Top of the Food Chain

Zomato has grown at a rapid pace over the years. Within a few clicks, one can get a list of restaurants, altered to their preferences and price. Here’s how the start-up became a leading foodtech firm.

TEXT: MELISSA FERNANDES

In a 2016 post on the Zomato blog, co-founder Pankaj Chaddah wrote, “In any business, you are only as good as your customers think you are.” While delivering on fickle customer expectations in an arena like foodtech is always a challenge, Zomato, one of India’s leading players in the space has done quite well so far.

Launched as Foodiebay.com in 2008 by Deepinder Goyal and Pankaj Chaddah, Zomato started in Gurugram, and soon expanded to cities such as Kolkata, Mumbai, Bengaluru, and Pune. Presently, Zomato is used by millions of people in over 10,000 cities across 24 countries—Brazil, South Africa, Australia, Indonesia, Sri Lanka, New Zealand, the UK, the US, Canada, the UAE, Italy, and many more. As of October 2018, Zomato achieved a milestone of 21 million monthly online food orders in India alone, excluding around 2 million orders placed over the phone. The company got into online food ordering in 2015 but only received a performance boost after acquiring Runnr in 2017 to get its own delivery fleet. By the end of 2017, it earned 35% of the overall revenue from food ordering, which increased to 65% in September 2018.

A LOOK BACK

The concept of Zomato was born out of the need to make menus easily accessible. While working at Bain &Co., the two founders saw their colleagues go through a hoard of restaurant menu cards just to order food. To declutter this process, they launched

US$ 74 MILLION EARNED IN FY18, AROUND 45% GROWTH FROM FY17

US$ 11 MILLION OPERATING BURN IN FY18, COMPARED TO US$ 15 MILLION IN FY17

US$ 100 MILLION ANNUALISED REVENUE RUN RATE

30% REVENUES EARNED FROM FOOD ORDERING IN FY18, COMPARED TO 18% IN FY17
Foodiebay.com, a website that listed scanned menu cards, reviews of eating joints and recommendations with a mission of ensuring that ‘nobody has a bad meal’. However, the internet had just entered the consumer domain in India and for a platform that initially listed scanned restaurant menu cards, attracting customers was a difficult proposition. In November 2010, they rebranded as Zomato to avoid confusion with the brand eBay.

Further, with an intention to expand and make their initiative more user-friendly, the company launched as an app that could be accessed on smartphones.

**THE STORY SO FAR…**

With its first investment in 2010 by Info Edge, Zomato expanded its resources, refined its technology and accelerated the company’s growth. It also began reaching out to customers overseas. By 2014, it already had its presence in 100 cities in India and across eighteen countries, covering over 69,000 restaurants overseas. It was also one of the first internet companies out of India with such a product for consumers on a global scale. But they did not stop at this. Zomato made five acquisitions in a single year, and by 2015 it had a total of nine acquisitions. It recorded a revenue of ₹30.6 crore for 2013-14, triple the revenue it earned in the previous year. However, its EBITDA loss in FY14 widened to ₹41.28 crore from

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**Deepinder Goyal,**

**Founder & CEO, Zomato**

India is home and has always been our highest priority market. We are committed to building further depth within the country, and are doing everything possible – to enable the growth of the restaurant industry, while helping our users make better food choices.
THE ONLINE FOOD DELIVERY

market’s GMV grew 150% to US$ 300 million in 2016, doubled to US$ 700 million 2017 and is expected to reach US$ 2.5-3.5 billion by 2021. 

future. Zomato’s product enables restaurants and users to interact with each other. Targeting an audience between 20 and 40 years of age, Zomato aims to stay quirky through its list of restaurants categorised in appealing collections including romantic, value for money, legendary outlets, veggie friendly, and luxury dining. Even in its advertisements, it maintains a jovial, fun experience. Over the years, Zomato has monetised by selling ad space, which is supported by a strong content platform. It also launched Zomato Gold, an exclusive members’ only club, in November 2017 that received a tremendous response with over 300,000 paid subscribers and 2,200 partner restaurants in around six months. In their annual report FY18, Zomato Gold was labelled as possibly the fastest user subscription programme in the country with a wait list of 500,000 users.8 In an interview in September 2018, Pramod Rao, VP, Marketing, Zomato said, “In terms of the business split, ad sales currently account for around 70% of revenue, online ordering for around 25% and Zomato Gold and other businesses for the remaining.”

