

# The rise of Europe's virtual restaurants

Inside the booming market for online food delivery



Produced by

sifted / FT

# Contents

---

**2**

**Foreword**

---

**3**

**What's  
cooking?**

---

**4**

**Market map**

---

**5**

**Welcome to  
the virtual  
restaurant**

Europe's food delivery industry  
is in the midst of a pandemic-  
enabled disruption

---

**9**

**The mad dash  
to be Europe's  
digital kitchen  
leader**

We lay out the various  
approaches taken by startups  
with little or no high-street  
presence

---

**15**

**The future  
of virtual  
restaurants**

With many players offering  
different combos of facilities  
and services, is there space for  
more than a few big winners?

# The rise of Europe's virtual restaurants

*The rise of Europe's virtual restaurants* report looks at the trends and startups powering change in the ever expanding food delivery sector.



# Foreword

---

At Flipdish we're passionate about helping people who are passionate about food. Our platform, products and services have empowered thousands of culinary businesses to adapt to digital disruptions and embrace services like QR code table ordering, SMS, mobile apps, online ordering and digital kiosks.

Looking ahead, we know one of the next big trends that will impact our customers is the meteoric rise of virtual kitchens, a category that prior to Covid-19 was slowly building momentum but, as a result of the pandemic, has seen its growth supercharged.

So, in partnership with the smart folk at Sifted, we're excited to share this 'State of the Nation' for virtual kitchens in Europe. It aims to assess the size, shape and scale of the market and profile the key players – people and companies – and business models that are currently setting the pace.

It is our hope that this report will provide our customers and the rest of the European food delivery industry – restaurants, pubs, hotels, investors, marketplaces, startups and scaleups – with a deeper understanding of where this burgeoning market is today and where it might be going next.

The businesses that face into disruption, re-imagine their business models and pivot their operations quickly will reap the rewards in the virtual kitchen space. Whether you're an entrepreneur excited about starting your own virtual kitchen or a restaurant owner plotting a virtual spinoff, this report is a great place to start.

**James McCarthy, chief commercial officer and cofounder, Flipdish**



# What's cooking?

---

It seems likely that the pandemic has changed the way we order food for good. Like most industries, the restaurant business has been upended by Covid-19, resulting in layoffs, revenue drops, and emptier buildings.

The dire situation has forced restaurateurs to get creative. In this report, we chart the staggering rise of a new crop of European startups reshaping the restaurant industry — and how we eat — by inspiring digital-only establishments that exist solely for delivery.

Increasingly, anyone can compete with high street restaurant chains to sell hot takeaways or ready-meals. It turns out you no longer need a physical restaurant. You just need to get yourself a kitchen, or part of one. Having a thriving social media presence helps too — just look at the American Youtuber who launched a 300 restaurant empire virtually overnight.

Delivery-only kitchens - sometimes known as ghost, cloud or dark kitchens - existed before the pandemic, but are multiplying now, and taking many new forms.

Lockdowns may be lifting, but investors remain bullish on the promise of these startups. The early valuations for virtual restaurants in Europe are eye-watering; so, too, is the ambition behind them. Take Spanish food delivery platform Glovo, for example, which counts over 235 million orders delivered to 876 cities in less than six years.

“Our mission is to create the ultimate food company of the digital era,” says Anton Soulier, founder of French rival Taster. “We want to create something that’s as disruptive as Airbnb for the food industry.” In Paris, Taster’s online restaurants are the third restaurant group on delivery app Deliveroo behind McDonald’s and Burger King.

In this report, we pull back the curtain on Taster and other restaurants in the virtual vanguard in Europe, and hear from creators and experts on where the fast moving sector is going next. Many are optimistic, but some are sounding notes of caution. “There are some hard lessons to be learned in this segment of the market over the next five+ years,” according to one analyst.

# Market map

Fully physical



## KITCHEN SPACE RENTAL



## ...WITH A VIRTUAL ASPECT



## OPERATE THEIR OWN DARK KITCHEN + DEVELOP A VIRTUAL BRAND



## LICENSING ONLY



Fully virtual



IMAGE: Taster

## Chapter I

# Welcome to the virtual restaurant

Meet the European startups piling into the online-kitchen game

---

### THE NEW HUNGER GAMES

Futurists have long speculated what the restaurants of tomorrow will look like. But the world got an unexpected sneak preview in 2020 as the Covid-19 pandemic swept across the globe. With restaurants and non-essential retail closed to limit transmission, the food sector was left to seek out new ways to connect with its customers. For many, the answer lay in the digital realm.

There are no tables and chairs in a virtual restaurant. No mood lighting or music. No waiters to ask about the menu, or bar staff shaking up the latest cocktail. Food's digital revolution was not unexpected but it did happen faster than anyone could have imagined. "The restaurant industry hasn't changed for hundreds of years," Carl Tengberg, cofounder of Stockholm-based startup Curb Food, says. "Data and technology has revolutionised most industries around the world,

but not the family-run restaurant. It's still very artisanal, very day to day. [But] there are now so many ways to become more creative and to serve your customers better."

Launching mid-way through last year, Curb Food raised €3.2m from EQT Ventures at the tailend of 2020 and a further €20 million in a round led by Point72 Ventures in June 2021. Tengberg and his team create data-led food brands designed for delivery, using their four dark kitchens (so-called because they do not typically interact with customers) in Sweden and Denmark. Tengberg and his cofounder Felipe Gutierrez both previously worked at the multinational food-delivery giant Delivery Hero but saw an opportunity to raise the bar with delivery food – both for the customer and the producer.

