MARKET REPORT

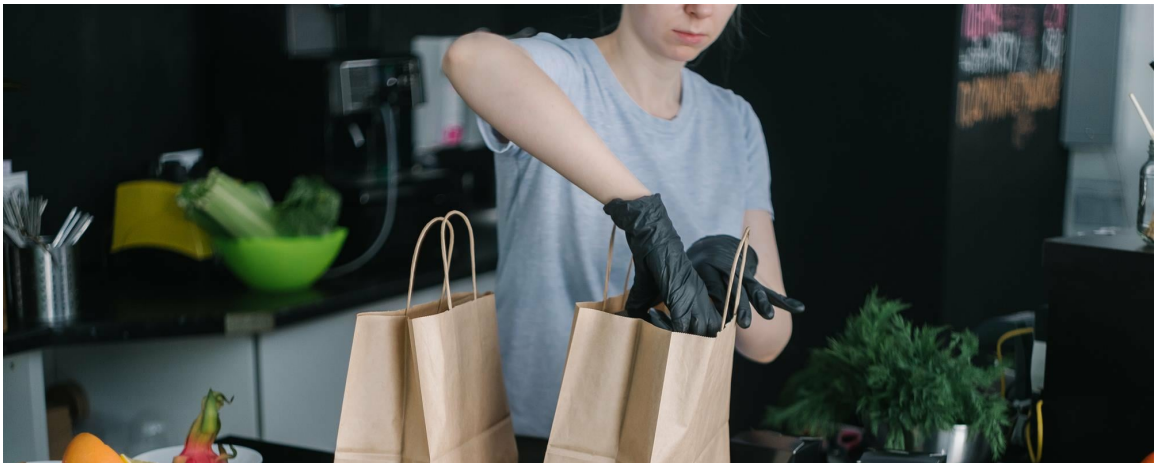
HVS Monday Musings: Is ONDC the Turning Point for India's Food Delivery Market?

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The entry of ONDC (Open Network for Digital Commerce), which is a government initiative, is challenging the current duopoly in the food delivery market in India, providing more choices both to sellers and buyers. This can bring better price parity and disrupt the existing status quo. Read on to know more.

India has a booming Online Food Delivery market as ordering food online has become commonplace, thanks to the country's favorable demographics, rising income levels, double-income families, and an increasing number of citizens with smartphones and internet access. Food can be delivered anywhere, whether you want to explore new cuisines in the comfort of your own home, order lunch at the office or simply unwind with a healthy meal at home after a long day at work. The online food delivery market in the country has grown threefold since 2018 to more than US$ 5 bn in 2022 and is expected to reach about US$ 30 bn by 2028, growing at a CAGR of 33% during the period.

Several online food delivery platforms have emerged in the country over the past few years to take advantage of this growing opportunity, but the market is undoubtedly dominated by Zomato and Swiggy, which together control over 90% of the market share, as per media reports. However, the entry of the non-profit e-commerce organization ONDC (Open Network for Digital Commerce), which is a government initiative, is expected to alter its dynamics going forward. The ONDC is a platform that users can access through partners like Craftsvilla, Paytm, Meesho, Magicpin, etc. These partners act as online stores that let users order food or any other product from a seller listed on the ONDC platform.





Can the ONDC disrupt the Indian online food delivery market?

Only time will tell if the ONDC will actually disrupt the online food delivery market in India or not, but it definitely has the potential to do so. First off, it offers a more affordable alternative for restaurant owners and operators who have time and again been vocal about their dissatisfaction with other platforms due to their high commission rates ranging anywhere between 18-25%. On the other hand, according to reports, ONDC currently charges a much lower, heavily subsidized commission of 2-5%. Even if the commission rate is increased in the future, it is expected to remain much lower than the rates charged by other platforms. A lower commission rate will also enable smaller eateries, cloud kitchens, and even home chefs to go online and gain more visibility at a significantly lower cost, providing a level playing field for all types of sellers. Additionally, as ONDC is an open network that directly connects buyers and sellers online, restaurants now will have access to consumer data that they did not previously have, and they can use this information to tailor their menu items and marketing campaigns. The network is also expected to help grow the online food delivery market's reach to the smaller cities in the country, as nearly one-third of the market share currently resides in only the top seven to ten cities.

From the consumers' perspective, they now have access to a wider selection of products and services at the best prices, which is helping ONDC gradually gain popularity. Although there are undoubtedly some early difficulties, such as the fact that the restaurant must currently handle delivery logistics on its own or through third parties and that the platform does not give the customer an estimated time of delivery, these are anticipated to be resolved as the platform matures and more service providers join it.

In conclusion, ONDC has the potential to significantly alter the online food delivery landscape in a price-sensitive market like India, by fostering equal competition, safeguarding the interests of consumers, and developing a more level-playing field. In fact, as ONDC elevates in scale, it could provide travelers with a fully integrated hospitality marketplace, that includes all services like travel, transportation, lodging, food delivery, dining reservations, and even the ability to purchase tickets for nearby attractions right at their fingertips. While ultimately market dynamics in a free economy will determine the price and it may not be viable for the platform to work on such slender commissions, nor will it be easy for small independent restaurants to manage the delivery logistics by themselves, the launch of ONDC does challenge the current duopoly in food deliveries and certainly will bring greater choice both to sellers and buyers and has the potential to bring better price parity and disrupt the existing status quo.