



## Delivering growth

The impact of third-party platform ordering on restaurants

[Abridged version]

November 2019

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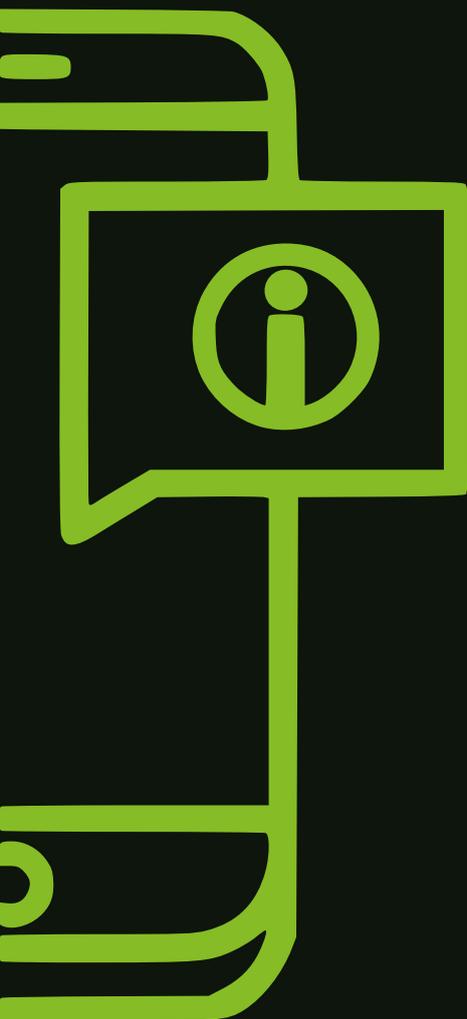
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# Executive summary

*This is an abridged version of the report “Delivering growth: The impact of third-party platform ordering on restaurants” and should be read alongside that full report, which includes more detail on the methodological approach and wider context.*



Food delivery is growing rapidly across Europe. Existing estimates suggest that the market is experiencing double-digit growth rates and could be worth \$25bn by 2023<sup>1</sup>. This study looks at how technology is contributing to that growth and measures the resulting impact on the overall restaurant sector.

Until recently, ordering meals for delivery, even in major urban centers, required calling a restaurant directly, or ordering and collecting in person. New technology has made delivery more convenient for consumers and broadened the range of food available for delivery. First via third-party platforms that allow consumers to place orders with lots of restaurants, presenting their menus and taking orders (often called ‘aggregators’, such as Just Eat, Takeaway.com) in return for a fee. Then, more recently, third-party platforms that facilitate delivery for restaurants without their own delivery staff have become more prevalent (marketplaces such as Uber Eats, Deliveroo or Glovo). These platforms allow restaurants to provide customers with delivery services by paying a fee to access a marketplace and network of couriers. This report seeks to explore how the rise of those platforms, and in particular the new marketplace apps, has affected the restaurant sector.

It is apparent that:



New technology helps restaurants to respond to a significant shift in consumer preferences, with a rising demand for convenience.



For many restaurants, it would be wholly impractical to offer delivery without third-party platforms due to higher fixed costs associated with independently fulfilling delivery orders. In a survey by Uber Eats to support this study, the share of restaurants on its platform that offered delivery before joining was only 38% in London and Paris and 36% in Warsaw, with this figure higher at 52% in Madrid. The share that then reported they would have launched such a service if they had not joined was 48% in London, 50% in Paris, 67% in Madrid and 47% in Warsaw. The platforms also connect restaurants to new consumers who might not hear about them otherwise.



This will mean largely incremental sales for those restaurants offering delivery for the first time. According to the Uber Eats survey, the share of restaurants on its platform that reported an overall increase in sales after joining was 69% in London, 74% in Paris, and 67% in Warsaw, with this slightly lower at 59% in Madrid.



Platforms are enabling a substantial re-shaping of the supply chain, with virtual kitchens (either entirely new facilities, or under-utilized existing restaurant kitchens) and other innovations that match supply to demand and create new opportunities for entrepreneurial restaurateurs. Uber Eats data suggests that operators with virtual restaurants in France and the UK have seen sales increase by more than 50%.

Many restaurants have struggled in recent years and there is naturally a concern that the sector might lose out as the market changes. Given the prominent economic and cultural role of restaurants, any impact on their businesses could have important consequences for urban life and the vitality of local economies. This study attempts to isolate the impact of third-party platforms against the background of other trends affecting the sector (which has always been competitive, with a material failure rate particularly for new businesses).

<sup>1</sup> Headline figure publicly available from Statista: <https://www.statista.com/outlook/374/102/online-food-delivery/europe>

There is little systematic data estimating restaurant-level impacts, although some restaurants have said that a significant percentage of delivery sales were incremental to their existing business. It is reasonable to expect that restaurants who offer their services through third-party platforms benefit, or they would withdraw their services. What is less clear is the impact on the restaurant sector as a whole, including the extent to which third-party platforms have enabled an overall expansion in the restaurant sector, e.g. replacing meals cooked at home with restaurant meals.

To better assess these overall impacts, a consumer survey was conducted in four key European cities to understand consumer behavior and develop a context-driven counterfactual to understand behavior if third-party platforms did not exist. Engagement with restaurants was also used to inform the revenues and costs associated with different kinds of meals.

Our research identified two common trends across all four cities, based on extrapolating from those survey results:

 **The number of meals sold by restaurants – both chains and independent restaurants – increased as a result of third-party platforms**



 **Third-party platforms have driven an increase in revenues and profits across the sector**



The results show material variation between markets. Restaurants that sign up for third-party platforms are likely to be better able to benefit from shifts in consumer preferences and demand, while some of those that do not may see lower turnover and profit. This might particularly be the case to the extent restaurants previously offered delivery and operated in a market where few others were able to do so and this was a barrier for competitors that otherwise offered a more attractive proposition to consumers.

