A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

Case Study of Rappi

Diego Armando Sánchez Rugeles - 34578

A Project carried out on the Master in Management Program, under the supervision

of:

Francisco Queiró

December 2019

Diego Sánchez November 2019

Rappi

Simon Borrero and Sebastian Mejia Co-Founders of *"Grability"*, were discussing in the year 2015 with Felipe Villamarin, while they were walking through the hallway. "You know what? you are right Simon, we need to create something new and fast, so we can promise to deliver fast. Our experiment should be wiser, but I disagree with you, it would be a mistake to start in *Cali* or in *Bogota*, we need to do it in *Medellin*"

Both were good friends since they founded *"Grability"* two years before as an online grocery shop. Within those two years they have had learned a lot about online grocery shopping, the market, and the customers, but they realized a big flaw with some products; clients wanted the product delivered in minutes. Simon and Sebastian along with Felipe, a new partner, were eager to create something new, something that would save people's time and revolutionize online shopping, called *Rappi*. They had already a good trajectory in the entrepreneur world, Simon created at first *Imaginamos,* where he met Felipe. Afterwards *Imaginamos* ended up giving birth to *Grocery glee* and *Grability*, where Sebastian was a co-Founder, and now they all were ready to embrace in a brand-new adventure called *Rappi*

Simon, the strict entrepreneur.

Simon was born in 1984 in the city of Cali, Colombia. He studied at Universidad De Los Andes business management with a minor in economics. Los Andes has the most recognized business school in Colombia. During his time at the university, Simon decided to study alternatively programming, during the evenings. He started envisioning that programming was a tool that would lead him to generate a positive impact locally in his country.

The first grasp of Simon as an entrepreneur started when he began his studies in management. He created an online agency for models using the social network, Hi5. At that time Simon and some of his friends managed to accomplish the registration of 3.500 models to his company, the problem was that the team was not able to provide any job for them, soon the company went into bankruptcy.

After finishing business school, Simon started his road as an entrepreneur. His first step was creating "*Imaginamos"*, in 2007. He started this company with some of the people he met during his programming classes and studies. *"Imaginamos"* started as a software studio that developed digital projects including Apps, CRMs, Websites and Software services.

While the company was developing and growing, Simon had the chance to meet Felipe, who worked in the business development area. Felipe will later become his associate, and afterwards partner in other big projects.

Two years later, after developing digital projects for others, Simon decided it was time to launch his first digital adventure as part of *Imaginamos*, *"Elecciones.com.co"*. An internet platform that aimed to provide unbiased information and to connect political candidates and voters. Later that year he Co-Founded "*Ventrevista*", another online platform

for job interviews allowing companies to reduce cost and optimize time in the recruitment process.

In fall of 2009, he enrolled in an MBA in EADA Business School, in Barcelona where he focused his studies on strategy. This MBA will aid him in the next projects he'd start later on his career.

In 2013, Simon still was part of "Imaginamos" and "*Ventrevista*", when he decided it was time to move into a new type of entrepreneurship project. By having the backup and knowledge of "Imaginamos" technology projects, he Co-Founded "Grability" with Sebastian Mejia and Felipe Villamarin as an associate. The company started as an online grocery store, that allowed clients to have the same shopping experience they did at a supermarket, but from the comfort of their homes.

Two years had passed since Sebastian and Simon created "Grability". They managed to license the software and sell it to some well-recognized supermarkets. Although this was a great accomplishment, Simon still felt the need for a different approach. He wanted something that could serve customers in minutes, that could replicate somehow the trending sharing economy platforms such as Uber and Airbnb. This platform needed to have the potential and capacity to change the current inefficient shopping pattern.

Sebastian Mejia: The international visionary.

Sebastian, also born in Colombia, developed his educational career in Europe. He started by studying in ESADE Business School in Barcelona in the year 2003, and then moved to *Universidad Autonoma de Madrid* from the years 2005 to 2009 to study bachelor's in economics.

After graduation, Sebastian started immersing in the entrepreneurial world by founding "*Sebme LLC"*, a company that focused on deals and business development using technology, Media, Finance and Entertainment. Afterwards, he worked as an analyst and consultant in a New York based private firm, in 2011. The company offered management advisory and financial services. It wasn't until 2014, when Sebastian and Simon, decided to create "*Grability"*.

Felipe Villamarin: The last partner

Felipe was born in Bogota. His studies were at Universidad de Los Andes, were he majored in Economics with emphasis in finance and new businesses development. After graduating, he started working immediately at *"Imaginamos"* filling up the position of: business developer. While at "*Imaginamos"* he worked for Simon, who discovered in him a great entrepreneurial spirit and an exuberant ambition to impact society.

During the 2013 time spam, Simon decided to simultaneously recruit Felipe for *"Grability"* and offered him the position of partner and account manager. After two years in *"Grability"*, Felipe was ready to undertake a new adventure, this time as a Co-Founder. Simon a Sebastian had been talking to him about this new opportunity, which was referred to as an experiment. It was very similar to what they were doing at *Grability* and *Imaginamos*, but would involve applying skills such as, the acquired knowledge with previous clients in both companies.

Imaginamos: The beginning of everything

"Imaginamos" was founded in 2007 by Simon Borrero with the monetary investment of an approximated amount of 185€.[1] This amount was the equivalent to approximately a minimum wage in Colombia. The company was created from an idea that Simon started developing while he was going to programing school and attending to his management classes. Simon started the company as soon as he finished his studies. At the beginning "*Imaginamos"* was a company that developed software and web pages for clients, and for their own, simultaneously.

In the year 2013 Felipe Villamarin arrived to "*Imaginamos*" as a business developer. A year later *Imaginamos* had over 150 corporate clients, was introduced in over five countries and was close to having 200 employees. Although the company was undergoing a positive momentum, with good growth and a strong network of clients, Simon and Sebastian, decided they had enough knowledge of technology and contacts to run a new business that would take them and *"Imaginamos"* to the next level.

Grability: The Grocery Shopping experience

"Grability" was founded in 2013 by Simon Borrero and Sebastian Mejia. The young entrepreneurs started the company as a solution to the time-consuming way of grocery shopping. Currently the big majority of people in Latin America go to the store and spend a long time in traffic, then trying to find what they are looking for in the store filled out with other stressed people, later spend some more time queuing to pay for the goods, and to top the whole process this people would have to endure another traffic jam in order to go home and enjoy their goods. The process turned to be rather annoying, somewhat stressful and time-consuming errand into a simple task.

The Second way of grocery shopping was online, but it was somehow flawed, because online web pages were overloaded with product information, were not properly organized and it could be sometimes difficult to find certain products. In consequence, it was an extremely difficult experience for consumers, the process ended up being frustrating and time consuming.

As a result from this problem, Simon, with the help of the team at *"Imaginamos"* decided to develop "Grocery Glee" in 2012. It was created as a platform that offered the customers the same shopping experience as if they were in the supermarket. Products were organized in "shelves" following the same structure as a common big supermarket, and the clients were able to move, drag and drop whatever product they needed into de shopping cart. The team of *"Imaginamos"* had filed a patent (**Exhibit 1**), (United States Patent No. US 9,836,747, 2017[1]) for *Grocery Glee* platform (**Exhibit 2**) in 2012. In the year 2013, they decided to give it an international perspective and created *"Grability"* as a New York based company with the help of Sebastian who joined as co-founder.

For 2014, *"Grability"* growth was extraordinary, they created an app that was able to boost the mobile sales by 600% and online sales of 300% (worktechwork, 2014) for *"La rebaja"* a pharmacy in Colombia, that won the title of the best Colombian App of the year

[1] Exchange rate 1€ Euro = $3776.89 Colombian Pesos

2014 (**Exhibit 3**). The customer experience had been also highly improved, to the extent that they were able to reduce kart abandonment by 70% in comparison to the other solution that clients had. During that same year the team had closed a deal with one of Europe's largest department store named "El Corte Ingles"(**Exhibit 4**), they participated in the Consumer Electronics Show (CES) in Las Vegas and were chosen to be among the top 20 most innovative applications in the world, the year before the company participated in the Intel Global Challenge in Silicon Valley and was selected as one of the top 25 finalists.

Early days of *Rappi* Idea, Learning from others.

