Khalil Tawil and Umi (B)

A startup project that checked all the right boxes

Khalil Tawil
A. J. Wasserstein

Tawil reread the investor email and pressed send. The die was cast. Tawil wondered how his investors would react and whether this was the path to save Umi or just delaying the inevitable.

The Umi Kitchen Story as Shared by Khalil Tawil

A Pivot to Umi V2

On December 15, 2016, some nine months after the official NYC launch, I sent the following email out to our investors:

We write with important news. It’s with heavy hearts that we let you know that we are winding down our NYC operations effective Dec. 22, 2016. This means a complete cessation of NYC operations, both the Upper East Side and Brooklyn. We did not arrive at this decision lightly. It’s personally one of the hardest decisions I’ve ever had to make. However, based on the last 9 months, it’s clear that our current model is not working in NYC. We think this is based on two factors: (1) geography, and (2) current operational model. At the end of this email you’ll find some additional info on our NYC learnings, and our plan moving forward. I want to note that we are beyond proud of the community and the product we have built. And we are grateful for the team (you included!) that made it happen. For context, just last month, 54 NYC Umis cooked 1,000+ meals that were delivered to scores of their neighbors.

Separately, Debbie and Derek have made an even more difficult decision to step away from their roles at Umi. They will become advisors to the company moving forward. I am forever grateful for them, and I am super proud of how we all came to tough decisions in a constructive and amicable manner that ensures the greatest chance of success for Umi moving forward.

More than ever, we believe in the vision of a peer-to-peer marketplace where neighbors can share their home cooking with each other. While we didn’t figure out the model in NYC, we have learned a great deal. To that end, the plan moving forward is as follows [...]
September and early October, our growth had flat-lined despite our most valiant efforts. We had spent
the past few months trying everything possible to breathe life into the model, but by December it had
become painfully obvious that we needed to institute massive changes. We were all disappointed and
exhausted, but we vowed to be candid with each other as we made decisions about our future.

Debbie decided that it was time for her to step away from the business. Co-founding Umi was her first
job out of college and she felt that she needed a more structured environment in which to develop
professionally. Over the last year, she had taken the brunt of the emotional impact of dealing with our
community of home cooks — a non-trivial experience. As much as we loved our community, they could
be super demanding and moody and they required an inordinate amount of attention. I was incredibly
sad to see Debbie go. Other than Jason, she had been with me and Umi the longest. I made a pitch for
her to stay but, ultimately, I respected her decision that this was the best move for her. Even though she
was nine years my junior, she was wise beyond her years and I often turned to her for advice. She had
become one of my closest friends, and I shifted my focus to making sure she was taken care of.

The relationship with Derek was more complicated. I loved him as a person we had become great
friends, but our professional relationship had been fraying for some months. Debbie and I
communicated extremely well about company matters, but Derek and I didn’t have the same open
communication. I had strong views on the technical product and how users should interact with it.
Derek didn’t always share those views and he was sometimes slow to act — probably deliberately — on
some of the things we discussed. During the meeting, we came to a mutual decision that it would be
best for him to step away as well. I don’t solely blame Derek for our relationship. The issue was actually
quite simple. We both wanted to be in charge and one of us would have to go. I think — and Derek
agreed — that he’s probably best suited to be at a venture where he is CEO. He is incredibly talented,
but is wired such that he needs to be calling the shots to get maximum performance.

Breaking up is never fun, and co-founder breakups are no exception. I’ve tried to be brutally honest
about how I could have avoided the outcome with both Debbie and Derek — or any future business
partners. With respect to Debbie, I should have been more attuned to the fact that she was so young
and had a desire for more structured mentorship and development. However, I think we made the right
decision given all of the information that we had. With respect to Derek, I should have been clearer
about defining his roles and responsibilities before jumping headfirst into such an intense relationship
and partnership. Because of the time crunch, I didn’t feel like we had the luxury of testing out the
working relationship as I had done with Debbie. However, longer-term thinking should have prevailed
and the misalignment in expectations, roles, and scope of control with Derek could have been avoided.
It’s a tough lesson that will guide me in the future.

