

## JUST IN 10 MINUTES: A CASE STUDY ON ZEPTO

Dr. Sunita Gupta\*  
Avani Pandey\*\*

### ABSTRACT

*This case discusses the working of Zepto, an e-commerce company founded in April 2021 in Bandra, Mumbai by two 19-year-old Stanford dropouts Aadit Palicha and Kaivalya Vohra. Well, they are not newbies in the start-up world, this is their third start-up after GoPool and Kiranakart. They came with this ground-breaking idea while sitting in their homes and waiting for their groceries to be delivered in 2-3 days. Zepto belongs to those start-up subgroups that experienced meteoric development in the post-Covid period. This case explains the development process of how the company is making it possible to deliver items in 10 minutes. Zepto has raised \$360 million in funding with the lead investors being the American start up accelerator company Y Combinator and the American growth equity firm Glade Brook Capital Partners. Currently, the company has a valuation of \$900 million.<sup>1</sup> So, the possibility that Zepto will soon turn into a unicorn is not a daft idea. However, there is a major concern surrounding Zepto's business model as they have still not made the business profitable. Zepto is also facing tough competition from its rival Blinkit (formerly known as Grofers) who was founded in December 2013.*

**Keywords:** Zepto, Start-up, E-commerce, Business Model, Post-Covid.

### Introduction

Zepto is a quick e-commerce company that started its operations in 2021.

The company started its operations in Bandra, Mumbai and has subsequently extended its delivery areas to Pune, Delhi, Gurgaon, Noida, Ghaziabad, Bangalore, Chennai, Hyderabad and Kolkata.

On October 31, 2021, a total of 8 investors, led by Glade Brook Capital Partners, invested in them \$60 million after which more investors began to notice them. Later, they raised additional funding through their series C and series D rounds. Y Combinator Continuity Fund became the major investor in both of these rounds.

The Series C and D rounds were held on December 20, 2021 and May 2, 2022 and raised \$100 million and \$200 million respectively<sup>2</sup>. But Zepto is not the only quick commerce start-up that is backed by strong funding, it is up against fierce competition in India from Blinkit. Blinkit has received backing from 24 investors and has gone through a total of 19 fundraising rounds. Blinkit is currently valued at \$1 billion<sup>3</sup>. And then there is also Dunzo which is backed by Google.

Zepto's tagline is "Groceries delivered in 10 minutes". They do this with the help of Dark stores. They are nothing but warehouses that are not open to the public and are located in such area in the neighbourhood where demand is high. Only commonly requested commodities are kept in these warehouses, preventing the loss of unsold stock. Zepto's dark stores are designed in a way so that orders are filled as rapidly as possible, effectively and efficiently reducing time. Currently, Zepto is delivering 2500+ goods, including food and drink, personal care products, fresh produce, home cleaning supplies, and snacks and beverages, from its 100+ dark stores. As stated by the CEO of zepto Aadit Palicha the average delivery time taken by Zepto is 8 minutes and 47 seconds.

\* Supervisor, Mentor & Associate Professor, Department of Commerce, Daulat Ram College, University of Delhi, Delhi, India.

\*\* Student pursuing B. Com (Hons), Daulat Ram College, University of Delhi, Delhi, India.

<sup>1</sup> <https://www.crunchbase.com/organization/zepto-29b1>

<sup>2</sup> <https://timesofindia.indiatimes.com/topic/zepto>

<sup>3</sup> <https://www.crunchbase.com/organization/grofers-trusted-delivery-partner>

To make this happen, they employ technology. The company uses artificial intelligence (AI) to enhance the effectiveness of its delivery network by taking into account variables like weather, traffic patterns, population, geography, and the availability of last-mile supplies.

The co-founders have managed to make the roots of the company strong by getting the best talent out there to work for them when they first started building a team. They were successful in persuading a number of high-profile executives from Dream 11, Amazon, Uber, Pharmeasy, and Flipkart. (Source: LinkedIn)

These qualified executives have assisted Zepto in achieving unit economics and capital efficiency. They are what have allowed Zepto to carve out a place for itself in the grocery's delivery market.

