

Math on the go

Even as the popularity and relevance of food delivery has increased, F&B businesses have been evaluating the economics. The channel's impact on the topline is fairly evident—the challenge is to accurately assess implications on the bottom line.






There are two approaches to evaluating profitability. The first is a contribution-led approach. As most costs related to restaurant operations are fixed, delivery should only be assessed based on its net contribution, in other words based on revenue generated net of food costs and commission paid to the delivery partner. Hence, if the net contribution is positive—which is usually the case—the proposition is value-accretive to the restaurant.

The second approach is based on net profit generated by the food delivery business, considering its share of the costs proportional to revenue contribution. Some operators prefer to take this view, whereby the delivery side of the business will also bear its proportional share of the fixed costs: staff to prepare the food, kitchen resources and space used. While there is merit in the argument for allocation of staff costs, restaurant space is primarily created for the dine-in experience and delivery utilizes a small portion of the kitchen area.

The answer to assessing delivery economics may perhaps be a more granular approach. In this methodology, restaurants would carefully analyze and allocate individual costs to dine in and delivery segments based on appropriate metrics (for example, utilized store space, staff count), reviewing performance based on the merit of each proposition. With appropriate cost allocations and a proper evaluation of the economics, margins for delivery are likely to be in line with or better than that of outlet operations.

Illustrative income statement for delivery for F&B operator



	AED	Share of revenue
Food cost 	10	25%
Commission to delivery platform 	8-12	20-30%
Net contribution 	18-22	45-55%
Fixed costs (staff, rentals, etc.) 	12-16	30-40%
Net profit 	2-8	5-20%