Aggregators

How food delivery marketplaces reinvented their niches to bring us everything in the neighbourhood, and more

Aggregators

How niche marketplaces in
takeaway, grocery,
clothing and homewares
evolved into
local commerce
and fulfilment engines

Why these online marketplaces
used their networks, built for
small business merchants and their
consumers,
to service big brands
and cross over into
new product categories

Introduction

Aggregators is the story of the reinvention of an e-commerce industry. It is an account of how the early and substantial financial and brand-building achievements of online food marketplaces were tempered by a range of challenges which led on to big changes in how the online takeaway and grocery industry operates and succeeds. It starts from the point at which these marketplaces were already household name brands (after years of successful scaling up), in 2019, and brings us up to the present in early 2023.

I use independent analysis of public domain data to shed light on the market landscape in a way that I hope adds to the insights and offsets the boosterism have been provided so far by the leading competitors and their backers.

At the beginning of this period, a number of takeaway online marketplaces were already well-established in their home marketplaces, high-valued by either public or private investors, and projecting high sales growth for a number of years ahead. What followed did not play out as these companies expected, and there have been many adaptations and changes of strategy – which what I think makes this account interesting.

It was written in real time over the last two years as I absorbed the performance of the key marketplace players, the service they provided to their merchants, the habits of customers, the stance of regulators, and the returns to investors in this industry. At the same time, I was observing the evolution of online marketplaces in other sectors like fashion and homeware, and how they were handling the common challenges of delivery logistics, regulatory oversight and dependence on *Google* and *Apple* for finding new customers. At certain junctures those cross-industry factors have a critical influence on the story, and I break off from the food delivery narrative to take in these cross-industry reflections.

I spent some time as a finance leader and strategist with one of the key players in online takeaway in the period leading up to 2019. Up until then, takeaway meals from independent restaurants had emerged as one of the perfect niches for the export of the online marketplace idea out from the giant mass marketplaces run by *eBay* and *Amazon*. There was enough demand from which to carve out a new marketplace aggregator niche to bring together local takeaway choices onto a single ordering website and app - but the practicalities of this rather informal sector foxed the generic marketplace giants. Independent restaurants valued their membership of the specialist marketplaces as a means of acquiring customers to complement their base trade, but bridled at the ongoing commission fees, even for repeat orders.

2017 to 2019 was a pivotal time in the industry because it marked the moments when delivery of meals by the marketplace platform, rather than leaving delivery to the restaurants, hitherto thought by many as a loss leader, began to be seen as a serious option to bundle with marketplace services, and one which could actually make money.

Investors were divided, some seeing delivery services as essential for capturing the substantial prize of fast food chains, others believing that the economics of running delivery services at scale would be suicidal. Even among shareholders of the same company, the absence of consensus slowed down rollout of delivery services at a time when 'land grab' was a key competitive strategy.

From 2019 onwards, organic expansion of marketplace and delivery services accelerated greatly, complemented by almost continuous corporate acquisitions and disposals as the leaders consolidated and shaped their preferred international spread.

During the COVID pandemic the takeaway aggregators did not halt but accelerated the expansion of their footprint on our cities, towns and even villages. These marketplaces were a lifeline for restaurants unable to serve dine-in and seeing their 'collection' trade fall off. This was a second round of land grab investment by the leading platforms.

With the reopening of physical commerce, demand fell back towards (but not below) pre-pandemic levels. This was also the time when investors started to insist on the aggregator platforms accelerating their journeys towards profitability being accelerated. The platforms had been getting more efficient with their delivery logistics and more selective about the profitability of the locations that they expanded into. But they started to face increasing regulatory pressure on compensation of delivery staff and on fees charged to restaurants.

These takeaway experts started to expand their footprint into grocery and convenience, shown the way by new 'quick commerce' platforms exploiting demand from younger, time-poor, urban dwellers in the world's biggest cities. At first this was opportunistic, then it became more strategic, with supermarket chain partnerships, proprietary 'dark stores', and collaboration between competitor platforms. The extra supply of willing merchants outside of takeaway reduced the time that delivery staff would spend idle, levering down unit delivery costs and speeding up that existentially critical move into profit.

By the start of 2023, almost all of the leading marketplaces, now calling themselves 'food delivery' or 'local commerce', had made it to profitability on the standard measures that exclude costs like depreciation and interest. This despite post-pandemic and war-induced inflationary pressures on their costs and lost sales as customers have traded down to save money in the face of escalating meal and grocery prices.

Meanwhile, a new set of e-commerce technology vendors had emerged to help restaurants manage all the orders coming to them from different channels. Restaurants were becoming more focused on developing multiple demand channels, and on reducing their dependence on the high-charging marketplaces. A new generation of point of sale and order management tools had been rapidly adopted by both independent and chain restaurants. Their fixed fees often looked

friendlier than variable commissions and this is largely why these tools now handle as much order volume as the marketplace aggregators.

This is what the food delivery landscape looks like today. It has been fast-evolving over the seven years that I have been following it as a strategist, analyst, consultant and commentator. The end games that are coming into view now are certainly not the ones I had in mind when the events I've described first started to unfold.

Aggregators tells the story of how the industry evolved through this period, from my vantage point, after my time inside a food delivery marketplace, as a consultant, financier and writer on and in online marketplaces, with a special focus on food delivery.

As I recount the story of how this marketplace niche became more than a niche, I switch perspective between customers, merchants (both restaurants and grocers), fast food chains, supermarket chains, marketplace companies (public and private), investors and regulators. At different times, different players amongst this cast have had the controlling influence. It continues to be a high-stakes drama, affecting the future of workers, small businesses, investors (and therefore savers), governments, and e-commerce founders.

Contents

PART ONE Restaurants & neighbourhoods 7
Cross-industry Marketplace curation
Does a restaurant P & L benefit from a marketplace?
Local population profiles impact marketplace viability
City distributions make some countries ideal, others not
What the top UK delivery neighbourhoods look like

PART TWO Customers and brands 27
Customer acquisition and retention challenges
Which age groups use delivery marketplaces most?
Cross-industry Online customer tracking challenges
Contrasting brand advertising strategies
World Cup 2022: new vibes in takeaway TV adverts

PART THREE Unit Economics 50
Wage differentials impact marketplace profitability
Food delivery costs: controlling the escalation
Delivery costs per order trends
Delivering for the fast food chains
Uber drivers: are they getting their rights?
EU gig economy workers' rights rulings

PART FOUR Supply spread 71
The expansion into grocery delivery
Rapid grocery customer characteristics
Grocery delivery investments – a cost that pays off?
Merchant spread: new local delivery categories
How the local food supply footprint expanded
Merchant footprint broadened further
Convenience store delivery partnerships

PART FIVE Restaurant e-commerce technology 94
Restaurants are now adopting a fuller technology stack
Building the restaurant operating system
The 'Restaurant Tech' ecosystem of suppliers
Restaurants are pursuing more control over their orders
Cross-industry Brands seeking control of online demand

PART SIX Pandemic and inflation 113
Post-pandemic sales and costs trends
Cross-industry A permanent delivery driver shortage
Fee caps: ongoing pressure on delivery commercial models
Takeaway restaurants' response to inflation
Cross-industry Is stagflation impacting online luxury goods?
Inflation mitigation by restaurants and their marketplaces

PART SEVEN End games 135
Cross-industry Niche curation & fulfilment in fashion & home
Cross-industry Logistics as a product
Delivery platform endgames
The journey to profit
Technology consolidation can be put off no longer
Delivery Hero's geographical route to profit
Dark kitchens
Marketplaces getting creative with their fees
Ancillary services from food delivery platforms – any upside?
Marketplace advertising stepping into the 'cookieless' gap

PREDICTIONS 172

Order the full **Aggregators** *book from phil@branstonconsulting.com*

Part Seven

Local commerce platforms

Endgames in the monetisation of customers and merchants on the way to profitability

Aggregator platforms have options as to how, ultimately, they monetise their networks of consumers, merchants and delivery drivers. Prior to the disruptions of the pandemic and the subsequent period of stagflation, some signs had started to emerge of how each of the leading platforms was mapping out its future – each differently from the rest, based on their different heritage and ethos. Now that the reopened but inflationary world looks different, the platforms are looking at these endgames differently – certainly more cost-consciously and possibly more carefully from the perspective of brand alignment.

Part seven first offers some cross-industry views of the new trends marketplaces are responding to, then sets the P & L scene with a reality check on the costs of endgame investments and the urgent need of investors for profitability. This provides the context for my review of new strategies and emerging endgames.

