



DOORDASH LABS - THE ROBOTICS AND AUTOMATION DIVISION

INDIVIDUAL BUSINESS COMPETITORS' STUDY

EE30203 Group Business and Design Project

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WHAT | The Organisation

Overview

DoorDash is a technology-based food delivery service, connecting customers with local restaurants and food establishments and allowing customers to order food delivery through its website and mobile app. Founded in 2013 by four Stanford graduates[1] and the support of Y combinator accelerator[2], the company now operates across 7000 cities in the US, Canada, Australia and Japan[3] to fulfil last-mile deliveries to 25 million active customers[4].

DoorDash is a paragon of a three-sided marketplace service, facilitating transactions between three distinct groups - consumers (quite literally), merchants (restaurants) and fulfilment (delivery drivers or "Dashers"). See Appendix for a summary of DoorDash's services for each group.

Crucially, these parties are highly variable and differentiated[5], and part of DoorDash's current success is the understanding of these intricacies, which will likely change depending on region/country of operation when they look to expand.

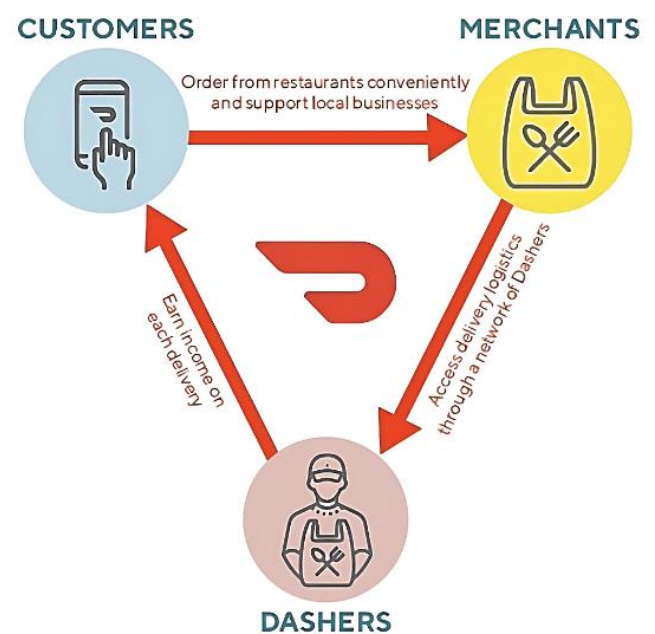


Figure 1 - The three-sided marketplace that DoorDash operate in[6].

DoorDash Labs

DoorDash recognised how critical the use of emerging technology was for optimising deliveries, a critical task for ensuring they can remain competitive, and in 2018 released their Robotics and Automation division, DoorDash Labs[7]. R&D is now given to this division with factors affecting customer spending (analytics), optimising the time it takes for a delivery and how many drivers are required (logistics). Their stated goal for the division was to facilitate automation across the most repetitive part of delivery, improving efficiency and fulfilling more deliveries in the same time. This report will highlight why DoorDashLabs was created and how it will be integrated into the business.

WHY | The Market

Local Domination Instead of Global Dilution

The global online food delivery, currently valued at \$106.1Bn, provides ample room to expand. Nevertheless, DoorDash are currently operating in just 4 countries[8], contrasting to UberEats, its biggest US competitor with more than double the market cap at \$46Bn, operating in a staggering 45 countries[9]. DoorDash's hesitance in expanding to new countries may have been justified. Zomato, an Indian-based

company, showed to be so dominant that UberEats defeatedly sold their Indian business to them for \$400 million after aggressive attempts to compete failed[10].

"Having three different markets to serve simultaneously, there is a barrier to entry to those who are currently only serving a two-sided market." [5]

Tony Xu, CEO of DoorDash

Xu recognises that their advantage over new entrants is that they understand the unique requirements of all three parties (consumer, restaurant, and dashers) in their locations. For example, once a ride-sharing company has a critical mass of drivers in an area, it is extremely difficult for a new entrant to enter that market as the fundamental needs are already met for consumers. Furthermore, expanding takes time and money to build a last mile network - thousands of local restaurants must be onboarded, customers acquired, logistics built, and density is initially low, making orders unprofitable. Consequently, DoorDash has chosen to focus their efforts in maximising adoption in the US, achieving 59% of US deliveries in May 2022, before expanding.

