

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 by 2022. Indian online food delivery market consists of companies like Zomato, Swiggy, Food Panda, Uber Eats, Dominos, etc. The components of online food delivery models are cook – order – deliver; which in turn lead to three basic structures of the model. The sustainability strength of business models depends upon the its strategic partners, crucial activities, indispensable resources, unique value proposition, customer relationship orientation, efficient delivery channel, right customer segments, and optimality of cost structure and revenue streams. The consumers expect convenience in decision making, accessing information and, doing transactions with food delivery players. 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 back drop of five forces model to remain relevant in the market place for the long term.

Keywords: *India's food delivery market; Components of basic structures; Convenience, 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 by 2022. Indian online food delivery market has players like Zomato, Swiggy, Food Panda, Uber Eats, Dominos, etc. They are present largely in urban territories Bangalore, Delhi, Mumbai, etc (Tandon, 2019).

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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.

Zomato was launched in Delhi 11 years ago, at that it was a home project and now it has become one of the largest food aggregators in the world (Zomato, 2019). Today, Zomato registered its presence in over 10,000 cities across the globe and it has over 1.4million active restaurants on the platform. It is leading the market in restaurant search/discovery in 19 of the 24 countries. It has 70million monthly active users on the platform and it has 5million new user registrations and 11million Android and iOS based app installations 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 (Chaudhary, 2019). It connects not only people to food in every context but also linked closely with restaurants to build a sustainable ecosystem.

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 Literature Review

Every business model is based on key elements and their interplay ensures the sustainability of the business through present to future times.

The strength of any business model depends upon the its strategic partners, crucial activities, indispensable resources, unique value proposition, customer relationship orientation, efficient delivery channel, right customer segments, and optimality of cost structure and revenue streams (Vijaya, 2019).

The underlying components of online food deliver model are order, cook and deliver which lead to three basic structures of the model: a. order-cook-deliver model b. order-deliver model and c. order model (spaceotechnologies, 2017).

The consumers expect decision convenience, access convenience, transaction convenience from the food delivery players (Singh, 2016). Online food delivery business can be made more efficient and effective through striking the strategic balance between those who are consumers and those who prepare foods (Jain, 2016)

The sustainability of ITC's lies in its ability to take advantage of internal synergies underlying its diverse businesses. Sustainability is attributed to understanding

of consumers, and, efficient and effective product development capacity, manufacturing infrastructure, brand building, trade and distribution network, human resources. (ITC, 2019).

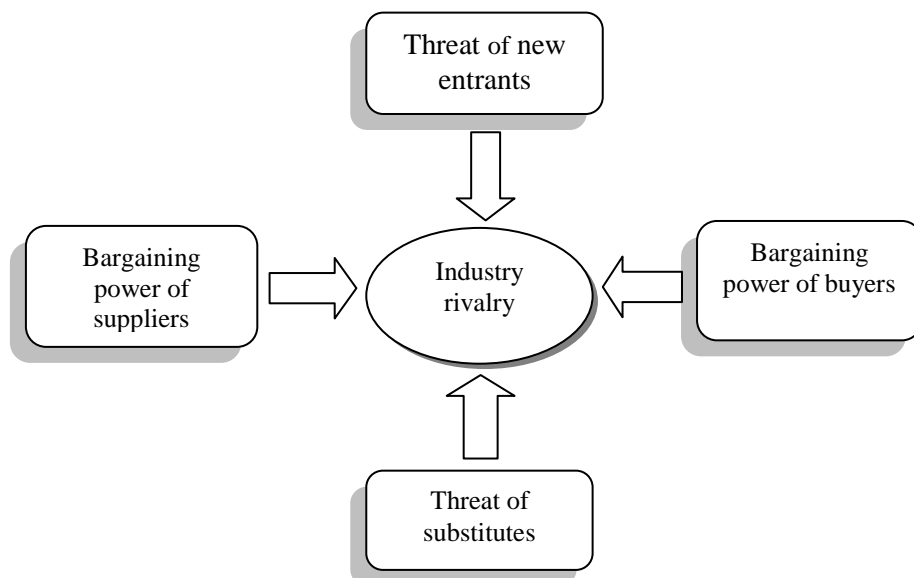
According to Mckinsey global survey results, the sustainability of companies depend on the integration of sustainability principles. What help companies capture value are saving on energy, producing green products, motivating and retaining workforce. Integration of sustainability into strategic initiatives through consumer preferences, stakeholders' pressure, or regulation remain focus of companies.(McKinsey, 2011).

3.0 Methodology

This paper is purely analytical and the gathered secondary data are used 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 conclusions.

