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**“E-commerce growth & “the last mile” of Online Food Delivery in a
BtoC context: the case study of JaFood”**

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ACADEMIC YEAR 2019/2020

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Introduction

The fourth industrial revolution is generating profound changes in the economic-social status of many territories through technological innovations¹. As a result, a new morphology characterizes the current society, where digital technology is complementary and integrated to everyday life given the globality and diffusion of the phenomenon.

Digital transformation enables accessibility and innovation – which become complementary – and induces the development of a society capable of including and creating new connections between people, places and spaces with different ways and eases.

The development of online and the recent spread of digital channels have changed company's business models and customers purchasing behaviours. As customers increasingly move online, the E-commerce market has experienced strong growth over the past decade.

This shift in how consumers shop has been driven by a wide range of diverse factors, some being market or country dependent, others occurring as a result of worldwide changes. These changes include: (i) an increase in disposal income, particularly in developing nations; (ii) longer work and commuting times; (iii) increased broadband penetration and improved safety of electronic payments; (iv) a relaxing of trade barriers; (v) an increase in the number of retailers having an online presence; (vi) and a greater awareness of E-commerce by customers.²

The rapid growth of E-commerce (EC) has spawned many new forms of business, such as B2B (business to business), C2C (customer to customer), B2C (business to customer), and O2O (online to offline).³

Online to offline (O2O) is a form of EC whereby consumers place orders for goods or services online and receive the goods or services at an offline outlet.⁴ One of the significant developments driving the O2O - EC explosion has been the proliferation of smartphones and tablets and the development of infrastructures to support payment and delivery.

¹ Schwab, K., (2016), *La quarta rivoluzione industriale*, Milano, Angeli.

² Mansoor, S. (2018) Five reasons Why Ecommerce is Growing, available online <https://ideasunlimitedonline.com/five-reasons-why-ecommerce-is-growing/>

³ Ram, J.; Sun, S. Business benefits of online-to-offline ecommerce: A theory driven perspective. J. Innov. Econ. Manag. 2020, 177-XXVIII.

⁴ Rampton, J. (2016), Why Online2Offline Commerce is a Trillion Dollar Opportunity. Available online <https://www.inc.com/john-rampton/why-online-to-offline-commerce-is-a-trillion-dollar-opportunity.html>

O2O services have emerged in various fields, including the purchase of diverse product and service categories, such as food⁵. The food industry is a saturated market, though, companies have begun providing additional online services to remain competitive.⁶ Thus, an area of O2O commerce that is expanding rapidly is the use of online food delivery (OFD) platforms.⁷ As OFD platforms have increased in popularity, the competitive dynamics of the food delivery market have increased.⁸

In the Italian context, the emergence of companies specializing in the provision of app delivery services has allowed the consumer to choose the product/service (in this case the type of food, and the restaurant) quickly and easily, assessing and comparing the options available in the nearby area, with instant payments and guarantee of traceability of delivery times.⁹

Consumer interest has contributed to the emergence of a large number of platforms offering delivery services via app, which shows that it is an evolving service, allowing customers to combine the functionality of technology with the thrill of the pleasure of local meals or specific choices (for example, vegans) and not just pizzas as in the past. In particular, the order made through the platform is assigned to a restaurant (responsible for the preparation), identified by geolocation and then to the suitable rider, human or automated, available for restaurant partners who do not provide the delivery service. In this way the logistics goes outside and is tied with a fixed fee.

With a growing potential for those who choose and order online, OFD in Italy demonstrates significant opportunities for development and competitiveness. For restaurants, it means expanding customers through digital bookings, which allows promotions to be applied on low-turnout days, efficient processes, capture customer data to communicate with them and retain them.

⁵ Among online shopping, recent development shows that food has become one of the most preferred shopping and is growing rapidly, 12% per year. Cfr. Chang, S.-C., Chou, P.-Y., & Lo, W.-C. (2014). Evaluation of satisfaction and repurchase intention in online food group-buying, using Taiwan as an example. *British Food Journal*, 116(1), 44–61.

⁶ Yeo, V. C. S., Goh, S. K., & Rezaei, S. (2017). Consumer experiences, attitude and behavioral intention toward online food delivery (OFD) services. *Journal of Retailing and Consumer Services*, 35, 150-162.

⁷ Lan, H., Ya'nan, L., & Shuhua, W. (2016). Improvement of online food delivery service based on consumers' negative comments. *Canadian Social Science*, 12(5), 84-88.

⁸ Lee, E. Y., Lee, S. B., & Jeon, Y. J. J. (2017). Factors influencing the behavioral intention to use food delivery apps. *Social Behavior and Personality: an international journal*, 45(9), pp. 1461-1473.

⁹ Corsaro D., Sebastiani R. & Mele, C. (2017), Practices of Service Innovation Diffusion, in Tiziana Russo-Spena, Cristina Mele e Maria Nuutinen (a cura di), *Innovating in Practice: Perspectives and Experiences*, New York, Springer, pp. 159-178

Thus, the objectives of this thesis are: (i) to discuss the opportunities and challenges of E-commerce; (ii) to highlight the opportunities for action by FD and OFD companies, (iii) to describe and discuss a ‘successful’ case study of the first innovative OFD start-up of Southern Italy.

Therefore, the work is structured as follow: after this introduction, chapter 1 focused on E-commerce as a disruptive innovation, presenting the literature about this topic and a deep discussion about the E-commerce industry nowadays, both in Italy than worldwide, also in the light of the Coronavirus pandemic and its main impact; chapter 2 presents an overview of the OFD sector, with specific reference to our Country and also remarking the effects and implications for Italian FD companies of Coronavirus pandemic; furthermore, chapter 3 describe and discuss the case of *JaFood Italy*, the first innovative start-up operating in the OFD in Southern Italy since 2018; lastly are presented the main conclusion and the discussion about the study.

More specifically, chapter 1 present the literature about EC as a disruptive innovation, giving a definition of this phenomenon. Furthermore, the main EC disruptive attributes recognized in literature are discussed, highlighting that companies should be able to identify and take advantage of these key performance attributes of EC innovation with the aim to create new products and services, reach new markets, build customer loyalty, achieve market leadership, optimize business processes, enhance human capital, and harness technology. Indeed, these disruptive attributes are crucial in the EC strategy and business model’s formulation, therefore, par. 1.3 describe the EC business model and strategies emphasizing the importance of a business model’s technology sophistication and innovation, and its value proposition and value creation potential. In order to fully analyse the viability of a company's EC business model the work describes the concepts of both demand and supply-side economies of scale and scope, as well as the theories of transaction costs and switching costs. After discussing the impact of EC on company’s business models, the attention is focused on the supporting potential role of EC in the company’s main functional areas and activities (marketing, purchasing, design, sales and distribution, supplier development.), and on the most relevant EC benefits and limits. Lastly, the chapter ends with the description of the development trend of the EC market in Italy, with a particular focus on the impact of the COVID-19 pandemic on all the EC sectors and results, included EC business model’s innovation.

Chapter 2 focused on Online Food Delivery services, the main topic of this study. The analysis started outlining the evolution of the Italian food consumption model and expenditure over the last decades, as well as the most recent trends. Italian’s food

consumption habits and expenditure changed in various way and several times, adapting to the economic crisis and the consequent social changes. Nevertheless, our Country, in relation to other European countries, continues to be characterized with a greater expenditure allocated on food. In 2019, the estimate of the average monthly expenditure of Italian households is 2,560 euros per month in current values, substantially unchanged compared to 2018 (-0.4%).¹⁰ In one with the high level of food consumption (compared to other EU countries) and the recovering in food expenditure, the Italian F&B Industry is a fast-growing industry and has an important role in sustaining Italian GDP and occupation. As one may expect those factors are propelling also the growth of Food Delivery (FD) and Online Food Delivery (OFD) sectors. Indeed, par 2.2 describes the diffusion of FD and OFD in Italy, highlighting that: FD is used by 26% of Italians, of which 7% have relied on new OFD services (websites and APPs) and the remaining (significantly larger) preferred to rely on the "old" telephone order.¹¹ In particular the paragraph analyses the historical evolution of FD, from the birth date of home deliveries and the advent of OFD to the most recent evolution and innovation in the market.

The FD and OFD sectors are characterized by high competition that is increasingly based on the possibility of offering a quick service, restaurants of high-quality present on the platform and breadth and variety of the menu. Thus, the various players in the sectors have adopted their own business model overtime with a common goal, that is: to create an experience that is different from the classic one lived in the restaurant. Thus, the main OFD business models are described and examined, with their features, benefits, weaknesses and the mechanisms that characterize them.

In this line, business model innovation is crucial, in a competitive and challenging business environment, such as in the FD industry, especially to obtain customer satisfaction and enhance customer experience. Thus, the chapter also describes factors influencing customer experience through an OFD platforms, highlighting that the key for survival and flourishing in this competitive environment is to have customer e-loyalty.

The chapter ends with an overview of the Italian FD market in recent years, both in quantitative (revenues, turnover...) than in qualitative terms (most relevant players, number of users, reasons to use OFD, favourite dishes, recent merger & acquisitions...) derived from the analysis of the most recent studies and reports. Particular attention is

¹⁰ I.Stat, the complete datawarehouse for experts, <http://dati.istat.it/?lang=en>

¹¹ Coop, Rapporto, (2019), Economia, consumi e stili di vita degli italiani di oggi, available online <https://www.italiani.coop/rapporto-coop-2019-versione-definitiva/>

dedicated to the numerous challenges, but also opportunities, arising from this difficult period of sanitary crisis, for the companies operating in the Italian FD industry.

Most of the studies dealing with this topic are focused on examining few big players in the market or the market leaders (*JustEat* is the classic example). However, the market analysis abovementioned shows that the FD sector is fast-growing in Italy and the competition is very high, however, OFD in 2019 accounts for about 18% of the entire FD sector showing an increase of 7% compared to 2018. Thus, there is still very substantial potential for expansion and, particularly there is still room for local platform that go to work in capillary on the territories and provinces and that can cut back on a small market space, especially if they offer an extra channel of visibility to restaurateurs and adequate service.

Thus, FD start-ups are growing steadily, with a turnover of 566 million euros in 2019 (a growth rate of 56% compared to 2018).¹² At the current rate of growth, in 2020 the value will be 900 million and in 2021 of 1.45 billion euros. This figure is set to grow more and more, as only 18% of FD passes through digital platforms, a figure well below the national average of other countries, which shows that there is still a great opportunity to seize because most of the market is offline (turned predominantly over the phone).¹³

Whit this in mind, chapter 3 describes and discuss the case study of an innovative OFD start-up, *JaFood Italy*, founded in 2018 in Naples (Campania region) by a young entrepreneur with a visionary mindset. The case study is based on an interview conducted by the author with the owner and founder of the firm concerned, the *Chief Executive Officer* (CEO) Fabio Greco, covering different topics and aspects, among which: the company's history and profile, the company's mission and value proposition, the company's business model, the company's strategy and objectives for the future, the relationships with external stakeholders (restaurant-partners...), the effects of the measures adopted at a national level and in Campania region (in which the start-up currently operates) to deal with the coronavirus pandemic.

In accordance with the rules of this qualitative methodology, internal documents of the company were also collected to support interviewees' statements and the institutional website of *JaFood* was also examined.

¹²Loguercio, L. (2020) "Food, 50 startup che stanno cambiando il business del cibo", *Economyup*, available online <https://www.economyup.it/food/food-50-startup-per-capire-come-cambia-il-business-del-cibo/>

¹³According to *JustEat*, the figure could reach 1 billion euros over the next three years, growing by between 30 and 34%. Cfr. JustEat, Osservatorio del food delivery online, "La mappa del cibo a domicilio in Italia-2019" available online <https://www.justeat.it/esplora/osservatorio2019>

Chapter 1

E-commerce: a disruptive innovation

Summary: 1.1 Definition and forms of E-Commerce; 1.2 Major elements and disruptive attributes of E-Commerce; 1.3 E-Commerce business model; 1.3.1 *Scale effect*; 1.3.2 *Scope effect*; 1.3.3 *Switching costs*; 1.3.4 *Transaction costs*; 1.3.5 *Source of revenue* 1.3.6 *A viable EC business model*; 1.4 E-commerce role in companies' operations; 1.4.1 *Marketing*; 1.4.2 *Purchasing*; 1.4.3 *Design*; 1.4.4 *Production*; 1.4.5 *Sales and distribution*; 1.4.6 *Supplier development*; 1.5 E-commerce benefits and limits; 1.6 The E-commerce market in Italy; 1.6.1 *The impact of Coronavirus on E-commerce in Italy*.

1.1 Definition and forms of E-Commerce

Over the last 2 decades the Electronic Commerce (EC) has emerged like the most promising application of information technology, with a huge potential for manufacturing, retail and service operations.¹ The rapid emergence and growth of EC has brought changes to lifestyles and society in general² and radically transformed the way many companies do business.³ In recent years, more and more entrepreneurs, both large companies and retailers, have moved or expanded into the digital business.⁴ Some companies shifted their businesses entirely to the Web, transforming and adapting their old business models to the new digital landscape; some have established subsidiaries then spinning them off as separate online business entities, others invested in or merged with online start-ups.⁵

There is not a single EC definition generally accepted in literature (see table 1.1). For the purpose of this work, EC can be defined as *the process of conducting business electronically among various entities in order to satisfy an organizational or individual*

¹ Gunasekaran, A., Marri, H. B., McGaughey, R. E., & Nebhwani, M. D. (2002). E-commerce and its impact on operations management. *International journal of production economics*, 75 (1-2), 185-197.

² Sjahroeddin, F. (2018, October). The Role of ES-Qual and Food Quality on Customer Satisfaction in Online Food Delivery Service. In *Prosiding Industrial Research Workshop and National Seminar* (Vol. 9, pp. 551-558).

³ Amit, R., & Zott, C., (2000). Value drivers of e-commerce business models. EA Center - Wiley Online Library.

⁴ Erlyana, Y., & Hartono, H. (2017, December). Business model in marketplace industry using business model canvas approach: An e-commerce case study. In *IOP Conference Series: Materials Science and Engineering* (Vol. 277, No. 1, p. 012066). IOP Publishing.

⁵ Chung-Shing, L. (2001). An analytical framework for evaluating e-commerce business models and strategies. *Internet Research: Electronic Networking Applications and Policy*, 11(4), 349-359.

*objective. A key aspect of EC is the advertisement and procurement of goods and services via Internet.*⁶

More accurately, Kalakota and Whinston (1997)⁷ defined EC from the following four perspectives:

1. *communication perspective* – EC is the deliverer of information, products/services or payments over electronic means;
2. *business process perspective* – EC is the application of technology towards the automation of business transactions and work flows;
3. *service perspective* – EC is a tool that addresses the desire of firms, consumers and management to cut service costs while improving the quality of goods and increasing the speed of service delivery;
4. *online perspective* – EC provides the capacity to buy and sell products and information on the Internet as well as other online services.

It is obvious that EC can be described in many ways. Furthermore, overtime, it has emerged how it is possible to exchange almost any kind of product online, including food⁸, indeed, another definition of EC is linked to trading:

*EC is trading by means of new communications technology⁹. It includes all aspects of trading, including commercial market creation, ordering, supply chain management and the transfer of money.*¹⁰

Thus, EC revolution provided new channels for the global exchange of tangible goods and presented opportunities to create new businesses providing information and other knowledge-based intangible products, helping companies to foster a common environment for electronic transactions of all kinds.¹¹ In addition, Consumers prefer EC

⁶ Wakid, S., Barkley, J., & Skall, M. (1999). Object retrieval and access management in electronic commerce. *IEEE Communications Magazine*, 37 (9), 74-77.

⁷ Kalakota, R., & Whinston, A. B. (1997). *Electronic commerce: a manager's guide*. Addison-Wesley Professional.

⁸ Bresciani, S. (2017). Open, networked and dynamic innovation in the food and beverage industry. *British Food Journal*.

⁹ At the application level, typical technologies would include: telephone, EDI, electronic mail, electronic funds transfer, and the Internet – more specifically the Web.

¹⁰ Garrett, S. G. E., & Skevington, P. J. (1999). An introduction to electronic commerce. *BT Technology Journal*, 17 (3), 11-16.

¹¹ OECD, Electronic Commerce: Opportunities and Challenges for Government, OECD Publication, Vienna, 1998. Available online [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SG/EC\(98\)9/FINAL&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SG/EC(98)9/FINAL&docLanguage=En)

platforms as a shopping medium because they can shop at the comfort of their own homes and at the leisure of their own time.¹²

Table 1.1 - EC definitions

AUTHORS	DEFINITION
<i>Wakid, S., Barkley, J., & Skall, M. (1999)</i>	<ul style="list-style-type: none"> EC is the process of conducting business electronically among various entities in order to satisfy an organizational or individual objective.
<i>Garrett, S. G. E., & Skevington, P. J. (1999).</i>	<ul style="list-style-type: none"> EC is trading by means of new communications technology. It includes all aspects of trading, including commercial market creation, ordering, supply chain management and the transfer of money.
<i>Chung-Shing (2001)¹³</i>	<ul style="list-style-type: none"> EC is a disruptive innovation or technology that has radically changed the traditional way of doing business.
<i>Kim, H. and Niehm, L.S. (2009)¹⁴</i>	<ul style="list-style-type: none"> EC is the ensemble of activities to buy or sell a product, or to exchange valuable data, over an online platform
<i>Mohd Satar, N. S., Dastane, O., & Ma'arif, M. Y. (2019).¹⁵</i>	<ul style="list-style-type: none"> EC defined all aspects of business and market processes enabled by the Internet.

Source: Author's elaboration

Various forms of EC exist, each one offering different exchange-related opportunities.¹⁶ According to Turban et al. (2017)¹⁷, B2C (Business-to-Customer) EC has been the most explored form, involving the direct selling of goods and services from a company to a private end user. Furthermore, B2B (Business-to- Business) is an EC based on data or products exchange between enterprises using an online platform.¹⁸ The most common B2B-EC model is E-business, which entails the digitalization of corporate processes in conjunction with clients and suppliers (supplier selection, management of customer orders, after-sale services, etc.). This definition includes purchases of computers and mobile devices via smartphones and tablets, while digitally distributed

¹² Rezaei, S., Shahijan, M. K., Amin, M., & Ismail, W. K. W. (2016). Determinants of app stores continuance behavior: a PLS path modelling approach. *Journal of Internet Commerce*, 15(4), 408-440.

¹³ Chung-Shing, L. (2001). An analytical framework for evaluating e-commerce business models and strategies. *Internet Research: Electronic Networking Applications and Policy*, 11(4), 349-359.

¹⁴ Kim, H., & Niehm, L. S. (2009). The impact of website quality on information quality, value, and loyalty intentions in apparel retailing. *Journal of interactive marketing*, 23(3), 221-233.

¹⁵ Mohd Satar, N. S., Dastane, O., & Ma'arif, M. Y. (2019). Customer value proposition for E-commerce: A case study approach. *International Journal of Advanced Computer Science and Applications (IJACSA)*, 10(2), 454-458.

¹⁶ Faraoni, M., Rialti, R., Zollo, L., & Pellicelli, A. C. (2019). Exploring e-loyalty antecedents in B2C e-commerce. *British Food Journal*, 121(2), 574-589.

¹⁷ Turban, E., Outland, J., King, D., Lee, J. K., Liang, T. P., & Turban, D. C. (2017). *Electronic commerce 2018: a managerial and social networks perspective*. Springer.

¹⁸ Gordini, N., & Veglio, V. (2017). Customers churn prediction and marketing retention strategies. An application of support vector machines based on the AUC parameter-selection technique in B2B e-commerce industry. *Industrial Marketing Management*, 62, 100-107.

services (e.g. travel tickets), online downloads or digital media streams, online stores dedicated to B2B markets, and privately distributed (Customer-to-Customer, C2C) sales within the EC market are excluded. C2C, indeed, represent the EC form based on goods and services exchange between individual consumers.¹⁹ Moreover, C2B (Customer-to-Business), is the EC form in which consumers make their products available online for companies to bid and purchase.²⁰

The advancement of social media technologies has created a new form of online business called Consumer-to-Consumer social commerce (C2C s-commerce)²¹. Consumers leverage the features and functionalities of social networking to exchange products and services on sites like Facebook, Instagram, Twitter, and Pinterest.²² C2C s-commerce business model is expected to grow significantly in the future due to an increase in the number of s-commerce users worldwide.²³

¹⁹ Wu, K., Vassileva, J., Noorian, Z., & Zhao, Y. (2015). How do you feel when you see a list of prices? The interplay among price dispersion, perceived risk and initial trust in Chinese C2C market. *Journal of Retailing and Consumer Services*, 25, 36-46.

²⁰ Wang, W. T., Wang, Y. S., & Liu, E. R. (2016). The stickiness intention of group-buying websites: The integration of the commitment-trust theory and e-commerce success model. *Information & Management*, 53(5), 625-642.

²¹ Sukrat, S., MahatananKoon, P., & Papasratorn, B. (2016, September). The evolution of C2C social commerce models. In *2016 eleventh international conference on digital information management (ICDIM)* (pp. 15-20). IEEE.

²² For example, Facebook subscribers (vendors) use a personal profile for product presentation and Line chat for interaction with their customers (e.g., placing an order, product and delivery confirmation). Cfr. Sukrat, S., & Papasratorn, B. (2018). A maturity model for C2C social commerce business model. *International Journal of Electronic Commerce Studies*, 9(1), 27-54.

²³ Statista, Number of social media users worldwide from 2017 to 2025, <https://www.statista.com/statistics/278414/number-of-worldwide-social-network-users/>

1.2 Major elements and disruptive attributes of E-Commerce

EC tools have become a human need everywhere, not only for customers but mostly for industry players.²⁴ In the digital economy, where everything is knowledge-intensive and technology-based, the industry is evolving rapidly and the biggest challenge for companies is not how to imitate or benchmark the best EC business model in their industry, but how to radically change the mindset of managing traditional business.

Thus, as already highlighted in *table 1.1*, EC is more than just another way to conduct or enhance the existing business practices. Rather, EC is a paradigm shift. It is a disruptive innovation or technology that has radically changed the traditional way of doing business.²⁵

Bower and Christensen (1995) introduced for the first time the concepts of disruptive and sustaining technologies or innovations. Particularly, the authors stated that *sustaining innovations* are those technologies or processes that promote the improvement of product performance or business operations, while *disruptive technologies* are those that initially tend to degrade performance but promise greater long-term potential.²⁶

Furthermore, the technological changes that damage established companies have two main characteristics:

- 1) they typically present a different package of performance attributes²⁷;
- 2) the performance attributes that existing customers appreciate, improve at such a rapid pace that the new technology or innovation can later invade those established markets. Only then will traditional customers adopt the technology.²⁸

Most of the abovementioned EC forms often can't match the traditional business models in some key performance attributes, such as privacy and security in B2C commerce, and the robustness and capacity of the dedicated electronic data interchange system in B2B commerce.²⁹

²⁴ Mohd Satar, N. S., Dastane, O., & Ma'arif, M. Y. (2019). Op. Cit.

²⁵ Chung-Shing, L. (2001). Op. Cit.

²⁶ Bower, J. L., & Christensen, C. M. (1995). Disruptive technologies: catching the wave. *Harvard Business Review*, January-February, pp. 43-53.

²⁷ Ones that, at least at the outset, are not valued by existing customers.

²⁸ Bower, J. L., & Christensen, C. M. (1995). Op. Cit.

²⁹ However, overtime, streams of technological innovations improved these key performance attributes for the disruptive technology. For example, streams of incremental innovations in certificate signature technologies replaced the current secure socket layer technology to improve online transaction security. Cfr. Chung-Shing, L. (2001). Op. cit.

Furthermore, such performance attributes primarily associated with disruptive technology, which are not realized or valued by existing customers at the beginning, once established in the new market, streams of sustaining innovations will increase each attribute's performance along steep trajectories to meet the needs of mainstream customers. For instance, EC allows both customer and supplier to reduce transaction costs significantly and allow information to reach more people without sacrificing content richness. More specifically, *table 1.2* describes the main EC disruptive attributes recognized in literature. First, as just said, through EC information can reach many people through the Internet without sacrificing the richness of the contents.³⁰ Second, connectivity and interactivity enable to set real-time pricing, customer interactions, and very low costs for distributing information about goods and services. Third, network effects are much stronger in EC, thus, marketing programs can benefit from creating a critical mass of customer base. Fourth, the industry is moving very fast, thus, every company should learn to lead and change in “Internet time”. Fifth, through EC the information or knowledge of products can be reproduced and distributed for near zero marginal cost. Moreover, generalist stores can offer a huge variety of products without creating large exhibition areas that increase costs and disperse many shoppers. Furthermore, EC, thanks to the possibilities offered by the Internet, enables customer to be involved in the definition of the end product. Lastly, traditionally value has been created within the context of industrial sectors, such as manufacturing, retail, and financial services. In the digital economy, the value created in EC communities transcends traditional industrial sectors.

Table 1.2 - EC disruptive attributes

DISRUPTIVE ATTRIBUTES	DESCRIPTION
1. Economics of exchanging information.	The trade-off between richness and reach in information exchange has been blown up. Information can reach many people through the Internet without sacrificing the richness of the contents.
2. Connectivity and interactivity.	In EC, connectivity exists between information systems, and communication is two-way and is in real time. ³¹
3. Network economies of scale.	Network effects are much stronger in the digital economy. Marketing programs must take advantage of the network effects to build a critical mass of installed customer base.
4. Speed of change.	Executives in every industry must learn to lead and change in “Internet time.”

³⁰ Evans, P. B., & Wurster, T. S. (1997). *Strategy and the new economics of information* (pp. 71-82). New York, NY: Harvard Business Review.

³¹ Kandiah, G., & Gossain, S. (1998). Reinventing value: The new business ecosystem. *Strategy & Leadership*. Vol. 26 No. 5, November-December, pp. 28-33.

5. Economics of abundance.	In the digital economy, information or knowledge products can be reproduced and distributed for near zero marginal cost.
6. Merchandise exchange.	All-purpose stores or generalists can offer enormous variety (offered by many individual specialists) without building huge display areas that rack up costs and alienate many shoppers.
7. Prosumption.	Customer defines the end product, i.e. the convergence of design with development process and the production of goods and services by customers made possible by the Internet.
8. Industrial context.	In the digital economy, value generated in e-business communities transcends industrial sectors. ³²

Source: Author's adaptation from Chung-Shing, L. (2001)

Companies should be able to identify and take advantage of these key performance attributes of EC innovation with the aim to create new products and services, reach new markets, build customer loyalty, achieve market leadership, optimize business processes, enhance human capital, and harness technology. According to Chung-Shing, L. (2001) the failure to recognize these disruptive attributes when formulating EC strategy and business models may even lead to the demise of the business.³³

³² Tapscott, D. (Ed.) (1999), *Creating Value in the Network Economy*, Harvard Business School Press, Boston, MA.

³³ Chung-Shing, L. (2001), *op. cit.*

1.3 E-Commerce business model

The objective of this paragraph is to describe the EC business model and strategies, such as reconfiguration of value chain, alliances and partnerships or integration throughout the company, starting from the analysis of a company's traditional transformation process.

A business model can be defined as “the rationale or logic of how an organization creates, delivers, and captures value, and incorporates different facets of an organization's activities”³⁴.

The study conducted by Lockett and Brown (2006)³⁵ recognized the importance of technology intermediaries when creating EC business models as part of what they defined as an “e-trust platform.” The authors emphasized the importance of a business model's technology sophistication and innovation, and its value proposition and value creation potential.³⁶ Thus, the importance of technology in the value proposition of an EC business model is clearly recognized.³⁷

In a traditional marketplace, any company's input-output transformation process can be represented by “ $X \rightarrow \blacksquare \rightarrow Y$ ”, where X represents all the necessary inputs that are necessary to produce the end products or services (eg. raw materials) and Y represents the end products or intermediate goods used as inputs in another transformation process. Each company's transformation process includes one or more of these value-adding activities: (i) alter, (ii) transport, (iii) inspect, and (iv) store.³⁸ In this vein, the goal of traditional management's has always been to improve the transformation “box” by implementing techniques aimed at increasing efficiency, such as total quality management, lean manufacturing, and process reengineering.

In contrast, in the EC marketplace, X represents data or information used to create valuable products or services (Ys) for the customers and the value creation process in the EC economy includes five steps: (i) gather, (ii) organize, (iii) select, (iv) synthesize, and

³⁴ Osterwalder, A., & Pigneur, Y. *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*. Hoboken, NJ: John Wiley & Sons, 2010.

³⁵ Lockett, N.J., & Brown, D.H. Aggregation and the role of trusted third parties in SME e-business engagement: A regional policy issue. *International Small Business Journal*, 24, 4 (2006), 379–404.

³⁶ Holland, C. P., & Gutiérrez-Leefmans, M. (2018). A taxonomy of SME e-commerce platforms derived from a market-level analysis. *International Journal of Electronic Commerce*, 22(2), 161-201.

³⁷ Timmers, P. Business models for electronic markets. *Electronic Markets*, 8, 2 (1998), 3–8.

³⁸ Meredith, J.R. & Schaffer, S.M. (1999), *Operations Management for MBAs*, John Wiley & Sons, New York, NY.

(v) distribute.³⁹ Thus, the management should not focus on how to improve the transformation “box”, but rather on how to take advantage of the disruptive nature of EC and how to gather and utilize information (X) to create more value (Ys) for the customers.

Since information will not be exhausted during and after the value creation process, and the more people share the information, the more valuable it becomes, the EC economy is based on the economic “principle of abundance”.

In order to fully analyze the viability of a company's EC business model it is important to describe the concepts of both demand and supply-side economies of scale and scope, as well as the theories of transaction costs and switching costs.

1.3.1 Scale effect

According to the technological view of the firm, the firm is seen as a synergy between different units at any given point in time to exploit economies of scale or of scope.⁴⁰

Economies of scale exist when the production cost of a single product decreases as the number of units produced increases. In traditional industry, larger firms tend to have lower unit costs. Since the traditional strategy was to optimize the level of production at the minimum efficiency scale, the economies of scale have generally been exhausted at levels well below total market dominance. The traditional economies of scale based on manufacturing are referred as supply-side economies of scale.

In the industrial economy the large firm size used to serve as an effective entry barrier in the market. Nevertheless, EC and virtual value chain has redefined the concept of economies of scale and allow also small enterprises to achieve low unit costs for products and services in markets dominated by large companies.⁴¹ Even in EC, online superstores have the ability to spread fixed costs across a wider customer base and offer a broader selection of products to frequent visitors.⁴²

In contrast, a product has demand-side economies of scale (network effect or positive network externalities) if the more people use such a product, the more valuable it is for its users. Therefore, demand-side economies of scale do not spread out when the market

³⁹ Rayport, J.F. and Sviokla, J.J. (1995), “Exploiting the virtual value chain”, Harvard Business Review, November-December, pp. 75-85.

⁴⁰ Tirole, J. (1988), *The Theory of Industrial Organization*, The MIT Press, Cambridge, MA.

⁴¹ Rayport, J.F. and Sviokla, J.J. (1995), *op. cit.*

⁴² For example, Amazon.com is able to apply the same software written to help organize auction listings to toy-selling teams to rearrange their catalogue by price, age group and other variables. Cfr. Anders, G. (1999), “Web giants Amazon, eToys bet on opposing market strategies”, Wall Street Journal Interactive Edition, November 3.

gets larger. Success and failure are driven as much by consumer expectations as by the underlying value of the product. Thus, in EC business model implementing is crucial to develop a marketing strategy aimed at influence consumer expectations in order to achieve “critical mass”, since strong network effects exist.⁴³

Supply-side and demand-side economies of scale strengthen each other in the network economy. Demand-side growth reduces unit cost (and price) on the supply side and makes the product more attractive to other users, resulting in a bigger acceleration of demand growth for products.

1.3.2 Scope effect

Economies of scope are cost-saving externalities between product lines. For example, the production of good A reduces the production cost of good B.⁴⁴ The traditional concept of economies of scope (or supply-side economies of scope) was the rationale for corporate related diversification strategy in the industrial economy. In the marketspace, Rayport and Sviokla (1995) indicate that businesses can redefine economies of scope by drawing on a single set of “digital assets” (i.e. information companies collected about their customers) to provide value across many different and disparate markets.⁴⁵

These demand-side economies of scope, combined with the demand-side economies of scale discussed earlier, make the network effects even stronger in the digital economy. Building and sustaining a critical mass of installed base of customers (scale effect) is valuable because growth on the scale side increases the number of potential customers for cross selling merchandises (scope effect), which in turn will enable the company to build an even larger customer base.

As we’ll discuss later, in the EC market analysis (par. 1.6), Amazon.com dominates the online retailing market through strong customer relationships made possible by leveraging its digital assets. The company is able to constantly expand its reach to provide customers with products and services in many industries. The result is an even larger installed base of customers - its most important assets.

⁴³ In addition, strategies such as the timing of strategic moves, assembling a powerful group of strategic partners, aggressive in pricing and in exploiting relationships with complementary products, are crucial in building and sustaining a critical mass of installed base of customers. Cfr. Shapiro, C. and Varian, H.R. (1999), *Information Rules: A Strategic Guide to the Network Economy*, Harvard Business School Press, Boston, MA.

⁴⁴ Tirole, J. (1988), op. cit.

⁴⁵ Rayport, J.F. and Sviokla, J.J. (1995), op. cit.

In light of Amazon's success, brick-and-mortar superstores aim to take advantage of the scope effect by using the Internet for cross-category merchandising. They have the ability to spread fixed costs over a larger customer base but may have a harder time projecting an appealing image to customers across all categories.⁴⁶ Even so, they are still in a better position to take advantage of the scale and scope effects in EC.

Unable to take advantage of the demand-side economies of scope by widening their offerings, online specialty merchants are trying to differentiate their businesses by providing unique value for the online shoppers. For example, eToys can gift-wrap several items from an order separately, and then send them in one big shipment.⁴⁷ General merchandisers are not likely to imitate that costly service.

1.3.3 Switching costs

Switching costs are a case investment in multiple complementary and durable assets specific to a particular technology or system. Once the two parties have traded, staying together can yield a surplus relative to trading with other parties.⁴⁸ For example, companies can open part of their extranet to allow partners to access trade-specific information and their internal processes. The objective is to alter the way in which the users, typically external managers, make decisions related to the use of the extranet and make the trading partners dependent upon this information.⁴⁹

Total switching costs include those charged on the consumer to switch suppliers (e.g. inconvenience of switching suppliers, investment in specific assets, and the perceptions of a product or service), and those borne by the new supplier to serve the new consumer (e.g. marketing and research and development costs).

Switching costs should be evaluated relative to (the future streams of) revenues on a per-customer basis, and then add up these costs across the entire customer base to value

⁴⁶ Anders, G. (1999), op. cit.

⁴⁷ However, failure to exploit the demand-side economies of scope and unable to differentiate themselves from the online superstores by providing unique value for customers, many online specialty stores, such as Toysmart.com, Furniture.com, Living.com, and MotherNature.com, had to shut down operations and liquidate their assets permanently.

⁴⁸ Tirole, J. (1988), op. cit.

⁴⁹ Riggins, F.J. & Rhee, H. (1998), "Toward a unified view of electronic commerce", Communications of the ACM, Vol. 41 No. 10, October, pp. 88-95.

that base. For instance, Internet service providers must estimate their revenue stream from a new customer to understand how much to spend to acquire that customer.⁵⁰

Various strategies exist that can be used to enhance customer or trading partner's switching costs in the new economy, such as: "prosumption", i.e. involving consumers in the actual design and production processes⁵¹ (see table 1.2); building and developing online communities⁵²; and sustain a solid trust relationship with the final customers by participating in the e-business community or b-webs⁵³, which is an Internet-based model of value creation⁵⁴, through an increased number and variety of information, services, and products available to the customer.

1.3.4 Transaction costs

Coase (1937)⁵⁵ and Williamson (1985)⁵⁶ pioneered the *transaction costs theory* suggesting that a firm will tend to expand precisely to the point where "the costs of organizing an extra transaction within the firm becomes equal to the costs of carrying out the same transaction by means of an exchange on the open market."