SURVIVAL OF THE FITTEST

Over the past ten years, Zomato has been strengthening its core to accelerate the growth of its business. It has been steadily keeping pace with the growing number of competitors and scaling back on its losses through its innovative products and services. Caught in a battle for market leadership in the food ordering and delivery space, Zomato and Swiggy are said to be the biggest aggregators that have survived successfully among other foodtech startups like Uber Eats and the latest entrant, Ola-Foodpanda. Swiggy launched in August 2014 as a delivery app and Zomato began food deliveries only in 2015. However, Zomato and Swiggy have remained the top two players in the foodtech space. Till date, Zomato has raised a total of US$ 635 million in 11 rounds, and is looking to raise between US$ 500 million to US$ 1 billion from Primavera Capital and Ant Financial in a new financing round. Swiggy has raised US$ 1.45 billion in 8 rounds. Swiggy maintains its position as one of the top players by not only offering food deliveries from big restaurants but also small ones who form a part of the unorganised restaurant sector. On the other hand, Zomato focuses on increasing

Business Model

On Zomato, users can find a restaurant, order food online, reserve tables, browse through the menu, and customise their orders. Users in 38 cities in India and five cities in the Middle East can order food online through Zomato. Online food delivery through Zomato will be launched in other markets too in the

Source: www.zomato.com/blog

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\[\text{\textcurrency\text{\text rs.10.03 \texttext{\text crore previously.10 This did not deter growth, as even before Zomato entered the food-delivery space in 2015, it showed a growing trend in revenues—it grew by 83% to R\text{\textrs.7,883.57 \texttext{\text lakh in FY 2014-15 as compared to FY 2013-14.11 By 2016, Zomato was valued at over US$ 1 billion.12 However, Zomato and its prime competitor Swiggy have been striving to manage costs, fight competition, reduce burn rate and make bigger profits. In mid-2016, amidst rising losses, the company cut its operating costs from US$ 9 million to US$ 1.7 million by pulling out its physical presence in nine countries, including the US and the UK.13 The year 2016 onwards, the food tech sector saw capital dry up as investors hesitated due to the lack of challenges in achieving scale. According to VCCEdge, investments in foodtech posted a 358% increase in deal value to US$ 504 million in 2015 with 85 registered deals. This dropped to 33 deals worth US$ 67 million in 2016 until September.14 However, Zomato and Swiggy survived the bloodbath that ensued due to their sound fundamentals and the sector bounced back with the entry of newcomers like Uber Eats and Ola’s acquisition of FoodPanda, both in 2017.15 Zomato too expanded in more countries, a total of 24 till date, and also launched new products like Zomato Gold, Treats, and hygiene ratings.} \]
its repeat user rate through its subscription and exclusive products.

When it comes to food deliveries, Swiggy has 120,000 delivery agents across India while Zomato’s fleet amounts to 150,000–60% of which are fulfilled by its acquisition, Runrr.21 Fighting for the top spot, both Zomato and Swiggy increased their cash burn by five times since March 2018 to build and strengthen their fleet capacity. As of June 2018, the monthly expenditure of Swiggy was at US$ 16-18 million, while Zomato spends over US$ 20 million and Uber Eats burns US$ 4-5 million. The monthly order volume of Uber Eats is at 4 million, Foodpanda is at 6 million while Zomato and Swiggy are at 21 million and 20 million respectively.22 According to industry experts, while the rising spends is natural in the fight for market share, its impact is crucial in determining success. Ujjwal Chaudhry, engagement manager, RedSeer Consulting, said, “While food aggregators are spending a lot, operational issues will crop up as they scale. The resolution of those issues along with getting the better deal on restaurant exclusivity and gaining customer mind share in a high-frequency space will determine the extent of success.”23 Companies in the food delivery space are continuously looking for new avenues to grow and pushing aggressively to sustain in the market. According to RedSeer estimates, the online food delivery market’s GMV grew 150% to US$ 300 million in 2016, doubled to US$ 700 million 2017 and is expected to reach US$ 2.5-3.5 billion by 2021.24

WHAT NEXT?

After achieving various milestones and rapid growth, Zomato aims to become the biggest farm-to-table food company in the world.25 Mid-2018, it ventured into cloud kitchens, where the chefs prepare food in a physical outlet for orders that they receive online. It invested the first portion of US$ 5 million in Bengaluru-based Loyal Hospitality exclusively for its cloud kitchen project. Loyal Hospitality plans on setting up 10,000 kitchens across the country. According to the agreement, these kitchens will serve Zomato’s orders exclusively with about 200 kitchens in Bengaluru alone.26 Zomato aims to add new products to their mix and increase their delivery fleet through Runrr to boost the revenue earned from food delivery. According to the Statista Online Food Delivery report, food delivery revenue presently stands at US$ 91,701 million and is expected to reach US$ 234,206 million by 2022.27

Zomato has significantly contributed to the growth of the foodtech industry. On the completion of ten years, in a 2018 post, Mr Goyal wrote, “We are working towards the idea of a world wherein most people should have access to safe and nutritious meals at the same price or cheaper than the cost of preparing them at home. We want to solve the need to ‘cook versus eat out/ order’, and see cooking as something that people should want to do because it’s a joyous activity instead of being a chore.”28 Having overcome the initial tumultuous period and firmly establishing itself as a leading player in terms of deciding your next meal, Zomato is in an excellent position to capitalise on the growth of the sector across the length and breadth of the country. ■

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