At the beginning of 2015. Simon, Sebastian and Felipe had a brand-new project in mind. The idea of *Rappi* emerged as a solution of the problems the founding team saw with their clients. They realized that in the big cities, delivering fast, and having a good client perception rate was very difficult because of the time it took for completing a service. It was very common that clients called back to restaurants and pharmacies because the deliveries were taking too long. Moreover, the restaurants, grocery shops, pharmacies and other commercial establishments couldn't afford to have a huge number of couriers. As a result, the performance during peak hours was poor, clients were offered bad service, and establishments that received orders by phone (more than 80%) did not store the data of their clients or run any analytics to their orders.

On the other hand, the founding team also found out that some popular restaurants and establishments were not interested in having delivery options because the logistics of it were very demanding, stressful and, due to the delays, weather conditions and traffic accidents, the products could lose quality. Conversely, during that period, the fast-food chain called Domino's had a very popular and attractive service that promised to deliver the pizza in 30 minutes, or else it was free.

Business Model

Simon, Sebastian and Felipe knew they needed to start something new that could change the reality of their country by boosting sales of commercial businesses, improving the income reality of delivery employees (normally low-income population), and creating job opportunities in the technology industry. Due to their previous experiences, they knew that the best vehicle to do it was with technology. For instance, they decided to run an experiment which was based on the sharing economies platforms such as Uber or Airbnb.

The business model was simple, Rappi would be a sharing platform were buyers, commercial businesses and couriers would meet. Long-term Rappi would earn because they would charge the commercial businesses a fee for using in the platform, similar to *Click Delivery*. Couriers would work as independent workers who would receive the service petition in the app, they'd had to pick up the product and then deliver it as requested, to the client. Remuneration wise, the idea was to charge a delivery fee depending on the distance; the estimation came to be around 0.75€ cents, which is almost twice the fee that a regular delivery person was paid. Finally, the customers were charged upfront the retail price of the product plus a delivery fee. Lastly, in the long run, the Rappi would pay the commercial business at the end of the month all sales generated through them.

For the platform to be successful, they realized they needed a high number of customers, commercial businesses and couriers. Although the management team had a big network of contacts to get in touch with, they considered it was a demanding and time-consuming task that could be done in parallel with the experiment, in case it went well. Instead they decided to jump off and start the experiment that consisted on offering standard grocery products that anyone could purchase, such as but not limited to: beer, chips, chocolates, milk. Additionally, the team came up with the idea of having a direct interaction with clients by creating a cravings option, the idea that Simon, Sebastian and Felipe had was to deliver anything that people wanted and demanded, thus that cravings option to purchase anything more, or something completely different from what they offered in the platform served as valuable information. The team knew the deliveries from restaurants, grocery, pharmacies and liquors were popular and they wanted to integrate them in the long run, but they realized that in order to successfully attract any commercial business they needed the information which the cravings option could provide.

To start with the so called experiment the team had already the knowledge and a robust platform that required some minor adjustments to fit the business model but was almost complete. At first no strong commercial business relationship was needed because they would buy products in normal grocery shops. Finally, what they had an urge for, was the people who provide the delivery service. Thus, they had to decide where to start, and depending on it, how much couriers to hire to perform the delivery

Delivery Industry

Deliveries had been famous in Latin American cities; specially, in Colombia for quite a long time. At least 60% of pharmacies, small grocery stores and restaurants had one or two couriers who were exclusively assigned to deliver client's needs. Homes were full of magnetic advertisements for delivery of restaurants, pharmacies and grocery shops, among others (**Exhibit 6**). In exchange for the delivery, customers payed a delivery fee that on ranged, on average, between 0.13€ and 0.43€, and that depended on how far the location was or if the delivery was done by motorcycle or by bicycle. Additionally, the employees normally received a tip for their service that oscillated between 0.26€ and 0.40€ per service.

In the case of restaurants, deliveries were popular during lunch hours and weekends. According to a survey performed by "*La barra*" a hospitality magazine, the most delivered product was chicken, followed by pizza and Chinese food. On the other hand, the service was mostly used by people whose age was between the ages of 15-25 years old. Lastly, the deliveries were mostly ordered by phone and the cities that had the most services where big cities at which transportation is very difficult because of long distances and high level of traffic.

Pharmacies and small grocery stores had more deliveries than restaurants. Depending on the day, a store could have from 60 to 70 deliveries a day. An average delivery employee could earn 4.5€ per day plus tips, for a 7-hour journey that normally started at 7:00 am and finished at 2:00 pm. Thus, meaning that the employees were able to earn on monthly bases a salary equivalent to half a minimum wage.

Growth and recent Investments in the industry

In terms of online platforms and marketplaces for deliveries a recent precedent existed in Colombia. Click Delivery, a company created by students of systems engineering at Universidad de los Andes. It started in 2010 as a site were customers could see different restaurant options, discounts on food and had the numbers of each restaurant so the client could order a delivery. Early in 2012, it evolved to be a web marketplace where people could order directly online. Click delivery started first in Bogota, the capital city of Colombia as www.domiciliosbogota.com (in English Bogota delivery). Soon, it expanded to Cali and Medellin (second and third major cities in Colombia) with the site named after each city. After a few years, the platform was present in Argentina as www.buenosairesdelivery.com and Peru as www.limadelivery.info.

The growth of click delivery was impressive, to the extent they were able grow 10 times in number of restaurants and sales from the year 2013 to 2014. Late 2013 click delivery was able to secure a seed investment of 1.5 million dollars Axon partners. On June 2014 the company reached 3.000 affiliated restaurants, half of them in Colombia. Moreover, the company was able to reach a 2 million dollars monthly sales. Apart from the websites, the company launched an app (**Exhibit 5**) that in less than a year had 1 million downloads, 200.000 active members and 50.000 frequent consumers (Colombia.com, 2014). As a result of this huge growth (around 30-40% per year) and promising results, Delivery hero, a German company decided to acquire 40% of the company including Axon partners portion.

The business model implemented by click delivery was simple, at the end of each month, the company sent the record of the sales made through the website/platform to the associated restaurant, and the restaurants payed a fee that rounded 10% of each sale. The consumers assumed the delivery costs, but restaurants were not charge extra for being on the website.

Competition

The delivery market was a reality in Colombia, most of the restaurants, pharmacies and small grocery shops offered a delivery service. In order to perform the process clients had to make a phone call or, in very few cases, send a text message via WhatsApp to the commercial establishment and ask for their required products. Pharmacies, for example offered the unique opportunity to deliver 24/7. Other companies, such as "*Correo de la noche"*, created in 1996 as a night grocery shop, focused only on delivering alcohol, cigarettes, chips and beverages, during the weekend nights when those products could only be sold by delivery. "*Correo de la noche*" was among the oldest deliveries in Bogota, counted with 6 distribution centers, 160 employees that delivered by motorcycle and a coverage of 1,110 km (about 70% of Bogota)

During the years 2014 and 2015 some newly created companies entered the delivery industry, that was the case of Kiwi, a company that aimed to provide total solutions for the clients. Kiwi started with WhatsApp in Mexico and Colombia, they delivered anything the people wanted (**Exhibit 9**), asked for whatever they needed and then they were directed to an online payment through Braintree platform. After four months, Kiwi had sales of €52,954 and attended more than 2,000 clients.

Another example of an online platform for delivery was "*Comida en la U"* (its translation: Food in the University). Released in 2014 the company provided the service of

delivery to students inside the university campus. *"Comida en la U"* had deals with a great number of restaurants that were close to 7 private universities campus, it was designed exclusively for students who did not had enough time to walk and queue in the restaurants. The process was the following, students registered with the university email on the platform, the platform had offers from close restaurants (<500m) which students chose and payed online. The people in charge of the delivery were students from the same university who worked for the company, had some free time and who earned on average 0.80€ per delivery. After one year of operations, "*Comida en la U"* had a network of more than 50 delivery students and 6,500 users.

Merqueo, *Mercadoni* and *Quiicky* were other recently released platforms that competed in the delivery industry. *Merqueo* (developed by the creator of domicilios.com) and *Mercadoni* (**Exhibit 8**) where very similar websites that allowed clients to do the regular supermarket shopping online and then receive the products by delivery, both platforms had the option of a direct interaction with client, so they could actively participate and decide in the purchase of certain products such as fruits or vegetables, because consumers have different preference regarding those products. Lastly, *Quiicky* was a company, created in early 2015, that delivered condoms in less than 20 minutes to any location in Bogota. At first their service was provided via WhatsApp, but they were developing their own app for the service.

