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CALCULATING CARRYOUT

How Restaurants Can Predict and Leverage the Impact of 3PD

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INTRODUCTION

For some restaurants, third-party delivery (3PD) has been a revolutionary service that dramatically improved their reach and market penetration—because they didn't have delivery without it. But for restaurants with their own delivery services, 3PD has steadily cut into their margins and reduced their visibility into customer data. They're losing a little more customer data every day. In the years to come, as 3PD services continue competing for market share, first-party delivery may become a relic of the past.

But regardless of how restaurant owners and franchisees feel about 3PD, they all have to consider it as they plan and execute their location strategies.

While businesses have had to adjust to the challenges this new channel has created—particularly regarding attribution and congestion—there's also no denying the opportunities it's creating. And those possibilities are becoming an integral part of the site selection process.

In this eBook, we'll take a look at some of the key ways retailers are leveraging 3PD and how to incorporate 3PD data into your sales forecasts, so you can develop a more holistic (and opportunistic) location strategy.

HOW RESTAURANTS ARE RESPONDING TO 3PD

We often associate third-party delivery with convenience—it costs more, but saves a trip to the restaurant, so it's a luxury. But it's important to remember that 3PD also improves access to your restaurant.

Even if there's decent public transportation in the trade area, some people can't take the time to trek across town to your location. They might also crave your food at times when they're busy. And they may not have even considered you a possibility —or known you even existed—until a

3PD service introduced the idea through their marketing.

This greater access is one of the reasons 3PD took off during the COVID-19 pandemic, and it's also why it's here to stay. More people have access to more restaurants. But the way they're accessing these restaurants is different. So not only are owners responding to increased demand, but they also need to address a different type of demand. And it's changing the way restaurants operate.

01 DEDICATING PHYSICAL SPACE TO 3PD

With the proliferation of 3PD, restaurants have faced the reality that a growing percentage of their operations is dedicated to carryout. And if you facilitate carryout in the same space you facilitate the dine-in experience, that can create a lot of friction.

After arriving at the restaurant, one type of customer simply needs to pick up and perhaps pay for food that may already be waiting for them. The other needs to place their order before staff can prepare it. Delaying delivery drivers inhibits the 3PD customer's experience (and lowers the quality of their food). And 3PD drivers' presence in line can intimidate dine-in customers from placing orders in the first place— some will assume the wait will be longer than it actually is.

Some restaurants are still white-knuckling it through this tension, leaving managers or individual employees to create workarounds and making peak hours more challenging. But if there's enough demand for 3PD, others have begun dedicating counter space to 3PD pickups or creating secondary counters. In some cases, demand for 3PD is high enough to justify segmented kitchens for separate dine-in and 3PD fulfillment.

There's a tipping point where a location's operations may need to accommodate so much more 3PD orders that a diner becomes a highly inefficient location type, with empty tables and long lines at pickup counters.

02 EMBRACING "THE DEATH OF DINE-IN"

According to **a 2023 study of American dining habits**, the average person orders delivery 4.5 times per month, and dines out 3 times per month.

While the dine-in experience is still clearly important to consumers (and the primary model for most restaurants), seating capacity is becoming less essential to a location's success. Depending on your market, facility, and brand, it may no longer be the main way you fulfill orders and serve customers. Due to real estate costs, dedicating significant square footage to dine-in customers can even be detrimental. A facility optimized for dine-in orders in an area with greater demand for 3PD will inhibit your success.

There will always be some demand for dine-in, but today's restaurants have to consider whether there's demand for their dine-in—and enough to justify the additional costs. Is dine-in the experience your customers expect or care about? Or are your locations simply the fulfillment centers for a delivery experience?

You may have better margins on dine-in sales, but as some restaurants consider the cost of hundreds or thousands of extra square feet per year, they're opting for a new approach to their location strategy, and saying goodbye to the dine-in experience.

03 EXPLORING NEW NONTRAD LOCATIONS

When your success doesn't depend on seating capacity and the comforts of dine-in, you have a lot more flexibility to consider nontraditional stores that wouldn't otherwise be viable. People can place orders from a location on a college campus, in a mall, at a hospital, or even within a larger retail store. As long as delivery drivers can easily access your front counter without significantly disrupting other operations (such as grocery shopping), these locations can fulfill orders within a reasonable driving distance.

