

# Daymon



## ***SHIFTING GEARS IN GROCERY RETAIL***

*Are dark stores and q-commerce  
here to stay?*

# CAN DARK STORES LIGHT UP THE SHOPPING EXPERIENCE?

**D**ark stores are brick-and-mortar locations that have been shut down and turned into centres for fulfilment operations. These distribution outlets are closed to visitors, allowing more space for store inventory and the opportunity to quickly and accurately fulfil orders.

The concept is not new, but the COVID-19 pandemic has upended everything we know about retail and fuelled the surge of dark stores. McKinsey states, *“In many cases, the strengths enabling some companies to surpass their industry peers (...) became even more important during the crisis”*, which is clearly what recent years have shown us.

*“ In many cases, the strengths enabling some companies to surpass their industry peers (...) became even more important during the crisis. ”*

Furthermore, as global digital adoption and seamless integration quickly accelerate, the distinction between the physical and digital worlds will

become increasingly blurred. Daymon’s ‘Always On’ trend addresses how the increased ease of using technology, desire for connection, and expectations of “anything, anytime, anywhere” are evolving retail and propelling innovation forward across products, services, formats, and experiences.

In this context, dark stores provide retailers with several operational, technological and overall business benefits. Since customers can’t go inside dark stores, their layout can be optimised and planned for more storage and better picking capabilities. This leads to the possibility of having a more extensive range of products and faster order fulfilment.

In addition, these stores usually support different locations within the same geographic region, allowing better SKU management and inventory control and improving the distribution and speed of delivery capabilities as well. Furthermore, a dark store gives retailers a much larger potential audience and a broader reach, with products accessible online to everyone, 24/7.

So too, dark stores also benefit consumers. They can order online and choose either

pick up or delivery, combining the security and convenience of online shopping with the (nearly) instant gratification of receiving the products sooner.

There are also benefits for consumers who still prefer to shop in-store. As pickers and couriers operate from a separate location uncluttering the aisles for consumers’ shopping trips - reducing any annoyance they might have and brightening their shopping experience.

The pandemic has undoubtedly hastened the change in consumer behaviour that was already underway. A slight shift from brick-and-mortar stores towards online shopping.

However, last year did not bring the return to normality expected after the pandemic subsided. Russia’s war on Ukraine has left the retail sector dealing with numerous challenges, such as sourcing difficulties, increased costs and galloping inflation which is expected to have long-lasting impacts on retailers, brands and consumers alike.

In this context, we see retail reinventing itself in all its forms from an operational, technological and experiential standpoint.

# SHORTENING THE PATH TO CONSUMERS

As stated in our ‘On-Demand’ micro trend, the new definition of convenience is “*what you want, when, where, and how you want it.*” Consumers can get meals and groceries via quick commerce options, shop from an unmanned store 24/7 using only their mobile phone or receive orders through self-driving vehicles.

These options derived from the need for retailers and brands to adapt to remain relevant and appealing, and they have irrevocably transformed the retail landscape.

Retailers also leverage the operations of quick commerce companies, using their couriers for the last-mile delivery of their own quick commerce solutions. These partnerships allow them to offer consumers their assortment on the partner’s app while competing with pure-play operators on the speed of delivery.

Carrefour Group had a minority stake in Cajoo and used this investment to launch ‘Carrefour Sprint’ at the end of 2021. Using Cajoo’s network of dark stores and UberEATS delivery network, ‘Carrefour Sprint’ combined the expertise of the three companies.

After Flink acquired Cajoo in May 2022, it started fulfilling

‘Carrefour Sprint’ orders from its network of dark stores. Available on the UberEATS app, which covers 60% of the French population, and UberEATS couriers delivering the orders.



Shoppers from several cities can receive orders in less than 15 minutes from a selection of around 2000 food and non-food products, including Carrefour’s Private Brand. Carrefour Group’s Director of E-Commerce, Data and Digital Transformation, Elodie Perthuisot, said at the time:

*“ With the launch of ‘Carrefour Sprint,’ we are offering consumers a quality offer, capitalising on the know-how of Carrefour and its partners. We are therefore delighted to strengthen our partnership with UberEATS and accelerate the development of Cajoo’s activities. ”*

Q-commerce has revolutionised traditional e-commerce, with consumers’

growing expectations of speed, quality, and convenience, making retailers and brands compete for it. In this context, even though q-commerce has existed for a while, even well-established players in the on-demand delivery sector strive to remain relevant. Looking at Uber, the operator continues to add new services and solutions to its portfolio. Launched during the pandemic’s peak, ‘Uber Connect’ is a simple delivery system that allows individuals to send products to another recipient on the same day. Similar to scheduling a ride through the Uber app, ‘Uber Connect’ enables customers to utilise the service to transfer essentials such as groceries, OTCs or care packages to family and friends, as well as a gift for a friend’s birthday, a product sold online, or a business document.

We see this move with other delivery providers, like Spain-based Glovo, whose motto is “*Anything delivered – you order, we get it!*”.

It may have started with the pandemic lockdowns, but this trend continues today. It is consistent with the increased importance and the need for hyper-local delivery for nearly everything that characterises today’s busy lifestyles.

# THE IMPACT OF THE RISING COST OF LIVING

In the last few years, investments in q-commerce soared, with consumers increasingly turning to rapid grocery services to replace or complement in-store shopping and regular e-commerce options. As a result, companies like Gorillas and Getir emerged, each promising super-fast delivery, while smaller brands' entry, saturated the q-commerce landscape. The increased competition has led to market consolidation, with larger companies acquiring or merging with smaller brands. Furthermore, the high operating costs and the small average basket size have forced several operators to exit specific markets.

