



INVESTMENT STRATEGY & RESEARCH

# RESEARCH BRIEF

No Boom but Bust? - What will the  
future for Q-commerce look like?

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 **PATRIZIA**

# Key takeaways

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## COVID-19 as a booster

During the pandemic, on-demand grocery delivery companies have flourished.



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Urbanisation, busy lifestyles, aging populations, and smaller households have led to an increase of convenience and efficiency in e-commerce delivery in the past decades.



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## Q-commerce market consolidates

High competition and low profitability is consolidating the quick grocery delivery market in a post-COVID world

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## Challenges ahead

Grocery delivery is challenged by profitability and cost-of-living crisis



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Given numerous headwinds and strong market consolidation Q-commerce will not be a great disruptor for the food retail sector as online retail has been for the high street.





# Boom or Bust? What will the future for q-commerce look like?

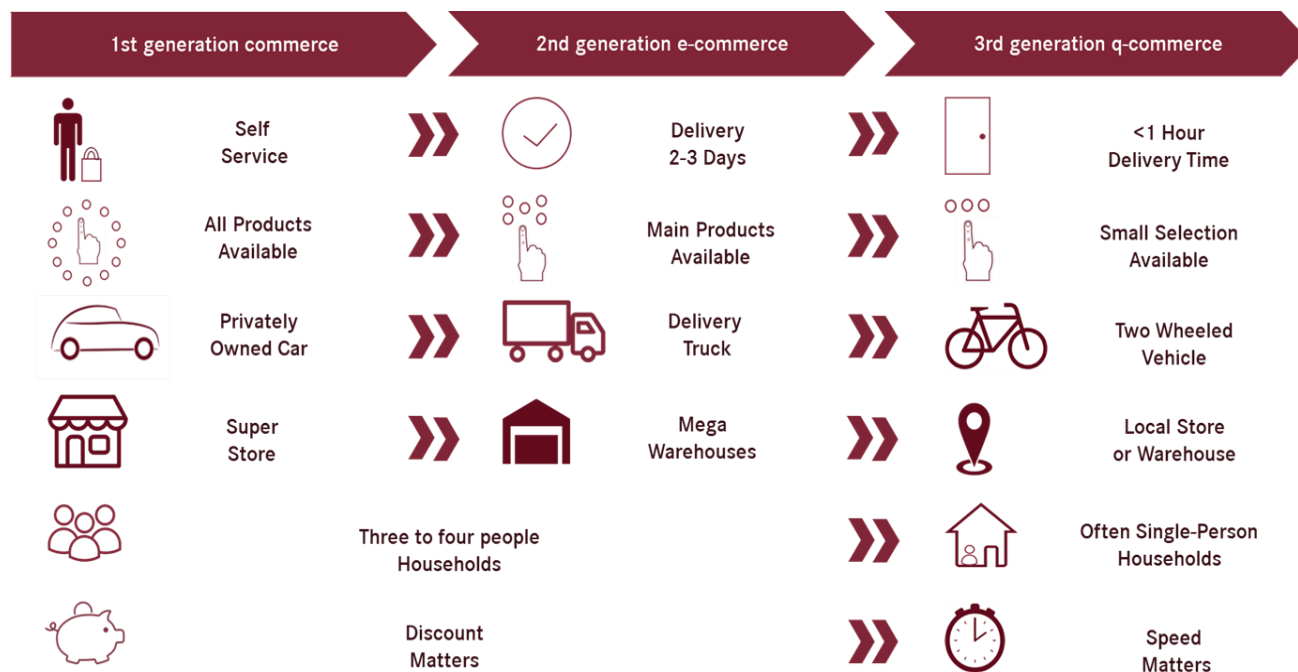
Urbanisation, busy lifestyles, aging populations, and smaller households have led to an increase of convenience and efficiency in e-commerce delivery in the past decades disrupting high street retailing in a way never seen before. The COVID-19 pandemic accelerated this massive shift of customer behavior and the share of e-commerce in total retail sales increased significantly. Within the food retail sector many delivery service start-ups took the chance to jump on the bandwagon, fuelled by ever growing investor capital. A bunch of food-delivery operators popped-up in different European cities to conquer the market. But still the online share in the food retail market is very low compared to the discretionary retail sector, making the business highly competitive.

Will q-commerce, as quick food delivery is often called, become the new star or was it just a flash in the pan?