Online fashion marketplaces outperforming direct channels, with winning fulfilment strategies emerging

Online fashion's mainstream middle ground is growing only marginally, while the two extremes of luxury goods and second hand are growing much faster

Online fashion's niche marketplaces are growing faster than its direct to customer propositions

Amongst fashion marketplaces, commission-based third-party merchant models are selling better than wholesale inventory-owning models

Fashion marketplace profitability can be advanced through range curation, control of returns, and through marginal logistics economies

In this chapter, I look at fashion marketplaces from the perspective of which product segments, and which fulfilment models, are performing best.

In part six of **Aggregators** ('Is trade-down slowing the trickle-down?') I argued that clothing, discount and refurbished categories were, in the second half of 2022, performing better online than 'home' and 'food'. Further company results, in Europe and the US, have confirmed that key fashion brands and marketplaces are eking out some marginal growth in an overall slowing retail market, but that many popular product lines are in decline against pandemic-influenced comparatives. The *Next Label* online marketplace is typical in that its core, Clothing, was up 47% on prior year in the half to July, whilst Home and Sport were both well down.

The pattern of trade-down impacting high-end products (also apparent in food sales) has an exception in luxury fashion and accessories, where global sales are reported to have grown by 15% so far in 2022 over 2021 (source: *Bain & Company*, *Altagamma*). 60% of that growth is from price increases of handbags and other core luxury items. This is in contrast with the struggles I have described restaurants experiencing when seeking to pass on cost increases through their menu prices. Luxury sales are becoming even more concentrated among the ultra-wealthy, whose disposable income is unlikely to be affected by an economic downturn. The top 2% of spenders now account for 40% of sales, compared with 35% in 2009.

Second-hand clothing is outperforming, both online and offline. Charity shops are thriving. *H & M* set up second-hand shops. The *Vinted* marketplace grew revenues 37% on prior year over the first nine months of 2022. It is expanding across Europe, but remains small at annualised sales of around €300m. Second-hand fashion currently represents just 3-4% of the total apparel market, but 'circular fashion' and 're-commerce' continue to fire consumers' imaginations. Returns rates are typically 30-40% in online clothing, and the second-hand movement could be a way out of this and other fast fashion waste. High-end used clothing is a growth area, but here authentication represents a challenging extra operating cost. So too is rental clothing. *Karen Millen* recently launched curated clothing rental from £6 a day.

The leading circular fashion marketplaces are seeking to build communities rather than just transactions. 75% of sellers on the *Depop* marketplace platform are also buyers. *Vinted* builds its seller community ethos by charging buyers not sellers. Last year, 'slow fashion' brand *Archive* said it will limit customers' shopping visits on the platform to 12 times per year. Yet some say that the overconsumption that circular fashion challenges is creeping back in as community members get more aggressive in their marketing and pricing to 'gentrify thrifting'.

Meanwhile, online sales growth in mainstream fashion has stalled. *Asos* sales growth in its August 2022 quarter was a like for like 1% (with a Russia impact) albeit the UK was higher. *Next* online sales fell 2% in the October quarter. Both worsened in subsequent quarters. *Zalando* came back into marginal revenue growth in its September quarter but its core 'fashion store' was up only 1½% on prior year, while its discount 'off price' segment grew 4½%. Other, more focused marketplaces seem to be performing better in online clothing than are direct to consumer

propositions, with *Next* a case in point. In its October quarter, *Next Label* UK sales were up 20% on prior year, *Next Brand* UK down 15%.

Online fashion: latest 2022 annual like for like revenue growth rates: marketplace and direct to consumer propositions compared

Online Marketplaces	Online Direct to Consumer
Asos **+1%** *August 9 Months*	'Global Luxury Brands' Index **+15%** *September 9 Months*
Zalando Fashion Store **+2%** *October Quarter*	Next Brand **-15%** *July Half*
Next Label **+20%** *July Half*	Boohoo **-10%** *August Quarter*
Poshmark **+11%** *September Quarter*	Marks & Spencer Clothing & Home **+5%** *October Half*
Vinted **+37%** *September 9 Months*	Global Fashion Group* **+7%** *September Quarter*
Zalando Off Price **+5%** *October Quarter*	Adidas **+8%** *September Quarter*
ThredUp **+7%** *September Quarter*	Nike **+23%** *August Quarter*
Revolve **+10%** *September Quarter*	Gap **+5%** *September Quarter*

Sources: Company Reports, **Aggregators** *estimates.*
** 33% of Global Fashion Group Net Merchandise Value is marketplace, the rest direct*

If marketplaces are to provide more of the top line growth for their brands and owners, they need to address profitability. The *Next* marketplace business is less profitable (13% trading profit margin) than the direct brand (21%). Part of that is due to its lower scale, but part of it is due to low selling prices, low items per basket, and high returns rates. That can be mitigated by curating the marketplace to remove products that perform poorly on these measures. This can also prevent marketplace websites and apps from being so crowded with products that navigation and discovery is compromised. It can also ease warehouse capacity.

Clothing marketplaces remain in a period of rising freight charges, delivery labour costs and fuel costs that is pressuring unit economics. In the case of *Next*, the 'commission' marketplace model (analogous to the third-party merchant model in food delivery) makes a lower margin than the 'wholesale' marketplace model (analogous to dark stores in food delivery and benefiting from product price mark-ups), but brings faster sales growth because of the efforts of the third-party brands as independent merchants. *Next Label* trades more on the commission basis and is moving further in that direction - a possible hint for food delivery platforms that have a similar choice of models. In another move that could one day be aped by food delivery platforms, *Vinted* separated its shipping business from its marketplace to enable it to independently scale its way into better economics. The other big lever on profitability is the increasing control over product returns that most of the marketplaces are now exerting.

The next chapter extends the analysis of logistics in the online clothing and home segments, to gauge the success of retailers outsourcing their marketplace fulfilment skills to their category peers.

Logistics for online retail
- technology platform or simply labour outsourcing?

Retail marketplace leaders are accelerating the opening up of their e-commerce logistics to third party brands that need to transform their online fulfilment faster

These logistics providers highlight the automation and technology platform aspects of their service, but in large part they are providing outsourced labour

Even as physical retail reopens, the revenue opportunity is substantial but labour costs are increasing fast

Not all of the current leaders will add material corporate value with their 3rd-party e-commerce logistics businesses

Haulage drivers our new national heroes and retailers sharing their supply chain expertise with each other - how times change.

Online retail marketplace giants like *Asos* and *Next*, following in the footsteps of *Ocado*, now have enough scale and expertise to offer their logistics services to third-party brands outside of their marketplaces. They are well enough established to guarantee a timely and relatively error-free service to partner brands and increase their own warehouse and driver utilisation rates into the bargain.

As they pitch it to investors and partners, they are seeking to platformise their service to better leverage their own and their brand partners' stock and storage. *Asos* has 'Asos Fulfils' and 'Partner Fulfils'. *Next* has 'Total Platform' and 'Platform Plus'. It is presented as automated and technological. Processes such as the 'product information management' system are a leap forward, saving brands years of development time. Alongside this though, a large part of what brands are paying for is outsourced labour. This is the case even with *Ocado*, notwithstanding its application of artificial intelligence and machine learning to picking and routing being a key part of its value proposition. According to *THG*'s recent Ingenuity e-commerce presentation,

THG is trying to do the same thing with its Ingenuity 'e-commerce business in a box'. Yet 71% of its global market opportunity is in delivery logistics, and only 29% in the combination of marketing technology, marketing services, payments and warehouse management. Only 21% of the division's revenue is from its 'Ingenuity Commerce' platform, with the balancing 79% coming from a less scaleable, less repeatable assortment of revenue shares, service fees and technology fees.

The stakes are high. As retail reopens, online sales growth is slowing in many sectors, but the underlying growth is still greater than in stores. Yet logistics labour costs are variable and currently rising. And there is no let up in the speed of delivery being promised to customers - *Asos* recently extended once more its latest-order time for next day delivery, even as commentators start to question whether our desire for faster delivery is topping out. *Asos* is seeking to offset driver costs pressures by targeting an amazing 40% reduction in unit labour costs in UK warehouses.

Share prices of logistics-only specialists like *Clipper Logistics* are down since driver shortages became widely publicised - despite how precious their services are during the current supply chain squeeze. This is another case where platforming the logistics expertise is part of the investment and partner pitch, but the majority of revenue still comes from with high variable costs - in this case warehouse storage and property.