The positive result does not mean that third-party platforms cannot do more to improve outcomes in the restaurant sector. Over time, the growth of currently nascent services like virtual kitchens might provide additional dining options for consumers and means of utilizing capacity for restaurants, for example. While this report finds that platforms increase the growth of the restaurant sector, growth in the restaurant sector will also tend to benefit platforms.

This report concludes that third-party platforms should be understood as improving the economic position of the restaurant sector, increasing turnover and to a lesser extent profits, versus a scenario in which such platforms do not exist. This impact will affect how the restaurant sector grows over time, alongside cyclical pressures, consumer tastes and other factors contributing to market trends.

<sup>2</sup> The greater increase in aggregate net impacts on profit relative to turnover in Madrid is driven by the relatively lower rate of substitution by meals ordered through third-party platforms for non-restaurant sector meals (see Figure 9 of the full report). As a result of this, turnover increases from growth in the restaurant sector are more limited and counteracted by the decrease in turnover per meal due to substitution from on-premises dining to collection and delivery meals. Meanwhile, relatively more meals substitute lower-margin direct deliveries for higher-margin third-party deliveries, resulting in an overall larger net increase in total industry profits despite a not as significant net increase in turnover.

# 1. Introduction

The restaurant sector is a significant source of entrepreneurship (including small-and medium-sized businesses, or “SMBs”), growth, and employment, and a significant part of many economies in terms of its size alone. Across the EU28<sup>3</sup>, there are 1.6 million businesses in the food and beverage service activities sector, with a collective turnover of €421 billion and responsible for €175 billion in value added.<sup>4</sup>

The sector is also a cultural asset to a city, adding to a place’s social fabric, and distinguishing it as an attractive place to live and do business. Restaurants therefore have a wider importance disproportionate to the economic size of the restaurant sector.

The restaurant sector has always been challenging for some market participants, particularly smaller start-ups. One academic study found that out of 141 new entrants to the London Good Food Guide in 2004, 94 had left by 2010, while another study found that average failure rates in the sector in Ireland were “15% after one year; 37.62% after three years; and 53.06% after five years in business”<sup>5 6 7</sup>.

Cyclical or secular pressures on consumer disposable incomes or changes in tastes, causing them to cut back their restaurant spending, can also exacerbate the challenge of the restaurant business.

The restaurant sector is also, like many others, being affected by changes in technology. New technologies more widely have changed consumer expectations about businesses with which they interact. Third-party platforms for ordering meals to be collected or delivered and consumed off-premises (“third-party platforms”) are creating a new means for consumers to buy meals in an increasing number of cities and towns.

While meals ordered for off-premises consumption, both to collect or be delivered, have traditionally been readily available in urban areas, third-party platforms are providing a new means for restaurants to market, facilitate, and deliver orders at a lower cost than would otherwise be possible.

This demand is expected to result in the online food delivery sector growing by over 10% a year to around \$25bn across Europe by 2023.

Figure 1: Online food delivery, by major economy, 2023, Europe<sup>8</sup>

## ONLINE FOOD DELIVERY, \$BN



Uber has commissioned Deloitte to assess the impact of third-party platforms, including, but not limited to, its own platform Uber Eats, on the restaurant sectors in four European cities: London, Paris, Madrid, and Warsaw. This is an abridged version of the resulting report.

Given the importance of the restaurant sector, it is worth understanding the opportunity food delivery presents to restaurants, and understanding the impact on the sector as a whole. Assessing the impact of new technological changes such as third-party platforms, and pinning down a counterfactual world without them for comparison, is challenging given other pressures and opportunities faced by restaurants. However, this dynamism makes it all the more important to understand how third-party platforms are contributing to the success or failure of the restaurant sector.

<sup>3</sup> The EU28 refers to Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.

<sup>4</sup> Eurostat, structural business statistics, Annual enterprise statistics for special aggregates of activities (NACE Rev. 2)

<sup>5</sup> De Silva, Dakshina, Caroline Elliott, and Robert Simmons (2016), “Entry, Exit And Price Competition In Uk Restaurants”; [https://www.lancaster.ac.uk/staff/desilvad/RestaurantsPaper\\_20160607.pdf](https://www.lancaster.ac.uk/staff/desilvad/RestaurantsPaper_20160607.pdf)

<sup>6</sup> Healy, J.J. and Máirtín mac Con Iomaire (2018), “Calculating restaurant failure rates using longitudinal census data”; <https://www.tandfonline.com/eprint/9XUKFyAHcjZSaf2FW5zj/full>

<sup>7</sup> Other studies in different regions have also found similar findings, although they have also highlighted that these are not much higher than other services sector start-ups; for example, in Western US: [https://www.researchgate.net/publication/267695784\\_Only\\_the\\_Bad\\_Die\\_Young\\_Restaurant\\_Mortality\\_in\\_the\\_Western\\_US](https://www.researchgate.net/publication/267695784_Only_the_Bad_Die_Young_Restaurant_Mortality_in_the_Western_US)

<sup>8</sup> Headline figures publicly available from Statista, e.g. <https://www.statista.com/outlook/374/102/online-food-delivery/europe>

## 2. Technology and food delivery in Europe

Commentary about the restaurant industry, both in Europe and more globally, puts third-party platforms at the forefront of radical shifts in the means and frequency with which restaurants and their customers interact. However, platforms have been introduced in the context of two different trends in the industry:

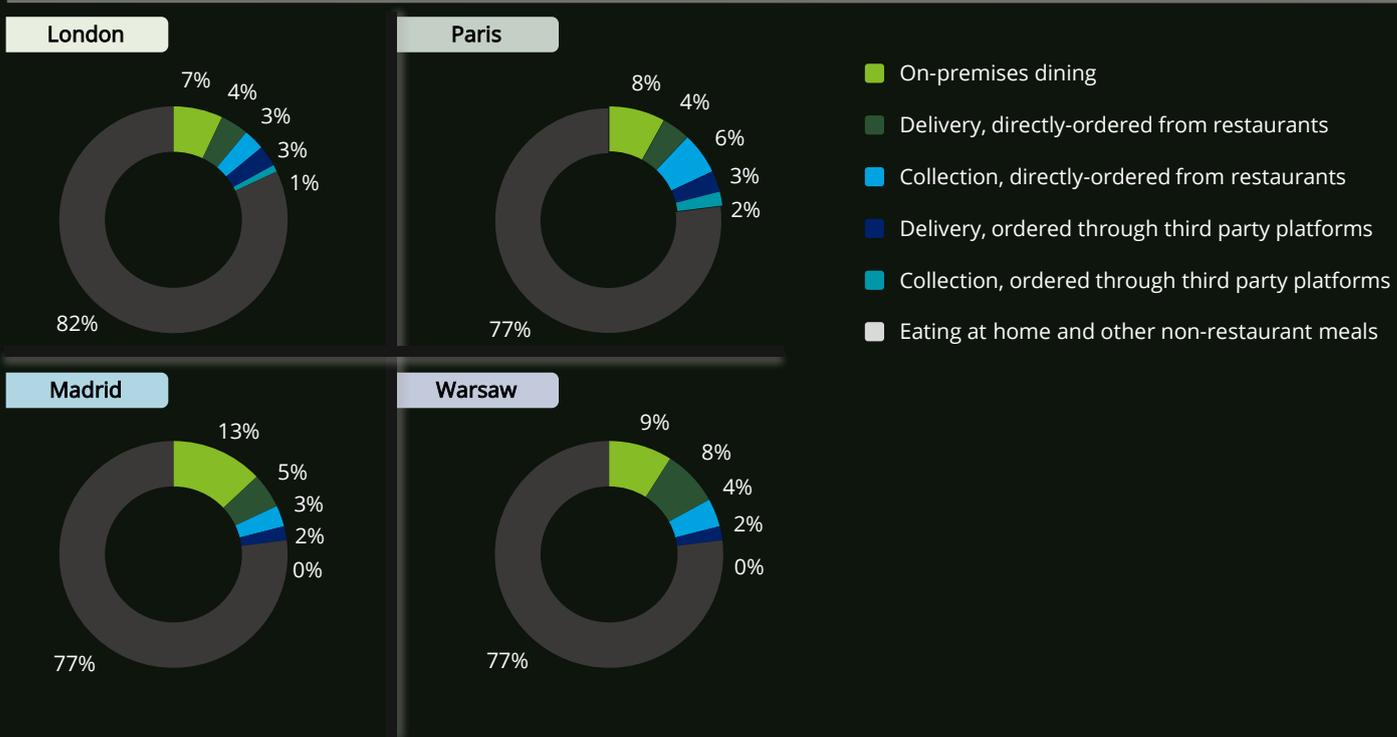
- New technological innovations: allowing restaurants to operate more efficiently or more effectively, e.g. ordering and payment technologies, such as tablets and kiosks for ordering at the table or on-the-go.<sup>9 10</sup>
- Shifts in consumer preferences toward convenience and delivery, alongside a focus on healthier and quality food options, both generally and in eating out (sometimes poorly served by existing takeaway options).<sup>11 12</sup>

In this context, third-party platforms reflect part of how technology is facilitating the sector in adapting to changes in its environment. While food delivery is not a new concept for either restaurants or consumers,

third-party platforms make it easier for more restaurants to deliver and provide consumers more choice, responding effectively to changes in consumer preferences.

From the perspective of consumers, platforms make the at-home, or other off-premises, ordering experience simple and convenient. They aggregate the menus and prices of a number of restaurants beyond the traditional local takeaways, allow customers to customize orders, pre-order meals, choose collection or delivery, pay for their orders without the need for cash at pickup or delivery, and track the status of their orders.<sup>13</sup> They are a one-stop shop from the customer perspective for at-home dining, making up between 9-23% of meals eaten from restaurants. They also comprise 2-5% of meals overall in our sample (see Figure 2).<sup>14</sup> When asked what their reasons are for ordering from third-party platforms, a large majority of customers in all cities cited the ease of ordering and payment (see Figure 3).

Figure 2: Where the average consumer gets their meals over an average 7-day period<sup>15</sup>



Source: Deloitte survey, July 2019.

<sup>9</sup> Forbes, "Five Technologies That Are Reshaping The Restaurant Industry For 2019"; <https://www.forbes.com/sites/forbescommunicationscouncil/2019/01/18/five-technologies-that-are-reshaping-the-restaurant-industry-for-2019/#3fdefaf1822f>

<sup>10</sup> Financial Times, "McDonald's to roll out in-store mobile ordering"; <https://www.ft.com/content/f7942294-ad09-11e6-9cb3-bb8207902122>

<sup>11</sup> Nielsen, "Six factors driving consumers' quest for convenience"; <https://www.nielsen.com/eu/en/insights/article/2018/six-factors-driving-consumers-quest-for-convenience/>

<sup>12</sup> Deloitte, "Changing tastes: The UK Casual Dining Market"; <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/ConsumerIndustrialProducts/deloitte-uk-casual-dining-market.pdf>

<sup>13</sup> Platforms in Europe that mainly aggregate restaurant menus and allow customers to pay online ("aggregators") include JustEat, Delivery Hero, and Takeaway.com. In addition, platforms such as Uber Eats and Deliveroo provide the same services as well as also deliver orders ("delivery platforms").

