



- Name: Instamart by Swiggy
- Offerings: Swiggy is a food-delivery app & Instamart is their quick-commerce wing selling products like grocery, personal care, pet & baby products etc.
- Established in: 2020
- Market share : 32%
- Revenue streams: Commission on products, advertisement income, member subscriptions.

Context




- Quick commerce industry has a gross merchandise value for USD 3 Bn in 2023 in India, as per JM Financial reports. A strong growth momentum is estimated over CY21-25
- It gained significance during covid and address customer pain points such as convenience, speed, wide assortment & value to customers.
- 70% of grocery purchases are impulsive buys.

Customers

- Majorly operates in Metro & Tier 1 cities.
- Appeals to middle-high income bracket.
- Appeals to working professionals, students majorly/

Actors

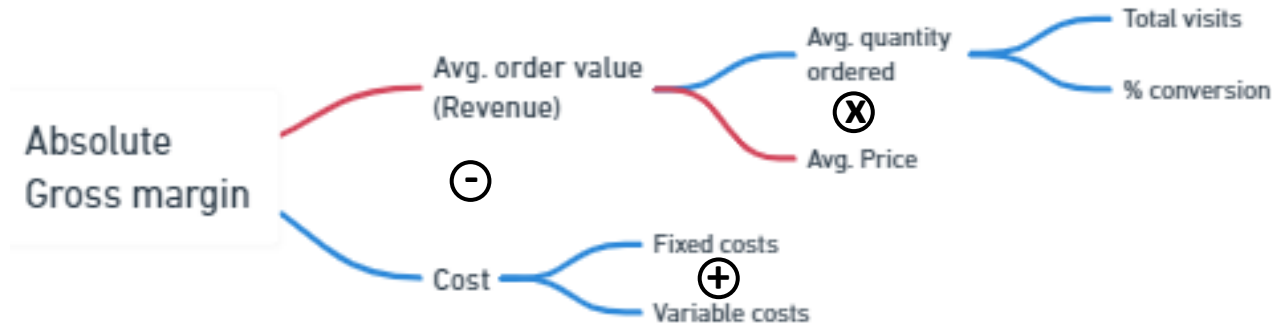
- Demand side: Customers
- Supply side: Sellers from where they get assortments, logistic partners, internal teams, dark store operators

Competitive analysis			
Cities present	21	28	11
No. of dark store	300	250+	200
AOV (2023)	635	450	450
AOV (2021)	528	375	275
Active users / month	23 Mn	9 Mn*	16 Mn
Orders / day	130-140K	180-200K	80-90L
<div>Constraints :<ul style="list-style-type: none"><li>• Expansion of more SKUs: Quick commerce (QC) companies have limited SKUs than scheduled delivery apps such as Amazon, Flipkart as QC companies store the products in their own dark stores, which results in space constraints.</li><li>• This causes issues to store items that take up a lot of space.</li></ul></div>			

*\*This figure is from 2021. Latest figure is not available from reliable sources. The data has been collected from industry reports & publications.*

**What is the problem:** Quick commerce companies have low AOV, which leads to low gross margin of ~15-18%. The objective of this study is to understand how we can increase it for better unit economics to bring gross margin to a sustainable ~22% in long term.

### ① Why focus on Average order value (AOV)?



- Higher AOV → High gross margin → High profitability
- As high AOV dilutes cost & reduces fixed cost contribution in gross margin.
- Customer acquisition costs > retention cost; AOV ↑ indicates +ve retention.

### ③ Why is AOV low?

- AOV comprises of price values of various low-priced, high-priced SKUs. On an average, a user order 6-7 SKUs per order.
- A typical order contains items from different categories such as grocery, dairy & eggs, indulgences like chocolates & soft drinks.
- Quick commerce. incl. Instamart positions itself as 10-minute online grocery store. Marketing messages are also aligned in this direction.
- However, product mix has expanded to categories such as electronics, beauty & personal care, pet & baby care etc, but the positioning is not completely aligned.
- **Although a wide range of high-priced products are available, sales are low as customer awareness is lacking. Also, order mix is skewed towards low-prices SKUs.**

### ② What factors affect AOV?

#### ① Time spent on browsing through app:

Browsing time ↑ → Product visibility ↑ → Chances of purchase ↑

#### ② Nature of purchase:

Impulse purchases → SKUs purchased ↑ → AOV ↑

#### Type of buyer:

- *Situation 1: Buyer has list of items to buy:*

List of items → Browsing time ↓ → Impulse purchases ↓

- *Situation 2: Buyer has no list, but category of interest:*

No specific list → Browsing time ↑ → Chances of impulse purchase ↑ → Possible increase in AOV ↑

