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DOORDASH: IN SEARCH OF PROFITABILITY[[1]](#endnote-1)

Arpita Agnihotri and Saurabh Bhattacharya wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On December 9, 2020, DoorDash Inc. (DoorDash) launched its initial public offering (IPO). The start-up was based in San Francisco, California, and led by Tony Xu, its chief executive officer and co-founder. DoorDash was the market leader in the US food delivery services industry.[[2]](#endnote-2) Shortly after the IPO launch, DoorDash reported an 86 per cent rise in its stock price—it opened at US$102[[3]](#endnote-3) and closed at $190.[[4]](#endnote-4) With a total valuation of $72 billion, DoorDash’s market capitalization exceeded that of Domino’s Pizza and Chipotle Mexican Grill combined, making it the United States’ largest IPO of 2020.[[5]](#endnote-5) DoorDash had launched a blockbuster IPO despite heavy losses and an intensely competitive industry (see Exhibit 1). David Hsu, professor of management at the University of Pennsylvania, cautioned about the enthusiasm around DoorDash’s IPO: “At some point, we do have to look at some fundamentals.”[[6]](#endnote-6)

Restaurants often complained about food delivery digital applications (apps). Their concerns were based on the shrinking of already thin profits. However, during the COVID-19 pandemic, apps like DoorDash helped many restaurants remain in business.[[7]](#endnote-7) Rick Camac, dean of restaurant and culinary management at the Institute of Culinary Education, suggested that restaurants and food delivery companies needed to work out the economics of delivery services.[[8]](#endnote-8)

Matt Maloney, the chief executive officer of Grubhub Inc. (Grubhub), an online platform that provided food services in the United States, claimed that the food delivery service sector had become more of a commodity, with limited potential to generate any significant profit.[[9]](#endnote-9) However, DoorDash reported a profit for the second quarter of 2020,[[10]](#endnote-10) raising the general belief that the food delivery business model had the potential to become profitable.[[11]](#endnote-11) DoorDash co-founder Xu confirmed that belief: “We founded @DoorDash with the mission of growing and empowering local economies.”[[12]](#endnote-12) According to analysts, DoorDash not only squeezed profit margins from restaurants but also increased the cost of restaurant food for the consumer by 40 per cent.[[13]](#endnote-13)

While expanding rapidly, with a surge in funding from SoftBank Group Corp. (SoftBank) between 2018 and 2020, DoorDash was still incurring losses (see Exhibit 1). Ranjan Roy, a content strategist and writer, commented on the effects of venture capital funding on online platforms: “Third-party delivery platforms, as they’ve been built, just seem like the wrong model, but instead of testing, failing, and evolving, they’ve been subsidized into market dominance.”[[14]](#endnote-14)

Amid such criticism, could Xu prove critics wrong about the food delivery platform business’s fundamentals? How would he manage to create a sustainable profit for DoorDash?

BACKGROUND

The idea for DoorDash was born in the fall of 2012, when Xu and three of his Stanford University classmates interviewed several small business owners in the San Francisco Bay Area, most of whom informed the students that “deliveries are painful.”[[15]](#endnote-15) The co-founders realized that there was a gap in the market. They explained, “We all came from big cities where food delivery was a common thing. But out in Palo Alto, none of the restaurants delivered.”[[16]](#endnote-16)

In January 2013, DoorDash was founded under the company name Palo Alto Delivery, which was changed to DoorDash Inc. six months later. The co-founders developed a prototype app and posted local menus online. Within a few hours, they received their first order: Pad Thai with prawns and a side of spring rolls.[[17]](#endnote-17) DoorDash focused its territory in suburban and smaller cities, rather than major metropolitan areas, where most of its rivals were concentrated. Skeptics believed that food delivery economics would not work in less dense areas because of poor demand.[[18]](#endnote-18) However, the co-founders discovered that families in suburban regions tended to place larger orders than patrons in urban centres; these regions had the added benefit of less traffic and fewer parking challenges for their drivers to deliver food more efficiently.[[19]](#endnote-19) In September 2020, DoorDash had 3,279 employees.[[20]](#endnote-20) In its June 2020 financial quarter, DoorDash reported a profit of $23 million. However, in the third quarter of 2020, the company was again reporting a loss, despite an increase in revenues (see Exhibit 2).[[21]](#endnote-21)

