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WHITEPAPER

Food Delivery Apps and Restaurant Churn: Industry Overview, Reasons, and Prevention

Authors: Rajib Das, Samyuktha
Mahesh, Karthickumar G,
Hari Prasath, & Ayushi Jain



Online food delivery has become a ubiquitous part of our lives today. The convenience of ordering food through a smartphone and getting it delivered within a few minutes has led to a boom in this industry. While the industry is thriving and food apps are increasing their customer base, they face churn among restaurants, which affects their bottom line.

This whitepaper provides an overview of the online food delivery ecosystem and highlights the primary reasons for the churn and its impact on restaurant businesses. The whitepaper also highlights a case study where a food aggregator faced a churn in its delivery business and how LatentView Analytics turned it around for the client.

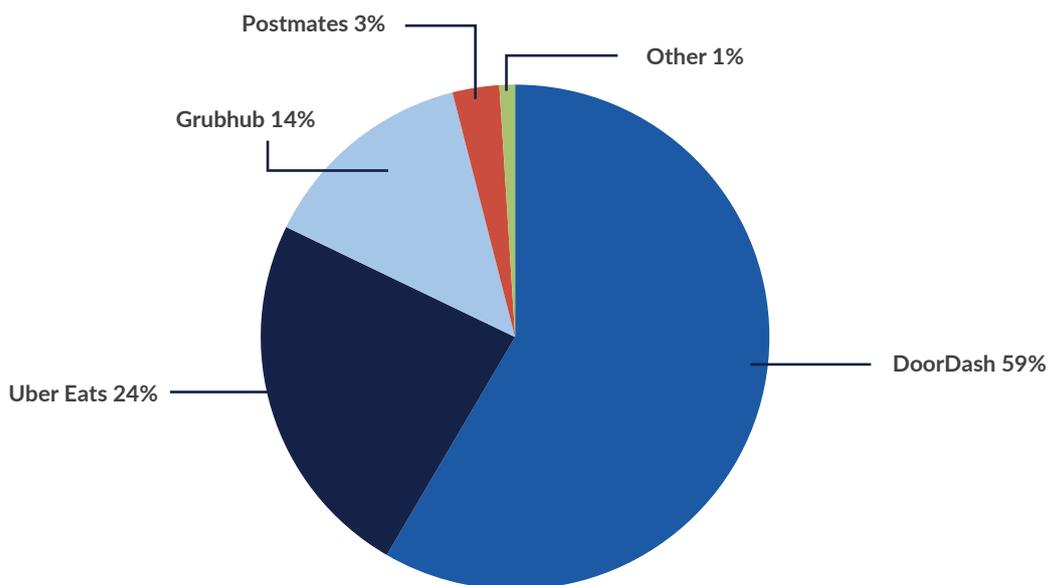
The Food Delivery Industry Overview

Visiting a restaurant, hotel, or eatery was and still is commonplace in urban areas. Ordering food from restaurants was sporadic and viewed as an add-on to the central business. The concept of online food ordering began in 1994 when Pizza Hut started delivering pizzas to customers' doorsteps.

By 21st century, many major restaurant chains created their own delivery apps. With increased mobile internet penetration, online food ordering began to grow and spread rapidly. The COVID-19 pandemic significantly boosted the industry since people began relying heavily on food delivery apps as an alternative to visiting restaurants. This dramatically changed the food delivery business landscape.

