ChowNow

4 Myths About Third-Party Restaurant Delivery, Busted

Online ordering is rapidly reshaping the restaurant industry,

with 74% of consumers having placed takeout orders via the web or mobile apps.[1] Such widespread popularity explains why digital restaurant orders have grown at a rate of 23% per year since 2013 and will triple by 2022.[2] A large part of this transformation has been fueled by the rise of third-party delivery marketplaces like Grubhub, Uber Eats, and Postmates.

Independent restaurant owners are led to believe that these middlemen are valuable for their businesses. They're lured in by attractive signup deals, and then hooked with promises of sales boosts. However, large order volumes hide the unpleasant truth of declining profits, shady business practices, and exasperated customers.

ChowNow has done the research—and the math—on these third-party marketplaces, and is here to bust the four biggest myths about them.

1. Hospitality Technology, 2018. 2. Hospitality Technology, 2019

Myth #1: Paying a commission on every order to third-party marketplaces is fair and manageable.

Fact: Commissions add up and quickly become financially unsustainable.

Signing on with an online ordering marketplace seems alluring because it usually costs nothing up front, and promises access to thousands of hungry consumers and competitive marketing within the platform. But if it appears too good to be true, it's because for the most part, it is.

The reality is that third-party marketplaces charge restaurants upwards of 30% to 40% of every single order, and things add up quickly. These providers layer on fees for everything from using a tablet to taking calls from customers who find your phone number on their website. They don't pass on tips to your staff, and rarely have your back in case of credit card disputes. Moreover, as your restaurant becomes more favored with a marketplace's customers, the platform will demand that you pay a higher commission tier if you want to be featured anywhere near the top of the list.

Even if you're not paying anything close to 40% commission on each order—yet—this type of pricing structure can put a large dent in your profits.

Say your restaurant operates at a 10% profit margin.

On a $50 ticket, you'd actually keep $5 in profit after accounting for your food, supplies, labor, rent, and all the rest. Even if you're giving just 15% of each ticket to your marketplace, that equates to $7.50, which leaves you with a loss of $2.50.

That loss wouldn't be significant if it only applied to a customer's first order. After all, you're using third-party marketplaces to reach a new audience, right? However, third-party marketplaces charge the same take rates whether it's a diner's first or fifteenth order. That -$2.50 loss gets multiplied, and you end up in the red, regardless of how many new customers you have.

Order Ticket	$50.00
Restaurant Costs	-$45.00
Restaurant Profit	$5.00
Marketplace Commission	-$7.50
Restaurant Loss	-$2.50

"Delivery services are a killer to local business because you're basically working your ass off, paying for labor and expenses, and they're taking 30% from you, which is your profit."

Elle Chamoun
Burgers 2 Beer
Owner and US Foods Customer

Myth #2: Third-party delivery marketplaces are worth the cost because they help restaurants attract new customers.

Fact: There are far better ways to market your business.

Third-party delivery companies argue that they aren't just delivering food for you—they're also promoting your brand to new customers. You might be featured on the delivery site and app, and sometimes you're part of an email blast, and there definitely is some marketing value to all of that.

However, industry consultants advise that restaurants should only spend between 3% and 6% of their sales on marketing.[3] That's far less than what third-party marketplaces are charging each time they send you a customer, whether they're a returning diner or a new one. If the marketing exposure is what you're after, there are much less expensive options.

Besides, the marketing help that these third-party services offer is very limited. While they may assist with acquisition, they actually harm your efforts at cultivating customer loyalty by putting their own brand before yours.

DID YOU KNOW?

Acquiring a new customer is seven to ten times more expensive than marketing tactics that grow sales through higher visit frequencies, check amounts, and party sizes.[4]

3. Restaurant Resource Group Consulting
4. Restaurant Resource Group Consulting

Myth #3: The new customers that third-party marketplaces bring to you will order from you again and again.

Fact: Third-party marketplaces keep your customers—and their information— to themselves.

The key to customer loyalty in the age of online ordering is data. When you collect information about your customers such as their names, email addresses, and order histories, you get the insights you need to keep them coming back.

Armed with your own customer data, you can create personalized email marketing campaigns that leverage strategic offers like promo codes, new menu items, and special events in order to increase order sizes, turn new customers into loyal regulars, and bring in their friends.

Unfortunately, third-party marketplaces realize the value of your customer data, too. They withhold these insights from their restaurant partners in order to increase their margins and wield more power. Rather than sending you the email addresses of the customers who ordered and enjoyed your restaurant's food, marketplaces will sell access to your patrons to the highest bidder—directing your customers to businesses that pay out higher commissions.

This makes it impossible to regularly engage with your digital diners. Instead of becoming regulars at your restaurant, they become loyal customers of the third-party marketplace you're paying.

DID YOU KNOW?

Because ChowNow gives its restaurant partners full access to their customer data, the average ChowNow partner has over 2,300 customers in their database that they can market to.[5]

5. ChowNow Internal Data, 2018.

An Unfair Fight

According to industry analysts, "the battle between restaurants and their new digital competitors is not a fair fight. [Tech platforms like] Uber Eats can collect and use data to drive precise decisions about everything they do, whereas traditional restaurants have never really had access to the same type of data and did not make it a part of their DNA."[6]

National chains quickly saw the writing on the wall; rather than fighting them, they joined them. Yum! Brands—the parent company of KFC, Taco Bell, and Pizza Hut—knows the value of this data, and that's a significant reason why the corporation invested in Grubhub. Yum!'s investment in Grubhub waives online ordering commissions for its 18,000+ US locations, and provides Yum! with full access to Grubhub's data on their stores. This gives both Yum! and Grubhub a major advantage compared to independent restaurants.

6. CNBC, 2018

Myth #4: Restaurants that don't partner with third-party delivery marketplaces are safe from their harmful practices.

Fact: Even if you're not partnered with third-party marketplaces, they can still damage your business.

Customers are searching for your restaurant online and are eager to order. Third-party delivery marketplaces are well aware of this, and engage in unsavory practices to capitalize on digital demand.

Marketplaces will exploit the search traffic of independent restaurants by running advertisements and creating web pages on behalf of restaurants that aren't even partnered with them. Then, hungry customers—who are expecting to order from a specific eatery—get diverted to other restaurants who are willing to pay hefty fees to these middlemen. This is a key part of their strategy to hook as many customers and restaurants as possible.

There are even more ways in which third-party marketplaces are manipulating customers' digital demand for takeout: namely, 'virtual' or 'ghost' kitchens. Marketplaces encourage the restaurants they work with to open up these concepts, which serve orders exclusively through delivery apps. Sometimes, though, virtual kitchens are operated out of shipping containers, parking lots, and even under bridges. [7]

Ghost kitchens are a way for third-party marketplaces to squeeze extra revenue out of restaurants while removing the very idea of hospitality from their customer relationships. They harm other restaurateurs by increasing competition and diverting business from them, as well as by distorting customers' expectations of what a convenient, well-priced meal should be.

> **"My website has been hijacked by third party providers without my permission, including Grubhub,Seamless, and EZ Cater!"**

Catherine Amin
The Picnic Basket
Libertyville, IL

7. The Packer, 2018

Stephanie Perez
Cemitas Pueblas

How can you protect your business?

It’s possible to prosper in the age of online ordering without working with third-party marketplaces. In order to prevent these middlemen from hijacking your customers—and your profits—you need to fight back. Take control with your very own commission-free online ordering system from ChowNow. Maximize your profits with a team that puts you first and gives you full access to your customer data. **Speak with a ChowNow specialist today**—we make sure your restaurant doesn’t get burned.