# ORDER
## To Eat TRACKER

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# WHAT'S INSIDE

The United States restaurant market appears to be facing a bright future. Industry sales have seen a 4 percent increase so far this year, and trade group the National Restaurant Association expects overall sales to reach $863 billion by year's end. As competition in the space heats up, many restaurants are recognizing that they must offer new options to satisfy customers' cravings for convenience.

Recent data indicates that food delivery will become a significant part of many restaurants' earnings, with a projected compound annual growth rate (CAGR) of 6 percent by 2023. Many fast-casual eateries and quick-service restaurants (QSRs) are partnering with third-party delivery apps to cater to customers where they are — specifically, their homes.

Several large restaurant chains have heard the message and are using delivery services to provide such offerings. Artisan pizza chain MOD Pizza recently tapped delivery platform DoorDash to be its exclusive delivery partner, and fast food giant McDonald's began testing a new delivery partnership with Grubhub at approximately 500 of its New York City-area locations. Not every major chain is eager to partner up, however. Domino's has made it clear that it is unwilling to bend to third-party delivery app competition — at least for now.

Delivery is not the only way restaurants are connecting with consumers, though. The industry is also embracing loyalty and rewards programs as well as new ordering solutions to enhance customers' experiences.

## THE LATEST HEADLINES FROM AROUND THE SPACE

Many restaurants are turning to mobile-based loyalty programs to secure customers' allegiances. QSR chain Boston Market recently debuted its Rotisserie Rewards loyalty program through its mobile app. The program gives online and mobile customers one loyalty point for each dollar spent at its restaurants, and these points can be redeemed for free food or even full meals that can feed multiple guests. Boston Market is hoping the new program will encourage users to place orders through its app rather than through third-party delivery services.

Delivery service provider Grubhub is also taking a page out of the loyalty rewards playbook. The platform recently launched Perks, a loyalty system that offers customers redeemable points that can be used through the Grubhub and Seamless delivery apps. The program offers free food from chains like Taco Bell and Red Lobster.

Restaurant chain Big Boy is experimenting with a new fast-casual dining prototype in Southfield, Michigan, that eliminates sit-down service. Customers will instead place orders through counter menus and enhanced online and mobile ordering capabilities. The new concept restaurant, which also eliminates tipping for servers, is geared toward younger consumers who do not have time for sit-down dining experiences.

Learn more about how the restaurant industry is embracing new store models, loyalty programs and delivery partnerships in the Tracker's News and Trends section (p. 13).

### TACO BELL RINGS IN A NEW OMNICHANNEL ERA

Many restaurants are learning that they must meet customers' expectations regardless of which channels they use to place orders. Even larger QSRs, like Mexican-inspired food chain Taco Bell, are investing in new technologies and ordering experiences to please patrons who are used to speed and convenience. In this month's Feature Story (p. 9), Rafik Hanna, senior director of digital technology at Taco Bell, explains how the restaurant is utilizing digital self-service kiosks and its delivery partnership with Grubhub to provide more seamless and personalized experiences for both in-store and remote customers.

### DEEP DIVE: THE PROS AND CONS OF THIRD-PARTY DELIVERY PARTNERSHIPS

Third-party delivery apps such as DoorDash, Grubhub and Uber Eats are in high demand as customers seek to enjoy meals from their favorite fast food restaurants and QSR brands. Many restaurants work with such delivery services to more easily reach their consumer bases, but these partnerships can present their own issues, such as high order volumes. This Tracker's Deep Dive (p. 18) highlights the benefits and challenges that restaurants and QSRs face when using third-party delivery services.

# Executive
# INSIGHT

*Consumers can place food orders using voice technology from brands like Domino's and even facial recognition solutions from restaurants like CaliBurger. How do you expect such technologies to change the ways consumers order food?*

"Facial recognition is an ideal way to identify and authenticate an individual. The iPhone X is already employing the technology, and consumers are being trained to accept it. Since there is no physical interaction required by the end user, the technology could be deployed at drive-thrus, within cars and … in other hands-free ordering and identification situations.

