

WHITE PAPER – DELIVERY & TAKE-OUT 2018 AND BEYOND



BELLWETHER FOOD GROUP, Inc.

Evaluating the overall brand image and performance from a Take-out and Delivery Perspective

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One of the essential questions today is the role of the take-out and delivery business, specifically in casual dining, polished casual, and fast casual. It's the one remaining growth opportunity as many legacy dining brands fight for relevance and survival. The overall restaurant landscape in the US is not growing – it is almost impossible for most brands to significantly change their footprint by building new units. The question is: where can growth come from?

Consumer Preference

Consumer expectations and behavior continue to evolve. The element of time is important, but it is only one component of the entire consumer experience. The entire experience has to be positive even if it means a little more time is required to get the meal delivered. As the offerings expand, there's a great deal of initial trial, followed by some fallout which leads to some form or fashion of ultimate, relative stability. At least for a while.

Historically, prepared food delivery was limited primarily to the pizza, Italian, Asian, and sandwich categories. There are a few trade areas with dense population and dual income households (Manhattan, Chicago), where consumers can pick and choose from a wide range of alternatives. These include pizza, Italian, sushi, Korean, Chinese, Japanese, Lebanese, Indian, Greek, Deli, BBQ, Mediterranean, diners, and a host of other choices depending upon the neighborhood. The delivery execution is almost exclusively accomplished by the independent restaurant in these well-developed local markets.

What we've seen so far is the consumer simply wants a reliable, "friction-less" quality food experience. The other factors matter, but a smooth transaction combined with effectively duplicating a quality in-restaurant food experience will increase the long-term potential for growth and profitability.

Challenges and Questions

The first challenge is who is going to deliver the food? There are numerous market entrants in the delivery space, such as Door Dash, Uber Eats, Grub Hub, Postmates, and of course local participants. Absent their own delivery staff (like Panera and Jimmy John's), most chain operators (excluding pizza) are using one of the third-party providers in their markets or trade areas. No

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matter who delivers the food, consumers will judge the restaurant brand on the overall experience – if Uber Eats is late, your brand pays the price.

Another huge question is who will own the customer data? We won't tackle that issue here other than to acknowledge that the issue looms large. This is particularly true in light of Facebook's recent disclosures. The ultimate judge of who wins or loses will, of course, be the consumer.

Future Growth

In the casual dining segment, which is in a secular traffic decline, take-out and delivery are survival strategies. With some brands closing stores, this is an opportunity to keep the business healthy.

Research reports suggest that take-out / delivery will grow to around 30% of the business by 2022. Casual dining operators and other segments need to be in the game if they want to remain relevant. Consumers want a reliable, "friction-less" quality food experience that meets their expectations for the brand. These expectations may or may not be the same as an in-restaurant experience, but managing consumer expectations is key to success with take-out and delivery.

Impact on the Brand

The most important underlying question that each brand must address: how does the delivery experience impact the long-term health and performance of the brand? Is it positive or negative relative to the brand's image? How do loyal brand users feel about the experience? Is it driving additional frequency and loyalty to the brand – or are you trading out in-restaurant visits for take-out and delivery occasions? To get the answers, it is necessary to evaluate a number of factors:

- Product offerings – do the products travel well? Do you need to only offer a subset of menu items for delivery?
- Packaging – how well does it maintain the quality of product, while enhancing the value equation and the image of the brand?
- What does the consumer think about the quality of the overall delivery and take-out experience?
- Are the interactions with the brand and team members conducive to helping to ensure a quality experience?

- Pricing – since consumers already feel that restaurants do not offer strong value, how does the delivery charge impact the value equation for your brand?
- Are the condiments, utensils and add-on’s enhancing the overall experience?
- What’s the most effective way to determine the overall quality of the take-out and delivery experience?
- Does the delivery experience ultimately increase or decrease the overall usage frequency of the brand?
- Do you have the back of house capacity to manage take-out and delivery orders without compromising service in the dining room?
- What is the impact on the in-restaurant frequency?
- What is the impact on margins? – you will likely lose a beverage sale on most takeout and delivery orders – you will definitely lose an alcoholic beverage sale.
- Most importantly – how is the take-out and delivery experience different and better than the competitors - those who are fighting for the same business?

If you’re interested in learning more about how your brand is performing versus the competitive set, or learning more about out how brands are differentiating themselves (from the viewpoint of their consumers) from the rest of the competitors, give any one of us a call.

We’ve begun exploring all these factors and more. We’d be happy to share what we’ve seen so far, and best practices in getting an understanding of what matters most to consumers.

Founded in 2007, Bellwether Food Group is best known for its branding, strategy and consumer insights work for chain restaurants and retailers, manufacturers strategy, and pre-acquisition due diligence work for private equity firms who invest in those industries.

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