Checking the Rear-View Mirror: The Online Food Delivery Industry

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Traditionally, the most common form of obtaining a takeaway meal was the typical scenario where a consumer called a restaurant, placed an order, and then picked up the food themselves. Alternatively, the restaurant would deliver the food to a household. With the rise of digital technology, the market was redefined. Online food-delivery (OFD) apps that offer consumers the convenience of ordering food by comparing the menus of different restaurants, ordering via the app, and receiving fast delivery of meals at a desired location, have changed consumer behaviours. The evolution of alluring, easy to use apps, and tech-enabled driver networks, combined with shifting consumer behaviour, has defined ready-to-eat food delivery as a major category.

In Australia, OFD services have increased in popularity and have fast become a common practice. From a global events perspective, evidence demonstrates the Covid 19 pandemic significantly accelerated the growth of the OFD industry. In 2020 and 2021, due to strict lockdown orders, OFD cemented itself as a most significant trend around the world.

According to IBISworld, the OFD Industry in Australia has grown an average of 20.6%, since 2014, and was estimated to reach $850 million dollars in 2022. Consumers have been presented with an array of OFD options which include major players such as Uber Eats, Menulog and Doordash, who spent a combined amount of $39 million in advertising in the first half of 2021. According to Roy Morgan research (2021), over 5.5 million Australians (26.5%) used meal delivery services in 2021. This was an increase from the 2019 figure of 3.9 million (19.0%) and the 2018 figure of 3.3 million (16.3%).

In February of 2022, the then Australian treasurer, Josh Frydenberg, warned Australians to brace for the rising cost of fuel and food as Russia's invasion of Ukraine caused shockwaves through the global economy. He stated, "Australia has little direct economic exposure to the Russian market, but we will be impacted by the headwinds that this will cause for the global economy". He predicted fuel and food prices would rise, flowing through to inflation. This prediction has now come to pass with fuel and food prices surging to record highs with unleaded petrol over $2.00 a litre.

Cost increases have also impacted Australia's farm sector on the back of hikes in energy and fertiliser prices (which are also a direct result of the Russia-Ukraine war). Australians reacted with shock when the cost of a lettuce recently skyrocketed to $12 a head (even if domestic issues such as poor growing conditions are also a factor here). Recent consumer price index data from the Australian Bureau of Statistics (ABS) shows food prices have had their highest year-on-year rise in more than a decade. ABS figures the annual rate of inflation soared to its highest level since 2001, with food prices up by 4.3 per cent over the year to March, and 2.8 per cent from the previous quarter.

Senior analyst at Rabobank Michael Harvey said "horticulture was a major contributor to the food price hikes, with vegetables prices up 6.6 per cent and fruit 4.9 per cent higher year on year. Higher cost of meat, seafood and dairy were also significant contributors to food price inflation in the quarter." The rising costs in petrol and food are set to put household budgets under real stress, as wages remain stagnant, and the cost of living continues to rise. Add the recent interest rate rises to this equation and it can be deemed to be the perfect storm. While pivoting towards OFD services may have been the logical choice during the pandemic, will the changing global environment substantially hinder consumer motivation to order food online?

Over the past two years, many Australians have prioritised convenience over cost. OFD platforms were a major beneficiary. However, food inflation has elevated costs at Australian restaurants. Research conducted by Technology business Square found an inflationary trend has emerged among standard choices including kebabs (15% more expensive than last year) and sushi (increased an average of 27%). Additionally, in response to the surging cost of petrol, OFD companies imposed temporary fuel surcharges on consumers, in an effort to appease disgruntled delivery drivers. The question now is whether Australians will pull back on discretionary purchases. A recent National Australia Bank consumer data report found that food delivery, online subscriptions and gym memberships are among the first things being cut as households tighten their belts.

The impact rising food prices may have on the OFD industry is essentially contingent on demand from consumers. Understanding consumer sentiment, and what they intend to do, will be a key factor for the OFD industry. However, as specific information related to OFD demand in the Australian market is not readily available, some insights have been drawn from the grocery market. A March 2022 survey of 1,005 Australians about groceries, commissioned by Savvy, identified 62% of Australians were concerned about rising food prices. The survey revealed that 48% would buy less while 56% would change to cheaper brands. A comparison was also considered in relation to the American market, the most recent monthly survey of food and beverage habits by Morning Consult found that fewer Americans report ordering takeout for delivery.

Despite the high levels of public economic pessimism that may currently exist in the Australian market, there is still some level of optimism. A key finding of an 11 country Ipsos survey found that a majority of Australians (52%) say "they are financially comfortable" and that inflationary pressure will not change their behaviours. This suggests that while consumer demand may slow down, discretionary online food demand won't grind to a halt. Australian OFD companies rode the wave of the pandemic and will now have to adjust to the realities of current global influences. However, it is reasonable to conclude that while higher prices will squeeze consumers at the bottom, the top end of the wealth scale may not need to curb spending thanks to soaring home equity and fattened savings.

For OFD brands, displaying empathy toward consumers who are feeling under pressure and expecting further cost increases across a broad range of products will be important. There are clear signs inflation is likely to prompt consumers to re-evaluate their spending, starting with luxuries and discretionary spending, but many consumers will try and preserve their overall standard of living. Added value will become increasingly important in this category, leaving OFD companies to keep an eye on their rear-view mirror and check what other global factors may be sneaking up behind them.

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