datalmpact
by NielsenIQ

The rise of quick commerce

in the UK

Challenges and opportunities for manufacturers

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Introduction

Omnipresent ads, bright colours and fleets of two-wheeled vehicles announced the arrival of quick commerce in urban centres in the UK in 2000. Since then, the sector has grown explosively.

For example, at the time of writing, Getir, a Turkish rapid delivery company that now operates in nine countries, was valued at $11.8 billion.

Several quick commerce companies established themselves in the UK in 2020 soon after the beginning of the pandemic. 2021 was a dynamic year for the sector, with a flurry of venture capital investments, acquisitions, partnerships and marketing. According to the WSJ, investors have put at least $7 billion into qcomm startups in the last two years.

It is not yet clear what kind of repercussions this emerging sector will have on omnichannel retailers and manufacturers.

For now, quick commerce corresponds to impulse-driven purchases, a category that saw its numbers decrease when there was less foot traffic amongst these items near check-out in brick and mortar during the height of the pandemic. As such, qcomm functions as a complement to omnichannel retail. However, the current qcomm model could change as the industry matures and shoppers come to expect rapid delivery for more purchases.

> "Rapid delivery is going to have a significant impact on the entire retail industry, not just grocery. The desire for speed on the part of consumers will continue to increase. It's not a fad.
> It's a trend that will transform not only retail but also logistics."

THE GROCER

Measuring progress

This volatile industry is in its infancy, with newcomers, partnerships and other changes being announced almost weekly.

The current composition of the market can be divided into aggregators, pure players and retailers. Aggregators like Deliveroo, which was founded in the UK in 2013, were created for home delivery of restaurant meals. When the pandemic forced many restaurants to close their doors, these actors were in trouble. They were operating with very small margins and had little room to maneuver. However, by pivoting to grocery delivery, they have been given a second life.

AGGREGATORS	PURE PLAYERS		RETAILERS
deliveroo	getir	GORILLAS	Sainsbury's CHOP CHOP
snappyshopper	gopuff	Jiffy	Whoosh
Uber Eats	Zapp	Dija	ocado zoom
JUST EAT	weezy	FANCY	

