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UNICORN START-UPS AND THEIR JOURNEY: A CASE STUDY OF TWO INDIAN START-UPS SWIGGY AND PAYTM

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Abstract

This research study aims to understand the increasing relevant but rarely studied unicorn phenomena. Specifically, how a unicorn is built up and how it continuously innovates and triumphs over its life. This paper tries to analyse news and latest funding and valuations in general and specific start-ups to understand unicorn's ability to maintain profitability and revenue. It shows how the fact the firm is a unicorn generates investor confidence and enables it to attract potential investors and retain existing investors. It tries to highlight the importance of elimination of competition it faces as well as how to stay ahead of the rival firms. The start-ups may or may not successfully go public through an IPO or continue dependence on private capital for future growth.

Introduction

The word 'Unicorn' is usually used in the venture capital industry to describe a privately held startup company which is valued over $1 billion. The term was given by venture capitalist Aileen Lee, who was the founder of CowboyVC.

Aileen Lee for the first time ever wrote about unicorns in the venture capital world in an article of hers. She investigated through a list of software start-ups that were founded in the 2000s and discovered that only 0.07% of these start-ups ever reach a valuation of $1 billion. Start-ups that achieved this mark-up were extremely rare and infrequent that finding one is as difficult as finding the mythical creature – a unicorn, hence the name.

According to her, the first ever unicorns were established in the 1990s. Alphabet (GOOG)—then Google—she realised, was the dominant clear super-unicorn of the entire list with a valuation of more than $100 billion! Numerous unicorns were born in the next decade, however, Facebook (FB) is the 2000's only super-unicorn.

Here, we are going the story and journey of two Indian start-ups named Swiggy which is an online food delivery platform that started as a courier service and Paytm that established itself as the an digital payment service for recharges and bill payments but has transformed into India's largest online marketplace and e-mall among other vast services that it offers.

Swiggy

Swiggy is the most valuable and largest online delivery platform in India. Swiggy was founded in 2014 by its two founders Sriharsha Majety and Nandan Reddy who were based out of Bangalore. In early 2019, Swiggy diversified into deliveries of groceries and general products, under the brand name Swiggy Stores.

Swiggy also launched its own pick-up and drop service in September of 2019 called Swiggy Go. This service can be used to pick up and drop off laundry, deliver documents or any other parcels to customers – business or retail.

In 2013, Sriharsha Majety and Nandan Reddy created an e-commerce website called "Bundl" to promote courier service and ship goods within India. However, they moved from Bundl into the food delivery market in no time. Start-ups like Foodpanda, TinyOwl and Ola Cafe had come up but were struggling. Swiggy, with the help of its parent company Bundl Technologies, built out an elaborate delivery network and grew immensely.

Funding History and Valuation

Swiggy recently managed to raise $113 million in a led by its existing Naspers which is a South African internet giant. This new round of funding increased the company's funding to nearly $3.6 billion. The investment is a part of a $150 million funding round which included its existing investors, Meituan and Hadley Harbour Master Investments. Naspers, which is its largest investor, now owns a 40.6% stake while Meituan holds 6.35% in the company.

The investment might have stemmed from the recent acquisition of UberEats India by Zomato, one of its biggest rivals, Zomato. This redirected all of UberEats' users to Zomato. A few weeks prior to the deal, Zomato had raised $150 million from an existing investor Ant Financial, when it was valued at $3 billion.

Prior to this funding round, last investment in Swiggy's was done in December 2018. It was a $1 billion round led by Naspers, Other investors included Hillhouse Capital, Wellington Management and Tencent. However, the valuation has been largely stagnant even after this funding.

In 2015, the company received a $2 million investment from Accel and SAIF Partners, along with an additional investment from Norwest Venture Partners.

In the following year, Swiggy raised $15 million from new and existing investors, including Bessemer Venture Partners and Harmony Partners.

Swiggy's management published a report which has forecast net profit of Rs 858 crore on revenue of Rs 11,021 crore in 2022. However, for the year 2019-2020, Swiggy has forecasted revenue of Rs 1,329 crore on a net loss of Rs 1,067 crore. Swiggy requires larger investments to build and grow a consumer-facing logistics network in the nation and to start making profit with a higher revenue.

