

Glovo 2.0

Pivoting to a New Business Model

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Glovo was facing a challenging situation in the late summer of 2016. After more than a year of activity, the company's growth was no longer satisfactory. The company was moving away from the break-even point and was not expanding its user base as quickly as predicted in the business plan (and as promised to its current investors). The future of the company was uncertain.

However, a year later, in September 2017, Glovo closed a funding round of €30 million and was immersed in a very ambitious international expansion. The volume of operations had increased significantly, and the company was growing in new geographical areas such as Latin America and the rest of Europe.

The Diagnosis

From its inception until April 2016, the growth of Glovo was impressive. The monthly number of orders increased significantly, showing a sustained and uninterrupted growth trend. However, the situation became complicated in the following months. Even though the company had started operating in more cities in Spain and in Milan and Paris, Glovo's growth expectations were not met. The assumption that, by operating in more markets, the company would see orders increase, at least in proportion, was not verified in practice. This stagnation motivated Glovo's leadership team to analyze the situation and reflect on the sustainability of the business model. What did they have to change to recover the growth curve that had allowed the company to raise big rounds of financing and convert, at least initially, a lot of new customers at a relatively low cost. Was it the price they should change? Was it how Glovo divided the pie between the company and its couriers? The service?

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- **The price**, fixed at €5.50, did not turn out to be realistic. Glovo was offering an expensive service, attractive only to a small market segment since, on some occasions, the cost exceeded the price of the product to be transported. For this reason, Glovo was becoming a service for snobs, a customer profile with little in common with the company's young target audience (see **Exhibit 1**), who had a certain aversion to high prices.
- **The unverified assumption**: with the first business model, Oscar Pierre and the whole leadership team were assuming that users knew just what they wanted to buy. That assumption was incorrect since many users preferred to be able to look at various options before making their final decision. The interface of the mobile app was designed to receive an order from the customer, whether this was to buy or send something, and the app needed the user to specify the product. This was a barrier for any hesitant users who, for instance, knew they were hungry but did not know exactly what kind of food they wanted or where to get it from.

The Solution: The Creation of a Marketplace

Pierre and the Glovo leadership team made a decision: to redesign the business model by introducing a marketplace with logistics. Partner stores would be incorporated in order to offer their products and services directly to consumers as well as via couriers. With that modification, Glovo managed to solve the two main problems identified in the previous business model: the high prices and the way the content and service were offered. The marketplace became a platform in which all players interacted. This included partners, since they used the platform with the purpose of raising awareness about their brand and product, as well as a channel to let consumers know about their value proposition, purchase the product and have it delivered. In exchange, partners would pay a fee to Glovo for each order delivered. This allowed Glovo to diversify its revenue streams, moving from a single source of income (consumers) to two (consumers and partners). In turn, this allowed the company to reduce the delivery costs assumed by consumers.

The decrease in the cost and hence the price of the delivery service was instrumental in attracting more consumers, since Glovo was able to offer more attractive and competitive services. The Glovo couriers also benefited from this pivot since it generated higher demand from end customers and hence more activity for them. That was very important, as the company could attract more Glovers by offering them a higher average number of orders per hour than Glovo's competitors could.

The price paid by the end user no longer depended only on the cost of transportation, based on variables such as the distance or the waiting time of the Glover. (See **Exhibit 2**.) With the platform's new approach, the final price of the transport service was also determined by the commission negotiated with the partner. In cases of high commission rates, Glovo could afford to reduce the price of the service because part of the costs was covered by revenues generated through the partner. In some very specific cases, the commission paid by a vendor to Glovo could be minimal or nonexistent. Glovo could accept a negative yield for a particular product or brand in order to encourage its purchase. This pricing policy was part of a marketing strategy that sought to reach a broad audience in the short term.



With Glovo's new business model, the partner vendors are also users of the platform but from a different perspective—selling products and services rather than purchasing them. Therefore, Glovo has to offer them an attractive value proposition, capable of meeting their needs: bringing their value propositions (products and services) to a wider market, by serving as an alternative channel between consumers and partners.

Additionally, the platform was improved in terms of user experience. People could use a toolbar to write the name of a specific product they wanted to purchase or they could choose from different predetermined categories. Categories guided users to a product that would really fit their needs. (See **Exhibit 3** for an example of the 2017 interface.)

The pivoting to a business model with a full marketplace involved an internal revolution and significant changes in the company's organizational structure. Now, the strategy focused on partnering with more local and "better" stores and restaurants, differentiating between two types of partners: those representing high potential revenues and visibility (but possibly lower margins) and those that were more modest but essential to be able to offer a wider variety of products.

The Creation of the B2B Sales Department

The incorporation of partners in the business model led to the creation of an appropriate sales department. This department became one of the most important in the company. The department started to grow with the incorporation of Groupalia's former sales director. Groupalia was a company with a comparable value proposition as it was an online platform with a great variety of leisure packages at a reasonable price (a Spanish version of Groupon). At this time, Glovo was already operating in Barcelona, Madrid and Valencia, and was starting out in Milan. The sales department assigned two or three employees to attract new partners in each city.

The sales department was now fully dedicated to bringing in new partners. This was a crucial mission in order to keep expanding operations. The department was divided into two teams:

- The key accounts team focused on fast-food chains (which were normally franchised) and other stores and restaurants that would cover many meals and therefore be a significant source of income for Glovo. The fee paid by partners depended on individual negotiations. Glovo saw those partners as strategic, and the team would attract them with a fee that was usually less than that charged to other partners. In each city where it operated, Glovo had specific staff exclusively dedicated to dealing with this type of partner and reaching agreements with them.

In addition to the significant amount of sales that such accounts could generate, Glovo leveraged its brand and visibility with well-known and reputable brands, such as McDonald's in Spain. In this case, Glovo offers the McDelivery service.

- The insight sales team was dedicated to smaller accounts. Glovo's leadership team understood early on that those smaller accounts provided great added value for the app. Of course, the number of deliveries generated per account was considerably smaller than with the key accounts but Glovo negotiated better commission rate—normally 25% to 30% for each order managed through the platform. The commission could be affected by different factors, such as the volume of operations, the average transaction amount, or the type of product. The workforce was located in Barcelona. Through remote contact (such as by phone and email), each member of the team could close agreements with up to 60 new partners per month.