

## **10-Minute Delivery! Can Zepto's Dark Store Business Model Sustain in India?**

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### **Abstract**

The enthusiasm that the 10-minute delivery idea created in the Indian market inspired many quick-service providers to venture into the fast-paced commerce space with their delivery apps. The study deliberated on-How could Zepto, a new player in the quick-service space, differentiate itself from competitors? The case discussed whether the 10-minute delivery concept work in the long run, or was it just a marketing gimmick? The purpose of the case study was to examine the 10-minute delivery paradigm in the context of India.

**Keywords:** startup, entrepreneurship, business strategy, distribution, e-commerce, retailing

### **Introduction**

A dark store was a retail store in brick-and-mortar format which was like a large fulfillment centre and catered to deliveries of online orders. Customers ordered for the products through an online app and the products got delivered to the customer doorstep. The dark stores sold grocery, apparel, footwear, consumer durables, and household goods. The Covid 19 scenario had led to the growth of dark stores in India. The prominent dark stores in India were BigBasket, Blinkit, Zomto and Swiggy.

Zepto, a startup in the business of dark store, operating out of a mobile app was started in April 2021 by two teenage classmates, Kaivalya Vohra and Aadit Palicha in Mumbai, India. The major differentiating factor of Zepto compared to other outlets was that Zepto promised to deliver products in under 10 minutes. The concept was called as quick commerce where the purpose was to deliver products at an instant pace to the customers. The company had plans to expand across 20 cities in India by the end of 2022 and serve around one million customers. The company was valued at US \$ 900 million in 2022 and was seen as the fastest growing company in the e-commerce market.

The 10-minute delivery concept created a buzz in the India market and prompted other dark stores to enter in the quick commerce space with their delivery apps. Dark stores like Zomato, Swiggy, Blinkit and BigBasket came out with their own version of 10-minute delivery to compete with Zepto. Taking cue from this concept, the food delivery apps were also planning to enter the market with 10-minute food delivery service. The increasing competition in the quick commerce market raised concern about the sustainability of this concept in future. The delivery executives were feeling the pressure of quick deliveries since it was linked to their compensation. A late delivery would mean a cut in the compensation of executives. In some cities, deliveries were taking longer than the expected time.

The customers were enjoying the 10-minute delivery experience but the concept raised several challenges for Zepto since it was relatively a new player in the market. The existing players were well established in the market and had copied the concept well. How could Zepto differentiate itself from competition? Would the 10-minute delivery concept sustain in future or was it just a marketing gimmick?

### **Zepto business model**

The founders of Zepto had returned to India from Stanford on a break just before the coronavirus pandemic hit the country. During the pandemic, they struggled with the grocery supplies and realized the need for an online grocery player. The name 'Zepto' signified minuscule unit of time. Zepto operated on the hub and spoke model of business. The company had identified neighbourhoods with high demand for products and opened more than 100 micro fulfilment centres close to such neighborhoods. The fulfilment centres keep an inventory of products such as grocery, personal care, hygiene, food and beverage based on the demand patterns. Technology had been used to identify delivery routes and locations that were less congested and the delivery executives could reach the customer doorstep on time. The company claimed to be adding 1,00,000 new customers during each week since inception. The company also offered free shipping whereas few competitors charged a delivery fee.

The concept of 10-minute delivery was not new. The concept had been successfully implemented across the globe. Examples were of Uber Eats, Just Eat and Deliveroo in London, Great Britain where delivery executives covered shorter distances on their bikes and scooters to deliver products. Few other instant delivery apps that operated across Europe were Getir from Turkey, Gorillas from Germany and Dija from Great Britain. Gorillas also expanded operations to United States after having tasted success in Europe. Amongst the emerging economies, India had taken the lead in the quick commerce market.

Swiggy, Instamart, Blinkit, BigBasket etc. are major quick-delivery models in India.