The ways consumers can place food orders will move as fast as technology does. Facial recognition is the future. We are working on technology right now that will enable brands to recognize their best customers both in-store and virtually so that they can deliver top-notch experiences akin to those they delivered as single-unit operators — at scale.

The QSR business model relies on fast, convenient transactions. With facial recognition, we envision a world where consumers are recognized at the point of sale, can quickly reorder past favorites and — with AI — will be prompted [to view] cross-sell items that make sense, thereby increasing basket size. There's so much at stake here that larger brands have invested in or acquired tech companies to stay ahead of the competition. We're bringing that same technology to medium [and] large chains."

**TIM RIDGELY**

head of order and delivery at Paytronix

# ECOSYSTEM

**BUILDING CUSTOMER PROFILE**

## ACQUIRE CUSTOMERS

## ORDER

WEB · APP · STORE

## EAT

IN RESERVATION · OUT DELIVERY

PAYMENT

REWARD

REDEEM

PROMPT

ANTICIPATE REORDER

TARGET OFFERS

## IDENTIFY PREFERENCES

One-to-one offers via email • SMS • In-app messages • Push notifications • Geofencing
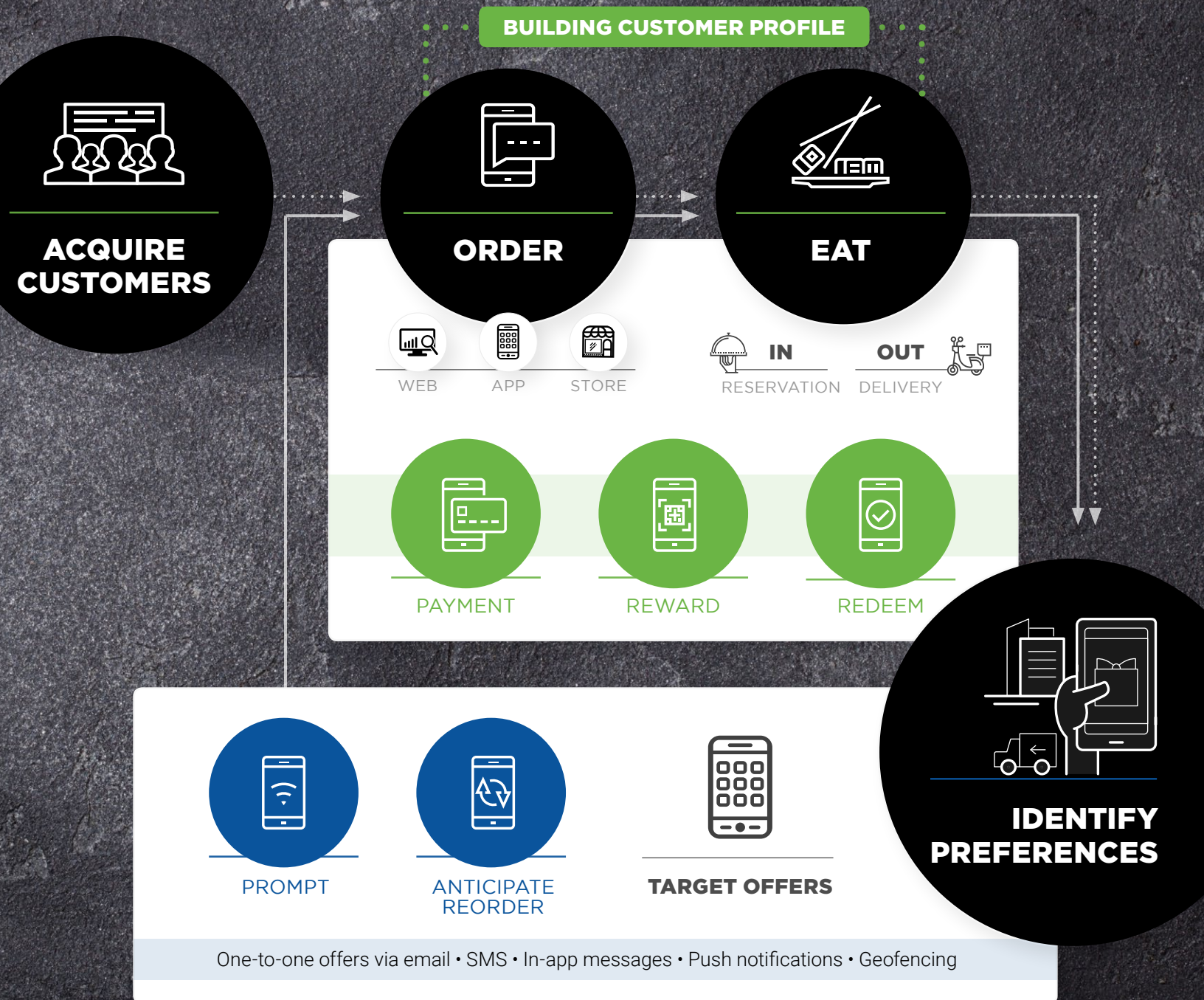
## 44M

