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EMBRACING THE MIDDLEMAN – WHY STARBUCKS' UBER EATS MOVE WILL WORK

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January 30, 2019

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At some point in every food industry business' lifetime, there will be a discussion about cutting costs and increasing profitability. That discussion will inevitably present the go-to strawman villain, the "middleman." Theoretically, the fail-safe plan of cutting out the middleman will surely cut costs and increase profitability, except when it doesn't. Given the increase in consumers' emphasis on convenience of middleman delivery apps, I suggest a different approach – embrace it, **fully**. Just recently, Starbucks announced its launch of a joint venture with Uber Eats to get in on the coffee delivery game. Spoiler Alert: it's going to work, and here's why.

Who is the Middleman?

Restaurants, like any retail business, depend on distribution channels to deliver products to consumers. The reliance on, "be where the people are" focusing on brick and mortar locations is now modified to "be where the people are and/or deliver to where the people are." We are noticing a trend shifting from the reliance on food courts in major malls and business centers to convenient street level storefronts in multiuse buildings. And it's working. In addition, the rise in food delivery services apps like Grubhub, DoorDash, and Uber Eats is further disrupting the traditional restaurant model. For example, in 2018, a full service BBQ restaurant client averaged $11,000 and $8,000 weekly revenue in its two Bay Area locations from DoorDash alone.

Why Starbucks/Uber Eats Will Work

With every great company there's a commitment to anticipate, meet and exceed customer demands. See exhibit A, Starbucks' evolution:

- *Phase 1*: Starbucks launched its Starbucks Card App in 2009 with an emphasis on loyalty rewards and simplifying the payment process in stores. Each time a user makes a purchase through the app, the information is available for future product modeling.
- *Phase 2*: It wasn't until 2015 when Starbucks launched its Mobile Order and Pay that Starbucks really hit it out of the park, but it didn't even work that great at first. The layout of the Starbucks stores still required people to wait for their orders just like everyone else who didn't use the Mobile Order and Pay.
- *Phase 3*: So Starbucks changed their store layout to accommodate their Mobile Order and Pay customers. Starbucks launched a company-wide store remodel just for a convenience factor for its customers. **I cannot overstate the importance of this decision for its future operations with Uber Eats.**

What Starbucks Strategy Shows

Starbucks is successful because it controls what it can, and negotiates where it can't. How?

1. Starbucks controls its operations and is not subject to franchise restrictions;
2. Starbucks has significant leverage in negotiating tenant improvements in its leases and can modify its design to meet its needs;
3. Starbucks has significant leverage in negotiating its cost of goods through its bulk purchasing power;
4. Starbucks funds its marketing budget dedicated to enforcing its brand and encouraging its customers to utilize its newest features; and,
5. Starbucks has built a data collection system and has been learning from its customer for nearly ten years.

If your business is interested in learning more about how you can fully embrace a middleman such as Uber Eats, please stay tuned. I will be publishing a five part series focusing on the top five issues to consider when embracing middleman delivery app services beginning February 4, 2019.

Michael Krueger is Counsel in Newmeyer & Dillion's Walnut Creek office. Passionately representing food industry clientele since 2010, Michael assists clients through all phases of restaurant and bar ownership. This includes entity formation, financing and private equity, lease negotiations, liquor licenses, branding and trademarks, labor/employment, and franchising. You can contact Michael at michael.krueger@ndlf.com.