

B2B e-commerce Opportunity in India



redseer
Strategy Consultants

 **udaan**

Dubai. Bangalore. Delhi. Mumbai. Singapore. New York

September 2024

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Chapter 1. India is progressively turning into a consumption-driven economy

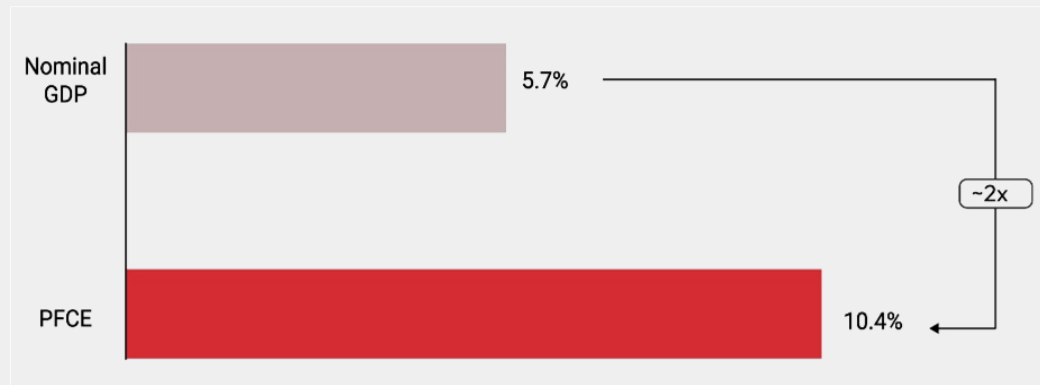
1.1 Private consumption in India is outpacing GDP growth

Over the last five years, India's private consumption has been a significant driving force behind the country's economic expansion, consistently outpacing the economic growth. Private Final Consumption Expenditure ("PFCE") has grown at a CAGR of 10.4% from INR 100.4 Tn (USD 1.2 Tn) in FY18 to INR 164.2 Tn (USD 2.0 Tn) in FY23 representing 61% of the total GDP and being the largest contributor to the Indian GDP overall. This trend underscores heightened consumer demand driven by rising incomes and changing consumer preferences.

Exhibit 1

Growth rates – Nominal GDP, PFCE

FY24



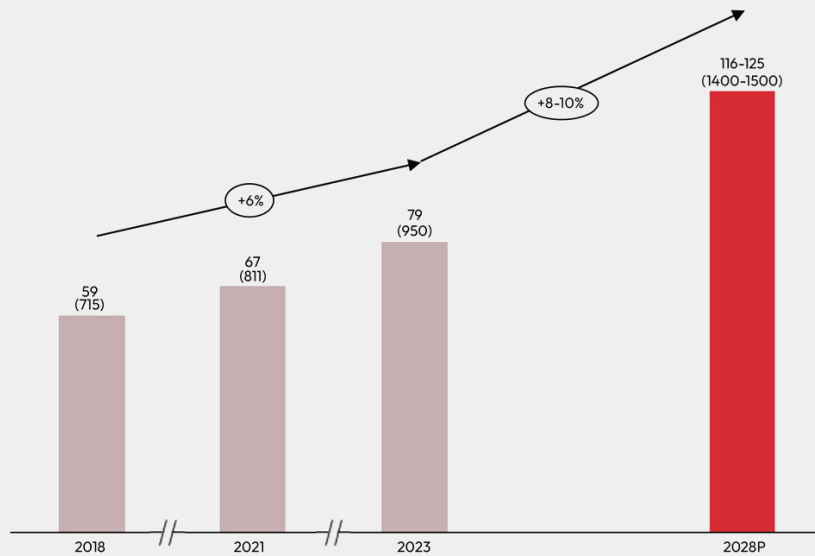
Source(s): World Economic Outlook April 2024, IMF

1.2 India's robust retail market is at the forefront of the surge in private consumption

i. Retail consumption in India is predominantly driven by non-discretionary spending

India's retail market is valued at INR 79 trillion (USD 950 billion), up from INR 59 trillion (USD 715 billion) in 2018, reflecting a CAGR of 6%. The market experienced an 11% decline during the 2020-21 lockdowns but rebounded by 15% in 2022, driven by pent-up demand and revenge shopping. Looking ahead, it is expected to grow at a CAGR of 8-10% to INR 116-125 trillion (USD 1450-1550 billion) by 2028. This growth will be fueled by rising incomes, robust economic expansion, evolving consumer preferences, and increased digital adoption among both buyers and sellers.

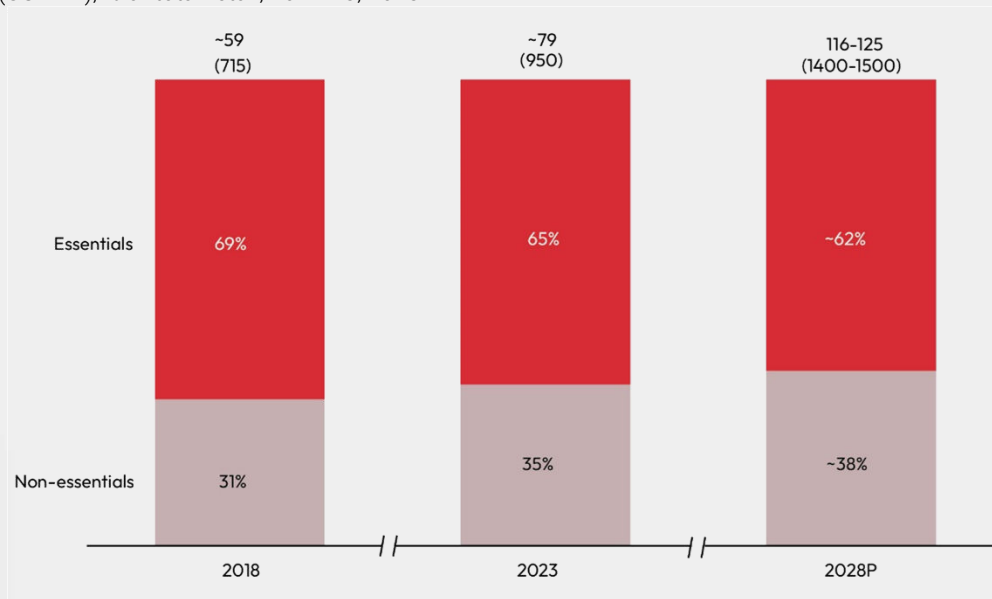
Exhibit 2
Retail Market in India
 INR Trillion (USD Billion), 2019-28P



Note(s): 1. P-projected, 2. Conversion rate: 1 USD = INR 83
 Source(s): Redseer analysis

Retail consumption in India is predominantly led by expenditure on essential goods such as groceries and pharmaceuticals, comprising about 65% of retail spending in 2023. This trend is largely due to the substantial rural and middle-class populations, who allocate most of their income to essentials. Although there is a growing trend towards purchasing non-essentials, inflation and price sensitivities relative to income growth have muted the increase in disposable income available for non-essential spending. By 2028, essentials are expected to account for ~62% of the retail market.

Exhibit 3
Retail market split – by essentials and non-essentials
 INR Tn (USD Bn), % of total retail, 2019-23, 2028P

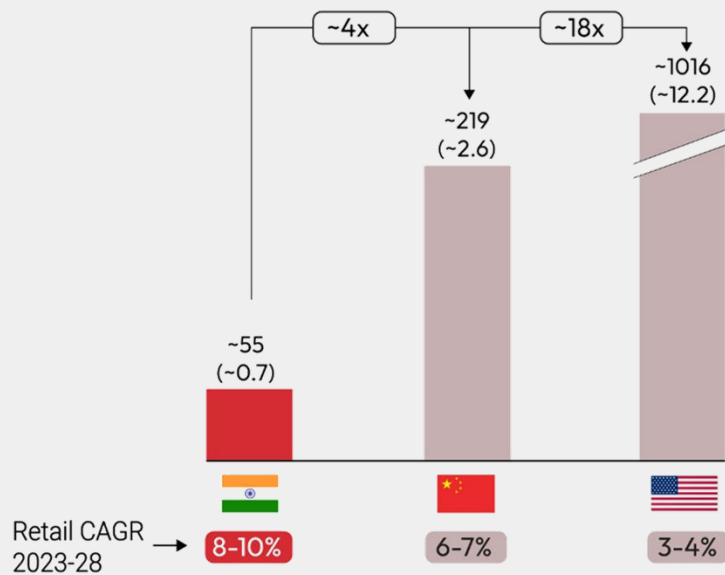


Note(s): 1. Essentials include grocery and pharmaceuticals while non-essentials include categories like Fashion, Electronics, and Beauty and Personal Care, 2. Conversion rate: 1 USD = INR 83, 3. P-projected
 Source(s): Redseer analysis

ii. Per capita retail spends across major economies indicate a huge headroom for growth in India

India's retail market is projected to experience robust growth, outpacing both developed and developing countries. From 2023 to 2028, India is expected to achieve a higher CAGR in retail, compared to China and USA, given the significant gap in current consumption patterns. India's retail per capita expenditure is significantly lower than global benchmarks, with China's per capita retail spend being nearly four times larger and the USA's nearly twenty times larger. Key factors propelling the pace and shape of future growth include rising household incomes, increasing urbanization, a rapidly expanding middle-class, and widespread digital adoption. These factors, coupled with a young and tech-savvy population, are poised to significantly boost retail consumption in the coming years.

