

FSM TASK 3

Market Analysis & Business Strategy Assessment

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Executive summary

GrubHub Inc. was founded in 2004 by two 'hungry' web developers looking for an alternative to paper menus. The Chicago-based company is in online-and-mobile food ordering business covering 900 US cities and London[1].

The report provides market analysis and business strategy assessment of GrubHub Inc. The approach to analysis is done at internal and external level. The tools used for analysis are SW(OT), 5C, PESTEL and PORTER five forces to study the company from all perspectives. GrubHub has some of the major strengths of being lead player in the category and hence extensive consumer penetration. The market of food delivery and takeout has seen rise of various competitors in past decade with localized expertise.

Further investigation is done in assessment section to understand current and logic behind GrubHub business strategy. The tool used to assess current strategy is Porter's Value Chain Model. The report evaluates logic behind company's strategy on four fronts: product, growth, competitions and revenue strategy. Some of the key findings include: GrubHub provides innovative tablet solutions to restaurant side increasing switching cost of restaurants to other competitors.

The key recommendations for the company are as follows: to improve the user experience in terms of high-quality images and recommendations based on user's history, provision of real-time updates, invest on customer retention by offering coupons and venture in market space of food trucks.

Internal Analysis

GrubHub has been profitable and growing company over the years of its operation by venturing into new markets and acquiring more customers. GrubHub being the dominant player in market has some of the key strengths and counteractive weaknesses.

Strengths

GrubHub has achieved a profitable business model that has also proven adaptable to new market realities and opportunities. As a result, GrubHub has been able to expand its number of restaurant customers to 35,000 [10] and enter into major US cities. This growth has made GrubHub a clear leader in online takeout ordering. Another strength of GrubHub is reduced labor costs as GrubHub has only web-based or mobile-based products and hence been able to make use of existing distribution and sales networks [10].

GrubHub as a company has an established branding, with current 3 million+ customer base and long history of respected business practices. The exponential growth of mobile phone usage continues to suggest limitless market cap and consumer demand for GrubHub services. GrubHub has a mobile presence that is trustworthy and sleek, with good user interface and member security record [1]. Financially GrubHub has a good amount of cash and zero loan [6] on hand. In 2014, the company had cash and cash equivalents of \$201.8 million from cash, money market funds, short-term securities and investments. It has a fairly good operating margin of 18% [10].

Weaknesses

GrubHub has begun to see deceleration in growth in core markets while also encountering barriers to growth in non core markets due to competition. Established companies and startups present significant challenges to GrubHub, since the venture capital funding environment has become so favorable [4]. As evident from its financials the company, though highly liquid, has not invested on Research and Development or on Customer Retention measures. All the expenses under Technology consist of employee salaries or website design and development; and this account almost 10% of total company Revenues [10]. It is very focused on expanding its market but its financials fail to account for any effort to improve Customer Engagement. GrubHub is dependent on consumer spending and food industry, both notoriously unreliable for demand. GrubHub's Profitability remains a question; company must continue to weigh fees versus appeal to customers for free or low cost delivery services [2].

External micro-environment

The report uses 5C Situation Analysis to identify the environment GrubHub is working and how it slots into that environment, to improve its capabilities and better customer needs. Four of the five points of 5C analysis identifies the factors from micro perspective affecting the business in an external environment.

1. **Company** - GrubHub's goal is to connect people with their favorite local restaurants so they can order the type of food they want, whenever they want it. They use websites and mobile apps to allow diners make orders. They also provides tablets with their software installed to the restaurants so they can see the orders, track order status, and interact with Grubhub services [12]. GrubHub remains a growing company and that growth seems to be sustainable given the size of the total addressable market, the low online total addressable market penetration today, and GrubHub's leading market share. GrubHub captured 61% of this market in 2014 [21].
2. **Competitors** - Grubhub currently faces several different types of competition. There are eight startups that have gotten into the online meal or recipe delivery market within the last three years [4]. There are also new competition from non-traditional players. E-commerce giant Amazon.com Inc and Ridesharing service Uber have also entered meal delivery market. Companies like Delivery.com, EAT24, DoorDash, Munchery are scaling their customer base rapidly[4] and can undermine Grubhub's success in the near future.
3. **Customers** - Since GrubHub acts as a platform that mediates diners and restaurants, they have two very different types of customers. **Diners** are users who order food delivery through GrubHub. This customer segment is characterised on two characteristics- Individual Diners and Corporate Diners. The company captures Individual Diners through both offline and online marketing activities. The company addresses Corporate Diners by providing group ordering and reduction in billing inefficiencies. **Restaurants** are businesses who pay GrubHub a certain percentage of each order revenue in exchange of receiving online orders [13]. They are willing to pay more for a better ranking in the search result, but only if they got 20% more orders from that better ranking. Furthermore restaurants are not willing to take too much orders during the busy time such as 5~6pm. So the orders during this time take longer than other time.
4. **Collaborators** - GrubHub uses Software-as-a-Service business model and functions like a middleman in the food delivery and takeout industry. The Company does all the sales and development by itself, therefore it doesn't really have collaborators.

