DARE TO DISRUPT - THE RISE OF GROCERY STARTUPS IN PAKISTAN

Prepared by i2i's Insights Lab & Released November 18, 2020

About Invest2Innovate (i2i) Newsletter

Invest2Innovate's Insights arm releases a bimonthly, in-depth & data-driven newsletter that provides a deeper look into specific business sectors and emerging issues in the Pakistan startup ecosystem. Our newsletter helps predict trends, mitigate risk, and better navigate Pakistan's entrepreneurship ecosystem by delivering cutting edge research right to your inbox.

Our September 2020 issue - first in the two-part series - delved into the B2B online grocery sector to map out the key players, their role in the ecosystem, key investors, major deals, and more. Our November 2020 issue focuses on the B2C online grocery industry, it's nuances, and how the space has evolved over the past decade. In this document we have combined both issues of our newsletter into one to collate the learnings for our readers.

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Part I: The B2B Grocery Segment

The momentum in the grocery e-commerce segment in Pakistan as a whole has been underway for roughly 5 years (with players such as MandiExpress, Sabzi.pk, QnE, etc. operating since 2015), but the COVID-19 pandemic and subsequent lockdowns helped startups see quick and significant growth. (Read MIT Technology Review's 2016 piece here) The food and grocery retail market in Pakistan made $59.3 billion in total revenue in 2018 which constituted a compound annual growth rate (CAGR) of about **8.4% from 2014 to 2018**.

Although we have not seen any updated reports on how these numbers have changed in 2019/20, the market has experienced a surge in use of not only B2C but also B2B online grocery services. In Pakistan, where grocery retailers typically rely on curbside deliveries made by distributors every few days for procuring inventory - this presents traditional retailers and kiryana store (small mom and pop style corner grocery shop) owners **with a number of challenges** (*discussed later in this issue*).

These challenges also translate to an enormous market opportunity, and our Insights team sought to break down this complex landscape in Pakistan. For the purpose of this newsletter, we **focused just on analyzing startups operating in the B2B grocery segment**, and particularly those servicing this large landscape of **kiryana stores**. According to investment data extracted from i2i's Deal Flow Tracker, a total of **$4.3 million** was raised by **5 B2B grocery startups in 2020 alone**. This means **17% of the total investment amount raised already this year** (5/26 deals) is accounted for by online B2B grocery startups, which included Tajir (2 deals), Bazaar, MandiExpress, and Dastgyr. With no female founded/cofounded startups in the sector, the space remains largely male dominated unlike other sectors such as EdTech and HealthTech. ***For details refer to Figure 1.***

Note: The operational definitions of the categories used in the *Figure 1* can be seen here: https://www.euromonitor.com/modern-grocery-retailers-in-pakistan/report

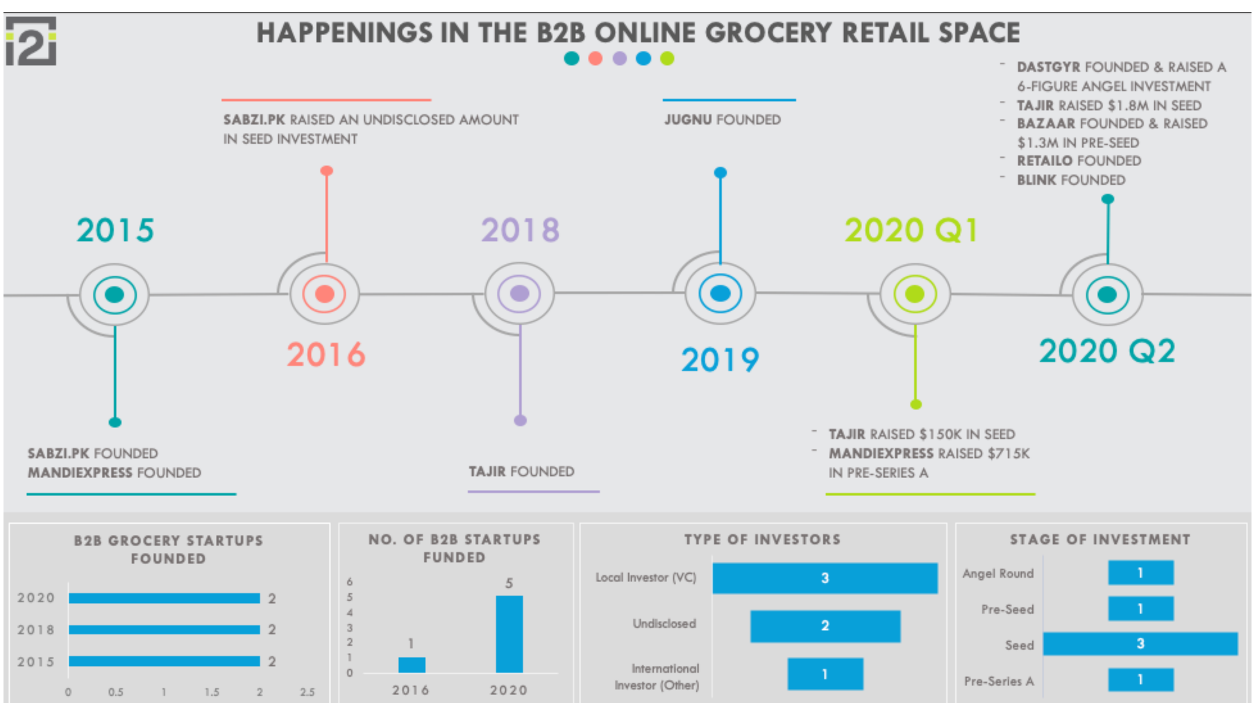
For this newsletter issue, our team interviewed some key investors and startup founders in the space including Faisal Aftab (Lakson Investment Venture Capital), Meenah Tariq (Karavan), Ali Mukhtar (Fatima Ventures), Saad Jangda (Bazaar), Yasir Memon (Jugnu), Sair Ali (Blink by Eat Mubarak), Muhammad Owais Qureshi (Dastgyr), and Furquan Kidwai (Dawaai).