Projected number of U.S. smartphone users who will utilize third-party food delivery apps by 2020

## 31.76%

Estimated annual growth rate of the global on-demand food delivery market from 2017 to 2021

## 80%

Anticipated rate of the restaurant industry's off-premises spending growth by 2025

## $863B

Predicted value of restaurant industry sales by the end of the year

## 6.5%

Projected CAGR of online food delivery revenue from 2019 to 2023

**FIVE FAST FACTS**

# FEATURE STORY

# Taco Bell's Strategy To Help Customers Own Their Ordering Experiences

Digital self-service kiosks and delivery options could help restaurants provide the seamless ordering experiences customers expect from their favorite brands. Several major QSR chains — such as McDonald's, Panera Bread, Subway and Wendy's — have recently stepped up their investments in self-service kiosks at their brick-and-mortar locations and have partnered with delivery platforms like DoorDash, Postmates and Uber Eats to increase their order volumes.

Taco Bell is also pursuing solutions to improve customers' in-restaurant and home delivery orders. The chain expanded its partnership with delivery service provider Grubhub earlier this year and is planning to install self-service kiosks across the 6,600 restaurants

in its network. Rafik Hanna, Taco Bell's senior director of digital technology, said these investments are geared toward improving ordering experiences for both in-store and remote customers. Hanna recently spoke with PYMNTS about how self-service kiosks and the company's Grubhub partnership are modernizing Taco Bell's ordering options and providing insights into customers' expectations.

### ENABLING CUSTOMERS TO 'OWN THEIR ORDERING EXPERIENCES' WITH SELF-SERVICE

Taco Bell rolled out its first self-service kiosk in 2015 and has since worked to offer the technology at additional

locations. The company plans to install them at all of its stores by the end of the year.

The kiosks feature 22-inch touch-screen monitors that allow customers to quickly place their orders and pay via credit cards, debit cards, gift cards and mobile wallets. They can also check out with sales associates if they want to pay with cash. Hanna said that Taco Bell's customers greatly approve of the kiosks, which help them more easily discover menu items and place personalized orders.

"Kiosks really help our customers to own their ordering experiences and make it easier to customize food the way they want it," Hanna said.

Kiosks are particularly beneficial to the chain's vegetarian patrons, who can use them to filter out meat-based menu items or order popular items and substitute meat ingredients with vegetarian options, like beans.

"With people trying to eat healthier, what's super clear for us is, with our kiosks, there is no easier way to order vegetarian," he said.

The kiosks not only promote new menu items and specialized foods, but they are also more inclusive. They offer multiple language options and are equipped with Americans with Disabilities Act (ADA)-compliant features that allow visually impaired users to plug in headphones and navigate the interface using audio cues.