Source: Data Impact by NielsenIQ

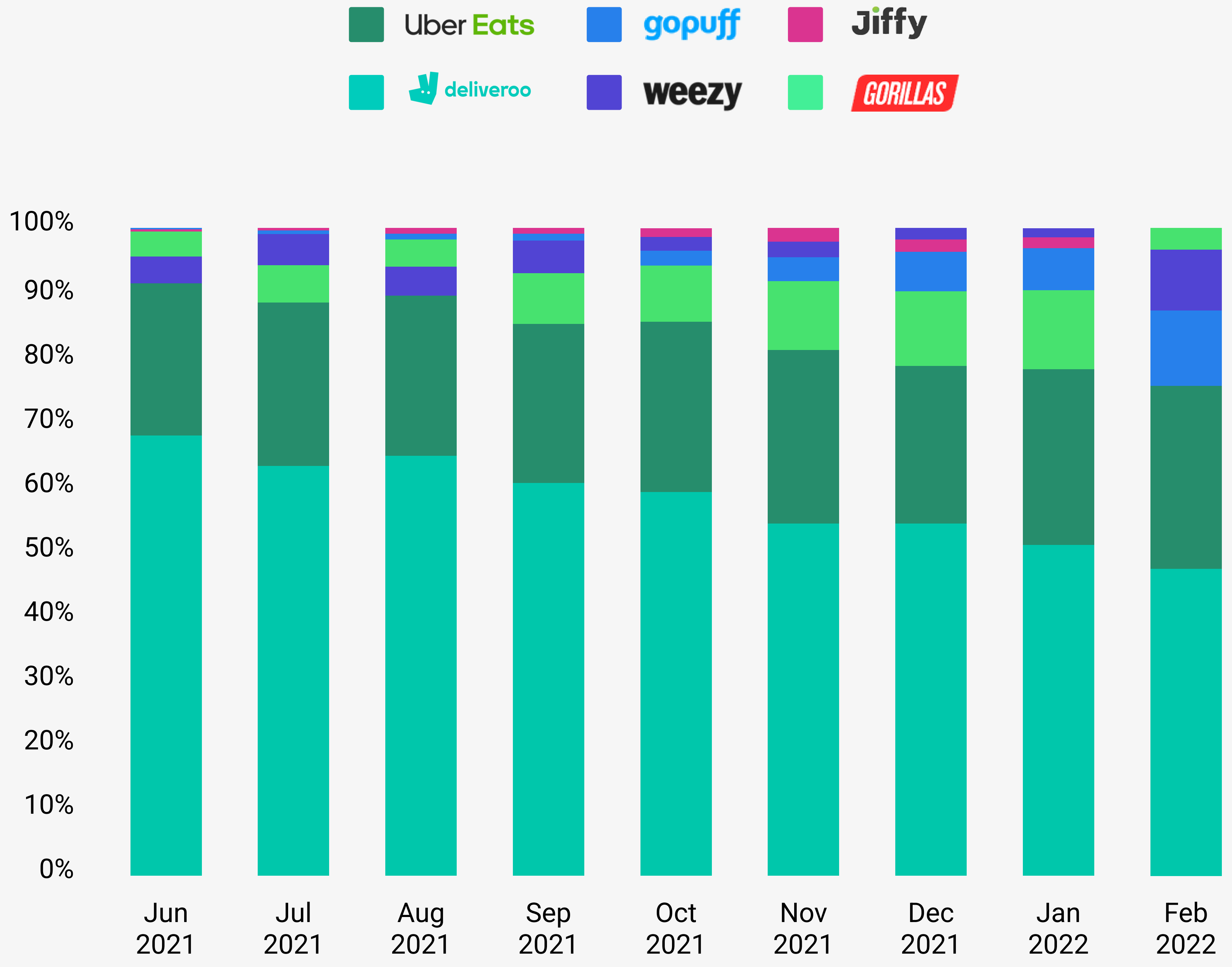
Quick commerce grocery market share

The battleground for market share is shifting in the UK

Generally, aggregators differentiate from pure players in that they don't have the network of hyper local dark stores or fulfillment centres pure players do, and they are intermediaries between the app user and grocery store. However, some aggregators now have some dark stores of their own. As mentioned, new players are disrupting this dynamic and highly competitive space all the time. Marketing and promotional offers are being aggressively deployed as companies battle for market share and fragmentation and consolidation are common.

UK QCOMM PLAYER MARKET SHARE

EVOLUTION 2021/22



Source: Foxintelligence by NielsenIQ. Excludes Getir.

The current UK playing field

	Cities	Funding	Net Worth
gopuff	London, Birmingham, Manchester, Bristol, Cardiff, Liverpool, Sheffield, Nottingham, Leeds, Newcastle, Tottenham, Battersea, Greenwich	Looking to go public as soon as mid-2022	In the process of raising $1.5 billion with a valuation of up to $40 billion (16 December 2021)
getir	London, Birmingham, Manchester, Brighton, Bristol, Cardiff, Liverpool, Southampton, Portsmouth, Sheffield, Bradford, Nottingham, Leeds, Cambridge, and Leicester		Valued at $11.8 billion in March 2022
Zapp	London, Manchester, Bristol, Southampton, Cambridge	Raised $200 million in Series B – will be used to beef up its presence in its home market of London and expand into “mega cities”	
GORILLAS	London, Manchester, Southampton, Nottingham, Reading		Valued at $3 billion as of 20 Oct 2021
Jiffy	London	Raised $28M in Series A (total raised to date of $35 million. 1 September 2021)	

Who's winning the qcomm race?

There are no clear winners yet.

Qcomm players are fiercely competing with each other to build brand awareness, claim market share and acquire customers. Consequently, they're all engaged in marketing blitzes, and average prices for qcomm are well above the total market average.

Significant discounts and promotions are being offered to attract new customers.