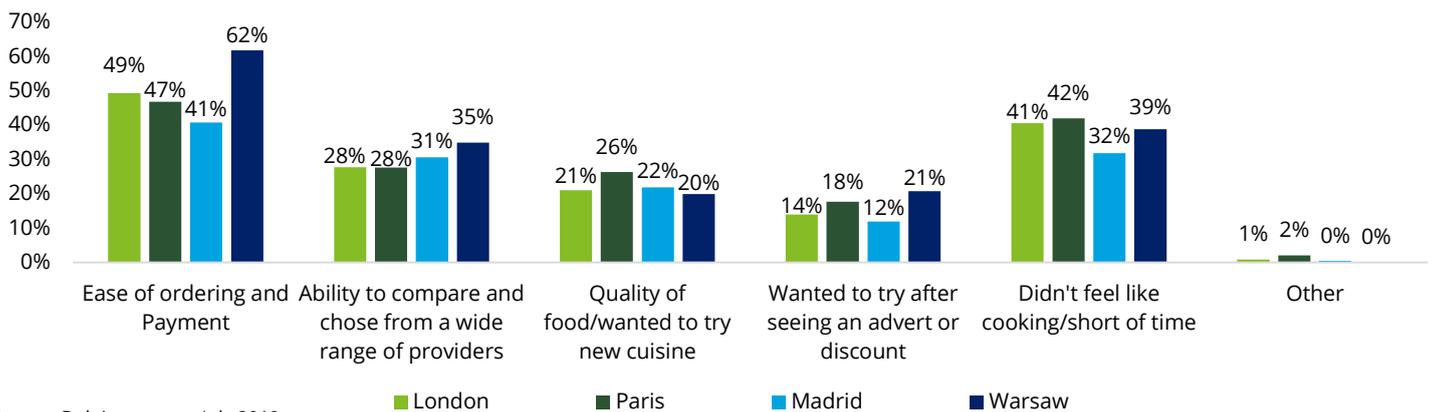
<sup>14</sup> The Deloitte Survey refers to primary research conducted with 500 respondents in each of London, Paris, Madrid and Warsaw. For more information please refer to Section 0 and the Appendix.

<sup>15</sup> Other refers to meals eaten outside the restaurant sector, such as pre-prepared or cooked at home meals.

Figure 3: Reasons for using third-party platforms



What are the reasons you choose to order food using a third-party platform?



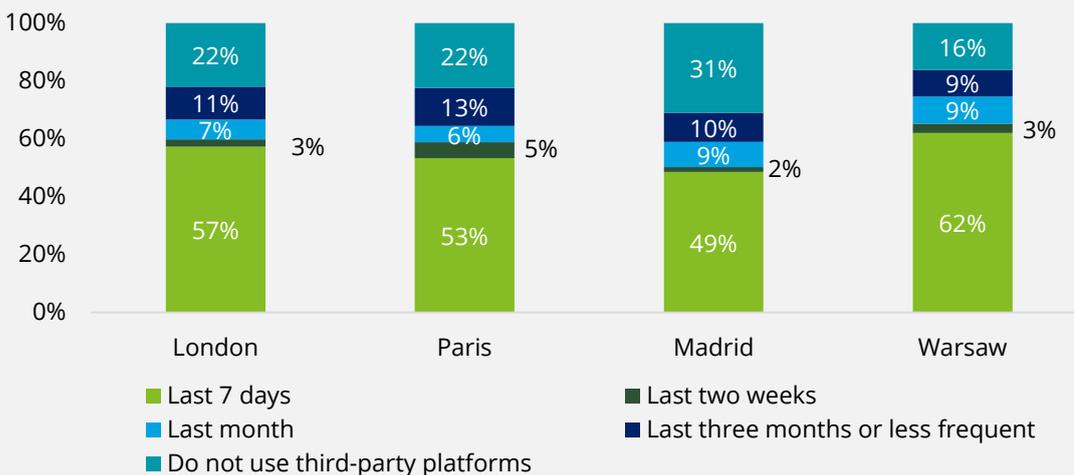
Source: Deloitte survey, July 2019.

### Box 1: Penetration of third-party platforms

A survey launched as part of this study finds that 59% or higher of adults in London, Paris, Madrid, and Warsaw ordered from a third-party platform at least once in the last month, with rates of ordering highest in Warsaw at 75% (see Figure 4). Adults between 18-39 years old across all three cities had the most frequent usage rates of third-party platforms, with 71-80% ordering from a third-party platform in the last seven days. Adults aged 60+ were the lowest users, with 32-63% never ordering from a third-party platform.

Figure 4: Market penetration of third-party platforms

Have you used a third-party platform to order food in the...



Source: Deloitte survey, July 2019



For restaurants, third-party platforms can also provide benefits by offering modular, pick-and-choose services that work for them. For example, restaurants can:

- Use third-party platforms as a one-stop shop for collection and delivery orders, listing their menus, accepting payments, and allowing platforms facilitate delivery of their orders (e.g. through third-party platforms such as Uber Eats, Deliveroo or Glovo).
- List their menus on third-party platforms and receive electronic payments, while using their own delivery services for delivery orders (e.g. through third-party platforms such as JustEat, Delivery Hero, and Takeaway.com).<sup>16</sup>
- List on multiple third-party platforms, or on both third-party platforms and their own mobile or online portals.<sup>17</sup>

Third-party platforms can act as an online portal for restaurants, presenting their menu and handling payments processing, while providing marketing that allows them to reach new customers and push promotions directly to customers. For platforms such as Uber Eats and Deliveroo, these services are integrated with delivery fulfilment to provide an end-to-end solution for offering customers delivery services.

