



## **BUBBLING IN FOOD TECH STARTUPS IN INDIA**

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### **ABSTRACT**

*The Indian food industry has an awesome existence in the Indian Economy. Currently it contributes around Rs.23 lakhs crores in 2015. The idea of inclusion of technology into food industry is now the hottest sector in Indian food industry. This study presents a detailed analysis of bubbling in Indian food tech startups. The shifting online food tech startups ecosystems in India have created many buzzes that online food ordering has emerged new dimensions in food industry.*

*The present study is an attempt to understand the various problems faced by Indian food tech startups. The problems are financial mismanagement, lack of experience, mushrooming of similar types of business models, delivery costs and so on.*

**Key words** - Business Models, Customer Acquisition Cost, Cost from Customer, Food Tech

### **1. Introduction**

The start of 2015 was a golden period for the Indian startup ecosystem. Whether it was aggregators, food tech, tech, agriculture, health tech or practically any other startup, the funding flowed like water in each of them. The idea of inclusion of technology into food industry is now the hottest sector in technology. In the last few years India has seen close to 250 startups in the food tech sector (Ritesh, 2015). Each one of these startups comes up with a business plan not so different from each other. The model of food tech startups is shown in figure.1, as food-ordering platforms, delivery only players and cloud kitchens.



Figure.1 Model of Food Tech Startups

Food tech is an intensive investment sector, where the running capital for the first few months should be borne by the company. In food industry, the Cost of goods sold should be less or equal to 50% of the maximum retail price. This is the norm in conventional food industry, which means when you sell a product, the actual cost of the product sold, is far lesser than the MRP. The reason being, in food industry, the product is prepared and served and the preparation and service costs are always higher than that of the product. When this is not taken into account, there is a huge burden on the company to be afloat. Many companies, when starting use this strategy of selling products below the actual cost incurred to lure customers and try to build a customer base. But the challenge is to sustain the business till when loyal customers who are ready to pay more than they did earlier, when you change strategy. When this is not considered, and the company tries to attract more invests, without showing formidable returns of the investment already made, the investors are in cautious state of mind to venture further.

## 2. Database

The study is done on the basis of ten food tech startups have been started in 2014-15. These companies are considering as sample decision or population for complete the study.

1. iTiffin ([www.itiffin.in](http://www.itiffin.in))
2. Bhojanshala ([www.bhojansala.in](http://www.bhojansala.in))
3. TinyOwl ([www.tinyowl.com](http://www.tinyowl.com))
4. Halochef ([www.halochef.com](http://www.halochef.com))
5. Eatonomist ([www.eatonomist.com](http://www.eatonomist.com))
6. Yumist ([www.yumist.com](http://www.yumist.com))

7. Snackosaur ([www.snackosaur.com](http://www.snackosaur.com))
8. Faasos ([www.faasos.com](http://www.faasos.com))
9. Spoon Joy ([www.spoonjoy.com](http://www.spoonjoy.com))
10. Swiggy ([www.swiggy.com](http://www.swiggy.com))

### 3. Indian Food Tech Startups Business Models

Food tech, still in a very evolutionary stage in India, has developed many business models for customers. The business models of all food tech companies can be accumulated into basically of same types. The details like operation area, delivery time, mode of order placement and payment mode of different food tech startups are given in table 1 (Rishma, 2015). Few business models of food tech startups are given below to clear the picture of failures of Indian food tech startups (Raghu, 2016).

1. **Restaurant Discovery:** - Listing of restaurants with details of menu, addresses, phone numbers and user reviews (Zomato).
2. **Restaurant Discovery and Bookings:** - Listing of restaurants with booking and deal discovery focused on wooing consumers to restaurants (Eazydiner).
3. **Restaurant Aggregation and Food Ordering:** - Companies not only aggregate restaurants on their platforms but also take orders through apps or websites for home delivery (Foodpanda, Swiggy, TinyOwl, Zomato).

