Delivery Apps

From Hungry to Loyal

Enhancing Customer Engagement and Order Frequency through Tiered Rewards in Food Delivery

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25 May 2023
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Introduction

In the highly competitive market for on-demand online delivery, customer satisfaction and loyalty have become increasingly important for the success and growth of on-demand delivery platforms. With the success of membership examples from other industries, a tiered membership system offers a compelling solution to foster customer loyalty and a sense of VIP status on delivery platforms. This white paper presents a detailed tier-based membership system tailored for Food Delivery apps aiming to improve customer satisfaction and stickiness to the platform. Consumer insights derived from this development process could have larger implications for on-demand delivery apps as a whole. With our user research, we will uncover how various rewards can drive growth and enhance customer loyalty.

Background
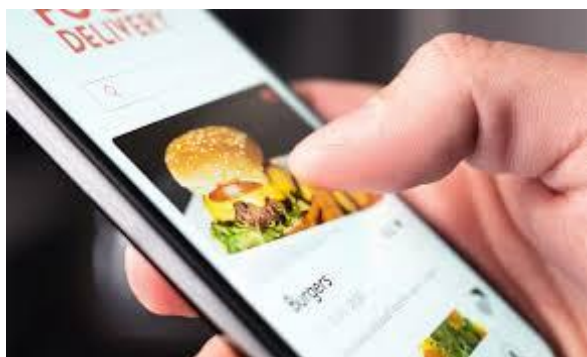
The food delivery market, including grocery and meal delivery, has had tremendous growth in recent years. The demand and growth surged during the pandemic—the most mature delivery markets, such as Australia, Canada, the United Kingdom, and the United States, grew four to seven times larger from 2018 to 2021. According to Statista, the global online food delivery market is projected to reach $1.02 trillion in 2023 with an expected 12.67% annual growth rate [1]. In the US, the market is projected to reach $269.8 billion with an expected 15.1% annual growth rate.

Among the US market, taking into account factors such as age and geographic access, we estimate the total addressable market (TAM) to be between 450-535 million people, or 60-70% of the total population. This population can be further segmented into the serviceable addressable market
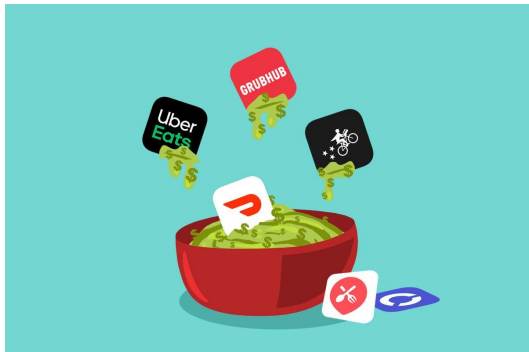
(SAM), taking into account factors such as driver availability and income, resulting in a total of approximately 225-270 million.

The US has four active players in the online meal delivery market, DoorDash, Uber Eats, Grubhub, and Postmates (acquired by Uber in 2020). Though each player leads certain large urban markets, as of 2022, DoorDash held 65% total market share, followed by Uber Eats with 25% and Grubhub with 9%, making DoorDash the leader in the US market [2].

A True 'Value Meal': Proposing a solution and defining its value proposition.

Preliminary research, through a 40-person survey, enabled a deeper understanding of users' sentiments about the VIP model of one particular delivery service. Their old model was a system that reset daily by evaluating the top 10% of users on the platform (based on price and order frequency). However, the initial analysis revealed that users are frustrated with this structure because they wanted longer-term benefits, wished that it was easier and clearer to become VIP, and wanted increased transparency about factors that determine status.

"**How do I know** if I am VIP?"
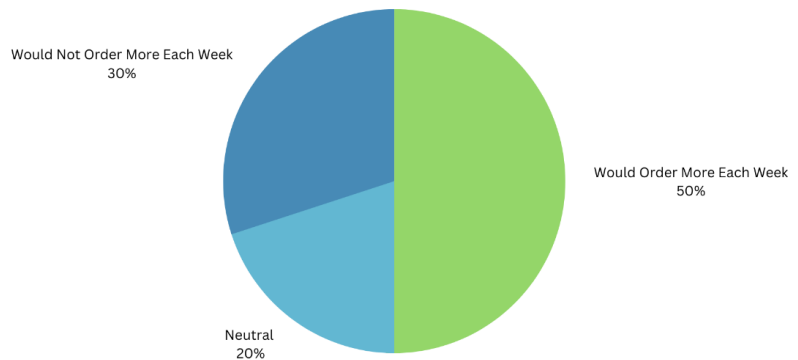   *- User ordering 3-4 times/week*

