SWIGGY™, FOODORA™, and YELP™
HYPERLOCAL PLATFORMS

R SRINIVASAN, SANDEEP LAKSHMIPATHY, AND PRAMOTH JOSEPH
Swiggy™, Foodora™, and Yelp™: Hyperlocal Platforms

INTRODUCTION

On a late Saturday evening, a group of management students who were working on a research project realized that they may be working through the entire night and not have time to step out for dinner. One of the tech-savvy students grabbed her phone and instantly ordered food from the neighboring street’s food joint and was utmost thrilled when she even received a cash back offer for using the app to order food from the app. Wondering about the immense potential these local platforms could offer to traditionally offline businesses such as restaurants and food delivery catering vans, the student started to pen down few of her thoughts.

- What could be the business model of these hyper local delivery platforms and how easily could they scale operations as demand increased?
- Were there any same or cross side network effects visible among participants who use these platforms?
- What kind of complementary services could these platforms venture into? Should they move beyond food delivery and into a full-fledged hyper local delivery service?
- What could be some of the limiting constraints under which these hyperlocal platforms had to deliver business outcomes?

FOOD DELIVERY BUSINESS

Origin of the Journey

Not until long ago, most of the “phone & order” food deliveries were undertaken by pizza outlets in the metros (and similar restaurant-owned local delivery services) that catered to the hungry. However, with the emergence of smart phones and increasing internet penetration, patrons preferred to order food using mobile apps. Food-delivery businesses were disrupted by digital forces wherein apps from Zomato, Swiggy, GrubHub, and others increased convenience and choices for all. Hungry patrons seemed to have a variety of restaurant choices which offered competitive pricing for their best offerings. Powered by reviews and recommendations coming from millions of patrons, the food delivery business and in general the hyperlocal delivery ecosystem was undergoing epic changes. Platforms such as Delivery Hero, Food Panda, Yelp, GrubHub, Swiggy, Zomato, and Just Eat had achieved global scale and some were considered unicorns,¹² or businesses which were valued at over a billion US dollars.

Hyperlocal is defined as “relating to or focusing on matters concerning a small community or geographical area”. Real time information about happening places in the city or town, powered through reviews from real people who have undergone experiences at these outlets, held immense value for everyone else. Time sensitive information about local businesses helped patrons zero in on the right one

in a new locality. Neighborhood focused news, restaurant reviews & recommendations, food delivery from nearby restaurants along with grocery, and others constituted the scope of hyperlocal. Advertisers were interested in hyperlocal more than ever due to its ability to deliver relevant content as close to the patron as possible. Ability to deliver hyperlocal marketing at scale had puzzled many firms with considerable marketing budgets. However, emergence of hyperlocal platforms such as Yelp and Zomato changed the dynamics and has been successful in making impressions on the minds through personalized content that can be delivered in an automated manner. More recent incarnations of hyperlocal businesses enjoyed relatively better success as they were aided by satellite-based location services on smart phones. Along with improved mobile internet speeds, GPS-powered apps ensured more accurate real-time targeting of prospective patrons with individualized content.

Aggregation vs. Delivery

Aggregation platforms such as Yelp or Zomato started off with featuring restaurants and other local businesses on their portals and mobile apps which brought together reviews and recommendations from patrons who had experienced the concerned business’ services prior to expressing their views on these portals. With this approach, advertising was the main avenue for revenue generation. The delivery part was mostly left to the restaurants to cater to and these aggregators focused on only getting additional customers into the store. Access to a variety of restaurants along with recommendations on what to eat at each outlet were key attractions that pulled patrons to these aggregator portals.

Recent delivery platforms that arrived on the international scene from 2010 onwards had taken a different approach to food delivery. By building a fleet of delivery personnel from the ground up, these start-ups businesses not only managed to help the patrons with mobile apps that listed food to choose and order from, but also partnered with the restaurants to handle the logistics of delivery of prepared food to the patrons. From the interface with the patrons to ensuring payments processing, these delivery platforms had reinvented the food business and the delivery ecosystem. This approach had brought in fresh investments and entirely new players into the market who spotted the potential. Flush with cash from venture funds, these delivery platforms had attracted huge investments and were looking to expand services to include patrons’ other needs. These ventures advertised aggressively and had built brands with high recall and patron connect.