Meanwhile, in food delivery, driver costs are also proving punishing. Platforms with the biggest courier cost increases in 2021 - *Uber Eats* and *DoorDash* – did not suffering share price declines until later in the tech sell-off, because they were seeing positive returns on investment. Harder hit was *Just Eat Takeaway*, despite a lower courier cost per order in 2021 H1 than the other two (see

the chapter on 'grocery and courier supply: capacity for the future or cost efficiency for the present?'). It was seeing slower sales growth (down to 3% in Q3 in the key US market) and still does not have as scaleable a pool of couriers *Uber Eats* and *DoorDash* each have 3-4 million couriers, individually working only a handful of hours a week and therefore capable of scaling up to demand.

In food, just as in apparel and other non-food online retail, the value in logistics is in mastery of delivery detail as well as in technology. With that in mind, it's unfortunate that *Just Eat Takeaway* has, post-acquisition, lost the leaders of both its US and Canadian delivery businesses, and is left to roll out a relatively immature 'Scoober' delivery operation in key European markets. These labour utilisation challenges are a far cry from the very automated and productised world of restaurant order and workflow management being monetised by *Toast*, *Flipdish*, *Deliverect* and others, to help restaurants better manage their participation in the world of online meal delivery.

Comparing the expected contribution of third-party logistics services to some of the businesses mentioned gives some perspective as to the scale of what is being attempted. The figures highlight the enormity of what *Just Eat Takeaway* is taking on, the progress made by *Next* in a short time, and the distance to be travelled by *Asos* and *THG* before 3rd-party logistics makes a contribution to corporate valuation.

Contribution of 3rd-party logistics to selected European online retail marketplaces and e-commerce conglomerates, 2021

Online retail business	3rd-party service	Expected 3rd-party contribution to marketplace sales	Definition
Asos	*On marketplace* *Partner fulfils*	5%	Year to August 2022 Gross Merchandise Value
Next	*On or Off-marketplace* *Next fulfils*	21%	Year to January 2022 Revenue
Just Eat Takeaway	*On-marketplace* *Just Eat Takeaway fulfils*	44%	2021 Q3 (September) YTD Order volume
THG*	*For 3rd-party businesses* *Outsourced ecommerce and logistics*	14%	2021 H1 (to July) Revenue

*Sources: Company financial reports. * % of total THG revenues, since THG is not a marketplace but a collection of businesses*

It's clear that in some sectors outside of food delivery, marketplace and delivery engines are being successfully white-label outsourced to third-parties. As food delivery platforms look to make similar moves, the next two chapters look at how free or constrained they are to make the required investments as they strive at the same time to break through into profitability.

Delivery platform end games motivated expensive capacity and marketing investments

Top western food delivery platforms accelerated investment in the first half of 2021, some with positive returns, others with negative returns

Market shares were converging, with big platforms more tolerant of being number 2 or 3

Platforms hint at contrasting long-term uses for their networks - elevating food experience, supporting entrepreneurs, transporting objects and people

All will stay invested long-term, not for 'winner takes all' but to pave the way for the next stage of monetising their networks

First and second quarter 2021 results from the delivery platforms showed sales growth rates remaining at elevated levels in a 'like for like' period in which the COVID impact was largely comparable against the prior year. At that time It seemed that a significant proportion of customers' increased propensity to order online during COVID will endure as the pandemic subsides.

Most of the sales increase had been fulfilled by platforms' own delivery services, after they opportunistically accelerated their investment in delivery capacity and marketing of their delivery offering (particularly with restaurant chains), offering a lifeline to struggling restaurants, and now convenience stores. 'Marketplace only' business had also grown, notably in Germany, but not as dramatically.

Whilst many existing delivery zones were by now profitable, this continues to be offset by platforms continuing to open up new, initially loss-making delivery zones. Intensified competition has cut into the returns on these investments, affecting *GrubHub* in the US, and all of *Uber Eats*, *Just Eat Takeaway* and *Deliveroo* in the UK. In some cases, the overall net impact was a reduction in profit even as revenues underwent huge growth. These impacts can be challenging to demonstrate, since all of the leading platforms define costs and revenue differently. *DoorDash* reports revenue net of the cost of courier payments. *Uber Eats* does the same, but takes a fee from couriers that reduces the size of the net cost. The other players take courier pay into cost of sales. These differences can be adjusted out to compare annual increases in revenue in the latest reported quarter, with the corresponding increase in costs (down to EBITDA level) - with both costs and revenue adjusted to treat courier pay as a cost rather than a revenue reduction.

Profit yield of estimated costs increases (Q1 and Q2 of calendar 2021), $m annualised

Company	Quarter	Cost increase on prior year	Revenue increase on prior year	Net EBITDA yield
Uber Eats	CY2	$8,686	$9,708	$1,022
Deliveroo	CY2	$750	$1,220	$469
DoorDash	CY1	$8,284	$8,736	$452
Delivery Hero	CY2	$3,883	$3,504	-$379
Just Eat Takeaway	CY2	$1,675	$1,195	-$480

Sources: Company reports; additional analysis including extrapolation of prior period cost trends, Uber Eats and DoorDash revenues and costs restated to allocate courier pay to costs rather than revenue reductions

Just Eat Takeaway, with a delivery strategy originally intended to selectively protect its marketplace, had the worst yield, a negative one, with an annualised $1,675m cost increase versus prior year generating a revenue increase of $1,195m - an annualised marginal loss of $480m. This surprised investors, and though the company expected narrowing losses in its second half through controlling its spend, the level of UK competition rendered that outcome uncertain. In the end it was achieved through cutting corporate costs, marketing and headcount. *Delivery Hero* was the

other platform with a negative yield, reflecting its progressive switch to earlier-stage markets and investment in its grocery fulfilment footprint.

Deliveroo, in keeping with its more cautious pre-IPO investment approach, and its more limited geographical spread, had invested by far the least in incremental terms, but with a positive return.

Uber Eats continued its high stakes strategy of heavy investment bringing high revenue yields, benefitting from usage of its single app for both rides and food (albeit it since bowed to pressure to prioritise profitability). *DoorDash* has invested at similar levels but without such high returns.

With so much investment into heavily competed territories, reducing differentiation between competitors, and market shares starting to converge in many territories, it would seem that 'winner takes all' in takeaway delivery cannot be the only motive at play. Even in Germany, which is the closest there is to a 'winner taking all' market, there were notable market entries by *Uber Eats*, *Delivery Hero* and others – although *Delivery Hero* subsequently pulled out with a preference for other, easier geographies

Are there broader endgames underpinning all these investments? As public companies, these leading platforms must state their long-term aspirations blandly, and must retain commercial optionality without frontrunning their ideas. All have invested opportunistically during COVID in segments, like grocery, which may prove not to be strategic. Nevertheless, there are consistent hints emanating from their communications (annual reports, CEO statements, strategy blogs, etc.) which suggest that the scale they are pursuing will be put to contrasting uses in the long term.

Deliveroo tends to focus on innovation around consumers' food ordering experience: "we are all about food", "the platform that people turn to whenever they think about food" - with little mention of restaurants. As it has pursued new services such as dark kitchens, it has not expressed concern for how such new channels could undercut existing restaurants on its platform. With little legacy marketplace business to protect, it can afford to be less cautious than *Just Eat Takeaway* about cannibalising existing restaurants.

Just Eat Takeaway, on the other hand, comes across as more focused on being a business service for restaurants, "helping restaurants further digitise their operations", "empowering our restaurants to grow and to thrive, not only by giving them access to a huge pool of consumers through our platforms, but also by supporting them with new tech-enabled tools and services that help them run their business" - which may in the end by more profitable than delivery services.

Uber Eats is alone amongst the five western leaders in taking a fee from couriers as well as restaurants. It sees its app as the "tool of choice for drivers to make money". It wants to "power movement from point A to point B", "movement on demand", across all sorts of objects and all sorts of journey, owning "next hour" in the same way that *Amazon* owns "next day". A single consumer app serves *Uber Eats* as well as *Uber Rides* (the cross-sell contributes 10% of new *Uber Eats* customers), and couriers also use the same app for both.

DoorDash expresses its mission in the most rounded terms, but nevertheless leads with "we founded *DoorDash* to be a merchant-first business. Our mission is to grow and empower local economies", and devotes more attention to its array of merchant services than to the consumer experience it offers. *Delivery Hero* leans more to consumers with "our vision: to always deliver an amazing experience – fast and easy to your door", with "hyperlocalisation: we constantly leverage and combine global and local strengths to create products that are close to our customers and best meet their needs".

