

TEACHING NOTE

Summary of the Case

Emergence of Food Delivery

Food delivery services emerged as a fundamental distribution channel for the restaurant industry during the COVID-19 pandemic. The platforms allowed restaurants to continue to make sales amidst government restrictions. The delivery platforms increased in popularity as the pandemic progressed, and the convenience and time-saving elements of food delivery continue to make food delivery a popular consumption channel for diners. Restaurants must adapt to the demands of their customers and preferences for the delivery channel. However, the post-COVID decision to enter or remain in the delivery market is not always easy and requires careful consideration. Delivery platforms provide various benefits and risks associated with their services, and these risks may dictate the viability and success of the restaurant.

Advantages of Food Delivery

Food delivery offers numerous benefits. First delivery extends a restaurants' capacity constraints by allowing restaurants to serve additional customers outside their traditional seating capacity restrictions. Second, the platforms provide marketing avenues for restaurants to reach new customers that may have been unaware of the restaurant. Additionally, these platforms provide promotional opportunities with special offers to increase sales. Finally, these services remove the barriers to entry of food delivery by removing the need to hire, manage and train delivery staff. This allows restaurants to focus on food production while the services focus on fulfillment.

Risks of Food Delivery

In contrast to the advantages, several risks exist for operators to consider. First, a lack of operational control exists. That is, food quality may be reduced through the delivery process and negative service from delivery drivers may hurt the restaurant. Second, delivery sales may be less profitable due to the commissions (15-30%) charged by delivery services. In addition, delivery sales may not include high-margin items, such as drinks, that may impact their profitability. Third, restaurants may also cannibalize their dine-in transactions by offering delivery. Cannibalization forces restaurants to pay commissions on sales they would have made otherwise, which consequently reduces their profitability. Fourth, delivery during peak mealtimes may also introduce new capacity constraints. If restaurants have a full dining room and add incremental orders through delivery, they may not be able to keep up with food production in the kitchen, resulting in delayed delivery times, slow table turns, and lower levels of customer service and employee morale. Therefore, from restaurants owners' perspective, incorporating food delivery should require meticulous evaluation of operational advantages and disadvantages.

Before the case analysis

It may be beneficial to introduce the following topics:

- The role of online food delivery in the restaurant industry
- A discussion of the potential benefits and drawbacks of food delivery

- Students' experiences with online food delivery

Learning Outcome

1. Students will be able to comprehend and discuss the emergence of online food delivery.
2. Students will be able to recognize and evaluate the benefits and risks of offering food delivery for restaurants.
3. Students will be able to identify why food delivery was successful or unsuccessful for two restaurants.
4. Students will demonstrate the ability to apply their knowledge of the potential benefits and risks for a local restaurant.

Target Audience

This case study is recommended for both undergraduate and graduate coursework in the restaurant management, marketing, or customer service disciplines:

Restaurant Management

Food delivery allows restaurants to expand their customer base without investing in additional space or increasing the number of tables. According to this case study, restaurants can raise their awareness and customer base by offering food delivery services. This presents the restaurant with a competitive advantage over restaurants that do not offer food delivery. Managers and owners must weigh the benefits and risks of food delivery prior to implementation.

Customer Service

This case study includes information on how customers value the convenience of having meals delivered to their door. Restaurants may meet these demands and provide customers with an added level of convenience while also saving them time by eliminating the necessity for cooking or waiting at the restaurant. Food delivery became a safe alternative for customers during the COVID-19 pandemic.

Restaurant Marketing

Food delivery can help restaurants increase their visibility by reaching a wider customer base outside the restaurant. The platforms may also provide sponsored marketing opportunities for both restaurants as demonstrated in the case. Furthermore, restaurants can partner with delivery companies to offer targeted discounts or promotions to specific customers.

