

Industry Weekly Digest

School of Hospitality & Tourism Management



The promise of Restaurant Delivery

Restaurant delivery offers promise for operators and investors. But there are fundamental problems too, concerning profitability and customer relations. Can they be overcome?

In this digest, guest contributor and founder of [theDelivery.world](#) newsletter, [Peter Backman](#) explores if there is a pathway to profitability for restaurant delivery.

Have a great Weekend!

Is there a pathway to profitability for restaurant delivery?

Peter Backman

In the 1950s, Mrs Brown had her groceries (and perhaps more) delivered by a boy on a bike. By the 1970s cost and convenience had their way and she did all her shopping at the local supermarket. Fifty years later her granddaughter was having her meals – cooked in a restaurant – delivered to her front door. The world has come full circle, so now where does it go?

Many factors are changing the shape of restaurant food delivery. On the positive side, there is large and growing demand, given a boost during covid lockdowns, with my estimate of UK sales of £14 billion last year.

So, all looks good from the consumer-facing perspective. But behind the scenes, from the operational perspective, there are problems. For a start, delivery companies are unprofitable, and this has two fundamental causes. The first is that marketing costs are very high and show little signs of reducing. The second is that last mile delivery operates on very tight margins; for some product categories – office supplies for example – it is possible to operate profitably on relatively modest costs because there is a one-to-many distribution policy – one vehicle delivers to many customers on a single journey. Restaurant delivery is inevitably a one-to-one model with high operational costs.



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So there is an ongoing search for additional, profitable income – from virtual brands and the use of dark kitchens, to adding new ‘verticals’, notably delivering groceries (just like the 1950s).

Another area of problems lies in the interface between delivery company and restaurant. It’s here that high commission rates – 30% or more for most operators – are a constant source of friction. It’s also where the lack of transparency regarding customers (delivery companies by and large do not share customer data) is a big issue for operators because they have no idea who their delivery customers are.

These issues are global, not restricted to the UK, and have been at work since the start of restaurant delivery. They show few signs of full-scale resolution.

So where to from here? If Mrs Brown’s granddaughter continues to order meals from restaurants there will be companies willing to invest in this space provided there is a pathway to profitability. But will Mrs Brown’s granddaughter continue – or will the cycle turn away from restaurant delivery? And will there be a pathway to profitability? The answers to these questions are crucial but still very unclear.

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