## DELIVERING FOR HOME-BASED CUSTOMERS

The company also partnered with Grubhub to smooth its remote customers' ordering experiences. The collaboration began in 2018 and was expanded nationwide earlier this year.

"Consumers want what they want when they want it and where they want it," Hanna explained, adding that the move was crucial to providing improved ordering experiences.

The partnership saw the two companies work to integrate Grubhub into Taco Bell's point-of-sale (POS) system. The solution utilizes geofencing capabilities that alert restaurants when Grubhub delivery drivers

are nearby, allowing kitchen staff to prepare meals within minutes so that customers will receive fresh orders.

## ON THE OMNICHANNEL ROAD

Taco Bell is exploring other opportunities to further enhance customers' ordering experiences, regardless of which digital channels they use, Hanna noted. It is also beginning to invest in and test digital menu boards to offer drive-thru customers more seamless ordering experiences.

"In the past few years, there's been so much change and digitization of that customer experience in restaurants," Hanna stated. "We've been really intentional about making a dramatic shift to make Taco Bell experiences more digital."

These efforts are also geared toward smoothing kitchen operations and helping team members tasked with fulfilling these orders.

"We are becoming [an] omnichannel company like a lot of top retailers out there, and we're going to see that growth and modernization of our brand continue," he said. "We want to meet the customers where they want to be."

Digitization and modernization mean customers can place orders from almost anywhere, and QSRs must be ready to seamlessly fulfill their requests across a wide range of channels. Digital self-service kiosks and delivery partnerships are likely to play big roles in helping customers find their ideal ordering experiences.

# Under The
# HOOD

*Rafik Hanna, senior director of digital technology at Taco Bell, explains how the chain decides which technologies to invest in as it pursues a more seamless omnichannel experience.*

"We're doing a lot of things. We talk to customers all the time, we do focus groups, learn what they like about Taco Bell and our ordering experience and how can we modernize it make it relevant for them. We are always watching emerging trends, as many large competitors are doing in the space.

We are also keeping a pulse on [which technologies are ripe for investment] now and [which] could be really big ideas but aren't ready to leverage for our restaurants at this time. [This involves a] lot of analysis and assessment of what makes a great experience because we don't [want to invest in] technology for technology's sake.

The right solution can actually solve problems and make things better for customers and team members. There's a lot of change happening in our restaurants. We're making investments to improve the team members' experiences, and we're making investments to improve customers' experiences. Ultimately, we need to make the right investments and build a connected restaurant as opposed to doing these projects that are point solutions to solve different challenges. Building that connection is the hardest part, but it's also the biggest opportunity for us."

# NEWS & TRENDS

# Delivery innovations and changes

### MOD PIZZA PARTNERS WITH DOORDASH FOR ONLINE, MOBILE DELIVERIES

It is expected that 44 million consumers will be using third-party delivery apps by 2020, leading many restaurants and QSRs to partner with platforms that support fast online delivery orders. National fast-casual chain MOD Pizza recently announced an exclusive partnership with third-party food delivery service DoorDash, enabling on-demand deliveries for nearly 85 percent of the former's dining locations. The pair launched the collaboration with a promotion that included free delivery for all first-time users. The move is important for DoorDash, which is facing increasing competition from other third-party apps such as Grubhub.

### THIRD-PARTY APPS PUT PRESSURE ON DOMINO'S

The on-demand food delivery market is expected to grow at a rate of 31.76 percent until 2021, but pizza chain Domino's is not ready to share the delivery spotlight. The company currently has no plans to partner with third-party delivery apps, though a recent statement from CEO Ritch Allison noted that competition has put pressure on the pizza giant. He said the company's own delivery experience remains strong without any third-party assistance, but he does not expect the pressure to let up anytime soon.

Other company executives have made it clear that Domino's is not immune to third-party delivery competition, and Uber Eats and similar services may have contributed to the declining same-store sales the chain experienced last quarter. Domino's has made a few moves to counter such competition, however, including partnering with an electric bike company to offer deliveries.

