

ZOMATO

TEACHING NOTE

SYNOPSIS

In 2024, Zomato, one of the most well known food delivery services in India, struggled to maintain a balance between steady profitability and growth. The company's sales and gross order value had increased remarkably, but its main food delivery vertical was facing difficulties staying profitable. Blinkit, Zomato's quick commerce business, was a major area of focus. Even though Blinkit had shown promise, growing the company and turning a profit were still difficult tasks. The business had to maintain a balance between cost minimization, operational effectiveness, and optimal expansion. At the same time, Hyperpure also went through severe regulatory challenges.

TEACHING OBJECTIVES

Objective 1: To teach students to analyze the challenges of balancing rapid growth and profitability in a competitive market.

Objective 2 : To make students understand the importance of regulatory operations and potential implications of adverse incidents.

Objective 3 : To teach students how to assess expansion decisions.

DILEMMA BEING FACED BY ZOMATO

1. Profitability Pressure: Zomato's main food delivery service was facing problems in terms of making a profit despite its strong expansion.
2. Balancing Growth & Profitability: Maintaining profitability across the various business divisions especially Quick Commerce- Blinkit while pursuing ambitious expansion & innovation in terms of building more dark stores and warehouses
3. Regulatory Issues: Hyperpure, Zomato's B2B business was facing regulatory scrutiny from the Food Safety and Standard Authority of India due to the discovery of mushroom packets with a future manufacturing date.
4. Intense Competition : Even though Zomato had the largest market share, its close competitor Swiggy was also doing very well resulting in potential supply chain pressures, price wars, heavy investments and profitability.

QUESTIONS RELEVANT FOR DISCUSSION

1. Should the company prioritize expanding Blinkit stores over more cities or should it prioritize deepening its market penetration in the existing cities?
2. Analyze the impact of the FSSAI incident at Hyperpure on the company.
3. Assess and discuss Zomato's profitability.

ANALYSIS: ASSIGNMENT QUESTIONS

1. **Should the company prioritize expanding Blinkit stores over more cities or should it prioritize deepening its market penetration in the existing cities?**

Using PORTER'S 5 Forces to analyze if the company should focus on expanding Blinkit stores over more cities or deepen its market penetration in existing cities-

- a. Threat of new entrants
As new players frequently rush into the market owing to the lack of high entry barriers, the quick commerce industry faces a high risk of new entrants which makes it a highly competitive market for Blinkit.
- b. Bargaining power of supplier
With a wide-reaching network of suppliers, including grocery chains, local stores, and logistics partners, Blinkit provides a platform for customers to get their essentials delivered to their doors within a few minutes. A diverse supplier base limits dependence on any one source, leading to moderate supplier bargaining power.
- c. Bargaining power of buyers
Buyers have high bargaining power because there are a large number of players in the market and thus, a lot of options available to them. So competitive prices become a requirement.
- d. Threat of substitute products
There are indirect and direct substitutes to the service that Blinkit provides. The offline grocery stores act as indirect substitutes while competitors like Zepto, instamart, etc are direct substitutes.
- e. Competitive rivalry
Having high market share competitors like Zepto, Instamart, Flipkart Minutes, etc., Blinkit has high competition from them.

Evaluating the Porter's 5 forces analysis, Blinkit needs to have a balanced approach of spreading itself over newer cities and also deepening in the cities it already serves to counter the intense competition and severe threat posed by substitutes.

2. Analyze the impact of the FSSAI incident at Hyperpure on the company.

PESTLE framework can be used to analyze the implications of the FSSAI incident at Hyperpure on the company.

1. Political Factors
Regulatory Scrutiny: Potential political pressure from the government and any fine and penalties against the Company.
It may also lead to firmer regulations on the food supply chain by FSSAI.
2. Economical Factors
Financial losses: Zomato might have to incur penalties and high costs of corrective actions to gain back trust of customers and investors.

Declining profitability: Due to high cost of corrective measures and low revenue due to low trust of customers and as they might be shifting to other alternatives, Zomato might have to face low profitability.

3. Social Factors

Negative brand image: Consumer perception of food safety and quality can be hampered due to the ruined public brand image of Zomato

Social media campaigns: These days social media plays a significant role in spreading information. This information spread can have huge negative impact and significantly decline sales.