Some restaurants are even choosing locations solely for their potential to serve as "ghost kitchens," which need far less space and can rely entirely on 3PD. They can find small facilities in unusual locations that are just big enough to support a kitchen and a pickup window, but near enough to demand that they can fulfill a stream of 3PD orders.

Finding profitable locations and increasing market share isn't dependent on accommodating dine-in orders—you simply need enough space to cook and hand off orders. (And ideally, the ability to keep up with demand.) When customers place their orders online and don't even need to find your store to receive their order, even visibility becomes less important.

But in order to know definitively whether 3PD can support these nontrad locations for you, or how they stack up against the more substantial investment you'd make in traditional locations, you need to know the breakdown of dine-in, 3PD, first-party delivery, and regular carryout orders.

04 TRACKING ATTRIBUTION ON SITE

Some restaurants have little or no visibility into 3PD orders. It may be that their POS systems aren't capable of differentiating them, their employees don't have the training, or their regular operations simply treat them as dine-in or carryout orders. Whatever the case, this prevents these restaurants from measuring the volume and impact of 3PD orders.

You'll certainly *feel* the impact, but you won't have the data you need to make informed decisions and capitalize on emerging opportunities. The businesses that are best poised to establish successful nontrad locations and correctly prioritize the best real estate moves are the ones that can easily segment 3PD sales. Ideally, they can separate sales by 3PD service provider as well, helping them see who their most effective 3PD partners are.

Configuring your POS to track 3PD sales and training staff to separate these orders is the only way to predict how it will contribute to future store performance or model how a potential store will do in a new market. The more 3PD orders you facilitate, the more critical this attribution becomes. Without it, your sales forecasts will always carry a higher degree of uncertainty, because even if your predictive models can estimate demand for 3PD in a market, they won't be able to accurately understand or predict how that demand plays out in your stores.

PREDICTING 3PD AT YOUR LOCATIONS

Even after the attribution challenge is solved, forecasting the impact of 3PD at potential stores or estimating the ROI of 3PD-related remodels (like splitting a kitchen or reconfiguring counter space) is still a complex undertaking. Your model's accuracy will depend on your ability to create true comparisons between locations, and while many site selection solutions can separate 3PD sales, reliably forecasting it is where they fall short.

The problem is twofold:

1. The data restaurants collect isn't always as reliable as their models may assume

2. Their models tend to use a single algorithm for all of their customers, and can't account for the unique combinations of variables that impact each business

Suppose a restaurant chain uses a more informal process for attributing sales to 3PD, and it isn't consistently applied. Or some individual locations underreport 3PD sales because the staff rings them up differently when the store is busy. Before broadly applying it to your model, it's crucial that you investigate anomalies and analyze collection methods to test its reliability.

This is why Tango doesn't simply input data and perform calculations—our team of experts works with yours to vet your data and determine its quality and relevance to your site models. Then we work through a series of up to 30 questions relating to the characteristics of your individual stores and the trade areas they operate in, identifying the variables that most impact store performance. Rather than relying on a single algorithm that may not account for them all or weigh them correctly, we layer on algorithms with machine learning to identify the combination that most reliably predicts performance.

> Learn more about how Tango intelligently combines your data with our suite of data partners in the eBook, **7 Ways to Use Your Proprietary Data in Site Selection**.

When it comes to forecasting 3PD sales, Tango aims to understand how your current 3PD performance typically relates to the demand for 3PD in the trade area. The main signal Tango uses for gauging demand is the number of 3PD service providers operating in the same area, which typically ranges from about 0–4. Obviously, these providers aren't all equally established or known, and the dominant provider varies from one area to another, particularly internationally. But greater competition among 3PD providers generally correlates with greater 3PD sales. And by analyzing how your 3PD sales data relates to the competition in the trade areas you operate, Tango can predict your likely 3PD performance in new markets, taking into account a wide range of site and trade area characteristics and their correlation with performance throughout your portfolio.

Demographics are another key factor that impacts 3PD performance. While there are a variety of reasons consumers turn to 3PD, the convenience is still largely a luxury, and it's most prevalent in more affluent trade areas. However, while there may be less demand for 3PD in lower-income areas, it's not non-existent. Different demographics use 3PD less frequently and for different types of orders, but in some densely populated trade areas, there can still be enough of it to outperform locations in sparsely populated, yet affluent markets.

