The "Hyperlocal" Hype

History is replete with examples of unbridled hype created around new commercial "discoveries" that have first lead to emergence of investment frenzy, formation of bubbles that grow exponentially, and then an almost overnight collapse of the same. From the tulip-mania of the 17th century to the dot.com euphoria & bust of the late 1990's – early 2000's, one of the common threads is discarding of simple first principles of commerce and accounting and replacing them with new "metrics" of revenue estimation and business monetization. The dot.com era led to minting of exotic terminology that included measuring of "eyeballs" (or visitors to the website) and then "sticky eyeballs" (whatever that meant). It seems that e-commerce (or more specifically, e-retail) business ecosystem is taking over from where the dot.com era ended.

Three of the more exotic new terms that forms the lexicon of current e-tail businesses include "Omni-channel", GMV (Gross Merchandise Value), and Hyperlocal. Like in the different bubble eras of the past, none of these three come with any clear, universal definition. Yet, droves of starry eyed e-tail "entrepreneurs" in their final year of college start expounding that their "entrepreneurial" ventures are based on one or more of these new-age fundamentals (perhaps believing that they are as immutable as the most basic laws of physics). The "veterans" of e-tail, many still in their 20's and a few in early 30's, raise millions (and some even billions) with valuations based on GMV and now Hyper-Local while also picking up on the way an enviable assortment of awards of the type "entrepreneur of the year" or "businessman of the year" etc. that are annually bestowed by various financial publications.

Let us focus on current flavor of the year: hyperlocal. While there is no precise definition, is has its roots in another term "neighborhood commerce". Myriad businesses that define themselves as "hyperlocal" have been founded on the premise that it may be more efficient in certain situations to dispense with the classical "hub & spoke" model of both physical and e-retail businesses that generally first bring their entire merchandise assortment from their vendors to one or more large distribution centers, and then redistribute the same either to their physical retail stores or directly to the end-customer using a suitable logistics network. Instead, they surmise (in theory) that the merchandise that the customers usually need in a particular catchment is already available through an existing physical retail network of independent (or localized chains) retailers and hence it would be more efficient to map out such retailers and their typical inventory SKUs (Stock Keeping Units), aggregate orders from end customers using a website / application based platform, create a shopping cart by picking the ordered merchandise from an appropriate set of locally operating physical retailers, and deliver the same to the customer. In theory, the efficiency comes from not having to invest in expensive distribution center infrastructure, in expensive inventory (the local retail businesses already carry this inventory), and by way of reduced cost of the last mile delivery since it is done in a limited radius rather than from one or more.

However, while in theory, such efficiencies could translate into a financially viable business model in developed organized retail markets such as the UK, France, and USA, the ground reality in India is very different. The independent retail network in India has millions of very small outlets ranging in size between 500 – 2000 square foot carrying only between 500 – 2500 SKUs. In contrast, a typical supermarket in Europe would be between 10,000 – 25,000 square foot in size and typically carry 20,000 – 30,000 SKUs that are usually adequate to fill the shopping basket of most households in particular catchment area. Hence, the effort and time to fulfil a typical order from say a customer in Mumbai or Delhi may require picking from multiple outlets, all located apart from each other, and then delivering the same to the customer. These independent retailers have little incentive to offer any significant discount (if at all any) to their hyperlocal operators and they could end up creating the shopping basket at the prevailing retail prices while incurring significant cost in customer acquisition, business's own costs, and logistics costs. On top of this, many of these start-up hyperlocal businesses promise discounts ranging from 10% to 30% on this shopping basket. Similarly, many of the newly started (and highly valued) food services hyperlocal businesses are founded on the premise that the food would be cooked in the home kitchens of their "suppliers" and hence the only effort and investment is in getting such suppliers on board, build a suitable order collection platform, acquire customers, and then deliver from these distributed kitchens to the customer's place of preference.

To many, the financial unviability of such business models would appear intuitively suspect. However, investors in such businesses obviously think otherwise and continue to fuel the frenzy with tens of millions of dollars. The pedigree of most of these investors is not in doubt and hence they obviously see the potential (and financial viability) of their investee companies very differently. But then, one could have said the same at the time of the tulip mania or more recently, at the peak of the dot.com boom!

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