Table 1: Details of Different Food Tech Startups Models in India

Startups	Operations in	Order Placement	Delivery Time	Payment Mode	Other Features
iTiffin	Bangalore	Online, Phone	Advance Booking	Online, Cheque, cash	NA
Bhojanshala	Pune	Website	30-50 mins	COD	Daily/Weekly/ Monthly Meal Packages, Bulk orders, Party orders, Corporate orders.
TinyOwl	Mumbai	Mobile App	45 mins	Online, COD	NA
Holachef	Parts of Mumbai	Website, Mobile App	Advance Booking	Online, COD	NA
Eatonomist	Gurgaon	Website, Phone	45 mins	Online, COD	Meal Planner- 10 day menu available, Nutritionist advice for people following a diet plan
Yumist	Gurgaon, Bangalore	Mobile App	30 mins or less	COD	NA

Snackosaur	Pan India	Website	1-3 days	Online	Introduced a fortnightly snack subscription plan
Faasos	Mumbai, Pune, Bangalore, Chennai, Ahmedabad, Baroda	Mobile App	15-45 mins	Online, Faasos wallet	NA

4. **Kitchen-In-The-Cloud:** - The 'kitchen-in-the-cloud' model does not have a physical store. The menu is limited and orders are taken online and delivered at home from a centralized or distributed kitchen network (InnerChef, Yumist, Eatonomist).
5. **Chef/Home-chef Marketplace:** - Startups promote and aggregate home-chefs and professional chefs on their platforms. (Holachef, Bite Club, CyberChef)
6. **Ready-To-Cook:** - Raw ingredients for a recipe are neatly packed and dispatched for a consumer who wants to cook. (Cook Gourmet)
7. **Food Delivery Models:** - Swiggy, a Bangalore food ordering and delivery startup, has its own fleet of delivery personnel (equipped with mobile app powered by routing algorithms), who pick-up orders from restaurants and deliver it to customers.

#### 4. Investment in Food Tech Startups in India

Over the past one year, there has been an exponential growth in the number of food startups. This area is garnering investor's interest too much so that the market size of food in India is expected to reach Rs.42 lakhs crores by 2020, reports **BCG**. Presently, the Indian food market is around Rs.23 lakhs crores in 2015 (Binu, 2015). Another important calculation which interests investors is the ratio between **CUSTOMER ACQUISITION COST** and **COST FROM CUSTOMER**. Customer Acquisition Cost is the amount of money spent by the company for acquiring one customer and cost from customer is the amount of money the company gets in return from the customer. This calculation can be arrived roughly by dividing all the money spent on marketing over a period of time by the number of customers acquired in the same period of time. This calculation can give a rough idea on how the business can on a longer run. Startups tend to spend more money on marketing their products during initial stages. And in a scenario of a food tech startup, the companies tend to invest more on marketing in their earlier stages, since the company's revenue is directly proportionate to the number of customers.

Most of the startups in the food tech sector were me-too startups and most of the investors who seeded for these companies were those who didn't want to be left alone. For companies, who were delivery only players, the place of operation is a very important decision to make. Food delivery in India is relatively new and still catching up in cities Bangalore, Delhi and Bombay, II tier and also in III tier cities. So it is critical to zero-in on the place you need to focus, or in other words you need to match your supply only in the place where there is a demand. There are few deals in 2015 by Indian food tech startups to enhance the funds to cover the cost and meet the demand.

