

Winter Case Competition

GRUBHUB

Strategic Options



SIMON
GRADUATE SCHOOL OF BUSINESS
UNIVERSITY of ROCHESTER

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Agenda

- Market Overview
- Competitive Environment
- SWOT Analysis
- Financial Analysis
- Approaching the Problem
- Summary

Strategic Plan

Exclusive partnership
with CloudKitchens and
restaurants



Small Businesses Inc.

Implement a
subscription based
model

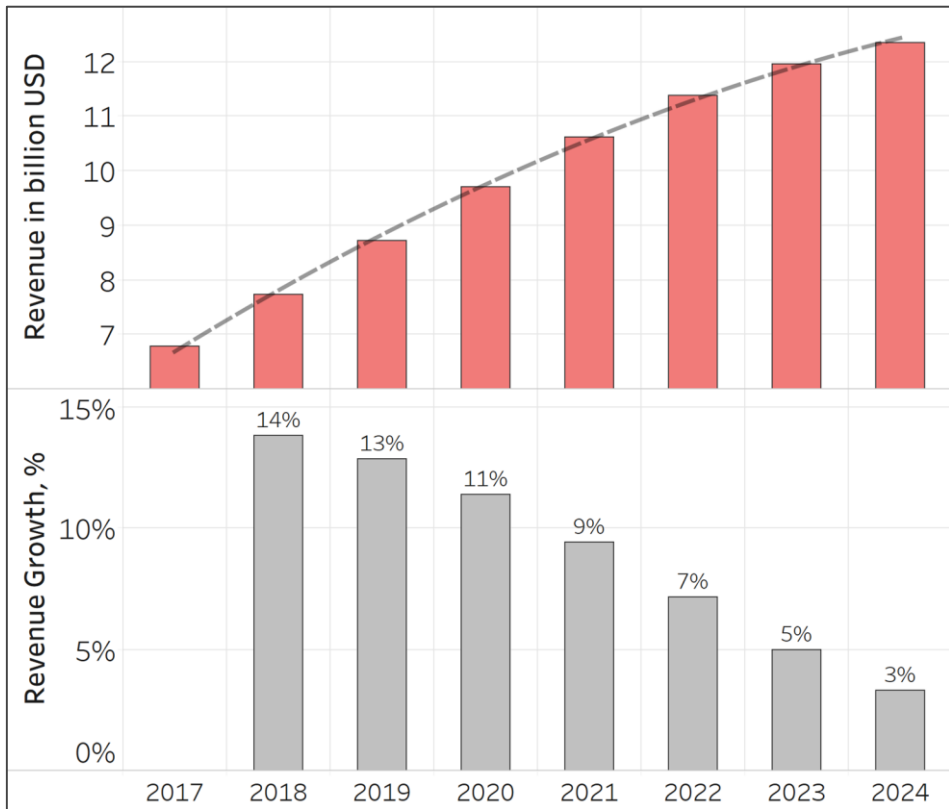
Choose A Plan	
Yearly	Monthly
\$59.99 USD Per Year	\$9.99 USD Per Month

Turn GrubHub into a
“Social Food App”