Swiggy

Bengaluru head-quartered online food ordering hyperlocal startup Swiggy started operations in 2014 to deliver food to hungry patrons who did not want to traverse the ever-increasing traffic snarls in the city. Founded by Rahul Jaimini, Sriharsha Majety and Nandan Reddy and modeled to help patrons easily browse through the menu cards on the mobile app to order food from nearby restaurants, Swiggy allowed its patrons to pay through the app while it settled the food bills with the restaurants. Designed to be a full-blown food ordering and delivery solution that brought the dishes from neighboring restaurants, Swiggy had put in place a dedicated fleet of delivery personnel who picked food from the restaurants on behalf of patrons.
Swiggy™, Foodora™, and Yelp™: Hyperlocal Platforms

**Food Delivery Process**

Powered by its own delivery personnel who were equipped with smartphones, Swiggy used its home-grown routing algorithms on its app to ensure fastest possible delivery of freshly cooked food with each Swiggy delivery personnel dedicated to delivering a single order at a time (refer to Figure 1). The delivery person would get notified when a new order was placed by a hungry patron who did not wish to drive down to the restaurant of choice. Keeping in mind the low-tech approach of most Indian restaurants, Swiggy’s integration with the restaurants was mostly manual wherein the delivery person would place the order for the patron’s requested dishes and would ensure the restaurant was paid through Swiggy once the food was ready to be picked up. Swiggy allowed patrons to pay for the food they ordered through a variety of online and offline means and would transfer the payment to the restaurants after deducting its commission from the process. The delivery personnel would get paid for each delivery they made and also a fixed amount for every hour they spent engaged on the Swiggy platform. This model of work-based payments was attractive for a significant number of young Indians looking for job opportunities and they sought to be delivery personnel for Swiggy or similar platforms. With delivery times of around 30 minutes, Swiggy ranked next only to Dominos when it came to speed of food delivery in major Indian metros.

**Business Model**

Swiggy’s business partners were the restaurants to which it brought traffic through its portal and mobile app. For every order that came through Swiggy, the restaurants were charged commissions of 10-30% making the restaurants the money side for the platform. \(^3\) With discount offers to its patrons, Swiggy ensured the patrons were the subsidy side wherein they could even receive cash back offers for every order placed using the app which was above a minimum order price. There were nominal charges for food delivery due to distance of the delivery point from the restaurant or peak hour congestions. Swiggy also seemed to levy delivery charges in some cities based on a variety of considerations such as cost of delivery, traffic congestion and others. It was apparent that the platform was still looking at ways to subsidize the patrons through variety of offers and discounts while making up for the revenue loss through commissions from restaurants. Compared to competitors such as Zomato, Swiggy seemed to command a higher commission rate from the restaurants.

With over $465 million raised through venture capital until August 2018\(^4\) and enjoying a unicorn status as its valuation crossed $1 billion, Swiggy was looking at rapidly expanding its footprint across Indian cities to take on its rivals Zomato and Food Panda while trying to stay ahead of new entrants such as Uber Eats.

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and Google’s Areo.\(^5\)\(^6\) Swiggy had started operations in Bengaluru, India, with six delivery-executives and just 25 restaurants, but as of mid-2018, it had catapulted itself into India’s largest food delivery service provider with 40,000 delivery executives and over 35,000 restaurant partners with presence in over 11 cities across the country including non-Metro such as Nagpur. Swiggy could be expected to set eyes on international expansion soon where competitors already enjoy a foothold.