### **Business challenges in 10-minute delivery**

Industry analysts were of the view that competition in the quick commerce space had become intense in India with each major player making claims and counter claims about the number of orders from customers. The major players were already exploring the 10-minute delivery model and could catch up with Zepto in the future. Zepto was still a growing company and catered to less number of cities compared to its competitors. Zepto had hired senior executives from established e-commerce companies like Uber, Flipkart, Pepperfry and Pharmeasy to carry out its operations [20]. Customers are of the view that in certain situations, deliveries are taking longer than the promised time. The delivery pressure had increased the attrition rate amongst delivery executives and preferred to go back to pre-Covid jobs which were less stressful. The existing delivery workers were seeking health insurance and shared their grievances of being prone to accidents or getting into trouble with the cops for fast driving on the Indian roads. The rising cost of fuel prices and operational challenges further added to their woes. Experts from industry also questioned whether the 10-minute delivery would continue as a value proposition in the future or whether the delivery apps would move to other propositions like variety and cost competitiveness. Some of the experts were of the view that 10 minutes delivery would be limited to certain neighborhoods and for popular products only. The local mom and pop stores in crowded neighborhoods too were exploring the 10-minute delivery where they could deliver at customer doorstep in less than 10 minutes at phone call. Industry observers felt that the existing business challenges could limit the expansion of Zepto beyond a point if they were to continue with the 10-minute delivery proposition. They wondered whether 10-minute delivery model could sustain in India in a longer term.

### **Forging the Future**

Amazon and Flipkart, the legacy companies, did not see the competition coming through a 10-minute delivery model in new commerce. Zepto, derived from the playful use of the mathematical sign of Zepto, sensed a big gap and gross execution-errors in the delivery space.

Zepto was conceived to fill that gap. From its presence in six cities- Bangalore, Delhi, Gurgaon, Chennai, Hyderabad, and expanding to Pune and Kolkata. Zepto seems to be competing with big players in big cities, but for how long the 10-minute delivery idea will keep working for Zepto, is a million-dollar question. After 10 -min delivery model, Zepto is trying its luck at Zepto Café [24]. Diversifying too early may not work out too well for Zepto. Zepto is the fastest growing company in the e-economy space.

### **A post-pandemic e-retail model**

A Dark Store is a model gained attention in the post-pandemic retail. These stores are not open to public and are not dealing with real-customers. These stores are generally not located in shopping centres, but in areas where road-connections are good. Dark store-model is becoming extremely popular because of quick shopping, fast delivery, better SKU (stock keeping unit) management, range of products, inventory-control and other similar benefits.

Dark stores are common in certain sectors like grocery and food, but are becoming increasingly popular in fashion, big-box retail, homeware and furniture industries too. Dark-stores are also facing challenges like customer-erosion, higher transportation-costs, increased competition, cannibalization of in-store sales etc. The model, based on the dark-store concept, is a game-changer and a new-normal. The popularity of the dark-store model has depended on the fact that many customers prefer 'convenience' over 'price' while making a purchase decision. Dark- store model seems to be having the potential to become 'the future of super-market'. The shoppers can be given the choice to pick up their orders. The concept opens opportunities to delve deeper.

### **Future direction**

Zepto planned a massive expansion in the next few years by opening more dark stores and hiring more staff. The competitors also hoped to catch up with the 10-minute delivery time in due course. The 10-minute delivery garnered lots of interest amongst other startups who planned to capitalize on this proposition in the future. If the quick commerce market became mature, would the 10-minute proposition continue to be a differentiator or become a standard norm? It was predicted that in the future, traffic congestion in Indian cities could increase due to rapid urbanization and the real estate could become expensive. Rising inflation could further add to the woes. In such a situation, what could be the future for Zepto? The customers could become more demanding for even a lesser time delivery in future. What could be the other business options for Zepto? Market analysts felt that the future was unpredictable and Zepto needed to re-look at its current business model.

### **Teaching notes**

#### **Summary**

The case study was an attempt to look into the delivery model of 10-minute delivery in Indian context. The case was an in-depth study of Zepto, a player in this sector. Major players in India were already working on reducing the delivery-time and could match up with Zepto's delivery schedule. Zepto, still being a growing company and having presence in extremely less number of cities was facing competition with big giants like Swiggy, Big Basket and Zomato. In certain unforeseen situations deliveries would take more than 10-minutes. The pressure on the delivery staff might result in higher attrition rate. There were serious doubts if 10 minute-delivery model would sustain in the future keeping in mind the competition from near-by neighborhood stores delivering at the doorstep in less than 10 minutes at a WhatsApp message. The future of 10-minute delivery-model, based on the of dark-store concept seemed uncertain.

### Teaching Objectives

1. To enable students to understand quick commerce models of product delivery
2. To analyze the competition and challenges faced in 10-minute product delivery in emerging market of India
3. To develop strategies to sustain in online delivery business.

### Target audience

The case study is suitable for teaching students of undergraduate and post graduate courses in distribution management. The students will be able to learn about the different online product delivery models and the concept of quick commerce. They will be able to analyze the opportunities and challenges in quick commerce delivery. The case study is also suitable for use in management development programmes where participants from FMCG industry can design quick commerce delivery models based on the 10-minute delivery concept.

