

Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

—
Sub-Report on
Online food
delivery



This booklet is an excerpt from the Online Food Delivery section of the report 'Democratising Digital Commerce in India' and is based on joint research conducted by ONDC and McKinsey & Company. The complete report covers 11 sectors. To access the full report, please use the QR code provided below.



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Online food delivery

The online food delivery (OFD) sector in India is on the verge of tremendous growth. The total market could grow sixfold to \$30 billion by 2030. ONDC could catalyse this growth by greatly expanding OFD reach beyond the largest cities, bringing on board a larger network of kitchens as well as logistics and delivery providers to cater to dining tables in India's smaller cities. This push could ramp up order volumes and choices for customers across India, transforming the OFD business.



The landscape

Ordering online for doorstep food delivery has become a way of life in India's biggest cities. Hungry diners are scrolling through their phones in a quest for variety and convenience at mealtimes. This has led to rapid growth for the OFD industry, which earned revenues of more than \$5 billion in FY22. With growing digital literacy, increasing numbers of dual-income families, rising disposable incomes, and higher order frequencies across mealtimes, OFD could grow sixfold by 2030, achieving revenues of up to \$30 billion (Exhibit 1)¹.

But this is not a widespread story. Only 7 percent of internet users in India use OFD, a significantly lower percentage than in China (around 50 percent) and the United States (around 35 percent).² Orders are also heavily concentrated in a single meal (dinner) and from traditional formats such as chain and stand-alone restaurants, which together account for more than 95 percent of GMV. Demand could look very different if OFD penetrated more people in more geographies, at other meal or snack times, with more nontraditional formats.

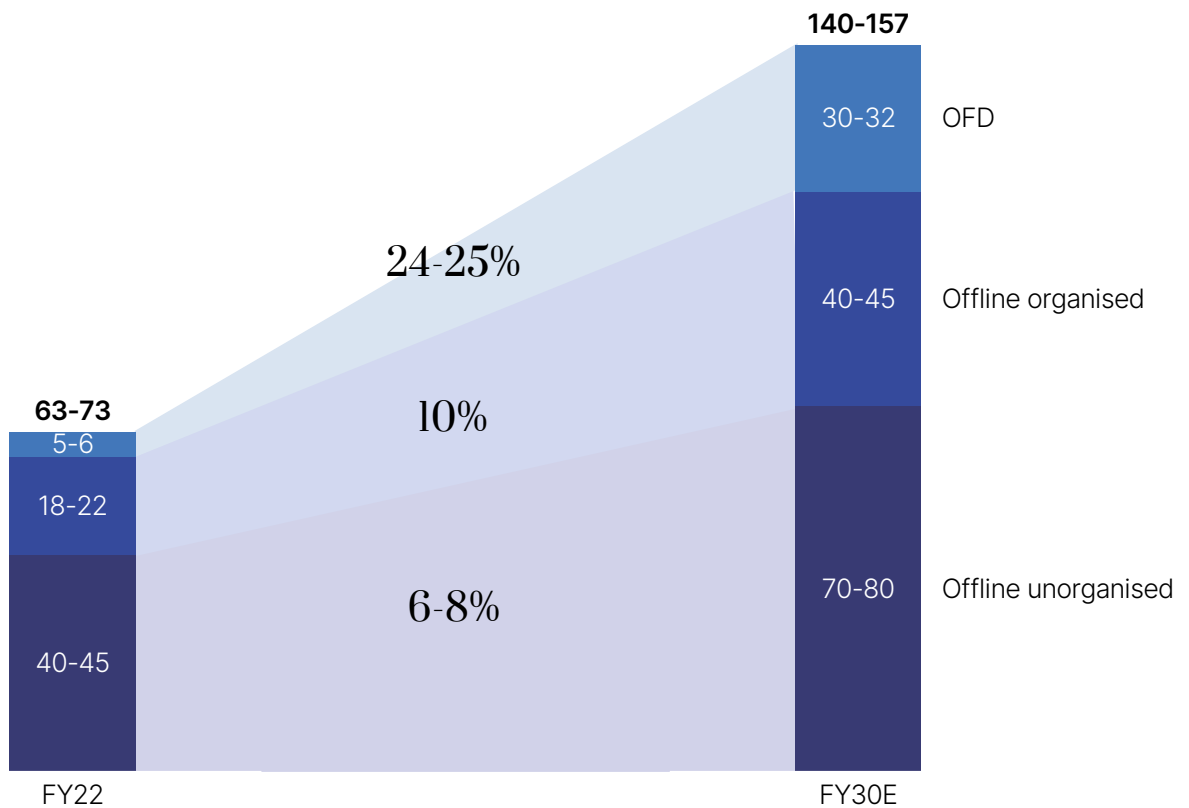
¹ Online Food Delivery Market in India 2022 – 2027, Netscribes, October 2022.