Business Structure

Swiggy depends on its local restaurants and hence has an on-demand food delivery business model. These local restaurant partners opt to deliver to customers that come from Swiggy's platform. It also arranges and coordinate with its delivery partners which deliver the food as per demand. **Their** responsibility to pick up the order from the partner restaurant and deliver it to the end consumer. This is a carefully crafted business model which relies on a dual partnership model.

Swiggy's role is to provide a platform so that its users can order from a wide range partner restaurant in their locality and have the delivery personnel who pick up the orders from the partner restaurants and deliver them. Swiggy bridges the gap by providing a complete food ordering and delivery solution which is beneficial for both the parties. Swiggy has integrated the Google Maps API like other on-demand delivery applications. This gives the customers the real-time information regarding the location of their order and the time remaining for their order to get delivered.

Revenue Model

Swiggy's business model has made Swiggy a pioneer in the online food delivery industry in India however, they have started earning revenues from other avenues as well since they have set themselves up strongly.

The following are the different revenue sources for Swiggy:

- Commissions

Swiggy generally charges a commission of 15% – 25% on every order bill amount received by its partner restaurant. This includes the GST charged on the bill, over and above the menu price. If the restraint is exclusively available on Swiggy, specific benefits are given to those restaurants such as discounts on the commission of around 2% – 3% and also higher visibility and noticeability to the restaurant.

The band of the commission charged depends on multiple factors like the popularity of the restraint, number of orders received, its location, whether its exclusively available or not on Swiggy, percentage charged by the competitors, and many others.

- Delivery charges

Since Swiggy does not have a minimum order requirement for its orders, it usually gets orders which are less than Rs 100 which increases the cost of logistics. Once Swiggy established itself in the market, it started charging delivery charges to low order amounts (dependent on the city you are in). Delivery charges for orders less than Rs 250 are often as low as Rs 20. Swiggy also charges a surge in delivery charges when there is a high demand, special occasions, rains, and midnight delivery in a few areas.

- Swiggy Super

Swiggy has released a form of membership program called Swiggy Super for its customers. It enables the customers to have unlimited free delivery on orders above Rs 99 and not being charged more in a period of surge pricing. It was launched in two available options that are - a one-month membership costing Rs 149 and a 3-month membership for Rs 349. To promote this, Swiggy has offered them at an introductory price of Rs 49 and Rs 129 respectively as a sale. This amount has contributed to the revenue of the company along with the repeat orders Swiggy believes it has been receiving due to this program.

- Advertising

Swiggy has also started earning revenue through advertising via two models – priority listing of restaurants and banner promotions. It recently started with Banner promotions following the lead of its rivals Zomato and FoodPanda. Restaurants are promoted and displayed selectively in their app and on their website according to various regions. Various regions on the page shown vary in their rates based on the priority that the restaurant is to get via the promotion. Swiggy’s home page shows the user the list of restaurants available to the them. It has used this opportunity to get revenue by charging a premium to show a particular restaurant priority in the said list. Higher the restaurant is in the list, higher is the premium the restaurant is charged.

- Restaurants

Swiggy has also invested its own restaurants which are dominantly displayed on the platform with a great amount of visibility and priority. This was initially done in Bangalore and then eventually adapted in cities such as Mumbai as well as Hyderabad.

- Swiggy Access

Swiggy launched Swiggy Access in Bangalore in the year 2019, which quickly expanded to 30 restaurants, to cities like Delhi, Mumbai, Hyderabad, and Kolkata. It is a central kitchen base-like facility which is a house for kitchens of different restaurants. This cloud kitchen model helps the restaurants to set up kitchens in locations even where they are not officially present. Swiggy is expecting this model to help them penetrate into tier 2 and tier 3 cities of the country. In the markets it is currently present it contributes to 8% – 25% order volumes. Also, the restaurants on

Access must pay higher commissions than the existing average commissions that the platform charges for delivery only.

- Affiliate Income

Besides the core business practices

Swiggy also earns revenue in the form of affiliate income by referring credit cards to its users. The company is partner with various banks and financial institutions such as American Express, ICICI bank, HSBC, Citibank, etc. to sell their credit cards to the customers and promote them. Customers see these promotions when they are on the tracking screen of their orders.

Cost Structure

In order to continue to earn revenue and be in business, Swiggy must incur rigorous expenses every day. These expenses along with Swiggy's aim to gain and maintain market share made Swiggy to lose Rs. 1.5 for each Re. 1 it gained in the year 2017. However, Swiggy succeeded in gaining more market share and owing to its expansion strategies across the nation, in the year 2019, it started to earn Rs. 1.1 for every Rs.1 that it had lost in the previous year.