Key Players and their Offerings – Industry Mapping

In understanding this segment, it's first important to understand the key players in the value chain, which are the manufacturer, distributor, wholesaler, and the retailer. Understanding their role in the traditional retail supply chain vis-a-vis how it would translate into a digital system is crucial to assessing the existing startups' offerings. The top tier of this supply chain is occupied by *manufacturers* (such as P&G and Nestle), which in turn supply to *major retailers* and *distributors*. The amount of capital available to large retailers - often comprising of big department stores such as Metro, Imtiaz, Carrefour, etc. - typically means they have a direct relationship with the manufacturers (and also have the capacity to make bulk orders).

However, these big grocery retailers make up only a fraction of the grocery retail industry. On the other hand, the traditional mom and pop shops have an approximate annual turnover of $3 billion, while domestic convenience stores have $200 million, and the more modern supermarkets came in at $176 million in 2012 (*Note*: Given that this data is 8 years old, we can assume the numbers are higher now). The *distributor* - with its own fleet, delivery staff, and inventory - therefore becomes important in getting goods from the manufacturer to the (a)- *retailers* and (b)- *small wholesalers*. *Kiryana* stores fall at the very bottom of this value chain, and end up either procuring inventory from small wholesalers or directly from big retailers, which means they often run out of stock and can lose business while restocking.

It's a highly fragmented and inefficient system for the general retail industry that's reportedly worth $125 billion annually but specifically for the grocery sector worth $48 billion as of 2020. Out of the estimated one million shops in the country, at least 95% are kiryana stores and they account for 70% of all grocery purchases in the country, which makes this an enormous opportunity to capture where there is a lot of space for innovation. For example, MandiExpress (similar to FreshDirect) that has been operational since 2015 has both a B2B and a B2C aspect. Under the B2C model, consumers are able to directly purchase vegetables, fruits, meats, seafood, and organic and gourmet foods. Aside from the B2C model, MandiExpress also caters to prominent restaurants and organizations, other ecommerce platforms (such as Daraz), and trading in the wholesale market. Early this year, the founder Jehanzeb Chaudhri told Tribune that their recent $715,000 investment will be used to fulfil the immense demand coming from e-commerce partners like dFresh (by Daraz.pk). Sabzi.pk, founded in 2015, also offers delivery of fruits and vegetables with both a B2B and a B2C model. In 2016, after receiving an undisclosed seed stage investment, they had started delivery services to hotels and restaurants in Lahore.



Most notably, players like Tajir, Bazaar, RetailO, Jugnu, and Dastgyr are all servicing kiryana stores, and are providing somewhat similar offerings under the **broader online inventory procurement segment**. Yasir Memon, co-founder of Jugnu (and SalesFlo, a B2B Sales Fulfilment platform), shared with our Insights team that ever since the company was founded in 2019, it has successfully onboarded **12,000 retailers** so far. As they have bootstrapped their way through the market, he emphasized that they do not see capital as a bottleneck in the B2B space, at least not so much as the actual change management that includes rendering the processes and systems. "There is little flirting and more long term relationships in the B2B space", he put it, which is why they are currently focusing on building a solid foundation with their product. Similarly, companies such as Tajir and Bazaar are bringing transparency to the retailer by providing price comparisons through their mobile apps, a feature retailers find empowering. By taking out the middlemen, i.e. the distributors, these B2B startups provide significant value to the typically overburdened retailers and kiryana store owners.