Many restaurants would not be able to offer delivery without third-party platforms. In a survey by Uber Eats to support this study, of the share of restaurants on its platform that offered delivery before joining was only 38% in London and Paris and 36% in Warsaw, with this figure higher at 52% in Madrid. The share that then reported they would have launched such a service if they had not joined was 48% in London, 50% in Paris, 67% in Madrid and 47% in Warsaw.<sup>18</sup>

In return for services such as handling payments, delivery logistics, and marketing, third-party platforms generally take a percentage fee from restaurants. This ranges from 20-30% for orders where the platform also facilitates delivery of the food, and approximately 15% for collection orders or where delivery is handled by the restaurant.<sup>19,20</sup>

The benefits of third-party platforms are likely to vary by restaurant, with some restaurants potentially better able to exploit the changing trends in consumer preferences and new technologies to draw in new customers and revenue streams:

- **Additive growth:** Third-party platforms open opportunities for restaurants to grow the share of overall meals purchased from restaurants by potential customers (i.e. people in the local area), substituting for meals that would have been cooked at home.<sup>22</sup> For example, with people's lives getting busier, restaurants offering premium or healthier fast-food options may be able to draw in customers looking for a convenient but health mid-week alternative to cooking, an option that might not be offered by traditional local takeaways otherwise.<sup>23,24</sup>
- **Better asset utilization:** Third-party platforms can also help increase utilization of otherwise idle assets, for example during mid-week or afternoon periods. This can help increase recovery rates during these periods for fixed costs. For example, explaining why they decided to offer delivery, a restaurant owner noted that:

*"As a hospitality business, [the restaurant] depend[s] highly on customers coming in every day. One thing that stops customers coming in is heavy rain. A great way to off-set this is by offering a delivery option, and it comes as no surprise that [the restaurant's] busiest days for delivery are when the weather is especially terrible."<sup>25</sup>*

Restaurants can manage their engagement with third-party platforms. On nights with fewer dine-in or other channel customers, they can accept orders through third-party platforms to increase recovery on costs that would generally be incurred regardless, while during busier nights they can accept fewer orders to manage demand.

<sup>16</sup> Note: In some markets, these third-party platforms also offer delivery services for restaurants as well (for example, <https://restaurants.just-eat.co.uk/>)

<sup>17</sup> For example, Papa John's in London and Pizza Hut in Paris.

<sup>18</sup> Uber Eats survey of restaurants, November 2019. Sample size: 294 respondents for Paris; 187 respondents for London; 47 respondents for Madrid; and 100 respondents for Warsaw.

<sup>19</sup> Wall Street Journal, "Restaurants Are Arm-Twisting Delivery Companies to Lower Fees"; <https://www.wsj.com/articles/restaurants-are-arm-twisting-delivery-companies-to-lower-fees-11561282202>

<sup>20</sup> Financial Times, "Uber Eats to cut fees in battle with Deliveroo and Just Eat"; <https://www.ft.com/content/0a64006c-34f6-11e9-bb0c-42459962a812>

<sup>21</sup> Just Eat, <https://restaurants.just-eat.co.uk/>

<sup>22</sup> This would therefore reflect non-zero sum growth for the restaurant industry, although potentially at the expense of other industries e.g. supermarkets.

<sup>23</sup> The Independent, "Consumers look for 'healthier' fast food"; <https://www.independent.co.uk/life-style/health-and-families/consumers-look-for-healthier-fast-food-2036487.html>

<sup>24</sup> Financial Times, "Dark kitchens: is this the future of takeaway?"; <https://www.ft.com/content/d23c44fe-4b0b-11e7-919a-1e14ce4af89b>

<sup>25</sup> Uber Eats Blog, "The Man Behind London's Favourite Bubble Tea On How Delivery Impacted His Business"; <https://www.ubereats.com/blog/en-GB/delivery-partner-interview-biju-bubble-tea/>



### New customers:

Leveraging and expanding their customer base through large-scale marketing, third-party platforms allow restaurants to reach customers that otherwise would not have ordered from them at all. Third-party platforms offer a network of potential customers who may browse for different food options and cuisines rather than choosing to order from a specific restaurant by telephone or in person. Even for traditional local takeaways, which might offer delivery anyway, third-party platforms can increase awareness among potential customers. In Deloitte's primary research with restaurants as part of this study, some respondents noted that joining third-party platforms had allowed them to "increase the number" of new customers and to increase their "visibility in the neighborhood". Following the introduction of delivery through Uber Eats, McDonald's said that more than 70% of delivery sales were incremental for participating restaurants.<sup>26</sup>



### Expansion and innovation:

Third-party platforms also offer restaurants an opportunity to expand and entrepreneurs an opportunity to open new restaurants. This can include using data insights to design menus and identify opportunities to expand to kitchen-only units servicing different local areas, or exploit under-utilised space in existing restaurants. Using customer search data, for example, platforms found that cities in the UK and US had an under-provision of poke bowls, a Hawaiian dish, and supported restaurant partners and start-ups in meeting demand through new delivery-only menus. This support can take different shapes, such as accelerator programs, either in partnership with new types of businesses providing flexible kitchen spaces for delivery-only restaurants or through directly providing flexible spaces in areas where there is demand and inviting restaurants to open new locations.<sup>27 28 29 30 31 32</sup> Uber Eats data suggests that operators with virtual restaurants in France and the UK have seen sales increase by more than 50%.<sup>33</sup>

