

# A Review Study on Foodtech Industry and Its Impact on Restaurant Business

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## **Abstract:**

The entertainment, food, travel and hospitality industry has seen several disruptive changes over the few years. Foodtech industry has seen a rapid yet constant growth over the past few years as a result of technology advancement and fast lifestyles of the modern consumer. Earlier, the concept of ‘eating out’ was confined to the upper middle class and the upper-class categories of consumers belonging to the metro cities. Eating from out was a phenomenon associated with holidays, Sundays and special occasions. However, the scenario soon changed, with customers preferring to eat food from ‘outside’ regularly, more so out of convenience and awareness. With India being a relatively young country, the youth of today are highly aware of multifarious cuisines and types of food due to the social media boom and easy access to speciality restaurants serving such food. Furthermore, technology has led to springing up of foodtech apps like Swiggy and Zomato which enable ordering food from within the confines of the home or office without having to move out. Several literatures highlight the determinants of consumer adoption of online platforms for food ordering such as ease of use, convenience, door to door deliver, discounts and offers and variety of restaurants. Moreover, these applications have made the consumer experience more effective by providing a highly responsive customer relationship management services and real time handling of customer requirements. The current study focusses on consolidating several literatures on the status of online food services in India and their effects on restaurant business. The study also has provided suggestions to restaurants to optimise their business using these apps.

**Keywords:** Foodtech, Swiggy, Zomato, Restaurants

## **1. Evolution and Concept of online food ordering apps**

In the late 1800s, the ‘dabbawalas’ were credited with food delivery services to the customers, where they effectively delivered home cooked food. This service was extremely well received in metropolitan cities like Mumbai. A NSSO sample survey suggests that an Indian employee works on an average for 53 to 54 hours a week. Hence, with the consumer seeking options to eat out more often, the varied cuisines a restaurant had to offer, the restaurants started offering ‘home delivery’ services to nearby areas. Online food delivery has its roots in the advent of the E-Commerce industry. K.Vaitheeswaran founded India’s first E-Commerce app, Fabmart.com in 1999. Soon several E-Commerce sites and portals were launched- Flipkart in 2007, Snapdeal in 2010, BigBasket in 2011. Also, Amazon launched its Indian online shopping portal in 2009. Ridesharing aggregators like Uber and Ola also entered this Indian industry in the years 2010 and 2011 respectively. Witnessing the success of Ola and Uber, Swiggy first established its food delivery operations in 2014 with a team of 6 delivery persons from 25

restaurants. Zomato was originally launched as Foodiebay, which saw success in the Delhi NCR region in 2008. The company was later rebranded as Zomato. Gradually, both these food ordering portals branched out to several cities and now enjoy a successful existence across the country. UberEats, Foodpanda, Grubhub and Chowman are a few other food ordering apps in India. However, Zomato and Swiggy dominate this industry.

A food delivery app is an on-demand food delivery service where a customer subscribes to the application and starts using its services. Typically, the customers can browse the portal for various restaurants, cuisines and types of dishes and choose the food item that they wish to order. The app provides a call-to-action option of adding the food to the cart along with several payment options and offers and deals. The food delivery app has collaborations with several banks and financial institutions so as to provide attractive deals to the customers. Further, the supply chain members of these apps include restaurants which provide the food and a network of delivery people who make the delivery possible. There is geographic segmentation of restaurants where the customers can order food from and real time GPS based tracking of the food delivery status. The backbone of these food delivery apps is the efficient customer relationship management which promptly solve the customer queries and issues on real time basis. Thus, the growth of these apps has been unanimous over the years, specially post Covid, where food ordering online surged due to remote deliveries and convenience.

## 2. Objective of the study:

1. To study literatures available tracking the food delivery operations in India
2. To examine the effect of food delivery apps on the restaurant business in India
3. To provide suitable suggestions to improve the food delivery services in India

## 3. Research Methodology

The current study is an exploratory study based on secondary data, where the researcher aims to fulfill the objectives of the study using literatures like research papers, newspaper articles, dissertations, blogs and such other authentic literary material available. The researcher has also browsed through several online databases available and selected literatures which focus upon the status of food delivery operations in India and their effect on restaurant business.

## 4. Significance and Scope of the Study

The study aims to review several literatures and amalgamate their findings to trace the growth and status of online food delivery industry in India. Similarly, the study aims to assess the effect of these services on restaurant businesses in order to bring forth research gaps and problems. The current study aims to present a further research direction in order to identify and highlight overlooked areas of concern in the supply side.

## 5. Status of food delivery operations in India

Founded in 2014 and 2015 respectively, Swiggy and Zomato dominate the online food delivery service in India. As a precursor to the unorganised food delivery services by the restaurants, the major aim of these food aggregator apps was to organise several restaurants under a single window of delivery for a seamless customer experience. The system did away with physical menus, placing phone calls to the restaurants for food orders, the seemingly time delays for delivery and non responsive restaurant staff.

Saxena (2019) suggests that the food ordering applications faced several challenges in terms of building a network of restaurants and bringing them on board to the whole system.

Further Saxena (2019) in her research paper has highlighted that over the years several players entered the industry but only Swiggy and Zomato could hold fort in the business. The same research article also pointed out that the online food delivery industry currently faces high competition from in-house food delivery services of large restaurants like McDonalds, KFC, Dominos and such other. Sudra (2020) in his blog has projected a growth to reach 2.45 billion users of food delivery apps in India.

