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Five Force Analysis of Indian Food Delivery Business

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ABSTRACT

Porter's Five Forces is the most effective method to understand competitive forces and stay ahead of the competition. We will attempt to analyze these forces for the Indian food delivery industry. Threat of new entrants is important to critical since business strategy will have consideration of related components. Threat of substitution can affect customer loyalty building & proactively can be factored to Build brand with unique features in the product. Bargaining power of customers is essential to work upon pricing strategy. Bargaining power of suppliers must be considered backend arrangements related to procurement & inventory holding. Higher Competitive rivalry creates red ocean which is unhealthy for a profitable growth & must be considered before designing a strategy.



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INTRODUCTION

This article deliberates the most popular method of carving strategy for any organization starts with the interpretation of 5 forces for the target country or market. These forces include bargaining power of the customers, Bargaining Power of Suppliers, Threat of new entrants, threat of substitution & competition rivalry¹. We will apply these parameters to Indian food delivery industry, enabling businesses to carve a robust strategy to operate in India.

Despite having potential, carving strategy for Indian food market remains a tricky matrix. Global 5 forces analysis-based strategies hardly work due to the red Ocean², with huge crowd of competitors.

Threat of new entrants again varies from Low to high, depending on the category of the products. The food categories, with higher infrastructure costs, it becomes low & with the lower cost of operations, it becomes high.

Threat of substitution becomes high due to nature of the products. Easy availability similar products increases the threat of Substitution. This analysis gives an opportunity to proactively work on product category & features. Distinguishing products from the competition on these fronts, can minimize this threat.

Bargaining power of the Buyer again varies from medium to high. Due to higher competition available in each category, bargaining power of the buyers goes up. With the promos offered in the retails, E-coms & food aggregator's buyers get lot of options across the category. Understanding this component given an opportunity to work on versatile pricing & marketing strategy. This article discusses about the alternatives of strategic approaches based on analysis of this force.

Bargaining power of Suppliers varies between medium to high. Usually, the raw material comprises of commodities, which are highly competitive in pricing, moreover, prices their keep fluctuating depending on the yield of the crops, exports & domestic demands. To ensure consistent supplies for the planned production, annual price contracts becomes critical, accounting hedging of the financial risk. This raises the bargaining power of the suppliers, negatively impacting production cost. We will discuss on long term contractual procurement, effective supply chain solutions & options to arrest challenges in this component.

Intensity of the competition Rivalry in India is higher. With the huge growth potential in the Indian market, it keeps attracting many domestic & International companies in each of the food categories. It becomes critical to understand how to strategize the operations to win against the competition. Our article will cover the current gap & try to arrive on a methodology to organize this Strategic approach to overcome this Rivalry.

Threat of New Entrants:



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Since Food delivery market in India is facing consolidation⁷, **threat of new entrants** is reduced to an extent. Overall rating could be for this force could be **low**. Major players operating in this segment are Swiggy & Zomato holding 75-80% market share⁸. Swiggy was leading with number of deliveries per day, followed by Zomato. Moreover, acquisition of UberEats by Zomato⁹, have turned this game further, consolidating number of players in this trade. Ola with Food Panda slowed down on investments as compared to Swiggy & Zomato.¹⁰

Strategy: To make a strategy considering this force of lower threat of new entrants in Indian food delivery industry, organizations operating in this segment can focus on targeting desired Market share by increasing deeper penetration in India. They can target for organic growth, since, many tier 3, 4 & 5 cities are yet to be tapped. The plan needs to increase partnering

with maximum reputed food joints & empanel them to have a larger basket against the competition.

Inorganic growth can be planned through private brands from their own cloud kitchens. This Idea not only offers inorganic growth but also remains a key bottom line (Profitability) contributor¹¹. Cloud kitchens can be placed across non-proximal locations accessing the food catering patches. This does not require high proximity location, no restaurant maintenance cost & no liability of staff other than the kitchen chefs & support staff. This low-cost operations model allows, Food aggregators to have their own Brands, which can easily be showcased on their own e-platforms & display banners. The menu options can be designed based on the data of geographical food preferences.

With lower new entrants' possibilities, business strategy should majorly focus towards retaining Market share against the major competitor. Building loyalty of the consumers & customers becomes a key component of the plan. Power of data pertaining to likes of the customers & occasions of ordering food from outside can be used as a tool to design marketing campaigns. This data derived from the food ordering trend, becomes utmost relevant¹². Applying this data for planning new locations of the kitchens or cities of operations, proved relevant by establishment within no time.

Threat of substitution:



With the availability of applications of all the food delivery chains on Handheld, the **threat of substitution becomes very high**. Since, these platforms are too savvy to be used & parallelly available⁷ with the users on mobile phone, switching among the choices is very easy.