GRUBHUB

Market Overview - Food Delivery Industry



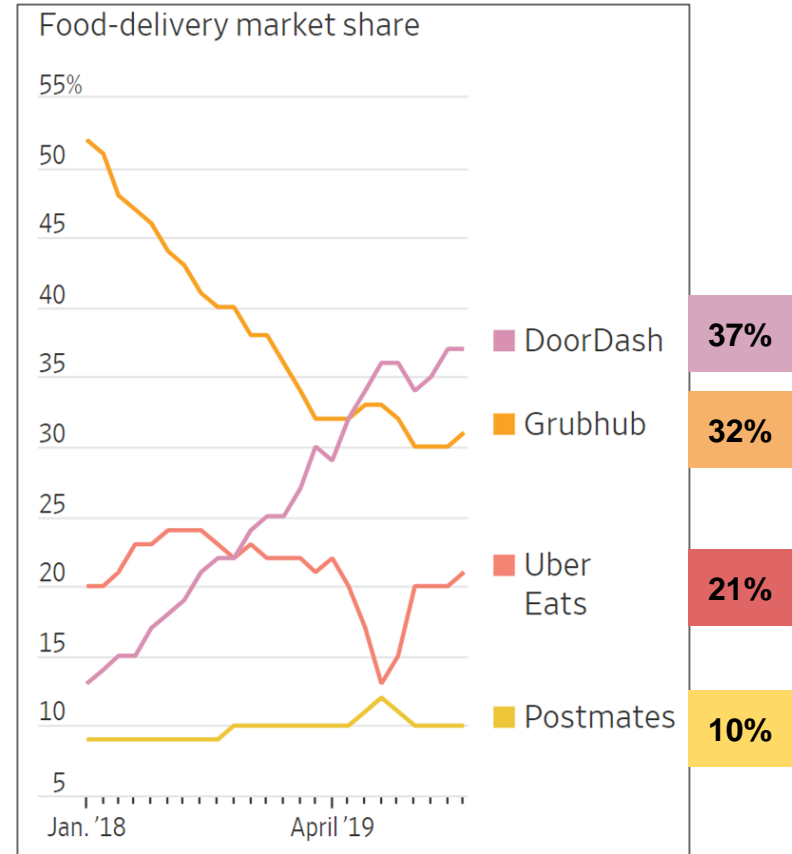
- Food Delivery market was growing rapidly before 2017
- In 2019 the total market revenue was 8.7 bln USD
- The revenue is projected to grow for the next 5 years
- The growth rate slows down starting 2017

Competitive Environment

Major Competitors:



- DoorDash and GrubHub are major players
- DoorDash's revenue increased 143% in 2019
- Uber Eats is highly unprofitable and open to acquisition