"What do I get if I am VIP, like **what are the benefits?**"
        - User ordering 1-2 times/week

"I wish I could get **benefits other than when something is going wrong** with my order"
        - User ordering 3-4 times/week

User Weekly Order Frequency using the Proposed Loyalty Program

Would Not Order More Each Week
30%

Would Order More Each Week
50%

Neutral
20%

These insights shaped the problem facing the popular food delivery app: The current VIP system reevaluates user eligibility daily, which does not help build a sense of value around being a top 10% user. Instead, we propose value in switching to a longer-term reward system, similar to the 'Chipotle Rewards' loyalty program. Because it will fulfill the user needs identified in our preliminary research and build a sense of prestige. Therefore, a multi-tiered loyalty system that evaluated users on a monthly basis and interactive UI prototypes were created for user testing of the concept. User observation and testing reveal an overwhelmingly positive response to the proposed loyalty system.

The first major insight was that the proposed system would generate more loyalty to the food delivery app over its competitors. In fact, during testing an overwhelming 70% of users agreed that a tiered rewards system would increase their loyalty to one delivery platform over others.

"In my mind, it's like 'oh wait', I'm actually getting an extra benefit by ordering from [the food delivery app] versus if I ordered from anywhere else, even IRL store, because I'm getting cut delivery fees, or $10 credit, or $20, that's a **huge benefit that I am not getting from other apps**."
> *- User ordering 2-3 times/week*

"**I already feel loyal** to the app because of [existing services on the platform], but I still think that **I would feel more loyal with benefits like this**."
> *- User ordering 5 times/week*

These are positive quotations from frequent users of the food delivery app, however, research found that the proposed system would also encourage non-users to try the app when they otherwise would not.*
*See *Monetary Rewards*

The second major insight was that the proposed system would increase order frequency on the app for existing users. 50% of users asserted that a points-based rewards system would encourage them to place orders more frequently. Research found that when further questioned the 20% of respondents who were neutral to the proposed loyalty system were only neutral because they already ordered at a much higher frequency than other respondents (approximately 4+ orders placed each week).

"I love it. 100%. **Why would anyone not want this** if they're already purchasing?"
> *- User ordering 5 times/week*

"Some days where I'm maybe close to ordering but didn't, **I would be swayed to order a few more times a month**. If I'm still spending the same amount but earning more things then I'll probably order more."
> *- User ordering 2-3 times/week*

"I would order more if I can use points towards it because then **I feel like it's like paying for itself in a way.**"
> *- User ordering 1 time/week*

So, what is a tiered rewards system?

In the proposed loyalty system users are divided into 4 tiers based on their order size and frequency. New users are placed into the Entry Level Tier, and can earn points by ordering food in order to move to the Basic Tier, Silver Tier, and finally the Gold Tier.

Basics of the Tiered System

Gold Tier

Users spend about 1.5-2x more per month compared to Silver tier or order on average 3 times a week for a given month.

Silver Tier

Users spend 2-3x as much as the entry level tier or order between 1-2 times a week for a given month.

Entry Level Tier

Users spend a baseline amount to be determined by the company. Goal is for the amount to be achievable but still make the customer profitable.

Basic Tier

All users begin at this tier and only move up once they have spent the minimum amount to move up to the entry level tier in one month..

The points required to 'complete' each tier level and graduate to the higher level were determined by the order frequency distribution chart pictured to the side, in which more points are required to complete the Basic and Silver Tiers versus the Entry Level Tier and Gold Tier. We began by determining the number of orders a user would have to place each week, assuming the average order was $30, in order to qualify for the existing VIP program on the app. Then, using a 40-person survey, we discovered the frequency that users placed food delivery orders on the app each week. We used this data, weighted proportionally to the calculated number of orders for a previous 'VIP' member, to determine the order weekly frequency and dollar amount each 'Tier' member would need to be placing in order to maintain the same monetary standards for the previous VIP users and new "Gold Tier" members.