According to an article by Nuvoretail, the trend of usage of E-commerce services fortified during the Covid-19 period. Overall E-commerce sales have risen from 40.44 billion dollars in 2019 to 83.75 billion dollars in 2022 and is further projected to grow to 122 billion dollars in 2024. Specifically, the food industry market is expected to grow to 716.53 million dollars by 2026 exhibiting a CAGR of 28.13% by 2026 according to a research report by Technavio. The research also names the top players in the food delivery services using diverse formats- Bundl technologies, Diverse retail, Dominos Pizza, McDonalds Corp., Ola foods, Rebel foods apart from Zomato and Swiggy. Selvan and Andrew (2021) observed that online food delivery services were mostly availed by Indians between 15 to 34 years of age. Amis, Chawla and Tulpule (2021) in their research study attributed the growth of electronic food delivery to the penetration of internet, availability of cheap smart phones and user friendly applications. Patgiri, et al (2022) in their research paper have put forth interesting observations that the changing psycho-social and socio-economic structures of the Indian society has affected the food tech industry. Some of the factors being rising number of working women, double incomes, nuclear families and desire to lead easy lifestyles. An article in the Business Standard (2023) has revealed that the food tech industry has its foothold in over 500 cities in India as a result of growing consumer confidence and rapid digitalisation. The same article also suggests that there are specific hindrances to the business as a result of consumer concerns like high delivery charges, mediocre food quality, dearth of customisation and delivery personnel concerns.

## **6. Impact of online food ordering application on restaurant business**

Most literatures available on online food ordering applications point out that they have a favourable as well unfavourable effects on restaurant business. While the advent of online food aggregators have eased out ordering of food chosen by customers, they have brought about disruptive changes in the restaurant business. The researcher synthesizes several literatures to bring out the following observations:

### **6.1 Favourable effects on restaurants:**

Gupta (2019) in her study has focused on revenue generation streams of Swiggy and Zomato. As a result, her findings suggest that restaurants have expanded their customer base to a large extent due to these aggregator services. There exists organised delivery across several geographical locations which otherwise wouldn't have been possible if the restaurant would have operated as a stand-alone entity. The research also says that the restaurant business also encashed several benefits in terms of revenues, profits and sales volumes as a result of specialised marketing strategies of Swiggy and Zomato. Swiggy has successfully used popular hashtags like #Diwaligharayi and #Singwithswiggy to direct consumer traffic to specific restaurants.

Restaurants have seen increasing online presence with customer ratings and reviews, which are now an integral part of the service industry. A restaurant can enhance their digital presence simply by registering

itself with third party logistics app like Swiggy/ Zomato. (Mukherjee, 2022). Further, the delivery logistics are taken care of by the aggregator at a small commission from the restaurant.

A study by Tanna and Utekar (2018) proposes that the algorithm and technology of these apps have further made the food ordering and delivery highly specific and effective, which has a ripple effect on the restaurant business. Abraham (2021) in her study has stated that registering with online food ordering apps has helped restaurants to improve their corporate image and connect with their customers effectively to gain the required feedback through ratings and reviews.

## 6.2 Unfavourable effects on restaurant business:

A study by Shaikh (2021) on effects of Swiggy and Zomato on restaurant business in Pune city stressed upon certain concerns relating to the restaurant revenues and business. Primary concern was that these applications create unnecessary competition amongst restaurant outlets within the same area. This was due to the 'filter' feature where restaurants may or may not be visible to the customers. Further, the food delivery apps are accused of charging as much as 30% of the total food bill, thus reducing the profit margins of the restaurants. Also, restaurants end up paying high commissions to these apps. At the outset, this reduced the revenues of the restaurants, if not compensated through sales volumes.

Further, the discount-based business models of Swiggy and Zomato have paved way for customers asking for discounts regularly (Srivastava et.al, 2020). This serves as a potential threat to the sustainability of the restaurants. An important negative effect on the traditional restaurant business was that there was a marked decrease in the physical in-house dining and the overall footfalls (Charlene Li et al., 2020). This led to restaurants having to downsize their operations and reduce their in-house staff.

## 7. Conclusion and Recommendations

From the several literatures reviewed, it is evident that the foodtech industry has brought about disruptive modifications in the food industry, especially in the Tier I and II cities. With changing consumer preferences and lifestyles, these applications have seen a tremendous rise and rapid consumer adoption. It can be concluded that this industry brings forth both positive and negative impacts on restaurant business, which cannot be ignored. Further, it can also be stated that the online food ordering business is slated to grow continuously. Hence, restaurants have to keep themselves updated with the latest trends in that sector. Based on the secondary study, a few recommendations can be put forth for the traditional restaurants:

1. Working around a business model where the restaurants use the third-party logistics services of these applications optimally.
2. Focusing on quality of the food which is a growing customer concern when ordering food through food apps.
3. Creating more leads and visibility through personal social media pages to generate more sales volumes
4. Work towards a profitable partnership with the foodtech apps to avoid loss of revenues
5. Using food ordering apps like Swiggy and Zomato as customer relationship management tools and providing appropriate feedback to the customers.
6. Creating databases using these apps for building a loyal customer base
7. Conducting appropriate marketing research using the information received through the food ordering apps and planning future operations accordingly

8. Devising suitable and effective marketing strategies to ward off competitions created by the online food ordering apps.

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