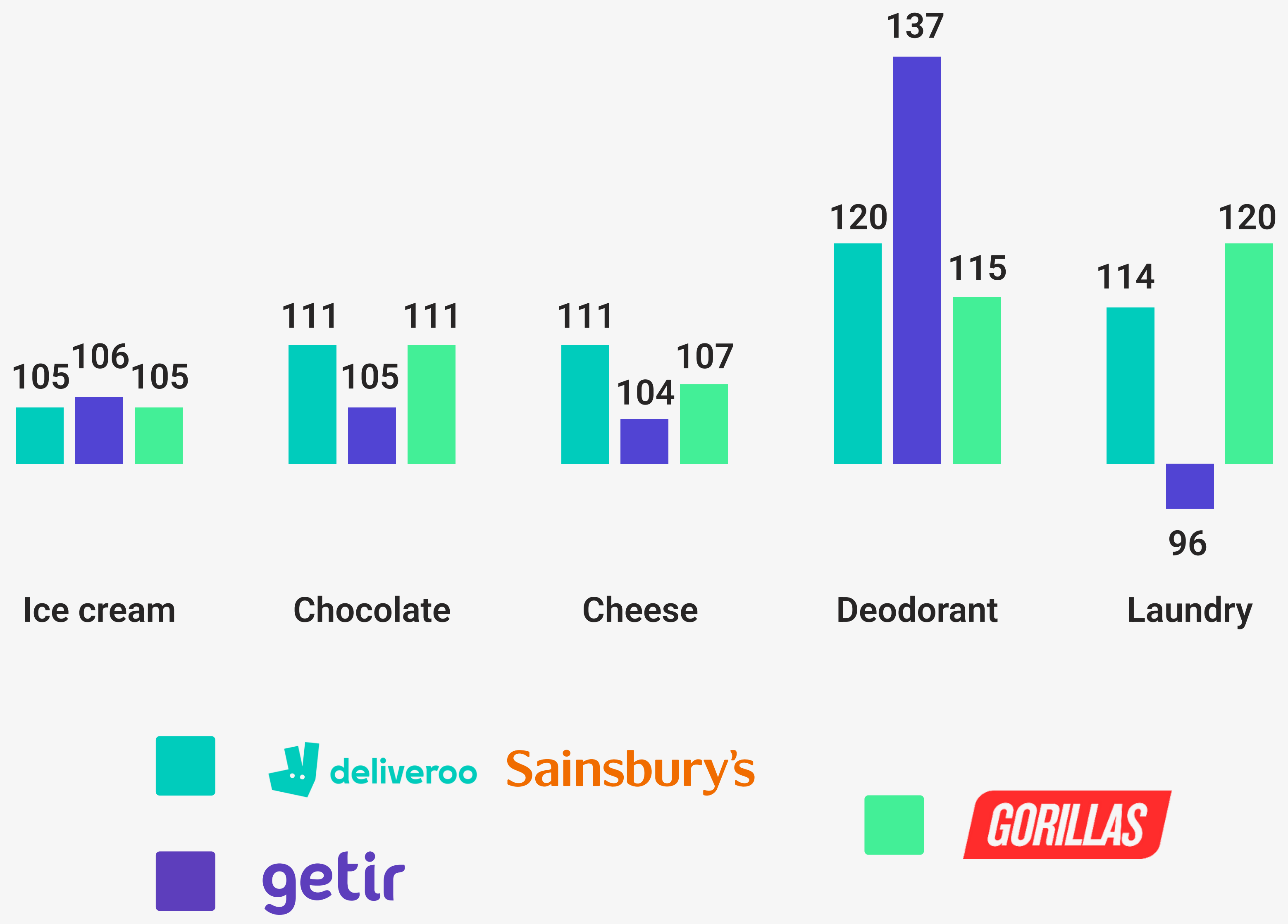
Targeted offers are being extended to incentivize recently acquired yet inactive shoppers. With all the promotions and offers available, it could be said that shoppers are the winners just now.

Wondering where to invest?

It's best to adopt a test-and-learn approach, adapting pricing, search and promotional strategies across startups. Penetration and volumes are low so risks are not high.

INDEX AVERAGE PRICE VS. TOTAL MARKET

WEEKS 1 - 4, 2022



Source: Data Impact by NielsenIQ

The qcomm offering

Average prices for qcomm are well above the total market average.

Two features of quick commerce stand out in contrast to the offerings of omnichannel retailers:

- One is price. Customers have proven they're willing to pay more for this channel. So far, very few entrants in this category are positioning themselves as competitively priced.
- The second differentiator is a concentrated assortment. Quick commerce's current niche of convenience items delivered instantly means the most common drivers for purchase are snacking, top-up shopping, 'meal for tonight', and occasion-based, entertainment foods. These are immediate and unplanned needs.