### Findings

Groceries account for the majority of India's \$1 trillion retail market.<sup>1</sup> Consequently, this market has enormous potential. During Corona, it was challenging to leave the house every time you wanted to buy a small essential item, and today with people having to work for long hours, especially in urban cities, it is challenging to go out and shop for daily groceries. The market needed an app like Zepto more than it wanted one, thus its release was ideal. These apps help customers to save their time and make their life easier. As of right now, as mentioned by the CEO of zepto, they receive 100,000 orders each day, and their demand curve is essentially flat. They once more turn to technology to determine the ideal location for their tiny fulfilment centres.

Although some would believe that Zepto's delivery speed is what sets them apart from the competition, this is not the case. The key element that sets zepto apart from its rivals is not the quickness of the delivery men, but rather how effectively it uses technology. Zepto tracks its customers' spatial data, traffic dynamics, the time it takes to deliver the items, etc. with the aid of www.locus.sh. They collect this data and analyse it to decide whether they need more dark stores in the area to be able to achieve that 10-minute goal.

### Zepto Generates Income in Two Ways

- It first negotiates a profit margin with the companies based on how much of their product is kept in the warehouse.
- Second, they make money by charging companies for ad space and the top search results.
- Zepto had total revenue of INR 142.3 Cr in FY22, while incurring costs of INR 532.7 Cr. They suffered a loss of 390.3 Cr INR as a result.

### Marketing costs make up the majority of their spending

They invest a lot of money in promoting and advertising their app. During FY22, they spent INR 175.5 Cr, or almost 33% of their overall expenses on marketing. In addition to this, the firm spent INR 213.2 Cr on stock-in-trade purchases in FY22. Employee benefits cost INR 50.3 Cr, while supply chain costs were INR 74 Cr.<sup>2</sup>

Zepto's EBITDA margin in FY22 was -259.39%.<sup>3</sup> An EBITDA offers a clear picture of the company's worth and displays it to potential buyers and investors. Unfortunately, Zepto's EBITDA is negative.

To distribute the products, Zepto utilizes gig workers. These individuals make an average income of INR 1,30,211.<sup>4</sup>

Zepto has been able to outperform the competition because of its business model. They have a highly effective distribution system, and Zepto's AI-powered tools make it simple to manage and keep an eye on inventory and product selection. This leads to better inventory management and a wider range of products. Additionally, they have a large consumer base that is constantly growing.

<sup>1</sup> <https://www.statista.com/statistics/1021352/india-organized-retail-market-value/https://www.statista.com/topics/5615/food-retail-in-india/#:~:text=Moreover%2C%20the%20food%20and%20grocery,retail%20market%20at%2063%20percent.>

<sup>2</sup> <https://www.vccircle.com/zeptounlikely-to-turn-profitable-in-near-term>

<sup>3</sup> <https://inc42.com/buzz/zepto-incurs-inr-390-cr-loss-in-first-year-of-operations-fy22-sales-at-inr-141r/#:~:text=Zepto%2C%20which%20began%20operations%20in,stood%20at%20INR%20140.7%20Cr.>

<sup>4</sup> <https://www.ambitionbox.com/salaries/zepto-salaries/delivery-boy>

## Discussion

Zepto is indeed facing losses but it is only natural for a fledgling enterprise in their early years of operations to incur some loss. While Zepto has suffered losses, it is still in a better situation than Blinkit and Dunzo, which have suffered losses of INR 1,019 Cr and INR 464 Cr respectively.<sup>1</sup>

The quick commerce industry has a customer base that is not very devoted, so even if delivery time increases by a few minutes, customers will still go where they can obtain the best deals.

Zepto has to strike a balance between discounts and deals and keep their delivery time between 10 and 20 minutes. Blinkit is their sole main rival at the moment in this market. They need to start penetrating into newer cities if they want to distinctly emerge as the leaders of quick commerce.

Zepto has to diversify its revenue streams and stop relying solely on a limited range of sources. According to the founders of Zepto, they are planning to open a Zepto café that will provide popular brand's coffee and tea. If it were to become a reality, it may be successful since metropolitan city's youth run on caffeine, and hitting up chaayos or blue tokaievery time you feel like drinking one is impractical. If Zepto wants to make this business a success, they will need more funding. Since Zepto has already established a reputation for itself and everything associated with that name would benefit from its goodwill, their marketing costs shouldn't be too high.

Zepto, as well as any other rapid commerce start-up, solely receives criticism for how it treats delivery guys. Due to the shorter time constraints these workers must adhere to, they may drive rashly, increasing the chances of accidents. Zepto, however, refutes these criticisms by pointing to their advanced technology, which enables the driver to arrive at the destination both securely and on time.