UberEats' struggles in India validates Xu's reasoning that understanding the three parties is critical for achieving a share in a new market. DoorDash have therefore relied on long-term partnerships with US restaurant and convenience chains to gain exclusive delivery rights[12], to the frustration of other food delivery services.

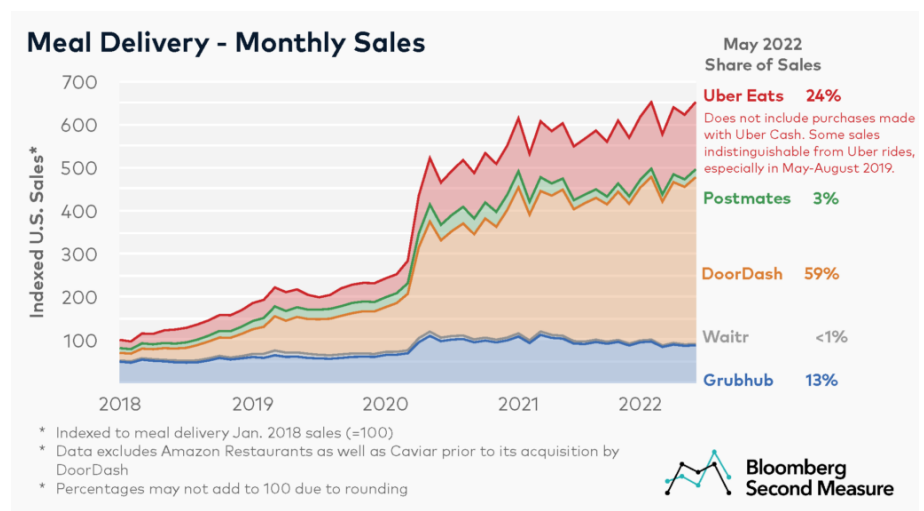


Figure 2 - In recent years, DoorDash have taken the majority of US deliveries [11]

"Promiscuous customers are a hindrance to the company's growth." [11]

- Matt Maloney, Co-Founder and Former DoorDash CEO

According to Maloney, because of these exclusive collaborations, competition among food delivery services is becoming fiercer. Fewer customers exhibit loyalty towards a single platform and the least loyal to a particular service will obtain the most diverse selection. This further implants the need to either **A**. Dominate a market through restaurant partnerships or acquire the competition **B**. Undercut the competition in cost of delivery, or **C**. Obtain new customers by offering additional services that are currently unmet.

DoorDash has implemented strategy **A** profusely, through partnerships and acquisitions - acquiring Caviar in 2019 to "enhance the breadth of our merchant selection"[13], and Wolt in 2022[14]. Xu noted

the opportunity for DoorDash to increase the scale of its international business through Wolt was more efficient than if the company expanded to new markets on its own, one-by-one[15]. UberEats acquired Postmates[16] and tried to acquire both DoorDash and GrubHub (now acquired by JustEat)[17]. Delivery companies have recognised that market domination is easier through acquisitions rather than attempting to displace the local leaders with little market understanding or prior business relationships.

COVID Has Forced Adoption and New Verticals

Soon after the COVID-19 outbreak, grocery deliveries were introduced to attract new customers who were uncomfortable shopping in-person. In the study, Factors Influencing Customer Decisions to Use Online Food Delivery Service during the COVID-19 Pandemic[18], it was determined that the pandemic boosted those who prefer using online delivery services to purchase food to 67%, propelling DoorDash to gain 83% revenue from Q2 of 2020 to 2021[19]. Illustrated in Figure 2, DoorDash has successfully retained their new customers.

COVID prompted UberEats to focus on strategy C – branching out into new verticals such as grocery, convenience, and alcohol. This diversification encouraged DoorDash to soon follow[21] and later introduced DoorMart, their grocery fulfilment "micro-warehouse"[22].

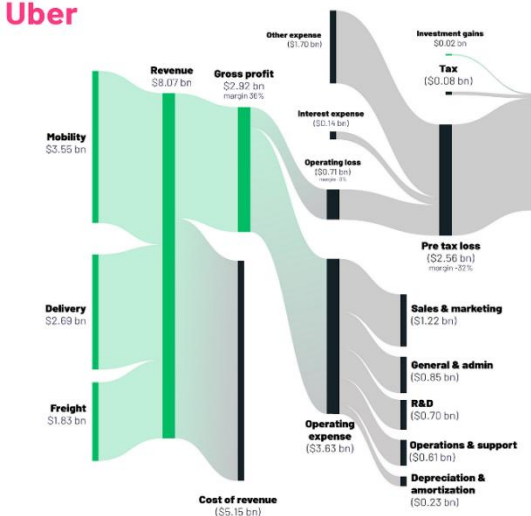
The COVID-19 delivery boom

The four top U.S. food-delivery apps saw revenue rise \$3 billion collectively in the second and third quarters, as the coronavirus pandemic required shelter-in-place restrictions.