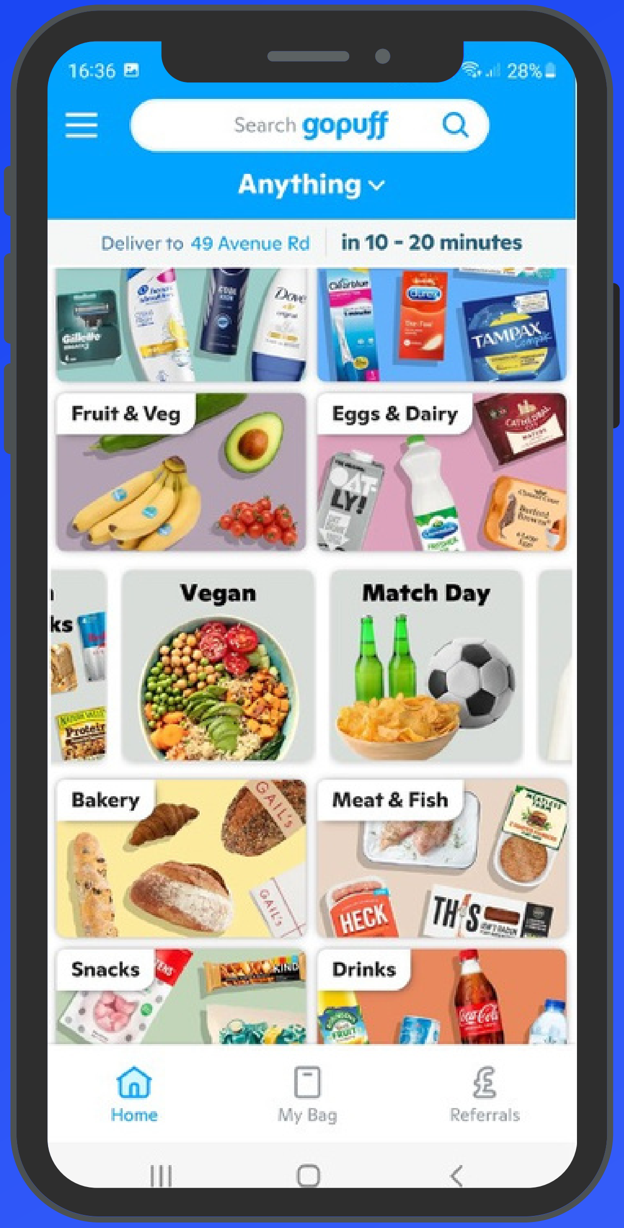
“A typical (quick commerce) order includes a 2£ delivery fee plus a 5% markup on retail supermarket prices for basic items like bread or milk.”

