International Journal of Science and Research (IJSR)
ISSN: 2319-7064
ResearchGate Impact Factor (2018): 0.28 | SJIF (2019): 7.583

Amazon Food, the New Challenger: Growth Issues and Drivers - A Case Study

Srikant Kapoor

Associate Professor, Amity Global Business School, Chennai, India
Email: *skapoor[at]chn.amity.edu*

Abstract: ***The Indian food delivery market was expected to grow seven fold in the next seven years from $ 1 billion in 2018 to $ 7 billion by FY 25, according to Goldman Sachs. There was a high potential in this relatively untapped market. Major players were Zomato,Swiggy and Foodpanda (Ola-owned) and now possibly 'Amazon food'. Amazon India had launched its food delivery service, 'Amazon Food', in select pin codes of Bengaluru. Amazon's foray into the food delivery market could create new challenges for Prosus Ventures-backed Swiggy, and Zomato; latter an 11-year-old startup that acquired Uber Eats' business in India in January this year, and Google-backed Dunzo, which operated in Bangalore and counted food delivery as one of the biggest parts of its business. The growth drivers were convenience, ease of ordering, live tracking, increasing penetration of smartphones and the growing number of working women in India. It was estimated that there were more than one hundred thousand restaurants delivering foods through online food ordering platforms across India. Home cooking had become rare. Even if one did not go out to eat, one got precooked meals with ease.Consumers were benefited by easy and convenient tool to avail value discounts. Restaurants got benefited by increased business margins absent in dine ins. Food delivery players got benefited by sales commission from the restaurant. In today's competitive market environment,'Amazon food', would be continuously forced to improve their marketing strategies.The four A's–accessibility, affordability, assortment and ability had the propensity to take away the reason to cook at home.The case examined how the performance levels could enhance efficiency and productivity of the Amazon Food Online delivery brand.***

1. Case Study

India's food delivery market had been worth $4.2 billion as of end of 2019, according to RedSeer,Bangalore-based research firm. The Indian food-tech industry was forecasted to grow at a compound annual growth rate, CAGR of 25-30 per cent to $8 billion by the end of 2022, according to a report by Google and Boston Consulting Group.According to the report, titled 'Demystifying the online food consumer', the key reasons for growth in the use of online food ordering apps included- offering customers with wide choice i.e. variety of cuisines, good discounts and convenience. It said, "In fact, once users are satisfied with the service and start becoming habitual, they become more discerning about value - this behaviour is observable independent of town, class, social status, age and gender."

Food tech had been emerging as a sector witnessing high growth in the e-commerce segment that focused on both reach and engagement. This considerable growth was achieved by rapid internet adoption and sustained investments in consumer trials and delivery satisfaction. The key success factors of foodtech were to be focused on consumers,technology and supply chain management.

Mr Rachit Mathur, MD and Partner, India Lead of BCG's Consumer & Retail Practice added, "Overall online spending in India is rising rapidly and expected to grow at 25 per cent over the next five years to reach over US$ 130 billion. Riding on the wave of rapid digitization and steadily growing consumption, the reach of food-tech companies has grown six times over the last couple of years and will continue to increase further."

The major obstacles faced by these foodtechapplications had affected the consumer adoption process. This consisted of the mistrust in the app, delivery charges in terms of consistency, food quality concerns and lack of customisation i.e. personal choice, the report noted. "Interestingly, these observations vary based on the maturity of the market. While delivery charges is the top reason for not ordering food online in metro cities, in tier-I cities, lack of trust in apps is the primary roadblock," it added

The food delivery market could be visualized as a duopoly[1] with Zomato and Swiggy. This was to change. It was the battle for consumer wallet share, mind share and importantly heart share in a highly competitive food delivery space dominated by established players Swiggy and Zomato, and a new, powerful entrant – Amazon. The US-based e-commerce Amazon had been connecting with eateries and offering competitive commissions since mid-2019. This was seen as a part of a well thought of strategy to build a comprehensive product portfolio i.e. product mix that was ranging from grocery and food to electronics and home products. The target segment was its key customers who had availed of its Amazon Prime paid subscription service. It has been observed and analyzed that for any consumer technology product in the country, food delivery got maximum traction, this was followed by grocery, fast moving consumer goods and general e-commerce.