This doesn't mean q-commerce will disappear anytime soon because consumer demand for rapid grocery delivery will likely continue, especially in more urbanised areas. Moreover, despite the channel's challenges, some of the largest grocery retailers are investing in this area through partnerships with well-established operators or by creating or growing their own in-house online rapid delivery platforms.

Nevertheless, the high inflationary pressures curtailing consumers' budgets hinder



growth, as the dichotomy between convenience and savings with the grocery bill is increasingly present.

## THE EFFECTS OF INFLATION

Even though inflation is forecast to slow down in the coming year, its impacts are still quite visible. For example, in the UK earlier this year, data from NielsenIQ showed that due to inflation and higher prices, volume sales registered the lowest decrease in over nine months - 6.9%.

Consumers worldwide are trading down, choosing less expensive brands or opting for Private Brand products, and sticking to essential goods as much as possible to save money. For many, the additional delivery cost is not an option anymore as they try to stretch their family budgets.

This poses an additional challenge for q-commerce

companies. Operating profitably without a further price increase, charging a higher delivery fee or increasing the basket size will become increasingly challenging in this inflationary landscape.

The partnerships mentioned earlier between q-commerce operators and retailers benefit both parties as it grants them access to more customers.

For q-commerce operators, it can bring them additional gains. For example, in the UK, the partnership between Getir and Co-op has "*proved to be very popular*", and according to the q-commerce player, it has helped them increase their average basket value.

Getir has also looked at items severely hit by inflation, such as milk, and offered them for free as a value add, or by bringing back the prices of the mid-1990s across core pantry staples.

# Q-COMMERCE AND THE APPEAL OF PRIVATE BRANDS

Q-commerce operators have been launching a few items or small ranges of Private Brands for several months, mainly focusing on essential products and everyday needs. However, as Private Brands become increasingly appealing to consumers seeking value for money, this will likely become a strategic priority for rapid delivery grocers, helping them build loyalty and increase the profitability per order.

At the beginning of 2022, US-based Gopuff was one of the first rapid grocery delivery companies to introduce a Private Brand range of “high-quality snacks, water and home essentials at a great value”. By the last quarter of the year, Gopuff was launching its fourth

Private Brand in the health and wellness space with ‘Goodnow’, covering OTCs, sleep and first aid items, among others. In addition, the company has plans to grow its Private Brand portfolio as it monitors its customers’ needs and evaluates opportunities.

Looking at Europe, 36% of German online grocery shoppers say quicker delivery would encourage them to do more grocery shopping online, highlighting speed as the leading factor in adopting online grocery deliveries (Mintel). Gorillas, a German-based rapid delivery operator, already ensures the speed of delivery. From mid-2022, the company looked to capture the interest of budget-conscious

consumers by launching its first Private Brand ranges in four key markets - Germany, France, Netherlands and the UK. According to the company, the four brands were developed based on customer insights to offer high-quality products that exceed category standards at a fair price.

‘Gorillas Daily’ offers everyday essentials like spreads, cold cuts, and cheese at an entry-level price. ‘Gorillas Premium’ is a selection of top-end products of high quality, such as fresh pasta and sweet and savoury snacks. Finally, ‘Hot Damn!’ offers a premium coffee experience, from beans to pods, and two craft beers were developed under the ‘<start-up beer >’ Private Band.



# WHAT'S NEXT? MAIN CHALLENGES AHEAD

Today's busy lifestyles are crucial in the rise and prevalence of dark stores and q-commerce. In addition, the consumers' expectations around rapid grocery delivery will force retailers and instant grocers to continue investing in their omnichannel capabilities. The future of q-commerce will be highly influenced by the adoption of more sustainable practices and the development of new technology. Additionally, as consumers struggle with inflation and the rising cost of living, their loyalty might be diverted towards the least expensive offer. Private Brands can serve as the differentiating element while ensuring a better value-for-money solution.

## SUSTAINABILITY FOCUS



## INNOVATIVE TECHNOLOGY



## COMPETITIVE ADVANTAGE



With consumers becoming increasingly eco-conscious, with 46% globally saying that the greatest influence on the choice of a product/service is how environmentally friendly/ socially-responsible it is (GlobalData) - operators will be pushed to explore better and more sustainable practices. As environmental concerns grow, retailers and rapid delivery companies will likely incorporate more electric vehicles into their fleets. Moreover, with the recent backlash around dark stores in residential areas and some cities banning them or restricting licenses, being sustainable will also be about reducing the negative impact on cities and people's lives, forcing operators to consider alternatives that won't compromise their delivery standards.

Every day, the world gets progressively more technological, and retailers and rapid delivery operators are quickly and increasingly investing in new technologies to differentiate them from competitors. Technology helps them improve efficiency, from inventory and demand forecasting to chatbots that answer customer queries or track orders in real time. These developments also allow accurate tracking of consumer behaviours, resulting in better forecasting and digital engagement. They can also benefit customers by improving their deliveries, providing customised solutions based on their purchase behaviours, and offering them benefits through loyalty cards and apps to redeem with subsequent orders.

The high number of partnerships between retailers and foodservice operators with rapid delivery companies increases competition but also diminishes the differentiating factors q-commerce operators might have individually. As the exclusivity aspects dim and consumers' budget concerns rise, Private Brand ranges will become a critical differentiating element and competitive advantage. With retailers already being more advanced in this field, Private Brand will likely become a strategic priority for q-commerce companies, seeking to increase profitability and drive loyalty from consumers that otherwise could shift rapidly.

*Icons by flaticon.com*