Its costs pertain to expenses such as-

- Payments to delivery partners (the amount varies according to the experience, location, and the number and time of deliveries) - Swiggy must pay its delivery and courier service partners and also give them various discounts at times and other incentives.
- Application and website development charges – It has pay various charges to its IT partners to maintain and further help in the development of their website. The application needs continuous updates and bug fixes as well.
- Salaries and provisions – It has multiple administrative charges such remuneration and incentives to its employees and other workers.
- Administrative costs – It has other administrative costs that it has to regularly incur
- Advertising and marketing costs – In 2019, Swiggy magnified its expenditures and increased advertising and hyperlocal marketing to penetrate to the smaller towns and villages in the nation. The company had to heavily invest in television and digital marketing to build the brand. It also had to incur expenditures to print and outdoor advertising for hyperlocal marketing. This led to increased expenditure on advertising marketing in the company.
- Returns and refunds – Customers often file for returns on their orders which leads to extra costs being incurred per order.
- Miscellaneous expenses

Future Expectations

Swiggy has always been fast in taking the first mover advantage and taking steps it needs to expand and retain customer base. Swiggy is the first online food service provider to offer the 30 minutes or free delivery feature to customers. However, this is available only select restaurants in a few cities, but it still is solace for customers who would have to wait for 40-60 minutes for their delivery. Swiggy plans to bear 70% – 80% of the cost (rest to be borne by the partner restaurants) once it is fully launched if the delivery is not on time.

Another step Swiggy took was to launch the Swiggy POP. This provides single-serve meals that help customers save their time. Since most millennials and others as well have an extremely fast paced life, this feature is aimed for time-pressed professionals and want a quick fool-proof mix for their daily needs.

Swiggy now has also enabled its users to pre-order their meals for a later time through Swiggy scheduled. Orders can be placed in various time slots such as 30 minutes, two hours or at a maximum of 48 hours prior to the actual delivery. This enhances the experience of the existing customers who order from Swiggy repeatedly and avoids them to switch to any other food delivery application.

Owing to these strategies and to such different features and options being provided by Swiggy, that none of its rivals have been providing, it is expected to gain competitive advantage and increase its customer base even more. It is likely to comfortably penetrate and expand into Tier 2 and Tier 3 as well. It has the capability and has even taken steps to do so. In addition to this, due to its innovation, the eventual growth will turn out to be purely organic – something that every company dreams of.

Paytm

Paytm short for **"Payment Through Mobile"** is an e-commerce platform that enables its members to make digital payments, maintain a balance (e-wallet) and provides other services such as banking services, recharge, bill payments, bookings/reservations, etc.

It is based in Noida (Uttar Pradesh) and was founded in 2010 by Vijay Shekhar Sharma who is also the current CEO of the unicorn start-up. One97 Communications Ltd. is the parent company of Paytm. It delivers commerce services and mobile content to customers through various telecom applications cloud platforms. His aim in the beginning was to start a recharge platform, but now Paytm has transformed into a virtual marketplace and a e-bank model. It has catered its services to over **100 million users online**.

Funding History and Valuation

Paytm knows the art of fundraising a little better than any other Indian unicorn. Despite losing momentum in payments and commerce businesses, Vijay Shekhar Sharma comfortably in November raised a whopping $1 billion in Series G round at a towering valuation of $16 billion. This was over a 45% jump from its $10.5 billion valuation in its valuation report as of September 2019. This has enabled Paytm to be India's largest unicorn, now valued at $16 billion. This was the highest amount of funding raised by any start-up in the country in the year 2018-19.

Paytm has recently raised $1 billion (approximately ₹7,173 crore) in the latest funding round. This was majorly done by US-based AMC named T Rowe Price. The amount of investment by Discovery Capital and D1 Capital including T Rowe's investment was almost $400 million. It is existing investors such as Ant Financial and SoftBank Vision Fund put in $400 million and $200 million, respectively.

In the previous round, Paytm had gained $300 million by Berkshire Hathaway in 2018. The company's valuation was done at $10-11 billion then. The company has recorded a rise of 46.6%, comparing to the valuation of then to now being at $16 billion. Paytm is planning to go public by launching its IPO in 2022. As per the company, over 7 million merchants across India use this QR code to accept payments directly into their bank account.