Starting Point selection

For choosing the starting point, two decisions were required to take. First, a city that is as representative as possible of the broader market, and second, if the city chosen was Bogota because of its magnitude, which neighborhood to target first. Colombia has a total amount of four big cities that account for almost 30% of the population. Taking into consideration the distribution of deliveries in the main cities, and the amount of peak traffic congestion based on Inrix traffic scorecard, a probability of success was computed for the option of choosing each city as starting point of the experiment, and then expanding to the other places (**Exhibit 11**).

Three options were contemplated for choosing their initial operations area in Bogota (**Exhibit 10)**. Apart from the people that live in the neighborhoods, enterprises employees could also be a good source of clients. Moreover, it was known from domicilios.com history that one of the most popular areas for deliveries was the zone called *Usaquen* that represented 8% of the total city area, had 441,000 habitants and counted with 156 neighborhoods. From the population of *Usaquen* the it is estimated that potential clients where high-income families, located on the south neighborhoods of that zone, they represented about 39.7% of its population.

The second option contemplated was starting in the north of the zone called *Chapinero.* It was in front of *Usaquen* zone and counted with the most expensive lands, that meant that 56.7% of the zone was part of expensive land destined for living or commercial uses. The population for this zone was of about 136,000 habitants and counted with 50 neighborhoods.

The last option the team had in mind was to start in the region of the city called *Suba.* It was the most populated area from the options, with 805,000 habitants, had 259

neighborhoods from which 18.1% were considered as expensive lands used for commercial or living uses.

Apart from the statistics for each one of the three possible starting zones, at the beginning a penetration rate of 10% was expected. For the experiment to be successful, a big and strong network of couriers was needed, in order to keep their promise of delivering fast. Products did not represent a problem because they could be found in easily every 500m. Moreover, two couriers per neighborhood were needed to be hired for the full month and be payed fixed, at least twice the amount earned by a normal courier employee. Afterwards everything else was set for this experiment to kick off.

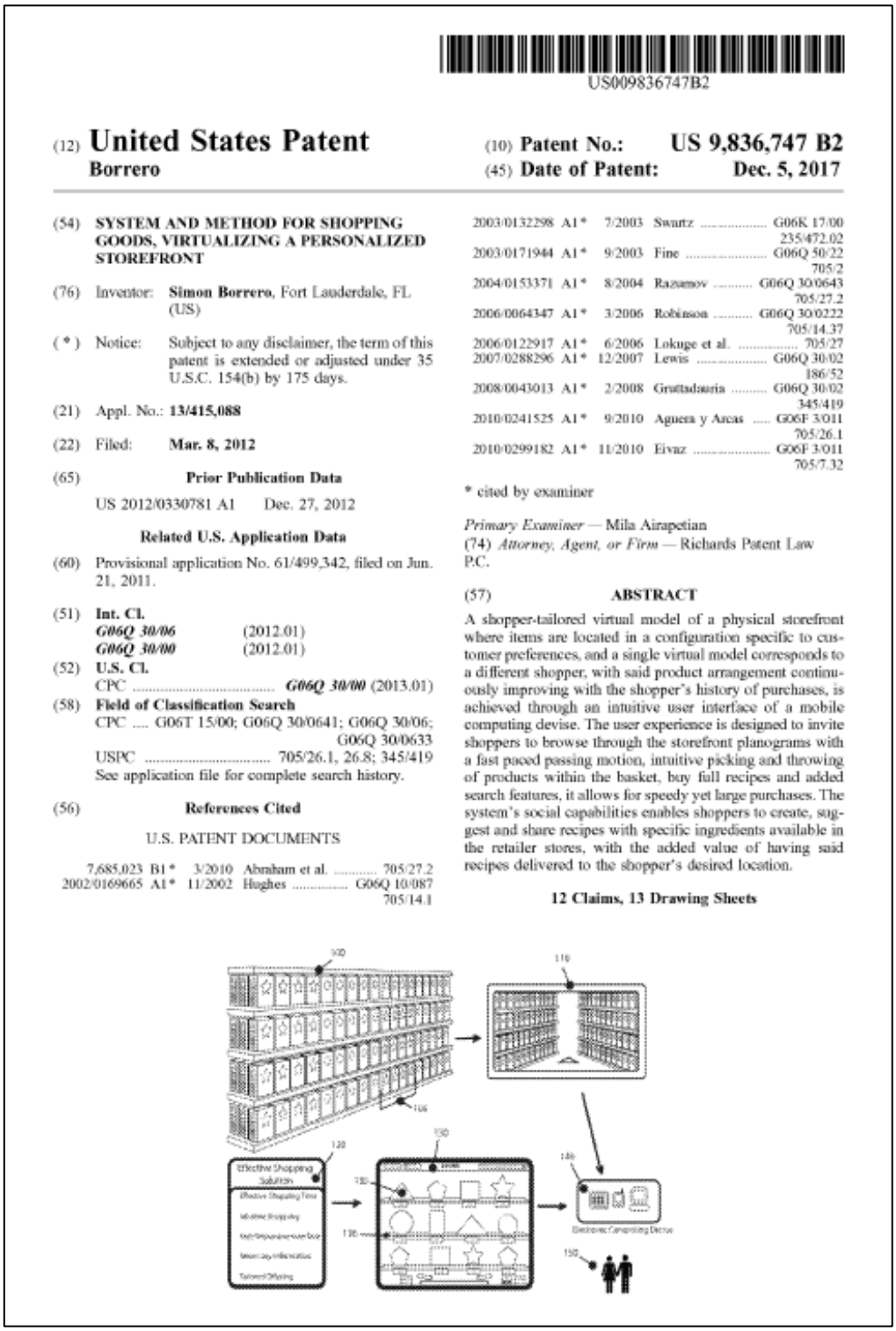
References:

