

Food to go

We examine evolving dynamics in the delivery ecosystem and emerging business models

Delivering growth

Technology has been a driving force in transforming the F&B landscape in the GCC. As the region's tech-savvy consumers increasingly value access to information, convenience, and the digital experience, this is only likely to accelerate. Delivery has remained one of the fastest growing segments in the region. Nearly all operators whose concepts are delivery-friendly are listed with a delivery platform – in most cases, across multiple. Further, during the lockdown and restriction period, some premium dining concepts took to delivery as it was the only way to reach customers.

In 2019, this approach seemed to be working well with nearly half of the operators we spoke to seeing double-digit growth in their delivery segments. This is not surprising, as delivery apps witnessed increased penetration and usage – more than 80% of consumers mentioned they use apps to order food in 2019.

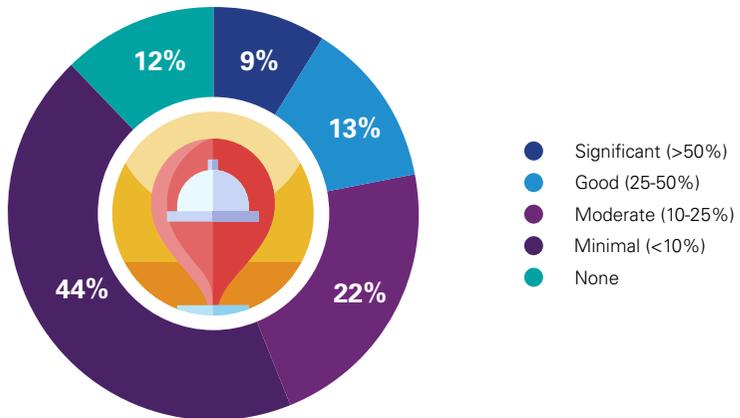
Another clear manifestation of delivery's growing importance to F&B businesses was in terms of its share of total F&B revenue: 22% of operators indicated that delivery constituted more than a fourth of their sales in 2019, a consistently upward trend.

This importance has been further highlighted during the pandemic, with more businesses seeing growth in their delivery segment than decline and a more diverse range of formats entering the space owing to restrictions on dining out during the lockdown, making delivery the only source of revenue for operators.

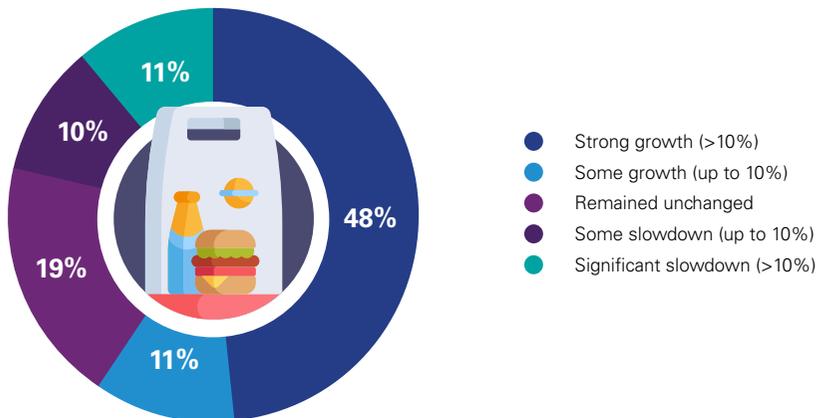
Despite widespread uncertainty, the segment still has room to grow, given the preference for ordering in over dining out for at least the next six months if not longer.



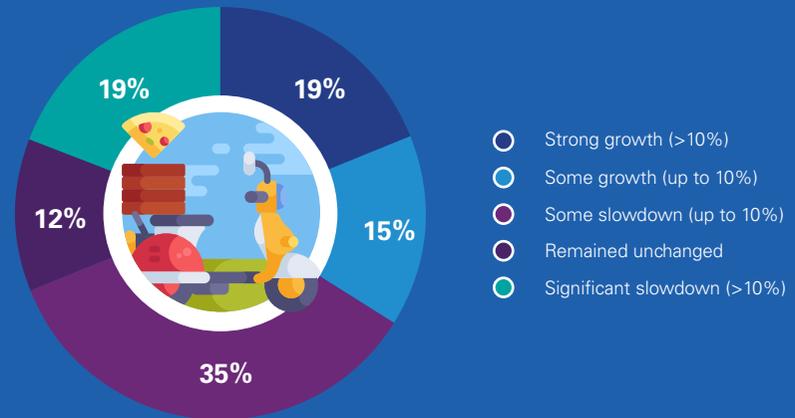
In 2019, what share of your business came from delivery?