External macro-environment

The last 'C' of Situation Analysis analyzes company on macro perspective and is explained using PESTEL framework. This helps to identify key factors affecting the business on a larger scale.

Context/ climate - PESTEL Analysis

- **Political** - The rules and regulations have increased. GrubHub may be required to accept reduced policy limits and coverage or to incur substantial costs to maintain the same or similar coverage. [6]
- **Economy** - Exchange rates change influence Grubhub's stock. For example, when the People's Bank of China reduced its interest rates, it influenced grubhub's stock. [5]
- **Social** - Millennials represent a fourth of total population in America and are major influencers of older population and trendsetters.[19] Millenials food ordering choice is changing rapidly and ranges from organic to home-cooked to healthy and list is endless.
- **Technological** - R&D innovations are more and more now, it helps make food delivery applications more fancy and efficient to use.
- **Environmental** - When it is bad weather or low temperature, people are more likely to order food online. But at the same time, the cost of food delivery goes up.
- **Legal** - Delivery companies GrubHub, Doordash and Caviar employ independent contractors rather than full-time employees which causes legal problem. [7]

Porter Five Forces of Analysis

- **Industry Rivalry - Medium:** After the acquisition of delivery services, GrubHub increased its market reach to execute deliveries and compete with successful startups in this domain like- Doordash, Postmates, Instacart and other small regional players.[20] Other major competitor is Yelp Eat24 that offers an extensive base of customer reviews and restaurants on the portal.
- **Threat of new entrants - High:** Amazon, Google and Uber are expanding food delivery market. [9] Innovative companies like Blue Apron and Saffron Mix are creating a new niche in the food delivery segment and disrupting the food market.[19]
- **Ease of substitution - High:** Grubhub does not have technology that can not be reproduced easily. For diners, they just need to create a new account to use service from a competitor. Restaurants can also switch side easily as they only need to deliver to wherever the order come from.
- **Customer power (Diners & Restaurants) - Medium:** Diners do not pay directly to Grubhub. Restaurants get innovative solutions from GrubHub like OrderTablet and they pay commission for every order [14]. But since Grubhub relies on the number of both types of customers to do the business, they have some degrees of bargain power, though they are not in position for a group bargain.
- **Supplier power - Low:** Grubhub function as the middleman and hence do not have to deal with suppliers for raw materials.

Strategy Assessment

This involves assessment of strategic importance of GrubHub's resources and capabilities and pinpointing the competitive advantage.

Business Strategy: Current

Porter's Value Chain Model

In order to analyze the specific activities through which GrubHub creates value and competitive advantage, following framework is used. These activities are divided in two groups- Primary and Support Activities.

Primary Activities

- **Technology** - GrubHub's web and mobile services are hosted through a third party public cloud provider.
- **Logistics** - The Company relies on internally developed proprietary products and systems to ensure rapid, high-quality customer service, website integration and maintenance. [10]
- **Operations** - The Company tracks and manages restaurant performance on the platform, helping restaurants manage capacity issues while ensuring that diners receive good service.
- **Service** - The Company provides 24/7 services, where representatives are able to assist diners to help them items to orders and inform status of their orders.
- **Sales and Marketing** - The Company has strong inside sales team, based in the Chicago office, and local, "feet-on-the-street" sales force. Majorly Company relies on word-of-mouth referral. Also it uses both online as well as offline advertising.