### MCDONALD'S TESTS GRUBHUB PARTNERSHIP IN NYC

Fast food company McDonald's is forging additional third-party partnerships in a few new markets. The global chain is trialing a collaboration with Grubhub at about 500 of its New York City-area locations, according to a company statement. The move follows news from earlier this year that McDonald's had entered into a partnership with DoorDash in Houston, Texas, which it plans to expand to more than 10,000 restaurants nationwide. There is no word yet on whether McDonald's has similar expansion plans for its Grubhub team-up, but the chain has been working with delivery app Uber Eats — its first third-party delivery partner — for over two years.

# Mobile delivery and virtual restaurants

### BON APPETIT, GRUBHUB LAUNCH VIRTUAL RESTAURANT FOR DELIVERY ORDERS

Restaurant industry sales have reached $863 billion so far in 2019, but operating costs remain high. Online delivery is making it possible for some eateries to forgo physical locations, however. Food magazine Bon Appetit and Grubhub have designed a ghost kitchen that will fill only online delivery orders and feature

popular dishes from the former's magazine and on its Instagram feed. Consumers will be able to order lunch and dinner items online through the Grubhub app.

The concept restaurant does not offer a sit-in dining option but restaurant group Lettuce Entertain You Enterprises will provide a virtual storefront. The companies will roll out the offering in Chicago, skipping the initial operating costs of opening a physical location while testing out consumers' receptivity. There is no word yet on whether the pair will offer the ghost kitchen service in additional markets.

### FATBURGER TO USE LA LOCATIONS AS HURRICANE GRILL & WINGS GHOST KITCHENS

Other restaurants are approaching the virtual store concept a little differently. QSR chain Fatburger will utilize 15 of its Los Angeles-area restaurants as ghost kitchens for its sister brand, Hurricane Grill & Wings. FAT Brands restaurant company owns both QSRs, and cooks at participating locations will be trained to make dishes that can be found on either menu, according to company statements. The move effectively consolidates the brands without requiring FAT Brands to pay for additional storefronts.

Off-premises spending is anticipated to account for up to 80 percent of the restaurant industry's growth by 2025, and virtual kitchens might play a role in its progress. FAT Brands' kitchen experience is currently available only to consumers in Los Angeles, and the virtual Hurricane locations will initially limit the selection of items available for online ordering. Consumers looking to take advantage must order through third-party

apps, and deliveries are currently supported through DoorDash, GrubHub, Postmates and Uber Eats.

### STARBUCKS NOW EXPANSION GETS PICKUP STORE IN NYC

Starbucks recently announced that it will launch a new Starbucks Now store in New York City following the first-ever Now location's July opening in Beijing. The concept streamlines experiences for customers who are more familiar with mobile ordering and online delivery, using the store as a prime location for coffee and food deliveries as well as mobile order pickups. Starbucks Now will still offer traditional in-store experiences, allowing consumers to place orders with baristas.

The NYC Now location is currently in development and will be located in Manhattan. Similar stores are being planned for other U.S. cities including Boston, Chicago, Los Angeles, San Francisco and Seattle.

# Reward and loyalty challenges

### DELIVEROO LEAVES GERMANY AMID COMPETITION FROM JUST EAT, TAKEAWAY

Third-party delivery apps are facing more competition than ever, which is part of why United Kingdom delivery service Deliveroo has withdrawn from the German market. The app began operations there in 2015, eventually serving consumers in Berlin, Cologne, Frankfurt, Hamburg and Munich. It announced its decision to leave in August, adding that it will instead focus on

other European markets and its expansion efforts in the Asia-Pacific. This is the first time Deliveroo has left a market.

A company statement revealed that it has not completely ruled out a potential reentry into Germany, but it is facing growing competition from apps like Just Eat and Takeaway. The move surprised some in the industry, however: Deliveroo closed a $556 million USD funding round from eCommerce company Amazon prior to the announcement.