Saad Jangda, co-founder of Bazaar, shared in an interview with our team that they firmly believe that understanding their customer allows them to objectively gauge and design for their needs, which is how Bazaar began its journey in 2020. Both Tajir ($1.8M) and Bazaar ($1.3M) raised significant amounts in investment this year with the former operating in Lahore whereas Bazaar is currently focused on Karachi. Another similar new entrant in the market is Dastgyr that only 3 months into being founded in 2020, raised an undisclosed amount in angel investment. Dastgyr is a mobile-based platform that makes it easy for the grocery store owners to procure inventory. It uses a marketplace model offering next day delivery to stores in Karachi & Lahore. The deliveries are managed by Dastgyr, and use their own fleet, but the company doesn't store any inventory.

Finally, another very interesting new entrant in the space is Blink (by Eat Mubarak), which was founded in 2020 and operates on a **B2B2C model**, which is unique because it provides an **online ordering solution** to restaurants and hotels as opposed to most other players who focus mainly on inventory procurement. In a conversation with Sair Ali (founder at Blink & cofounder Eat Mubarak), he discussed how building a viable and user-friendly grocery delivery and/or procurement system is not just a website with some products on it. It is a much more sophisticated and layered task that is often underestimated and undervalued in Pakistan compared to other markets. Blink's direct competitors (i.e. software houses, independent developers, etc.), he noted, typically fail to understand that this is an end to end experience where the front end is as important as the operational efficiency of the online tool. In relation to this, Ali called his solution *'quick commerce'* as opposed to simply e-commerce. It factors in the delivery time optimization through areas mapping and more; and all of this combined brings immense value to the table for traditional players in need of online solutions.

Challenges Faced by the Industry & Benefits

Tax Evasion & Changing Kiryana Store Demographics

As kiryana stores are going online with the help of these B2B grocery startups, they are leaving a digital trail behind that can be used to track their financial transactions and add them to the tax net. Projections by some experts in the industry suggest that as these kiryana store owners and other retailers become increasingly tech savvy and a variety of digital payment modes are introduced, a complete end-to-end digitization will occur and ultimately transform the space. According to a survey conducted by Jugnu, a number of these kiryana stores are being taken over by a younger demographic, with a substantial number owning WiFi devices and shopkeepers accessing social media apps such as TikTok that have effectively replaced television as a source of entertainment. This changing demographic of owners is open to the idea of entering the tax net with the major incentive being the ease of doing business through the B2B grocery startups.

Challenging the Middlemen?

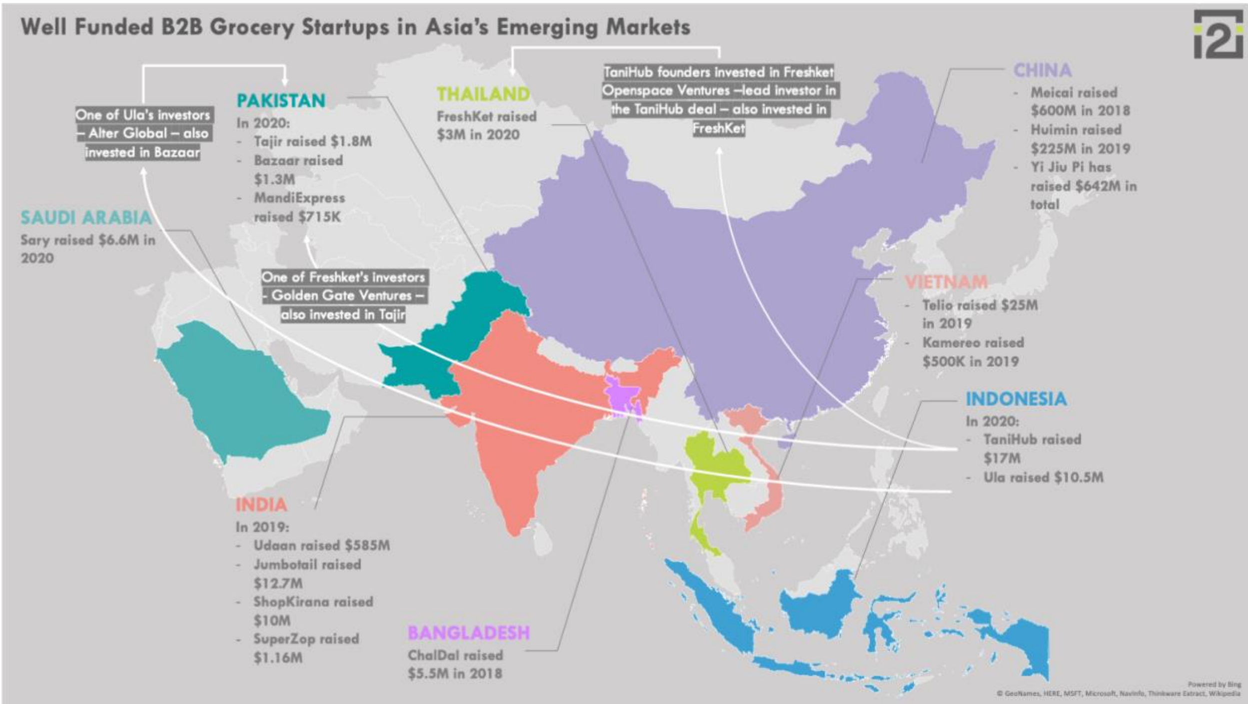
B2B grocery startups are looking to disrupt the supply chain with the likes of Tajir and Bazaar working to reduce the small retailers' and kiryana stores' dependence on the middleman and players like MandiExpress incentivizing *aartis* (middle-man) with greater access to markets that are often outside of their reach. In ecosystems such as Pakistan it is hard to sidestep players like the aartis who, with their immense influence, can constrict the supply chain suffocating such startups. Faisal Aftab (Managing Partner at LIVC) noted that startups can't enter the market "guns blazing or seek to be a disruptor from the get go," they have to work within the system.