**Sustainability & Growth: Addressing Multi-homing and Envelopment**

Swiggy had ensured need for low tech integration from the restaurants by dealing with them through its delivery personnel who would walk into the restaurant to place orders on behalf of the patrons and pick up the food parcels for home and office delivery. This model ensured very low multi-homing costs for the restaurant who could also serve patrons coming through their own telephone systems, other online ordering platforms such as Zomato or Food Panda as well as their walk-in patrons. Once a few marquee restaurants were on-board Swiggy, it was sufficient to ensure other restaurants jumped onto the bandwagon or else risk being left out (fear of missing out, or FOMO) of a revenue stream through online orders. The FOMO for the restaurants ensured most neighborhood restaurants joined Swiggy and served their patrons through home delivery of fresh food. Presence of local favorite eating joints on Swiggy ensured even more patrons would come onboard to try out food ordering. In the fast-growing hyperlocal Indian food delivery market, there seemed to be no clear winners yet as the cost for multi-homing was not a sufficient barrier for the restaurants to choose one platform over the other to service online patrons.

For those restaurants which wanted to improve operations, Swiggy had built an owner app that provided visibility into flow of orders, patron feedbacks received, and menu analysis.\(^7\) With real time updates on the app, restaurant owners were presented with an opportunity to react based on patron feedback to improve order inflow. Through online presence on the Swiggy platform and improved brand equity, restaurants were presented with new business opportunities with a patron base not limited to the immediate neighborhood. As restaurants benefited from patron analytics provided by Swiggy, it helped the platform increase multi-homing costs for these restaurants. Another step in this direction was the introduction of Swiggy Access in late 2017, a kitchen backend facility in Bengaluru which provided free space for restaurant owners who wanted to expand patron base that they served but could not do so due to need for high capital investments. This was also a competitive reaction to Zomato which was stepping up its investment in cloud kitchens.\(^8\) Operated as a warehousing facility or a central base, Swiggy Access hosts kitchens for multiple restaurants under the same roof. Designed to give instant access to the delivery fleet of Swiggy, these kitchen spaces, which were slated to come across multiple cities, provided

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\(^6\) Sarah Perez (2017) Google Areo is a new app for ordering food or home services in India, TechCrunch. Available at: https://techcrunch.com/2017/04/13/google-areo-is-a-new-app-for-ordering-food-or-home-services-in-india/ (Accessed: August 12, 2018)


restaurants additional benefits such as capacity planning, demand forecasting, and improved stock management. Restaurants had to bring in their appliances and hardware while space was provided free of cost along with access to other facilities on Swiggy’s platform. Multiple restaurants were signing up for operating out of Swiggy Access bases due to increased prospect of access to newer patrons at reduced costs in neighborhoods where they did not have any presence. 9 Swiggy was planning to charge high commission rates to the restaurants that operated out of Swiggy Access as compared to rates on its marketplace model.

Swiggy’s own private brands which had started operations in 2017 were also housed at these Access kitchens and competed with the rest of the restaurants on the platform. 10 How the restaurants would react to private labels from the platform provider was yet to unfold. Operating as a cloud kitchen, the white label restaurants launched by Swiggy was in direct competition with the restaurants that leveraged Swiggy as an order management and delivery platform. In contrasting approach, main competitor Zomato had decided to provide infrastructure services to its restaurant partners to help them scale while staying away from launching white labels. As strategic pivots and consolidations accelerated in the foodtech space, outcomes of these moves were yet untested.

Swiggy had acquired few start-ups in its journey to become the leading hyperlocal food delivery platform in the country including its recent acquisition of Scootsy for around $8 million. 11 As of mid-2018, inorganic growth through acquisitions enabled Swiggy to acquire other start-ups such as 48East and was in talks to acquire “direct to home” milk delivery startup SuprDaily. These acquisitions were undertaken to increase frequency of orders as items such as milk are bought by Indian households almost daily whereas an average patron ordered food online through restaurants only 3-4 times a month. With substantial funding in place, Swiggy was looking into capacity creation that would help it expand services to other adjacent hyperlocal deliveries and push to enter newer markets. Although milk delivery yielded an average of ₹1000 per Indian household, the lower margins on these have made platforms consider attaching delivery of grocery and other items to these same households which are captive patrons. 12

