Stand & Deliver

Consumer demand for convenience has led to an explosion in the food delivery market. Another revenue stream is undoubtedly attractive to restaurateurs. But what if your delivery service ends up stealing from your core business? **Elly Earls** investigates

Once solely the domain of pizza and Chinese restaurants, the food delivery market has risen sharply in recent years to the point where everything from falafel to fine dining can be ordered, dispatched and delivered to your home or office with just a few clicks of the mouse. And with customers becoming ever more accustomed to convenience in all aspects of their lives, it's something restaurateurs can't afford to ignore.

The industry's growth figures have been particularly impressive over the last year or so, with Just Eat processing an incredible 92.6 million orders in the last financial year, 57% more than the year before, and Deliveroo growing 25% month-on-month and constantly expanding into new areas. In the UK, the company currently operates in over 40 cities, with 24 further launches planned before the end of September 2016. It's little wonder that mega multinational delivery giant Amazon and globally-popular car booking app Uber have decided to get in on the action too.

Yet, while consumer demand for convenience shows no sign of waning, the food delivery market is one that's posing more questions than it's answering for hospitality operators at present. How do the economics work? Is one delivery model better than another? Who will succeed and who will fail? Is the demand for delivery set to disrupt the foodservice industry beyond recognition? What's next?

It's certainly not the right course for every operator, according to hospitality consultant Bob Puccini, president and CEO of Puccini Group and a member of the International Society of Hospitality Consultants (ISHC). "Despite its growing popularity, restaurants need to consider whether their cuisine and concept are delivery-appropriate before entering the space," he advises. "While the opportunity for additional revenue sources is attractive, the reputation of the restaurant will suffer greatly if the experience can't hold up."

"Factors such as ambience, service, and brand consistency significantly impact the experience of a meal, and when you strip them away, the perception of the value of the food is going to change. Additionally, it's important to develop a delivery-specific menu only offering items that will travel well and to be aware that the experience for diners in the restaurant can be negatively impacted if the kitchen is too busy preparing meals to go." »

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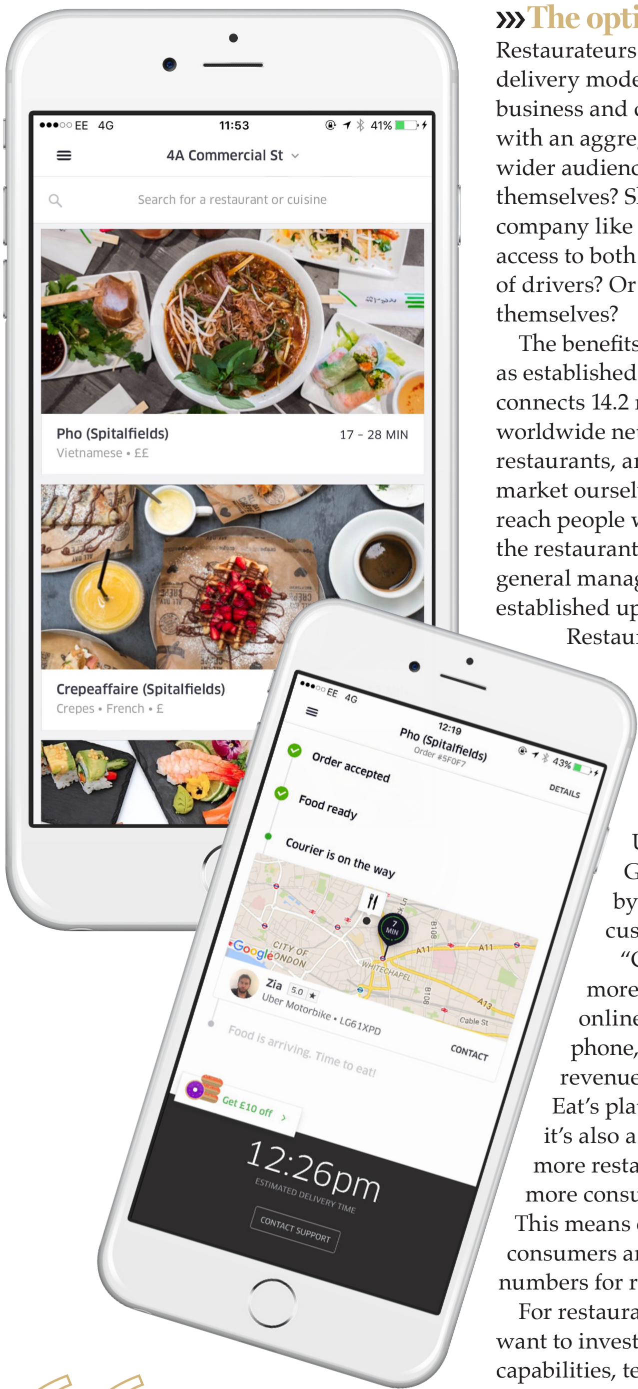
Just Eat is trialling self-driving delivery robots in London in an effort to help restaurants meet demand during peak times



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The options

Restaurateurs also need to decide which delivery model is most suitable for their business and client base. Should they work with an aggregator like Just Eat to reach a wider audience but still deliver the food themselves? Should they team up with a company like Deliveroo, which gives them access to both an online platform and a fleet of drivers? Or should they simply do it all themselves?

