**Quick commerce: is it quick? Yes! Is it profitable? No!**

* **High potential attracts investors and entrepreneurs alike**
* **Experts predict a wave of consolidation and changing business models**
* **Automation as a key to profitability**

**(Marchtrenk, 30 August 2022) The number of specialists offering online grocery orders delivered quickly (quick commerce) has risen rapidly over the last months. Yet only a few are making a profit. Experts like scholars Dr. Matthias Schu and Dr. Michael Schedlbauer (Vice President Business Development Grocery) foresee a wave of consolidation and a change in business models. As they see it, automation will be a crucial lever when it comes to profitability and long-term success in online grocery retail.**

"Faster than you" is the slogan that the start-up Gorillas used in Berlin in 2020 to advertise its service: groceries and other supermarket goods ordered via an app and delivered by bicycle couriers, all at the same prices as in the store, plus a delivery fee of 1.80 euros and any applicable extra charges for small quantities. According to their promise, the goods would then be delivered to the customer within ten minutes of receipt of the order.

**Quick commerce**

In the trade, this business model is known as "quick commerce." It is based mainly on the example set by goPuff, founded in Philadelphia in 2013, though the fundamental idea is much older than that, dating back to 1998. Many other startups around the globe adopted the strategy, including Flink, Weezy, Getir and of course Gorillas.

The demand for quick commerce has been fuelled by the coronavirus pandemic. That acted as a catalyst for all those involved in online grocery retail (e-food), which had not previously been as widely used in the German-speaking world as in Great Britain. Experts divide the segment into several subsegments, but the boundaries between these are getting fuzzier: purely online players (e.g. Rohlik or Picnic), omni-channel retailers (e.g. Rewe, Billa or Coop), restaurant delivery (e.g. Delivery Hero), those who deliver meal kits (e.g. Hello Fresh) and other specialists or niche players (e.g. Frischepost, Flaschenpost or KoRo).

**Mega trend in retail**

Since the e-food segment achieved high double-digit growth rates over the past few years, venture capitalists are already treating it as a new "mega trend." Around the world, more and more companies and start-ups want a piece of the pie. But the fact remains: even in quick commerce, most people simply copy the existing business models. "The copycats are going to have it rough, because even in cities with over 200,000 inhabitants there is only room for two providers," says industry insider Matthias Schu. The e-food expert teaches at the Lucerne University of Applied Sciences and is the author of "Das E-Food Buch" ("The E-Food Book") and the "Quick Commerce Report."

**Characteristics**

For his report, Schu compiled a market potential estimation for the German quick commerce market for the year 2030. The result: there is a total potential of 33.6 billion euros spread across 40 cities of over 200,000 inhabitants – and that's the pessimistic estimate. Countless entrepreneurs see great potential and low entry thresholds, and found start-ups whose services share several characteristics:

* Delivery times generally ten to 15 minutes, no more than one hour
* Delivery by bicycle or two-wheeled motor vehicle
* Delivery radius of less than three kilometres from a warehouse
* Hyperlocal fulfilment from small warehouses or stores
* Broad but shallow assortment focussed on convenience
* Usually between 700 and 3,500 items
* Many branded items with good margins, often also their own brands

**Stand-alone and platform approaches**

In his report, Schu identified the parameters for profitability. Many players are pumping their investors' money into marketing campaigns and expansion into urban areas, but are currently operating in the red. According to Schu, there are two main basic models: on the one hand, the so-called **stand-alone approach**, in which the companies control their entire value-added chain. They operate warehouses or dark stores and have their own employees pick orders and their own delivery personnel or "riders" deliver the goods. Examples for this model include Flink, Mjam or Getir.

On the other hand, there is the **platform approach**, where the supplier acts as "orchestrator." The supplier carries out the core tasks within the value-added chain, but coordinates all other processes with partners. Instacart and bringoo are examples of this model. The grocery retailers in whose shops the orders are picked are responsible for storage and assortment policy; this is known as the "asset light" approach in the trade. As Schu explains, the appeal of this approach is the idea that a combination of different offers and retailers can be brought together under one roof and the product risk remains with the trade partners.