1. S. Borrero (2017) *United States Patent No. US 9,836,747,* Retrieved from: https://pdfpiw.uspto.gov/.piw?Docid=09836747&homeurl=http%3A%2F%2Fpatft.uspto.gov%2Fnetacgi%2FnphParser%3FSect1%3DPTO2%2526Sect2%3DHITOFF%2526p%3D1%2526u%3D%25252Fnetahtml%25252FPTO%25252Fsearchbool.html%2526r%3D3%2526f%3DG%2526l%3D50%2526co1%3DAND%2526d%3DPTXT%2526s1%3D9836747%2526OS%3D9836747%2526RS%3D9836747&PageNum=&Rtype=&SectionNum=&idkey=NONE&Input=View+first+page
2. Rappi (2015) [@RappiColombia] Buenos días oficinistas. Si hoy van a estar clavados y no hay tiempo ni para ir por una empanada: RAPPI. Retreived from: https://twitter.com/RappiColombia/status/613302119760822273
3. La Rebaja Móvil (2014), accessed 10/10/2019, retrieved from: https://apkpure.com/la-rebaja-m%C3%B3vil/com.imaginamos.groceryapp
4. Supermercado El Corte Inglés (2015) accessed 10/10/2019, https://el-corte-ingles.pt.aptoide.com/
5. Grability X El Corte Ingles (March 15 2015) Accessed 10/10/2019, Retrieved from: https://vimeo.com/grability
6. Mercadoni es la nueva plataforma colombiana para hacer mercado desde el celular, (2015) accessed 10/10/2019, Retrieved from: https://www.xataka.com.co/aplicaciones/mercadoni-es-la-nueva-plataforma-colombiana-para-hacer-mercado-desde-el-celular
7. Meet the technology startup that is sick of how we buy groceries online, (2015), Forbes, accessed 10/10/2019, Retrieved from: https://www.forbes.com/sites/abigailtracy/2015/11/03/meet-the-technology-startup-that-is-sick-of-how-we-buy-groceries-online/#491cd6772dca
8. Click Delivery revoluciona los domicilios en Colombia (2014), ClickDelivery APP, accessed 10/10/2019, Retrieved from: https://www.colombia.com/tecnologia/informatica/sdi/84374/click-delivery-revoluciona-los-domicilios-en-colombia
9. Kiwi el servicio de mandados por WhatsApp (2015), Accessed 10/10/2019, Retrieved from: https://www.xataka.com.co/otros/kiwi-el-servicio-de-mandados-por-whatsapp
10. Peñaranda, J (08,2015). Portal enter.co, "LAS MEJORES APPS COLOMBIANAS QUE AÚN NO CONOCES (I): RAPPI". Accessed 10/10/2019, Retrieved from: https://www.enter.co/cultura-digital/colombia-digital/rappi-mejores-apps-colombianas-2015/
11. Enfoque (01, 2016). Diario semana, "Hoy ir a hacer mercado es absurdo". Accessed 10/10/2019, Retrieved from: https://www.semana.com/enfoque/articulo/entrevista-a-rappi-la-app-colombiana-para-pedir-domicilios/458587
12. Redacción el Tiempo (09,2016) Periódico el Tiempo, "Conozca las aplicaciones para pedir lo que quiera a domicilio". Accessed 10/10/2019, Retrieved from: https://www.eltiempo.com/tecnosfera/novedades-tecnologia/aplicaciones-para-pedir-domicilio-28374
13. Series de población 1985-2020 (08,2015) Departamento Administrativo Nacional de Estadística DANE. Accessed 10/10/2019, Retrieved from: https://www.dane.gov.co/index.php/estadisticas-por-tema/demografia-y-poblacion
14. Revista La barra, edición 53, (08,2012). Accessed 10/10/2019, Retrieved from: https://issuu.com/axiomaweb/docs/la_barra_edicion_53
15. Movilidad (07,2018) Diario semana.com, "El tiempo que los bogotanos pierden al año en trancones". Accessed 10/10/2019, Retrieved from: https://www.semana.com/Item/ArticleAsync/556386
16. Worktechwork (2014), TECHNOLOGY OFFERING BRANDS EFFORTLESS MOBILE SHOPPING. Accessed 10/10/2019, Retrieved from: https://worktechwork.wordpress.com/2014/04/21/technology-offering-brands-effortless-mobile-shopping/
17. Empresas (11,2011). Dinero. "El Correo de la Noche tiene nuevo dueño". Accessed 10/10/2019, Retrieved from: https://www.dinero.com/negocios/articulo/el-correo-noche-tiene-nuevo-dueno/137253
18. (2012). El tiempo. "Clickdelivery, con 3 mil restaurantes en 3 países". Accessed 10/10/2019, Retrieved from: https://www.eltiempo.com/archivo/documento/CMS-14499237

Appendixes:

Case Exhibits:

1. Simon Borrero Patent cover.



US009836747B2

(12) **United States Patent**
Borrero

(10) **Patent No.: US 9,836,747 B2**
(45) **Date of Patent: Dec. 5, 2017**

(54) **SYSTEM AND METHOD FOR SHOPPING GOODS, VIRTUALIZING A PERSONALIZED STOREFRONT**

(76) Inventor: **Simon Borrero**, Fort Lauderdale, FL (US)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 175 days.

(21) Appl. No.: **13/415,088**

(22) Filed: **Mar. 8, 2012**

(65) **Prior Publication Data**

US 2012/0330781 A1 Dec. 27, 2012

Related U.S. Application Data

(60) Provisional application No. 61/499,342, filed on Jun. 21, 2011.

(51) **Int. Cl.**
G06Q 30/06 (2012.01)
G06Q 30/00 (2012.01)

(52) **U.S. Cl.**
CPC ***G06Q 30/00*** (2013.01)

(58) **Field of Classification Search**
CPC G06T 15/00; G06Q 30/0641; G06Q 30/06; G06Q 30/0633
USPC 705/26.1, 26.8; 345/419
See application file for complete search history.

(56) **References Cited**

U.S. PATENT DOCUMENTS

7,685,023 B1 * 3/2010 Abraham et al. 705/27.2
2002/0169665 A1 * 11/2002 Hughes G06Q 10/087 705/14.1
2003/0132298 A1 * 7/2003 Swartz G06K 17/00 235/472.02
2003/0171944 A1 * 9/2003 Fine G06Q 50/22 705/2
2004/0153371 A1 * 8/2004 Razumov G06Q 30/0643 705/27.2
2006/0064347 A1 * 3/2006 Robinson G06Q 30/0222 705/14.37
2006/0122917 A1 * 6/2006 Lokuge et al. 705/27
2007/0288296 A1 * 12/2007 Lewis G06Q 30/02 186/52
2008/0043013 A1 * 2/2008 Gruttadauria G06Q 30/02 345/419
2010/0241525 A1 * 9/2010 Aguera y Arcas G06F 3/011 705/26.1
2010/0299182 A1 * 11/2010 Eivaz G06F 3/011 705/7.32

* cited by examiner

Primary Examiner — Mila Airapetian
(74) *Attorney, Agent, or Firm* — Richards Patent Law P.C.

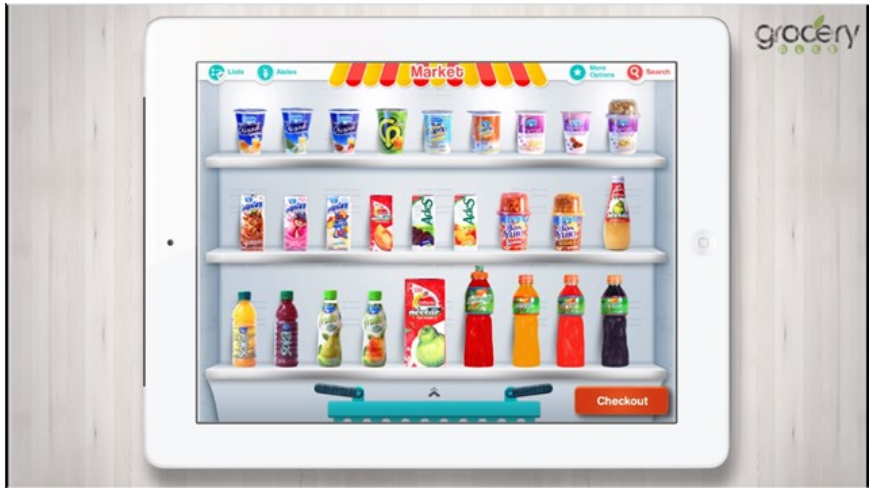
(57) **ABSTRACT**

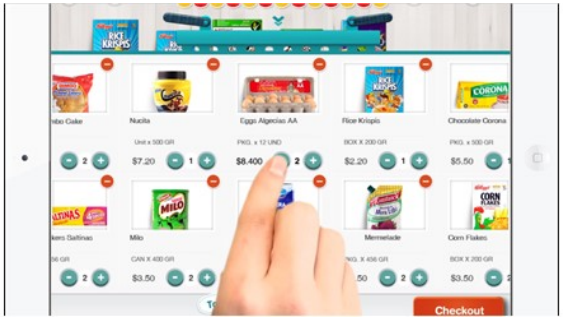
A shopper-tailored virtual model of a physical storefront where items are located in a configuration specific to customer preferences, and a single virtual model corresponds to a different shopper, with said product arrangement continuously improving with the shopper's history of purchases, is achieved through an intuitive user interface of a mobile computing devise. The user experience is designed to invite shoppers to browse through the storefront planograms with a fast paced passing motion, intuitive picking and throwing of products within the basket, buy full recipes and added search features, it allows for speedy yet large purchases. The system's social capabilities enables shoppers to create, suggest and share recipes with specific ingredients available in the retailer stores, with the added value of having said recipes delivered to the shopper's desired location.

