Industry Analysis

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Food Delivery Background

- History
  - (753 B.C. – 476 A.D.) The first delivery: Thermopolium - ancient Romans in Pompeii
    - served meals at a counter out of large clay pots that kept the food hot to deliver
  - (1768) First food delivery service recorded: naengmyeon (cold noodle) in Korea (by bikes)
  - (1785) Milk Delivery – perishable and needed to be delivered quickly
  - (1939 – 1945) WWII: London – increased popularity due to bomb threats
  - (1950s) Fast Food Delivery migrated to US – increased popularity due to TV/Advertisements (Pizza became popular)
  - (1954) Meals on Wheels started (deliver meals to seniors)
  - (1994) First Online Food Order - Pizza Hut
  - (1995) Online Food delivery service company - World Wide Waiter or waiter.com
  - (2004) Grubhub
  - By 2008 there were over 3,000 restaurant delivery apps
  - (2010s) 3rd party Aggregator service: access to a great variety - perhaps they didn't know existed previously
  - (2015) Ghost kitchen/restaurant - contains kitchen space and facilities for more than one restaurant brand (for delivery only)
  - (2019) Starship launched robot food delivery services at George Mason University.

- Sub-Industries
  - Meal Kit – Blue apron 2012
  - Grocery delivery – Instacart 2012
  - 3rd party delivery services

- First Movers
  - Grubhub (2004), Pizza Hut (2008), DoorDash (2013), UberEats (2014)

Products and Innovation

Innovation

Product

- 3rd party delivery services - built on the traditional model for food delivery, offering access to multiple restaurants through a single online portal. By logging in to the site or the app, consumers can quickly compare menus, prices, and reviews from peers.

- Types of food: intended to be eaten right away, and include hot, already-prepared food

- Method of ordering: Telephone, online/email, restaurant apps, aggregator app

- Transportation: Foot, bikes, rail, car, drone etc.

- Food storage: Clay Pots, tiffin carriers, Hotbags, thermal bags, packaging (to keep food warm, to not spill/crush)

Consumers accustomed to shopping online through apps or websites, with maximum convenience and transparency expect the same through food delivery

- Technology
  - Restaurants will continue to increase their online presence
  - Apps will improve the complex, GPS dispatch system to ensure the nearest available driver arrives to pick the food up on time
  - Greater Adoption of Autonomous Delivery Technology
- Methods evolving:
1. Order via calling
2. Order online via restaurant website
3. Order online via delivery service company
4. Order via restaurant app
5. Order via delivery 3rd party order aggregators app
6. Order via restaurant website with integrated 3rd party order aggregators
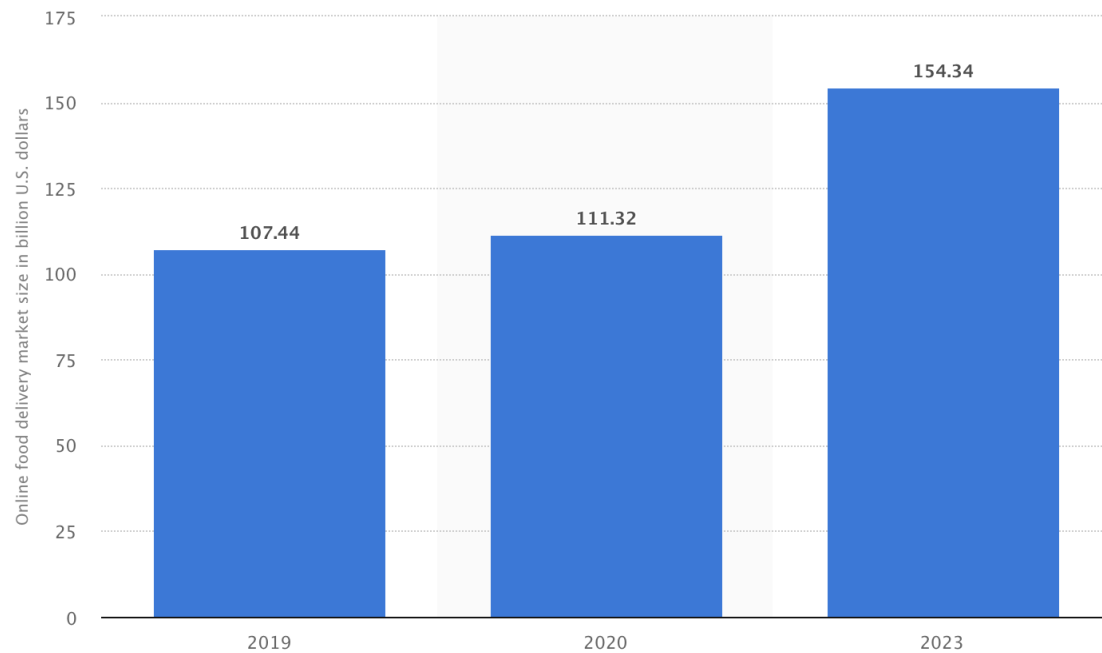
Lifecycle - Shakeout

