02nd September, 2022

ADVISORY TO MEMBERS

SUBJECT: SWIGGY DINER & ZOMATO PAY

As you all must know, Zomato & Swiggy have recently announced their new discount products ***Zomato Pay*** and ***Swiggy Diner*** respectively. While Swiggy has just entered the dine-in segment with the ***Swiggy Diner*** product, the principles governing it are similar if not the same as ***Zomato Pay***. It is therefore imperative to look at both these products through the same lens.

As a responsible industry body, the NRAI firmly believes that it is its inherent responsibility to appraise its members on the finer nuances of these large-scale programs & products as they not only impact the economic well-being of restaurants but also can adversely impact the overall restaurant ecosystem in the long run.

It is therefore critical that every restaurant operator understands these programs well, inspect the terms and conditions thoroughly and then make an informed decision on their participation in these programs.

This advisory is being issued in the larger interest of the restaurant community to illuminate our members on the finer points of the twin programs ***Zomato Pay*** & ***Swiggy Diner*** and the impact they can have on restaurants.

Recent History - Zomato Gold

The Zomato Gold program was launched in November 2017 as a *dine-in only program* with the lofty promise of matching premium customers to a curated set of premium restaurants. These targeted premium customers were based on their spending habits, who would have to pay a fixed fee annually to Zomato to be a part of the program. Restaurants would bear the cost of the discount (in this case, 1+1 on Food or 2+2 on Alcohol); albeit without any signup fees. The key differentiator of the program in its essence, was the magic word "premium".

All of this however, played out very differently on the ground. This "premium" program was sold to millions of people eventually!

This led to the unprecedented #Logout movement on August 15, 2019 during which thousands of restaurants all over country decided that they had enough of this no-win proposition. This eventually led to the death of Zomato Gold.

Zomato's key learning from the Gold episode was that:

a) It simply did not have the data to back up the value that it *claimed* to be bringing to restaurants.
b) It was *assuming* that Gold customers were racking up top notch bills at partner restaurants, while the partner restaurants had a wealth of information that suggested exactly the opposite. Their P&Ls clearly showed that.
c) Brand value was being diluted for discount seekers.

So as Zomato or Swiggy, how do you perhaps solve for these three issues?

Both of them build a payment gateway (enter Zomato Pay/Swiggy Diner), incentivize our customers to use this payment gateway (through discounts, 100% cashbacks and bank offers) and urge partner restaurants to adopt this payment gateway under the unsubstantiated promise of more footfalls.

It also opens up for Zomato & Swiggy the hallowed possibility of earning a commission on dining transactions. Till now, the sole per-transaction commission that Zomato/Swiggy is able to earn is on home delivery transactions happening on its platform.

This is a big deal because both have reached peaks in terms of how much they can charge for delivery orders (currently in the range of 25-30%) – making efforts to widen the pie the only way forward.

Cut back to August 2022.

Zomato Pay and ***Swiggy Diner*** both operate broadly on the same construct:

1. No cost/subscription fee to the customer to participate.
2. Restaurant **must compulsorily offer a discount** (in the range of 15 - 40%) to be part of the program.
3. Restaurant must also **compulsorily pay a commission** (in the range of 4-12%) on every transaction made via the respective payment gateway to Zomato or Swiggy**.**
4. Restaurant must offer this discount to anyone who wishes to pay vide Zomato Pay or Swiggy Diner irrespective of the fact of whether the customer discovered the restaurant on Zomato/Swiggy or just walked in on his own.
5. Weekly payouts

So, how does it impact the three stakeholders, i.e., Guests, Restaurants and Platforms in such a scenario?

For Guests

- It is a win-win for them, there is no contest to the economic argument that it will make dine-in unsustainably cheaper.
- Customers are dazzled into settling their bills vide either Zomato Pay or Swiggy Diner because of the deep discounts and generous cash backs that comes with it – it is a deal too good to refuse at no cost.

For Restaurants

- Restaurants will now compulsorily offer discounts in the range of 15%-40% to every customer who chooses to settle their bills through these payment gateaways. Note that this discount is borne *entirely* by the restaurant.
- Restaurants pay a commission of 4%-12% (to begin with and this may move upwards as soon as adaption numbers grow) for *permitting* them to have Zomato/Swiggy's payment

gateways at their restaurants when several alternate options are available for much cheaper. Isn't that bizarre?
- As a point of reference, other payment gateways charge between 1% to 1.5% on such transactions.
- After being denied ownership of essential data of restaurant's "delivery" customers, this will now open the flood gates for middlemen to colonise "dine-in" data.
- As more and more people change their payment habits to the lure of discounts and cashbacks, their terms of engagement with restaurant will change unilaterally and irreversibly just as their behavior in the delivery market will testify.
- **"Your" customers will eventually firmly become "their" customers.**

For Swiggy/Zomato

- The middlemen wins once again, albeit at your cost!
- Restaurants foot the exorbitant costs of discounts and high commissions, while they swiftly convert "your" customers to "theirs.
- Claims will then emerge that they are directing "their" customers to "your restaurant" to justify a heftier fee.
- They will get a firm foothold in the dine-in business, after squeezing the last drop of revenue from the delivery business.

The inherent numerical fault lines here need no explanation.

While competing payment gateway charges are 1-1.5%, restaurants will end up paying 4% to 12% in time where is no commission on dine-in revenues.

Based on how this played out with the delivery market, what is perhaps most dangerous is the long term, irreversible effects that this has on the dine-in market: **unsustainable discounts coupled with a platform wedged firmly between you and your customer.**

Secondly, the false narrative within the delivery business of "discounts" as the only means to grow your business will also find its way into the dine-in business. There is absolutely nothing stopping Zomato/Swiggy increasing their discount requirements as well per-transaction commissions once that happens. They are currently funding the cash-backs to the customers, but that too can easily change.

And it will change.

This brings no tangible value to restaurants. It does not solve any pressing problems of the industry either. Zomato is selling "Zomato Vibes" with "Zomato Pay" which is in essence a social engagement tool.

The fundamental question here is why should a restaurant pay a commission to a middle man to offer a discount to its own customer?

The NRAI urges its members as well as the wider restaurant fraternity to talk to your colleagues in the industry, ask your points of contact at these platforms about the tangible value that this brings to your business, and exercise caution as well as good judgement before choosing to be part of these programs.

02nd September, 2022

The decision you make today as restaurateurs will have a long-term impact on the economics of the entire sector, we hope that your final choice reflects this.