

JUST EAT/HUNGRYHOUSE MERGER INQUIRY

Summary of evidence from interviews and hearings

1. Between February and July 2017, the Competition and Markets Authority (CMA) held interviews and hearings with various companies providing online takeaway ordering and food delivery services to restaurants and consumers. The purpose of these discussions was to understand the nature of competition in the UK for restaurants and consumers; the various business models and business strategies of the key players in this sector; the negotiation process involving restaurants; the expansion plans of these companies and how the market could evolve post-merger (as well as absent the merger).
2. In the following paragraphs, we synthesise the key points that were made in the course of these discussions.

Background/market definition

3. Two competitors said that they provided services to three categories of customers: (a) restaurants, which gained access and an opportunity to deliver food to consumers; (b) riders/couriers, who gained access to a platform that allowed them to deliver food to the consumer; and (c) consumers, who gained access to a selection of local restaurants to choose from and obtain a delivery service.
4. Competitors said that Just Eat and Hungryhouse operated similar business models and provided a similar offering to customers. Two competitors told us that they operated a different business model to the Just Eat and Hungryhouse models. They considered that Just Eat and Hungryhouse were pure marketplace models where delivery was separate and in many cases provided by the restaurants themselves, while they offered access to a delivery service by which consumers could order and get delivery from the same platform.
5. One competitor believed that its business model was different from Just Eat's business model because it offered a curated service (where curation was about making sure it offered the best selection of good-quality restaurants and high-quality food to consumers) while Just Eat was based on a marketplace

model. This competitor also told us that there was difference between a technology business which was focused on providing a good, high-quality food delivery service and another business which operated in the wider online ordering space and had leveraged their logistics capability to provide food delivery.

6. One competitor told us that Just Eat and Hungryhouse seemed to have a different consumer and restaurant base compared to it; while Just Eat and Hungryhouse focused more on takeaway restaurants, this competitor's primary focus was on dine-in restaurants (even though it also had some takeaway restaurants on its platform).
7. One competitor which operated a marketplace model told us that it compared itself to its direct competitors providing online food delivery platforms and also analysed the online part of the activities of brands like Dominos and Pizza Hut.
8. One competitor told us that, while it looked at the logistical market where Deliveroo, for example, operated; it considered this to be an adjacent business to, and not necessarily the same business as, the online takeaway ordering business. This competitor explained that the suppliers with logistics capability were creating a new segment which did not exist previously (ie providing delivery to restaurants that did not have delivery).
9. One competitor indicated that it had undergone a period of growth over the past year and was looking to continue its growth over the next 12 months both in terms of the restaurants that were on the platform and the use of the platform by consumers (both in terms of first time users and frequency of use of existing consumers).
10. Competitors had various approaches to advertising, where these included national campaigns as well as local marketing initiatives.

Competitive effects of the merger

Counterfactual

11. Competitors told us that there had been several acquisitions in the industry over the last few years. One competitor told us that it expected more consolidations in the next few years, as businesses coming into the industry increasingly realised that it posed different challenges than they had foreseen.
12. One competitor told us that finding buyers for an online takeaway ordering business should not be complicated as there would likely be interest from:

- (a) the four largest online takeaway ordering platforms globally (ie Takeaway.com, Delivery Hero, Just Eat and Grubhub);
 - (b) platforms with adjacent business models (eg Deliveroo, UBER, Amazon);
and
 - (c) private equity firms (taking into account that the valuations for food delivery marketplaces were not too high).
13. One competitor told us that it had been involved in a number of acquisitions in the last three years and in most cases, it had competed against other prospective buyers.
14. Three competitors told us that Delivery Hero did not approach them about potentially acquiring the Hungryhouse business. One competitor told us that it would potentially have been interested in acquiring the Hungryhouse business if it had been approached and that it had previously looked at acquiring the Hungryhouse business before it was acquired by Delivery Hero.