² "A global concept with local flavour: Online food delivery in the world's most populous nations"; Macquarie Perspectives, <https://www.macquarie.com/au/en/perspectives/a-global-concept-with-local-flavour-online-food-delivery-in-the-worlds-most-populous-nations.html>, accessed April 2023.

Exhibit 1

India's online food delivery industry is expected to grow sixfold by FY30.

\$ billion



Source: Prosus Annual Report 2022; Zomato Annual Report 2022; Zomato Q4FY22 Shareholder's Letter and Results; NRAI India Food Services Report; Netscribes report 2022

Barriers to digital commerce and potential solutions from ONDC.



Barriers to digital commerce

- Small restaurants with low margins find themselves **unable to digitalise profitably**. They often don't meet the criteria for listing and also often struggle with discoverability.
- Restaurants **lack the ability to access or strategically use customer data** that might help them refine future marketing strategies.

- Aggregators **stretched by peak volumes** in the top four cities.
- The cost of maintaining a delivery fleet in smaller cities is high due to a **low concentration of demand**.

- **Online list prices can be 30-50% more** than dine-in prices.
- In Tier-3+ cities, there is a **lack of variety** of restaurants.

Potential use-cases

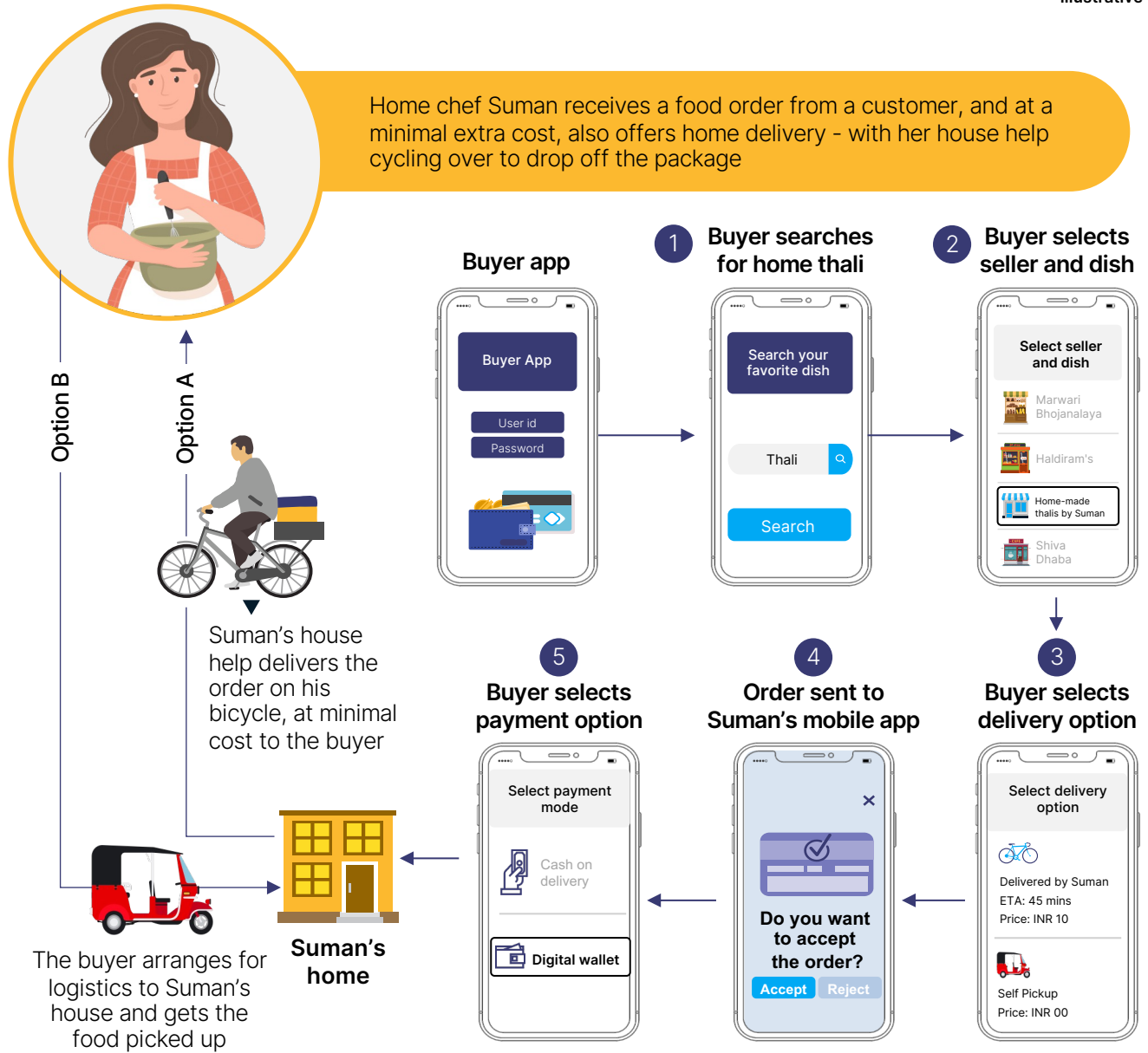
- Potential **savings could be unlocked** due to a reduction in performance marketing costs (by monetising existing user bases) and operational costs (by using existing manpower and tech resources) for buyer apps.
- Restaurants in the organised and unorganised sectors could **go online** (with the help of point-of-sale providers) to build or expand their business.
- With an open network, each restaurant could **gain access to granular customer data**, empowering it to regulate and refine its marketing spend and product offerings on buyer apps.
- **Digitalised transaction history** and scoring models could enable **credit access** for eateries in the unorganised sector.

