

# DEVELOPING A WINNING STRATEGY FOR ONLINE DELIVERY

The rapid growth of online delivery apps in the UK has left many restaurants wondering how to work with them and beat the type of disruption that has decimated other industries.



## WHY ONLINE DELIVERY SHOULD BE YOUR FIRST CONCERN

Over the last ten years, changes in social trends and economics have led to a shift in the way we consume food. Longer working hours, people remaining single for longer, the economic crisis, and the growth in technology platforms has resulted in people choosing more frequently to 'dine-in' rather than dining out.

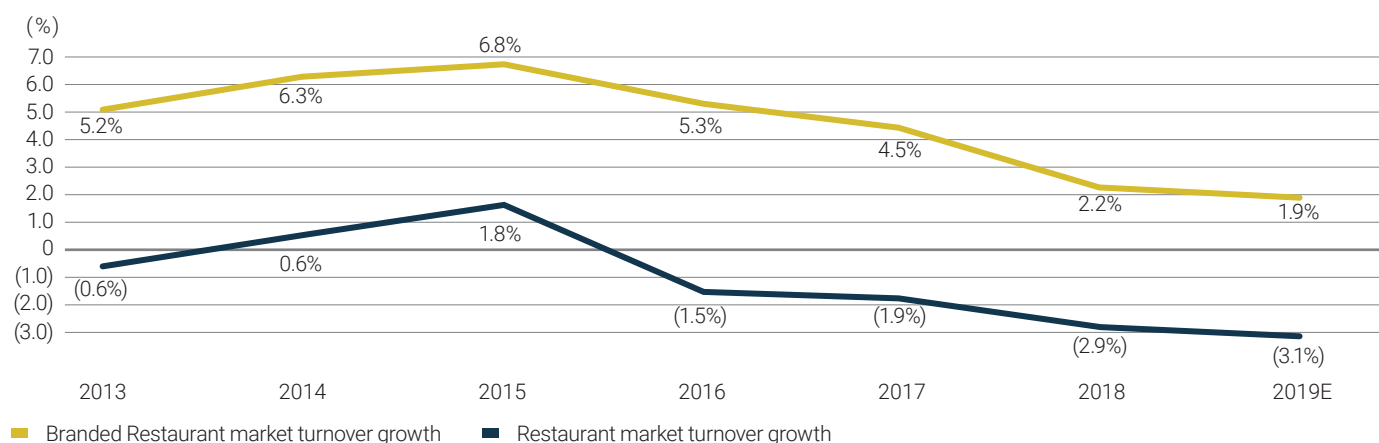
This has contributed towards over-capacity in restaurant units and a subsequent decline in the

number of bricks-and-mortar stores over the last 24 months. At the same time, the delivery market has seen rapid growth, and is forecast to grow at an even faster rate over the next five years.

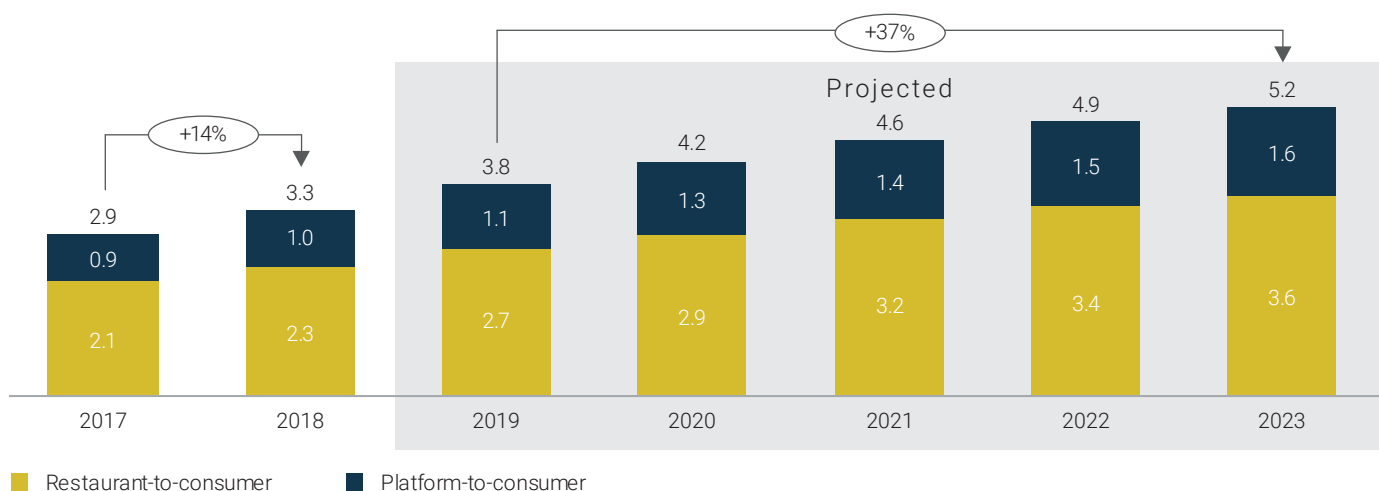
This change in consumer behaviour, and the rise of technology platforms, has caused new market structures to emerge. These pose both challenges and opportunities for operators.