12 Claims, 13 Drawing Sheets

(United States Patent No. US 9,836,747, 2017)

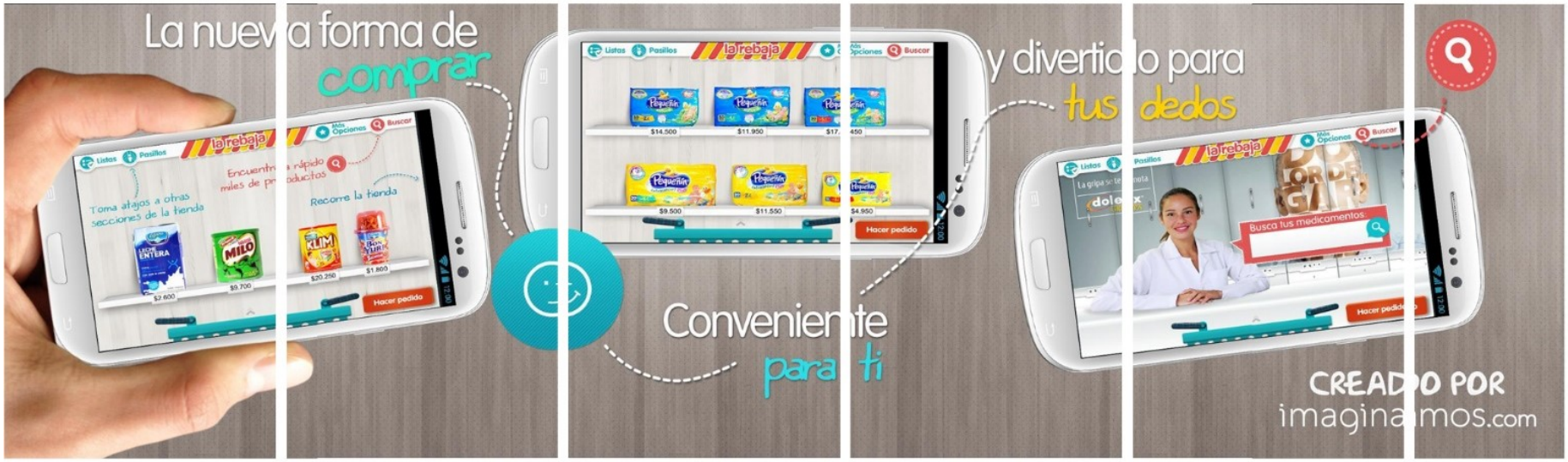
2. Grocery glee mock software





Source: Grocery Glee (Ingles), (05,2012), Retrieved from: https://vimeo.com/42730339

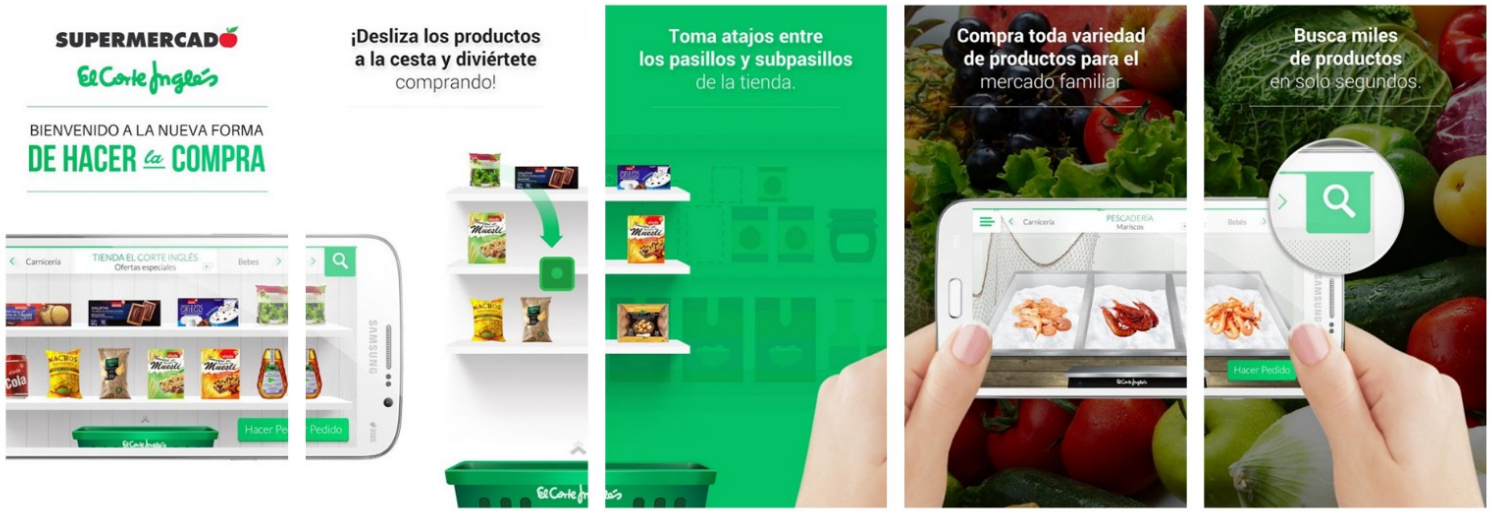
3. La Rebaja software visuals



Source: Appstore Colombia – retrieved form https://apkpure.com/la-rebaja-m%C3%B3vil/com.imaginamos.groceryapp

"The new way of buying – Convenient for you – and fun for your thumbs"

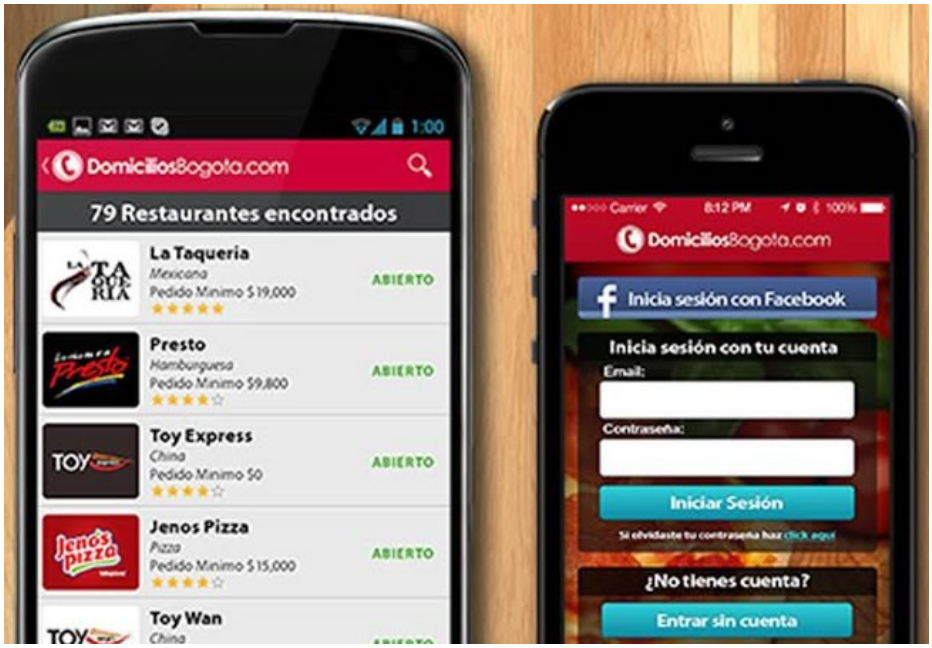
4. El corte ingles software visuals



Source : Appstore Spain – retrieved from https://el-corte-ingles.pt.aptoide.com/

“Welcome to the new way of shopping - Swipe down the products to the shopping kart and have fun buying. – Take shortcuts within hallways and aisles of the store. – Shop all varieties of products for your family. – Search thousands of products in seconds. “

5. Domicilios Bogota software visuals.



Source: Click Delivery revoluciona los domicilios en Colombia (03,2012). Retrieved from: https://www.colombia.com/tecnologia/informatica/sdi/84374/click-delivery-revoluciona-los-domicilios-en-colombia

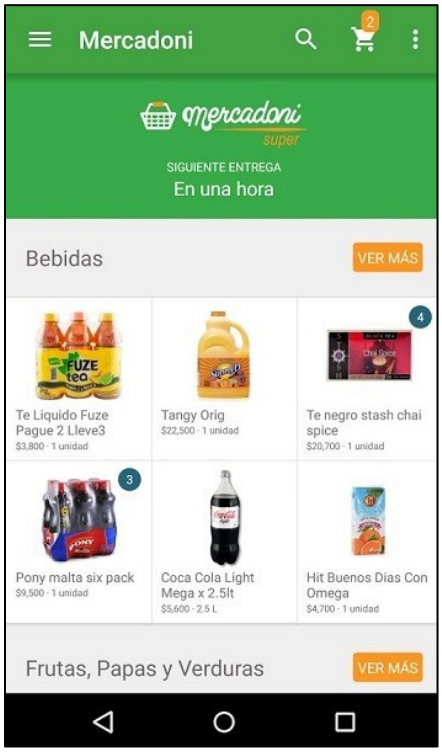
6. Normal home magnetic fridge advertisements