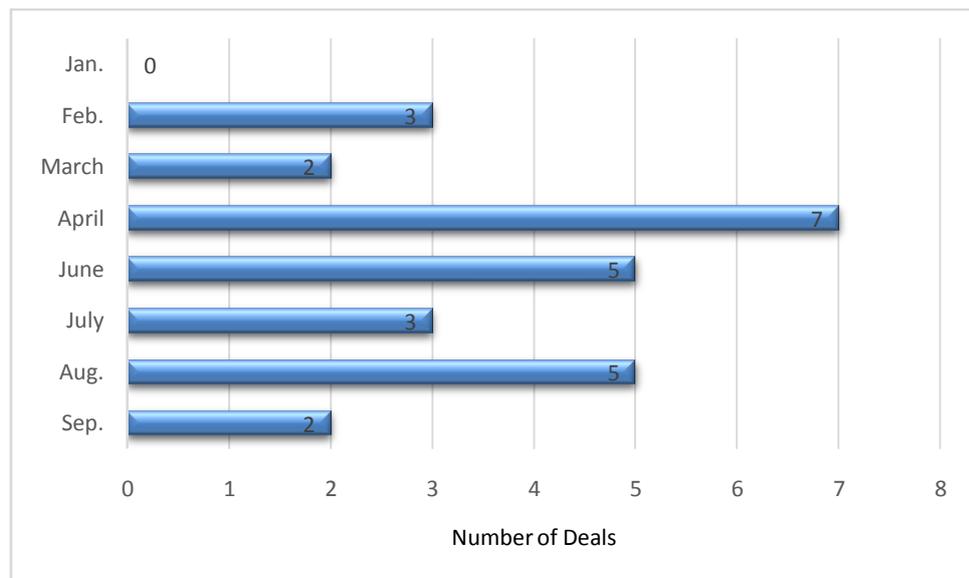


Figure.2 Food Technology Sector Deals in 2015

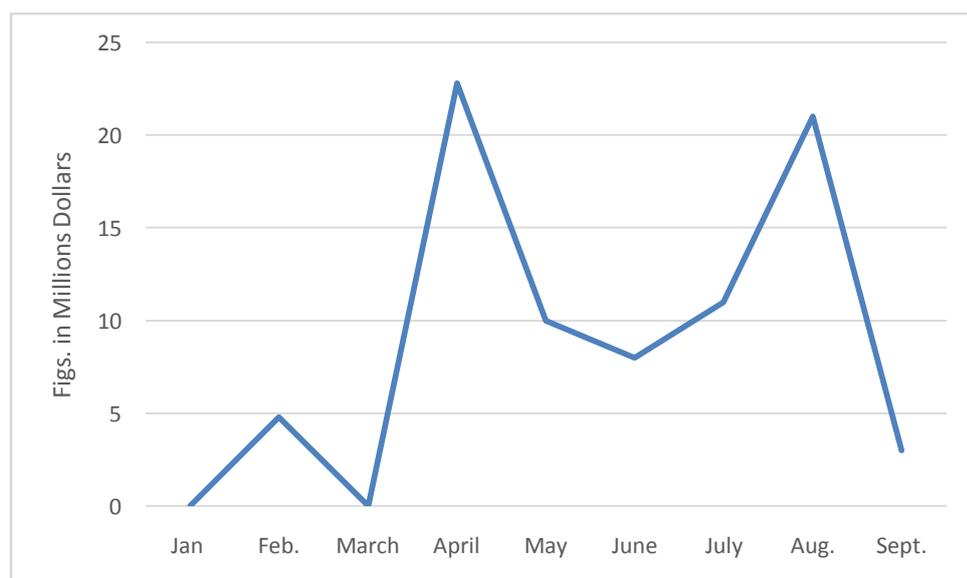


Figure.3 Funding in Food Tech Sector in 2015

At the beginning of 2015, many investors had predicted that food technology startups would be the new stars of the Indian ecosystem. The prediction stood true for most part of the year, but now the world seems to be falling of the biggest food startups in the country. From figure.2 (Binu, 2015) and figure.3 (Pradeep, 2016), which shows the number of deals and fund raised in 2015, it is concluded that the amount of funding made in the food tech space in the month of April alone, it was an immense raise of funds around \$ 74 million on a total of seven deals. In August, this dipped to \$21 million with a total five deals. In September, this number further dropped to a total of two deals (Pradeep, 2016).

The fund raised by different food tech startups till date is given in table 2. Spoonjoy and Delivery Chef did not disclose its amount, Eatlo did not find any investor to raise fund for the company. Zomata and Foodpanda have raised highest funds so far (Shelly, 2016). Beside this Freshmenu, Holachef, Bite Club has not touches the figures of their funds to 1 million\$.

Table 2: Amount Raised by Different Startups

Startups	Amount Raised Till Date
Yumist	USD 1 Million
Freshmenu	USD 618k
Holachef	USD 320k
Spoonjoy	<b>Undisclosed</b>
i-Tiffin	USD 1 Million
Tinyowl	USD 20 Million
Faaso's	USD 20 Million
Foodpanda	USD 147.3 Million
Eatlo	<b>No Funding</b>
Tastykhana	USD 5 Million
Justeat	USD 89.1 Million
Deliverychef	<b>Undisclosed</b>
Biteclub	USD 500k
Zomata	USD 225 Million

## 5. Factors that Affecting Indian Food Tech Startups in India (Kumar, 2015)

1. **Misreading an Age Old Strategy:** There should be equilibrium between the demand and supply for the business to prosper. We all know that greater the demand, more the

need for supply. Again food industry's outcome depends entirely on this demand-supply relationship.