## SWOT Analysis

### Strengths

- **Excellent usage of technology:** With the assistance of www.locus.sh Zepto records its customers' geographical data, traffic dynamics, delivery time, and so on. They gather and evaluate this data to determine whether more dark establishments are needed in the region to meet the 10-minute objective.
- **Being true to their objective:** Zepto ensures that their customers' expectations are met by delivering goods in 10 minutes. Zepto achieves their aim 90% of the time, which contributes to brand loyalty.
- **Strong financial support:** Zepto is well-funded, which allows it to expand and grow into a market leader. They currently have a total funding of \$360 million.
- **Competent Workforce:** The effective management of Zepto is in the hands of highly skilled and experienced professionals. They are Zepto's most valuable resource since they are well-informed about the market. Palicha and Vohra, the co-founders, did a fantastic job in creating their team.

### Weakness

- **Reliance on retailers:** Zepto's business strategy is primarily dependent on other businesses and their inventory. When a retailer's stock is unavailable, customers may be forced to select a higher-priced substitution or go without buying that item from them.
- **Fluctuating customer base:** To keep their clientele, Zepto must find a balance between their discount strategy and keeping their delivery time under 10 minutes.
- **Net Income:** Zepto's operational costs are high. They need to grow their sales while decreasing some of their expenditures to make their business profitable.
- **Nothing Unique:** Zepto's business strategy is not very unique, and any company may enter this market and replicate it.

<sup>1</sup> <https://www.vccircle.com/blinkits-marketplace-arm-s-fy22-loss-widens-to-over-rs-1-000-crore#:~:text=Blinkit's%20marketplace%20arm's%20FY22%20loss%20widens%20to%20over%20Rs%201%2C000%20crore,-By%20Malvika%20Maloo&text=Zomato%20Downed%20Blinkit's%20marketplace%20arm,on%20transportation%2C%20contract%20and%20advertising.>  
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### Opportunity

- **Infiltrating further into existing locations and entering fresh cities:** One way they can outperform their competitors is to grow their business as quickly as possible.
- **Various Business Ventures:** Zepto has developed a brand identity for itself, which they can now utilize to enter into other sectors and diversify their revenue stream.

### Threats

**Heavy competition:** Zepto is in a league with big names. Customers swing from one app to the next like a pendulum. Because there is little consumer loyalty, Zepto must continually stay on top of their game.

**Exploitation of delivery boys:** There are several sceptics of the quick commerce industry. Delivery boys are exploited in the name of quick delivery and are subjected to extreme strain, increasing the likelihood of an accident.

### Conclusion

Since its start in April 2021, Zepto has grown organically to become one of India's most valuable and promising start-ups. Zepto has everything a successful firm requires: a talented and dedicated workforce, solid funding, and the use of technology to operate rapidly. However, they cannot handle huge sales volume since the dark stores they utilise for speedy delivery are not built to support large scale operations. They keep a limited number of fresh items in hand because if they are not sold, they will suffer losses as the items stale. As a result, there is a possibility that the consumer use competitor's app since the things they want are out of stock.

On the face of it, if Blinkit exists & grows, it is difficult for Zepto to be the market leader. Both have a nearly identical business model, and Blinkit's delivery time is also less than 10 minutes so actually they both don't have anything unique that sets them apart. The only thing that can help Zepto to compete with Blinkit and become a stable business firm is expanding into more cities and having a wider range of products to pick from.

Zepto along with other apps is effectively breaking the mould of traditional purchasing and establishing an e-consumerism habit. There is no doubt that Zepto is now expanding faster than anybody else in this sector. They are detail-oriented and employ AI-based technologies well.

Zepto is expected to become a unicorn in 2023.<sup>1</sup> However, being a unicorn does not imply that the firm is profitable.

In the FY22 their revenue was considerable, as seen by the number of orders they received each day, but their operational costs were high and hence they suffered losses. If they want to become a profitable firm, they must expand into newer cities while adhering to their basic principles and finding methods to reduce their operational expenses.

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<sup>1</sup> <https://www.cnbctv18.com/photos/startup/shiprocket-zepto-startups-most-likely-to-become-unicorns-in-2023-13979002.htm#:~:text=Shiprocket%20To%20Zepto%2C%20These%20Startups,To%20Become%20Unicorns%20In%202023>