

DINING

The Ethical Delivery Dilemma

On-demand food service hurts restaurants and feeds on income inequality. Local startup Feastin' and others aim to change the system from within.

by [Sheila Tran](#) • 04/08/2021 6:19 am - Updated 04/07/2021 4:19 pm



Food delivery driver Sezgin Tekin places a food order in a Caviar warming bag in his trunk before delivering it on Friday, May 29, 2020. Photo by Kevin N. Hume

When COVID-19 shut down restaurants across the nation last March, Bamboo Asia co-operators Hannah Wagner and Sebastiaan Van De Rijdt were faced with a difficult decision.

Prior to the pandemic, the husband-and-wife duo had sworn off third-party delivery apps like DoorDash, Grubhub, and Uber Eats at all four of their Bay Area locations. In an industry where the average profit margin is [6.5 percent](#), it simply didn't make sense to work with services that charge a [15 to 30 percent commission](#) on every order.

But when take-out and delivery became the de facto business model, Wagner and Van De Rijt knew they only had two options: Partner with the delivery apps — or fight them.

And so, the couple prepared for battle.

In October 2020, Wagner and Van De Rijt launched their own delivery service: [Feastin'](#), which enables users to purchase meal kits, chilled prepared foods, groceries, alcohol, and more from restaurants anywhere in the Bay Area. The kicker? They're not charging restaurants a penny.

Wagner and Van De Rijt have their work cut out for them. In a space where Doordash, Grubhub, Uber Eats, and Postmates control [98 percent of the market share](#), it's going to be an uphill battle simply attracting users — not to mention defining what a sustainable and ethical food-delivery service even looks like.

The Wild West

Given how ubiquitous food delivery apps have become, it's easy to forget that the industry is still fairly young in the United States.

The national third-party food delivery model that we know today didn't come into its own until 2014. The oldest major players in the space, Seamless (founded in 1999) and Grubhub (founded in 2004) were initially focused on another issue: developing online platforms where diners could easily browse and order from restaurants that were already offering delivery.

That all changed when Postmates debuted its consumer-facing app in [2012](#). Launched in San Francisco, the app became the first widely used “Uber for Food.” By outsourcing deliveries to gig workers, Postmates enabled delivery from restaurants that San Franciscans never would've dreamed of having come to their doorsteps. The company opened up an entirely new market of buyers and sellers in the process.



Food delivery driver Sezgin Tekin delivers a Caviar food order to a customer in the Mission District on Friday, May 29, 2020. Photo by Kevin N. Hume

Postmates catalyzed the birth of an industry: DoorDash was founded in 2013; that same year Grubhub acquired Seamless and started testing delivery in [2014](#); then came Uber Eats, which ultimately acquired Postmates in 2020. Today, DoorDash, Grubhub, and Uber Eats — along with a handful of other services, like Caviar (which is owned by mobile payment service Square) — dominate the space.

“I would say what the market looks like right now is probably where Amazon was in the late ’90s,” says Sybil Yang, an associate professor of hospitality and tourism management at San Francisco State University (SFSU). Yang researches restaurant consumer behavior and behavioral economics.

She’s referring to the fact that in its early days, Jeff Bezos’ fledgling online bookstore was [bleeding hundreds of millions of dollars](#) every year in an effort to beat its competitors.

Similarly, DoorDash generated a net loss of [\\$533 million](#) in 2019 and \$149 million in 2020. During the height of the pandemic, it recorded [a profit](#) for the first time since it was founded — which promptly turned back to a loss in the next quarter. Financial records for the other delivery giants reveal similar results: tens of millions, if not hundreds of millions, in losses every year.

“But [Jeff Bezos] had a mission that if he was the big consolidator, the one-stop shop for everything you wanted delivered to your doorstep, that he would win the game,” Yang says. “I think that’s very much what the delivery space is like right now. It’s a Wild West battle, where the person who has the most market share will come out on top.”

As delivery apps continue to duke it out with each other, they’re also engaging in an increasingly delicate dance with the three participant groups that keep their businesses running: restaurants, diners, and drivers.

J.P. Allen, a professor in the school of management at the University of San Francisco (USF), contends that it might be nearly impossible to compete with the giants in an already hyper-competitive space. However, he added, a company that can offer a different enough product — and steal away one or more of those participant groups — might stand a fighting chance.

Movable Feast

Rather than focusing on simply getting food to customers as fast as possible, Wagner tells me that she and Van De Rijt founded Feastin’ from a different perspective: “How can we really help restaurants and the local food community and build a solution that fits that model?”

