**Food**

**Online order, delivery services taking bite out of S.F. restaurant profits**

Paolo Lucchesi By [Paolo Lucchesi](http://www.sfchronicle.com/author/paolo-lucchesi/) February 25, 2015 Updated: February 26, 2015 9:22am

Running a successful restaurant in San Francisco has never been easy.

Between soaring rent, labor costs, heavy competition and food costs, even the city’s best restaurants operate on razor-thin profit margins, often in the 7 to 16 percent range. Now the city’s restaurants — especially many in the fast-casual sector — are faced with another, almost counterintuitive challenge: technology.

Diners’ buying behaviors are changing. Online ordering and delivery services like Eat24, GrubHub, Postmates and Caviar are great boons to customers, often enabling citywide delivery with a mere swipe of a finger. For restaurants, though, it’s been a mixed blessing.

“We have seen a huge increase in our sales via online partners like Caviar, specifically,” says **Nate Pollak**, CEO and founder of **American Grilled Cheese Kitchen**, with locations in South Park and the Mission, and a third on the way to the corner of Battery and Broadway.

However, Caviar takes a 20 percent commission. Tack on the credit card processing fees (3.5 percent), and suddenly that’s a sizable loss of profits. In 2013, Pollak says that his restaurants did 10 percent of weekday sales via online ordering; that number boomed to 30 percent in 2014.

“The restaurant game is you manage your food and labor. Those are the only two costs manageable on a day-to-day basis,” he continues. “Once you start giving away commissions to all these providers, it’s great for cash flow. It’s great for sales. It’s great for top-line numbers, but your profitability starts to sink, sink, sink.”

But like OpenTable and online reservation sites, third-party online ordering and delivery services are becoming increasingly important — if not essential — marketing tools.

“It increases our reach, and I think people ordering for offices prefer to order online so they don’t have to talk to someone on the phone. It makes things easier,” says **Liza Shaw**, the chef-owner of the 15-month-old **Merigan Sub Shop** (636 Second St.), who uses Caviar.

“Overall, I think without any of these services, our business would not exist today,” she continues, noting that online ordering and deliveries account for roughly 30 percent of her sales. As a small, independent restaurant, Merigan would never have the bandwidth or money to provide those services on its own. “The fact that there’s someone out there is amazing,” Shaw says.

The biggest thing that worries Shaw is the delivery itself, and her lack of control in making sure her submarine sandwiches get to customers in a timely and fresh manner. That hasn’t been an issue so far, she says.

Still, that brings up a more philosophical matter: The lack of human interaction and customer relationships.

Lower Haight chicken joint **Wing Wings** (422 Haight St.) gets a lot of business from Postmates, a delivery service that doesn’t take a cut since it operates independently from restaurants.

“They don’t charge you anything,” says Wing Wings owner **Christian Ciscle**. “It’s just like a sale, which is great. The negative side is we have zero relationship with the customer.

“We’re out of the loop. It’s like Uber. It’s a bunch of randoms delivering food. Anybody can do it,” he says, pointing out that while most delivery people are professional, others might pick up an order wielding a cigarette or even show up barefoot.

And there is another twist: Earlier this month, Yelp bought Eat24, a reported $134 million transaction that likely will make online ordering even more streamlined — but has left many restaurateurs worrying about increased fees, promotional ploys or being partnered with Yelp.

How will restaurateurs reconcile the cost of third-party services?

Some, like the American Grilled Cheese Kitchen, will raise prices to compensate. Some may simply opt out. Others will opt in. Regardless, it is a dilemma that doesn’t seem to be going away.

Ponders Ciscle: “It’s a bigger disconnect from the customer ... but it’s the ultimate convenience.”

**[. . . .]** (The original piece had a few other bits of news)

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