

ANALYSIS: FOOD DELIVERY SERVICES



Is the delivery business sustainable in Singapore?

Crouching Panda, hidden Roo: Getting the hop on delivery

Singapore's food delivery firms battle for long-term sustainability.

Singapore's love for home delivered food is growing fast, with an estimated \$250m a year dispatched to hungry diners' homes and could grow to \$600m by 2021. Amidst the growth, there are still a few cautionary tales and questions on the long-term sustainability of home delivered meals. Take food delivery company hawker.today for example.

When the firm delivered its first order in late 2015, it became an instant hit, growing 400% month-on-month and employing eight full-time employees with 60 delivery riders. Yet eight months after its launch, hawker.today shut down, a victim of a pricing failure that founder **Jonathan Faynop** said was due to delivery charges that Singaporeans ultimately were not prepared to stomach. When it launched, the firm had a delivery charge of \$4.50 for a minimum order of \$8. This fee was then amended with a surcharge of \$3 for orders under \$12, meaning that an order under \$12 would attract a \$7 surcharge. The firm felt the fees were necessary to pay the riders, who often had to ride a long distance, but customer feedback was that the

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delivery fees were too expensive. "Like any startup, we had fundraising milestones, we had a very great investment deal on the table, but was unfortunately lost after a deadlock," he said, also citing differences between the founders.

Now Faynop is back at it again, rebranding the business to Yihawker hoping to rise like a sweet and sour braised phoenix out of the ashes and leftovers of his last business. This time his concept is e-hawker centre and handles deliveries from Bedok 85 hawker centre in East Zone, covering Pasir Ris all the way to Paya Lebar. In April it launched partnerships with over 30 hawker stalls available for Central Business District and employed 20 riders. Around 90% of its hawker stalls are exclusive. Yihawker is just one of several niche players up against the two dominant players, Foodpanda and Deliveroo.

Foodpanda started in Singapore in 2012 and delivers from more than 3,000 food outlets with its fleet of 2,500 riders delivering up to 20,000 orders a day. Foodpanda Singapore managing director **Aspa Lekka** cited saturation as a concern for the years to come, given the large shift towards

e-commerce from traditional retail, but it has not reached that point yet. "As food delivery is still a nascent market, even in Singapore, and new customer acquisition cost remains high, having our competitors spending in building up our market is in our long-term interest," said Lekka.

Delivery giants

Foodpanda uses a proprietary dispatching software in processing orders which is particularly useful in segregating orders from halal and non-halal restaurants, Lekka explained. It has also jumped on the drone-delivery bandwagon, testing out deliveries through unmanned aircraft in Singapore. The goal is to reduce delivery time to under 30 minutes. Deliveroo is the other big international delivery boy on the block and has been in Singapore since mid-2015.

Meanwhile, Deliveroo is helping well-known restaurants establish separate "dark kitchens" in different locations which exist solely to cook for the delivery market, with no walk-in customers or dining room. The firm pioneered this concept dubbed as Deliveroo Editions in London and now has its own pop up kitchen in Katong, where it houses four restaurants under one roof including Muchachos, Sacha & Sons, Blu Kouzina, and Pho Stop. These four do not have a physical store in Katong but they still receive a high demand for delivery orders.

"It's a combination of logistics, technology, and data. Based on data we are able to predict what customers in a certain area will like, which restaurants will mostly do well in an area. We are able to understand what kind of cuisine gaps are there. With all these information we are able to hand-pick restaurants," Deliveroo Singapore general manager **Siddharth Shanker** explained, noting that their biggest asset is their collection of customer data.

What niche players lack in technology and muscle, they are trying to make up for with service and product differentiation. Take the online platform Alcohol

Delivery which is one of the best examples of firms who found their place in the business. A brainchild of siblings **Travis and Suzanne Chia**, this firm offers alcohol and beverage delivery and has just turned profitable after growing revenues five-fold since 2012 with six full-time and four part-time drivers. Its services are currently available via an online platform, which lets customers pick from over 600 items ranging from cocktails packages that come with bar tools to snacks and drinking games. Orders above \$50 waive delivery charges. Its standard delivery fee for orders below \$50 is \$10.

“To date, we have been receiving a steady flow of orders and on a daily basis and we find ourselves delivering to homes and offices and the products range from cans of beer, bottles of wine as well as various spirits,” said Travis, adding that 95% of their orders are delivered within just one hour.