Support Activities

- **Intellectual Property** - The Company protects its intellectual property through a combination of trademarks and restrictions on access to and use of proprietary information.
- **Procurement**- The recent acquisition of two delivery services, Restaurants on the Run and Dining In, has expanded the level for procurement of total addressed restaurants. [10]

Business Strategy: Logic

Product Strategy:

The products of GrubHub can be analyzed using Ansoff Matrix, Product/Market expansion grid. The company has an extensive market penetration with more than 30,000 restaurants and over 5 million active Diners in its database. The strategy is to expand on sales by using existing product in existing market by getting more users on platform. This increases the user base for short term but in longer run Diner (customer) switching cost is very low. The product/ market diversification in domain of restaurants-that-do-not deliver is a strong move in order to compete with local competing players. This strategy is yet to increase the current consumer base of restaurants and diner acquisition.

Growth Strategy:

The company's main growth logic is to enter aggressively enter and penetrate in all consumer segments of diners and restaurants. Recently GrubHub has acquired two delivery companies in an effort to build its own delivery network for cost savings to reduce delivery fee paid by customers. The move intended to expand the total addressable market from restaurants who already offer delivery through phone calls to restaurants who may offer take-out but not delivery itself [22].

Competition Strategy:

Since Grubhub doesn't have any technology that can't be copied, they try to prevent competition from business side. If they can own dominant market share, there would be little intention for both diners and restaurants to switch to another competitor. Furthermore the free tablet they provided offers an easy and straightforward way for restaurants to participate the online ordering market. If their competitor can't offer that, they will need to make it up by a much better overall solution.

Revenue Strategy:

In the past years, the money invested significantly in the Research and Development is below the average level of the whole industry, which is necessary for a growing company. This is also a main reason causes it losing customers. As they didn't invest more money on R&D, the user experience of its product is not as good as its competitors.

Business Strategy: Recommendations

Product Strategy:

Company can improve the user experience by improving the interface of GrubHub Mobile App and website. The recent researchers validate that a 'hungry-customer' is more attracted to food-related stuff by high-quality pictures and images. This will retain the customer and make them less likely to switch to another service. Many local players like Eat24 and international local players like Swiggy have an attractive product layout. Diversification by GrubHub in delivery is the riskiest option and it does not have core competency in the domain. This should be made more successful by employing delivery-personnel on part-time flexible basis so as to provide service on 24X7 basis.

Growth Strategy:

GrubHub could invest on unmanned fresh food vending services. This will reduce their dependency on delivery services and help them venture into a new market which satisfies food cravings in Corporate and Campus environments by providing food 24X7. GrubHub and Corporates can benefit from studying the behavior and preference of their diners by analyzing what is being eaten when. Another potential growth area for GrubHub is the FoodTruck and the Home chefs market which can help them expand their network locally.

Competition Strategy:

As validated in analysis above more and more companies try to enter food-delivery market [4]. To compete with startups, GrubHub can further tighten their relationship with the restaurant. If they can help restaurants to market themselves on the internet for example, that gives restaurants extra reason to work with Grubhub. To compete with big companies with like Eat24/Yelp, they should use the data they have to provide extra service as that's

what their competitors will do. If Eat24 have Yelp reviews, Grubhub can provide recommendations based on user's order history, for example.

Revenue Strategy:

The company should focus to retain its existing customer base by investing more money on Research & Development of newer technologies and hence improve user experience. The company can also offer coupons to diners, that reduces the amount of total order, and diners get a new coupon every time after they finish an order. This is a good way to attract new user and increase customer retention. GrubHub gets the money back later by increase in number of total orders.

Conclusion

Grubhub is currently in a good position of online food ordering market. With clever marketing and product strategy, they have already captured a huge market share, and total number of consumers is still increasing: both diners and restaurants. Their subscription business model brings in easy revenue as they earn money whenever someone makes a food order. However, competitors are coming to them. For diners, their cost to switch to a competitor is very low. And when the company's growth is lower than investors' expectation, we see they don't hesitate to sell out their stocks [18]. We believe Grubhub still have a chance to stabilize itself according to some recommendations provided above. And let's don't forget the market is still largely unexplored: A lot of food orderers are not aware of (or not trust) online ordering service yet [15]. In short, Grubhub is still a very promising company. But if they want to last long they will need to find a way to keep their competitive advantage otherwise they will disappear like many other technology firms.

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