Delivery Apps' Convenient and Destructive Business Models

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On my honor as a University Student, I have neither given nor received unauthorized aid on this assignment as defined by the Honor Guidelines for Thesis-Related Assignments

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Introduction

As third-party delivery companies such as Uber Eats, DoorDash, and Grubhub generate hundreds of millions in revenue and continue to fuel their expansion, they advertise their technology as innovation to allow ordering low-cost food. Bolstering this motto to increase usage of their apps, delivery platforms subsidize delivery, minimizing costs and making it cheap for consumers; the delivery apps these companies fund have formed a convenience culture to train consumers to expect what they want and when they want it. However, while making it convenient for consumers, delivery apps have a common practice of charging 20 to 30 percent commission rates for every order, squeezing restaurants with high fees. From the perspective of restaurants, these apps are predatory in that they insist on such a large cut of the order price to the point that the restaurants are left without much profit on the order. These delivery apps have a radically different interpretation based on the social group being considered; in this case, consumers benefiting from a convenience culture compared to workers and restaurants becoming financially pressed. This research paper will detail the convenient business model third-party delivery apps have created for consumers, but the financially destructive business model they have created for workers and restaurants.

Background

Beneath their wonderfully designed location-data driven and route planning technology, delivery platforms leave restaurants with next to nothing, as reported by multiple sources. By an article on smaller food delivery apps seeking out more ethical business models, Gabriela Barkho expresses how although delivery platforms have promised a higher demand from customers to partnered restaurants, top takeout platforms bring on enormous fees and that recently there has even been a pushback against high commission-based delivery apps, “even calling for boycotts”

(Barkho 2021). Voicing how boycotts are taking place and solutions from smaller, ethical, and restaurant friendly apps are being introduced as competitive business models, this article establishes how high commissioned delivery apps have gone too far with the issue at hand. In an article on restaurants trying to ditch delivery apps, Gina Pollack states the numbers by company: UberEats has commission rates that range from 15% to 30%, Grubhub on average, costs restaurants 25% commission on each order, and that DoorDash fees roughly %22 commission (Pollack 2020). This article provides a non-biased, factual, and statistical standpoint on how much restaurants are actually being hit. Analyzing statistics based on these commission percentages, it is easily understood that these delivery apps are taking advantage of and causing restaurants to lose the majority of their hard-earned revenue.

Analyzing this complex sociotechnical system under the lens of the politics of design is the most suitable, as it relates to the design choices of delivery apps and their political, economic, and societal implications. As evidenced before, the negative impacts of delivery apps on the financial well-being of restaurants is rampant, and will continue to occur unless there is some structural change. For example, in *Regulating Uber: The politics of the Platform Economy* Kathleen Thelen analyzes Uber's reception and responses as a disruptive actor, detailing how the pressure on restaurants will continue because from the perspective of the companies in charge of the delivery platforms, the consumer's knowledge is deemed more important and credible than that of the restaurant's (Thelen 2018); this is established by how they create a convenience culture for consumers at the expense of high commission fees for restaurants, to maximize profit. The construction of the technology was made for the customers, and leaves out restaurants. As far as delivery apps are concerned, they understand that restaurants have little to no choice to use

their services to compete during COVID-19 lockdown and take advantage of it, while prioritizing efforts to make the consumer revisit the app.

How Delivery Apps are Ruining Restaurants

At the peak of the COVID-19 pandemic, numerous restaurants had no other choice than to close their dining rooms, and only offer takeout. In addition to being able to compete with other restaurants that traditionally offered delivery services, this caused many to pivot to a delivery model, including fine dining and casual restaurants (Norris 2021). Because of this, customers would be unable to dine in as much as they used to, and to keep up, restaurants had to figure out how to cover expenses including rent and payroll. In good spirit, customers have been attempting to help restaurants by turning to ordering delivery, but unknowingly do more harm than good. As mentioned previously, the primary reason for this is the high commission fees delivery apps charge restaurants, which average anywhere between 30 and 40 percent, charged directly from the restaurant (Raj 2021). Restaurants tend to set their prices as low as possible, while making profit. However, when these commissions take nearly a third of the revenue, they are barely covering costs. Another reason why delivery apps are damaging to restaurants is the lack of flexibility they give to restaurants to change their prices (Reddy 2020). Although simply raising prices to balance the increased costs would be a viable solution to the problem, these apps disallow restaurants from charging a higher price. This includes being able to charge less money for orders placed directly through the restaurant, and forcing them to charge their customers the same price regardless of the method they use to place their orders. In addition to the high commission fees and lack of flexibility to change prices, delivery apps also require restaurants to pay for any promotions (Kaur 2021). These include offering a discount if you purchase a certain amount of food, or waiving delivery fees, which can be appealing to the customer. But of course,

the delivery apps aren't promoting those things themselves, and require restaurants to cover the associated costs. Depending on the delivery app, showing these promotions may even be beyond a restaurant's choice, and whenever the app decides to apply a promotion on an order the costs are passed along to the restaurant.