Nature of competition

Consumer side

15. One competitor told us that it had strived to ensure its app provided the best service to consumers. This competitor had come across users who shifted from one platform to the next in real time and it believed that these users, who tended to be fairly educated in technology terms, made their purchasing decisions based on what restaurants were available near their geographic location on various platforms at any point in time. This competitor told us that it was also aware of a slightly larger number of people who had essentially developed a habit of using a particular app and had not sought to use other apps to test and see if there could be a better selection of restaurants elsewhere.

Restaurant side

16. One competitor told us that it had good insight tools which allowed it to work with restaurants and help them understand what they needed to do to increase order values and the frequency of orders. One competitor told us that it monitored its competitors, to understand how they operated and how they approached the market.
17. In its discussions with restaurants, one competitor had come across exclusive contracts that existed in the market. These contracts meant that restaurants

would not be able to work with another platform for a given period of time and in exchange the restaurant would probably get a reduction in the service fee.

Feedback loops and the issue of tipping

18. Two competitors did not see the market as a 'winner takes all' market. One competitor told us that it did not see strong structural reasons why multiple players could not co-exist and compete profitably, as in other industries (with online platforms), because some of the fundamental success factors seemed to lean towards multiple players. Another competitor told us that business models based on a pure marketplace approach and business models involving food delivery should be able to co-exist because consumer tastes were at both ends. Another competitor told us that it would be possible to be profitable as number two in the (UK) market, although this would require a reduction in marketing expenditure which would potentially impact in the long term on the growth of the business.
19. Two competitors told us that business growth was achieved through a combination of gaining new consumers (ie customer acquisition) and repeat purchases by existing consumers (ie customer retention). One competitor noted that it would therefore be impossible to overtake the market leader in a situation in which the market leader was, for example, ten times the size of the challenging platform.

Entry and expansion

Expansion plans

20. Competitors told us that there were various factors considered when deciding whether to launch in a new area including:
 - (a) the population density;
 - (b) customer demand for specific cuisine types;
 - (c) existing restaurant (and rider/courier) supply in the area; and
 - (d) the FSA rating of the restaurant.
21. Competitors indicated that they required a commitment of a minimum number of restaurants before launching in a specific area. This number would vary depending on the area.
22. Competitors told us that online takeaway ordering (OTO) platforms used algorithms and metrics to analyse consumer behaviour on the app and website and this analysis was used to offer the consumer the best experience.

23. Two competitors told us that they expected to expand geographically in the UK in 2017.
24. We were told that, when considering expansion, there was a clear interplay between the number of orders and the number of delivery partners required in each local area and so both of these needed to grow, in addition to the number of restaurants on the platform. Additionally, payment levels were critical for couriers to be attracted to and/or stick to one platform. The revenue earned per hour (which is a combination of the number of deliveries and the individual earnings per delivery) was very important.

Market/industry evolution

25. From a consumer perspective, one competitor saw demand for food delivery growing over the next two to three years. Another competitor told us that it considered the contestable market in Western Europe to be a large portion of the population as most people (approximately 70% of population aged 16 and over) order food at least once a year.
26. Competitors told us that there were a lot of players operating in the industry, including smaller ones as well as the possibility for emerging players to enter the industry at different levels. They told us that the market was dynamic and the delivery business was still young with multiple players competing to expand faster than the others.
27. One competitor noted that it was difficult to speculate as to how the industry would evolve, taking into account the number of changes in the offerings of OTO platforms it had seen some in the last 18 months to two years. For instance, while some OTO platforms that had provided delivery networks had widened the scope of their offering to access different types of restaurants; others had offered kitchens and other similar facilities within desirable locations and were looking to provide delivery from those areas. Other OTO platforms had looked at links where they were not only providing cooked food but were providing ready meals prepared by the restaurants.
28. One competitor told us that innovation in the industry could be viewed across a variety of different aspects; for instance, innovations which were consumer facing, innovations which were restaurant facing or innovations focused on logistics (ie in terms of collection and delivery of orders in the most efficient way possible). It was difficult to say which of these was most relevant as the various players in the UK worked in slightly different ways.