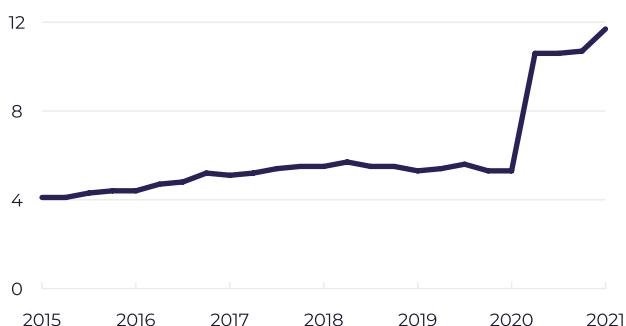
Curb Food's offering continues to evolve but there are currently eight brands that exist solely for

delivery, including loaded pizza squares with Italian Sin, gourmet burgers from Smash, super-food, super-Instagrammable Candie salads, and crispy chicken wings from Bah-gawk. “Customers will see all of our concepts developing tremendously over the next couple of months. I also expect them to see many more,” Tengberg adds. “There are a lot of priorities [in order to make this work]. But you’re only as good as your last dish.”

## Covid more than doubles online food spend, and it's sticking

UK case study: % of food spend that is online

SOURCE: ONS



### ‘SUPER SLIM MARGINS’

For food entrepreneurs, launching a virtual brand can be a low-cost, low-risk way to trial new concepts, reach new audiences and – during lockdown at least – keep the revenue flowing. Overall, food delivery in Europe is worth an estimated €24.3bn, with an expected 262% year-on-year growth in fundraising for early-stage food delivery companies. The customer demand is also there – during 2020, consumer spending on takeaway delivery company Just Eat rose by 54% and by 64% on its rival Deliveroo.

But creating a successful virtual brand is not as simple as putting an existing bricks-and-mortar restaurant menu onto a delivery platform. “[People think] you can set up in a dark kitchen, create your brand, and that’s it – you’re live,” Anton Soulier, founder of the digital restaurant platform Taster,

says. “But creating brands in general, not just in food, takes a lot. You need to have an amazing menu, amazing pictures, a very strong presence on social media. You need to have all these touch points with the customers that give them reassurance about the quality of the product. Traditional restaurants’ main marketing is their location, ours is digital marketing.”

“At the end of the day, it’s food and if the food is not good, people won’t come back,” Yacine Ghalim adds. He’s a partner at the consumer technology VC Heartcore Capital and was part of Taster’s \$8m Series A investment round in 2019. Once you have a good product, he says, it’s all about optimising operations. “The margins are super slim. One or two percent in costs make a huge difference. You need to optimise for the product, the ingredients you use, your economies of scale, your supply chain. The devil is in the detail in this space.”

London-headquartered Taster has 10 dark kitchens in Paris, London and Madrid, delivered 1 million meals in 2020 and saw revenues double compared to the year before. Soulier, a former Deliveroo executive, has worked with chefs to create six digital food brands, including Out Fry, which serves Korean fried chicken; Mission Saigon, for Vietnamese food; and A Burgers, a plant-based take on a fast-food favourite. Brands that don’t stand out, won’t do well on the delivery platforms, Soulier says. He’s already discontinued one Poke bowl brand, for example, because the market quickly became crowded. “It’s such a simple type of cuisine that it’s hard to bring a lot of value,” he adds. “They’re all a bit of the same.”

**“Creating a successful virtual brand is not as simple as putting an existing bricks-and-mortar restaurant menu onto a delivery platform.”**



While there aren't physical storefronts to attract passersby, where virtual brands stand out is the depth of customer insights about what's working and what's not. Digital restaurants will typically keep their menus very streamlined – setting up new brands rather than expanding the range – to stand out on the delivery platforms, expand their appeal and revenue. “If you look at a bricks-and-mortar restaurant, they might have up to 500 customers in a day on a busy site,” Stefan Cosser, cofounder of the food consultancy Egg Soldiers, says. “With a virtual brand you're doing a lot less than that, especially if it's an unknown brand. You might do 50 orders in a day. That's not a lot really, especially when you're paying the delivery platform, your staff, for ingredients, and other costs.

“Creating a spin-off virtual brand allows you to tag it differently, portray your food in a different way online and therefore attract a different customer,” Cosser adds. Experimentation is the order of the day for the virtual restaurant: operators can change and update brand names, logos, menu items, and menu photography as they see fit.

Some may take it too far. One Reading restaurant was recently criticised for flooding the market after operating 40 Indian-food brands across Deliveroo and Uber Eats from one premises.

## INFLUENCER-LED BRANDS

Other food delivery startups are working with celebrities and influencers in an attempt to cut through the noise. Done right, it can work well. In December, 23-year-old American Youtuber MrBeast (who has over 64 million subscribers on the channel) launched a digital hamburger brand and ordering app at 300 dark kitchens across the US. The app surged to the number one spot on Apple's App store and within the first two months, he'd sold more than a million hamburgers and expanded to Canada and to the UK.