4. Technological Factors

Need to employee quality control & AI enabled systems

5. Legal Factors

Lawsuits: The incident can result in legal cases by consumers and other stakeholders.

6. Environmental Factors

Sustainability concerns: There could be sustainability concerns with respect to food wastage and other similar issues.

3. Assess and discuss Zomato's profitability.

Using the Profitability Framework to analyse the revenues and costs of Zomato. Profits can be understood as a function of revenue and cost. Profits of Zomato might have been low due to either a decrease in the revenue or increase in the cost structure. Revenue can be further analysed by understanding price and quantity.

Price:

Price Discrimination: Zomato employed various pricing strategies, such as surge pricing during peak hours and promotional offers for new users.

Gold Subscription : Zomato's Gold Subscription readily available at low prices- Rs 30 for 6 months.

Price Points: Zomato offered a wide range of price points to cater to diverse customer segments:

- 1) Delivery Fees: Varying delivery fees based on distance, order value, and time of day.
- 2) Restaurant options: Range from budget options to fine dining.
- 3) Cuisine Variety: Variety of options with varied price points.

Quantity:

Demand: The 4A analysis can help understand how Zomato can increase demand by making customers more aware of its services, making it easier to use, more affordable and more acceptable.

- 1) Awareness: The use of marketing campaigns, social media, or marketing and collaborating with influencers makes Zomato more known.

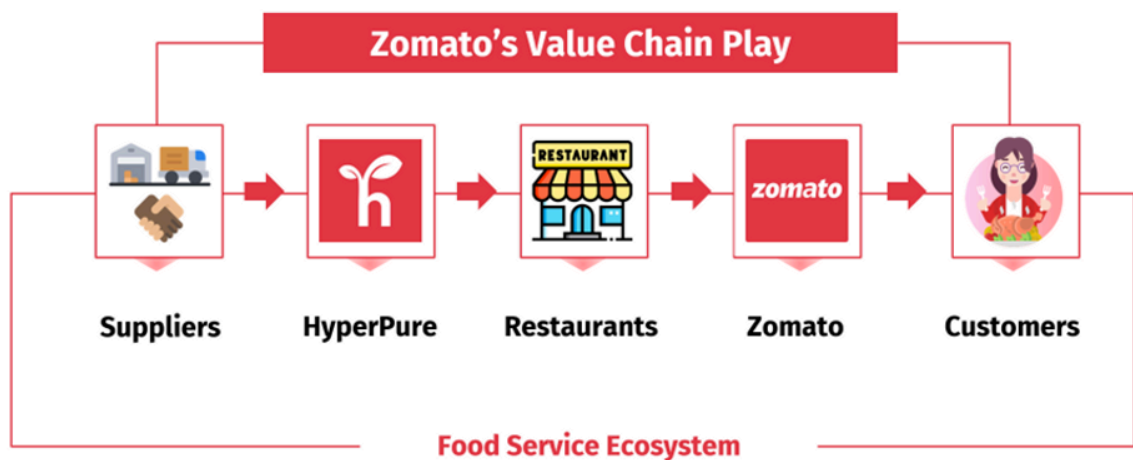
- 2) Accessibility: The Zomato app enables people to get many different restaurants and delivery options. With the various features such as
 - a. Zomato everyday
 - b. Food on Train
 - c. Large Order Fleet
 - d. Zomato Legends,

Zomato is able to accommodate a greater audience.

- 3) Affordability: Zomato has a range of prices and promotional offers that one can afford.
- 4) Acceptability: Food quality, delivery time, and service have a great impact on customer acceptability, and thus the likelihood of re-ordering.

Supply:

- 1) Procurement: Quality- In order to make Hyperpure profitable, it is important to procure quality raw materials at the right price.
- 2) Production: This makes streamlined order fulfillment and operations at restaurants vital for accurate and optimal delivery of orders.
- 3) Distribution: Making sure a package could get to a customer quickly, including not just optimized delivery routes but also a dependable fleet of delivery partners.



As per Zomato's P&L Statement, there is an increase in the cost of Zomato leading to low profits and hence can be further broken down and analysed:

- 1) Fixed Costs:
 - a. Rent,
 - b. Salaries
 - c. Technology infrastructure,
 - d. Marketing expenses
- 2) Variable Costs:
 - a. Delivery costs (fuel, driver incentives)
 - b. Food costs (for Hyperpure)
 - c. Commissions paid to restaurants