Currently, innovation needs to be made. Food delivery may take a hit and level out due to Covid-19 improving (Vaccinations, returning to work, etc.). Several mergers and acquisitions have already happened that affect global operations and are dominating the local markets in which they operate. Covid accelerated restaurants in adopting 3rd party aggregators and creating their own apps, but will it continue?

Market Size

Online Food Delivery Global Market Size (in billions of US dollars)

Projected US Food Delivery Market Size

DOORDASH

UBER EATS
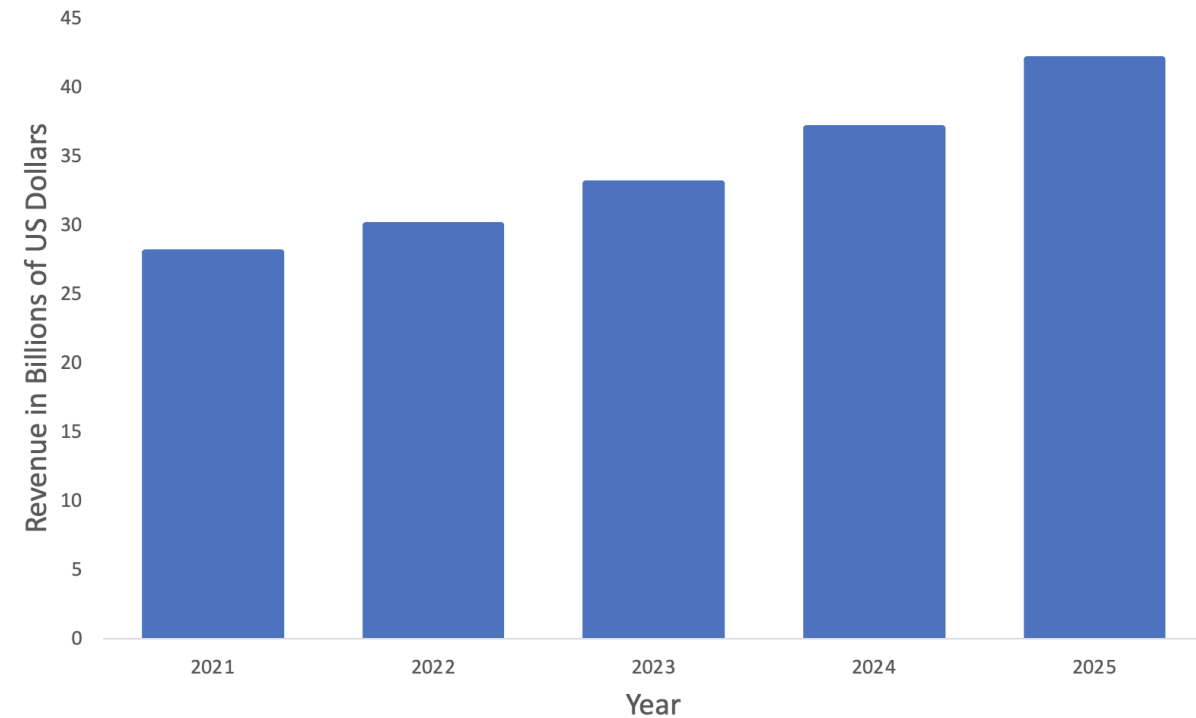
GRUBHUB

In 2020:
18 million users
$2.9 billion in Revenue

In 2020:
66 million users
$4.8 billion in Revenue

In 2020:
31.4 million users
$1.8 billion in Revenue

Rivals

Highly Competitive Industry

Meal Delivery - U.S. Customer Overlap

How many **customers** also used a **competitor** in the first quarter of 2021?