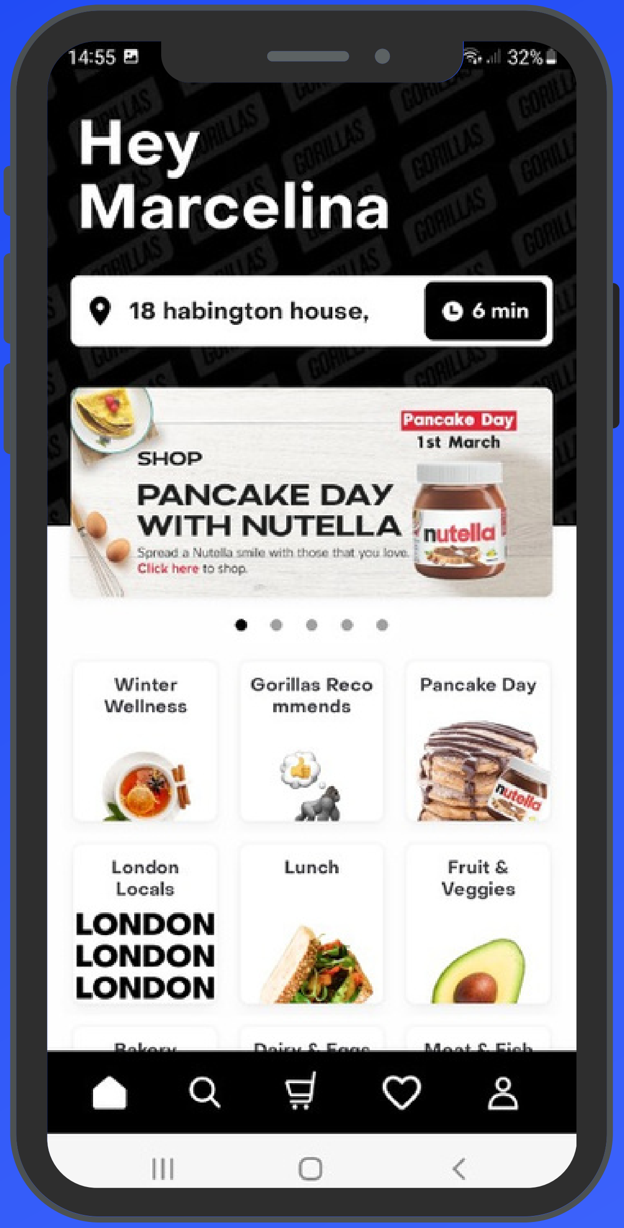
REUTERS

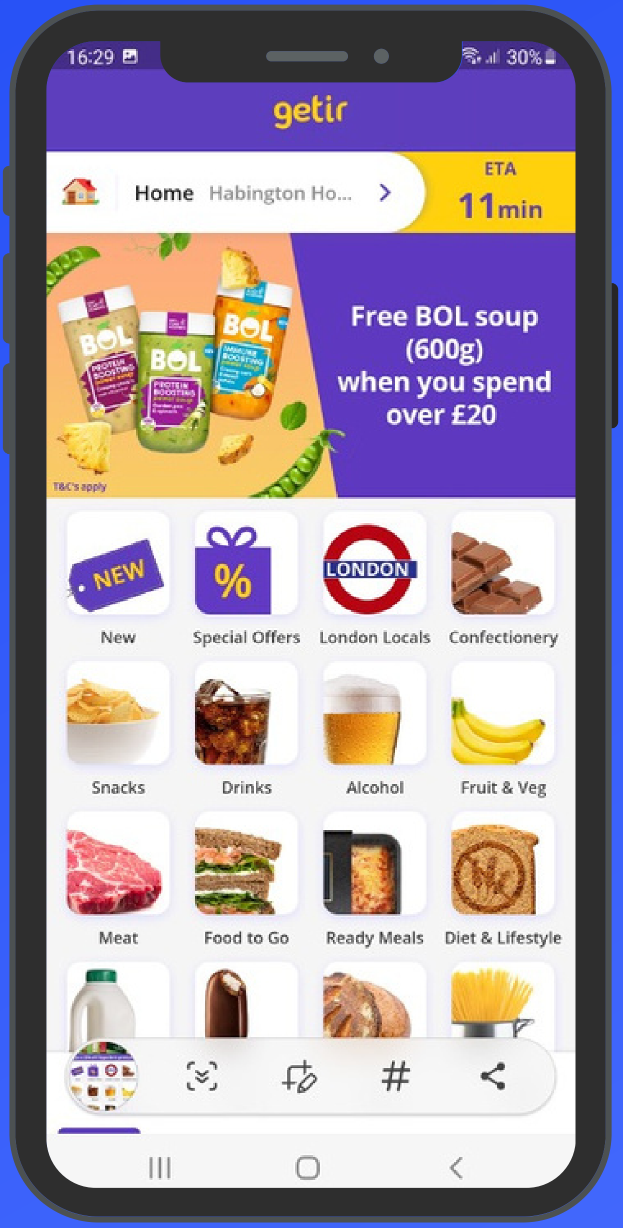
Occasion-based taxonomy and eretail media

The catchment area of each fulfillment centre is taken into consideration, with assortments aligned with local tastes.

The inventory tech and data collection methods these companies employ help them to continually fine tune their assortment according to which products have success, what time of day it is, any special events that may be occurring (sporting events, etc.) and even the impact the weather has on shopper choices. Qcomm assortment is highly rotational. Their search taxonomy changes to reflect a range of factors and often features bundling such as offering snacks with drinks for watching a match.







Narrow assortments

A typical quick commerce player offers 2000 products, whereas an omnichannel retailer can offer 50 000.

Smaller pack sizes are also a feature of qcomm, as larger formats are more given to ecommerce and ‘the big shop’. The limited range of products qcomm shoppers look for combined with the limited size of their local fulfillment centres means assortments are continually curated and condensed.

INDEX OF NUMBER OF SKUS

WEEK 49 2021 - WEEK 3 2022, CHEESE CATEGORY

Source: Data Impact by NielsenIQ

Availability

Availability is crucial for this channel.

It could be argued that availability is crucial in ecommerce too, however there are additional pressures on this KPI in qcomm. First, this is a fledgling space, highly competitive, with new players jostling for market share. Losing a basket to a competitor due to a stockout can have significant consequences for a startup trying to establish itself in this sector. Second, rapid delivery shoppers are impatient and often not yet repeat customers, so these companies desperately need a seamless (trial) customer experience that doesn't involve stockouts.

Avoiding OOS with AI

Due to the importance of availability for this sector, qcomm players use cutting edge AI-enabled real-time inventory management tech to avoid high OOS rates. There are even reports of Gopuff replenishing its stock through Instacart to avoid stockouts. Manufacturers who partner with qcomm players need to keep a very close eye on stock levels to make the most of their investment.

Dark stores: strategy and optimisation

The hyper local dark stores or cloud stores provisioning these companies are micro fulfillment centres organized for ultra-rapid picking and delivery. AI-enabled real-time inventory management optimises the picker's movements in a linear fashion to avoid any wasted movements and lost time. A typical order is prepared in under three minutes so that delivery time can occur within 10, 15 or 30 minutes. Quick commerce companies can have as many as 50 tiny fulfillment hubs in one city. They are chosen for their strategic locations and low real estate cost.