<sup>26</sup> Business Insider, "7 reasons why McDonald's, Chipotle, and Shake Shack are embracing meal delivery — and Olive Garden isn't"; <https://markets.businessinsider.com/news/stocks/mcdonalds-shake-shack-chipotle-invest-meal-delivery-olive-garden-2019-8-1028436052>

<sup>27</sup> Financial Times, "Dark kitchens: is this the future of takeaway?"; <https://www.ft.com/content/d23c44fe-4b0b-11e7-919a-1e14ce4af89b>

<sup>28</sup> Financial Times, "The start-ups building 'dark kitchens' for Uber Eats and Deliveroo"; <https://www.ft.com/content/a66619b0-77e4-11e9-be7d-6d846537acab>

<sup>29</sup> Financial Times, "The food industry is due another revolution"; <https://www.ft.com/content/1ce0cd5a-c1b0-11e9-a8e9-296ca66511c9>

<sup>30</sup> Eater, "Uber Eats' Path to Delivery Domination: Restaurant Inception"; <https://www.eater.com/2018/10/24/18018334/uber-eats-virtual-restaurants>

<sup>31</sup> The Telegraph, "Uber Eats eyes 400 'virtual restaurants' as it takes fight to Deliveroo"; <https://www.telegraph.co.uk/technology/2018/10/15/uber-eats-eyes-400-virtual-restaurants-takes-fight-deliveroo/>

<sup>32</sup> The Spoon, "London: Uber Eats' New Restaurant Accelerator Program Will Cover 'Gaps' in Food Selection"; <https://thespoon.tech/london-uber-eats-new-restaurant-accelerator-program-will-cover-gaps-in-food-selection/>

<sup>33</sup> Uber Eats sales data 2019, comparing month before launching virtual restaurant with two following months

While the benefits of third-party platforms can be additive, not all meals ordered through platforms will be incremental to the restaurant industry overall. On an aggregate level, meals ordered through third-party platforms can and will substitute for some meals that would have been ordered through other restaurant channels, such as meals consumed on-premises and meals directly ordered from a restaurant (perhaps by telephone or in-person) and consumed off-premises.

This substitution on an aggregate level can have an impact on the turnover and profits for certain restaurants. For example, as consumers are offered more food choices that can be delivered, including healthier and premium fast-food options from newer quick-service chains,<sup>34 35</sup> they may choose these at the expense of local restaurants that have traditionally offered delivered food or delivery-focused chains that have historically dominated the market.<sup>36</sup> Similarly, if consumers choose to order food for off-premises consumption instead of dining on-premises, for example because it is more convenient, this can have a negative impact on profit per meal due to differences in ordering behavior on different channels.<sup>37 38</sup> This substitution for convenience can also have a positive impact on industry profits. For example, if a consumer orders food for delivery, this does not require labor to serve the food and its associated costs, resulting in higher profit; or deliveries (including from hosting delivery-only virtual kitchens) might dilute restaurant fixed costs, reducing overall costs per meal.

Consumers choose between dining options reflecting the specific context (e.g. the time available) and their wider preferences (e.g. the increasing preference for convenience noted earlier). If they want food for delivery (rather than deciding to eat on-the premises), and the restaurant does not offer that option, it is reasonable to expect they will often choose another restaurant that does.

It is therefore best to understand substitution as described in this report as an aggregate, industry-level phenomenon rather than an individual, restaurant-level impact. From the perspective of a restaurant, substitution due to not offering delivery services will normally mean a lost sale, rather than lost profit compared to a dine-in customer.



<sup>34</sup> Deloitte, "Changing tastes: The UK Casual Dining Market"; <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/ConsumerIndustrialProducts/deloitte-uk-casual-dining-market.pdf>

<sup>35</sup> IRI GIRA Foodservice, "1 In 5 Meals Eaten Out Of Home As European Consumers Favour Service Over Home Cooking"; <https://www.iriworldwide.com/en-GB/Insights/news/1-in-5-meals-eaten-out-of-home-as-European-consume>

<sup>36</sup> Financial Times, "Dark kitchens: is this the future of takeaway?"; <https://www.ft.com/content/d23c44fe-4b0b-11e7-919a-1e14ce4af89b>

<sup>37</sup> For example, while the cost of food sold is generally 30-35% of the price, and so provides a 65-70% margin before other costs, beverages can sell for a higher margin. If consumers order fewer drinks with their off-premise meals, this may mean fewer higher-margin items sold overall as well as the added cost of delivery.

<sup>38</sup> Wall Street Journal, "Consumers Love Food Delivery. Restaurants and Grocers Hate It."; <https://www.wsj.com/articles/consumers-love-food-delivery-restaurants-and-grocers-hate-it-11552107610>

### 3. Impacts on restaurants in selected cities

This study examines the impact third-party platforms have on the restaurant industry looking at London, Paris, Madrid, and Warsaw in particular.

It does this by first considering the situations in which consumers choose to order from third-party platforms, and what they would do in these situations in a world where third-party platforms do not exist, keeping all else constant. Using this understanding of consumption behavior in the actual outturn, where consumers can use third-party platforms, and the counterfactual scenario, where third-party platforms are unavailable, the study links the resulting consumption landscapes to restaurant finances. It estimates the impact third-party platforms have had on the restaurant industry based on the difference between total turnover and profit for each channel in the two scenarios, aggregated to get an overall net impact.