	DoorDash	Uber Eats	GrubHub
DoorDash	-	21%	25%
Uber Eats	43%	-	28%
GrubHub	42%	22%	-

Ways Rivals Compete

- Adding new restaurants
- Offering discounts to customers
- Improving their website and application designs

Key Performance Indicators

Platform KPIs

- Total Number of Orders
- Average Number of Deliveries/Orders Per Hour
- Average Profit Per Delivery
- Average Order Duration
  - Sum of Delivery Time ÷ Total Amount of Orders

Driver & Restaurant KPIs

- Percentage of Drivers Is On Order or Idle
  - (Driver On Order ÷ Total Active Drivers) x 100
  - (Driver On Idle ÷ Total Active Drivers) x 100
- Number of Support Tickets

Customer KPIs

- Churn Rate
  - (Users at Beginning of Period – Users at end of Period) ÷ Users at the Beginning of the Period

- Customer Lifetime Value
  - Average Revenue per Account ÷ Churn Rate

- Net Promoter Score
  - % Promotors - % Detractors
  - Promotors score you 9-10 and detractors score you 0-6
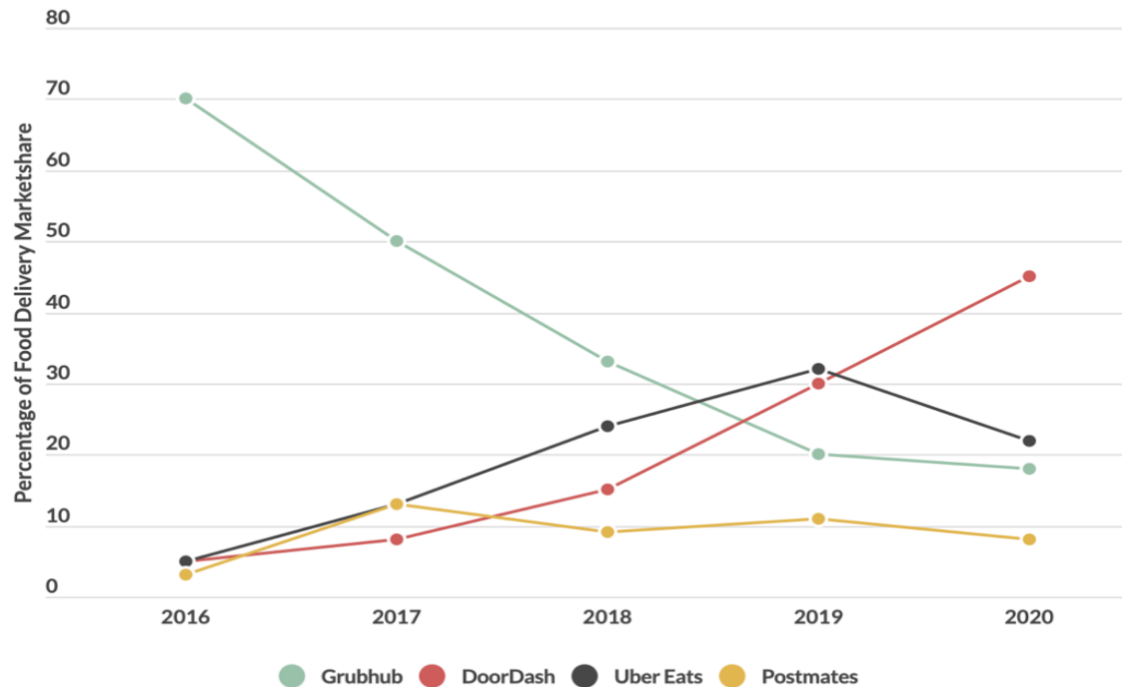
DoorDash US food delivery competitors

Door Dash 45%
Uber Eats & Postmates 30%
GrubHub 18%

Uber Eats Acquired Postmates in 2020

Key points:

-DoorDash takes the lead, while Grubhub is struggling during the market.

-Uber acquired Postmates to consolidate the market and increase their share

-DoorDash takes over the market by diversifying their services through alcohol, prescription, and grocery deliveries.