The benefits of working with a platform as established as Just Eat, which today connects 14.2 million customers to its worldwide network of 64,000 partner restaurants, are clear. "It's a great way to market ourselves to a wider audience and reach people who may not have heard about the restaurant before," says Sameer Berry, general manager of Gaylord London, a long-established upmarket Indian restaurant.

Restaurants pay a commission of 13% to Just Eat, which goes towards providing data and technology that helps them run their operations more efficiently and, according to the company's UK managing director Graham Corfield, will be offset by an immediate increase in customers and order size.

"Consumers spend discernibly more when ordering takeaway food online than when they do it over the phone, so restaurants see immediate revenue uplift when they join Just Eat's platform," he remarks. "Plus, it's also a self-fulfilling cycle – the more restaurants that join Just Eat, the more consumers also join our platform. This means ever-expanding choice for consumers and ever-growing customer numbers for restaurants."

For restaurants that don't have or don't want to invest in their own delivery capabilities, teaming up with a provider like Deliveroo, which can offer them access to a well-developed logistics platform of over 5,000 riders in the UK, on top of a highly visible app and website, could be a better option.

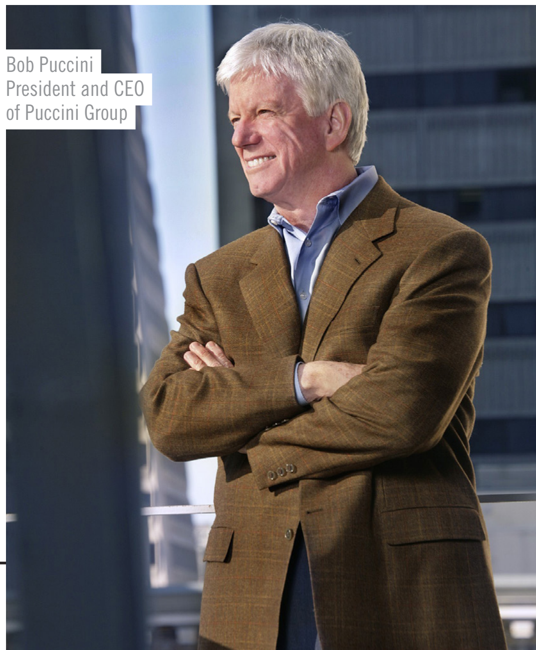
"By partnering with Deliveroo, restaurants can leverage their excess kitchen capacity and existing locations to generate revenue increases of up to 30%," says Deliveroo's UK and Ireland managing director Dan Warne. "Our partners are also able to maximise their restaurants in traditionally quieter times, such as Sunday evenings, one of the busier times for Deliveroo."

However, it's not an easy set-up to get right, as London-based smokehouse and BBQ restaurant Bodean's BBQ, which signed up to the service in late 2015, discovered. "To begin with we noticed a healthy increase in revenue which any operator would be pleased with. However it soon became apparent that the later surge in delivery orders and the costs (labour, packaging and corporate time included) associated with such increases were slowly reducing our margins," recalls operations manager Bjorn Berkemeijer.

Since then, the team has had to adapt its food ordering process many times to best cope with both in-house and delivery trade, as well as making structural changes in some restaurants to accommodate the influx of delivery orders. "Unfortunately the biggest impact we've had to adapt to was reducing front-of-house staffing levels in some of our units. Convenience does come at a price, so businesses need to adapt or they could find themselves in very difficult situations further down the line," he stresses.

The final option for operators is to follow the example of Benugo, which, after months of preparation, launched its own delivery service in June 2016. "As food and drink becomes ever-more accessible, and consumers look for food at any time of day, restaurants have to keep up with demand, and offering a delivery service is one route to answering the need," explains the brand's head of marketing for retail, Rory McEntee.