Exhibit 4
Retail per Capita and retail growth rates – Global benchmarks
 '000 INR ('000 USD), 2023



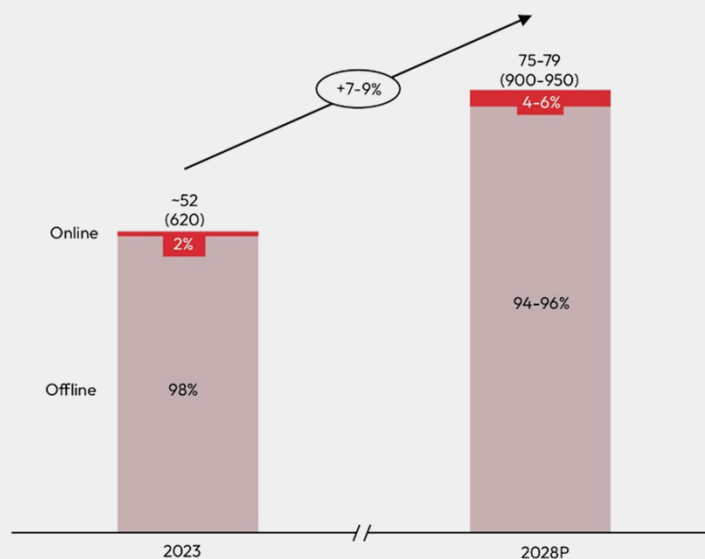
Note(s): Conversion rate: 1 USD = INR 83
 Source(s): United Nations, Redseer research and analysis

Chapter 2: The Indian retail market is largely unorganized and has a fragmented trade-distribution model

2.1 India's essentials retail is resilient in the offline channel with growth projections suggesting limited online penetration until 2028

India's essentials market remains predominantly offline, holding ~98% of the market share. The majority of these offline sales are driven by general trade and kiranas due to their extensive presence in even the most rural areas, which account for over 70% of the country. Despite the growing adoption of digital channels driven by quick commerce, this market is anticipated to remain largely offline, with online penetration expected to reach only 4-6% in 2028. The hegemony of general trade and kiranas is projected to remain strong through 2028, maintaining a substantial 94-96% market share, even as the online channel expands aggressively.

Exhibit 5
Retail essentials market split – by online and offline
INR Tn (USD Bn), % of Retail Market, 2023, 2028P



Note(s): 1. Essentials include grocery and pharmaceuticals, 2. Conversion rate: 1 USD = INR 83
Source(s): Redseer research and analysis

The essentials industry, which has been and is expected to remain predominantly driven by offline channels, faces several challenges, which inherently have also enabled general trade and kiranas to thrive:

- Deep fragmentation in the Indian market spread across 8,000+ towns and 6,65,000+ villages
- Challenging operations in terms of store rentals, warehousing, and transportation, as well as high marketing costs
- Complex regional diversity leading to demand for localized experiences
- FDI regulations in multi-brand retail and restrictions for foreign retailers

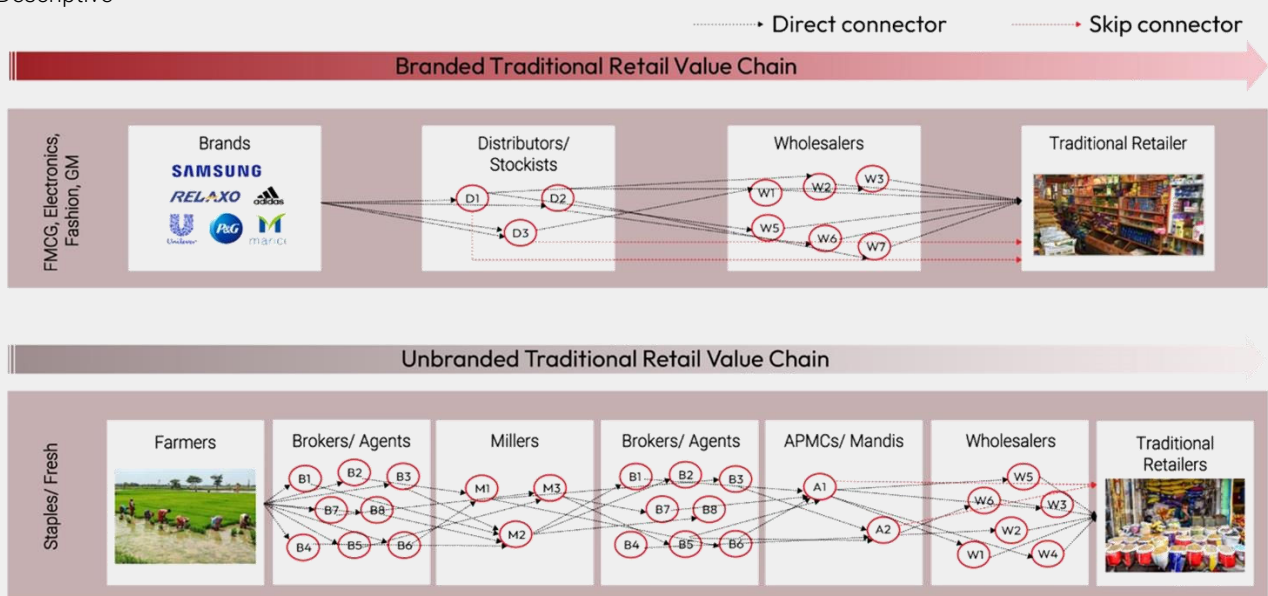
2.2 The massive pool of over 15 million retailers is fed by a highly fragmented B2B supply chain

The dominance of general trade and kiranas in India's retail sector is sustained by approximately 15 million retailers. These retailers ensure accessibility even in the most remote areas, offering consumers convenient, local options for their retail needs, particularly for non-discretionary grocery spending. Acting

as the last-mile partners to brands, kiranas have enabled brands to capture rural markets through customized offerings. The retailers are in turn able to serve these markets through credit extended by brands, distributors, wholesalers, etc.

The supply chain supporting these general trade retailers is highly fragmented and chaotic involving multiple layers of distributors, stockists, wholesalers, brokers/agents, etc. In the case of FMCG, electronics, fashion and general merchandise products from large brands, the number of intermediaries may sometimes be lower as brands distributors tend to serve both wholesalers and retailers. Wholesalers provide last-minute order flexibility while undercutting the distributor prices, becoming indispensable partners to the retailers. The complexity of the supply chain increases dramatically in the case of fresh goods or staples (rice, pulses, flour, sugar, etc.) with multiple agents, brokers, government-operated mandis, and wholesalers offering non-streamlined services.

