

An evaluation of the investment of the delivery industry in America a specific example for DoorDash

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Abstract. We can still see that the delivery industry in American is still growing and has not mature. To analyze it, I use the traditional swot and pestle analysis. These two tools are more accurate when we need to judge low-end products like the delivery industry. Also, I use financial analysis to deal with the data. The conclusion for most investors is not to recommend investing in these companies because the delivery industry is unstable now. DoorDash is a great example to prove. For the decision of whether investing DoorDash or not, I think it depends. Because the market in America is always that big, there has to be someone to occupy the market, but just as I mentioned, the first person to figure out the way to save their operating cost can be the winner, because the gross profit seems cannot change so much in the future, in a food-related industry, the consumer's bargaining power is pretty strong. It may not invest in this industry unless investors are angel investors and willing to take the risk.

Keywords: Delivery; DoorDash; Financial analysis; Swot analysis; Pestle analysis.

1. Introduction

Take-out refers to the sale of food for customers to take out of the shop (generally refers to their shop made), usually in the form of packaging, is also the earliest form of takeout, although ancient, but continues today. With the popularity of the telephone, mobile phone and Internet, the takeout industry has developed rapidly.

Driven by the COVID-19 pandemic in 2020, the food delivery service industry has reached new heights. DoorDash went public on December 9, 2020. The company opened at \$182, well above its initial offering price of \$102, and ended the day 86% higher at \$189.51, valuing the company at \$60.2 billion. As an investor, it is really important to understand how they analyze the company. This article mainly researches DoorDash, Inc., trying to capture its future development.

There are many ways to evaluate one company. In this article, we use the swot and pestle analysis to know the environment of companies like [1, 2]. And mainly in the financial analysis, and may get a different answer compared with the front data. We find that the costs would be adversely affected when the company suffers the threats. However, as the market leader, the firm could invest more assets to extend the number of stores, keeping the market competitive.

The following sections will capture the remainder of the article. In Section 2, I introduce the firm's information. In Section 3, I present the PESTLE analysis for the company. In Section 4, the SWOT analysis is given. For Section 5, we capture the financial analysis. We conduct a discussion in Section 6, and finally, we conclude the main findings in Section 7.

2. Firm Description

DoorDash, Inc. operates an online food ordering and food delivery platform. It is located in San Francisco, California, USA. Holland [3]. Though there have been several positive data upsides, DoorDash still seems to have many problems, such as leaking information and giving the tips [4, 5]. Also, they seem not to satisfy with the Labor Law And their high labor cost seems to be a serious problem for their company [6, 7].



Figure 1 Stock Price of DoorDash

Just as mentioned before, DoorDash went on public on December 9, 2020. From the graph, we can easily see that the price of the stock seems to change period by period, in the summer and winter holiday their stock grow very fast and seem to have a stable price at about 180\$ per stock, but in other months their stock starts to depression to about 140\$ per stock, but just as mentioned before their initial offering price is 102\$ their company still grows for about 37 percent from the day they went market. But they still have another element to think about; the evaluation is a little high for DoorDash because the delivery service requirement during the COVID-19 is pretty high. With the inviting of new medicine, the pandemic must end [8]. so, the valuation of DoorDash must include people's anticipation of the pandemic. But if the pandemic ended, at that time, their valuation and stock price must go down.

3. Pestle Analysis

3.1 Political

President Biden's plan to increase corporate taxes to 28% will increase costs; it is known to all that for an industry that has put itself on the market, their tax must be transparency, an increase from 21% to 28% will largely increase the cost of this industry, and they already have a problem with high labor cost. The Quebec government has put a cap on the fees that delivery apps can charge the restaurant. This means that DoorDash will lose some chance to earn money from the cooperators. From which have been discussed above, the political elements seem not to be so friendly to DoorDash.

3.2 Social

People are more likely to use delivery services post-pandemic compared to the prior pandemic.

Legal: It could be an advantage for DoorDash now, but it must be a disadvantage in the future. The pandemic helped DoorDash a lot. It helped it to have enough cash flows to go market and give them compliant clients. But pandemic has to end one day, there must be one depression for DoorDash, and they will lose both money and clients. I doubt if the company can hold the shock for a company that is still losing money (which will be discussed next).