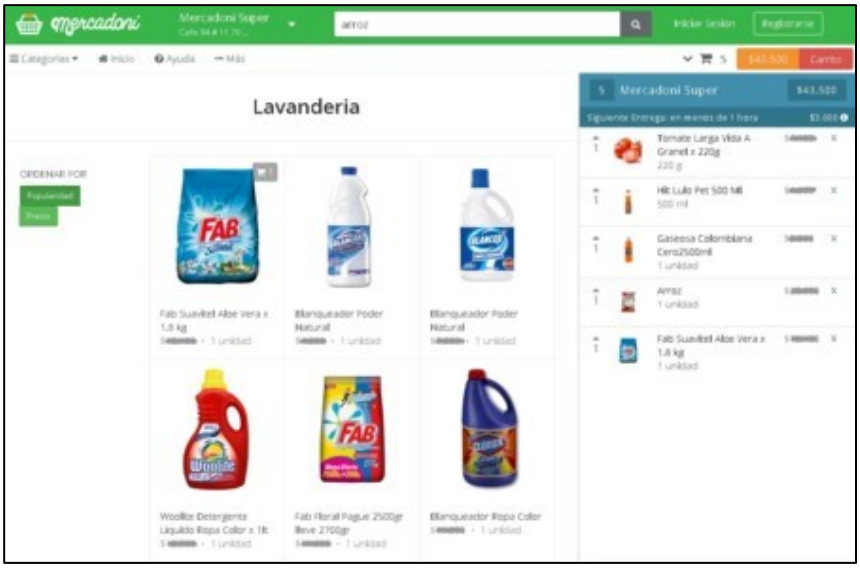
Magnetic advertisements for fridge: Restaurants – Pharmacies – Grocery stores

7. Rappi advertisement

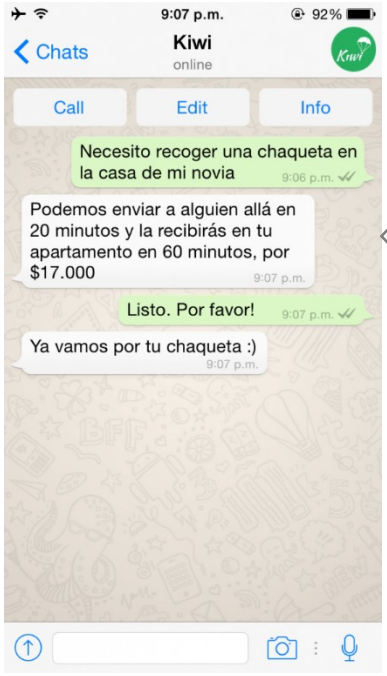
"All your deliveries – Rappi, We run for you"

8. Mercadoni Platform Visuals





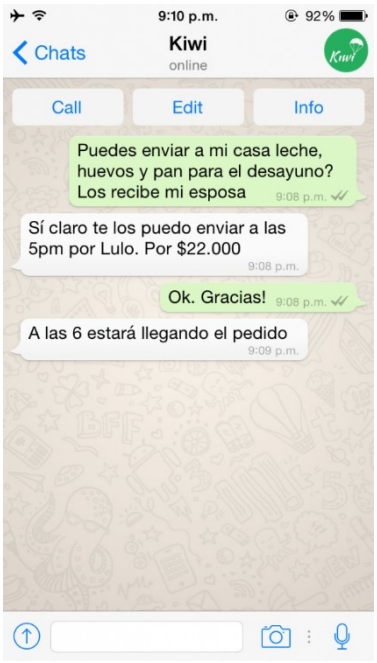
9. Kiwi Platform



Client: Kiwi I need my jacket to be picked up in my girlfriend's house.

Kiwi: We can send someone there in 20 minutes and you

Client: Can you send milk, eggs and bread for tomorrows breakfast? My girlfriend would receive them.
Kiwi: Of course, I can send it at 5pm through *Lulo* for
Client: Ok Thanks
Kiwi: It will be arriving at 6



10. Starting city consideration

	Bogota	Medellin	Cali	Barranquilla
Hours (peak traffic congestion)[2]	75	57	49	40
Population[3]	7,878,783	2,464,322	2,369,829	1,218,737
Potential Customers	787,878	246,432	236,983	121,874
Prob of start success[4]	25%	35%	26%	14%
Probability of success after 1st city accomplishment[5]	35%	40%	45%	50%

Average Colombia Hours (peak traffic congestion)[1]
39.7

11. Bogota neighborhood consideration

	Chapinero	Suba	Usaquen
Habitants	136,000	805,000	441,000
Persons per house	2.6	3.4	3.2
Area (ha)	3,899	10,056	6,531
High-income % area	57.50%	18.10%	39.70%
Stratum 5	45.80%	16.70%	14.90%
Stratum 6	11.70%	1.40%	24.80%
# of Neighborhoods	50	259	156
# of Enterprises	23,581	22,359	18,904

[2] Source: Revista Semana (07, 2018)
[3] Source: Departamento Administrativo Nacional de Estadística **DANE**, (08,2015)
[4] Source: Revista La barra, edición 53, (08,2012)
[5] Source: Case writer based on Inrix scorecard.

Diego Sánchez November 2019

Rappi - Teaching Note

Synopsis

Rappi was a technology startup created in 2015 to attend the unexploded delivery market, as a total customer solutions, in the cities of Latin America. The company was created as a platform were buyers and commercial businesses would meet and would be directly attended by couriers who work as independents. Rappi has a similar platform to the trending economy platforms such as Airbnb and Uber, but for the delivery market.

This case study aims to discuss the first steps of the company founders in the technology industry, e-commerce, the delivery market, business model and how the management team ended up coming with a billion-dollar idea of a sharing economy platform. Rappi case study allows a broad discussion about technology developments and investments in Latin America, the existence of a technology unattended delivery market. The sharing economy platform business model can be commented, first, based upon high scalability and low asset intensity a sharing economy platform has, second the benefits for commercial businesses, couriers and users. Thirdly, the business model shows how it can be beneficial for a company and for commerce to keep an open communication channel with customers.

Rappi case study is intended to be used un courses such as but not limited to entrepreneurship, venture capital and entrepreneurial finance.

Objectives and Target Audience

The case was completed for the courses of entrepreneurship and entrepreneurial finance and venture capital. The main objective is to illustrate the audience about the challenges, benefits and different needs that can be solved by technology in emerging markets, such as the Latin American one.

Rappi's case study can be implemented as an outline of the delivery market in the big cities of Latin America, but also as a framework to evaluate how key factors combine for a start-up to be successful. (Opportunity, Market, Product, Team and context). It shows how different needs can be solved through technology, and how a local technology company is able to compete with a good structure and team.

Suggested Questions

1. **Does Rappi represent a good investment opportunity? Analyze the team, market, product, business model and context.**
2. **Compare Rappi's product with the other platforms that existed. Are they on a good position in relation with the competition?**
3. **How does Rappi's business model differ from the competition?**
4. **Do you think in the delivery market, customer data is a relevant source of competitive advantage in the long run? Which companies represent the biggest threats for Rappi in terms of data management?**
5. **Are networking effects relevant for Rappi's business model? How can the company leverage from them?**
6. **Comment on Rappi's strategy for opening the market, do you consider wise to artificially create the network while starting?**
7. **Does the experiment idea of having craving options in the platform represents a good opportunity for Rappi?**
8. **Compare the options of starting in each city, by doing decision trees? Which city should they start with?**
9. **Do you consider relevant the decision to choose the place where to start doing the deliveries in Bogotá? Compare the options, which zone represents fewer costs for the company?**

Recommended literature

- **Sahlman, William A. "Some Thoughts on Business Plans." Harvard Business School Background Note 897-101, November 1996.**

Case Analysis

1. **Does Rappi represent a good investment opportunity? Analyze the team, market, product, business model and context.**

The consideration of Rappi as a good or bad investment depends on a great number of issues from the investors point of view. In first place, the risk aversion from the investor, second the market and the industry which the business runs in, finally it is important to consider potential pivots that the company could have in the future. Yet, by performing a deep analysis about the team, context, market, product and business model it is possible to understand and figure how plausible it is for the company be successful.