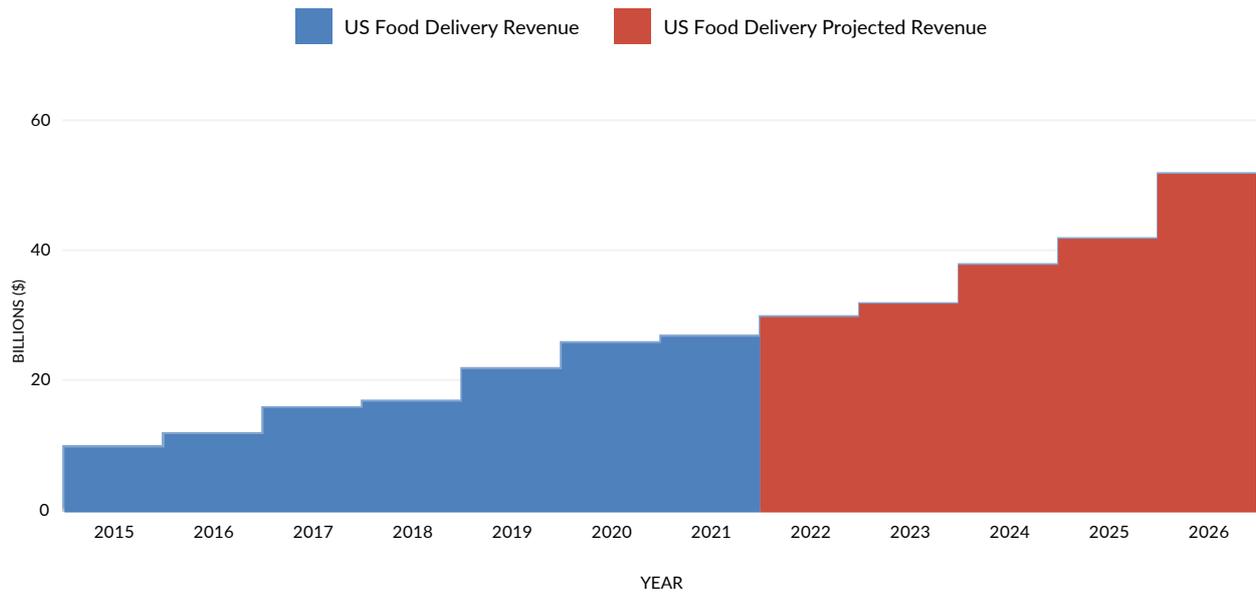
In the early days of online food delivery, only a few aggregators existed in this space. For example, GrubHub and JustEats pioneered this new service early on. As the industry expanded, so did the level of competition. Today, GrubHub, UberEats, and DoorDash are the biggest competitors in this industry, accounting for 98% of the market. The industry stands at a market size valuation of \$221.65 billion in 2022 and is expected to expand at a CAGR of 10.3% from 2023 to 2030.

USA Food Delivery Apps Market Share



Source: Emizentech

USA Food Delivery Revenue



Source: Statista



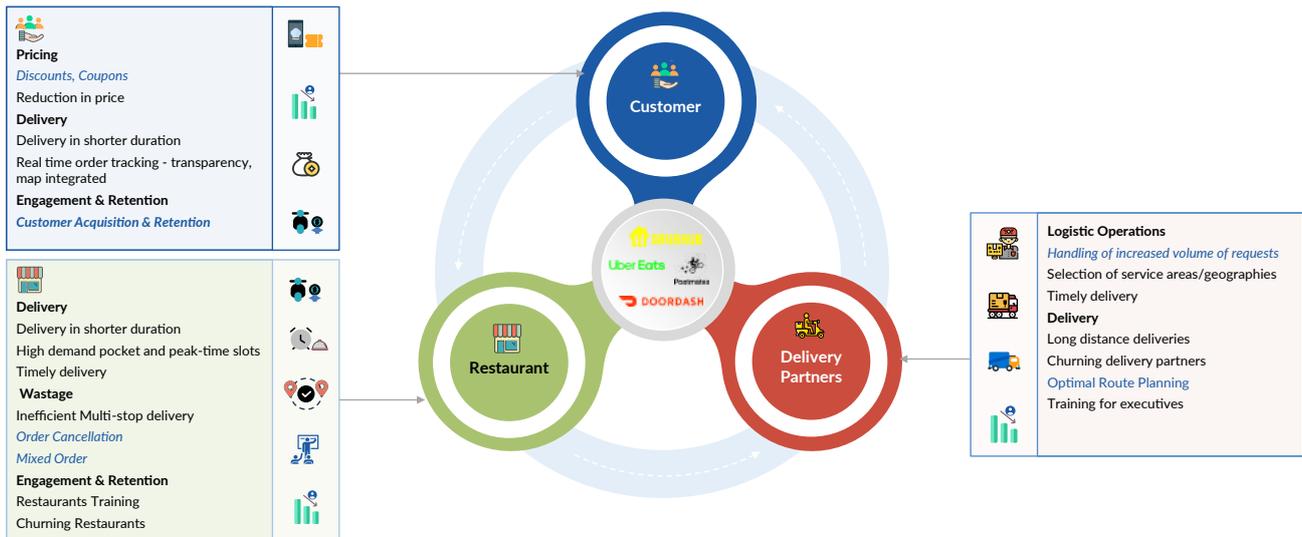
The online food delivery industry works closely with restaurants to deliver meals. Consider the business methodology here. Most restaurants lack the staff to transport and manage food deliveries. The aggregator fills the void as they handle the delivery part, while charging a commission, usually around 10–35% per order. This agreement is a win-win for both the aggregator and the restaurant, since the former gets new business and the latter can gain new customers, which was impossible earlier because of its limited delivery capabilities.

