AGGREGATORS

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Online food delivery: Q4 signals in Europe and the UK point to where the stress will be in 2025

Moderate order volume growth with some price pass-on and a slight recovery in frequency and retention

Renewed price pressure, this time around not from food but from labour

Mix of sales now even between grocery / convenience, QSRs and non-QSRs - a radical change from three years ago

Labour costs still rising, with a bias to self-employment despite tightening employment rules - many drivers are choosing self-employment

Disproportionate growth in marketing spend, particularly customer acquisition, to tackle new differentiation challenges and absorb inflation in programmatic marketing

This episode of **Aggregators** *is a round up of current trends amongst European and UK takeaway meal and grocery delivery marketplace and delivery platforms. I'm focusing on the background to recent company updates and assessing the latest company guidance. Complementing what the companies are saying, I'm also reflecting on the views and estimates of other industry analysts and commentators - further detail on these can be discussed with me in follow up.*

The _volume_ of orders is up slightly on prior year
Just Eat Takeaway reported, for the year to September, -1% annual order volume change in the UK, and -2% in Northern Europe. *Deliveroo* reported +2% in the UK, and +2% in its International region, principally (by sales volume) comprising largely France and Italy but also including relatively moderate presences in the Middle East and Asia. *Delivery Hero* is present in Europe through its *Glovo* acquisition, which in Q3 reported the highest growth in Europe, of 20% (note though that this is in value not volume), but with contributions from a number of south-eastern Europe countries outside of the survey. *Uber Eats* does not disclose regional results.

The _value_ of orders is growing faster than the volume, which means average order values are growing...
...which means inflation is being passed on to consumers. Value-to-volume (that is, inflation) differentials reported for the year to September were 5 percentage points for *Just Eat Takeaway*, in both UK and Northern Europe; and, for *Deliveroo*, 5 percentage points in the UK, and 2 percentage points in the International, region, reflecting lower food inflation in Asia

Q4 company guidance implies slightly improved growth for FY due to better momentum in Q4. *Deliveroo*, after 6% GMV growth in the three quarters to September, guided to 5-9% for the full year; *Just Eat Takeaway*, after 3% GMV growth (excluding North America, that is UK, Europe and Australia) to September, guided to 2-6% for the full year.

Frequency and churn are neutral-to-up
Customer churn is in neutral gear, as part of the end of the post-pandemic normalisation of customer habits. However, there is a moderate rise in frequency. Monthly frequency (of customers remaining active) often accompanies churn, because departing customers are usually those with low frequency, leaving behind a more committed core. But company comments also signal the positive impacts of subscription offerings, such as *Deliveroo*'s, which now contributes 40% of its orders.

A new round of price pressure
Pricing is largely the remit of marketplace merchants, rather than the platforms themselves, but it is notable that many merchants expect to go into a new round of non-trivial price rises, even though food ingredients inflation has tailed off. Merchants will be trying to cover new inflationary pressures in labour and marketing. Such concerns echo much of the UK economic commentary during Q4 so far, with many expecting a second wave of inflation.

Subscriptions are turning frequency around but at a cost?
Five years ago the natural frequency of takeaway marketplaces was a strong part of the investment story...but that's been challenged in the post-pandemic era, especially as restaurants are looking to divert repeat orders away from marketplaces. In this context, subscriptions have mitigating potential, and they are doing well for *Deliveroo* and *Uber Eats*. Subscriptions is not such a key focus for *Just Eat Takeaway*, which, in the UK for example, has more naturally occurring frequency that could be cannibalised from within its older customer base - they don't want to subsidise orders they would get without subscriptions.

Ghost kitchens are a play on incremental demand, but in this current low growth environment I'm not sure they are going to attract as much investment as before. Many rollups of ghost kitchens, heavily funded three years ago, have since either stopped consolidating or closed down. The full ghost kitchen facilities model (a la Deliveroo Editions) is capital-intensive. *Deliveroo* seems to have slowed down its Editions roll out in its efforts to preserve cash. The 'lite' model, where an already-existing ghost kitchen is serviced with e-commerce technology, is likely to be more popular for now...

...which brings us to the threat to food delivery marketplaces from restaurants' own direct channels, and their enablement by ordering technologies provided by growing businesses such as *Toast*, *Olo* and *Deliverect*. These software tools, cover at least as much GMV as the marketplace platforms, principally because they enable all orders, not just the online ones and often including dine-in.