The answer they found to operating a sustainable business was cutting out on-demand delivery — the main value proposition offered by the giants — in favor of a two-day delivery model.

“We’re five times more efficient when it comes to our deliveries than the average gig worker,” Van De Rijt says. “We’re able to do deliveries back to back.”

To provide on-demand delivery, third-party delivery apps use gig workers who generally service one or two customers at a time — a model that isn’t very scalable or cost-efficient.

“That’s why you see these companies having to [change labor laws](#) in order to fit it into their cost structure,” says Van De Rijt, taking a swipe at the Uber- and Lyft-authored Prop 22, which passed in November to the dismay of many in the pro-labor camp.

While Feastin's two-day delivery window doesn't offer customers the instant gratification of DoorDash, it does enable them to bundle offerings from multiple Bay Area restaurants and grocery wholesalers in a single order, at zero cost to the company's partners.

The restaurant-prepared meals and meal kits are delivered chilled with simple reheating instructions so diners can add the finishing touches at home, which Van De Rijt notes "almost always tastes better" than delivery that's been sitting out. For the service's restaurant partners, that also assures that the integrity of the food is preserved.



Photo courtesy of Hannah Wagner

Feastin' delivers all over the Bay Area and charges customers a flat 20 percent commission fee on each order. The commission covers delivery in refrigerated, company-owned vans by Feastin's six full-time delivery drivers, who all hold food handlers' permits and are paid a living wage that starts at \$21 per hour. For driver Felix Castillo, who's spent his entire career in the hectic food industry, the regular 9-to-5 hours and job stability mean that he has more time to spend with his 8-year-old son, Jason.

Developing an ethical labor model was a prime motivator for the Feastin' founders, who firmly believe that the on-demand delivery model using gig workers isn't sustainable.

"These models ultimately rely on income disparity to be viable," Van De Rijt says. "We need people willing to pay and gig workers willing to receive little enough for the delivery service to be able to make their margin."

Another key difference between the Feastin' model and that of its on-demand counterparts is that restaurants aren't charged a single cent to accept orders through Van De Rijt and Wagner's platform. There's absolutely no cost for restaurants to join Feastin' — zero commission per order,

zero monthly fees, and zero start-up fees — which Wagner says is part of the company's mission to “truly support the food chain.”

For Nelson German, executive chef and owner of [alaMar Kitchen & Bar](#) and [Sobre Mesa](#) in Oakland, that initially sounded a little too good to be true. “But when I saw Dominique Crenn on the platform, I knew this was legit,” he says.

Crenn is currently the only female chef in the United States to be awarded three Michelin stars. She's the mastermind behind San Francisco's critically acclaimed Atelier Crenn, which, of course, isn't on any other delivery platforms. That's just one example of how Feastin's selection — which Wagner says “focuses on an elevated experience” — uniquely differs from your average third-party delivery app.

Despite being relatively young, German says that Feastin' generates 40 to 50 meal kit orders for his restaurants every month. During holidays, that number can spike to 75 orders in a single day. “There's demand for this style of food and delivery,” he notes.

As for profitability? In an email, the founders say that Feastin' is “profitable on a cost-per-order basis.” They also point out that because their customers tend to use the service to buy a week's worth of meals and groceries in a single order, the average cart size is “substantially higher” than that of third-party delivery apps while being more cost-efficient for delivery.

In true start-up fashion, Wagner and Van De Rijt have ambitious goals. The company is rapidly growing and fulfilling hundreds of orders every month. They're aiming to expand to Southern California by the end of the year, and then expand all over the United States in the next few years. Though Feastin' is currently only accessible as a website, there's a mobile app on the way — as well as a subscription-type service that would cut out the two-day wait time completely.

The two acknowledge that on-demand delivery platforms likely aren't going anywhere, and say that they see Feastin' as a “much-needed variation of food delivery” rather than a direct competitor to the food delivery giants.

“We're not trying to be like these delivery companies,” Wagner says. “We put [our people and culinary experience] first, not just the logistics or the business or entrepreneurship.”

Secret Sauce

But can a company that doesn't offer on-demand delivery succeed in the hyper-competitive delivery market?

Exploring that question means getting to the heart of what customers are really purchasing when they use third-party delivery services.

“You can paint a hospitality face to it [because] you have to make sure that service values are met,” says Yang, the SFSU associate professor. “But it's not the core of what they do.”