The company behind the concept, Virtual Dining Concepts, is the brainchild of Planet Hollywood founder Rober Earl, who is on a mission to build a virtual delivery-only restaurant empire. Other



IMAGE: Virtual Dining Concepts

partnerships include cookies with Mariah Carey, Tyga Bites with hip-hop artist Tyga, and Flavortown Kitchen with celebrity chef Guy Fieri. Others are signing partnerships of their own – fast food restaurant Jack in the Box recently announced it was launching a virtual restaurant in collaboration with Jason Derulo. The benefit of partnering with celebrities to create a virtual food brand is obvious. They have a ready-made audience of fans and can provide countless marketing opportunities.

In the UK, influencer-led brands are becoming a core part of Kbox Global's offering this year. The London-based startup has developed 30 brands and will licence a subset of these to kitchens with spare capacity. “We have limitations in our host kitchen networks,” founder Salima Vellani says. “We can't create Michelin-starred food, but we can co-create innovative food, backed by and marketed by someone with influence.” Currently, Kbox is speaking to sports stars, music icons, YouTube and TikTok influencers, as well as actors and fashion brands. “Some are very famous, others I've never heard of because I'm in a different age group,” Vellani adds. “Nobody has said no so far.”

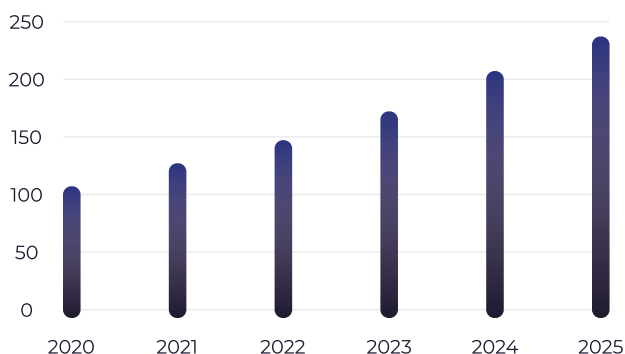
Taster is also in the midst of its own conversations. Already, the company has consulted with Tim Anderson, winner of MasterChef UK in 2011, for some of its menu items. Soulier isn't surprised the

food sector is exploring influencer marketing, believing it's a natural step in its digitalisation journey. "It's really the beginning," Soulier says. "When you think about fashion 20 years ago, digital brands started working more and more with influencers, personalities and ambassadors that were endorsing brands... food and restaurants are really just transitioning towards the world of the internet."

## The market size for food delivery apps is expected to double by 2025

Projected global food delivery app market value (\$bn), 2020-2025

SOURCE: CB Insights, Statista, Research and Markets



## VIRTUAL BRAND STIGMA?

The proliferation of dark kitchens and virtual brands has not been without its controversy. When Deliveroo first launched its take on dark kitchens, called Editions, in the UK in 2017, there were complaints from local residents about cooking smells and delivery driver traffic, as well as issues around planning. Others criticised the working conditions of the windowless sites – Napoli pizza chain Franco Manca, for example, pulled out after staff complained of being “cooped up like battery hens”. One columnist likened the influx of new modular kitchens to “satanic mills”. Media attention was also paid to the idea that meals from a high-end restaurant were actually being made in dark kitchens next to fast-food favourites Honest Burger and Shake Shack.

**“In a sector that’s expected to be worth \$230bn by 2025, food delivery has a lot of people excited.”**

Still, Sebastiaan DeBrouwere, a VC investor at Balderton Capital, which led a £12m investment round in Kbox in 2020, believes there isn’t the stigma there once was. “The idea that you could order an Ottolenghi [a London restaurant chain] that wasn’t made in an Ottolenghi restaurant once felt a bit uncanny and a bit like a lesser experience to many consumers,” he says. “Over the last year that distinction has hugely faded. People are starting to see equivalences in those experiences.

“One of the really big questions about dark kitchens was whether you could get the same food quality and operations,” DeBrouwere adds. “We’re now seeing a lot more virtual-first brands, with good quality processes around that.”

## ‘THEY THOUGHT WE WERE CRAZY’

In reality, it’s unlikely that dark kitchens and virtual brands will replace bricks and mortar restaurants entirely. But in a sector that’s expected to be worth \$230bn by 2025, food delivery has a lot of people excited. “We’re not really competing against restaurants because when you want to go out to eat with friends, you’re not choosing between staying home or going out,” Soulier from Taster says. “I think the choice is more around, am I going to order on Deliveroo or Taster, or am I going to cook for myself?

“Really our mission is to create the ultimate food company of the digital era,” he adds. “We want to create something that’s as disruptive as Airbnb for the food industry. In 2017 when we were talking to VCs, they thought we were crazy. Thanks to the pandemic, now everyone gets it.”



IMAGE:  
Kitchen Republic

## Chapter II

# The mad dash to be Europe's digital kitchen leader

An increasingly crowded space sees companies pulling new tricks to stand out

The pandemic may have accelerated the pivot towards e-commerce for restaurateurs, but the first dark (or ghost) kitchen dates back to 2013 in New York. Eight years later, there are an estimated 1,500 dark kitchens in the US and 750 in the UK. Even pre-pandemic, 52% of global consumers said they felt comfortable ordering from a delivery-only restaurant, and up to 80% of 18-39 year olds were ordering food via an app at least once a week. Market research group Euromonitor predicts dark kitchens could capture 50% of the takeaway market over the next decade.

