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Title

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In the spring of 2021, IGS launched a two-year Diversity and Entrepreneurship Fellowship Program. Cal-in-Sac Fellows conducted original research focused on the challenges and opportunities facing women- and POC-owned small businesses and diverse entrepreneurs in California. This series includes Op-Eds, blogs, policy briefs and other research products that capture key findings of the students' research. Learn more at <https://igs.berkeley.edu/matsui-center/fellowships/cal-in-sacramento>.

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Names were changed to protect identities

Predatory Practices of Food Delivery Giants against Minority-Owned Restaurants

By: Nancy Kim

As pandemic restrictions loosen, and as we attempt to head back into what we dub as the *new normal*, there lies a question on what this exactly looks like. And this question is no doubt one of the largest concerns for restaurant owners- especially for restaurant owners of color.

No one has probably felt the effects of the pandemic more than minority-owned restaurants. During the COVID-19 pandemic, nearly a third of California's restaurants permanently closed¹, and the state's food service industry and non-white very small businesses were hit hardest.²

Thus, for restaurants that managed to escape closure, adjusting to the pandemic was not an easy feat. For example, a Latina-owned Los Angeles nightclub was forced to turn into a takeout cocktail bar/restaurant. Without any formal assistance, Camila, the owner of this reinvented nightclub, had to rely upon her network of friends and family to figure out the logistics of her new business, including how to purchase the right takeout containers and set up inventory. Camila mentioned how her struggles would have been exacerbated if she had been the elderly Latinx couple across the street who had never utilized technology for their business.

Zoey, an owner of an Ethiopian restaurant in Sacramento, suddenly found herself simultaneously managing orders from 4 different delivery apps, while also navigating curbside pickup, mask mandates, and other guidelines from government officials.

In the midst of this service industry chaos, one fact remains clear. Third-party food delivery apps like Uber Eats and DoorDash saw record-breaking highs. The largest players in the food delivery space Uber Eats, DoorDash, Grubhub, and Postmates collectively raked in approximately \$5.5 billion in revenue from April through September of 2020.³ This is more than double the revenue during the same period the previous year.

In attempts to mitigate profit loss by small restaurants, individual cities and counties like Los Angeles and San Francisco placed an emergency 15% limit on delivery fees paid by merchants. This past June, San Francisco even voted to make this legislation permanent. However, this solution is like slapping a bandaid on a gushing wound. Restaurants are forced to cough up to

¹ <https://abc7.com/restaurants-coronavirus-pandemic-covid/10663697/>

² <https://www.ppic.org/blog/the-economic-toll-of-covid-19-on-small-business/>

³

<https://www.marketwatch.com/story/the-pandemic-has-more-than-doubled-americans-use-of-food-delivery-apps-but-that-doesnt-mean-the-companies-are-making-money-11606340169>

20-30% of gross profits per order to cover marketing, order processing, and other extraneous costs in addition to delivery fees. For Diana, the sole owner and worker of a Caribbean restaurant in Sacramento, these fees are unsustainable and unfair considering other costs, including rent, ingredients, and electricity, of running a restaurant.

Negotiating is tough, and responses from delivery services differ. Tina, a Latina restaurant owner based in Orange County, faced polarizing reactions from DoorDash and Uber Eats when she attempted to negotiate lower fees from the delivery service. While DoorDash was more lenient in producing a deal lowering commission and fee costs for a six-month period for her and other members of a restaurant association, Uber Eats remained unforgiving.

Uber Eats told her in exchange for lower fees, her restaurant would then be placed at the bottom of search lists. Meanwhile, they did not forget to mention that customers usually selected the top 5 or 6 featured restaurants. Consequently, Tina was forced to stop using Uber Eats. As a fellow entrepreneur, she understands the nature of *business*, but questions if the money gained by these large corporations were worth taking advantage of desperate restaurants forced to rely upon delivery services during a time of crisis.

In response, Tina developed her own app in efforts to lower processing fees, but uses DoorDash for the delivery portion. Additionally, Zoey's goal is to invest the 30% of gross profits she loses to her current delivery apps to instead create her own in-house delivery service.

Despite optimism that more customers will visit their establishments in-person, there is a widespread recognition that the service industry will never return to its pre-pandemic state.

“The way we live, serve, sell, market- everything will be different, especially for people who run businesses- and we must acclimate to survive,” Tina mentioned.

The rise in online food service means that restaurants will have to focus more on what Zoey states as the “test of the food”, as it will be increasingly difficult for restaurant owners to explain mistakes or connect with customers.

Restaurant owners are also cautious about the state reopening, especially as they faced last-minute changes to regulations in the past year. Camila emphasized the level of behind-the-scenes trauma, figuring out how to deal with inventory due to changing restrictions. She felt that government officials did not realize that the process of reopening was not simply a matter of opening tables for in-person service.

“No one in leadership is looking out for small businesses, especially for people of color,” she said.

Food delivery apps do have benefits. They are convenient for customers and restaurants alike. However, the opportunistic nature of these technology giants and the lack of convincing action by leadership produces a state in which, as Zoey describes, “the government and companies work hand-in-hand, while small businesses are losers.”

Minority-owned small restaurants do more than serve delicious, home-cooked meals. They are part of our social fabric in producing more vibrant and diverse communities. During these vulnerable times, minority-owned small restaurants must be protected from the predatory food delivery giants.