As the competing food marketplace and delivery platforms continued to invest into this secular growth opportunity, their tolerance (and that of their investors) for losses lasting longer than once expected is informed by two factors. Firstly, the size of the online food market is greater than was thought before COVID. And secondly, their enlarged networks can ultimately be put to uses beyond the delivery of meals.

However, as the market normalised after the pandemic, inflation rose and rising interest rates started to punish all e-commerce businesses that were in investment mode, the tolerance for market share-building investments started to change, and endgames were put on hold, as we will see in the next chapter.

Food delivery platforms striving to accelerate the move to unit profitability

Order volume growth slowed after pandemic restrictions, making driver capacity needs more predictable

Leading food delivery platforms are re-emphasising their objectives of moving to unit profitability

But fuel pricing and driver shortages risk throwing the move to profitability into reverse

Some are applying fuel surcharges, others are relying on ongoing efficiency gains

As their 2021 and early 2022 results emerged, the leading food delivery platforms continued to report further progress towards profitability, even in the face of rising labour and fuel costs.

Deliveroo was the latest to set out a path to profitability, projecting break-even in two years (4% adjusted EBITDA in 2024 H1) as the proportion of revenue spent on marketing falls. The company predicted a 15% to 25% rise in gross transaction value this year, a slowdown from 70% in 2021 when lockdowns boosted its first half.

Review of 2022 EBITDA profitability targets of the leading food delivery platforms

Delivery Hero	*-1.0% to -1.2% of Gross Transaction Value (but delivery EBITDA positive excluding dark stores)*
Just Eat Takeaway	*-0.6% to -0.8% of Gross Transaction Value*
Deliveroo	*-1.5% to -1.8% of Gross Transaction Value*
Uber Eats	*2021 Q4 results: +0.2% of Gross Transaction Value*
DoorDash	*+0.0% to +1.0% of Gross Transaction Value*

Source: Company reports and news articles

Mother's Day and *WH Smith* offerings from *Deliveroo* are the latest example of how opportunistic the platforms are prepared to be in order to use their driver capacity. The risk is that consumers come to view them as all-purpose couriers rather than the enabler of their favourite takeaway meal experiences.

More strategically, *Just Eat Takeaway* entered into a new global strategic partnership with *McDonald's* - an upgrade from its existing partnerships in individual markets on account of initiatives to drive operational improvement, to improve speed and accuracy.

Other moves to bolster profitability include exiting sub-scale territories. *Just Eat Takeaway*'s exit from Norway and Portugal is in the same vein as *Deliveroo*'s from Spain, although the latter was precipitated by new labour laws. Having a large flexible pool of couriers that can step up to demand, through the day and week, is critical, particularly since the supply pool itself (a 'slow twitch muscle' in the words of *Uber*'s CEO) reacts more slowly than does demand. *Uber Eats* and *DoorDash* already have that large pool, *JET* and *Deliveroo* not so much. But *JET* is getting there - it now has 500,000 couriers worldwide.

Uber Eats is responding to rising costs with fuel surcharges to the consumer. $0.35 to $0.45 is being levied on orders in the US and Canada until May 2022, and passed on to drivers - necessary to stem driver attrition. This response is similar to last year's response to city authorities capping restaurant commission fees, showing a willingness to use consumer-side fees in preference to restaurant-side fees in order to protect their unit economics.

Could a benefit for the food delivery platforms also come from inflation in restaurant meal prices? *Just Eat Takeaway* claimed so, but it turned out that few restaurants were able to fully pass on

inflation in such a competitive market, one in which, in key takeaway hotspots like Clapham and Richmond, over 15% of restaurants closed in 2020 and 2021 (the *Local Data Company* reports).

In the dash for profitability, technology spending has of necessity been constrained. The next chapter examines how certain technology consolidation may now need to be made, before it is too late.

Technology consolidation can be put off no longer for food delivery and order management platforms

For acquisitive aggregator platforms, consolidating geographical technology platforms is a longstanding challenge that has not yet been overcome

Complementary 'restaurant tech' providers have always been focused on tight technology integration within their merchants' businesses, but recent acquisitions and cross-sell strategy require further efforts

As quick-commerce players consolidate with each other and with their restaurant takeaway counterparts, technology integration will need to be tackled

Expect all these three types of food commerce platform to have to raise their technology spend in 2023, in order not to fall behind on customer experience

In this chapter of **Aggregators**, I highlight three types of technology consolidation that are happening in food delivery.

A first type of technology consolidation is the internal merging of multiple ordering and dispatch technology architectures and functionalities that have proliferated as master food delivery platforms expanded through geographical acquisitions.

A second type of technology consolidation is the expansion of order management and related technologies, independent of the delivery platforms, from point of sale (POS) and payments into more and more workflows occurring between order capture and delivery drop-off.

A third, and nascent, type of technology consolidation comes in the wake of operational and corporate mergers between takeaway platforms and convenience ('quick commerce') specialists and is the dovetailing, where necessary, of the back-office systems powering consistent customer experience and fulfilment across merged merchant supply.

These technology consolidations have in the past received less than full attention (with the arguable exception of the second), in the shadow of pursuits of market share and of the more obvious sources of better unit economics. But now they must move to centre stage if the recent radical change to a mixed supply offering (see **Aggregators** episode 36, 'food delivery platforms remixing their merchants, not entirely by choice'), is not to damage customer experience.

I start with internal technology architecture. The geographically acquisitive delivery platforms - principally *Just Eat Takeaway* and *Delivery Hero* but to a lesser degree *DoorDash*, in the six years to 2021, saw geographically-specific ordering technologies proliferating as fast as the platforms could consolidate them away. *Just Eat*, before its acquisition by *Takeaway.com*, made steady progress in migrating acquired companies onto a global (in this case, UK) standard, but its technology budget was also needed for the build out of delivery-related functionalities and UI improvements that would keep pace with *Uber Eats* and *Deliveroo.* So the consolidation job (an investment with a low short-term return on investment on conventional metrics) was left incomplete. After the deal that created *Just Eat Takeaway*, there were impressively aggressive moves to accelerate this consolidation, but the short-term costs of technology migrations are high and I suspect such projects slipped down the agenda during last year's rush to profitability. *Delivery Hero* has been similar. For a time it talked about a federated technology landscape in which its local businesses were free to deploy centrally developed technologies to complement local ones at their own pace. That now seems to have been replaced with a more forceful approach, including, in data, the use of a distributed 'Data Mesh' for local ingestion but in a globally standard way. The technology consultancy *Thoughtworks* has worked for both companies. To handle today's heightened scale of operations and merchant supply, efficiencies must be realised soon, even if it damages the P & L in the short term. *DoorDash* takes on a similar challenge with its acquisition of *Wolt* for Europe (*Wolt*'s technology and logistics are well-regarded, however, so the technology scorecard may have a net plus for this deal). *Uber Eats* and *Deliveroo* do not have this problem because their geographical expansion has been organic.

A further internal technology challenge is the 'monoliths' of code and architecture built out during the dash for scale between 2015 and 2019. As marketplace platforms (particularly those without a delivery legacy) have changed course towards delivery and diversified their supply categories, adding new component capabilities has been hampered by 'monolithic' (as opposed to componentised) architectures. The challenge of the code monolith has been felt by marketplaces in all verticals, not just food. The monolith has to be dismantled and componentised. Not least because, whereas most old functionality was for web pages, all new functionality has to be 'app-first'. *Delivery Hero* have launched, in Latin America, their first step towards a 'super app' combining a credit card with food ordering. I expect to see a disproportionate rise in technology spend by the delivery platforms in 2023, especially *Just Eat Takeaway* and *Delivery Hero*.

A second technology consolidation trend is the 'land grab' of restaurant order management and workflow processes by the independent (of delivery platforms) restaurant order capture, POS, and payments specialists such as *Olo*, *Toast* and *Deliverect*, which are collectively building what many are calling the 'res tech stack'. This has so far been both organic and acquisitive. Notable acquisitions include *PAR*'s acquisition of *MENU Technologies* for omnichannel ordering, *Olo*'s acquisition of *Omnivore* for connecting POS to new revenue capture devices, and *Toast*'s acquisition of *Sling* for employee scheduling. Tight integration is very important to the 'res tech' players, for two reasons. Firstly, being seamless with the delivery platforms is what makes them attractive to restaurants. The delivery platforms foot part of the bill for this (*Olo* revealed in legal filings that *DoorDash* was its biggest customer, despite this revenue source being featured by neither in their investor presentations). Secondly, cross-sell of components beyond the POS entry point is key to their strategies. It may get even more important if merchant customers are able to break out of the lock-in to payments processing fees that goes along with adopting the POS hardware. Here also I expect a rise in technology spend in 2023.