Presently 75 % revenues had been adversely effected and impacted due to the lockdown enforcement by the Government of India according to community platform Local Circles.The developments came at a time when order volumes for the two largest players in the online food delivery space i.e.Swiggy and Zomatohad hit an all-time low. The situation was alarming but the reasons were to an extent obvious!

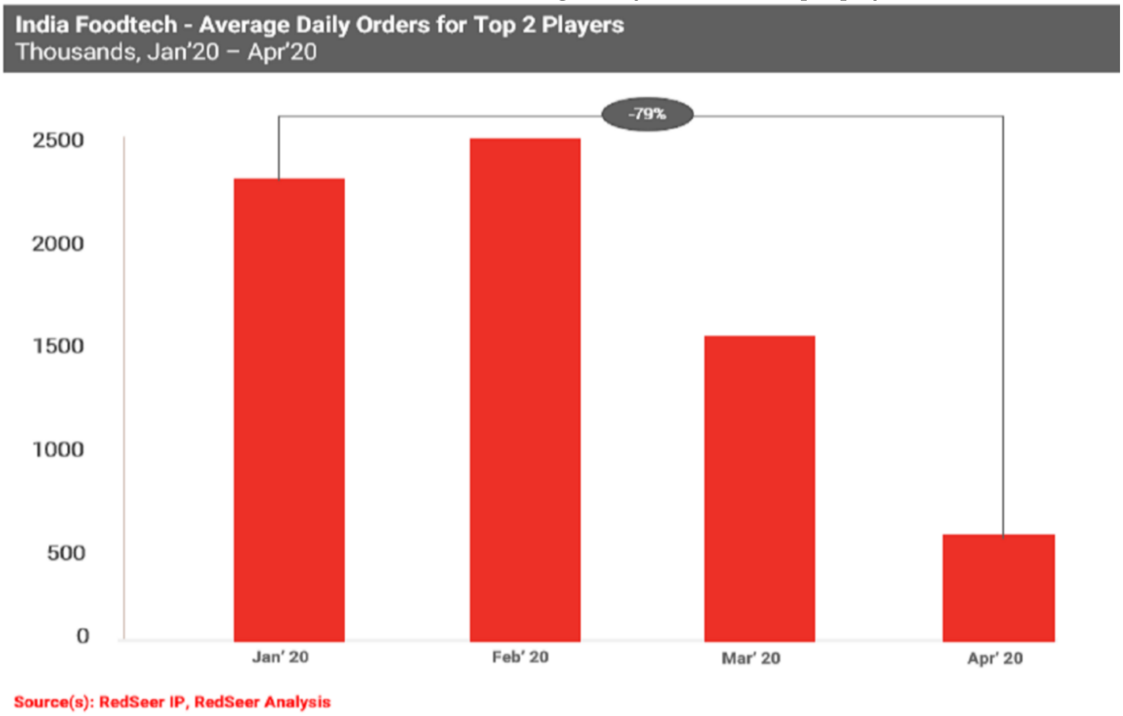
[1]Duopoly, is a group of two companies which are the only ones whichprovide particular product or service, and which therefore have complete control over an industry.

According to reports published in economic times the number of orders had dropped from around 3 million per day to 1 million per day for Zomato and Swiggy both. The situation is expected to last for some time depending on the nature and impact of COVID-19. **(Exhibit I)**

"A large number of restaurants have already shut down permanently, and we know that this is just a tip of the iceberg. I expect the number of restaurants to shrink by 25-40% over the next 6-12 months," said Deepinder Goyal, co-founder and chief executive of Zomato. This had been done to control expenses and increase cash runway.

Zomato and Swiggy had been successful in raising capital, together both had raised more than $2 billion, but they were still not profitable. The reason was losing more than $15 million each month to acquire new customers and sustain existing ones. In India being profitable was especially challenging unlike the developed markets like U.S., where the value of each delivery item was about $33; in India, a close substitute product carried the price tag of $4, according to estimates by RedSeer.

