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Managing Relationships Between Restaurants and Food Delivery Platforms: Conflict, Contracts, and Coordination

Management Science

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Abstract

Restaurant delivery platforms collect customer orders via the internet, transmit them to restaurants, and deliver the orders to customers. They provide value to restaurants by expanding their markets, but critics claim they destroy restaurant profits by taking a percentage of revenues and generating congestion that negatively impacts dine-in customers. We consider these tensions using a model of a restaurant as a congested service system. We find that the predominant industry contract, in which the platform takes a percentage cut of each delivery order (a "commission"), fails to coordinate the system because the platform does not internalize its effect on dine-in revenues; this leads to prices that are too low, reducing the restaurant's margins and leaving money on the table for both firms. Two commonly proposed remedies to this problem (commission caps and allowing the restaurant to set a price floor on the platform) can increase restaurant revenue but do not solve the coordination issue. We thus propose an alternative, practical coordinating contract that is a variation of the current industry standard: for each delivery order, the platform pays the restaurant a percentage revenue share and a fixed fee. We show that this contract, appropriately designed, coordinates the system, protects restaurant margins by ensuring a lower bound on its revenue per delivery order, and allocates revenue between the restaurant and the platform with a high degree of flexibility.

Keywords: on-demand services, delivery platforms, supply chain coordination

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