As alluded to in my note to investors, I hadn’t lost faith in the concept of a peer-to-peer home cooking
marketplace. We had adopted a very specific operational model in NYC and we were able to fully test
the various hypotheses we laid out before launch. We learned critical lessons during our NYC operations
(aka “Umi V1”) and we knew that a peer-to-peer home cooking marketplace could take a virtually
infinite amount of operational forms. I was intent on iterating the model and testing another form based
on V1 experience. As a result, we decided to pivot — we changed our business model. Below are some
observations regarding our original assumptions, lessons learned, and considerations for the new Umi
V2 model.
Umi V1 Lessons Learned

One set of learnings revolved around our choice of New York City as the first Umi geography. We launched Umi V1 in NYC due to the high population density, high consumer spending on food out of the home, concentrated presence of families with high disposable income, availability of third-party delivery partners like Postmates and UberRush; and because we felt that if we made it in NYC, we could make it anywhere. After nine months of operations, we learned that competition in NYC is absolutely brutal. There were simply too many other food delivery options. Further, our “community” thesis did not play out. The informal neighborhood networks that exist in NYC were not like those we saw in New Haven; NYC is a place where you can feel completely anonymous despite being surrounded by millions of people. Finally, we confirmed that delivery was absolutely essential in NYC — any successful food concept had to provide it. Yet, this confirmation gave us confidence that offering delivery in less competitive markets could be a novel and differentiating factor. Lesson learned: Go to less competitive markets where it’s easier to differentiate the Umi product offering.

We categorized a second set of learnings as related to our operational model and user experience. Put simply, we were unable to provide a good enough answer to “Why Umi?” versus other NYC delivery options. One framework to help explain why we were unable to answer this question is to think about consumer behavior on a spectrum with “considered purchases” on one end, and “on-demand” purchases on the other end. Considered purchases require consumers to plan ahead whereas on-demand purchases allow consumers to make split second consumption decisions. In the food context, Blue Apron is a good example of a considered purchase because the customer must purchase their meals several days in advance; Blue Apron forces consumers to plan ahead and commit to dinner plans days or weeks in advance. In contrast, Seamless is the perfect example of an “on-demand” service. Consumers get hungry, click a button on their phones, and their food is delivered within 20 minutes. On-demand services cater to the convenience of not having to plan ahead.

In our marketing materials, we championed the fact that our model allowed consumers flexibility to “order up to seven days in advance to plan for the week, or order by 2pm on the day of delivery to accommodate last minute plans.” By giving customers this flexibility, we placed ourselves in a no-man’s-land between Blue Apron and Seamless. We should have staked out one point of view (“on demand” or “considered”) so we could focus on building repeat consumer habits. Our mistake was to try to be everything for everyone.

On a practical level, by allowing consumers to order up to 2pm on the day of delivery, we created an operationally unsustainable model for the NYC cooks. A few cooks consistently sold out,* but we never grew demand enough to give cooks certainty that they would sell enough to cover their costs. Some cooks would buy groceries the night before, others would wait until the 2pm cut-off, and the lumpy demand resulted in no possible standardization around how and when cooks sourced inventory to produce their meals. In an attempt to keep cooks on the platform and maintain liquidity, we increased supply side subsidies, which was not sustainable. Lesson learned: Choose whether the model will build consumer habits as a considered purchase or an on-demand purchase. In our case, positioning ourselves as a considered purchase would also make more sense given the operational burden on cooks.

* Cooks sold out for a variety of reasons: better marketing and branding, better food, physical proximity to more affluent clients, and more favorable pricing. Yet, it was difficult to determine what secret sauce propelled the successful cooks. I attribute most of their success to their ability to build a brand and cooking style that was distinct and that people wanted.
A third set of learnings dealt with the operational burden of Umi V1. We deliberately took on a high degree of control in V1 to create the most frictionless experience possible for both the supply and demand side. We found cooks, trained them, sourced their packaging, took pictures of their cooking, gave them feedback on proposed menus, carried the majority of the customer acquisition burden, provided subsidies to cooks, and arranged for the delivery of their meals. We were excited to “try things that don’t scale,” but ultimately, this approach did not result in the demand uptick commensurate with our outsize effort.* We would have to radically alter our approach to any future model. Lesson learned: Umi, the platform, needs to retain less control and shift more of the operational burden onto the supply side.

Finally, our last set of learnings revolved around delivery. We knew that we didn’t want to own delivery during NYC operations and we elected to subsidize delivery in the short term with the thesis that longer term, delivery costs would be driven down. We settled on Postmates and struck a sweetheart deal that allowed us to eventually cover large swaths of NYC with our service. The level of service with Postmates did not inspire confidence, however. At the outset, we knew that by outsourcing delivery, we would lose control of a crucial portion of the customer experience, but we hoped that our delivery partners would provide a level of service that would reinforce our brand. In the end, this assumption proved to be faulty. There were simply too many levels of control between Umi and the consumer. Interestingly, I came to this conclusion at the end of November, and Postmates shut down their on-demand delivery-as-a-service product offerings in January 2017. Clearly, we were not the only partner experiencing service issues. We still felt that delivery was crucial, especially in areas where food delivery beyond pizza and Chinese food was a more novel concept. Any future model would have to shift delivery fulfillment directly onto the cooks. Lesson learned: Given current quality of service, third-party delivery is not viable.