- Industry consolidation: Uber Eats & Postmates will be sold out to one of the major players



SWOT Analysis

Strengths:

- Stable revenue growth
- Brand recognition
- Large market share
- Partnership with Venmo

Opportunities:

- Walk-in restaurants inefficiently serving delivery customers
- Cannot order from different restaurants at the same time

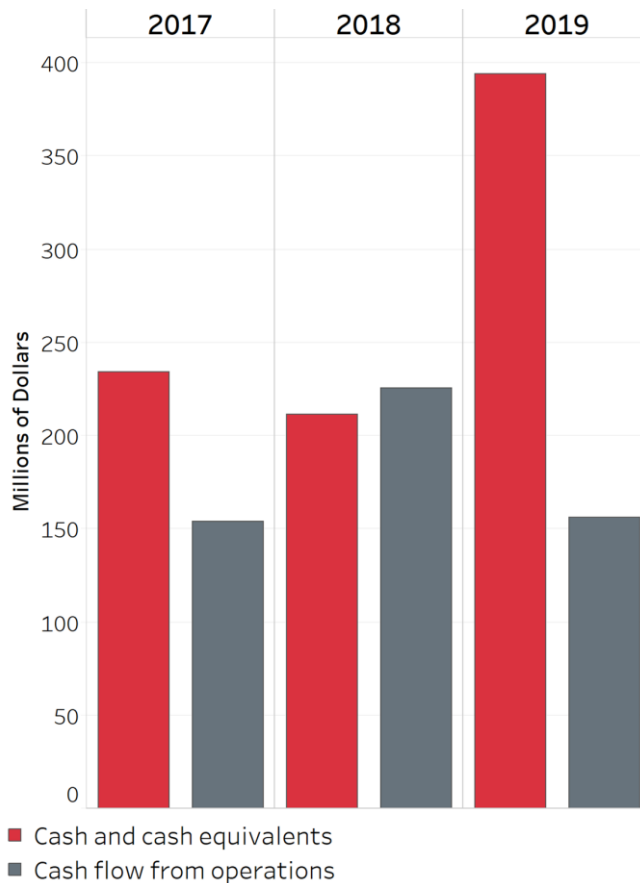
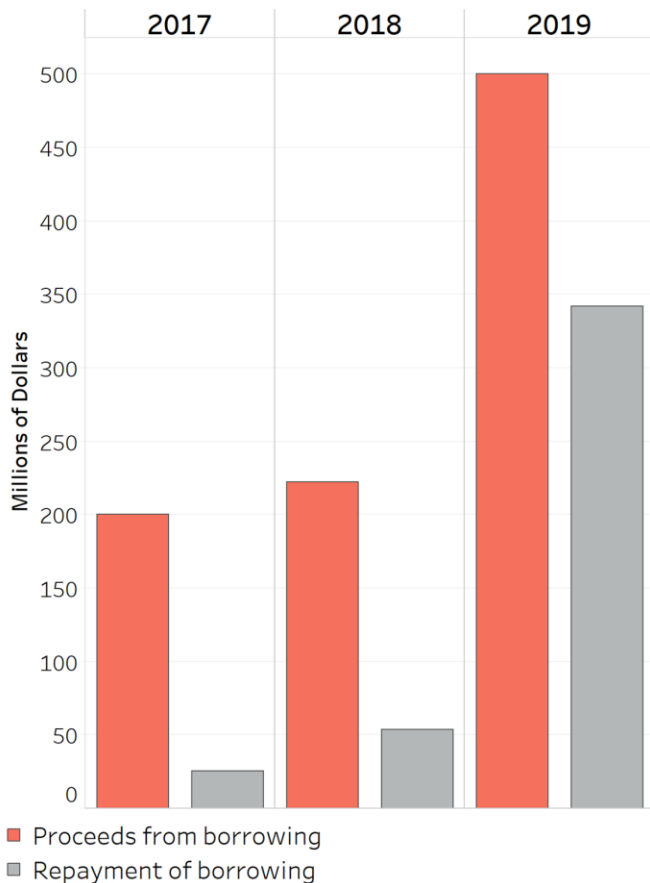
Weaknesses:

