

Small eateries log on to food delivery apps, discover new customer base

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Indore's cult food joint Johny Hot Dog that sells vegetable, mutton and egg cutlets stuffed in soft hot buns is planning to open a second outlet.

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But Singh's business has grown over the past year-and-a-half, and it's thanks to UberEats, on whose platform he registered in 2017, that he is gaining the confidence to expand. For Singh's is an outlet that has never had delivery staff and offers no seating. For its business, it relies entirely on a daily queue of hungry customers drawn to Singh's stuffed buns, priced attractively at Rs 25, Rs 30 and Rs 100.

Singh says food aggregators have been a "boon" to his business—daily sales are up at Rs 1 lakh from Rs 25,000-30,000 earlier.

Just like Johny Hot Dog in Indore, thousands of small eateries line markets and streets up and down the country, relying on local customers to keep their business going. But as India's organized food delivery ecosystem, backed by investors, proliferates to touch Rs 12,140 crore, such tiny joints—kulfi makers, paan sellers and dhabas—are benefiting from their reach and scale.

While in Indore Singh's business is booming, in Old Delhi, a few iconic joints have found a new customer base online for the first time. Anil Sharma, owner at the over-a-century-old Kuremal Kulfi that sells the dessert stuffed in fruits has recently listed with food ordering apps. Though business online is still small, Sharma says he is discovering demand in places he didn't know existed.

Jung Bahadur Kachori Wala, a nearly half-a-century-old shop in Delhi's Chandni Chowk, is listed on Zomato, UberEats and Swiggy, and registers 100 deliveries a day, says its owner Nitin Verma. In exchange for the 18-22% commission on each order, the apps help Verma deal with order cancellations, lag in payments, etc.

"Aggregators have enabled democratization of consumption from such small restaurants," says Ajay Kaul, senior director at private equity investment firm Everstone Capital and former head of pizza chain Domino's (Jubilant FoodWorks Ltd) in India. Kaul added that with more and more people choosing to eat out, both dine-ins and takeaways are being converted into deliveries.

For online food delivery companies, outlets such as Singh's are indispensable.

That's because despite the popularity of food chains such as McDonald's, Domino's and Cafe Coffee Day, local stand-alone food joints still trump large chains of restaurants due to their familiar cuisines and affordable pricing. Moreover, large chains are still scaling their presence in India's smaller cities from where online food aggregators are drawing their share of new restaurants on their platforms and adding business.

Gurugram-based Zomato adds over 400 restaurants on its platforms daily, and “a bigger share of this comes from small eateries followed by big chains, irrespective of the size of the city”, says Rakesh Ranjan, vice president-food delivery at Zomato.

While the top 15 cities have a sizeable contribution from organized players, emerging cities, says Ranjan, still host most of the small eateries. For Zomato, nearly 80% of the restaurants in emerging cities are very small in terms of operations—some no more than 150-200 sq. ft. “Food delivery has helped them increase revenue by two-three times within a year,” says Ranjan.

For Zomato, small eateries and dhabas in emerging cities contribute up to 80% of orders.

India’s food services market is estimated at ₹4.24 trillion. Of this 65% comprises unorganized, unregulated and unlicensed joints, according to the National Restaurant Association of India.

For Bengaluru-based Swiggy, backed by Naspers and Tencent Holdings among others, and operating its services in 245 cities of India with more than 110,000 restaurants on its platform, smaller establishments and stand-alone restaurants drive 35% of the food service aggregator’s business. That is increasingly the case as the company moves into tier III and IV cities.

“As we continue to widen the choice of restaurants on the platform, a large number of them consist of smaller establishments and stand-alone restaurants that are FSSAI-registered,” said a Swiggy spokesperson.

Since its launch in India in 2017, UberEats has seen a significant increase in the number of local restaurants and eateries across metros as well as non-metros, says Bhavik Rathod, head of Uber Eats for India and South Asia. He adds that a majority of the company’s orders come from popular local restaurants rather than quick-service restaurants or chains. This is especially true for cities such as Indore, Bhopal, Vizag and Kochi.

But initial glitches around payments, commissions and discounts continue to dampen the experience for those who have boarded the platform.

In Delhi's Connaught Place area, Pandey's Paan is listed across multiple food aggregators such as Swiggy, and Zomato, says Hariom Pandey, who runs the outlet. While Pandey is happy with the overall experience, he says that sometimes "the area managers run discounts without any knowledge or permission. We have to wait for a long time to get any reply to our mails. Basically, it ends up being a long process".

Disappointed by a delay in payments and fewer orders, Rai Sharma, owner of Pt Babu Ram Devi Dayal Parathe Wale has been forced to delist from these apps. "We began facing problems regarding payments a few months ago," he says. He prefers to work with deliveries for which he is paid on the spot. "We only allow deliveries when they pay up front. After which, we don't care if they sell it for ₹200 or ₹500. We don't want to work on credit any more."

Even though small restaurants form the backbone of the business for aggregators, unlike the large established chains they grapple with regulatory, logistical and hygiene issues. Last year, Food Safety and Standards Authority of India (FSSAI), India's food regulator, forced online delivery firms to delist restaurants that were not complying with its food safety rules after it received consumer complaints over quality and hygiene.

As a result, thousands of restaurants were removed. Zomato says overall awareness among small eateries about FSSAI certification is low. The company provides DIY kits and works with FSSAI to get such eateries compliant.

Swiggy does not on-board any outlet without an FSSAI licence, the spokesperson said. The company has also tied up with third-party vendors to facilitate the licence procurement process for new restaurants.

Small eateries still don't fully get the power of this business, says Ankur Pahwa, partner and national leader for e-commerce and consumer internet at EY India. "The teething troubles they have initially tend to overwhelm them and they fall out easily. It is just a matter of trust and sophistication coming around the model—such as tech integration around ordering to billing to reconciliations, along with prompt payments and transparent returns policies that will help them eventually," he says.

Everstone's Kaul adds that while the discounts and cashbacks bring in artificiality and ad-hocism to the delivery business, once these stabilize, the real equilibrium will set in with definite changes in habits.