FUNDING

Between 2018 and 2020, SoftBank contributed 85 per cent of DoorDash’s capital.[[22]](#endnote-22) In February 2019, DoorDash’s stock was trading at $14 per share. Between February 2019 and June 2020, SoftBank raised the share price of DoorDash to $22, then to $38, and finally to $46 in June 2020.[[23]](#endnote-23) On December 9, 2020, DoorDash’s shares were floating at $102 per share with a $32.4 billion market valuation.[[24]](#endnote-24)

According to analysts, this 550 per cent increase in valuation by a single investor should have raised a red flag. This was especially true when the investor was Japanese venture capitalist SoftBank, which had a history of pumping up a company’s valuation until the IPO date and then watching the share price drop dramatically (e.g., Uber Technologies Inc.) or the IPO fail to even launch (e.g., WeWork).[[25]](#endnote-25) In 2019, SoftBank had lost $4.7 billion in a failed IPO launch for the commercial workspace company WeWork.[[26]](#endnote-26) However, SoftBank had invested over $1 billion in four fundraising rounds in DoorDash between 2018 and 2020, which helped boost the start-up’s IPO valuation to approximately $12 billion and secure a profit of $10 billion for SoftBank.[[27]](#endnote-27) The venture capitalist invested $280 million in March 2018, $350 million in 2019 (over two rounds), and another $50 million in June 2020[[28]](#endnote-28) (see Exhibit 1).

DOORDASH’S CHALLENGES

Restaurants

Third-party delivery services became the lifeline for the restaurant industry during the COVID-19 pandemic, when restaurants were forced to adopt the takeout model.[[29]](#endnote-29) However, many restaurants were concerned about delivery apps further reducing the restaurant industry’s already tight margins.[[30]](#endnote-30) Apps such as DoorDash, Uber Eats, and Grubhub charged up to 30 per cent or more for every order[[31]](#endnote-31) (see Exhibit 3). But consumers searched for food delivery using these apps, so restaurant owners felt that they were a necessary evil.[[32]](#endnote-32) Most independent eateries preferred diners to order directly through the restaurant, which offered the business owner greater control of the order, direct payment, and the power to decide whether to outsource delivery and which service to choose.[[33]](#endnote-33) Xu believed that delivery services helped restaurants expand their customer base: “Helping brick-and-mortar businesses compete, succeed and flourish in these rapidly changing times is the core problem we are trying to solve.”[[34]](#endnote-34) In April 2020, DoorDash temporarily reduced its primary fees for independent restaurants, which cost the start-up approximately $120 million. DoorDash also announced a $200 million pledge to help restaurants and delivery drivers.[[35]](#endnote-35)

Costs Borne by Customers

After paying a tip and the DoorDash delivery fee, customers paid approximately 40 per cent more on average for the convenience of a DoorDash order, compared to picking up food themselves.[[36]](#endnote-36) In other sectors, such as the credit card industry, the convenience fee was approximately 3 per cent of the transaction value.[[37]](#endnote-37) In addition, some restaurants raised their food prices when the food was ordered through a delivery app[[38]](#endnote-38) (see Exhibit 3). Some delivery apps, such as ChowNow, charged a monthly fee instead of a commission per order.[[39]](#endnote-39)

Consumers tended to shift their preference of food order service based on the lowest cost. Others used various different platforms or independent delivery services to look for the lowest commission fee.[[40]](#endnote-40) According to Nat Schindler of Bank of America Merrill Lynch, “The food delivery market is increasingly irrational as competitors flood the market with rewards and incentives, making online diners less loyal.”[[41]](#endnote-41)

A *Food & Wine* article reported that current DoorDash customers were so loyal that they used the DoorDash app for 85 per cent of their orders.[[42]](#endnote-42) In fact, the company reported that it was able to increase revenues in 2020 and yet lower its marketing expenses for attracting new customers:

The decrease in sales and marketing expenses as a percentage of revenue was driven by increased operating leverage as existing consumers generated a greater proportion of revenue, as well as increased efficiency in our consumer and Dasher [DoorDash driver] acquisition efforts[[43]](#endnote-43) (see Exhibit 2).