A third technology consolidation trend is of restaurant and grocery fulfilment technologies, on the part of the delivery platforms. So far, the merger of these two different categories of offerings has been relatively superficial, with many grocers and convenience stores onboarding onto the platforms just like a restaurant would. But partnerships have deepened and been taken up to corporate level. Not only have the supermarket partnerships between *Co-op*, *Morrison's*, *Asda*, *Albertson's*, etc. and *Deliveroo*, *Uber Eats*, *Just Eat Takeaway*, etc. become more strategic, but now the quick-commerce experts like *Getir*, *GoPuff* and *Zapp* have started to merge (operationally for now) with the delivery platforms (and with each other, see the acquisition of *Gorillas* by *Getir* in December 2022). At some point this will require back-office, picking and wholesale supply chain technology integration. And some accounts say the quick commerce players have immature fulfilment systems in this regard.

The delivery platforms will not want to slide back into EBITDA losses as soon as they have shown investors their first profits, and the quick-commerce players do not have much flexibility either, as has been made clear by recent filings of *Getir* and *Gorillas* in connection with their transaction,

showing *Gorillas* with a profit margin of negative 26%. However, some of the few remaining independent quick-commerce specialists report performing well now that much of the competition has disappeared - an example being *Flink*, reporting to the *Financial Times* that 20% of its delivery hubs are now profitable and that its core German business is expected to turn profitable in 2023. I expect the remaining quick commerce specialists to step-change increase their technology spend in 2023, to mature their fulfilment systems in order for their customer experience not to fall behind their generic competitors

In the next chapter of **Aggregators**, we will see how one of the leading acquisitive delivery platforms, *Delivery Hero*, has used acquisitions and disposals to change to a more profit-friendly geographic footprint.

Delivery Hero shifts geographical focus again as profit gets priority

Delivery Hero exited Germany (and Japan) soon after re-entering - did it learn something new or need funds for other geographies?

Delivery Hero used funds instead to move to majority ownership of Glovo

It is raising the focus on profitability, predicting delivery going profitable in the second half of 2022

Investors seem happy to sponsor using the balance sheet aggressively for M & A, but at the same want to see an improving P & L

Delivery Hero step changed its geographical focus numerous times between 2019 and 2022. Some of these moves were highly strategic, others perhaps more tactical…all, though, seem guided by allocating marginal capital and operating spend to emerging geographies, and to fund this by divesting from more mature geographies if necessary.

Delivery Hero - key geographic moves, 2019 to 2022

December 2018	Sells German operations to Takeaway.com
December 2019	Buys Baemin in South Korea
September 2020	Buys Latin American businesses from Glovo
September 2020	Launches in Japan
May 2021	Re-enters Germany with selective city presence
May 2021	Sells Central and East European businesses to Glovo
September 2021	Glovo expands in Africa
December 2021	Exits Germany and Japan
January 2022	Expands to majority investment in Glovo (Spain, and another 25 countries in Southern Europe and EMEA)

Source: Company reports and news articles

Because of its emerging markets bias, *Delivery Hero* has by far the lowest delivery (labour) cost per order of all the leading western delivery platforms - which I demonstrated in an earlier chapter, comparing its $2.30 per order with its peers at $5 and above. Although this corresponds to lower customer order values too, nevertheless *Delivery Hero* benefits from a high proportional differential between unit selling price and unit delivery cost. As the company becomes more and more explicit about its aim to be profitable in delivery, and as it gets closer to that aim (reporting recently that it will be achieved in the second half of 2022), geographical mix effects on its high sales price to costs differential are becoming critical for the investment case - and the leadership are clearly prepared to move fast in order to keep momentum in the numbers.

In that context, it is instructive to reflect on the move at the end of 2021 to curtail new investments in Germany and Japan before they had really got going. Did *Delivery Hero* discover something new about the German market, less than half a year after re-entering? Did the EU directive to national governments on gig economy workers' rights change the company's view on unit delivery costs? I believe the answer is no to both. German labour regulations have been tight for a while, with online delivery businesses under constant surveillance. And shortages of delivery drivers mean that market forces are having an immediate impact on takeaway and grocery delivery economics, regardless of the acceleration of the regulatory agenda.

Did the acquisition of *Wolt* by *DoorDash* in order to bolster its operating skills in Germany cause *Delivery Hero* to reassess competition? *Wolt* is more experienced than *Delivery Hero* at delivery logistics in Northern Europe, and has achieved a high market share in Berlin, but up until 2019 *Delivery Hero* had an intimate knowledge of all German cities from a marketplace (though not a delivery) perspective…so I don't think this is a factor. The thesis of disrupting a marketplace-only

dominant incumbent, in the form of *Just Eat Takeaway*, with more competitive fees and a delivery service, is still intact.

To my mind, what changed is that *Delivery Hero*, benefiting from its history of minority investments in other delivery platforms which have cultivated many geographical options, saw an opportunity arise for a new geographical mix with a better unit economics profile. And while P & L discipline is (in common with all its peers) becoming more and more important, *Delivery Hero* has, for a while, benefited from investors that are tolerant of it using its balance sheet to acquire into new geographies - a balance sheet that has also benefited from divestments from geographies that weren't generating returns as good as the new ones invested in. The company's dominant long-term investor, *Naspers*, would fit easily into that category, but others, like *Baillie Gifford* and *Blackrock*, might not, and perhaps it is their influence that has brought about the recent more explicit focus on profitability.

Meanwhile, the balance sheet has benefited from competitors still believing that if they can't be number 1 (or 2?) in a territory, they should sell…but as food delivery sprouts more and more branches (grocery, convenience, corporate), that truism stands up less well, and a strong absolute number of merchants and customers can be monetised in different ways now. *Delivery Hero* has a scalable dark stores operation and this would have helped it see value in the assets it purchased from *Glovo* in Latin America, as well as, most recently, in its upgrade of its minority stake in *Glovo* into a majority holding This not only brought exposure to *Glovo*'s expansion in Africa in September 2021, but also created a conundrum of reacquiring Central and Eastern European assets sold to *Glovo* only half a year earlier.

The business moves fast to mould its geographic footprint and has used its balance sheet to be agile. Investors seem to have preferred that to investing via punitive P & L economics. But it remains to be seen whether the recent share price fall is a reflection of the global tech rout or a sign of discontent with the geographical shapeshifting.

The previous three chapters - around costs on investments, the drive to profit, and the geographical compromises entailed - set the scene for the concluding assessment of the monetisation opportunities that lie ahead and how opportune it is, in the current conditions, to exploit them.

Dark kitchens accelerate online-only takeaway but create new divisions in the market

Most takeaways get at most 50% of sales from online platforms, but some go all-in online

Dark kitchens help delivery platforms sharpen unit economics and diversify coverage

Platforms have been investing in dark kitchens for a while but are still subscale

Dark kitchens burn capital, with niche competition - consolidation & partnering could follow

The *Caffè Florian* on St. Mark's square in Venice has the ultimate dark kitchen. In its listed premises, kitchens are not allowed. So cakes, snacks and drinks are made 500 metres away and, 12 times a day, carried on foot to the famous cafe site, through throngs of Venice tourists. It's been this way for 300 years. Dark kitchens aren't new. And 'dark stores' have been a key component of superstores' attempts to fulfil convenience e-commerce sales without losing money. *Deliveroo* has been putting a new spin on dark kitchens, for its takeaway sellers, since 2016, with 250 of them in 8 countries, including approaching 50 in the UK. *Glovo* launched 'Cook Rooms' in 2018. Other platforms, such as *Just Eat*, have experimented with the concept but not scaled it.

Some takeaways are reluctant to pay the extra marketing cost of using an online food delivery platform to create new demand, as we saw in the second chapter of **Aggregators**. For the typical uplifts of up to 50% that a restaurant experiences when joining an online platform, the P & L benefit can be only marginal. For dark kitchens converts, the approach is almost the opposite. They don't want to pay for their own direct marketing to generate new footfall, nor the extra rent on a new footfall-rich location. Delivery-only restaurants are still only a tiny proportion of marketplace supply, with *Uber Eats* reporting only 2% of their restaurants currently taking this route. However, it's a rising trend. Some chains, like *Taster*, operate completely as dark kitchens, subcontracting all demand generation to the online platforms that they employ. Others wish to opt out even further, from fixed commitments like the irreversible capital cost of fit out and equipment. For them, a full dark kitchen service can be a way of expanding presence in a new location or brand, without capital outlay or sunk operating costs. From such bespoke locations, away from high-rent streets, the unit economics of food production are likely to be better. The platform takes on the capital cost (small takeaway businesses can rarely afford it) in return for commission rates from the food vendors that are higher than the usual platform charges, and, in *Deliveroo*'s case, mandatory exclusivity.

