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MOBILE ORDER AND PAY AHEAD: A NEW SALES CHANNEL FOR RESTAURANTS AND MERCHANTS

The convergence of mobile order ahead with the on-demand economy proves appetizing to customers.

Mobile apps that enable users to order and pay ahead represent a new sales channel driving increased revenue and transaction volume for merchants in several categories. Opportunities and challenges abound for payment providers, developers, and merchants alike.

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Tales of a Harried Morning Commuter

You're running late for work. On your way out the door, you open the mobile "order ahead" app on your smartphone—a list of your favorite orders pops up and the geomapping function points to the closest coffee shop. You quickly select an item, your order is priced, and you confirm to pay in one easy step. A message says the order will be ready in 4 to 6 minutes. Now for the best part: You arrive at the store, skip the long line of people waiting at the register, go straight to the pickup area, and find your order ready and labeled with your name. Voila—you're out the door in less than a minute and have gained a head start on the day!

Restaurants Serve Up a Popular Choice

Not since the drive-thru window have quick service restaurants (QSRs) and casual dining establishments been so sanguine about a new sales channel—mobile order and pay ahead. Called by different names by different restaurants—e.g., Mobile Order & Pay, On-the-Go Ordering, Smarter Pick-Up Times, or simply Mobile Order Ahead—the concept is the same. Give rushed and busy consumers some extra time in their day. Offer speed, convenience, and a seamless payment transaction. Throw in marketing offers and perks like loyalty points, and customers will beat a path to your door—or so most QSRs hope.

Whatever you call it, mobile order ahead has certainly caught on. Perhaps it is the smartphone society's version of takeout. Or maybe it's a way for coffee addicts to get instant gratification with just a few cellphone keystrokes. One thing for sure is that customers love skipping the counter line and finding their order ready for pickup when they enter the store. Restaurants and other retail merchants are realizing that mobile order ahead is a new sales channel with high growth potential. For QSRs, it may boost sales as the drive-thru window did.

Mobile Ordering Meets the On-Demand Economy

The phenomenon of ordering and paying ahead by mobile can be credited to the expanded functionality of smartphones combined with the high household penetration of mobile devices. But it's more than that. Consumer expectations and behavior patterns are being honed in an "on-demand economy" made popular by ride-sharing services such as Uber and Lyft. These businesses set the stage for mobile apps that enable consumers to identify, order, pay, and receive services. Other transportation and travel services followed suit. Enter the restaurant industry, especially QSRs and their large-volume, high-frequency customer base, and the foundation was in place for mobile order ahead to become a new and welcome revenue stream.

Customers Love Jumping the Line

For mobile order ahead customers who pick up their own orders, feature integration drives adoption, engagement, and frequency of use. With immediacy and instant gratification a way of life for smartphone-centric users, ordering

ahead quickly becomes another part of the daily routine. Time-strapped commuters love walking into a coffee shop, skipping the register line, picking up their order, and walking out.

Restaurants monitor user history and buying patterns to suggest complementary items and new offerings. Additional user reinforcement occurs through loyalty programs that create sticky customer relationships by providing rising tiers of points and reward benefits.

Mobile Order Ahead Will Ramp Up for QSRs

For the QSR industry, the mobile order ahead business is relatively small right now but will grow at an accelerated rate as app developers and their clients continue to launch and refine mobile apps. The early and most active QSR adopters of mobile order ahead are the pizza chains. Phoning ahead for pizza pickup or delivery is an American ritual. So it did not take long for pizza lovers to use their smartphones to order their favorite selections. Papa John’s and Pizza Hut said in 2016 that one-third of their sales were mobile ahead orders. Domino’s even has a Zero Click mobile app. Once it’s set up with your preferred pizza choice, just open it up—and think fast—you only have 10 seconds to cancel.

Starbucks and Dunkin Donuts also have very popular mobile order ahead apps. Starbucks announced that in the last quarter of 2016, 20% of its busiest stores’ sales during peak traffic times were mobile ahead orders whereas companywide, the corresponding figure is 4%.