The expansion of online food delivery has given rise to a new breed of kitchens known as ghost kitchens/dark kitchens/virtual kitchens/cloud kitchens, which are designed solely for delivery. These "kitchens" do not serve any customers on their premises. But their operations are focused on preparing food once they receive the order, which is then delivered to the customer by a delivery agent. While this concept is relatively newer, the market is expected to reach \$112.7 billion by 2030, growing at a CAGR of 13.12% from 2021 to 2030.

Challenges in Online Food Delivery

While the outlook for the industry is bright, with more restaurants signing up and a rise in revenue for the food aggregators, the competition is fierce, with every player working hard to attract a new customer base and retain existing customers with attractive discounts, coupons, and offers. For instance, according to a CleverTap study, for every 100 customers acquired, only about 22% remain active on the platform by the end of the first week.

Food Delivery Industry Challenges



Source: The Restaurant Times

Another challenge facing the industry is that customers are unhappy with the higher delivery fee demanded by online delivery companies. In contrast, delivery agents receive lesser commissions for their work. However, merchant churn is the most pressing challenge that all marketplace players face, and the food delivery industry is no exception.

Churn happens because restaurants are experiencing lesser traffic to the platform, clocking a declining revenue, and paying high commission fees demanded by the delivery platforms. The problem of high commissions is so acute that some counties in the US have enacted strict legislation that limits the commission fees charged by delivery companies.

Addressing Churn

Maintaining a low restaurant churn rate leads to higher client retention and revenue growth, creating a win-win situation for both restaurants and delivery apps. It is more expensive to acquire new restaurant partners than to retain existing ones. The churn rate directly impacts the food delivery company's operating costs and marketing budgets and includes churn among customers, delivery partners, and restaurants.



Preventing Restaurant Churn: A LatentView Case Study

Our client is a well-known online food delivery company that was facing churn among their restaurants. The client's primary objective was to reduce the churn rate and improve the restaurants' retention rate. This approach has twofold benefits. One, it allows the client to focus on retaining existing restaurants rather than pursuing new sign-ups. Two, it ensures the client does not spend money or incentives onboarding new restaurants on their platform.

Our client also has a churn prediction classifier model that helps predict the list of restaurants that may churn in the next four weeks. A churn likelihood probability score of 0-1 is given to the restaurant, where 0 indicates "no churn" and "1" indicates churn. To reduce the churn among the client's restaurants, we shortlisted the active restaurants in the past 28 days, which were given a decile ranking based on their gross bookings. A "regrettable/non-regrettable churn" flag was created based on the gross bookings ranking for each segment and region.

The top N deciles of restaurants were targeted. Operational metrics and churn contributor metrics were identified for these top N deciles. A flag value was created for each of the operational metrics. Based on the flag and the operational metric, the CRM, marketing, and product management team were assigned to call to action with the restaurants.