#### ③ Purchase trigger:

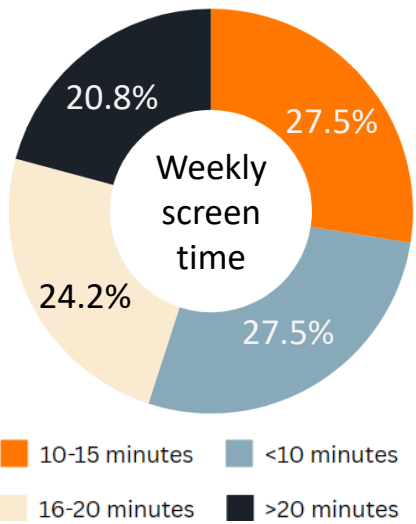
Urgent orders → Browsing time ↓ → Chances of impulse purchase ↓ → SKUs ordered ↓ (Purchase trigger is urgency & not variety here).

④ **Minimum cart value:** Can result in AOV ↑ if customers want to avoid delivery charges on below a minimum value of cart.

⑤ **Quantity:** More SKU ordered ↑ doesn't mean significant AOV ↑ as many low prices items are sold. Eg, Increased milk consumption will result in very less increase in AOV.

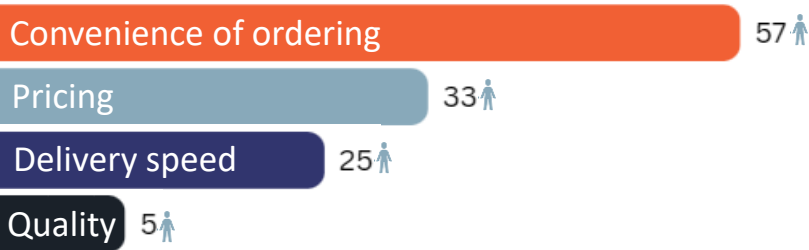
⑥ **Price:** Change in price has impact on AOV but this can cause a price war with competitors. Also, we must keep low margins in groceries to compete with local vendors, so increasing the price may cause customers to switch.

① Time spent on browsing through app:



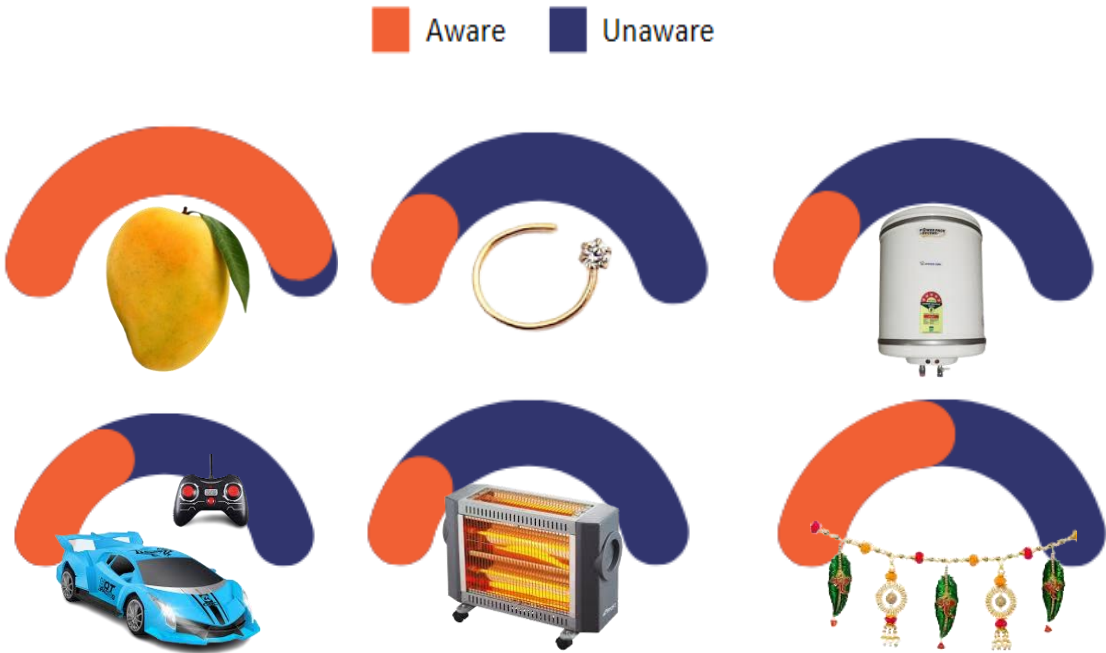
- Only 20.8% of the users had a weekly avg. screen time of more than 20 minutes, while majority of the users have a screen time of 10-15 minutes.
- Most of the time was spent in browsing through different categories said 73% of the users.
- This means most of our users do not plan their shopping, hence impulse buying can be triggered.
- Low avg. screen time → less chances of exploring the product range → less awareness

