

ZOMATO: A Sustainable Business Model

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ABSTRACT

India's online food delivery market is expected to grow up to \$5 billion in 2019 and touch \$15 billion. Indian online food delivery market has players like Zoomato, Swiggy along with Food Panda, Uber Eats, Dominos, etc. Sustainability is an issue of the day for the organizations in ever changing environment. This paper looks into the business model and strategies of Zomato in the backdrop of Five Forces Model to remain relevant in the market place for the long term.

Keywords: *India's food delivery market; Zomato; Sustainability; Five forces model; Business model; Strategies.*

1.0 Introduction

India's food delivery market is expected to grow up to \$5 billion in 2019 and touch \$15 billion. Indian online food delivery market has players like Zoomato, Swiggy, Food Panda, Uber Eats, Dominos, etc. They are present largely in urban territories Bangalore, Delhi, Mumbai, etc.¹

As such this upcoming industry, infested with number of players; meeting needs and wants of the consumers, face several challenges though having favourable indications on disposable incomes, urbanization, consumer lifestyles, penetration of smart phones and internet, Indian women in the workforce and large young population.

Launched in Delhi 11 years ago, Zomato has grown from a home project to one of the largest food aggregators in the world.² Today, Zomato is present in over 10,000 cities across the globe with over 1.4million active restaurants on the platform. It is the market leaders in restaurant search/discovery in 19 of the 24 countries it is in, and has 70million monthly active users on the platform. It has 5million new user registrations and 11million app installations (Android + iOS), every month. Its user engagement has grown very well; it received 16million user reviews and photos in 2017-18, compared to 4.5million in 2018-19.³ It not only connects people to food in every context but work closely with restaurants to enable a sustainable ecosystem.⁴

Sustainability is a burning issue for the organizations in ever changing environment. Challenges push them towards minor or major innovative initiatives either to grab the opportunities or ward off the threats. So need of the hour for them to remain relevant in the market place.

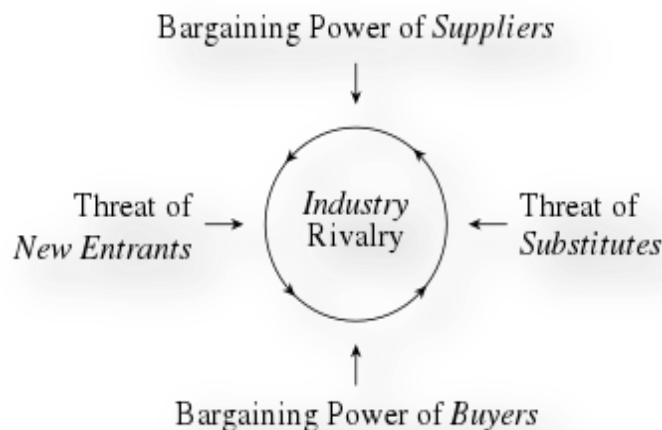
2.0 Methodology

This paper is purely analytical based on the available secondary data to explain the sustainability of Zomato in the 'Digital Food delivery' market in India. Research paper flows through examining the five forces model, environmental indicators, business model, and strategies with concluding notes.

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3.0 Five Forces Model⁵

Issues based on Porter's five forces model are suppliers, buyers, industry rivalries, new entrants and substitutes are presenting a scope of innovations for the organisations to deal better in the market place.



Source: <https://www.youtube.com/watch?v=26hfUDZG2f0&list=PLgDvk1zOmKuMYNujtjfA4ICkBBfpmw1hE&index=36>

3.1 Suppliers

Suppliers are those at the back end are associated with the players in terms of human resources, finance availability, technological support, etc.

So far as delivery is a key to the success of the online food delivery firms as it is closely linked with customers needs and wants. Human resources are to play an important role. Adequate knowledge of handling app, driving vehicles, and soft skills to deal with restaurants and food consumers would make efficient force at online food delivery market.

The most challenging one is soft skills to deal with restaurants and consumers. A direct interaction makes a huge difference on the service providers and gives edge if properly taken care of it in the market.

3.2 Buyers

Buyers with respect to online food delivery industry comprises restaurants (food suppliers) as well as eaters (food consumers).

In the back ground of youth and working women with increasing disposable income, a large customer base is available. But to satisfy their diverse taste, quality of food (hot-cold, hygienic-un hygienic), delivery time and charges remain crucial to them.

