Executive Insights

Volume XXI, Issue 5

Meals on Wheels: The Digital Ordering and Delivery Restaurant Revolution

Tired of a steady diet of haute cuisine, Italy's Queen Margherita decided during a stay in Naples to send out for some local food. Pizza restaurateur Raffaele Esposito got the order. He delivered three pies, including one topped with fresh basil, tomatoes and mozzarella — a nod to the country's new tricolor flag. The meal was a hit, and the Pizza Margherita was born.

That was in 1889. By 2018, meal ordering and delivery had become a critical channel for restaurants. The fastest-growing part? Digital delivery, by which consumers order their eats with the click of a mouse or the swipe of a smartphone app.

A piping hot market

Delivery sales have outpaced other restaurant sales for some time, a trend that likely will continue. Between 2018 and 2023, delivery is projected to grow at more than three times the rate of on-premises sales, with the preponderance going to digital orders (see Table 1).

Much of the growth comes from changing consumer preferences. Online ordering has captivated a diner demographic increasingly pressed for time and harboring expectations shaped by the sophisticated world of consumer ecommerce. A key segment is high-income households. Another is millennials: By 2020, those 21 to 36 years old will take up 70% of at-home delivery services.

Restaurant operators are stepping up to meet demand. A National Restaurant Association survey finds that 37% of restaurants offer online ordering, while 32% accept mobile payments. As food delivery options become easier and more convenient — think mobile apps, text messages and websites — more consumers are persuaded to dine in.

Table 1
U.S. restaurant sales by compound annual growth rate (CAGR)

	All sales	On-premises sales	Delivery sales
2011-18E	4.9%	4.7%	10.7% (all)
2018E-23F	4.7%	4.2%	13.1% (all) 22.3% (digital) -2.3% (offline)

And restaurants today have multiple ways to oblige. For those without in-house delivery capabilities, third-party partners are bridging the gap. Meanwhile, packaging technology has improved portability and food quality, leading to a sustained interest in the off-premises dining experience. This has led to a rise in "virtual" restaurants — ones with no physical store, just an ability to serve.

Meals on Wheels: The Digital Ordering and Delivery Restaurant Revolution was written by **Maria Steingoltz** and **Manny Picciola**, Managing Directors in L.E.K. Consulting's Food & Beverage practice. Maria and Manny are based in Chicago.

For more information, contact **consumerproducts@lek.com**.

The result? More than half of delivery consumers now order food directly from the restaurant's app or website. The next-biggest source of delivery orders is outside agents like Grubhub and Uber Eats. Eventually digital deliveries will constitute the lion's share of restaurant deliveries, versus a slightly better-than-even split with offline ordering today (see Figure 1).

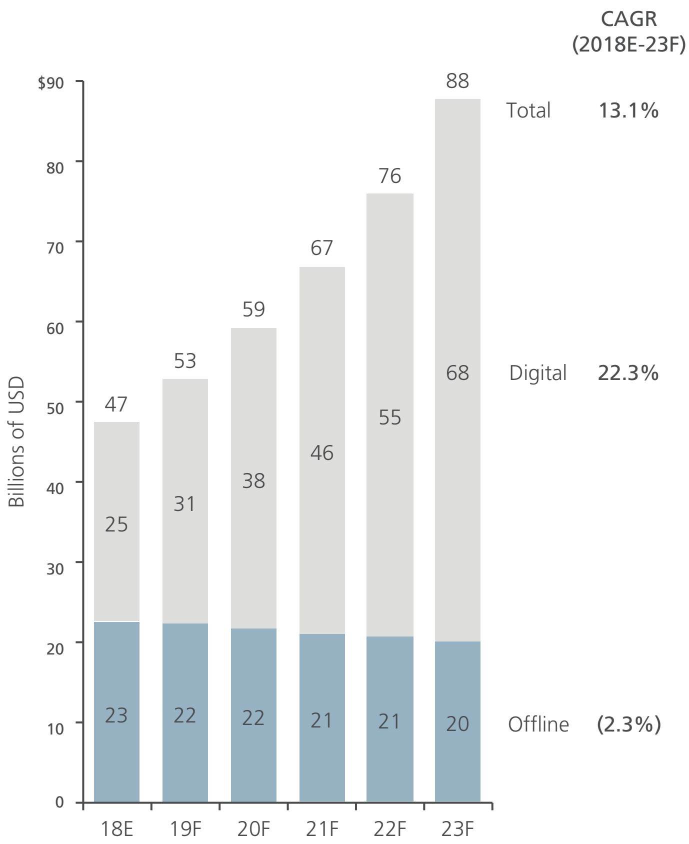
The menu of alternatives

Restaurants handle digital ordering and delivery in different ways. Some go it alone, while others partner with third-party providers. Which approach wins out depends on how much of the process the restaurant cares to own.