Exhibit 6
Retail value chain
Descriptive



Source(s): Redseer research and analysis

This intricate web of intermediaries plays a crucial role in delivering products to the remotest parts of the country, yet it introduces significant challenges and inefficiencies. The complexity of this supply chain structure impacts various aspects of the retail process, from procurement to marketing, affecting both the retailers and the brands they work with. Some of challenges with the traditional retail supply chain are as follows:

- Low connectivity and operational complexity**
 The involvement of numerous intermediaries results in a lack of seamless connectivity among different layers of the supply chain. This fragmentation leads to communication breakdowns and delays in the flow of goods and information, adding to the operational burden for retailers. Navigating through various intermediaries often results in mismanagement and inefficiencies in inventory control and order fulfillment.
- Costly and slow procurement process**
 Multiple intermediaries add margins at each stage, making the procurement process expensive for retailers. This layered structure slows down the procurement process, causing delays in restocking and increased operational costs. Additionally, the reliance on credit extended by

brands, distributors, and wholesalers can lead to financial strain and cash flow issues for retailers.

- **Frequent stockouts**

Poor coordination in a complex chain of intermediaries can result in misaligned supply schedules, causing inconsistencies in stock replenishments. This misalignment creates potential bottlenecks and stock shortages for retailers..

- **Lack of data insights and marketing inefficiencies**

Brands also have limited visibility into retailer sales data and consumer purchasing patterns. This lack of insights impedes data-driven decision-making and strategic planning for both retailers and brands, ultimately affecting their ability to respond to market demands and optimize their marketing strategies.

Chapter 3: eB2B has disrupted the conventional trade-distribution models

3.1 Multiple digital B2B players have emerged to solve the challenges of traditional retail

i. Retailers continue to face challenges with traditional retail prompting them to seek alternative solutions

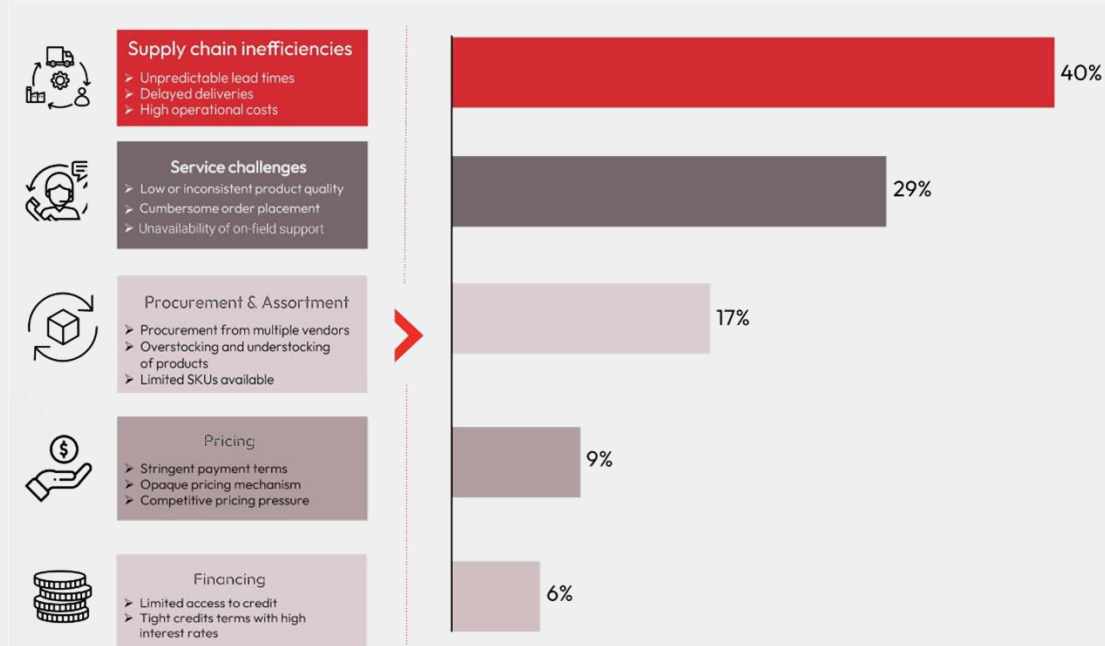
The challenges that retailers face through traditional retail media involving distributors and mandis can be broadly categorized into three primary issues: supply chain inefficiencies, service challenges, and lack of proper financing and pricing support.

- **Supply chain inefficiencies:** Encompassing the major retailer pain points, these inefficiencies in the supply chain cause unpredictable lead times, higher costs, and limited product availability.
- **Service-based challenges:** Aside from the fragmented supply chain, service-based issues such as inconsistent product quality, lack of on-field support, and inadequate returns management result in operational difficulties, poor demand forecasting, and higher operational costs. These factors ultimately hinder retailers' competitiveness and customer loyalty.
- **Pricing issues:** With the lack of transparent and consistent pricing, retailers struggle to manage cash flow, stock inventory efficiently, and plan for growth. These challenges diminish their purchasing power and profitability, making it difficult to sustain and expand their businesses.
- **Procurement and assortment challenges:** In the case of offline channels, mandis in particular, retailers are forced to procure inventory from various sources, leading to increased operational costs, reduced profit margins, and lower consumer satisfaction.
- **Financing options:** Limited access to credit and stringent credit terms make it difficult for retailers to procure adequate supply and manage cash flow, restricting their ability to scale the business. Offline distributors and mandis often have inconsistent credit terms, making it difficult for retailers to keep track of their dues.

Exhibit 7

Retailer pain points with traditional B2B channels

% of total, 'What are the main pain points that you face during procurement of goods?'



Source(s): Buyer in-depth interviews, Redseer analysis

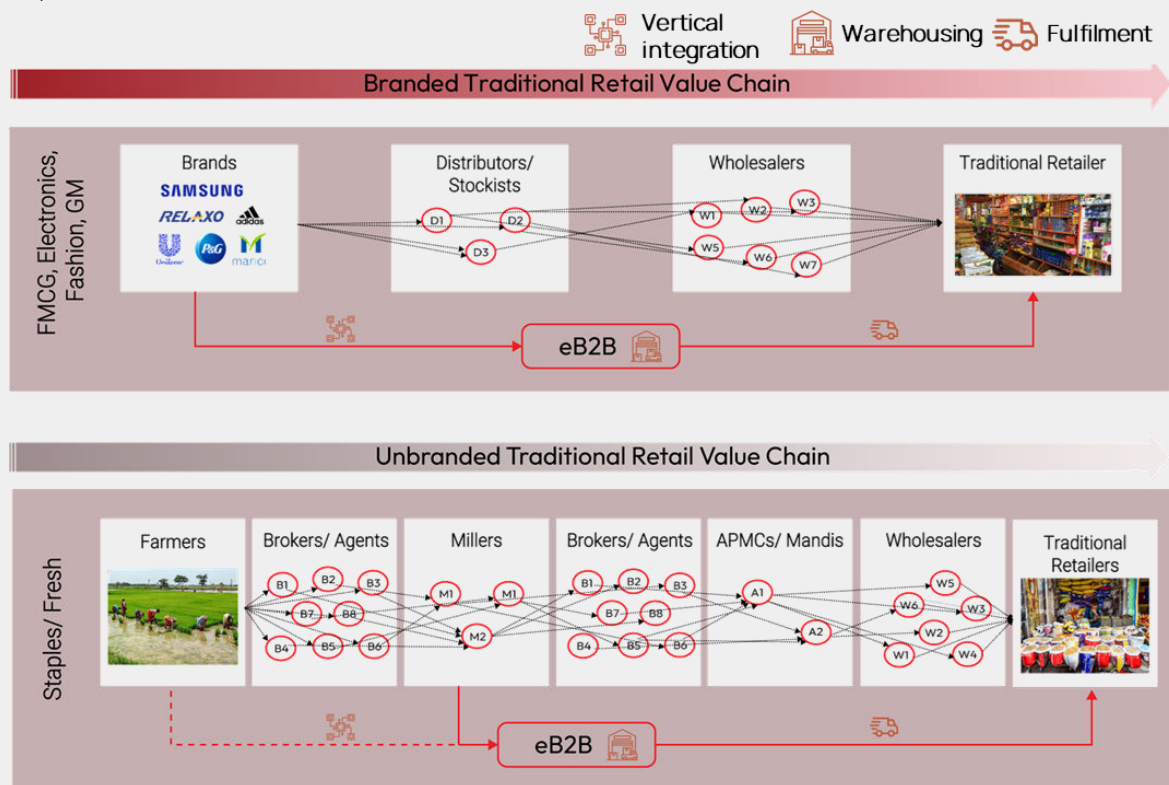
ii. Various eB2B models are emerging as companies strive to address these challenges

Retail eB2B platforms streamline operations through the elimination of intermediaries responsible for inconsistency in service and product quality and margin dilution. Their solutions largely entail –

- *Warehousing operations* that allow better inventory management and fill rates, demand prediction, and quality consistency throughout the supply chain
- *Fulfilment* to retailers ensuring timely procurement and delivery and thereby improved fill rates
- *Vertical integration* to supply quality products directly from brands/farmers/millers at better prices
- *Financing options* to retailers to ensure the sustainability of their business

Exhibit 8 eB2B bridging challenges

Descriptive



Source(s): Redseer research and analysis

But given the prevailing macroeconomic conditions and challenging unit economics, many eB2B platforms are pivoting significantly. Economic uncertainty, fluctuating demand, and pressure on profitability are driving these platforms to shift from a broad market focus to addressing niche areas.