The investment opportunity for Rappi is focused primarily on the success of the application and their capability to deliver effectively and fast the products to clients. At the beginning of the company, the management team already counted with a robust product (platform) and a descent knowledge of the market because they had worked previously at *Grability* and *Imaginamos* with some of the delivery companies that wanted to enter the digital world. In terms of education and networks, the team counted with recognized educational background in Colombia and Europe, and they also had previous examples of success with their previous entrepreneur projects.

Concerning the market, delivery industry was an unexploited and not highly measured one. From the success examples of companies such as *La Rebaja* and *Click Delivery* it was known that Restaurants delivery industry was worth at least 500 million dollars in Colombia, but groceries stores, pharmacies and other types of deliveries that existed, were popular, but were not accurately measured, quantitively. For growth, companies such as *Kiwi*, *Mercadoni* and *Merqueo* seemed to have a high growth rates, but again, the best benchmark for growth in the industry was driven by *Click Delivery*, a company that was already present in **Colombia**, but also in **Peru** and **Argentina**. According to the statistics provided by Click Delivery founders, during the first two years they grew at a speed of 10 times a year. Few years late, their growth rates were about 30% to 40% per year

In terms of the product, Rappi counted with a product that was first developed in 2012 and that had been simplified and perfectioned over the time. The product itself was already proven to be successful with a previous client of the founders, a pharmacy brand in Colombia called *La Rebaja*. The product was able to boost mobile sales of that pharmacy by 600%, online sales by 300% and reduce cart abandonment by 70%. Moreover, some big brands such as *El Corte Ingles* had already incorporated a similar product, patented by the funders of Rappi, to their shopping experience.

Regarding the business model, it was Rappi biggest challenge. Their business model was based on sharing economy platforms were their employees worked as independents

but had the chance of having a higher income in comparison to people that did the same job. Moreover, for their business model to work properly, a huge network of couriers, commercial business, clients and funding is needed, but if achieved it would mean high entry barriers for competitors.

Finally, the context when the company was created was perfect for Rappi because people in Colombia showed a great interest regarding sharing economy platforms, but also mobile and online shopping. At the same, competitors were starting their businesses, but did not count with a robust platform, business model and logistics.

2. Compare Rappi's product with the other platforms that existed. Are they on a good position in relation with the competition?

Rappi's main product was a very robust and developed one, it was being perfectioned and used since 2012. It consisted on a virtual platform that allowed clients have a shopping experience very similar to a physical storefront. By having a strong and well-developed digital platform, the company possessed a strong competitive advantage from its competitors. Moreover, having the cravings option is a unique tool that can be considered part of its competitive position, because they can gather and use such valuable information when they want to approach a new client.

From the competition point of view, the main competitor of Rappi's grocery shopping at the beginning is traditional delivery. That type of delivery is normally executed by the client using phone or via WhatsApp. The difference with that type of delivery is that firstly, the clients need to know exactly what they want to shop meanwhile with the Rappi platform they can see all types of products and probably buy more. Secondly, the with traditional calling, the clients cannot track the location of the courier and don't know the approximately time for delivery, on the other hand, the digital platform allows those characteristics. Finally, the payment for couriers' services is higher which motivates high-quality service.

Apart from traditional delivery methods, the company faces other competitors in the online supermarket shopping, that is the case of Mercadoni and Merqueo, online sites for shopping. From these two other platforms, Rappi counts with the advantage that their product (application) was specifically designed to solve the site overload with product information, lack of organization and difficulty to find certain products, characteristics that the other players suffered from.

Finally, the last two competitors that the company faced were in first place, Kiwi, recently created company that worked only via WhatsApp, hence it was difficult to grow or stablish metrics, but aimed to provide the same total solutions for the clients as Rappi. In second place was the most complete and developed competitor in terms of platform and funding, Click Delivery owner at that time of the biggest portion of the online restaurant's delivery, with over a million application downloads and **50.000 frequent clients**. In terms of the product, click delivery counted with a complete website,

application and large network of restaurant and clients **(2 million dollars in sales**) the main difference was that they only targeted restaurants and pharmacies (in some regions).

3. **How does Rappi's business model differ from the competition?**

In terms of the business model, the main difference with the other platforms that existed was in costs and collection of service. All the digital platforms that existed at that time, had almost the same principle, generate a margin of products they did not own, collect upfront before the service was provided and pay late to commercial businesses. The difference with *Merqueo*, *Mercadoni* and *Click Delivery* was that Rappi aimed to have a slightly lower asset intensity because they did not hire full time employees as couriers, but on the contrary couriers worked as independents. Having this advantage would mean they counted better scalability options in comparison to competition.

On the other hand, if compared to traditional way of delivery, the big difference in costs consist on the payment period. Normal commercial businesses were paid upon delivery and so couriers service. Meanwhile for Rappi all payments, including delivery service, aimed to be done upfront and payed back to commercial businesses and couriers at the end of the month. Finally, the last difference regarding traditional stores was data management, which for digital platforms was easily to gather and manage, and for commercial businesses was very difficult.

4. **Do you think in the delivery market customer data is a relevant source of competitive advantage in the long run? Which companies represent the biggest threats for Rappi in terms of data management?**

Considering that the delivery market was big, unmeasured and not fully involved with technology, customer data did represent a good and useful source of competitive advantage, mainly because the biggest part of the market was operating under the traditional form of delivery. Hence, most of the information about what customers wanted, bundle products for their orders, the effect of weather conditions and more useful and possibly correlated data was lost in the process that depended phone calls or WhatsApp delivery.

Moreover, in the long run, the data gathered could be the most important source of competitive advantage, because it is the key for understanding what customers want, hence it is crucial for opening new commercial relations, and at the same time, a good management of data mean for Rappi barriers of entry for competition because they would have a better understanding of the clients behavior and needs.

As a result, companies such as *Click Delivery*, *Merqueo* and *Mercadoni* emerged as platforms with highly growing popularity, mainly because their information advantage that allowed them to offer better promotions, bundles and discounts for their customers. In consequence, those digital platforms represented the biggest threats in the competitive

landscape for Rappi's future operations, *Click Delivery* in the restaurants niche and the others in the Supermarket shopping niche.

5. Are networking effects relevant for Rappi's business model? How can the company leverage from them?

Considering that Rappi aims to be present as a sharing economy platform such as Uber and Airbnb, among others, networking effects indeed are extremely relevant for them. As a result, those effects normally converge in the fact that the winner takes all the market. The reason for this is that networking effects behave like a snowball effect for each one of the players in the market, providing them with better conditions each time the network grows.

In this case, the players in the network are commercial businesses, couriers, clients, and the company with the platform that unites them, Rappi. The process (Illustrated in **TN Exhibit 4**) starts with the platform, that needs clients to order from it, commercial businesses so clients can order from, and couriers who provide the service as fast as possible. Networking effects start because if more commercial businesses are present in platform, more clients would be attracted to buy through the platform, causing an increase in the number of services provided and so couriers occupancy rate and money paid to them. Having a high couriers occupancy rate generate an increase in the number of couriers willing to work, which would represent a better service for clients, that at the end converge in more clients attracted and more commercial businesses willing to be on the platform, and so on.

For the company, having more clients, couriers and commercial dealings would lead to a better service, more sales, and better deals with commerce that would allow them to have special discounts and better bargaining power with shops. All things considered, it is possible to see how networking effects converge in the fact that the leader wins all the market. In this sense, this case is familiar with highly known cases such as Airbnb or Uber, which leverage from the same type of networking effect.

6. Comment on Rappi's strategy for opening the market, do you consider wise to artificially create the network while starting?

Artificially starting a market is a common strategy used by the sharing economy platforms. Companies such as Airbnb and Uber have done it before when trying to enter a city. In the case of Uber, the most used strategy is to guarantee, during the first few months, a minimum earnings amount to drivers and offer big discounts to clients. By implementing the strategy, Uber guarantees to have one side of the platform, drivers supply, secured while the network gets enough riders to maintain itself and at least adjust to supply.

