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9B21M032

LiqHub: Managing Contactless delivery of liquor in The Pandemic Age

Saurabh Kumar wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On May 31, 2020, a fine, mellow morning, the team at the liquor delivery business LiqHub was busy with its month-end targets and elated by the company’s propitious step in the Indian market. While the founders were happy with their initial success and the government’s validation of their business model,[[1]](#footnote-1) their intuition told them they would need to replicate this success on a large scale across India. The company was evaluating various options for growth: diversification, product development, market penetration, and market development. The founders also had to devise an effective operational strategy for LiqHub during the pandemic.

Background

LiqHub was a one-stop solution for any alcoholic beverage need, where customers could browse, learn about, and order their favourite beverages and have them delivered to their locations. LiqHub provided contactless delivery, which was instrumental during the pandemic, while the norms of social distancing needed to be followed. LiqHub’s intention was to provide contactless delivery of alcoholic beverages to all the states of India. Shashank Chandel, a master of business administration graduate from one of the top business schools in India, was the chief executive officer (CEO) of LiqHub. He described his team as “small and mighty,” and noted that they were passionate about “high spirits.”The main pillars in his team were Aryan Solanki,a Stratford University graduate and the technology mastermind; Dhruv Khandelwal, who administered the fleet services; and Rasvinder S. Rasia, who took care of the logistics in LiqHub.

The liquor business that LiqHub operated in was viewed negatively in Indian society,[[2]](#footnote-2) which considered consumption of alcohol to be very bad due to the related issues of crimes against women[[3]](#footnote-3) and increased alcohol-related road accidents.[[4]](#footnote-4) LiqHub understood these issues and the related social taboos, and thus it adhered to the standards of corporate social responsibility and service. For example, LiqHub had helped various non-governmental organizations spread awareness about the negative effects of drunk driving.

GLOBAL ALCOHOLIC BEVERAGE MARKET

The global alcoholic beverages market, valued at US$1,439 billion in 2017, was expected to reach US$1,684 billion by 2025 and had registered a compound annual growth rate (CAGR) of 2.0 per cent from 2018 to 2025.[[5]](#footnote-5) This growth could be attributed mainly to the rise in disposable income and a growing young‐adult population and consumer demand, especially for premium commodities. Revenue in the alcoholic drinks market worldwide was forecast to amount to US$1,665,698 million by 2021. The market was expected to grow annually at an 8.7 per cent CAGR in 2020–2023.[[6]](#footnote-6)

Around the world, people in most regions preferred traditional local alcoholic beverages. Only a few commodities—like beer from barley and wine from grapes—were produced commercially on a global level. Their pricing depended on a combination of factors including the cost of production and the duties levied on this cost. However, increasing health consciousness[[7]](#footnote-7) globally and the development of honey-derived alternatives[[8]](#footnote-8) posed a great threat to the future growth of this market.

The global alcoholic beverage market could be analyzed using various parameters such as type, distribution channel, and region. The market was classified according to type, such as beer, distilled spirits, and wine (see Exhibit 1), or distribution channel, such as convenience stores, on-premises locations, liquor stores, grocery shops, Internet retailing, and supermarkets (see Exhibit 2). Alcoholic beverages could be further divided into popular, prestige, and premium categories. From 2016 to 2021, net sales in the popular category of alcoholic beverages were expected to increase by 3 per cent, net sales of prestige alcoholic beverages were expected to increase by 12 per cent, and net sales of premium alcoholic beverages were expected to increase by 14 per cent (see Exhibit 3).

ALCOHOLIC BEVERAGE MARKET IN INDIA

India was one of the largest consumers of alcohol in the world. The alcohol industry contributed almost ₹2 trillion[[9]](#footnote-9) through various taxes, accounting to roughly 20–40 per cent of most states’ tax receipts. The alcohol industry sustained the livelihoods of nearly four million farmers and employed nearly two million people directly or indirectly,[[10]](#footnote-10) making the beverage market one of the most significant contributors to the Indian economy.

