

## AMAZON FOOD: BITING INTO THE FOOD DELIVERY MARKET IN INDIA<sup>1</sup>

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In March 2021, Amazon.com, Inc. (Amazon) India expanded its online food delivery service, called Amazon Food, in Bengaluru, India.<sup>2</sup> Amazon initially entered the online food delivery business in India in May 2020 with a pilot test in areas of Bengaluru.<sup>3</sup> May 2020 saw the main players in the market, Swiggy and Zomato Ltd. (Zomato), slumping, so Amazon Food's move had surprised industry experts and observers. Also in May 2020, quite a few restaurants were moving away from aggregator platforms amidst the COVID-19 pandemic due to irreconcilable differences between restaurant operators and food service aggregators (FSAs).<sup>4</sup>

The industry had witnessed consolidation even before the pandemic. Pre-pandemic, Ola (formerly OlaCabs) had shuttered its Foodpanda delivery arm, and in January 2020, Uber Technology Inc.'s Uber Eats sold its Indian operations to Zomato. Swiggy and Zomato had effectively become a food delivery duopoly. However, both players were being battered by economic conditions, struggling to keep cash burn low, squeezing delivery executives' commissions, executing mass layoffs, and scaling down profit-draining cloud kitchens.<sup>5</sup> As the pandemic ramped up, hygiene and safety standards in the food delivery business became paramount. Restaurants were struggling to remain profitable, having lost their dine-in clientele. Cloud kitchens had popped up, which enabled restaurants to focus on food preparation while servicing clients exclusively through delivery and pickup services.

In these circumstances, Amazon India felt that it had an opportunity to act. It had postponed its market entry from 2019 to May 2020, but now felt it was time to proceed. An Amazon spokesperson said, "Customers have been telling us for some time that they would like to order prepared meals on Amazon in addition to shopping for all other essentials. This is particularly relevant in present times as they stay home safe."<sup>6</sup>

Amazon Food was a small part of a formidable global company with sizeable resources. It first launched in a small part of Bengaluru, and after experimenting in a few postal code areas, the questions it needed to answer before fully entering the market were: Did Amazon India possess the strengths—digital capabilities, scale, and reach—to enter the food delivery business with confidence during a pandemic? What obstacles could it expect in the entry and expansion stages? What unique and innovative experiences could it create for consumers who were bored with the drab existing delivery format that would allow it to stand out and establish a connection with consumers?<sup>7</sup>

## FOOD DELIVERY IN INDIA

Asia was the largest market for online food delivery globally with revenue of US\$45 billion<sup>8</sup> in 2018, expected to reach \$100 billion by 2025. While China held the major share, with 73 per cent, India was second, with 13.2 per cent.<sup>9</sup> According to one report, the food delivery market in India was set to double from an estimated \$3.6 billion in fiscal year (FY) 2020 to \$8.6 billion by FY 2025. The same report estimated that Zomato had about 55 per cent market share, while Swiggy had more than 60 per cent revenue share. The launch of Amazon Food had the potential to impact both Zomato and Swiggy over the medium to long term.<sup>10</sup> India's food delivery market was challenging because of local conditions. Unlike in developed countries like the United States, where the value of each delivery item was around \$33, a similar product in India had a price range of \$4, and established players like Zomato and Swiggy had significantly improved their economies of scale in the past year.<sup>11</sup>

### Power Play

Despite the seemingly conducive climate for growth, the Indian food delivery industry was fraught with challenges. New entrants found it difficult to stay afloat—several players, such as Uber Eats, had failed—and the organizations that had survived, namely, Zomato and Swiggy, found themselves struggling with cash burn and revenue losses. Because of the insurmountable challenges and hurdles, Swiggy and Zomato were looking beyond food at a hyper-local delivery model.