- The growth of **hyperlocal logistics marketplaces coupled with aggregation of demand across multiple use cases** (e.g., grocery, electronics delivery) could address the challenges of peak capacity requirements in large cities and low demand concentration in smaller towns for online food delivery aggregators.
- Logistics marketplaces could provide **new opportunities for local delivery partners**, creating employment and supporting economic growth in both urban and rural areas.

- Lower performance marketing and operational costs for the buyer app could reduce commissions, with consequently lower list prices.
- Availability of a wide variety of sellers, including **home chefs**, could create a multitude of choices (Exhibit 2).

New possibilities: ONDC can unleash the power of the informal economy by accelerating the digitalisation of small sellers, (e.g., home chefs) and enabling low-cost marketing (e.g., via WhatsApp) and delivery models.

Illustrative



Four considerations to shape digital commerce in the **online food delivery** sector

01

Ensure that customer experience is at par with current platforms

Restaurants will gain the benefits of ONDC only when a large number of customers switch to buyer apps on the network. To attract customers, developers could improve their apps by offering user-friendly interfaces, a smooth customer experience comparable to platform apps (the existing alternative), and even specific customer-experience features such as correctly tagging restaurant and meal-related information and displaying dynamic delivery times.

02

Scale up logistics capabilities to meet demand

Logistics players need to meet the anticipated growth in demand with adequate scale and capacity. Third-party logistics providers such as Pidge could optimise the three-sided marketplace (restaurants, delivery personnel, and customers) within time-constrained delivery guidelines, matching orders based on food readiness, timing, and the availability of delivery personnel.

03

Democratise visibility for all business archetypes

Buyer apps could optimise their search algorithms to display P2P and non-chain restaurants based on customer needs (for example, meal preferences and fulfilment ratings) rather than overall ratings and advertising spend. This would provide a fair experience for newer business archetypes such as home chefs who compete with the more established restaurants.