4.0 Five Forces Model

Figure 1: Five Forces Model



Source: <https://www.cgma.org/resources/tools/essential-tools/porters-five-forces.html>

As shown in figure 1, the five forces namely suppliers, buyers, industry rivalries, new entrants and substitutes are presenting a scope of innovations for the organisations to deal better in the market place.

4.1 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.

4.2 Buyers

Buyers with respect to online food delivery industry comprise 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 imply their significant bargaining power.

4.3 New entrants (Demello, 2018)

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.
- 2 delivery boys with 2 wheeler like scooters/bikes 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
- One need to book at least 20–30 orders a day min of Rs 300. then he can cover the operating cost. If a commission of 20% is assumed, then one needs to get Rs 60 per order. $(30 \times 60 = 1800/\text{day} = \text{around } 54\text{k}/\text{month} \text{ (total revenue in commissions)})$
- 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.

4.4 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.

4.5 Industry rivalry

Zomato, Swiggy, Food Panda, Uber Eats, Dominos, etc. are the rivals and their presence is largely in urban territories i.e. Bangalore, Delhi, Mumbai, etc.

As shown in the Table 1, online food industry is dominated by two major contenders namely Zomato and Swiggy. Both together have captured 60% of market share. In forthcoming time Swiggy may pose stiff challenge to Zomato.

Table 1: Market Share of Online Food Service Providers in India

Online Food Supply Providers	Zomato (Crore) INR	Swiggy (Crore) INR	Uber Eat (Crore) INR	Others (Crore) INR
Market Share	35%	25%	10%	30%

Source: <https://www.statista.com/outlook/374/119/online-food-delivery/india#market-revenueBrand>

5.0 Environmental Indicators

5.1 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 under the age of 25 years (KPMG, 2016).

5.2 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.

India's personal disposable income is expected to increase from INR 86.5 trillion into INR 142.1 trillion at a CAGR of approximately 10.5 per cent during 2015–20 (KPMG, 2016).

5.3 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.

5.4 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 (Koduganti, 2015).

According to 2011 Census carried out by the Indian government, the number of

women who were working and seeking work grew by 14.4 percent between 1991 and 2011, compared with the urban women population growth of 4.5 per cent during the same period (Koduganti, 2015).

5.5 Liberal reforms

The country's economic liberalization has opened the gates for any 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.

5.6 Technology and emerging retail formats

Emanating from rapidly evolving technologies, new and disruptive retail formats are emerging at a fastpace. 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 percent year-on-year (Y-o-Y) in terms of revenues to reach a value of INR 1.65 billion in 2015 (INC42, 2016).

5.7 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 is 8.03 million and the number of domestic tourist visits to all states and union territories is 1,432 million in 2015 (Tourism, 2015)

5.8 Increasing internet / smart phone penetration

India has seen exponential growth in number of mobile phone users. Its growth in internet access is equally impressive. Consumers' awareness, outlook and behaviour

have been changed significantly owing to smart phones and internet together. Smart phones are not just a hand-held telecommunication device but a connecting tool to a window to the world. They are now a means of expressing one's opinion and individuality.

Table 1: Internet Users and their Penetration in India

Particulars	2006	2009	2016	2018
Users (in millions)	40	80	405	500
Penetration	2%	4%	27%	35%

Source: <https://www.emarketeducation.in/power-internet-penetration-online-india/>

As shown in table 2, the numbers of internet users has increased from 405 million to 500 million over the two year time period i.e. from 2016 to 2018. Higher the penetration, better the prospects for online food supply industry.

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

6.0 QAAA Model (Zomato, Annual Report FY19, 2019)

Goal: Though the 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.

6.1 Quality

Zomato has a policy to keep the restaurants accountable to their users and it has an impact in term of the quality of food being served by them. It is a de-facto restaurant review and food discovery platform in 19 countries. It allows users to check restaurant ratings, reviews before choosing a place to eat out or get delivery from. A high rating on the platform suggests the great experience a restaurant offers, it helps further growth through increasing number of customers and their spending. In several markets. It starts third-party quality audits at restaurants so that it can leverage the brand and establishes its adherence to higher quality standards.

In august 2018, Zomato launched Hyperpure to supply fresh, clean ingredients to restaurants . In February 2019, it built a 30,000 sq. ft warehouse to serve 4,000 metric ton capacity per month in Bengaluru to cater to 2500 restaurants every day. It built a 40,000 sq. ft warehouse in Delhi in March'19.

Restaurants buying ingredients through Hyperpure are recognized through a

‘Hyperpure Inside’ tag on Zomato. So that trust can be built among users that the food has fully traceable high quality ingredients.