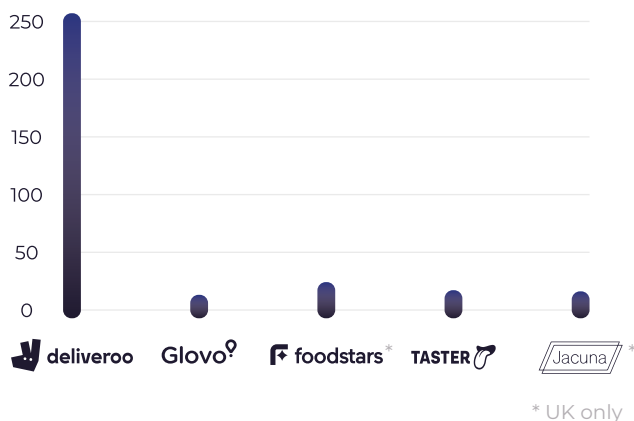
For entrepreneur Salima Vellani, her journey into the dark kitchen world began in 2015, when she opened a premium chicken restaurant, Absurd Bird, in London. Despite doing a

respectable amount of trade on site, it was the delivery side of the business that was booming. The team added new ingredients, new menus and launched new brands purely for delivery. Vellani would soon be approached by a large UK leisure operator who asked if she'd like to trial expanding her delivery reach using their kitchens. A pilot using five sites quickly expanded to 100 within two months and Kbox Global was born.

**“Dark kitchens could capture 50% of the takeaway market over the next decade.”**

## European companies with the highest number of dark kitchens

SOURCE: Company records



In a world where the competition is fierce and margins are notoriously thin, Kbox (kitchen in a box) has developed 30 brands and will rollout a subset of these to kitchens across the UK. “We’re working with hotels, pubs, universities, restaurants, supermarkets, catering kitchens, stadiums,” she adds. “If there’s an underutilised kitchen in the right location, with the right staff and health and safety, we can work with them.” The core of Kbox’s business involves providing the technology to help kitchens run more efficiently, upskilling the chefs on site with training, and providing insights to help host kitchens forecast demand and improve profitability.

After picking up an additional £13m to expand operations beyond London, Manchester, Liverpool, Glasgow, Edinburgh and Brighton, Vellani is on course to open 2,000 kitchens by mid-2022. There are also plans to export the concept to the US and Canada. The pandemic has been “virtual brand mayhem”, she adds. “We thought we’d get here in five years, but we got here in five months.”

### FRANCHISE MODEL

Taster has also started franchising its virtual brands after spending three years perfecting its approach. In Paris, it’s the third biggest restaurant on Deliveroo’s platform, after McDonald’s and

Burger King, and is now working with more than 30 restaurant partners across France and the UK. “We realised our model was very franchisable because it requires very minimal real estate and very minimal investment,” founder Anton Soulier says. After a new \$37m investment round, his goal now is to expand from 11 European towns and cities to 40 by the end of 2021, and to reach 10k digital restaurants by 2025. They’ll keep the 10 dark kitchens they already have, using them for training and testing new menus, but won’t open any more.

“Most of our partners are young entrepreneurs who have an ambition to launch virtual brands, but it’s tough,” he adds. “Our advice to them is, start with us. We’re going to teach you how to do it.”

Taster now offers five virtual brands in its “digital street food court”. There’s Taiwanese food from Bian Dang; katsu chicken sandwiches from Stacksando; Vietnamese cuisine from Mission Saigon; Korean fried chicken from Out Fry; and “unapologetically vegan” burgers from A Burgers.

**“Most of our partners are young entrepreneurs who have an ambition to launch virtual brands, but it’s tough.”**

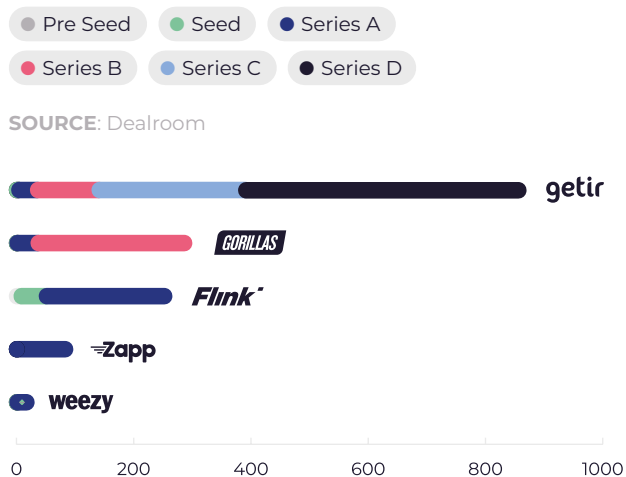
Anton Soulier  
Founder, Taster

Restaurant partners are charged a commission but in exchange benefit from Taster’s digital marketing expertise, supply chain (including buying ingredients through Taster) and technology to deal with orders as they come in from various delivery apps. Soulier estimates the restaurants they work with make around 20% net profit. “Some partners have told us they wouldn’t have survived the pandemic without us,” he adds.



## On-demand grocery startups are raising more cash, faster

Europe's top five on-demand grocery startups by VC funds raised (€m)



2019), Jacuna Kitchens and Karma Kitchen. These startups lease fully kitted out commercial kitchens in neighbourhoods that are close to existing or potential customers.

That was the thinking behind restaurant chain Byron Burger's decision to move operations to four dark kitchens in London and Birmingham last September. The chain had previously worked with Deliveroo but deliveries had not been a significant portion of its operations. That changed when remote working caused footfall in city centres to plummet. Dark kitchens offered the established restaurant a way to adapt quickly to shifting trends. "We looked at how we could take advantage of suburban business where we have historically not had restaurants," CEO Simon Wilkinson explains. "Taking a product to the consumer, rather than the consumer to the product is certainly a trend."