② Nature of purchase & purchase trigger



- 70% of users have unplanned purchases since they spend most of their time browsing. Most of these are impulse purchases.
- This goes well with the initial position of Instamart as a quick delivery app as 47.5% of users said their top criteria for unplanned purchase is convenience of ordering, followed by pricing & quality.
- 52% of users do not have a subscription to any QC apps. People with subscriptions are subject to additional discounts.

③ Consumer awareness of items from diff. categories



- Majority people were unaware of products from different categories like electronics, toys, beauty & personal care, home décor.
- 93.3% people have never shopped for electronics on quick commerce, 73.3% have never shopped for beauty care, 40% have never shopped for household essentials. While, majority people shopped for grocery items, indulgences like snacks, chocolates.
- Only 13.3% people had shopped for high-priced items like electric geysers, fans, heaters, toys, stationary items. Rest prefer Amazon, Flipkart as they find it better priced.

### Why are we solving?

- It is a USD 3 Bn market as of CY23 and could grow upto USD 40 Bn over the next 7 years, with a CAGR of ~45% as per Deloitte estimates.
- For business: Higher AOV → High gross margin → High profitability
- For users: It will change the way of shopping as users can not get any item in under 10-20 minutes. It increased the convenience for user & pushes their impulse to buy more.

### Who are we solving for?

- Siva Brahma | 28 | Technology consultant, Big 4
- JTBD: Has no experience to shop for groceries & has limited time, hence orders the groceries online
- Story: Siva has moved to a new city post college; he goes to office and only gets free time on weekend. He has hired a cook; he orders whatever ingredients she asks for cooking.
- Pain points: He has no experience in shopping for groceries and feels intimidated while bargaining with the shopkeeper, even though there is a grocery store in his society. He also does not understand how much stock to buy as her maid only cooks for one & what price is correct.
- Post-product usage: He does not have to feel the pressure to know the market prices for groceries as they are listed on the app & bargain is eliminated. He can place the order right then & there, when the cooks asks for something, as it takes <10 minutes for delivery at his home.

### Major insights

- AOV comprises of low-priced items & high-priced items. Currently the order mix has more low prices items. Instamart grew by advertising itself as a online grocery app & this is one of the possible reasons for high sales of grocery & indulgence items, which are low prices items.
- Low prices are usually perishable in nature, which could mean less time to make purchase decision. While, high priced products lasts long, which is why purchase decision takes time.
- When buying something expensive, people usually do some research, read reviews, they look for trust in the brand, price, quality along with a proper channel to address their queries & support in case of issues.
- Hence, the consumer behaviour is different while purchasing low prices & high-priced items.
- Scheduled delivery apps such as Amazon, Flipkart have not only changed consumer behaviour in terms of prices, but also in terms of trust. Features such as verified buyers, reviews & ratings.
- As the price increases, the tendency to buy impulsively decreases. (below is just an illustrative)
- **Hence, we can re-define the problem simply as – “How do I sell an electric geyser on Instamart?”**



**Customisation based on lifestyle:**

- Data will be collected from customers about their specific types of needs, lifestyle and providing suggestions from across categories in a list.
- For eg, if someone is trying to maintain a healthy lifestyle, a customised suggestion list would suggest all products that can be useful to the user from all different product categories. E.g. Siva’s gym essentials, Siva’s party list etc
- Customisation will also build likability of the platform and trust in the eyes of the consumer.

**Filter & rating system:**

- Build a 5-star rating system to review the product along with no. of users who bought the product, this will help build trust that others are buying from here too.
- ‘Filter’ option to let users optimise their search by filtering as per need.
- Giving similar options like the scheduled delivery apps, where users are used to buying high ticket items would trigger trust & likely sales.

