



By Dustin Minton, CPA, MBA



Tips For Managing Delivery Costs

Remember way back when food delivery was only offered by pizza and Chinese concepts? Wow, have times changed, and the pandemic only accelerated the food delivery trend. Food delivery has provided a new revenue stream and marketing outlet to attract new customers, but at what cost? Convenience has always been essential to the consumer, but with the pandemic and safety concerns, food delivery became the only way for some consumers to continue patronizing their favorite restaurants. All of this is great for the consumer, but not so much for the restaurant operator. Rolling out a third-party delivery option is quite costly, as many third-party delivery services charge as much as 30% of the sales amount.

We all know restaurants run on slim margins, to begin with. Even the best well-run restaurant operators earn about 10 to 12% on every sales dollar (based on EBITDA), so an additional 30% third-party delivery cost is eating away much of the profits on these sales.

So what can you do to curtail these third-party delivery costs? Many factors come into play, such as concept size, sales volumes, and negotiation skills. Let's take a look at some of the options you can evaluate to drive more profitable third-party delivery sales.

- When negotiating your third-party delivery contract, pay attention to the details of what you, as the operator, can control and charge the customer.

- Can you determine what menu offerings are offered for delivery that may have a higher gross margin? Provide a limited menu of customer favorites.
- Can you charge a higher menu price than you would charge for non-delivery to offset the delivery fees? How will the customer react to this higher price?
- Can you require a minimum purchase for delivery? Can you set a maximum fee for delivery?
- Can you charge the customer a delivery fee to offset your costs in addition to what the third-party delivery service may be charging the customer?
- Another sensitive topic is who controls and has access to the customer data. There is a lot of data being collected to assist you in better serving and marketing to your customers.
- Solicit proposals from all major third-party delivery service providers, and compare and contrast their service offerings and fees.
- Do you partner with one service with an exclusivity clause to get a better fee structure?
- Do you utilize multiple services and negotiate the fees down based on competition?

Consider educating your customer and local authorities on the costs of delivery service providers. Many local city governments have enacted fee caps during the pandemic to help protect restaurant's bottom line - advocate for a fee cap with your local authorities. Through social media, you can educate your customer on these fees and communicate the ways in which customers can better support you through pick-up and carryout. Consider providing an incentive for the customer to pick up and carryout. Many operators are deciding to add a drive-thru option to their stores to allow more convenience. Provide coupons/promos for pick-up-only offers.

Does it make sense to do your own delivery? The pizza segment figured this out a long time ago and has developed a model that works. What can you learn from the pizza segment? Should you go down this route, there are many costs and risks to consider. Please reach out to your insurance agent to mitigate these risks. Additional costs to consider are delivery vehicles, labor, fuel costs, insurance, packaging, food storage, delivery tracking system, insurance and payment processing method.

These are just a few considerations as you evaluate your delivery needs. Convenience is the name of the game, and certainly safety issues, as we continue through this pandemic. New consumer habits are forming, and delivery is going to continue to be a game changer. The question is whether you will offer delivery services, and if so, how will you make it profitable and convenient to your customer.

Dustin Minton, CPA, MBA is the Director of Assurance and Business Advisory Services for GBQ Partners LLC. Dustin has over 20 years of public accounting experience, including 15 years working with many of the nation's fastest-growing restaurants and most well-respected brands across all segments of the industry, including franchisors, franchisees, independents, emerging brands, startups, and mature concepts. Since 2004, Dustin's main focus has been providing accounting and consulting services for privately held restaurants and franchisors. In addition to traditional audit, review and compilation services, he also consults with restaurants on best practices related to internal controls, benchmarking, franchise development, corporate structures, financing options, and growth strategies. Dustin can be reached at dminton@gbq.com.

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