Organisations with adequate numbers of restaurants with diverse menu on their list and efficient logistics would serve better in the market.

A huge number of food consumers and food suppliers implies their significant bargaining power.

3.3 New entrants⁶

Here is a detail how food delivery start-up works at a unit level

If one is looking to start an online food delivery business in his city, one needs to do research

- Which locality do you want to start it?
- What is the delivery radius?
- How many different restaurants are available?

- How many people order from home or use internet and mobile phones?

Once done **you need a few things to launch ...**

- Online Food Ordering website with App to host your products (expense Rs 2 Lacs to Rs 3 lacs) will take 2 months to roll out by a professional developer team.
- A small team of 2 people can work to manage the orders on web. *(this can be you and your co-founder)*
- 2 delivery boys with 2 scooters initially get the 2nd hand to workout. *(monthly cost of Rs 20k, as delivery boy salary, fuel, and scooter maintenance will be Rs 10k each)*
- Digital Marketing +SMS Blasting in your city where you wish to start. *(Rs 5–10 k a month for initial 3 months)*
- Total of 35 k a month operation cost to run, so Rs 35 k X 6 Months = 2.1 lacs
- You need to get at least 20–30 orders a day min of Rs 300/- to make up the operating cost. say with a commission of 20% that is you need to get Rs 60/- per order. $(30 \times 60 = 1800/\text{day} = \text{around } 54\text{k/month (total revenue in commissions)})$
- Profit = Total Revenue - Operation Cost = Rs 35 k - 54 k = Rs 19,000/month *(now after few months start scaling it to other areas by increasing restaurants and delivery boys)*

This suggests that at least entry is rather not difficult, however it signals the high potential to intensify the competition.

3.4 Substitutes

So far as substitutes are concerned, if restaurants develop their own web sites / make apps and provide the services efficiently, then application based on line food suppliers would lose the business. Restaurants have to develop the capability to handle seemingly another business which may distract their focus from their own core business.

Customers themselves would go and buy from the restaurants if current app online food suppliers fail to deliver value in terms of reliability, responsiveness, empathy, assurance and tangibles.

3.5 Industry rivalry

Zoomato, Swiggy along with Food Panda, Uber Eats, Dominos, etc. They are present largely in urban territories Bangalore, Delhi, Mumbai, etc.

Table 1: Annual revenue of online food service industry in India.⁷

Year	Zomato (Crore) INR	Growth Rate (%)	Swiggy (Crore) INR	Growth Rate (%)	Food Panda (Crore) INR	Growth Rate (%)	Fassos (Crore) INR	Growth Rate (%)
2016	590	-	333.2	-	37.81	-	51	-
2017	389	-34.06	397	19.14	62.16	64.4	66.21	15.21
2018	466	19.79	442	11.33	72.18	16.08	82	15.79

Source: Annual Report of online food service Industry in India (2016, 2017, 2018)

In 2016 Zomato had a market revenue 590 crore rupees, in 2017 the same was 389 crore rupees and in 2018 the revenue was 466 crore showing a negative growth rate of - 34.06% crore. This decrease was because of facing tough competition from newer companies. However, decreasing discounts are already a part of food ordering nowadays as the miniscule discounts transform into restaurant handling charges, taxes and delivery charges. At the same time, on the business front,

Zomato had said that it lost INR 25 per delivery which has led to the decline in the annual revenue of Zomato in India.

4.0 Environmental Indicators

4.1 Large share of young population

With a population of 1.3 billion, India is one of the largest consumer markets globally. Demographically, it is also one of the youngest markets with more than 45 per cent of population below the age of 25 years.⁸

4.2 Increasing disposable income levels

The growing Indian economy has resulted in rising income levels, thus leading to an increase in disposable income. The country's household income and consumer spending are also expected to increase over the next five years, driving the food service industry and presenting a lucrative opportunity to the companies operating in the segment.

According to the Economist Intelligence Unit (EIU) data⁹ India's personal disposable income is expected to increase from INR86.5 trillion in 2015 to INR142.1 trillion by 2020, growing at a CAGR of approximately 10.5 per cent during 2015–20.