In 2019, how had your delivery segment performed?

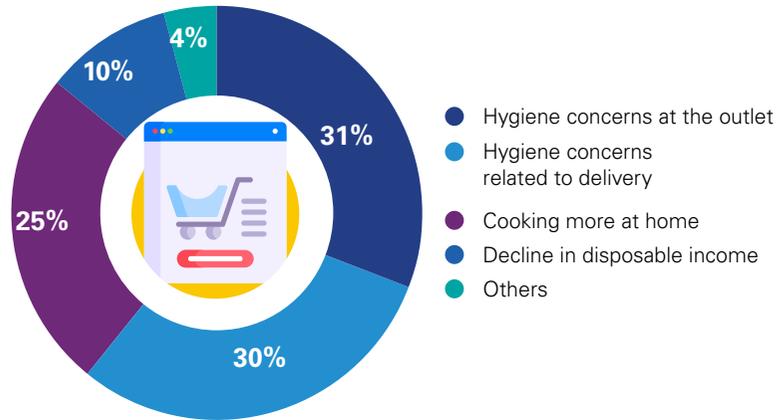


In the current situation, how has your delivery business performed year to date?

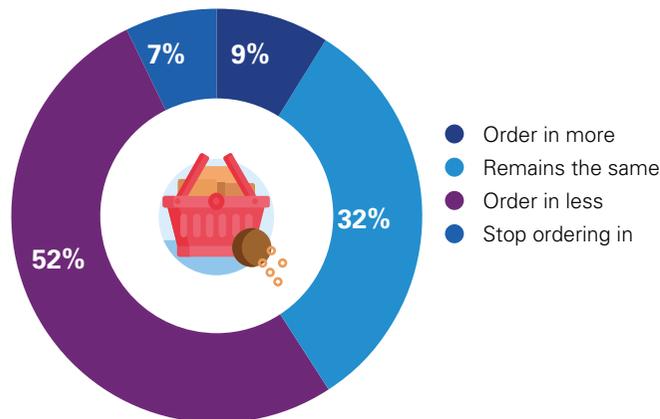


Consumer behavior during the pandemic

 **In the current situation, what are the reasons for you to order in less or stop ordering in?**



 **How are your ordering in habits likely to change over the next 12 months?**



A bumpy ride ahead

At the time of our survey, towards the end of the lockdown period across the region, customers were still less comfortable about ordering in. While 9% of consumers surveyed noted they would be ordering in more frequently, nearly 60% noted they would cut back or stop doing so altogether. Chief among their misgivings were hygiene concerns at the outlet or during delivery, in addition to health premium of cooking more at home. Despite the growth of delivery and its contribution to the F&B sector, the pandemic has created a hiccup which operators and aggregators will need to address.

In addition to this development, most operators in 2019 were concerned with the current aggregator-operator business model. Most operators we spoke to (eight out of 10) indicated that they paid out commissions of 15-25% on the value of each order, a figure nearly equivalent to their margin once operating costs are factored in.

 **Operators' top concerns around delivery and aggregators**

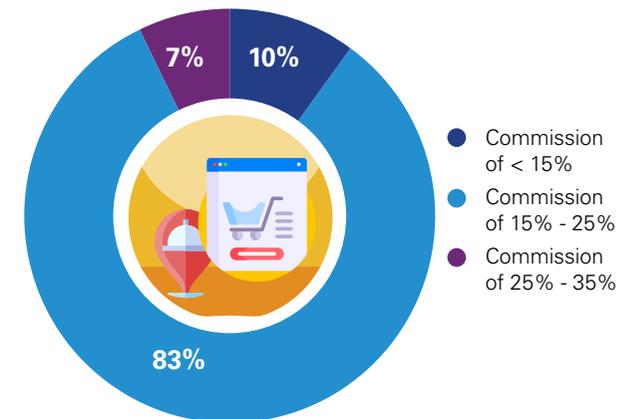


Naturally, the biggest concern around outsourced delivery is its limited contribution to operators' bottom line. While the delivery segment certainly boosts their topline, it doesn't always translate into profits. Other charges such as listing fees, premium listing costs, and deals and promotions on platforms further increase the cost burden for operators.

Operators were also concerned about their lack of control over customer data – information that is owned by the aggregators. While many aggregators work to provide operators with insight into customer preferences and buying patterns, they still own the underlying data.

Since the customer experience is also driven by the platforms, customers do not generally differentiate between the aggregator and the brand. Operators would like to be more involved in curating the experience for their customers, as they do with the dine in experience.