Suggested Readings:

Gavilan, D., Balderas-Cejudo, A., Fernández-Lores, S., & Martínez-Navarro, G. (2021). Innovation in online food delivery: Learnings from COVID-19. *International journal of gastronomy and food science*, 24, 100330.

Sandland, M., & Orsbourn, C. (2021). *Delivering the Digital Restaurant: Your roadmap to the Future of Food*. Amplify Publishing.

Talamini, G., Li, W., & Li, X. (2022). From brick-and-mortar to location-less restaurant: The spatial fixing of on-demand food delivery platformization. *Cities*, *128*, 103820.

Traynor, M., Bernard, S., Moreo, A., & O'Neill, S. (2022). Investigating the emergence of third-party online food delivery in the US restaurant industry: A grounded theory approach. *International Journal of Hospitality Management*, *107*, 103299.

Suggested Answers to the Questions

Discussion Questions

1. Why did food delivery work for Shake Shack? How were they able to use food delivery to grow their business?
 - Shake Shack was able to create sales in addition to their typical business. This was done strategically through innovative marketing promotions. Shake Shack can incrementally gain profitability through volume and likely has better cost controls (food cost/labor cost) than an independent restaurant, thus mitigating commission losses.
2. Why didn't food delivery work for EL Ideas?
 - EL Ideas was a high-end fine dining establishment. Food delivery may not be particularly suited for fine dining. Additionally, they don't have the volume to make up for the lower margins on high commissions. Ultimately, it just wasn't profitable.
3. What differences exist between the two restaurants that may have contributed to the differences in outcome in the food delivery market?
 - The two restaurants target very different customers. EL Ideas is high-end and can't serve large numbers. Shake Shack has operational speed and a large following to sell incrementally to customers.
4. What strategies could EL Ideas implement to reenter the food delivery market successfully?
 - EL Ideas could offer a limited menu that only offered products that were easy to produce and had a higher margin.
 - They could also consider revenue management pricing to increase prices and thus their margins to increase sales. Note the effectiveness of different pricing strategies is highly dependent on customers' reaction to price increases, their perceived value and their ability to pay. While some customers might appreciate the convenience and time-saving aspect of food delivery in EL Ideas, others might feel higher prices negate the value when compared with dining out.
5. Do you think Shake Shack should be concerned about any food delivery risks?
 - They may be concerned about cannibalization, and product quality (packaging).
 - If kitchen capacity constraints emerge, they could open a ghost kitchen.
6. What advantages does Shake Shack have regarding commissions and their ability to negotiate commissions?

- Shake Shack has bargaining power as the apps want to be able to offer customers a popular food franchise. Therefore, Shake Shack may be able to negotiate lower commissions than independent restaurants who do not have the same bargaining power. This is similar to the differences in commissions on OTAs for independent and multinational hotel companies.
7. Any other thoughts on the issue?

Related Questions

8. How have customers' expectations for online food delivery evolved post-pandemic in comparison to pre-pandemic?
- Customers are more familiar with food delivery. They have expectations regarding the quality of the food from different restaurants.
 - In some cases expectations may have shifted but in general, customers expect timely delivery and a quality product
9. What is the ideal strategy for food delivery adoption across restaurant segments today (e.g., quick service, casual dining)?
- Quick service restaurants appear to be embracing food delivery as their sales are driven by volume and they have commission leverage when partnering with food delivery providers due to their location size. In some instances they may waive delivery fees to customers. Fast casual likely aligns here.
 - Casual dining restaurants must consider the cannibalization of products and profitability. These restaurants have a large foot print and seating area. Furthermore, the higher price point requires a higher level of food quality and packaging. They may consider unique products and menu combinations that ensure delivery sales are profitable and are received as intended upon arrival.
 - In all cases the affiliation of independent versus chain locations will matter from a commissions and profitability perspective similar to the hotel industry.
10. How might restaurants expand their delivery radius?
- They may consider establishing ghost kitchens or shared spaces with other restaurants at a central location that is ideal for distribution range and profitability.