3.3 Legal

Class action lawsuits may cause problems in operations and additional costs. Just as mentioned above, DoorDash spent 90\$ million to fight against the labor law, which can not only reflect the contradiction with the employees and DoorDash but also give our investors information that DoorDash is willing to spend 90\$ million to fight against the labor law, which means that if they are a success, they can save more than 90\$ million. It is just in California, so we can see their labor cost must be pretty high. Because the take-off riders are very embarrassed careers, it is more like a

voluntary hiring career, so the line to judge whether the employers of DoorDash should have certain rights is blurry. Because if DoorDash recognizes they are the employees, DoorDash has to pay much money to buy the insurance and provide a minimum salary for the employees. So, DoorDash can use extra money still to fight against the labor law in the future.

3.4 Economical

Covid-19 is causing the delivery market to be increasingly volatile. The global online food delivery market is expected to grow to 154.34billion\$ by 2023. There is no denying that the market of the delivery industry is big globally, and that is why still some people are willing to invest in this company. The high cash flow and valuation of the company are very attractive for many people. Economically, the delivery industry might be a potential industry, but the risk is still high, just as mentioned before.

3.5 Technological

Machine learning and AI are being increasingly used in the industry to predict demand and improve services. Nowadays, many restaurants have started to use cloud kitchens which can help the delivery industry to grow. For the restaurants, people booked their food on DoorDash is more like a consumer go to their restaurants to use the take-off riders to replace the consumers. The delivery apps are just like a middleman to gain money by the service they provide.

Also, the development of self-driving cars for the delivery market can help the industry. Most riders use cars to send food in America, and some use bicycles in big cities. So, the cost of the oil will not change a lot. And people do not pay a fee to a machine. As a result, if this technology matures someday, the cost of sending food will be lower.

3.6 Environment

Concerns over pollution and waste generations related to delivery are getting attention. The plastic using by the restaurant is one problem because the restaurant also wants to save the cost. The growing delivery industry is providing more rubbish for the environment. Millions of tons of plastic are created because of the delivery industry. If the environmental protection agency public some policy, the cost of this industry will increase again.

4. Swot Analysis

It is easy to tell what a swot analysis is. Just as [10] Just as the Pestle analysis, Swot analysis is also a very helpful tool to know one company. They are all recognized as a very important tool in analyzing one company.

4.1 Strength

DoorDash is the market leader in both food delivery and convenience delivery markets.

They have a well-developed channel of 450000 merchants, 20 million customers and 1 million delivery drivers. DoorDash is indeed the biggest delivery company, and it helps them have the most business volume in the American market.

4.2 Weakness

The market has very intense competition and very low switching costs. Just as I mentioned before, the delivery industry is very easy to be replaced by other competitors because the consumers have a very low switching cost, and this is why I mention that when the end of the pandemic comes, I doubt whether DoorDash can hold the shock.

Doordash is subject to multiple proceedings and class action lawsuits related to merchant acquisition, treatment of dashers and quality control. The biggest delivery company also needs to tolerate the biggest disputation, just like mentioned before, they have to take action to control their negative news or make some improvements.

They are yet to make profits since their launch in 2013(which will be explained next). This is not a big problem for just DoorDash, but also most American delivery companies like Gubhurb. This will make investors not confident enough with this industry because they already lose money for many years. They have to fill up the gap first and then pay back the investors. And because the American delivery industry has not matured, DoorDash still has a long way to go.

4.3 Opportunity

Dashmarts, partly owned and operated convenience stores will boost sales. Because DoorDash has a single revenue model, it is possible to expand their industry line. Also, their brand is the biggest in America. The operated convenience stores can easily get profit to fill up some gap of their loss. Also, if DoorDash can reach an agreement with the government, the delivery of covid19 test kits and other efforts to infiltrate the healthcare sector will expand the market. The biggest delivery company can reach an agreement with the government. But the problem of health care and the labor force still can be a great block. But if this success, I think people are willing to pay extra money to take this service.

4.4 Threat

If their drivers are reclassified as employees under federal or state laws, costs would be adversely affected. Just as mentioned before, because delivery riders are a special career, if the government acknowledges they are the formal employees, DoorDash has to pay extra money. The additional regulatory response fee levied on certain counties might affect demand. Also, as mentioned before, DoorDash has to pay extra money with such things as labor forces. Because the delivery industry is new, many rules are incomplete. For their company's profit, they have to pay extra money.

