A Case Study on The Food Tech Start-up In India

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Introduction

Over the past few years Startups in India have witnessed faster growth and acceptance. This trend has attracted many home grown entrepreneurs across the nation. Other major contributor towards this growth has been the huge flow of funding in last five years in sectors like, e-commerce, taxi/ cab, retail, food tech, real estate & so on. Among these, Food tech sector has been the preferred choice of many entrepreneurs in the past few years.

The Indian food industry which is currently valued at US$ 39.71 billion is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to US$65.4 billion by 2018 (as per ibef report). It has emerged as a high-growth and high-profit sector due to its immense potential for value addition, such food processing and food tech.

Mr. Vikas, an IT graduate with MBA degree was working with an MNC as Asst. Manager, before venturing in to a food tech startup ABC Ltd. with his two friends in Mumbai, around three years ago. ABC Ltd. developed an app, through which customers can order food from the nearby registered restaurants. While researching on restaurant business, Mr. Vikas identified three major problems, which restricted the growth of any restaurants.

1. The only way of marketing followed by majority of the restaurants was through pamphlets distribution, which is not much effective.
2. Scalability is tough, with hardly two phones at the counter, which will remain busy during peak hours and thus lose many orders.
3. Restaurants don't think of this as a service; therefore packaging and promptness in delivery is a problem

Thus, Mr. Vikas identified the need of a food tech startup, which can help restaurant owners to overcome such obstacles and achieve growth.

Benefits to Customers:

- Wide range of restaurants to choose from
- Better explanation of the dishes in the menu
- Convenience of placing order with few clicks
- Convenience of online payment

Overview/ Anlysis

Business Model:

It was a commission based business, where restaurants were charged commission against the business generated for them. Such commission may vary from 10% to 15% depending on the type, size and location of the restaurants. In case of any Quick Service Restaurants (QSR) chains of a brand, commission remains low, but for individual restaurant its high.

Approaching Investors:

While approaching investors for funding, the team of ABC Ltd. had to face difficulty of changing their conventional thinking about food business. Generally, in the food business, there are 3 things on which a company needs to have control.

1. Sourcing of raw material.
2. Cooking great food.
3. Delivering it on time to the customer.

But ABC Ltd. started as an aggregator, and controls none of the mentioned things. Thus, not adding any value in the food business. However, Mr. Vikas & team explained them, that there is value in being an aggregator, as ABC Ltd. has technology to optimize the efficiency of a restaurant and a hassle-free experience for a customer to buy food online or from an app. This enabled them to generate some funds, after approaching number of investors.

Approaching Restaurants:

This was quite challenging for the team of ABC Ltd., because of the restaurant's attitude that 'I don't need you' and business running fine. But the sales team used to explain the restaurant owners, that once you are online, people will review you and you will gain credibility, plus you will still be delivering in the same 3km but quite likely you will have more orders. Since it is online, taking an order is not a hassle and restaurant will be optimized.

Marketing:

ABC Ltd. involved in various Marketing activities such as, Digital marketing through Google's pay per click, search engine optimization, social media marketing, campaigns on FM radio, TV, branding in registered restaurants & so on. All these activities were done with the hope that people who land on the page will actually convert into orders.

Offering Discounts:

In the Indian context, discounts are necessary, to get more customers to the digital platform. Discounts work, but the concern is how long one can do this so that the customer becomes sticky and used to the product. If a company stops offering discounts, then there is almost a 40% drop in orders.

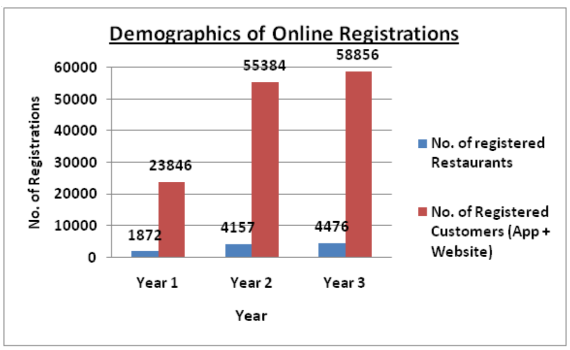
Revenue Options:

- **Commission**: That's the primary source of revenue. It ranges between 10% to 15% depending upon type, size and location of the restaurants.
- **Paid Listings**: Here restaurant gets listed in the top search results, whenever a customer searches for a restaurant in his area. The sales team were selling such listings for different time slots, like 8am to 11am, 11am to 2pm, 2pm to 5pm, 5pm to 8pm and 8pm to 11pm. These listings were sold in different clusters of 3km area. In the later stage, few more listings were added, such as 'Trending Dishes' and 'Trending Restaurants'.
- **Getting restaurants to fund discounts**: The USP here is that discounts work. The sales team used to explain the restaurant owners that, once their kitchen has become efficient and fixed cost pretty much remains the same, (except if they add more delivery boys), they should offer some discount. If they don't, their competitor will. However, from company's point of view this will not be considered as a separate source of revenue. The discounts will increase the number of orders, which will increase the commission amount.

STATUS REPORT
Consumer Response:

- **Website**: As per the general trends, bounce rate is 30% for the website visitors. From the remaining 70%, 30% scroll for their favorite restaurant. If they don't like substitute restaurants, they'll bounce. Thus, hardly 30% of the visitors got converted.
- **App**: Due to marketing efforts, lots of customers were downloading & installing the app, but only 25% remains active. Few others, say 10% occasionally use the app to order some food. During discounts, 55% to 60% becomes active, but during that period margin money is very less.

