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Blinkit may give Zomato digestion problems

DEEPSEKHAR CHOUDHURY
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"The acquisition plan was always hidden in plain sight". "It's just about feeding public market investors something fresh." "It's a long-term bet on the hyperlocal economy." "A Hail Mary for survival."

Last week, refrains like these could be heard from venture capital investors, analysts and hyperlocal experts as they waxed eloquent about Zomato's plan to swallow up quick commerce player Blinkit in a heady $750-800 million deal.

Although the food delivery major is yet to publicly state its intention to acquire the erstwhile Grofers, company insiders said that a term sheet has been finalised. "Some of Blinkit's employees have already started working out of the Zomato office, while several of the latter's employees have moved to the former," said a source close to developments.

"But it will take some time for regulatory approvals to come through. That's why Zomato is extending them a loan of $150 million in tranches to give them a lifeline in the meanwhile," he added.

According to several reports, Blinkit has burned through most of its cash since its pivot to 10-minute deliveries of essentials last year, around five per cent of its workforce has been laid off recently and it is trying to sell some of its ground assets for cheap.

To set things in context, Zomato had already invested $100 million in the company for a stake of around 10 per cent last year. It had plans to write another cheque of $500 million and become a majority owner, but those plans have not materialised as technology stocks around the world have gotten hammered in the past few months.

But even as the follow-up roadmap of a full-fledged acquisition was being debated, Zomato dropped another bombshell earlier this week. It announced a service that will deliver food in 10 minutes.

"This makes things abundantly clear. The market did not take well to the purchase of a tottering grocery delivery company and a new narrative was needed. So, now the story being sold is that Zomato will force fit the Blinkit's quick commerce assets into its native food infrastructure," said a venture capital investor who does not want to be named.

ACROSS THE AISLE

Zomato	Blinkit
Delivers over **1.5 mn** orders per day	Delivers more than **1 mn** orders per week
Market capitalisation of **$8 bn**	Valuation of **$800 mn**
Around **300,000**-strong delivery fleet	30,000 ground staff and around **450** dark stores
15 mn-plus monthly transacting users	Over **2 mn** monthly transacting users
	$450 mn of annual gross merchandise value run rate

Source: Companies, news reports

Experts said Zomato has done a poor job at communicating its intentions to the market — and for this reason, it will be a difficult path to redemption for its share prices, which have been hovering around the ₹80-mark for a while now, almost half of its lifetime high of ₹155.

"The flurry of investments and acquisitions reveal stress marks. While the jury is still out on whether 10-minute deliveries of grocery and food can be a successful business proposition, Zomato still needs to manage shareholder expectations better," said Ankur Bisen, a veteran management consultant in the consumer domain.

"How will Zomato or Swiggy become profitable? The answer lies in nudging customers to order more and more"

Zomato's bid to deliver food in 10 minutes has come under intense pressure in the last few days. On one hand, there are concerns that such quick deliveries will put pressure on delivery partners and create road safety issues. But more importantly, the complexity of executing and making money from such a service has come to the fore.

"We have tried a similar service before and it did not work. The data that Deepinder (Goyal, Zomato CEO) is banking on will not really help because those statistics pertain to the normal 30-40-minute deliveries," said a top executive of a food delivery unicorn.

"When you extrapolate that data at a hyperlocal level to predict which 20 or 30 dishes people from a 2-km radius will order, it simply does not work. Because your original data is based on a situation where people can order from thousands of dishes," he explained.

Several restaurants told *Business Standard* that they would not like to send pre-cooked food to Zomato's hyperlocal kitchens as it would mean giving up quality control and might hurt their brand value.

Some experts also believe that the bet on 10-minute service — and Blinkit — is essential to Zomato's future since the future of hyperlocal is delivering everything quickly.

"How will Zomato or Swiggy become profitable? The answer lies not in extracting a bigger delivery fee from customers, but nudging them to order more and more. And when the delivery time is reduced to 10 minutes, the propensity to make purchases will increase," said Sachin Dixit, an analyst who tracks technology companies at brokerage firm JM Financial. He also cautions that integrating Blinkit's assets into Zomato and repurposing them for food deliveries will need a very well chalked out execution plan.

"One number that will be critical is the contribution margin. As average order sizes could take a hit, it remains to be seen how Zomato manages to still make money on a per order basis. The Street will not like it if orders become contribution margin negative," he said.

In e-commerce, contribution margin is calculated as revenue from fulfilling an order minus the variable costs attached with it.

Sreedhar Prasad, a management consultant who advises technology companies and start-ups, said that the variable expenses will come down further as delivery costs will reduce. "When the distance reduces to 1-2 km, the delivery fleet's utilisation will increase as riders will deliver one order, go back to station and immediately pick up another order. Whereas 80 per cent of the trips made by delivery executives at present are single order deliveries and made over distances as much as 5-7 km," he explained.

Yet, the larger narrative seems to be the one that says the odds are stacked against Zomato.

"There is a lot of social angst against this service on the grounds of delivery workers' and traffic safety. Moreover, the Blinkit deal will take time to be digested — and the cash burn rate will increase," said Ambareesh Baliga, an equity investment expert.

"And again," he added, "with Zomato already having a 45 per cent market share of food deliveries, how much value accretive will Blinkit be in terms of additional customers for the price they are paying — $800 million — and a fleet of gig workers and dark stores?"

To explain what the 10-minute service intends to accomplish and assuage stakeholder concerns, the company has laid out some details of its execution on social media. It has said that delivery workers would not be incentivised or penalised on the basis of their delivery speed. Moreover, the quick commerce set-up would require delivery executives to travel at the same average speed of 20 km per hour as they do now — as the distances between the delivery hubs and customer doorsteps will be minimised to 1-2 km.

The food delivery company believes that the cost to the end customer may reduce by up to 50 per cent — without hurting restaurant and delivery partner earnings — if things go according to plan.