In a market exchange between two parties, transaction costs are the searching, negotiating, monitoring, and enforcement costs that have to be borne to allow the exchange. These costs depend on four factors: (i) the amount of uncertainty, (ii) how opportunistic the business parties are, (iii) the specificity of any asset used in the business, and (iv) the frequency of transactions.

Since individuals and companies are cognitively limited and cannot collect and process all the information needed in order to take a decision, it is hard to foresee all the possible contingencies in a transaction. In addition, the coordinating costs (i.e. the cost of coordinating resource and processes) and contracting costs associated with market transactions can be prohibitively high. Thus, the economic benefits from vertical

⁵⁰ "As a rule of thumb, the profits a supplier can expect to earn from a customer are equal to the total switching costs plus the value of other competitive advantages the supplier enjoys by virtue of having a superior product or lower costs than its rivals" Cfr. Shapiro, C. & Varian, H.R. (1999), Op. cit.

⁵¹ Tapscott, D. (1996), *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*, McGraw-Hill, New York.

⁵² Armstrong, A. & Hagel, J. III (1996), "The real value of on-line communities", *Harvard Business Review*, May-June, pp. 134-141.

⁵³ Gossain, S. & Kandiah, G. (1998), "Reinventing value: the new business ecosystem", *Strategy & Leadership*, Vol. 26 No. 5, November-December, pp. 28-33.

⁵⁴ Tapscott, D., Ticoll, D. & Lowy, A. (2000), *Digital Capital: Harnessing the Power of Business Webs*, Harvard Business School Press, Boston, MA.

⁵⁵ Coase, R.H. (1937), *The nature of the firm*, *Economica*, Vol. 4 No. 4, pp. 386-405.

⁵⁶ Williamson, O.E. (1985), *The Economic Institutions of Capitalism*, Free Press, New York, NY.

integration arise when internalization overcomes transaction difficulties associated with external exchange.

Transaction costs theory also implies that the boundaries of the firm are set by the economics of exchanging information. Markets allow the exchange of slighter information among a large group of people, whereas organizations enable the internal exchange of rich information. Thus, the boundaries of the firm are determined at the point where one form of exchanging information becomes less cost-effective than the other.

However, as abovementioned (see table 1.2), thanks to Internet technologies, the trade-off between reach and richness in information exchange has been broken.⁵⁷ In addition, the costs of various types of market transactions have been strikingly reduced. In the digital economy, the concept of a separate negotiated deal at each step of the value creation process becomes a reasonable proposition.⁵⁸

As a result, the traditional value chains were fragmented or “disaggregated” into multiple potential opportunities for purely physical businesses. A new division of labor that transcends the traditional organizational boundaries changes the rules of competition and companies' way of organizing their value-creating activities. It is now easier and cost-effective to disaggregate out many value-creating activities out to the open market.⁵⁹ Consequently, companies must orient the value proposition to the benefit of the end-customer by understanding how Internet technologies enable them to add new forms of value in every step of the value-creating process. In addition, they must be able to creatively “reaggregate” a new set of value offerings as well as the enabling resources, structures, and processes.⁶⁰

1.3.5 Source of revenue

EC provides companies with new sources of revenues and additional opportunities to offer new services regardless of the traditional products or services sales. In EC business model implementation, pricing issue is important since it can be done in real time and product or service can be priced below their unit cost even in the long term, as long as other EC revenue models, such as online advertising and referral fees, are sustainable.

⁵⁷ Evans, P.B. & Wurster, T.S. (1997), op. cit.

⁵⁸ Tapscott, D., Ticoll, D. & Lowy, A. (2000), op. cit.

⁵⁹ Many companies, such as eBay and Cisco Systems, are also able to take advantage of the coordination (connectivity and interactivity) tools enabled by the Internet technologies to expand their business in highly focused areas of competency.

⁶⁰ Tapscott, D., Ticoll, D. & Lowy, A. (2000), op. cit.

Another revenue issue in EC business model is whether the customer value the benefit of one-stop shopping in EC (the “synergy effect” generated by offering cross-selling opportunities online). The point is whether the total revenue generated (rather than total cost saved) from one single generalist EC site, is greater than some combinations of two or more single-product providers (specialists). Some scholars argued that in the new EC ecosystems, the customer perceives greater value and benefit from the ability to “one-stop-shop” with a known and trusted company.⁶¹ Thus, to benefit from the EC synergy effect, companies must be able to develop a trust relationship with their end-customers through constantly providing value-added information, products and services, and the consistent level of experience and overall quality of the time that customers spend at companies' EC sites.

1.3.6 A viable EC business model

Chung-Shing, L. (2001) in his study found that a viable EC business model should have at least these characteristics:

- design programs that take advantage of the Internet network effects and other disruptive attributes to achieve a critical mass of installed base of customer;
- leverage on a single set of digital assets to provide value across many different and disparate markets;
- build trust relationships with customers through e-business communities or e-webs to increase their costs of switching to other vendors;
- transform value proposition and organizational structures for enhanced value creation;
- generate synergy effects on e-commerce product and service offerings.

The central idea of the author is that companies in the EC world should go beyond focusing primarily on improving the transformation efficiency. Rather, they should think “out-of-the-box” and take advantage of the disruptive attributes of EC to create new value for the customers.

⁶¹ Companies such as Amazon.com, Marshall Industries, and Edmunds.com provide good examples of offering complementary products or services to the end-customers from a single “trust” source. Cfr. Gossain, S. & Kandiah, G. (1998), op. cit.

1.4 E-commerce role in companies' operations

After discussing the impact of EC on company's business models, in this section the attention is focused more on the supporting potential role of EC in the company's main functional areas and activities.⁶²

1.4.1 Marketing

The advent of EC has deeply changed marketing practice. One need only examine the setting of an interactive home-shopping supermarket to appreciate the changing role of the retailer in EC, resulting from new computer-mediated relationships.⁶³ Comprehensive Internet EC systems provide nowadays sure and easy access, are easy to use, help overcome differences in time of business, location, and language between suppliers and customers, and at the same time support the entire trading process in B2B commerce.⁶⁴ For the first time Block and Segev (1996)⁶⁵ suggested the following EC impacts on marketing:

- *Product promotion*: EC enhances the promotion of products and services through direct, information-rich and interactive contact with customers.
- *New sales channels*: EC creates a new distribution channel for existing products, owing to its direct support of research on customers and the bi-directional nature of communication.
- *Direct savings*: The cost of delivering information or digitized products to customers over the Internet results in substantial savings to senders as compared to the costs of traditional delivery.
- *Reduced cycle time*: The delivery time for digitized products and services can be reduced to seconds. Also, the administrative work related to physical delivery, especially across international borders, can be significantly decreased, reducing the cycle time by more than 90%.

⁶² Gunasekaran et al. (2002) op. cit.

⁶³ Davis, R., Buchanan-Oliver, M., & Brodie, R. (1999). Relationship marketing in electronic commerce environments. *Journal of Information Technology*, 14(4), 319-331.

⁶⁴ Boll, S., Grüner, A., Haaf, A., & Klas, W. (1999). EMP—A Database-Driven Electronic Market Place for Business-to-Business Commerce on the Internet. *Distributed and Parallel Databases*, 7(2), 149-177.

⁶⁵ Bloch, M., Pigneur, Y., & Segev, A. (1996). Leveraging electronic commerce for competitive advantage: A business value framework. In *Proceedings of the 9th International Conference on EDIISO, "Electronic Commerce for Trade Efficiency and Effectiveness"* (pp. 91-112).

- *Customer service*: Customer service can be greatly enhanced by enabling customers to find detailed information online.⁶⁶ Also, intelligent agents can answer standard e-mail questions in seconds. Finally, human expert services can be expedited using help-desk software.

In addition, EC is an important direct support for the following three *marketing intelligence* activities: (i) search for products, (ii) management of search criteria, and (iii) comparison of products found. Regarding the first activity, in using EC in order to find a specific desired product, customer could use hyperlinks, 3D navigation, a search engine or any other navigational technology to assist them in one's search. During this search they may decide to switch to criteria management or comparison activity. Such a switch might be promoted by on-screen information (e.g. an advertisement for a related product) or as the result of an internal decision (e.g. due to an impasse in the search for a particular product).

Moreover, criteria management occurs when customers encounters information that prompts one to alter one's search criteria. Criteria may become more specific due to acquired information⁶⁷ and an entirely new set of criteria will be generated, e.g. when a user encounters a product that fulfils other needs in addition to meeting current purchasing goals. This activity may occur before the search for products, as when the Web is used to gather information to supplement one's knowledge of the product one intends to purchase. In most cases, the decision to switch from a search goal to a criteria management goal is prompted by the display.⁶⁸ Lastly, as users identify potential purchases, they need to compare them with each other, e.g. to find the cheapest, or perhaps the lightest. EC is a great support for the comparison of products enabling simultaneous and relative assessment of products on a number of criteria.⁶⁹

1.4.2 Purchasing

Automated purchasing and logistics are carried out between trading partners with well established relationships. Direct selling offers the prospect of large-scale

⁶⁶ For example, FedEx allows customers to trace the status of their packages.

⁶⁷ i.e. in examining laptop computers and discovering great variation in weights, one might decide that the weight is an important consideration in the decision and set a specific target for the laptop weight.

⁶⁸ Examples of prompts include advertisement, buttons offering product reviews, links to other information sources and the exposure to other products.

⁶⁹ Guttman, R. H., Moukas, A. G., & Maes, P. (1998). Agent-mediated electronic commerce: A survey. *Knowledge engineering review*, 13(2), 147-159.

disintermediation – eliminating middle-men from supply chains. However, some traditional intermediary roles will become threatened as businesses and individuals re-evaluate their trading patterns in response to new EC opportunities. Indeed, far from eliminating the need for intermediaries, the EC is currently generating a wide range of new opportunities in the facilitation and mediation of electronic trading environments. Intelligent purchasing advisors assist buyers in specifying their product requirements, searching for product information, and selecting the best supplier. This has led to a shift in the balance of power from sellers to buyers.

1.4.3 Design

Since companies have been forced to compete based on flexibility and responsiveness in a global market, there is a need to reduce the product development cycle time – it accounts for a major portion of the total leadtime to deliver the product after receiving orders from customers.⁷⁰ High quality design of products has been successfully achieved with the help of various computer-based technologies such as computer-aided design (CAD), 3D Modelling and ProEngineer to reduce the time to develop new products. The Internet can power those methods and web-based data collection and mining, to help improve the quality of design and to enhance competitiveness in global markets. Design engineers located in different parts of the country or world can exchange information using the Internet and WWW, resulting in a reduction of the design time and improving the accuracy of the information on product design. Nowadays companies are adopting a marketing strategy named *customer relationship management* (CRM) continuously collecting and refining information about current and potential customers. Also, CRM software can be applied to conduct research on customer requirements in order to help to design products that will capture good market share.⁷¹

1.4.4 Production

Currently, companies find crucial to implement e-manufacturing or e-service in order to address fast changes that take place in their operational and competitive environments.⁷²

⁷⁰ John, C. H. S., Cannon, A. R., & Poudar, R. W. (2001). Change drivers in the new millennium: implications for manufacturing strategy research. *Journal of Operations Management*, 19(2), 143-160.

⁷¹ Peppard, J. (2000). Customer relationship management (CRM) in financial services. *European Management Journal*, 18(3), 312-327.

⁷² Griffiths, J., Elson, B., & Amos, D. (2001). A customer-supplier interaction model to improve customer focus in turbulent markets. *Managing Service Quality: An International Journal*.

Thus, B2B-EC is necessary. Several Internet enabled supply chain management systems and enterprise resource planning (ERP) systems exist available today including MRP, SAP, BAAN, Oracle, Peoplesoft, and IBM e-business.⁷³ Communication and data collection constraints are reduced with Web-based production of goods and services. Using database management, data warehouse and data mining technologies, the Web can facilitate interaction with customers and suppliers, data collection, and data analysis processes.⁷⁴

Also, outsourcing of service functions is nowadays a recurring strategy, that allows businesses to focus on their core competencies, so managers can leverage their firm's limited skills and resources for increased competitiveness. Venkataraman and Henderson⁷⁵ asserted that three interdependent vectors, the virtual encounter, virtual sourcing, and virtual expertise, are integral in realizing a virtual organizational structure.⁷⁶ Outsourcing offers firms the option of securing many, if not all of the capabilities necessary to conduct B2B and B2C-EC.

1.4.5 Sales and distribution

After the initial EC spread it finally came into the mainstream and retailers realized its key role in customer service. Nevertheless, a large number of potential web shoppers abort their transactions in frustration over the process and have security fears about web-based transactions. Thus, powerful techniques have been developed in the EC framework to support the security requirements (e.g., integrity, authentication, authorization and non-repudiation). Also, EC models for B2B and B2C transactions have been developed.⁷⁷

Notwithstanding technological support, human contact is still an important aspect that makes shopping in the physical world more comfortable to most people than shopping online. So far, many people who surf retail web sites for products or services end up completing the commercial transaction over the phone. Strategies and products for bringing better customer service to EC emerged. In the increasingly crowded arena of

⁷³ Archer, N., & Yuan, Y. (2000). Managing business-to-business relationships throughout the e-commerce procurement life cycle. *Internet research*.

⁷⁴ Wang, F., Head, M., & Archer, N. (2000). A relationship-building model for the Web retail marketplace. *Internet Research*.

⁷⁵ Venkataraman, N., & Henderson, J. C. (1998). Real strategies for virtual organizing. *MIT Sloan Management Review*, 40(1), 33.

⁷⁶ Graham, G., & Hardaker, G. (2000). Supply-chain management across the Internet. *International Journal of Physical Distribution & Logistics Management*.

⁷⁷ Decina, M., & Trecordi, V. (1999). Voice over Internet protocol and human-assisted e-commerce. *IEEE Communications Magazine*, 37(9), 64-67.

online shops and full-fledged e-malls, internet protocol (IP) calling is a strong point of differentiation. If vendors can harness IP voice technology to create icons and connections for live contact and call-back customer assistance, it could vastly increase the efficiency and the value of existing retail web sites and provide a more solid business model for launching new EC ventures.

A number of new technical systems reshaped the businesses competition, by providing new channels through which to reach consumers, and allowing the entry of new competitors into the established, once difficult to penetrate markets. Companies formerly engaged solely in manufacturing and selling to intermediaries, like large textile and apparel manufacturers, have recognized opportunities created by these new technologies to compete directly with large retailers.⁷⁸ Retailers often demanded high product variety from manufacturers, but it did not necessarily translate into display of the manufacturers full range of products within the retail establishments. Where there are conflicting views on marketability, only a limited number of products can gain shelf space. For manufacturers, there are significant advantages to be gained from using new distribution channels to give visibility to their full range of products and to improve their competitive position by establishing close direct contact with those who buy their products.

EC provides manufacturers with a great opportunity to sell and distribute directly to final customers. One of the emerging EC technologies that some manufacturers have investigated is the “smart kiosk”. These are sophisticated devices spawned from the automated teller machine (ATM) systems used by banks. Touch screen driven terminals linked to distant servers use hypermedia systems to provide information on products and support credit card purchases. Kiosks are thought suitable for location in high access public sites such as entertainment complexes, fast food restaurants, airports and train stations.⁷⁹ Kiosks can be used in retail stores to widen the range of products that are offered and to provide additional product information. They might also provide a supplement to the development of Internet selling – providing access points for those who do not have Internet access. Obviously, these systems, as with other alternatives to

⁷⁸ Wal-Mart’s practice of “power buying” is a good example – Wal-Mart dictates the terms of exchange and manufacturers can “take it or leave it”. Manufacturers face stiff competition from retailers who are increasingly emphasizing their own store brands, which quite often are produced in developing nations at a very low cost, forcing manufacturers to search for ways to compete more effectively and restore profitability. Information gained at the point of sale and control of display space allocation in stores, once gave retailers great advantage in increasing the market shares of their own brands. Cfr. Hoch, S. J. (1996). How should national brands think about private labels? *MIT Sloan Management Review*, 37(2), 89.

⁷⁹ Rhodes, E., & Carter, R. (1998). Electronic commerce technologies and changing product distribution. *International Journal of Technology Management*, 15(1-2), 31-48.

traditional in-store retailing, have to be supported by effective networks of manufacturing or warehouse locations that can rapidly deliver products to customers. In this, as with the broader changes in supply chain management, the role of logistics is increasingly critical to success – it is not enough to sell a product at a competitive price, one must get it to the consumer fast to be considered a viable alternative to traditional store retailers.

Alternative marketing channels such as the Internet, and interactive cable and satellite-based teleshopping, are currently believed to offer great promise in changing the landscape of modern retailing. During a transitional stage, the Internet was mainly used to provide product information and to project a specific company image via web pages, but the number of retailers and manufacturers selling via the Internet is increasing daily. A number of virtual malls have been developed to provide display space for groups of retailers, including smaller companies. Use of the Internet for selling is partly dependent on confidence in the security of Internet transactions. It is noteworthy, therefore, that encryption techniques and related security technology have improved to the point that Internet transactions may actually be less risky than traditional face to face and telephone transactions. Faster Internet access made possible by better phone modems, cable modems, faster processors, increased RAM, and more, have likewise played a role in the expansion of Internet based EC.

The Internet can actually be used to distribute many informational products, as well as products like software and music that can also be digitised. Internet distribution can produce significant savings in shipping, and it facilitates delivery at speeds only hoped for by those using other, more traditional delivery modes such as truck, air, and rail. Even those who use traditional modes of transportation can use Internet based tools to increase customer service. Web-based order tracking has become common place. It allows customers to trace the shipment of their orders without having to contact the shipper directly. UPS was one of the pioneers in offering this web-based customer service.

1.4.6 Supplier Development

EC's access to information and suppliers can empower buyers by giving them access in turn to a larger number of alternative products, and by allowing them to consider a larger number of vendors. Companies can also establish contact and do business with a wider range of trading partners and customers. Many organizations can do business

globally because EC can reduce and even eliminate barriers associated with time and distance.⁸⁰

Intelligent agents can assist buyers in finding the best prices on products and the most favourable terms available from suppliers. These intelligent agents can do in seconds, or perhaps minutes, what might take a person days or weeks to do using traditional approaches to comparison shopping which require phone, catalogues, and lots of time.

Networks can also help businesses by communicating more often and more effectively with suppliers and customers, using a variety of media that provide for richer, more personalized communications. More information can be exchanged between internal and external entities, which previously had no contact with each other. Businesses have shown tremendous interest in using the Internet as a means for building stronger relationships with customers, suppliers and business partners as well as in using Internet-based networks internally to facilitate collaboration between employees, dissemination of information, and reduction of communication expenses⁸¹.

⁸⁰ Levis (1996), op. cit.

⁸¹ Decima & Trecordi (1999), op. cit.

1.5 E-commerce benefits and limits

The open standards of the Internet ensure that large organizations can easily extend their trading communities, by increasing the efficiency of their business operations. In addition, smaller companies that found the proprietary communications technologies of the last 2 decades too complex and costly, can now select the level of communication appropriate for their businesses and benefit from the EC revolution.

Table 1.3 shows the numerous capabilities and opportunities afforded by an Internet-based EC marketplace. Internet-based EC has been embraced as a means of reducing operational cost and as a high potential means of generating revenue.⁸² Indeed, EC has changed manufacturing systems from mass production to demand-driven, possibly customized, just-in-time manufacturing systems. Companies like IBM, General Motors, General Electric and Boeing are assembling products for which the components are manufactured in many locations. Sub-assemblers gather materials and parts from their vendors and they may use one or more tiers of manufacturers. Thus, communication, collaboration and coordination become critical in such multitier systems.⁸³ Using electronic bidding, assemblers get sub-assemblies 15–20% cheaper than before, and up to 80 percent faster. These systems are flexible and adaptable, allowing fast changes with minimum cost. Costly inventories, once inherent in mass production systems, can be minimized.⁸⁴

Moreover, an Internet-based EC marketplace will significantly improve the productivity and competitiveness of participating companies, whether they are suppliers or customers. The Internet houses an on-line global marketplace that operates 24 hours a day, with millions of sellers, buyers, products and services and also provide companies with new, more cost effective and time-efficient means for working with customers, suppliers and development partners.

Thus, EC encompasses all forms of interactive business transactions, which are facilitated by networks of computers. Why EC has expanded so rapidly overtime? Because of the greater number of businesses and individuals who are able to use

⁸² Damanpour, F., & Damanpour, J. A. (2001). E-business e-commerce evolution: perspective and strategy. *Managerial finance*.

⁸³ Bartell, R. L., Blackwood, N. A., Eggenschwiler, D., Nguyen, M. H., Schnidrig, C., & Yatchman, M. J. (1999). The MediaXact system—A framework for personalized electronic commerce services. *Bell Labs Technical Journal*, 4(2), 153-173.

⁸⁴ Turban, E., King, D., Lee, J., & Viehland, D. (2002). Electronic commerce: A managerial perspective 2002. *Prentice Hall: ISBN 0, 13(975285)*, 4.

electronic devices and the growing number of ways in which businesses can conduct transactions electronically with other organizations and directly with consumers.⁸⁵

Table 1.3 - Capabilities and opportunities afforded by an Internet-based EC marketplace

EC BENEFITS FOR COMPANIES
<ul style="list-style-type: none"> • Shorter procurement cycles through the use of on-line catalogues, ordering, and payment • Lower costs on both stock and manufactured parts through competitive bidding • Lower development cycles and faster time-to-market through collaborative engineering, product, and process design, regardless of the location of participants • Gain access to world-wide markets at a fraction of traditional costs • Product, marketing information, and prices are always up to date • Increased speed of communication, especially international communication • Reduction of purchasing and production cycles • Lower cost of communications directly (E-mail and EDI save on postage) and, consequently, lower inventory and related inventory and purchasing costs • Much closer relationship with customers and suppliers, e.g. web sites enable companies to maintain customers and suppliers apprised of developments that concern them and practice effective relationship marketing • Quick and easy way of exchanging information about a company and its products

Source: Author's adaptation from Gunasekaran et al. (2002)

Currently, in several countries B2B EC volume seems to be surpassed by B2C EC volume. These trends are important to the global economy and to the economy of each country since EC contributes to economic efficiency in several ways:

1. shrinking distances and timescale;
2. lowering distribution and transaction costs;
3. speeding product development;
4. providing more information to buyers and sellers;
5. enlarging customer choice and supplier reach.⁸⁶

From the users' side EC has also several limits, such as:

- Inability to see and test the product physically: Among the main disadvantages of buying online is the inability to see, touch, smell and physically try the item you want to buy;
- More or less long delivery times: Sometimes couriers who are involved in the delivery of products purchased online can take many days to deliver the item. This can create consumer resistance to buying products online;
- Any difficulties in the process of returning goods: sometimes an unclear return service can lead consumers to be wary of buying online. This barrier can be

⁸⁵ Statista, Worldwide digital population as of July 2020, <https://www.statista.com/statistics/617136/digital-population-worldwide/>

⁸⁶ Gunasekaran, A., Marri, H. B., McGaughey, R. E., & Nebhwani, M. D. (2002). op. cit.

overcome by making this mechanism clear and offering continuous and efficient customer service

- Lack of dialogue with a salesman: the lack of assistance during the purchase is a disadvantage for the online shop. However, to work around this issue, chat systems can be implemented within the company site that allow the potential customer to have secure guidance in the conversion process.⁸⁷

Thus, there is no single dominant effect or cost advantage that will provide a long-term sustainable competitive advantage for a company. Companies that want to successfully carry out EC activities need to consider all these aspects, both in the realization of a functional and perfectly user-friendly site, and in the planning of specific marketing activities that serve to support sales and customer loyalty. The creation of a site alone, however optimal it may be from a technological point of view, is not enough to obtain important revenues from e-commerce. In other words, companies must aim to offer a quality digital customer experience based on the combination of rational and emotional factors, capable of positively influencing the customer's perception of a brand/brand, through the online channel.

Therefore, without an understanding of the underlying strategic logic of EC and digital economy, companies will not be able to take full advantage of the disruptive power of EC.

⁸⁷ KPMG, Global Online Consumer Report, 2017, *KPMG International*, available online <https://assets.kpmg/content/dam/kpmg/ca/pdf/2017/04/the-truth-about-online-consumers-canadian-addendum.pdf>

1.6 The E-Commerce market in Italy

This paragraph describes the development trend of the EC market in Italy, with a particular focus on the impact of the COVID-19 pandemic on all the EC sectors and results, included EC business model's innovation. Data were mostly gathered from the "EC in Italy - Report 2020" produced by Casaleggio&Associati⁸⁸, as well as from websites of specialized companies which produce EC reports and statistics worldwide.

In 2019, the global EC total turnover amounted to 15,751 billion Dollars (+15% respect 2018), including B2C and B2B. Specifically, B2C, or online retail, represents 23% of the total and is two percentage points up from the year just ended.⁸⁹

Europe has the highest rate of internet penetration (727.56 million users), which currently stands at 85% and has grown by 5% compared to 2018.⁹⁰ Indeed, in 2019 in Europe, 70.6% of the population purchased something online via a mobile device (64,5%) and via a marketplace (79%).⁹¹

Amongst the leaders are the *Fashion* sector with 89 billion Euro (+10% up on 2018), the *Consumer electronic and Media* sector with 76 billion Euro (+10%), the *Leisure* sector with 60 billion Euro (+8%), the *Home and Furnishings* sector at 44 billion Euro (+12%) and finally the *Food-stuffs and Health and Beauty* sectors with 38 billion Euro (+12%). The average annual turnover per user in Europe currently stands at 558 Euro.⁹²

The growth trend seems to continue in the coming years. New markets are emerging and existing markets also have the potential for further development. This will be driven mainly by East and Southeast Asia, with their middle class expanding and lagging offline shopping infrastructure.⁹³

⁸⁸ "E-commerce in Italy 2020 - Selling online in the time of the Coronavirus", *Casaleggio Associati Digital Thinking*, may 2020, <https://www.casaleggio.it/focus/rapporto-e-commerce-in-italia-2020/>

⁸⁹ B2C e-commerce worldwide is worth 3,535 billion Dollars, 20% up on the previous year. It is estimated that this figure will hit 5,000 billion Dollars in 2020 and will continue to grow at the same rate. Cfr. "In-depth: B2B e-Commerce 2019", <https://www.statista.com/study/44442/statista-report-b2b-e-commerce/>; "Global Ecommerce 2019", <https://www.emarketer.com/content/global-ecommerce-2019>

⁹⁰ "Global internet penetration rate from 2009 to 2019, by region", Statista, 2020, <https://www.statista.com/statistics/265147/number-of-worldwide-internet-users-by-region/>; Internet usage worldwide, Statista, 2020, <https://www.statista.com/statistics/617136/digital-population-worldwide/>

⁹¹ "Digital Buyer penetration in Europe from 2017 to 2024", Statista, 2019, <https://www.statista.com/forecasts/891317/digital-buyer-penetration-in-europe>; "E-commerce in Europe 2019", Postnord, 2019, <https://www.postnord.se/en/our-solutions/e-commerce/e-commerce-reports>

⁹² "eCommerce - Europe", Statista, 2019, <https://www.statista.com/outlook/243/102/ecommerce/europe>

⁹³ E-commerce market analysis, "The eCommerce market in Italy", <https://ecommercedb.com/en/markets/it/all>

EC in Italy is developing rapidly and has experienced double-digit annual growth over the past ten years. Although Italy's digital economy lags behind other major European countries, EC is poised to continue its upward trend in the coming years, with B2C, B2B and C2C transactions recording solid growth.⁹⁴

Considering the Italian EC market, 12% of Italian companies are active in EC, 79% of them in the consumer field. Italy is the 14th largest market for EC and 41.5 million individual users (76% of Italian EC users)⁹⁵ shopped online in 2019, with an average spend per user per year of 668 Euro.⁹⁶

The main factors that stimulate the development of EC in Italy are:

- Improved Internet access and increased availability of broadband Internet,
- The strong prevalence of mobile phones and smartphones,
- The improvement of transaction security,
- The Italian law recognizing the legal validity of digital signatures and digital contracts,
- The possibility of buying products at lower prices than in brick and mortar shops.⁹⁷

As regards the legislation, since 2019 companies selling online have to communicate to the Department of Inland Revenue the personal details of the suppliers, as well as the total number of units sold in the Country by each supplier and the selling price. The first return, scheduled for October, included sales made in the previous five months, with subsequent returns being required on a quarterly basis. This information allows authorities to better control online sales of all platforms and, if applicable statements are not submitted, the party is considered a tax debtor.⁹⁸ Moreover, in 2020 the Italian Government introduced a “Web tax” which is estimated to generate an extra-income for the Government of 700 million Euro. This tax amounts to 3% on the service revenues of

⁹⁴ PrivacyShield, “Italy - eCommerce”, available online <https://www.privacyshield.gov/article?id=Italy-eCommerce>

⁹⁵ 98% of users purchased goods via a marketplace during the course of the past year and 31.6 million people made online purchases from foreign websites, in particular from China, the UK, the United States and Germany. Cfr. “E-commerce in Europe 2019”, Postnord, 2019, <https://www.postnord.se/en/our-solutions/e-commerce/e-commerce-reports>

⁹⁶ “Total Digital Audience del mese di dicembre 2019”, Audiweb 2019, <http://www.audiweb.it/news/comunicati-stampa/total-digital-audience-Dicembre-2019.html>

⁹⁷ The Italian E-commerce Market, october 2019, <https://delante.co/the-italian-e-commerce-market/>

⁹⁸ Fisco e Tasse (2019), “Vendite di beni online: ecco come trasmettere i dati all’Agenzia delle Entrate”, <https://www.fiscoetasse.com/rassegna-stampa/27170-vendite-di-beni-online-ecco-come-trasmettere-i-dati-all-agenzia-delle-entrate.html>

tech-companies with a global annual turnover in excess of 750 million Euro, of which 5.5 million is generated in Italy.⁹⁹

The value of EC turnover in Italy shows a consolidated growth trend overtime (*figure 1.1*) and is in the order of 48.5 billion Euro in 2019, reflecting a growth of 17% compared to 2018. This trend is confirmed once again by the Italian Institute of Statistics (ISTAT), according to which EC recorded +15.8% only in January 2020 compared to 2019, in line with a robust and steady growth that recorded +17% of turnover in 2018.¹⁰⁰

Which industries and products are most frequently chosen by Italians? *Table 1.4* shows the EC market share by sector and revenues in Italy (2018, 2019). Amongst the fastest growing sectors, the *Leisure* sector is at the top of the list with 42.7% turnover from EC, followed by the *Tourism* sector (25,6%). *Shopping malls* represent 15.5% of total EC turnover, with an increase of 25%. The *Insurance* sector, which is growing at a rate of 4% in terms of turnover, now holds a 4.6% share of the total turnover. The *Health and Beauty* sector is growing at a rate of 27%, continuing last year's trend but still only making up 0.4% of the total. The *Home and Furnishings* sector is growing at a rate of 25% and now represents 0.9% of the total. The *Foodstuffs* sector is growing at a rate of 19%, thanks to food delivery services and increasing consumption, and now makes up 3.1% of the total.

Figure 1.1 - Value of e-commerce turnover in Italy (2004-2019)

2004:	1,645,683,000 euro	
2005:	2,123,495,000 euro	+29%
2006:	3,286,223,000 euro	+55%
2007:	4,868,336,000 euro	+48%
2008:	6,364,907,000 euro	+31%
2009:	10,037,544,000 euro	+58%
2010:	14,357,589,000 euro	+43%
2011:	18,970,504,000 euro	+32%
2012:	21,154,120,000 euro	+12%
2013:	22,337,275,000 euro	+6%
2014:	24,188,468,000 euro	+8%
2015:	28,850,766,000 euro	+19%
2016:	31,671,827,000 euro	+10%
2017:	35,133,577,000 euro	+11%
2018:	41,519,772,000 euro	+18%
2019:	48,546,741,581 euro	+17%

Source: E-commerce in Italy 2020 - Selling online in the time of the Coronavirus, *Casaleggio Associati Digital Thinking*, may 2020, <https://www.casaleggio.it/focus/rapporto-e-commerce-in-italia-2020/>

⁹⁹ A sunset clause provides that this tax will remain in force until such time as an international accord is reached for the introduction of a standard tax, which is expected to be in place by the end of 2020. Cfr. "Tutti parlano di web tax, ma a che punto siamo davvero?", *Wired*, 2020, <https://www.wired.it/economia/business/2020/01/23/web-tax-europa-stati-uniti/>

¹⁰⁰ Italian Institute of Statistics, Report "COMMERCIO AL DETTAGLIO", jan 2020, https://www.istat.it/it/files/2020/03/CS_Commercio_al_dettaglio_0120.pdf

The *Consumer electronics* sector is growing at a rate of 17% (making up 3.3% of the total), while the *Fashion* sector is growing at 16% (2.1% of the total) and the *Publishing* sector at 11% (1.8% of the total) since more than one out of every four books sold is now sold online.

Table 1.4 - EC turnover distribution in Italy, 2019

SECTORS	MARKET REV. SHARE	VAR. 2018-2019
<i>Leisure</i>	42.7%	21%
<i>Tourism</i>	25.6%	7%
<i>Shopping malls</i>	15.5%	25%
<i>Insurance</i>	4,6%	4%
<i>Health and Beauty</i>	0,4%	27%
<i>Home and Furnishings</i>	0,9%	25%
<i>Foodstuffs</i>	3,1%	19%
<i>Consumer electronics</i>	3,3%	17%
<i>Fashion</i>	2,1%	16%
<i>Publishing</i>	1,8%	11%
TOTAL	100%	-

Source: author's elaboration from "E-commerce in Italy 2020 - Selling online in the time of the Coronavirus", *Casaleggio Associati Digital Thinking*, may 2020, <https://www.casaleggio.it/focus/rapporto-e-commerce-in-italia-2020/>

Many companies in Italy offer successful omnichannel digital solutions and multilingual, multicurrency, and multi-brand international EC websites. These kinds of companies support brands in managing all aspects of their e-stores, including retail strategy, business planning, communication, web marketing, store management, customer service, billing, and payment collection. Thus, these channels offer opportunities for small and medium-sized foreign companies interested in selling to the Italian market.¹⁰¹

Since the Italian EC market is sophisticated, with high penetration and high solvency, the competition is fairly intense.¹⁰² Table 1.5 depicts the main EC Italian players in 2019. The ranking is based on every store that generates revenue in Italy, not considering their revenue in other countries or on a global scale. The biggest company in the Italian EC Market is Amazon.it with \$2.6 billion in 2019, which benefits from the advantage of leader the enormous American market and its very early development, followed by Zalando.it with \$504 million revenue and Apple.com with \$371 million revenue. Overall,

¹⁰¹ Italy - eCommerce, <https://www.privacyshield.gov/article?id=Italy-eCommerce>

¹⁰² Top 10 e-commerce sites in Italy 2020, July 2020, <https://disfold.com/top-e-commerce-sites-italy/>

the first three EC stores account for 20% of online sales in Italy. One of the fastest growing stores in the Italian market is Shein.com which recorded a revenue increase of +106% compared to 2018.

Table 1.5 - EC Store Ranking by revenue, 2019

ONLINE STORE	MAIN COUNTRY	TOTAL REVENUE	VAR. 2018-2019
1) <i>Amazon.it</i>	IT	> \$2,500m	+ 3,7%
2) <i>Zalando.it</i>	IT	> \$500m	+ 9,4%
3) <i>Apple.com</i>	USA	> \$20,000m	- 0,5%
4) <i>Shein.com</i>	USA	> \$2,000m	+ 106,1%
5) <i>Esselungaacasa.it</i>	IT	> \$200m	+ 10,5%
6) <i>Privaitalia.com</i>	IT	> \$500m	+ 10,5%
7) <i>Unieuro.it</i>	IT	> US\$200m	+ 23,3%

Source: author's elaboration from <https://ecommercedb.com/en/ranking/it/all>

In addition, B2B-EC applications and e-procurement¹⁰³ are registering continued growth. The most active players implementing B2B solutions are in the automotive, pharmaceutical, consumer goods, electronics and consumer electronics sectors.