Can these Startups Truly Disrupt Kiryana Stores?

On average, a kiryana store owner buys stock that will last them a few days from the distributor's representative who visits once a week. Once this stock runs out, the owner can either wait until the distributor visits next or they can visit the wholesale market. There are pros and cons with both approaches. The former means the owner risks losing out on potential customers due to the lack of stock and the latter means there is a cost of transportation and time involved - which can cut into their margins. The B2B startups that are addressing this gap are game changers for the sector, especially for these kiryana store owners. Ali Mukhtar (Fatima Ventures) noted, “The shopkeepers were surprised to see us deliver under a 24-hour agreement even when it was raining.”

Furqan Kidwai (Dawaai) believes that in developed markets, stores like Walmart are large enough to speak to manufacturers. Such markets often have manufacturers directly selling to wholesalers and retailers using online platforms. In the case of Pakistan, India and Bangladesh, the market is over 90% fragmented and the need for the wholesaler arises; those already working on a razor thin profit margin only care about turning over the stock. The B2B model disrupts the retail supply chain by eliminating the middlemen and allowing retailers and kiryana store owners to procure inventory online whenever their stock is depleted, have it replenished from the comfort of their stores without wasting time and money, in exchange for a fee charged by the B2B startups.

As we zoom out, we have seen this sector thrive in other emerging markets. In Egypt, MaxAB, a B2B marketplace that connects informal food & grocery retailers to suppliers raised **$6.2 M** in seed funding led by BECO Capital (the largest ever seed round by a startup in MENA), while an Indian startup Udaan has raised $585 M (Series D) with a reported valuation between $2.3 B and $2.7 B as of October 2019. These companies are well-funded, and their examples present an interesting case study for the potential journey of the sector in Pakistan. As we see more startups raise funding, we shall see what players are able to truly capture this large customer base and capitalize on this opportunity.



Part II: The B2C Online Grocery Segment

Over the last decade, E-commerce has been a fast-growing sector across Asia, including in Pakistan. This growth is the result of a number of factors: technological transformation, e-commerce infrastructure, logistical improvements, and socio-cultural demands, which has led to a spike in e-commerce activity and more specifically in online grocery shopping. Currently, with a turnover of US$1,056.8 billion, Asia is one of strongest B2C e-commerce regions in the world.. Additionally, the increasing number of middle-income households and increasing average monthly consumption per household on major food items means the market opportunity for the online B2C grocery segment is large and growing. In fact, an average household in Pakistan spent 36% of their income on food and nonalcoholic beverages in 2018-19, a slight decrease from 2015-16 (37%). As of January 2020, 35% internet penetration in Pakistan, as well as the onslaught of the pandemic this year means that there has been an increased reliance on online shopping as a whole.

Pakistan has a predominantly young population with 65% below the age of 24 years, who due to being time-pressed have responded positively to the online retail format offered by modern online grocery retailers. Therefore, a retail market worth $125 billion a year, out of which $48 billion attributed to groceries alone presents the startup ecosystem with an abundance of opportunities. In this month's issue, we will delve into the nuances of the online B2C grocery retail sector, the key players, infrastructure and more. You can also read Part I of our briefing from last month, which covered the online B2B grocery space.

