A CASE STUDY ONZOMATO GOLD CONFLICT, 2019

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Abstract

The business of delivering restaurant meals to the doorstep is under rapid change as new online platforms enters new markets and customers across the Americas, Europe, Asia and the Middle East. Two types of online platforms have risen to fill that void. The first is the "aggregators," which emerged roughly 15 years ago; the second is the "new delivery" players, which came into existence in 2013. Both allow consumers to compare restaurants, menu, scan and post reviews and feedbacks, and place orders from a variety of restaurants online. The aggregators, which are part of the traditional-delivery system, simply take orders from customers and forward them to restaurants, which handle the delivery themselves. But the new-delivery players build their own logistics networks, providing delivery for restaurants. Aggregators build on the traditional model for food delivery, offering access to variety of restaurants through a single online portal. By logging in to the site or the app, consumers can quickly compare menus, prices, and review them according to their experiences. The aggregators collect a fixed margin from every single order made by the consumer, which is paid by the restaurant to the aggregators, and the restaurant handles the actual delivery themselves.

INTRODUCTION:

Zomato is the fastest growing restaurants discovery websites, established in 2008 by Deepindeer Goyal and Pankaj Chaddah. Intially, it was named as Foodiebay but in 2010, it was renamed as Zomato. It do not only provide information related to nearby restaurants but also provide facilities such as online ordering, table reservations and management. Zomato currently serves in 10,000 cities around across 36 countries having 1.2 million popular restaurants. It is available in 10 different language, it gives platform to restaurants owners to serve a large number of users a good quality food.The company introduced its digital app. Zomato was successful in obtaining funding from a number of sources and expanded in India and overseas.In March 2018, Zomato became a 'unicorn' with a valuation of $1.3 billion. By August 2019, Zomato was one of the largest food service aggregator (FSA) in the world, with presence in 24 countries and more than 10,000 cities. It operated in over 200 cities in India, up from 15 cities in 2018, and served more than 70 million users monthly. For FY2019, Zomato's revenues increased to $206 million.

This case discusses the conflict raised due to its Gold Membership scheme which exploited the bottom line of registered restaurants under the scheme with deep discounting to the customers and the outcomes of the issue which affected its brand equity and market capitalisation.

CASE DISCUSSION:

Since August 2019, Zomato, one of India's leading food service aggregators (FSAs), had been engaged in a conflict with restaurant partners over its practice of offering high discounts to customers. While the FSAs were credited with creating a digital platform to bring restaurants closer to customers, the National Restaurant Association of India (NRAI) alleged that in their oneupmanship to acquire customers, they resorted to deep discounting, spoiling customers and eroding loyalty. NRAI alleged that restaurants bore the brunt of these heavy discounts, which came at the expense of their brand image, core value proposition and bottom-line.

On August 15, hundreds of restaurants under NRAI launched a logout campaign and delisted themselves from the platforms of FSAs such as Zomato, EazyDiner, Nearbuy, Magicpin and Dineout. Zomato, in particular, came under severe scrutiny as its premium subscription-based dining out service Zomato Gold (ZG) had 6,500 restaurants partners and a total of 1.1 million subscribers in India as of August 2019. As part of the campaign, around 2,500 restaurants logged out from the Zomato Gold service.

Zomato's co-founder and CEO, Deepinder Goyal, urged restaurants to stop the logout campaign in the interest of consumers. He admitted that Zomato had made some mistakes and therefore listed out some corrective measures. NRAI contended that these changes did not resolve the issue of deep discounting and many participating restaurants refused to rejoin.

While other aggregators such as Eazydiner, Nearbuy and Dineout agreed to limit discounting, Goyal hardened his stand and even expanded the ZG service to food delivery. NRAI threatened that the restaurants would remain logged out permanently from ZG, saying that restaurants could survive without FSAs, but FSAs would not survive without restaurants. With NRAI joining hands with the Federation of Hotel & Restaurant Associations of India (FHRAI) and other city-based associations in their fight against FSAs in October, time was fast running out for Goyal to find a solution that would be acceptable to all the stakeholders.