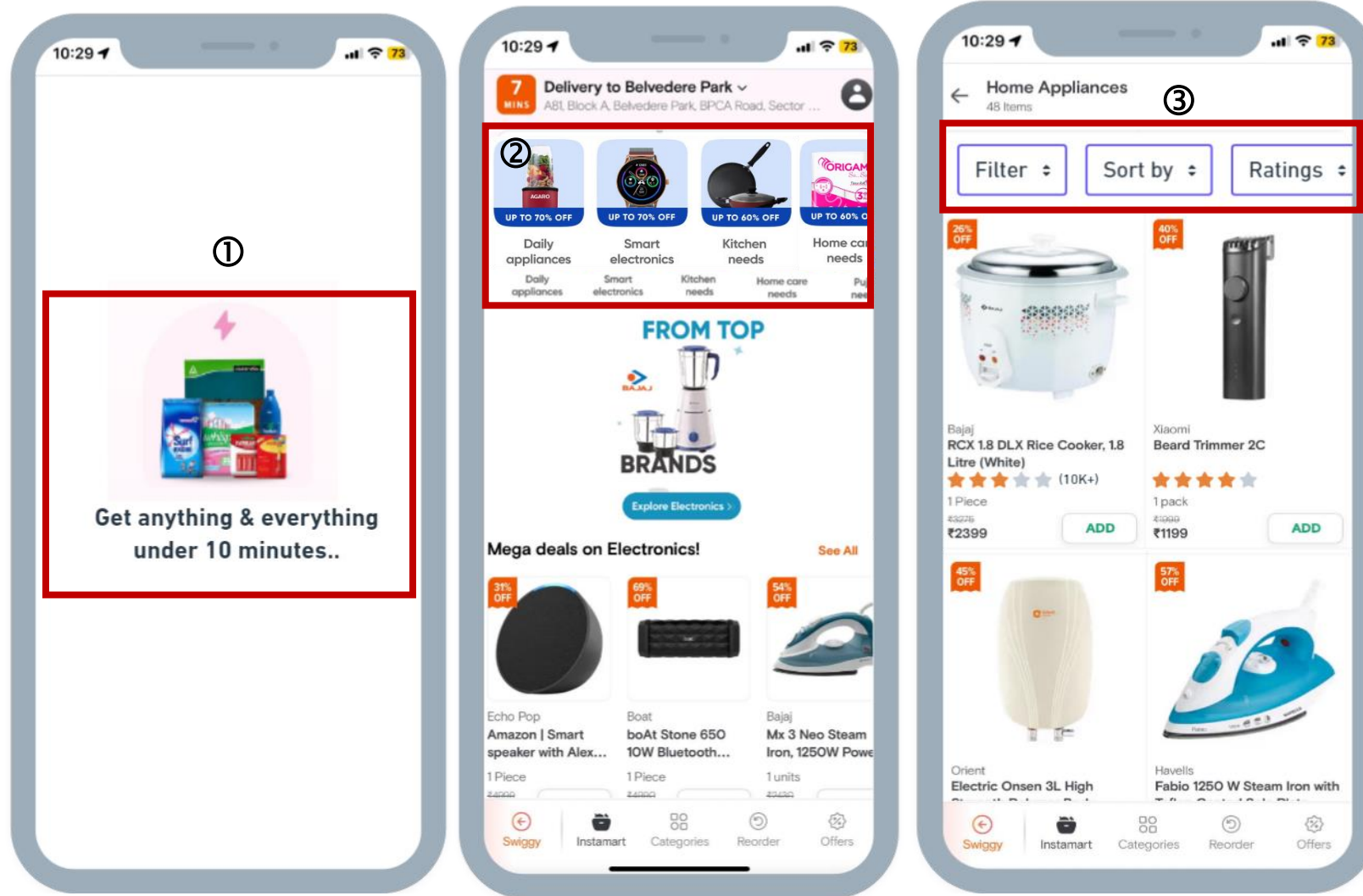
**Gamifying incentive:**

- As per the survey, users spend most of their time browsing through different categories & adding products to cart.
- When they are browsing, a tab at the screen will showcase how much amount worth products they need to add to avail certain discounts.
- This will trigger a sense of urgency / impulsiveness and cause them to add few items to avail discounts.