4.3 Changing consumer lifestyle

A rapidly growing young population, rising income levels, increasing use of technology in consumer space, urbanisation, brand and style awareness, health consciousness, increased social media activity, hectic life routines, etc., have led to a shift in consumers' food buying habits.¹⁰

4.4 India's urban female workforce

Although India's urban female Workforce Participation Rate (WPR) of 15 per cent is lower, in comparison to global/other countries, the trend is steadily changing as the rate is increasing 5.6 per cent annually since 1991. It is growing at a faster pace as compared with 2 per cent for rural females and 3 per cent for urban males.¹¹

According to 2011 Census carried out by the Indian government, the number of women working and seeking work grew 14.4 per cent between 1991 and 2011, compared with the urban women population growth of 4.5 per cent during the same period.¹²

4.5 Liberal reforms.¹³

The country's economic liberalization has opened the gates for many major global food business operators, by minimizing the barriers to doing business in the country. The onset of foreign majors, in turn, led to the modernisation of the industry with global best practices and pushed the industry toward organized market. Such reforms also attracted private equities and venture capitalists to invest in the food service sector.

Reforms like Hundred per cent FDI permit on trade of food, produced and marketed in India, Hundred per cent FDI permit on Single Brand Retail Trading (SBRT), Hundred per cent FDI permit on Business to Business (B2B) e-commerce and marketplace model, Implementation of simpler subsuming tax structure — Goods and Services Tax (GST) boost the food service industry.

4.6 Technology and emerging retail formats

Emanating from rapidly evolving technologies, new and disruptive retail formats are emerging at a fast pace. Application-based online aggregators and development of third-party logistics service providers have introduced a whole new dimension to food service business in the

country. Dedicated food courts and food malls, and new retail avenues (such as airports, railway and metro stations, highways, amusement parks, hospitals, etc.) are driving consumers towards food services.

The Indian hyper local market grew at 41 per cent year-on-year (Y-o-Y) in terms of revenues to reach a value of INR1.65 billion in 2015.²⁸ Food delivery is one of the major segments driving the hyper local market in India. It constitutes about 60 per cent of the total hyper local market in India, valued at approximately INR1 billion.¹⁴

4.7 Increasing travel and variety of cuisines

There has been a consistent increase in Foreign Tourist Arrivals (FTAs) in the country, obviating the growth of food service industry, specifically in the form of global cuisines. At the same time, domestic tourism is also increasing, leading to the popularity of authentic regional cuisines and driving overall food service demand in the nation.

The number of FTAs: 8.03 million.¹⁵ The number of domestic tourist visits to all states and union territories: 1,432 million.¹⁶

4.8 Increasing internet / smart phone penetration

India has seen exponential growth in number of mobile phone users. Equally impressive has been the growth in internet access. Although mobile phones allow us to stay connected, it is the convergence of internet access and smart phones that has caused significant shifts in consumer awareness, outlook and behaviour. Smart phones have quickly transformed from just a hand-held telecommunication device to a window to the world. They are now a means of expressing one's opinion and individuality.

Table 2: Internet Users and their Penetration in India¹⁷

Particulars	2014	2016	2018
Users (in millions)	226.3	321.8	411.1
Penetration	18.30%	25.40%	31.70%

Source: eMarketer, July 2015; Individuals of any age who use the internet from any location via any device at least once a month

Table 3: Internet Users and their Penetration in India¹⁸

Particulars	2014	2016	2018
Users (in millions)	123.3	204.1	279.2
Penetration	21.20%	29.80%	36.00%

Source: eMarketer, July 2015

Under the above circumstances, Zomato has used the following model to attain the goals with appropriate strategies for sustainability

Goal¹⁹ Though revenue in 2017-18 was \$68 million, it set target high at \$180 million for 2018-19. *The company achieved this seemingly impossible target with reverse mechanism.*

QAAA Model²⁰

4.9 Quality

Policy to keep the restaurants accountable to their users has an impact the quality of food that they serve. It is a de-facto restaurant review and food discovery platform in 19 countries. In each of

these, users check restaurant ratings and reviews on Zomato before they choose a place to eat out or get delivery from. A high rating on Zomato not only reflects the great experience a restaurant offers, it also drives further growth through footfalls and higher spends. In several markets, It now works with restaurants to organize third-party quality audits, leveraging the brand to endorse and showcase establishments that adhere to higher quality standards.

