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Coronavirus Takes European Food Delivery on a Bumpy Ride

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Food delivery platforms were expected to be one of the few winners of the 'corona crisis.' However, platforms seem to have had a rough start, due to both supply and demand developments. Although recovery is seen in some cases, it remains to be seen whether this bumpy ride will get smoother.

Food Delivery Platforms Swell With New Entrants

For foodservice companies, business has drastically changed these last few weeks. Restaurants and bars across Europe were told to shut down and resort to food delivery. Many restaurants have made this shift, from fast-food chains to Michelin-star restaurants.

Even though some restaurants decided to take on the task of delivery themselves, many see the added value of teaming up with delivery platforms such as Takeaway.com, Delivery Hero, or Uber Eats. Takeaway.com announced on March 23 that it had added 25% more restaurants to their platform in the Netherlands. Deliveroo welcomed 3,000 new restaurants in the UK alone in March, while Delivery Hero welcomed a whopping 50,000 restaurants worldwide during that month.

The addition of all these new entrants points towards an increase in the supply of online food delivery. With the sudden ban on eating out, an increased consumer demand for food delivery would be expected as well. Even though part of the decrease in dining out could result in more home cooking, food delivery can be a better substitute for those with limited cooking skills, those who dislike cooking, or those busy juggling homeschooling and work. Consumers also seem to be willing to support their local restaurants during this time, with many local initiatives aimed at giving a boost to these local entrepreneurs arising.

This reasoning would predict both an increase in supply and an increase in demand for food delivery, making platforms active in this sector one of the few expected winners during this crisis.

A Rough Start Suggests Untapped Capacity

Surprisingly, during the first few weeks of the 'corona crisis' in Europe, food delivery was not booming.

The CEO of Takeaway.com, Jitse Groen, said on March 27 on BNR radio that company revenues in the Netherlands decreased during the first two weeks of March, despite the large addition of new restaurants. Similar signs come from other food delivery platforms; the online traffic on the platforms of Uber Eats, Just Eat, and Deliveroo decreased from January/February to March in the UK, France, and Spain.

Furthermore, delivery platforms are entering new business territories, such as groceries, as well as altruistic work for the elderly and medical professionals. For example, Uber Eats has agreed with Carrefour that it will start delivering groceries to the French population. Similarly, Deliveroo has partnered with Marks & Spencer in the UK to do the same. Although these initiatives can be seen as tapping into viable business opportunities, it also hints at their normal delivery capacity not being reached.

Disappointing Demand Takes Food Delivery Down a Bumpy Road

In fact, there are multiple challenges for both restaurants and consumers that could have had a downward effect on company revenues.

First of all, many restaurants had no other option but to close down, either due to workers' health and safety or to the impact of lost dining-in sales on business. This resulted in fewer food options on delivery platforms. The CEO of Takeaway.com mentioned the closing of restaurants as one of the drivers causing revenues to go down. Furthermore, many restaurants that initially signed up for a food delivery platform are realizing that food delivery is a different ball game. For example, London's Honey & Co, Padella, and Campania decided to cancel their takeaway offerings after no more than one week. Packaging issues, different price settings, and a different customer experience can all play a role in this struggle.

Apart from these supply issues, demand was not booming as expected either. As confirmed by Takeaway.com, there is far less occasion-driven demand as gatherings have been cancelled and people have stopped ordering food from the office. Furthermore, consumers seem to be concerned about the risk of contamination through the food or the deliverer, despite efforts to introduce contactless delivery. Also, even though some households are very occupied during this period, others find they have time to cook that they did not have before. Add to this the pessimistic economic perspective and the possible risk of job loss, and the cheaper option of home cooking becomes more and more attractive.

Initial Panic or a Long-Term Trend?

The question is whether these disappointing March results reflect a temporary rough start or a long-term trend.

On April 9, Takeaway.com published its Q1 2020 results, which showed a big hike in demand after its slow first weeks. In the Netherlands and Germany, demand was up by 11% and 18%, respectively, compared to Q1 2019 on a like-for-like basis. It is unclear whether this result is representative of the European food delivery sector. Deliveroo has given some insights into its business in Belgium, reporting that their revenue has stabilized, with numbers similar to last year. As Deliveroo's head of corporate affairs described their situation to Gondola Magazine: "We are not the big winners of this crisis, as some like to think."

For food delivery to survive and thrive in the long term, both demand and supply need to keep up. In an attempt to ensure the survival of restaurants, many delivery aggregates are either lowering or deferring commissions for restaurant partners. Some are also giving discounts to consumers in order to boost demand.

Whether this is enough for restaurants to keep delivering is hard to say at this point, since the situation is highly fluid. Consumer behavior is especially difficult to predict, as the combination of a health crisis and an economic recession is largely uncharted territory. Even if short-term panic vanishes, worries about a drop in disposable income could have a longer-term effect on the demand for food delivery. Whether food platforms will be positively or negatively affected by this crisis remains to be seen, but crucial to success is genuine care for its restaurant partners and a quick response to changing consumer behavior. Those that manage to stay close to both will be in a stronger position to thrive.

Imprint

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