## What is q-commerce?

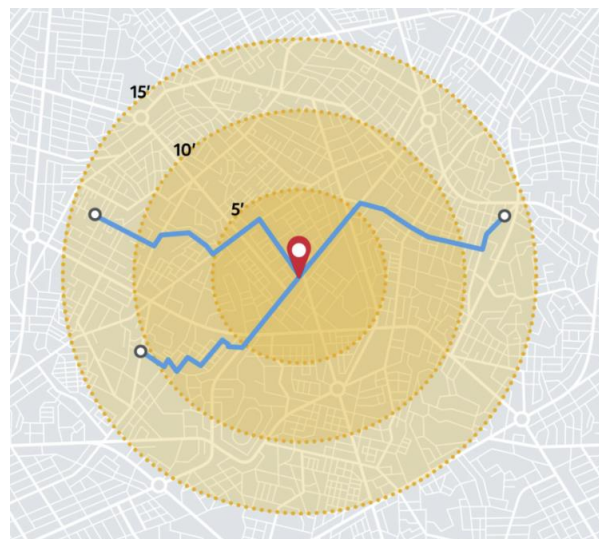
Q-commerce, or quick-commerce, is an e-commerce business model dedicated to ultrafast delivery within less than one hour of placing the order. Q-commerce combines the benefits of e-commerce by conducting trade via the internet and the traditional shopping experience by completing trade within minutes. The idea behind isn't a new one, it has been around in the food industry for ages, but with cutting delivery time, q-commerce operators set new standards for food delivery.

### The evolution of quick commerce



Source: PATRIZIA, Delivery Hero

Unlike large logistics-hubs based on the outskirts of cities, grocery deliveries with orders fulfilled within 30 minutes, require a large number of warehouses, known as “dark stores”, located in multiple locations in direct proximity to the customers to enable the short delivery times. Dark stores are micro distribution hubs where orders are prepared and picked up for delivery by bicycle-couriers. As a result, the dark store must be placed strategically in living areas with high population (and potential customer) density and favorable demographics. As already mentioned, proximity to the customer is the key to fulfill the promise of delivery within 15 to 30 minutes. However, if there are too many dark stores in one area, there is a risk of cannibalization due to overlapping delivery or fulfillment zones.



## The q-commerce landscape

The quick-commerce sector in Europe actually only really picked up speed during the pandemic, with companies racing into dozens of cities in Europe. And it's a fast-changing environment as companies raised money at a record-breaking pace and expand into new markets to gain market dominance and therefore profitability. However, q-commerce is a well-known concept, some operators have been active in for nearly a decade, like GoPuff, which was founded in 2013. Getir, the pioneer of the dark store model in Europe, launched back in Turkey in 2015 and France's Frichti was also founded in 2015.

Then, in 2020, the COVID-19 pandemic hit and online expenditures on daily groceries shot up as many people saw a real need for an alternative to physically going to a supermarket. Therefore, in many European countries, from Sweden to Spain, on-demand grocery delivery companies have flourished. Berlin-based Gorillas, London-based Weezy and UK-based Fancy all started their business in 2020, while the Finnish company Wolt began experimenting with dark stores too. And in 2021 new competitors kept launching: Stash, JOKR, Kavall, Macai, to name some of them.

### Known companies in this space



Source: PATRIZIA, stifted.eu

The market for q-commerce has been very dynamic and fast-changing in the last years. In 2021 companies offering ultrafast grocery delivery spread fast across Europe and operators started looking beyond their home markets. Getir, for example, already covered 20 cities across the UK and expanded services to Portugal while British Zapp entered the Netherlands, its first international market. As Europe was a first mover in q-commerce, there were interests in accelerating expansion into emerging markets. A few companies are now even heading into new continents like Latin America or the USA.