India was one of the fastest-growing alcohol markets in the world. The sale of alcoholic beverages had increased by 38 per cent between 2010 and 2017, from 4.3 to 5.9 litres per adult per year.[[11]](#footnote-11) Per capita consumption of alcohol per week was estimated at 147.3 millilitres (ml) for 2016, and it was expected to grow at a CAGR of 7.5 per cent to 227.1 ml by 2022.[[12]](#footnote-12) However, India’s per capita consumption of alcohol was quite low compared to that of other countries[[13]](#footnote-13) (see Exhibit 4). This indicated not only that average revenue per capita was very low but also that there was enormous untapped potential revenue still in the market.

BUSINESS MODEL

LiqHub’s business model unfolded in two phases. During the first phase, LiqHub’s strategy was to partner with retailers and distributors to deliver alcoholic beverages to end-customers. Its core strategy in this phase was focused on bringing and retaining customers. In this phase, revenue came through two modes: a percentage margin and delivery charges. In the percentage margin mode, LiqHub took fixed percentage margins, which depended on the product segments, from retailers as distribution charges; in the delivery charges mode, it charged fixed delivery fees to the customers, depending on their distance from the store.

LiqHub also introduced additional features in the first phase, including services like delivering food and providing bartenders and disc jockeys (DJs) at customers’ locations for a complete experience. It charged for these services based on a rental model (i.e., per hour and per drink served). This unique offering set LiqHub apart from its competitors.

In December 2020, LiqHub was in this first phase of its business model and contemplating the second phase, which could help it to become the dominant player in this market. LiqHub was thinking of partnering with different alcoholic beverage companies and event organizers in the second phase, when the core of its developmental strategy would be customer retention. LiqHub’s goals in the second phase would be to partner directly with alcoholic beverages companies to secure the right to distribute online orders for a higher margin and also to partner with event organizers to establish a platform that would make tickets available to customers. LiqHub expected to earn a revenue of ₹70 million in the financial year (FY) 2020–21. This was expected to increase to ₹500 million in the next FY, 2021–22.[[14]](#footnote-14)

PRODUCT DIFFERENTIATION

LiqHub’s focus on animating the user experience made it stand apart in the market. Not only did the company make it easy for customers to browse products and learn about them on a technologically sophisticated platform but it also provided additional features like delivery of food and other party essentials to create a good experience for customers. The company also offered the option to invite bartenders and DJs to individuals’ locations in order to customize their parties at an affordable price. The complete experience LiqHub offered to its customers was setting it apart.

ADVANTAGES FOR GOVERNMENT

LiqHub offered many advantages for the government, including processes that eased auditing and accounting related to liquor consumption in each state. The LiqHub platform ensured proper background checks and verified customers’ ages and addresses. While retail sales of alcoholic beverages were shut during the pandemic-related lockdowns, LiqHub provided online delivery of liquor to customers, and the tax on the sale of these alcoholic beverages was collected by the government. This proved to be quite beneficial for the government.

By allowing customers to order alcoholic beverages from their homes rather than driving to a store, LiqHub was helping reduce traffic accidents—and potential impaired driving incidents, in the event that a customer was already intoxicated when driving to buy more alcohol. LiqHub was also able to help the government better manage traffic movement. Alcoholic beverages delivered to consumers’ doorsteps could reduce traffic and avoid unnecessary movement and illegal parking that had been observed near retail stores during peak hours.

ADVANTAGES FOR CUSTOMERS

LiqHub provided various advantages to customers. The company was able to provide alcoholic beverages to customers’ homes using contactless methods. This online delivery service was very beneficial during the lockdown phase of the pandemic. LiqHub’s online portal provided a wide range of options to the customers, including wine, whisky, beer, and others. Customers were able to order online and could also get access to feedback and ratings of particular drinks—including those that were also available from certified retail stores—based on other customers’ comments. This enhanced the overall customer experience.