Swiggy had recently launched its capital assist programme in partnership with a financial firm that provided collateral-free loans to Swiggy’s restaurant partners to help small businesses tide over capital allocation issues that hindered most expansion plans. The Swiggy Capital Assist program was also aimed at increasing the switching cost for these restaurants and to dissuade them from multi-homing with other delivery platforms such as Zomato, Uber Eats, or others. These loans without an initial deposit, at

attractive interest rates and often subsidized by Swiggy, were aimed at easing the hassle of obtaining loans through traditional channels to enable the restaurants to invest in additional capacity creation.\(^{13}\)

By early 2017, it was evident that the ongoing consolidation in the food-tech industry in India would have room for only two major players – Swiggy & Zomato. How Swiggy takes on the more experienced rival in Zomato was something to be witnessed as the duopoly unfolded. Swiggy’s ability to sustain its expanding fleet of delivery personnel was critical to its long-term success as a key hyperlocal platform. How well Swiggy leveraged lean time of delivery personnel in the food business to cater to delivery of other services to its install base would determine profitability. With milk deliveries mostly skewed toward deliveries in the morning hours, and with food orders from restaurants limited to lunch and dinner times, there was scope for delivery of grocery and medicines during the remaining lean hours of the day which could put to use the idle delivery personnel. As commanding a higher commission would be a herculean task in non-food delivery areas, Swiggy may have to contend with lower commission rates in milk, grocery, and alcohol deliveries.

In early 2018, Swiggy’s main rival Zomato launched Zomato Gold – a monthly paid subscription service that promised zero delivery charges for patrons who ordered through Zomato. With over 150,000 patrons embracing the Gold program in the first 90 days of its launch, the subscription program from Zomato was a run-away success by the food-tech business standards. With this unprecedented response to a paid subscription model, Swiggy had to evolve its own competitive subscription offer that assured patrons of zero surcharge delivery even during peak hours. With intent to lock-in patrons onto the Swiggy platform, and increase stickiness, Swiggy launched the Swiggy SUPER paid subscription program which assured patrons of free food deliveries without any convenience charges irrespective of time of day or distance of the restaurant.\(^{14}\) Also promised as part of the subscription program were amenities such as dedicated patron care and faster resolution of disputes. Available as 1-month and 3-month subscription packs, Swiggy was charging anywhere from ₹99–149 per month and was looking to add paid subscriptions as a key revenue source apart from commissions from restaurants.

**Foodora**

Founded in October 2014 in Munich by Konstatin Mehl, Foodora secured backing from Rocket Internet in April 2015. It offered a platform that connected hungry patrons with restaurants in German cities to start with. Foodora eventually merged with Delivery Hero in September 2015\(^{15}\) as part of the consolidation of foodtech businesses in Rocket Internet’s portfolio.\(^{16}\) Headquartered in Berlin, Delivery Hero had a market capitalization of €8.66 ($10.01) billion after mergers with Foodora and others.


Swiggy™, Foodora™, and Yelp™: Hyperlocal Platforms

Delivery Hero operated through different brands in various regions – Foodora in Germany, Foodpanda in India, pizza.de, and lieferheld among others. It offered products and services to the catering business in the form of assistance for packing, advertising, and printing services. Delivery Hero had business presence across Europe, Asia, North America, Middle East, and North Africa.¹⁷

**Food Delivery Process**

During the early days, hungry patrons accessed Foodora primarily through their portal, but later shifted to the mobile app as the preferred choice for food ordering. Users could enter their postal code and view a curated list of restaurants in their neighborhood or the mobile app leveraged GPS info to show the options available to order from. Once they had found their restaurant and meal of choice, patrons could place the order from the comfort of their home or office, paying online through Foodora’s secure platform. Once payment was complete, restaurant received the confirmed order along with the delivery personnel’s details with the estimated time of order pickup so that the restaurant could then prepare the requested meal.