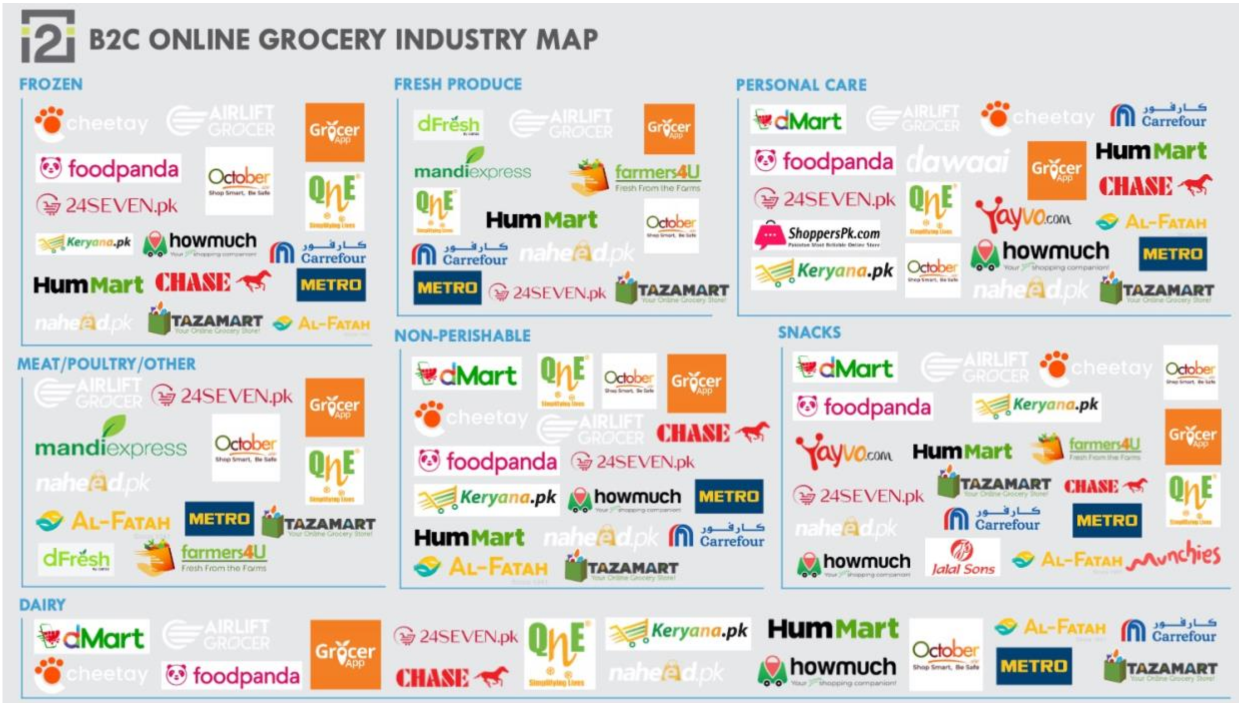
For this issue of our newsletter, our team interviewed some key investors and startup founders in the ecosystem and this sector including Faisal Aftab (Lakson Investment Venture Capital), Meenah Tariq (Karavan), Ali Zain (Metro Pakistan), Salman Allana (Rider), Ahmad Saeed (GrocerApp), Ahmed Khan (Cheetay), Shoaib Malik (Walled City), Muzzammil Ghafoor (Unilever), Adam Dawood (bSecure), and Saba Abid (Airlift).

Key Players in the B2C Online Grocery Industry

In the last decade, the B2C online grocery space in Pakistan has had an increasing number of players offering diverse business models and services. Both brick and mortar grocery stores have taken their services online and new grocery delivery startups have launched in recent years. This growth is indicative of a consumer base who seek convenience in their buying needs.

In March 2020, grocery startups in the MENA region saw an uptick in online orders. Similarly, online B2C grocery startups in Pakistan also spike in usage, with the likes of GrocerApp witnessing 100% growth in number of orders over only three days. Amidst COVID-19 lockdowns early this year, a prominent mobility startup, Airlift, ventured into grocery delivery in Pakistan, while more established company Uber, in partnership with Al-Fatah launched grocery delivery in Lahore. Careem that launched a broader delivery service in 2019 can also be used to deliver groceries to your doorstep. Similarly, companies in food delivery such as ***Foodpanda*** and ***Cheetay*** - with an existing fleet at their disposal - were also able to capitalize on this opportunity. While for some of these businesses the plan to move into the grocery space was in the making pre-COVID, for others this transition was a bit more in response to the pandemic.