Tech and delivery

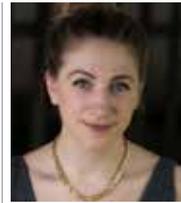
Alcohol Delivery is at the early stage of ramping up its tech but is pushing efforts to automate more of their internal processes. “This system will also be able to track the real-time location of the delivery progress and capable of formulating the total time and distance into a monetary value for salary calculation. As long as you’re in a tech-based industry, you will always have to keep up with the evolving technology. Food vendors

have an intrinsic role to play when it comes to the quality of the food, which is half of the battle itself. If delivery companies do not keep up and keep their platforms fresh and relevant, not even a Michelin-starred vendor can save the platform and likewise, no state-of-the-art platform can do well without a quality vendor,” said Travis of Alcohol Delivery.

It is this type of technology power that smaller food delivery startups have to contend with. Yihawker’s Faynop said he is differentiating his company from its competitors as Go-Jek did with Uber in Indonesia. Right now, Yihawker utilises Google Firebase tech which allows them to iterate and make changes, back to front end in real-time. “I think the future of sustainable and impactful businesses is not in the single or linear approach. It’s going to be dynamic, unpredictable and complicated. I think Yihawker is in a very sweet spot for innovation that can value add to the dynamics of Southeast Asia.”

Exclusive deals

Technology is not the only issue facing food delivery companies as they struggle to compete for customers. Last year several food delivery companies drew the attention of regulators when it was revealed they had signed exclusive delivery arrangements with restaurants, something which could breach competition laws.



Aspa Lekka



Seshan Ramaswami



Siddharth Shanker

After an investigation, Competition Commission of Singapore chief executive Toh Han Li said the use of exclusive agreements with online food delivery providers is just one method to attain market shares, and not as anti-competitive others deemed them to be.

“In the event that the online food delivery provider becomes dominant, the presence of such exclusive agreements risk infringing competition law as it would affect the competitive state of the market. Instead of relying on exclusive business practices, businesses should compete on merit, leading to a more vibrant market with more choices for restaurants and consumers,” Toh said.

Foodpanda’s Lekka said, “We do not enforce any exclusivity contracts on our vendors. As a player in the industry, we see that it’s very unfair to expect restaurant partners to limit their business in order to benefit ourselves.” But Deliveroo has a different take on this. Shanker noted that restaurants have a choice to take on such deals or not. “Nobody can and nobody is forcing restaurants to take on exclusivity deals. The restaurants choose to do so because they feel that certain service providers can give them better service.”

As the delivery whales battle it out and the niche minnows try to grow without being eaten, the one sure winner is Singapore’s diners who continue to enjoy almost any food or drink delivered to their homes.

Robust growth in food delivery revenue

Singapore’s food delivery industry is in for a delectable growth projection in the next five years. According to this graph from Statista, the industry’s revenue’s annual growth rate from 2017 to 2021 could reach 25.9%, resulting in a market volume of US\$480m in 2021. Online takeaway is its largest segment, with a market volume of US\$182m in 2017. The average revenue per use under this segment is US\$344.7 this year and is expected to climb to US\$376.5 in 2021.

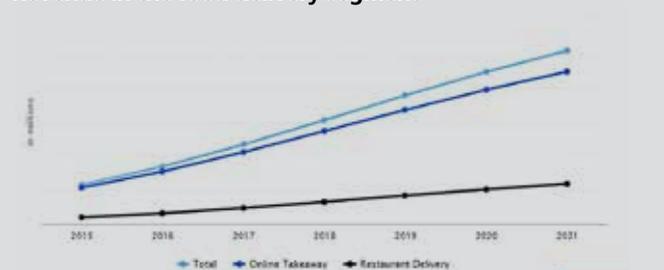
Singapore Management University associate professor of marketing education Seshan Ramaswami says the growth of the food delivery market the food delivery business is a consequence of the confluence of two independent phenomena – Singaporeans’ continuing obsession with food and fascination with technology. More so, he stressed that demand for the service will always be there, and firms which are able to figure out logistics and ordering process will be sustainable.

“In terms of consequences for the F&B sector, every operator now needs to be able to think beyond the walk-in customer and realize that they now have easy access to a Singapore-wide platform. This could have an impact on their menu assortment, on their promotions, and on their operations – as they are also now competing not just locally but

Singapore-wide,” he adds.

For a business to thrive in this booming industry, Ramaswami says it has to clearly define its focus in terms of its chosen market, assortment of restaurants, pricing, and delivery times. “In forthcoming years, I suspect that an even larger proportion of F&B operators, from the small mom-and-pop hawker centre or independent café operator to the large chains will be offering delivery services across the island.”

Revenue in the food delivery segment



Source: Statista, September 2016