"For us, it was an obvious decision to manage our deliveries in-house. We have high-end kitchen facilities that can solely service deliveries, and therefore can maintain the high standards customers expect from Benugo. It also allows us to continue to build relationships with our customers. For example, should the customer wish, we can set up the lunch table and take any leftover packaging away, which we then recycle. It's this fully rounded approach to our delivery service that we have found is the real point-of-


Bob Puccini
President and CEO
of Puccini Group

All kinds of cuisine are now home-delivered

> *The delivery trend is here to stay and rightly so, but it will eventually convert a much larger share of dine-in customers to home deliveries*
>
> BJORN BERKEMEIJER, OPERATIONS MANAGER, BODEAN'S BBQ

difference with our customers, and results in positive feedback and repeat custom."

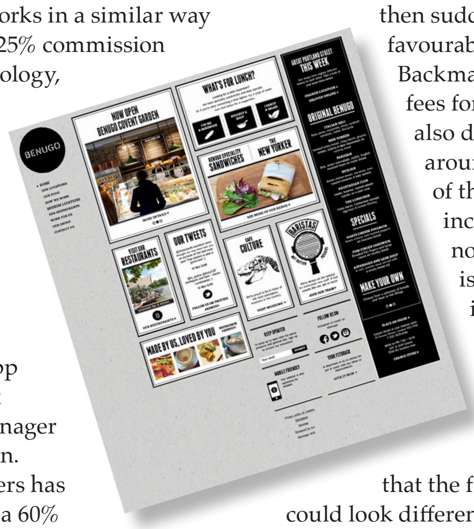
That said, McEntee knows there will be challenges ahead. "As the demand for deliveries and our distribution area grows, managing time and efficiency will become more of a challenge, particularly as everybody wants their deliveries at the same time!" he admits. "However, our independent approach, such as walking deliveries direct from our shops and having that one-to-one relationship with our customers puts us in a strong position."

The threats

It is certainly not as simple as pick a model, adapt your business accordingly and sit back and watch the extra revenue roll in. The recent entrance of Uber (with UberEATS) and Amazon into the food delivery market is not only presenting restaurants with even more options, but potentially threatening the business of established providers like Just Eat, Deliveroo, Orderswift and Grubhub.

"Uber and Amazon pose a big threat to what at the moment is still an emerging market that's finding its own feet and working out the rules," believes Peter Backman FIH, managing director of foodservice insight company Horizons. "There's still such a lot of fluidity in the way both consumers and operators act in this space."

UberEATS, which works in a similar way to Deliveroo, taking a 25% commission per order for the technology, marketing and logistics it provides, has already made quite an impression. "In the first few days of launching the app, which is now live in 19 cities throughout the world, we had over 100,000 app downloads," says Alex Czarnecki, general manager of UberEATS in London. "And one of our partners has told us they have seen a 60% increase in sales."



Moreover, since UberEATS' Europe launch, one competitor, Take Eat Easy, has already closed its doors, a reminder to other providers in the space that innovation will be the key to protecting their share of what is still a very dynamic market.

Just Eat has recently started trialling self-driving delivery robots in London in an effort to help restaurants meet demand during times when there are fewer drivers available. Meanwhile Deliveroo has gone one step further with its off-site kitchen scheme, RooBox, which allows restaurants to reach new clientele in residential areas without opening up a new outlet.

Nicolas Steiner, co-founder of London's first temakeria restaurant Yoobi, which currently has two RooBoxes in Battersea and East Dulwich, says: "We put in our own chefs, we bring our own operational expertise and Deliveroo take care of the facility and the delivery. For us it would have been a big risk and would have required quite a bit of investment to reach customers in those areas, but RooBox was able to eliminate that risk for us, so it was a no-brainer to open up with them."

"It's definitely helped us accelerate our growth by a large percentage over a very short period of time and as soon as we find another spot where we feel both us and Deliveroo can do well we'll definitely enter that market."

The future

While anecdotal evidence today shows that the majority of business from food delivery is incremental, and the trend towards convenience has not yet significantly reduced 'bums on seats', this may not be the case for much longer. "We predict that this trend is here to stay and rightly so, but it will eventually convert a much larger share of dine-in customers from restaurants to home deliveries," Berkemeijer says.

The economics of the model would then suddenly become less favourable for restaurateurs, Backman stresses. "The fees for aggregators that also do delivery equate to around 20-30% of the cost of the meal, which, for incremental business is not too bad at all, but is fairly substantial if it's replacing someone going to the restaurant," he explains.

For this reason, Berkemeijer believes that the future of foodservice could look different to today. "You could find smaller outlets popping up in the future that only cater for delivery or takeaway, something that we are currently exploring for future sites," he says. "Restaurant groups themselves would have to scale down their on-site operations drastically which, in turn, would have a huge effect on employment, which could become another burning topic."

"Bums on seats matter for the restaurant industry, but understandably so do home deliveries for consumers and the jobs that are created by delivery service companies. There is certainly more work to be done to reach a harmonious middle ground for this to be a symbiotic relationship." ■