

The Rider always rings twice. Dark clouds in sight for the food delivery (02.04.2021)

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Franco Becchis examines the dynamics that shape the activity of digital platforms in the food delivery sector, highlighting a series of critical issues related to microeconomic features of their business model, financial performance and workers' legal classification.

The origins

After the year 2007 with the iPhones and apps arrival, Grubhub was the first food delivery platform to grab the opportunity by buying an app developed by a student to make online orders from his class.

Since then, food delivery players have had a turbulent growing path. This was characterized by mergers and acquisitions, like the ones of Amazon with Deliveroo, Takeaway with Just Eat and Grubhub, Uber Eats with Postmates: from 7 players, the market got reaggregated in 4 giants.

Driven by the 2020 lockdowns, the food delivery platforms dimensions have reached the sizes summarized in Table 1 (see below), numbers which have already been overcome at the moment of this article's publication.

For Doordash, which has tripled its deliveries in 2020, the market cap is around 60 billion, and Deliveroo's objective in the initial public offering was a \$8.8 billion market cap, a target that in these days (end of March 2021) seems too ambitious, as far as these estimates can be valid in a market characterized by bubbles and psychological waves.

Meanwhile, new players appeared on the market, like Grab, a Singapore online restaurant whose market value is deemed to be \$40 billion.

The platforms' role

Food delivery platforms coordinate all the market elements: the order, the allocation to the rider, the delivery spots, the timing, the remuneration. Because of all this, these platforms differentiate themselves from the outsourcing, which always existed, and from the matching apps, like the taxi drivers' ones.

The apps are able to take advantage of the network points' economies of density, by optimizing the deliveries that are found on the way that links the starting point and the arrival ones. The effect on unit costs is the result of two opposite drivers, the time reduction and the piecework payment modalities, with uncertain results on the hidden drivers' incentives.

Food Delivery is changing the way people demand restaurant services, transferring the physical experience of the restaurant and table service towards the experience of receiving food at home. In this context, the restaurant is likely to leave the hospitality business, entering an unknown territory: the e-commerce. Deliveroo has declared to consider food the new frontier of this sector, with a market potential of \$1.3 tr.

Companies	Revenues 2019	Revenues 2020	Profits/(losses) 2019	Profits/(losses) 2020	Market cap (stock market value) 2019	Market cap (stock market value) 2020
Deliveroo	£476 million	£1.2 billion	(£317 million)	(£223 million)	\$3-4 billion	\$7 billion
Just Eat	\$466.5 million	\$2.494 billion	(\$129.5 million)	(\$184.5 million)	\$5.64 billion	\$15.01 billion
Uber Eats	\$1.9 billion	\$4.8 billion	N/A	N/A	\$20 billion	N/A
Grubhub	\$1.3 billion	\$1.8 billion	(\$18.6 million)	(\$155.9 million)	\$4.45 billion	\$6.31 billion
Delivery Hero	\$1.49 billion	\$3.4 billion	\$190 million	(\$673 million)*	\$15.95 billion	\$30.55 billion
Glovo	€ 216 million	N/A	(€ 189 million)	N/A	€ 1 billion	N/A
DoorDash	\$850 million	\$2.9 billion	(\$667 million)	(\$461 million)	\$13 billion	\$42 billion

Tab 1: Main economic indicators for 2019 and 2020 of the food delivery players.

*estimate marketscreener.com

Sources: www.companiesmarketcap.com and www.businessofapps.com

Despite the tumultuous growth and the fees requested from the restaurants, all the platforms loose money for each delivery; even Coupang, an Asiatic giant which, despite a turnover of \$20 billion, has a negative cash flow of \$185.2 million (source: <https://bit.ly/3u4odrv>). An exception is Meituan, on which there are no reliable aggregated data. Also Deliveroo has declared profits in the second and third quarters of 2020: the platform puts the riders one against the other, in order to exasperate the efficiency and paying £3-3.50 for each delivery. Its attitude, though, is starting to have a considerable price, in fact some investors are stepping back from the IPO.

The apps of the food delivery are encapsulated in the industrial cycle in between the restaurant and the client as the only alternative to the table service's ban, and manage the relationship between the rider and the restaurant like a monopolist resources allocator. These apps steal clients from the restaurants, but at the same time they bring them new ones.

The complex relationships that regulated the relations between the catering industry subjects has been reduced to the allocation algorithm anonymity, and got rid of the rich social and psychological implications that characterized them, with effects on the restaurants, the clients and the riders themselves, with a growing reciprocal resentment feeling emphasized by the anonymity, the pressure over the times and the impossibility of a direct relationship.

The delivery platforms, instead of building a relationship of trust with restaurants, took advantage in an aggressive manner of their strong position in the market, asking fees up to 35%, leaving the restaurants a 10% margin. Later, the fees fell down to about 20%, especially for the competition between the players and the entrance of small outsider platforms like Big Night, with an independent app that charges 6.5% and that challenges the oligopoly of Deliveroo, Uber Eats and Just Eat. Deliveroo, for example, used to take 25% some years ago, percentage which got around 35% with the pandemic. Now, however, it accepts 19% from a London restaurant chain.

An additional threat to the catering sector comes from the so-called dark kitchens, which are kitchens hidden in outskirts warehouses, especially found in London. With these alienating food factories, the delivery sector has made alliances that subtract market shares to the restaurants. Karma Kitchen, a British company that rents spaces for dark kitchens, in a fund raising round aiming at collecting £3 million for expanding itself, rounded up £250. The finance that bets on the growth, and which is indifferent to the returns on investments, dominates the field.

Future prospects

Sometimes what is the best for all, is the worst for someone: the food delivery sector faces an uncertain future in which two things will strike it. Firstly, once the anti-covid restrictions will be loosened, people will probably line up to go out and eat in a restaurant, instead of ordering food at home. The extraordinary 2020 results are likely to be reversed by the covid fight positive evolution. Moreover, the evolution of the riders' legal classification, over which many jurisdictions are oriented toward greater protection (Deliveroo in UK, for example, pays less than the minimum legal salary), will imply substantial increases in costs, hardly transferable to the restaurants or to the clients in an elastic demand condition.

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