Ordering experience optimisation always ongoing
User experience is a constant focus. But this tends to be tactical, with no single platform out in the lead for very long before being copied by the others. The same applies for offerings of alternative payment options

All platforms are signalling more advertising services on their marketplaces - a significant step forward compared with five years ago, when marketplaces were wary of brand damage from bombarding customers with adverts while they were trying to complete their orders. Advertising is unlikely to get beyond 15-20% of revenues, but these revenues are almost 100% gross margin.

New market entrants from where?
There is no consensus as to where any new consolidation will come from, but hardly any commentators think there will be no further deals. The acquisition of Just Eat Takeaway's US Grubhub business by *Wonder* (a virtual food hall) makes me think that players adjacent in food service are the most likely, regulator-friendly candidates. This is a very wide field.

For the chains, it's late in the game for such moves (they've had opportunities before). Although they would value the workflow control that owning delivery would bring, they fear low labour utilisation and would prefer this to be someone else's problem. Many of the survey responses were before the UK budget - since then, and since the French and German budgets, appetite for taking on riders and admins in a period of rising employer workforce taxes will have surely diminished.

Grocery move not over yet
The move to grocery is not yet complete. By my reckoning, grocery and convenience is now around a third of order volume for the European platforms. And this is coming from a disproportionately small proportion or merchant supply. For example, in the Camden ward in Inner London, my count of grocery merchants on the Just Eat marketplace in late 2022 amounted to 2% of total merchants. Now, in late 2024, grocery is 14% of supply. A rapid rise in coverage but a very efficient channel.

Fast food chains up to a third of sales
Alongside the one-third of orders from grocery and convenience, I estimate another one-third is now from fast food chains…with the final thir**d** from the traditional non-QSRs (let's call them casual dining) that these platforms were first based on. That's a radical change in less than five years.

Commission rates converging
Fast food chains and grocers typically secure lower base commission rates (pre-delivery) as an incentive to bring their sales volumes to the platforms…but would more often than traditional independent restaurants be paying extra commission for delivery as a guaranteed part of the service - their principal reason for joining. Higher overall commission rates from QSRs and grocers doesn't mean higher profit to the marketplace, though, because of the higher labour costs in delivert eat up all the extra commission, as we shall see in the next section

Labour costs pressure from competition as well as regulation
Many platforms are still deploying more than a single approach to employment status. But I believe self-employment represents the majority across Europe and the UK. This reflects the self-employment norm in UK delivery, and also, in Europe, some riders opting for self-employment despite the availability of an employed option, thanks to the progression of EU-inspired regulations.

Glovo announced this week that, after a period of brinkmanship against the Spanish government, it will be moving its riders to employed status, creating a big hit to operating costs. Rider costs are still rising across Europe, regardless of employment norms. There is cost arbitrage between employed and self-employed - in other words, self-employed drivers will only accept work at levels near to employed levels. So employed and self-employed pay rates have converged to similar levels. Cost rises, then, are largely competitive, in that platforms are paying more to attract workers. The attractions to riders of employed status does not in itself solve the delivery labour shortage. Nevertheless, platforms may not need to invest heavily in the near future, because they expect only moderate order volume growth.

Marketing costs rising again

There is a rise in marketing budgets on the way as the post-pandemic lull disappears in the rear view mirror and a new set of differentiation challenges emerges - for grocery, for generic local commerce and against restaurants' 'direct to customer' efforts.

The rise in unit customer acquisition costs is a cross-industry trend in online retail as channels and touchpoints proliferate and platforms have to address all of them to prevent leakage of traffic. *Google* and *Meta* are charging more for access to their increasingly protected customer targeting.

Loyalty schemes and customer insight getting more critical

Loyalty schemes are getting more important, as a support for flagging frequency trends, but at risk of platforms paying for repeat orders that they would have got anyway.

Customer demographics, indeed all customer insights, is a massive data science and artificial intelligence opportunity - and challenge. It requires joining together many different silos of data (supply, pricing, delivery capacity, customer history, marketing channel attribution) and processing at great speed. AI makes it easier. In the long run this will be a money saver because it breaks the dependence on 3rd-party black box data (and traffic) from *Google*, *Meta*, etc., and brings cheaper, more credible 1st-party data into play.

So this is the pulse of Europe's food delivery platforms as 2024 ends. Over time the platforms have come to resemble each other more closely in strategy, supply mix and commercial tactics. It's a more explicitly multi-marketplace world now in food, and restaurants in particular are using more independent technology and e-commerce to get better returns from their digital presence. Yet, the marketplace and delivery platforms will enter 2025 with some important differentiating investments and their focus will be on getting returns on those investments.