Participants Tier Distribution

BASIC ②   ENTRY ③   SILVER ③   GOLD ②
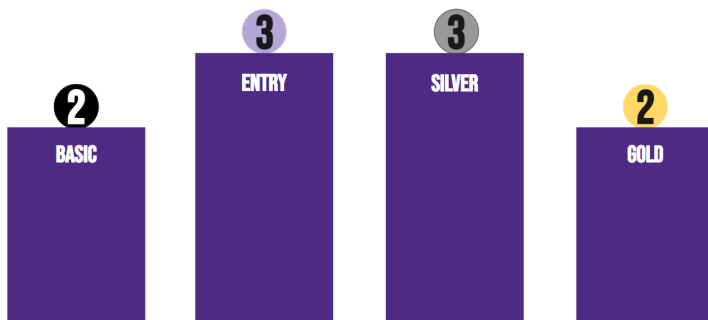
Rewards don't have to be discounts

When thinking about benefits or perks for entry-level members, providing monetary rewards may not be worthwhile. Alternatively, non-monetary rewards, such as having access to new features or viewing unique, personal insights, could still be fulfilling or beneficial for lower-tiered members.

In our research, we tested three non-monetary rewards:

1) **Personal analytics**, including most frequently ordered restaurants, food items, and categories,
2) **Badges**, such as ordering from five locally owned restaurants to earn a "hometown hero" badge
3) **Nonprofit donation**, such as donating up to $1 per order to partnered non-profit organizations.

We have received positive feedback with each, and participants felt the rewards are fitting for the corresponding tier.

Personal Analytics

The success of Spotify end-of-year music wrap showed the great potential of utilizing personal data to present something unique, delightful, and shareable among individual users. In our preliminary research, we found that users more easily create loyalty with restaurants over delivery platforms, and we observed that users are delighted to learn they are top X% customers at their favorite restaurants during the interview sessions. Additionally, some users expressed that they are more likely to order from the same restaurant again after being reminded that they are valued customers of the restaurant. This opens up possibilities to collaborate with restaurants to give away discounts or small food items on their own, especially with local businesses which do not have the infrastructure or capacity to implement their membership program. Nonetheless, with the rising awareness of data privacy, it's important to be transparent about data usage and reassure the users their data is not being disclosed to any third parties.

Badges

"I don't really know what I'm collecting these badges for, but if I get to redeem something afterward, even if it's something small like a free salad, **I would order more.**"
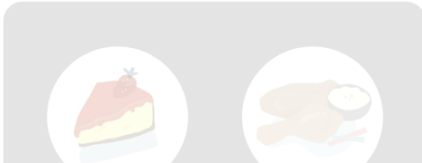*– User ordering 1-2 times/week*

The Snacker

The Foodie

"It would be kind of fun to **diversify what I'm eating**… I'd be like 'Oh, I want to get that category complete', so I'll order something from that category just to complete it for fun."
– User ordering 3-4 times/month

Badges have the flexibility to design for members across all tiers and versatility for different promotions. Though some consumers may see collecting badges as unnecessary, giving away small rewards like a free food item provides incentives for consumers to order more or order something they typically don't. Badges can be tailored for different tiers and unlock more as users move up the tiers to ensure that the requirements are reasonable and motivating to users. Badges can be food-based, such as ordering salad five times to earn a "lettuce lover" badge, or business based, such as ordering three times from locally owned businesses to earn a "hometown hero" badge. Business-owned badges are a great opportunity to encourage consumers to discover and support local businesses or minority-owned businesses, especially since food delivery platforms often receive criticism such as being hurtful to small businesses.

Donation for Social Good

"I don't mind adding $0.3 dollars to my order, and **I feel good** knowing that I'm doing something with such a small thing." *– User ordering 2-3 times/week*

Order round-up is a low effort yet impactful opportunity to invite consumers to join the company's social commitment, whether it's fighting food insecurity or investment in sustainability. It can be an opt-in feature for

entry-level members, while the company can consider matching the user's donation for silver or gold tier members for a bigger impact. Study has shown that round-up requests at retail stores are effective strategies for fundraising and reduce consumers' pain in donating [3]. With the rising need for online meals and grocery deliveries and fewer in-store visits, food delivery services have the potential to make social impacts with order round-ups. In our research, many users express their interest in opt-in order round-up and even wonder whether the feature can be available to every user.

Savor the Rewards: Delivering Delightful Discounts for Devoted Foodies

Top 3 Perks
1 — FREE DELIVERY
2 — DISCOUNTS
3 — EXPEDITED DELIVERY

It is no surprise that financial incentives are often a major driver for consumer behavior, but it can be a gamble for businesses to offer discounts or cash rewards without guaranteed outcomes. One key advantage of integrating monetary rewards into a tiered system is the restriction of more significant rewards to only those users that have already proven themselves profitable to the platform. Particularly in the saturated market of food delivery services, where consumers want convenience at the lowest cost, it can be hard to stand out without investing in discounts and rewards. Preliminary research revealed that above all else, free delivery, discounts, and expedited delivery were the most favorable perks to receive when using a food delivery app. Though this may be what the consumers want, these perks can pose a real dilemma for platforms that are trying to boost customer loyalty and profitability without losing money on the incentives themselves.