On top of harming restaurants by cutting into their earnings, delivery apps unethically keep track of data. Marketplaces such as Grubhub, UberEats, DoorDash, and Postmates keep customers' data and list restaurants on third-party websites without their permission (Mayya 2021). Multiple third-party delivery providers have been attempting to grow their businesses by listing non-partnered restaurants on their services. These restaurants have no contract with these providers, and in such cases unknowingly have their restaurant listed. This becomes a problem for restaurants because they lose control over their identity online, and how they wish to be portrayed to their customers.

Public Opinion

Much of the public has acknowledged the cost of delivery services squeezing restaurants. An online campaign led by the American Economic Liberties Project is seeking to limit the power of third-party delivery apps by convincing state and local governments to establish laws to limit the commissions and fees apps are allowed to charge (Rauch 2021). The campaign accuses companies of using predatory practices during COVID-19 to exploit employees and restaurant workers for profit and taking away revenue from them. Washington establishments including Ivy & Coney, Fiola Mare, and Brasserie Liberté are involved in the campaign, including other restaurants from all over the country. As explained in the next section, many big cities have capped commissions charged by apps, but the AELP seeks to also aid restaurant owners in

smaller cities to experience the same legislation. The co-director of the Institute for Local Self-Reliance based from Minnesota and Maine, Stacy Mitchell, has stated that these delivery companies "are taking a bigger chunk of the revenue than the employees and owners are making from the restaurant" (Ahsan 2020). This shows how multiple organizations are advocating for fighting against corporate control of local communities.

As another measure being taken, the campaign led by the AELP is lobbying by pressing regulators at the Federal Trade Commission. The campaign is approaching the FTC with the claim that "exorbitant commission fees" is "draining revenue from restaurants", with the request for federal investigations to take place and nationwide legislation to be enacted (Dano 2021). However, with federal regulators busy with investigating Amazon, Google, and Meta, delivery apps have been put in the waiting queue and avoided such allegations.

Action Being Taken by Government and Regulation

The damaging effects of delivery apps towards restaurants has gained attention within the court, and municipalities have been placing caps on fees to threaten their existence. The commission capping officially began in San Francisco, and then caught on in over 60 cities during the pandemic (Feldman 2021). In some cities, the commission cap has expired, but others, such as New York and San Francisco have not and are permanent. Multiple delivery companies including Uber and DoorDash have commented on the effects. DoorDash has stated that the fee caps lost the company 26 million in revenue over three months, and Uber CEO Dara Khosrowshahi expressed that he doesn't "think the government should be setting prices between businesses" and that it doesn't make sense (Chen 2022). He also stated that he would challenge the commission caps in court. DoorDash has also sued New York City over a similar mandate

involving fee caps in addition to having to share customer information. The immediate response of lawsuits from Uber and DoorDash indicate how the commission fee caps are effective in creating serious constraints on third-party delivery apps' pricing power.

Some other regulations on delivery apps have also been put in place on the state level. For instance, California passed a bill to require third-party apps to share their customer data with restaurants (Yang 2020). More specifically, the bill authorized food delivery platforms to share with restaurants consumers' delivery address, email address, food facility ordered from, and telephone number. Providing this data is good for restaurants, forcing delivery apps to become more transparent with them. The same bill prohibits restaurants from being listed on delivery apps without a prior agreement in place, solving one of the problems described previously. This same restriction was also being passed in a bill for Rhode Island. The bill allows merchants, including restaurants, to bring action against the delivery app or provider in court to receive compensation for damages up to $5,000, and proposes that any third-party service who violates the law will pay $1,000 per violation/day in fines (Conger 2019). In New York City, as another measure of transparency, legislation is in place to require third-party delivery providers to disclose tipping practices. More specifically, the legislation requires that providers share with restaurants how much of tips customers leave on orders go towards drivers. This is more information shared to restaurants that allow them to expose how they are being taken advantage of, and a way to hold businesses accountable for exploiting workers and stealing any wages.