Demographics of Online Registrations	Year 1	Year 2	Year 3
No. of registered Restaurants	1872	4157	4476
No. of Registered Customers (App + Website)	23846	55384	58856



As mentioned in the above chart, 'No. of registered restaurants' increased by whooping 122% from 1872 in the year 1 to 4157 in year 2, however, in third year the growth was only 7.6%. Similarly, 'No. of Registered Customers (App + Website) witnessed 132% growth in the Year 2, which was decreased to 6.2% in the third year.

Expenses:

Following are the major expenses; ABC Ltd. has to bear during last three years:

Year 1

Particulars	Amount (Rs.)
Website & App Exp.	150,000
Office and Admin Exp.	480,000
Marketing Exp.	2,000,000
Staff Salaries	
Slaes Team (10 No.s)	3,000,000
IT (3 No.s)	900,000
Admin/ HR (2 No.s)	480,000
Miscellaneous Exp.	300,000
Total	**7,310,000**

Year 2

Particulars	Amount (Rs.)
Website & App Exp.	50,000
Office and Admin Exp.	480,000
Marketing Exp.	1,600,000
Staff Salaries	
Slaes Team (8 No.s)	2,880,000
IT (2 No.s)	720,000
Admin/ HR (1 No.s)	240,000
Miscellaneous Exp.	200,000
Total	**6,170,000**

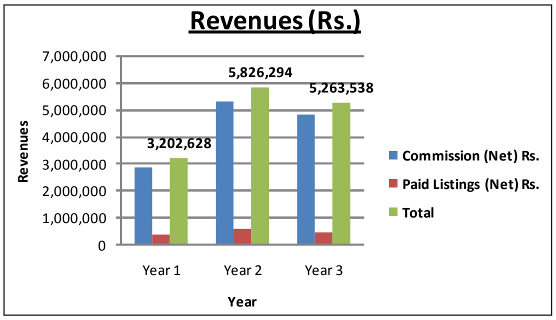
Year 3

Particulars	Amount (Rs.)
Website & App Exp.	150,000
Office and Admin Exp.	480,000
Marketing Exp.	1,600,000
Staff Salaries	
Slaes Team (8 No.s)	2,880,000
IT (2 No.s)	720,000
Admin/ HR (1 No.s)	240,000
Miscellaneous Exp.	200,000
Total	**6,270,000**

Revenues:

From the revenue sources discussed above, ABC Ltd. able to generate following revenues in the last three years:

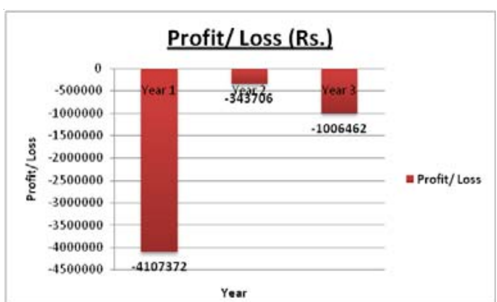
Revenue Sources	Year 1	Year 2	Year 3
Commission (Net) Rs.	2,852,628	5,276,294	4,813,538
Paid Listings (Net) Rs.	350,000	550,000	450,000
Total Rs.	**3,202,628**	**5,826,294**	**5,263,538**



As shown in the above chart, total revenues were increased 81.9% in the Year 2, but in the year revenues were declined by 9.6%.

R.O.I.:

	Year 1	Year 2	Year 3
Revenues	3202628	5826294	5263538
Less: Expenses	7310000	6,170,000	6270000
Profit/ Loss	**-4,107,372**	**-343,706**	**-1,006,462**



The ROI was negative in all the three years. However, in Year 2 the loss was declined by 91.6%, but in the year 3 loss increased by 192.8%.

Reasons for decline during Year 2 to Year 3:

During this period, too many players jumped in. and the sector became overflowed with 'me-too' startups. This led to signing up restaurants at low commission, sometimes even at no commission and offering huge discounts to the customers, expecting loyalty in short term. However, the customer went where they saw a better offer. Thus, in the haste to emerge out at the top, many firms exhausted their resources.

All these affected the growth prospects of ABC Ltd. too. The sales team was trying hard to get new registrations of restaurants and customers, but many existing registrations were shifting to the competitors who offered more discounts. Thus, net growth of no. of registrations was limited to 6-7% only. By the end of year, few big food-tech MNCs entered in to the Indian market with huge investments in technology and marketing, which resulted in exit of several indigenous startups.

Few companies adopted kitchen-based model, in which they control the experience — from cooking to packaging to delivery through their own teams. They believed that, the kitchen-based model gives the start-ups complete control over the process and quality of food, which is lacking in the aggregator model, and helps them reach profitability faster.

CASE PROBLEM

Problems or Issues:

- Increase in losses
- Intense competition and low margin
- No Control over quality of food and delivery experience
- Lack of Customer loyalty
- Single bad experience of customer from an order of any one restaurant, could highly affect the aggregator's Brand and may lose consumer forever

<u>Questions</u>:

- How can ABC Ltd. tackle the challenge of increasing losses?
- Should company adopt the kitchen-based model to ensure better control over the process and quality of food at the cost of scalability?

SOURCES OF DATA:

Primary: The startup was contacted and personal meeting was conducted to know the facts and details.

Secondary: Research Journals, Magazines, e-newspapers & websites were referred.

<u>Note</u>: Real identity of the startup has not been revealed in the case. Mr. Vikas & ABC Ltd. are fictitious names.

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