Zomato Gold

To recap a bit, in FY2016, Zomato had been incurring losses, that had increased over three times that year, to ▯4.41 billion. The company's cash burn was also very high, at an average of $4.2 million a month, flagging concerns around its heavy investments in online food delivery services. In order to curb losses and capture the dine-in market in India, Zomato launched a premium, subscription-based programme called 'Zomato Gold' in November 2017.

The exclusive membership programme offered customers complimentary food (1+1) and drinks (2+2) for every order they placed at select participating restaurants. Customers also get exclusive invitations to food and drink events, such as wine tasting sessions, new menu previews, pub crawls, chef cookout sessions and restaurant openings.

Initially, when launched, ZG was meant to be an exclusive, invite-only service, targeted at high-end restaurants serving niche customers. The subscription started with a launch price of ▯999 per year with a limit of 10,000 subscribers. But eventually, ZG was made available to everyone and the subscription fee was raised to ▯2,000 a year. Benefits could be availed at any Gold partner restaurants and bars, for an unlimited number of times.

The business model of ZG involved restaurants upselling a few additional items to customers and covering the cost of the complimentary item offered. The expenses of additional free drink or meal were entirely borne by the partner restaurant and Zomato did not pay any percentage to the restaurant from the subscription fee it collected from the customer. Moreover, restaurants had to pay a fee upwards of ▯40,000 to sign up as a Gold partner. Restaurants were willing to partner with Zomato as it provided them more visibility, leading to a potential increase in footfalls.

By April 2018, ZG had about 180,000 subscribers across 20 Indian cities, contributing to about 12 per cent of the company's revenue. In July 2018, Zomato introduced the Infinity Dining plan for its ZG subscribers that enabled them to have unlimited *a la carte* along with an open bar at partner restaurants, at a fixed per-person price. By March 2019, ZG had 12,000 partner restaurants on board across the world, of which 6,500 were in India. By August 2019, ZG had about 1.1 million subscribers in India, making it the biggest such loyalty programme for any unicorn in India.

The Gold O2 scheme

In August 2019, Zomato announced that ZG, which was earlier only for dine-in, would also be offered to ZG members for online food delivery. They came up with a new service named "Zomato Gold O2 (Online Ordering)". Under the O2 scheme, the restaurant would have to offer a free item of customers' choice when they paid for a higher-priced item; as well as pay 18-25 per cent commission on the net order value.Thepartner restaurant would realise only about 38-42 per cent of the gross invoice value. Zomato did not bear any part of the discount; neither did it reduce its commission. This did not resonate well with the partner restaurants as there was no incentive left for them, with no potential for upselling and recovering the cost of the complimentary item in an online transaction.On August 13, 2019, the NRAI held a meeting with restaurateurs in Gurgaon to discuss issues related to FSAs and it was unanimously decided by restaurateurs to immediately delist themselves from all the dine-in platforms as a protest against deep discounting. A nationwide campaign against deep discounting, called the 'logout campaign', was launched by NRAI, urging restaurants to opt out of the dine-in discount programmes of FSAs. The campaign was supported by the FHRAI which, in a letter to the aggregators, called for a review of their schemes.

Within a week, thousands of restaurants in several major cities across India logged out from the dine-in programmes of FSAs. Zomato faced the most heat, as over 2,000 of the 6,500 ZG restaurant partners opted out of the programme. Zomato was lambasted for allegedly using its market position to continually reset the terms of the trade, and making policy shifts without any consultation with the restaurateurs. Some restaurateurs said that Zomato was simply transferring the cost of customer acquisition to restaurant owners, while minting money from customers' annual subscription fees and the joining fees from restaurants.NRAI then held a series of meetings with FSAs where it was decided that all aggregators would relook at their programmes and that discounts should be capped at about 15 per cent.