In California, another bill has been passed to give delivery workers workplace benefits such as minimum wage, paid sick days, and health insurance benefits. Also, in New York, Illinois, and Pennsylvania, legislation is being drafted concerning the lack of sales tax on

delivery fees. These types of legislation have less of a benefit to restaurants, but also third-party delivery apps.

Lawmakers have provided other ways of relief to restaurants. Established by Congress after a law was enacted in March 2020, through the Small Business Administration's Paycheck Protection Program, the food service industry has received roughly 40 billion in loans. Over 40,000 different restaurants received loans of over $200,000, allowing those to hire roughly 2 million employees a couple months after the loans were received (Hubbard 2020). However, many of the loans went to large restaurants and some smaller, independent restaurants were neglected in the process. Due to this, further legislation was passed to create over $100 billion in grants to relief for privately owned non-chain restaurants with fewer locations. These funds were allowed to be used by restaurants for capital including equipment, food, supplies, and to help pay wages for employees.

Case Study: Pittsburgh Restaurant Owners

Combining public opinion and government regulation, state lawmakers and local Pittsburgh restaurant owners Finn and her husband revolt against food delivery apps together. Everyday each week, Finn and her husband spend the entire day managing their restaurant, including cooking and preparing food, washing dishes, and everything else, because they cannot afford hiring employees to help them. When asked by a local media outlet what caused these hardships, Finn replied that they were because of delivery apps. In her case, for her Asian cuisine restaurant, she is paying "30% in delivery fees per order" using DoorDash, UberEats, and Grubhub (Karniouchina 2022). She also expresses fear of speaking out against them, due to the possibility of having her cuisine listed less frequently. The hardship that Finn and her husband

express showcase how much some restaurant owners rely on delivery apps. Without any choice due to the high demand for delivery, they also have to obey the pressing financial agreements set out by them. This cuts into their margins, hurting their small business. As a result, Finn, her husband, and other local Pittsburgh restaurant owners have voiced their hardships and have been heard by the state courts. In June 2021, the Pennsylvania House Bill 1617 was proposed to put a cap: a 10% limit on delivery fees and 5% of price order limit on other fees (Karniouchina 2022). Additionally, it would enact listing eating and drinking establishments without permission as illegal. Although the goal is to bring more revenue to restaurants, since this legislation was just recently passed, the effects have not been fully realized yet.

Discussion

Using a problem and solution approach, this paper explained hardships restaurants face from delivery apps, solutions being proposed by the public and government, and finally tied them together in a case study. Battling with high commission fees, expensive promotions, and unpermissioned listings, restaurants have little control over their identity and are financially pressed. However, online campaigns are being formed by the public, lobbying legislators to have their voices heard. Lawmakers have listened to those voices and passed legislation in multiple states to put a cap on commission fees and disallow listing restaurants without permission.

Although the problem has been clearly established and some legislation is being enacted, there are more details to explore and solutions to suggest.

For example, looking through the lens of COVID-19 may help understand the demand for ordering restaurant food through delivery apps and gain insight on how restaurants can become independent again. For a couple of years before COVID-19, mobile apps saw an increase in

engagement from consumers taking more time with their devices (Jiang 2021). Food delivery was still fast growing, and provided consumers with convenient and safe services. After COVID-19 lockdowns, many restaurants closed entirely or lessened their customer capacity, being able to take less and less orders as cases surged. Being social distance friendly, delivery apps gained momentum and many more millions of people ordered food online, increasing demand much more than expected. The pandemic life created the need for such an easily accessible service, and propelled the food delivery app industry. Through 2021, COVID-19 restrictions began to become relaxed and more restaurants began to open up for dine-in (Brizek 2021). However, consumers maintained using food delivery apps for placing orders. The high usage of delivery apps is initially due to the lockdowns from COVID-19, but continues to rise due to the habits consumers have developed. Even without the pandemic food delivery apps are not slowing down, with an upwards trend in growth. The global market for delivery apps is projected by some to reach 300 billion by 2027 (Cortimiglia 2018).

Regardless of COVID-19, it seems that the demand for delivery at one's fingertips is spiking. As such, providing customers a way to easily order food is inevitable. With this in mind, a possible solution is to have restaurants develop their own delivery services through their websites. This would avoid third-party fees, and also, if establishments create their own systems, their own workers would get to keep the tips on delivery as opposed to gig workers. This would solve issues regarding substantial losses in revenue, however, will require hiring a team of developers to make the personalized website/app.

At this point, it is clear what problem needs to be addressed and how it is currently being handled. However, for restaurants to truly break free from delivery apps, regulation will likely not be enough, and further solutions are open for discussion.

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