DNA

Food delivery platforms set to lose 'secret kitchen' recipe

Food business operators , Thinkstock

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Sep 25, 2018, 05:10 AM IST

Ordered an exotic dish on a food delivery app after looking up bright food photographs reading rave reviews about the fancy named restaurant?

Chances are the restaurant may be an unhygienic sweat shop operating out a home kitchen tucked inside a winding lane of slum.

Thousands of such set-ups may be impacted as the Food Safety and Standards Authority of India (FSSAI), had in July asked food delivery platforms to delist food business operators (FBOs) that are not registered and or do not have a FSSAI licence.

This would also hit revenues of the online food delivery platforms like Zomato, Swiggy, UberEats and Foodpanda as such secret kitchens and eateries would go out of the system.

The delisting process was kick-started by online food delivery platforms earlier this month and the exercise is expected to be completed by end of September.

According to industry sources, nearly half of such FBOs would be delisted from various food delivery platforms. "The FSSAI directive will impact approximately 50% of the food business operators more so the secret kitchens in addition to those who are testing waters on such platforms. Delisting will also mean no revenues from these FBOs untill they are re-listed on the food delivery platforms and that will take some time to happen," said an industry expert.

Sources told DNA Money that FBOs typically pay 20% commission to online ordering and food delivery platform for various services offered. These platforms proved to be a great sales tool for the sweat shops which do not have to invest in state-of-the-art kitchens, hire skilled cooks and lease premises at a prominent location to operate from.

"While enjoying high ratings on the food delivery platforms, a lot of the secrect kitchens lacked basic food safety and hygiene standards as they operated from a desolate location. Using names similar to popular joints to lure customers is another often used strategy on online platforms," said a food industry executive, adding that some of the listed FBOs were operating from places like Malwani, a densely populated slum in Malad, Mumbai.

While re-listing the FBOs, when they become FSSAI compliant, could re-start the flow of revenues for food delivery platforms at a later stage, it may still lead to a reduction in revenues.

"What percentage of the delisted FBOs will come back on the food delivery platforms is an area of concern. That's because not every FBO would want to go through the hassle of incurring costs on dealing with a food safety officer or for that matter conforming to FSSAI guidelines. The delisted FBOs could go back to conducting business sans online food delivery platforms," said a top industry executive.

When contacted, food delivery platforms – Zomato, Swiggy, UberEats, Foodpanda – did not share specific details such as total number of FBOs being delisted from their respective platforms and resultant impact on their businesses.

In an email response to DNA Money queries, Mohit Gupta, chief executive officer - food delivery business, Zomato, said, "We are in the process of delisting hundreds of restaurants, across the 34 cities in India where we offer our online ordering and food delivery services. Most of our high order volume restaurant partners currently have or have applied for their FSSAI licences. We are certain this move will not have an impact on our order volumes."

Industry sources said that revenues of Zomato, which currently lists 50,000 FBOs on its platform, will be the most impacted as a result of the delisting mandate. According to a recent Registrar of Companies filing, Zomato ended fiscal 2018 with 40% growth in revenues to Rs 466 crore. Its losses were down 73% on year to Rs 106 crore in fiscal 2018.

"That may not be the case next year. Zomato will have to work overtime to maintain same levels of growth for fiscal 2019," said one of the sources.

Starting July 2018, Swiggy has delisted hundreds of restaurants that are not compliant with FSSAI regulations or have poor customer ratings, its spokesperson said.

"Currently, over 75% of the restaurants listed on the platform already have an FSSAI licence/ acknowledgement and we are well on track to complete the rest by the due date. To help speed up the process, we have set up an FSSAI Assist Programme to assist all non-compliant restaurants to procure their licences," said the Swiggy spokesperson.

According to Zomato, which currently lists over 50,000 eateries on its platform, the extension offered to high-rated food delivery partners is until the end of this month. "If they fail to furnish or apply for FSSAI licences within the stipulated period, we will delist them from our platform. We would be happy to re-list them as and when they furnish their licences," he said, adding that the company has onboarded thousands of new restaurant partners in the last two months.

Following complaints of sub-standard food being served through some of the platforms, FSSAI in July had mandated delisting of non-compliant FBOs by July 31, 2018. The notices were sent to Swiggy, UberEats, Zomato, Box8, Fasso's, FoodCloud, Foodmongo, Foodpanda, Justfood and LimeTray. Later in August, FSSAI said that 40% of the FBOs had failed to obtain licence within its deadline. The delisting process was kick-started in the first week of this month, which would be reviewed by FSSAI this month itself.