Key Rivals and Their Positions

	GrubHub	DoorDash	UberEats
Slogan	"Moving Eating Forward"	"It's Our Pleasure"	"Get the food you want"
Best for	Deals	Quality	variety
Location		800+ cities & Canada, including Atlanta, Seattle, Boston, New York, and Chicago	500 + cities and 24 countries
Audience	Urban/City	Suburban	Urban/City
Delivery Fee	Typically, less than $7	$0-$8	$1-$10
Subscription	Grubhub+: $9.99 per month (free two-week trial); unlimited free delivery from eligible restaurants and 10% cashback for every $100 you spend	DashPass: $9.99 per month (free one-month trial); zero delivery fees on orders from select restaurants, as well as zero delivery fees and lower service fees on orders over $12	Eats Pass: $9.99 per month, unlimited free delivery (even during busy hours) and 5% off orders of $15 or more for your region
Also Delivers	Alcohol	Groceries and Alcohol	Alcohol (only in South Florida)

Buyers & Suppliers

- There were 111 million US Food Delivery Users in 2020

- The number of restaurants included by each of the three largest brands:

    DoorDash- 390,000
    Uber Eats- 600,000
    Grubhub- 265,000

Suppliers: Restaurants that are included in the app or website

Buyers: Those who order the food to be delivered

Who has the Power?

Buyers – high power
- Have options (to order delivery, what third party company to use, which restaurant to order from)
- Have control over third-party delivery companies unless one 3rd party has a monopoly

Suppliers – low power
- Controlled by the third-party delivery company
    - Commission structure
    - Restaurants added without consent

Driving Forces

Historical

- Third Party Food Delivery Services have been a natural progression of food delivery services that have been evolving since the 1700's with milk delivery services. As the United States started to urbanize the need to have perishable items delivered quickly and conveniently has become the way of life for many Americans.

Current

- The major drivers of the industry such as rising disposable incomes, increasing population, rising internet penetrations, growing smartphones sales, and wider choice and convenience offered by the platforms are expected to aid the market growth. The global online food delivery industry is also driven by the hectic lifestyles and rapid urbanization, leading customers to increasingly choose the service. The development of user-friendly food websites and applications and improved logistics are aiding the market growth further.

- As the food delivery sector has grown, the "ghost kitchen" segment has also grown. A ghost kitchen is a restaurant space that allows for multiple online restaurants to come and cook and use the space for delivery orders only. They are usually located in urban areas and allow for virtual business to try out their menu ideas without investing fully into a brick-and-mortar space. These "Ghost Kitchens" use delivery apps as the most cost-efficient way to reach customers in their area.
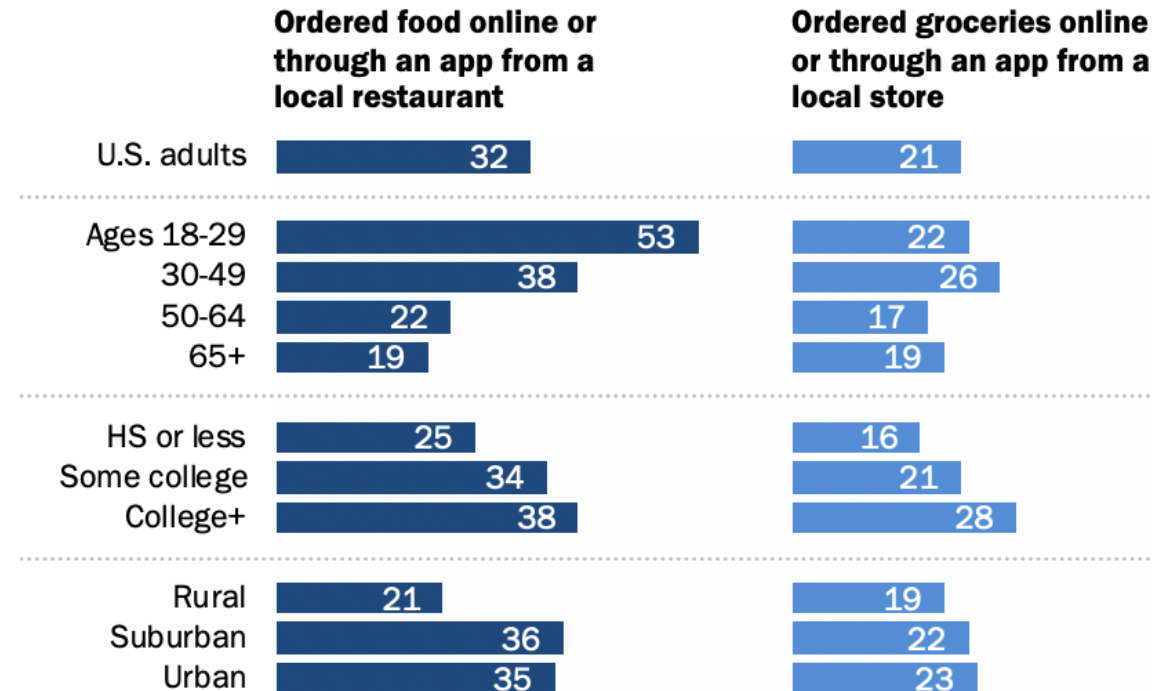
Disruption to the Industry