## TAPPING NEW NEIGHBOURHOODS

For those that don't already have kitchen space (albeit underused), or who want to expand into new areas, there are startups focusing on the real estate side of the table. In the UK, as well as Deliveroo Editions, there's FoodStars (which was bought by former Uber CEO Travis Kalanick in

They're not the only household food brand trying it out. Over the past year, McDonald's, Burger King, and Dishoom have all opened or used dark kitchen facilities, and executives at sandwich chain Pret A Manger plan to open between five and 10 sites in the UK to make food for delivery. During the pandemic, Pret's delivery menu sales were eight times pre-Covid-19 levels and overhead costs were much lower for its dark kitchen operations.



IMAGE: Jacuna Kitchens



IMAGE: Kitchen Republic

## WEWORK FOR KITCHENS

Karma Kitchen's cofounder Eccie Newton estimates that costs for operators using dark kitchens, which face fewer permitting requirements, can be up to 30% less than a traditional restaurant premises. That makes it a lower barrier to entry for new food entrepreneurs and gives more freedom to experiment. At Karma Kitchen, which Newton describes as 'WeWork for kitchens', partners choose from shared workbenches, private kitchens and production units, select an eight-hour shift (or 24-hour access), and number of days per week they want access to the kitchens for. Plans include pot wash and porter kitchen service, knife sharpening, equipment and machinery, cold,

frozen and dry storage, plus a marketplace for ingredients, packaging and other basics, with discounts from local suppliers.

Like Vellani, Newton and her cofounder (and sister) Gini Newton, developed the concept from their own experience running the lunch delivery company Karma Cans. In 2020, the pair sought £3m investment to expand their offering and acquire new sites. They raised £252m, the biggest Series A round in Europe that year. "People think it's a typo," Eccie Newton told Sifted at the time. "It's not a typo."

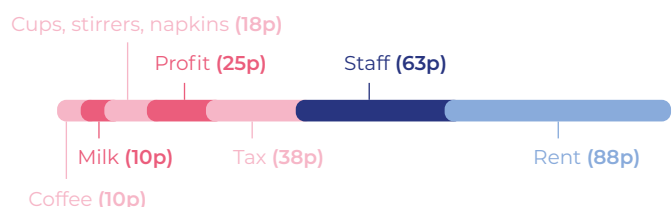
The cash injection will allow the Newton sisters to acquire, equip and manage 53 kitchen sites across Europe in the next five years. While the pandemic has turbo-charged interest in this model, Newton doesn't believe it is reversible. "Restaurants hadn't considered delivery beyond using Deliveroo and Uber Eats from their home sites," she says. "They're now seeing value in secondary sites with diversified revenue streams, tapping into different parts of the market. It helps them build resilience into their economic model."

She estimates that up to 90% of their kitchen tenants are doing something with delivery – although not always with the big players. Hot 'n' Juicy Shrimp LDN for example, is selling direct to consumers via its website and Instagram. "It's the antidote to Deliveroo," Newton says. "They've grown so much over the past six months."

## Dark kitchens cut two of the biggest cost components: staff and rent

Cost breakdown for a cup of Starbucks coffee in the UK

SOURCE: FT, Restaurant Dive



## PIVOTING POTENTIAL

It's a trend Kitchen Republic in Amsterdam West supports too. The startup offers kitchen space for starting and scaling food businesses in the Netherlands, as well as operating a four month accelerator and community network for around 100 food entrepreneurs. Prices start from €699 a month for off-peak membership in the startup kitchen, including 24/7 access to all facilities, equipment and insights from the Kitchen Republic team. "From the beginning, we've always said we're not just a rental place," cofounder Emma Veerhuis says. "We really want to try to help to grow and support the food businesses as much as we can."

**“We have seen an enormous rise of requests from meal delivery companies who want to work from a flexible kitchen like ours.”**

---

Emma Veerhuis  
Cofounder, Kitchen Republic

Increasingly, that doesn't include food delivery via the big platforms. Veerhuis says the location hasn't been ideal for delivery, and there's increasingly too much competition on platforms such as Uber Eats and Deliveroo to build and scale a healthy business. "We have seen an enormous rise of requests from meal delivery companies who want to work from a flexible kitchen like ours," she adds. "But I think we have had six examples of businesses that had to close down within four months [after building their business around them]. You might think it's an easy way to make money and it's a very low cost way to start a restaurant. But the delivery platforms ask for quite a lot of commission. It's difficult to make a good profit."

She thinks partnerships with retail outlets are more sustainable but has seen "real ingenuity" shown by founders exploring new business models over the past year – including subscriptions and B2C. "We've really seen entrepreneurs at their best."

## HYBRID DINING?

It's difficult to say how permanent the shift towards food delivery will be in the long term. But the investment continues. Nigel Rivers, head of global site operations at Deliveroo says the company aims to double the number of sites it has in the UK (currently 17) over the next 12 months. "The sector is definitely still developing. Brands that before the pandemic wouldn't necessarily have looked at Deliveroo, like [Chinese restaurant chain] Hakkasan or [Indian restaurant group] Dishoom are now going onto delivery platforms with Editions," he says. Research by kitchen supplier Magnet estimates Deliveroo saw a 12% increase in vendors using its dark kitchens as a base during the pandemic. There are now 21k different food options available in London alone – trying a new one every night would take 57 years.