Besides this, the National Restaurant Association of India (NRAI) and Zomato had serious differences over pricing and discounts, which divided the industry, with Zomato on one side and other aggregators and the NRAI on the other. The acrimonious relationship between restaurant partners and existing FSAs had led to three broad categories of complaints against the leading players: high commissions, a lack of transparency in pricing, and the masking of user data. This acrimonious battle had led the NRAI to work with the software platform DotPe Private Limited to create a dedicated ordering system for its own member-restaurants. The NRAI's chairperson, Anurag Katriar, believed that consumer data needed to be shared with restaurants for transparency's sake and that restaurant partners ought to be allowed to ship their own products.<sup>12</sup>

### Pandemic Wins and Woes

Prior to the pandemic, consumers in India had been moving to online food ordering and delivery in a big way, forcing restaurants to accept this reality.<sup>13</sup> With restaurants being cornered, FSAs became predatory and pushed restaurants to succumb, causing conflict.<sup>14</sup> Meanwhile, cloud kitchens were gaining popularity because of their food-focused approach, where cooked meals were packed and delivered to-order by a dedicated fleet.<sup>15</sup> This not only cut real estate costs—which were hurting restaurant owners<sup>16</sup>—but also suited mobile ordering because of the large pool of third-party services that made online food delivery easier. There were six FSA business models in India (see Exhibit 1); on one end of the spectrum was the independent cloud kitchen model with no seating space or physical store front, and on the other end was the infrastructure services business model, such as the one adopted by Zomato.<sup>17</sup> In between ranged a mix of these two models. The pandemic, however, had led to a major shift in consumer behaviour. Fear and the need for assurance of the highest levels of hygiene and safety had resulted in a slew of innovations, such as contactless delivery, sanitization certifications, safe distance maintenance, and cashless transactions.

## Ease of Use

FSAs offered choice, convenience, customizability, coupons, clubs, and contactless service (the last had been necessitated by the pandemic) to their customers, along with many features, including order tracking, GPS-enabled doorstep delivery, various delivery options, and even a human-less interface user experience. Through FSAs, customers could choose from the menu and eatery of their choice and select discounts without having to negotiate with anyone. Standardization, following the elimination of the human element, and customization options helped FSAs strengthen themselves and quickly align user-interface elements with customer feedback. They delivered across wider areas and provided a range of food choices with better packaging and insulation than traditional restaurant operators. The FSAs' weaknesses included thin margins per order, an unstable workforce due to rampant hire and fire practices, marketing-related cash burn, lack of direct control over taste and quality of food, and customer loyalty influenced by each customer moment-of-truth episode.<sup>18</sup> However, the positives included a growing middle class with an increasing disposable income, working professionals and couples seeking convenience and value for money,<sup>19</sup> an aversion to home cooking in those with a time-crunched lifestyle, a great deal of eateries in Tier 1 and Tier 2 cities<sup>20</sup> as source restaurants, and the availability of varied payment options.

## CLOUD KITCHENS

Cloud kitchens were commercial facilities specifically created to manufacture food for delivery purposes only. These kitchens did not have dine-in facilities. Known variously as commissary kitchens, ghost kitchens, shared kitchens, or virtual kitchens, these establishments hosted "virtual restaurants" that only delivered prepared food. Cloud kitchens hosting a delivery-only mode of operations had been enabled by evolving technology and changing consumer behaviour.<sup>21</sup>

Cloud kitchens were centralized, commercially licensed cooking-service providers, with large warehouse-like spaces that were divided up and used by several independent food-service providers focused on delivery-optimized menu items (see Exhibit 1 for a detailed analysis of the popular cloud kitchen business models). The space could be used by one restaurant running multiple brands, by individual restaurants running their own individual brands, or by a mix of both. Cloud kitchen menu items were designed for both ease of production and food quality reliability on delivery. They were usually located in suburban industrial complexes with facilities for driver parking, food preparation tracking, and seamless pickups. The core benefits of cloud kitchen operations were (1) industrialized food preparation, (2) high-speed order collection and execution, (3) a large area of operational coverage, (4) asset-light infrastructure models for independent brands, and (5) quick expansion opportunities. Primarily app-driven, cloud kitchens had big opportunities in data, such as data mining, geography- and time-specific customization possibilities, food wastage reduction, and real-time order consolidation abilities. According to one expert from the cloud kitchen domain, Amazon, which had been piloting Amazon Food in parts of Bengaluru since May 2020, would probably work on a model like Swiggy and Zomato. In addition, Amazon Food can leverage the service and delivery expertise the company had built in the country through its other offerings, like Amazon Prime Now and Amazon Fresh.<sup>22</sup>

## HOTELS AND RESTAURANTS IN INDIA

According to the apex body of India's hospitality industry, the Federation of Hotel and Restaurant Associations of India, in 2020 India had approximately 53,000 hotels, seven million restaurants in the "organized" sector, and about twenty-three million restaurants in the "unorganized" sector.<sup>23</sup> A 2021 Statista report estimated the market value of India's restaurant and food service industry to be \$54 billion