Specialized B2B applications in key “Made in Italy” sectors are also gaining momentum; there is an estimated 350 B2B platforms across different industries. Virtually all major Italian industrial groups utilize e-procurement and forecasts indicate that in the next few years up to 80% of all company purchases will be online.

The need for the Italian public sector to improve efficiency is driving the growth of e-procurement and significant developments are occurring in this field. To rationalize expenditures for goods and services, both the central and local Italian government offices utilize the Italian Public Administration eMarketplace (MEPA), an e-procurement platform managed by Consip SpA, the Italian Central Purchasing body, 100 % owned by the Italian Ministry of Economy and Finance (MEF) through its division “Acquisti in Rete PA” (Public Procurement Online). MEPA connects Italian public bodies to thousands of suppliers throughout Italy. The public sector utilizes e-sourcing to purchase information technology equipment and office supplies, furniture, uniforms, personal safety devices, vehicles and supplies for healthcare. E-procurement of services is also growing, particularly in the areas of energy (fuel, electric power), printing services, vehicle rental, cleaning services and financial services.¹⁰⁴

¹⁰³ eProcurement platforms are used in Italy by large enterprises to manage the electronic orders of clients and suppliers.

¹⁰⁴ The Italian E-commerce Market, october 2019, <https://delante.co/the-italian-e-commerce-market/>

To give another perspective of the state of the market competition in the Italian EC landscape, *table 1.6* shows the top 10 EC platform in Italy in 2020 according to their estimated monthly traffic¹⁰⁵:

- 1) Amazon dominates the Italian EC market also in terms of monthly traffic through the website. Founded in the US in 1994, Amazon has become the uncontested global leader of EC and developed further into brick-and-mortar retail with the acquisition of Whole Foods Market, as well as publishing, electronics, cloud computing, video streaming, and production;
- 2) Ebay, the American online marketplace, founded in 1995, which has expanded in more than 20 countries including Italy, organizing the sale of products ranging from cars and vehicles to electronics and fashion, home and garden to sports and toys, and even business and industrial products;
- 3) Mediaworld, founded in 1979, is the Italian brand of MediaMarkt, a German multinational chain of stores specialized in the retail of consumer electronics. The company, through its online platform, became the world's second-largest chain of consumer electronics, behind the American company Best Buy;
- 4) Unieuro is an Italian retail chain specialized in consumer electronics and household appliances which has also developed its online store and acquired Monclick, a specialized EC operator, to reinforce its online activities;
- 5) AliExpress is a specialized online retail store and marketplace, based in China and owned by the Alibaba Group, which allows companies and individuals to sell through its platform a broad range of products;
- 6) Zalando is a German EC company, founded in 2008, specialized in the online selling of fashion, shoes, beauty items, accessories, and sports items. Its largest shareholder is now the Swedish investment company Kinnevik;
- 7) IBS stands for Internet Bookshop Italia and is an online bookstore and digital media store founded in 1998. The company was a pioneer of EC in Italy, credited with operating the first credit card sale on the internet in the country. It has now expanded to selling a range of books, media products, video games, toys, and ebooks;
- 8) Decathlon is a French sporting goods chain of retail stores. Selling a wide range of sports equipment, shoes, clothing, and accessories for all types of sports,

¹⁰⁵ Top 10 e-commerce sites in Italy 2020, July 2020, <https://disfold.com/top-e-commerce-sites-italy/>

Decathlon has also developed its own brands of sports goods and clothing, and created an EC platform to sell its products online;

- 9) ePrice is a specialized EC department store providing a wide range of consumer electronics, household appliances, tools, furniture, outdoor products, and car and motorbike parts and equipment. Operating as Banzai until 2016, ePrice has now also diversified to provide a range of home services related to the installation and protection of large home appliances;
- 10) Founded in 1957, Esselunga was the first to introduce online shopping in Italy for groceries and fresh food products, as well as self-produced organic products. The company operates with 160 stores in Northern and Central Italy, and it is now controlled by Supermarkets Italiani S.p.A.

Table 1.6 - Ranking of top Italian EC platforms by estimated monthly traffic (2020)

EC platform	Website	Monthly traffic
1) AMAZON	amazon.it	180.5 Million visits
2) EBAY	ebay.it	76.9 Million visits
3) MEDIAWORLD	mediaworld.it	11.3 Million visits
4) UNIEURO	unieuro.it	10.4 Million visits
5) ALIEXPRESS	it.aliexpress.com	8.65 Million visits
6) ZALANDO	zalando.it	8.1 Million visits
7) IBS	ibs.it	6.3 Million visits
8) DECATHLON	decathlon.it	5.9 Million visits
9) EPRICE	eprice.it	5.15 Million visits
10) ESSELUNGA	esselunga.it	5.1 Million visits

Source: Author's elaboration from <https://disfold.com/top-e-commerce-sites-italy/>

Worldwide consumers' habits are changing, taking them online and away from the shopping mall, thus experts talk about a "retail apocalypse" and data suggests that businesses must change how they do business, perhaps taking advantage of digital retail, the only sector in the sector that continues to show double-digit growth.¹⁰⁶

Undoubtedly, the Italian EC market is in a phase of net expansion. Because the trend has been continuing for several years now, it can be assumed that the upcoming years will bring a noticeable increase in the EC sales sector of both services and products. Online sales are growing fast and an ever-increasing number of companies are choosing

¹⁰⁶ Retail concerns all activities connected with the sale of goods and services by a company directly to the consumer for personal or family use are considered retail. In other words, the term "retail" refers to commercial companies such as supermarkets, specialist shops, but also hotel chains, bars and restaurants, barbers, etc. whose core business is the sale of products or services to consumers, who benefit from them directly.

to invest in the Web due to the impressive growth prospects, especially as regards the mobile channel. Thus, every year more and more Italians decide to shop online¹⁰⁷ and 85% of the Web population uses their smartphones to make purchases, a higher average than in other European Countries. Moreover, currently, 20,100 enterprises are recorded in the Register of Companies as online retail traders, 11.7% more than in 2017, which demonstrates the trends observed in recent years and that the EC market in Italy is very promising for the future.

However, it is crucial to consider also the impact on EC sectors of the COVID-19 pandemic, especially in order to derive some forecast for changes in consumers' behaviour in Italy and evaluate the consequences on online sales.

1.6.2 The impact of Coronavirus on EC in Italy

In late 2019 Coronavirus appeared on the global scene, moving from China and quickly becoming a global pandemic. This terrible disease has not only generated, in a very short period of time, a large number of infections and deaths, but has also had a profound impact on the lives of each individual and on all sectors of the economy in most countries of the world.

In fact, within the first 20 days of the spread of the pandemic, globally there has been a slowdown in the number of visits to EC websites, despite the large number of potential home side buyers whose main concern was probably to find out more about the disease and to equip themselves with the tools needed to work from home.¹⁰⁸ However, the trend then changed direction and the pressure on EC began to mount. In the chaos and hardship derived from the lockdown and the closing of brick-and-mortar traditional stores, a lot of people reacted buying online what they needed.¹⁰⁹

Italy was the first European country to be affected by the pandemic and the first country to have to close some businesses in the interests of public safety and in an attempt to stop the spread of the virus.¹¹⁰

¹⁰⁷ Online shops offer attractive discounts, a wide range of products, and low prices when compared to brick and mortar stores.

¹⁰⁸ Understanding the Global Impact of the Coronavirus on Sectors and Industries, Similarweb, 2020, https://www.similarweb.com/corp/reports/understanding_the_global_impact_of_the_coronavirus_on_sectors_and_industries/

¹⁰⁹ Italian eCommerce statistics during COVID19 outbreak: updated data by sector, 26 march 2020, <https://blog.qapla.it/en/e-commerce-statistics-italy-covid19/>

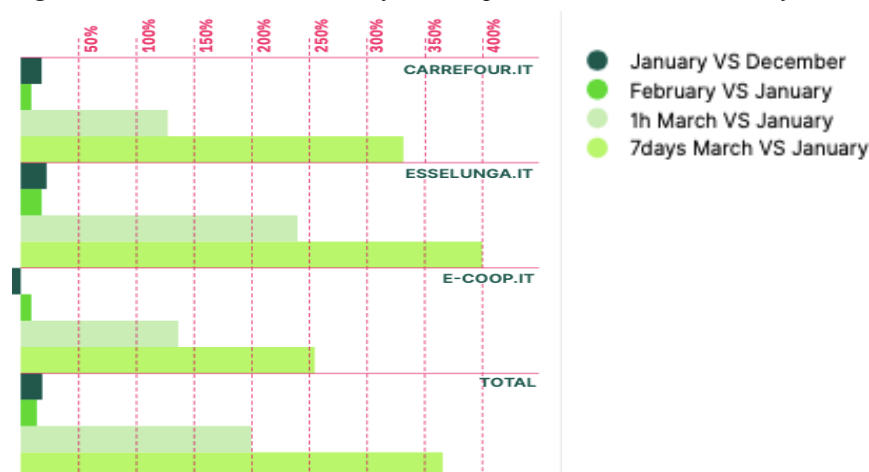
¹¹⁰ Coronavirus impact on consumers and business, Reply, 2020, <https://www.reply.com/en/covid-19-report>

As for the propensity to buy during the first month of the pandemic, 31% of Internet users in Italy stated that they had purchased online the products they would normally buy in a physical store.¹¹¹ Forced blockade and fear of being infected led to a 60% increase in Internet traffic in March.¹¹²

In Italy, 72% of users spent more time on their smartphone than before.¹¹³ In particular, traffic increased on the websites of large food retailers (over 250%) and food delivery websites (*Figure 1.2*). According to “Euromonitor International’s new global EC product and price monitoring platform”, as buying groceries online is still not very popular in Italy compared to other European markets, this sudden increase in demand has put pressure on local EC platforms’ ability to fulfil orders.¹¹⁴

The performance of each EC sector has been different and some fields, even in the first week, recorded a sharp decline. Those who have endured the biggest consequences of lockdown are tourism, hotels, airline, car hire and event, and retail EC websites (*Figure 1.3*).

Figure 1.2 - Food deliveries in Italy, Desktop and Mobile traffic, January-March 2020



Source: “E-commerce in Italy 2020 - Selling online in the time of the Coronavirus”, *Casaleggio Associati Digital Thinking*, may 2020, <https://www.casaleggio.it/focus/rapporto-e-commerce-in-italia-2020/>

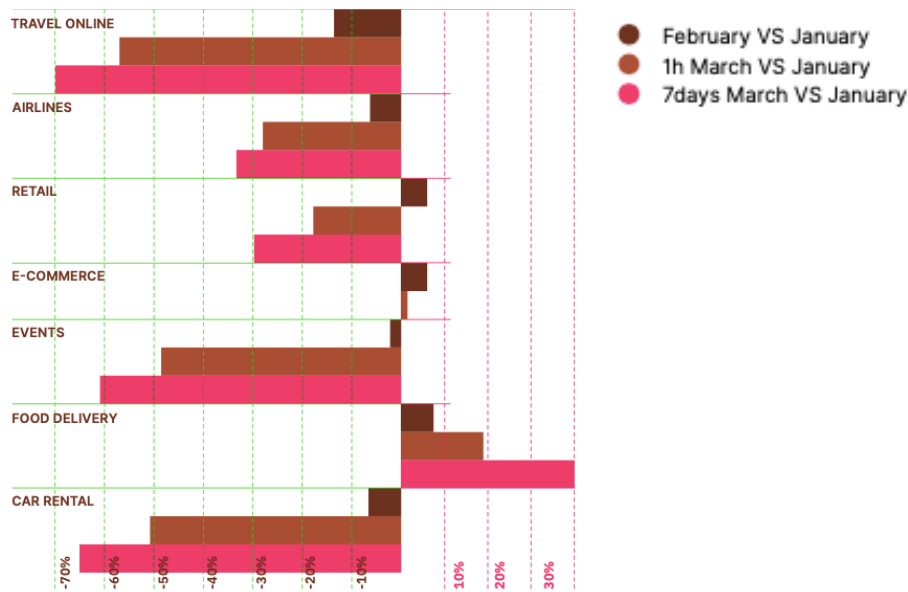
¹¹¹ Hillier, L. (2020), “Stats roundup: Coronavirus impact on marketing, ecommerce & advertising”, e-Consultancy, available online <https://econsultancy.com/stats-roundup-coronavirus-impact-on-marketing-ecommerce-advertising/>

¹¹² Analisi dei prezzi durante il primo mese di COVID-19, Competitoor, 2020, <https://competitoor.com/it/>

¹¹³ Coronavirus insights from our multinational study, Globalwebindex, 2020, <https://www.globalwebindex.com/coronavirus>

¹¹⁴ Coronavirus: Impact on Italy’s E-commerce Product Availability and Prices, 16 march 2020, <https://blog.euromonitor.com/coronavirus-impact-on-italys-e-commerce-product-availability-and-prices/>

Figure 1.3 - EC-traffic trends by sector during the lockdown in Italy



Source: “E-commerce in Italy 2020 - Selling online in the time of the Coronavirus”, *Casaleggio Associati Digital Thinking*, may 2020, <https://www.casaleggio.it/focus/rapporto-e-commerce-in-italia-2020/>

Overall, internet traffic increased by 20% from the first day of the lockdown, when Italians began to learn how to use services to continue living during home insulation, moving from cinema to movies on Netflix, from school to classes on Google Classroom or Microsoft Teams and up to online fitness courses and online shopping. Precisely, the EC sector became an essential service, not only for people who were physically unable to go the shops, but also for companies who in many cases have no other way to sell their products. The Italian Electronic Trade Association has launched its #CompraDaCasa campaign (literally #BuyFromHome) to encourage people to think about online shopping and engage geographical areas that are historically less ahead of their online shopping.

This situation has and will continue to have a considerable impact as much on those who only have access to a physical store and have seen their income shrink, and those who only have access to an EC channel or both to an EC channel and physical stores. As a result of the increase in online demand, the entire EC supply chain, from traders to logistics activities, is stepping up resources to meet the growing demand.

A number of players, after closing their physical stores, have also decided responsibly to close their EC operations until a future date yet to be announced in order to protect our employees and in the interest of favouring the distribution of essential goods. Others, such as Zara, continued shipping purchased online and actually expanded services, for example, by offering free shipping and allowing customers to return goods within 30 days after their stores re-open.

Thus, online searches have increased, as have their sales, although the competition on prices has become more cutthroat. With regard to prices, a survey conducted in February and March revealed that, in Italy, concerns about the possibility and frequency of online price increases or reductions have increased by 37.2% since the start of the sanitary emergency. In all sectors, particularly in the large retail, pharmaceutical and consumer electronics sectors, continuous price changes have been observed.¹¹⁵

The reaction of retailers has been varied and influenced by the product sector and the presence of an EC initiative. In the recovery stage, profound restructuring awaits the retail world. Thus, over the last critical months several companies adapted their business models in order to deal with the crisis caused by the COVID-19 pandemic. The first strategy adopted was establishing an online presence and expand the sales channels using internal resources or by outsourcing and external collaboration. In fact, there has been a proliferation of websites linked to physical stores that have never previously had a website of their own and not even a social network profile, and also the advent of brand-owning websites that until then had been exclusively physical.¹¹⁶ Hence, several physical stores have joined up with platforms such as *cosaporto.it* or *Walà APP* (delivery community apps) in order to increase their online visibility and offer website booking and digital payment facilities and home delivery services.

Moreover, many companies decided to integrate the product sales and the available product stocks throughout the Country, while stores were closed. Major retail chains are looking for ways to accelerate deliveries and reduce delivery costs and to facilitate local deliveries and in-store product sales, without losing store revenue. This integration can be achieved through proprietary EC or even EC through third-party channels.¹¹⁷

¹¹⁵ Analisi dei prezzi durante il primo mese di COVID-19, Competitoor, 2020, <https://competitoor.com/it/>

¹¹⁶ Examples includes: (i) Gismondi 1754, the stock-market listed Genoese jewellery company, stopped selling via physical outlets and instead launched their own e-commerce website. Furthermore, the Company opted to appear on platforms such as My Teresa, Modaoperandi, Net-a-Porter, Gallerie La Fayette and Farfetch. Cfr. “Gismondi 1754, stop alle vendite fisiche avanti con EC”, *Il Messaggero*, 2020 https://www.ilmessaggero.it/economia/news/gismondi_1754_stop_alle_vendite_fisiche_avanti_con_eco_mmerce-5128538.html; (ii) the cosmetics company Lin Qingxuan, after having shut down around 40% of its stores, re-engaged the beauty consultants who worked in the company’s stores and turned them into online influencers, specifically on WeChat, thereby achieving a 200% increase in sales over the previous year, Cfr. Reeves , M., Fæste , L., Chen, C., Carlsson-Szlezak, P. & Whitaker, K. (2020) “How Chinese Companies Have Responded to Coronavirus”, *Harvard Business Review* <https://hbr.org/2020/03/how-chinese-companies-have-responded-to-coronavirus>; (iii) Granarolo has opened its own online store, albeit only servicing the provinces of Bologna, Modena and Milan. There is no online payment facility available and only COD or POS payment is accepted.

¹¹⁷ Some examples: (i) Master Kong is a company that produces and sells instant noodles and beverages. They have opted to expand their physical outlets by opening even very small stores in order to enable them to support their local e-commerce deliveries implemented due to current needs. In this way, Master Kong has managed to supply over 60% of retailers, which is three times as many as their competitors have been able to supply, Cfr. Reeves , M., Fæste , L., Chen, C., Carlsson-Szlezak, P. & Whitaker, K. (2020) “How

Looking at the EC situation from March, all data seems positive and, in fact, the results almost doubled those of the previous month. Nevertheless, in the coming months both online and offline companies will have to deal with the impact on employment and the decline of the purchasing power of Italians.

The Large Retail sector is among the sectors that have benefited the most during this period. This sector, together with the food supply sector, is part of the wider *Foodstuffs* sector, accounts for 3.1% of the total. Small neighbourhood essentials store also contributed to the growth, with an increase of 16%.¹¹⁸

Substantial growth was also recorded in both the *Health and Beauty* sector, primarily thanks to pharmaceuticals, and in the *Publishing* sector, thanks to streaming content.¹¹⁹

The *Shopping Mall* sector, which accounted for 15.5% of sales in 2019 and grew by 25% in a single year, was positively affected despite the slowdown in deliveries of non-essential products.¹²⁰

Furthermore, the *Insurance* sector has developed specific Coronavirus-related packages and has had virtually zero claims, and consequently zero payments, on certain existing policies such as vehicle insurance.

As in the Electronics sector, where purchases of laptops, notebooks, printers and small kitchen appliances and body care equipment have increased, in particular, the home and furniture industry has also seen an increase in purchases, albeit on smaller-ticket items.

Chinese Companies Have Responded to Coronavirus”, Harvard Business Review <https://hbr.org/2020/03/how-chinese-companies-have-responded-to-coronavirus>; (ii) Nonna Isa, the Sardinian foodstuff brand that is part of the VèGé Group, has opened up six new e-commerce and home delivery enabled sales outlets, Cfr. “Coronavirus, cresce l’e-commerce: + 26% l’importo medio della spesa”, L’economia, 2020, https://www.corriere.it/economia/aziende/20_marzo_27/coronavirus-cresce-l-commerce-26percento-l-importo-medio-spesa-6323a5c8-7022-11ea-82c1-be2d421e9f6b.shtml; (iii) Fresh Hema, the Alibaba branch dedicated to the sale and delivery of fresh foods, has taken on more than 1,800 employees to be shared with catering establishments and ride-sharing companies that were no longer able to provide an efficient service due to the number of daily requests received. More than 30 catering businesses have benefited from the help provided by Fresh Hema, Cfr. “Coronavirus: Alibaba a imprese in crisi, lavoratori in comune”, Ansa, 2020, https://www.ansa.it/sito/notizie/mondo/dalla_cina/2020/02/12/coronavirus-alibaba-a-imprese-in-crisilavoratori-in-comune_8a11d7dd-4e3d-45de-9ee7-857e8e95d3f1.html

¹¹⁸ Grassia, L. (2020), “Raddoppia l’e-commerce, grande distribuzione +16,4%”, La Stampa, <https://www.lastampa.it/economia/2020/03/20/news/raddoppia-l-e-commerce-grande-distribuzione-16-4-1.38617074>

¹¹⁹ In 2019, the share of total EC turnover held by these two sectors was less than 5% (0.4% in the case of Health and Beauty and 1.8% in the case of Publishing). This growth will therefore increase their respective turnovers and undoubtedly also change their share of the total.

¹²⁰ For example, in Italy, eBay has seen an increase in sales of health and beauty products (-62%), sports products and wellness (32%), household appliances – above all coffee machines (39%) – gardening products (-81%) and sex-related products (240%). Cfr. “Cosa comprano gli italiani su eBay col Coronavirus?”, La Stampa, 2020, https://www.lastampa.it/tecnologia/news/2020/03/23/news/cosa-comprano-gli-italiani-su-ebay-col-coronavirus-1.38628393?refresh_ce

In the *Fashion* industry, which has already been put in great difficulty due to the closure of physical stores for an extended period, it is also negatively affected by a lack of product demand that is sure to affect the results of the whole year.

The *Leisure* sector, which accounts for 42.7% of total EC revenue for 2019, will be affected by restrictions on physical gambling activities. Purchases of sports equipment are limited and attention has shifted from outdoor sports to indoor sports, while the Events sector has suffered severely due to postponement or cancellation of events.

Counterbalancing this growth trend is the *Tourism* sector, which accounts for 25.6% of total turnover and was severely affected in the first months of this year. It is estimated that Google should see a 15% year-over-year decline due to a lack of investment by the Travel sector in the first quarter of the year and a 20% drop in the second quarter generally due to the spread of the Coronavirus.¹²¹ Finally, the costs of advertising campaigns have varied significantly both in Italy and around the world, as advertisers seek to reach the widest possible target audience available.¹²²

¹²¹ Marvin, G., (2020), “Coronavirus disrupts search, digital and budgets”, Search Engine Land, available online <https://searchengineland.com/how-coronavirus-search-digital-ad-budgets-330404>

¹²² Analisi dei prezzi durante il primo mese di COVID-19, Competitoor, 2020, <https://competitoor.com/it/>

Chapter 2

Online Food Delivery Services

Summary: 2.1 Food consumption in Italy: historical evolution and recent trends; 2.1.1 *The Italian Food & Beverage industry* 2.2 From “food delivery” to “online food delivery”; 2.3 Business models of food delivery services; 2.3.1 *Restaurant-To-Consumer Model*; 2.3.2 *Platform-to-Consumer Model*; 2.3.4 *“New-Delivery” Model*; 2.3.5 *Full-Stack Model*; 2.3.6 *Food Delivery Business Model Pros and Cons*; 2.4 Customer experience and e-loyalty in Online Food Delivery; 2.5 The food delivery market in Italy; 2.5.1 *The impact of COVID-19 pandemic and forecast*

2.1 Food consumption in Italy: historical evolution and recent trends

Consumption is an important component of individual well-being and economic growth. On the other hand, the consistency and quality of food consumption have been and still are determinants of human progress and important indicators of the standard of living of individuals and communities. In this line, Stiglitz, Sen and Fitoussi (2010, p. 43), looking for new ways to assess well-being beyond the conventional accounting of GDP, argued that:

Income flows are an important indicator for the assessment of the standard of living, but ultimately what matters is consumption and the possibilities of consumption over time.¹

Food consumption and otherwise have changed over time as a result of different economic, social and cultural variables. Conforti (2011)², based on a longitudinal set of data and estimates of the FAO³, shows how the level and composition of food consumption are subjected to incessant changes induced by co-evolutions of demographics, availability of agricultural resources and disposable income.⁴

In this paragraph is outlined the evolution of the Italian food consumption model and expenditure over the last decades, as well as the most recent trends.

¹ Stiglitz J. E., Sen A., Fitoussi J.-P., *La misura sbagliata delle nostre vite. Perché il Pil non basta più per valutare benessere e progresso sociale*, Etas, Milano, 2010.

² Conforti P., “Tendenze e prospettive dei consumi agroalimentari mondiali nel lungo periodo”, in questo *Quaderno*, 2011.

³ The Food and Agriculture Organization of the United Nations.

⁴ “Changes in agricultural practice over the past 50 years have increased the world’s capacity to provide food for its people through increases in productivity, greater diversity of foods and less seasonal dependence. Food availability has also increased as a consequence of rising income levels and falling food prices.” Cfr. Kearney, J. (2010). Food consumption trends and drivers. *Philosophical transactions of the royal society B: biological sciences*, 365(1554), 2793-2807.

In Italy, different sources provide data on food supply and consumption. In particular, in the public sector, the National Institute of Statistics (ISTAT) delivers Food Balance Sheets yearly, also published by the FAO, Household Budget Survey (HBS) results and more recently information on Italian eating habits.⁵

The Household Consumption Expenditure (HCE - derived primarily from the HBS) represents a crucial measure for assessing households' living conditions both at national or at more detailed geographical level.⁶ Particularly, the HCE can be classified into food (and beverages) and non-food expenditure. The share of total expenditure that a household dedicate to food items is an important indicator of the household living conditions: at risk of poverty households usually spend a higher share of their total expenditure on food with respect to the other households, with a lower impact of the share of expenditure dedicated to other resources and commodities.⁷

According to Gracia and Albisu (2001), food consumption in the European Union countries can be summarized in four major trends:

- 1) a decrease in the proportion of expenditure allocated to food already reaching very low levels;
- 2) a maximum level in total food consumption, in quantity terms,
- 3) a shift in the food consumption structure;
- 4) an increase in the proportion of food consumed away from home.⁸

The first trend is not surprising, and it follows any macroeconomic growth, as has been the case for all European. The second trend is the result of a situation that occurs in wealthy countries where quantity is surpassed by quality concerns; people want to eat better as their daily intake requirements diminish. The third trend is not as homogeneous, and it differs from country to country, according to many distinctive aspects, but also based on their cultural and historical evolution. The last trend is also common for all countries, but its intensity varies among countries and labour circumstances.

Despite the changes that have taken in recent years, which have made the expenditure of Italian households more similar to that of other developed countries, the Italian

⁵ Other consumption data are supplied by private marketing companies.

⁶ Marchetti, S., & Secondi, L. (2017). Estimates of Household Consumption Expenditure at Provincial Level in Italy by Using Small Area Estimation Methods: "Real" Comparisons Using Purchasing Power Parities. *Social Indicators Research*, 131(1), 215-234.

⁷ Barigozzi M, Alessi L, Capasso M, Fagiolo G (2009) The distribution of households consumption-expenditure budget shares. Working papers series. European Central Bank, Frankfurt a.M. (Tech. rep.)

⁸ Gracia, A., & Albisu, L. M. (2001). Food consumption in the European Union: main determinants and country differences. *Agribusiness: an international journal*, 17(4), 469-488.

consumption model continues to maintain some peculiarities, both in the level of expenditure and in its composition. Romano (2011)⁹ in his study, based on national accounting data, found that on the quantitative side, the average expenditure on consumption of the Italian family was consistent with that of households in the most developed European countries and significantly higher than that of the EU-27 (15.700 euros VS 13.400 euros), while slight differences still persisted in the internal composition of the spending baskets. The main household expenditure item was housing, which accounted for almost 30% of total spending, followed by food consumption with nearly 20% and transport at 16%.¹⁰

Our country, in relation to other European countries, continues to be characterized with a greater expenditure allocated on food, clothing, home-furnishing and restaurants-hotels; on the other hand, comparatively undersized is spending on cultural consumption and leisure. On the domestic front, on the other hand, the persistent and marked territorial income differentials mean that household spending on essential consumption (food, clothing and footwear) in the South is relatively higher than the expense of housing, culture and leisure.

At the aggregate level, the internal final consumption of Italian households has increased significantly in real terms over the last decades: between 1970 and 2009 they more than doubled, from just over 300 billion euros to about 750 billion euros in constant values to 2000, with an average rate of growth over the period of about +2.2% per year.

In terms of food consumption this means an increase of 1/3 in real terms: a remarkable increase considering that the great leap in food expenditure had already taken place in the 1950s and 1960s and that in the early 1970s the levels were close to the quantitative saturation.

On the eve of the recession, which has manifested itself in acute forms since 2007, the food expenditure of Italians has been stable in real terms for several years and, from a qualitative point of view, mature and in line with the typical standards of advanced societies. More than a fifth of food expenditure is covered by consumption outside the

⁹ Romano, D. (2011). L'evoluzione strutturale dei consumi alimentari in Italia. *questo Quaderno*.

¹⁰ This composition is profoundly different from that of the early 1970s: food expenditure – which in 1973 was still more than a third of the total – has almost halved, while housing expenditure – which in 1973 weighed only 12.9% – has more than doubled and transport spending has increased by around 60%.

“To get an idea of the great historical transformations of the spending habits of Italians, just remember that in the year of national unification, 1861, about two-thirds of the average income of Italians – estimated at 2,022 euros per year per capita at current purchasing power – was intended for food consumption alone; fifty years later, at the time of the first globalization, still 46 percent of the income per inhabitant – 3,067 euros per year – was used to meet the basic needs.” Cfr. Brunetti A., Felice E. e Vecchi G., *Reddito*, in Vecchi, pp. 209-234, 2011.

home; "intentional" consumption niches have been consolidated towards products with higher security content and socio-cultural purposes, while hypermarkets and supermarkets – due to the high range of supply, average lower prices and the opportunity to compress buying times – have become mass spending places for all kinds of food.

A spending and consumption model far from that prevailing at the beginning of the twentieth century when the diet of Italians was connoted by low levels of average calories, "food monotony", very slow changes in the evolution of the diet and the persistence of a "hard hoof" of typical consumption blandly scratched by slightly different styles and eating habits of part of the urban proletariat and middle and rich elites.¹¹

The great frost caused by the crisis has led to visible changes in the consolidated behaviour of Italian consumers, both in reference to the composition of the spending baskets of the different types of consumer households as well as the ways and places of purchase. The most obvious phenomenon of the recession is the significant fall in GDP (-5.9% in 2009 compared to the previous year) which drags and performs the other economic and social benefits. In the period 2007-2009, Italian household food expenditure contracted by -6.3% in real value, compared with a -2.6% reduction in total consumer spending.¹²

Such drastic reductions in GDP and the purchasing power of citizens, together with the broad redistribution of income against the middle classes, fixed-income workers and retirees, have inexorably translated into a contraction in global consumption as well as, above all, in a shift in the mix of Italian purchases towards essential foods, low cost and poor quality.¹³ In the same years 2007-2009, the impact of food expenditure on the total decreased by -0.2% to 21.5%.¹⁴

The crisis and the reduction in the share of food consumption, far from having undifferentiated impacts, are more acutely affecting the lower-income regions, i.e. the Southern regions, and those with an unbalanced demographic structure towards the elderly. However, even in these regions, the decline in the share of consumption does not affect the entire population but only the lower-income social classes.¹⁵

¹¹ Zamagni V., *L'evoluzione dei consumi fra tradizione e innovazione*, in A. Capatti, A. De Bernardi e A. Varni (a cura di), pp. 171-204, 1998.

¹² Pozzolo A. F., su "I consumi alimentari in Italia in tempo di crisi", in questo *Quaderno*, 2011.

¹³ Trefiletti R., "La crisi si aggrava se si abbassa il potere d'acquisto delle famiglie", in questo *Quaderno*, 2011.

¹⁴ Istat, Rapporto annuale. La situazione del Paese nel 2010, Roma, 2011. available online <https://www.istat.it/it/archivio/28062>

¹⁵ This is a rather surprising and dissonant result compared to one of the historical empirical regularities of the economy: for the Engel Law, the contraction of disposable income should have implied an increase in

Tighter budget constraints also force households, particularly the less well-off, to change their spending habits by shopping in outlets with lower prices even at the cost of lower food quality and greater difficulty in accessing: from traditional shops to small self-service stores and with a wide range of products and from local markets to the farthest supermarkets and, above all, hard discounters¹⁶.

An out-of-the-box form of purchase, linked in part to the affirmation of new consumer preferences and partly to the crisis, but still relatively small (it covers only 3% of Italian food consumption), is the one that targets variously organized and named direct outlets (farmers' markets, etc.). Consumers prefer direct selling for different reasons, for example: income, lifestyles, age, price and cultural aspects.

The crisis has also helped to change the spending habits of affluent families, who have moved from traditional shops to supermarkets and hypermarkets, where they can buy products of similar quality but at average lower prices.

In general, loyalty to all distribution formats has decreased while the practice of nomadism has grown from one point of sale to another in search of the best savings opportunities and the most advantageous price/quality opportunities. At the same time, consumer attention to promotions, private label products, low-priced assortments and the social consideration of discounters, promoted to the rank of other distribution formats, takeaway products and waste, turning to smaller packaging and increasing the frequency of purchases.¹⁷

Thus, over the last decades Italian's food consumption habits and expenditure changed in various way and several times, adapting to the economic crisis and the consequent social changes.

the share of food consumption, not a reduction in it! In fact, it has happened that families, especially the less well-off, in the face of expenses that are difficult to compress (to rigid elasticity with respect to income, in the jargon of economists) – such as rent, health and transport expenditure – were "forced" to reconfigure their food basket by buying relatively more pasta, eggs and bread and less olive oil and drinks, more chicken and pork and less beef, more fish preserves and less fresh fish, more Uht milk and less fresh milk. Cfr. Confcommercio, Ufficio studi, *Una nota sulle spese obbligate*, Roma, 20 settembre, http://www.confcommercio.it/home/Centro-stu/nota-per-la-stampa-DEF.doc_cvt.htm, 2011.

¹⁶ Discounters, which grew by 2.3 per cent between July 2010 and July 2011, tend to establish themselves as an alternative to supermarkets, especially in the South where they more clearly tend to disengage from their traditional role of complementing daily spending. Thus, the crisis further weakens the importance, in the hierarchy of the consumer, of the convenience of store localization at the expense of the level of prices and promotions cfr. http://nielsenfeaturedinsight.mag-news.it/nl/nielsen_link_4379.mn-zi.A.A._zf3.

¹⁷ Cfr. Coop, Rapporto (2011), *Consumi e distribuzione. Assetti, dinamiche, previsioni*, Roma, settembre 2011. available online <https://www.italiani.coop/wp-content/uploads/2016/07/Rapporto-Coop-2011-libro-sett.-2011.pdf>; Del Bravo F., "I consumi alimentari: evoluzione strutturale, nuove tendenze, risposte alla crisi", in questo *Quaderno*, 2011.

From the empirical side, table 2.1, derived from I. STAT datasets¹⁸, highlights that the monthly household food consumption expenditure of Italians experienced on average a small growth trend since the abovementioned crisis of 2007, albeit in a very slow improvement. Considering the macroeconomic context that is generally recovering (slight increase of household disposable income, stability of consumer households saving rate), the expenditure showed slight signs of recovery in the long term.¹⁹

In contrast to the general trend of consumption, which, although slowing down, continues to grow, during 2018 household spending on food products decreased (-0.1%), interrupting a growth trend that lasted for three years and remaining well below pre-crisis values (about 5% less).²⁰

In 2019, the estimate of the average monthly expenditure of Italians households is 2,560 euros per month in current values, substantially unchanged compared to 2018 (-0.4%) and always far from the levels of 2011 (2,640 euros per month), followed by two years of sharp contraction not recovered in the following years.