A good way to think about what business the apps are actually in, Yang says, is to ask yourself how mad the customer would be if the service provider messed up a portion of the order. If the food arrives hot and on time, but the driver was completely inhospitable, would the customer be pissed off? In most cases, probably not, because they got their food. That's an indication that diners are paying for the logistics of the delivery itself, not the service or hospitality.

The on-demand aspect of delivery is also an essential part of the value proposition. A [2019 national survey](#) by U.S. Foods found that the average person has two delivery apps and uses them three times a month. On average, customers are only willing to wait 40 minutes for food delivery.

But from her experience as a restaurant consultant, Yang finds that the biggest thing consumers care about is knowing exactly what's happening to their order at any given time. That big piece of infrastructure is what the delivery giants are all about: using technology to enable the logistics and transparency of on-demand delivery.

"That's the secret sauce — the amount of assurance that the customer has on what's happening with the delivery," she says.

Everything else is easy to copy. The tough part is the logistics: actually lining up the deliveries and keeping track of the delivery in motion.

"If you can't do that," Yang says, "You're not going to be a player in the marketplace."

Alternative delivery services like Feastin' also market themselves as more "ethical" because of their relationships with restaurants or drivers. That's another value proposition, but Allen, the USF professor, says that betting on the American consumer to pay more for ethical products has proven historically difficult. "It just doesn't seem to be part of the ethos," he says.

There will always be a community of consumers who find value in supporting local and ethical businesses. But is that enough to sustain an industry?

"I think a lot of people feel the plight of the restaurants and delivery drivers out there," Yang says. "Whether they'll stop ordering from Uber Eats or taking an Uber from the airport? Probably not."

A Slice of the Pie

For other companies, providing an affordable delivery service for restaurants means not operating as a delivery company at all.

Ikir Sela has always rooted for the hometown hero. He grew up in and around independent pizzerias in New York City and comes from three generations of pizzeria owners, which is why he understands firsthand "the struggles that these operators are facing."

"I know what my uncle was great at — he was great at his craft. And that was the number one reason why he was in this business," Sela says. "But I also know that my uncle had no idea how to advertise or leverage technology."

In 2010, Sela founded [Slice](#) to help bridge the digital and technological gap for independent pizzerias. He started by building websites and online ordering platforms for friends and family, then quickly expanded Slice to become an all-in software solution that also includes loyalty marketing, data insights, a consumer-facing marketplace on web and mobile, customer service, and, of course, delivery. Today, the company services over 15,000 pizzerias in all 50 states.

The company sets itself apart by charging restaurants a flat fee of \$2.25 per order (and only for orders over \$10) instead of a percentage-based commission. That way, Sela says, "the upside of the higher order is passed on to the merchants."



Slice is a delivery app for pizza with over 15,000 pizzerias on its platform.

The top four delivery apps charge commissions that range anywhere from 15 to 30 percent. That means that on the average pizza order value of \$30.62, pizzerias could fork out anywhere from \$4.59 to \$9.19. Slice's \$2.25 share of that average order works out to be just 7.5 percent.

There also aren't any start-up or monthly fees to join Slice or take advantage of its services — pizzerias simply opt-in to the flat fee.

Customers are only charged one fee from Slice: a “support local” fee used to “develop the new tech and services that keep pizzerias thriving.” As of press time, that was \$0.95 in San Francisco. In contrast, DoorDash charges a 15 percent service fee and a new “regulatory response fee” between \$1 to \$2.50 in areas that have adopted temporary fee caps. On a \$20.95 pizza in San Francisco, diners can expect to pay a \$1 regulatory response fee and \$3.14 in service fees.

After delivery became the de facto business model during the pandemic, Slice made its own foray into the on-demand delivery space in May 2020. But instead of managing the logistics and labor of delivery in-house, the company outsourced delivery to whitelabel services (like DoorDash Drive) and third-party delivery companies.

By leveraging the buying power of over 15,000 pizzerias on its platform, Sela says Slice was able to negotiate a “much friendlier and more fair rate” for its restaurants. “[Slice Delivery] can plug into our API. For the pizzeria, they can call the driver by pushing a button,” he adds.

The cost for restaurants to opt in to delivery? Zero dollars. Slice handles the entire expense of paying the delivery companies, but merchants can choose to subsidize some or all of the cost for customers. If they choose not to subsidize it at all, customers pay a flat rate of \$6.90 for delivery. (The fee is slightly higher in California due to regulations.) Around 20 percent of Slice's merchants, or approximately 3,200 shops, have opted in to delivery.