## APPETITE FOR ONLINE DELIVERY TO GROW BY 37%

**FIGURE 1: UK RESTAURANT SALES GROWTH (PERCENTAGE YEAR ON YEAR)**



**FIGURE 2: UK DELIVERY MARKET 2017 TO 2023 (£ BILLION)**



Sources: Figure 1: MCA Restaurants Report 2019

Figure 2: Statista, last update: 2019-06. Direct restaurant-to-consumer includes orders directly delivered by restaurants, which will include orders sourced via platforms (e.g. Just Eat) or websites (e.g. Dominos)

## AN EVER-CHANGING DINING LANDSCAPE

Just 15 years ago, the UK restaurant sector was comprised principally of bricks and mortar, with consumers eating on premises, or ordering and collecting takeaways directly from restaurants. Delivery services were provided by delivery-only players, such as Domino's, or on a smaller scale by restaurants' own drivers.

The emergence of online platforms, such as Uber and Airbnb, saw the gig economy gather momentum. Technology has enabled new business models, platforms, and sales channels, with platforms placing themselves between the service provider and the consumer.

In addition to taking control of the consumer, the transparency and range of offerings provided by social media and platforms has made it harder for operators to offer online delivery as an afterthought, as customer reviews and ratings quickly push consumers to the best delivery operators.

As more digitally native Millennials and Generation Zs become economically active, these means of selecting and transacting with restaurants, pubs, and other food establishments will continue to accelerate.

A continued rise in technology and smartphone usage, and the evolving consumer behaviour that this perpetuates, means that online delivery is not simply a passing trend, but is firmly here to stay. This poses significant challenges for restaurants, who need to consciously decide how they want to play in the online delivery space:

- **Customer segmentation** is becoming increasingly complex – there are 'groups within groups' and each group expects their needs to be fulfilled.
- Consumers now expect – and demand – **personalisation**, from menu choices to delivery preferences.
- Some customers use online delivery exclusively, creating an **essential sales channel** that would be lost if online delivery is ignored.
- **Convenience and value for money** remain critical for consumers – delivery must be on time and the delivered product of a high quality.
- Online marketplaces feature multiple sellers and increased competition – **reviews are critical** to the consumer decision-making process, and not being online will likely result in sales being lost to competitors who are.

## HOW MANY PEOPLE USE ONLINE DELIVERY SERVICES?

**£1.1BN** 

forecast for **platform-to consumer** food delivery sales in 2019

**221M** 

delivery orders processed by **Just Eat** in 2018

**8.4M** 

**active online delivery** users in 2018

**1 IN 7** **ADULTS** 

order home delivery **once per week**

**55%** 

of UK consumers use online **delivery once a month**

**84%** 

of the top **50 branded UK** restaurants offer delivery



## WHY ONLINE PLATFORMS ARE A CRITICAL CHANNEL

Following the rapid growth in online delivery and consolidation in the sector, three powerful players have emerged. All have strong brand recognition and consumers are exceptionally loyal to their platform of choice. These brands may well exert a stronger influence on customers' ordering choices than the restaurant brand alone:

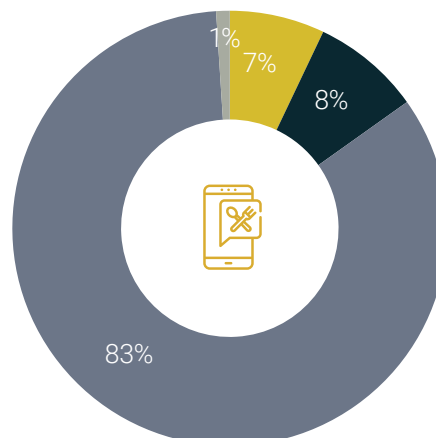
- 1 Just Eat** – launched in the UK in 2001, this is the longest running provider and currently owns the largest share of the market. It offers a digital marketplace to restaurants and is also building its own delivery fleet.
- 2 Deliveroo** – launched in the UK in 2013, it focuses on affordability, with future growth plans targeting less dense areas and international expansion.
- 3 Uber Eats** – a latecomer to the UK in 2015, but a fast riser. It leverages its driver network and mapping software.