Looking forward to the next two to three years, mobile order ahead sales will take off. Business Insider projects that mobile order ahead sales will surpass 10% of QSR orders and hit \$38 billion in 2020. Mercator Advisory Group believes that QSR mobile order ahead sales growth will accelerate given the increased consumer adoption of mobile pay apps and the announced plans by burger giants McDonald’s, Burger King, and Wendy’s to introduce apps around the end of 2017. We project that by 2020, mobile order ahead sales will reach 20% of total QSR sales.

Related Concerns

If you find this piece of interest and would like to explore this issue further, possible proprietary project work could be done to examine questions like these:

What differentiating features do consumers look for in mobile ahead ordering? How will this affect your products and services?

How will growth of on-demand services affect mobile payment volume and adoption?

Can merchant mobile scan-and-pay replace your checkout counter?

Will the shift to digital ordering mean reengineering the restaurant industry?

What role will contextual commerce technology play in mobile app development?

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Mobile Order Ahead Spreads Across Merchant Categories

Mobile order ahead has found its way into a cross-section of restaurant and merchant categories, each of which tailors the ordering process to its target market. Figure 1 lists the four main categories generating mobile order ahead business.

Figure 1: Key Merchant Categories for Mobile Order and Pay Ahead

QSRs/Fast Food	Casual Dining	Aggregators	Traditional Merchants
<ul style="list-style-type: none"> • High-volume, frequent visits • Fastest-growth category • Mobile order ahead establishes long-term customer loyalty 	<ul style="list-style-type: none"> • Supports existing takeout business • Some apps also used for check-splitting and express payment at table 	<ul style="list-style-type: none"> • Captures hundreds of restaurants in mainly metropolitan markets • Offers white-label apps for small, independent restaurants 	<ul style="list-style-type: none"> • Omnichannel strategy for, e.g., department, electronics, and home improvement stores • Replaces customer delivery, saving cost • User interface is limited by smartphone screen

Source: Mercator Advisory Group

QSRs/Fast Food (No Table Service), Pizza, Coffee Cafés, Burgers, Tacos, Sandwiches

This category represents the sweet spot for mobile order ahead, especially pizza, coffee shops, and assorted sandwich shops such as Chick-fil-A and Panera Bread. Included are all the usual suspects, but with the surprising omission of the three biggest burger joints, McDonald’s, Burger King, and Wendy’s. These three are in various phases of market testing apps and each anticipates launching on a wide scale in 2017. QSR customers are ideal for mobile order ahead: on-the-go high-frequency users with demonstrated loyalty who may visit multiple times daily for both food and drinks. Ordering of this type works especially well in high-traffic areas on commuter routes. However, limited store size can be a factor inhibiting absorption of expanding order volume.

Casual Dining (Table Service, Pay at Table)

In this use case, mobile ordering ahead was initially developed as a convenient and faster method to place a takeout order. For some restaurants, it has evolved into a seamless, app-generated diner payment transaction not requiring the assistance of wait staff. Examples include national chains Chili’s, TGI Friday’s, and many local restaurants. Some of these mobile apps have a feature that enables check splitting among a party of diners.

Aggregators of Restaurant Delivery Reservations Services

An increasingly popular version of the on-demand economy are companies providing meal ordering and/or delivery service. They include GrubHub, Yelp’s Eat 24, RushOrder, Seamless (part of GrubHub), Postmates, Uber

Eats, and Amazon Prime Now Restaurant Delivery. Geared to restaurants in high-density metropolitan areas where consumers are frequent takeout patrons who do not rely on cars, these aggregators act as intermediaries between the restaurants and at-home customers. Payment is part of the order transaction, and customers typically have a choice of payments such as credit/debit card and mobile pay apps from smartphone makers, banks, and card networks.