Since, an individual has a choice of scrolling the options among the desired dish, it is very common to check it on more than one application. Available brands, flavors & portion sizes, helps giving choices to the consumers. One can look at two or more applications to hunt availability of a favorite dish like a 'Biryani'. Usually, popular dishes have multiple brands in any city & work as a substitute among themselves. Hence, swapping applications to make a choice of brands becomes one of the important reasons of Substitution.

One of the most common reason of surfing for substitute applications is 'Promos'¹³. In a race of getting higher OPD (Order Per Day), Food aggregators are offering promotion discounts, even on popular Brands. 'Natural's Ice-cream' was running a promo of 1+1 on ubereats in the month of Jun'19, while other players were selling at a flat price. For a consumer, preferring this Brand, it becomes an important aspect to consider hunting for such promos to grab a better deal.

Fy'17 to Fy'19, majority of the aggregators, as a launch offer in new cities flourished basis these promos. YOY revenue growth of more than 100%⁸ has a large contribution of these heavy promotional discounts. OPD rate of each aggregator gone up exponentially & they got organic & inorganic growth as an outcome of the same. However, this further encouraged higher substitution rate.

Strategy: Having said that the threat of substitution is very high, it is important to inbuilt majors to arrest the same in the Strategy. Threat of substitution is inversely proportional to brand loyalty & negatively affects the brand equity building. In such scenario, ranking of the brands comes along with the cash burns. Higher cash burns bring higher topline revenue; however, profitability remains under pressure. This makes the whole proposition non-sustainable for a long-term Business strategy.

Following are the vital attributes of building strategy.

a. **Product & Service:** Designing products & services with unique features can help differentiate your Brand from others. This can become a key to avoid a hunt for other Brands.

b. **Loyalty programs:** Food delivery industry players can work on Loyalty programs like other industry Players are operating. Make My Trip has gained 900,000 customers through such programs¹⁴. These programs offer additional privileges to the customer with the frequent usage of this platform. It also has reward milestones set to avoid substitution threat.

c. **Awareness programs:** Awareness campaigns related to the uniqueness of the product or services needs to be designed. It is critical to make the consumers cognizant about the launched promos or loyalty programs. It should be showcased in a way to convey the message in a very simple & easy to understand way.

d. **Customer Intimacy:** Emotional connect is one of the best ways to establish relationship with the customers. Having a provision of customer intimacy in the strategy can be a vital component in a market having higher threat of substitution. Customer intimacy basically talks about customer centricity, which can establish an emotional connect with the customer.

Customer Intimacy tools are

1. Implement operational practices that prioritize the customers.
2. Create, enforce, and adopt policies to make them more customer-centric.
3. Let your customers know they are valued.
4. Write case studies about your customers.
5. Hold competitions with your customers and reward them for advocacy and loyalty.
6. Host events with your customers centered around their needs.
7. Offer customer training courses to become product specialists who can offer product consultancy service of their own.
8. Create free educational resources to help customers derive more value from your products.¹⁵

Bargaining power of the Buyer:



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Linked to the threat of Substitution, bargaining power of the customer for the food delivery INDUSTRY PLAYER is high. To bag more customers, many promos are pleasing them, in a way to offer them many choices. Aspects like consistent offers & promos gives a different message to the customer. On one side, the offer loses its charm, while, on the other hand, customer understands this as a part of pricing only. Customer tends to shy away buying such products, as soon as the offer is withdrawn. This scenario indicates higher bargaining power of the customer. This situation is unhealthy for a sustained & profitable business. Even for an early start ups competing in the similar segment, due to heavy scheme offerings, bargaining power of the customer increases. Following are the factors¹⁶& their analysis for Indian food delivery industry.

- a. Number of buyers relative to suppliers: If the number of buyers is small relative to that of suppliers, the buyer's power will be stronger. Still with the higher number of suppliers available, buyer power is higher.
- b. Dependence of a buyer's purchase on a supplier: If a buyer can get similar products/services from other suppliers, buyers depend less on a supplier. Therefore, the power of the buyer would be greater. Since, the services offered by these players are similar, the dependency on a supplier is minimal, boosting the bargaining power of buyer.

c. **Switching costs:** If there are not many alternative suppliers available, the cost of switching is high. Therefore, buyer power would be low. There is no cost of switching among one supplier to other, as, both the good aggregators are available on a single click on the handheld.

d. **Backward Integration:** If the buyer can integrate or merge suppliers, the buyer has greater bargaining power over the existing suppliers. No such parameters affect the food delivery industry.