The P & L benefit of a dark kitchen as an expansion option is framed below by revisiting the restaurant takeaway P & L from the first chapter.

Dark Kitchen profit and loss incrementality

	Core business options		Expansion options	
Restaurant P & L metrics	Base business	Incremental platform sales	Dark Kitchen	New restaurant
Orders, annual	10,000	2,500	2,500	2,500
Meal value, average	£20	£20	£20	£20
REVENUE	£200,000	£50,000	£50,000	£50,000
VARIABLE COSTS				
Food	£80,000	£20,000	£15,000	£20,000
Marketplace + Delivery commission rate	*n/a*	*30%*	*40%*	*30%*
Marketplace + Delivery cost	£10,000	£15,000	£20,000	£15,000
FIXED COSTS	£90,000	0	0	£40,000
OPERATING PROFIT	£20,000	£15,000	£15,000	(£25,000)

Sources: Aggregators *estimates, Office for National Statistics*

If the level of new custom aimed for is up to the level shown above (25% of the base business), then the lower fixed costs of a dark kitchen, with reliable demand from the platform's customers, makes it a better P & L bet than a conventional new outlet. If the business is averse to the risk of deploying capital on a new outlet, in case sales disappoint, then again the dark kitchen wins. If visibility on the online platform (ironically for a dark kitchen) is a more reliable way to attract marginal new custom, the dark kitchen idea wins once more. But if ambitions are higher (an uplift of 50% or more on the base), then the extra fixed costs of a new outlet are recouped, the variable costs are lower, and the new outlet wins. A new outlet would also generate collection and direct delivery orders. The dark kitchen can be used as an experiment to prove out demand for a new outlet.

A custom environment unencumbered by customer-facing tasks should be more efficient. US dark kitchen provider *Kitchen United* talks of 80% savings in labour costs, and *Glovo* have claimed that, in Spain, cost per meal can be reduced from €12 to €8. However, critics like *Dodo Pizza* argue the benefits have been overstated, with food and labour overall, at typically 60% of costs, unlikely to be significantly reduced.

Well-appointed premises is a brand investment in itself in a way that a dark kitchen is not - arguably less expensive in terms of cost and conversion 'per footfall' than the 'per impression' equivalent through *Google Ads* and the like. The challenge of coming up with regular innovation and consistent quality from a commoditised dark kitchen location is not to be taken lightly.

From the platform's perspective, achievable commissions from takeaway businesses are greater from a dark kitchen, and customer retention can be expected to be higher, since the dark location is highly unlikely to offer collection or direct ordering on subsequent orders from new customers.

However, dark kitchens are very capital-intensive and slow to roll out - less because the units are costly to establish (some claim only £10,000 for a portable kitchen), more because of the urban planning consent and licensing process, with the UK a case in point. Platforms' key investment challenges are:

(i) Finding sites with fast delivery times and compliant with urban planning regulations
(ii) Securing the relevant food preparation and food services licences at scale
(iii) Cannibalisation of existing sales and backlash from existing independent restaurants on the platform. Some locations, such as *Deliveroo*'s Hornsey site in London (for *Pizza Express*, *Shake Shack* and others), are near to clusters of existing *Deliveroo* restaurants and so pose a direct threat
(iv) Rent levels
(v) Poor working conditions in often amenity-poor sites near road interchanges
(vi) Recreating restaurants' unique flavours in a 'kit' environment

At the same time as the platform giants are pursuing vertical integration through dark kitchens, and other types of restaurant technology integration too (e.g. Point Of Sales systems), there is a countervailing trend - competition from niche providers of both the kitchen facilities (*Karma Kitchen*, *Foodstars*, *Vessel*, *Reef*), urban logistics (*Zapp*, *Foodebikes*, *eCargobikes, Getir*) and driver management (*Vromo*).

In other technology markets, historically, the niche (or 'best of breed' as they used to be called) providers have over time been acquired or overcome by the giants (*Oracle*, *Salesforce.com*, *Google*, etc.), but since the food delivery market is so locationally specific, it may take a long while for the platform giants to be able to replicate at scale (and outside big cities) what these niche players currently achieve in their chosen catchment areas. *Uber Eats* and *Karma Kitchen* have, for now, taken a partnership approach.

One potential endgame is a break-up of delivery and marketplace service components, and in the next chapter I review how delivery marketplaces are starting to charge for more extra services, decoupling their offerings as they go.

Food delivery platforms getting creative with commission fees and delivery fees

Commission fee rises were once a growth driver, then were competed way - now they are back as a financial necessity, for marketplace-only services

However, for delivery services, many pandemic-inspired commission fee caps are still in force - platforms could decouple the different services in order to stay compliant

Delivery fees are a 'required' part of unit economics - platforms have used them tactically and recent reversals of base fee reductions have not met a backlash

Optional marketing fees to restaurants, high-profit but then competed away, are making a comeback now that the journey to profitability is getting more important and winning restaurants on price less so

Regulators in North America, Europe, US and Asia are newly emboldened and there are already examples of aggressive enforcement

In this chapter, I look at three types of fee charged by food delivery platforms: commission rates charged to restaurants; delivery fees charged to consumers, and marketing fees charged to restaurants.

Before 2017, when each territory (notably excepting Germany) tended to have a clear number 1 with a big lead, gradual rises in commission rates were the norm. Then competition intensified. Platforms became cautious about fee rises, and for a time the challengers sought to entice restaurants away from the incumbents, with deals like 10% for marketplace only and 15% including delivery. *GrubHub*'s 2018 deal with *Yum Brands* (US licensor of *Pizza Hut*, *Taco Bell* and *KFC*) went even further and unsettled the delivery platform market with a deal that set the fee to the chains at an unprecedented low of, effectively, 4%, and the fee to the consumer at an unprecedented high of 17%. Commentators at the time felt that this structure would harm customer repeat rates. That relationship soured in 2020 after these household name brands started to develop relationships with competing delivery platforms that had complementary geographical coverage. The *GrubHub-Yum* deal turned out not to herald ultra-low restaurant chain fees. The chains realised that although they wanted healthy competition between their delivery channels, they needed prosperous platforms to bring them much-needed incremental volume that they didn't have many other ways of generating. Commission fees for chains stabilised in a range of, by my reckoning, 18% to 24%.

Today, the drive towards profitability has become more important and aggressive competition to acquire new restaurant supply has slipped down the agenda - so fee rises are no longer taboo. The commission rate rise for Europe announced by *Just Eat Takeaway* in June 2022 was its first in five years. Prior to that, rises like the 1 percentage point that is being levied now were imposed each one or two years. They were more often and more aggressively imposed in more mature, less competitive markets like Denmark, Ireland and the UK. The current rise, worth about 5% of revenue, is intended to cover higher costs. Given the cost base of *Just Eat Takeaway* in its Northern Europe region, this rise would offset around 8% of EBITDA costs - a level consistent with the overshoot of the inflation rate in the key EU markets, but one that will add to European food input annual inflation hitting the mid-teens in July. The commission rate rise applies to the marketplace service only, where weak competition means low risk of losing restaurants to cheaper services. The rise is not being applied to the delivery service, which in this geography (essentially Germany and The Netherlands) has more competition but is very much the smaller of the two segments.

The rate rise is justified by the company as a 'response to rising inflation and higher operational costs' - an implicit steer to investors against expecting incremental profit from this move. Alongside a hiring freeze and the layoff of 10% of headcount in Canada, one of its most successful territories, this suggests the fundamental unit economics of delivery are not improving to expectations.

Enduring fee caps in many large North America cities have not helped. Almost a year after pandemic restrictions on restaurants started to lift, the cap in New York remains. In San Francisco,

a compromise whereby a lower-fee basic service option has also to be offered, has been proposed but not yet passed into law. The geography of *Just Eat Takeaway*'s North American presence is such that it has been more exposed to the biggest fee cap cities than *Uber Eats* and *DoorDash*. The impact in 2021 was the equivalent of 1.7% of gross meal value - or, more realistically, say, 10% of gross meal value in the 17% of its order volume coming from delivery services in the fee capping cities (with no cap on the approximately 6% coming from no-delivery orders in those cities), translating typically into the delivery commission rate having to reduce from 25% to 15%. Regardless of any fee cap compromises reached in different North American cities, surveillance by newly emboldened competition regulators in central and local governments is here to stay. Some platforms have tiered their service offerings in order to comply - in future we may see them fully decouple marketplace from delivery so as to avoid the regulatory spotlight.

