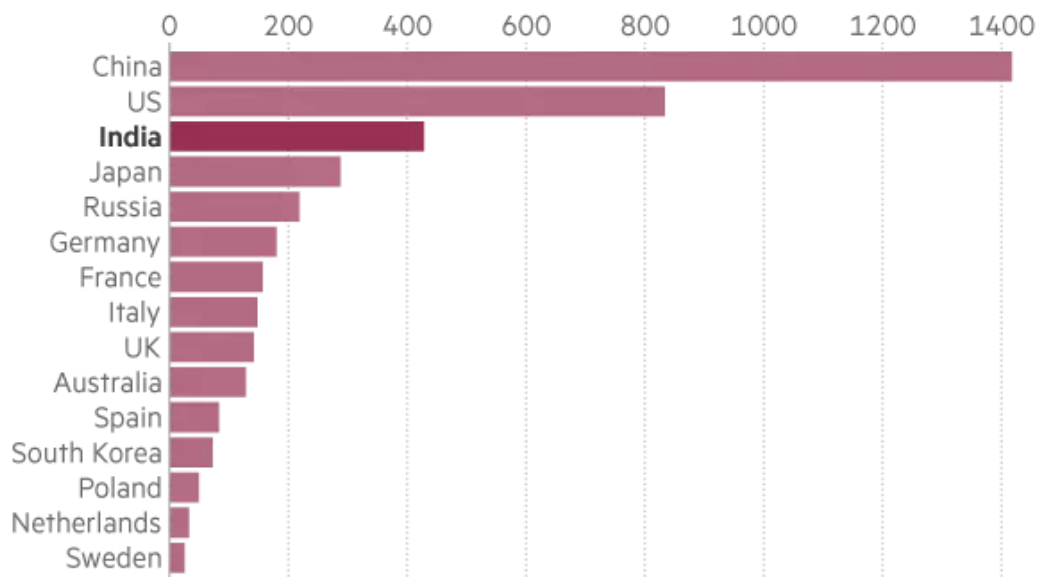
Currently, Amazon acts only as an intermediary in India, collecting and distributing foodstuffs and dry goods from more than 12m independent grocers. With the new licence, says Mr Srivastava, this will change.

"This [shift into grocery] was very clear to us even before we launched Amazon India in 2013. I moved to India from Seattle in 2012 and from the very beginning we have been planning to build this grocery business."

Amazon is looking to tap India's rapid shift to online and mobile shopping, which is expected to rise from \$10bn in 2015 to \$47bn in 2020 according to eMarketer, a US research group.

## India has the world's third-largest grocery market

Sales (\$bn)



Source: Forrester

FT

But India's online grocery market makes up less than 1 per cent of total grocery sales, roughly \$150m, according to Technopak, the consultancy. This compares with about 5 per cent in the UK — the world's most advanced online market for consumer staples.

Flipkart, India's largest ecommerce group, and Alibaba-backed PayTM both shut their grocery businesses in 2015, just months after launching, because they failed to attract enough customers. Peppertap, one of India's first hyperlocal grocery delivery services, closed its operations last year, months after raising \$36m from investors including Indian online retailer Snapdeal.

However, Flipkart has said it will re-enter the grocery market — a move that could be made easier if an expected combination with Snapdeal, which runs a small online grocery business, goes ahead. "Yes, we will get into grocery," Kalyan Krishnamurthy, chief executive, told attendees at an event earlier this year. "We have to get into it."

Analysts say ecommerce groups should avoid delivering on behalf of local "mom-and-pop" shops because they are often badly stocked or already have staff that will deliver. They say this hyperlocal model is to blame for the initial distress among India's online grocers.

"You first have to go and buy the food from local retailers so you get a margin of about 2 per cent and then you have to deliver it in two to three hours, so you can't consolidate orders," says Pragya Singh, analyst at Technopak. "You're not going to make money on that business."

SoftBank-backed Grofers, one of India's few online grocery delivery services, shifted its business from the hyperlocal model and now has 27 warehouses across India. "We have learnt and evolved the business," says Albinder Dhindsa, co-founder. "In comparison with some of the new deep-pocketed entrants into the category, we will now have first-mover advantage." [Big Basket](#) also sells fresh produce from its own warehouses.

Satish Meena, analyst at Forrester, says Amazon will face a formidable task in a vast and hot country. "The upside is big — but it's going to be a very, very slow process because of many challenges in the market."

He says customers vary greatly from locality to locality and that outside city centres "it's not young adults buying groceries, it's parents, and it's very hard for them to buy on smartphones".

"Then the biggest challenge in India is the heat and we don't have a large number of refrigerated vans in the market."

Amazon is ready to spend to break the market, says Mr Srivastava: "Our focus is on the inputs to the business . . . it's a question of getting scale."

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