With an endeavor for faster delivery of freshly cooked food and accompanied by a conscious attempt to be environment friendly, Foodora preferred bike-borne delivery personnel. To enable speed of delivery, Foodora had earmarked smaller delivery zones for its riders which was typically around 1 mile which in turn enabled a higher utilization of its riders. The entire delivery process (refer to Figure 2) was transparent to both the patron who had placed the order and the restaurant which was serving food. Patrons were intimated about the estimated delivery time before placing the order. Once the order was submitted, they could monitor the progress of the order through the mobile App or the website. Once the Foodora rider (aka Independent rider or Unabhängig reiter) picked up the order for delivery, the rider could be tracked to the exact location. Patrons had an option to choose Foodora logistics team or the restaurant’s own drivers for food delivery. Food delivery was typically done by riders within 35 minutes from the moment the completed order was placed.

**Business Model**

The business model followed by Foodora ensured that all the parties involved benefited out of this transaction. The patrons were charged for the order that was booked on the App or the website. The delivery fee varied according to the city the patron belonged to. The restaurant paid a flat 30% commission on the total amount of the food order to Foodora. The rider who picked up the order and delivered it was paid a flat rate per hour plus tips, if any. In typically most instances, restaurants had kept prices for delivery menu similar to in-restaurant prices and thereby raked in higher revenues owing to lower taxes on take-out orders. The food delivery model was a good match for restaurants to utilize idle capacity and not incur additional costs for delivery orders. Very popular restaurants perceived the food

delivery model as an additional revenue stream which would have otherwise been lost due to high levels of demand and near impossibility of obtaining reservations for a dine-in.

Unlike other subsidiaries of Delivery Hero, Foodora’s delivery own fleet was complemented by freelancers to helped deliver parcels within a 2-3 km radius. A vast majority of Foodora’s riders were students who garnered additional income based on their assigned shifts and deliveries made. It also followed an asset-light model whereby it owned no bikes. Foodora provided the pink delivery boxes, a helmet and a jacket for the Unabhängige reiter. They were only required to own a smartphone and a bike to make the food delivery. 18

Foodora also provided discount coupons which helped patrons save money when they paid for their food orders online. Early on, Foodora charged the restaurants a one-time setup fee and a monthly subscription in addition to a 14% commission on the order value. 19 In 2018, Foodora did not charge a setup fee anymore and moved to a flat percentage commission on the order value.

Sustainability & Growth Opportunities

Though Delivery Hero focused on the food delivery business, it had two service offerings: (i) asset light model where it only provided software access for both food orders and delivery management and (ii) the integrated model where it owned delivery logistics in addition to software access. Foodora’s approach followed the integrated model wherein it handled the delivery logistics along with demand generation and order management. Profitability was higher in developed markets for the integrated approach of Foodora. In developing markets, marketing and other operational costs were higher which in turn subdued profit margins.

Prior to acquisition by Delivery Hero, Foodora had expanded to 50 cities across 10 countries. By late 2018, Foodora’s parent Delivery Hero provided services in 42 countries working with more than 150,000 restaurants and more than 12,000 riders. 20 Stickiness with returning patrons was high and that accounted for about 70% of the business volume. 19 With commissions constituting up to 73% of revenues, 2017 revenues for Delivery Hero stood at €544m ($602m) and Q1 2018 were at €171m. 19 Overall, the food-tech business opportunity in Europe and the existing low penetration levels of food delivery apps presented Delivery Hero with major growth potential (refer to Exhibit 1).

Rising valuations was an indication of the prospective growth opportunity in food tech industry. In August 2016, Delivery Hero, the parent of Foodora, was valued at €2.7bn and in September 2017, Naspers acquired 12.15% stake in Delivery Hero from Rocket Internet by valuing the company at €5.5bn

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Swiggy™, Foodora™, and Yelp™: Hyperlocal Platforms

valuation. Operating margins were still negative, and for 2017, Delivery Hero generated €3.8bn in Gross Merchandise Value (GMV), a key metric for food delivery aggregators. McKinsey reported that on average, close to 70% of patrons had never switched aggregator platforms such as Foodora across various countries (refer to Exhibit 2).