2. **Young Entrepreneurs:** When success comes at a young age, it is very easy to get carried away. That is perhaps the reality of some of the founders of the food tech startups. Most of the founders are freshly out of college and might have worked at a firm or two before starting on their own.
3. **Mismanagement of Finance:** Experts and experienced employees of their own firm's views that these startups were spending money in the wrong places. Paying high salaries for employees with little or no experience and even less educational qualification, seem to be the order of the day.
4. **Lack of Business Experience:** All of these startups have a very young team working and there is a lack of experienced people who can act as guides in times of requirement. There are times when investors come on board, they tend to guide the founders and how them the way to profit cutting down on costs and unnecessary expenses.
5. **Funding too Easy:** Most of these startups haven't really had to face a struggle when it comes to funding. It was pretty much served to them on a platter that they failed to hold on to. The rise of individual investors has made life much easier now as firms can now seek and find their own investors if rejected by one. They have too many options open now for their own good.
6. **Absence of Right Talent:** Retaining good talent has always been a problem in the company. This might be one of the most critical reasons of the fall of startups, unable to retain experienced people.
7. **Quality:** To maintain the consistency of quality of food is a big problem for home-chef aggregators.
8. **Scalability:** Some models are of capital heavy involving, setting up of multiple kitchens.
9. **Cash-Burn Discounts:** By food ordering companies it a battle for the customer.
10. **Logistics:** In food tech, last mile delivery costs and time of delivery have become a pain for entrepreneurs.
11. **Unit economics:** It is calculated at revenue per food order or delivery minus the cost involved in the transaction. In most cases, it was negative returns as they spent up to Rs 300 as discounts for a food order that earned them Rs.45 per delivery (Aditi and Shonali, 2015).

## 6. Suggestions

The food tech industry is a multi-billion dollar market in India and there is no right time than now to venture into this space. It is not even close to saturation or hitting the ceiling. Despite all these challenges, passion, creativity, and shooting for differentiation will decide which of the startups succeed finally. Few suggestions are to be pointed out to be success on this type of space on the basis of **4 P's** and other essential elements of marketing.

1. **Product:** A product (food) that people are extremely passionate about. People demands variety in taste, they don't want to eat same tasting food again and again.
2. **Price:** Price may be the ultimate winner (unlike cab companies). Low cost of on-demand delivery food may play a very important role on this space.
3. **Place:** Local delivery/distribution has to be built from the ground up like hyper-local delivery companies. Except, food companies will be catering either from their own kitchens or amalgamating home chefs, the logistics can be nightmarish.
4. **Promotion:** More market readiness in terms of consumer awareness and adoption (this is a huge contribution) clarity to startup founders in terms of what will not work in market.
5. **Infrastructure:** There is also the need to build the right infrastructure which might include setting up a team of food scientists to work towards building the platform (food standardization) for the business to scale.
6. **Packaging:** Customer doesn't need excellent packaging experience on-demand delivery. Focus on delivering low-cost food which changes in taste daily and shouldn't start delivering food in fancy boxes (saving you at least Rs. 10 on every order).
7. **Clubbing of Orders:** To avoid on-demand orders and focus on clubbing multiple orders for delivery either by asking customer to pre-book or subscribe for the meal (this can drastically cut down your delivery costs to below Rs 10 per order making the unit economics viable).
8. **On-demand needs:** It is an excellent experience to trying serve on-demand needs of customers (say customer wants to order for a meeting, occasion or wants to eat different/special)
9. **On-demand delivery:** Deliver fast when a customer demands it and shouldn't expect customer to pre-book or subscribe the food.

## 7. Conclusion

It is a massive challenge to effectively provide the quality and taste offered by trustworthy traditional dining. One of the big shifts is to create kitchen capacity outside restaurants. Disrupting the traditional dining markets dominated by local and multinational food brands and changing habits is surely a big bet. Delivery, logistics and packaging are important, but in the end, understanding the culinary habits and preferences of the Indian population will determine the scope and future of the food tech ecosystem. Positive news is that demographics of young population, double income families, expensive house-help and cultural acceptability of eating out are big factors expanding the whole market in India. Food tech will need to focus on the basics, rather than scaling up for the next round of funding; basics would mean detailed metrics, including customer retention and gross margins. Looking at interesting trends in the food segment, management of the entire supply-chain and use of technology in smart ways is absolute must for food tech startups. Of course, it would be ideal to have a pleasant blend of traditional dining and food tech to lure the Indian taste buds and provide complete satisfaction to the Indian appetite.

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