

Third-Party Delivery Services: Friend or Foe?

Third-party delivery services are changing the restaurant industry. While previously only restaurants serving pizza or Chinese food offered delivery, now customers expect to be able to get almost any food delivered to their home. Many restaurants have started working with third-party services instead of managing their own delivery, which comes with challenges as well as advantages. Here are some of the pros and cons that you need to consider before adding your restaurant to a third-party platform.

Disadvantages of Third Party Delivery Services

Restaurants are notoriously low-margin businesses and the cost of using a third-party delivery service can be prohibitive. These services typically charge a restaurant 30 percent of each sale, so when you combine this with a 30 percent food cost, plus a 30 percent labor cost, the margin is pretty low. Add your operating costs and the profit goes down to almost zero.

Each third-party delivery service has its own platform. These have to be integrated into your POS or, alternatively, you need to provide logins to your accountant to make sure they are capturing these sales. Additionally, each employee needs to be trained to operate the kiosk for each service and you have to find room in your service area to house that equipment.

What about quality control? Unfortunately, with third-party delivery, you're unable to control the condition in which your food reaches the customer. It might be the driver's fault that the food arrives cold, but your customers will hold your restaurant responsible. This puts your reputation on the line.

The CRA has also heard some anecdotal reports of food arriving partially eaten or otherwise tampered with. Some restaurants are now looking at ways to seal food containers for better food safety.

Benefits to Restaurants

However, offering delivery, either yourself or through a third party, can add a new revenue stream, increasing sales without having to add more seats to your dining room. Even if your margin on third party is low, the extra sales can potentially bolster your bank account and give you more cash flow.

The biggest advantage to accepting third-party delivery is as an additional marketing platform. Hopefully, new customers learn about your restaurant through the delivery company's app, try your food and at a later date come in to dine. Delivery services have a pool of thousands of customers who already order takeout

through their platform, giving them the ability to promote your business to those new customers.

Tips for Getting Started

Before starting with a third-party delivery service, be sure to get a baseline gross margin number. Monitor this every month to see if revenues fluctuate. Also watch your bottom line to see if profits rise and keep an eye on your cash position. Create a separate revenue account for third-party profits and losses and track these sales separately.

Then, check with each vendor to find out their service fee. Consider the fees along with each vendor's market share to determine the best option for you. Are third-party delivery services friend or foe? They can certainly make a difference to your business in terms of brand awareness and modest income, just invest a little time up front to ensure your business gets the most out of the service.

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