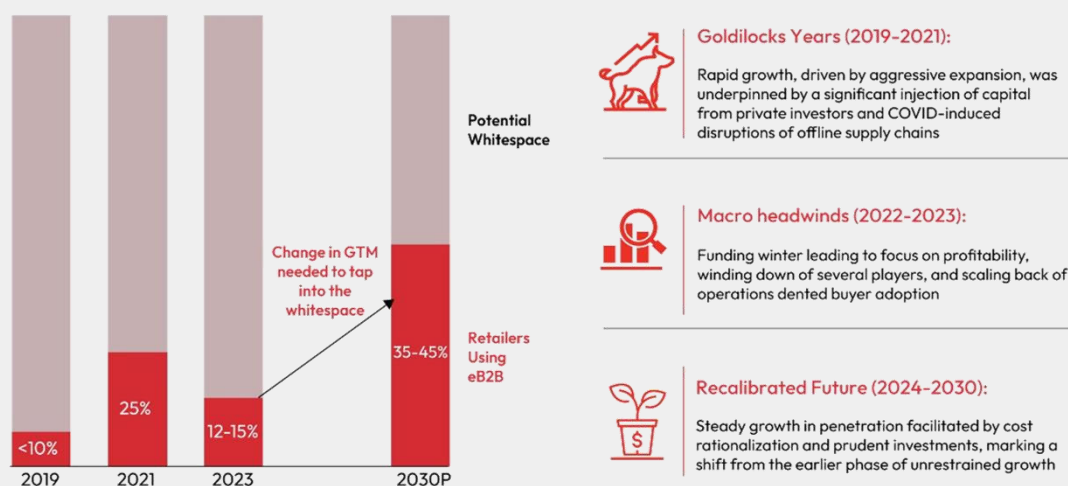
Formerly dominant players have scaled back their operations, concentrating on specific regions or categories. The industry is narrowing its focus, with grocery becoming the primary emphasis. Platforms are refining their offerings to essentials and striving to improve margins in select discretionary categories.

3.2 Post 2021, eB2B in India faced slowdown as private investments receded

Over the past five years, the adoption of eB2B has experienced volatility, influenced by the fluctuating private capital flows and the drive across companies on profitable business models. The 2019-2021 period, known as the 'Goldilocks Years,' heralded an era of rapid, exponential growth, propelled by a

surge in private capital investment and COVID-induced disruptions of supply chains. Following the surge, macroeconomic headwinds led to a recession in the eB2B market, as funding reduced, and several players wound down their operations to focus on profitability.

Exhibit 10 Buyers on eB2B platforms % of total, 2019-2030P



Note(s): 1. The total number of buyers in India range between 14-18 million
Source(s): Redseer research

Supply chain costs, go-to-market costs, and credit costs are the three major cost heads in the eB2B space. Inability to optimize these costs is the primary reason behind challenging unit economics of eB2B players leading them to scale down their operations.

1. **Supply Chain Costs:** The primary challenges contributing to higher supply chain costs arise from the lack of adequate demand density in a location and low demand predictability. Without sufficient demand density, warehouses become underutilized, and lower loads per buyer and dispersed delivery locations result in longer routes for last-mile delivery. Addressing this issue involves building demand density in micro-markets by engaging buyers across diverse categories such as food, FMCG, pharma, fresh, and HoReCa, and offering localized assortments relevant to the region. This strategy fosters habit-building among retailers, enhancing both demand predictability and density. Consequently, this approach increases purchase value in a micro-market, leading to shorter trips per vehicle, improved efficiency, and higher utilization of fixed assets due to the high rotation rate of products.
2. **Go-to-market costs:** eB2B firms also face elevated go-to-market costs due to sparse retailer density and unpredictable demand, resulting in lower throughput per sales representative. This challenge is particularly pronounced for firms with expansive national operations, making it difficult to optimize distribution and sales efforts efficiently across diverse geographic regions.
3. **Credit costs:** Disbursing credit to small retailers presents challenges due to the number of credit lines, amounts disbursed, and the collection process from retailers. High go-to-market costs often lead to increased credit expenses and higher default rates as eB2B firms strive to boost buyer penetration. Effective go-to-market strategies with localized feet-on-the-street improve underwriting efficiency by leveraging agents' insights. Additionally, having representatives collect credit amounts and market managers support the collection process can reduce credit costs and ensure low NPAs.

Recognizing the criticality of implementing these cost structures effectively will empower eB2B firms to expand their business and ensure operational viability, especially during funding winters. Going forward, the buyer penetration on eB2B platforms is expected to recover and exceed the *'Goldilocks Years'*.

Chapter 4: eB2B firms are adopting scalable yet sustainable playbooks centered on delivering superior customer value propositions

4.1 eB2B firms are leveraging different models and strategies to drive sustainable profitability

Amidst the volatility in the eB2B market, firms have recognized that their primary challenge is not brand awareness, but rather increasing their wallet share in competition with other eB2B firms, as well as offline distributors and mandis in general trade. eB2B firms have recognized that merely offering the convenience of online ordering does not fully address the inefficiencies in procurement channels. This is especially evident with large FMCGs that provide online platforms for order placement, such as Unilever's Shikhar, ITC's Unnati, and Coca Cola's Wapi apps.

As a result, several eB2B firms have implemented various strategies and models that aim to address key pain-points for retailers and emphasize on retailer engagement to drive sustainable growth in wallet share.

Exhibit 11

Retailer-centric eB2B strategies



Source(s): Buyer in-depth interviews, Redseer research

These strategies aim to promote long-term growth of the eB2B firms by tackling gaps in inventory sourcing through traditional channels – offline distributors and mandis

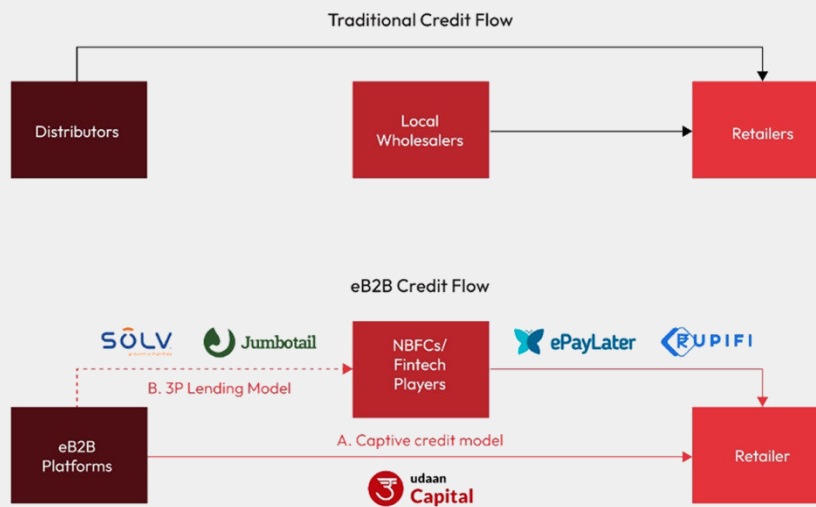
- **Increased regional focus:** The presence of most eB2B firms in India is largely localized, with 1-3 dominant players in specific regions. For instance, ApnaKlub caters to retailers in Uttar Pradesh, Uttarakhand, Haryana, Bihar, and Jharkhand, while Qwipo primarily focuses on Andhra Pradesh and Telangana.