- Lost 20% of market share in 1 year
- Listing businesses without their agreement

Threats:

- DoorDash investing in autonomous cars
- Competitors offering subscription plans
- Price wars

Financial Analysis



- Raised leverage in 2017 to finance acquisitions and is successful in paying back
- Generates significant amount of cash from operations
- Has additional availability from extended credit facility



**Solvent and
adequately liquid**

Approach

Main Problems			Solutions
Increased Competition	Restaurants Pushing Back Against Fees	Consumers Using Multiple Platforms	
✓	✓	✓	Partnerships with Ghost Kitchens / Restaurants
✓		✓	Subscription Based Model
✓		✓	Turn GrubHub into a “Social Food App”

Use **AI** to improve customers' experience and optimize delivery

Exclusive Partnerships

Ghost Kitchen:

Professional food cooking facility set up for the preparation of delivery-only meals.

- Lower Upfront Costs
- Lower Operational Cost
- Optimized Delivery
- Faster Expansion

Joint venture with one major player:

CloudKitchens (former Uber CEO - over \$700 million invested)



Two main types of Ghost Kitchens:

Partnership with **Major Chains:**

- Have a location just for the chain, depending on demand
- Build tactical ghost kitchens throughout different city locations



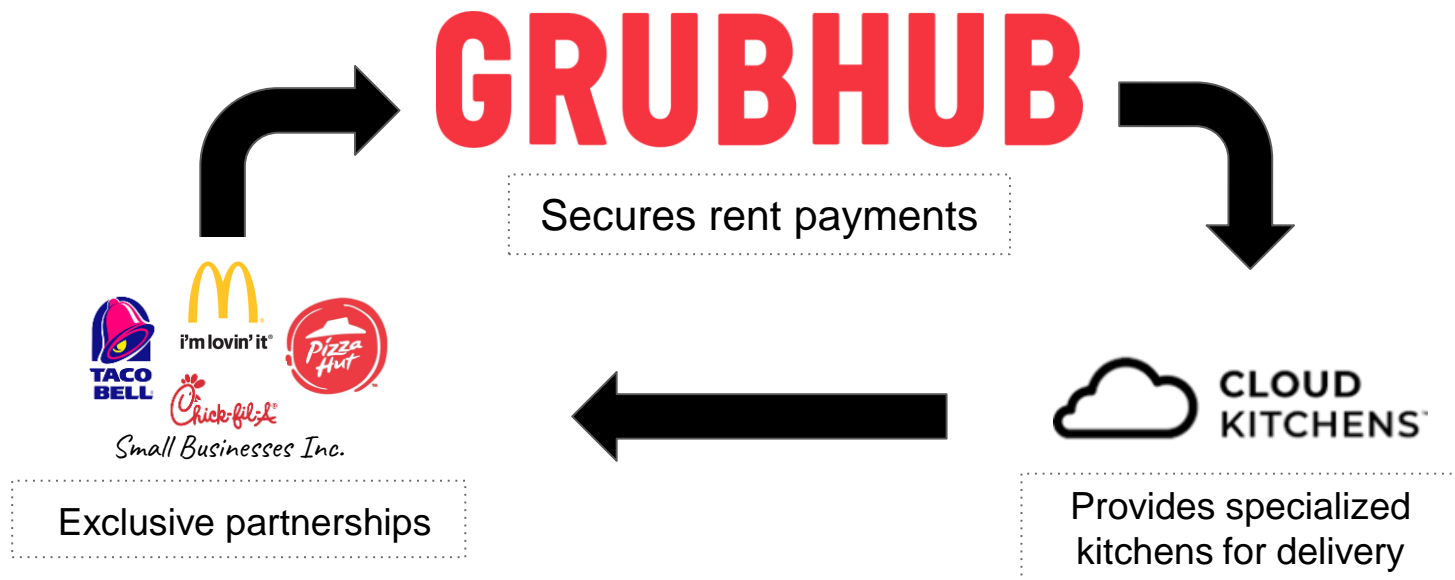
Partnership with **Small Businesses:**

- One large central location with many small specialized kitchens
- Economies of scales
- Smaller cost for small businesses



Multiple
Kitchens

Ghost Kitchen Joint Venture:



Key Advantages:

GRUBHUB

- **Exclusive right** to sell food from restaurants (↑revenue)
- **Optimizes operations** by having one central location (↓ cost and faster delivery)
- **Efficiently deliver** from different restaurants in one order



- **Secured revenue** coming from GRUBHUB who pays for partners using kitchens
- Opportunity for **expansion** as GRUBHUB offers ghost kitchen partnerships in many new locations



- **Secured rent** from GRUBHUB who pays in exchange for exclusivity with restaurants
- **Optimizes operations** by having one central location just for delivery/ no walk-ins (↓ cost and faster delivery)

Subscription Based Model

GrubHub will offer two options:

1. Standard: pay for each delivery
2. Premium: \$9.99/mo or \$59.99/ye

Premium Account perks:

- Free delivery
- Food from different restaurants in one order
- Coupons with better deals
- One day a month/week offer best deals
- Meal paid by GrubHub

Turning GrubHub into a Social Food App

- Build a profile
 - Single/married/parent
 - Employee/student
 - Input food preferences: healthy, cheap
- Maintain a GrubHub balance from refunds
 - Can be transferred to connected bank account
- Add friends through phone number, Facebook, etc.

unlock trophies and levels over time



FRIENDS NEWS FEED



Eva Amessé ordered KFC
with John Graham and Anthony Yim
Watching the game & eating chicken legs!

23h



Like Comment



Julian Connor ordered Pizza Hut
the real real

1d

♥ Matt Heimerdinger

Like Comment



Cami Williams ordered Chili's
Perk

1d

Like Comment



Vivian Huang ordered iHOP
"best French toast" & eggs as usual

1d

Like Comment

status update when food is delivered

tag friends

allows users to share pictures

prices are hidden for friends

share refund updates

PERSONAL FEED



You ordered McDonalds

- \$32.50

1s Powered by Dosh

Yum yum!



You ordered iHOP

- \$32.50

3s

sweeeeeeet



You ordered Taco Bell

- \$522.00

3s

Nothing better at 2am!



Refund from McDonalds

+ \$1.63

2h

Of course ice cream machine wasn't working!