Solution / Parameter	Increase in visibility of different categories	Aligned with company’s vision	Causes change in consumer behaviour	Total	Remarks
Customisation	4/5	3/5	2/5	8/15	<ul style="list-style-type: none"><li>• It might increase visibility &amp; but not trust</li></ul>
Filter & rating	4/5	5/5	4/5	13/15	<ul style="list-style-type: none"><li>• It directly impacts the trust</li></ul>
Gamifying incentives	2/5	1/5	3/5	5/15	<ul style="list-style-type: none"><li>• It trains the customers to shop as per the reference price (min. qty to avail offer)</li></ul>



Along with the detailed visual representation of the solution below, we have also suggested some merchandising changes for the app to deviate from the position of a grocery app & move towards positioning itself as a one-stop destination for all needs, as the wide product range suggests.



① The user opens the "Swiggy" app & clicks on "Instamart" tab, post which this screen appears.

★ Instamart should showcase a wide range instead of just groceries, & change the text mentioned instead of "Groceries in minutes".

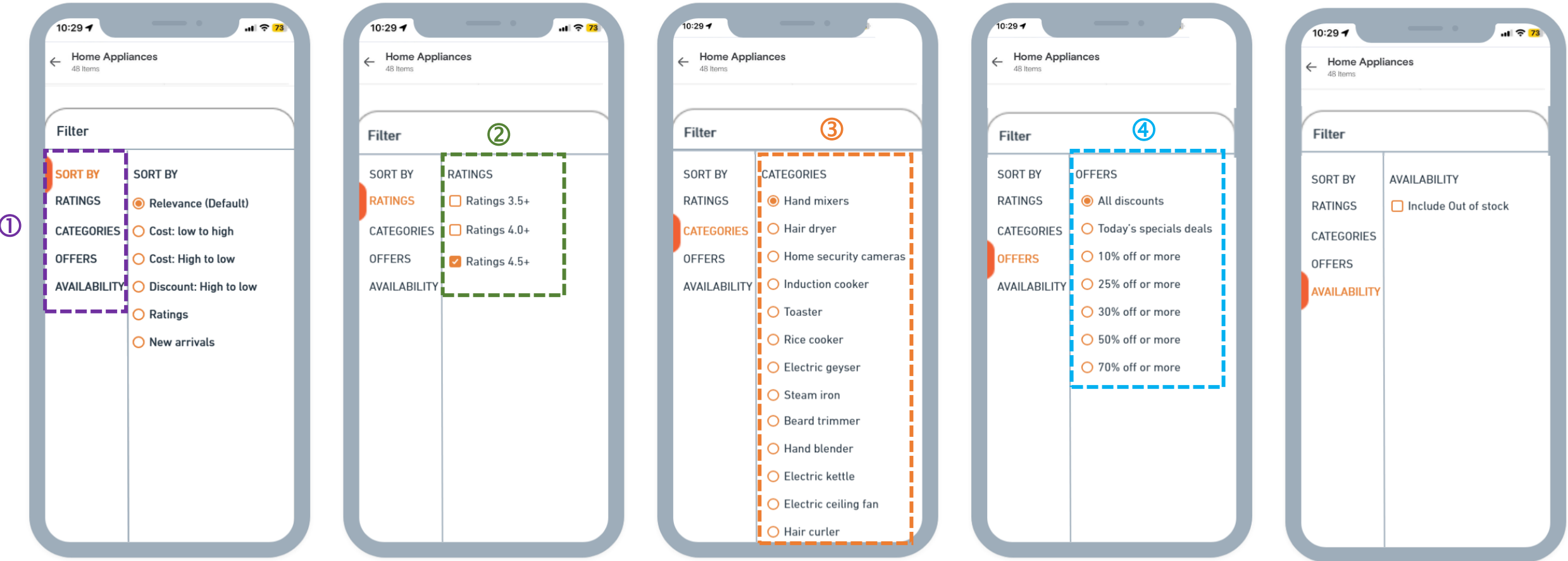
② User navigates through the categories.

★ Product categories should be showcased like depicted, below the search bar for increased visibility.

③ When the user clicks on a category from '②' scroll bar such as 'Home appliances', this window opens.

- The filter feature helps the customers optimise their search & tailor the results according to their preferences.
- Customers can input their ratings for product purchased & view the average rating of the product in this view. Along with the number of verified buyers who have rated this product.

★ Bringing in categories which have high-price items on top takes away customer's attention from just groceries and indulgence categories & pushes them to explore.