Strategy: Higher bargaining power of the customer, invites a need of strategizing in a way to have lesser effect on the top-line & bottom-line of the organization. Following could be the ways to arrest this in the strategy.

a. **Higher base of customers:** Organizations needs to work continuously work on increasing number of customers. These conversions need to have consideration of churn out ratio to which can recover the volumes for business consistency. Number of deliveries per day receiving from new plus existing customers' needs to be at par with the desired numbers. Consideration of churning ratio can be arrived upon the trend of addition & deletion of the customer count.

b. **Products with Unique features:** In building unique features will increase dependency on the products of the aggregator & switching on another brand will not be an easy affair. This uniqueness can also be applied to service time, service quality or packaging of the product.

c. **Prime Membership driving:** Offering additional services on a paid membership can be a good way to work on Industry with such scenario. This membership not only offers, additional benefits but also build up a switching cost. Paid membership privileges usually not ignored by the members, hence, reduce bargaining power. Zomato is driving gold Membership offering free deliveries & additional promos to its customer at an annual price of INR 1800¹⁷. This membership not only offers benefits on deliveries, but also offers discounts on dinning in the partner restaurants of Zomato.

d. **Reducing the cost of operations:** Food aggregator can offer lower price advantages with the lower cost of operations. These advantages can be derived from options like cloud kitchens¹⁸. This is option which escapes restaurant maintenance cost & products can be sold

at a much competitive price. Offering this cost benefit to the customer can give millage against the other players in the market.

Bargaining power of Suppliers



Consideration of suppliers in this case is for the cloud kitchens of the aggregators. Standardization is the key objective, while, enrolling the suppliers. Having said that, suppliers operating across the nation are critical for the deal. Customer expects similar experience for any dish, he orders, irrespective of the geographies. Though, it is easier to get these raw materials in Tier One cities, getting the same in further tiers, sometimes becomes difficult. Organized suppliers in India operates in two models, direct & through distributors. Since, the Indian topography is too scattered, factoring supply chain challenges is essential while analyzing supplier bargaining power. Direct supplies have challenges of logistics feasibility to remote locations due to lower volume requirements. Shipping products in part loads can affect the quality of the product, due to multiple handing & higher transit time. Damages &

leakages also tends to drain the margins, affecting overall compliance of the suppliers. Logistic cost also increases in case of lesser volume logistics¹⁹. For any supplier to have a national contract with the aggregator consideration of logistic aspect is essential to arrive on the contract price. It becomes more critical in case of low shelf life products, since, increase in transit days reduces shelf life of the products. Suppliers tend to negotiate on the location based pricing, which becomes exhaustive for the aggregator. For a dish priced similar across the country, paying higher cost of raw material for some location, tends to disturb the whole value proposition. Although, each raw material category has multiple players operating in that segment, **Bargaining power of suppliers** can still be called as **Moderate** due to the supply chain challenges.

Strategy: Strategies to arrest bargaining power of suppliers

Organizations need to consider suppliers and substitutes to protect them from unreasonable price increases and safeguard continuous supplies. Food is the most critical supply to protect because fewer companies offer deliveries of full range of raw materials supplies in smaller quantities. Organizations can find plenty of alternatives for packaging materials and restaurant chemicals. Strategies to retrieve bargaining power from suppliers include the following methods:

Empanel substitute suppliers for critical ingredients and supplies by prequalifying for accounts and emergency deliveries.

Promote sustainability by working with organized companies & suppliers.

Define product portfolio to include multiple suppliers.

Consider buying supplies based on annual price contracts. Enroll at least 2 suppliers for each essential commodity ingredient.

Choose suppliers that offer dedicated sales team for negotiation of prices, solve delivery problems and recommend cost savings and new products.

Review prices periodically to capture unusual price hikes and arrest any changes that seem unfair or inaccurate.

Central warehouse in bigger hubs, gives higher negotiation power to the food delivery chain, since, the order quantities are higher & logistics of the suppliers become easier.

Define inventory norms in a way to proactively have an arrangement for the products with unpredictable suppliers.

Competition Rivalry



E-com business scale is largely growing in India. According to stats, there is an increase of more than 100 percent in online food orders in the past 3 years⁸. So, it is worth to say that online food ordering and delivery business is a hot business idea at this time and it is expected to go up with each passing year.

Referring to the 5 forces, however, things are different at the ground level. As per Zomato's released annual income stats and a few things were very surprising in that report. Acc. to Zomato, their revenue for FY2019 is \$206 million. Zomato recorded the highest revenue in 2019 as compared its revenues of \$68 million last year. Before you get excited, one may need to know how much Zomato had spent on marketing in FY2019 and it is \$500 million. According to Zomato, they are losing Rs 25 per delivery²⁰. So, one need to decide, Was Zomato profitable in FY2019. This invites a need to understand how to arrive on a sustainable Business Strategy.