### Teaching plan

Duration of the classroom session – 90 minutes

1. Introduction of the case study and highlighting the key issues in the case study – 10 minutes
2. Discussion on quick commerce delivery models – 20 minutes
3. Discussion on the pros and cons of 10-minute delivery – 20 minutes
4. Discussion on future of quick commerce and strategy for Zepto - 40 mins

### Research methods

The data for the case study was collected from secondary sources such as newspaper articles, news reports, industry reports and websites covering information on Zepto and quick commerce distribution models.

### Additional Reading

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### Assignment Questions

1. *Describe the concept of quick commerce and how it has changed the delivery market in India?*

*Answer:* Quick commerce relates to ordering of products through an online application by the customers and delivery of products at the customer doorstep from 10 minutes to 30 minutes. The concept of quick commerce works well when customers demand certain products at a fast pace such as grocery and household items. For the customer, speed and convenience has become value proposition to switch from one delivery channel to another. The quick commerce

platforms set up their fulfilment centres close to high demand areas and maintain adequate inventory to cater to existing demand. The delivery executives cover shorter distances to deliver products to customers in the shortest possible time. The quick commerce market has made the customers demanding and exerted pressure on delivery partners like Zepto, Blinkit and BigBasket to deliver their products instantly to customers. The concept of quick commerce has also given cues to delivery channels of non essential items to shorten their delivery time.

*2. What are the opportunities and challenges for quick commerce players in the Indian market?*

*Answer:* The quick commerce players face several opportunities and challenges in the Indian market:

*Opportunities*

The Indian quick commerce market was predicted at US \$ 700 million and was likely to grow at 15 % in the next three years. The major reason for the growth of quick commerce market was attributed to improved customer experience through faster deliveries and consumer convenience. The large concentration of smaller households in urban areas seeking small size purchases has made it possible to create a demand for products such as grocery, food, beverage, personal care and household products. In the future, it can be extended to more categories such as pharma, cosmetics, electronics and fashion.

*Challenges*

In spite of growth prospects, the quick commerce players face several challenges in the market. The bottlenecks in the fulfilment process could delay the deliveries. As the demand for products grow, maintaining a sufficient stock would be critical. This would require investment in infrastructure, manpower and technology. Meeting quick delivery schedules is another challenge as it has raised concerns about the safety of delivery partners driving in traffic congestion. The geographic location also plays a role in contributing to delivery schedule. Availability of infrastructure for micro fulfilment in prime locations could be expensive and the monetary returns may not be as expected. There is also an existing competition from local store in nearby areas. The growth prospects of quick commerce platforms is dependent on how well the players create a value chain for efficient delivery of products.

*3. What strategies should be adopted by Zepto to sustain its delivery model in the future?*

*Answer:* In future, the quick commerce market, could get crowded with many players and the quick delivery could no longer remain a differentiator. Hence Zepto will have to focus on other differentiators such as expanding basket of products, shifting to rural markets, reducing cost in the value chain of building customer loyalty. The company will also have to incentivize their delivery partners to prevent switch over and work with them to address their concerns. An analysis of the distribution market indicates a combination of offline and online for successful growth of businesses. Zepto could also consider opening small size physical stores in future within residential areas that could act as an aid to online deliveries.

*4. Explain the concept of blue ocean strategy in the context of Zepto model of delivery?*

*Answer:* The concept of blue ocean strategy is to create a high differentiator by making competition irrelevant. This helps to create a new market rather than compete in an existing market. Zepto created a high differentiator by offering 10 minute deliveries while the general norm in quick commerce market was delivery in 30 minutes. The company set up micro fulfillment centres near high demand neighborhoods so that the delivery cost could be reduced and instant deliveries could be made. This strategy created an entirely new market of instant deliveries and a high differentiator in the quick commerce market. Zepto was considered as the fastest delivery app.

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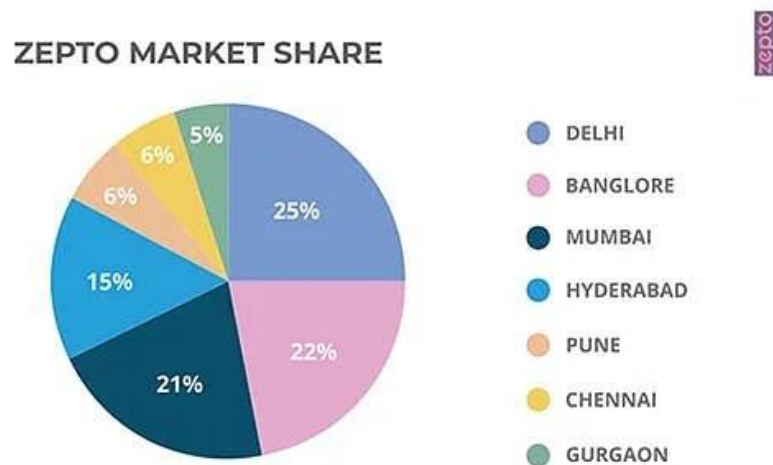
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## Appendix 1: Zepto's growth story