Use of Artificial Intelligence

Implementing AI to enhance solutions

Partnerships with Ghost Kitchens / Restaurants

- Create algorithms to optimize delivery time

Subscription Based Model

- Analyze consumers' willingness to pay to offer profit maximizing prices
- Offer better deals and coupons

Turn GrubHub into a "Social Food App"

- Use data to improve users' experience
- Provides customer interaction data
- Personalized food recommendations

Case of success:

NETFLIX

Prize



GRUBHUB

Prize

GRUBHUB

Strategy Summary

Main Problems			Solutions
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Q&A



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APPENDIX

Appendix 1: Statement of Operations, 2014-2019, *thousands of dollars*

	2019	2018	2017	2016	2015	2014	2013
Revenues	1,312,151	1,007,257	683,067	493,331	361,825	253,873	137,143
Sales and marketing	310,299	214,290	150,730	110,323	91,150	66,201	37,347
Operations and support	675,471	454,321	269,453	171,756	107,424	62,509	34,173
Technology (exclusive of amortization)	115,297	82,278	56,263	42,454	32,782	25,185	15,357
General and administrative	101,918	85,465	65,023	50,482	40,506	32,307	21,907
Depreciation and amortization	115,449	85,940	51,848	35,193	28,034	22,687	13,470
Income from operations	(6,283)	84,963	89,750	83,123	61,929	44,984	14,889
Interest (income) expense - net	20,493	3,530	102	(729)	-	-	-
Income before provision for income taxes	(26,776)	81,433	89,648	83,852	61,929	44,984	14,889
Provision for income taxes	(8,210)	2,952	(9,335)	34,295	23,852	20,721	8,142

Appendix 2a: Balance Sheet, 2014- 9m2019: Assets, *thousands of dollars*

	9 months ended 2019	2018	2017	2016	2015	2014
Cash and cash equivalents	394,000	211,245	234,090	239,528	169,293	201,796
Short-term investments	32,214	14,084	23,605	84,091	141,448	111,341
Accounts receivable, less allowances for doubtful accounts	123,309	110,855	95,970	60,550	42,051	36,127
Income tax receivable	2,227	9,949	-	-	-	-
Prepaid expenses and other current assets	18,632	17,642	6,818	12,168	3,482	2,940
Total current assets	570,382	363,775	360,483	396,337	356,274	352,204
Property and equipment, net of depreciation and amortization	160,368	119,495	71,384	46,555	19,082	16,003
Other assets	25,452	14,186	6,487	4,530	3,105	3,543
Operating lease right-of-use asset	100,736	-	-	-	-	-
Goodwill						

Appendix 2b: Balance Sheet, 2014- 9m2019: Liabilities, *thousands of dollars*

	9 months ended 2019	2018	2017	2016	2015	2014
Restaurant food liability	130,544	127,344	119,922	83,349	64,326	91,575
Accounts payable	23,392	26,656	7,607	7,590	8,189	3,371
Accrued payroll	22,537	18,173	13,186	7,338	4,841	5,958
Taxes payable	-	422	3,109	865	426	1,660
Current portion of long-term debt	-	6,250	3,906	-	-	-
Current operating lease liability	8,056	-	-	-	-	-
Other accruals	59,686	44,323	26,818	11,348	11,830	8,441
Total current liabilities	244,215	223,168	174,548	110,490	89,612	111,005
Deferred taxes, non-current	28,681	46,383	74,292	108,022	87,584	91,419

Appendix 2c: Balance Sheet, 2014- 9m2019: Shareholders' Equity, *thousands of dollars*

	9 months ended 2019	2018	2017	2016	2015	2014
Common stock: \$0.0001 par value	9	9	9	9	8	8
Accumulated other comprehensive loss	(2,346)	(1,891)	(1,228)	(2,078)	(604)	(262)
Additional paid-in capital	1,144,541	1,094,866	849,043	805,731	759,292	689,953
Retained earnings	358,507	349,355	269,992	168,457	118,900	80,823
Total stockholders' equity	1,500,711	1,442,339	1,117,816	972,119	877,596	770,522
TOTAL STOCKHOLDERS' EQUITY	2,378,754	2,065,708	1,543,769	1,197,507	1,060,248	978,877