Do you use companies like GrubHub and UberEats? If so, listen up!

The Bethlehem Gadfly City government May 8, 2020

Latest in a series of posts on City Government

When a few firms, like UberEats and GrubHub, dominate the market and use
their position to set prices at such a high level, it becomes not only desirable
but necessary for public sector entities to intervene.
John Schall, El Jefe on the Southside

Councilman Reynolds' Tuesday resolution to investigate food delivery app business practices in the City was an eye-opener.

Like many of you, Gadfly has found GrubHub and UberEats useful in this pandemic era.

The service and delivery charges seemed reasonable to him given the circumstances, and he felt he was helping some favorite eateries, as well as the delivery people who were hustling to make a buck, and whom he liberally tipped.

But the Reynolds' resolution and the discussion thereon at Council last Tuesday was certainly eye-opening.

We'll get to the Reynolds resolution next time but use these articles to bone up on some background.

Add oligopoly to your wordbank for Scrabble purposes.

God bless capitalism.

Christina Tatu,"Bethlehem officials urge customers to order directly from restaurants instead of using third-party delivery apps." Morning Call, May 6, 2020.

Under Gov. Tom Wolf's stay-at-home order, delivery sales skyrocketed to 75% at El Jefe's, a South Side Bethlehem Mexican restaurant. And owner

John Schall is forking over a significant portion of those sales to third-party delivery services like DoorDash, Grubhub and Uber Eats. Schall says the companies take a commission that can be up to 30% per order, which last month meant he lost money on delivery.

Schall paid $22,000 to third-party delivery companies for orders placed at the Bethlehem location last month. "We used to pay them 8% of our sales and now we are paying them 19% of all our sales," he said, adding that before the pandemic, third-party deliveries accounted for about a quarter of the business.

Bethlehem City Councilman J. William Reynolds heard similar concerns from several restaurant owners, prompting him to introduce a resolution Tuesday encouraging city administrators to investigate capping the fees third-party delivery services charge, and to consider a licensing system to ensure they comply with local, state and federal laws that protect food service workers and customers.

The Bethlehem Chamber of Commerce will launch a campaign urging residents to do curbside pickup instead of using third-party apps to ensure restaurants receive the total cost of the order, said Angela DelGrosso, senior vice president of the Bethlehem Chamber at the Greater Lehigh Valley Chamber of Commerce. "Especially during this time, we need to do all we can to support these small businesses and having up to 30% of their profits taken away by the apps is detrimental to their service," DelGrosso said.

Sara K. Satullo, "Trying to support local restaurants by ordering delivery? Curbside might be the better answer." lehighvalleylive.com, May 5, 2020.

More and more customers are turning to third-party delivery apps to help support local businesses at a time when delivery and takeout are lifelines for restaurants forced to stop dine-in eating under Gov. Tom Wolf's stay-at-home order. The coronavirus shutdown comes at a real cost to the nation's restaurants, which need delivery to survive in this new era, but are having a hard time justifying sending an increasing percentage of their potential profits to delivery companies.

When restaurants use delivery companies, they agree to give up a set percentage — sometimes as high as 30% — of every delivery order, a tension that's plagued restaurants since the apps' inceptions. Add in competing fees and the fact that some companies offer better service than others, and restaurateurs say they face an array of unattractive choices. The COVID-19 health crisis is elevating this tension as an industry that already operated on razor-thin profit margins struggles to stay afloat.

John Schall, "Restaurant industry's survival of coronavirus depends on regulating delivery app fees." Boston Globe, April 28, 2020.

In the United States, four restaurant delivery companies — DoorDash, GrubHub, UberEats, and Postmates — control 99 percent of the restaurant delivery market, a classic oligopoly. They have become an oligopoly because the technology they use to manage their delivery operations is expensive and proprietary. Once that technology is created, it can be used anywhere, so there are large economies of scale that make bigger national restaurant delivery companies more efficient than smaller regional or local ones. As a result, they, like all unregulated oligopolies, can set prices at an unfairly high level. The restaurants that purchase their delivery services have no choice about the price they pay for that service because all delivery companies charge the same price. In this case, it is between 25 and 30 percent of the total price of the food being delivered to the end-user, the individual customers ordering from their homes.

When a few firms, like UberEats and GrubHub, dominate the market and use their position to set prices at such a high level, it becomes not only desirable but necessary for public sector entities to intervene. The only way to protect restaurants and consumers from this unfair price setting is to regulate the prices those delivery companies are allowed to charge. The free market doesn't work in this instance, just like it doesn't work with electric companies, and regulated prices are therefore necessary if independent restaurants are to survive and prosper.

The need to regulate delivery companies is urgent at any time, but in the current COVID-19 environment the restaurant consumer is doubly and triply damaged. When restaurants are not allowed to have dine-in customers and can provide food for their customers only via take-out and delivery, they can no longer compete with the delivery companies regarding where their customers can consume their food. By public decree, diners can't consume it in the restaurants; they must retreat to their homes. Forced to rely solely on delivery for 70-80 percent of their sales, restaurants have experienced a meal revenue drop from 100 percent to 75 percent on those delivery sales.

As take-out dining increases, delivery companies amass even more power vis-a-vis their restaurant clients. Restaurants that weren't doing delivery or had delivery as only 5 to 15 percent of their sales are now doing 70 to 80 percent of their sales through the delivery companies. Rather than paying delivery companies 2 to 3 percent of their total revenue, they are now paying 15 to 20 percent. For restaurants which, even in good times average only 10 percent profit, this is unsustainable. If delivery company fees are not regulated now, even the restaurants that have managed to survive the COVID-19 shutdown may not survive the delivery company dominance over local restaurants. That will be a loss to the millions who depend on the industry for a paycheck and the millions more eagerly awaiting the chance to return to the experience of dining in at their favorite neighborhood restaurant.