The advantages: greater selection available to the customers, better distribution of fixed costs among the platform suppliers and exploitation of other income streams, for instance in the form of revenue sharing. If the partnership includes businesses like bakeries or flower shops, they can attract customers who are looking for the typical local assortment and appreciate the advantages of quick delivery. Generally speaking, Michael Schedlbauer, expert in the area of grocery retail at TGW, considers the platform model more advantageous than the stand-alone solution "because, as a rule, it offers the possibility of larger shopping carts due to the wider range of items and other revenue streams. However, it does require partnerships in order to be successful."

**Picking as mission-critical variable**

No matter which model they use, all quick commerce players want to be profitable, and preferably sooner rather than later. But that is easier said than done. This industry is characterised by narrow margins and high personnel costs as well as an atmosphere of crisis due to a lack of investor money. One challenge is the high portion of costs spent on picking and delivery. According to a study conducted by Capgemini in 2018, the "last mile" accounts for 46 percent of the total costs. The two experts say that there are five parameters that could allow companies to still have a chance of making a profit:

* **Shopping cart total:** one option is to introduce a minimum order amount. But it shouldn't be too high, according to Schu, because that would drive away customers. Optimisation of the product range, for instance by offering high-margin products, is also a good idea.
* **Delivery fee:** in quick commerce, delivery fees generally do not cover the delivery costs. According to Schedlbauer, the companies are currently still in a position to carry the additional delivery charges. However, he expects that fees could vary considerably in the future. One solution is dynamic pricing, following the example set by airlines.
* **Advertisement subsidies:** this is common in stationary trade but has not (yet) been entirely embraced by quick commerce. Industry expert Schu considers it a good idea to recommend products via apps or websites in order to generate revenues.
* **Increased efficiency during the last mile:** classic solutions such as striving for the highest number of stops per hour are not feasible with delivery times of under 15 minutes. Such promises require expensive 1:1 delivery rides. Schu believes the delivery times will soon be extended, at which point rides could be consolidated and route-planning software implemented. He does not consider autonomous deliveries by robots to be a possibility in Europe within the next five years.
* **Increased efficiency during picking:** fundamentally, there is little potential here compared to classic retail and e-food. With such low item quantities and such small warehouses, comprehensive automation is not financially attractive in the short or medium term. Nevertheless, retail expert Schedlbauer is of the opinion that fulfilment automation will be necessary in high-wage countries in order for companies to become and remain profitable. Automation of large distribution centres or a network of micro fulfilment centres (MFC) is the way to go, according to the expert. New players are forcing "classic" omni-channel retailers to offer shorter and more flexible delivery times than are currently customary. Schedlbauer considers three hours to be "perfectly feasible," but 60 minutes is already somewhat economically challenging because the bundling of deliveries during the last mile is becoming less and less efficient. Anyone offering extremely quick deliveries within minutes must dispatch deliveries directly from the store – with the corresponding prices.

**Wave of consolidation**

Both Schu and Schedlbauer are convinced that quick commerce is a fad and that a wave of consolidation is imminent. "Right now many suppliers are hoping to be bought out by other players," says Schedlbauer. He expects that delivery times will soon be extended to 30 or 45 minutes and that such quick deliveries will then be offered as a premium service. Chains such as Rewe would carry out the extremely quick premium deliveries from their shops and all other deliveries from their warehouses. In his opinion, the large suppliers who partner with delivery services have the best chance of surviving in the long-term. Such delivery services profit from the model because even if the demand for groceries temporarily wanes, they can continue to utilise their workforce to capacity by delivering other goods such as flowers, drug store items or pizza.

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TGW Logistics Group has subsidiaries in Europe, China and the US and more than 4,000 employees worldwide. In the 2020/2021 business year, the company generated a total turnover of 813 million euros.

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