

# Food home delivery companies need up to 8,000 daily services to be profitable in a big city

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The sustainability of the business model in food home delivery companies is based on attracting users and on complementary services offered to other companies. Credit: Brett Jordan/Unsplash

Various platforms which offer food home delivery services through courier services, such as riders or other types of distributors, have

proliferated very quickly in recent years, especially in big cities. Due to this boom in last-mile delivery or logistics, UOC experts have studied the operation of the main food home delivery platforms, such as Just Eat, Glovo and Deliveroo, which work in the city of Barcelona, to analyze the profitability of these business models and estimate the number of orders needed to achieve this profitability.

"It's very difficult for these business models to be profitable by themselves," said Eduard J. Álvarez Palau, a researcher from the SUMA research group of the UOC's Faculty of Economics and Business, the main author of this work together with Ángel A. Juan, principal investigator of the ICSO research group of the UOC's IN3.

During the course of the research, the authors analyzed public data from the different companies to ascertain how the profit is generated on this type of platform. As well as studying the revenues, both those which come directly from the restaurants and those which come from the clients, they also assessed the fixed costs and the variable costs involved in each [delivery](#).

## **Profitability of the service**

After analyzing the context and the situation, the experts estimate that at least 8,000 orders a day are needed for this type of platform to begin to be profitable from its operation. "This would be the most benevolent scenario. With the alternative scenario, in which we add all those costs related to the expansion of this type of company in other markets, we find that these 8,000 services have to be increased to 19,000 for the operating system to be profitable, which is a little surprising," explained Álvarez.

Despite this situation, these companies do not base their income on just their activity. They are founded on two pillars: The investors and venture

capital funds which allow them to remain in the business and participate in other business models. "Although their main business is food home delivery, it's difficult for them to be economically profitable, and therefore, they have to begin to choose other complementary [business models](#), such as the delivery of other types of products or complementary services for restaurants, such as ghost kitchens," he stressed.

Thanks to these participations, this type of platform thus obtains a higher percentage of profit. "Their ultimate goal tends to be to attract as many users as possible in order to offer them additional services, although it's true that in the course of the research we didn't focus on the internal algorithms of each platform."

For years now, this group of experts has been studying the different dynamics of urban logistics, especially the so-called "last mile," the final delivery of the product to the client. This has been a booming market in recent years and has been driven to a large extent by the circumstances arising from the pandemic. "This growth demonstrates a transformation that's taking place and continuing to grow."

Indeed, unlike other types of companies such as Amazon, the delivery people from home delivery platforms tend to be distributors who use bicycles or motorbikes, known as "riders," because the origin of the product is restaurants from the city and greater flexibility is needed. "The cost of riders is another factor that we analyzed and we considered alternative scenarios to the current ones," Álvarez added.

## **Future scenarios**

Moreover, based on the data obtained, the authors observe future lines for this type of company in which the application of this type of services to other sectors, not just food delivery, is envisaged.

For example, one of the scenarios that the experts consider is the direct recruitment of the riders by these companies. In this case, the delivery costs would increase by 30%. However, the trend in this sector tends to be toward the mass outsourcing of riders with temporary employment agencies, which will slightly reduce this extra cost and maintain flexibility.

Indeed, the experts depict a future in which these companies also pursue several [business](#) lines in order to obtain greater economic profitability than that achieved from food home delivery operations.

This UOC research contributes to Sustainable Development Goals (SDG) 8, decent work and economic growth, and 11, sustainable cities and communities.

**More information:** Eduard J. Alvarez-Palau et al, Economic profitability of last-mile food delivery services: Lessons from Barcelona, *Research in Transportation Business & Management* (2021). [DOI: 10.1016/j.rtbm.2021.100659](#)

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