Business Structure

Paytm is India's largest payment, commerce, and e-wallet enterprise. It was initially launched as an **online mobile recharge platform** but transformed its business model to a **virtual and marketplace bank model over the years**. It is a pioneer of the cashback business model.

The business structure of the company can be explained by describing the various facilities that it offers:

1) Paytm Marketplace (Paytm Mall)

Paytm is the first platform who took the step of evolving as a mobile-only e-marketplace in the country. Sellers on this platform can make high profits and it is one of the most beneficial marketplaces for sellers. It has a large user base with over 120 million buyers and 2 million daily transactions. It is imperitive to note that most of its orders are prepaid. Revenue for Swiggy, however, is created as commissions and fees from the sellers. This fee differs for different category of products.

2) Recharge Services

Paytm started its business mainly by providing a platform for mobile recharges and bill payments. These have now been transformed and grown into online recharge services for TV channels subscriptions, mobile subscriptions, and even metro cards. Just like all other recharge services providers, it charges commissions from these operators which lead to a huge source of revenue for Paytm.

3) Bill Payment

This facility is not just limited to recharge services, customers can also pay bills of any kind such as their electricity, telephone, water, mobile, broadband, gas bills on Paytm. Paytm also accepts educational and tutoring fees as it has partnered with several educational institutions across the nation. It allows its customers to pay insurance instalments to various financial organizations. The revenue generated from these services is also earned by charging commissions from their providers.

4) Payment Solutions
Paytm offers smart payment solutions for the online businesses registered with it. This allows them to enable online payments via Paytm. If a business wishes to enable it, it need not pay any setup charges and can do so for free. It also does not have to pay any maintenance charges. However, Paytm charges a 1.99% commission on each transaction.

5) Paytm Wallet
Paytm wallet is a semi-closed wallet which can be used to store currency in digitally. This amount can also be used to buy goods and services (including financial services) by using the application. These are available at identified merchant locations or establishments (like petrol pumps, a supermarket, your barber's shop, movie hall, etc.) that have registered themselves with the company accept this payment form. Paytm Wallet, however, does not work like a bank account and it does not and cannot permit cash withdrawal by its users.

Paytm wallet are so well established and work in a way that it can be used to pay for almost everything. Amounts of money are easily transferrable between the Paytm wallets of users with the help of their phones. The amount deposited by its users in Paytm wallet is then deposited in an Escrow Account with a partner bank by Paytm. This escrow account deposit earns certain interest for Paytm, which is decided as per the contract between Paytm and the partner bank.

6) Digital Gold
In India, Gold is considered as the safest and a go-to investment and Paytm has full plans to capitalize on this. The company is planning to introduce trade of gold digitally exclusively on Paytm. The company will enable its users not only buy gold digitally, store it in the form but also use this to buy and avail services on Paytm. Customers can get the gold delivered to their doorstep as well by paying a minimal delivery charge.
The users of this will have a Gold Bank account on Paytm. For this, the company has partnered with gold refiner MMTC-PAMP to launch 'Digital Gold'.

7) Paytm Bank
This is a type of a digital bank which can accept deposits and give out interests on the deposits. However, they are not permitted to offer loans to its customers. Users can access this facility as well by using their smartphones. Paytm has also issued debit cards that have QR codes that can be scanned at various points. The bank offers a 4% p.a. interest on saving bank accounts and as well as an overdraft facility with the current accounts. There are no restrictions on any transaction except that balances over ₹1 lakh are moved to a FD (fixed deposit) with a partner bank (this provides 7% interest p.a.).

8) Cross-Selling
Paytm is a partner with various banks and financial institutions which help them in to selling their products and services such as insurance, investments, loans etc. along with its own. The revenue rolls in a form of commissions or other forms as per the contract between them.

9) Interest Arbitrage
Paytm bank also makes money by depositing the money with some other bank and/or government deposits. These provide interest rates higher than that is provided by Paytm bank. The difference helps them earn profits on arbitrage.

Revenue Model

The company earns revenue in two ways:

1. Paytm earns commissions from the customer transactions through their usage of its platform.
2. Escrow accounts are a major source of revenue for Paytm. Since it does not have an underlying capital, it is not able to offer its users any interest. The deposits in these accounts generate interest for the company which is a major source of revenue for them.