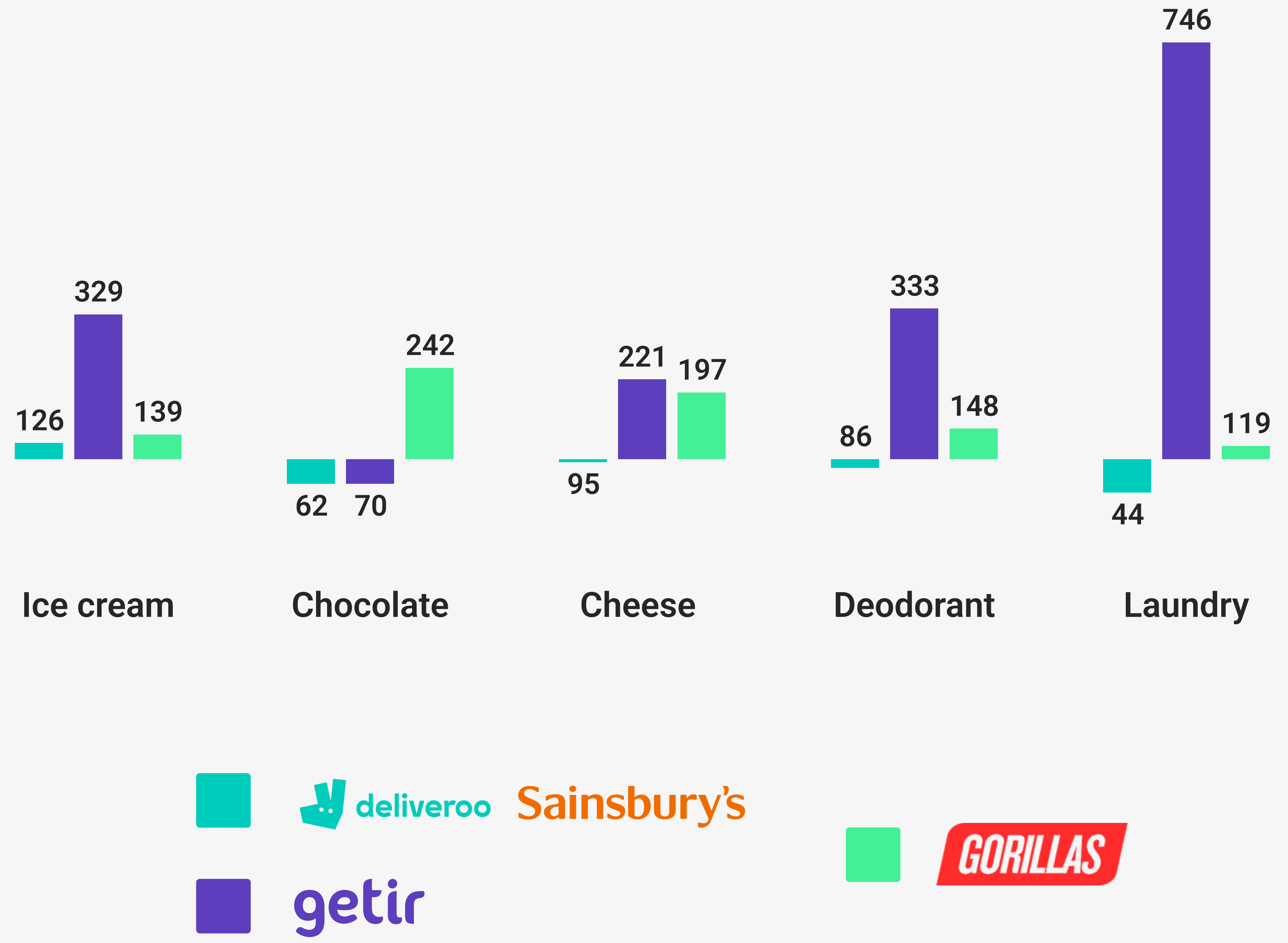
Qcomm is more prone to stockouts than other channels

As with omnichannel shopping, discoverability is key.

A top search ranking remains critical and since mobile use is high for this demographic, pack visuals should be optimised for instant recognition.

INDEX OF OUT OF STOCK LEVELS VS. TOTAL MARKET

WEEKS 1 - 4, 2022



Source: Data Impact by NielsenIQ

The qcomm customer

The typical shopper for this channel is young, urban and affluent.

They are not dissuaded by the higher price points of quick commerce.

Sometimes called the ‘now consumer’, the anytime, impromptu nature of instant delivery appeals to them.

Largely Millennials and Gen Zs, they tend to live in small or single-person dwellings in city centres.

The sustainability of two-wheeled transport is a selling point for this demographic.