The composition of current expenditure is stable compared to 2018: spending on housing, water, electricity and other fuels continues to have the largest share (35.0% of total expenditure), followed by spending on food and soft drinks (18.1%) and transportation (11.3%).²¹

Tab. 2.1 - Household average monthly expenditure (in current euros), 2007-2019, Italy

Expenditure item	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
01: -- food and non-alcoholic beverages	452,98	462,33	445,67	448,85	459,57	447,12	439,39	436,06	441,5	447,96	457,12	461,7	464,27
011: food	-	-	-	-	-	-	-	404,33	408,8	414,02	420,77	424,28	426,82
0111: bread and cereals	-	-	-	-	-	-	-	73,4	73,75	75,1	75,57	75,73	76,45
0112: meat	-	-	-	-	-	-	-	97,2	98,25	93,53	93,77	97,52	98,29
0113: fish and seafood	-	-	-	-	-	-	-	35,42	36,38	39,83	39,37	40,71	41,22
0114: milk, cheese and eggs	-	-	-	-	-	-	-	58,79	58,11	57,56	58,26	58,54	59,12
0115: oils and fats	-	-	-	-	-	-	-	13,79	14,31	15,62	17,27	16,59	15,93
0116: fruit	-	-	-	-	-	-	-	38,71	40,45	41,71	43,28	43,25	42,18
0117: vegetables	-	-	-	-	-	-	-	58,69	58,81	60,62	63,17	62,18	63,45
0118: sugar, jam, honey, chocolate and confectionery	-	-	-	-	-	-	-	18,26	18,68	19,07	19,67	19,15	19,17
0119: food products n.e.c.	-	-	-	-	-	-	-	10,05	10,07	10,97	10,42	10,6	10,99
012: non-alcoholic beverages	-	-	-	-	-	-	-	31,73	32,7	33,94	36,34	37,42	37,46
Non food	2195,7	2185,73	2146,34	2155,19	2180,32	2103,12	2031,69	2052,44	2057,87	2076,41	2106,83	2109,54	2095,58
All (Total)	2648,68	2648,06	2592,01	2604,04	2639,89	2550,24	2471,08	2488,5	2499,37	2524,38	2563,94	2571,24	2559,85

Source: Author's elaboration from ISTAT data, <http://dati.istat.it/?lang=en>

¹⁸ I.Stat, the complete datawarehouse for experts, <http://dati.istat.it/?lang=en>

¹⁹ Country report "Food, Beverages and Tobacco in Italy" (2019), *Euromonitor*, available at <https://www.euromonitor.com/food-beverages-and-tobacco-in-italy/report>

²⁰ Rapporto Coop (2019), *Economia, consumi e stili di vita degli italiani di oggi*, available at <https://www.italiani.coop/rapporto-coop-2019-versione-definitiva/>

²¹ Report, "Le spese per i consumi delle famiglie | anno 2019", ISTAT available at <https://www.istat.it/it/files/2020/06/Spese-per-consumi-delle-famiglie.pdf>

Households spent an average of 464 euro per month on food and soft drinks, with no substantial differences from the 462 euro spent in 2018, confirming to be one of the highest in Europe - more than UK, DE, ES, same as FR at a lower average income per person.²² More specifically, a significant increase in expenditure is recorded in vegetables, (63 euro per month, +2%), which account for 2.5% of total expenditure after meat (3,8%) and bread and cereals (3,0%). Only fruit expenditure (which weighs on total spending 1.6%) decreases significantly in 2019 (42 euros per month, -2.5% on 2018). The non-food expenditure slightly decreased to 2.095,58 € per month.

2.1.1 The Italian Food & Beverage Industry

As a result of changing technology, consumer preferences, globalisation and demographics, the F&B industry is evolving. The food ecosystem is becoming more complex and more interdependent. This is driven by consumers, whose spending on food, and food decisions, are shifting.

Thus, hand in hand with the high level of food consumption (compared to other EU countries) and the recovering in food expenditure, also the Italian F&B Industry is a fast-growing industry and has an important role in sustaining Italian GDP and occupation. The trend is positive for both sales and exports of the food industry, which closed the year 2019 growing.²³

The Italian food Industry has 56.750 companies operating, with 385.000 employees, with a total turnover of 140 billion euros. The sector ranks first in total revenues, second in number of companies, third in value added, compared to all other in manufacturing, such as mechanics, chemical-pharmaceuticals, telematics, textiles-clothing, etc. These companies are, 98%, micro or small; those with more than 9 employees are in fact 6.850; 14 bills more than one billion euros and 32 exceed 500 million euros.

Considering the 229 leading companies, with more than 50 million euros in turnover, in the last four years turnover increased by +11.6% and the net operating margin by +7.4%, in the face of financial debts that grew equally by +7.4% and employees by

²² EUROSTAT database, <https://ec.europa.eu/eurostat/data/database>

²³ FoodDrinkEurope, “Economic Bulletin” (2019) available at http://enews.fooddrinkeurope.eu/index.php?option=com_attachments&view=attachments&id=349

+4.2%. This is what emerges from the third edition of the analysis of the 2015-2018 budgets of the Italian Food Companies carried out by the CoMar Study Centre²⁴.

The CoMar study shows that, for the 229 companies in the sample of Made in Italy food:

- Total turnover was 79,1 billion euros; up 8,3 billion compared to 70,8 billion in 2015 (+11,6%);
- Net operating margin was 4.138.485 thousand euros; up by +0.9%, or 389 million, on the 4.099.549 thousand euros of net operating margin in 2017 and +12,9% compared to 3,8 billion euros in 2015; these values determined;
- the number of employees increased from 157.039 in 2015 to 163.637 at the end of 2018 (up +4.2%), an increase of 6.598 over the four years period;
- turnover per employee was 163.637 thousand euros in 2018, up from 161.567 in 2017 and 157.039 in 2015;
- Financial debts increased by +3,5% between 2017 and 2018, growing by 665,8 million euros, from 19.257.528 thousand euros to 19.923.403 thousand euros; the total stock is up +7,4% on the 18,5 billion in 2015;
- There are 11 listed companies in the sector.

Looking at the ranking of the individual companies examined in the CoMar study, also with reference to the 2018 budgets, in the top ten by turnover there are 9 companies with Italian ownership (14 out of the top 20). The largest companies, always Italian, but of foreign ownership are Parmalat (1), Nestlè Italiana (11), Lactalis Italy (12), Cofco International Italy (13), Sanpellegrino (14), Coca-Cola HBC Italy (16).

All the companies in the sector are architects of the Italian soft power in the world F&B, global protagonists of the *Dop economy*²⁵, influencer of international taste for quality, tradition, breadth of the range offered, attentive to innovation and research and development, where they invest 8% of their turnover.

²⁴ The CoMar study considered the budgets from 2015 to 2018, the last available year, of all Italian food and beverage companies operating, as their predominant activity, in the manufacture and trade of agricultural products, alcoholic and non-alcoholic beverages (mineral waters, roasting), food and affini, can noters, dairy farms, millers and pasting, oil mills, sugars and confectionery, livestock; and have a turnover of more than 50 million euros as a Group or as a single Company. Cfr. Comar, (2019) “Le società italiane del settore alimentare, Analisi dei bilanci 2015-2018”, available at <https://www.startmag.it/wp-content/uploads/Clas-bil-alim-181219-sint.pdf>

²⁵ “Dop Economy is that segment of food in Geographical Indication (IG) with license plate made in Italy, which represents a fifth of the value of the national agri-food and that has been able to exceed 16,2 billion euros in 2018 (up 6%), with a production value that now exceeds 6 billion euros, and to triple the value of exports in ten years.”

Cfr. Rapporto Ismea-Qualivita (2019), “Il patrimonio DOP e IGP supera i 16 miliardi di euro, in crescita del 6%”, available online <http://www.ismea.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/10971>

However, the national food sector faces some important challenges:

- it is also a sign of the size of many companies, overcoming excessive fragmentation;
- to counter those attempts at unfair foreign competition, conducted through supranational regulatory disciplines, against products that are the symbol of Italian food;
- to improve the distribution on international markets, not only to leave only repressive, often ineffective, the right fight against the “agopiracy” of Italian sounding;
- increase the perception and reputation of the individual proprietary brand, both corporate and product;
- make system, through greater integration between agriculture and industry;
- counter those attempts at unfair foreign competition, conducted through supranational regulatory disciplines, against products symbol of Italian food;
- improve distribution on international markets, not only to leave only repressive, often ineffective, the right fight against the “agopiracy” of Italian sounding;
- increase the perception and reputation of the individual proprietary brand, both corporate and product;
- develop the E-commerce channel, now practiced by only 30% of companies, to reach new markets and consumer groups;
- opening up new forms of financing to support the need for increasing investment;

The company's profitability, which is still subdued compared to its foreign competitors, will improve by intervening on production factors and the rate of innovation and service content of the supply.

As one may expected the level of HCE, higher than the EU average, in one with the growth of the F&B industry are propelling also the growth of Food Delivery (FD) and Online Food Delivery (OFD) sectors (see par. 2.3).

2.2 From “food delivery” to “online food delivery”

Beyond the various representations of today's "new" average Italian consumer, the most-warned analyses and studies agree that the consumption strategies of Italian families, much more attentive and sensitive than the past, are matured in terms of what to put in the shopping cart in terms of the quality of products, prices, ease of use and built-in services, well-being and safety. A maturation undoubtedly induced by economic difficulties, which obliges adaptive behaviours to the adverse economic situation, but also by deep changes in lifestyles, preferences and values that characterize the contemporary of Italians.²⁶

Indeed, in recent years, also food consumption patterns are changing rapidly in the Italian population. Important factors of change are:

- the evolution of lifestyle,
- the availability of a large variety of new intensively advertised food products,
- the progressive ageing of the population,
- the progressive reduction in the average size of households,
- the growth in the number of employees and hours worked.

Committed to chasing work and managing personal life, Italians abandon their home stoves in spite of their passion for cooking, increasing the expenditure for eating outside the home and even when they stay at home, the number of those who buy ready meals or rely on food delivery and take-away services is growing.²⁷

This trend is very clear from the ISTAT data of 2018, which estimate at 83 billion euros per year the annual expenditure of Italian households for food consumption outside the home, 36% of all food spending, the latter up from a decade ago (it was 32.7% in 2008) and that puts Italy at the third place in the European ranking surpassed only by Spain, with 54% and the UK with 48%. France and Germany, both with an incidence of 29%, remain behind.²⁸

²⁶ Cersosimo, D. (2011). I consumi alimentari: evoluzione strutturale, nuove tendenze, risposte alla crisi. *Edizioni Tellus, Roma*.

²⁷ “Compared to 2005, food consumption in Italy increased overall by 13% at current values, a growth that is mainly related to “away from home” consumption (+ 30%), which currently represents a third of total F&B consumption. This share is sharply lower than the ones recorded in countries such as UK and Spain (where the on-trade represents respectively 44% and 46% of total food consumption), but higher when compared to Germany and France.” Cfr. Agrifood Monitor Report (2016), “Food Consumption” available online <http://www.agrifoodmonitor.it/en/food-consumption>

²⁸ ISTAT, Rapporto “La spesa per i consumi delle famiglie” (2018) available online https://www.istat.it/it/files/2019/06/Spese-delle-famiglie-Anno-2018_rev.pdf

Moreover, the “Ready2Eat” is also a fast-growing trend, as evidenced by Nielsen data for the first half of 2019. In fact, there was a 9.3% increase in sales in value compared to the same period of the previous year, for a turnover of about 1.6 billion euros.²⁹ An important result, which is a symptom of a wider change in purchasing choices. The intensifying pace of life, the tight working and the city, the ever-smaller families and the individualization of consumer preferences push the purchases of Italians towards products of more immediate usability and that allow a concrete saving of time. An increasingly "instant" food necessity. Indeed, takeaways also take off, particularly in big cities.

Also, when they stay at home, to save valuable time, Italians use old and new services. Food delivery (FD) is used by 26% of Italians, of which 7% have relied on new online Food delivery (OFD) services (websites and APPs) and the remaining (significantly larger) preferred to rely on the "old" telephone order.³⁰

OFD describes the process by which the customer can order food dishes from a restaurant, through a digital platform.³¹ The OFD service platforms get lots of restaurants together, serving as a go-between connecting restaurants and consumers. These partner restaurants display their menus on platforms to appeal more consumers, and consumers can order food online and get them sent to the designated location in a short time. The restaurant must be present throughout a specific geographical area, as deliveries are made in the area in which it is located or in the surrounding areas.³²

Thus, the platform is the instrument by which the order is placed and forwarded to the restaurateur. It can be represented by a website or, more commonly, by an APP. Particularly, the growth of internet providers and increasing penetration of smartphones has fuelled the growth of various food delivery apps (FDA) such as *Foodpanda*, *Swiggy*, *Zomato*, and *Uber Eats*.

The difference between OFD and FDA is that orders can be made over the internet-based websites in OFD, but, in the case of FDA, orders can be made only through mobile apps. The services offered by various FDAs can be categorized as providing orders,

²⁹ Nielsen, “Sushi corner nella gdo: nuova frontiera del ready-to-eat” (2019) available at <https://www.nielsen.com/it/it/insights/article/2019/sushi-nella-gdo/>

³⁰ Coop, Rapporto, (2019), Economia, consumi e stili di vita degli italiani di oggi, available online <https://www.italiani.coop/rapporto-coop-2019-versione-definitiva/>

³¹ Pigatto, G., Machado, J.G.d-C.F., Negreti, A. d-S., Machado, L.M., 2017. Have you chosen your request? Analysis of online food delivery companies in Brazil. *Br. Food J.* 119 (3), 639–657.

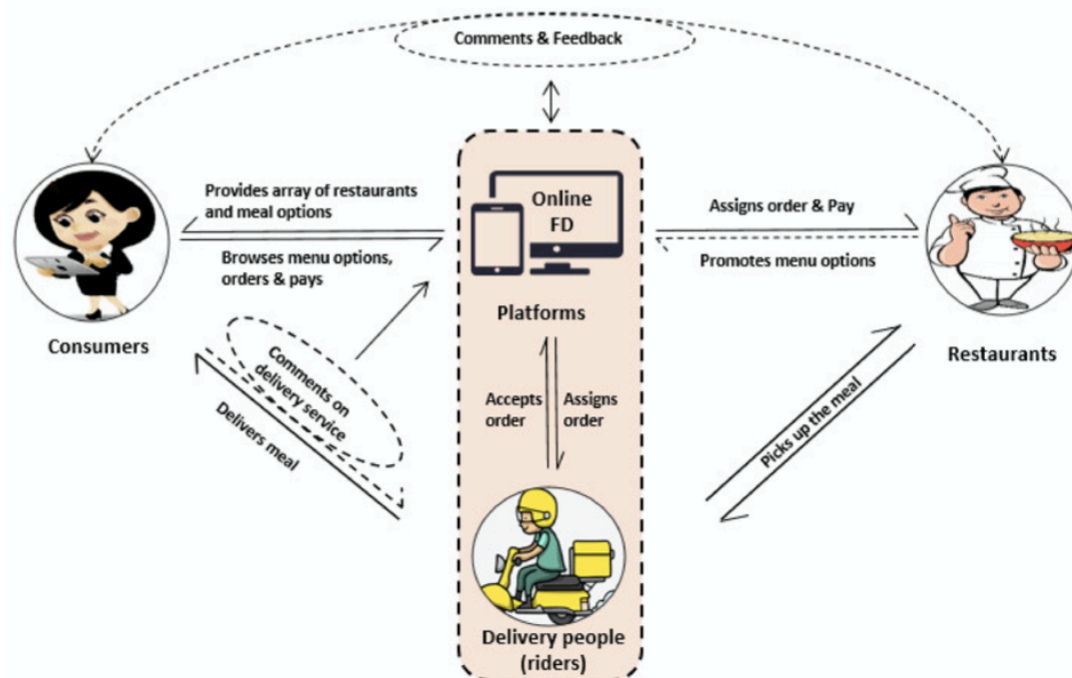
³² Lan, H., Ya'nan, L., & Shuhua, W. (2016). Improvement of online food delivery service based on consumers' negative comments. *Canadian Social Science*, 12(5), 84-88.

monitoring, payment and tracking facilities, but they are not liable for the actual food preparation.³³

OFD goes from specific home delivery services in each restaurant or store to large online ordering platforms, to companies that manage both ordering and logistics, and ending with companies providing an even more integrated experience by taking control of the entire food chain.

OFD platforms serve a variety of functions including providing consumers with a wide variety of food choices, the taking of orders and the relaying of these order to the food producer, the monitoring of payment, the organization of the delivery of the food and the provision of tracking facilities (Figure 2.1).³⁴

Fig. 2.1 - The functions associated with OFD platforms.



Source: Li, C., Miroso, M., & Bremer, P. (2020).

Arrows indicate movement of information or logistic; lines indicate necessary routes; dotted lines indicate optional routes.

It's hard to establish the birth date of home deliveries. The first stage of the evolution of FD is the one before the digital revolution. In Italy, as well as worldwide, restaurants have enriched their service to customer with takeaways or deliveries, hiring riders. Many years later the process is almost the same: restaurateurs receive customer orders by phone;

³³ Ray, A., Dhir, A., Bala, P. K., & Kaur, P. (2019). Why do people use food delivery apps (FDA)? A uses and gratification theory perspective. *Journal of Retailing and Consumer Services*, 51, 221-230.

³⁴ Dixit, P. (2019), How Swiggy Works: Business model of India's Largest Food Delivery Company, *TristateTechnology*, Available online: <https://www.tristatetechnology.com/blog/how-swiggy-business-model-works-and-make-money/>

after preparing the meal, a young bellboy, equipped with a motorcycle or bike, goes to the address indicated, delivers the food and withdraws the payment.

With the advent of OFD this market has evolved, however, the traditional FD process hasn't disappeared. New companies that set up their entire business on the web (such as *Foodora*), in some cases have allowed restaurateurs to perfect their service, giving the opportunity to their customers to order not only by phone but also through mobile APP, thus speeding up the process of fulfilling the order.

Millions of restaurants still use their riders for deliveries. Especially in countries like Italy, attached to the old traditions and where people are not strongly digitised, OFD services are growing at a slower pace than the rest of the world.³⁵

The evolution towards the digitization of the FD service started in 1996 with the birth of the Online Grocery platforms. These platforms offer the possibility of doing shopping from home, choosing what you want to buy through an EC site. What is requested and paid is delivered within a few hours through bellboys/riders to the domicile indicated at the time of the payment. Pioneers in this market have been websites such as *Homegrocer* or *Webvan* which have been immediately very successful.

The first OFD services date back to the years from 1996 to 2000. For example, the giant *Pizza Hut*, specialized in the sale of pizza slices worldwide, creates the first proprietary platform for online orders *PizzaNet*. However, after a first successful period (from 1996 to 2000), from 2000 onwards, with the decline in sales and the bursting of the tech bubble, many of these companies failed.³⁶

Nevertheless, despite these cases of failures, since the 2000s the technological revolution of FD begins. To keep up with the times and to follow the ever-increasing life rhythms, many companies decided to offer e-Stores with delivery services. Especially large companies of the GDO (Great Organized Distribution), decided to adopt new online distribution channels, creating proprietary EC platforms to sale their products on the internet. In Italy the first followers of this trend were *Coop* and *Esselunga* with success especially in big cities such as Milan and Rome.³⁷ In this way, the companies could reach those customers who hardly get to the physical store, such as the elderly or the disabled.

³⁵ Longo, A. (2016), "Cresce la digitalizzazione ma l'Italia è ancora terzultima in Europa", Repubblica, https://www.repubblica.it/tecnologia/2016/11/14/news/cresce_la_digitalizzazione_ma_l_italia_e ancora_terzultima_in_europa-151974188/

³⁶ Delgado, R. (2001), "Webvan goes under / Online grocer shuts down -- \$830 million lost, 2,000 workers fired", Sfgate, available at <http://www.sfgate.com/news/article/Webvan-goes-under-Online-grocer-shuts-down-2901586.php>

³⁷ Smith, D. (2014), "Brutal competition batters supermarkets the world over" The Guardian, available at <https://www.theguardian.com/business/2014/oct/05/supermarkets-discounters-europe-us-china-japan>

In addition, the opportunities that come out from the grocery delivery service were numerous: customer loyalty, thanks to the efficient and affordable service, brand strengthens and an easier acquisition of new customers with the competitive advantage of being among innovators and first movers.

Obviously, in order to guarantee high standards of service, supermarkets had to invest a lot of money in order to support the necessary initial investments (as the hiring of new people, their training and so on). This led to the reduction of the market's estimated profit margins on deliveries and losses on fresh items in failed deliveries.

To date, the global leader of the online grocery industry is definitely *Amazon.com*, which developed many delivery services in order to bring the consumer closer to the online grocery and can be considered the number one of EC in the world. Among those services, one example is *Amazon Prime Now*, through which the customer can choose from millions of household items and receive them within an hour.³⁸ Also, another service introduced in 2017 is *Amazon Pantry*, mainly dedicated to families, which allows clients to buy basic and household products and receive them within 2-3 days.

The third era of FD began in 2001, with the birth of the Danish company, founded by Jesper Buch and current market leader: *Just Eat*.³⁹ From that moment, various local start-ups around the world tried to emulate the Danish FD giant.

Another important company in the sector is the Chicago-based *GrubHub* which has more than 55,000 affiliated restaurants in more than 1,100 cities across the United States and the United Kingdom. Initially *GrubHub* was only a marketplace allowing restaurants to take advantage of the platform to receive online orders (the delivery remained a restaurant task). Otherwise, since 2014 *GrubHub* went public and has set up an enormous fleet of riders, enabling its partners also with the delivery service to the customer.⁴⁰ They made many acquisitions like LAbite during 2016, another FD platform, that they have paid 65\$ Million and YelpEat24 during August 2017 for \$287,5 Million.⁴¹

³⁸ Ho, V., (2017), "How Amazon pulled off its biggest Prime Now launch ever", *Mashable*, available online <https://mashable.com/2017/09/21/amazon-prime-now-singapore-one-month-later/?europa=true>

³⁹ Ficenec, G. (2015), "Just Eat profits soar in maiden results" *The Telegraph*, available online <https://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11477373/Just-Eat-profits-soar-in-maiden-results.html>

⁴⁰ GrubHub (GRUB) Matthew M. Maloney on Q1 2016 Results - Earnings Call Transcript, available online <https://seekingalpha.com/article/3970792-grubhub-grub-matthew-m-maloney-q1-2016-results-earnings-call-transcript>

⁴¹ Griswold, A. (2017), "Grubhub's purchase of Yelp's Eat24 may make it the only place to order restaurant delivery", *Quartz*, available online <https://qz.com/1045776/grubhubs-purchase-of-yelps-eat24-may-make-it-the-only-place-to-order-restaurant-delivery/>

The last stage of the evolutionary process goes from 2011 until today. In 2011 new start-ups decided to enrich the offer to the customer, adopting a business model integrating the logistics with the receipt of the order.⁴²

In the world (and in Italy), the most important players in this sector are the German *Foodora* and the British *Deliveroo*, born respectively in 2014 and 2013.⁴³ *Foodora* - along with its sister *Foodpanda* - operates in more than 40 countries, proving that the increased consumer demand and the technological evolution have evolved the sector, creating great business opportunities.

These companies are characterized by high flexibility: the lean and essential business structure and the constant search for market innovations are crucial in order to always adapt to consumer demand. For example, *Foodora* has seized on new needs from an increasingly hectic labour market opening a new platform *foodora Corporate* dedicated specifically to the delivery of meals at office. Companies can create their own account on *foodora Corporate* and, thus, be able to offer their employees various meals every day without distributing the classic meal vouchers or providing a canteen service.

From 2007, with the introduction of the first smartphones and APPs, ordering goods and services has become easier. All OFD companies have invested millions of euros to create their own APP, which allow customers to order whenever they want, wherever they want. By increasing the opportunities of use, the market has gained greater visibility and a huge slice of customers started to perceive the functionality and practicality of these services.

A fascinating and growing market, which sees the entry of new players every year. Not only small start-ups, full of courage and ambition (in some cases with the only desire to be subsequently bought by a larger group), but also established companies that are now specialized in other sectors. A good example could be *Uber*, an American company founded in 2009 operating in private car transport, which in 2015 decided to accept this challenge, creating *Uber Eats*. The aim was to harness the strength of the brand and the

⁴² Tremolada, L. (2017), "Il food delivery va verso una fase di consolidamento", *IlSole24Ore*, available online <http://www.ilsole24ore.com/art/tecnologie/2017-02-08/il-food-delivery-va-una-fase-consolidamento-094110.shtml?uuid=AEzYmeK>

⁴³ The latest newcomers in the market are startups such as Sprig, PizzaBo, Foodinho or Diet to Go and in Southern Italy *JaFood*, capable of offering fully integrated solutions and following the entire chain by creating personalized shopping experiences.

perception of premium product that consumers have of this service, to conquer a good slice of the FD market.⁴⁴

Even Mark Zuckerberg, fascinated by the potential of the OFD market, decided to insert a new Facebook feature with the aim to allow the user to order their meal at home, simply going on the Facebook page of the restaurant.⁴⁵ The service, currently active only in the United States, is the result of a collaboration between Facebook and some FD companies, and will soon expand also in Italy. Moreover, even the global fast food giant *McDonald* announced in 2017 the intention to create its own delivery service.⁴⁶ A crucial step for a company that has made its strength on its own stores and on-site experience. The service is active only in the United States, while in Europe *McDonald* still have only partnership agreements with large FD groups such as *Foodora* (e.g. in Germany) and *Glovo* (in Italy). In a short time, the same business model was also adopted by *Burger King* in both Europe and America.

Furthermore, in the United States, FD has reached a new frontier: home delivery for pets. *Ollie*, a leader in this market segment, is a start-up that offers this particular kind of delivery service, flanked by a number of nutritional advices, especially for dogs, which received also a \$ 4.4 million investment⁴⁷.

Thus, FD and, particularly, OFD is a market that seems evolve and innovate exponentially over time. For the future is expected a growing personalization of the service, able to inform and dialogue with different consumers. Timing, service efficiency, coverage, traceability and quality product certification will be the variables that digital system developers will have to focus on to find the winning combinations.

Some experts even expect a dematerialization of the restaurant, which becomes totally virtual through a vertical integration of the business, which adds to the delivery also the production of food. In fact, laboratories and engineered processes have already been created, which can directly make the dishes and deliver them at home.

⁴⁴ Montagnoli, L. (2016), "Uber Eats è la nuova frontiera della consegna a domicilio di pasti. Dall'America a Parigi", *Gamberorosso*, available at <http://www.gamberorosso.it/it/news/1023769-uber-eats-e-la-nuova-frontiera-della-consegna-a-domicilio-di-pasti-dall-america-a-parigi>

⁴⁵ Nisi, A. (2016), "Su Facebook arriva il tasto per ordinare le pizze. Accordo con Delivery.com", *Startupitalia*, available at <https://startupitalia.eu/64659-20161020-facebook-food-delivery-com>

⁴⁶ De Cesco, A., (2017), "McDonald's e l'app per le consegne a domicilio per recuperare clienti", *Corriere*, available online https://www.corriere.it/tecnologia/app-software/17_marzo_02/mcdonald-s-l-app-le-consegne-domicilio-recuperare-clienti-fb4680b4-ff96-11e6-8440-cf3d4d9a6da2.shtml

⁴⁷ Mitchell, J. (2017); "Ollie: The Startup Delivering Healthy Dog Food Straight To Your Door." *Forbes*, available online <https://www.forbes.com/sites/julianmitchell/2017/04/27/ollie-the-startup-delivering-healthy-dog-food-straight-to-your-door/#186f0e322d5a>

In this landscape of innovations, what the FD market means and represents can be summed up with the word "opportunity" in a global vision of growth and development.

2.3 Business models of food delivery services

The FD and OFD sectors are characterized by high competition that is increasingly based on the possibility of offering a quick service, restaurants of high-quality present on the platform and breadth and variety of the menu. Thus, the various players in the sectors have adopted their own business model overtime with a common goal, that is: to create an experience that is different from the classic one lived in the restaurant.

Nowadays the real challenge is to innovate and modify the 3 operational steps necessary for the customer to receive what they ordered, that are:

1. *Order*. The customer through the platform makes its purchase choice, defining his "Order". The latter is then transferred to the person that the consumer himself has designated for his preparation.
2. *Prepare*. The product requested by the customer is made by the own or third-party kitchen.
3. *Deliver*. This phase is the core of the OFD business and various transport management models exists. The most important element is definitely the identification of the person responsible for the delivery.

Depending on how OFD companies operates in the 3 phases described above, different business models can be derived. They range from platform that partner up with restaurants and drivers to a fully integrated model where everything is kept in-house.⁴⁸

The traditional model is the most common kind of delivery: the consumer using his device places an order with the restaurant and waits for the delivery of the food. Payment can be made both cash or credit card, but now there is the preference to avoid cash for reasons of trackability and safety.

Market is changing following the innovations in digital technology: as online shopping portals developed including filters, accurate descriptions, detailed pictures, reviews on the product and on the service; users want to have the same experience when they order their meal. OFD companies like *Uber Eats* and *Deliveroo* offer detailed pictures and descriptions of every dish on the menu of every restaurant. Costumers are able to filter restaurants depending on their tastes and can compare prices.

Moreover, there are new ideas about the development of a new business model for FD, where the restaurants will "disappear" becoming totally virtual through a vertical integration of the business, which will add to the delivery also the whole production of

⁴⁸ Statista, *Online Food Delivery*. Available online: <https://archive.is/e7OK5>

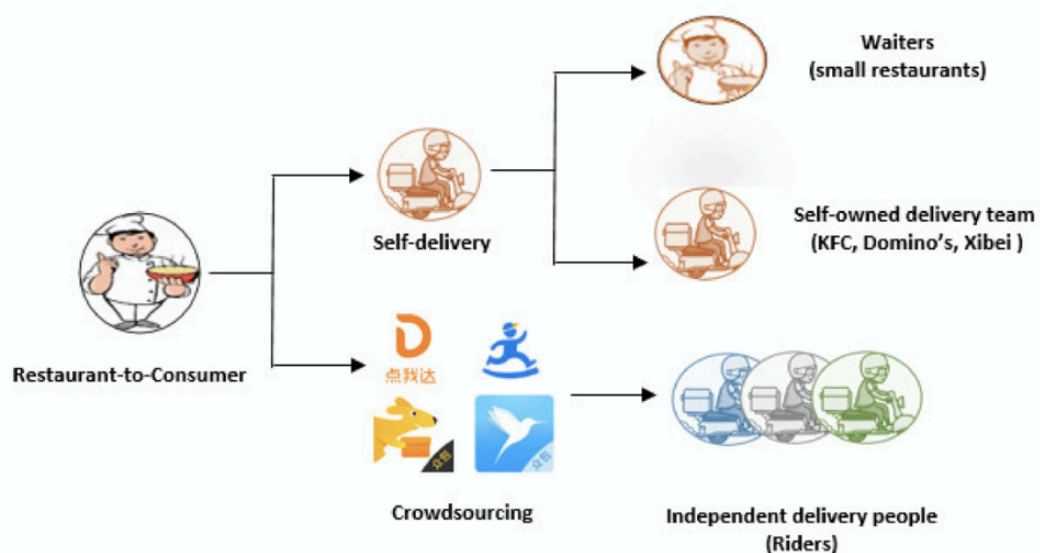
food, made by the platforms. New laboratories can be created to produce food and deliver it to their customers integrating the three constituent dimensions of this market "order", "cook" and "deliver" in a process fully controlled by the platforms. Industry experts expect a "secular paradigm shift", which will lead the online order to dominate the offline one over the next decade.⁴⁹

The objective of this paragraph is to describe and examine the main OFD business models, analysing their features, benefits, weaknesses and the mechanisms that characterize them.

2.3.1 Restaurant-To-Consumer Model

In the *Restaurant-To-Consumer* Model, the restaurant started out delivering food via its own locations. The most famous examples include *KFC*, *McDonalds*, *Burger King* or *Domino's*. The order can be made directly through the restaurant's online platform or via a third-party platform. Indeed, to modernize, these companies went on to offer FD via their websites, APP or join a delivery platform (Figure 2.2).

Fig. 2.2- OFD retailers: Restaurant-to-Consumer business model



Source: Li, C., Miroso, M., & Bremer, P. (2020).

⁴⁹ Kim, E. (2015) "A Secular Shift To Online Food Ordering", *Techcrunch*, available online <https://techcrunch.com/2015/05/07/a-secular-shift-to-online-food-ordering/>

For instance, *McDonalds* operates its own FD network in selected countries via its own APP. Furthermore, it partners up with *DoorDash* to deliver food to regions they don't serve themselves. *Domino's* became a poster child in leading the FD movement. Some of the company's innovations in the space include, for example:

- A voice recognition system (named *Dom*) to place orders;
- An app to track delivery on route;
- Experimenting with drones for automated delivery.⁵⁰

Third-party platforms also provide online delivery services from partner restaurants which do not necessarily offer delivery services themselves, a process which is defined as *Platform-to-Consumer* delivery.

2.3.2 Platform-to-Consumer Model

In the *Platform-to-Consumer* Model, third-party are listing available restaurants close to the customer's proximity, normally through a website or a mobile app.

Consumers can then order from these partner restaurants and have the food delivered either by the restaurant or a rider of the platform (Figure 2.3).

Fig. 2.3 - OFD retailers: Platform-to-Consumer business model



Source: Li, C., Miroso, M., & Bremer, P. (2020).

⁵⁰ These initiatives certainly panned out well for the pizza franchise. By 2017, Domino's overtook PizzaHut as the world's most valuable pizza chain. Furthermore, the company's share price jumped from \$11 in 2010 to over \$351 in 2020.

Prominent examples include the likes of *DoorDash*, *UberEats* or *Deliveroo*. Normally, the platform takes a 20% to 30% cut from the order value on top potential delivery cost that may arise.

The *Platform-to-Consumer* model currently represents the dominant mode of FD. It accounts for 63 out of the \$122 billion that are generated in sales per year.⁵¹

Figure 2.2 and 2.3 shows that OFD requires highly efficient and scalable real-time delivery services. Restaurants can use existing staff for self-delivery, such as the use of waiters in some small restaurants or they may use specialized delivery teams who are specifically employed and trained for this role, as is seen with some of the big restaurant brands, such as *KFC* and *Domino's*. Alternatively, restaurants can employ crowdsourcing logistics, a network of delivery people (riders) who are independent contractors, a model that provides an efficient, low-cost approach to food delivery.⁵²

OFD platforms can either be responsible for recruiting and training professional delivery people, or they may also resort to crowdsourcing logistics, using delivery people who are not necessarily employed by the platform. Professional delivery people are usually trained, and at least part of their salary is guaranteed, while a portion is commission-based. In contrast, the independent delivery people who are frequently known as “riders” are paid on a commission (per order) basis.

2.3.3 Delivery Service Aggregators Model

Although they technically fall under the *Platform-to-Consumer* model, it is worth mentioning them separately. “Aggregators” are part of the older FD model, which appeared 15 years ago. In the *Delivery Service Aggregators* model, the platform works as an intermediate between a customer and numerous local restaurants.⁵³

Aggregators take orders and send them to the restaurant that will manage the preparation of the meal and the delivery. Furthermore, they provide customer support on behalf of these restaurants in case there are problems with deliveries or the order itself. They gain a fixed percentage margin from the restaurants, without any additional cost for the consumer. They respect an asset-light model, with margins of profits between 40%

⁵¹ Li, C., Miroso, M., & Bremer, P. (2020). Op. cit.

⁵² Sun, P. (2019). Your order, their labor: An exploration of algorithms and laboring on food delivery platforms in China. *Chinese Journal of Communication*, 12(3), 308-323.

⁵³ Hirschberg, C., Rajko, A., Schumacher, T., and Wrulich, M. (2016), “The changing market for food delivery”, *McKinsey*, available online <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-changing-market-for-food-delivery>

and 50%. Examples include the likes of *JustEat* or *GrubHub*. Some have recently experiment with different subscription models in which customers pay a monthly fee in exchange for free delivery and other discounts.

Companies following this model often do not make any kind of selection. The goal for the latter type of company is not to focus on quality, but on quantity. More restaurants mean more brand exposure, more opportunities for revenue and increased supply.

2.3.4 "New-Delivery" Model

"New Delivery" offer, as aggregators, to order meal through their platform that can be a website or an app. The most important difference is that "New Delivery" manage their own logistics networks, providing delivery service for restaurants that do not have their own drivers. This allows creating a new segment of the market: higher-end restaurants that usually did not offer delivery service.

Certainly, the creation of an ad hoc fleet, allows the platform to be able to monitor the performance of its riders and to be able to guarantee short and well-defined delivery times. Riders are usually assigned at the beginning of the turn to start points in different areas of the city's delivery area. Thanks to the help of a smartphone and a special app, they receive the assignment and the indication of the places of collection and delivery of the order. The system assigns assignments, preferring, of course, the free riders and those closest to the place of retirement. This system, which improves day by day also thanks to feedback from couriers, allows to minimize delays and improve performance in terms of time. A simple restaurant, with its own small fleet of bellboys, could never reach these levels of organization and technological advancement with its own resources.

