

# Getting the Real Dish on Food Delivery

THANKS TO DEMAND FOR MORE CONVENIENT SERVICE, CONSUMERS CONTINUE TO TURN TO DELIVERY TO FULFILL THEIR RESTAURANT FIX IN A HURRY—AND THE FULL-SERVICE INDUSTRY IS WHERE THE FASTEST GROWTH IS TAKING PLACE.

By Barney Wolf | December 2016 | Service

Delivery has long been a component of America's pizza parlors and Chinese food purveyors, but now—as time-strapped consumers demand convenience—all manner of restaurants are offering door-to-door To-Go services. Laying claim to this business opportunity is a growing industry of online third-party delivery services, eager to run the delivery relay on behalf of restaurants.

These providers include divisions of fast-growing Amazon and Uber, as well as others that have a history in dealing with restaurants, such as Groupon and GrubHub. Most depend on technological advancements powered by the ubiquitous adoption of smartphones and mobile devices.

Although just 5 percent of restaurant spending is done through online delivery platforms, according to investment firm Morgan Stanley, and pizza makes up more than half of that, delivery services are revving their engines to grow the business. In fact, NPD Group restaurant analyst Bonnie Riggs, who acknowledges that pizza currently makes up 64 percent of the 1.7-billion-trip delivery pie, suggests that full-service restaurants are where the growth is occurring. During the three-year period that ended in May, overall restaurant delivery was flat, an NPD report found. However, when pizza data was excluded, the report found that delivery was up 26 percent—up 21 percent for casual-dining restaurants alone.

NPD also found that diners not currently using delivery services would consider doing so for casual concepts more than any other segment. As a result, “full-service restaurants have the best opportunity for growth in delivery,” Riggs says.

Similarly, Morgan Stanley notes that third-party online restaurant delivery services, which are mainly in larger metropolitan markets, have been gaining traction because of the incremental business the service produces for restaurants. “In our view,” the investment firm's analysts state, the nation “is in the early days of a significant shift in the access to deliver food,” and the trend will gain steam as various internet-enabled businesses continue to grow and offer more variety.

That's one reason big companies with infrastructure in place, like Uber and Amazon, entered restaurant food delivery. “What else can we do with this vast network of drivers and the efficiencies it brings?” is the question we asked,” explained Uber's special projects chief, Jason Droege, at the National Restaurant Association show in May. “To connect people with the food they want has a lot of power.”

People are busy and have less time dedicated to food preparation at home, says Anna Tauzin, senior marketing and innovation manager at the NRA. “They like what restaurants have to offer, and now they want all those options at home.” Two years ago, restaurant sales surpassed grocery sales, the NRA reported. Not surprisingly, consumers have sought more ways to source food from eateries. “As consumer demand has gone up, technology and delivery companies have risen to meet that demand,” she says. Today, UberEats is in more than a dozen markets, and Amazon restaurant delivery, part of its free-delivery Prime membership program, has grown to 12 markets.

Third-party delivery also frees restaurant operators from absorbing “all the other costs—having liability insurance, hiring drivers, and making sure the whole experience is positive. It puts all that in other hands,” Riggs says. At the same time, Tauzin notes, delivery is a means to increase sales and marketing to new customers.

There is, however, a bit of a Catch-22 for full-service restaurants: The biggest users of online delivery are tech-savvy millennials, who typically have fewer dollars to spend. That makes pricier full-serves appear less attractive than less-expensive quick serves. But Riggs notes that by the time a consumer adds the costs of delivery services—minimum order, delivery charge, and tip, for instance— “you might as well go with a casual restaurant, because the cost may be only a buck or two different.”

### **Driving Control**

For operators, certain issues are paramount: food safety, menu integrity, speed of service, and competent couriers, among others. Restaurants that partner with specific delivery services gain more control over these matters.

Increasingly the business model takes on the mentality of a partnership, and many delivery businesses work with the restaurants to determine what foods are offered online—notably foods that travel well. They may also suggest the kind of packaging to use and handle payments on behalf of the restaurant. Some delivery operators even provide photographs of menu items on their website.

The companies communicate with restaurants in various ways, and many provide restaurant operators with an iPad or similar device dedicated to online orders. Drivers are typically equipped with hot and cold bags to keep the food at the right temperature.

In return, delivery companies typically charge a percentage of the online order—often 10 to 20 percent—and most charge a delivery fee.

A few services, such as DoorDash and Postmates, not only sign restaurants as partners, but also offer diners the ability to order from an even wider range of menus. Their couriers can visit any restaurant, order items, and then deliver those to the buyers, via car or bike. Some operators don’t like having little control over how their food travels. “We have received a number of complaints from operators,” Tauzin states.

Both DoorDash and Postmates say they’d rather forge partnerships with restaurants but want to give consumers the choice. “We understand this business is driven by forming deep, lasting relationships with restaurants in the form of supporting them and helping them grow their business,” says Ryan Broderick, head of merchant operations for DoorDash, which is in 25 metropolitan markets. At the same time, he notes, “From the consumer standpoint, we pride ourselves on offering selection.”

About 30 percent of Postmates’ business is with restaurant and retail partners, but “we don’t need a partnership” to provide delivery to a consumer, explains Anand Dass, director of business development. “We are just matching a customer with a courier, who we call a Postmate, who does the transaction on the part of the customer.”

