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START-UPS. The home delivery market is consolidating. And now, giants like Delivery Hero (Foodora), GrubHub, Takeaway.com, Deliveroo and Just Eat are aiming to lead the market.

Lords of food, on bikes

by Andrea Pira

Maple's customers were used to finding a delicious cookie custom-made for the food delivery company by pastry-chef Christina Tosi with their orders. So when they began to find not cookies but a brochure explaining that the decision not to include the sweet treat was in line with the desire to only give them good simple food, alarm bells should have rung. But this story from the Quartz site has little to do with refined sugar. The problems, as also shown by the increase in prices for the home delivery service featuring healthy dishes prepared by chefs, which was such a hit with New Yorkers, were economic in nature. And so the start-up – founded in 2014 and capable of attracting around 30 million dollars in venture capital, sold its business to Deliveroo in May [2017]. Maple's difficulties, and the recapitalisation of Munchery, give us two insights to the "uncertain future" facing the world of home deliveries. Competition is increasing and there is less and less room for new arrivals, according to analysts CB Insights.

The market certainly offers huge possibilities, now that apps have gained so much ground. In 2016 36% of orders were placed through apps, while in 2020 (McKinsey estimate) that figure is set to rise to 58%. The world revolving around the riders, who whizz through the streets of our big cities on bicycles or motor bikes delivering meals, is going through a period of reorganisation and consolidation. In 2016 alone, explains CB Insights, there were more acquisitions and mergers than in the whole 2012-14 period: 30 such operations in total, nine fewer than the previous year. But those 30 helped re-draw the scenario.

"We take a positive view of the digital food delivery service but we feel that, to date, the industry is still too young to offer interesting investment opportunities. Competition among the players is still extremely high and the companies' focus isn't on generating profits but on growing their market shares", explains Banor analyst Nicolò Di Giacomo. "We think that the tendency will be for 'champions' to emerge at the local level. They'll be able to use their scale to dominate a given region, but it's still too soon to say who these companies will be. In any case, monitoring the market to identify those successful companies before others do will be vitally important".

Companies already forging ahead include Delivery Hero. On 29 June this German company joined the exclusive club of listed food delivery companies, whose members include Just Eat, GrubHub and Takeaway.com. With €1 billion raised, the IPO for Delivery Hero, which includes brands such as Foodora and Hungryhouse, turned out to be one of the biggest operations in recent years for the Frankfurt stock exchange. Shares were listed at €25.5, with the market valuing the company at €4.4 billion. However, over the next month the share price did not move very far: from €27.80 on 30 June to €27.41 on Friday 28 July. For the half-year accounts we'll have to wait until September. According to the quarterly results published in May, sales were up almost twofold from the previous year, from €63 million to €121 million. The latest accounts closed with revenues rising to €297 million (from €166.2 million), but a negative operating result (-€158.9 million).

Just a few weeks before the quarterly results, the company headed by Niklas Ostberg completed a financing round worth €387 million; resources that are needed to build up increased resilience in the face of competition from the likes of Uber Eat or the UK's Deliveroo. As Morgan Stanley points out, the latter has played a key role in the industry's development, first and foremost in view of its speed: deliveries in 32 minutes at most. Deliveroo says this is down to its logistical expertise, which has enabled it to optimise routes. This feature gives the company tighter control over the entire procedure: from the order placed through the web platform and allocated to a restaurant (which is responsible for cooking the meal) to using geolocation tools to identify the most suitable rider. Add to this recipe a fleet of delivery riders, essentially outsourced, placed at the disposal of restaurants that don't have their own delivery staff. In practice, Deliveroo is an example of an integrated vertical platform. Delivery logistics are handled externally and remunerated in the form of commission. This tends to make orders more expensive. Indeed, it's often higher-end restaurants that use the service.

The Deliveroo model differs in some ways from the one adopted by London-based Just Eat. Although the company is now moving to a hybrid model, it acts as a "go-between" for restaurants and consumers, with deliveries entrusted to affiliated businesses. The platform has recently had to dea with a shake-up at the top, with CEO David Buttress leaving in February for family reasons. In September Peter Plumb, former head of Moneysupermarket.com, will take the helm. In the meantime, the acting CEO is Paul Harrison. Andrew Griffith is also holding an interim position as acting Chair, after the premature death of John Hughes. Just Eat closed the first half of the year with revenues up 44% to £246.6 million, EBITDA up 38%, to £73.6 million, and new orders up 24%. Numbers like these prompted the company's management to review (upwards) the projections for 2017, upgrading sales from £480-£495 million to £500-£515 million. The company is also betting on closer collaboration with Britain's restaurants. The force driving GrubHub, on the other hand, is generation based.

Customers opting for home deliveries mainly fall into the 18-34 age group. Initially conceived as an online orders tool, in 2014 (the year they launched on the Nasdaq) GrubHub began making deliveries for companies unable to provide this service. According to estimates by Cowen, demand will grow from the $43 billion forecast by end-2017 to $76 billion in 2020. The data suggest that 34% of the consumers surveyed are choosing platforms like GrubHub for their orders. That’s why Cowen sees a rosy future for this Chicago-based company, and has raised the target price from $45 to $54 per share. GrubHub’s consumer base is “only” in the US and London, while other competitors, such as Takeaway.com, are making good headway in Germany and the Netherlands. The ace in the pack, in this scenario, could be Delivery Hero, whose performance is being driven by the emerging countries.