LiqHub’s website also included a help and support tab for all users, where customers could provide positive or negative feedback about various issues such as the quality of the beverages, the timeliness of deliveries, and the behaviour of the delivery personnel. LiqHub was active on social media platforms (e.g., Facebook, Twitter, Instagram, LinkedIn) where users could receive company updates and subscribe to a newsletter to receive offers, updates, and interesting ideas for specialty alcoholic drinks.

LiqHub could also assist in handling medical referrals in cases where liquor consumption was necessary for health reasons. For example, in some cases (such as in Kerala and Meghalaya during the lockdown phase of the pandemic), alcohol was even served to patients according to their doctors’ prescriptions.[[15]](#footnote-15)

COMPETITORS

HipBar

HipBar Private Limited (HipBar) was a significant competitor for LiqHub. Founded by industry insiders with significant experience in the beverage alcohol industry, HipBar was born out of a desire to create a responsible digital ecosystem with a vision to help India “drink wiser.” This ecosystem served as a verified network, with sustainability at its core.[[16]](#footnote-16) Its owners believed in digitally transforming the alcohol industry and buying experience while fostering a safe and responsible drinking environment. They provided a scalable digital infrastructure, establishing a presence-less, paperless, and cashless delivery service that ensured the security of data and compliance with laws.[[17]](#footnote-17) HipBar users could quickly locate stores, check drinks availability, and place their orders on the company’s mobile application (app). In addition to partnering with retailers, HipBar had partnered with some top brands and companies in the beverage alcohol industry (e.g., Bira, Brown-Forman, Diageo, AB InBev, and Grover Zampa Vineyards) to help the brands connect with customers and build better relationships.[[18]](#footnote-18)

Swiggy

As the demand for liquor surged during the coronavirus lockdown in India, Swiggy—one of the country’s top food-delivery start-ups—started delivering alcohol in Jharkhand, Orissa, and West Bengal, after obtaining the necessary approvals from the state governments,[[19]](#footnote-19) and it looked forward to expanding to other states in the country. Swiggy made alcohol available under the Wine Shops category in its updated app.[[20]](#footnote-20) To ensure that it abided by the law while delivering alcohol, the company took measures like mandatory age verification and user authentication via one-time passwords to complete deliveries. Swiggy stated that its partner app would allow different retail outlets to integrate with its operations seamlessly.[[21]](#footnote-21)

Zomato

Zomato, another food-delivery giant, was also strongly considering the opportunity alcoholic beverage delivery provided. The company entered the business in the states of Jharkhand[[22]](#footnote-22) and Orissa, and it was keen to grow across India. Zomato claimed to provide web- and app-based solutions to facilitate real-time inventory management to retailers.[[23]](#footnote-23) Its existing technology and infrastructure aided in the delivery of alcohol safely and responsibly, ensuring customer satisfaction and therefore not only generating additional business by capturing the untapped market but also emphasizing social distancing and customer safety.

PROBLEMS FACED BY LIQHUB

The LiqHub team was facing various problems in managing its supply chain. Some of these included developing a network of trustworthy retailers who could ensure quality checks, updating the stock continuously, and maintaining sufficient stock to avoid customer dissatisfaction.

Other problems faced by LiqHub were related to delivery personnel. The delivery team was supposed to be the face of the LiqHub company to the customers; its core responsibility was to ensure timely delivery of alcoholic beverages. However, the LiqHub team faced challenges: some delivery personnel were charging customers extra, they were delivering the beverages in the absence of customers, or they were not checking identification while delivering alcoholic beverages. Sometimes, the delivery personnel also treated customers rudely or inappropriately.

The next set of problems for LiqHub were related to technology and its integration. These included problems related to providing multiple electronic payment options for customers and maintaining the privacy of customer data. LiqHub’s technology platform currently had only two modes for payment: debit or credit cards and online banking. The company needed to provide multiple options for payments, including unified payment interface (UPI)–based payments and wallet-based payments. The company faced issues in maintaining data privacy because it collected the personal data of its customers, including their identity proof and mobile numbers, which had to be stored safely in the database.