Exhibit I: India Food tech-Average Daily Orders for Top 2 players



Source: https://redseer.com/newsletters/india-ecommerce-and-foodtech-covid-19-impact-and-way-forward/

Perhaps that is why both Swiggy and Zomato had grown beyond food delivery businesses in the last few years. Swiggy today ran what it claimed to be the largest cloud kitchen[2] network in India. It also expanded to delivery of just about any item (not just food). Zomato had also been working on "Project Kisan," a backward integration strategy. This strategy enabled Zomato to procure raw material directly from farmers and fishermen. Zomato now had control of cost and quality in its supply of items to restaurants. This was in the lines of a farm-to-fork model.

The declared aim of Amazon Food was, "The intent is to capture all large categories where high-value consumers spend and make repeat purchases convenient, affordable and seamless, especially in the top cities". An Amazon spokesperson said,"We believe in innovating on behalf of our customers. As part of this commitment, we are constantly evaluating new areas and opportunities to connect with and serve our customers."

Amazon India had business tie-up with N.R. Murthy to take on Zomato and Swiggy. Prione Business Services, a joint venture between Infosys co-founder NR Narayana Murthy's Catamaran Ventures and Amazon India, had contracts with brands to list on Amazon, offering 10-15% commissions.The commissions were approximately 50% of what Swiggy and Zomato charged its partner restaurants.

Amazon Food launch had conducted various tests for the food delivery service with the select restaurant partners in Bangalore. Amazon Food planned to launch exclusive brands in association with restaurants for specialized cuisines including Korean and Japanese. Hundreds of restaurants and cloud kitchens including the Adigas, Khichdi Experiment and Behrouz Biryani,Fresh menu, Parsdise Biryani, Box8, Faasos, and Mad Over Donuts were live on Amazon in a few of the pin codes in Bengaluru. Moreover, the firm had partnered restaurant chains such as the California Burrito and Keventers and five-star hotel chains like the Radisson and Marriott.

Amazon Food would currently be available to residents in Whitefield, Bellandur, Marathahalli, and Mahadevapura in Bengaluru. With select pilots in Bengaluru, Amazon was

[2]Cloud kitchen,is a place where food is prepared and delivered at door steps by taking orders via calls and online ordering portals. Unlike other restaurants, they do not cater dine-in and takeaway.

aiming to provide 'contactless delivery' of food from local restaurants, around the vicinity of the user,**(Exhibit II)**.It not clear if the firm will expand this service beyond Bengaluru anytime soon.

Exhibit II

Introducing Amazon Food

Source:https://www.businessinsider.in/business/ecommerce/news/swiggy-and-zomato-beware-amazon-begins-food-delivery-in-india/articleshow/75864343.cms

"Customers have been telling us for some time that they would like to order prepared meals on Amazon in addition to shopping for all the essentials. This is particularly relevant in present times as they stay home safe. We also recognize that local businesses need all the help they can get. We are launching Amazon Food in select Bangalore pin codes allowing customers to order from handpicked local restaurants and cloud kitchens that pass our high hygiene certification bar", an Amazon spokesperson had stated.

The food delivery business recently made headlines as Uber withdrew from the business and sold Uber Eats to Zomato for about $180 million in January 2020. Amazon.com direct India rival Flipkart had been planning a foray into the food and grocery retail market with an entity named Flipkart Farmermart Pvt Ltd. With a robust delivery and logistics system already in place, Amazon's food foray would pose threat to competitors like Swiggy and Zomato. This came at a time when Swiggy and Zomato had lowered discounts and undertaken stricter cost control measures. Moreover Uber backed out of the food delivery business in India altogether, having sold UberEats India to Zomato last month in return for a 10% stake, keeping an option open.

Another rival in the food tech ecosystem was Flipkart. It had plans to foray into food retail business and it might become another strong rival. Flipkart had sold a majority stake in the company to Walmart for $16 billion last year. They had registered under a new firm Flipkart Farmermart Pvt Ltd, that would focus on food retail, said Kalyan Krishnamurthy, Flipkart Group CEO, in a statement to TechCrunch in October. The business diversification for the Indian firm represents "an important part of our efforts to boost Indian agriculture as well as food processing industry in the country," he said, adding that the company was interacting with thousands of small farmers for the business. Flipkart had already invested $258 million to the new venture.