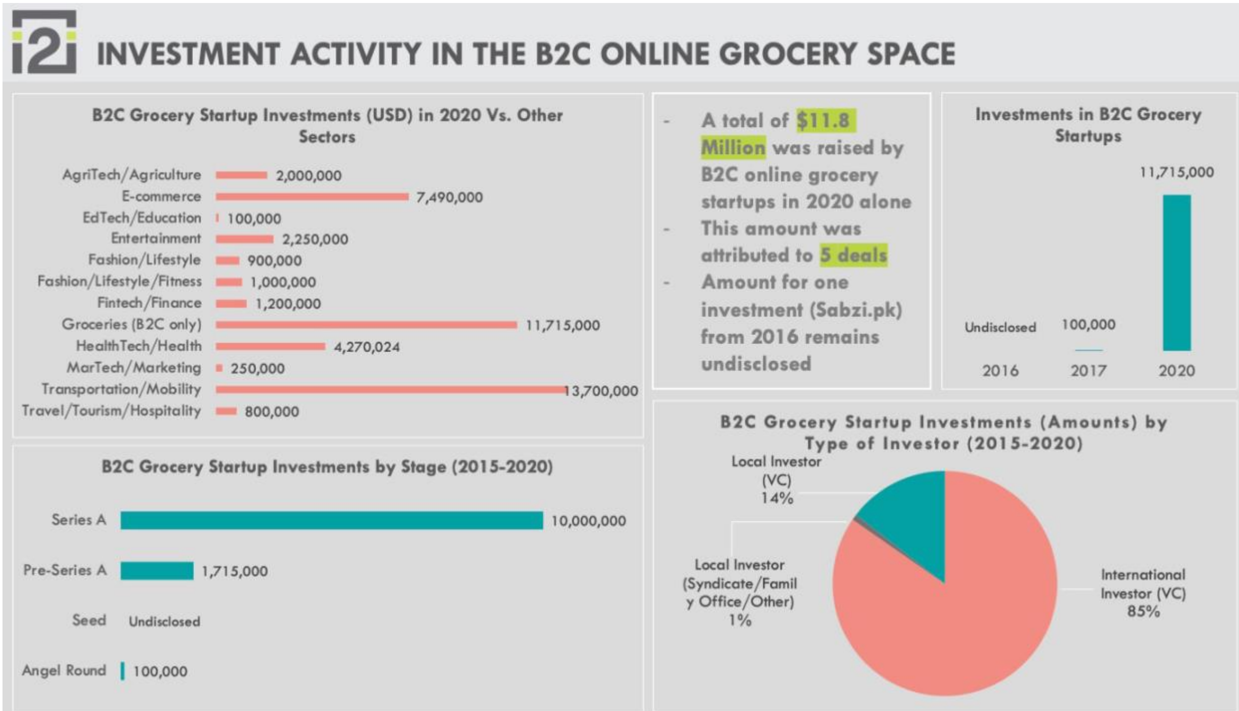
Most of these companies (excluding Airlift) use a dropshipping model, which means any B2C grocery company in question passes on their sales orders to a third party supplier, which supplies the products to the former. The order is then delivered by the B2C grocery company to the consumers' doorsteps. Dropshipping - while lowering barriers to entry by solving for stock control and warehousing - also ends up presenting small businesses with a new set of problems such as limited control over quality assurance, lower margins, and inventory syncing. ***Cheetay*** and ***Pandamart*** (by Foodpanda) both are more of aggregators, where they have collated a number of different online grocery stores that you can order from, as opposed to Daraz's dMart (that was launched in April 2020 along with dFresh) and ***Airlift*** (that raised $10M in July 2020 to scale its transit and grocery delivery operations) that have their own selection of products to choose from directly. Another common denominator among these four players is that they offer fairly short delivery times ranging from 30 minutes to 24 hours.



Startups like ***MandiExpress***, ***GrocerApp***, ***Yayvo***, ***Dawaai***, and ***24seven*** have years of experience under their belts. MandiExpress (similar to FreshDirect) has been operational since 2015 and has both a B2B and a B2C aspect. Under the B2C model, consumers are able to directly purchase vegetables, fruits, meats, seafood, and organic and gourmet foods. Early this year, the founder Jehanzeb Chaudhri told Tribune that their recent $725,000 investment will be used to fulfil the immense demand coming from e-commerce partners like dFresh (by Daraz.pk). ***GrocerApp*** (founded in 2016) that raised $1 million in September 2020 offers a wide range of grocery items from personal care products to fresh produce. The startup's constant focus on user experience and the quality of products delivered to those users has contributed to their growth over the past few years. Even prior to the pandemic (March 2019-March 2020), they experienced 30% month on month growth. In an interview with i2i Insights, Ahmed Saeed (Founder and CEO at GrocerApp) emphasized the significance of owning the supply chain in making his business sustainable and scalable, which is why they shifted to a fulfilment-based model - as opposed to a marketplace model in 2019. Similarly, TCS backed ***Yayvo*** has also been working in the online grocery industry since 2016 (although it was founded in 2012) but it only offers personal care products and snacks under its grocery category. ***24Seven*** (founded in 2013), with a wide assortment of grocery items from fresh produce to frozen items to personal care products, is operating in Lahore. *Dawaai*, which primarily focuses on medicines and other healthcare products, also offers delivery of personal care items. Other players that are fairly new to the industry include ***OctoberNow*** and ***Farmers4u***, with the former covering nearly all subcategories under groceries such as frozen items, fresh produce, meat/poultry, non-perishables, personal care and more. ***Farmers4u***, however, mostly focuses on fresh produce.

There are also e-commerce grocery delivery companies that have a solid backing from a parent company or a prominent partner. This list includes initiatives such as ***QnE, HumMart, Super Sauda, and Munchies.*** Founded in June 2015, QnE was conceived by Premier Agencies with 40 years of grocery distribution experience. ***HumMart*** is a subsidiary of Hum Network and it was founded and has been active in the online grocery space since April 2018. ***Super Sauda*** will be launched in the fourth quarter of 2020 and will include all Unilever products in its inventory and will essentially be focused on acquiring first-party data for the global consumer goods business. Another similar enterprise recently propped up by Unilever and VentureDive is called ***Munchies***, which instantly delivers snacks to customers (in Karachi for now). It works on a **hyperlocal model** that leverages retail stores in close proximity to the customer to quickly fulfil the order.