 **In 2019, what was the typical commission structure you had with delivery platforms?**



Hot wheels

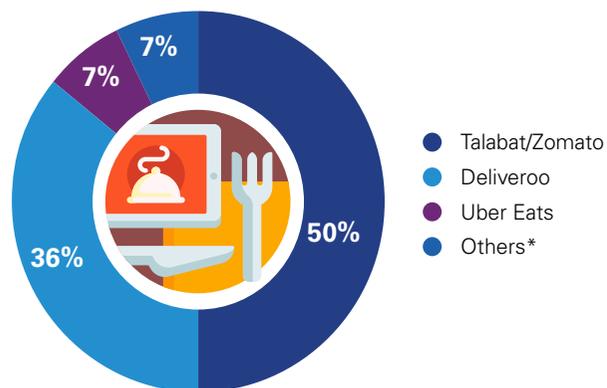
So, if operators do not make money from delivery, are delivery platforms laughing all the way to the bank? Not really. The platforms have their own battles to fight around customer acquisition and stickiness. While the delivery segment should be profitable, the high, and ever-increasing, cost of acquiring customers results in significant cash burn for the aggregators. There is a clear difference between operators' strategy, which focuses on profitability, versus aggregators, who focus on customer acquisition.

In 2019, the segment also witnessed increased competition between well-funded platforms. As aggregators work to lure customers away from each other using deals, customers grow increasingly fickle, and acquisition costs for platforms continue to increase. It is therefore not surprising that some aggregators have yet to turn a profit.

So, if both operators and aggregator platforms stand to lose, who is winning? Clearly, the consumers are having the last laugh here. But the question remains as to how long this trend will continue. With market dynamics including increasingly wary customers and operators who are receiving very little support from aggregators during the crisis, the strains on the current delivery model have only grown in the Covid-19 era.



Which delivery platform does the majority of your delivery business come from?



A light in the darkness

Up until 2020, dark kitchens and cloud kitchens were riding a wave of growth in food delivery, contributing to a compelling story. While over 70% of operators surveyed in 2019 saw growing potential for delivery kitchens, over 50% of those were either already present or looking to establish a presence through this model.

Some operators latched on to the opportunity and began using a combination of cloud kitchens and aggregator platforms to launch virtual brands. In certain cases, they leveraged existing kitchens within brick and mortar restaurants. As the pandemic keeps people at home, more and more operators are testing combinations of these solutions and the segment remains a hot focus for the sector.

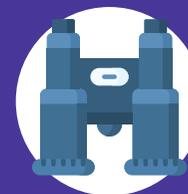
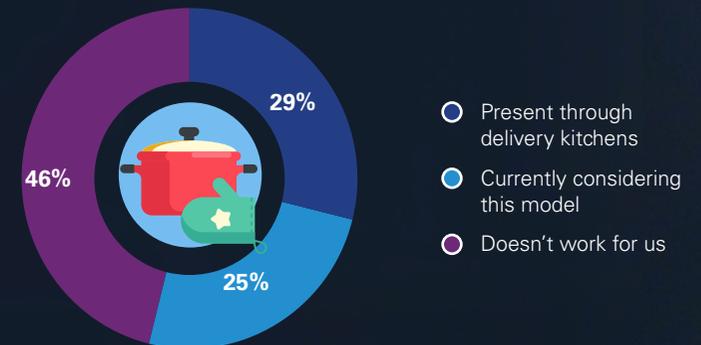
On the other hand, there are still operators who feel that delivery kitchens are taking the F&B sector another step away from the conventional dining out experience and perhaps, away from the consumer.

Evolving delivery kitchen models

Prevalent models	Description
Dark kitchen	Secondary kitchen location for a consumer-facing restaurant
Cloud kitchen	Kitchen for a business that is exclusively online without customer-facing stores
Multi-brand cloud kitchen	Aggregator-owned rental kitchens with multi-brand offering
Managed kitchen	Kitchen-based offering, where cooking to delivery is fully outsourced



Have you considered the delivery kitchen model?



KPMG view

While food delivery continues to grow in the region, the challenges are increasingly visible. Operators, while positive about the delivery-led growth story, have started to question the current business model, and aggregator platforms appear not to be better off either.

The inherent issue lies in the difference between aggregators' and operators' strategic objectives. While it is unlikely that this situation will be resolved in the short term, some level of alignment is required in order to create a more sustainable ecosystem. It is important for aggregators to realize they have a stake in operators' success.

The problem has been accelerated by waning demand due to Covid-19, though the segment is expected to recover marginally quicker given the limitations on dining out and consumers' concern keeping them at home. This has led to an increasing number of operators listing with platforms.

As operators continue to experiment, we expect delivery kitchens and virtual brands will become an increasingly prominent part of the sector and a potential driver for profitability across the region.