As such, this study's approach is to develop an understanding of how the demand side (i.e. consumer preferences about where they get their food) impacts the supply side (i.e. restaurant finances) in an illustrative, counterfactual analysis.<sup>39 40</sup> A more detailed description of the approach is included in the body of the full report and its Appendix.

The top line findings are that:

- **Third-party platforms grow the restaurant sector:** Around 20% of meals ordered through third-party platforms represent growth in the restaurant industry in London, Paris and Warsaw, as additional meals are being eaten from restaurants overall versus the counterfactual.<sup>41</sup> In Madrid, this is lower at 12%. Existing analysis suggests that platforms which facilitate delivery are particularly likely to grow the market.<sup>42</sup> According to the Uber Eats survey mentioned earlier, the share of restaurants on its platform that reported an overall increase in sales after joining was 69% in London, 74% in Paris, and 67% in Warsaw, with this slightly lower at 59% in Madrid.

- **Third-party platforms also provide a new means for customers to satisfy their existing demand for food delivery:** 40-56% of meals ordered through third-party platforms are substitutes for non-platform delivery orders (e.g. phone calls, or chain-specific websites). This means, because of the wider variety and more premium food options offered, that the restaurants that have never offered delivery before are likely to see a much larger increase in incremental orders than those who have traditionally offered takeaway services.
- **Substitution for collection and on-premises consumption is more limited:** 12-21% of meals would have been ordered and consumed on premises. 11-19% of meals would otherwise have been non-platform collection orders.

These city level results are generally consistent across age groups. Broadly, 18 to 39 year olds and 40 to 59 year olds tend to substitute away from ordering delivery directly from the restaurant. The substitution patterns for the over 60s differ more by city. In Madrid and Paris, older consumers are generally substituting away from dining on-premises. In Warsaw, older consumers are mostly substituting meals consumed from outside the restaurant sector. In London, most of the impact is substitution away from ordering delivery directly from the restaurant.



<sup>39</sup>This study controls for differences in consumer behavior by age demographics. However, it does not consider how behavior may vary by other demographic factors, such as socio-economics, due to limitations of data.

<sup>40</sup> Impacts on other food-related sectors, such as groceries and the restaurant supply chain, are not studied in this report.

<sup>41</sup> This is represented by the "Eating at home and other non-restaurant meals" category being referred to in Figure 9, which represents the meals being consumed from outside of the restaurant industry.

<sup>42</sup><https://www.mckinsey.com/-/media/McKinsey/Industries/Technology%20Media%20and%20Telecommunications/High%20Tech/Our%20Insights/The%20changing%20market%20for%20food%20delivery/The-changing-market-for-food-delivery-final.ashx>

### 3.1 Impacts on aggregate demand for restaurant meals

Table 1 presents weekly aggregate demand for each city. For all cities, the total number of meals have increased. This results from consumers eating proportionately fewer non-restaurant meals, and instead purchasing more meals from restaurants via third-party platforms versus the counterfactual.

In terms of numbers of meals, this results in aggregate demand for restaurants increasing by 4.7% in Paris and by 4.1% in London. This increase is slightly lower at 1.9% in Warsaw and 1.5% in Madrid, driven by lower overall usage of third-party platforms (off-premises meals ordered through third-party platforms account for 2% of all meals in each of these cities, compared to 5% in Paris and 4% in London; see Figure 8).<sup>43</sup>

**Table 1: Aggregate demand for restaurant meals, thousands weekly**

City	Factual	Counterfactual	Difference	% change
London	23,330	22,420	910	4.06%
Paris	7,934	7,578	356	4.69%
Madrid	11,803	11,626	176	1.52%
Warsaw	6,478	6,355	123	1.93%

Source: Deloitte analysis

This increase in demand is likely to be unequally distributed across different types of restaurants. Restaurants that sign up for third-party platforms would see a higher share of the increase in demand, while restaurants that do not would likely see a reduction in demand. This is because (as discussed in Section 2) the former would be better able to respond to increasing consumer preferences for convenience, while the latter would see consumers that are seeking a convenient option choose alternatives. Some restaurants might see reductions in demand, if for example:

- they do not offer delivery and therefore do not see the upside to third-party platforms; or
- they previously operated in a market where few other restaurants were able to offer delivery and this was a barrier for competitors that otherwise offered a more attractive proposition to consumers.

### 3.2 Net impacts on restaurant financials

The impacts of these changes in consumption on restaurant finances is estimated based on research into the turnover and costs for each segment.<sup>44</sup> This provides a view, for each city, on:

- The average spend per type of meal (accounting for average prices and amount of food and beverages consumed in different settings).
- The average costs per type of meal (including cost of goods sold, labor, and delivery if applicable).

Together, these allow for estimation of the average profit per meal, by type of meal, in each city. Tables 2-5 present the resulting estimates for net turnover and profit impacts across all four cities.

As stated before, the totals are net across a diverse set of impacts at the individual restaurant level, which, reflecting the impacts on demand for meals, are driven in large part by whether restaurants participate in third-party platforms. Given the consumer trend toward convenient food options, restaurants that join third-party platforms and serve meals for off-premises consumption would have a higher portion of the additional turnover and profits while those who do not would have a lower share.

There is a net increase impact on turnover in each city's restaurant industry (see Table 2).