Food delivery market was driven by three significant trends: (i) Engaging patrons via internet and mobile apps, (ii) providing food on demand accompanied with logistics for last mile delivery, and (iii) business growth driven by the continued upward mobility of patrons in their spending habits and the comfort of ordering food without having to drive down to the restaurant. Yet another driving factor for sustainability and profitability was the food order value. Delivery Hero claimed the leadership position in 39 countries whereas Just Eat was supposedly market leader in 13 countries when it came to order size. While Delivery Hero reported increasing order frequency across key food delivery markets in a 20-95% range, these firms understood that sustainable growth would have to come from winning the markets they were already entrenched in and not from newer ones. This could help the platforms focus on the returning patrons and the consistent revenue generated through these loyal patrons.

Delivery Hero had focused on growth via acquisitions since 2012. The firm had also prudently exited the United Kingdom and China markets that were challenging and thereby laying a growth path. Delivery Hero relied on technology and integration to bring full visibility of the supply chain process to the businesses. This helped in rolling out key initiatives to smoothen the process for the patrons, the restaurant, and the delivery personnel. By bolstering its own technology capabilities, Delivery Hero ensured leadership but the path was unclear when Delivery Hero would rake in a profit.

Yelp

Started in 2004, Yelp helped connect people to local businesses such as restaurants, shopping outlets, travel, fitness, nightlife, and others. Headquartered in San Francisco, California, this hyperlocal platform was one of the earliest to link local city dwellers to happening places around them. Yelp started out by publishing crowd-sourced reviews about local businesses and had begun allowing online reservations. With a major presence in North American metros, Yelp had become a review portal that allowed its visitors to network on the site regarding their evaluations of local business outlets which in turn could publish information about their products and services offered.

On one side of Yelp were the patrons looking for happening places in their neighborhood while the other side had local businesses vying for mindshare of these patrons. Yelp platform had a unique third side in the form of advertisers (refer to Figure 3) who were keen on placing ads on Yelp. Local businesses and popular brands were the key money sides for Yelp platform as they advertised on the portal. Yelp’s

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patrons enjoyed zero transaction costs for their access to reviews, recommendations, bookings, and interactions with local businesses. However, patrons usually paid a small delivery fee if they wished to have food delivered from local restaurants that were featured on Yelp.

**Business Model**

From a modest revenue of $83 million when Yelp went public in March 2012, the business had come a long way to report a net projected revenue of around $950 million for 2018 which was a ten-fold increase. From a platform that was mainly focused on patrons who navigated the Yelp website in 2011 to a predominantly mobile traffic in 2018, Yelp’s patron base had evolved in its preferences and expectations from the platform (refer to Exhibit 3). With a mission to connect patrons with local businesses in each city, Yelp’s pricing model had evolved from a single advertising solution that catered to small and medium businesses to one that was now customizable so that it could cater to multiple markets across the world. Yelp had started to offer marketing solutions that addressed unique needs of advertisers at the local and national levels. With presence on more than one-thirds of the smart phones in the United States, the Yelp mobile app claimed deep penetration and witnessed increasing usage for restaurant-related transactions. With more than half the revenues in 2018 expected to come from restaurant reviews and food delivery activities, Yelp’s partnership with GrubHub was expected to further drive up revenues from this category. Along with restaurants, home and local services were an emerging category for Yelp for which it was customizing its advertising and go-to-market strategies. Yelp Custom Ads were offered to local businesses that advertise with Yelp to enable them to moderate the photos and reviews that were visible in the ad campaigns.

With an advertising revenue of $214 million in Q1 2018, Yelp local salesforce was focused on increasing Yelp’s portion of the overall spend on advertising. It witnessed a 27% year-on-year jump in paying advertising accounts due to its movement away from fixed term contracts with local businesses for advertising with Yelp. It also derived commissions from GrubHub for every restaurant fulfilment order that originated from Yelp. Yelp had put in more focus to bring local businesses that were transactional in nature and not limit itself to only being an aggregator in all categories. Huge patron base gave leverage to Yelp as it negotiated advertising rates with major brands that vied for presence on the platform.

