Swiggy starts charging customers ‘platform fee’ on food orders in monetisation push

Prosus-backed food tech giant, Swiggy has begun charging all users a “platform fee” of Rs 2 per order, irrespective of the cart value, as the company looks to control its costs. The additional charges, initially rolled out for users in cities like Bengaluru and Hyderabad, are being levied only on food orders for now, and have not been introduced on quick-commerce, or Instamart orders yet.

Swiggy has not yet introduced these charges in major cities such as Delhi and Mumbai yet, as per research. The platform fee is only on food delivery. It is different from the handling fee levied on Instamart orders, irrespective of whether they are Swiggy One customers or not.

While Rs 2 may seem small, it would create a large enough corpus for Swiggy to reinvest back into its business as it delivers over 1.5 million orders each day, analysts said. The fee, which was rolled out in phases over the past week, is likely to be extended to other regions. That is especially helpful for the business which has fast-tracked its profitability timelines as investors continue to tighten their purse strings.

The primary reason behind the move is the slowdown in the delivery business. "The company was no exception," said Swiggy’s chief executive and co-founder Sriharsha Majety in an email to employees which mentioned the company slashing 380 jobs.

"The growth rate for food delivery has slowed down versus our projections (along with many peer companies globally)….While our cash reserves allow us to be fundamentally well positioned to weather harsh circumstances, we cannot make this a crutch and must continue identifying efficiencies to secure our long-term,” the email read.

The Bengaluru-based company’s rival Zomato’s chief financial officer, Akshant Goyal while announcing the company’s October-December quarter results also mentioned an “industry-wide slowdown” that hit after Diwali, around October.

“This trend has been seen across the country but more so in the top eight cities,” Goyal said.

Zomato has however not introduced any platform fees yet.

The introduction of additional fees will likely help Swiggy lower its cash burn which “is a lot more than” what Zomato was burning, according to analysts at HSBC. In fiscal year (FY) 2022, Swiggy burnt around Rs 3,900 crore, compared with Zomato’s cash burn of Rs 700 crore. Despite that, the latter had more market share.

“In 2022, Zomato has gained 13 (percentage points) in terms of market share from Swiggy since FY20,” HSBC’s analysts noted last month. By the end of Q4FY23, Zomato’s market share had reached 56 percent, while Swiggy enjoyed the rest 44 percent, thanks to the reintroduction of Gold, Zomato’s loyalty program. By the end of the current fiscal, Zomato’s market share would likely increase to 57 percent, while Swiggy’s would reduce to 43 percent, HSBC’s analysts predicted. To be sure, the market share oscillates between the two players – who control about 95 percent of the food delivery market -- and tips in favour of one at the time of a new introduction, analysts said.

In terms of revenues, Swiggy was larger at around Rs 5,700 crore compared with Zomato’s revenue of over Rs 4,100 crore.