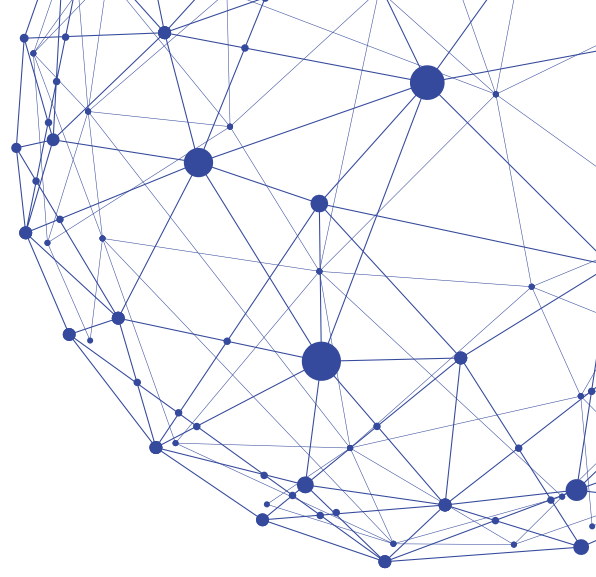
04

Support digitalisation of small restaurants and home chefs

Seller apps could support small eateries and home chefs through easy-to-use interfaces that assist with onboarding, inventory management, and pricing. Seller apps could also provide verification and assistance to home chefs (and small eateries) to acquire the credentials and certifications necessary to transact online.

Attention to these enablers could help the online food delivery landscape emerge as a vibrant ecosystem that benefits all stakeholders.





Getting on board with ONDC

ONDC holds the potential to create open, inclusive, and competitive marketplaces in the virtual world. It will be important for companies to carefully evaluate the options available to them as they consider entering this space. This could help them to identify plays that maximise benefits from the immense opportunities unlocked by the open network. As company leaders look to make the most of the opportunities ONDC offers, they could explore the possibilities across two themes.

First, they could determine which use cases have potential to scale fast and which would take longer to yield results. And second, they could evaluate where they are best positioned to play—through the lens of the market opportunity, their own capabilities, and the consequent feasibility of investing in specific use cases. This could support them in making the most relevant investments to achieve their company's strategic objectives.

Assessing scalability

As a market maker keen to create and democratise opportunities for all participants, ONDC could catalyse a range of business opportunities in the short, medium and long term (Exhibit 3).

This answer emerged after analysing three indicators of potential to scale:

- Short term: Digitisation of existing hyperlocal goods and services
- Medium term: Scaling up and innovating in D2C businesses
- Long term: Digitising new use cases for ONDC-first business models, especially in B2B

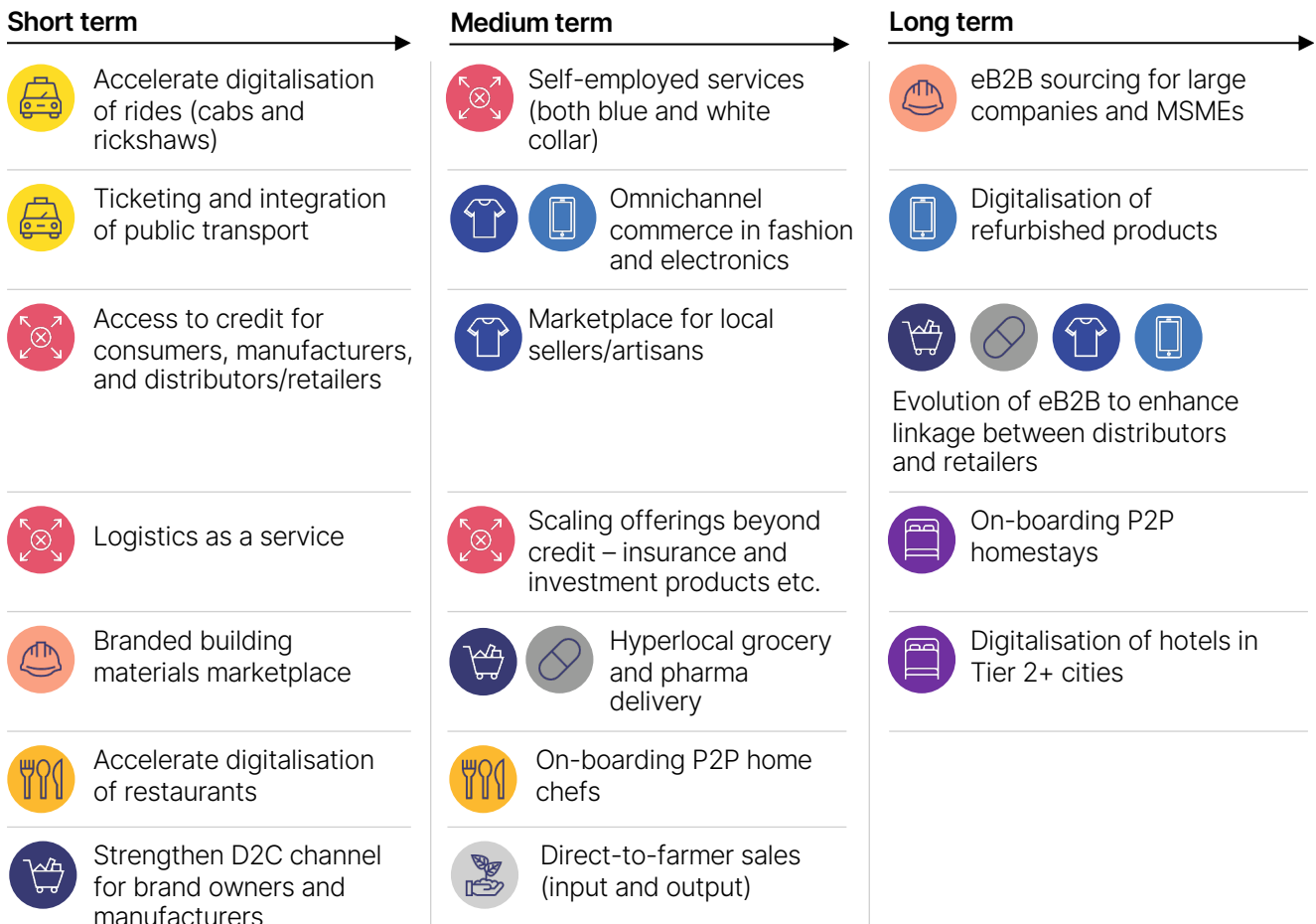
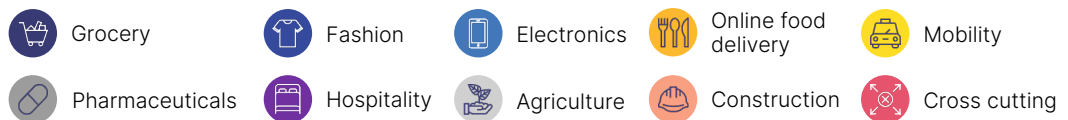
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