Companies that follow this type of model usually select the restaurants on the site.⁵⁴ The selection of partners made by companies such as *foodora* is based on the performance of offline restaurants. Through direct site audits, market analysis, research on evaluation sites (such as TripAdvisor) Business Developers analyze all possible partners and assess whether the candidate is profitable or not for the company.

Thus, for the customer ordering from platforms like *foodora* can mean a reduction in time in the choice of restaurants and still a certainty of the quality of the product.

On the other hand, customers who order can count on support at any time and for any service-related issues (order errors, delays, complaints, etc.).

⁵⁴ For example, Just Eat does not make any selections or quality control over "onboard" restaurants.

The business model for "new delivery" players is made up a fixed percentage fee from the restaurants, plus an additional delivery fee charged to the customer, usually depending on the distance that there is between the restaurant and the delivery point.

They have higher costs because of constant maintenance of vehicles and management of drivers, so they achieve profits margins for roughly 30%.

This category includes players such as *Deliveroo*, *Foodora*, *Glovo*, *Uber Eats*. The addressable market for new delivery will reach more than €20 billion during 2025.⁵⁵

2.3.5 Full-Stack Model

In the *Full-Stack* Model, the FD business does everything in-house. This includes not only building the app or hiring drivers, but also cooking the food.

Oftentimes, the food is prepared in so-called "ghost or cloud kitchens"⁵⁶. People cannot dine in these facilities as the primary purpose is to prepare food that is delivered. These cloud kitchens often allow allocating the creation of food in cheaper areas while only renting out space for the kitchen.⁵⁷

One of the major drawbacks of this model is the fact that substantial investments are required to launch the platform. On the other hand, once sufficient scale is achieved, full-stack FD platforms tend to earn more as they control the whole value chain. They furthermore can do a better quality-control of their food as everything is cooked in-house.

2.3.6 Food Delivery Business Model Pros and Cons

With the main features and operating mechanism of OFD business models in mind, in this section the aim is to describe some of the pros and cons of operating a FD business.

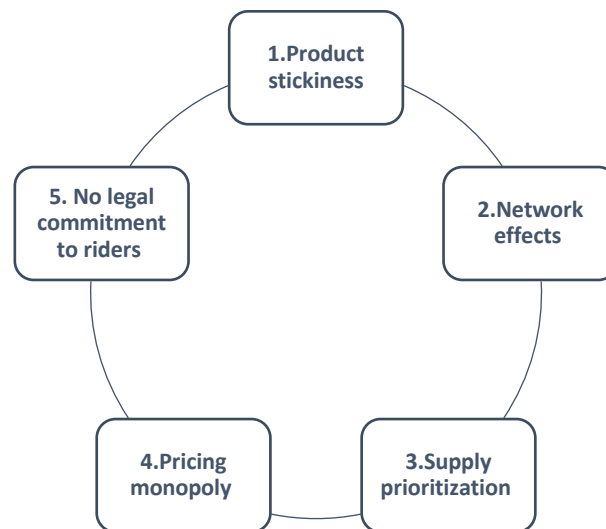
⁵⁵ Hirschberg, C., Rajko, A., Schumacher, T., and Wrulich, M. (2016), "The changing market for food delivery", *McKinsey*, available online <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-changing-market-for-food-delivery>

⁵⁶ Despite that apparent advantages of ghost kitchens, concerns have been raised about how effectively ghost kitchens can be regulated. In China, for example, the occurrence of several well-reported food safety issues resulted in the China Food Drug Administrative (FDA) announcing in 2017 that all online catering providers should obtain a business license and own a physical storefront which must operate under the supervision of local FDA. Cfr. Li, C., Miroso, M., & Bremer, P. (2020). Review of Online Food Delivery Platforms and their Impacts on Sustainability. *Sustainability*, 12(14), 5528.

⁵⁷ Gonen, J. (2019). "Cloud Kitchens and Uber's Future of Food Delivery". Medium.com. Medium, available online <https://medium.com/@jordangonen/cloud-kitchens-and-ubers-future-of-food-delivery-3abf7de9430b>

Among the several FD Business Model Advantages (figure 2.4), the first is the so-called “product stickiness”, that is, once customers become acquainted with a platform, they rarely switch to a new app.⁵⁸ However, the higher competition is in a country, the more often customers tend to experiment with new services.⁵⁹ Moreover, with regard to the “network effects”, since FD are, in a broader sense, marketplaces that connect buyers with suppliers, they end up benefiting from network effect once sufficient scale is hit.⁶⁰ While networks are hard to build, they are even harder to replicate. This yields substantial benefits for those who are able to build a big enough business.

Fig. 2.4 - FD Business Model Advantages



Source: Authors' elaboration

In addition, as a food marketplace, FD platforms are able to decide which restaurants and suppliers they would like to promote. This allows them to push products with higher margins and good customer ratings (so-called ‘supply prioritization’).

Next to prioritizing supply, FD businesses can also set prices and commission at will once they’ve hit sufficient scale. There is plenty of examples where almost-monopolies

⁵⁸ Research by McKinsey shows that 77% of customers rarely switch platforms. Cfr. Hirschberg, C., Rajko, A., Schumacher, T., and Wrulich, M. (2016), “The changing market for food delivery”, *McKinsey*, available online <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-changing-market-for-food-delivery>

⁵⁹ Yeo, L. (2020), “Which company is winning the restaurant food delivery war?”, available online <https://secondmeasure.com/datapoints/food-delivery-services-grubhub-uber-eats-doordash-postmates/>

⁶⁰ Productmint, “The Marketplace Business Model – A Complete Guide”, available online <https://productmint.com/the-marketplace-business-model-a-complete-guide/>

raised fees right after acquiring their last competitors.⁶¹ Since restaurants are dependent upon those apps for receiving orders, they have no choice but to comply with any change.

Lastly, while ethically questionable, riders are generally not employed by FD businesses, but rather work on a contractual basis. This greatly minimizes operational costs as they only get paid when executing jobs. Furthermore, there is no requirement to pay medical insurance or allow for paid vacation.

From the disadvantages side of the FD Business Model there are: the (1) high operating costs, the (2) operational complexity and a (3) fierce competition. *DoorDash* supposedly lost \$400 million in 2019 while *Postmates* had to lay off dozens of employees and close some offices.⁶² Those are just two examples of FD businesses that had to pay the price for their massive operating cost and thin margins. Companies that operate under the *full-stack model* suffer from this especially since everything is kept in-house. Moreover, developing the APP, finding suitable restaurants and drivers, equipping them with necessary equipment, or optimizing delivery routes are just some of the many problems food delivery businesses have to invest in. Perfectively running such a business is not only extremely costly, but a highly complex task involving many parts to be running perfectly. Lastly, among 2.340 FD business worldwide⁶³ there's a total of 572 FD business in the US⁶⁴ alone and a total of 331 FD business in the EU⁶⁵ depicting a high level of competition in the market. With venture capital funding being at an all-time high, it's never been easier to start.⁶⁶ Furthermore, FD platforms compete against other restaurants and the customer's willingness to cook from home.

⁶¹ Bizwire, K. (2020), "S. Korea's Top Food Delivery Service Under Fire for Monopolistic Pricing" available online <http://koreabizwire.com/s-koreas-top-food-delivery-service-under-fire-for-monopolistic-pricing/157099>

⁶² Rodriguez, S. (2019), "Postmates cuts dozens of jobs and shuts Mexico City office after investors turn on cash-burning businesses", available online <https://www.cnbc.com/2019/12/03/postmates-has-layoffs-and-shuts-mexico-city-office.html>

⁶³ Crunchbase,(2020), available online <https://www.crunchbase.com/hub/food-delivery-companies>

⁶⁴ Crunchbase,(2020), available online <https://www.crunchbase.com/hub/united-states-food-delivery-companies#section-overview>

⁶⁵ Crunchbase,(2020), available online <https://www.crunchbase.com/hub/european-union-food-delivery-companies>

⁶⁶ Cfr. PitchBook, "US Venture Capital Investment Surpasses \$130 Billion in 2019 for Second Consecutive Year", (2020), available online <https://www.prnewswire.com/news-releases/us-venture-capital-investment-surpasses-130-billion-in-2019-for-second-consecutive-year-300986237.html>; "In 2019, the Italian venture capital (VC) market experienced a period of relatively rapid growth which is expected to continue, continuing the trend registered from 2018 onwards. Investments carried out in the first semester of 2019 and targeted at start-ups located in Italy or abroad where their founders are Italian, have reached EUR397 million, including crowdfunding for a total of EUR55 million" Cfr. Practicallaw, "Venture capital investment in Italy: market and regulatory overview" (2020), available online [https://uk.practicallaw.thomsonreuters.com/w-012-6561?transitionType=Default&contextData=\(sc.Default\)&firstPage=true](https://uk.practicallaw.thomsonreuters.com/w-012-6561?transitionType=Default&contextData=(sc.Default)&firstPage=true)

2.4 Customer experience and e-loyalty in Online Food Delivery

In recent years, the strong technological transformation, the development of the digital world and the changes in the economy have led us towards a "consumer era". Within this global and digital context, companies had to try to figure out how to satisfy the consumer in the best way and how to take back the control of the consumer experience⁶⁷.

Only a digital transformation of the companies could help them to reap the benefits of the scenario illustrated. Managers should identify new technologies and new business models that are able to bring a *unique* consumer experience. The latter every day come into contact with brands through the help of millions of *touchpoints*, through millions of channels and media, making the whole purchase process highly complex.

Moreover, thanks to the strong spread of social networks, customers no longer play a passive role in this process, but slowly begin to take on an active role, not only in the construction of the commercial proposal, but also in the creation of the product or service offered by a company.

Thus, the customer experience is the heart of the "digital transformation" and will have to represent for the next few years, both for companies and for researchers, the main object of their studies, starting from examining the complex *customer journey* and the numerous points of contact.

Creating a strong and positive customer experience can result in a general improvement in companies' performance, as well as allowing the creation of lasting relationship with the customer and a positive *word-of-mouth*.⁶⁸

Thus, customer experience, as above mentioned, has become a crucial element in the definition of a business strategy, especially due to the strong success of digital platforms and "digital native" companies or even referred to as *platfirm*⁶⁹.

One of the most important aspects is that the platform enables interactions between producers and consumers of value outside the company. This paragraph aims to address consumer experiences with online food delivery (OFD) services. This "new business

⁶⁷ Pine, B. Joseph, James H. Gilmore, 1998, *The Experience Economy: Work Is Theater and Every Business a Stage*. Cambridge, MA: Harvard Business School Press.

⁶⁸ Lemon, K. N., & Verhoef, P. C. (2016). Understanding customer experience throughout the customer journey. *Journal of marketing*, 80(6), 69-96.

⁶⁹ This term comes from the union of the terms "platform" and "firm" and indicates the perspective that sees companies not through the classic metaphors of biology (i.e. as an organism) or mechanics (mechanism), but with the metaphor of the "platform", a concept derived from digital technologies. Cfr. <https://www.open-knowledge.it/en/>

model”, while boasting of being one of the most successful in recent decades, is also one of the models that most need to focus on the quality of the customer experience.

Companies operating in the OFD sector face a twofold challenge. In fact, there are two "customers" who have to be satisfied: on the one hand there is the final customer, that is, the one who orders and requests his meal comfortably at home; on the other hand, there is the restaurateur partner, who is looking for a new source of remuneration and diversification in the platform. Thus, there are two experiences to design and control, both closely related but still distinct.

The customer who orders through an OFD platforms wants to receive a good quality meal as quickly as possible, hoping that the promise of delivery will be fulfilled. On the other hand, at the same time, the restaurateur wants his product to be served on time, for the customer to be fully satisfied by their culinary offer and also asks for assistance in case of problems or accidents during the service.

The needs and desires of these two groups of users lead to the creation of two customer experiences that still affect each other.

A happy and satisfied partner will surely be more inclined both to continue the collaboration with the platform, and to comply with the standards of the service (respect the preparation times, do not cancel orders, always check the proper operation of the work equipment, promote the service, etc.). In this way the quality of the service becomes higher and the final "customer" will be happier and more willingly to reorder at the next opportunity.

On the other hand, a disgruntled partner, given the frustration, will tend to lower the overall quality standards of the service and the end customer will lose confidence towards the platform and will no longer reorder.

Thus, in order to create an experience that is satisfying and fulfilling for the end customer, it is essential to build a portfolio of partners not only attractive and varied and able to attract the most customers, but formed by partners happy to work with the service.

Indeed, the first contact with the service doesn't actually happen within the site or the app. In addition to social networks and various other sites, there are a whole host of *offline touchpoints* that an OFD company can use to make itself known to the customer and push them to use the platform:

- Restaurants: The Restaurant is definitely the most used and most immediate *touchpoint*, it is in many cases the most effective way to give visibility to the OFD service. The companies provide the partner with a welcome kit consisting of a sticker to be displayed at the entrance, so that the customer understands

that that restaurant offers the delivery service, a series of discount vouchers to be distributed to regular customers, an exhibitor for voucher cards, envelopes and other marketing material that can be useful to both the restaurateur to sponsor its new delivery service, both to the company to improve familiarity with the brand.

- Riders do not have only the role of delivering orders, instead they have a strong communicative role of the OFD brand. Often equipped with a colourful uniform and a fairly flashy equipment riders easily capture the curiosity and attention of consumers. Indeed, riders are often used for events or *guerrilla marketing* campaigns. In addition, they represent the image of the OFD company, they are the only subject that the customer encounters throughout the consumption process, so they have a very strong role within the customer experience.
- Flyers: Distributed hand-to-hand or in letter holes, flyers remain a strong conversion tool for OFD companies. Even though it seems strange that a digital company still use such an ancient communication tool, this is often used at regional level and not at national level. That's why mass media such as cinema and television are rarely used by these companies. In fact, despite the very large number of users who could be reached by a commercial on television, and the strength of this tool, especially in Italy, we tend not to use them. The extension of the service reduced to a few cities and the high costs of broadcasting advertising are two strong barriers that push OFD companies to continue to use "classic" methods such as flyers.
- Other types of communication: In addition to the methods mentioned, can be used as offline touch points also events, billboards, promoter students, etc.

From the “online” side, Social media is increasingly driving our food choices. There are currently over 408 million posts on Instagram for #food.⁷⁰ Food providers increasingly have to stay on trend by providing ‘Instagram-worthy’ foods. Visually-appealing foods dominate social media feeds.

The rise of the experience economy means successful OFD must increasingly deliver a dining experience that offers more than just taste. Consumers chase the latest food craze, religiously keeping up to date with what's ‘hot’ in food. But, food Advs can change with little warning quickly generating “winners and losers”.

⁷⁰ Data manually collected from Instagram App in date 10/09/2020.

Thus, OFD companies aimed at enhance customer experience should pay attention at every *touchpoint* during the customer journey, both online and offline. Even before accessing the site, the customer has his first contact with the service already in the restaurants. The online experience, on the other hand, really starts in the *Listing* where the consumer has to choose from hundreds of different restaurants, each with a different offer, belonging to a different kitchen and at different price levels. *Listing* is the first real contact with the online service and can affect the continuation of the experience. A non-appealing listing can lead the customer to choose another platform. Conversely, if the listing is perceived as valid and with a high appeal, the customer continues its customer journey within the site. The primary objective for OFD companies should be therefore to ensure that there are a number of partners within it that can form a valid and attractive offer for the customer.

However, in a competitive and challenging business environment, such as in the FD industry, having customer satisfaction on its own is not enough to ensure business survival, let alone to increase business success.⁷¹ The key for survival and flourishing in this competitive environment is through having loyal clients. Online loyalty (or e-loyalty) toward OFDs is described as the commitment of the customers toward the OFD service that results in repurchase and customer positive behaviours toward the OFD service providers.⁷²

Customers expect quality service of websites when making online purchases. Assessing perceived service quality of the customer is crucial for the service company in its effort to achieve customer loyalty in order to sustain and survive in this very competitive market.⁷³ Thus, the quality of websites is crucial for OFD firms to market their products and service, to retain customers, persuade them to revisit the web, and finally to secure their loyalty.⁷⁴ However, customer e-loyalty is not determined only by customer experience with the e-service quality, but also by the overall performance of food to fulfil customer need (the food quality). Many attributes constitute food quality

⁷¹ Ha, J., & Jang, S. (2010). Effects of service quality and food quality: The moderating role of atmospherics in an ethnic restaurant segment. *International Journal of Hospitality Management*, 29(3), 520–529

⁷² Suhartanto, D., Helmi Ali, M., Tan, K. H., Sjahroeddin, F., & Kusdibyo, L. (2019). Loyalty toward online food delivery service: the role of e-service quality and food quality. *Journal of foodservice business research*, 22(1), 81-97.

⁷³ Tech, J. E. T. (2020). The Influence of Online Food Delivery Service Quality on Customer Satisfaction and Customer Loyalty: The Role of Personal Innovativeness. *Journal of Environmental Treatment Techniques*, 8(1), 6-12.

⁷⁴ Pee, L., Jiang, J., & Klein, G. (2018). E-store loyalty: Longitudinal comparison of website usefulness and satisfaction. *International Journal of Market Research*, January, 12, 1–17.

and can influence customers experience with food and their satisfaction as well as their intention to reorder in a restaurant through OFD services:

taste, nutrition, and variety⁷⁵

menu, food presentation, food freshness, size⁷⁶

appeal, safety, and dietary factor⁷⁷.

In the online context customer satisfaction⁷⁸ influence e-loyalty⁷⁹. Satisfied customers with their food consumption may intend to repurchase the food in the future, endorse the OFD services to other potential customers, and voice positive remarks about the OFD services. In contrast, customers who are dissatisfied with their OFD services are less likely to repurchase or recommend the services to others.

⁷⁵ Ha, J., & Jang, S. (2010). op. cit

⁷⁶ Liu, W.-K., Lee, Y.-S., & Hung, L.-M. (2017). The interrelationships among service quality, customer satisfaction, and customer loyalty: Examination of the fast-food industry. *Journal of Foodservice Business Research*, 20(2), 146–162.

⁷⁷ Namkung, Y., & Jang, S. (2007). Does food quality really matter in restaurants? Its impact on customer satisfaction and behavioral intentions. *Journal of Hospitality & Tourism Research*, 31(3), 387–409.

⁷⁸ Oliver (1999) defines satisfaction as “the consumer senses that consumption fulfills some need, desire, goal, or so forth and that this fulfillment is pleasurable” (p. 34). When the customers perceive that the performance of the product or service is higher than their expectation, they are satisfied. Cfr. Oliver, R. L. (1999). Whence consumer loyalty? *Journal of Marketing*, 63, 33–44.

⁷⁹ Pee, L., Jiang, J., & Klein, G. (2018). op. cit.

2.5 The food delivery market in Italy

For some years now, the FD sector of ready meals or food products has become one of the most active and high-quality markets globally, experiencing an exponential growth. A battleground for many new technology companies, exploiting different business models and an increasingly widespread network of delivery, FD companies have entered the food supply markets permanently, especially in medium-large cities.

In the FD market, the segment of OFD is consolidating more and more its presence as a regular habit in people's lives, and this is also thanks to the convenience and wide selection of restaurants that allow to order on internet every type of cuisine.

Global FD market is highly fragmented given the presence of several large and small market players who compete each other in terms of:

- product and packaging innovations;
- pricing strategy,
- nutritional quality;
- service;
- variation in menu and calorie count per meal.⁸⁰

As OFD services have increased in popularity, the competitive dynamics of the food delivery market have increased.⁸¹ Some of the key players in OFD services market include: *Foodpanda*, *Pizza Hut*, *Grub Hub*, *DoorDash*, *Swiggy*, *Meituan Waimai*, *Zomato*, *Delivery Hero*, *Just Eat Holding Limited*, *Deliveroo*, *Postmates Inc*, *Takeaway.com*, and *Ele.me*.⁸² Other prominent players in this market are: *Domino's*, *Pizza Hut*, *McDonalds*, *Seamless*, *Subway*, *Snappfinger*, *Olo* and *Yemeksepeti*.

The main companies that offer this type of service in Italy (Figure 2.5) are: *Just Eat*, *Deliveroo*, *Glovo* and *UberEats*.⁸³

⁸⁰ Hirschberg, C., Rajko, A., Schumacher, T., and Wrulich, M. (2016), "The changing market for food delivery", *McKinsey*, available online <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-changing-market-for-food-delivery>

⁸¹ Lee, E. Y., Lee, S. B., & Jeon, Y. J. J. (2017). Factors influencing the behavioral intention to use food delivery apps. *Social Behavior and Personality: an international journal*, 45(9), pp. 1461-1473.

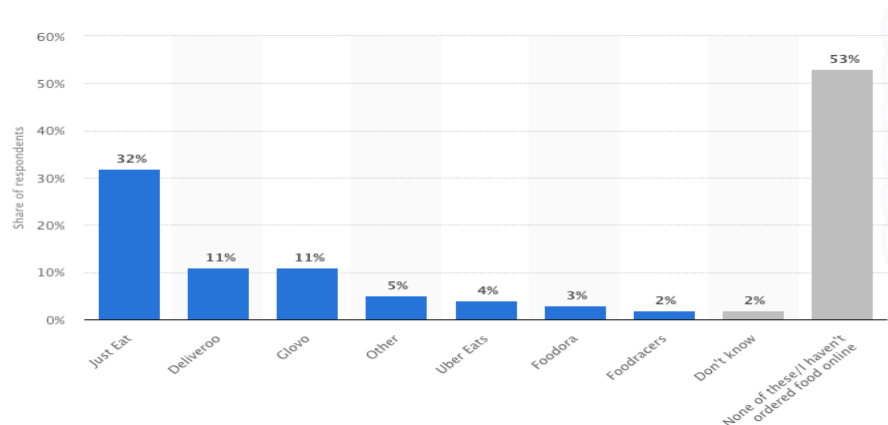
⁸² Research and Markets, Report, 2020, Online Food Delivery Services - Global Market Outlook (2018-2027), available at https://www.researchandmarkets.com/reports/5050695/online-food-delivery-services-global-market?gclid=Cj0KCQjwy8f6BRC7ARIsAPIXOjiMxP1SKGRTgPy4LAWsCmydpLh-KH4Mzs11mqEARshdVrYUOizIwlcaAkoMEALw_wcB

⁸³ SEMrush also revealed the services that Italians prefer (in descending order): the top food delivery service is Just Eat with an average of 555,000 searches per month, followed by Deliveroo with 142,500, Glovo and Uber Eats. Cfr. SEMrush, The platform to manage online visibility, <https://it.semrush.com>

JustEat is a company founded in 2000 in Denmark based in London. The Europe's largest OFD and order service has been present in Italy since 2011 and covers the entire national territory. *JustEat* today has reached a presence in more than 1,000 municipalities and more than 105 provinces, in each Italian region, more than 14,500 partner restaurants and about 34 million meals delivered since 2014 throughout the Peninsula.⁸⁴ Recently, to follow the industry innovations and to increase faster their customer base, *JustEat* acquired other Italian start-ups such as *Clikeat.it* in 2011, *Clickemangia* and *DeliveRex* in 2015 and *HelloFood Italia* and *PizzaBo* in 2016.

Among the main advantages of this company there is undoubtedly the wide choice it offers and the ability to pay both in cash and electronically, via card or PayPal. The cost of delivery is variable, but it is generally around figures ranging from 2 to 6 euros. The business model, which includes not the only online menu and ordering services, but also *JustEat Delivery* developed recently and offering their own logistics to restaurants without drivers, now is facing new start-ups with Internet-based systems and with the MobileApp-model (*Deliveroo* and *Foodora*).

Fig. 2.5 - Most popular food delivery services in Italy in 2020



Source: Statista <https://www.statista.com/statistics/1088529/most-popular-food-delivery-services-italy/>

UberEats, which has been in Italy since 2016, covers 14 cities in the country. Through *UberEats*, customers can only make payments through credit card, and the cost of delivery is around 2 euros.

Glovo is a Spanish company that has acquired *Foodora* in 2018, already present in more than 100 Italian cities and deliveries are not limited to the food sector, but also range in other product sectors.

⁸⁴ FortuneItalia (2020), "Just eat: con il lockdown boom di food delivery in Italia", available at <https://www.fortuneita.com/2020/06/04/just-eat-con-il-lockdown-boom-di-food-delivery-in-italia/>

Deliveroo was founded in 2013 and is headquartered in London. For the company 2019 has been a year of very strong expansion in Italy, they have moved from 35 cities to 150, a growth of more than 300%. In the first six months of 2020 *Deliveroo* reached 240 covered cities.⁸⁵ Again, the cost of delivery varies, however some restaurants may decide to offer it for free.

The factors analysed in previous paragraphs (e.g. increasing use of smart phones, changing consumer lifestyle and growth of F&B industry), combined, are sustaining the OFD market growth worldwide, as well as in Italy. Indeed, the global OFD services market accounted for \$23.539,40 million in 2018 and is expected to reach \$99.725,97 million by 2027 growing at a CAGR of 17.4% during the forecast period.⁸⁶ The turnover of FD and ODF services is around \$270 billion and, for the period between 2019 and 2022, analysts expect further growth of 20% per year.⁸⁷

Another study highlights that the eServices market segment of OFD worldwide shows revenue of \$107.4 billion in 2019 and is expected to increase to \$182.3 billion by 2024.⁸⁸ Huge revenues attract the big EC companies like *Flipkart*, *Amazon* and *Paytm* to invest in FD businesses.⁸⁹

In the Italian scenario FD appeared in 2004 and began to spread from 2015⁹⁰. In just few years the FD market has undergone a significant development: from 3.9% in 2013 to 6.1% in 2017, out of a total of 77.5 billion euros in value of the consumer food service

⁸⁵ADNKRONOS, "Sarzanà (Deliveroo): Nel 2021 valore food delivery a 1,45 mld" (2020), available online https://www.adnkronos.com/lavoro/dati/2020/02/10/sarzanà-deliveroo-nel-valore-food-delivery-mld_5m8ttSkHTIURZmrpNBjz3M.html

⁸⁶Report "Online Food Delivery Services - Global Market Outlook (2018-2027)", available online https://www.researchandmarkets.com/reports/5050695/online-food-delivery-services-global-market?gclid=Cj0KCQjwy8f6BRC7ARIsAPIXOjiMxP1SKGRTgPy4LAWsCmydpLh-KH4Mzs11mqEArshdVrYUOizIwlcaAkoMEALw_wcB

⁸⁷ "The "old" telephone orders will be the main drivers of this. On average, 80% of all meals are now ordered over the phone, while only 20% use the online service." Cfr. Neele, J. (2020) "Robeco, analisi sull'evoluzione del mercato del food delivery" available online <https://www.milanofinanza.it/news/robeco-analisi-sull-evoluzione-del-mercato-del-food-delivery-202006111139052183>

⁸⁸ "Revenue includes the gross merchandise value (GMV) which is defined as the total sales dollar value for merchandise/food sold through the Online Food Delivery marketplace." Cfr. Statista, "eServices Report 2020 - Online Food Delivery", available online <https://www.statista.com/study/40457/food-delivery/>

⁸⁹ "This rush to invest in diversified businesses amongst the giant EC companies is an opportunity for new FD startups to make an entry into the FD industry." Cfr. Hirschberg, C., Rajko, A., Schumacher, T., and Wrulich, M. (2016), "The changing market for food delivery", *McKinsey*, available online <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-changing-market-for-food-delivery>

⁹⁰ When Just Eat began to see competition from new startups such as Glovo, Foodora, Deliveroo and UberEats on the Italian market.

market in the country.⁹¹ In 2018, FD market worth 2 billion euros (up 66% on the previous year)⁹², however, it has penetrated only 3%. Today, digital accounts for about 18% of the entire FD sector (projection at the end of 2019) - which as a whole (online orders - traditional offline orders) is worth around 3.2 billion euros - showing an increase of 7% compared to 2018 and with a still very substantial potential for expansion.⁹³

Thus, Italians are discovering the joy of receiving the meal at home bought online. The FD market has already reached 18.9 million Italians in 2019. Almost one in three Italians use FD platforms with names like *Deliveroo*, *JustEat* and *Glovo* ringing everywhere.⁹⁴

Only in the last year, 4.2 million Italians have used FD service of the meal at home at least once.⁹⁵ Moreover, almost 37% of Italians used FD at home using social and online channels.⁹⁶

Coldiretti found that more than 4 million Italians have been delivered food at least once a month: a more marked habit in the age group ranging from 25 to 34 years.⁹⁷ The trend is constantly growing, as we can also see from recent acquisitions (in Italy *Glovo* acquired *Foodora* in 2018); and it is estimated that by 2022 FD platforms will generate a turnover of 2.5 billion euros.

The strong development of FD is undoubtedly due to the growth of coverage in medium to large cities. Trough the country FD services are now active in 93% of municipalities with more than 50.000 inhabitants, however, the metropolitan cities such as Milan, Rome and Turin recorded the biggest growth of the service. Less densely populated areas, especially in the South, remain undiscovered. However, coverage is growing: two years ago, the figure was only 74%.

⁹¹Euromonitor, Report “100% Home Delivery/Takeaway in Italy” (2019), available online <https://www.euromonitor.com/100-home-delivery-takeaway-in-italy/report>

⁹² B2c e-commerce observatory (2020), “Il Food & Grocery Online cresce del +39% nel 2019 e vale 1,6 mld di euro” available online <https://www.osservatori.net/it/ricerche/comunicati-stampa/il-food-grocery-online-cresce-del-plus39-nel-2019-e-vale-1-6-mld-di-euro>

⁹³ JustEat, Osservatorio del food delivery online, “La mappa del cibo a domicilio in Italia- 2019” available online <https://www.justeat.it/esplora/osservatorio2019>

⁹⁴ Rapporto COOP (2019), Economia, consumi e stili di vita degli italiani di oggi, available online <https://www.italiani.coop/rapporto-coop-2019-versione-definitiva/>

⁹⁵Nielsen, “Detto, fatto. osservatorio immagino alla velocità dei consumatori” (2019), available online <https://www.nielsen.com/it/it/insights/article/2019/osservatorio-immagino-velocita-consumatori/>

⁹⁶FIPE, Confcommercio, (2020) “Il food delivery al tempo del coronavirus”, available online <https://www.fipe.it/centro-studi/news-centro-studi/item/7063-il-food-delivery-al-tempo-del-coronavirus.html>

⁹⁷Coldiretti/Censis (2020), “Cibo a domicilio per un italiano su tre (37%)” available online <https://www.coldiretti.it/economia/cibo-a-domicilio-per-un-italiano-su-tre-37>

FD start-ups are also growing steadily, with a turnover of 566 million euros in 2019 (a growth rate of 56% compared to 2018).⁹⁸ At the current rate of growth, in 2020 the value will be 900 million and in 2021 of 1.45 billion euros. This figure is set to grow more and more, as only 18% of FD passes through digital platforms, a figure well below the national average of other countries, which shows that there is still a great opportunity to seize because most of the market is off line (turned predominantly over the phone). According to *JustEat*, the figure could reach 1 billion euros over the next three years, growing by between 30 and 34%.⁹⁹

FD growth represent a great opportunity for restaurants which could grow the turnover by about 25%, without fixed costs, at very low risk, offering an additional service to its customers and acquiring new ones since those who order today represent a potential customer tomorrow. The volume of orders generated by *Deliveroo* in Italy comes 80% from small restaurateurs.¹⁰⁰ This is a great opportunity and mirror of the quality of the catering of our country.

Why Italian are using more and more OFD services? The main reasons highlighted in more recent studies are:

- desire not to leave the house and still eat something good: 37%
- empty refrigerator or there is nothing to eat at home: 36%
- lack of desire to think about meals: 35%
- Lack of time to cook: 32%; order food online saves time; thus, customers can choose from a variety of restaurants and their payment details are stored;
- Unexpected guest arrival: 18%.¹⁰¹

The portrait of the society that sees this mode of consumption increasingly integrated is valid not only in the metropolises, but also and increasingly in the Italian provinces, where there is a growth of orders at home that increases exponentially, driving the overall

⁹⁸Loguercio, L. (2020) “Food, 50 startup che stanno cambiando il business del cibo”, *Economyup*, available online <https://www.economyup.it/food/food-50-startup-per-capire-come-cambia-il-business-del-cibo/>

⁹⁹JustEat, Osservatorio del food delivery online, “La mappa del cibo a domicilio in Italia- 2019” available online <https://www.justeat.it/esplora/osservatorio2019>

¹⁰⁰ Deliveroo notes that in March 2020 it saw a 30% increase in requests from restaurants. In addition to the new requests, there are many restaurants already present on the platform that are experimenting with new ways of relationship with the customer, moving it in digital mode. Other experiments relate to the menu: some restaurateurs doubted whether their menu was suitable for delivery, they revised it by removing items not suitable for home delivery. Cfr. FoodService, “Il valore del food delivery secondo Deliveroo” (2020), available online <https://www.foodserviceweb.it/2020/04/20/deliveroo-il-valore-del-food-delivery/>

¹⁰¹ Rapporto COOP (2019), Economia, consumi e stili di vita degli italiani di oggi, available online <https://www.italiani.coop/rapporto-coop-2019-versione-definitiva/>

growth of the phenomenon in Italy in 2019.¹⁰² The Italian city where there is more demand for food to be delivered directly to your home is Milan. In second place is Rome, while in third place Turin. However, the distance between the various cities is minimal, so much so that they are increasingly closely followed by Naples, Lecce and Palermo.

FD is mainly used by millennials (58% of users), but in recent weeks, also due to the lockdown and the impossibility of going to the restaurant, it has also been used by families (see next par.). Other proponents of FD are single professionals who return home late from work and don't have time to shop or cook.