Treatment of Dashers

DoorDash categorized its delivery employees (which were playfully referred to as “Dashers”) as contractors, which lowered the company’s responsibilities but raised a considerable amount of challenges for public groups. However, after the ballot initiative Proposition 22 was passed in 2020 in the state of California, the start-up was clearly exempt from having to treat drivers as employees.[[44]](#endnote-44) Not only did Dashers lose their employee status, they were not even treated well in restaurants, which New York State Senator Diane Savino strongly objected to:

They’re coming in and allowing your business to continue to exist in some ways, and delivering food to your customers, and you won’t let them use the toilet for God’s sake? That’s just human decency—we shouldn’t have to legislate that.[[45]](#endnote-45)

On average, DoorDash paid Dashers $4.60 per delivery, plus tip (which was an average of $3.30 or 15 per cent of the order).[[46]](#endnote-46) The minimum wage in New York City was $15.00 per hour for regular workers and $12.50 for employees who received tips.[[47]](#endnote-47) Across the entire United States, the average wage rate was $11.80.[[48]](#endnote-48) However, most Dashers used the delivery service work as extra income, rather than as a full-time job.[[49]](#endnote-49)

DOORDASH’S GROWTH STRATEGY

Vertical Expansion

DoorDash intended to broaden its network of merchants through innovative services and by venturing beyond the food industry. However, DoorDash ran into strong competition from giants such as Amazon.com Inc. (Amazon) in many of those other areas.[[50]](#endnote-50) Within the food delivery vertical, the company intended to further penetrate the US market and explore international markets.

Introduction of DoorDash Pass

DoorDash was working on expanding restaurant choices for food delivery consumers by making meals available at all times. As well, the company introduced the promotional discount feature “DoorDash Pass” to increase affordability. Consumers could use the pass both in restaurants and in other industries where DoorDash operated.[[51]](#endnote-51) The pass allowed customers to order food without a delivery charge and with a reduced service fee for any orders over $12.[[52]](#endnote-52) DoorDash estimated that the pass allowed consumers to save $4−$5 per order. In the United States, the DoorDash Pass was priced at $9.99 per month.[[53]](#endnote-53) By September 30, 2020, over 5 million consumers had already bought the pass.[[54]](#endnote-54) In 2019, only 6 per cent of US food service consumers ordered food through DoorDash. That year, total spending on off-premise dining (e.g., delivery, takeout, drive-through) was $302.6 billion. According to DoorDash, the industry was still “in the early phases of broad market adoption.”[[55]](#endnote-55) The start-up also customized its content to target consumers based on their preferred cuisine and dietary choices.[[56]](#endnote-56)

Use of Machine Learning and Robots

In addition to continuously improving the economics of local platform delivery and operational efficiency, DoorDash was working on enhancing the experience for drivers (or Dashers) by maximizing their earning potential.[[57]](#endnote-57) Machine learning algorithms were developed to make DoorDash’s local logistics platform more intelligent and more efficient with every order. Data insights had been collected over the 900 million DoorDash orders since its inception. The data enabled DoorDash to estimate the preparation time of a sandwich compared to sushi, for example, in its quest to enhance delivery efficiency.[[58]](#endnote-58) DoorDash claimed that this was the main reason why it had gained the largest market share in the US food delivery service. Most other food delivery apps relied on machine learning only to estimate delivery time.[[59]](#endnote-59)

