

https://www.investopedia.com/how-does-doordash-make-money-4587027?utm_campaign=quote-yahoo&utm_source=yahoo&utm_medium=referral&ypr=yahoo

How Does DoorDash Make Money?

By [Daniel Liberto](#)

Updated Feb 12, 2019

DoorDash has come a long way from keeping students at Stanford well fed. According to the [The Wall Street Journal](#), the food delivery startup is currently in the process of raising approximately \$500 million in funding, giving it a valuation in excess of \$6 billion.

The San Francisco-based company's story can be traced back to the fall of 2012 in a small macaroon store in Palo Alto, California. In a [blog post](#), DoorDash's four founders said there were working on building technology for small business owners and seeking feedback for an app they'd developed when they experienced their "lightbulb moment."

A store manager called Chloe wasn't impressed with the app and as they were leaving revealed that her biggest challenge was finding people to deliver products. Several months later, in January 2013, Palo Alto Delivery was born.

DoorDash's founders claimed they received their first phone call within half of hour of launching. Suddenly, they found themselves working as students by day and delivery drivers by night.

Raising Private Capital to Stay Afloat

As the business developed, DoorDash found itself facing a huge challenge: How to differentiate its software from Uber's online food delivery platform Uber Eats, GrubHub Inc. ([GRUB](#)), Postmates Inc. and other competitors. The startup was burning through cash and turned to venture capital funding to help find a way out.

Nearly \$1 billion was raised from the likes of SoftBank Group Corp. (SFTBY), Sequoia Capital and Coatue Management. DoorDash used that capital to expand its operations considerably, growing its reach from 600 to more than 3,300 U.S. cities. The upshot was annual sales tripling in 2018.

CEO Tony Xu claimed that his company's success goes beyond serving all 50 states and beefing up its selection of restaurants. To gain an edge over its more popular peers, Uber Eats and GrubHub, owner of brands including Seamless, Eat24, and LevelUp, the startup adopted a slightly different approach.

Keeping Restaurants Sweet

Most of DoorDash's rivals mainly focus on wooing the people ordering the food. DoorDash, on the other hand, has directed its efforts toward keeping restaurants happy. Xu and Chief Operating Officer Christopher Payne, a former executive at Amazon.com Inc. ([AMZN](#)), Microsoft Corp. ([MSFT](#)), and eBay Inc. ([EBAY](#)), developed software that restaurants can use at their own cash registers and embed on their websites.

That approach appears to be paying off: The company has received glowing reviews for its services and has been making headlines for signing on national chains including The Wendy's Co. ([WEN](#)), Chipotle Mexican Grill Inc. ([CMG](#)), and Cheesecake Factory Inc. ([CAKE](#)).

How It Makes Money

DoorDash's business model is based on providing a service to both restaurants and people who want something to eat. Hungry users can find an eatery without a delivery service and get DoorDash to bring its food to their door. Restaurants benefit, too, receiving orders from new sources and access to the startup's extended customer base.

The company makes most of its money from the following three revenue streams:

Delivery Fees

DoorDash charges an average of \$5 to \$8 per order, depending on the distance travelled, time of day and its relationship with the restaurant where the order has been placed. Deliveries are fulfilled by DoorDash's own team of hired drivers, known as Dashers.

Commission

The startup also takes a commission fee, usually of 20%, from restaurants for every order.

That fee is much higher than what its competitors reportedly charge. According to [Vator](#), Delivery Hero charges between 10% to 11% on each order, while GrubHub is said to take a 13.5% cut on average.

The fact that DoorDash is able to charge more indicates that it has a decent amount of sway over restaurants. Kurt Kane, Wendy's chief concept and marketing officer, said DoorDash became its "lead horse" because of its focus on quality, adding that "the food almost always arrived hot," reported [Bloomberg](#).

Restaurants Pay for Advertising

DoorDash is so popular with restaurants that it is also able to charge them for marketing and advertising. The company charges an extra commission to restaurants who want to appear at the top of search results on its app.

Survival of the Fittest

DoorDash's business model of charging high fees to restaurants so far appears to be working. It is the fastest growing business in its sector, yet still trails GrubHub and Uber Eats in market share, indicating that there's further scope to grow.

One worry is that the impending initial public offerings of Postmates and Uber could impact its ability to gain a stronger foothold over the industry. DoorDash is under pressure to raise capital to protect its position in the market and ensure that its offering remains valid as some of its closest rivals find new ways to secure much-needed funds,

Followers of the company will be mindful that the likes of Postmates, Uber Eats and GrubHub still have a lot more expanding to do. None of its biggest rivals currently have the same reach across the U.S. If and when that changes, customers could be stolen away and pricing power might be squeezed.

The billion-dollar food delivery industry has further scope to grow. However, like all mushrooming sectors, companies without enough innovative ideas and cashflow to back them will likely to be taken down along the way.