## Latest market expansions



Source: PATRIZIA, stifted.eu



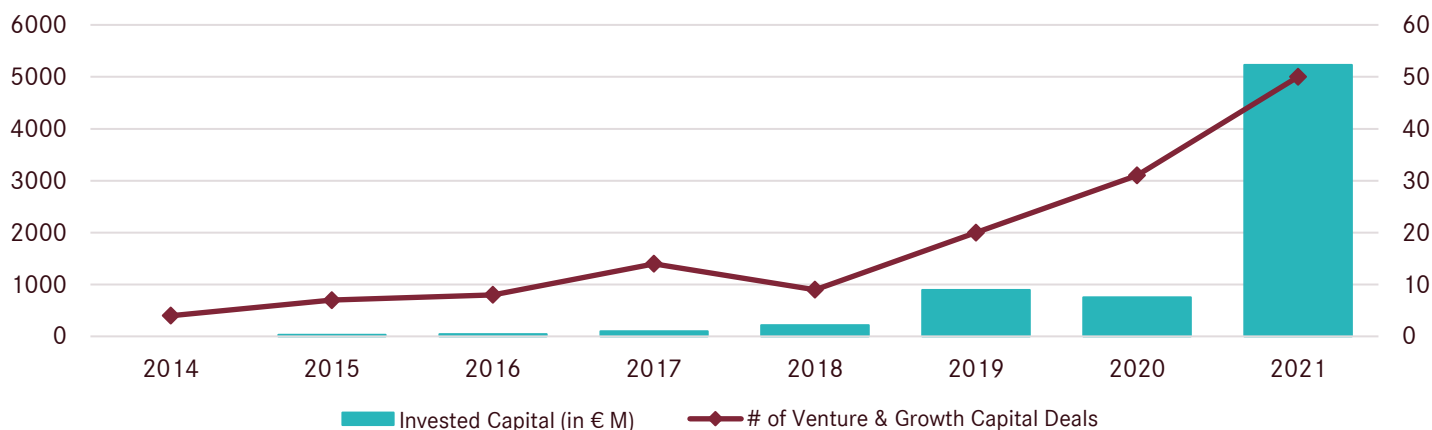
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## On-demand grocery's path to profitability

The huge amount of capital flowing into the grocery q-commerce market led to a large variety of quick delivery operators. Venture capital, private equity, and technology investors were spending a lot of money fuelling market dynamics. Until November 2021, more than €5bn were invested in the q-commerce sector led by Series A financing in new start-ups and follow-up financing in existing start-ups like Gorillas, GoPuff, Cajoo or JOKR.

## Invested Capital and number of venture &amp; growth capital deals



Source: PATRIZIA, HY

During 2021 the market began to consolidate as q-commerce operators met the challenge of scaling and sustained growth. For example, the German q-commerce operator Flink is expanding its foothold in France into eight other cities next to Paris, including Toulouse, Lyon, and Lille, with the takeover of its French competitor Cajoo. Cajoo has only existed for 15 months. Getir acquired London-based Weezy and Barcelona-based Blok to help the Turkish company to strengthen its hold on the British and Spanish markets. Most notably, US-player GoPuff acquired the UK-based start-ups Diya and Fancy to internationalise its footprint. German start-up Gorillas latest acquisition of French competitor Frichti resulting in a market share of 17.1% for same-day grocery delivery in Paris. These takeovers demonstrate that competition from more established players in the delivery segment is heating up. Each of them want to expand its market share and as business models across the market are broadly similar this growth cannot be achieved by differentiation, but only by organic growth or takeovers. Time will tell, which of these companies will come out on top.