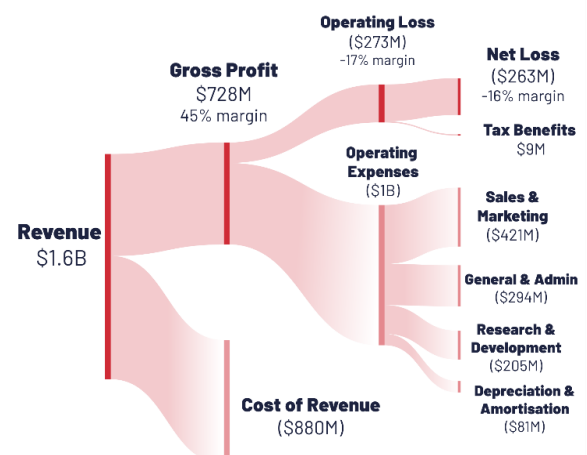
Figure 3 - The covid pandemic resulted in new users, more frequent purchases and a mass revenue burst for the top companies in the US. [20]

Uber



Source: Uber 20 2022 Financial statements

How profitable is Doordash?



Source: DoorDash 2022 Financial Statements

Figure 4 - Uber vs DoorDash's Revenue Streams illustrating where the billions in revenue result in a net loss [23]

Covid has served as a catalyst for these new services, and with accelerated and retained adoption, will see DoorDash venturing into new sectors. Despite the surge from the pandemic, per-annum, none of the companies listed in Figure 3 are profitable. This is in part due to mass reinvestment in R&D and Marketing, illustrated for Uber and DoorDash above. The companies are compromising their current profitability in the hope that their push for scale through optimisation and international presence increase efficiency and cut costs.

How | The Business Model

A Game of Seconds and Inches

Cost of Revenue currently accounts for 55% of DoorDash's revenue and 64% of Uber's. Illustrated in figure X, the margins for orders are so minimal per order and will only prosper profit when tremendous scale is applied.

"A small little thing like this can drive a crazy amount of operational output." [24]

- Toby Espinosa, DoorDash Vice President

DoorDash has strategized to make more lucrative sales, such as non-perishable goods but crucially has focused on technology that will optimise the cost of delivery time and money. Something as seemingly trivial like changing the size of font on instructions from customers to reduce errors, could generate significant savings and eventually profitability.

Changing the Workforce for Last-Mile Delivery

Multi-sided marketplaces have attracted companies that utilise emergent technologies to handle complex logistics on large scale, however last mile delivery does not submit to economies of scale and is usually the most expensive leg of logistics[25]. DoorDash have strived for market domination in localised areas as there are greater efficiencies, but an alternative strategy being introduced is the push towards automation of the workforce through Autonomous Mobile Robots (AMRs).

DoorDash's service is comparable to how Amazon's AWS provide data centres to companies, allowing them to focus on their key business without purchasing servers, bandwidth, or staff to manage them. With online delivery services,