Umi V2 Model

Before the decision to shut NYC down, we were a team of six. We were now a team of three — one engineer and two generalists, as I had let our iOS engineer go since the new version of Umi would not have native iOS functionality. After a week of processing the decision and brainstorming, we analyzed our lessons learned and landed on a new vision for Umi V2. The new version would provide a platform consisting of self-service tools that allow home cooks to launch and run their own home cooking delivery services in any community across the United States. The key change in the model was that V2 was more disintermediated and cook centric than Umi V1. Home cooks would be the primary parties responsible for customer acquisition and the operational heavy lifting — including delivery. In V2, because we were doing far less work for the supply side, we lowered our take-rate from 20% to 10% of GMV.

In V2, we were manipulating two levers in hopes of finally finding product-market fit: geography and the operational model. Rather than launch Umi V2 in a dense urban city with overwhelming competition (like NYC), we resolved to launch in more suburban markets with less competition and where the community aspect of Umi would carry more weight. This shift in geographic focus was also accompanied by a shift in how we thought about the role of Umi versus the home cook from a brand perspective. In the V2 distributed model, we would put the cooks forward as the main brand, while allowing Umi to

play a supporting role. In V2, when a family ordered from a local home cook in their community, they would be ordering from “person X’s Kitchen,” which was powered by Umi. Additionally, in suburbs, we felt that families were more likely to have more consistent schedules that would better accommodate building habitual routines. Finally, shifting delivery onto the cooks in the suburbs was eminently more feasible as virtually everyone in the suburbs has a vehicle they can use to deliver meals to their communities.

The operational model changed significantly as well. We rebuilt the software to provide four core functions for home cooks: communication tools (email and SMS based), online ordering and payment processing, order management, and delivery management. Home cooks in V2 created their own pages with a unique URL, and they defined their delivery zone, what days they would cook, and the price they would charge for each meal. They were also responsible for finding customers in their own communities. One of our key tasks for V2 was to build a repeatable customer acquisition playbook that we could provide to new cooks joining the platform. In fact, V2 was far closer than V1 for my original vision for Umi. We invested so much effort in V1 in training and marketing individual cooks because we felt that was required to build trust and a solid brand for a company like Umi. I often wonder what would have happened had we started with V2 from the very beginning when our war chest was full and we were buoyed by indefatigable optimism and energy.

We recognized that the number of folks across the country who were currently running home-cooked meal preparation services was likely very small, and that it would be a difficult task to find aspiring entrepreneurs who wanted to launch their own home cooking delivery services. Yet, we believed that by standardizing and productizing a set of self-service tools, we could reduce barriers to entry for would-be cooks — and thus empower tens of thousands of cooks who would change the way communities feed each other across the country. Crucially, we stumbled across an example of one such entrepreneur — a woman named Nicky living in Ridgewood, New Jersey — who gave us confidence that it was possible to build and run a local home cooking service. Her example greatly influenced our thinking. Over the previous two years, using only email and SMS, Nicky had built a small business cooking and delivering meals to her community twice a week. She consistently sold 100 meals a night and was generating around $115,000 in revenue a year. Our goal was to create thousands of folks like her across the country. In a note to investors, I laid out what I felt had to be true — along with my confidence level regarding each factor — in order for this distributed model to work:

1. We could find home cooks who are interested running their own home cooking delivery businesses (very high confidence);
2. Home cooks would commit to bearing the lion’s share of the operational burden — to include sourcing packaging and delivering meals (medium confidence);
3. We could shape operations such that local home cooks prepare products that people will actually buy (medium confidence); and
4. Home cooks must be able to do their own customer acquisition (uncertain).

By February 21, 2017, we had completely rebuilt our software (no small feat to pull off in a short period of six weeks) and had on-boarded 15 new cooks for Umi V2. They were cooking in cities across the country, in locations as diverse as Marietta, Georgia, to Nashville, Tennessee, Columbus, Ohio, and Pittsburgh, Pennsylvania. At this point, we had six months of runway left. In my February 2017 update to investors, I pledged that we would run as hard as possible at Umi V2 until April 2017 and, based on our results, make a decision about whether to shut the business down or pursue a further fundraise.
Failing Gracefully

