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The future of the online food delivery service in Thailand

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1. Introduction

Imagine that people are going to buy meals but we have to use 2-3 hours on the road due to bad traffic in Bangkok. We have to waste a lot of time instead of doing something that is more useful. Nowadays, people have to accept that we are in the rush society. We have to do many things in a day but times are limited. So, we have to choose what we need to do and choose what we should let others do. Therefore the easiest way to solve these problems is order foods from food delivery services. Whether we have to pay a higher price due to driver fees or maybe higher price for food but it is worthwhile. Looking on the consumer side, we can see that consumers will get the benefit not only can save their time but also get more opportunity to know more restaurants and get promotions. Another reason that makes the food delivery industry popular is the change in behaviour of consumers. Consumers tend to use more smartphones than in the past. Thus, the business that is associated with the internet will have a lot of opportunities to grow.

From the reasons above, the food delivery industry has become an industry that has had a lot of growth rate in the past few years. From kasikorn research, they estimate that the value of the food delivery market in Thailand is around 33,000-35,000 billion Baht in 2019 which increased from previous year around 14 percent (kasikorn research,2019). There are top 4 food delivery companies which are foodpanda, line man, grab food and get but all these 4 brands seem to sell similar foods. The difference between these 4 brands is price, promotion and services. This leads to the main question of this paper which is How competitive are the current players.

According to the few number of food delivery service brands (foodpanda, line man, grab food and get) and they sell similar services in Bangkok, this paper would like to find the market structure of this industry whether they compete or cooperate with each other by analyzing through market share of each brand and also find more informations about price and promotion from primary and secondary sources. For primary source this paper interview from both driver and restaurant owner about price and promotion while secondary sources this paper focuses on brand website, researches, articles and news.

The next section will be Literature review, Theoretical Framework, Methodology, Result and the last one is the conclusion.

2. Literature review

Convenience has been one of the top priority of people, the comfort of being able to come home and not worry about cooking but being able to order in quality food is quite important according to data given by Hirschberg et al. (2016), it shows the demands of consumers and the shape of the market which "online food delivery service makes up 1 percent of the food market and 4 percent of the food sold by restaurant and fast food chains in the world". This suggests that the growth in the market for online food delivery is rising and it is becoming more and more popular due to the convenience (Newton, 2019).

Additionally, information from KResearch (2019)[1] showed a possibility that "the food delivery business in 2019 will amount to 33-35 billion baht". From all the datas above by Hirschberg et al. (2016), Newton (2019), and KResearch (2019), they show that the essential of this market is the convenience it promotes and offers to its consumers, that all comes down to the strategy of targeting people of all classes and giving them a good deal when ordering online equivalent to when eating out. That comes down to the fact that the service providers have to be able to read their market and come up with strategies that will offer the following which are convenience, good service, value-package and promotions that appear to the general public.

Looking inside Thailand's biggest food delivery competitors are Grab Food, Line Man, and FoodPanda (Hicks, 2019). The three main players have the largest share of the market. They often come up with various promotions that include low delivery fees and promotions from restaurants. For instance, on Grab Food, there are often restaurants that collaborated with them especially the fast food chains such as KFC and Pizza Hut that give out special prices and promotions to promote sales. According to Kitthanadeachaorn (2016) which interviewed 25 participants on the decision-making process of consumers when ordering online food delivery service, the majority of the results come out positive. However, there are some negative responses to the online delivery service which mainly are how the platform could be too complicated to use and how there are risks and limitations when ordering, this result also shows in Towanasutr (2015) as well. That said, in order to stay competitive with the other competitors, one

[1] Kasikorn bank's research

must develop the essentials of the online platform which is to make the interface easy to use with clear instructions that protect consumers.

As stated that the market is highly competitive and is growing considerably. The main competitors are working hard in order to tap new markets of those who have not yet discovered online food delivery service as well as the competitors have to go out and find out more about smaller businesses and restaurants that are people’s choices (Sakulrattana, 2015). Moreover, the crucial factors for the online food delivery market in Thailand are finding restaurants that are able to offer good deals and good quality food and improve choices for the main target market. It shows in Sakulrattana (2015) that people in their middle youth age range from 30-45 years old are the main consumers in 2014 which makes up over 15.9 billion baht. Looking at that information, it gives out ideas for competitors to look into the food choices that are popular among the main target market and researching more about their other target group in order to tap those markets as well as the main one. The competitors that are able to come up with the most value-meal promotion for different target groups will be able to make the biggest sales.

3.Theoretical Framework

The well known framework to analyze the market and industrial organization is SCP paradigm which consists of market structure, market conduct and market performance. This theory believes that market structure can determine market conduct and market conduct can also affect market performance respectively. Meanwhile the effect of market conduct and market performance can also return to change market structure again.

First element of this paradigm is market structure. Market structure can determine by many measures such as market definition, concentration measures, and number and size distribution of firm. Since this paper wants to find the competitiveness of the current firms in food delivery, we use Industry concentration and barrier to entry to analyze the market structure. Industry concentration measures the intensity of competition within the industry. Barriers to entry can be used to find how easy it is for new firms to enter into this market. “Common barriers to entry include special tax benefits to existing firms, patents, strong brand identity or customer loyalty, and high customer switching costs” (investopedia, 2019).

Next element that is affected by market structure is market conduct. There are many measures to determine conduct, for example, pricing strategies, advertising, R&D, differentiation, collusion and mergers. Since food delivery products look similar, this paper will use both pricing strategies and non-pricing strategy. For pricing strategy, this paper uses only penetration pricing while non-pricing strategy includes advertising, promotion, network effect and loyalty scheme.

The last element is market performance which is influenced by market structure and conduct. Market performance can determine the profitability of each firm in the industry and value creation by using Lerner’s Index. But due to limited information, this paper will use Employment income distribution, the amount of orders received and growth rate as a market performance measure.

4. Methodology

This research uses SCP-paradigm as the main framework and relies mainly on both primary and secondary data collection of the competitiveness in the online food delivery industry in Thailand. The authors will interpret data in terms of qualitative data collection, chart and graph. The population of the study consists of 4 applications of online food delivery.

4.1) Primary data

• In-depth interviews

The authors select to interview the drivers and restaurants that participate in the applications (Grab food, Line Man, FoodPanda, and Get). The objective of this interview is to understand the strategies and business model toward each application. The interview will be divided into 2 main parts which are the drivers part and the restaurants part. In order to analyse the degree of competition among firms, the authors will analyse their pricing and promotion strategies through time. The result will be used further to help analyse the SCP model of the online food delivery industry.

4.2) Secondary data

In order to get precise analysis research results the authors will use news, related research, additional information from brand's website and articles as the secondary data collection. This research will gather available data to illustrate the structure of the online food delivery industry, the nature of the business and some related data of online food delivery platforms. This data will be used to analyse further in the SCP framework to examine their competitiveness, business model, and nature of the online food delivery industry.