Other dark kitchen operators are taking a more curated approach by targeting the luxury end of the market – London delivery company Cook + Thief, for example, seeks out the best dishes from the hottest restaurants and chefs to curate them onto a single menu it ships from a central London kitchen. It plans to open six new kitchens in London this year and operate more than 100 kitchens worldwide by 2025.

In Prague, American entrepreneur Martin Barry believes the future lies in a hybrid model. He launched Manifesto Market in 2018, offering independent restaurant partners dark kitchen space and front-of-house outlets. "Certainly, there will be some brands or companies that can survive in the dark model only," Barry says. "But my whole business is [about] building a really strong customer relationship ... [and] creating great experiences for people, both offline and online. Dark kitchens are about logistics and



infrastructure – how fast can you produce meals in a closed environment, and shorten the wait times for customers and the delivery drivers. We want to give customers an online experience which is very synergetic with the offline experience that we have.”

## A WILD RIDE

It's a concept that's proving popular among the independent food producers he works with too. From 2019 to 2020, Manifesto had a 75% retention of its chefs, which rose to 90% in 2020-21. “They come to us to create a new brand and reach a new customer,” Barry says, adding that partners get access to their technology and insights too. “We're 100% cashless so we know a lot about what the customer journey looks like in our markets, what they're eating and drinking, and can help vendors tailor their menus. We're also consulting from a design perspective, on price elasticity and seasonal fluctuations, and we can help them predict their operating costs, which helps with staffing and procurement.”

**“The pandemic's definitely helped us expedite what we're doing. It's been a wild ride.”**

Martin Barry  
Founder, Manifesto Market

While 80% of the business has come from e-commerce over the past 10 months – including a range of ready-made cocktails under the Manifesto brand – it's now shifting back to a 70:30 split between on-premise and online. Barry thinks that's about right. “We are profitable at a unit economics level [cost per meal produced], even on the dark kitchen side but our margins in location are eight times larger than online,” he says. He's now raising a \$15m Series A round to expand his vision into Germany, Belgium, Italy and the US. “The pandemic's definitely helped us expedite what we're doing,” he adds. “It's been a wild ride.”







IMAGE: Wolt

## Chapter III

# The future of virtual restaurants

## Can the food delivery upswing last?

As bricks-and-mortar restaurants begin to open their doors and businesses eye a return to the office, investor interest in the world of food delivery shows no signs of slowing down. Giants such as Just Eat Takeaway – the result of a merger between the UK's Just Eat and Netherlands-based Takeaway.com in 2020 – are only set to get bigger. The company recently completed a \$7.3bn acquisition of US rival Grubhub, creating the world's biggest online food delivery operator outside China.

It's a winner takes all market, Morningstar equity research analyst Ioannis Pontikis says, although there is still considerable potential for growth before the market matures. "If you look at the penetration levels, in terms of what percentage of the adult population in each country orders food online (excluding grocery), it's lower than 10% in most countries. For the most advanced markets, like the UK, it's around 15%.

"So we have huge potential in terms of growth, not only in the restaurant delivery and food delivery

space, but across all the verticals. It's very easy to find capital in private equity markets right now. I think at some point over the next two to five years, people will start asking for a clear path to profitability and this will lead to some market restructuring. In Europe, every country will only be able to cater for a maximum of three players."

### 2020 revenue (€bn) for food delivery giants active in Europe

SOURCE: 2020 annual reports, Restaurant Dive

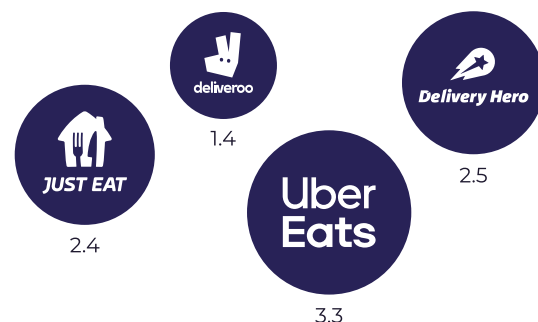




IMAGE: Deliveroo

## MAKING THE NUMBERS ADD UP

There have already been some high profile failures. In Germany, Keatz had raised €19.4m for its virtual restaurant startup but ceased operations after failing to get a handle on its unit economics. It was also over reliant on Deliveroo and suffered after the provider pulled out of the German market. “Once we reach a certain penetration level, where the unit economics or the return on capital is not justified to put more capital in this space, then we’ll see the sector maturing a little bit,” Morningstar’s Pontikis adds.

On the dark kitchen side, the sector is expected to be worth \$71.4bn by 2027. Deliveroo’s dark kitchen model is interesting, Pontikis adds, because the unit economics are better. The challenge now is scaling it up. “You save money for the restaurants because they don’t have to pay very high rent. They don’t need the space for dining in, they don’t need waiters. So it’s very low fixed costs [though Deliveroo does take commission on sales]. Also the utilisation of the delivery rider is much higher when you use one pick up point, instead of multiple points to multiple points.”

Deliveroo, which has struggled to make a profit, was saved in 2020 by a £575m cash injection led by Amazon (in return for a 16% stake, which dropped to 11.5% after Deliveroo went public in March 2021). Many expected a runaway success for the food delivery app’s IPO, but its market debut in London was labeled a disaster by some, with shares closing 26% below their listing price on the first day of trading.