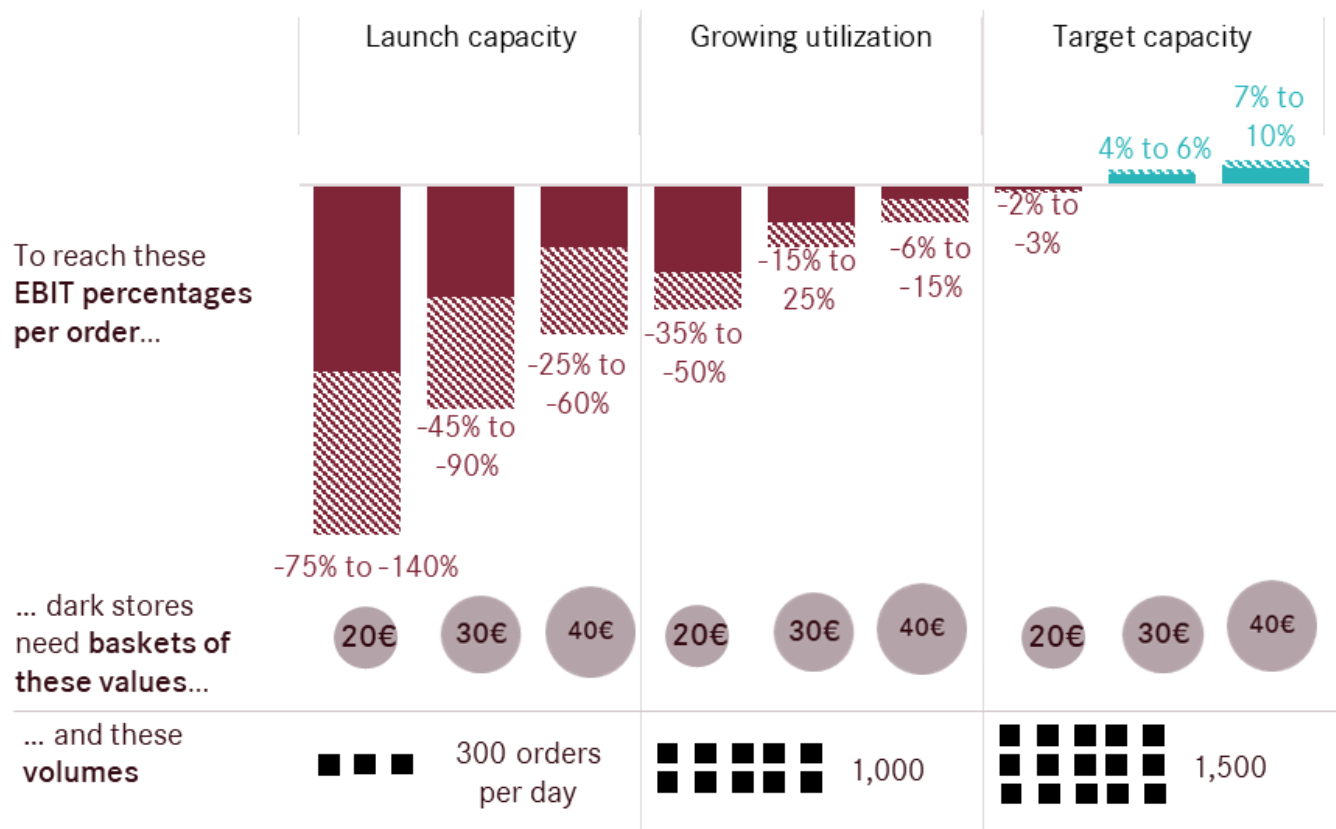




Another aspect challenging q-commerce is the fact that its exponential growth is slowing down. There are doubts regarding the market potential of quick-commerce post-COVID that leads to uncertainty in a world of rising interest rates and dampening investor enthusiasm for “disruptive” businesses. Furthermore, rising inflation rates challenge the consumers ability to pay for the service.

Q-commerce players face a significant challenge: On-demand grocery delivery is extremely capital-intensive. To become profitable is very difficult and will depend on the size of shopping carts, the amount of delivery fees, and the capacity utilization of drivers. Generally, q-commerce start-ups would need to double their basket size and quadruple order volumes per dark store to break even. Consequently, most companies are currently still far from making a profit.

### Profitability of quick commerce



Source: PATRIZIA, Bain & Company

The crisis is affecting all on-demand grocery delivery services: Getir, for example, has cut 4,500 jobs worldwide, and the Berlin start-up Flink is also slowing down growth. Gorillas has been making negative headlines for weeks during spring and summer of 2022. According to Bloomberg, Gorillas write losses of almost €40mn – every month. Half of its 600 employees at its Berlin headquarter were laid off in the first half on 2022, growth plans for the US and UK are on hold and several European locations are up for grabs. Gorillas was obviously fighting for investor confidence and was under pressure as investors want profit instead of growth. Finally at year end, the takeover of Gorillas by the Turkish competitor Getir was made official.

An option on the way to profitability could be new partnerships. Glovo for example concluded a strategic partnership with Carrefour hypermarkets and offers users the opportunity to order from 20,000 products sold by the French retailer. The partnership plans to cover four countries – France, Spain, Italy, and Argentina. Flink partners with Rewe Group in Germany and, after the acquisition of Cajoo, with Carrefour in the French market. Gorillas is partnering with Tesco in the UK, with the Casino Group in France and with Jumbo in the Netherlands. In March 2022 GoPuff announced a strategic partnership with UK retail giant Morrisons. Indeed, the competitive pressure that the partnerships of these on-demand grocery platforms plus convenience store grocers will put on the q-commerce share of the market should not be underestimated. There are also ongoing tests for cooperation's outside the grocery sector. Paris cosmetics group L'Oréal, for example, does not only work with Gorillas in Germany, but also with the competitors Flink and Picnic to find out which products are in demand with customers via such a fast delivery channel. Unilever is also advertising its Langnese ice cream with a banner at Gorillas. It remains to be seen how important the q-commerce business will become for manufacturers as the stalled growth makes them less attractive for partners.