Interestingly, user research revealed that smaller monetary discounts given over time are just as if not more desirable to users than larger one-time discounts. This provides a convenient avenue for companies to incentivize users to order more while limiting costs and boosting order frequency. Even current non-users of food delivery services reported that they would be significantly more likely to use these sorts of platforms if they were offered discounts in the range of 10-15%.

> "I think if there is a monetary incentive, I…**would use it more**. Like, even if it was like 10% off, it was like order three things to get 10% off? I'd be way more likely to use [the app]. Like, **it doesn't have to be big**"
>
> *- Dedicated Non-User of Food Delivery Apps and Services*

Of the 80% of participants who reported that they would increase order frequency to receive additional benefits, half reported that the specific rewards they would be working towards were monetary incentives, specifically a one time $10 or $20 in-app credit. By further gating these rewards behind point-based tiers, companies will only distribute them to users who have invested significant money into the platform already.
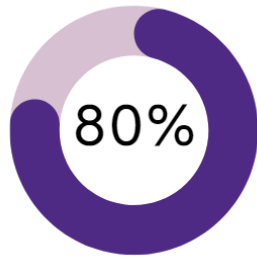
80% of users surveyed said they would be incentivized to order more to get additional benefits, with 50% of these users citing monetary rewards specifically as the benefits they would be working towards.

Points are a Perk!

Earning points isn't just a metric for earning rewards, the points themselves are seen as a perk! Our research found that earning proportionally to money spent made users feel users were adequately rewarded for their investment in the app, and gave them an increased sense of control over their ability to win rewards.

"I like the point bar on the screen. It reminds me of my Chick Fil A rewards. In highschool I would see my points and I would go, **I would be incentivized to go** on my way home to Chick fil A **because I wanted to fill up my bar and get free things**. So yeah I like the bar telling me my points."
  - *User ordering 2-3 times/week*

Positive sentiments about the points system were augmented when points are highly visible to the viewer, such as messages during check-out and highly visible progress bars. In fact, during our observational research, 91% of participants pointed out the bar on the User Interface as a feature they liked.

Finally, distracting customers from fees with points can provide a great avenue for customer satisfaction. For example, one participant felt strongly opposed to the delivery and service fees currently implemented by the food delivery service:

" I feel like the added fee and the convenience or delivery fee is definitely high. But then on top of that all the food that you order is also marked up…For example, if I go to Chipotle and I get a bowl there, it's like $15 and then if I order on DoorDash just with like markups plus a delivery fee, plus service fee... it ends up being like $22."
  - *User ordering 1-2 times/week*

However, after being guided through the proposed tier system and its interface, the SAME user stated:

"It makes the **service fee feel less negative if I am also receiving points.**"
  - *THE SAME User ordering 1-2 times/week*

Ultimately, earning points for purchases gives the user a sense of control, incentivizes them to order frequently, and helps negate negative sentiments

around existing fees on the app. Making earned points more visible to the user through color, scale, and placement, augments these emotional-end benefits.

Conclusion

Ultimately, tiered reward systems provide a promising avenue to increase customer loyalty and engagement in the delivery app industry. Offering a combination of tangible perks, such as small monetary rewards and discounts as well as intangible benefits, such as analytics and fun interface features can provide a unique and engaging experience for customers that makes them feel valued by the platform. Using points as a means to quantify loyalty allows businesses to reward their most loyal customers and boost customer lifetime value while still making users feel in control of their own benefits. Ultimately, tiered rewards systems cultivate customer loyalty and drive business growth, representing a goldmine of untapped potential for the delivery app industry to explore.

Reference

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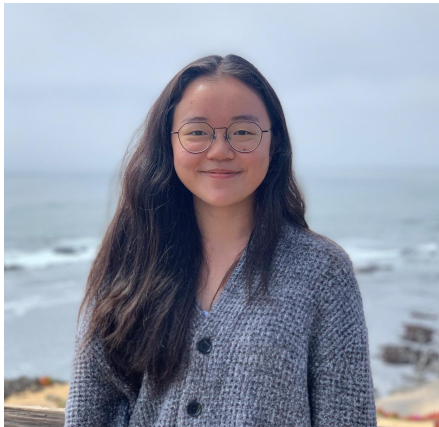
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