The most ordered dishes through FD services in 2019 in Italy (Figure 2.6) confirm the predilection of pizza, a fact that reflects what is happening internationally in 11 other countries. Second place confirmed compared to 2018 for hamburger, third for Japanese, fourth for Chinese, fifth for sandwiches, sixth for Italian, seventh for chicken, eighth for sweets, ninth for Indian specialties and in the tenth the Mexican ones at the end of the ranking.¹⁰³

Fig. 2.6 - Top 10 of dishes ordered in Italy (2019)



Source: JustEat <https://www.justeat.it/esplora/osservatorio2019>

Significant differences are also appreciated analyzing the gender of customers, specifically the male population tends to prefer burgers or pizza (55% vs. women 44%), while the female population orders more Asian food, poke or sweets.¹⁰⁴

Thus, consumption is increasing, but also expectations¹⁰⁵. Indeed, Italian consumers have requests relate to:

¹⁰² B2c e-commerce observatory (2020), "Il Food & Grocery Online cresce del +39% nel 2019 e vale 1,6 mld di euro" available online <https://www.osservatori.net/it/ricerche/comunicati-stampa/il-food-grocery-online-cresce-del-plus39-nel-2019-e-vale-1-6-mld-di-euro>

¹⁰³ JustEat, Osservatorio del food delivery online, "La mappa del cibo a domicilio in Italia- 2019" available online <https://www.justeat.it/esplora/osservatorio2019>

¹⁰⁴ Grassi, M., (2020) "Food delivery: quanto vale il mercato e quali sono i migliori servizi in Italia", available online <https://www.money.it/food-delivery-quanto-vale-mercato-migliori-servizi-italia>

¹⁰⁵ Eurisper, "Rapporto italia 2020", available online <https://eurispes.eu/news/eurispes-risultati-del-rapporto-italia-2020/>

- respect for the labour rights of riders, bellboys (38.1%),
- the guarantee of food safety in the transport of food, to avoid contamination and preserve the quality of food (28%),
- the quality of ingredients used in meal preparation (25.3%),
- the short supply chain, i.e. the use of typical products and the use of local suppliers (17.7%).¹⁰⁶

In this fast-changing and growing landscape, the different industry players are moving quickly, also in an innovative way, for example:

- *Deliveroo* head, along with *Autogrill*, the airport channel to reach passengers waiting for the flight; the company has also activated a business service offering designed for employees and those who work late;
- *Glovo* expanded the business on the pharmacy segment for home delivery of medicines. The company recently entered the Polish market, acquiring *Pizza Portal* for 35 million euros and investing in a second technology hub in Warsaw.¹⁰⁷ Thanks to a new 150 million euros funding and the entry among investors of the sovereign wealth fund in Abu Dhabi, *Glovo* plans to expand its global technology team by hiring an additional 300 engineers by the middle of 2020, with 40 dedicated engineers and 50 technology and product experts in its new Warsaw office. The goal is to improve customer usage and reduce delivery wait times. The other line of development indicated is that of the "dark stores", that is, small warehouses in which the company - without opening them to the public - collects the most frequently purchased goods, so that they are more readily available and available for delivery.¹⁰⁸
- *Uber* is designing "virtual kitchens", where to prepare food directly for deliveries, bypassing the affiliate;

¹⁰⁶ Coldiretti/Censis (2020), "Cibo a domicilio per un italiano su tre (37%)" available online <https://www.coldiretti.it/economia/cibo-a-domicilio-per-un-italiano-su-tre-37>

¹⁰⁷ Linott, R. (2019), "Glovo buys Polish food delivery platform Pizza Portal", available online <https://www.verdictfoodservice.com/news/deal-news/glovo-buys-pizza-portal/>

¹⁰⁸ "For now, there are seven in Europe and Latin America - particularly in Barcelona, Madrid, Buenos Aires and Lima - but the forecast is to open 100 by 2021." Cfr. Repubblica (2019), "Glovo diventa un unicorno con un finanziamento da 150 milioni: punta sui "dark store", available online https://www.repubblica.it/economia/finanza/2019/12/19/news/glovo_mabadala_finanziamento-243844889/?refresh_ce

- There are also social initiatives, such as the one born from the collaboration between *Just Eat*, *Banco Food* and *Cuki* to promote the practice of "doggy bags".¹⁰⁹

As a consequence of the described growth of FD in Italy, also the GDO companies tried to respond in its own way, expanding the offer of products that meet the same needs that push Italians to choose meal delivery. The response is “food2go”: it is the ready-to-eat food that is bought in supermarkets. The turnover was close to 1.9 billion euros in 2019. At the moment, the ranking of the products choose by Italian in terms of “food2go” are:

1. cereal sweet snacks: 134.8 million euros
2. nuts without shells and almonds: 125.3 million euros
3. first meals ready and soups: 116.6 million euros
4. sushi: 114.3 million euros
5. yogurt: 113.7 million euros.¹¹⁰

As with all highly digitized sectors, there is a progressive and inevitable centralization towards a few large global players, operating as "aggregators" on which end customers converge, and therefore more and more affiliates and customers, and so on, towards a substantial “amazonification” of the market. In Italy a recent example is the acquisition of *Foodora Italia* (controlled by *Deliveroo*) by *Glovo*. The acquisition is part of the development strategy of the Spanish start-up that aims to consolidate its presence in different markets, with a focus in the Emea area, where Italy plays a key role.¹¹¹ The operation changes the balance in the Italian FD market, because *Glovo*, incorporating *Foodora*, becomes one of the two strongest operators, with *Deliveroo*.¹¹²

Internationally, a recent merger approved by the Competition and Markets Authority (Cma) of the United Kingdom is between *Takeaway.com* and *JustEat*, a deal worth 6.2 billion pounds, about 8 billion euros. *Just Eat Takeaway.com* proceeded with the issuance

¹⁰⁹ B2c e-commerce observatory (2020), “Il Food & Grocery Online cresce del +39% nel 2019 e vale 1,6 mld di euro” available online <https://www.osservatori.net/it/ricerche/comunicati-stampa/il-food-grocery-online-cresce-del-plus39-nel-2019-e-vale-1-6-mld-di-euro>

¹¹⁰ Grassi, M., (2020) “Food delivery: quanto vale il mercato e quali sono i migliori servizi in Italia”, available online <https://www.money.it/food-delivery-quanto-vale-mercato-migliori-servizi-italia>

¹¹¹ Querzè, R., (2018), “La spagnola Glovo compra Foodora Italia da Delivery hero”, *Il Corriere*, available online https://www.corriere.it/economia/18_ottobre_31/spagnola-glovo-compra-foodora-italia-delivery-hero-7922f4ac-dd00-11e8-989f-9f5167836d06.shtml

¹¹² “Delivery Hero, the holding company that controls Foodora, also has shares in Glovo. It is the largest minority shareholder, after an investment of 51 million euros this year. Equal to 20% of the company.” Cfr. Zorloni, L., (2018), “Food delivery, Glovo acquista Foodora in Italia. Ma è un'unione tra "parenti", *Wired Italia*, available online <https://www.wired.it/economia/business/2018/10/31/food-delivery-glovo-acquista-foodora-italia/>

of shares and convertible bonds. In detail, this is 400 million euros of shares sold to institutional investors, representing a dilution of 3.2% of the equity base. The shares were quickly sold overnight at 87 euros each, a 3.7% discount to Wednesday's closing price. Convertible bonds issued amount to 300 million euros. *Just Eat Takeaway.com* has thus strengthened its financial position in the post-merger. The money will be used to repay loans from both Just Eat and Takeaway and "for general operational purposes and to give the company the financial flexibility to act as soon as strategic opportunities arise."¹¹³

In this scenario, however, there may still be room for local platforms (e.g. the case study of *JaFood* analysed in chapter 3) that go to work in capillary on the territories and provinces and that can cut back on a small market space, especially if they offer an extra channel of visibility to restaurateurs and adequate service. To create their customer base in a market with already a lot of competitors, they focused on communication, optimizing transports and reducing delivery times, supporting ecological and healthy trends. In this transformation are involved not only ordering and distribution systems, but also dish preparation processes, marketing and communication strategies, products design and transport tools and packaging.

2.5.1 The impact of COVID-19 pandemic and forecast

Worldwide, the covid-19 lockdown started in March 2020 has required people to refrain from their social activities and stay at home as much as possible in order to avoid potential infection of this terrible virus. It has also led to behavioural changes among people as they limit the number of trips outside the home and increasingly strive to maintain control on the hygiene of their households through limiting what comes into their home.¹¹⁴ Thus, this shift in behaviour, the insecurity around the pandemic and the precautions taken by authorities is driving consumers to different buying patterns.¹¹⁵

¹¹³ "Just Eat is one of the leading food delivery operators in Uk, while Takeaway is active in 11 countries, including the Netherlands and Germany, but not in Britain, the market from which it emerged in 2016. It was the Dutch company's potential re-entry into the UK that raised the regulator's level of attention, for the possible reduction of competition: instead of competing with Just East, Takeaway bought it." Cfr. Licata, P. (2020), "Uk in soccorso del food delivery, ok al merger Takeaway-Just Eat" *CorriereComunicazioni*, available online <https://www.corrierecomunicazioni.it/digital-economy/ue-in-soccorso-del-food-delivery-ok-al-merger-takeaway-just-eat-lantitrust-uk-in-soccorso-del-food-delivery/>

¹¹⁴ Pollard, L., O'Neill, C.T. (2020) "How covid-19 Is Impacting Online Food Delivery Platforms" available online <https://www.citivelocity.com/citigps/how-covid-19-is-impacting-online-food-delivery-platforms/>

¹¹⁵ Foodware365 (2020), "The impact of Covid19 on food companies", available online <https://www.foodware365.com/en/news/knowledge-base/2020/the-impact-of-covid-19-on-food-companies/>

Lockdown has profoundly changed consumer habits: online purchases of food and essentials have grown exponentially. During the global 2020 COVID-19 outbreak, the advantages of OFD were obvious, as it facilitated consumer access to prepared meals and enabled food providers to keep operating.¹¹⁶ The reaction of retailers has been varied and influenced by the product sector and the presence of an EC initiative.¹¹⁷ Consumers have turned to online grocery providers as a safer alternative to shopping in stores, and the closure of bars and restaurants to the public was also one of the first measures put in place by many governments (including Italians'), forcing businesses to increase or in some cases build from scratch their online presence.¹¹⁸

FD platforms have seen apps downloading go up the charts. With all the applicable challenges in terms of logistics and hygiene-sanitary control plans to put in place in record time¹¹⁹.

In the European context many FD start-ups are booming and experiencing the unprecedented number of orders. *EU-Start-ups* have analysed the 10 European fast-growing FD start-ups during the Covid-19 emergency and their initiatives¹²⁰:

- the Portuguese *Kitch*¹²¹ is building delivery-first kitchens to house a selection of the city's favourite restaurants and most creative chefs;
- the French company *I-lunch* provides a delivery platform for balanced chef-cooked meals, connected to health data intended to create an ideal week's diet.¹²²

¹¹⁶ Li, C., Miroso, M., & Bremer, P. (2020). Review of Online Food Delivery Platforms and their Impacts on Sustainability. *Sustainability*, 12(14), 5528.

¹¹⁷ B2C eCommerce Observatory (2020), "Covid-19: the impact on B2C eCommerce" available online <https://www.som.polimi.it/en/covid-19-the-impact-on-b2c-e-commerce/>

¹¹⁸ Supermarkets have seen an unprecedented demand for food, which has caused a short circuit of the delivery system, and constrained marketplaces to wait list customers, expand the number of pickup stores, and create delivery windows.

¹¹⁹ Since the decree of 11 March, the Italian government has granted the FD sector but 'in compliance with sanitation standards for both packaging and transport activities'.

¹²⁰ Kholod, D. (2020), "10 food delivery startups smashing it in 2020", *EU-Start-ups*, available online <https://www.eu-startups.com/2020/05/10-food-delivery-startups-smashing-it-in-2020/>

¹²¹ "The startup was founded in 2019 by Rui Bento and Nuno Rodrigues, two former executives of Uber. *Kitch* has recently announced raising a €1 million pre-seed financing round which will allow the team to develop and scale its operations and to take a first step to making FD more sustainable." Cfr. Tucker, C. (2020), "Lisbon-based Kitch seals €1 million to build delivery-first virtual kitchens", *EU-Start-ups*, available online <https://www.eu-startups.com/2020/05/lisbon-based-kitch-seals-e1-million-to-build-delivery-first-virtual-kitchens/?fbclid=IwAR3ZPHfzmdflrVe4cTiufGj4chaM9VDdwUp14b4y7DGYu5gDNKg1w2-nwVA>

¹²² Since the beginning of the lockdown, *i-lunch* has been supporting Parisian care-workers by distributing free snacks and fruit baskets.

- the Spanish start-up *Wetaca*, that delivers healthy and varied chef-made meals vacuum packed to guarantee freshness up to 8 days, has experienced growth in the number of clients and orders– especially in Madrid (120% increase) and Barcelona (70%)¹²³;
- *Keatz* has been operating since 2016 is a family of virtual restaurants that provides contemporary dishes for delivery. The company creates recipes, process, and packaging to ensure that the meals which arrive at people's doors have the same quality that those leaving the kitchen. Currently it operates a total of 10 virtual restaurants in Berlin, Munich, Madrid, Amsterdam and Barcelona, employing around 200 people and focusing exclusively on food 'made for delivery', with minimal capital expenditure and time. In 2019, the startup completed a €12 million Series B funding;
- the UK-based *HungryPanda* is an OFD platform which provides delivery services from Asian restaurants and supermarkets.¹²⁴ This start-up is currently operating in 6 countries and 30+ cities including the UK, France and Italy. In February 2020, the start-up announced raising €18.3 million which will be used for hiring, product development and global expansion, particularly in the United States;
- *Bella&Bona* is a Munich-based foodtech start-up offering a premium quality FD service. They offer a workplace food programme with customised healthy and balanced Mediterranean lunches delivered to the companies¹²⁵;
- *AllPlants* offers vegan hand-prepared FD service across the UK. To incentivise more plant-based living, they create delicious and nutritionally balanced dishes made from 100% plants delivered frozen to customers for freshness, taste and convenience¹²⁶;

¹²³ With its recent €275.000 investment in March 2020, *Wetaca* is planning to grow and expand across Spain, including the cities of Bilbao, Murcia and Granada.

¹²⁴ This start-up is seen as one of the key players in the field of catering delivery specialising in Chinese food.

¹²⁵ Founded in 2018, the company raised a €2.7 million round in January 2020 led by Plug and Play, with additional funding from investors with a strong entrepreneurial background.

¹²⁶ "In February 2020, the start-up completed a €3.9 million funding round through investment platform Seedrs. Funds will be used to develop new food categories and serve over 60,000 meals a week from their London-based production kitchen." Cfr. Tucker, C. (2020), "London-based allplants closes €3.9 million crowdfunding round to boost its vegan chef-to-customer delivery service", *Eu-Startups*, available online <https://www.eu-startups.com/2020/03/london-based-allplants-closes-e3-9-million-crowdfunding-round-to-boost-its-vegan-chef-to-customer-delivery-service/>

- *Foodcheri* is a foodtech pioneer founded in 2015, which delivers chef-prepared meals to busy professionals via smart phone. The French start-up operates from a central kitchen with its own culinary team and chefs integrating the entire value chain from meal prep to delivery. In 2018, *Sodexo*, quality of life service provider, took a majority stake in the company which provided *FoodCheri* with a cash injection to expand its operations nationwide;
- *Parsley Box* was founded in 2017 in Edinburgh and prepares and delivers delicious and convenient meals which can be stored up to 6 months in the cupboard because of the innovative steam fresh packaging system. In 2019, Parsley Box raised €3.3 million investment topped up by an additional €1.7 million the same year. The investment followed its record sales month with over 30,000 deliveries to customers throughout the UK and will be used to accelerate growth and expand the start-up's product offering;
- *Taster* is a family of restaurants of a new type currently operating in London, Paris and Madrid. The company has 3 virtual food brands with meals prepared at cloud kitchens and delivered via third-party platforms. Bringing together talented chefs and fresh ingredients, *Taster* focuses on the food-making and customer experience. In 2019, the company raised a €7.3 million funding round with the plans to launch three new brands and open more kitchens.¹²⁷

Among the various “coronavirus effects” on the FD world, it's noteworthy the merger between *JustEat Takeaway.com* and *Grubhub*. The Anglo-Dutch group, which also operates in our country, has recently announced the acquisition of the American competitor *Grubhub*, in a share transaction worth 7.3 billion dollars¹²⁸. The combination will create the world's leading OFD outside of China, with strong brands connecting partner restaurants to their customers in 25 countries.¹²⁹

Focusing on the Italian context, during the lockdown days (the so called “phase 1”) cities were deserts, with pedestrian-free streets and very few cars, a few taxis and ambulances; the only constant presence were FD *riders*. Ordering food at home has

¹²⁷ Loritz, M. (2019), “London-based Taster scores €7 million Series A to scale its delivery-only restaurant brands”, *EU-Startups*, available online <https://www.eu-startups.com/2019/06/london-based-taster-scores-e7-million-series-a-to-scale-its-delivery-only-restaurant-brands/>

¹²⁸ Each Grubhub shareholder will receive the equivalent of 0.6710 shares of the Anglo-Dutch group for a share of the American company. This values Grubhub stock at 75.15 dollars. The deal will be closed in the first quarter of 2021 after the US antitrust administration, which analysts say should still give the green light. The new company will be based in Amsterdam.

¹²⁹ Ben, L., (2020), “Just Eat compra Grubhub per 7,3 miliardi di dollari. Nasce colosso del food delivery.” *IlSole24Ore*, available online <https://www.ilsole24ore.com/art/just-eat-compra-grubhub-73-milioni-dollari-nasce-colosso-delivery-ADAd7W>

become, during the sanitary emergency, a popular habit for Italians, with restaurants and closed pizzerias. Indeed, the reasons to opt for OFD services are plentiful, whether it be simply ordering groceries online to avoid the human interaction inherent in going to the supermarket or corner shop, or having the favourite dish served up on the doorstep.¹³⁰

Covid-19 pandemic highlighted that FD is no longer an additional service, but a strong point for people and restaurants, pizzerias and bistros which allows both to support themselves as well as to keep in constant contact with their customers.

Otherwise, the emergency situation has drastically changed the operational dynamics of FD companies. Many companies had to start this type of service for the first time: having no delivery service of their own nor the ability to receive orders and payments through their site, the whole FD process during the pandemic has become even more complex. Even the best-known players such as *Glovo*, *Deliveroo* and *Uber Eats* have had to adapt to the significant changes dictated by the health crisis, starting "contactless" deliveries. Among the measures taken there are:

- the delivery of food at the door, without contact with the customer,
- the invitation to partner restaurants to close the food in tamper-proof bags,
- the offer of masks, disinfectants and gloves and/or reimbursement to couriers for their purchase.

In addition, in response to the challenges faced by many operators throughout Italy and to the drastic restrictions for many operators (as in the case of Campania, where a regional decree banned FD until 27 April 2020), *Uber Eats* announced:

*We are aware that our partners may need to receive daily payments. For this reason, we have decided to allow restaurants and couriers to take advantage of daily payments instead of weekly payments.*¹³¹

Moreover, during the pandemic many restaurants were not able to turn to online platform such as APPs, such as *Deliveroo*, *Glovo* and *Uber Eats*, since these solutions are not accessible to all operators, as some areas of Italy are not covered by these services. As a result, many small restaurants and trattorias, which now face financial difficulties, cannot afford the costs associated with paying percentages on orders, required by these platforms.

¹³⁰ EHL Insights (2020), "Covid-19 and the F&B Industry: Delivery Services to the Rescue", available online <https://hospitalityinsights.ehl.edu/covid-19-delivery-services>

¹³¹ Sallenave, J. (2020), "Supporting the restaurant industry through an uncertain season", available online <https://www.uber.com/newsroom/food-not-finances/>

To solve this problem a solution was proposed for example by *Marketing01*¹³² which created (for the restaurants that required it) a “mini-EC site”, allowing customers to consult the menu, place orders and pay online. This mini-EC site has been free for the entire emergency period, after which operators will be able to evaluate whether or not to continue with the paid service.¹³³

In Italy, the Seo Tester Online report on Covid 19¹³⁴ found that *JustEat* is still the most used platform, with a peak between late February and early March 2020. Among the peculiarities, the growth of menus dedicated to children and families and lunch boxes during smart working. At the second place there is *Glovo* that, despite admitting a slight contraction in demand, shows an increase in orders of sweets and ice cream, precisely. *Glovo* has adapted to all the necessary measures with the supply of gloves and masks for riders and partners, stations with tables outside in the phase of withdrawal of the sealed envelope, encouraging the customer to pay with credit card. In addition, it has expanded its reach thanks to subscriptions that allow delivery at no cost and dedicated discounts, also reaching that slice of the market passionate about traditional home cooking, which does not want to have on the shelf ready meals but quality raw materials.¹³⁵

According to *JustEat*, many new customers have approached the service during the most acute phase of the emergency, declaring for example that they have never ordered food online before (34% out of a sample of 2,000 new users). Of these, more than 60% seem to have never felt the need, driven instead during the lockdown period, precisely by the impossibility of withdrawing food to the restaurant, (44%) habit more than consolidated in Italy, but also by the lack of desire to cook (31%) and also with the idea of having a different lunch or dinner than usual (29%) or give themselves a cuddle (22%).¹³⁶

¹³² Google Partner Premier of the web marketing industry, <https://www.marketing01.it>

¹³³ Baptista, R., (2020) ” Iniziative e cambiamenti nel mondo del food delivery durante la pandemia causata dal coronavirus”, *InsideMarketing*, available online <https://www.insidemarketing.it/food-delivery-durante-la-pandemia-coronavirus/>

¹³⁴ Covid-19/seo tester, available online <https://stocdn.s3-eu-west-1.amazonaws.com/covid-19-seo-report.pdf>

¹³⁵ On the other hand, *Deliveroo* declared that with restaurants closed, the business was in serious difficulties and without "significant new financing" it could be forced out of the market. Indeed, recently the UK Competition and Markets Authority (Cma) approved a 575 million USD *Amazon* grant in *Deliveroo*. Cfr. Licata, P. (2020), “Uk in soccorso del food delivery, ok al merger Takeaway-Just Eat” *CorriereComunicazioni*, available online <https://www.corrierecomunicazioni.it/digital-economy/ue-in-soccorso-del-food-delivery-ok-al-merger-takeaway-just-eat-lantitrust-uk-in-soccorso-del-food-delivery/>

¹³⁶ Santamato, A. (2020), “Just eat: con il lockdown boom di food delivery in Italia”, *FortuneItalia*, available online <https://www.fortuneitalia.com/2020/06/04/just-eat-con-il-lockdown-boom-di-food-delivery-in-italia/>

Thus, in Italy the world of FD not only did not stop during this critical period but attracted new customers and very often it represented the only way for restaurateurs not to close permanently. The use of digital for home food orders is increasing also in relation to digital payments (+36%), preferred by new users, with a higher expense than customers do on average with cash, and bringing to 70% of the total digital transactions, also due to a reduction in cash in terms of absolute values.¹³⁷ In this context, the use of OFD, especially through an APP to order, compared to the web, has also increased, reaching to 77% of consumers who use the FD service via APP (in 2019 the share was 75% while in 2018 was 66%).¹³⁸

Increased digital therefore, both as a tool and as a type of payment, but also new targets more adults who have approached digital for the first time.

However, the use of digital tools is not only growing for customers who order FD. New, among other things, is the ability to order directly from Instagram through the link to the restaurant menu. *JustEat* has already made the new feature available on the social platform, allowing partner restaurants to connect the Instagram profile to their menu on the platform.¹³⁹ In this way, even the smaller companies will have the opportunity to use the social platform as a showcase to promote their offer and facilitate customers to order online.

As for preferences on dishes, among those who still use FD, 68% mainly order pizza, 26% prefer typical Italian dishes and 22% go on the classic burger with chips.¹⁴⁰ These results show that FD service is highly valued by consumers and that, given the current situation, the main brake is fear of food safety.¹⁴¹

¹³⁷ Men use digital payments more (84%) and they use the app more (75%), while women spend more and have increased their use of digital payments with the Covid-19: +22% going from 67% to 82%, reaching men also in the share of use of the app (75%). Cfr. JustEat Osservatorio (2020), available at <https://www.justeat.it/blog/progetti-e-impegno-in-italia/cibo-a-domicilio-e-professioni-abitudini-ed-esigenze-di-chi-ordina-quando-lavora>

¹³⁸ Predominant is the share of young people who have always preferred the app over the site with an average of 75%, the very young between 18 and 24 years old during the lockdown, however, also used the website from desktop, testifying to the greater use of the computer during the entire day spent at home. Cfr. JustEat Osservatorio (2020), available at <https://www.justeat.it/blog/progetti-e-impegno-in-italia/cibo-a-domicilio-e-professioni-abitudini-ed-esigenze-di-chi-ordina-quando-lavora>

¹³⁹ ANSA (2020) "Pandemia, pagamenti digitali e comodità così il food delivery ha fatto il boom", available at https://www.ansa.it/canale_lifestyle/notizie/food/2020/05/27/pandemia-pagamenti-digitali-e-comodita-cosi-il-food-delivery-ha-fatto-il-boom_efb9561f-3cbe-45da-b3e7-026b0e042ca5.html

¹⁴⁰ FIPE, Confcommercio, (2020) "Il food delivery al tempo del coronavirus", available at <https://www.fipe.it/centro-studi/news-centro-studi/item/7063-il-food-delivery-al-tempo-del-coronavirus.html>

¹⁴¹ More specifically, among the long-lasting foods that unite the Italians' spending during the lockdown there are: flour (186.5%), hen's eggs (53.7%), UHT milk (34.1%), frozen foods (6.5 per cent), canned animals (up 32.1%), butter (up 79.7%), red preserves (up 50.8%), pasta (up 22.6%), rice (up 37.9%) ground coffee (21.5%). The "stay at home" effect has generated desirable consumption to organize homemade

Therefore, in the world of FD there is a before and after Covid-19: a watershed that has led operators in the sector to reflect both on the present and the future of the sector adapting their business according to the needs and ways of consumption that emerged as a result of the emergency. In this sense, FD is and will continue to be a key development driver for restaurants, which will not decrease with the re-openings, but which will still support the activity within the premises. This will make the market even more competitive: to differentiate itself, it will be necessary for restaurateurs to enrich delivery with unique experiential aspects, especially for the "top of the range".

Type of offer, pre- and post-sale service, packaging, payment methods represent a sign of continuity with respect to the positioning of the brand, the attention to detail that "pampers" the customer at the home table, which makes him feel like he is in the restaurant.¹⁴²

In conclusion, the covid-19 emergency has highlighted the strategic value of digital in many sectors, especially in FD, and the importance of tools and connections appropriate to the business continuity of companies, but also to people's social lives. Particularly, Italian consumers have understood the value of the EC channel as never before: EC has allowed a large slice of the population to benefit from value-added services, important and essential as they are, like FD. Growth of web shoppers (who at the end of 2019 amounted to just over a third of the Italian population) and greater familiarity with and confidence in online transactions and digital payments (including those shoppers already used to purchasing online) can generate a positive effect on the development of EC in Italy. The use of digital tools is not only growing for customers who order food delivery: the restaurant world has also discovered innovative ways of using digital, for example through social media and with the aim of bringing more and more customers to online channels.

The other side of the coin is that the praiseworthy efforts of supply-side operators will not be vain. Once the crisis is over, investments in technology (to handle traffic spikes), the presence of new trained staff and the optimisation of picking and transport processes

aperitifs made from frozen pizza (45.7%), wine (12.4%), alcoholic beers (11.3%), sliced (28.1%), mozzarella (44.6%), wurstels (up 44.2%), chips (up 25.7%); this trend is balanced by the desire for "comfort food" embodied by sweet spreads (61.3%), ice cream (21.5%), wafers (16.2%). Cfr. Nielsen, "Coronavirus: la spesa in quarantena" (2020), available <https://www.nielsen.com/it/it/insights/article/2020/coronavirus-la-spesa-in-quarantena/>

¹⁴²FoodService (2020), "Il food delivery nel post Covid-19", available online <https://www.foodserviceweb.it/2020/05/04/delivery-dopo-il-covid-19/>

will be in place to better manage not only the current extraordinary demand but also a future in which the digital world will be increasingly fundamental.¹⁴³

¹⁴³B2C eCommerce Observatory (2020), “Covid-19: the impact on B2C eCommerce” available online <https://www.som.polimi.it/en/covid-19-the-impact-on-b2c-e-commerce/>

Chapter 3

The case study of *JAFOOD Italy*

Summary: 3.1 Methodology; 3.2 Company profile and history; 3.3 Mission and Value proposition; 3.3.1 *JaFood Quality*; 3.3.2 *JaFood Class*; 3.4 JaFood business model; 3.5 Financial sources: the fundraising activities; 3.6 Main results and future plans.

3.1 Methodology

The purpose of this chapter is to investigate and describe the characteristics and objectives of a successful OFD innovative start-up founded in 2018 in Southern Italy.

The methodology is based on Yin's (2014) case study approach. The useful application of the case study method is retained when “*a how or why the question is being asked about a contemporary set of events over which the investigator has little or no control*”¹. Additionally, the intention is to “*... capture various nuances, patterns, more latent elements that other research approaches might overlook*”².

The research is based on an interview conducted by the author with the owner and founder of the firm concerned, the *Chief Executive Officer* (CEO) Fabio Greco, which is an appropriate subject for this study because he represents the company entrepreneur having personal values and characteristics influencing the firm's decision-making and outcomes.

Interview is one of the main types of qualitative data collection methods. Interviews are appropriate because they are very efficient in obtaining data in a short space of time, even though they bear the risk that interviewers could expect interviewees to use researchers' perspectives and words³.

A variety of interview methods exist, including the standardised (structured), the unstandardized (informal) and the semi-standardized (semi-structured) interview.⁴ The latter is the one employed for this chapter, using several tools (e.g. personal and telephone

¹ Yin, R.K. (2014), *Case Study Research: Design and Methods*, Sage, Los Angeles.

² Berg, B.L. (2007), *Qualitative Research Methods for the Social Sciences*, Pearson Education, United States.

³ Ely, M., Anzul, M., Friedman, T., Garner, D. and Steinmetz, A. (1991), *Doing Qualitative Research: Circles within Circles*, Falmer Press, London.

⁴ Berg, B. L. (2001). *Qualitative research methods for the social sciences*. Needham Heights. MA: Allyn & Bacon.

calls). Collected data were acquired in three months and the interviews lasted on average 120 minutes, even though the author has previous knowledge of the company and the CEO & founder.

This analysis was developed using a research protocol based on Yin's prescriptions.⁵ It is directed to validate the results in terms of construction and internal and external validity. First, an interview guide was prepared by the author, which consists of a list of topics and aspects of these topics that the interviewer should raise during the course of the interview.⁶

Such topics covered, among others: the company's history and profile, the company's strategy and objectives for the future, the relationships with external stakeholders (restaurant-partners...), the perceived critical success factors, corporate social responsibility issues and strategies, informal and formal relationships between the firm's people, organisational decision making.

The interview was recorded and type-scripted verbatim and, to avoid potential misunderstandings, a further shorter interview was scheduled in some cases to clarify or go into more detail on some of the aspects already investigated. Once type-scripted, interviews were submitted to the interviewee, giving him the opportunity to check for potential inconsistencies or errors.

In accordance with the rules of this methodology, internal documents of the company were also collected to support interviewees' statements and the institutional website of *JaFood* (<https://www.jafood.it>) was also examined. Table 3.1 lists the people interviewed and the documents collected.

Tab. 3.1 - Sources used for developing the case study

Source	<i>JaFood Italy</i>
Company Documents	Document JF
Interviews with the CEO Fabio Greco	Interviews length 120''
Institutional Website	https://www.jafood.it

Source: Author's elaboration

⁵ Yin, R.K. (2014), *Case Study Research: Design and Methods*, Sage, Los Angeles.

⁶ Welman, C. and Kruger, S.J. (2001), *Research Methodology for the Business and Administrative Sciences*, Oxford University Press, Oxford.

3.2 Company profile and history

JaFood Italy is an “innovative start-up”⁷, operating in the OFD sector, founded in 2018 in Naples by a young entrepreneur (currently 36 y/o) with an innovative mindset⁸, which have been interviewed in this work, Fabio Greco.

The history of the company began many years before, when Fabio was only a university entering student:

A.1 Since I was a student I usually have been working as barman or tennis instructor. These experiences have allowed me to meet a lot of people and seize new opportunities, introducing me to the ‘business world’. Indeed, after my bachelor degree in Business Administration I had my first experience as Junior Manager for “Bacardi & Company Limited”, a company operating in the F&B sector, which let me develop knowledge and competences in this interesting and growing market. With this background, I decided to do my first experience as entrepreneur and I founded a bar-catering company which furnished raw materials and staff members to restaurateurs in the city of Naples.

The business idea of an innovative OFD system has its roots in Spain when Fabio was in Valencia as outgoing Erasmus student of the degree course in “Business Administration” of the University of Naples “Federico II”, in 2016.

A.1 During my Erasmus period in Spain, the university of Valencia required us to do a business project of an innovative idea and to present it during a business competition in Madrid. I was in a team with other 2 Erasmus students and together we developed the idea of “Comida al alcance de un click” (Food within one click), which represented the first stage of the current JaFood innovation, in the Spanish context. This idea had a lot of success during the business competition, however

⁷ Innovative start-ups are companies of capital, also constituted in a cooperative form, which have as an exclusive or predominant social object the development, production and marketing of innovative products or services with high technological value. Cfr. art. 25 Legislative Decree n. 179/2012

⁸ In the same year Fabio was selected as 1 of the 7 major neapolitan influencer under 40 y/o. “They are not only able to influence tastes, trends, consumer choices by making themselves known on more or less traditional media channels, they are also able to revolutionize an entire sector, what sees them protagonists, in the way of conceiving it, developing it, innovating it and generating services with high innovative content, the first engine of success and choice by investors. In short, they create the conditions for a winning algorithm and do so with a highly personal style using revolutionary methods: from networking to the form of personalized transmedia communication, from the ability to do business to that of experimenting with forms of crowdfunding for their start-ups.” Cfr. NapoliToday (2018), “I sette maggiori influencer napoletani under 40”, available online <https://www.napolitoday.it/blog/i-media-e-napoli/sette-influencer-napoletani-under-40.html>

it remained for a long time only an idea, the project did not turn soon into a 'real company'.

When Fabio came back to Italy decided to dedicate himself to completing his study path. He graduated in Business Administration, and then continued to delve into issues related to management, entrepreneurship and the world of start-ups. Indeed, in April 2017 he launched his first FD start-up (the first in Southern Italy): *JammeFood*.

Soon *JammeFood* has been acquired by a national FD company, with which Fabio, a partner of the company following the merger, began to collaborate as City Manager Campania. Soon, however, he will feel the need to work on a project that was all his own, thus, he leaved the company and founded an “innovative start-up” operating in the OFD sector: *JaFood Italy*.

A.1 When I came back to Italy from my Erasmus period, I proposed to a friend to work on the business idea developed for the Spanish business competition and, in 2017, we launched “JammeFood”, an OFD company operating only in the city of Naples in partnership with the “30 best restaurants” of the city. We hired 5 bikers and gave them electric cycles to use for the food deliveries. Through “JammeFood” the order could be done only on the website, because the company did not have enough resources to develop its own App. After few months of successful activity in Naples, “JammeFood” gained the attention of various national players in the industry, such as “Moovenda” (the first Italian start-up of FD) which decided to acquire the company. I personally managed the acquisition and after the merger I continued working in the company as City Manager in Campania region. Then, in July 2018 I quit the job in “Moovenda” and founded “JaFood Italy” registered as an innovative start-up.

His mindset, aimed at the continuous desire to do, to grow and to learn has allowed the team (figure 3.1) to overcome the uncertainties of a raging market in which it is difficult to emerge. The respondent said:

A.2 One of the strength points of “JaFood” is our team, composed by people with different competences and background but the same visionary mind and objectives, which have various and central roles in the company. “JaFood” has the classic start-up organization chart with a Chief Executive Officer (CEO) which guide and inspire all the working group, the Chief Legal Officer (CLO), the Chief Marketing Operations (CMO) which is responsible of the promotion and communication activities and operates in one with the Social Media Manager (SMM), the Chief Financial Officer (CFO) which , in a start-up, is mainly focused

on the important task of fundraising, the Chief Technological Officer (CTO) which is responsible of the website develop and have to coordinate all the engineers and informatics; and the Sales and Operation Managers, one of the most important roles in the company, which is responsible of all company's operations (acquiring new restaurants-partners, clients, the fleet of riders, deal with who made client assistance...).

Fig. 3.1 - The JAFOOD team



Source: Document JF

The first period of life is critical for a start-up, especially for the huge amount of investments to do with few resources, thus, business incubators and accelerators play a fundamental role in supporting the growth of business ideas leading to start-ups.

Indeed, accelerators with universities as partners established critical relationships in the surrounding context of a start-up catalysing the achievement of the objectives. Core competence, technical knowledge, and cross-sectorial knowledge brought by universities are key drivers of start-ups success. Moreover, a start-up ecosystem offers a fertile ground for start-ups development.⁹ In the case of *JaFood*, in a few months the company has been incubated by “Campania New Still¹⁰”, which is the first business incubator under

⁹ Greco, F., Tregua, M., Mele, C. (2019), “University-based accelerators for start-up and their impact on the ecosystem”, *The 10 years Naples Forum on Service*, available online <https://www.diva-portal.org/smash/get/diva2:1379401/FULLTEXT01.pdf>

¹⁰ Campania NewSteel Ltd, a company promoted and participated by the University of Naples Federico II and the IDIS Foundation - City of Science, is the first Academic incubator of the South certified under the Growth Decree 2.0, and one of the most important structures to support the birth and development of innovative startups and spinoffs in Italy. See www.campanianewsteel.it/

the “Growth Decree 2.0” operating in Southern Italy, helping *JaFood* to survive in the first phase and to grow up.

3.3 Mission and value proposition

Customers are increasingly attracted and interested in gourmet cuisine, however, nowadays few Italians can afford to have a dinner in Michelin-starred restaurants. Moreover, in the FD sector the segment of Star-studded restaurants is still a niche hardly accessible (it represents the 0.33% of the restaurant market, which is now worth 85 billion euros). In this scenario the interviewed stated that:

A.3 Our company studied deeply the opportunities of the FD sector, the market is growing, especially in recent years. However, few players have seized the opportunity of the “high-class” restaurants, a segment in which JaFood is first mover and aims to become leader.