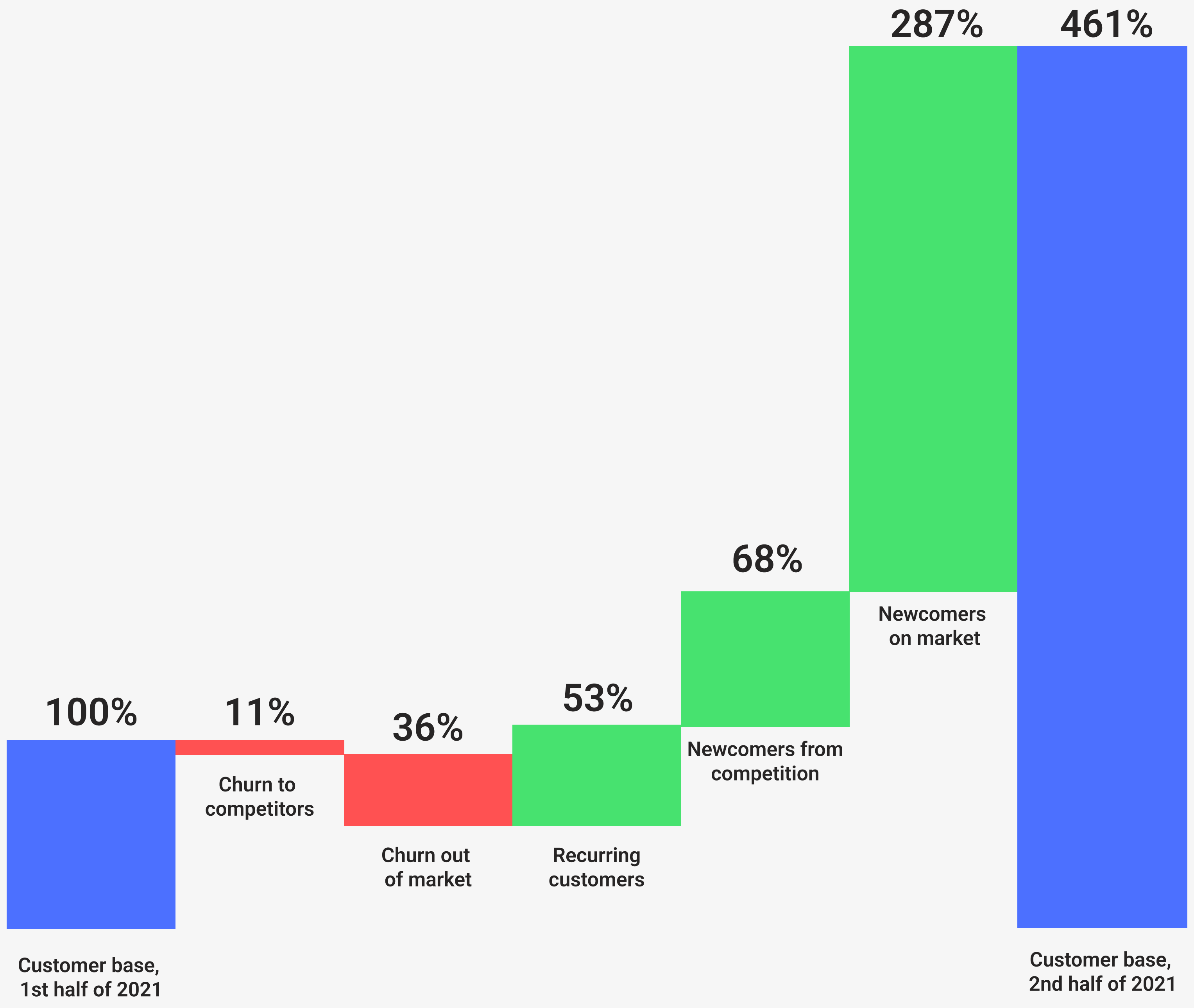
The availability of late-night delivery is attractive since it’s a time people ofter prefer to stay home.

The qcomm customer

This example showcases the challenges and successes Gorillas has had with customer acquisition and retention.

Capturing new adherents while maintaining a loyal customer base is a priority in this sector. The core value proposition of speedy delivery needs to be maintained to retain shoppers. An enjoyable customer experience that includes a minimum of stockouts, replacements, errors and product damage is also important. Value-added features like bundling and promotions are quite common too.

PERCENTAGE OF GORILLAS SHOPPERS, FIRST HALF VS SECOND HALF OF 2021



Source: Foxintelligence by NielsenIQ. Excludes Getir. Unweighted example.

Quick commerce and profitability

£17 order

results in a

£24 loss

Presently, quick commerce companies have a 'growth at all costs' mentality and they are losing money in their quest for survival. With the hope of future profits, they are relying on investment capital to secure their shopper network.

"The road to profitability is likely to be a long one, with operators either selling up to larger grocery players or being one of a handful of larger operators that survive the inevitable consolidation."

