

## INTERACTIVE SESSION TECHNOLOGY

## Deliveroo: Global Food Delivery App

Deliveroo is an on-demand, online food delivery platform that links hungry people looking for a meal with restaurants seeking to provide them, using bike riders/couriers to deliver those meals in a timely fashion. Deliveroo now operates in almost 800 cities and towns and works with an estimated 140,000 participating restaurants, using around 80,000 freelance riders/couriers. While Deliveroo started out in 2013 in the United Kingdom, it has spread rapidly and now operates in the Netherlands, France, Belgium, Ireland, Spain, Italy, Australia, Singapore, the United Arab Emirates, and Hong Kong.

Prior to the COVID-19 pandemic, consumers used Deliveroo to avoid the hassle of driving and waiting for food, but during the pandemic it has in many ways become an essential service. Deliveroo believes the pandemic has significantly accelerated consumer adoption of food delivery. Deliveroo enables restaurants to expand their business without building additional, expensive storefronts, 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 its riders/couriers, 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, to cloud services such as Amazon Web Services (AWS). For instance, AWS enables Deliveroo to fast-track orders using a real-time dispatching and resource management algorithm based on Amazon SageMaker 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. Deliveroo also uses Amazon SageMaker to recommend restaurants, products, and features to customers based on their past orders. AWS also helps Deliveroo to scale its operations, as well as specific features, to meet fluctuating demand, something that

became particularly important after the onset of the COVID-19 pandemic, which resulted in a tripling of the demand for food delivery. This flexibility also enabled Deliveroo to introduce new services such as grocery delivery during lockdown.

Like nearly all “gig-economy” companies, Deliveroo has not yet recorded an annual profit. Although its 2019 sales reached almost £772 million, its losses for the year also grew to £318 million, driven largely by ballooning administrative expenses, including technology. Deliveroo's operations thus far have been primarily funded by venture capital. In May 2019, it raised an additional \$575 million by selling a 16 percent stake in the company to Amazon, an investment that raised anti-competitive concerns, but which was ultimately approved by the UK Competitions and Markets Authority in August 2020.

Deliveroo's business model is based on paying drivers below market rates and on the absence of benefits which are common in most countries and considered a part of paid employment. Deliveroo accomplishes this 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. In contrast, 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.

On-demand “gig economy” companies like Deliveroo face a number of ongoing lawsuits. For instance, a French court recently found Deliveroo guilty of “undeclared work,” ruling that paying its cyclists as independent contractors was an attempt to skirt labor laws. Deliveroo is also facing claims in Belgium that it should be paying payroll taxes for the thousands of Belgians riders delivering meals. In Australia, Deliveroo has been accused of violating the Fair Work Act. Lawyers describe Deliveroo contracts as “shams” and say that the firm fails to pay minimum rates as well as to deliver Work Cover Insurance, sick and maternity leave, and pension payments. The lawsuits 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. 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:* AWS, "Deliveroo Finds Ingredients for Success with AWS," [aws.amazon.com](https://aws.amazon.com), accessed December 29, 2020; Tim Bradshaw, "Deliveroo's Losses Soared Before Its Pandemic Recovery," *FT.com*, December 21, 2020; Sam Sheard, "Covid Has Accelerated the Adoption of Online Food Delivery by 2 to 3 Years, Deliveroo CEO Says," *CNBC*, December 3, 2020; Archie Mitchell, "Amazon Finally Wins Approval from Regulators to Gobble Up Minority State in Deliveroo," *Marketwatch.com*, August 5, 2020; France24, "France Faults Deliveroo in 'Undeclared Work' Lawsuit," *France24.com*, February 7, 2020; Campbell Kwan, "Deliveroo Faces Lawsuit for Allegedly Underpaying Food Delivery Riders," *Zdnet.com*, August 28, 2019; Ellie Donnelly, "Deliveroo Fast-tracks Orders Thanks to Real-time Algorithm," *The Independent*, August 10, 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?

About \$246 billion of this will be for mobile ads. Mobile ads will account for over 72 percent of all digital advertising. In the past five years, advertisers have increased online spending while maintaining outlays on traditional channels such as radio and television (but cutting print ads). In 2020, online advertising will constitute over 55 percent of all advertising worldwide (eMarketer, 2020d, 2020e).

Websites with the largest viewership or that attract a highly specialized, differentiated viewership and are able to retain user attention (stickiness). As a result, they can charge higher advertising rates. Yahoo, for instance, derives nearly all its revenue from display ads (banner ads), video ads, and, to a lesser extent, search engine text ads. Google and Facebook derive well over 90 percent of their revenue from advertising, including selling keywords (AdWords), ad spaces (AdSense), and display ad spaces to advertisers.

### Sales Revenue Model

In the **sales revenue model**, companies derive revenue by selling goods, information, or services to customers. Companies such as Amazon (which sells books, music, and other products), HM.com, and Zara.com all have sales revenue models. Content providers make money by charging for downloads or streaming of entire files such as music tracks (Apple Music and iTunes Store) or books or for downloading music and/or video streams (Hulu.com TV shows). Apple has pioneered and strengthened the acceptance of micropayments. **Micropayment systems** provide content providers with a cost-effective method for processing high volumes of very small monetary transactions (anywhere from 25 cents to \$5.00 per transaction). The largest micropayment system on the web has been Apple's iTunes Store, which has more than 1 billion customers worldwide who purchase individual music tracks for 99 cents and feature-length movies for various prices.