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Experts: ONDC unlikely to hit Swiggy-Zomato duopoly, for now

Swiggy and Zomato reportedly charge higher commission of around 20-25 per cent

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The chatter is that the government-backed Open Network for Digital Commerce's (ONDC) cheap offers will "disrupt" Swiggy and Zomato duopoly in food delivery, but market analysts do not see an immediate threat to the private companies.

They say the network—a non-profit alternative for online shopping—will need a higher commission model as its discounts are not sustainable. Disruption will need building scale and meeting service expectations Swiggy and Zomato have established in more than a decade in the business.

ONDC does not have its own app, so customers have to order food through either Paytm or magicpin platforms. Third-party logistics providers like Dunzo and Shiprocket deliver the orders.

ONDC's purpose is to provide an efficient alternative to the app-centric e-commerce models. ONDC consumers directly connect with sellers and transact on any buyer app on the network, enabling small businesses to compete with larger incumbents.

A good example of this is magicpin, a Gurugram-based discounts and delivery platform, which is flourishing on ONDC due to its first mover advantage. Since joining the network in March 2023, it has grown 100-fold month-on-month and gets more than 300,000 food orders monthly. "We plan to take 5,000 more restaurants live on the open network in three months," Anshoo Sharma, chief executive officer and co-founder at magicpin, told *Business Standard*.

magicpin is fighting Swiggy and Zomato by offering cheaper food delivery but its order volume is less than its rivals. It has also not passed on its commissions for ONDC onto its restaurant partners yet.

Indian food delivery is a duopoly: Zomato had 56 per cent market share and Swiggy 44 per cent in the fourth quarter of FY 2023, according to analysts at HSBC.

In a recent report, analysts at JM Financial said that they "strongly disagree" with assertions that ONDC will disrupt the food delivery market.

"ONDC in its current shape and form is nowhere close to shaking up the online food-tech industry," they said in a note, arguing that discounts and low commissions are not sustainable "due to (ONDC's) limited appetite to incur losses".

Swiggy and Zomato reportedly charge commissions of around 20-25 per cent. ONDC's commissions, on the other hand, are much lower at around 3-5 per cent.

Gaurav VK Singhvi, co-founder of early-stage investment platform We Founder Circle, said that every major entrant in food delivery has acquired its first customers by offering discounts.

"ONDC is also doing this. When you have to create an alternative, as a newcomer, to highly funded start-ups, you can't build a customer base without such strategies," he says. ONDC's discounts are not a long-term strategy but a temporary measure to increase traffic, Shireesh Joshi, chief business officer of the network, told *Business Standard* earlier.

ONDC's challenge is funding delivery costs. The network allows sellers to either collect delivery costs from customers or subsidise it. If restaurants offer free delivery, their own earnings would suffer. If they charge customers for delivery, the cost is likely to be higher compared to that of the foodtech firms.

Analysts at brokerage firm Jefferies, in an earlier note, said that if ONDC withdraws its discounts and commission schemes post-May, "either the platforms or the customers will have to pay for deliveries". Once this incentive period ends, the network's order volumes are expected to take a hit.

Managing returns or cancellations, building a complaint redressal mechanism and alternate payment methods, and matching the service standards of Swiggy and Zomato will be a challenge.