## GRUBHUB CREATES PERKS LOYALTY SYSTEM TO PROMOTE APP USAGE

New markets offer access to new customers, but restaurants and third-party delivery apps must work to retain them. Grubhub recently announced a new loyalty system, Perks, which will provide redeemable loyalty points to those who use the Grubhub and Seamless

apps. The former will use the loyalty system to connect consumers with local restaurants and brands, offering free products from chains like Taco Bell and Red Lobster. Participating restaurants can also utilize Perks to promote themselves on Grubhub's marketplace, providing free items or other rewards to repeat diners, according to a statement from Grubhub CEO and founder Matt Maloney. The company's loyalty offering comes as competition among online delivery providers increases, with Just Eat, DoorDash and others adding new partnerships and features to their apps.

## BOSTON MARKET OPENS NEW LOYALTY PROGRAM ON ITS MOBILE APP

Mobile loyalty and rewards offerings are becoming increasingly popular ways to help restaurants retain customers. Fast-casual chain Boston Market has

officially debuted its new Rotisserie Rewards mobile loyalty program, enabling users to interact with the system through its iOS and Android apps as well as online. Customers earn one loyalty point for every dollar spent on the app, and the points can be translated into rewards that range from free side dishes to holiday meals for up to 12 guests. Boston Market hopes that its loyalty program will entice users to order through its branded app rather than use third-party delivery services that offer competing food options.

### P.F. CHANG'S LAUNCHES NEW MOBILE APP, FORMS NEW REWARDS PARTNERSHIP

QSR chain P.F. Chang's recently released a new mobile app to help improve customers' ordering experiences, allowing them to place and pay for delivery and pick-up orders. The solution also enables customers to enroll in the chain's rewards program, redeem promotions and rewards and save and reorder favorite items, among other features. P.F. Chang's also transitioned its rewards program to the Paytronix platform, which will allow it to gain deeper data insights into customers' preferences and behaviors and find new opportunities to improve their experiences.

# Payment news and online ordering trends

### BIG BOY DEVELOPS FAST-CASUAL PROTOTYPE FOR MOBILE, ONLINE ORDERING

Restaurants nationwide are working to entice customers to use their services, and Big Boy restaurant group is among them. The chain has created a prototype restaurant in Southfield, Michigan, that removes the sit-down experience and in-person servers, meaning visitors do not have to tip. The new model allows customers to place orders with staff at the counter as well as through enhanced online and mobile ordering.

The move allows Big Boy to focus on younger diners and professionals who no longer have time for sit-down meals, according to a company statement, with the concept restaurant designed to meet modern consumers' needs as their eating habits evolve. The restaurant group has not yet shared specifics on how its online and mobile ordering experiences will look or which features they will provide.

### RESTAURANTS CLAIM GOOGLE'S 'ORDER NOW' FUNCTION IS EATING INTO PROFITS

Restaurants are protesting a function Google launched in May that allows consumers to order directly from the search engine using an "order now" button. The former are claiming the button is misleading customers by bypassing certain payment methods, which can significantly drain revenue. In many cases, the button links to payment options provided through third-party apps such as DoorDash or Postmates, which can charge commissions of up to 30 percent for deliveries.

Restaurants are also arguing that the button is harming their abilities to gain and retain customers, as users are likely to assume it is displaying all delivery options when it is not. They also argue that the button is creating confusion for customers who may encounter fees for online orders at restaurants that previously offered free deliveries.

# DEEP
# DIVE

# Third-Party Delivery Apps Face Growth Challenges

Delivery rushes can overwhelm restaurants and QSRs, but accepting food delivery orders online via third-party applications can provide critical relief. Such apps are becoming essential for restaurants as they serve customers who are now spending more on prepared food and deliveries than they are on groceries.

Home delivery is expected to grow about 6.5 percent per year by 2023 as consumers become more familiar with online and mobile ordering. Delivery customers also expect their food to arrive as soon as possible, and many restaurants are partnering with third-party delivery applications such as DoorDash or Grubhub to offer the convenience customers seek. Despite these services' benefits, partnering with them does not eliminate all of the problems restaurants face, and such collaborations can create challenges of their own.