Lastly, there are the traditional multi-chain superstores who already have the customer base, the warehousing capabilities, their own logistics and have enough financial clout to enter the B2C online grocery industry. We see this with Naheed, Imtiaz, Metro, Carrefour, and Al-fatah who have entered the space - with the trust of their customers that startups often create from scratch - making them viable competition to the budding startups and vice versa. In an interview with i2i Insights, Ali Zain Sheikh (Head of E-commerce & Digital at METRO Pakistan), pointed out how Metro recently started Open Box delivery with their fresh produce and other perishable items so that customers can check the quality and return anything they like, which was a strategy they were only able to implement due to owning their logistics. The mantra used by many in this space is OTIF (on time, in full): 'the extent to which shipments are delivered to their destination according to both the quantity and schedule specified on the order'. OTIF is directly related to a seamless supply chain, which is something most players have recognized and are acting on.



Challenges

We spoke to founders and investors to understand some of the key challenges faced by the B2C online grocery sector. Some of the key challenges are summarized below.

Customer Satisfaction & Data Analytics

Our research shows that **customer satisfaction** continues to be a major challenge for B2C online grocery businesses. While players in more developed ecosystems are using cutting-edge research and data practices to decode customer satisfaction vis-a-vis demographic factors, psychographic variables and customer journey, only a handful of stakeholders have properly adopted these practices in Pakistan. Customer satisfaction is therefore harder to crack. In a number of interviews with investors and founders, one of the common takeaways was that the e-commerce industry in Pakistan does not seem to care much for customer feedback and end up focusing more on profit. There are countless examples of customer complaints that have gone unresolved for months on end and were only resolved after the complaints gained traction on social media (Read *online Grocery Shopping and Consumer Perception: A Case of Karachi Market in Pakistan* here).

Founders shared (in interviews with our team) that when ordering groceries online three things are of utmost significance: a) The order being ***complete***, b) The ***quality*** of the product(s), and c) Order being delivered in the ***time frame*** mentioned on the order. So, the customer most often would not care who you are and who your delivery partner is so long as the above three aspects are working seamlessly. This type of customer satisfaction can hardly be achieved without the use of data to understand every aspect of the business from optimizing delivery routes to mapping the customer journey. Grofers, an Indian B2C startup increased its daily orders from 10,000 to 70,000 with the usage of data analytics. They mapped out multiple metrics ranging from how many times a week people ordered groceries to the time of the day they placed an order.

Digitization of Inventory

The digitization of the inventory is one of the least talked about challenges but is also one of the most vital, because it can make or break a business. Adam Dawood (Founder, bSecure) told our team that sometimes customers order a product (that is in stock) using the website only to later discover it's not available because the distributor at the backend was out of stock. Issues like these are widespread and are faced by any and all startups that have outsourced their procurement. This can be resolved by synching inventories among distributors/suppliers and other stakeholders through digitization.

Shorter Delivery Times & Resulting Variables

Recently, many players have offered shorter delivery times and while that is a great offering for customers who need their groceries instantly, it relies heavily on a couple of factors to work seamlessly. These factors include: a) efficient and product-tailored packaging system b) warehousing capabilities to host the packaging process c) cost of delivery that's impacted by basket sizes, i.e. smaller basket + faster delivery = higher cost, and d) delivery route optimization. All of these factors when managed effectively lie at the heart of crafting good customer experience and nurturing desired outcomes.