Thus, *JaFood* aimed to be a first mover in this segment, with the objective to enhance customer experience and engagement, providing them with an additional service which allows to order online food of Star-studded restaurants, comfortably from their homes, offices or elsewhere.

Furthermore, the CEO stated that:

A.3 The high-end or star-studded restaurant is for a few, always has been, given the prohibitive prices. “JaFood” takes it to everyone's homes and more: it gives customers the opportunity to feel like a Michelin-starred chef for a day and to share a unique moment with their loved ones.

Thus, the company's strategy is to differentiate the service from the main competitors and to pay much attention to the customer experience, in order to give them the opportunity to live a unique moment thanks to a fast, reliable and technologically advanced OFD service.¹¹

The respondent stated that:

A.3 On the long terms JaFood aims to become one of the main players of the Italian FD ecosystem, thanks to a differentiation strategy. JaFood is now the first Italian FD company which offers to customers the possibility to try high-quality and Star-studded restaurants at home. Moreover, our value proposition, has a lot of elements which differentiate JaFood from our main competitors.

Indeed, the value proposition is twofold, next to the basic OFD service *JaFood Quality*, which has various differentiation elements from their competitors, the company

¹¹ Grasso, R. (2018), “Startup (Re)Made in Italy: la tradizione in chiave 4.0”, *Ilmattino*, available online https://www.ilmattino.it/innovazione/news/startup_re_made_italy_la_tradizione_chiave_4_0-3849487.html

recently developed the additional service that would allow users to enjoy the experience of high-end dining, even Michelin-starred cuisine, *JaFood Class*.

One of the main aspects which differentiate *JaFood* from other FD companies is the attention payed to social responsibility issues. Indeed, all the bikers of the company have a regular contract of “continuous collaboration”¹² and receive a fixed salary, in addition to the commissions based on the orders delivered. The average monthly salaries per biker employed at *Jafood Ltd - Italy* are about 1.352 euros, or 42% above the national average.¹³

In addition, *JaFood* provide all the bikers with a specific insurance which protect them for accidents on the workplace.

The company is also Eco-friendly, indeed, in order to respect the environment, *JaFood*’s bikers could choose to work with an electric bicycle provided by the company. Moreover, restaurants that guarantee the use of sustainable or recyclable packaging receive a discount on the percentage of commission normally held by *JaFood* on the orders amount.

This aspect was particularly remarked from the CEO during the interview, which consider the company’s social responsibility important to became successful:

A.4 The company is involved also in social innovation, particularly in green economy, 30% of riders have electric bicycles, while partners have got 3% of discount if use packaging recyclable or compostable, in order to incentive the use of bio-material.

Naples, as opposed to what you might think, is a city with a high sensibility for social and environmental issues, thus, people tend to prefer companies socially responsible and which pay attention to the environment preservation.

In addition, we are the first Italian start-up which organize work safety training and courses, currently not mandatory in Italy (because they are collaborators not employee of the company), but JaFood have introduced this policy as a “plus” for his riders’ safety.

¹² Coordinated and continuous co-workers are also referred to as parasubordinate workers, because they represent an intermediate category between self-employment and employee work. They work in full operational autonomy, excluding any subordination constraint, but within the framework of a unitary and ongoing relationship with the work contractor. They are therefore functionally integrated into the company organization and can operate within the production cycle of the client, who is granted a power to coordinate the worker's activity with the needs of the company organization. Cfr. <https://www.inps.it/nuovoportaleinps/default.aspx?itemdir=45796>

¹³ Source: <https://it.indeed.com/cmp/Jafood-Srl/salaries/addetto-alle-consegne>

3.3.1 JaFood Quality



JaFood Quality is the basic FD service of the company, with innovative elements which differentiate the service from the classic one offered by the main competitors in the FD sector. The main element is the *virtual table* through which multiple users can connect remotely (without physically meeting), choose their favourite dish also from different restaurants and, then, place a single order (Figure 3.2).

Furthermore, other differences between *JaFood* and other players in the market, are the following:

- no distance limits for the delivery,
- a customer service call-center;
- customers can pay orders also with cash at the delivery moment.

In addition, another difference between *JaFood* and other players in the market, is that *JaFood* offers a lot of visibility to his restaurant-partners, through:

- specific “co-marketing offline” services with advertising campaigns aimed at reaching new customers (eg. flyer, billboards and guerrilla co-marketing);
- social-media management services, such as, management and optimization of social profiles, websites and, generally, of all the communication activities.

Fig. 3.2 - *JaFood Quality* functions



Source: Document JF

3.3.2 JaFood Class



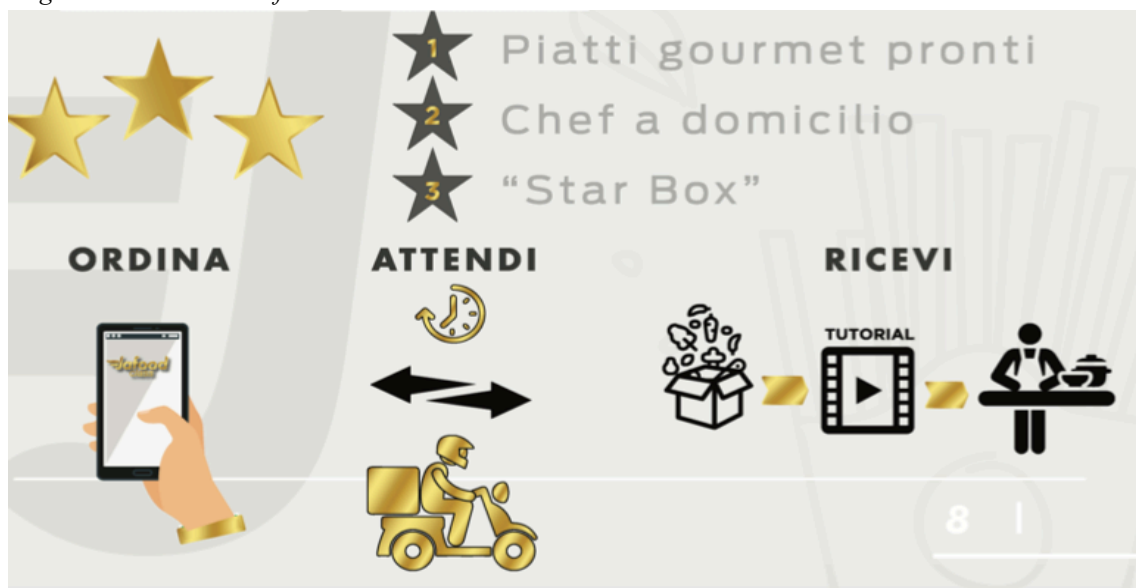
JaFood Class is the recently launched premium service for Star-studded restaurants. The target of *JaFood Class* is the consumer

looking for the experience to eat gourmet dishes of Star-studded or high-quality restaurants comfortably at home, or at office or elsewhere.

The service can be used in three ways (figure 3.3):

1. the classic “delivery” of gourmet dishes specifically studied by Star-studded chefs, to order at least 24 hours before the delivery, in order to guarantee the best food quality and preparation;
2. order a specific menu and a selected “chef at home” will give the final touch to the gourmet dish;
3. the “star box”; the customer order a box with the ingredients needed to prepare a gourmet dish, in one with all the instructions provided by a Star-studded chef, thus, at the moment of the purchase the customer will have access to video or audio tutorials in which the Star-studded chef will explain each step necessary to cook the gourmet dish chosen.

Fig. 3.3 - JaFood Class functions



Source: Document JF

Among those alternative, the interviewed argued that:

A.5 In the classic basic delivery service, “JaFood Class” is different because the chefs do not offer the same menu offered at the tables of their restaurants, but they prepare an ad hoc menu that lends itself more to transport. While, the “starbox” idea came from an intense brainstorming activity with the most important Star-studded chefs of Campania region. This service represents a way to feed, with ingredients of the highest quality and live, at the same time, a unique experience.

Currently, this is most popular service among Jafood's partner chefs and it represents the company's bet to become a leader in the OFD market.

Indeed, the company's objective is also reflected in the slogan they have choose, which is “*JaFood: Stellar Deliveries!*” (Figure 3.4) proving that the innovative service *YaFood Class* represent the real mean to achieve the long-term growth goal.

Fig. 3.4 - JF Slogan



Source: Document JF

Compared to similar services offered by other FD companies, *YaFood Class* is the first B2C service of that kind in the OFD sector active in Southern Italy, giving to customer a wider choice of a complete high-level FD experience (Figure 3.5). Of course, the objective of the company is to expand soon the service through the Country, thanks to an intense fundraising activity. Indeed, the interviewed said that:

A.6 At the moment the service is active only in Campania region, in Southern Italy, however, our aim is to expand it in the whole Country, in small and big cities.

Fig. 3.5 - JaFood Class competitors

	food delivery	Meal Kit	Focus ristoranti stellatti	Modello di business (B2C/B2B)	Presenza territoriale	
					nord vs sud	Città grandi vs città medio/piccole
Jafood	✓	✓	✓	B2C	Fase I: centro/sud Fase II: nord centro/sud	grandi/medio piccole
YouCook	✗	✗	✓	B2B	nord	grandi
Fratelli Desideri	✗	✓	✓	B2C	nord	grandi
Jarit	✗	✗	✓	B2C	nord	grandi
Foorban	✗	✗	✗	B2C	nord	grandi

Source: Document JF

The next figure depicts a timeline of the company, highlighting the steps made from his launch in 2018 to the develop of the first premium service. In the initial phase *JaFood* was active only in one area, around the city of Pozzuoli (Na) and in partnership with 30 local restaurants, thanks to a “family/friend” fundraising activity through which the

company raised 50.000 euros¹⁴, necessary to do the first investments and start the business. In this area *JaFood* was a pioneer of the FD services, giving to more than 250.000 inhabitants the opportunity to try this food consumption model for the first time.¹⁵

In a few months the company expanded in the Region, first in the city of Naples (which is a Metropolitan city), and more recently in the Island of Ischia and in the city of Salerno. For the future the company's overall strategy is of expansion, indeed, the respondent argued that:

A.6 The company started his activity in Southern Italy, specifically in Campania region and is now operating in 4 cities (Pozzuoli, Napoli, Ischia and Salerno, however, is planning to expand in Lazio region by the end of the 2020. The objective of JaFood is to be present in at least 20 cities by 2024 thanks to the activities of a direct sales force team that will also deal with both business activities and acquire new restaurant-partners.

Fig. 3.6 - JaFood Timeline



Source: Document JF

¹⁴ Between money and services, the latter provided by two companies, one of which specializes in Marketing and the other in Web Development.

¹⁵ Ideas like jafood serve to grow the territory in different aspects, even the tourist one. It is important that a traveler can take advantage of services of which he is usually accustomed to avail himself in his daily life. Cfr. Visitcampiflegrei, "Jafood: il primo food delivery service tutto flegreo", (2018), , available online <http://www.visitcampiflegrei.eu/2018/07/30/1869/>

3.4 *JaFood* business model

A business model plays a vital role in the success of any company, as it explains how that business will earn revenue. For entrepreneurs, a business model aids in acquiring investors and establishing partnerships.

The business model of *JaFood* mirrors the “*New-Delivery*” Model analysed in par. 2.3 (which technically fall under the *Platform-to-Consumer* model). Indeed, the company lists, through its website and app, available restaurants close to the customer’s proximity. Consumers can then order from these partner restaurants and have the food delivered by a rider of the *JaFood*-platform. Thus, the company manage his own logistics networks, providing delivery service for restaurants that do not have their own drivers. This allowed creating a new segment of the market: higher-end restaurants that usually did not offer delivery service (the *JaFood Class* service).

Furthermore, *JaFood* works as an intermediate between a customer and numerous local restaurants and provide customer support on behalf of these restaurants in case there are problems with deliveries or the order itself.

The business model for "new delivery" players and, in this case, for *JaFood* is made up a fixed percentage fee from the restaurants, plus an additional delivery fee charged to the customer, usually depending on the distance that there is between the restaurant and the delivery point.

More specifically, *JaFood* has various revenue sources. The company applies a percentage fee to the amount of order placed by customers (30% on average), in addition to an entry fee of 70 euros *una tantum* for contracts with new restaurants.

Moreover, *JaFood* retains from end customers a delivery-fee based on the distance travelled by the biker from the restaurant to the customer's house:

- from 2,5 to 7 euros for *JaFood Quality* service;
- from 7 to 30 euros for *JaFood Class* service.

Customer could pay both in cash at the moment of the delivery than with credit card trough the app or the website. In addition, *JaFood* is developing another payment method, in agreement with the service “ticket restaurants”¹⁶.

¹⁶ Ticket Restaurant® it's the defiscalized meal voucher that helps companies reduce costs and stay closer to their employees. See <https://www.edenred.it/prodotti/buoni-pasto-ticket-restaurant/>

Moreover, *JaFood* has contractually cash-in delegations for restaurant-partners. The company cash in the whole payment of orders and at 40 days credit the payment net of commissions. The respondent argued that:

A.7 When a customer pays for an order he is paying to JaFood, then, by the 15th of each month JaFood pays the restaurants retaining 30% + IVA of the total turnover over the period.

Another revenue source comes from upselling with marketing and co-marketing activities that the company offers to the restaurant-partners (promotion on social media, eg. histories on Instagram, communication activities and so on).

3.5 Financial sources: the fundraising activities

Financial management involves all the activities that enable a company to obtain capital for growth, allocate resources efficiently, maximize the income potential of the business activity and monitor results through accounting documents.

In a growing business, financial resources are often viewed as the major factor limiting growth potential. There are two methods of improving the financial base:

1. grow gradually and allow profits to fund additional growth;
2. seek outside funds (i.e., debt or equity funding).

Start-ups are in constant competition for two resources: capital and talent. Without capital, a business fails to exist. Without talent, a business fails to flourish. According to a Small Business Administration Office of Advocacy study¹⁷, only 50% survive after five years – and only one-third make it to the 10-year mark. A lack of capital is one of the primary reasons start-ups fizzle within the first few years.

Thus, in the life of a start-up, fundraising is an extraordinary process, that it is now seen as one of the primary measures of success.¹⁸ Start-up funding rounds are a series of investments that raise capital for a new business. As a start-up expands and becomes successful, each funding round serves as a stepping stone toward greater growth.¹⁹

The fundraising activity (figure 3.7) has been crucial also for *JaFood*, indeed, the interviewed opinion was:

A.8 Every start-up has three main goals: 1) to grow fast and then to be acquired by a larger company (monetizing the initial investment and still working in the company if possible); 2) to grow and become a large company, a leader in the market in which operates; 3) to be listed on the stock exchange (today is easier thanks to the AIM Italy market) and enlarge the investors basis. To reach these goals start-ups need to grow and a main way is fundraising.

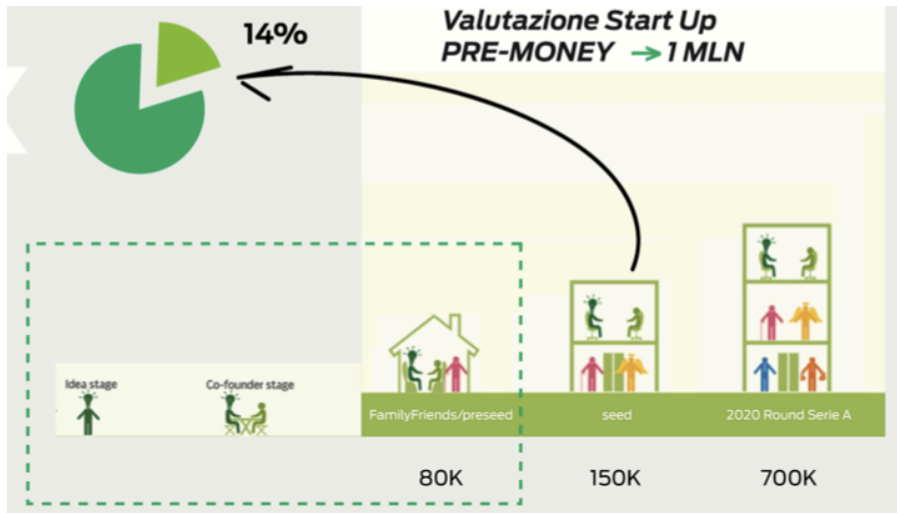
¹⁷ Chad, O. (2018), “What Percentage Of Small Businesses Fail -- And How Can You Avoid Being One Of Them?” *Forbes*, available online <https://www.forbes.com/sites/forbesfinancecouncil/2018/10/25/what-percentage-of-small-businesses-fail-and-how-can-you-avoid-being-one-of-them/#3e82d6ae43b5>

¹⁸ Rist, K. (2019), “How To Master The Art Of Startup Fundraising”, *Forbes*, available online <https://www.forbes.com/sites/kjartanrist/2019/09/11/how-to-master-the-art-of-startup-fundraising/>

¹⁹ Funding rounds usually begin with an initial pre-seed and/or seed round, which then progresses from Series A to B, C and beyond. Depending on the type of industry and investors, a funding round can take anywhere from three months to over a year. The time between each round can vary between six months to one year. Funds are offered by investors, usually angel investors or venture capital firms, which then receive a stake in the startup. Cfr. Stephan, D. (2019), “Ways to Raise Money: The Ultimate Guide to Raising Startup Capital”, *CrunchBase*, available online <https://about.crunchbase.com/blog/raising-startup-capital/>

JaFood have already done 2 funding rounds. The first AuCap, the so-called “family-friend”²⁰ and a second AuCap, the pre-seed round²¹, raising 80.000 euros (40.000 in cash and 40.000 in services, in particular “work for equity”, web develop and marketing).

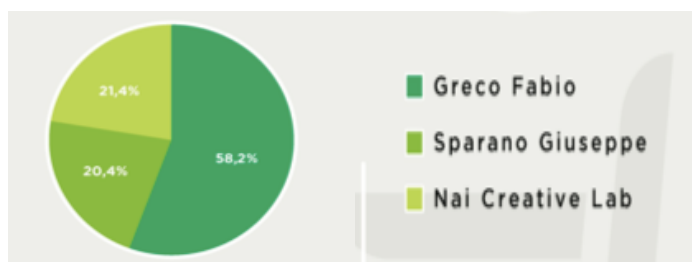
Fig. 3.7 - *JaFood* Fundraising



Source: Document JF

The company composition is currently distributed (figure 3.8) as follows: almost 60% is owned by founder Fabio Greco, the rest is divided equally between the lawyer Sparano and a communications agency.

Fig. 3.8 - *JaFood* cap Table



Source: Document JF

²⁰ “Getting money from family and friends is only the first step that a start-up can make, in the second round an entrepreneur will deal with a real investor so being prepared as soon as possible is fundamental. Getting capital from family and friends might be easier than getting capital in another way, but there are also some issues with it. Borrowing money from a people that you already know may let you think to avoid a formal written contract but, in such case, if they are not guaranteed by a contract, they might start giving suggestions and interfere with your strategy.” Cfr. Zwillling, M. (2016), “The Right Way To Get Funding From Family And Friends”, Forbes, available online <https://www.forbes.com/sites/martinzwilling/2016/08/23/the-right-way-to-get-funding-from-family-and-friends/#11fae48e4a29>

²¹ Pre-seed funding occurs at the very beginning of a startup when the founders usually invest their own money. Family and friends can also contribute during the pre-seed round when the startup creators are trying to get their idea off the ground. This is followed by a seed funding round.

However, this composition is going to change in the near future. Recently, *JaFood* planned a seed-round²² with the aim to raise 150.000 euros through a crowdfunding campaign²³. Through the *equity-crowdfunding*, the user who invests in the society becomes part of it. It is an alternative and innovative way of investment that substitutes bank's credit, mostly in an initial phase. This fundraising will start in October 2020 and investors will receive share capital holdings, participating in business risk.

A.8 At the moment the team is launching a crowdfunding campaign, although things don't seem so simple in this historical period. What is certain is that in three years it aims to move the core business from Quality (base) service to Class service, the real hallmark of JaFood. After all, it was this service that made Jafood one of a kind.

The funds raised in the seed round will be mainly used for the following activities:

- commercial and marketing investments;
- the launch of the "class" service;
- to expand *JaFood* services in other cities,
- to consolidate and improve existing technology platforms (website, app, software, hardware...)
- to build activities of talent recruiting.

Before launching the equity crowdfunding campaign, the company will change the statute in order to create new categories of social shares, specifically:

1) *AA shares*, reserved for current members, with the following characteristics:

- right to appoint a majority of board members;
- the right to drag other shareholders, in the event of an offer by a third party to acquire 100% of the company for at least 2 million euros (drag-along clause²⁴).

²² The seed funding round is when investors, usually angel investors, provide funds before a startup becomes operational. It's the idea phase of a startup when the founders are trying to perfect their product or service. Seed funding investments can range from anywhere between \$10,000 to \$2 million dollars.

²³“Crowdfunding allows promoting a new idea of any kind like social, economic, cultural or benefic, asking to the "crowd" to fund it, with a small or large investment, to sustain the project. Crowdfunding campaigns are published on web platforms that allow the promoter to show with a pitch, video, photos and with any kind of presentations, the product or the service for which they are raising funds. Cfr. Williams, A. (2017), “Professional investors join the crowdfunding party”, *Financial Times*, available online <https://www.ft.com/content/235b5198-08ce-11e7-ac5a-903b21361b43>

²⁴ The drag-along clause regulates the possibility of transferring the majority shareholder's shareholding, giving it the right to "drag" into the negotiation operation also the participation or minority holdings. In particular, the clause gives the alienate the possibility of selling, or forcing other shareholders' shares to be sold, or forced to sell under the same conditions. The minority shareholder is subject to awe or obligation to sell his stake in the desire of the joint sale expressed by the majority shareholder. As a result, the third-

- 2) *A shares*, reserved for investors who have subscribed to at least 5,000 euros of capital increase with the following characteristics:
- capital rights (participation in profits or losses);
 - administrative rights (decisions in the assembly);
 - and the right to co-sell²⁵ provided by the law (tag-along clause).
- 3) *B shares*, reserved for investors who have subscribed less than 5,000 euros of share capital increase with the following characteristics:
- capital rights (participation in profits or losses);
 - and the right to co-sell provided by the law.

Thus, successfully managing financial resources is important in new and expanding businesses, so among the fundraising initiatives it is also important to develop and implement a financial/business plan that could ensure the success of a company, especially of start-ups.

largest buyer buys, with a single store or multiple stores, the entire share capital, or a more solid shareholding than the individual shareholding of the majority shareholder. As a result of this clause, the sale of majority social participation can take place without the risk of obstruction by the minority and to sell a more attractive social stake for the third purchaser, who is more likely to buy a stronger majority. Cfr. <https://www.iusinitinere.it/le-clausole-co-vendita-trascinamento-5177>

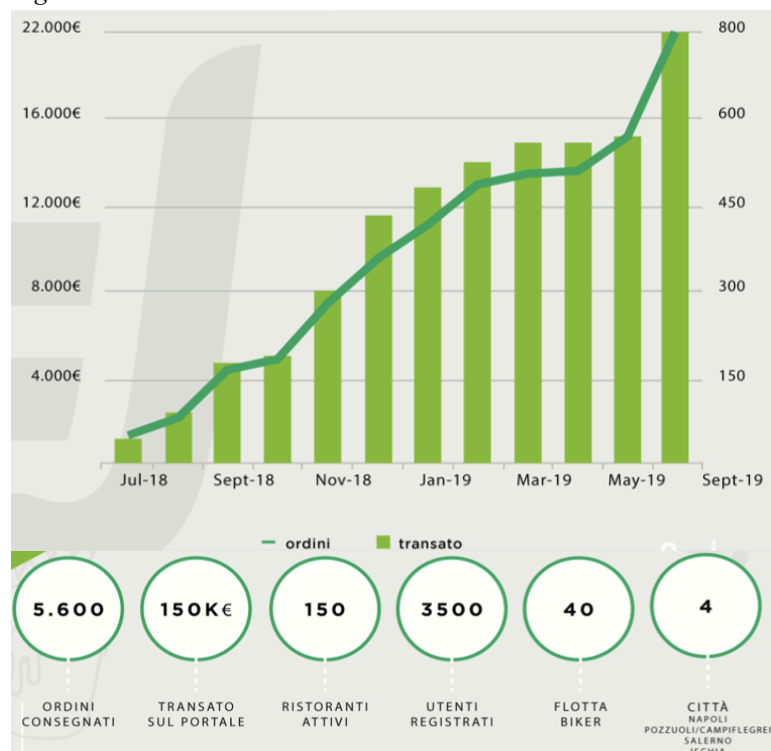
²⁵ With the tag along clause, structured as a promise of the fact of others, according to the scheme of Article 1381 c.c., the hypothesis of the transfer of the majority shareholder of a company to a third purchaser is regulated, providing that, if the assumption of the sale of the holdings, the right to "co-sell" to the same buyer and on the same terms also be given to the other minority shareholders. As a result, the majority shareholder is obliged to make an offer to buy, on the same terms, in favour of the minority shareholder who may decide to alienate his shares. Cfr. <https://www.iusinitinere.it/le-clausole-co-vendita-trascinamento-5177>

3.6 Main results and future plans

The company achieved important results in a very short time of operation (figure 3.9) that positively influence future projections.

In just over a year *JaFood* generated a turnover of 150.000 euros and registered more than 3.000 users on the website. In addition, the company can count 150 restaurant-partners and almost 6.000 orders delivered. Monthly the company registered on average a turnover growth, almost constant, with a spread in September 2019.

Fig. 3.9 - *JaFood* main results



Source: Document JF

The coronavirus pandemic influenced the company's activities, however, not as much as one may have expected. Indeed, the interviewed said that:

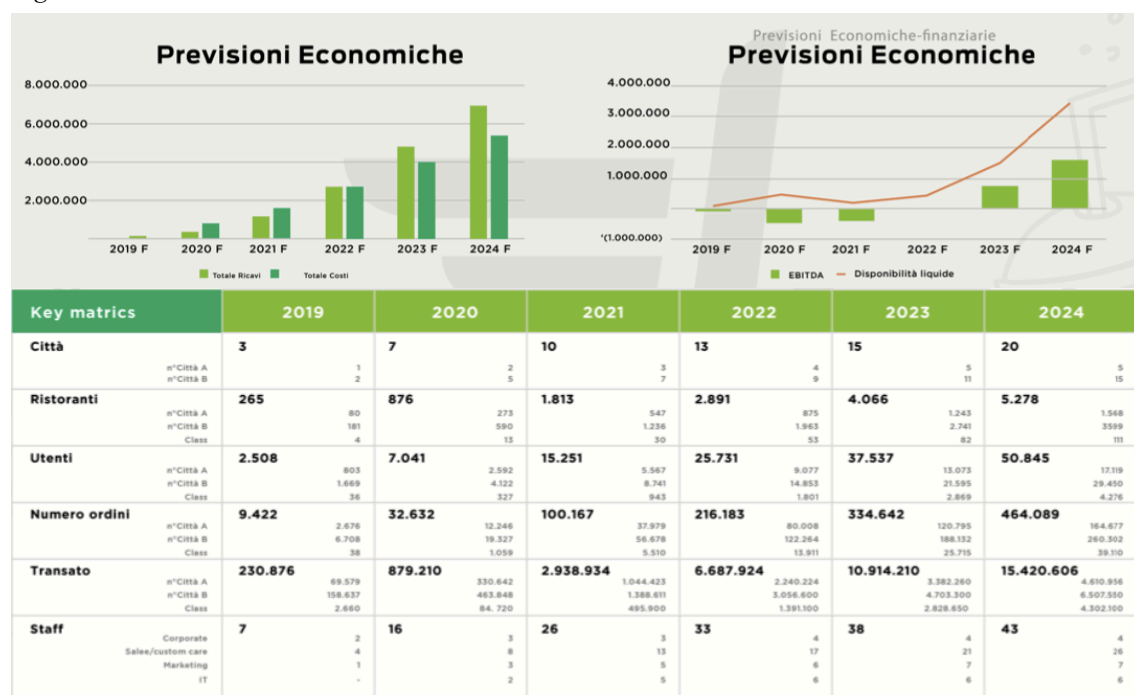
A.9 During the so-called phase 1 our Region was the only one in Italy where the FD service was forbidden, thus, in this time-period we suffered high losses (compared to the same period of the previous year). From the end of April, the service has resumed operating normally in our Region, while restaurants were still closed to the public, thus, the only chance for people to stop cooking while staying at home, eat differently and have their favourite dishes (an example in Campania is pizza) was to order it online. Indeed, we experienced a big increase in orders and, then, in revenues from the beginning of May and later.

The projection for the future is presented in the company's business plan²⁶, which is the most important document to attract outside investors. Banks and venture capital firms indeed often make writing a viable business plan a prerequisite before considering providing capital to new businesses. One of the most important sections of the business plan is the one including the financial planning and future projections.

The respondents were confident and enthusiastic about the company's future projections (figure 3.10):

A.10 Our team has developed a business plan ad hoc to be submitted to potential investors of the crowdfunding campaign that will start in October 2020. The company shows prospects for economic and financial growth and therefore represents a fertile ground in which to invest, despite the difficult period we are experiencing.

Fig. 3.10 - JaFood Business Plan



Source: Document JF

²⁶ A business plan is a written document that describes in detail how a business — usually a startup — defines its objectives and how it is to go about achieving its goals. A business plan lays out a written roadmap for the firm from each of a marketing, financial, and operational standpoint. Cfr. <https://www.investopedia.com/terms/b/business-plan.asp>

The business plan covered a period from 2019 to 2024 and shows a substantial revenue growth (see the income statement at figure 3.11), reaching more than 6.000.000 euros in 2024. This will be possible thanks to a number of factors including:

- the expansion of the activity in 20 cities all over the Country;
- the partnership with more than 5.000 restaurants;
- the acquisition of 50.000 *JaFood* users, with an intense social media management activity;
- the hiring of 43 staff members.

Thus, the revenue growth will be driven by the business development activities planned by management, in particular the hiring new city managers/sales, with the aim of acquiring new restaurant-partners and expanding into new cities.

Fig. 3.11 - BP Income Statement

Conto Economico	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F
Attività di Food Delivery	94.356	361.942	1.174.571	2.622.643	4.233.608	5.989.250
Ricavi B2B	3.516	20.261	68.035	154.818	289.957	441.803
Totale Ricavi	97.872	382.203	1.242.606	2.777.461	4.523.564	6.431.053
Costi diretti	(1.934)	(14.523)	(49.709)	(101.156)	(155.057)	(240.557)
Marketing e Comunicazione	(23.852)	(47.328)	(80.975)	(119.486)	(164.993)	(210.012)
Staff	(111.084)	(604.854)	(1.286.837)	(2.164.914)	(2.882.135)	(3.731.387)
Servizi tecnici	(4.874)	(36.256)	(67.921)	(94.778)	(117.782)	(136.275)
Ufficio	(2.400)	(9.600)	(12.000)	(14.400)	(16.800)	(19.200)
Altri costi operativi	(52.343)	(121.728)	(168.432)	(224.486)	(297.292)	(360.184)
Totale Costi	(196.487)	(834.289)	(1.665.874)	(2.719.219)	(3.634.059)	(4.697.616)
EBITDA	(98.615)	(452.086)	(423.268)	58.241	889.505	1.733.437
EBITDA margin	-100,76%	-118,28%	-34,06%	2,10%	19,66%	26,95%
Ammortamenti	(2.100)	(13.305)	(33.868)	(59.653)	(82.534)	(62.271)
EBIT	(100.715)	(465.391)	(457.136)	(1.411)	806.970	1.671.166
Oneri finanziari	-	-	-	-	-	-
EBT	(100.715)	(465.391)	(457.136)	(1.411)	806.970	1.671.166
Imposte d'esercizio	-	-	-	(507)	(32.127)	(467.004)
Utile / (Perdita)	(100.715)	(465.391)	(457.136)	(1.918)	774.843	1.204.162

Source: Document JF

The B2B revenues are generated mainly from co-marketing and social media management activities for partners. Marketing & Communication include costs of digital marketing and offline marketing (eg. events and flyer), while, direct costs include bikers' costs (equipment and commissions) and costs of the digital payments.

Staff consider the hiring of new administrative figures, sales and marketing figures and technical operators.

Other operating costs include costs for external professionals (eg. tax&legal consultant) and insurance costs for bikers.

From the balance sheet side of the company (figure 3.12), "fixed assets" includes all the investments planned for the next 5 years, which are:

- capitalization of research and development costs;

- and cost of the purchase of a new hardware and new furniture.

Commercial credits were estimated considering an average payment deferral of 30 days for b2b revenues, while commercial debts were estimated considering an average payment fee of 30 days for the costs of external professionals, travel and travel refunds and staff. Tax liabilities refer to VAT debts and operating taxes and, finally, a new funding round by the end of 2020 has been envisaged for 700.000 euros.

Fig. 3.12 - BP Balance sheet

Stato Patrimoniale	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F
Attivo Fisso	9.600	39.933	71.004	97.731	133.008	187.949
CCN	(57.859)	(172.943)	(290.503)	(404.099)	(532.708)	(1.153.000)
Fondo TFR	(3.994)	(48.359)	(147.616)	(322.069)	(552.208)	(841.698)
Capitale Investito Netto	(52.254)	(181.369)	(367.115)	(628.436)	(951.908)	(1.806.749)
Patrimonio Netto (PN)	39.709	229.072	(222.401)	(137.687)	767.470	2.067.764
Posizione Finanziaria Netta (NFP)	(91.963)	(410.441)	(144.715)	(490.749)	(1.719.378)	(3.874.513)
Totale PN e PFN	(52.254)	(181.369)	(367.115)	(628.436)	(951.908)	(1.806.749)

Source: Document JF

Thus, *JaFood* have demonstrated to be an expanding business which offers the potential for numerous growth opportunities. Employees benefit from business growth through increased earnings and promotions. Customers benefit from expanded products and services. Owners benefit through increased profit potential. Society benefits through the new jobs created.

At par. 2.3.6 it was underlined that perfectly running such a business is not only extremely costly, but a highly complex task involving many parts to be running perfectly. Developing the APP, finding suitable restaurants and drivers, equipping them with necessary equipment, or optimizing delivery routes are just some of the many problems food delivery businesses have to invest in.

In the case study analysed the company, despite the fact it is still a start-up, showed the capacity to face those complexity and obtain in a few months very good and promising results. The successful fundraising activities realized gave to *JaFood* the possibility to make necessary investments and the high competences of the CEO and the whole team allowed them to seize the market opportunity coming from the demand for high-end foods.

To create their customer base in a market with already a lot of competitors, they focused on communication, optimizing transports, supporting ecological and healthy trends, treating riders ethically, giving restaurant-partners a wide range of services. In this transformation are involved not only ordering and distribution systems, but also dish

preparation processes, marketing and communication strategies, products design and transport tools and packaging. In a market with a lot of competitors, the only way to get a comparative advantage is to innovate, offering a different service. That is the case of JaFood which decided to cover an uncovered segment of the market.

Bringing together star-studded-chefs and fresh ingredients, *JaFood* focuses on the food-making and customer experience, becoming the first mover in this segment, with the objective to scale up and merger with a large FD company in the future or be listed in the Italian stock-exchange.

Conclusions

From the study conducted it emerged that the rapid emergence and growth of EC has brought changes to lifestyles and society in general and radically transformed the way many companies do business. Many companies shifted their businesses entirely to the Web, transforming and adapting their old business models to the new digital landscape.

EC in Italy is developing rapidly and has experienced double-digit annual growth over the past ten years. Although Italy's digital economy lags behind other major European countries, EC is poised to continue its upward trend in the coming years, with B2C, B2B and C2C transactions recording solid growth.

The main factors that stimulate the development of EC in Italy are:

- Improved Internet access and increased availability of broadband Internet,
- The strong prevalence of mobile phones and smartphones,
- The improvement of transaction security,
- The Italian law recognizing the legal validity of digital signatures and digital contracts,
- The possibility of buying products at lower prices than in brick and mortar shops.