As the campaign intensified, Goyal announced Zomato's willingness to make modifications to ZG and appealed to restaurant owners to stop the logout campaign in the interest of consumers. On August 16, 2019, Goyal wrote an email to the association and all the partner restaurants informing them of modifications made.The changes included limiting Gold usage to one restaurant per day, restricting Gold unlocks to a maximum of two per table, introducing single device logins, issuing hassle-free pro-rata refunds to unsatisfied customers,

setting up a minimum Gold membership fee at ▢1,800, discontinuing trial periods for Gold, strengthening its two-way feedback system, providing advertisement credits worth ▢25,000, shooting free promotional videos, and personalising push notifications for non-peak days. Zomato said it would refund users who did not agree with the altered terms of the programme and even offered restaurants that had logged out in protest a free entry back into the system.

However, NRAI remained belligerent and said its members would remain logged out of ZG. On August 20, Zomato sent a legal notice to restaurants, threatening them with legal consequences as they were contractually obligated to serve a 45-day notice period prior to delisting. Goyal accused Rahul Singh, president of NRAI, of unjustly portraying FSAs as bullies and using the logout campaign to sabotage aggregators while he himself was offering similar discounts at his own restaurant, The Beer Café. This elicited a caustic retort from Singh saying that a brand-owner was entitled to provide certain privileges to its loyal customers, but this does not apply for brokers.

Goyal refused to make any further changes to ZG, saying that "Zomato is logging out of the logout campaign", to which NRAI swore to stay logged out of ZG permanently.

TEACHING NOTES FOR THE CASE:

TEACHING OBJECTIVES:

The following Teaching Objectives may be considered with respect to the case:

1. To assess the Zomato Gold membership Scheme introduced by the company.
2. To deliberate upon the Gold membership scheme conflict experienced in the year 2019.
3. To understand the business model for Food Services Aggregator (FSA).

LEVEL OF ANALYSIS:

The present case is a type conflict case with focus on conflict resolution approach. The analysis attracts understanding of the case & dilemma surrounding the issue related to the gold scheme by Zomato. To be specific BBA final year students, MBA students, executive of Food service aggregator, restaurant owners can get benefitted from the case by the consequences faced by Tomato

CASE ASSIGNMENTS:

As part of the case study delivery, students, executives / participants may be assigned certain tasks pre & post delivery of the case.

Pre discussion Task: Gather fair understanding on Food service Agreegator industry through observations, reading journals & book in library and through internet.

Post discussion Task: Conduct review of furthur literature pertaining to the theme of the case. Post discussion schedule shall also include discussion round on a few questions pertaining to the case.

BROAD DISCUSSION QUESTIONS:

Q.1: How can the situation be resolved in the best interest of every stakeholder?

Q.2: How can Zomato build great partner relationships with restaurants and protect their brand equity?

Q.3: How can the scheme are redesigned to rein in deep discounts offered to customers? What will be the action plan to shift the focus of diners from discounts to loyalty?

Q.4 Should Zomato stop deep discounting? Should ZG go back to being an exclusive invite only service, as originally envisioned?

READING REFERENCES:

The following references may be helpful in gaining further insights on the theme of the case:

- **Patel, Mayurkumar**, "Online Food Order System for Restaurants" (2015), Grand Valley State University

- **Derek Thompson**, The Booming, Ethically Dubious Business of Food Delivery, 2019

- **Dr. Mitali Gupta**, A Study on Impact of Online Food delivery app on Restaurant Business special reference to zomato and swiggy, 2019

- **Dr.Vijaya lakshmi Kanteti**, - A study on online food delivery companies in India.

POTENTIAL BENEFITS OF THE CASE:

➢ **Students**

The case will benefit students in understanding the emerging trends and Business model of food service aggregators. The business problem presented in the case will be helpful in the understanding the impact of it on its stakeholders i.e., customers,

partner restaurants and Zomato. It will helpful in determining business opportunity in food industry.

➢ **Food delivery service industry personnel:**

In India food delivery service is at boom and is an emerging trend due to increased income and changing lifestyles. The dilemma in the case will be helpful for executives in food industry to construct and launch appropriate offers and scheme which should benefit all the stakeholders of the business**.**

➢ **Government**

The Government at large is going to benefit from the case in terms of its role in governing food aggregator industry in India. In this context the case shall assist the government to contribute a better business atmosphere among rivals in the industry. Such cases will be helpful in framing better governing policy and guideline for such service provider xxxx

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