Cost Structure of Paytm

Paytm serves many millions of customers which forces it to be, for its own survival, cost driven. The expenses incurred by it are majorly related to **customer acquisition and its platform**. The money used up is generally higher than the revenue it makes from its initial purchases. Most of its budget, however, is used in increasing the security on its application and avoiding the risk of fraudulent activities especially since it has over **65 million customers** in its platform.

Another cost it has to incur comes from operating a prepaid wallet. Banks and other payment gateways charge a fee of around 1-3% of the amount deposited for using their services. This fee cannot be charged to the customers as it will make them choose alternatives like UPI, IMPS, etc.

Revenue, Profit and Losses

Paytm's parent One97 Communications posted Rs 3,959.6 crore in net losses for the fiscal year ending March 31, 2019 against just Rs 1,490 crore for the same period while the revenue for the year 2018-19 was Rs 3319 crores as against Rs 3229 crores for the year 2017-18. These losses occurred due to mainly due to a high increase in expenses especially in advertising and promotion (Rs. 2193 crores in 2017). This was due since demonetisation was done in 2016 which opened opportunities for market capitalisation for the company.

One97 Communications Ltd (OCL), the parent company of Paytm, had posted a loss of ₹3,959.6 crore in 2018-19 as against ₹1,490 crore a year ago, and its standalone revenue rose marginally to ₹3,319 crore from ₹3,229 crore in 2017-18, as per reports.

Marketing Strategy

Paytm is completely ready with its new marketing strategy where it has planned to zoom in more on its digital currency prospects. This implies that most of its core marketing and advertising strategies enforce customers to use of Paytm Wallet. This has been an extremely smart and bold move since now it will get the first mover advantage over e-Wallets. Also, through its extensive distribution strategy (which is considerably better than its competitors such as Ola Money, Freecharge, etc.), it will be able to increase its brand preference and retain its customers. This will by and by help it to carry out its future the way it plans to.

Future Expectations

Even though digital payments in the industry are still expected to grow to $1 trillion by 2023, Credit Suisse report, digital wallets, where Paytm had initially established a monopoly, may soon become obsolete. This is happening as recently growth in digital payments is now being led by the Unified Payments Interface (UPI) platform. There are various start-ups by large companies from Reliance Industries and Facebook to small start-ups such as Razorpay are launching UPI-based products. The competition for Paytm is on rise. Two of these new platforms are a major threat to Paytm. These are PhonePe which is owned by Walmart and Google Pay. These are now the preferred mode of digital payments and have also recently recorded more transactions on UPI than Paytm. These efforts made by UPI-based apps have already started to take a toll on Paytm's revenues and profits. At the same time, in order to match with its rivals, Paytm had to spend hundreds of crores of rupees on cashbacks as well. In the year ending 31st March 2019, it reported a net loss distended to ₹4,217.2 crore, in comparison with ₹1,604.3 crore in the previous financial year. These are extremely bad numbers for any company especially for a company that is quickly losing market share and customers.

With the development of UPI, usage of wallets is expected to shut down in the next few years. This has major implications for Paytm, and it needs to take steps to beat this competition or adapt to this facility as well.

Paytm's corporate governance practices also attract scrutiny. Its CEO, who is also the founder, Vijay Shekhar Sharma is known to have unrestrained power and control. These type of controversial management styles of their leaders are often questioned by its investors if the business is not doing well and growing according to expectations. Such management practices have also contributed to the dramatic change in the fates of companies like Uber and WeWork.

Despite its efforts, Paytm is still seen as a payments app. It has struggled to expand its new businesses, but it faces fierce competition from new internet start-ups as well as established financial services firms.

Conclusion

Unicorns start-ups are not that hard to achieve. They just need the right preparation. They need a heavy amount of analysis of the market, the right market segment to tap and the right way to ward off the competitors. A startup might fail, it is common but not inevitable. The founder just needs to study the risks involved in the market. If the funding raised by you is invested properly, marketing is done right, you are bound to be a unicorn soon. Unicorns are usually known for tapping their niche as early as possible, they take the first mover advantage which their competitors have not been able to do and they also harness these facilities as much as they can. We saw how Swiggy has come up with various new ideas such as Swiggy Pop, Swiggy Access, Swiggy scheduled deliveries, etc. Its competitors have been able to provide it and hence it remains a segment only Swiggy could tap. Also, Paytm was a one-of-a-kind mobile and digital services application in India. It took the first mover advantage. It expanded and Best itself when demonetisation took place in India in 2016. It was able to capitalise the market that it wanted to and quickly became a Unicorn.

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