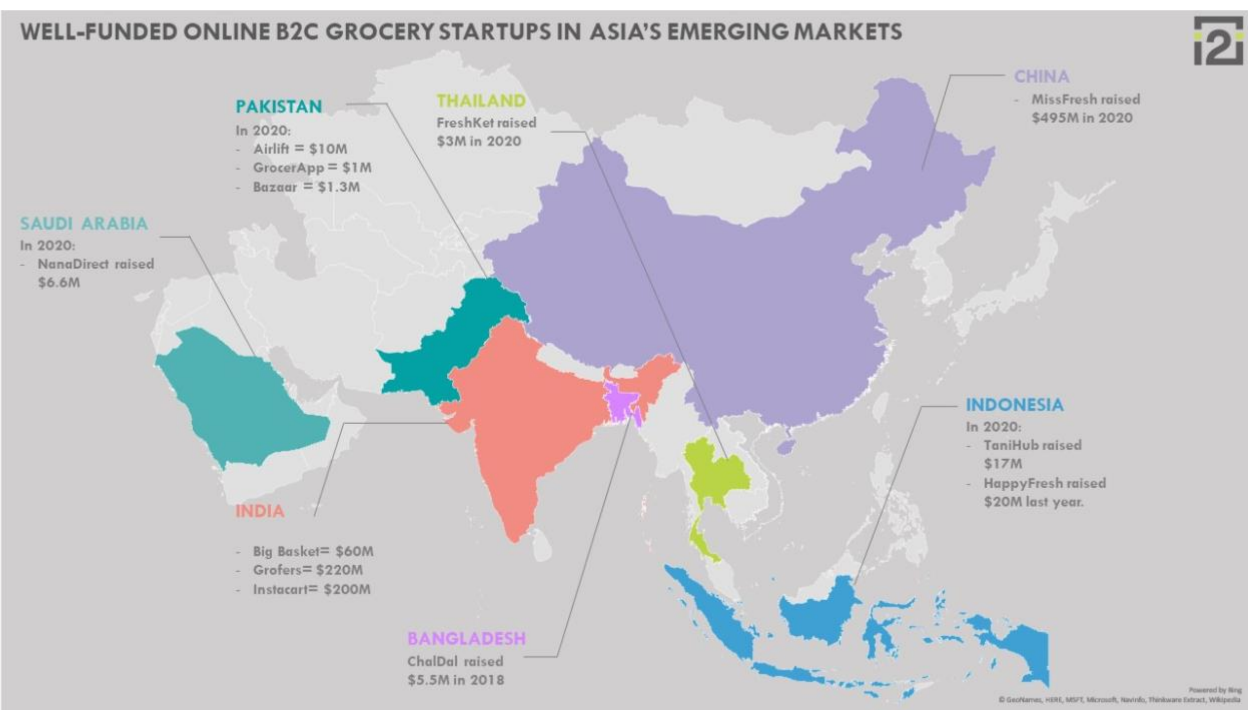
Cost of Cash on Delivery

B2C online grocery companies need to have ample cash at hand on a given day to keep their operations running, which often depends on the payment modes widely used by their consumers. Currently, the majority of the grocery startups are using Cash on

Delivery (CoD), with some of them accepting online payments through bank transfers and e-wallets. While Pakistan lags behind in the number of plastic cards issued, e-wallets can be a game changer in the market as they provide customers with a secure electronic payment method. It goes without saying that any e-commerce business that uses a mobile payments strategy that embraces omnichannel acceptance, provides merchants with tech-forward solutions to tap into a growing market and increases their presence in the digital marketplace. It also helps businesses cut back on the costs associated with CoD transactions. To read more on the cost of CoD click here.

Regional Examples: What's the play at the larger scale?

Much like Pakistan, in some comparable countries B2C online grocery startups had been laying out the groundwork for quite some time. Startups such as ***Trolley*** (Egypt), ***NanaDirect*** (Saudi Arabia), ***Fakahany*** (Egypt) are a few in the MENA region that have been operational in their respective countries for roughly 2 to 4 years and they only recently managed to raise funding as overall demand for e-commerce solutions increased with time. On top of this, due to the pandemic as the number of people working from home increased the existing infrastructure of e-tailers endured a great burden that was shared by B2C online grocery startups. This has played a huge role in highlighting the grocery sector as an essential service, leading to greater attention from investors in the region. For instance, Freshket (raised $3 million in 2020) - that was initially a B2B online grocery startup - ended up venturing into B2C amidst COVID-19 after losing 80% of their existing B2B business. Even then the investment amounts/ticket sizes raised by NanaDirect ($6.6 million), Trolley ($200,000), and Fakahany ($700,000) are far less than those raised by Pakistani B2C online grocery startups such as Airlift, GrocerApp, and MandiExpress.



In comparison, countries like India, China, and Indonesia have online grocery startups that have raised huge amounts in investments especially in comparison to Pakistan where the recent Series- A1 investment raised by Airlift is the highest with the startup delivering groceries in one city (Lahore). Currently, grocery startups/businesses in Pakistan with the greatest coverage in terms of cities are Cheetay (16 cities) and Pandamart (12 cities), which is a product of the ecosystem's nascency. In contrast, there are startups such as MissFresh ($495 million), Grofers ($200 million), TaniHub ($17 million), Instacart ($220 million), and Happyfresh ($20 million) who - with massive funding rounds - have scaled operations nationwide and in some cases across borders. MissFresh, for instance, aims to set up mini-warehouses in 16 cities with the recent investment raised that will ensure delivery in under 30 minutes. On the other hand, the volume of orders on BigBasket surged roughly five times back in April but the startup was struggling to find enough people to deliver items to customers as many workers had started moving back to their hometowns or were cautious about working during the pandemic. The issues of demand and supply will need to be tackled by the B2C grocery online businesses even in the post-COVID world as more and more people transition into online grocery solutions.

Post-Covid19 World & Conclusion

The B2C grocery space has seen a steady increase in the number of firms and the amount of investment coming in with COVID-19 accelerating the process. As Meenah Tariq (Karavan) told our team, these investments are the new benchmark for the ecosystem. The online grocery market is big enough to accommodate a lot more businesses, which indicates that there is something in the market for everyone.

As Sherlock would say, "The game is afoot"