## US STARTUPS EYEING EUROPE

Uber Eats abandoned its plans to expand into dark kitchens in 2020, but other American exports are keen to explore the European market. Miami-based Reef Technology, for example, which buys up car parks to transform them into hubs for the on-demand economy, is already signing deals in London. The company creates space for everything from pop-up parcel sorting depots to dark kitchens and is experimenting with using robots to deliver food in Miami. “Over the next four or five years, we are looking at several thousand,” Reef CEO Ari Ojalvo said about Reef’s delivery kitchen plans in 2020.

And the technology continues to develop – in China, specialist production sites are now able to churn out popular dishes without any human involvement at all, thanks to tech giants Alibaba and Tencent. London-based startup Karakuri is developing a machine that makes you a tailored meal at the press of a few buttons. A prototype has already fetched a £6.3m investment, led by firstminute capital, and supported by Hoxton Ventures, Taylor Brothers, Ocado Group and the UK’s government-backed Future Fund.

**“Increasingly, food entrepreneurs will look to span online and offline and will need help to navigate both worlds.”**

## CROWDED KITCHENS

On the question of where newcomers can make an impact in this sector, Matthieu Vincent, founder of foodTech consultancy, Digital Food Lab, believes a good bet is services to support the new ecosystem. "It's a less risky path," he adds. "All of these guys initially tried to do all of the jobs at once – cooking, managing kitchens, managing people, redoing the marketing – and many did a poor job. Now we have specialists all along the value chain."

Antoine Nussenbaum from Felix Capital, an investor in French food delivery company Frichti, Deliveroo, and food app HungryPanda, agrees. "There's much more awareness around changing the way people do things, how tools are being used inside restaurants to manage inventory or supply," he says. "I think what Covid-19 has done is created the rationale for people to change their habits and operate better."

That's not just on the virtual restaurant side either, Sebastiaan Debrouwere from Balderton Capital says. "That's also starting to spill over into the more traditional retail sector, with a number of very interesting startups there as well." Increasingly, he believes food entrepreneurs will look to span online and offline and will need help to navigate both worlds. "The complexity is increasing," Debrouwere adds. "If you talk to a lot of food entrepreneurs today, they will often have an offline presence and an online business they'll spin up next to it."



IMAGE: Uber Eats

## 'TIRED OF PAYING COMMISSIONS TO DELIVERY GIANTS'

Delivery platforms are another area Yacine Ghalim from Heartcore Capital believes is ripe for disruption. A few years ago, he adds, it was all about securing real estate. Thanks to the pandemic, available space is no longer the bottleneck. "We've had millions of restaurants that were under capacity and wanted to do delivery. That's a big shift," he says. "What players like Taster and others need and want is delivery providers that don't take a percentage of the fee but just charge a fixed amount per delivery and don't touch the customer acquisition."

**“Increasingly people are going to go direct. They're tired of having to pay 30% [commission] to these platforms.”**

Yacine Ghalim  
Partner, Heartcore Capital

He sees potential for a kind of meta aggregator, whereby delivery platforms bid to provide the delivery for an order, and a B2B player that helps food entrepreneurs build their own proprietary channels. "Increasingly people are going to go direct," he adds. "They're tired of having to pay 30% [commission] to these platforms."

Gini Newton, cofounder of Karma Kitchen, says she saw food companies selling on platforms like Deliveroo and Uber Eats struggling over the pandemic. "The market became overly competitive almost overnight. But the businesses that deliver directly to their own customer bases [were] booming. These companies have loyal followings and [were] going into overdrive to deliver meal kits and food boxes 24-hours a day to people at home."





IMAGE: Gorillas

## GROCERIES IN THE MIX

Many of the delivery giants are expanding into the grocery sector, delivering essentials in as little time as 10 minutes. Food and grocery delivery startup Glovo nailed Spain's largest round ever of \$534m in April, which it plans to plough into its quick-commerce business. It has pioneered the concept of super-fast delivery from 'dark stores' in Europe, after opening its first in Madrid in 2018. Now the ambition is to get to 175 sites by the end of the year. Glovo has a foothold in 21 countries, and has already surpassed 200 million orders. The company also runs 12 so-called 'cook rooms', or kitchens, in Spain, Italy, Ukraine and Georgia, with plans to expand to more countries.

In grocery delivery, there are two approaches emerging: Gorillas, Getir, Zapp, Flink, Delivery Hero and others are building dark stores or micro warehouses in local hotspots, where their workers pack orders for waiting drivers. Others such as Uber, Deliveroo and Just Eat Takeaway are instead working with supermarkets to fulfil orders.

Deliveroo already has long-term partnerships with supermarkets including Waitrose, Sainsbury's, Co-op, among others, delivering grocery products in as little as 20 minutes. Deliveroo's Rivers says it's become a key part of the brand's growth strategy. "We've seen strong results already in Q1 2021, delivering year-on-year gross transactional value (GTV) growth of more than 700% in our grocery offering. Groceries represented more than 10% of the UK's GTV in Q1."

