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CONSOLIDATION PHASE

Delivery start-ups explore additional income streams

Hyperlocal firms hinge on advertisements and promotions to mitigate the losses incurred by their core offerings

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RAMESH PATHANIA/MINT

Correction course: *Hyperlocal delivery start-ups, including food-tech and logistics companies, together garnered $270 million in funding in 2015, but the sector has also seen a massive correction in the form of closure.*

With investors turning increasingly cautious, hyperlocal delivery start-ups are exploring additional revenue streams such as advertisements and promotions to try and mitigate the impact of losses incurred by their core offerings.

Shadowfax Technologies Pvt. Ltd and Opinio (Moonshots Internet Pvt. Ltd), which currently charge around ₹50 per delivery within a 5-km radius, are testing such alternative revenue channels.

Shadowfax has trained its delivery personnel to hand out discount coupons from merchants to consumer as well as brief consumers about products.

The pilots are being run in Delhi, Mumbai and Bengaluru.

Opinio, on its part, is branding its delivery bags with posters of partner start-ups who want to advertise in a particular locality.

"That will be like a moving hoarding," said Mayank Kumar, co-founder and chief executive at Opinio.

This is expected to attract companies such as rental accommodation classified start-ups or hyperlocal services such as beauticians or plumbers.

While Shadowfax will charge an additional ₹3-4 for every interaction with the consumer, Opinio plans to price its services at around ₹2,000 every day for every 50 such bags handed out.

The firm may explore 15-day or monthly packages, depending on demand. Both firms declined to identify partner merchants. They get a major chunk of their business from food delivery, besides grocery and pharmacy.

Hyperlocal delivery start-ups have been struggling to build sustainable business due to poor unit economics. While the commission from merchants barely makes for the cost of delivery, which could go as high as ₹60-70 per delivery, these companies also offered concessions to merchants. Some start-ups even worked on a commission basis, charging merchants a part of the order value.

However, they claim that all such practices have been halted in a bid to generate more revenue and increase operational efficiency.

"The target is to achieve 25% revenue growth month-on-month," said Abhishek Bansal, co-founder and chief executive at Shadowfax.

Hyperlocal food delivery start-up Swiggy (Bundl Technologies Pvt. Ltd) is also taking steps to reduce cash burn. The company plans to set up cloud kitchens in partnership with restaurants, a move that is expected to help it command a much higher commission for orders serviced through the cloud kitchens than the average 15% it currently earns on every order.

According to Tracxn, a start-up tracker, hyperlocal delivery start-ups, including food-tech and logistics companies, together garnered almost $270 million in funding in 2015.

The sector has also seen a massive correction in the form of closure and consolidation in the space in the last one-and-a-half years. Food-tech start-ups such as Dazo shut shop, hit by ebbing investor interest. Tiny Owl restructured its operations and fired hundreds of people across multiple cities. PepperTap and Grofers, too, shut operations in smaller cities.

According to Venkatesh Peddi, vice-president, venture capital firm IDG Ventures, the market is being cautious on the fund raise side, but such challenging times also see innovations take place in business models.

"Some of these things could actually work out very well in the long run, some may not. It depends on how well they are executed and how they pan out on the ground," he said.

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