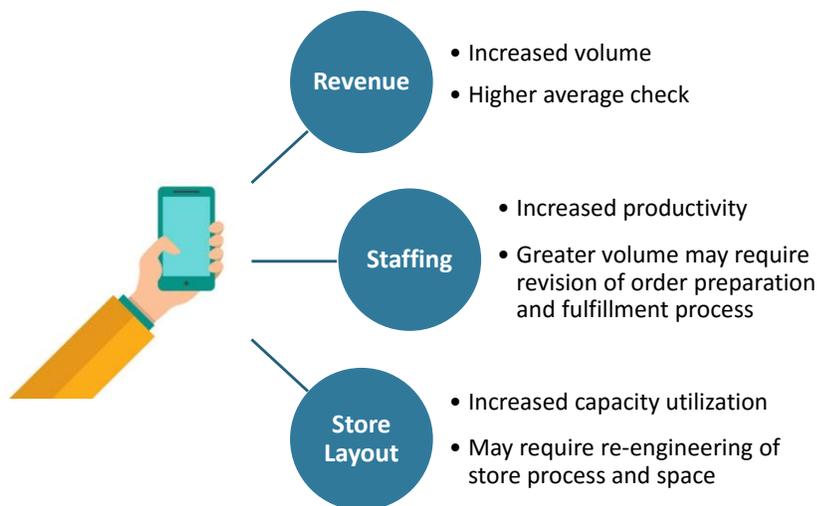
Traditional Merchants (Department Stores, Electronics, Hard Goods)

Mobile order ahead is mainly used by traditional merchants as part of an omnichannel retail strategy to take remote orders and offer pick up of the merchandise at a store rather than delivery. It is offered by stores such as Walmart, Best Buy, and Home Depot. However, the space limitations of the smartphone screen proves to be a disadvantage compared to ordering online at a home PC or laptop computer. All store items are available for purchase, but product description details and comparison screens are limited. For these retailers, mobile order ahead works best for customers who know what they want and need an expeditious way to locate, purchase, and pick up a product.

A Full Course of Benefits for Restaurants as Well

While the main perks of mobile order ahead are for consumers, not to be overlooked are several operational benefits enjoyed by the merchants (see Figure 2). Think more revenue, higher staff productivity, and increased capacity utilization. These business metrics are enhanced with mobile order ahead. The merchant categories that typically benefit the most are QSRs and others that are labor-intensive and food prep process oriented. However, department and electronic stores can also take advantage of delivery cost savings and increased revenue from mobile order ahead.

Figure 2: Mobile Order and Pay Ahead Creates a New Sales Channel and Drives Stores' Growth and Change



Source: Mercator Advisory Group

As previously mentioned, a new sales channel is a big plus for the highly competitive restaurant and retail categories. For most merchants, top-line revenue typically dictates company profit margins and getting extra customers in the door spreads more revenue over their fixed cost threshold. Higher staff productivity provides relief in the rising labor cost environment that the restaurant industry faces. In its early stages, mobile order ahead can be managed with the existing QSR crew handling food prep, counter, and drive thru. They have the mobile ahead orders ready at the store's pick up area. So far, no problem. However, a robust mobile order ahead program will reach a point when it can overload the store crew and extra staff must be added. Mobile ahead orders peak at morning commute times. But, having a more integrated mobile order app featuring a loyalty program can drive some customers and their mobile orders to off-peak times of day, and this is where the added volume has the greatest leverage on productivity, capacity utilization, and profit margin.

QSRs report that mobile order ahead users spend more per visit and demonstrate increased loyalty. Taco Bell finds that its mobile customers spend 30% more per order than walk-ins. As of late 2016, Starbucks registered over 13 million customers using its mobile app, which is the launching point for ordering ahead. Through its mobile app features and customer purchase history, Starbucks shows mobile users recent orders, favorite items, and menu suggestions, all of which contribute to higher spend. When mobile order ahead can be integrated with other app features such as loyalty and marketing offers, customer engagement increases, contributing to more frequent orders and visits.

