

D2C brands have catapulted on the back of quick-commerce platforms – a symbiotic relationship that has seen the platform benefit in turn from higher AOV/margins, given the premium positioning of these brands and high dependence on q-com. Key takeaways from our intensive primary interactions with brands (D2C, FMCG, and consultants): (1) shoppers are keen to go beyond groceries and into BPC, wellness, and health foods on q-com, which bodes well for D2C; (2) it costs more to do business on q-com (ads and commissions) but yields higher rewards; (3) FMCG sees lower salience on q-com – which fuels growth but jeopardizes their distribution moat and pits them against intense competition in high-margin products; (4) fashion has not found its feet on this track; and (5) Blinkit is the crowd favorite, followed by Instamart.

Q-com offers D2C brands strong salience

Online salience for large incumbents is 8-10% of sales, with q-com increasingly commanding a higher share (~50%), given it is the fastest-growing channel. For D2C, this is even higher at 20-80%. However, q-com onboarding is not a shoo-in, with many young brands taking as much as 18 months to get onboarded. Despite these challenges, D2C brands are lining up as shoppers go beyond groceries to shop on q-com for higher ASP categories/premium SKUs in wellness, BPC, health foods, and electronics. The fashion segment's logistical complexities (high returns, hyper-local inventory, repackaging, user preference for browsing) have kept it off this track. Our sensitivity analysis shows a 5% rise in D2C salience to Blinkit/Instamart's GOV can lead to ~11-12% uptick in revenue/~70 bps CM expansion.

Fast lane costs more: higher commissions and ad spends

The cost of doing business on q-com is high. For a D2C brand, commissions could go as high as 35-40%, with ads spends an additional ~10-15% of sales. For a large FMCG brand, margins are 15-25% on q-com vs GT at ~14-20% (for commoditized segments like foods). Q-com activity is search-, not discovery-led – a shopper would, for instance, search for 'Safola Cooking Oil' rather than 'cooking oil'. Advertising is therefore all-critical for a new/D2C brand to enter a shopper's consideration set. Q-com's search/banner ads tend to offer high RoAS due to limited/niche listings vs e-com, mitigating the higher (10x horizontal) cost per mille (CPM). FMCGs also seem to be moving away from ATL to BTL on sharper targeting, improving Rols, aiding q-com.

Q-com for FMCG: boon and bane

The emergence of q-com has altered the retail/distribution landscape in India, especially in urban markets. For traditional FMCG companies, q-com offers both opportunities and challenges. It does allow for faster consumer access, high-margin experimentation (premiumization tailwind), and improved ad targeting, but it also introduces higher competitive intensity through D2C brands, leads to distribution dilution and margin pressures. We believe q-com negatives currently outweigh the positives for FMCG companies.

Flipping the lens, from q-com platforms to the brands they feature

Our brand-led research of q-com utilization stretched across several months of intensive interactions with key brands. We had discussions with 15 founders, category managers and consultants. In this report, find more compelling insights from our interactions – on rising q-com salience, commissions structure, and ad spends, all of which impact q-com's growth and profitability. The long tail of niche D2C brands becomes the key differentiator for q-com's AOV/margins given D2C's premium positioning and heavy reliance on q-com.

Gaurav Malhotra
Gaurav31.Malhotra@axiscap.in

Anand Shah
anand.shah@axiscap.in

Della Desai
della1.desai@axiscap.in