Hyper pure was launched in August 2018 to supply fresh, clean ingredients to restaurants. This first-of-its-kind initiative uses an end-to-end technology-driven platform custom-built to provide online access to fresh and clean food ingredients to restaurants. In February 2019, a 30,000 sq. ft warehouse, built to serve 4,000 metric ton capacity per month, was launched in Bengaluru to cater to 2500 restaurants every day. An even larger 40,000 sq. ft warehouse in Delhi was launched in March'19.

Restaurants buying ingredients through Hyperpure are recognized through a 'Hyperpure Inside' tag on Zomato, allowing users to trust that the food they are eating is made using fully-traceable, high quality ingredients.

4.10 Accessibility

Accessibility in terms of getting regarding the information of core services as well as financial performances for its stake holders.

- It improves accessibility by providing instant information. The food delivery service is also constantly looking to deliver better food to more people from more restaurants, faster than ever before.
- It is active on Instagram, Facebook, Youtube, LinkedIn and Twitter. As of July 2019, it has 154k followers on Instagram, 1,899,405 followers and 1.42 Million followers on Twitter.²¹

Though Zomato is a private company, it publishes annual reports right after the end of the financial year, unlike listed companies. It published two Annual reports in order to curb negative noise around it. Main objective was to address the perception–reality gap by sharing more information as it thought they were doing well, contrary the external narrative did not reflect that reality.

The CEO said, “The external narrative used to hurt our team’s morale. But this year, we have been attracting extremely talented people, who are being given the independence and mentorship to become successful at Zomato. Our people are the happiest ever, and have been working their hardest ever as well — all a testimony to the incredible progress we have made over the last year to sow the seeds for building the new world food order that we obsess about.”

- Zomato published an annual report for the year 2018-19 for following reasons:
- To make a recruitment pitch for readers who might identify with our mission — better food for more people.
- To set a precedent before going to public.
- To demystify the food–tech ecosystem.

4.11 Affordability

It improves affordability by making it a level playing ground for everyone. By democratizing information it makes sure users can make informed choices; and in that way it democratizes competition. Given restaurants now operate and grow their business from an easily accessible and transparent platform, they must innovate and cut costs in order to win. Zomato Gold also significantly improves affordability for users, while helping restaurants fill their tables and increase their net profit.

4.12 Assortment

Humans crave choice, Zomato drives assortment by helping users discover new tastes and

experiences across the world. It showcases ‘what’s new and fresh’ to the users, and tells them what other users liked. Thus, it encourages restaurants to innovate, and give them a chance to act on live, objective feedback

As it have over 100,000 restaurant listings in India. In March 2019.it is able to provide deep assortments to the customers .²²

5.0 Strategic Moves Leading to Sustainability

5.1 Strategies

5.1.1 Business realignment²³

Today, Zomato’s business is largely dependent upon transactional revenue i.e.85% of revenue in 2019.Earlier it had been dependent largely upon revenue through advertising. A huge jump in transactions has forced it to consider advertising revenue model in conjunction with transaction based revenue model.

5.1.2 Business policy²⁴

People often asked Zomato that it should open its own branded chain of dark kitchens; so that it can ‘exploit’ its demand pipeline and improve the margins of our food delivery business. Zomato reacts to such statements with — “is that a question, or an answer?” It would rather ask itself a question — “how can margins of food delivery business be improved”?

CEO Deepinder Goyal: “After thinking of various possibilities and scenarios, we concluded that there are far better ways to improve the margin profile of our food delivery business than taking the irreversible step of competing with our own partners (restaurant owners). Some of these initiatives are already underway and are showing great results. In the long term, we stay committed to not competing with restaurants — and we will help the best food operators build larger businesses in every way we can. But at no point will we compromise our neutrality as a platform.”

5.2 Market development²⁵

Before entering to the new market, the company did a Pilot Test at small town with a mere 1,50,000 population. Astonishing outcomes have belied the thinking that the food delivery is niche for Tier-1 cities only, so company mulls over launching in 1,000 cities in India.

5.2.1 First mover advantage

Food delivery in India is creating an entirely new market; 70% of the app users in Kolhapur had never tried food delivery in their life (even over a phone call), and Zomato was the first food delivery experience of their lives. All the marketing investment we made in FY19 will bear fruit in FY20 and beyond — when it realizes the LTV (Lifetime Value) of the acquired users.

Most of the losses (\$294m) are on account of the food delivery business in India. It has earned tremendous growth aided by promotional marketing spent to acquire new users and to be the first mover in many cities in India.