For Sheida and Kevin, who own Strada Pizza in San Francisco, Slice has been a “lifeline.” The duo, who asked to only be referred to by their first names, launched their pizzeria just four months before the pandemic hit.

“On average, we probably get anywhere between \$800 to \$1,200 a week [using Slice],” Sheida says. On busy nights, Slice accounts for 25 percent more orders for the restaurant compared to the bigger delivery platforms.

The delivery giants are unprofitable despite charging the merchant and the diner high fees, so how does Slice’s model work when it charges lower fees on both sides? Sela says the key is that Slice doesn’t handle the logistics or labor of its delivery.

“Slice exists to serve two parties: the small business and the consumer,” he says, pointing out that the delivery giants have to provide value to merchants, diners, and drivers. “Typically, these models end up subsidizing one of those sides. Because it’s almost impossible to balance all three.”

In the long term, Sela tells me that Slice is developing technology to empower in-house delivery for its merchants and cut out third-party delivery services completely. The service would allow customers to track their order even when it’s being directly delivered by the merchant.

However, the platform isn’t without its skeptics. Yang says that platforms like Slice are networked business models: “You get more buyers, you get more sellers. You get more sellers, you get more buyers.”

“One of the huge disadvantages to something like Slice is that you’ve automatically capped yourself in terms of the number of buyers,” she says. “Because you have to want pizza.”

Whether or not it’s possible to succeed as a niche in a hyper-competitive space is still up in the air, but what we do know is that Slice turned profitable in the second half of 2020. “On a unit economic basis, we’ve got software-like margins,” Sela says. “Our gross margins are 75 percent.”

He’s quick to emphasize that Slice is closer to a software company than a delivery company, and that it’s firmly focused on pizza.

“We’re not a logistics business model like the others,” Sela tells me. “Ultimately, Slice exists to empower small businesses.”

The Last Supper

While the top third-party delivery companies might seem unflappable now, Allen says that “it’s kind of a very uniquely vulnerable time for the DoorDashes of the world.”

Demand for delivery has **exponentially increased** during the pandemic, but it’s still unclear how lasting that will be. While the giants certainly have enough investor stake to continue their expense freefall, the uncertainty doesn’t bode well for an industry that has rarely ever been profitable.

That means that after the pandemic, delivery apps are likely to prioritize developing customer loyalty. Instead of relying on other services to come in and save the day, Allen believes that could be a prime opportunity for restaurants to increase their bargaining power.

“[These companies] are not just a delivery service, they’re going to be this huge intermediary that’s going to connect all food providers with food consumers,” Allen says. “If this is going to be the future, then the restaurants somehow have to come together and increase their bargaining power.”

For instance, that could look like all of the Thai restaurants in San Francisco forming a collective and telling DoorDash: “If you want Thai food in the city, you’re going to have to cut us a deal.” The challenging part of that approach, of course, is that these restaurants are currently competing with each other. It’s difficult enough for big businesses to cooperate, much less mom-and-pop shops.

“It’s not going to happen naturally,” Allen says. “People have to start thinking about it and think, ‘This is a really new situation and we need to do business differently, or else we’re going to be wiped out.’”

The other danger of partnering with third-party platforms is that they have access to all of your data: the dishes people like, the price points they prefer, the times they typically order, and countless other metrics. “In the longer term, [restaurants will] probably be squeezed kind of like the Amazon third-party sellers are — where Amazon starts competing against them and issuing their own AmazonBasics products,” Allen says.

That’s already happening. In [2019](#), DoorDash became the first food delivery service to launch its own [ghost kitchens](#), which are takeout- and delivery-only kitchens that operate through delivery apps. The company has essentially become a landlord for existing popular brands like Halal Guys and Chick-fil-A. Who’s to say they won’t leverage the wealth of data they’ve accumulated to launch their own food brands?

“These are all reasons why the local restaurants can’t just sit back and hope that these platforms will just kind of go away or be happy with their 15, 20, or 30 percent,” Allen says. “They’re going to keep pushing if they get this entrenched position.”

Beyond the food space, delivery apps have always had lofty goals. Postmates, the pioneering food delivery service that launched in 2011, was initially intended as an [“Amazon-like same-day delivery service”](#) for local products of all kinds.

In a 2018 interview with the [LA Times](#), DoorDash founder Tony Xu said, “Four, five years from now we want DoorDash to be a true logistics platform. When we founded the company, the goal wasn’t necessarily to start and end in restaurants.”

Food is just the tip of the iceberg. For the delivery giants, food might be the equivalent of what books were to Amazon — and we might soon have more to worry about than an overpriced burger.

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