
An App That Comes With A Kitchen

- Deliveroo is pushing an unorthodox solution to food delivery as it struggles to make money

Food delivery apps don't make money. That's one of the big lessons venture capitalists have taken away from the past few years, as the startup graveyard has filled with names such as Sprig, Jinn, and Take Eat Easy. Despite the \$100 billion market, margins are thin or nonexistent, and apps haven't been able to wring much extra efficiency out of logistics algorithms trying to organise orders from restaurants spread within a given customer's delivery radius.

Deliveroo, one of Europe's biggest startups, is bringing an unprecedented amount of money to bear as it bets on a different approach. Although unknown in the crowded U.S. market, which it has purposely avoided, the five-year-old London company is ubiquitous in Europe's capitals, available in 200 cities and on four continents, and it's raised a little less than \$1 billion in venture funding—more than half of it last year—from the likes of T. Rowe Price Group Inc. and Fidelity Investments. It's pushing money into a series of kitchens that it's leasing to already successful restaurants interested in expanding their delivery services.

The company has opened 105 of these shipping-container-size kitchen spaces, each big enough for about five cooks, across a dozen cities, and in the ►



◀ next few months it will announce five additional cities, such as Manchester and Cambridge. It's part of a broader plan by Deliveroo, including a reported move into India, as the startup faces rivals Amazon.com Inc., Delivery Hero, and Uber Eats, among others.

Deliveroo says its kitchens, initially meant to help popular eateries manage overflow deliveries, now reach customers who didn't have enough quality food nearby. "The goal is to help restaurants expand in areas they wouldn't otherwise consider going," says Rohan Pradhan, the VP overseeing the effort. In the parking lot of a closed brewery in London's Camberwell neighbourhood, separate kitchens are set up for Indian and Thai cuisine, rotisserie chicken, burgers, and pizza.

When customers place orders, the app prints tickets that tell cooks what time to have the food ready, and gofers hand the food off to drivers. The whole thing is designed to minimise the kinds of real estate and staff costs that make the restaurant business a struggle. When the weather is bad or a big event is on TV, the dinner rush brings more than 200 orders an hour, Deliveroo says.

"We can get a pizza prepped and cooked in three minutes," says Joe Moore, the 27-year-old owner of Crust Bros, standing in front of a 900F



oven. One of the first businesses at the Camberwell site, Moore's is a successful food truck that now gets about a quarter of its sales from Deliveroo and is opening another delivery-only kitchen in London. Deliveroo fronts the costs for all the kitchens, including Moore's oven, imported from Italy.

The company says it will recoup its investments through either lease fees or revenue-sharing deals, and that it's carefully selected partners based on delivery data, searching for, say, neighbourhoods

with unmet demand for pizza. Karam Sethi, owner of Michelin-starred Trishna in London, opened the delivery-only Motu with Deliveroo last year. “Overheads certainly aren’t as high,” Sethi says. He signed on because Deliveroo’s data showed “high demand for the product and an audience with disposable income that will be ordering.”

Pradhan, previously an Amazon executive who helped start its one-hour delivery service, says restaurateurs don’t need traditional storefronts if diners can discover their food online. Last year, Twisted, a maker of food videos with more than 9 million Facebook followers, opened a delivery-only setup in East London. Even Domino’s Pizza Inc. is enjoying an app-driven resurgence. “We’re only going to see the trend expand,” Sethi says.

Deliveroo’s kitchens haven’t endeared it to

neighbours, some of whom have complained about traffic and noise. In London a local council has threatened to shut down operations in Camberwell until the startup obtains proper permits. (Deliveroo says it has a licence and is negotiating a compromise.) Throughout Europe, where labour rights are relatively strong, the company is also struggling to keep its drivers classified as contractors, with the lesser employment protections that entails, even after a U.K. labour regulator helped it defeat a unionisation effort in November.

For now, though, the company’s biggest question mark is its margins. It says it’s profitable in several undisclosed cities, but annual losses quadrupled, to £129 million (\$176 million), on sales of £129 million in 2016, the most recent figures filed with U.K. regulators. If successful, the kitchens may help by increasing delivery volumes in certain areas. Deliveroo is being watched closely as a bellwether for the broader food delivery business, an industry that Sucharita Kodali, an analyst at Forrester Research Inc., says has structural flaws. “It all comes down to how much people are willing to pay for the service,” she says. “It’s often not as much as venture capitalists think.”

—Adam Satariano

THE BOTTOM LINE Deliveroo, which rents out delivery kitchens, raised almost \$500 million in venture funding last year but lost \$176 million in 2016.

▼ Deliveroo has opened 105 shipping-container-size kitchens it leases to restaurants looking to expand their delivery services

◀ Each prep kitchen is big enough for about five cooks; when customers place orders, the app prints tickets that tell cooks what time to have the food ready