Localized servicing allows firms to gain a deeper understanding of the market including consumption patterns, presence of local brands, supply chain nuances, and government policies and schemes, enabling them to cater to region-specific demands effectively. For instance, the high demand for rice in South Indian states comes with a significant variation in the types and quality preferred in different areas. eB2B firms benefit by partnering directly with various rice mills and local brands across different geographies to supply these "localized" products.

Operationally, the dense concentration of buyers in the pin codes, coupled with their heightened adoption rates, leads to more efficient and cost-effective delivery operations, bringing down fully loaded supply chain cost across shipping and fulfilment to less than 3%. This cost efficiency stems from increased buyer adoption (smaller distance between drops), and higher wallet share (which boosts the load per touch point) – resulting in greater tonnage and more predictable demand with higher order frequency.

- **Key Account Managers:** For B2B clients, micro market-based feet-on-street results is an important acquisition input. Regular interactions with on-field Key Account Managers (KAMs) also contribute to increased order placement, higher wallet share, and stronger brand recall. These market managers drive daily offers and promotions, assist with order placement, provide credit support, and efficiently manage returns. Retailers value the services of these managers as they provide direct points of contact for swift issue resolution.
- **Same day/Next day delivery:** One of the major challenges faced by local kirana retailers is the long lead time for the delivery of inventory resulting in frequent stockouts and/or lower inventory turns. Distributors typically schedule inventory deliveries on specific days of the week, which often reduces to once a week for stores on the city outskirts. This issue is further exacerbated for the retailers, especially in sourcing from mandis, as they often have only one or two people managing the store and must travel long distances to procure emergency stock. eB2B firms aim to become the preferred partners for these local kiranas by offering daily stock deliveries, ensuring orders are fulfilled within a day of placement.
- **Free delivery/Flat delivery fees:** eB2B platforms provide delivery services either for a flat delivery fee or, in many cases, free of charge. Although the fees may vary depending on the category ordered (e.g., staples, grocery, FMCG), this service offsets the delivery charges typically included in distributor margins and the additional transportation costs retailers incur when transporting goods from mandis to their stores.
- **Documentation support:** Local kiranas are often unregistered due to retailers' lack of awareness and necessary documentation. This results in operating without GST bills, hindering their ability to receive formal credit and limiting their sourcing options from eB2B firms, large distributors, and some wholesalers. To address this, eB2B firms are assisting these retailers by simplifying the store registration process with minimal documentation, thereby enabling them to source inventory more broadly.
- **Credit and financing options:** Credit availability from distributors and mandis is often erratic and lacks transparency, resulting in expensive, inaccessible, and undefined loans that fail to support retailers during crucial periods. In contrast, eB2B firms streamline credit options, frequently offering amounts ranging from INR 1-5 lakhs upon onboarding. Several eB2B companies like Jumbotail, Solv, ShopKirana partner with fintech firms and NBFCs to facilitate credit. On the other hand, udaan enhances this process through its fintech arm, udaan Capital. By reducing intermediaries, udaan ensures a superior retailer experience with a single point of contact, improving approval rates, collection efficiency, and underwriting effectiveness.

Exhibit 12 Credit flow – Traditional vs. eB2B



Source(s): Expert inputs, Redseer research

In addition to initiatives aimed at increasing retailer adoption and daily volumes, eB2B firms are also optimizing for higher margins further up the value chain through the following measure:

- **Category expansion:** eB2B firms are broadening their range of product categories to enhance retailer engagement and transactions on their platforms. Consequently, this expansion is increasing the wallet share of eB2B, as retailers who traditionally purchased only groceries and staples are now also buying FMCG, stationery, and other products. By diversifying their offerings, eB2B firms capture margins on certain categories while absorbing losses on others.
- **Launch of private labels:** Recognizing the need for high-quality products at affordable rates for retailers, eB2B firms such as udaan and Jumbotail have proactively launched private labels. By directly engaging with mills for staples like rice, flour, pulses, and spices, these B2B firms can introduce their own brands, potentially boosting their gross margins by an additional 3-4 percentage points. The Indian staples market, being highly unorganized, often suffers from inconsistent quality, particularly with local generic brands which do not ascribe to the quality benchmark. Consequently, there is a growing acceptance and demand for high-quality, cost-effective private labels in the staples segment.
- **Vertical Integration and direct brand partnerships:** Direct sourcing from manufacturers and brands ensures standardized quality, consistent pricing, quicker delivery, and streamlined procurement. eB2B firms partner directly with brands or primary stockists for regular stock supply to their warehouses, offering products to retailers at lower rates while capturing the margins. Additionally, eB2B firms are moving higher up the value chain by partnering with farmers and mills to further optimize margins.

eB2B firms have effectively deployed these strategies that are collectively enabling them to recover from market volatility and achieve sustained profitability.

4.2 udaan's micro-market strategy boosting buyer penetration and wallet share

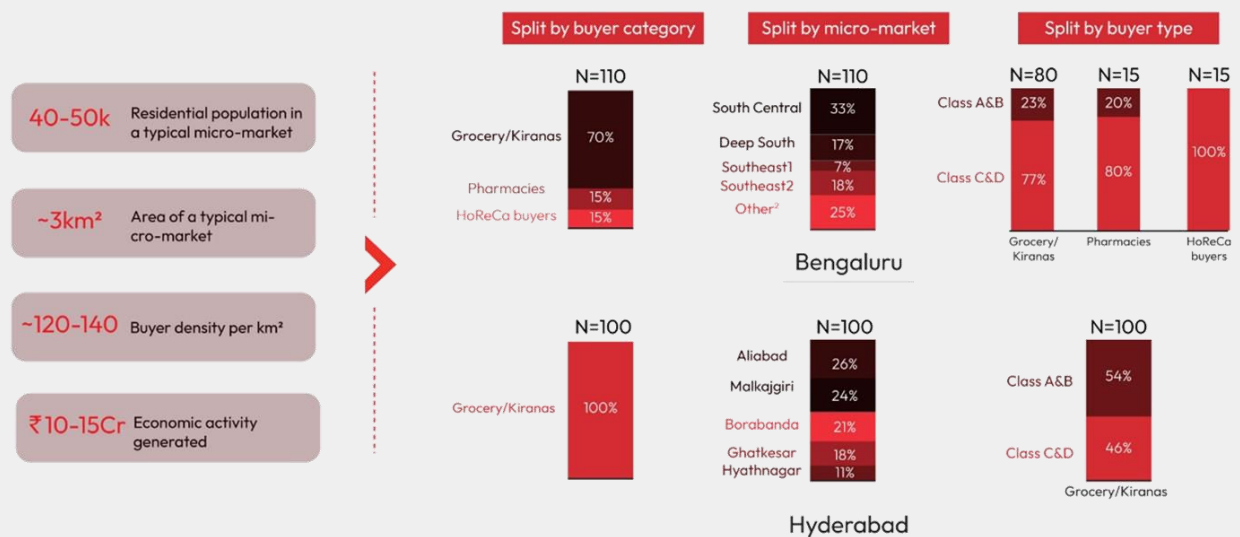
In early 2023, udaan refined their go-to-market strategy to concentrate on micro-market level buyer metrics, including penetration, category adoption, and retention. This strategy involved a targeted effort

To engage over 90% of shops in a given market, assisting them in exploring the full range of platform services through dedicated account managers. Initially piloted in Bangalore, this model has been successfully replicated in various other markets across the country, demonstrating high success rates in early implementations.

To evaluate the impact of the strategy, Redseer conducted ~200 interviews of kirana retailers (buyers), pharmacies, and eateries across 10+ micro-markets in Bengaluru and Hyderabad, spanning various classes of outlets. The sample comprised of highly mature micro-markets with high penetration of udaan and other eB2B providers as well as emerging markets with lower digital penetration.

Micro-markets mirror the broader Indian retail sector characterized by variations in buyer and consumer behaviors, defined typically within a pin code or group of pin codes. These localities typically house 40,000-50,000 people contained within approximately 3 km² with a buyer density of 120-140 buyers per km². Micro-markets in Hyderabad and Bengaluru are characterized by differences in digital adoption, categories purchased, and average spend, arising largely due to economical, religious, and cultural differences.