While online delivery offers opportunities to restaurants as a new sales channel, it also raises new business challenges:

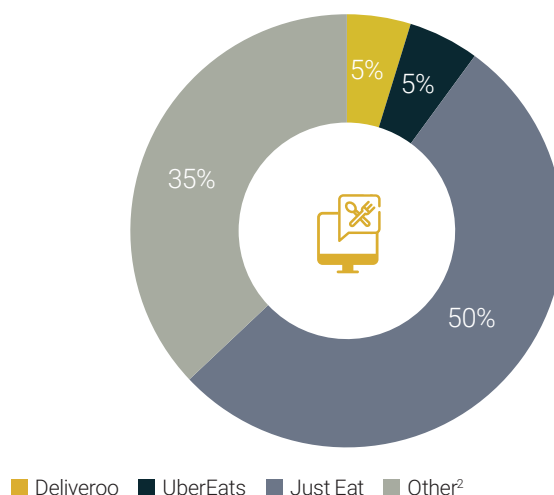
- Barrier to entry are lowered via virtual brands and extended offerings, and competition is increased from other restaurants with an overlapping delivery radius.
- Delivery can impact in-store operations and the diner experience, if not set up and resourced with careful planning.
- Loss of direct relationships with customers.
- Margin impact from third-party delivery costs which include fees and commissions (which could be up to 30% of the sales value).

### FIGURE 3: MARKET SHARE

UK daily app usage<sup>1</sup> (November 2018)



UK online orders (2018)



■ Deliveroo ■ UberEats ■ Just Eat ■ Other<sup>2</sup>

1. Market share based on app users

2. 'Other' contains orders made direct via websites, e.g. Dominos, Pizza Hut or other white label

Source: Financial Times, Deal Room, Priori Data



## THE M&A PERSPECTIVE

“The approach to online delivery is front-of-mind for private equity that already own businesses in the sector, or those weighing up a new investment. Existing investors will be conscious that their portfolio companies are optimising a potentially valuable revenue stream, while ensuring that the ROI on any infrastructure required to facilitate online delivery stacks up. They will also have one eye on exit, and will want to ensure that management’s strategy and approach to online delivery is ‘future proof’, and drives EBITDA gains.”

“Those considering an investment in the space will focus on the business plan to ensure that online delivery is appropriately factored in, assumptions are deliverable, and any changes to strategy do not have a detrimental impact on the brand or customer experience. Those companies seeking investment that are able to demonstrate a credible, earnings accretive and future-proof online delivery strategy should prove attractive to potential investors.”



Graeme Smith  
Managing Director, M&A Services



Craig Rachel  
Senior Vice President, M&A Services

## ASSESSING HOW TO PLAY

Two reactions from operators are common in the face of these threats and opportunities – ‘doing nothing’ to address delivery and ‘jumping in’ without planning. Both, however, can be disastrous to sales, operations and reputation.

If you're ignoring delivery as a channel and doing nothing about it, perhaps believing it to be a passing trend or something for future consideration, think again. Online delivery is happening now. **By ignoring it you could be overlooking a potential high-growth sales channel for your business** and enabling competitors to get ahead and steal your market share.

Conversely, **jumping into a delivery offer without carefully evaluating the financial and operational impacts on your business could result in even greater damage.** Without rigorous preparation, your brand could be irreparably damaged through long delivery wait times, poor quality food, disruption to in-store operations, and destruction of the dine-in customer experience.

**Carefully assessing how, and if, delivery fits with your brand promise, food concept, and customer expectations is the first critical step in determining how delivery might fit with your business.** At this early stage, it may be clear that online delivery is not a viable

channel, leaving the business to focus on its current growth strategy, without the constant distraction of the ‘delivery’ question. **However, the decision to not offer delivery must be a well thought out strategy based on sound analysis, rather than an emotional reaction.**

If a clear fit exists between the business and delivery model, **detailed operational and financial planning needs to be undertaken, which will ultimately form the basis for the underlying execution plan.**

**Planning should be performed in a structured way,** and should include restaurant operational and staffing changes, IT integration requirements, a marketing plan, a robust business case, delivery partner evaluation and selection, a store rollout plan, and development of Key Performance Indicators to monitor execution of this sales channel.

Failing to plan in this brave new world is akin to ‘planning to fail’, and **our experience shows that those who do not plan are losing out on potentially lucrative new ways of reaching and serving customers.**

Looking to the future, forecasts estimate that delivery growth will accelerate, and will evolve in significant ways. Delivery is expected to become an even greater part of the value chain, with consolidators growing to enable restaurants to go ‘direct to customer’ via white label delivery offerings.

We also see further consolidation in the online delivery sector, with new offerings and models emerging out of the current providers. All of which strengthens the message that, right now, online delivery should be your first concern.

A structured 4-step approach should be followed to determine exactly how to play and to develop a detailed execution plan



## TALK TO THE EXPERTS – SUPPORT WHEN IT REALLY MATTERS

Whether or not online delivery is right for your business, this disruption is happening now, and companies need to take a conscious decision at the core of their business strategy whether to participate or not.

AlixPartners has the knowledge, experience and insight across the food value chain – from strategy to operations and finance – to guide management teams and investors through the online delivery journey. Our team of senior consultants works hand-in-hand with clients to develop their plans for successfully implementing delivery.

