



## Uber Eats' exit – The flaw in the plan with Deep Discounting

Yet another business gets hit by deep discounting! Clearly, this strategy can help penetrate and acquire market share only as long the wallet stretches. Uber Eats was no exception to this; even two attempts in this space by Ola (namely, Ola Café and Food Panda) were unsuccessful, with the latter moving to cloud kitchen services, after realizing the restricted penetration potential in the food delivery business.

With a customer base that remains loyal only to discounts, stiff competition, and lack of service differentiation, the food delivery industry seems on its way to reaching the last ones standing and driving out smaller players. While operational costs are ever-surging (due to increasing discounts, high cost of customer acquisition, time and incentive cost of onboarding an extensive network of restaurants, high investment in the delivery fleet), the revenues are nowhere near reaching any profitability.

With the all-equity deal of Uber Eats with Zomato (where Uber obtained a 9.9% stake in Zomato for the entire Uber Eats business), Zomato and Swiggy are the two largest players still standing in the Food Delivery business.

A high-level look at a couple of the sectors where players used deep discounting clearly shows the importance of deep pockets, product differentiation and value-addition, forward and backward integration, and eventual market consolidation.

Sector	E-commerce (Trading Platforms)	Cabs / Taxi Aggregators
Top Players	Amazon, Flipkart	Uber, Ola
Value Differentiation and Integration	<p><b>Common:</b> Fast Delivery, Customer Service, Return support, Large variety of products</p> <p><b>Amazon:</b> AWS, Private Label</p> <p><b>Flipkart:</b> Fashion (Myntra)</p>	<p><b>Common:</b> User-friendly Platforms, Driver Training, Pooling, Outstation travel</p>

Evident from players across industries, like Snapdeal, Meru Cabs, and Vodafone, who have lost a substantial market share due to the absence of such differentiation (or integration), staying afloat in the cost-sensitive Indian market requires strategic and tactical agility. Not only did Uber Eats enter the market late (in mid-2017), but it

also didn't differentiate itself; it focused only on the deep discounting strategy for market coverage, which proved to be unsustainable. Uber Eats had been looking to exit the market for a year and was in advanced discussions with Swiggy, which didn't materialize due to differences in valuation estimates and tax implications.

The two surviving Food Delivery players have systematically differentiated their offerings. Zomato has several services — food blogging, ads, dining, Zomato Gold, etc., while Swiggy is considering grocery and non-rush-hour delivery as its long-term goal, with Swiggy Stores.

Zomato	Swiggy
 <p><b>Pros</b></p> <ul style="list-style-type: none"> <li>• Good offers with discounts (including Zomato Gold)</li> <li>• Customer reviews on restaurants available</li> <li>• Quick and free delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Swiggy-Super (for deals and offers)</li> <li>• Good customer support team</li> <li>• Wider market coverage</li> <li>• User-friendly app</li> </ul>
 <p><b>Cons</b></p> <ul style="list-style-type: none"> <li>• Complicated App (due to the integrated food rating platform)</li> <li>• Restricted coverage beyond metros</li> <li>• Low penetration in Tier 2 and Tier 3 cities</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery and packing fees</li> <li>• Relatively inadequate packaging</li> </ul>
 <p><b>Benefit from the Deal</b></p> <ul style="list-style-type: none"> <li>• Increased customer base</li> <li>• Better fleet utilization</li> <li>• Strong presence in the southern and Tier 2 cities</li> <li>• The global giant Uber Inc. as an investor in the business</li> </ul>	<ul style="list-style-type: none"> <li>• Lesser competition</li> <li>• Possibility of acquiring Uber Eats' customer base</li> </ul>

This deal clearly demarcates a trend of how it is the imperative of any company to add value, integrate other business streams, and to go beyond deep discounting, to gain and maintain an edge in the market. Let us now wait and watch how the last standing two giants of the food delivery business try to outwit each other in the future!

Connect with our specialist to understand how we can help

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