

Food delivery service: a double-edged sword to restaurants



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Not only has the global Covid pandemic challenged the healthcare system, but it has also brought a revolutionary transformation to the food industry: food delivery services are in the mainstream as a substitute of eating out under social distancing. Adding that digital payment methods are progressively popularised, it seems the rising trend of food delivery is inevitable. Among all, Foodpanda and Deliveroo have become oligopolists in the potential market.

This gives a great opportunity to another stakeholder: restaurants.

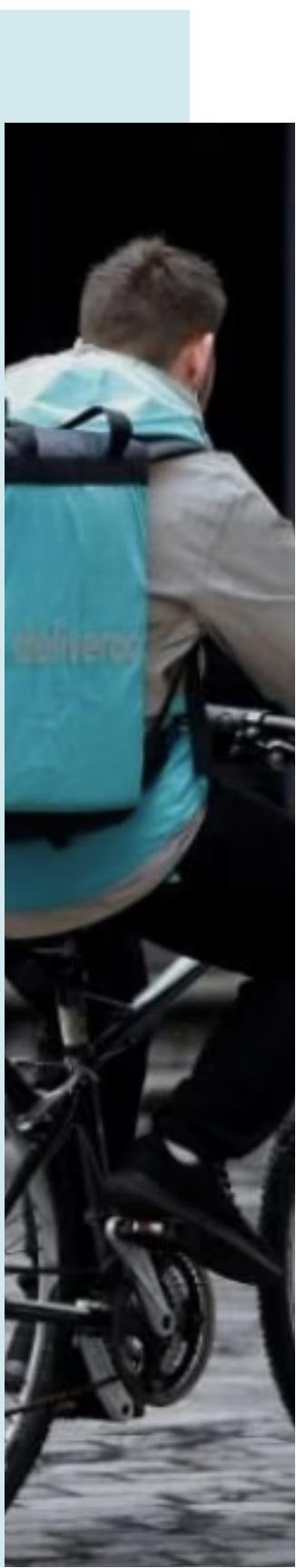
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Of course, one of the most significant advantages to restaurants is the increase in sales volume and revenue. As their exposure to the public expands, a wider range of customers are attracted as ordering online involves a much lower time cost and is much more convenient. The physical limitations are broken too. No longer do the restaurants have to be troubled by the rural geographical locations, or not having adequate space during peak hours. Also, customer loyalty may be enhanced because of the simple ordering procedure, raising the turnover rate. Therefore, food delivery services boost sales and push restaurants' profit and market-share maximization.

What's more, expanding business scale through food delivery can help restaurants save costs. While renting and equipment repair costs can be cut, restaurants can spare some fixed costs. In the long run, restaurants could enjoy marketing, and research and development economies of scale in advance. In the food delivery websites or apps, partnered restaurants would often be featured as a promotion, advertising them. Moreover, restaurants could get first-hand information on customers' tastes and preferences through the ordering data from the food delivery websites. Thus, they can spend less on further research. In such a way, the average production cost would decrease.

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Sounds like this shift in the industry won't cause any harm to the restaurants. But is this the full picture of the effects?



One of the side effects is a possible negative impact on the net profit. Marginal profit may decrease after reducing the commissions paid for the delivery services to third parties. Whether the increase in sales volume can compensate for the decrease in marginal profit would be a concern if aiming for profit maximization. Meanwhile, restaurant organisation would become more complicated handling both house dining and food delivery orders, requiring an additional labour resource in division of labour. Restaurants suffer from the law of diminishing marginal returns as a result. After all the calculations, it's hard to conclude if food delivery services bring a net profit or loss to restaurants.

Besides, there is increasingly intense competition. Undoubtedly, restaurants can attain higher publicity through food delivery services, but so are their competitors. The cuisine of the same category is usually grouped. The increased number of easily available close substitutes makes demand more elastic, so customers may become very sensitive to the rise in price. Concurrently, the quality of food after delivery has to be strictly maintained, or else negative comments can damage the restaurants' reputation. Hence, restaurants have to be very careful in pricing and marketing strategies to stay competitive and prevent losing a great portion of the market share at once.

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To sum up, food delivery services bring both pros and cons to the food industry, affecting both the profit and operation of restaurants. In the new era, coping with the 'how to produce' problem plays a key role in a restaurant's competitiveness. Who would be able to turn the upcoming risks into opportunities?

(586 words)

