

Deliveroo: Australian Food Delivery App

Founded in 2003 in the UK, Deliveroo is an on-demand, online food delivery platform that links hungry people looking for a meal with restaurants seeking to provide them, using thousands of bike riders to deliver hot meals in a timely fashion, often minutes, depending on how far the restaurant is from the consumer. In 2018, Deliveroo now operates in 200 cities and works with an estimated 30,000 self-employed riders worldwide, and an estimated 2,200 participating restaurants. While Deliveroo started out in the UK, it spread rapidly to the Netherlands, France, Germany, Belgium, Ireland, Spain, and Italy. Recently it has expanded to Australia, Singapore, the United Arab Emirates, and Hong Kong, where it is experiencing most of its growth in 2018. Deliveroo has become a part of the local culture in Melbourne and Sydney, where streets are crowded with Deliveroo riders delivering pizza, curry, and burgers, along with Cabernet and other drinks, mostly to Millennials who can afford the price of food plus delivery.

Consumers in these countries can use Deliveroo to avoid the hassle of driving and waiting for food. For restaurants, Deliveroo can greatly expand their business without adding additional, expensive store fronts, and instead maximize their existing footprint and investment. It also provides an opportunity for restaurateurs to advertise their offerings on the app and launch promotional deals. For bike riders (and some motorcyclists), Deliveroo offers a flexible job that fits into their schedules. The net result, on paper, is a win-win for all parties.

What makes all this possible is a collection of technologies from databases to record in-coming orders, to a real-time dispatching system, to smartphones. Deliveroo fast-tracks orders using a real-time dispatching and resource management algorithm based on machine learning software that analyzes orders based on the location of riders, customers, and restaurants, and then calculates the most efficient way of dispatching orders, and selecting riders. This system can also analyze past patterns of delivery, and direct riders to areas of the city where they are most likely to be needed. This software enables riders to earn more (they are paid \$10 per delivery) in the same number of

hours, and customers to receive their meals more rapidly, saving minutes on each delivery.

Like nearly all gig-economy companies, including food delivery services UberEats and Foodora, Deliveroo has not yet made a profit. Its 2017 sales reached £277 million pounds, but its losses also grew during this period, driven largely by ballooning administrative expenses, including technology. Its gross profits before expenses were £64 million in 2017. Deliveroo and similar on-demand companies continue to operate thanks to an estimated \$500 million from venture capital investors hoping the firm someday will be sold for a \$2 billion valuation or more. Deliveroo is rapidly working its way through its investors' money, and raising additional capital, by selling large chunks of the company's stock to investors.

Deliveroo's business model is based on paying drivers below market wages and on the absence of benefits which are common in most countries and considered a part of paid employment. Deliveroo accomplishes this in law by defining itself not as a food delivery service but rather as a digital platform used by self-employed independent contractors. Deliveroo makes money by collecting a commission from restaurants for each order, and charging customers a delivery fee. It pays its contract riders \$10 a delivery. The average rider makes from \$10 to \$20 an hour, depending on the number of deliveries. The average wage of paid couriers in Australian cities is \$23.50 an hour with benefits, including healthcare, insurance, pension, and legal protections offered by the government, which pumps the overall compensation by 33 percent to about \$30 an hour.

Food companies like Deliveroo and Foodora in Australia and the UK are the subject of several law suits in 2018. In Australia the delivery services are being accused of violating the Fair Work Act in the first test case to contest the legality of contracting arrangements. Lawyers describe Deliveroo contracts as "shams" and say that the firms fail to pay minimum rates as well as to deliver Work Cover Insurance, sick and maternity leave, and pension payments. The law suits also claim Deliveroo fails to provide for safety training for riders, and safety

checks of bikes, resulting in numerous injuries to riders and pedestrians. The company claims it does not control workers, while the lawsuits and riders themselves claim Deliveroo exercises near-complete control over riders by requiring uniforms, dispatching riders to restaurants and customers, tracking their performance, and disciplining those who do not meet its productivity requirements.

Does Deliveroo have a viable business model? In the past, it has had no trouble attracting riders to work for below minimum wages. But it is finding it increasingly difficult to defend the legal status of riders as contractors. In the global recession beginning in 2008, millions of workers were unemployed. As the global economy expands again, and wages increase, Deliveroo may find its future growth impaired by labor shortages and rising wages regardless of the result of the many lawsuits and court decisions.

Sources: Mansoor Iqbal, "Deliveroo Revenue and Usage Statistics (2019)," Business of Apps, February 27, 2019; "Annual revenue of Roofoods (Deliveroo) Worldwide from 2015 to 2017 (in million GBP)," Statista, 2019; Max Koslowski, "Deliveroo Kicks Off Australia's First 'Delivery Only' Restaurant in Melbourne," Huffingtonpost.com.au, November 23, 2017; James Titcomb, "Deliveroo Wins Landmark Legal Victory Against Union Claim," The Telegraph, November 14, 2017; Shona Ghosh, "Deliveroo's Revenue Grew 611% to £129 Million in 2016," businessinsider.com, September 21, 2017; Ellie Donnelly, "Deliveroo Fast-tracks Orders Thanks to Real-time Algorithm," The Independent, August 10, 2017; Nick Toscano, "Delivery Services Foodora and Deliveroo Face Claims of Exploitation, Underpayment," Sydney Morning Herald, July 29, 2016; John Leathan, "Food Critic by Day, Deliveroo Driver by Night," The Australian, June 6, 2017; Andrew Taylor, "Deliveroo Faces Legal Action for Underpaying Bicycle Delivery Riders," SMH.com, March 31, 2017; "Uber Black: Germany Refers Case to EU's Highest Court," Fortune.com, May 18, 2017.

CASE STUDY QUESTIONS

1. Based on your reading of the chapter, what kind of business model is Deliveroo using? Is it different from or the same as Uber?
2. What technologies are used by Deliveroo to support its business model?
3. What's the difference between an employee and a contractor?
4. What risk factors might limit Deliveroo's growth in the future?