5. Financial analysis

From the balance sheet (Table 1), it is easy to find out that DoorDash has a high debt to assets rate. This not only means that DoorDash may not pay back the investors at the first time, but from its increased assets, we find that DoorDash actually lends more and more money from the bank every year, and the number grows exponentially. Enter in another way. Their asset turnover rate is around 50% in the near 3 years. This means that they can transform the money lent from the bank into actual revenue. But change to the income statement sheet seems not a simple story. DoorDash was founded in 2015 but 2019. Its gross margin is still very low at about 22% percent, compared with its high operating cost. This company has to lose money since it is funded. And the fact is the management team still cannot find a proper way to make some profit. Also, because DoorDash wants to be the biggest delivery brand in America, the growing cash flows can make big pressure on the company. There is no denying that they already make some improvements to slow their operating cost growth rate, but their total revenue growth rate also slows down.

Table 1. Income statement

DoorDash	2018	2019	2020	2021 TTM	forecast of 2022	forecast of 2023
Total Revenue	291000	885000	2886000	4162000	4786300	5743560
Cost of Revenue	228000	523000	1368000	1969000		
Gross Profit	63000	362000	1518000	2193000	1196575	1148712
Operating Expense	273000	978000	1954000	2731000	3031410	3243609
Operating Income	-210000	-616000	-436000	-538000	-1834835	-2094897
Net non-operating interest income expenditure	6000	18000	-25000	-28000	-32200	-35420
Net Interest Income	6000	18000	7000	4000	4600	5060
EBIT	-203000	-666000	-426000	-530000	-445409	-539900
Reconciled Depreciation	9000	32000	120000	131000	148030	165794
Normalized EBITDA	-194000	-634000	-306000	-399000	-297379	-374106.4
profit/loss	-197,000	-648,000	-419,000	-526,000	-440,809	-534,840
gross margin	21.65%	40.90%	52.60%	52.69%		
growth rate of Total Revenue	204.12%	226.10%	44.21%			
the change rate of the growth rate of Total Revenue	129.39%	161.57%	43.93%			
the growth rate of Cost of Revenue	129.39%	161.57%	43.93%			
the growth rate of Gross Profit	474.60%	319.34%	44.47%			
the growth rate of Operating Expense	258.24%	99.80%	39.76%			
	193.33%	-29.22%	23.39%			
change rate of ebitda	200.00%	-238.89%	12.00%			
change rate of reconciled depreciation	200.00%	-61.11%	-42.86%			
change rate of net interest income	228.08%	-36.04%	24.41%			

6. Discussion

The most important thing for DoorDash to save is its operating cost. As mentioned before, they spent much money to solve the problem of the labor force. Or we can say that if the problem cannot save, it is impossible for DoorDash all the whole delivery industry to profit. I also did financial analysis for GrubHub. Their company also faces the same problem: the gross profit is not high, and the operating expansion is pretty high, making them lose money. To be broader, we can see that the American delivery industry is like a match between the big brands about who can catch the most consumers. All of the companies spent money to exchange for loyal consumers and their brand strength.

For myself to decide whether invest DoorDash or not, I think it depends on because the market in America is always that big. There has to be someone to occupy the market. However, just as I mentioned, the first person to figure out how to save their operating cost can be the winner because the gross profit seems to not change so much in the future. In a food-related industry, the consumer's bargaining power is pretty strong. I do not recommend investing this industry unless you are an angel investor and willing to take a risk and believe you chose the right company and think it can be the winner at last.

As a common investor, the American delivery's future is not that bright. Compared with the successful delivery companies in China, the common point is that they have a low operating cost, the efficiency of the electronic-bicycle riders is very high, in another word, they work too hard to force the country to make some policies to limit their efficiency. And the delivery companies get to profit from both the cheap labor force and the restaurants that want to cooperate with them. On the opposite side, we can find that in America, the operating cost is high, and it is true that at this stage, we cannot find a good way to change the situation.

7. Conclusion

We can still see that the delivery industry in American is still growing and, of course, has not mature. To analyze it, I use the traditional swot and pestle analysis. These two tools are more accurate when we need to judge low-end products like the delivery industry. Also, I use financial analysis to deal with the data.

Most investors' conclusion is not recommending investing in these companies because the delivery industry is unstable now. DoorDash is a great example to prove so. The whole industry was flourished in about 2010. And if you can remember that I mentioned DoorDash was founded in 2015, it only spent 3 years for them to be the biggest delivery industry. No one can know if there will be another DoorDash to go beyond today's DoorDash, and it is highly possible, just as I mentioned, who can save the problem of operating expense can be the winner. Just wait and see this industry in American.

Of course, the article includes some subjective elements but uses these subjective elements. I think we can see what the essence of the delivery industry is. Also, this paper does not involve the small companies in America and makes some predictions that may be proved in the future. Because these years are the most competitive in the delivery industry and they change very fast. So, some points indicate in the article may not be true. Just let the time to prove it.

Reference

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