However, when there's a partner relationship, the restaurant's menu is curated to items that will travel well, with consideration given to how far they can be transported, Dass says. Couriers are dispatched to be at the restaurant when the food is ready. All this "makes it better for the customer."

GrubHub, which launched in 2004, is the nation's largest online and mobile food ordering company, with 44,000 restaurants in some 900 American cities. It began as an online restaurant ordering service and started its delivery business in 2014. Over the years, it acquired a number of other online menu and delivery companies, including Seamless, which began as a web-based way for companies—and later consumers—to order from restaurants.

GrubHub delivery began in its hometown, Chicago, as the test market, says Meghan Gage, public relations manager. "We wanted to be sure we could do it really well." Today, some 5,000 restaurants— independents and chains alike—are part of the delivery service in 50 markets. Having restaurant partners who have used GrubHub ordering system for years has been an advantage in delivery, she notes.

For instance, New York City's The Stanton Social, which celebrity chef Chris Santos and partners opened on the Lower East Side in 2005, uses GrubHub and Seamless delivery exclusively. "Other restaurants in the neighborhood do, too," says Michelle Alden, the restaurant group's general manager.

The restaurant, part of TAO Group, is known for its shareable plates, but doesn't offer its entire menu on the delivery services' sites, because some just don't travel well. Packaging—having salad and dressing in separate containers or meatballs in a specific vessel—is crucial.

In the year since beginning delivery, the restaurant has seen a revenue uptick. A number of diners who ordered online now visit the restaurant, while regular guests sometimes order online if they "don't want to get dressed up or fight the lines," Alden notes.

Caviar, which was launched in 2012 by a group of passionate San Francisco foodies because favored restaurants weren't delivering, now partners with some 2,000 restaurants —from fine-dining spots to food trucks—in 17 markets.

"I think our high-quality partners is what sets us apart," says Catherine Ferdon, a spokeswoman for Caviar, which was acquired two years ago by payments company Square. One of Caviar's distinguishing features is the ability to order food up to a week in advance.

"We work closely with our partners all the way through," from photographing menu items for its online pages to testing whether the food can be delivered well, she notes. The service also offers streamlined ordering for groups or events, scheduling, and bill splitting.

Two upscale pizza-centric restaurants in Brooklyn, New York, that have received great reviews, Emily and Emmy Squared, use Caviar, solely. "It's just the best option for our restaurants," says Emily Hyland, who owns the eateries with her husband, Matt.

"New York is a very delivery-oriented culture. Nobody cooks. But we're a small operation, and we had to decide what we would need to do to deliver," she notes. The third-party delivery service "takes all of the logistical headaches and nonsense out of our hands."

Emily's thin-crust pies are baked in a wood-fired oven, while Emmy Squared serves Detroit-style pizza. "I did a lot of R&D, ordering from my apartment, which is 15 minutes away," Hyland says. "The pizza always came delicious." Parts of the menu, such as the popular Emily Burger, are not available via delivery.

### **Keeping it Local**

Groupon's roots are in local businesses, and that includes restaurants. The company's initial deal was with a pizza place. "One of the key benefits is Groupon has acquired tens of millions of customers who have downloaded our app," says Dan Roarty, the Chicago-based company's senior vice president of restaurants. Last year it acquired restaurant delivery service OrderUp and is now integrating online ordering into the Groupon app.

Third-party delivery for full-service restaurants isn't new, but it's been fragmented. Many cities have their own services, like Delicious Deliveries in Phoenix and Tucson, and Cafe Courier in Columbus, Ohio.

While restaurants that use delivery acknowledge that using a third-party delivery service means they cede a portion of each sale to the courier company, they say that the increased revenue and increased access to customers is worth it.

"Part of it is getting people who have not been to the restaurant to try our food," says Thomas Nguyen, owner of Houston's two Peli Peli eateries, which feature South African fusion. "It also allows us to engage more with existing customers."

Peli Peli uses both DoorDash and UberEats Instant Delivery—the former for various items on the regular menu and the latter to deliver multiple orders of a single dish that Uber promotes.

For three-unit Salvation Pizza in Austin, Texas, the decision to use third-party delivery operations brought an additional issue: The chain already has its own delivery drivers. "It did feel like a gamble when we did it, especially the impact it would have on our in-house drivers," says owner Michael Dinsmore, who acknowledges there was resentment at first. However, the drivers have other duties at the units and have not been impacted. Salvation Pizza uses Uber- Eats, Amazon, and Favor. "What we get through them is bigger orders and our delivery business is growing," Dinsmore notes. "The more people we reach, the better it is for our brand."

Atlanta's Publik Draft House and the two other restaurants that are part of the Grazie Hospitality Group have signed delivery agreements with at least a half-dozen services. "They're pretty much the same, except how they make their money," says co-owner Eddie Johnson. "One will tack on a fee for the consumer, while some will take a percentage of the sale. Some add on a delivery charge."

Grazie has been diligent in controlling which menu items can be delivered and how to prepare them. With hamburgers, for instance, buns coated with extra butter "create a seal so the burger doesn't make it soggy. And the pickles and tomatoes are separate."