**Growth Opportunity**

With over 150 million monthly unique visitors, Yelp was a highly trafficked site on the Internet built atop a robust review and evaluation platform. With year-on-year growth of over 20% in cumulative reviews, by end of 2017, reviews done on Yelp stood at 148 million. With a large advertiser base of over 160,000, the business was witnessing over 20% growth year-on-year. Many of the local businesses that were reviewed on Yelp also advertised on the platform to attract and engage more patrons. Independent

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advertisers also leveraged the platform to promote branded products sold through local outlets that had presence on Yelp.

Personal digital assistants such as Amazon’s Alexa and Apple’s Siri were integrated with Yelp’s content to respond to local search queries from users. When users of these devices sought reviews and recommendations for nearby restaurants or salons or hotels, they were served with search results from Yelp’s content. This was helping drive up the mobile traffic for Yelp and was expected to be a major source of revenue as more internet users consumed content through their mobile devices. More users using Yelp services meant more reviews and recommendations for the nearby businesses which in turn would find it even more attractive to advertise on Yelp. These mobile devices and personal assistant gadgets were expected to drive up user engagement levels for services such as Yelp as these recommendations got better only when more people used it daily to keep them relevant and up-to-date.

Online food ordering constituted the largest category of transactions by revenue and volume on the Yelp platform and was currently available through partners such as GrubHub. Consolidation in the food delivery business was aimed at reducing delivery charges or doing away with them completely since these charges sometimes were as high as the food ordered. With the acquisition of Eat24 from Yelp 28 for $288 million, GrubHub had exclusive partnership with Yelp for food delivery and this integration meant GrubHub had an edge over rivals such as Uber Eats and DoorDash. With the recent integration, Yelp and GrubHub had enabled patrons to order food from over 80,000 restaurants spread across 1,200 cities that were featured on Yelp.

Yelp’s geo targeting facility had enabled local businesses to define the target area around their business for the ads that they posted on the Yelp platform. Businesses could specify a radius of 5 to 25 miles around their primary area of operations as the target area for serving these ads. Any web or mobile users browsing Yelp content for related services in this range would be served targeted ads about the business. Yelp tried to allocate a wide range for service-based businesses as compared to local brick-and-mortar ones. With robust Search Engine Optimization (SEO), Yelp pages appeared prominently on Google search results and hence helped businesses that advertised on Yelp receive more traffic from other portals than just Yelp’s own internal traffic. With increasing competition from Google’s own home services offerings that were attempting to garner more ad revenues from these very same local businesses, Yelp had to differentiate its offering to fight off the envelopment threat.

**Sustainability of the Business Model**

Reviewers were motivated by badges and honors they received for being the first to review a new location, or the attention they gathered from other users who benefited from the reviews posted on Yelp.

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In order to maintain the authenticity of the reviews posted, reviewers were encouraged to use real names and photos on the portal while registering. While strong network effects existed among the local businesses as no one wanted to be left behind (FOMO) when a platform was making it convenient to bring footfall to the stores, the presence of diverse businesses was a great attraction for even more patrons to use Yelp for discovering local experiences. Similarly, the presence of large patrons looking for outlets in the neighborhood was a great pull for more and more businesses to want to be on the Yelp platform so that they had an opportunity to engage with the patrons on the other side. According to the portal, Yelp uses automated software that can recommend useful and reliable reviews wherein the software looks at dozens of different signals, including various measures of quality, reliability, and activity on the portal, and this process, according to Yelp, has nothing to do with whether a business advertises on Yelp or not.

Businesses could set up a free account on Yelp to post photos and message their patrons. The ability to get back in touch with patrons who had visited the local business provided the business owners a unique opportunity to address service delivery gaps. It also provided an opportunity to communicate with patrons and inform them of the new services that have been introduced by the business since their last visit. In order to give its patrons a seamless experience in choosing what to order from the restaurants which were reviewed, Yelp introduced the popular dishes feature. It helped hungry patrons to quickly know what the best dishes on offer at the restaurant were, without having to wade through thousands of reviews. With these automated recommendations on what to order, Yelp was increasing stickiness to its local search services and adding entry barriers as newcomers would not have the rich datasets that were helping such recommendations to be made. Powered by modern machine learning algorithms that could go through tons of reviews and photos posted to emerge with dish recommendations, Yelp was leveraging data collected from the reviews posted on the platform to further its competitive advantage against newcomers such as Uber Eats. In addition to reviews, Yelp helped patrons find events happening in the city and to also talk with other Yelpers.