Online food order numbers would take a year or more to recoup, analysts said, pushing food aggregators[3] to diversify their product mix on to adjacent categories like delivery of groceries and alcohol. There had been massive investments in a two-hour delivery supply chain for Amazon Now portfolio; Amazon Fresh platforms in India had been marketing essentials i.e. perishables and grocery items for some time. It had in recent years added warehouses, spread over the country. It was the small towns that witnessed a slowdown in consumption. Moreover, there had been shutdowns at a few pin codes due to the outbreak of the virus. This had further escalated into a vicious cycle, that had led to a drop in orders, according to the firm.

"This is clearly negative for Zomato and Swiggy, which are already struggling with much reduced businesses and closure of restaurants," said Abneesh Roy, executive vice-president (research), Edelweiss Securities. According to a LocalCircles survey of more than 24,000 responses, around 87 per cent of the respondents said they did not want to visit a restaurant in the next 30 days. It further said that about 61 per cent were not interested to spend on eating out.

It remains to be seen how Amazon Food manages and emerges a winner from the above ecosystem. Amazon would have to put in place an effective integrated logistics, the restaurant environment, technology and marketing. The food delivery system would then had to be scaled in order to meet the challenges from Swiggy and Zomato directly. It could be challenging for Amazon to scale up its food delivery business in India with Swiggy alone operating in more than 520 cities in India and while maintaining a winning relationships with 160,000 partners.

References

[1] Shrivastava Aditi, "Taking the fight to Swiggy & Zomato, Amazon joins food delivery business in Bengaluru",https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/amazon-joins-at-food-delivery-business-in-bluru/articleshow/74327763.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst, Feb 28, 2020
[2] Singh Manish, "Amazon all set to enter India's food delivery market ", https://techcrunch.com/2020/02/26/amazon-all-set-to-enter-indias-food-delivery-market,Feb 27th,2020
[3] Web desk, "Amazon testing on-demand food delivery business in Bengaluru", https://www.theweek.in/news/biz-tech/2020/02/28/amazon-testing-its-on-demand-food-delivery-business-in-bengaluru.html, Feb28th, 2020
[4] Shrivastava Aditi,"Amazon launches food delivery service in India",
[5] https://tech.economictimes.indiatimes.com/news/internet/amazon-launches-its-food-delivery-service-in-india/75864051, May 21st, 2020
[6] Ahmed Yasmin, "Amazon food delivery service to rival Swiggy, Zomato in India, couldlaunch inMarch",https://www.indiatoday.in/technology/news/st

[3] Food aggregators, helps customers get **food** at their doorsteps from a wide range of restaurants.

ory/amazon-food-delivery-service-to-rival-swiggy-zomato-in-india-could-launch-in-march-1650579-2020-02-27,February 27th, 2020
[7] "India ecommerce and foodtech- covid-19 impact and way forward",
[8] https://redseer.com/newsletters/india-ecommerce-and-foodtech-covid-19-impact-and-way-forward/ May 2020
[9] Koksal ILker, "Amazon Launches Food Delivery Service with " Amazon Food" in India, https://www.forbes.com/sites/ilkerkoksal/2020/05/25/amazon-launches-food-delivery-service-with-amazon-food-in-india/#c4ace9e33f0b, May 25th 2020
[10] Bhalla Tarush, "Amazon launches food delivery service with 'Amazon Food' in Bengaluru", https://www.livemint.com/industry/retail/amazon-launches-food-delivery-service-with-amazon-food-in-bengaluru-11590055875853.html, May 21st 2020
[11] AbrarPeerzada, "Amazon forays into food delivery, sets up direct fight with Swiggy, Zomato", https://www.business-standard.com/article/companies/amazon-forays-into-food-delivery-sets-up-direct-fight-with-swiggy-zomato-120052200066_1.html, May 22nd 2020
[12] Indian food-tech industry to touch US$ 8 billion mark by 2022: Report IBEF
[13] https://www.ibef.org/news/indian-foodtech-industry-to-touch-us-8-billion-mark-by-2022-report, January 29th 2020