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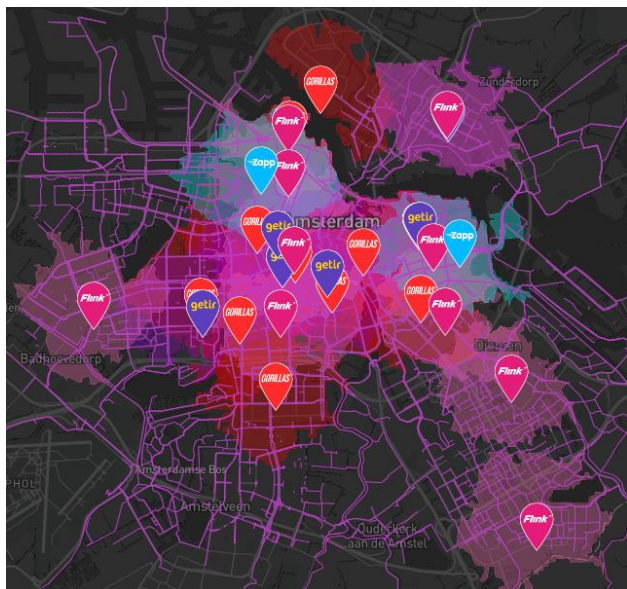
## Q-commerce challenges ahead

The rapid growth of q-commerce start-ups and the appearance and rapid expansion of dark stores represents another major challenge for this sector. To guarantee fast delivery times these dark stores need to be close to the customers and well located. However, this development also leads to challenges: in some cities there are fears that such dark stores will take over shopping streets storefronts and cause nuisances in residential neighbourhoods. Residents already complain of noise and disturbances in areas where dark stores set up their operations. They complain about noisy couriers waiting outside for their deliveries and about a lot of traffic around the store, either due to delivery trucks, couriers' bicycles, and scooters. European Cities are just starting to grapple with these issues and try to find solutions to address locals' complaints. Therefore, q-commerce operators must deal with increasing restrictions in some cities.

One of the first city to act was Amsterdam. In January 2022 city councillors voted to pause all expansion of new dark stores for one year, the ones that are already there are not affected. Within this year, the city will come up with rules and regulations and decide where such stores could be located and where they shouldn't be. Until this decision there were 31 dark stores in operation in Amsterdam, almost all opened during the COVID-19 pandemic.



## Map of dark stores in Amsterdam



Source: PATRIZIA, [Locations of Dark Stores in Amsterdam – Tapp](#)

Amsterdam isn't the only city taking action. Rotterdam joins the city of Amsterdam to impose a one-year freeze for new dark stores. Lyon refused the establishment of a dark store to protect local businesses and the municipality of Lille has decided to supervise harder the dark stores installed in its city centre. In Paris, the tide might be turning as well. It is necessary to ask for permission to set up a new dark store. “The Urban Planning Department of the City of Paris is increasingly sensitive to the installation of dark stores on the ground floor of Parisian streets”. All these activities will make it harder for q-commerce operators to grow in the most suitable locations for their operations, which will further complicate the path to profitability.

## No disruption to be expected by q-commerce

During the last 2 to 3 years grocery q-commerce benefitted from the impacts of the COVID-crisis but now the number of hurdles the fast delivery services must take are growing and investors' patience is running out. Currently we are facing a cost-of-living crisis, especially driven by energy and transport prices. Grocery q-commerce will not benefit from this crisis but on the contrary will have to face declining demand as consumers disposable incomes are shrinking and a recession is threatening European economies. As a result, competition in the grocery q-commerce sector is increasing while profitability is threatened and only few operators may survive this struggle. The most likely scenario is a cooperation between grocery retailers and fast-delivery operators. Nevertheless, it does not look like the grocery q-commerce is going to be the big disruptor for the food retail sector as online retail has been for the high street. Investors are therefore advised to act with caution as the growth of this segments will have more limits than many previously expected.







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