Exhibit 13
Characteristics of a micro-market
 Descriptive



Note(s): 1. Strategy implementation timeline: Bengaluru – June 2023 vs. January 2024, Hyderabad – January 2024 vs. June 2024
 Source(s): Buyer In-depth-Interviews, Redseer analysis

We assessed the impact of udaan’s micro-market strategy using five key indicators. These metrics decipher the evolution of the strategy over the last 6-12 months by considering the increased penetration and wallet share of udaan, satisfaction across key value-proposition elements, overall NPS, and finally, the future outlook of retailers towards udaan.

Exhibit 14 Impact assessment metrics

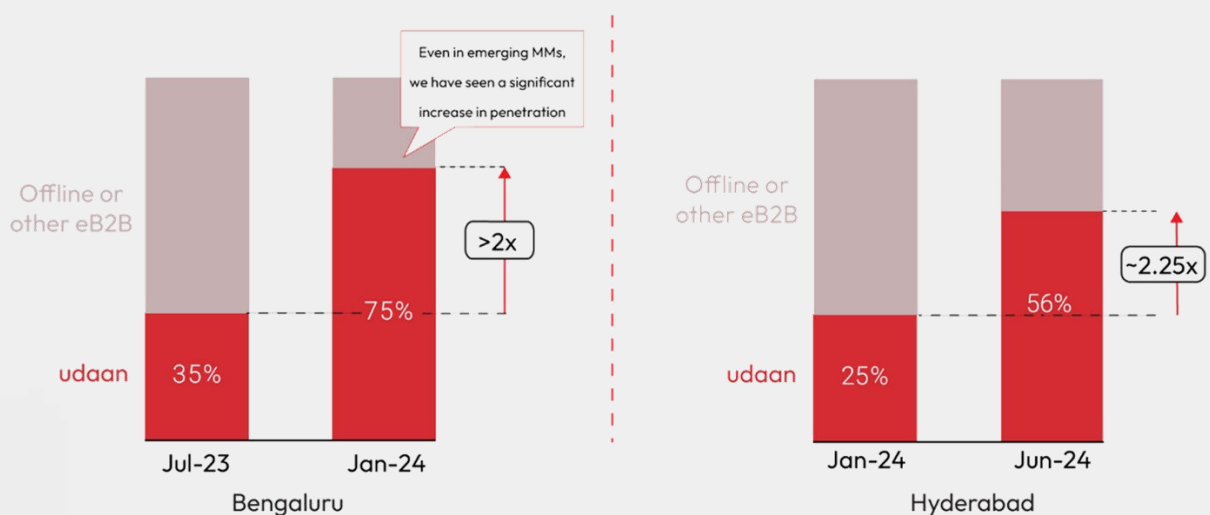


Source(s): Redseer analysis

i. udaan's micro-market strategy led to a ~2x increase in buyer penetration and 1.2-1.4x increase in wallet share

Across micro-markets where the strategy has been deployed in Bengaluru, udaan's penetration among buyers has more than doubled, from ~35% 6-12 months prior to the strategy roll-out to ~75% now. A similar trend was observed in the case of the micro-markets surveyed in Hyderabad, with penetration increasing from ~25% in January 2024 to ~56% in June 2024 after the strategy roll-out. Udaan has been able to consolidate its share of wallet among buyers by assigning dedicated market managers to each buyer. These managers visit shops to raise awareness and address any concerns. They also streamlined the buyer onboarding process and provided assistance with procedural steps.

Exhibit 15 udaan's buyer penetration in Bengaluru and Hyderabad % of total



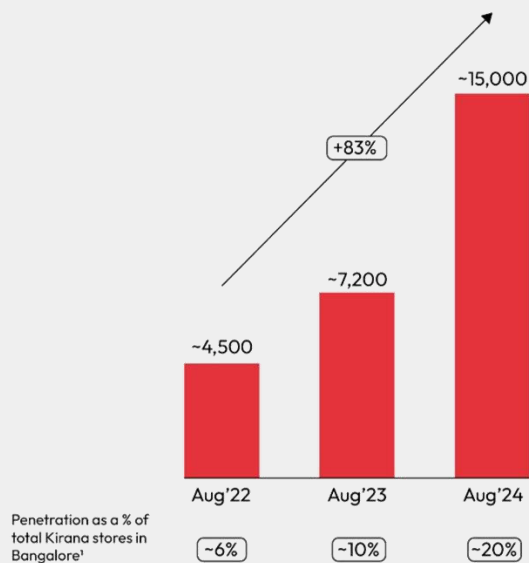
Note(s): 1. Strategy implementation timeline: Bengaluru – June 2023 vs. January 2024, Hyderabad – January 2024 vs. June 2024

Source(s): Buyer In-depth-Interviews, Redseer analysis

Exhibit 16

udaan's daily transacting user as a % of total Kiranas in Bangalore

% of total Kiranas in Bangalore



According to udaan, ~80% of the Bangalore kiranas have transacted at least once on the platform in FY 2024. Out of this ~15,000 kiranas in Bangalore transacted daily on their platform as of August 2024, representing around 20% of the total kirana stores in the city. This marks a significant growth of 83% in the number of unique daily transacting kiranas since August 2022.

Note(s): 1. Total Bangalore kirana stores taken as ~75,000 across years
Source(s): udaan internal data

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The key to driving profitability in eB2B is to drive scale, density of buyers and portfolio mix in small catchments - what we call as micromarkets - and keep replicating the same. This helps drive market share, cost leverage and profitability at these base units.

We achieve this with the right SC network + design, GTM design + operating excellence, Category/Sourcing ops to deliver what's most important from a customer value prop standpoint -- the right assortment relevant to that locality, always available at market competitive rates, delivered fast and reliably with superior customer experience as an ethos underpinning every touchpoint. This naturally translates to best in class retention rates and continuously growing wallet shares.

Our daily buyer #s in Bangalore have more than 2x-ed in this market through this year to ~15k buyers transacting daily on the platform. This has also resulted in udaan able to unlock better margins with greater supply side relevance and significantly bring down our cost to serve by virtue of high order densities within a small radius. We are expanding this approach to other cities and clusters and the early results are very promising with 1.5x growth in daily buyers and 200bps+ impact on profitability uplift.

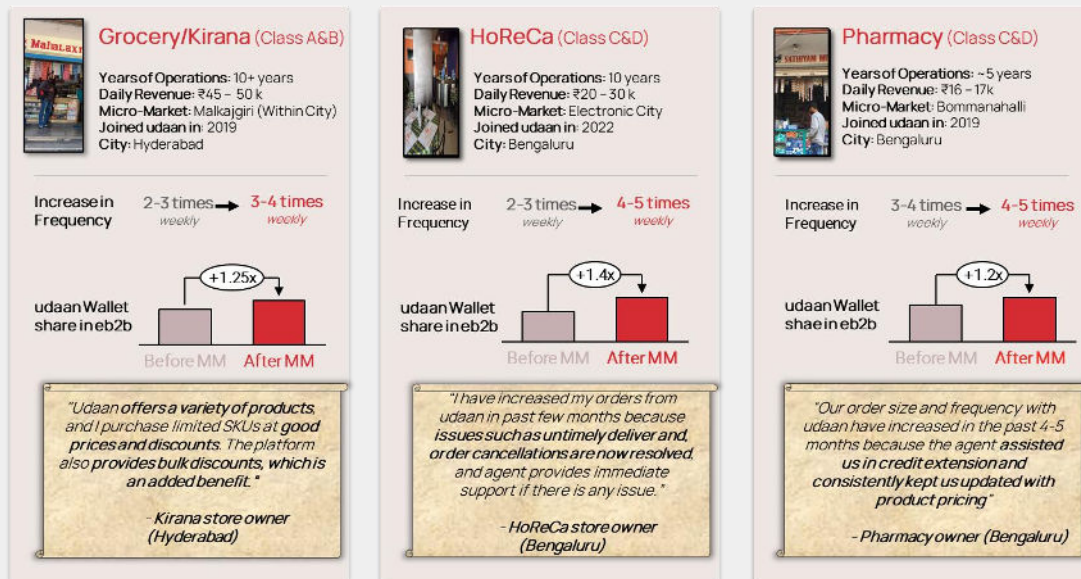
Vaibhav Gupta, Co-Founder udaan

”

Buyers also expanded their purchases beyond 'foot in the door' staples, such as rice, oil, and sugar, along with selected FMCG Key Value Items (KVIs), to purchase trunk/torso items in grocery and other categories, typically yielding higher gross margins. This phenomenon is known as 'basket shaping'. Consequently, this has led to an increased share of wallet and higher engagement, i.e., increasing their order frequency. This trend has been visible across all classes of Kirana and also among HoReCa and Pharmacy outlets in Bangalore. Retailers now order through udaan 4-5 times a week, with many placing daily orders."