By the first week in April 2017, we had been operating long enough to get a good sense for the viability of Umi V2. While we had a couple of really bright spots, the overall results indicated that the model was not viable. I circled my small team up and informed them that I had made the decision to shut down Umi for good. After two years of operating and iterating, I had lost conviction in the viability of the model to be a massive venture-backed business. When I started Umi, I felt we could change how the world produced and consumed food. Facing the hard reality that we failed to do so was a painful and intimidating process. In all, 21 investors had placed their confidence in us and forked over their hard-earned money with the hope of seeing an outsize return. They bet on us, and we had failed. Yet, they were all seasoned investors who understood the nature of early-stage investing. My focus shifted to ensuring that my team was taken care of, our Umi community was taken care of, and that we failed gracefully. I spent 24 hours drafting and redrafting notes to our investors and our broader community. I agonized over how to communicate the decision, but ultimately tried to be as straightforward, candid, and concise as possible. Below is a note I sent to our investors on April 17, 2017. While lengthy, I include the text in full because I think it bests captures what I felt it meant to fail with grace:

Team Umi:

In my last update, I told you that I’d circle back around April 15th with next steps for Umi based on the results of our v2 Beta. I am writing now to inform you that I’ve decided to shut Umi down and return remaining capital to investors. This was not the intended outcome and I regret that we were unable to realize the vision that you all invested in. Nonetheless, I am beyond proud of what our team has built over the last two years. We started with a simple concept inspired by my mother — to empower talented home cooks to share their signature dishes and the joy of home cooking with their communities. I am deeply appreciative of your support for that vision. Although we created real value for many users, our experience suggests that we cannot scale these small but meaningful wins. In short, the Kitchens’ sales — in both v1 and v2 — do not indicate an opportunity large enough to continue with this model.

(1) Why We Made the Decision

In my January 31 update, I wrote that I thought the following had to be true for the model to work:

1. We can find home cooks who are interested in running their own home cooking delivery businesses (very high confidence);
2. Home cooks commit to bearing lion’s share of the operational burden — to include sourcing packaging and delivering meals (medium confidence);
3. We can shape operations such that local home cooks prepare products that people will actually buy (medium confidence). (Note** another way of saying this is that consumer demand exists for this type of product); and
4. Home cooks must be able to do their own customer acquisition (uncertain).

In the three months of operating the Beta, we proved that we could indeed (1) find interested home cooks, and (2) get them to commit to bearing the lion’s share of the operational burden. However, we did not find (3) a significant enough pain point to
solve for consumers, and (4) that cooks could successfully acquire their own customers (even with very explicit guidance). I’m happy to expand on (3) and (4) if you’re interested to hear more.

(2) Next Steps

We want to do right by our existing community of Kitchens and their customers. We have Kitchens with meals listed through the first two weeks of May and we want to give them the opportunity to serve those meals. We also want to give them enough time to figure out how to continue operating their businesses without the benefit of Umi. We will inform them of the news tomorrow and will have their last day of service be on May 12th. As of today, we have $225k left of the $1.3625mm that we raised. I will speak with our legal counsel and accountants this week and will follow up soon with next steps based on those conversations. We have to settle existing liabilities and ensure that we close shop in the right way, but I am now focused on gracefully winding down our operations and returning as much of your capital as possible.

(3) Thank You

Finally, and most importantly, thank you for your incredible support, enthusiasm and counsel. I have grown as much during the last two years as any other period of my life. I’ve made my fair share of mistakes, but I’m confident that I’ve learned from them and will be that much better the next time around. You took a bet on me, and for that I will be forever grateful. If you’re up for offering it, I’d appreciate any candid feedback — especially critical feedback — that will help me grow (I’ll call you if easiest). I hope to keep in touch with all of you moving forward.

Yours,
Khalil

Epilogue

It has been six months since I shut Umi down. I have had ample time to reflect, but I am just beginning to truly metabolize the experience (sharing the story in this essay has accelerated this process). Creating Umi was one of the most difficult experiences of my life. My personal relationships suffered and I compromised my fitness and my health in pursuit of an almost impossible task. And while I would change certain personal and professional aspects of how I handled the journey, I would make the decision to pursue Umi ten out of ten times again. It was absolutely the right decision and, truthfully, I didn’t feel like I had a choice. The fire in my gut told me that I had to do it and I am forever grateful for the opportunity to build something from nothing. In my short life, I’ve experienced many points on the wide spectrum of human emotions, but there is no feeling like bringing to life a product for which you have an irrational passion. We never achieved escape velocity, but I still have Umi cooks reach out to me with stories of how we changed their lives. Several of the cooks still run their own home-cooking delivery services and one is even opening a full-service restaurant based on the demand she generated. Startups are hard. Really hard. But, they are also opportunities for non-linear personal growth. Umi was my first venture, but it won’t be my last.
### Exhibit 1: Umi Financial Statements

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<th>Mar 2017</th>
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This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

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### Endnotes

1. Case writer. Yale Law School 2019
2. Eugene F. Williams, Jr. Lecturer in the Practice of Management