Mobile Order Success Brings Store Process Changes

"It's so crowded that nobody goes there anymore."

—Yogi Berra

Yogi Berra may not have been a fast food regular, but he would have noticed that more order volume and customers can create long in-store lines, disrupt food prep processing, and gridlock order pick-up areas. Starbucks acknowledges that its Mobile Order and Pay feature has caused some potential in-store customers to turn away. The coffee café chain claims that for its busiest stores during peak hours, the mobile order ahead pickup area has a line of its own, which converges in the same area as in-store orders. More order volume certainly is a problem that most store operators would love to have. So Starbucks intends to change store layout to allow more room and organized order pick-up flow to accommodate the added mobile order customers.

Chipotle reduces any disruption to its in-store customer-facing food prep by having a store-within-a-store. All digital orders are handled by a separate back room food prep area and then sent to the store pick-up counter. Many of the pizza chain stores that operate with limited seating space are already set up to handle large volumes of takeout orders. But these examples mean that when successful mobile order ahead systems reach a certain volume, store operations need to be reengineered to handle and fulfill the different order channels smoothly.

Developers Seize on Significant Growth of Mobile Order and Pay Ahead

Mobile order ahead exists as its own market, but it does have significant overlap with the U.S. restaurant delivery business. In 2016, Morgan Stanley estimated that annual spending at QSR and casual restaurants was \$210 billion. Of this amount, online food delivery penetrates about \$10 billion, or less than 5%, which presents a large opportunity.

Mobile order ahead is still in its nascent stages, and projections become guesswork. Given the increased consumer adoption of mobile payments, however, as well as the expanding role of restaurant delivery aggregators, the mobile order ahead market will reach tens of billions in dollar volume by 2020. Add in casual dining, other restaurant types, and different merchant categories, and the potential order ahead market expands significantly.

The rising mobile order ahead market has attracted several developers that serve large clients and also offer white-label products for small and medium-sized businesses. A major player is CardFree, which provides end-to-end capabilities with the integration of mobile and point-of-sale transactions. CardFree has developed a large-scale mobile app that has had over 20 million customer downloads and is deployed in over 20,000 U.S. QSRs, including Dunkin' Donuts and Taco Bell.

Technology provider LevelUp offers a mobile payments platform for other developers as well as offering payment and integration features such as loyalty rewards programs, analytics, and business metrics for over 300,000 U.S. restaurants. Additionally, LevelUp provides a mobile pay app for both Apple iOS and Android smartphone users to connect with their favorite eating and drinking places.

Another developer, Olo, produces a white-label mobile ordering and delivery enablement platform for multi-location restaurants covering 160 brands, including Five Guys and Chipotle Catering.

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Future Opportunities for Payment Providers and Merchants

Mobile order and pay ahead provides attractive entry opportunities for existing payments industry players. Square, the point-of-sale (POS) payments processor, recently purchased OrderAhead, the restaurant mobile order service (in March 2017). OrderAhead serves primarily West Coast markets and is growing in other parts of the U.S. The significance of the Square acquisition is that the company also owns Caviar, the restaurant pick-up and delivery service found in major U.S. metro markets. Not only is Square looking to capitalize on the growing mobile order ahead market, but this acquisition also opens the door for the company to cross-sell merchant payment and related services to thousands of restaurants not already in its customer base.

For merchants, especially in the economically sensitive restaurant category, mobile order and pay ahead can drive meaningful revenue volume. Challenges will encompass absorbing additional volume without disrupting store operations, as well as having an engaging and adaptable or flexible mobile order ahead app platform. Choosing and working with the right developers and partners will provide a competitive advantage in delivering customer features that have become embedded in the on-demand economy. Just as important for merchants will be working with payment processors who not only can provide seamless integration with mobile pay apps but also provide a lower-cost mechanism for mobile payment transactions.



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