Restaurants using third-party delivery apps must balance concerns such as delivery speed and customer satisfaction with significant boosts in order volumes that such apps usually create. These restaurants must consider higher food and labor costs as well as an increasing number of regulations. Growing competition among third-party apps themselves can also affect customer retention: DoorDash, Grubhub and Uber Eats are all fighting for the same customer bases. These consumers are increasingly inclined to relate the quality of their delivery or dining experiences to these apps, too, making it crucial that restaurants partner with the right third-party platforms.

## DELIVERY CHALLENGES AND INNOVATIONS

Online ordering and deliveries no longer represent a small segment of the restaurant experience, as 63 percent of all restaurant traffic now occurs off-premises. This means a growing number of consumers' first experiences with restaurants are enabled through mobile apps.

Third-party apps are responsible for a significant portion of this. Spending on apps like Grubhub has increased 200 percent per year in Atlanta alone, with millennial consumers leading the charge. Partnering with third-party apps thus comes with clear benefits for restaurants, but these shifts also come with drawbacks.

Restaurants must consider costs when choosing third-party delivery partners, as apps can charge fees between 20 percent and 30 percent. Such costs can take sizable chunks out of restaurants' profitable earnings, especially those of smaller eateries that do not have the option of hiring their own delivery drivers due to budget constraints.

Larger restaurants and chains are responding to this challenge in different ways. Fast food brand Jimmy Johns is rejecting third-party delivery entirely and is instead relying on its own drivers, while Panera Bread has come up with a hybrid approach. The latter's customers can order its food through third-party apps, but the chain's own drivers items will deliver the items.

Restaurants of all sizes must deal with other challenges, too, including the sheer volume of orders enabled through third-party apps. This can overwhelm restaurants' kitchens, forcing them to spend equal amounts of time and energy fulfilling orders for both in-house and home-delivery customers. Some owners describe the experience as running two separate businesses simultaneously.

These partnerships can also cause restaurants to see reductions in brand awareness, as customers are interacting only with third-party branding. This can be detrimental to new restaurants attempting to grow their consumer bases and cause problems if third-party services offer subpar experiences.

Customers expect to receive their food as quickly as possible, but third-party apps can take as long as 45 minutes to deliver a single order. These extended time periods can result in food deliveries that are either too cold or too warm, which may contribute to less-than-ideal customer experiences. Customers are nevertheless more likely to order through third-party apps when it comes time to deliver, however, meaning that these services are likely to have a larger stake in the market over the next few years.

## THIRD-PARTY COMPETITION AND ITS EFFECT ON THE RESTAURANT WORLD

The third-party delivery space is growing rapidly. Both Grubhub and Uber Eats reported earnings of more than $5 billion in 2018, with the latter looking to grow its food delivery revenue to $10 billion this year. Such growth means new challenges for the restaurants that are partnering with these services, however.

These restaurants must consider which apps will see continued success and which the competition will outpace. The prevalence of third-party apps is pushing more chains and QSRs to consider ghost restaurants, which do not have dine-in locations and instead solely offer deliveries.

Virtual restaurants are slowly but steadily growing, speaking to the ease with which customers order through mobile delivery apps. Third-parties will continue to play a large role in the space in the future, but restaurants may need to think about how they approach these partnerships to stay competitive.

# ABOUT

## PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.

## PAYTRONIX

Paytronix provides software-as-a-service (SaaS) customer experience management (CXM) services for restaurants. Its portfolio includes loyalty, gift and email solutions for fast-casual, fast food and QSR restaurants. Once implemented, these can be used to help establishments elevate their brand profiles. Its offerings can also be used to generate data insights to help restaurants pinpoint opportunities to improve their operations and customer engagements. The company's platform can integrate with many widely used restaurant POS systems. For more information, visit https://www.paytronix.com.

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