ALTERNATIVES FOR LIQHUB

LiqHub had been contemplating various available options to overcome these problems. First and foremost, LiqHub was thinking of growing capital from angel investors. The company was also considering seeking a business partnership or alliance to strengthen its presence in the market. These steps could help it to grow its finances, resources, market reach, and thus overall revenues. Second, LiqHub was focusing on expanding its team in order to improve its marketing and sales activities. A larger team would help the company cater to the needs of a greater number of customers and hence cover a broader market. Third, LiqHub was thinking of diversifying into a wide range of other products. Finally, LiqHub was focusing on optimizing its supply chain in order to cater to the needs of customers during the pandemic. Each of these options had some pros and cons associated with its implementation.

DECISION

The CEO of LiqHub was still contemplating the various growth strategies that could be adopted for LiqHub. The founders of the company had to make a decision regarding which growth strategies to adopt: should they diversify or focus on product development, market penetration, or market development?

EXHIBIT 1: GLOBAL ALCOHOLIC BEVERAGES MARKET (BY TYPE)

Beer Spirits Wine Others

2018

2025

Types of Alcoholic Beverages

1. 150,000 280,000

Consumption (in million litres per year)

Source: Allied Market Research, *Alcoholic Beverages Market by Type (Beer, Distilled Spirits, Wine, and Others) and Distribution Channel (Convenience Stores, On Premises, Liquor Stores, Grocery Shops, Internet Retailing, and Supermarkets): Global Opportunity Analysis and Industry Forecast, 2018–2025*, Allied Market Research, n.d., accessed June 19, 2020, www.alliedmarketresearch.com/alcoholic-beverages-market.

EXHIBIT 2: GLOBAL ALCOHOLIC BEVERAGES MARKET (BY DISTRIBUTION CHANNEL)

Convenience Stores

2018

2025

On Premises

Liquor Stores

Grocery Shops

Internet Retailing

Supermarkets

Distribution Channels for Alcoholic Beverages

Number of Buyers

Exhibit 2 (continued)

| **Category** | **Number of buyers in millions 2018\*** | **Number of buyers in millions**  **2025\*** |
| --- | --- | --- |
| Convenience Stores | 130 | 170 |
| On Premises | 120 | 155 |
| Liquor Stores | 130 | 170 |
| Grocery Shops | 110 | 126 |
| Internet Retailing | 100 | 124 |
| Supermarkets | 140 | 175 |

Note: \* = indicative values

Source: Allied Market Research, *Alcoholic Beverages Market by Type (Beer, Distilled Spirits, Wine, and Others) and Distribution Channel (Convenience Stores, On Premises, Liquor Stores, Grocery Shops, Internet Retailing, and Supermarkets): Global Opportunity Analysis and Industry Forecast, 2018–2025*, Allied Market Research, n.d., accessed June 19, 2020, www.alliedmarketresearch.com/alcoholic-beverages-market.

EXHIBIT 3: SPIRITS NET SALES (CAGR)

Premium

Prestige

Popular

Premium

Prestige

Popular

2016

2021

|  |  |  |
| --- | --- | --- |
| **Category** | **2016\*** | **2021\*** |
| Popular | 100 | 103 |
| Prestige | 100 | 112 |
| Premium | 50 | 57 |

\* Indicative values

Note: CAGR = compound annual growth rate.

Source: Motilal Oswal Securities Ltd., *United Spirits: Longer-Term Opportunity Intact*, 4, Motilal Oswal, June 6, 2017, accessed June 19, 2020, www.motilaloswal.com/site/rreports/HTML/636324289559593674/index.htm.

EXHIBIT 4: ALCOHOL CONSUMPTION VersuS PER-CAPITA Gross Domestic INCOME

Note: GDP = gross domestic product; US = United States; UK = United Kingdom.

Source: “Alcohol Consumption vs. GDP per Capita, 2016,” Our World in Data, accessed February 12, 2021, https://ourworldindata.org/grapher/alcohol-consumption-vs-gdp-per-capita?time=latest&country=IND~CHN~FRA~DEU~AUS~CAN~USA~GBR.

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