Although thronged by millions, Yelp faced its own challenges when it came to queries related to how it used the reviews and recommendations to direct advertisement traffic. Yelp was considered more expensive than Google or Facebook Ads which were other alternatives for local businesses to advertise on. With a higher cost-per-click rate, Yelp faced criticism for lack of transparency on what keywords or topics were local businesses spending ad dollars upon. Yelp has been accused of not displaying all reviews and giving preferential treatment to those businesses that advertised on Yelp. Many local businesses found it difficult to justify the economic value of the traffic coming in through Yelp pages and the higher rates they paid for their Yelp Ads. With Google making it easy for businesses to launch customized websites featuring photos and reviews, understand customer behaviors with timely insights and leverage advantage of tight integration with Google Maps, it was ramping up its focus on the hyperlocal market as an adjacency to its dominant search business. On the other hand, Facebook, as the front runner in social media interactions, was also expected to compete strongly with Yelp and Google to grab a share of the advertising revenues from these local businesses. Facebook was a portal frequented by patrons on a daily basis and any reviews posted by friends on the local businesses’ pages were bound to gather traction.
THE ROAD AHEAD

With robust forecast for the coming years (refer to Exhibit 4), the hyperlocal platforms were poised for a period of great growth. Food delivery platforms such as Swiggy were already looking at transforming into full-fledged hyperlocal delivery platform by leveraging and expanding their existing patron base. Delivery of milk, alcohol, medicines, and grocery were high on the list of expanded services that these platforms were targeting. Through acquisitions or partnerships, these hyperlocal platforms were looking to expand service offerings to take on competition more effectively. Availability of funding and consolidation proceedings in the sector were also driving the platforms to offer additional services to keep up growth rates. Sustaining large delivery workforce and staying profitable were still ongoing endeavors at these firms which were figuring out the right balance in an industry that was still in its infancy. With increasing patron loyalty and low switching rates, these platforms were building additional lock-ins that ensured engagement of the burgeoning patron base. However, as of late 2018, stiff competition between Swiggy and Zomato in India had seen an unusual beneficiary – the local delivery personnel who saw their incentives steadily climb up as competition intensified. Rising food delivery costs was another challenge that these platforms across the markets needed to mitigate.29

It is imperative that we observe how each of these platforms were able to capitalize on their core competencies as they entered new adjacencies. Some questions though lingered in the professor’s mind as he keenly followed the hyperlocal space:

- To what extent should these hyperlocal platforms compete with their own partners through initiatives such as white labels, cloud kitchens, or dark stores? When would the resident restaurants and local businesses on the platform bail off by sensing the threat from these actions wherein the platform itself was emerging as a provider of services?
- How would the strategies of these platforms evolve as they take on the bigger rivals in their turf? Swiggy would run into BigBasket on the hyperlocal delivery front in India, while Yelp would run into Google and Facebook on the advertising space.

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Figure 1
Order flow through the Swiggy ecosystem (Source: Authors’ representation)

Source: Authors’ representation

Figure 2
Order flow through Delivery Hero/Foodora (Source: Authors’ representation)

Source: Authors’ representation
Figure 3

Yelp process map – ensuring participation of all sides

Source: Authors’ representation
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Exhibit 1

Delivery Hero – Market Opportunity – As assessed at end of 2016

Source: Delivery Hero - Company portal, Available at: https://www.deliveryhero.com/wp-content/uploads/2017/05/Public-Company-Presentation-20170509.pdf

Exhibit 2

Ability to retain patrons

Exhibit 3

Yelp – Advertising revenue by category

Source: Yelp Inc – Q1 2018 Shareholder Letter. Available at: http://www.yelp-ir.com/static-files/4c4c615f-5cbb-494c-8a84-9859a42766e5

Exhibit 4

Projected growth rate for food delivery market