Exhibit 17

Case study – Buyers who use udaan are increasingly procuring more and that too more frequently – By store class



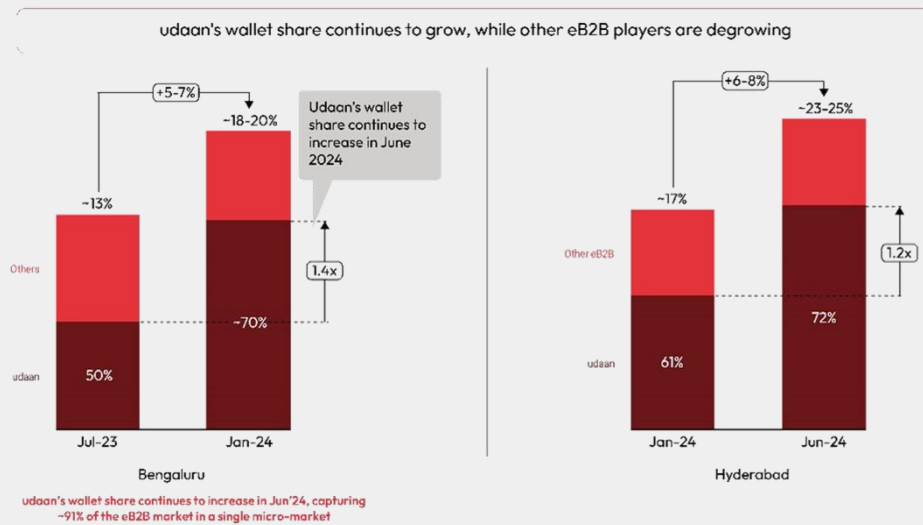
Source(s): Buyer In-depth-Interviews, Redseer analysis

In Hyderabad, micro-markets within the city (Borabanda, Malkajgiri and Hayathnagar) showed lower buyer penetration and wallet share due to better access to mandis, wholesalers, and frequent distributor visits. Conversely, retailers located relatively far away (Aliabad and Ghatkesar) with less access to other inventory sources, demonstrated higher buyer penetration and wallet share. udaan's micro-market strategy enabled service excellence through superior delivery timelines and enhancing accessibility and availability of products across all pin codes. Overall udaan managed to increase its wallet share by 1.4x amongst eB2B platforms over the past 6-12 months since their pilot in Bengaluru whereas Hyderabad observed a 1.2x growth.

Furthermore, an extended study conducted in June 2024 within a specific micro-market in Bangalore revealed significant progress in the strategy's implementation. udaan's wallet share increased by 1.3x compared to the January 2024 survey. This was accompanied by a rise in penetration of eB2B by approximately 5%, reaching 23-25%, securing udaan a dominant 91% market share among eB2B platforms in that micro-market. This growth is attributed to the continued excellence of key account managers, improved product assortment, and reduced delivery times.

Exhibit 18

Overall wallet share across buyers— udaan vs Others¹ in mature MMs of Bengaluru and Hyderabad % of total



Note(s): 1. Note(s): Strategy implementation timeline: Bengaluru – June 2023 vs. January 2024 and June 2024, Hyderabad – January 2024 vs. June 2024, 2. Others eB2B players include Jumbotail, Solv, Qwipo, etc. 2. A single micro-market in Bangalore has been surveyed in June 2024 with the intention to measure progress since January 2024

Source(s): Buyer In-depth-Interviews, Redseer analysis

ii. With sharp focus on customer service coupled with a strong regional focus, udaan has become a preferred partner for GT retailers

In markets where udaan has implemented its micro-market strategy, there have been significant improvements in its value proposition. By addressing key pain points, such as delivery speed— a major concern for buyers using offline channels—udaan has seen approximately 90% of retailers respond positively to its service. udaan's last-mile operations have improved to meet the demands of buyers across various pin codes, spanning both remote and accessible markets.

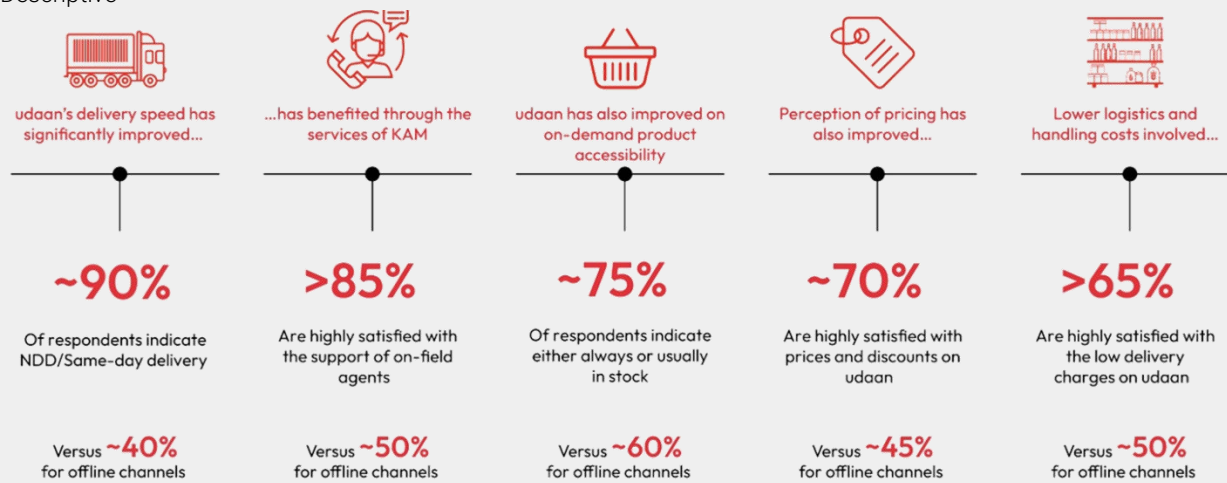
This strategy achieved effective localization by deepening the understanding of micro-markets, allowing udaan to tailor its assortment to local preferences, onboard local brands, and customize offers based on local demand and consumption patterns. udaan's on-field market representatives delivered exceptional service by informing retailers about the latest promotions, assisting with online orders, addressing grievances, and escalating feedback. As a result, udaan achieved higher engagement among retailers.

Additionally, negligible minimum order quantities, made possible by the increased operational efficiency and localized inventory management inherent in the micro-market strategy, have made udaan the preferred partner for on-demand inventory sourcing. udaan also adjusts prices and promotes discounts daily to maintain parity with market and wholesale rates while reducing retailers' delivery expenses.

Exhibit 19

udaan's performance in core buyer value proposition parameters in Bengaluru and Hyderabad

Descriptive



These parameters have directly been impacted by the change in strategy leading to higher buyer satisfaction

Source(s): Buyer In-depth-Interviews, Redseer analysis

iii. This has resulted in a high NPS and a promising future outlook for udaan compared to the other traditional distribution models

udaan has significantly outperformed its offline counterparts, achieving an NPS of 79 in the micro-markets surveyed by Redseer in Hyderabad and Bengaluru. In stark contrast, offline channels, particularly mandis, lag far behind with an NPS of 11, as buyers struggle with the inconvenience of traveling long distances, often 30-40 km, to procure staples. The inconsistent quality of staples from mandis further diminishes the overall buyer experience.

udaan's high NPS is validated by a positive future outlook on wallet share evolution, as 48% of buyers plan to increase their wallet share on the platform while only 4% intend to reduce it. Conversely, most retailers plan to retain or decrease their current expenditure on offline channels, with only very few planning to increase their spending through distributors and mandis, respectively. The long-standing relationships with distributors and wholesalers typically result in retailers largely feeling neutral.