Startups

Quick commerce and profitability

Daily orders currently average 300-600

	LAUNCH			GROWTH			BREAKEVEN			FULL POTENTIAL		
Daily orders per dark store	300			600			1000			1500		
Average order value	€20	€30	€40	€20	€30	€40	€20	€30	€40	€20	€30	€40
Estimated range for earnings before interest and taxes margin at typical European dark stores	-75% to -140%	-45 to -90	-25 to -60	-35 to -50	-15 to -25	-6 to -15	-10 to -20	-1 to -2	5 to 10	0 to -1	10 to 15	15 to 20
Contribution margin	-37%	-14%	-2%	-14%	1	9	2	12	17	16	23	27

Source: Bain

Quick commerce and profitability

The path to profit

Increased order values

"European quick commerce players will be looking at breakeven (at an earnings before interest and taxes level) if they can lift average order values to €30 (from about €20 today) and increase order volumes per dark store from 300–800 per day to more than 1,000."
-Bain

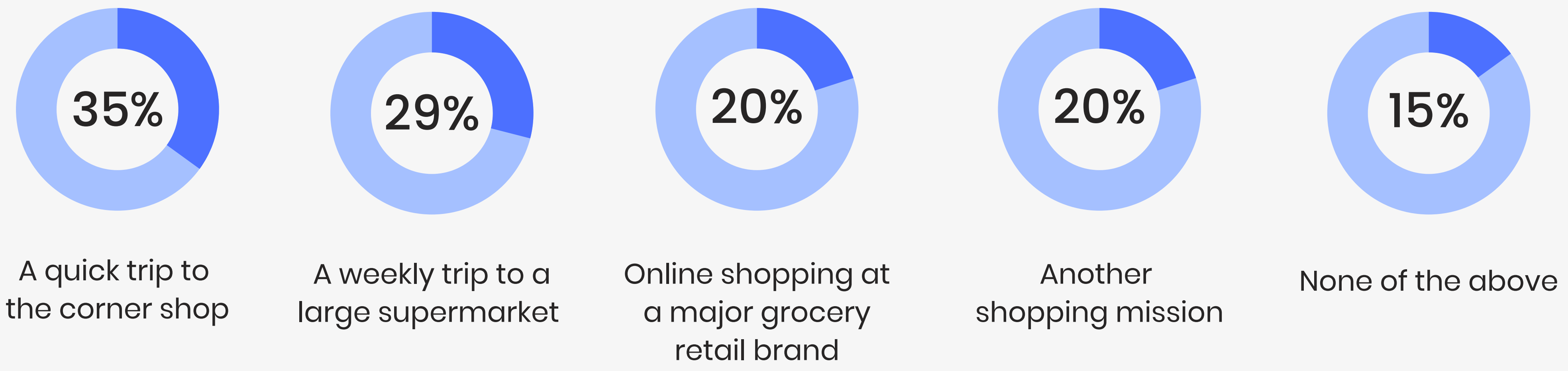
Cost-saving tech

In addition to higher order values, other possible sources of increased revenue are automation, the premiumisation of assortment, capitalising on the value of customer data-gathering for advertisers, and increasing the delivery cost. Delivery fees vary from £0 - £2.99 depending on location and basket size.

With an appeal for approximately one third of UK shoppers, quick commerce represents a lucrative opportunity for CPGs. A portion of omnichannel shopping activity will migrate to this channel. According to an InMobi consumer survey,

9% **of UK shoppers have used an instant delivery service.**

Percentage of consumers who see their use of instant delivery grocery apps replacing:



"The £2 delivery fee charged by most quick-commerce players in the UK is small in absolute terms, but relative to the basket price it's high:

≈10% **of the average order value**

Source: Bain

A note to CPGs

For CPGs to perform well in qcomm, ecommerce best practice methods apply, so performing well in search and availability are paramount. Also, given how common new customers are right now, getting into baskets early is important to secure a coveted 'favourite' spot in shopper's lists.

There are three key things for manufacturers to remember when working with qcomm partners:

Add value to the range

Demonstrate how your products increase basket size

Work with your buyers and supply chain

Minimize out of stock issues

Ensure visibility of your products

in taxonomy and through emedia

The future of qcomm

This industry is in flux and the battle for market share is intense. It is probable that the narrow assortment range of qcomm will expand to other categories as more consumers are attracted to the convenience of instant delivery.

Partnerships are multiplying

For instance, Morrisons announced a partnership with Deliveroo Hop in 2021. In this partnership, Morrisons acted as the role of wholesaler and Deliveroo acted as retailer by setting customer pricing in its own dark stores. Then, in March of 2022, Morrisons and Gopuff announced a partnership in which upwards of 35 Gopuff dark stores will carry Morrisons brands. As partnerships increase, it remains to be determined how many dark stores a single catchment area will be able to sustain.

AI and qcomm

"Technology is in the process of disrupting several parts of the online value chain, from user experience to order preparation to the last mile."
Automation in the form of inventory management, robotic stock picking, AI-powered data analysis and unmanned delivery will also play a role in the development of this sector.

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