5.3 Product development²⁶

- The company has launched Gold, the basic idea was just to provide Terms and Conditions free product easily understandable to both for users as well as restaurants.
- A digitised platform *food@work* by Zomato in seven cities serves 125,000 meals a day, partners with 300 caterers and serves 70 companies. It has also partnered with Tier–1 caterers like Elior and Voila to the cash-and-carry segment providing better compliance and food safety.It has revolutionised cafeteria management by simplifying the purchase process for employees.

- It also facilitates people to book tables online in eight countries across 16,000+ restaurants. In India; over 1000000 diners reserve tables on Zomato every month.

5.4 Customer relationship management²⁷

- **Financial bond**

1. It introduced Zomato Gold which collaborated with over 10,000 restaurants worldwide to offer either 1+1 on food, or 2+2 on beverages, allowing app users to get more for their penny each time they dine out. Zomato Gold has over 1000000 active subscribers in 2018-19 over 17000 in 2017-18. Zomato Gold received overwhelming response from Jakarta, Manila, Auckland, and Beirut as The number of subscribers from these cities exceeded than that of Bengaluru in the first 15 days.
2. With Piggybank, our loyalty program for food delivery, users save up to 10% of their total amount. 2m+ users across 17 cities in India have collectively saved a staggering Rs 260m+

- **Social bond**

1. *Zomaland* — a food carnival, a first-of-its-kind across the world, had been organised in Delhi, Bengaluru and Pune to offer an opportunity for people to discover new culinary delights and enjoy some of their old favourites. Zomaland hosted larger-than-life attractions, street performances, a stellar line-up of music artists and DJs, along with a dedicated zone for the little ones It had attracted 120000 people collectively with over 200 of the best restaurants.
2. Zomato under the program of Feeding india has served 20 million meals with its 5 key programs including 8,500+ volunteers working in 71 cities, 50+ community fridges, and 21 food recovery vans. It ensures all excess food from various restaurants and venues to be donated to people in need otherwise it would go as waste.

5.5 Integrative growth

- **Horizontal growth**

Zomato has acquired Uber Eats business which entered India in 2017, has about 26,000 restaurants listed on its platform from 41 cities. This transaction will add to a total of over 50 million orders per month on its platform, giving it around 55 per cent market share.²⁸

Table 4: Comparative Performance Indicating Sustainability²⁹

Particulars	2017-18	2018-19
Revenue	\$38 Million	\$155 Million
Cities	15	200+
Loss/Delivery	Rs.44	Rs.25
Last Mile Cost/Delivery	Rs.86	Rs.65
Number of Deliveries per Rider per Hour	0.9	1.4

Source: Adapted from zomato annual-report-19

Zomato registered delivery revenue in 2018-19 is \$155millions where as it was \$38 million in 2017-18. It now contributed approximately 75% to total revenue. It is 55% more than what it was in 2017-18. It had operations in over 200 cities in India in 2018-19 whereas the same was in 15 cities in 2017-18.

Unit economics of the food delivery business has improves as it lost Rs 25 per delivery in 2018-19, compared to Rs 44 per delivery in 2017-18. The last mile cost per delivery went down to Rs 65 in 2018-19, compared to Rs 86 in 2018-19. The key driver metric of unit economics — number of deliveries per rider per hour had gone up to 1.4 from 0.9 in 2018-19.

It made nearly 33 million deliveries in 2018-19. Over 100,000 restaurants are listed in India, generating an annual run rate GMV of over \$1.5 billion. Approximately 94% of these deliveries are fulfilled by around 1,80,000 strong active delivery boys in fleet.

6.0 Concluding

Sustainability of the organisation depends on the model and the strategies adopted by the organisation in ever changing scenario in the market place.

Five Forces Model indicates that online food delivery business has to meet the expectations of restaurants and food consumers to keep the business viable in long term in competitive environment.

Zomato has followed the model of QAAA (Quality, Accessibility, Affordability and Assortment) to be relevant to buyers i.e. restaurants and food consumers. It has not only realigned the business model but also executed the business policy through the strategies of integrative growth, product development, market development, and customer relationship management (CRM) to meet the goals effectively and efficiently.

It has turned the gloomy looking business situation of 2017-18 into bright looking ongoing endeavour in 2018-19.

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