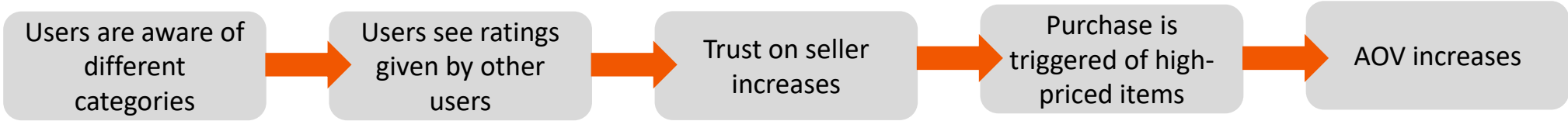


① When making a purchase for high-prices product, especially while buying online, a customer must trust the seller, brand, price & quality. These filters are designed to make the trigger trust among the user.

② Ratings is the most important filter as this it directly triggers trust. If a product is positively rated by multiple other users, the probability of buying that product increased. And the opposite is true for low rated products.

③ Filtering the search through category will make the customer aware about the wide range of offerings. Also, understanding what products the customers are looking for, helps in up-selling & cross-selling them different related products. For eg, a person buyer earphones might also benefit from earphone cases.

④ As we understood from the survey, a lot of people shop from scheduled delivery apps such as Amazon due to price offers. Hence, providing customers with a offers filter will make our efforts for giving them better deals more visible.



Type of metrics	Metric	Rationale
<b>North star:</b> What is the main objective?	<ul style="list-style-type: none"><li>Average order value</li></ul>	<ul style="list-style-type: none"><li>It conveys value delivered to customer</li><li>It directly leads to revenue</li><li>It affects the customer lifetime value</li></ul>
<b>Awareness:</b> How much are the users aware of the categories?	<ul style="list-style-type: none"><li># of visit on ‘instamart’ tab</li><li># of visits on “categories” section</li></ul>	<ul style="list-style-type: none"><li>Tells us how many users are exploring the app &amp; the categories. Awareness is the first step for triggering purchase</li></ul>
<b>Acquisition:</b> How many users are interacting with product?	<ul style="list-style-type: none"><li># of clicks on each category</li><li>% of users who clicked on filters tab</li><li># users using the “rating” filter</li></ul>	<ul style="list-style-type: none"><li>This will also help in making merchandising decisions such as position of the categories for visibility</li><li>Understand success / failure of our feature</li></ul>
<b>Activation:</b> How many users are realizing the value from our product?	<ul style="list-style-type: none"><li># of products rated</li><li>Total # ratings compared to previous year</li><li># sales of high rated products vs low rates</li></ul>	<ul style="list-style-type: none"><li>More ratings, leading to more purchase will signal customer trust.</li></ul>
<b>Engagement:</b> How frequently are users engaging?	<ul style="list-style-type: none"><li>Daily, weekly, monthly active users</li><li>Time spent per session</li><li>Session frequency</li></ul>	<ul style="list-style-type: none"><li>More time spent browsing signals to more awareness about categories, and also more frequency of purchase</li></ul>
<b>Satisfaction:</b> How happy are the users?	<ul style="list-style-type: none"><li># of queries for categories (should decrease)</li><li># of return of products (should decrease)</li></ul>	<ul style="list-style-type: none"><li>Good experience increases the tendency to shop again, strengthens trust. Increase trust could result in decrease in time taken to make purchase decision.</li></ul>
<b>Retention:</b> How many users are coming back to use the feature?	<ul style="list-style-type: none"><li># of users who review product more than once</li></ul>	<ul style="list-style-type: none"><li>It ensure the user is engaged with us, this will help in increase the customer lifetime with us.</li></ul>



① **Simply ratings might not translate to sales :**

- Sales of high-priced product is a mix of trust on seller for price, quality & assurance for support if anything goes wrong.
- Ratings might help build user trust, but it cannot guarantee assurance for support & quality.
- As per my conversation with Instamart delivery staff, swiggy does not have the system set for reverse logistics, meaning return of items are restricted.
- Only few items are eligible for return & even then only in certain situations, on case-to-case basis eg, when product is damaged.
- Hence, if the customer has no assurance that they cannot return they product if they do not like, a provision which is present in scheduled delivery apps such as Amazon, Flipkart. They may still stick to those platforms.

② **Less SKUs:**

- Our solution banks on the assumption that people are currently not buying high-prices products as they are less aware & hence trust us less for expensive products which require time to decide and not impulsive buys.
- But, one of the possible reasons can also be less SKUs available as Instamart stores products in its dark stores, which enables fast delivery. As opposed to scheduled delivery apps such as Amazon, wherein they do not store all products in their own warehouses.
- As per our survey, few users do not buy from our platform due to less SKUs.
- In situation like this, trust & transparency built through features might still not result in increased AOV.