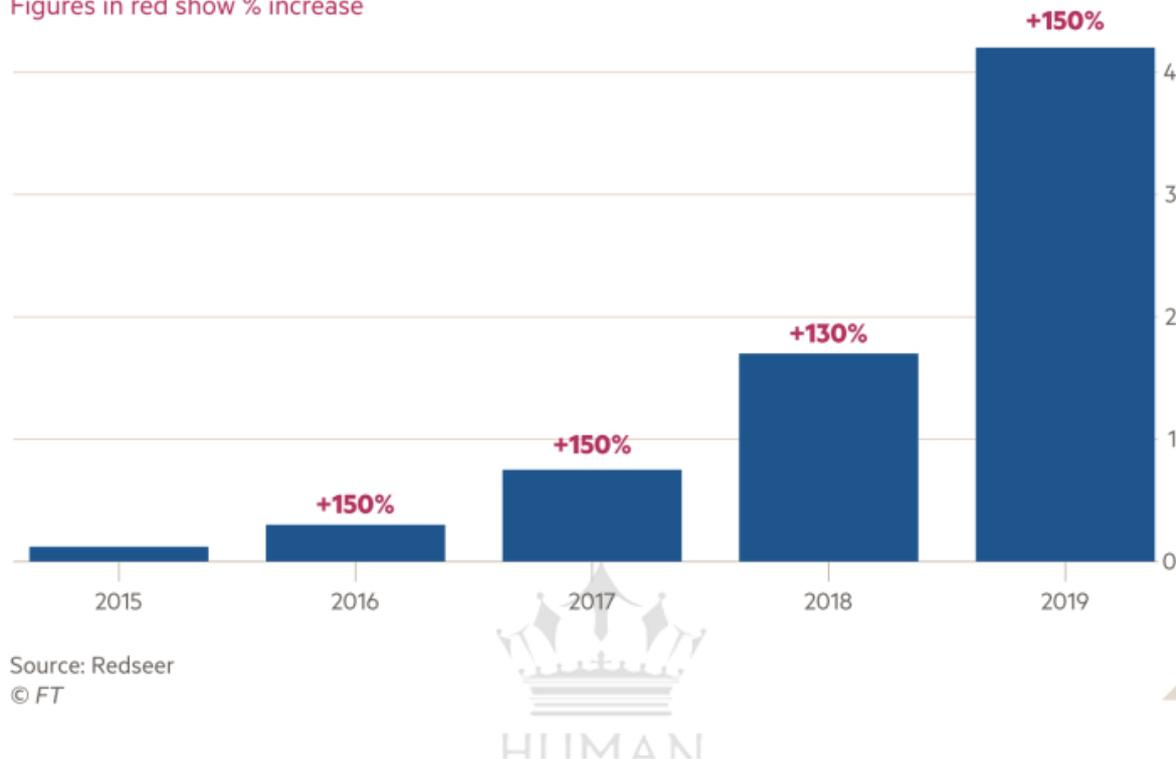
Rivalry in this industry is heating up. Above data indicates, to establish against the competition, players are burning at a very high level. Indian food delivery industry in getting

converted to Blue ocean to Red Ocean, with this rivalry. Acquisition of Ubereats by Zomato, still has reduced the number of players, defining **Competition Rivalry to Moderate**.

The Indian food app industry is growing exponentially

Market size (\$bn)

Figures in red show % increase



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Strategy: Increasing rivalry is unhealthy for the profitable growth of any organization & tend to exhaust lot of capital in retaining the market share Following are the five ways to address rivalry.²¹

a. Identify and solve the pain points of your customers: Understanding the gap areas in product or services and solve these issues will give a better experience to the customer. Usually, these common gaps becomes opportunities for the competition to snatch market share. Sensitively, analyzing these problems & adapting a methodology of continues improvement can protect market share.

b. Build Unique category: Apart from common popular product categories, introducing some new concepts, adds value for the aggregator. This unique product category work as a retention tool for the aggregator. Customer has a choice, only to find this on a single application, hence, works as a buffer against the rivalry.

c. Get the pricing correct: Price arrogancy has proved to be fatal for may Brands. Continuously working on backward integration, adapting advance technologies to reduce the operational costs, helps increasing margins & simultaneously correct pricing for the customer. Price competitiveness again reduces the chances to fall prey of the industry Rivalry.

d. Work on Innovation: Product & packaging innovation is always appreciated by the customers. Having a robust R & D department can innovate new product & packaging options. As an example, offering a single bowl of Rice & curry, instead of two separate containers is a popularly accepted innovation. This reduces the cost of the Food delivery chain & becomes an advantage for the customer & creates a win-win situation.



e. Improve your customer service: All established players have a proven record of having a versatile customer service²¹. It is essential for customer satisfaction, retention & creating customer loyalty. Higher the service levels, better is the overall feedback as customer is feeling being cared. In higher rivalry situation customer will always choose a brand with higher customer service.

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