Objectives

To increase operational metrics with the cohort of restaurants contacted, which included vital metrics such as:

- Restaurant online rate
- Orders per restaurant
- Basket size

Actions

- Created individual cases in the Salesforce database for each restaurant that was flagged by the churn process for which the operational metrics have been failing.
- Tracked contact activity and monitored the resolution outcomes following the recommendations provided to the restaurant.

Understanding the merchant

- Checked the KPI field to understand why the restaurant was flagged to have a higher probability of churn.
- Re-engaged with these restaurants via sales/marketing actions and account troubleshooting initiatives to convert them into active clients again.
- Examples:
 - If a restaurant is offline, we reached out and understood if any technical or connectivity issues were blocking their internet activity.
 - If a restaurant was online and not taking trips, we reached out to the restaurant to understand the reason behind it.

Recommending solutions

- Identified the reason for declining KPIs and suggested solutions to rectify it based on the reach-outs to the restaurants.
- Example:
 - If the restaurant was online and not taking trips, and if the reach-outs suggested that the issue was with the restaurant not providing pick-up service, then we recommended the service to the restaurant.

The tech stack used for the solution was Python, Presto SQL, Hive, and Tableau, and the project was launched in February 2022.

Observations

Based on the above factors, the following operational metrics accounted for restaurant churn:

Low online rate



The number of orders for a restaurant is directly proportional to the time the restaurant's storefront is visible on the food delivery platform. So, the higher the visibility, the higher the number of orders will be received by the restaurant.

Low basket size



Restaurants received only the minimum number of items per order, constantly resulting in low revenue.

Low meal subtotals



Restaurants received minimum revenue due to low-cost items placed in an order. This pattern of repeated behavior makes restaurants less interested in business with food delivery platforms, and hence it is an indicator for the restaurant to churn.

Low eater supply/no orders



Fewer or no orders from customers in a particular location can lead to churn.

Out of business



Restaurants that are not active on the food delivery platform will eventually result in no business.

High commission rates



High commission rates charged by the food delivery apps are one of the important reasons restaurants are getting churned.

Fake orders



If a restaurant gets a fake order for an extended period, it will also lead to churn (low conversion rate). This is particularly seen in cash-on-delivery orders.

Outcome

Within a few months, we reduced **7% churn** among the client's restaurants. During our pilot testing for 28 days in one of the regions, we helped the client save **\$135,000** in revenue and prevented churn among **27 restaurants**. In short, with our delivery excellence and solution, we helped this online food service leader reduce churn among restaurant partners.

Conclusion

Online food delivery has emerged as an essential aspect of urban life. With the expansion of mobile internet and 5G, this market will grow further. However, like any other industry, the online food delivery sector is besieged by increasing churn rates, which affects the profit margin. This critical factor must be addressed as the entire food delivery platform depends on its customers, restaurant partners, and delivery partners. The food delivery industry has addressed the churn among customers in various ways, but the churn among restaurant and delivery partners also demands immediate attention.

By utilizing data insights, food delivery platforms have the opportunity to decrease customer attrition. Through the implementation of analytics, these platforms can anticipate potential churn rates among restaurants, customers, and delivery partners. This valuable information enables them to identify shortcomings and formulate effective strategies and solutions. Analyzing churn also empowers companies to proactively devise preventive measures for future occurrences.

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About LatentView

LatentView Analytics is a global frontrunner in data analytics and works with prominent Fortune 500 and equivalent enterprises to execute end-to-end analytics strategy, optimization, and implementation. By leveraging the power of technology and analytics and partnerships with industry leaders in the cloud, data visualization, data engineering, and customer data platforms space, we assist organizations in using data to excel in the digital world. This sets us apart from conventional pure-play analytics companies focusing only on analytics strategy or delivery. Since its inception, LatentView has helped clients gain valuable business insights and drive business growth by creating holistic and sustainable impact powered by data.

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