While you likely don't collect any demographic data about your customers, by combining your sales performance data with our demographic datasets from partners like Experian, Applied Geographic Solutions, and Synergos Technologies, we can understand how your performance relates to demographics and the prevalence of 3PD competition. Additionally, we use mobile movement data from Near Intelligence and traffic flow data from INRIX to develop a more nuanced understanding of how proximity to demand, visibility, accessibility, and other characteristics typically relate to your 3PD performance.

Predicting 3PD sales in new markets isn't simply an "if this, then that." The relationships between these factors at scale and from one market to another is so complex that it takes artificial intelligence and layers of machine learning algorithms to understand, model, and forecast them. And that's why Tango's advanced predictive analytics and team of experts gives you the lowest margin of error in the industry.

LEVERAGE 3PD WITH TANGO PREDICTIVE ANALYTICS

Whatever percentage of your sales come from 3PD, Tango helps you model and predict its impact on the stores you have now and the sites you're considering for the future. As you explore new markets or consider closing, consolidating, relocating, or remodeling existing stores, you'll have the insights you need to make informed decisions and correctly prioritize the most valuable moves.

Want to see what Tango Predictive Analytics can do for your business?

Request a demo today.
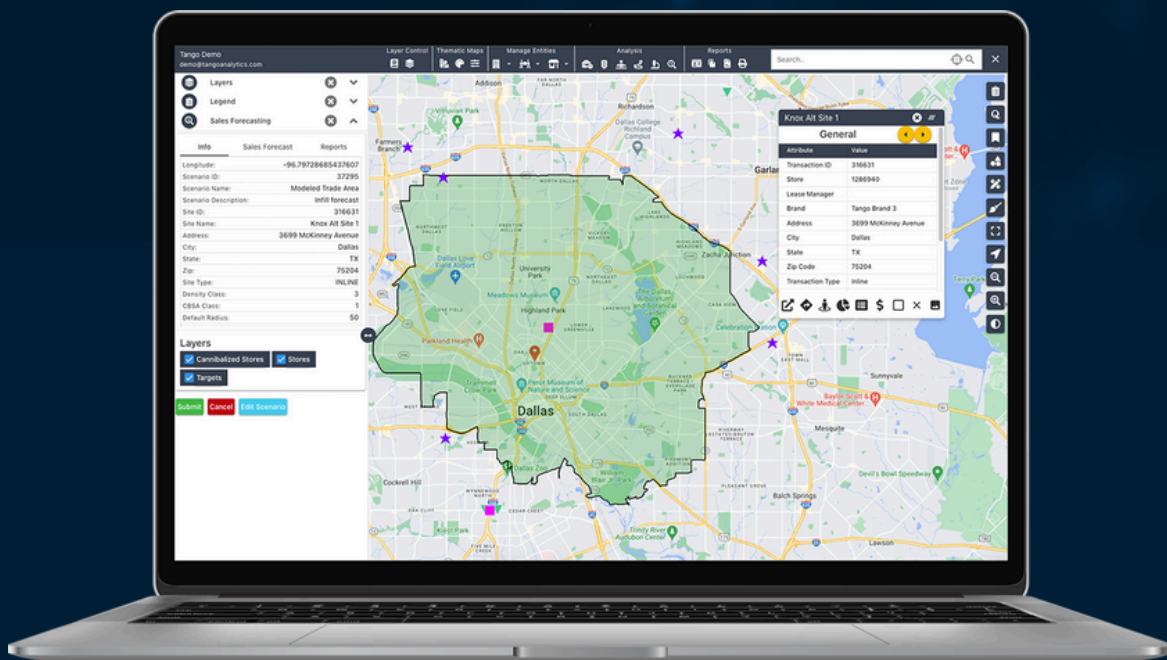
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About Tango

Tango's Store Lifecycle Management solutions help retailers around the world conduct market research, identify sites, predict store performance, and prioritize real estate moves. By merging artificial intelligence, machine learning, and decades of retail expertise, Tango accurately forecasts sales and traffic for your stores, prospective sites, and even competitors. Whether you have dozens of locations or tens of thousands, you'll have everything you need to consistently choose the right stores to open, close, renew, or relocate.

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