- In-House Delivery Fleets
  - Many restaurants are looking into in house deliver fleets to lower commission cost with third party vendors as well as gaining back some control on the customer experience as well as gaining additional data on their customer.

- Pricing Methodologies
  - Use of the platform can be dependent on the price of the goods sold, the compensation and gratuities given to retain drivers, and fees and commissions charged to merchants to keep them with the delivery app. As these prices and fees fluctuate it could change the demand for the customer using the app.

- COVID – 19
  - With the COVID-19 pandemic, there has been a significant increase in revenue, and Total Orders due to increased consumer demand for delivery.
  - More merchants are using deliver app platforms to facilitate both delivery and take-out.

Buyer Segments

53% of younger Americans say they've ordered from a restaurant online or through an app due to COVID-19

% of U.S. adults who say they have ___ as a result of the coronavirus outbreak

	Ordered food online or through an app from a local restaurant	Ordered groceries online or through an app from a local store
U.S. adults	32	21
Ages 18-29	53	22
30-49	38	26
50-64	22	17
65+	19	19
HS or less	25	16
Some college	34	21
College+	38	28
Rural	21	19
Suburban	36	22
Urban	35	23

Note: White and black adults include only non-Hispanics. Hispanics are of any race. Those who did not give an answer are not shown.

Source: Survey of U.S. adults conducted April 7-12, 2020.

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Key to Success

- The key to success depends on the ability to continue to innovate and update the delivery app. To remain competitive, the big players must find their "golden handcuffs", in other words a hook that sets them apart from the rest and allows for users to become brand loyal to one company.

- It is key that the website and mobile app and the suite of merchant services that they offer through their platform like payment, maps, restaurant listings, and analytics stay up to date.

- If they fail to expand the suite of merchant services they offer through their platform, the ability to retain and acquire new restaurants could be affected. Gaining and retaining new and existing merchants is crucial in satisfying customer needs.

- The business needs to introduce new offerings that are current with new technologies, stay on top of new industry standards as new practices emerge.

- Future success could depend on the ability to respond to technological advances and emerging industry standards and practices in a cost-effective and timely manner.

How Suppliers (Restaurants) Benefit

Allows restaurant owners to offer delivery service without employing and managing extra employees, saving owners time and energy

Allows restaurants to increase revenues above the limits of their seating capacity

Advertising. New customers may discover the restaurant because it is on the delivery site.

During COVID, delivery services helped some restaurants stay open or transform into "ghost restaurants"