DoorDash also began using robots to deliver food orders.[[60]](#endnote-60) A robot could carry approximately 10 kilograms of food within a safely locked and tamper-proof compartment. Upon the robot’s arrival, DoorDash sent a text message and link to the customer to unlock and retrieve the food.[[61]](#endnote-61)

DoorDash was also researching autonomous vehicle and drone delivery, both directly and in partnership with specific technology companies.[[62]](#endnote-62) However, despite the potential of autonomous vehicle and drone delivery, DoorDash admitted that the development of such technologies was highly expensive, even though competitors such as Amazon and Uber were also investing in these initiatives.

DOORDASH COMPETITORS

DoorDash’s leading competitors were Grubhub and the Uber-owned Uber Eats and Postmates (see Exhibits 1 and 3). In August 2019, DoorDash acquired Caviar, a “premium restaurant delivery service,”[[63]](#endnote-63) to further enhance its market share.[[64]](#endnote-64) In June 2020, various DoorDash competitors including Uber and Just Eat Takeaway, a European local logistics platform, were seeking to acquire Grubhub. If successful, the acquisition could create one of the largest online food delivery companies in the world.[[65]](#endnote-65) According to BTIG analyst Peter Saleh, however, such a merger would not necessarily increase profitability, although cost savings could be realized in terms of marketing expenses, technology investment, sales efficiency, and accounts management.[[66]](#endnote-66)

In October 2020, US ride-sharing giant Lyft Inc. announced that it had signed a partnership agreement with Grubhub that allowed Lyft Inc.’s loyalty program members to receive free delivery from restaurants served by Grubhub.[[67]](#endnote-67) In December 2020, Uber acquired Postmates, a software solution provider that allowed “users to discover, order, and track food.”[[68]](#endnote-68) Various other DoorDash competitors acquired “ghost kitchens,” which referred to dedicated cooking facilities, enabling these companies to both produce and deliver the food directly to consumers.[[69]](#endnote-69) During this time, many restaurants decided to cancel exclusive partnerships they had signed with individual delivery apps, thereby limiting the ability of food delivery service providers to offer a unique service.[[70]](#endnote-70) **For example, in 2019, McDonald’s Corporation ended its exclusive partnership with Uber and added both DoorDash and Grubhub as delivery partners. This meant that Uber could no longer claim the McDonald’s brand as its unique delivery service.**[[71]](#endnote-71)

Backed by SoftBank’s capital, DoorDash was competing aggressively on pricing against Grubhub, which some analysts saw as a problem.[[72]](#endnote-72) According to Roy, “You have insanely large pools of capital creating an incredibly inefficient money-losing business model.”[[73]](#endnote-73) In 2019, DoorDash lost $450 million on $900 million of revenue. In the fourth quarter of 2019, Uber Eats lost $461 million on $734 million of revenue. In the first quarter of 2020, Grubhub lost $33 million on $360 million of revenue.[[74]](#endnote-74)

THE ROAD AHEAD

Xu intended to expand into what he saw as “all local business” in the “convenience economy.”[[75]](#endnote-75) He believed that “if we can make possible the delivery of ice cream before it melts, or pizza before it gets cold, or groceries in an hour, we can make the on-demand delivery of anything within a city a reality.”[[76]](#endnote-76) According to Tom White, an analyst at D.A Davidson & Co., DoorDash’s strong market share and future possibilities of expanding into grocery and retail delivery would outweigh the risk of slower growth awaiting the company after the end of the COVID-19 pandemic.[[77]](#endnote-77) And although restaurants were raising complaints about delivery service providers, the ghost kitchens were one of several new potential opportunities for food delivery platforms to grow.[[78]](#endnote-78)

In June 2019, **Amazon** exited the food delivery business and shut down its restaurants. Other companies were acquiring food delivery apps such as Postmates, which was planning an IPO launch in 2019.[[79]](#endnote-79) With so much skepticism associated with food delivery platforms, Xu had to decide how he was going to make his venture profitable.