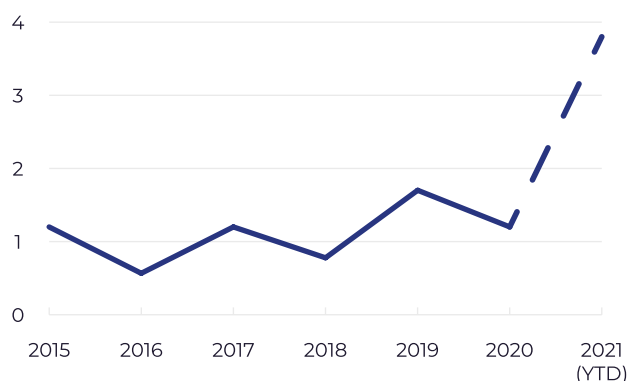
It's certainly an area investors are interested in too. Since the pandemic began, around \$14bn of VC funding has been piled into instant grocery apps, with two unicorn startups – Gorillas and Getir – and \$821m raised in the first quarter of 2021 alone. "The capital raised is unbelievable," Pontikis says. But he's concerned that the economics for groceries are more challenging than for food delivery. "The promotions they offer [to attract customers] are not sustainable. There are some hard lessons to be learned in this segment of the market over the next five+ years."

Vincent from Delivery Food Lab agrees. "This space is just so young, so full of cash. And I do think that delivering groceries is not the same job as delivering meals."

## 2021 is already set to be a record-breaking fundraising year

VC funds (€bn) raised by food delivery & logistics startups in Europe, 2015-2021

SOURCE: Dealroom, as of July 2021





## FEEDING THE HUNGER

Finnish food delivery platform Wolt hit a \$1bn valuation and unicorn status in 2020. In just five years, the company has expanded to 123 cities. Sandra Malmberg, venture lead at EQT Ventures, which was one of its early investors, says it's an exciting time for food delivery. "The winning formula for success is a combination of speed and obsession over data." Rather than being a distraction, Malmberg sees the grocery and food delivery as complimentary services. "Both the dark kitchen and on-demand grocery delivery sectors are united in their mission to provide hungry customers with food. It makes sense for two companies in these respective spaces to be on the same platform."

That said, for many operators in this space, it will be difficult to create profitable businesses, he says – particularly considering the eye-watering sums of capital currently being invested. "It's an extremely low gross-margin business," he adds. "A lot of these players haven't optimised their operations at all. Every time you deliver a product, you're losing money on the delivery."

"[That flood of money] doesn't push you actually. When you're tight on capital, you have to make the model work. [With a lot of investment], you have to open as many sites as possible, hire as many drivers as possible, acquire as many customers as possible, as fast as possible. That's your main KPI [key performance indicator]. It's not to make the model work."

## BUSTLING RESTAURANTS

It seems likely that the pandemic has changed the way we order food for good. The modern customer wants the ability to access what they want, when they want it, with dark kitchens and stores providing the crucial link to a personalised, on-demand experience. Insights agency Incisiv predicts digital will make up 54% of all restaurant sales by 2025, and analysts at McKinsey predict it will take up to three years for diner numbers to return to pre-Covid-19 levels.

## 62% of European consumers have tried a new shopping behaviour since Covid-19 started

Changes in consumers' shopping behaviour = and intent to continue after Covid-19 ↻

SOURCE: McKinsey



Faced with those sort of numbers, Debrouwere disagrees with Pontikis that there's only room for a few companies to survive. "The market itself is still really enormous and still has a lot of potential for a number of big companies to compete with each other and for each to be large, healthy businesses."

Ghalim also doesn't see any sign of the market declining. "I think the delivery trend is a secular one and it's here to stay. A lot of restaurants are going to find this a very attractive business to be in. People are not going to order all of their meals [for delivery] but I think the number of meals a week they order will certainly increase in the next 10 years. Maybe we won't need as many on-premise restaurants [in the future]."

All in all, it's not been a bad year to launch a new virtual restaurant business. For now, Carl Tengberg at Curb Food is keeping open minded about the startup's future trajectory. "So far, for me, it's been incredibly important to keep focused. There are many smart people doing very smart things, but that doesn't necessarily mean we should do it as well. I think everybody has to find their own melody."

# Acknowledgements

---

We would like to thank the following people who generously shared their time and insights for this report:

**Martin Barry**, founder and CEO, Manifesto Market

**Stefan Cosser**, cofounder, Egg Soldiers

**Sebastiaan Debrouwere**, associate, Balderton Capital

**Yacine Ghalim**, partner, Heartcore Capital

**Sandra Malmberg**, venture lead, EQT Ventures

**James McCarthy**, chief commercial officer and cofounder, Flipdish

**Antoine Nussenbaum**, cofounder, Felix Capital

**Eccie Newton**, cofounder, Karma Kitchen

**Gini Newton**, cofounder, Karma Kitchen

**Ioannis Pontikis**, equity research analyst, Morningstar

**Nigel Rivers**, head of global site operations, Deliveroo

**Anton Soulier**, founder, Taster

**Carl Tengberg**, cofounder, Curb Food

**Emma Veerhuis**, cofounder, Kitchen Republic

**Salima Vellani**, founder, Kbox Global

**Matthieu Vincent**, founder, Digital Food Lab

**Simon Wilkinson**, CEO, Byron Burger

This report was written by **Emma Sheppard** with research from **Amy Lewin**, edited by **Éanna Kelly**, designed by **Gaétan Nivon**, charted by **Bill Leaver**, **Amelie Bahr**, **Emma Bakh** and **Ricardo Pimentel** and produced by **Chris Sisserian**.

Cover image: Uber Eats



Flipdish is everything you need to take orders direct from your own sites and apps, offer digital ordering from kiosks or phones, and grow your business with marketing and loyalty campaigns.