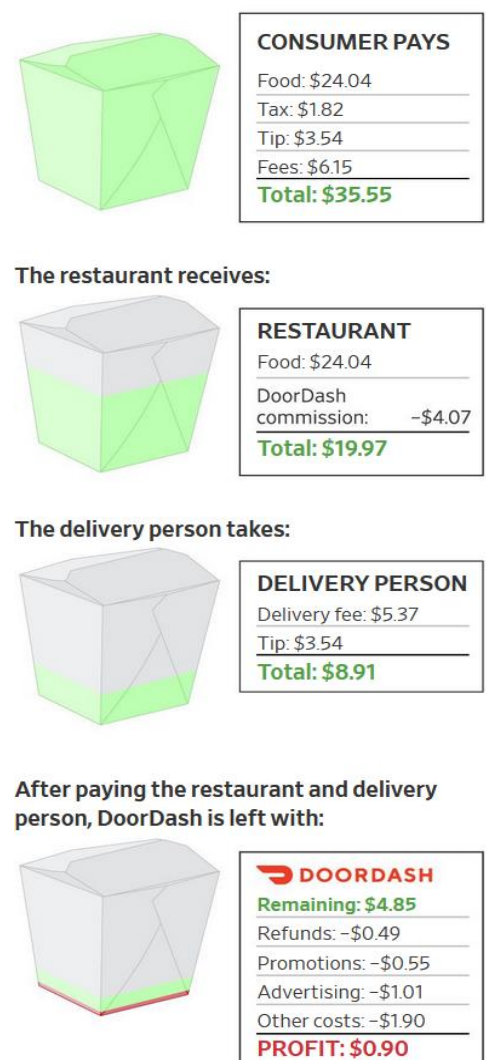


Figure 5 - Average Order Price for a delivery illustrating the slither of margins DoorDash receive[24]

restaurants do not need to hire delivery drivers, booking systems etc. but instead utilise the assets of DoorDash – customer reach, platform, and workforce.

Both Amazon and DoorDash have realised that their workforce is one of the primary factors that drives profitability and have invested heavily in automation. Amazon started autonomous testing of Scout, see Figure X in 2019[26], a robot which navigates pavements and completes last mile delivery of packages. ArkInvest estimated that for an average last mile delivery of \$1.60, the equivalent could be as little as \$0.06 using an AMR[27].



Figure 6 - Amazon's Scout Delivery Robot that has now been discontinued [26]

Currently, DoorDash currently gives \$5.37 average per delivery to the Dasher's, equivalent to 80% of the cost of revenue[24]. Exemplified in the section above, integrating AMRs, even to a small percentage of orders, could result in radically different profitability.

DoorDash's AMR Integration



Figure 7 - DoorDash's hub-to-hub model, a robot would move between merchant and consumer hubs with deliveries [28].

Amazon discontinued Scout after testing showed that other methods were more feasible. However, DoorDash has remained undeterred and teamed with several robotics companies including Starship Technologies[28], the current market leader in AMR's, already achieving 4 million deliveries[29] in 20 countries[30], to test this concept. CPO and Co-Founder, Tang, states that DoorDash expect to use robots for "smaller, short-distance, thereby freeing

up Dashers to fulfil the bigger and more complex deliveries" or "bring food from a restaurant to a local hub", eliminating the time taken by Dasher's waiting for the restaurant to prepare and hand over the delivery. This integration is close to how DoorMart has optimised order fulfilment to prevent deliverers waiting.

Like how UberEats and GrubHub partnerships for AMR testing[31][32], DoorDash have little expertise in autonomy and have employed Starship Technologies. For long-term integration, inhouse capability has proven to be vital for scaling[33] and the company is hiring Autonomy[34] and Machine Learning[35] Engineers despite job cuts after the 'COVID Boom'[36]. DoorDash have chosen to test in California, known for their lenient stance on autonomous testing[37]. Regulations will be a key factor determining how quickly these AMR's scale; the US regulations vary hugely between states, each requiring individual approval. This is where globally based UberEats, may have an advantage of choosing countries with more lenient autonomy laws.

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Cover page illustrated by Daria Shiryeva, exclusively for this report.

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Appendix

Services and Operations for the Three-Sided Marketplaces

Customer Services

Maintenance of the website and app to create a seamless interaction for customers. Enhancing customer experience by offering features such as customer support, reliable order tracking etc. Maximise customer interaction and subsequently orders placed. DoorDash charges for displaying ads on its inventory. Restaurants that want to be placed at the top pay more. Providing a wide variety of food choice, convenience and delivery speed is paramount.

- DashPass Subscription Service: Offering unlimited deliveries with no delivery fees – currently 1.5 million subscribers. Encourages both frequent use and loyalty and reduces friction around the cost of delivery.
- Advertisement and Promotions: Marketing must ensure that customers retain, and new customers are formed. DashDoor currently focus on the latter through advertisement and the former through promotions.

Merchant Services

Ensure local businesses can easily integrate DoorDash's delivery service into their business and establish long-term partnerships and exclusive agreements with large restaurant and convenience shops brands to easily scale into new cities.

- Variable Commission: 15-30% commission which grants different delivery fees, area, warranties etc.
- Storefront: Subscription based software for restaurants to own their ordering and delivery system.

Employee Services

Ensure that the Dasher Network are incentivised to fulfil orders through good pay. Without Dashers, the service would ground to a halt, at least without AMRs. Critically, DoorDash must understand the workforce's needs – like providing reliable orders, offering flexibility, fair compensation, and support services.