The value of EC turnover in Italy shows a consolidated growth trend overtime and is in the order of 48.5 billion Euro in 2019, reflecting a growth of 17% compared to 2018. Since the Italian EC market is sophisticated, with high penetration and high solvency, the competition is fairly intense, however, *Amazon.com* is the undiscussed leader of the Italian EC market.

Thus, the EC market analysis shows that undoubtedly, the Italian EC market is in a phase of net expansion. Because the trend has been continuing for several years now, it can be assumed that the upcoming years will bring a noticeable increase in the EC sales sector of both services and products. Online sales are growing fast and an ever-increasing number of companies are choosing to invest in the Web due to the impressive growth prospects, especially as regards the mobile channel. Thus, every year more and more Italians decide to shop online and 85% of the Web population uses their smartphones to make purchases, a higher average than in other European Countries.

The Covid-19 outbreak had various effects on the EC sector. In fact, within the first 20 days of the spread of the pandemic, globally there has been a slowdown in the number of visits to EC websites, despite the large number of potential home side buyers whose main concern was probably to find out more about the disease and to equip themselves with the tools needed to work from home. However, the trend then changed direction and

the pressure on EC began to mount. In the chaos and hardship derived from the lockdown and the closing of brick-and-mortar traditional stores, a lot of people reacted buying online what they needed. The Large Retail sector is among the sectors that have benefited the most during this period. This sector, together with the food supply sector, is part of the wider *Foodstuffs* sector, accounts for 3.1% of the total. Small neighbourhood essentials store also contributed to the growth, with an increase of 16%.

Thus, economic growth and the explosive growth of the Internet have influenced the E-commerce development in general and new forms of business started to spread. Among those, Online food delivery services (OFD) are now trending in the E-commerce space. Particularly, this study analyzed the development trend of Food Delivery and Online Food Delivery industries in the Italian context. The analysis found that as a result of changing technology, consumer preferences, globalisation and demographics, the Household Food Expenditure and Consumption is growing, as well as the Food & Beverage industry, leading to several opportunities (and challenges) for companies operating in the FD and OFD sectors.

Indeed, for some years now, the FD sector of ready meals or food products has become one of the most active and high-quality markets globally, experiencing an exponential growth. In the FD market, the segment of OFD is consolidating more and more its presence as a regular habit in people's lives, and this is also thanks to the convenience and wide selection of restaurants that allow to order on internet every type of cuisine. As OFD services have increased in popularity, the competitive dynamics of the food delivery market have increased.

In 2018, FD market worth 2 billion euros (up 66% on the previous year), however, it has penetrated only 3%. Today, digital accounts for about 18% of the entire FD sector (projection at the end of 2019) - which as a whole (online orders - traditional offline orders) is worth around 3.2 billion euros - showing an increase of 7% compared to 2018 and with a still very substantial potential for expansion.

Thus, Italians are discovering the joy of receiving the meal at home bought online. The FD market has already reached 18.9 million Italians in 2019. Almost one in three Italians use FD platforms with names like *Deliveroo*, *JustEat* and *Glovo* ringing everywhere.

Only in the last year, 4.2 million Italians have used FD service of the meal at home at least once. Moreover, almost 37% of Italians used FD at home using social and online channels. The trend is constantly growing, as we can also see from recent acquisitions (in Italy *Glovo* acquired *Foodora* in 2018); and it is estimated that by 2022 FD platforms will generate a turnover of 2.5 billion euros.

FD start-ups are also growing steadily, with a turnover of 566 million euros in 2019 (a growth rate of 56% compared to 2018). At the current rate of growth, in 2020 the value will be 900 million and in 2021 of 1.45 billion euros. This figure is set to grow more and more, as only 18% of FD passes through digital platforms, a figure well below the national average of other countries, which shows that there is still a great opportunity to seize because most of the market is off line (turned predominantly over the phone).

The portrait of the society that sees this mode of consumption increasingly integrated is valid not only in the metropolises, (such as Milan, Rome) but also and increasingly in the Italian provinces, where there is a growth of orders at home that increases exponentially, driving the overall growth of the phenomenon in Italy in 2019. Indeed, this study underlined that, despite progressive and inevitable centralization towards a few large global players, operating as "aggregators" on which end customers converge, there is still substantial space for local platforms that go to work in capillary on the territories and provinces and that can cut back on a small market space, especially if they offer an extra channel of visibility to restaurateurs and adequate service.

Indeed, this work analysed and discussed the case of the first innovative OFD start-up of Southern Italy, founded in 2018 in Naples - *JaFood Italy* - and currently operating only in Campania region, in order to highlight that with the right strategy and through service innovation is possible to survive (in the first period of life) and have success in this high-competitive market.

From the interview conducted by the author with the owner and founder of the firm concerned, the *Chief Executive Officer* (CEO) Fabio Greco, in one with the analysis of the internal documents and the institutional website of the company, some conclusions can be derived. The company's strategy to become successful is to differentiate the service from the main competitors and to pay much attention to the customer experience, in order to give them the opportunity to live a unique moment thanks to a fast, reliable and technologically advanced OFD service.

The company, after a deep market analysis, understood that customers are increasingly attracted and interested in gourmet cuisine, however, nowadays few Italians can afford to have a dinner in Michelin-starred restaurants. Moreover, in the FD sector the segment of Star-studded restaurants is still a niche hardly accessible (it represents the 0.33% of the restaurant market, which is now worth 85 billion euros). Thus, *JaFood* decided to be a first mover in this segment, with the objective to enhance customer experience and engagement, providing them not only the basic OFD service (named *JaFood Quality*) but

also an additional service, named *JaFood Class*, which allows to order online food of Star-studded restaurants, comfortably from their homes, offices or elsewhere.

The differentiation strategy pursued by the start-up is also evident in the basic version of the service. Indeed, through the “virtual table” provided by the platform, multiple users can connect remotely (without physically meeting), choose their favourite dish also from different restaurants and, then, place a single order.

Other elements of differentiation are:

- no distance limits for the delivery,
- a customer service call-centre;
- customers can pay orders also with cash at the delivery moment. In addition, *JaFood* is developing another payment method, in agreement with the service “ticket restaurants”.

In addition, *JaFood* offers a lot of visibility to his restaurant-partners, through:

- specific “co-marketing offline” services with advertising campaigns aimed at reaching new customers (e.g. flyer, billboards and guerrilla co-marketing);
- social-media management services, such as, management and optimization of social profiles, websites and, generally, of all the communication activities.

To create their customer base in a market with already a lot of competitors, differentiating from them, the company focused a lot on supporting ecological and healthy trends, treating riders ethically, paying much attention to social responsibility issues. Indeed, all the bikers of the company have a regular contract of “continuous collaboration” and receive a fixed salary, in addition to the commissions based on the orders delivered. The average monthly salaries per biker employed at *Jafood Ltd - Italy* are about 1.352 euros, or 42% above the national average. In addition, *JaFood* provide all the bikers with a specific insurance which protect them for accidents on the workplace. Moreover, the company is Eco-friendly indeed, in order to respect the environment, 30% of riders have electric bicycles, while restaurants that guarantee the use of sustainable or recyclable packaging receive a 3% of discount on the percentage of commission normally held by *JaFood* on the orders amount.

However, the company's workhorse is the high-end service *JaFood Class*, which represent the challenge for the future success and growth of the start-up. The interviewed is conscious that in this challenging environment, having loyal customers is imperative for OFD companies, thus, that is crucial to offer a service enhancing customer satisfaction and experience. Indeed, the target of *JaFood Class* is the consumer looking for the

experience (unique) to eat gourmet dishes of Star-studded or high-quality restaurants comfortably at home, or at office or elsewhere.

The strength of the service is that it can be used in three ways:

1. the classic “delivery” of gourmet dishes specifically studied by Star-studded chefs, to order at least 24 hours before the delivery, in order to guarantee the best food quality and preparation;
2. order a specific menu and a selected “chef at home” will give the final touch to the gourmet dish;
3. the “star box”; the customer order a box with the ingredients needed to prepare a gourmet dish, in one with all the instructions provided by a Star-studded chef, thus, at the moment of the purchase the customer will have access to video or audio tutorials in which the Star-studded chef will explain each step necessary to cook the gourmet dish chosen.

Compared to similar services offered by other FD companies, *YaFood Class* is the first B2C service of that kind in the OFD sector active in Southern Italy, giving to customer a wider choice of a complete high-level FD experience. Currently *JaFood* is active only in Campania region, in 4 cities (Pozzuoli, Napoli, Ischia and Salerno) however, one of the objectives of the company is to expand soon the services through the Country (they have already planned to expand in Lazio region by the end of 2020), thanks to an intense fundraising activity. The first period of life is critical for a start-up, especially for the huge amount of investments to do with few resources, thus, fundraising activities are crucial in order to have the chance to survive and grow.

JaFood, thanks to the visionary mindset of the CEO and the mixed competencies of the company’s team, have already done 2 rounds of fundraising: the first AuCap, the so-called “family-friend” and a second AuCap, the pre-seed round, raising 80.000 euros (40.000 in cash and 40.000 in services, in particular “work for equity”, web develop and marketing). The promising future results of the company lead to the launch in October 2020 of another fundraising round (the seed-round), through a crowdfunding campaign, aimed at raising 150.000 euros. The funds raised in the seed round will be mainly used for the following activities:

- commercial and marketing investments;
- the launch of the "class" service;
- to expand *JaFood* services in other cities,
- to consolidate and improve existing technology platforms (website, app, software, hardware...);

- to build activities of talent recruiting.

The business model of *JaFood* mirrors the “*New-Delivery*” model. The company lists, through its website and app, available restaurants close to the customer’s proximity. Consumers can then order from these partner restaurants and have the food delivered by a rider of the *JaFood*-platform. Thus, the company manage his own logistics networks, providing delivery service for restaurants that do not have their own drivers. This allowed creating a new segment of the market: higher-end restaurants that usually did not offer delivery service (the *JaFood Class* service).

Furthermore, *JaFood* works as an intermediate between a customer and numerous local restaurants and provide customer support on behalf of these restaurants in case there are problems with deliveries or the order itself.

Looking at the various revenue sources, the company applies a percentage fee to the amount of order placed by customers (30% on average), in addition to an entry fee of 70 euros *una tantum* for contracts with new restaurants.

Moreover, *JaFood* retains from end customers a delivery-fee based on the distance travelled by the biker from the restaurant to the customer's house:

- from 2,5 to 7 euros for *JaFood Quality* service;
- from 7 to 30 euros for *JaFood Class* service.

Another revenue source comes from upselling with marketing and co-marketing activities that the company offers to the restaurant-partners (promotion on social media, eg. histories on Instagram, communication activities and so on).

The company achieved important results in a very short period of activity since it’s foundation, that positively influence future projections presented in the business plan 2019 - 2024.

In just over a year *JaFood* generated a turnover of 150.000 euros and registered more than 3.000 users on the website. In addition, the company can count 150 restaurant-partners and almost 6.000 orders delivered. Monthly the company registered on average a turnover growth, almost constant, with a spread in September 2019.

The business plan shows a substantial revenue growth reaching more than 6.000.000 euros in 2024. This will be possible thanks to a number of factors including:

- the expansion of the activity in 20 cities all over the Country;
- the partnership with more than 5.000 restaurants;
- the acquisition of 50.000 *JaFood* users, with an intense social media management activity;
- the hiring of 43 staff members.

Thus, the revenue growth will be driven by the business development activities planned by management, in particular the hiring new city managers/sales, with the aim of acquiring new restaurant-partners and expanding into new cities.

Thus, *JaFood* have demonstrated that, despite the high competition which characterized the FD sector in Italy, the sector offers the potential for numerous growth opportunities. The company, thanks to the entrepreneurial strategy developed by the young CEO, supported by a team with high and mixed competences, is an expanding business with very promising perspectives of success in the near future and represent a *best-practice* in the OFD sector in Southern Italy.

Abstract

Over the last decades, the massive growth of the Internet and the digitalization in general are driving the global expansion of E-commerce. Consumers are increasingly using online services as their disposable income increases, electronic payments become more trustworthy, and the range of suppliers and the size of their delivery networks expand.

Technology is rapidly being integrated into every part of the food industry, which has to keep up with changes in taste, fashion, and ease of access, thus, Online Food Delivery services are now trending in the E-commerce space. Online Food Delivery refers to the process whereby food that was ordered online (via website or app) is prepared and delivered to the consumer. The growing popularity of Online Food Delivery, which is a global trend, has also fuelled the growth of various Online Food Delivery start-ups, such as the case of *JaFood Italy* presented and discussed in this work.

The current MSc thesis aims to discuss the opportunities and challenges of E-commerce, both in Italy than worldwide, also in the light of the Coronavirus pandemic and its main impact; then, the work highlights the opportunities for action by Food Delivery and Online Food Delivery companies, with specific reference to the Italian market growth and remarking the effects and implications of the Covid-19 outbreak. Lastly, the study describes the case of *JaFood Italy*, the first innovative start-up operating in the Online Food Delivery sector in Southern Italy since 2018.

The analysis conducted shows that the rapid emergence and growth of E-commerce has brought changes to lifestyles and society in general and radically transformed the way many enterprises do business. Many companies shifted their businesses entirely to the web, transforming and adapting their old business models to the new digital landscape. In the digital economy, where everything is knowledge-intensive and technology-based, the industry is evolving rapidly and the biggest challenge for companies is not how to imitate or benchmark the best E-commerce business model in their industry, but how to radically change the mindset of managing traditional business. Therefore, the activation of an E-commerce initiative is just the beginning of a long and difficult process of integration between channels that requires long-term choices, continuous investments (in technology and beyond) and skills development.

One of the results of this study is that in the Italian context several factors have influenced the development of the E-commerce market, among which:

- Improved Internet access and increased availability of broadband Internet,

- The strong prevalence of mobile phones and smartphones,
- The improvement of transaction security,
- The Italian law recognizing the legal validity of digital signatures and digital contracts,
- The possibility of buying products at lower prices than in brick and mortar shops.

The market investigation shows that 12% of Italian companies are active in E-commerce, 79% of them in the consumer field. Italy is the 14th largest market for E-commerce and 41.5 million individual users (76% of Italian E-commerce users) shopped online in 2019, with an average spend per user per year of 668 Euro.

As a consequence, the Italian E-commerce market has experienced double-digit annual growth over the past ten years and is still in a phase of net expansion. Indeed, the value of E-commerce turnover is in the order of 48.5 billion Euro in 2019, reflecting a growth of +17% compared to 2018. In line with this result, according to the Italian Institute of Statistics (ISTAT), E-commerce sales recorded +15.8% in January 2020 compared to the same month of 2019. From this positive trend it can be assumed that the upcoming years will bring a noticeable increase in the E-commerce sales sector of both services and products.

This study investigated also the E-commerce market share by sector and revenues in Italy (years 2018, 2019) and an important result is that, among the others, the *Foodstuffs* sector is growing at a rate of +19%, thanks to Food Delivery services and increasing consumption, and now makes up 3.1% of the total market.

Since the Italian E-commerce market is sophisticated, with high penetration and high solvency, the competition is fairly intense. The analysis of the main E-commerce Italian players in 2019, highlights that the biggest company is Amazon.it with \$2.6 billion in 2019, which benefits from the advantage of leader the enormous American market and its very early development, followed by Zalando.it with \$504 million revenue and Apple.com with \$371 million revenue. Overall, the first three E-commerce stores account for 20% of online sales in Italy.

Recently, the Covid-19 outbreak had a deep impact on the E-commerce sector, indeed, the first 20 days of the spread of the pandemic, globally there has been a slowdown in the number of visits to E-commerce websites, despite the large number of potential home side buyers whose main concern was probably to find out more about the virus and the disease. Otherwise, the trend changed fast and the pressure on E-commerce began to mount soon. In the chaos and hardship derived from the lockdown and the closing of brick-and-mortar traditional stores, a lot of people reacted buying online what they

needed. The E-commerce sector became an essential service, not only for people who were physically unable to go the shops, but also for companies who in many cases have no other way to sell their products. The *Large Retail* sector - which is part of the wider *Foodstuffs* sector - is among the sectors that have benefited the most during this period.

The massive growth in the field of E-commerce is one of the key-factors which substantially influenced the increase of Food Delivery and Online Food Delivery sectors worldwide. Indeed, in order to have a complete framework of this topic, this study investigated the evolution of the Italian food consumption model and expenditure over the last decades, as well as the most recent trends, in one with the *state of art* of the Italian Food & Beverage industry.

Our country, in relation to other European countries, continues to be characterized with a greater expenditure allocated on food and, at the aggregate level, the internal final consumption of Italian households has increased significantly in real terms over the last decades. In 2019, the estimate of the average monthly expenditure of Italian households is 2,560 euros per month in current values, substantially unchanged compared to 2018. Households spent an average of 464 euro per month on food and soft drinks, with no substantial differences from the 462 euro spent in 2018, confirming to be one of the highest in Europe - more than UK, DE, ES, same as FR at a lower average income per person.

Hand in hand with the high level of food consumption and the recovering in food expenditure (from the financial crisis of 2007) also the Italian F&B Industry is a fast-growing industry. The trend is positive for both sales and exports of the food industry, which closed the year 2019 growing, with a total turnover of 140 billion euros.

As one may expected, the level of Household Consumption Expenditure, higher than the EU average, in one with the growth of the F&B industry and in addition to the changes in consumers lifestyles, represent important factors which are propelling also the growth of Food Delivery and Online Food Delivery sectors.

Thus, in recent years the Food Delivery (and Online Food Delivery) sector has become one of the most active and high-quality markets globally, experiencing an exponential growth. The analysis conducted in this work, both empirical and qualitative, shows that in 2018, the Italian Food Delivery market worth 2 billion euros (up 66% on the previous year) and has already reached 18.9 million Italians in 2019, thus, one in three Italians use Food Delivery platforms with names like *Deliveroo*, *JustEat* and *Glovo* ringing everywhere. However, according to the projection at the end of 2019, the Food Delivery market has penetrated only 3% and digital accounts for about 18% of the entire Food

Delivery sector - which as a whole (online orders - traditional offline orders) is worth around 3.2 billion euros - with an increase of 7% compared to 2018 and with a still very substantial potential for expansion.

In the last year almost 37% of Italians used Online Food Delivery services (by social and online channels), thus, the trend is constantly growing and it is estimated that by 2022 Food Delivery platforms will generate a turnover of 2.5 billion euros.

The Food Delivery and Online Food Delivery sectors analysis depict a competitive and challenging business environment, that is increasingly based on the possibility of offering a quick service, restaurants of high-quality present on the platform and breadth and variety of the menu. Thus, the various players in the sectors have adopted their own business model overtime with a common goal, that is: to create an experience that is different from the classic one lived in the restaurant. Online Food Delivery platforms have realized that the key for survival and flourishing in this competitive environment is to have customer e-loyalty through product and service innovation.

In this scenario Food Delivery start-ups are also growing steadily, with a turnover of 566 million euros in 2019 (a growth rate of 56% compared to 2018). At the current rate of growth, the value will be 900 million in 2020 and 1.45 billion euros in 2021. This figure is set to grow more and more, as only 18% of Food Delivery passes through digital platforms, a figure well below the national average of other countries, which shows that there is still a great opportunity to seize because most of the market is offline (turned predominantly over the phone) but there is a growing popularity of Food Delivery Apps.

As Online Food Delivery services have increased in popularity, the competitive dynamics of the food delivery market have increased too. Some of the key players in OFD services market include: *Foodpanda, Pizza Hut, Grub Hub, DoorDash, Swiggy, Meituan Waimai, Zomato, Delivery Hero, Just Eat Holding Limited, Deliveroo, Postmates Inc, Takeaway.com, and Ele.me*. Other prominent players in this market are: *Domino's, Pizza Hut, McDonalds, Seamless, Subway, Snapfinger, Olo and Yemeksepeti*.

The main companies that offer this type of service in Italy are: *Just Eat, Deliveroo, Glovo and UberEats*.

The strong development of Food Delivery in Italy is undoubtedly due to the growth of coverage in medium to large cities. The analysis conducted shows that, through the Country, Food Delivery services are now active in 93% of municipalities with more than 50.000 inhabitants, however, the metropolitan cities such as Milan, Rome and Turin recorded the biggest growth of the service. Less densely populated areas, especially in

the South, remain undiscovered. However, coverage is growing: two years ago, the figure was only 74%.

During the global 2020 Covid-19 outbreak, the advantages of Online Food Delivery became obvious all over the world, as it facilitated consumer access to prepared meals and enabled food providers to keep operating. Food Delivery platforms have seen apps downloading go up the charts. With all the applicable challenges in terms of logistics and hygiene-sanitary control plans to put in place in record time.

Among the various “coronavirus effects” on the Food Delivery world, it's noteworthy the merger between *JustEat Takeaway.com* and *Grubhub*. The Anglo-Dutch group, which also operates in our country, has recently announced the acquisition of the American competitor *Grubhub*, in a share transaction worth 7.3 billion dollars. The combination will create the world's leading OFD outside of China, with strong brands connecting partner restaurants to their customers in 25 countries.

In the Italian context the lockdown highlighted that Food Delivery is no longer an additional service, but a strong point for people and restaurants, pizzerias and bistros which allows both to support themselves as well as to keep in constant contact with their customers. The emergency situation has drastically changed the operational dynamics of Food Delivery companies and even the best-known players such as *Glovo*, *Deliveroo* and *Uber Eats* have had to adapt to the significant changes dictated by the health crisis, starting "contactless" deliveries. Among the measures taken there are:

- the delivery of food at the door, without contact with the customer,
- the invitation to partner restaurants to close the food in tamper-proof bags,
- the offer of masks, disinfectants and gloves and/or reimbursement to couriers for their purchase.

The investigation on the impact of covid-19 on Food Delivery companies confirm *JustEat* as the most used platform, with a peak between late February and early March 2020. Among the peculiarities, the growth of menus dedicated to children and families and lunch boxes during smart working. At the second place there is *Glovo* that, despite admitting a slight contraction in demand, shows an increase in orders of sweets and ice cream, precisely. *Glovo* has adapted to all the necessary measures with the supply of gloves and masks for riders and partners, stations with tables outside in the phase of withdrawal of the sealed envelope, encouraging the customer to pay with credit card. In addition, it has expanded its reach thanks to subscriptions that allow delivery at no cost and dedicated discounts, also reaching that slice of the market passionate about traditional

home cooking, which does not want to have on the shelf ready meals but quality raw materials.

In this context, the use of Online Food Delivery, especially through an APP to order, compared to the web, has also increased, reaching to 77% of consumers who use the Food Delivery service via APP (in 2019 the share was 75% while in 2018 was 66%).

Therefore, in the world of Food Delivery there is a before and after Covid-19: a watershed that has led operators in the sector to reflect both on the present and the future of the sector adapting their business according to the needs and ways of consumption that emerged as a result of the emergency. In this line, experts argue that Food Delivery is and will continue to be a key development driver for restaurants, which will not decrease with the re-openings, but which will still support the activity within the premises. This will make the market even more competitive: to differentiate itself, it will be necessary for restaurateurs to enrich delivery with unique experiential aspects, especially for the "top of the range".

Type of offer, pre- and post-sale service, packaging, payment methods represent a sign of continuity with respect to the positioning of the brand, the attention to detail that "pampers" the customer at the home table, which makes him feel like he is in the restaurant.

Most of the studies dealing with this topic focused on few big players in the market or the market leaders (*JustEat* is the classic example). However, as underlined above, the Food Delivery industry shows a substantial potential for expansion, particularly in Italy, and several Online Food Delivery start-ups are increasing the competition.

More specifically, at a local level - and in our Country in the Southern regions -, there is still room for platforms working capillary on the territories and provinces and that can cut back on a small market space, especially if they offer an extra channel of visibility to restaurateurs and adequate service. Since the birth of *JustEat* various local start-ups around the world tried to emulate the Danish Food Delivery giant, and following the innovations in digital technology they are growing in the market, gaining customers loyalty and with prospects of success.

With this in mind, this work examines and discuss the case of the first innovative Online Food Delivery start-up of Southern Italy, founded in 2018 in Naples - *JaFood Italy* - and currently operating only in Campania region. The objective is to investigate the company's strategy and the key-factors which allowed them to grow fast in a such high-competitive market and at a local level.

The research is based on Yin's (2014) case study approach, specifically on a semi-structured interview conducted by the author with the owner and founder of the firm concerned, the *Chief Executive Officer* (CEO) Fabio Greco, which is an appropriate subject for this study because he represents the company entrepreneur having personal values and characteristics influencing the firm's decision-making and outcomes.

The investigation was developed using a research protocol (Yin, 2014) directed to validate the results in terms of construction and internal and external validity. First, an interview guide was prepared by the author, which consists of a list of topics and aspects of these topics that the interviewer should raise during the course of the interview. Such topics covered, among others: (i) the company's history and profile, (ii) the company's strategy and objectives for the future, (iii) the relationships with external stakeholders (restaurant-partners...), (iv) the perceived critical success factors, (v) corporate social responsibility issues and strategies, (vi) informal and formal relationships between the firm's people, (vii) organisational decision making.

The interview was recorded and type-scripted verbatim and, to avoid potential misunderstandings, a further shorter interview was scheduled in some cases to clarify or go into more detail on some of the aspects already investigated. Once type-scripted, interviews were submitted to the interviewee, giving him the opportunity to check for potential inconsistencies or errors.

In accordance with the rules of this methodology, internal documents of the company were also collected to support interviewees' statements and the institutional website of *JaFood* was also examined.

JaFood was launched in 2018 by a visionary and young entrepreneur with past experiences in the sector, the interviewed "CEO & founder" Fabio Greco. In the initial phase *JaFood* was active only in one area, around the city of Pozzuoli (Na) in partnership with 30 local restaurants. In this area *JaFood* was a pioneer of the Food Delivery services, giving to more than 250.000 inhabitants the opportunity to try this food consumption model for the first time.

The first period of life is critical for a start-up, especially for the huge amount of investments to do with few resources, thus, business incubators and accelerators plays a fundamental role in supporting the growth of business ideas leading to start-ups.

More specifically, accelerators with universities as partners established critical relationships in the surrounding context of a start-up catalysing the achievement of the objectives. Core competence, technical knowledge, and cross-sectorial knowledge brought by universities are key drivers of start-ups success. In the case of *JaFood*, in a

few months the company has been incubated by “Campania New Still”, which is the first business incubator under the “Growth Decree 2.0” operating in Southern Italy, helping *JaFood* to survive in the first phase and to grow up next.

Thanks to the support of this business incubator and to the fundraising activity of the company, which raised almost 80.000 euros in the “family/friends” seed and the “pre-seed” rounds, in a few months the company expanded in the Region, first in the city of Naples (which is a Metropolitan city), and more recently in the Island of Ischia and in the city of Salerno.

The results of the analysis highlighted that the company’s strategy to survive (in the first period of life) and to face the competition in the market, is the service differentiation and innovation, in one with a particular attention to the customer experience. The CEO interviewed stated that *JaFood* mission is “to give customer the opportunity to live a unique moment thanks to a fast, reliable and technologically advanced Online Food Delivery service”. Indeed, thanks to the work of the company’s team, which is composed by people (mostly young) with high and mixed competences, experiences and with a great desire to grow, *JaFood* realized that there was an almost unexplored market segment composed by potential customer whose desires were still unsatisfied.

In detail, a deep market analysis allowed *JaFood* to understand that customers are increasingly attracted and interested in *gourmet cuisine*, however, nowadays few Italians can afford to have a dinner in Michelin-starred restaurants. Moreover, in the Food Delivery sector the segment of Star-studded restaurants is still a niche hardly accessible (it represents the 0.33% of the restaurant market, which is now worth 85 billion euros).

Thus, *JaFood* decided to be a first mover in this segment, with the objective to enhance customer experience and engagement, providing them not only the basic Online Food Delivery service (named *JaFood Quality*) but also an additional service, named *JaFood Class*, which allows to order online food of Star-studded restaurants, comfortably from their homes, offices or elsewhere.

Therefore, the value proposition is twofold, a classic Online Food Delivery service flanked by an innovative Online Food Delivery service with the aim to differentiate the offer of the company from the main competitors and enter an almost unexplored market with a substantial potential of growth.

In addition, the analysis conducted shows that *JaFood* have pursued a differentiation strategy also in the basic version of the service. In fact, *JaFood Quality* allowed customers with a “virtual table” through which multiple users can connect remotely (without

physically meeting), choose their favourite dish also from different restaurants and, then, place a single order.

Other elements of differentiation are:

- no distance limits for the delivery,
- a customer service call-centre;
- customers can pay orders also with cash at the delivery moment. In addition, *JaFood* is developing another payment method, in agreement with the service “ticket restaurants”.

Another service which add value to the offer of the company and strength the relationship between *JaFood* and the restaurant-partners is the specific “co-marketing offline” service with advertising campaigns aimed at reaching new customers (e.g. flyer, billboards and guerrilla co-marketing). Moreover, *JaFood* offers additional visibility to his restaurant-partners through social-media management services, such as, management and optimization of social profiles, websites and, generally, of all the communication activities.

Otherwise, the company’s bet is the new and innovative service named *JaFood Class*, which represent the challenge for the future success and growth of the start-up. The respondent is conscious that in this challenging environment, having loyal customers is imperative for Online Food Delivery companies, thus, that is crucial to offer a service enhancing customer satisfaction and experience. Indeed, the target of *JaFood Class* is the consumer looking for the experience (unique) to eat gourmet dishes of Star-studded or high-quality restaurants comfortably at home, or at office or elsewhere.

This service is characterized by a multiple value proposition (see figure 3.3), indeed, it can be used in several ways:

1. the classic “delivery” of gourmet dishes specifically studied by Star-studded chefs, to order at least 24 hours before the delivery, in order to guarantee the best food quality and preparation;
2. order a specific menu and a selected “chef at home” will give the final touch to the gourmet dish;
3. the “star box”; the customer order a box with the ingredients needed to prepare a gourmet dish, in one with all the instructions provided by a Star-studded chef, thus, at the moment of the purchase the customer will have access to video or audio tutorials in which the Star-studded chef will explain each step necessary to cook the gourmet dish chosen.

Fig. 3.3 - JaFood Class functions



Source: Document JF

The respondent underlined the differentiation elements of this service, highlighting that star-studded chefs prepare an *ad hoc* menu that lends itself more to transport, often completely different from the menu offered at the tables of their restaurants. In order to develop the “starbox” idea it was crucial the intense brainstorming activity with the most important Star-studded chefs of Campania region, that have been very interested to this type of service since the beginning. Indeed, the interviewed stated that “currently, this is most popular service among *Jafood's* partner chefs and it represents the company’s bet to become a leader in the Online Food Delivery market.” This is also proved by the company’s slogan, which is: “Stellar deliveries!”.

Moreover, the investigation brought afloat another important element of differentiation in *JaFood* strategy, which is the company’s attention to corporate social responsibility issues. *JaFood* have focused a lot on supporting ecological and healthy trends - the interviewed described the company as “Eco-friendly” - and on treating his riders ethically.

Indeed, all the bikers of the company have a regular contract of “continuous collaboration” and receive a fixed salary, in addition to the commissions based on the orders delivered. The average monthly salaries per biker employed at *Jafood Ltd - Italy* are about 1.352 euros, or 42% above the national average. In addition, *JaFood* provide all the bikers with a specific insurance which protect them for accidents on the workplace and, despite the fact this is still not mandatory in Italy, periodically organize work safety training and courses, an additional policy which represent a “plus” for riders’ safety.

Furthermore, the company is particularly involved in sustainability issues, in fact, in order to incentivize and promote the respect the environment, 30% of riders have electric bicycles, while restaurants that guarantee the use of sustainable or recyclable packaging receive 3% of discount on the percentage of commission normally held by *JaFood* on the orders amount.

As abovementioned, currently the company is active only in Campania region, however, it's planning to expand in Lazio region by the end of 2020 and in the long-run the aim is to expand the services in the whole Country, a plan that requires to invest a certain amount of human and financial resources. In this line, *JaFood* have already done 2 rounds of fundraising: the first AuCap, the so-called "family-friend" and a second AuCap, the pre-seed round, raising 80.000 euros (40.000 in cash and 40.000 in services, in particular "work for equity", web develop and marketing). In order to achieve the future objectives, the company will launch in October 2020 another fundraising round (the seed-round), through a crowdfunding campaign, aimed at raising 150.000 euros.

The funds raised in the seed round will be mainly used for the following activities:

- commercial and marketing investments;
- the launch of the "class" service;
- to expand *JaFood* services in other cities,
- to consolidate and improve existing technology platforms (website, app, software, hardware...);
- to build activities of talent recruiting.

To convince the potential investors, the company will have to demonstrate that has achieved positive results during the first year of life and that has a solid business model that will allow to grow in the near future. The combination of those elements, among others, should highlight in the company's business plan the reasons why to invest in *JaFood's* next crowdfunding campaign.

The business model of *JaFood* mirrors the "New-Delivery" model. The company lists, through its website and app, available restaurants close to the customer's proximity. Consumers can then order from these partner restaurants and have the food delivered by a rider of the *JaFood*-platform. Thus, the company manage his own logistics networks, providing delivery service for restaurants that do not have their own drivers. This allowed creating a new segment of the market: higher-end restaurants that usually did not offer delivery service (the *JaFood Class* service).

Furthermore, *JaFood* works as an intermediate between a customer and numerous local restaurants and provide customer support on behalf of these restaurants in case there are problems with deliveries or the order itself.

Looking at the various revenue sources, the company applies a percentage fee to the amount of order placed by customers (30% on average), in addition to an entry fee of 70 euros *una tantum* for contracts with new restaurants.

Moreover, *JaFood* retains from end customers a delivery-fee based on the distance travelled by the biker from the restaurant to the customer's house:

- from 2,5 to 7 euros for *JaFood Quality* service;
- from 7 to 30 euros for *JaFood Class* service.

Another revenue source comes from upselling with marketing and co-marketing activities that the company offers to the restaurant-partners (promotion on social media, eg. histories on Instagram, communication activities and so on).

From the side of economic results, the company achieved important results in a very short period of activity since it's foundation, that positively influenced the future projections presented in the business plan 2019 - 2024.

In just over a year *JaFood* generated a turnover of 150.000 euros and registered more than 3.000 users on the website. In addition, the company can count 150 restaurant-partners and almost 6.000 orders delivered. Monthly the company registered on average a turnover growth, almost constant, with a spread in September 2019.

The business plan shows a substantial revenue growth reaching more than 6.000.000 euros in 2024. This will be possible thanks to a number of factors including:

- the expansion of the activity in 20 cities all over the Country;
- the partnership with more than 5.000 restaurants;
- the acquisition of 50.000 *JaFood* users, with an intense social media management activity;
- the hiring of 43 staff members.

Thus, the revenue growth will be driven by the business development activities planned by management, in particular the hiring new city managers/sales, with the aim of acquiring new restaurant-partners and expanding into new cities.

In conclusion, the analysis conducted shows that perfectly running such a business is not only extremely costly, but a highly complex task involving many parts to be running perfectly. Developing the APP, finding suitable restaurants and drivers, equipping them with necessary equipment, or optimizing delivery routes are just some of the many problems food delivery businesses have to invest in.

The case study of *JaFood* have demonstrated that, despite the fact it is still a start-up operating in a sector characterized by high competition - the Food Delivery sector in Italy -, the market offers the potential for numerous growth opportunities especially in Southern Italy.

To create their customer base in the market, *JaFood* focused on communication, optimizing transports, supporting ecological and healthy trends, treating riders ethically, giving restaurant-partners a wide range of services. In this transformation are involved not only ordering and distribution systems, but also dish preparation processes, marketing and communication strategies, products design and transport tools and packaging. In a market with a lot of competitors, the only way to get a comparative advantage is to innovate, offering a different service.

The successful fundraising activities allowed the company to seize the market opportunity coming from the demand for high-end foods, being the first mover in an uncovered segment of the market with an innovative Online Food Delivery service - *JaFood Class*.

The company, thanks to the entrepreneurial strategy developed by the young CEO, supported by a team with high and mixed competences, is an expanding business with very promising perspectives for the near future and represent a *best-practice* in the Online Food Delivery sector in Southern Italy.

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