Airbnb case is very similar to Uber, in the beginning the Airbnb team went to New York, where they had the main base of customers, and then they created "artificially"

the network by taking professional pictures of some of the spaces that were offered, and by writing the listings by themselves. At the end of the process, they got a good number of listings, set a standard for them, and had a strong side of the network, space offerings, built.

Taking into consideration the previous success examples, the decision of Rappi to artificially create one side of the network, by promising a minimum amount for couriers, and offering at the beginning common products while learning, is considered a good strategy for opening the new market. Companies rely on performance and reputation, so it is considered convenient to assure a good and sufficient performance at the beginning to effectively attract customers, until growth is reached, and the network can hold by itself.

7. **Does the experiment idea of having craving options in the platform represents a good opportunity for Rappi?**

Because Rappi was a recently created company, and the management team was very young, for them to stablish relationships with big and small commercial businesses was going to be hard, would consume a lot of time, and probably the agreements they reach would not be highly beneficial, because information was unknown. As a result, the cravings option, if well managed, gave the management team a good opportunity to gather important data and information regarding client's tastes. Thus, by having useful data, the management team would know which commercial business would benefit the most from the platform and which ones would boost their sales. Resulting from this, Rappi management, in theory, was able to get better bargaining power with shops, therefore putting the cravings option in the platform is considered a great experiment.

8. **Compare the options of starting in each city, by doing decision trees? Which city should they start with?**

To make the decision regarding the city, the following decision trees are proposed (**TN Exhibit 3**). Expecting a penetration rate of 10%, the number of potential users for each city was computed. Then, considering the value of the option was calculated considering probabilities shown in the **Case Exhibit 11**

9. **Do you consider relevant the decision to choose the place where to start doing the deliveries? Compare the options, which zone represents fewer costs for the company?**

The decision to choose a starting point is considered crucial, due to the magnitude of the city and the different stratums it has. Although in the long run the company was planning to be all over the city, it was crucial to choose wisely the first zone because of costs. Since Simon, Felipe and Sebastian were aiming to run an experiment, the payments for the couriers needed guarantee a minimum, as in the very beginning the number of clients was expected to be low, but still they needed to provide a service as fast as possible in order to generate more clients.

To determine the starting region of the city, the team considered that the most likely target were people who lived and worked on high income regions of the city. After having selected Suba, Usaquen and Chapinero, they needed to decide which one of the three to choose.

Although there is no right or wrong answer, according to the data provided in the **Exhibit 10**. A monthly cost for the courier's expenses was proposed in the **TN Exhibit 1.** The process for computing followed two paths. In first place, a cost of the couriers was computed, and second, the expected total amount of sales was calculated.

Computing the cost of the couriers is simple. It is calculated by multiplying the number of neighborhoods times the high-income percentage area and rounded up. Afterwards, because for each neighborhood it is expected be two couriers, then the number of couriers is multiplied by the minimum wage of 185 euros. The results are in the **TN Exhibit 1**.

To calculate the sales amount, it needs to be considered that the target population were enterprises and houses. The objective penetration for the experiment is then, the high-income% area multiplied by habitants and offices (times 2 assuming for every office 2 people would use the app). Subsequently, a probability of success of 10% (starting penetration rate) was multiplied by the expected delivery cost. The results are shown in the **TN Exhibit 2.** It is important to clarify that the because clients payed for the product, technically the money that the management team needed to put was only associated with couriers.

Appendixes:

TN Exhibits:

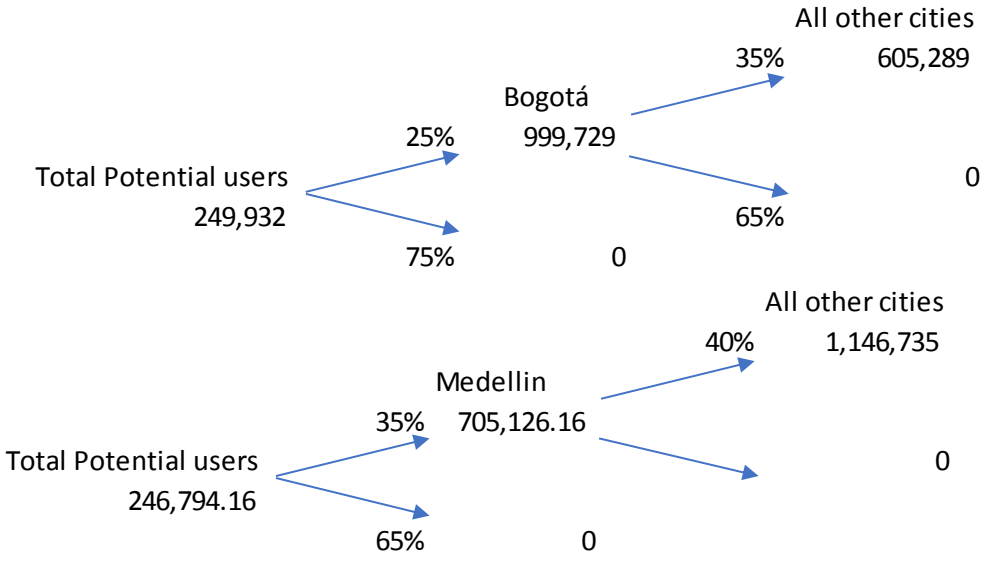
1. Couriers fixed costs

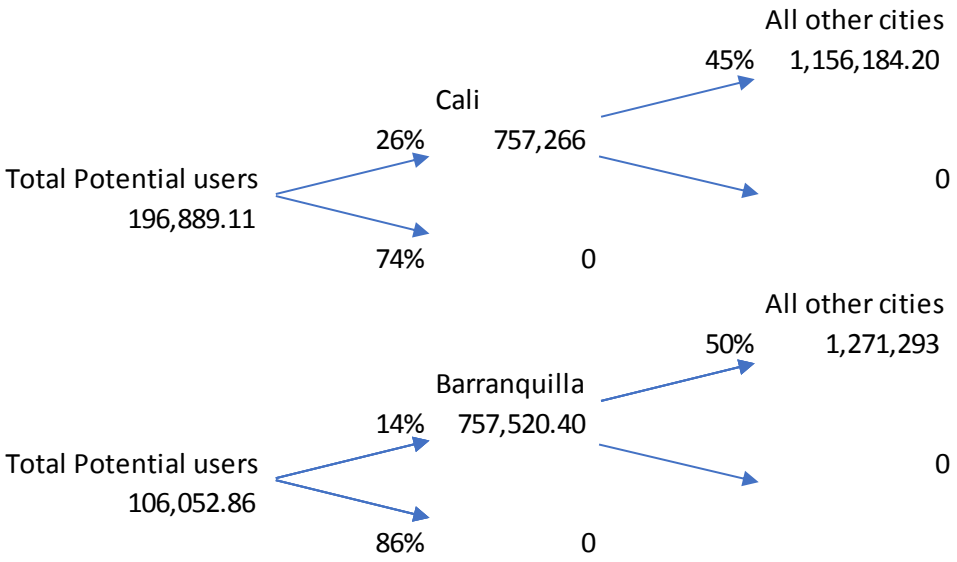
Couriers costs			
Habitants	78,200	145,705	175,077
Offices	13,559	4,047	7,505
Area	2,242	1,820	2,593
Neighbors	29.00	47.00	62.00
Couriers per neighbor	2	2	2
Total Couriers needed	58	94	124
Costs	€ 10,730	€ 17,390	€ 22,940

2. Earnings from couriers' services

Earning from couriers service			
Expected Population	105,318	153,799	190,087
Prob of success	10%	10%	10%
Average sale/delivery	0.75	0.75	0.75
Total sales	€ 7,898.86	€ 11,534.92	€ 14,256.51

3. Cities Options.





4. Network Diagram

- R1: Reinforce loop generated by the growth of all the members in the network (Clients, Commercial Businesses and Couriers).
- R2: Reinforce loop generated by increase in service quality perception, which leads to a stronger reputation among clients.
- R3: Reinforce loop, a growth in the commercial businesses present in the platform widens client's offerings and so reduce the breach of their needs.
- R4: Reinforce loop, better service quality perception from clients leads into a reduce in client's abandonment.
- R5: Reinforce loop, the more sales Rappi generates, makes it more attractive for commercial businesses to be in
- R6: Reinforce loop, Couriers and Clients generate a proportionate increase in the number of participants, for each of the players.