**Table 2: Industry-level net impacts on turnover, weekly and annual (thousands)**

	London, £	Paris, €	Madrid, €	Warsaw, zł
Weekly	6,214	1,816	448	2,116
Annual	323,120	94,408	23,298	110,032
Increase	1.43%	1.15%	0.26%	0.96%

Source: Deloitte analysis

Similarly, profits shift in a similar manner to turnover, with the overall net impact again positive across all four cities. London sees the highest increases in turnover and profit for the industry, both in absolute and proportionate terms. Across the industry, restaurants' profits are increased by £189 million (€213 million) annually, or 2.82%, due to the introduction of third-party platforms. In the other cities, profits increase by €18 million (0.64%) in Paris; €36 million (1.29%) in Madrid; and 46 million zł (€11 million; 1.23%) in Warsaw.<sup>45</sup>

<sup>43</sup> This has been calculated as the difference between both states of the world over the counterfactual aggregate demand.

<sup>44</sup> Estimates were developed through a combination of primary research, third-party data sources, and subject matter experts. For a more detailed explanation of the methodology and sources, please refer to the Appendix.

<sup>45</sup> The greater increase in aggregate net impacts on profit relative to turnover in Madrid is driven by the relatively lower rate of substitution by meals ordered through third-party platforms for non-restaurant sector meals (see Figure 9). As a result of this, turnover increases from growth in the restaurant sector are more limited and counteracted by the decrease in turnover per meal due to substitution from on-premises dining to collection and delivery meals. Meanwhile, relatively more meals substitute lower-margin direct deliveries for higher-margin third-party deliveries, resulting in an overall larger net increase in total industry profits despite a not as significant net increase in turnover.

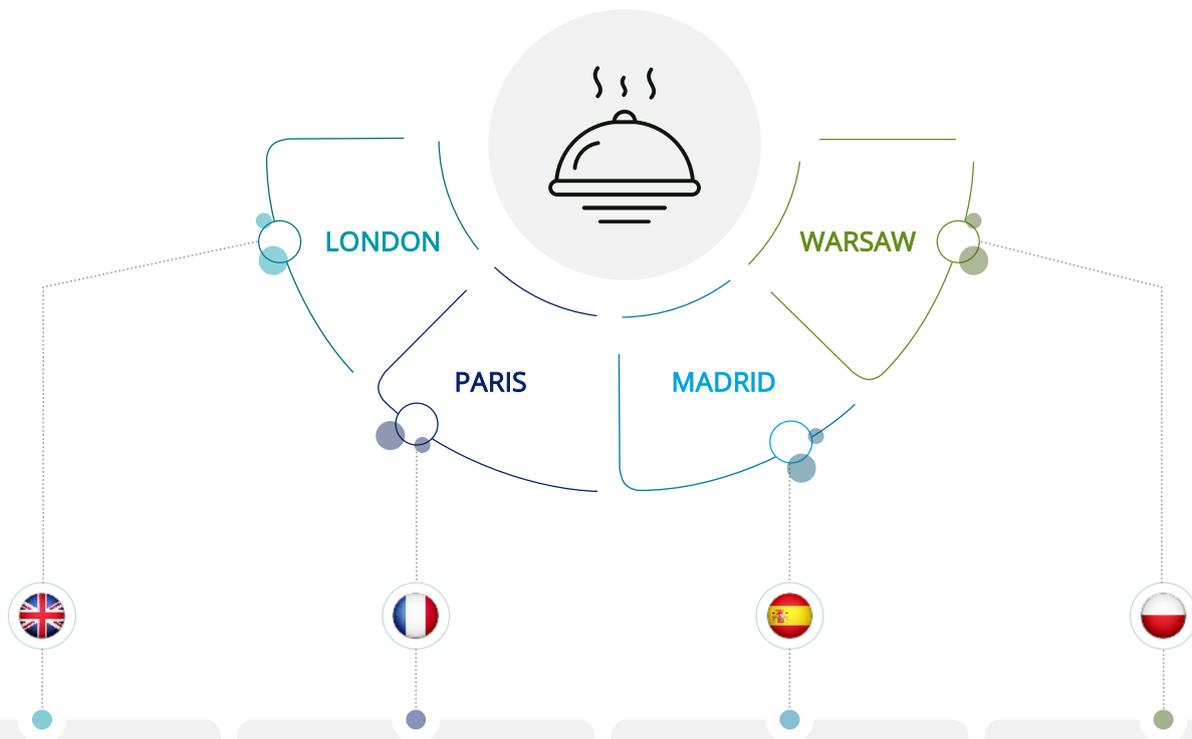
**Table 3: Industry-level net impacts on gross margin, weekly and annual (thousands)**

	London, £	Paris, €	Madrid, €	Warsaw, zł
Weekly	3,628	350	687	875
Annual	188,659	18,202	35,771	45,518
Increase	<b>2.82%</b>	<b>0.64%</b>	<b>1.29%</b>	<b>1.23%</b>

Source: Deloitte analysis

### 3.3 Summary impacts

In summary, after accounting for substitution within the sector as well as the increase in overall meals eaten within the sector, this analysis finds the impacts of third-party platforms on the selected cities versus the counterfactual to be:



- An overall increase of **4.1%** in the number of meals purchased from restaurants.
- An increase of £323 million in turnover across the restaurant industry.
- An increase of £189 million in profit across the restaurant industry.

- An overall increase of **4.7%** in the number of meals purchased from restaurants.
- An increase of €94 million in turnover across the restaurant industry.
- An increase of €18 million in profit across the restaurant industry.

- An overall increase of **1.5%** in the number of meals purchased from restaurants.
- An increase of €23 million in turnover across the restaurant industry.
- An increase of €36 million in profit across the restaurant industry.

- An overall increase of **1.9%** in the number of meals purchased from restaurants.
- An increase of 110 million zł in turnover across the restaurant industry.
- An increase of 46 million zł in profit across the restaurant industry.



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