Independent platform

A restaurant can offer its own branded app or website to fulfill digital orders. Options include not just delivery but also curbside pickup and carryout.

Figure 1
U.S. restaurant delivery sales (2018E-23F)



Source: Cowen 2017 report: "Dining In Is the New Dining Out," L.E.K. research, insights and analysis

With an independent platform, restaurants can save on the roughly 15% to 30% commission that food ordering and delivery companies charge. A proprietary platform also makes it easier to update specialty items, broaden menus and communicate with consumers. By keeping fulfillment operations in-house, restaurants have greater control over delivery speed and the quality of the food that arrives.

But an independent platform requires a degree of investment and technical expertise that many smaller restaurants just don't have. A food delivery and ordering application can cost as little as $60,000 or extend into the millions. Then there's the cost of delivery drivers and possibly vehicles as well. After all that, existing consumers could still end up using third-party services to order their meals.

Domino's is an example of a restaurant with its own digital ordering and delivery platform. Consumers can use the pizza maker's app to order in advance and pick up their food in-restaurant. They can use the same app to place an order for delivery via the Domino's team of drivers.

Third-party platform

Another approach is to work with a third-party company that specializes in helping restaurants with takeout orders. Some of these companies are aggregators, meaning they provide an online marketplace where consumers can find a restaurant and place an order. Aggregators handle order-taking and payment but leave delivery up to the restaurant. The other kind of third-party platform is a delivery app, which coordinates pickup and delivery on the restaurant's behalf.

A third-party solution offers access to a potentially larger consumer pool. (Grubhub, for example, has a reported 16.4 million active diners nationwide.) It also relieves restaurants of at least some of the capital expenditure that an in-house delivery operation requires. Since the vendor provides the hardware, software and/or delivery labor, restaurants can meet substantial demand right away. Third-party delivery capacity is limited only by the number of partner drivers in the area.

The flip side is that third-party platforms take a substantial cut of each sale. They also tend to pool their trips, which could negatively affect delivery times. Food quality could suffer as well (although novel packaging technologies, such as Lamb Weston's Crispy on Delivery fry boxes, may soon make that less of a concern). Finally, whatever third-party platform they choose, restaurateurs must carefully monitor it to ensure demand doesn't outstrip kitchen capacity.

Hybrid platform

Restaurants can mix in-house and third-party solutions to create a hybrid platform. By and large, this involves creating a proprietary app or website for pickup orders while using a third-party platform for delivery orders. The restaurants that take a hybrid approach typically form an exclusive partnership with their delivery provider.

With a hybrid solution, restaurants can focus on making transactions as hassle-free as possible. Quick-service restaurants like Panera and Wendy's, for instance, have rolled out digital ordering solutions — in-store as well as online — to reduce wait time, improve order accuracy and keep consumers apprised of their order status. Beyond that, restaurants can build provisions for superior delivery times into the exclusive agreements they have with delivery service providers.

A hybrid approach does have its trade-offs, however. It reduces delivery costs, but requires some upfront technology investment. And although the proprietary ordering platform allows for efficient communication, it may cause friction during delivery.

McDonald's is the largest quick-service restaurant with a hybrid platform. Consumers can use the McDonald's app to order in advance and pick up curbside or in-store. Alternatively, consumers can go through McDonald's partner Uber Eats to have their meals delivered directly to their door (see Figure 2).

