

# Online retail buys into private labels

Growing demand for value-for-money products and higher margins make this a profitable growth option

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Online food and grocery king Bigbasket might be locking horns with Grofers and new giant on the block JioMart from the Reliance stable, to expand on the growing post-pandemic opportunity that is online shopping. In doing so, all these rivals have one thing in common: They are making a big bet on expanding their "private label" businesses as a path towards profitability.

The food and grocery business in India is worth \$550 billion, according to Technopak, and this year it accounts for less than one per cent of that. Narrowed down to the organised retail space, online food and grocery accounts for only 10 per cent of revenues. So, it is no rocket science to understand that online players need to grow the share of the largest retail segment, food and groceries. Grofers and Bigbasket make up 80 per cent of this market, according to analysts.

There is action on that front already. As much as 40 per cent of Grofers' gross merchandising revenues now come from private labels, and this year it wants to push it to 50 per cent or even 60 per cent, said its founder Saurabh Kumar. The company admits that the Covid-19-related lockdown has been a big catalyst for more people to try out such products. After all, given the job losses and pay cuts, customers instinctively search for value-for-money products. That is reflected in the fact in the months before the pandemic, private labels accounted for 35 per cent of Grofers' revenues.

For Bigbasket, private label sales account for 38 per cent of revenues, up from 35 per cent in pre-Covid-19 days. In the next few months, that percentage is expected to rise to 40. Seshu Kumar Tirumala, national category head of Bigbasket, admitted that the pandemic offered customers a window to test its private labels brands, especially when the big brands were unable to deliver their goods due to factory closures or logistical problems.

JioMart is playing the same game. Of its 15,000 stock keeping units (SKUs) — variations of products — according to sources, 10 per cent are private label products and the plan is to raise that share. JioMart is cashing in on an advantage that its rivals lack — a large physical retail presence with a wide range of private label products under Reliance Fresh. And their numbers would strengthen once the deal to acquire Future group's assets (Big Bazaar) is completed.

But the strategies of the two big boys



are different. For Grofers, the private labels business is mainly a matter of offering consumers a low-price option for products across segments. "Our philosophy is to provide lower price points and value to our customers across product lines. And that we can do by keeping end-to-end control over manufacturing of private labels and saving on distribution costs. We ensure that our prices are 30-40 per cent cheaper than normal brands," Kumar explained.

It offers private label options for staples, packaged foods and personal products (for instance, it plans to launch its own toothpaste brand). It shows in the fact that 1,200 of its SKUs of 4,000 are in private label.

For Bigbasket, the private label strategy is to fill in gaps in the market. "Our strategy for private labels is not to sell it at a lower price — they are in fact offered at a premium or at the same price. We offer customers a private label where there are no brands available. Or in areas such as FMCG, where brands already have a presence, but we come in to fill in the gaps in the product offerings," said Tirumala.

For instance, Bigbasket has branded fruit and vegetables (no brands were present here) under the FreshO brand name to give customers a degree of quality assurance. In chocolates, where brands like Mars and Nestlé operate in the popular categories, Bigbasket has created its own brand, Lindberg, for gourmet and sugar-free chocolates, which are currently mostly imported. Then,

Tastiest is an ethnic snack brand and it created an organic products brand with a range of 250 products offering, it claims, a choice no other brand in this space can offer.

The company uses data mining to identify the gaps — for instance, tracking unfulfilled searches of consumers to identify products not available. The product development team then develops the recipe of some of these products, gets it manufactured by third parties; tests it before a launch. Tirumala said the team works in-house on over 500 such products annually, of which more than half hit the online store.

The private labels push is also about better margins and profitability. Grofers admits its margins in private label products is 15 to 20 per cent higher than other branded products. Bigbasket has seen higher customer retention via private label purchases. Said Tirumala: "The retention of those who buy private labels is as high as 70 per cent for us compared to 40-50 per cent for those who do not buy them. This helps create customer loyalty and stickiness to the brand."

But both companies are deep in the red with losses widening even as their revenues rise substantially. Bigbasket (2018-19 losses: ₹348 crore) may be able to dig into the Tata group's deep pockets, and JioMart has access to Reliance Industries' cash flows, while Grofers ('18-19 losses: ₹448 crore) may need to look for funding. Better margins from private labels could be their only recourse to get in the black and improve valuations.