The second and usually smaller fee, the delivery fee to the consumer, has always been part of the equation - a fixed income that can't be eroded by variable labour costs. This is only imposed by the platform in cases where the platform carries out the delivery. No platform has ever dared to permanently remove delivery fees, but they have been used tactically (mostly locally rather than nationally) to beat competition or to boost new fast food chain partnerships. They have also become more complicated, with the addition of small-order fees, distance fees and administration fees.

Delivery fees have often been used to offset pressures on unit economics, such as the city-specific extra fees levied by *DoorDash* and *Uber Eats* to offset the aforementioned restaurant commission rate caps. *Just Eat Takeaway*, under its new management, initially pursued a global 'price leadership' strategy which reduced delivery fees by the equivalent of around 1% of gross meal value during the first half of 2021. This roughly translates to 20p per order, or, more realistically, say, 50p per order (typically a 25% cut) in the most competitive 40% of locations. When it became clear that the North American fee caps would endure beyond the end of the worst pandemic restrictions, delivery fee cuts were reversed, immediately adding back around 15p to the global average delivery fee. This reportedly did not impact sales volumes, supporting my belief that consumers tend to be relatively insensitive to the level of base fees (although the jury is out on the add-ons like small-order fees). In the UK, *Just Eat* delivery fees had initially been cut more deeply (50p per order) and the rebound (20p) has left them appearing lower than competitors. A look at Camden and Islington, for example, reveals *Just Eat* restaurants asking for, typically, between £1 and £2.50, whereas *Deliveroo* is between £2 and £4.

Additional voluntary marketing fees were a high-profit add-on to take rates for *Just Eat* - typically adopted by up to a quarter of restaurants - during the period before *Deliveroo* and *Uber Eats* were significant UK competitors. Subsequently these services were downplayed on the basis that restaurants could be tempted to other platforms offering a cheaper overall package. Now they are making a comeback as part of the hunt for better unit economics. In South Korea, the *Delivery Hero* subsidiary *Baemin* has used effectively higher marketing fees (still optional but effectively a requisite now that the basic marketplace listings have been made less prominent) to

offset pressure on commission rates from regional governments, one of which even launched a public low-fee app.

The next chapter looks at another source of incremental revenue that is independent of order volume – ancillary services.

Which new services will food delivery aggregators offer next?

As competition intensified, volume growth became more important than ancillary profits

For customers, ancillary and partner offerings proved to boost online takeaway spending

For restaurants, extra services are so far more useful for competitive retention than profit

Marketing services are proven profit-makers but restaurants protest high overall fees

As online takeaway marketplace platforms savoured their public markets debuts over the last eight years, their valuations rising to reflect high order growth, profitable (at the time) operating models, and lookalike acquisitions, investors started to speculate about the end game for these platforms. First, the platforms have had to navigate the small matter of whether and where to provide costly delivery services, and which international restaurant chains to deliver for - but that's another story.

Just as *Facebook*, *Google* and *YouTube* monetised customers in ways that seem obvious now but weren't so clear back when these platforms started amassing users, it was commonly held that the brand loyalty and online behaviour analytics of hundreds of millions of takeaway customers would be a great springboard for either selling customer data, using it to target extra products, or combining with a grand partner's data to find hotspots for new online services. This was before data protection rules for e-commerce businesses really started to bite...and before *Cambridge Analytica* and *Facebook* invited massive scrutiny of what social media and e-commerce together do with personal data. For this reason, and also because the takeaway platforms started to encroach on each other's territories and face the challenge of whether and how much to invest in delivery services, the question of monetisation fell off the board agenda. Is it now coming back?

Early investors became accustomed to profit growth and weak in-country competition and were well-disposed to nascent and profitable extra services like *Just Eat's* 'Top Placement' option to boost a restaurant's prominence on its in-platform search results. After all, the platforms were merely replicating, inside their own platforms, the takeover of internet search by paid-for advertising. But increasing competition, and the first signs that restaurant loyalty to platforms is not a given, meant managements came to be challenged, and remunerated, by their boards, not on how much profit they could extract from their platforms, but on how much they could expand their sales volumes before new competitors got a foothold.

Ancillary revenue ideas came to be evaluated as much from the angle of customer and restaurant retention as from the angle of incremental profit. Albeit, for platforms that invested earliest and most aggressively in courier capacity, delivering new products through the existing delivery infrastructure, could fill gaps in courier utilisation, to assuage increasingly impatient investors. The notion of brand stretch became important too - could the platform's brand could accommodate the new product or service? Which brings us to the question of which ancillary services (and products) are relevant, for consumers and restaurants respectively.

For consumers, meal sundries provided by third parties have been a success as a new revenue stream - for restaurants able to stock *Coke* and *Ben & Jerry's*. So too have groceries and other 'quick commerce' staples, with *Deliveroo*, *Uber Eats* and *Delivery Hero* moving quickly to establish new supply. Grocery is already 10% of *Deliveroo's* UK business and should prevail after Covid. Other offerings - table bookings, subscriptions, wallet services - have drawn less attention. Cross-selling into other verticals, via checkout page third-party display ads, for example, has not taken off.

For restaurants on marketplaces, many services are offered - marketing, supply chain marketplaces (for both ingredients and equipment), business continuity and property services, point of sale and order tracking technology integration, 'dark kitchens' (pooled delivery-only units on cheap sites), performance analytics and planning. Dark kitchens are potentially interesting, since they offer a way to capture more demand without capacity bottlenecks. But, since launch in 2017, *Deliveroo* has only 30 or so of them.

In other verticals, It has been traditional for marketplaces to quickly build ancillary revenue streams and for them to become significant, or even dominant, proportions of revenue, with low marketing costs because they are offered to existing consumers or suppliers. E.g. *Zoopla*, *AutoTrader*. Why not in takeaway? Part of the answer is that takeaway restaurants are smaller and more precarious businesses than in these other verticals, and so are more resistant to extra charges. In the case of Just Eat, restaurant supply discounts have usually been offered as a reward for high performance rather than as a charged-for service.

Extra fees for advertising has received the most attention, and there is wide variation in how platforms have approached this. One platform, *Zomato*, started with advertising fees as its core revenue model, and added commissions on takeaway orders later - in India, 62% of its revenue still came from advertising in a recent results report. At *Just Eat*, 'Top Placement' - extra search prominence within the platform's search results - has a near-100% contribution margin, and has been reported as generating 7% of total group revenues, even with some territories having no offering. The restaurant pays, in addition to its commission rate on meal value, an additional voluntary fee which can be 25% or more of the base marketplace commission fee (excluding delivery commission). In mature markets like northern and western Europe (where the platform is most sought-after), platforms have seen over 20% orders coming from restaurants using such services, bringing contributions of up to 10% of revenues.

Marketplace economics for sponsored listings - typical mature market case

	Without sponsored listings	With sponsored listings
% of orders	70%	30%
Sales volume per restaurant (index)	100	125
Commission rate - marketplace only	12%	12%
Commission	12	15
Sponsored listings fee	0	4
Total fee (index)	12	19
Effective commission rate	12%	15%
Sponsored Listings Fees as % of revenue	0%	9%
Restaurants as % of revenue	60%	40%

Sources: Company presentations, Aggregators *estimates*

The conflicts of interest are clear. The platform benefits at least as much as the restaurant, given that search traffic, once alighted on promoted listings, can then bounce to other listings, boosting overall traffic conversion rates. It creates a thick (40%) layer of revenues dependent on the boost from the extra fee, which eats dangerously into the restaurant's P & L.

In South Korea, *Baemin* combines a low 7% commission rate (or a flat monthly charge) with advertising fees. In the face of a fees backlash (a public app charges less than 3% commission), *Baemin*, in January this year, dropped commission rates to 6% but flooded top listings with more restaurants, putting flat fee payers' standard listings at a disadvantage, and forcing commission payers to spend more on advertising. Advertising fee rises of between 2% and 6% of order values were reported - a much higher 'tax' than *Just Eat's* 'Top Placement'. After more protests, the fee changes were quickly removed. Nevertheless, *GrubHub* talked in 2019 about its long-term value being as an advertising partner not a delivery logistics service. *Uber Eats* started to offer sponsored listings during 2020. *Deliveroo* and *DoorDash* seem not to have gone down this route. It's revealing about the ethos of the different companies.