Why Suppliers (Restaurants) Dislike
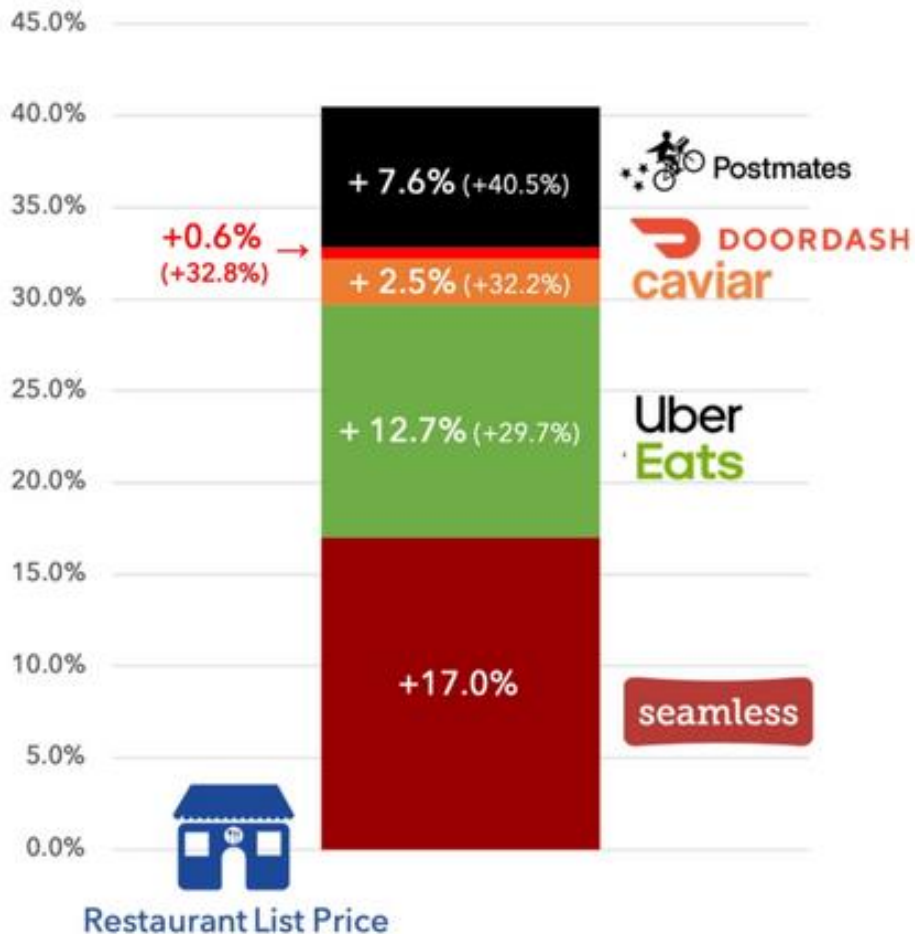
- Restaurants are low margin businesses, and the delivery companies charge high commissions. On average the apps keep 30% of the food total.

- DoorDash, Postmates and Grubhub have all been sued for listing restaurants without permission, but it is now a standard practice. This practice allows the 3rd parties to look more robust to customers and helps them coerce restaurants to join. Restaurants say it can damage their reputation (some food does not travel well), they lose control over their customers dining experience, it reduces demand for their own delivery service, and they lose control of their online presence.

- There are a growing number of complaints of food being substituted with another restaurants food without telling the customer. A customer orders a pizza from their favorite pizzeria but it arrives in a different box than usual and has a very different taste. After complaining to the restaurant, they learn it did not come from them.

- Some contracts with restaurants limit their ability to charge different prices for dine in or delivery. There have been lawsuits for price-fixing and monopoly.

Dilemmas and Business Issues

- Several states and localities have introduced temporary caps on food delivery fees for restaurants of ~15% average, due to Covid. 3rd parties retaliated adding market specific fees

- California passed legislation to ban apps from listing a restaurant without permission (NY in the works)

- Lawsuits related to fees, competition, price restraints and more

- Restaurant industry push to order direct. More restaurants have added capabilities to their own websites for accepting orders.

- Local competition with lower fees: some backed, or owned, by their Suppliers

- Business/Operational issues: Staffing, Supplier Relations, Customer Relations, Competition, Profitability

Local Delivery Services - Competition

CHOPCHOP
RVA's #1 Local Food Delivery Service

Charge Restaurants a 16% commission.
Locally Owned by EAT Restaurant Partners

LoCo
LOCALLY OWNED DELIVERY CO-OPS

A franchise the encourages local restaurants to form a coop. In 6 cities including Richmond

shop LOCAL

What if the National Restaurant Association created a national site with reasonable rates to support their members?

Cost of Entry

Initial cost include
- Market Research
- App Development
- Fuel cost
- Salaries for Permanent employees.
- Marketing*

Cost to Maintain

Cost are low
Cost to company include:
- Site Maintenance
- Employees – Drivers are paid as they go based on how many deliveries they make - tips
- Restaurants pay your commissions for listing their business on your website + upsell restaurants for advertising

Low Cost to Get Started

Building a Third-Party Delivery Service in your city

Built in Suppliers

You have no lingering product
If the market you are in gets too saturated, you can move markets The App can be easily transferable and duplicated in markets across the United States

Restaurants are your suppliers
A service where the restaurants in your area provides the product

Easy to Leave