

Restaurants fatten up with food delivery apps

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A year ago Mendocino Farms didn't offer delivery at any of its 15 Southern California locations. Now Ellen Chen, co-founder of the artisanal sandwich chain, is knocking down restaurant walls to make room for delivery drivers.

"It's kind of crazy," Chen said.

Since partnering with the San Francisco food [delivery](#) startup DoorDash 11 months ago, Mendocino Farms has seen such an enormous surge in sales that at times the restaurant has had to turn off the DoorDash app to keep up with delivery orders. Chen estimates that three of Mendocino's restaurants alone have turned away at least \$500,000 in DoorDash orders since last April because they couldn't keep up with the demand.

Not wanting to leave any more money on the table, Chen and her business partner and husband, Mario Del Pero, have been quick to act. They've allocated more counter space at their existing restaurants for DoorDash pickups; they're negotiating with landlords for more 10-minute parking spots to accommodate delivery drivers; and they're knocking through a wall at one location to create a pickup window just for DoorDash orders.

"We've had to go back to every store and reorganize them," Del Pero said. "You can't make them any bigger, but you can allocate more space to it."

The advent of apps such as DoorDash, UberEats, Caviar, GrubHub and Yelp's Eat24 - where users can browse a menu, place an order and have it delivered without communicating directly with a restaurant - has quickly given anyone with a smartphone (and the funds to cover the delivery surcharge) on-demand access to a wider swath of dining options.

For many restaurants in big cities like Los Angeles, app-enabled food delivery services have gone from being an afterthought to a core part of their business, with restaurateurs realizing that smartphone apps don't cause a drop-off in dine-in customers, but instead help grow a new customer base.

Mendocino Farms, for example, saw sales increase 2 percent to 3 percent shortly after it began its partnership with DoorDash. They have continued to climb, resulting in an additional \$2.5 million in revenue since the partnership began. In an industry in which margins are already razor thin, squeezing more revenue from existing restaurants without adding significant overhead is a major win. DoorDash deliveries now account for 6 percent of Mendocino's business.

Other restaurants have noted similar upticks in sales. Burger chain Bareburger last year partnered with five delivery apps, including GrubHub and Caviar, for its West Coast flagship outside Los Angeles. In the three months after the partnerships, it saw an 8 percent to 9 percent increase in sales. In the last two months, that figure has increased to 13 percent.

Bay Area Greek restaurant Nick the Greek partnered with DoorDash two years ago and has since seen a 15 percent growth in sales.

"When it comes to restaurant economics, it just makes sense that delivery is becoming an increasingly large portion of everyone's

business," said Allen Wong, president of LA Chinese restaurant Fat Dragon and a partner at the Sticky Rice Group. Fat Dragon primarily uses Caviar for deliveries.

The delivery business is growing so fast, it's giving restaurants cause to rethink their expansion strategies too.

"If you were to set up a new restaurant in West LA, you'd have to go through the process of signing a new lease, spend half a million dollars on the restaurant and it'd take a year before it opens. That's pretty challenging for a lot of brands," Wong said.

Thanks to delivery apps, restaurants can serve more customers with far lower costs by opening "ghost" kitchens without any dining areas.

"We can rent a 10-by-10 kitchen on a monthly basis and jump right in without having to spend a year setting up a restaurant," said Wong, whose Sticky Rice Group is looking to expand to ghost kitchens that can accommodate more orders than its restaurants can handle. "That's very enticing."

Chimney Coffee, a cafe in LA's Chinatown, opened its ghost kitchen in Hollywood last September to help fulfill orders from the UberEATS app. After partnering with the ride-hailing offshoot early last year, it saw a 35 percent bump in sales. Chimney Coffee founder Amnaj Bholsangngam estimates that UberEATS now accounts for 30 percent of Chimney's business. The kitchen - which has no storefront and doesn't directly serve customers - doubles as a place to prep the cafe's house-made bacon and sausages, and service the extra 200 to 250 orders a week that come through the UberEATS app.

"It's definitely been positive," Bholsangngam said.

The apps also provide restaurants a way to offer delivery without having to hire their own delivery staff - though eateries that partner with the services have to pay a fee. Along with taking a commission from restaurants on orders, the apps charge customers for delivery as well. DoorDash's delivery fees vary by region and restaurant, while Caviar charges an 18 percent service fee plus a delivery fee based on distance.

Some of that haul goes to the people who deliver the food. Driver pay varies app to app: DoorDash drivers in Los Angeles get a flat \$5 payment per order plus tips; UberEats drivers get paid for pick-ups and deliveries, plus a rate that covers distance traveled between the two.

Despite the added fees, diners say the convenience of not having to sit in traffic, find parking, wait in line, or even leave their home is worthwhile.

"I'm willing to spend a lot more money on the same food I would have gotten, all for the ease of someone else getting it for me," said Austin Grogin, 26, who uses GrubHub, UberEats, Eat24, Postmates and even the Subway sandwich ordering app. "It's about maximizing the ease and speed at which I can eat. It's essentially made me a far lazier person."

Grogin has used the apps to discover new places to eat, turning him into a big fan of restaurants he's never set foot in, such as Sidecar Doughnuts.

"I wouldn't have known about it had I not ordered doughnuts for a co-worker's birthday through an app," Grogin said. "And now I'm incredibly addicted."

App makers are fighting desperately for customers like Grogin, and they're also competing for restaurant partnerships. Yet a lot of the pie remains unsliced, according to GrubHub's chief operating officer, Stan Chia, who said that 95 percent of the delivery market still places orders using paper menus. And according to DoorDash's stats, some 80 percent

of U.S. restaurants still don't offer delivery. Which means the opportunity could be huge for delivery platforms and restaurants.

Wong of Sticky Rice Group doesn't believe that food delivery apps have reached their potential yet because the majority of restaurants still aren't using them, but he thinks that in two years it will be as easy to order food as it is to hail an Uber. At that time, he says, delivery will truly become a core part of restaurants.

"We want to be well-positioned for that," he said.

Part of being well-positioned means showing a willingness to change. At Fat Dragon, in addition to partnering with Caviar, the restaurant is looking into developing more braised dishes such as curries that can be prepared in bulk so it can handle the logistics challenge of fulfilling dozens of delivery orders at once.

In the Bay Area, falafel [restaurant](#) the Halal Guys is building a Berkeley location with a separate pickup area for delivery apps, with a dedicated hot food holding unit to keep meals warm as they await pickup.

"Building a new store, we have the luxury of knowing how big food delivery is, so we're able to carve out a space for it," said Rene Hjorth, the Halal Guys' Bay Area director of operations.

Chimney Coffee has hired more line and prep cooks to keep up with orders, nearly doubling its staff over the last year.

And Mendocino Farms is opening three locations this year, each with bigger to-go areas, more spacious waiting areas for DoorDashers and enough floor space around the seating to accommodate its red delivery bags.

"It's been a real game-changer," Del Pero said.

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