6.2 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 aims at delivering better food, serving more people and engaging more restaurants efficiently than ever before.
- It is active on Instagram, Facebook, Youtube, LinkedIn and Twitter. As of July 2019, it has 1,54,000 followers on Instagram, 1,899,405 followers and 1.42 Million followers on Twitter (Zomato, Annual Report FY19, 2019)
- 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, external perception did not reflect that truth.

The CEO said, “External views do affect the team’s morale. So Zomato starts drawing talented people, giving the independence and guidance to become successful. Its tremendous progress is attributed to happy and hard working people. It will build the new world food order that it obsesses about.”

Zomato published an annual report for the year 2018-19 for following reasons:

- To make the aspirants, who like to join it, might identify with ‘better food for more people’.
- To set a precedent before going to public.
- To demystify the food–tech ecosystem.

6.3 Affordability

It improves affordability by giving enough room to all would like to do business with it. It ensures that user should make informed choice based on information passed on to them. It provides transparent and easily accessible platform and it’s an opportunity for the restaurants to operate and grow their business. They have to innovate to reduce the order cost so that they get more orders. ‘Zomato Gold’ has been introduced not only to improve affordability for users and but also to help restaurants in drawing more customers to increase their net profit.

6.4 Assortment

Customers look for choices. Zomato offers the opportunities to them so that they may find new tastes and derive new experiences worldwide. It informs customers regarding new dishes and who prefer them. Restaurants are rather encouraged to innovate and act on objective feedback. Having over 100,000 restaurant listings in India, in March 2019, it is able to provide deep assortments to the customers.

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7.0 Strategic Moves Leading To Sustainability

7.1 Strategies

This section presents the strategies of Zomato in various areas as outlined in Zomato's Annual report for the year 2019.

7.1.1 Business realignment

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.

7.1.2 Business policy

Zomato has been asked number of number of times why it should not start its own chain of dark kitchens. If it started its own chain, then it would earn through demand pipeline by doing better on margin in the business.

CEO Deepinder Goyal was of the opinion that one should not compete with the partners and harm the trust between us and restaurant business. He added that in the long run also Zomato would not change its policy and keep on facilitating the food operators building strong businesses in all possible manners. According to him Neutrality of the platform of Zomato and it is always a key and should not be compromised.

7.2 Market development

Before entering to the new market, the company did a Pilot Test at small town with a mere 1, 50,000 populations. 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.

7.2.1 First mover advantage

Food delivery in India is creating an entirely new market; Zomato provided food delivery experience to 70% of the app users for the first time in Kolhapur. Whatever was invested in marketing in FY 19 brought results in FY 2020 as Life time value acquired users are achieved.

Despite the loss of around \$294 million in the food delivery business in India, by acquiring new customers and becoming first mover in many cities it succeeded in earning high growth in India.

7.3 Product development

- 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 around 70 companies with help of 300 caterers daily 125,000 meals. To ensure food safety, Tier-1 caterers like Elior and Voila also engaged with Zomato to serve a segment cash-and-carry. It has revolutionised cafeteria management by simplifying the purchase process for employees.
- It also facilitates people to book tables online in eight countries across more than 16,000 restaurants. In India; over 1000000 diners reserve tables on Zomato every month.

7.4 Customer relationship management

- **Financial bond**
 - 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 that of Bengaluru in the first 15 days.
 - A loyalty program called Piggybank for food delivery helps users in savings approximately up to 10% of their total expenses on food. Thus 2 million users could save around Rs.2, 60, million across 17 cities in India.
- **Social bond**
 - Zomaland – It was a food carnival organised in Delhi, Bangalore and Pune with an idea that people would discover their new tastes. In the carnival performances

- by music artists in the carnival drew 1, 20,000 customers and 200 restaurants.
- Zomato's another program called Feeding India ensures stopping of wastage of food from restaurants. It has served 200 lakhs meals. It operates in 71 cities through more than 8500 volunteers and 21 recovery vans. It has more than 50 community fridges.

7.5 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 (PTI, 2020).

Table 2: Comparative Performance Indicating Sustainability

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

As shown in Table 3, Zomato registered delivery revenue in 2018-19 is \$155 millions 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 cost incurred in 2018-19 for the last mile for every delivery was Rs.65 which is quite less than Rs.86 in the previous year. In one hour number of deliveries made by each rider grew from 0.9 (2017-18) to 1.4(2018-19). It made nearly 33 million deliveries in 2018-19. Over 100000 restaurants is 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.

8.0 Conclusions

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

The 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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