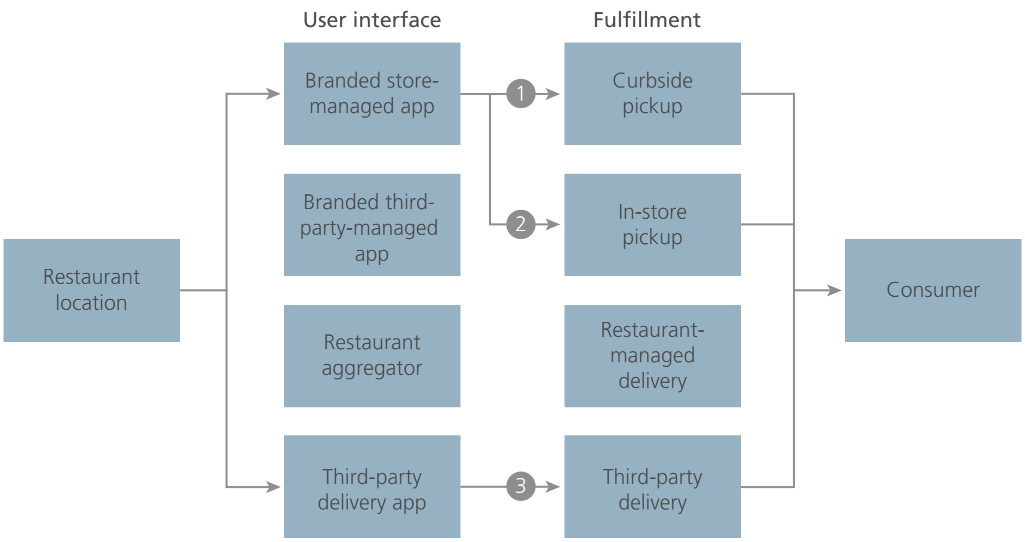
Evolution of a market maker

Among third-party platforms, Grubhub is the undisputed heavyweight. The Chicago-based takeout company estimated its 2018 revenue at between $966 million and $983 million. That's about half of the year's revenue in the entire platform-to-consumer segment.

Not content to rest on its laurels, the company has added delivery services and point-of-sale capabilities to its traditional online aggregator platform. In addition, the recent acquisition of LevelUp offers Grubhub the ability to create apps and websites under a restaurant's own name.

But Grubhub's market share is far from assured. Rival DoorDash, for instance, recently became the fastest-growing food delivery service in the U.S. Even more formidable is the growing presence of Uber Eats and Amazon Restaurants, both offshoots of tech giants famous for starving out the competition.

Figure 2
A hybrid platform at McDonald's



Source: Company website, *Fast Company*, First Quarter Finance, *FSR Magazine*, TechCrunch, *The Wall Street Journal*, L.E.K. research and analysis

Serving up a solution

Choosing a digital delivery platform is one thing. Getting it off the ground can be something else altogether. Here's what restaurants need for a successful delivery program.

Consumer experience. From order origination to tracking, delivery and service follow-up, a positive consumer experience is job one. A key concern? Inconsistency — especially where third-party delivery platforms are involved. Be sure the delivery process is under control.

Technology. Online and mobile ordering makes things easier on the consumer, but requires back-end integration so that the delivery system can work with point-of-sale checkout, apps, promotional data and more.

In-store operations. Delivery and pickup orders can disrupt in-store consumers. Avoid this issue with careful management, such as a dedicated floor plan for pickup.

Supply chain. Efficient execution requires the right equipment and delivery infrastructure. This can mean, for instance, investing in insulated bags to keep meal deliveries hot or cold.

Staff. If delivery is secondary to restaurant operations, third-party platforms can fit the bill. Otherwise, consider hiring dedicated delivery personnel and training them to the restaurant's specific delivery goals.

Restaurants (and investors) are betting big on digital food ordering and delivery. Market trends seem to be bearing them out. Although the right approach — independent, third-party or hybrid — depends on the particular needs of the restaurant, each one requires careful management to bring it to fruition. In a way, then, it comes back to restaurant fundamentals. In the end, a deep understanding of logistics, food quality and consumer communication is what it takes for restaurants to win in a digital future.

About the Authors

Maria Steingoltz is a Managing Director and Partner in L.E.K. Consulting's Chicago office. Maria is focused on the consumer products and retail sectors, with a special emphasis on food and beverage and on beauty and personal care. She advises clients on a range of issues, including growth strategy, new market entry, customer-centric strategy, pricing, consumer segmentation and M&A.

Manny Picciola is a Managing Director and Partner, heads L.E.K. Consulting's Chicago office, and is a member of L.E.K.'s Americas Regional Management Committee. Manny is primarily focused on consumer products and leads the firm's Food & Beverage practice. He has extensive experience managing and directing projects in corporate and business unit strategy, channel management, consumer segmentation, corporate turnaround, and M&A transaction support across multiple industries.

L.E.K.