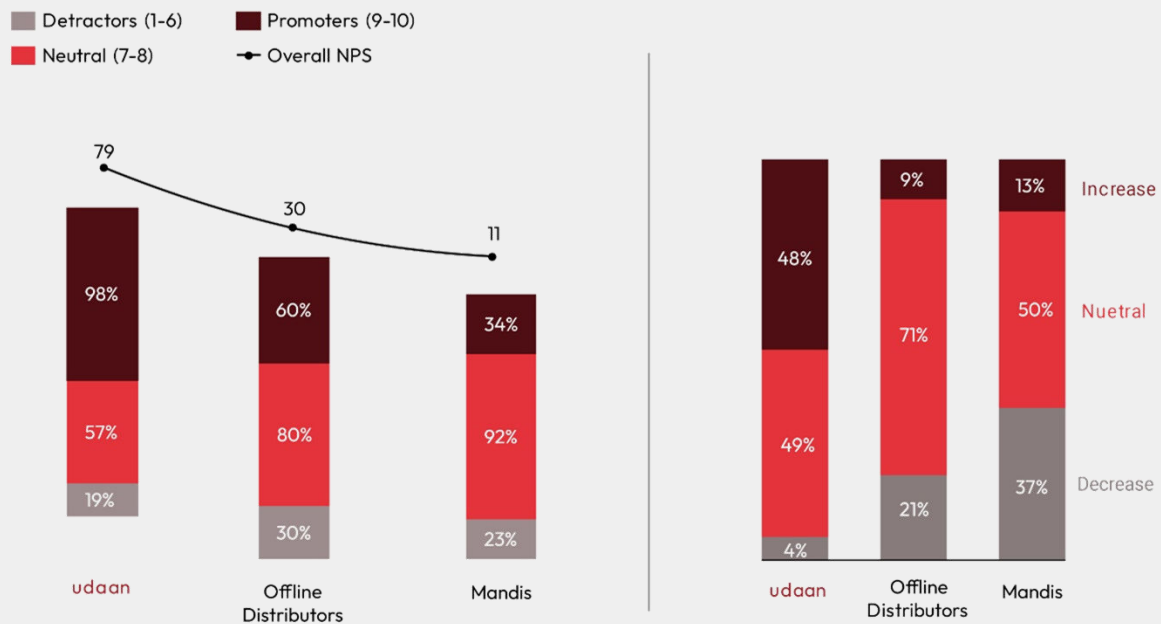
Exhibit 20

NPS score by channel and platform and outlook on wallet share evolution in Bengaluru & Hyderabad

June 2024

udaan garners the highest NPS of 79 as compared to 30 and 11 for offline distributors and mandis

48% of the retailers plan to increase their spending on udaan over the next 6-12 months



Note(s): 1. Strategy implementation timeline: Bengaluru – June 2023 vs. January 2024 and June 2024, Hyderabad – January 2024 vs. June 2024
 Source(s): Buyer In-depth-Interviews, Redseer analysis

4.3 udaan's micro-market strategy emerges to be a replicable formula, facilitating the growth of the overall eB2B landscape

The initial success of the micro-market strategy and customer service excellence playbook in select focus markets in Bengaluru and Hyderabad, comes across as great news for the sector. Though it is operationally intensive, the strategy shows promise and there's a potentially replicable playbook emerging. By leveraging data-backed insights to gain a nuanced understanding of retailer and customer behavior, eB2B has positioned itself as a formidable competitor to offline channels.

Despite the recent cessation of operations by some key eB2B players, the top two companies, representing approximately 50% of the market in CY 2023, have experienced growth exceeding 30% from JFM'23 to JFM'24. This underscores the role of such scalable, yet sustainable playbooks centered on consistent CVP (customer value proposition) delivery and operating density in building profitable growth. The growth of eB2B is primarily expected to be driven by both increasing demand for digital solutions from retailers as well as better strategy deployment by eB2B firms –

- **Opportunity from large unorganized market:** Over 80% of the retail market is unorganized, the formalization and consolidation of which fosters market adoption and scalability.
- **Digital adoption by retailers:** Growing retailer receptiveness to digital solutions, driven by operational efficiency, cost savings, and convenience, enhances engagement and transaction volumes on eB2B platforms.
- **Enhanced credit accessibility:** Access to formal credit through eB2B platforms empowers retailers to manage cash flow and expand product offerings, resulting in higher sales and transaction volumes, which further accelerates market expansion.

- **Realignment of eB2B strategies:** eB2B platforms ensure consistent product availability, superior service quality, and efficient communication, leading to improved brand satisfaction and retailer loyalty. This, in turn, drives eB2B wallet share and market growth.

Looking ahead, the adoption of similar strategies, along with the expansion of eB2B categories beyond grocery, the extension of operations to new cities, and increased penetration within existing cities, could propel the eB2B market further.

4.4 While the future outlook remains promising, eB2B firms remain cautious

eB2B players are navigating a dynamic landscape where continuous innovation and strategic reassessment are essential. However, several challenges remain unresolved, including:

1. **Capital efficiency:** The eB2B sector necessitates substantial capital investment in its initial phases for warehousing, logistics, and customer acquisition. During this period, the industry also contends with high retailer churn and margin pressures, necessitating efficient utilization of the deployed capital.
2. **Emergence of challengers:** The eB2B sector faces demand unpredictability, especially in groceries, as quick commerce and B2C trends foster online delivery habits among consumers in metro and tier-1 cities, reducing demand for traditional GT kirana stores. Alongside digital alternatives, discount retailers like D-mart and Metro present challenges for kirana retailers struggling to compete on price.
3. **Brands launching proprietary platforms:** Capitalizing on the increasing tech-savviness of kirana retailers, major brands are aiming to expand their direct distribution networks and bypass traditional B2B marketplaces through their own platforms for inventory sourcing.

As the eB2B market matures, players are learning to navigate these challenges while innovations in technology and logistics are driving efficiency gains and strategic adaptations are enhancing market resilience. With growing digital adoption, increasing investor interest, and evolving consumer behavior favoring online platforms, the eB2B sector is expected to thrive in the coming years, contributing significantly to India's digital economy and transforming traditional supply chains.

Glossary

Term	Definition
Micro-market	A Micro-Market is usually a small, geographically confined area, typically encompassing a single pin code or a group of pin code
Class A/B/C/D Kirana	Class A: Store >200 sq. feet, avg. daily revenue INR 25,000+. Class B: Store 100-200 sq. feet, avg. daily revenue INR 15,000-25,000. Class C: Store 100-200 sq. feet, avg. daily revenue INR 6,000-15,000. Class D: Store 50-100 sq. feet, avg. daily revenue INR 6,000
HoReCa	Hotel, Restaurant, and Café outlets
Independent Eateries	Independent Eateries (HoReCa class C&D) refers to unorganized outlets that do not have more than one branch. These establishments are often smaller in scale and cater to a more localized customer base compared to their more organized counterparts in Classes A and B
Grocery and kiranas	Grocery stores sell a wide range of food and household items, including fresh produce, dairy, meats, packaged foods, cleaning supplies, and personal care products. Kiranas are small, neighborhood stores in India offering essential household items like food, snacks, and toiletries
Mandis	Wholesale markets in India where agricultural producers sell their produce to traders and buyers.
Organized Brick-and-Mortar (B&M)	Physical retail stores that are part of large, often chain-based, businesses and operate within a formal sector.

Research Methodology

Our research methodology for developing the udaan case study involved comprehensive on-ground, in-depth interviews. We engaged with over 200 retailers from Classes A, B, C, and D of general trade and kirana stores, pharmacies, and HoReCa outlets across micro-markets in Bangalore and Hyderabad. The goal was to identify the primary challenges retailers encounter with traditional distribution channels and evaluate the effectiveness of udaan's micro-market strategy. Subsequently, we applied an impact assessment framework to measure changes in buyer penetration and wallet share for both udaan and eB2B overall, before and after the strategy's implementation. Additionally, the framework evaluated performance on customer value proposition metrics, net promoter score (NPS), and future spending outlook through udaan. This multi-dimensional approach provided a thorough and nuanced understanding of the strategy's effectiveness and retailer satisfaction, offering valuable insights into the evolving retail eB2B landscape.

About the Authors



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Chhavi brings over 13 years of experience in consulting, eCommerce, retail, and healthcare sectors. She has led customer and business strategy projects across various industries and drove cross-functional initiatives as part of the CEO's office. She also founded a kidsweat brand. She holds an MBA degree from IIM Ahmedabad, and a B.Tech from IIIT Allahabad

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