1. The use case should solve an unsolved problem.
2. It should have a ready ecosystem (for example, digitalised supply chain, standardised goods and services, or ease of logistics and fulfilment).
3. It should be economically viable.

Exhibit 3

Use cases in the short term could prove the most beneficial for driving early adoption and scale.

Not exhaustive



Identifying the best-fit use case for a company

Companies looking to develop innovative business models that tap the open network can examine the opportunity against two considerations: how to participate immediately in a fast-developing space, and how to reimagine their business for an open network and its possibilities.

Businesses need to zero in on the most relevant use cases that map to their chosen stance as a shaper or a fast follower. They can accordingly identify a pool of investable resources to help them pursue the opportunity.

If the collective investments of companies across industries can support the expansion of ONDC, they could unlock the full potential of digital commerce for buyers, sellers, third-party providers, and India as a whole. Companies and entrepreneurs must carefully consider several strategic questions:

- **Evaluate the opportunity.** How will an open network disrupt the sector? What is the problem that it will solve, and for whom? Which are the most relevant use cases for the business? What are the

potential benefits of addressing this problem? What are the potential risks and challenges in implementing these use cases?

- **Identify the capability required.**

Which role (e.g., seller, buyer, tech service provider, etc.) is the company best positioned to play? What are the key capabilities needed to execute the use case? What are the resource requirements (for instance, people, time, or money) in building out these use cases? How should governance be managed, including engagement with the ONDC core team and network participants?

- **Evaluate feasibility of the use cases.**

When should a company decide to implement or pilot a use case? Should the organisation be a leader or a fast follower? What are the feasibility considerations for executing the use case (for example, market, financial, or legal)? What should be the pilot structure for prioritised use cases including the initial investment and scale-up milestones?

ONDC presents a unique avenue for India to revolutionise its digital commerce landscape and set an example for the world, much as it did with UPI. With vast potential for a robust buyer and seller ecosystem, ONDC represents an opportunity that arises once in a decade. Stakeholders—government, industry players, and consumers—can determine how to seize this ‘tech-ade,’ putting their best, most innovative selves forward to democratise digital commerce for all.

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