EXHIBIT 1: DOORDASH Inc. VERSUS COMPETItORS

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Total Funds Raised**  **(in US$ Million)** | **DoorDash Subscribers**  **(Million)** | **DoorDash Pass Users**  **(Million)** | **Operations DoorDash US Cities** | **Market Share (Percentage)** | | | **Meal Delivery in Selected US Cities in  October 2020 (in Percentage)** | | | | **Net Operating Profit after Tax as of December 8, 2020  (in Percentage)** | |
| **DoorDash** | **Grubhub** | **Uber Eats** | **Cities** | **DoorDash** | **Grubhub** | **Uber Eats** |
| 2013 | 2.4 |  |  |  |  |  |  | San Francisco | 69 | 10 | 15 | DoorDash | –12 |
| 2014 | 20 |  |  |  |  |  |  | Houston | 61 | 8 | 29 |
| 2015 | 60 |  |  | 21 | 5 |  |  | Philadelphia | 55 | 29 | 14 | Grubhub | –5 |
| 2016 | 187 |  |  | 250 | 10 | 70 | 5 | Dallas | 54 | 9 | 34 |
| 2017 | n/a |  |  | 600 | 12 | 50 | 13 | Phoenix | 46 | 11 | 26 | Uber Eats | –37 |
| 2018 | 972 | 4 |  | 3,000 | 15 | 33 | 24 | Washington D.C. | 46 | 17 | 33 |
| 2019 | 2,100 | 10 | 0.8 | n/a | 35 | 20 | 32 | Atlanta | 44 | 11 | 39 |
| 2020 | 2,500 | 20 | 1.5 | 4,000 | 45 | 18 | 22 | Chicago | 37 | 32 | 28 |

Source: David Curry, “DoorDash Revenue and Usage Statistics (2020),” Business of Apps, October 30, 2020, accessed December 20, 2020, www.businessofapps.com/data/doordash-statistics; Liyin Yeo, “Which Company Is Winning the Restaurant Food Delivery War?,” Second Measure, December 16, 2020, accessed December 20, 2020, https://secondmeasure.com/datapoints/food-delivery-services-grubhub-uber-eats-doordash-postmates; David Trainer, “DoorDash’s New Valuation Is Even More Ridiculous,” *Forbes*, December 8, 2020, accessed December 20, 2020, www.forbes.com/sites/greatspeculations/2020/12/08/doordashs-new-valuation-is-even-more-ridiculous/?sh=59d7926a3b34.

EXHIBIT 2: DOORDASH Inc. FINANCIALS, 2018–2020 (in US$ Billion)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Financial Year** | | **Nine Months Ended September 30** | | **Quarterly** | | | | | | |
|  |  | **2018** | **2019** | **2019** | **2020** | **March 31, 2019** | **June  30, 2019** | **September 30, 2019** | **December 31, 2019** | **March 31, 2020** | **June  30, 2020** | **September 30, 2020** |
| **Total Orders** |  | 0.08 | 0.26 | 0.18 | 0.54 | 0.05 | 0.06 | 0.07 | 0.08 | 0.10 | 0.20 | 0.24 |
| **Gross Order Value** |  | 2.81 | 8.03 | 5.54 | 16.48 | 1.56 | 1.88 | 2.10 | 2.50 | 3.08 | 6.15 | 7.25 |
| **Growth in Total Orders** |  |  |  |  |  |  | 0.22 | 0.15 | 0.17 | 0.26 | 0.98 | 0.16 |
| **Growth in Gross Order Value** |  |  |  |  |  |  | 0.21 | 0.12 | 0.19 | 0.23 | 0.99 | 0.18 |
| **Revenue** |  | 0.29 | 0.89 | 0.59 | 1.92 | 0.13 | 0.22 | 0.24 | 0.30 | 0.36 | 0.68 | 0.88 |
| **Cost and Expenses** |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Cost of revenue, exclusive of depreciation and amortization | 0.23 | 0.52 | 0.35 | 0.90 | 0.10 | 0.12 | 0.13 | 0.17 | 0.19 | 0.32 | 0.38 |
|  | Sales and marketing | 0.14 | 0.59 | 0.45 | 0.61 | 0.14 | 0.14 | 0.17 | 0.15 | 0.15 | 0.17 | 0.29 |
|  | Research and development | 0.05 | 0.11 | 0.07 | 0.11 | 0.02 | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 |
|  | General and administrative | 0.08 | 0.25 | 0.18 | 0.34 | 0.07 | 0.05 | 0.06 | 0.07 | 0.08 | 0.09 | 0.17 |
|  | Total costs and expenses | 0.50 | 1.50 | 1.07 | 2.05 | 0.33 | 0.34 | 0.40 | 0.44 | 0.49 | 0.65 | 0.91 |
|  | Loss from operations | –0.21 | –0.62 | –0.48 | –0.13 | –0.19 | –0.13 | –0.16 | –0.14 | –0.12 | 0.03 | 0.04 |
| **Net Loss** |  | –0.20 | –0.67 | –0.53 | –0.15 | –0.19 | –0.19 | –0.15 | –0.13 | –0.13 | 0.02 | –0.04 |