Source: Exchange4media: Zepto clocks 946% growth in 4 months between Dec 21-Mar 22: Bobble AI report

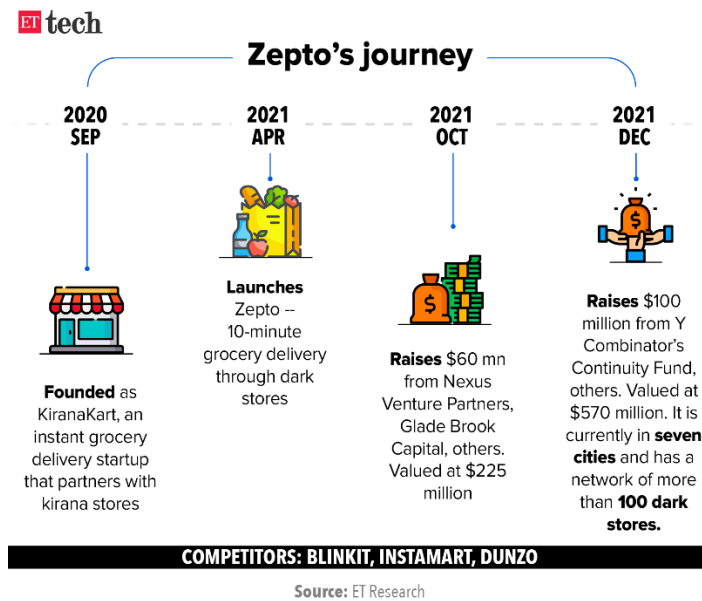
## Appendix 2: Zepto's Market Share



Source: BestMediaInfo

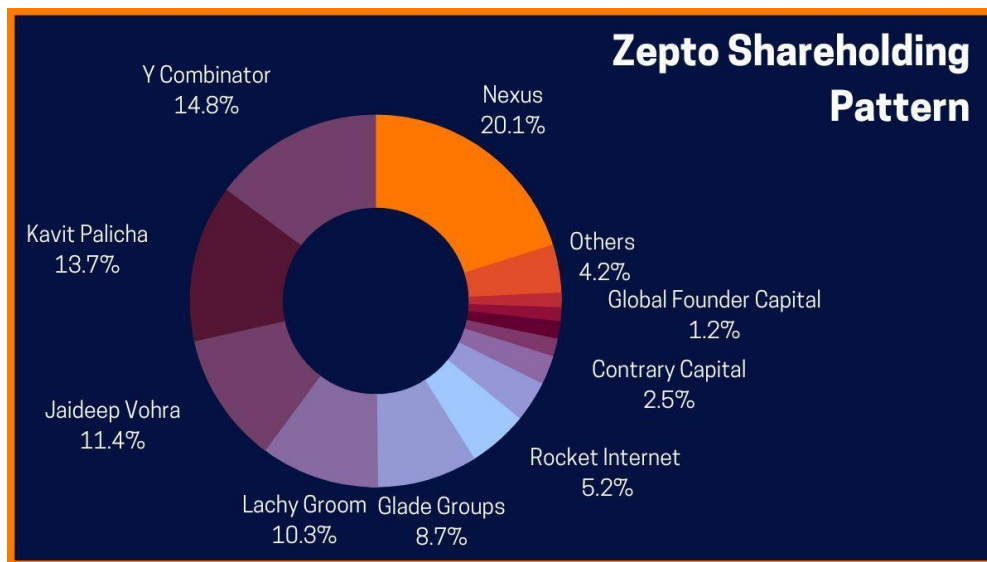
## Appendix 3: Zepto's journey





Source: The Economic Times

#### Appendix 4: Zepto's Shareholding pattern



Source: Startup Talky

#### Disclaimer:

The case-study, “10-minute delivery! Can Zepto’s dark store business model sustain in India?”, is written based on the content that is available in the public domain. The authors have collated and presented different perspectives gathered from the open domain to understand the scope of 10-minute quick-delivery service model in India. This teaching case-study is prepared to discuss the concepts of ‘quick-delivery services’ with students in class.