In other, low-frequency marketplace verticals, such as gifting, sponsored listings has been less successful. *Etsy* has had some success with it, accompanied by a backlash. In marketplaces with high product turnover, like *Asos*, it is not offered at all - possibly because, with such a fast-moving product base, technical challenges are significant.

The common themes seem to be that customers are not being offered anything outside the supply marketplace framework. And that marketplace suppliers generally have to fund demand or capacity boosts. Further evolution awaits some clarity on what the platforms wish to mean to their consumers as brands.

A different use of aggregators' web and app real estate would be to carry advertising from third parties outside of the captive food marketplace, and this is one of the avenues explored in the next chapter – along with food delivery marketplaces' own efforts to attract traffic now that *Apple* and *Google* prevent customer tracking via cookies.

Marketplaces are stepping into the advertising gap left by the demise of cookies

As Apple, Google and others marginalise customer tracking through disabling cookies, online marketplaces are pursuing new ways to attract traffic to the brands and merchants that they represent

New online advertising supply and demand trends have pushed up programmatic customer acquisition prices, either with Facebook and Google or in new alternative tracking environments

Maturing marketplaces should need cookies less because their expanded customer bases now yield more first-party data

Food delivery marketplaces are reducing their programmatic customer acquisition spend but increasing their brand spend; and are exploiting the advertising supply gap with their own advertising services

In this chapter, I look at how online food and other marketplaces are tackling marketing in a cookieless world.

The online marketing world has spent the last year developing ways to reach audiences without the aid of the cookies that track consumer's web and app activity. Baldly put, brands are now able to reach only 30% of their potential customers in the old way because 50% are on browsers which block cookies, and of the rest, 40% have opted out of allowing cookies to be attached to their online activity.

Investment in 'cookieless' advertising exposure is gaining on investment in advertising through traditional cookie tracking

Without this 'third-party' data from outside advertisers' own domains, they need to fill the gaps with either 'first party' data (from their own websites and apps) or 'second party' data (that they have explicitly asked users for). So marketing departments, and marketing agencies, are becoming data scientists, developing new customer ID schemas and 'cleanrooms' in which partners can share customer data without compromising privacy. Investment in 'cookieless' advertising exposure is gaining on investment in advertising through traditional cookie tracking, and some (such as the agency *33Across*) say it has caught up. Equity investors aren't yet convinced though, as we see from the share prices of *The Trade Desk*, *Pubmatic*, *Acuity Ads* and other buy- and sell-side platforms with a stake in emerging cookieless tracking technologies. Advertising suppliers worry that, without cookies to follow their audience, and without yet a proven replacement, their pricing power will be lower. *Meta* reports weak ad demand and average ad prices falling 18% year-over-year. Nevertheless, a *Proxima* survey (November) reports 75% of companies remaining committed to industry leader *Facebook*, despite high levels of dissatisfaction with the ad platform; and 85% remaining committed to *Google*. These paid search and display ad back boxes are, up to now, reliable but expensive.

Alternative cookieless advertising platforms claim their pricing is strengthening, partly because they perform better than advertisers expected, and partly because of scarce supply of content to advertise on. Content-rich publishers in Sports, Health & Wellness, News, and Entertainment are sought after because they capture cookieless browsing better than other domains.

Marketplaces have been cutting their third-party programmatic spend

Online marketplace aggregators, looking to attract traffic to the merchants that they represent, face uncertain value for money. One response has been to cut down on programmatic spend with third parties and use more of their own data - leaving room for the massive (non-programmatic) brand marketing they have to do to remain a destination for consumers. *Airbnb*, in 2020, took the bold step of cutting its sales and marketing expenses by 28% to focus on 'broad marketing campaigns and public relations to build its brand' instead of on paid search and other forms of programmatic marketing. It focuses ad spend on activity categories (home styling and booking cancellations for example), rather than on audience types. Now, over 90% of traffic to its platform arrives unaided by search advertising - a level that other marketplaces covet highly.

Food delivery marketplaces all have reported being more efficient with their programmatic and customer acquisition spend over the latter part of 2022 (though not straying far from *Facebook* and *Google* for their ads and paid search). And, like *Airbnb*, all are at the same time continuing to significantly increase brand investment through 'out of home', TV and 'connected TV' (their fast food chain partners would insist on that). In *GroupM*'s 'Digital Endemics' cohort, 'Last Mile' companies held sales and marketing spend flat in 2022 Q2 compared with prior year, compared with 'Retail E-commerce' (excluding *Amazon*) dropping spend by 19%. Such trends are evident from delivery platforms' reported costs and commentaries, analysed in the table below.

Marketing spend and advertising services revenue - selected food delivery platforms

Company	Marketing spend (excluding staff) (2022 H1 annualised v prior year)	Brand marketing trend (2022 H1 & Q3, and v prior year)	Advertising revenue (including search placement) (% of total revenue, 2022 H1)
Uber Eats	not disclosed	-	3%
DoorDash	$1,566m (+$108m)	Q3 adjusted sales and marketing costs Down 10% with a fall in advertising costs	5%
Just Eat Takeaway	$828m (-$40m)	Higher brand spend (UEFA, Katy Perry campaigns), offset by optimising performance marketing	5%
Deliveroo	$282m (+$10m)	Lower marketing investments in light of weaker consumer environment	5%
Delivery Hero	$1,404m (+$172m)	Optimising marketing & incentive spend Excluding *Glovo*, customer acquisition -10% but brand marketing +40%	7%
Meituan	not disclosed	-	20%

Sources: Company reports, Aggregators *estimates. Prior year comparisons adjusted to include contributions from material current year acquisitions.*

Marketplaces have become advertisers themselves

Another response of the food delivery marketplaces has been to become advertisers themselves, like *Walmart*, *Target*, *CVS*, and the ultimate retail search challenger, *Amazon*. 'Retail Media' is forecast by *GroupM* at 11% of digital advertising sales for 2022. *DoorDash*, *Delivery Hero*, *Deliveroo* and *Uber Eats* have all started to do this at scale over the last year and a half, and *Meituan* has been doing it longer, deriving one-fifth of revenues from it. The new revenue streams leverage the investment in first-party data that has been necessary to feed their own internal cookieless tracking, filling the inventory gap left in the advertising market by the demise of cookie tracking.

Adding this form of display advertising to the marketplace listings prominence-boosting service that has historically been offered to marketplace merchants, rounds out an advertising contribution of typically up to 7% of revenues (for comparison, *Amazon* is at 5%). *DoorDash* has reached that level quickly, despite not historically offering listings boosts. The efforts of *Uber Eats*, part of an Uber-wide advertising drive, have been slower, perhaps due to limited roll-out outside the US. *Just Eat Takeaway* has a long-established listings boost service but hasn't as yet made serious moves into other advertising. Margins are much higher than in the underlying marketplaces, to accelerate the dash to break-even that investors demand.

Predictions

Food delivery marketplaces started as the friend of the local entrepreneur but ended up a demand capture and fulfilment arm of branded fast food chains and supermarket groups

At one time I thought they would reveal different endgames but they seem to be converging on the strategy of offering whatever goods they need to in order to fully utilise their delivery capacity and in doing so provide positive free cash flow for their now-impatient investors

Consumers' need for speed may have peaked and the next phase will be one of brand relevance, with leading marketplaces, as they further expand the range of goods that they deliver, taking care not to compromise service standards and brand recognition for what made them household names in the first place – takeaway meals

Restaurants are catching on fast to the technological ways in which they can take more financial control over their demand channels and become less dependent on marketplaces. A whole new set of providers of the 'restaurant technology' stack are helping them do that under less costly commercial terms.

Given investor appetite for risk, geographical consolidation will pause for now. But vertical consolidation, anywhere between food wholesaling and driver management, will come on to the agenda, led by whoever performs well enough in their home layer to amass cash for M & A and trust from their investors.

Newly-emboldened regulators have only just started and are firming up their aggressive stances in the US, the EU, the UK, China and South Korea in particular. Delivery and marketplace services may need to decouple, and delivery services may end up coupled with merchant services that are less of a challenging lock in from the merchant's point of view.

But consumers' use of online ordering of local meals, groceries and convenience items stands today, after the pandemic roller coaster, at higher levels than most would have predicted five years ago. The adoption curve is flattening, for sure, but it has some way left to go.