Source: “Form S-1: DoorDash, Inc.,” United States Securities and Exchange Commission, November 13, 2020, accessed December 20, 2020, www.sec.gov/Archives/edgar/data/1792789/000119312520292381/d752207ds1.htm.

EXHIBIT 3: DOORDASH Inc. VersuS COMPETITORS (ECONOMICS)

PRICES OF A PANDA EXPRESS ORDER (in US$)

**Total = 63.16**

**Mark up = 49%**

**Total = 62.27**

**Mark up = 47%**

**Total = 42.32**

**Total = 57.91**

**Mark up = 37%**

Source: Brian X. Chen, “Up to 91% More Expensive: How Delivery Apps Eat Up Your Budget,” *The New York Times*, November 13, 2020, accessed December 20, 2020, www.nytimes.com/2020/02/26/technology/personaltech/ubereats-doordash-postmates-grubhub-review.html.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of DoorDash or any of its employees. [↑](#endnote-ref-1)
2. David Curry, “DoorDash Revenue and Usage Statistics (2020),” Business of Apps, October 30, 2020, accessed December 20, 2020, www.businessofapps.com/data/doordash-statistics. [↑](#endnote-ref-2)
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15. “The DoorDash Story,” Medium, October 4, 2013, accessed December 20, 2020, https://medium.com/@DoorDash/the-doordash-story-b370c2bb1e5f. [↑](#endnote-ref-15)
16. Ibid. [↑](#endnote-ref-16)
17. “DoorDash Shares Rise 80% in One of the Hottest IPOs of 2020,” op. cit. [↑](#endnote-ref-17)
18. Ibid. [↑](#endnote-ref-18)
19. Ibid. [↑](#endnote-ref-19)
20. “Form S-1: DoorDash, Inc.,” United States Securities and Exchange Commission, November 13, 2020, accessed December 20, 2020, www.sec.gov/Archives/edgar/data/1792789/000119312520292381/d752207ds1.htm. [↑](#endnote-ref-20)
21. “DoorDash IPO Tops $32 Billion Valuation on Share Price Topping Expectations,” op. cit. [↑](#endnote-ref-21)
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34. “DoorDash Shares Rise 80% in One of the Hottest IPOs of 2020,” op. cit. [↑](#endnote-ref-34)
35. Peter Eavis and Erin Griffith, “DoorDash IPO Papers Show the Difficulties of the Food Delivery Business,” *The Seattle Times,* November 15, 2020, accessed December 20, 2020, www.seattletimes.com/business/technology/doordash-ipo-papers-show-the-difficulties-of-the-food-delivery-business. [↑](#endnote-ref-35)
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