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Deliveroo, Appetise and the home delivery wars

COMMENT
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In recent days, two London-based food delivery services with connections to Australia have moved to shore up their finances, in markedly different ways.

Deliveroo, one of Britain's most hyped unlisted tech start-ups, which has a significant presence in Australia and whose branding involves a kangaroo for some reason, raised a whopping $485 million, valuing it above $2.5 billion.

Right on the heels of that announcement, a lesser known British food delivery service, Appetise, which has no presence in Australia, lodged a prospectus to raise $6.8 million ... on the ASX.

My take on this? It seems strange a British food delivery app with no presence in Australia wants to list in Australia. Especially at a time when venture capital funding globally is plentiful, allowing smaller tech firms with shaky financials to stay private and avoid scrutiny of the public markets for longer.

But according to Appetise chief executive Robert Clisdell, it makes perfect sense.

"It's a market and a landscape we are very familiar with," he says. "On a cost benefit basis it [the ASX] is very attractive."

Appetise says gross orders on its platform last year exceeded $500,000, during which it lost $1.15 million. Its biggest shareholder, New York-based Bergin Asset Management, has listed tech businesses in Australia before. (Most recently DroneShield, a maker of guns to shoot down drones, which is trading in line with its IPO price.)

Proceeds will be mainly used for marketing. There are no underwriters on the deal, but lead manager Beer & Co will take a 7 per cent commission on funds it directly raises, plus 2 per cent on all funds raised.

For its part, the ASX has been deliberately pursuing a strategy of enticing smaller tech companies from overseas (mainly from Israel and Ireland) to list on these shores.

It argues it can provide a venue for small tech firms to raise money on better terms than they'd get from VC, providing a stepping stone to bigger markets in the US and Europe, and the credibility of a major market listing.

Make of that what you will.

Anyway, it's clear the proposed Appetise ASX raising comes at an interesting juncture for the food delivery landscape globally.

The mammoth raising by Deliveroo illustrates this point.

Deliveroo said it will use the funds it raised to invest in technology, and expand into new countries and cities, but they will likely also be used to plug losses.

Accounts recently filed with the British regulator show Deliveroo generated £128.6 million in revenue last financial year, but lost £129.1 million.

It's not unusual for a tech start-up to lose money as it scales its operations. But Deliveroo's losses are actually exceeding its revenues. In other words, for every dollar it takes in in revenue, it is losing more than a dollar. That's because it's engaged in a war of financial attrition with its rivals – a war of financial attrition Appetise is now entering with much less firepower.

Deliveroo's main rival, and the market leader in Britain, is Just Eat, which in Australia operates as Menulog.

"Like many monopolies it has grown to be fairly lazy," Appetise's Clisdell says of Just Eat. "Over time when you have a large player and they dominate the market, the price goes up and the service quality goes down."

Appetise plans to take lower commissions from restaurants than Just Eat, and it won't charge users credit card processing fees. Whether this is enough to change consumer behaviour remains to be seen, but Appetise certainly has a lot of ground to make up.

The firm claims 90,000 registered users and 500 restaurant partners. By comparison Just Eat, which booked a £36.4 million half-

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year profit, has 19 million active users (9.7 million of those in Britain) and 75,000 restaurant partners. Deliveroo, which is private, doesn't disclose user numbers.

There are subtle differences between food delivery apps. For example, Deliveroo and UberEATS feature more upscale restaurants, and take care of deliveries themselves. But they are all essentially online marketplaces, who link up customers with vendors, and take a cut on each transaction.

After a period of intense competition, the platform with the most users and the most vendors emerges as the clear winner.

Although Just Eat is the clear leader in Britain, rival services are hanging in there. Largely because investors are still willing to fund losses in the hope that the service they have backed will end up being the winner. Sooner or later, the music will stop. And someone will be left holding the (takeaway food) bag.

Delivery services take up to a 30 per cent cut from restaurants and cafes. Photo: James Brickwood