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The Coronavirus Crisis

Restaurants Are Desperate — But You May Not Be Helping When You Use Delivery Apps

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BOBBY ALLYN

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On Wednesday, New York City became the latest city to pass a cap on how much food delivery apps like Grubhub can charge restaurants for deliveries.

Mark Lennihan/AP

For an idea of why independent restaurants have long complained about food delivery apps, just ask Anil Bathwal, who owns The Kati Roll Company, a group of New York City restaurants serving Indian street food.

Bathwal relied on a handful of food apps to supplement his dining-in purchases, despite hefty commissions the apps tack on to every sale; he used Grubhub-owned Seamless, Uber Eats, Postmates and other food-ferrying services.

If someone ordered two kati rolls for about \$12, the apps took a hefty chunk of that sale: roughly a 17% commission on top of a fee for delivering the food to someone's door. In the end, Bathwal said, that kati roll purchased on the delivery app would net his restaurant about \$7.

App commissions were more manageable when it represented a smaller segment of overall revenue. But the pandemic changed that.

"That's the only game right now. There's no other way for people to get business because of the lockdown," Bathwal says. "If it starts becoming 30%, 40%, 50% of your business, it is not incremental business — it is your business."

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With already thin profit margins further diluted by the app fees, Bathwal could not justify keeping his six locations open. He temporarily shuttered all of his restaurants with hopes of reopening, when he can, on a pared-down menu emphasizing items that are the most affordable to make.



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He expects food delivery apps to represent a sizable portion of his sales when he can restart his business, but he is not yet sure whether he will be able to make the numbers work out.

In a bid to help struggling restaurants, cities from Seattle to Washington, D.C., are passing caps restricting how much food apps can charge to deliver meals. The food delivery apps have different ways of devising fees, but they tend to be in the range of 20% to 40% of how much a restaurant makes in app-generated revenue.

On Wednesday, New York became the latest city to pass commission limits: third-party delivery services will not be able to charge more than 15% per order, and the tech companies cannot add more than 5% for other fees, like credit card processing and for better placement on the apps.

Councilman Mark Gjonaj, who sponsored the bill, said the food delivery apps have placed some restaurants on life support, but it is not sustainable.

"Without them, it's an instant death. With them, it's a slow death," Gjonaj said in an interview.

Grubhub, which controls two-thirds of New York City's food delivery market, claims the commission ceiling could have an unintended consequence for restaurants.

THE SALT

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New York's fee cap was passed as an emergency measure and applies for as long as restaurants remain closed and for 90 days after eateries are able to reopen.

"Any arbitrary cap — regardless of the duration — will lower order volume to locally-owned restaurants, increase costs for small business owners, and raise costs on customers," Grubhub spokesman John Collins said in a statement. "Delivery workers would have fewer work

opportunities and lower earnings. We also believe that any cap on fees represents an overstep by local officials and will not withstand a legal challenge."

A spokesperson for Postmates said in a statement that limiting commissions makes it harder to operate and "kills the whole industry's ability to provide the services restaurants need to stay open during this national emergency."

Lawyer Gregory Frank is skeptical about this reasoning. Frank filed a federal lawsuit in Manhattan last month seeking class-action status accusing Grubhub, Doordash, Postmates and Uber Eats of ripping off both customers and restaurants.

Frank points to a clause in the contracts restaurants and the food delivery apps agree to that prohibits owners from charging delivery customers more than people who dine in, even though delivery costs more.

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"By not forcing those purchasing on apps to bear the whole amount of the fees, instead forcing all menu prices to rise together, in-restaurant diners are effectively subsidizing Grubhub's high rates," said Frank, who argues such an arrangement is anti-competitive and illegal.

Grubhub and the other food delivery apps have not yet filed legal responses to the complaint.

Despite the commissions, PitchBook analyst Asad Hussain notes that none of the major food delivery apps are turning a profit.

"Capping these fees will present a headwind for these companies. It's going to have an impact on growth, and ultimately some of these costs are going to be passed on to consumers, and that's going to reduce demand for these services," said Hussain, who expects the coronavirus to hasten consolidation among the delivery apps.

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With or without the food delivery apps, some restaurants that have had revenue wiped out will never come back after the pandemic.

A survey from the National Restaurant Association found that the pandemic has caused 4 in 10 eateries to close, and some will never be able to open again.

Bathwal with The Kati Roll Company said one of his top tasks ahead of any reopening is trying to negotiate with his landlords.

"Landlords have been understanding. Some of them are deferring. Some are giving us a little bit of a rent abatement," he says. "So we're hopeful, but we really don't know what's going to happen."

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