Breaking the Model, Part 2:
How New York's New Government-Imposed Wage Hikes Will Break the NYC Restaurant Delivery Economy

Data Catalyst Institute

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Executive Summary

- In November 2022, the NYC Department of Consumer and Worker Protection proposed a minimum pay rate for app-based restaurant deliverers. On June 11, 2023, NYC Mayor Eric Adams announced a minimum pay rate of either $18/hour (including idle time) or $0.50/minute of delivery time, going into effect on July 12, 2023, and eventually going up to $20/hour or $0.55/minute by 2025.

- In a previous analysis the Data Catalyst Institute (DCI) showed how food deliverer minimum pay mandates, on top of existing limits on fees that delivery services are permitted to charge restaurants, would "break the model" of the NYC Restaurant Delivery Economy by disrupting the economic equilibrium between diners, restaurants, delivery services (apps), and deliverers. The most significant effect of this will be to make the cheapest customer orders the most unprofitable ones for the delivery service companies.

- NYC's new guaranteed wage law will dramatically increase the fees consumers pay (as wage costs are passed through) or even result in app delivery companies reducing service availability or pulling entirely out of NYC, all of which reduces opportunities, choice, competition, and revenue. Downstream effects include chain restaurants outcompeting independent ones, disadvantaging lower-margin customers and underserved neighborhoods (creating "food delivery deserts"), and delivery app companies launching their own "ghost kitchens" that directly compete with local restaurants.

Analysis and Discussion

In DCI's previous analysis, we demonstrated that government interventions such as targeted fee caps and minimum wages may solve short-term problems in the Restaurant Delivery Economy, but they inevitably reduce long-term value for all stakeholders, including those whom government intends to support. We cited several independent studies (e.g., Li and Wang, 2021; Leccese, 2022; Sullivan, 2023) that provide evidence for this.

Here, we extend our analysis specifically in relation to NYC's newly announced minimum pay rate for restaurant food deliverers of $18/hour (including idle time) or $0.50/minute of delivery time that goes into effect July 12, 2023, increasing to $20 or $0.55 by 2025. (To our knowledge, paying for idle time is unprecedented in this context, with only "engaged time" considered for compensation purposes.) Utilizing our model of the NYC Restaurant Delivery Economy from our original analysis (see Figure 1), the consequence of raising wages - particularly with restaurant fee caps still in place - is inevitably for fees on consumers to rise as the higher cost of wages is passed along to them.

Interestingly, the NYC Department of Consumer and Worker Protection agrees with this. Their own analysis of minimum pay for app-based restaurant deliverers explicitly points out the trade-offs associated with raising wages in the NYC Restaurant Delivery Economy: "Apps may choose to pass their remaining increase in labor costs to consumers through higher fees, increasing consumers' cost of delivery." Simply put, under a guaranteed wage regime, NYC-based customers will need to pay more to get food delivered in the form of new or increased fees, in many cases so much more that it will most likely harm the entire Restaurant Delivery Economy.

Figure 1. The NYC Restaurant Delivery Economy, With Fee Caps and Minimum Pay Rates

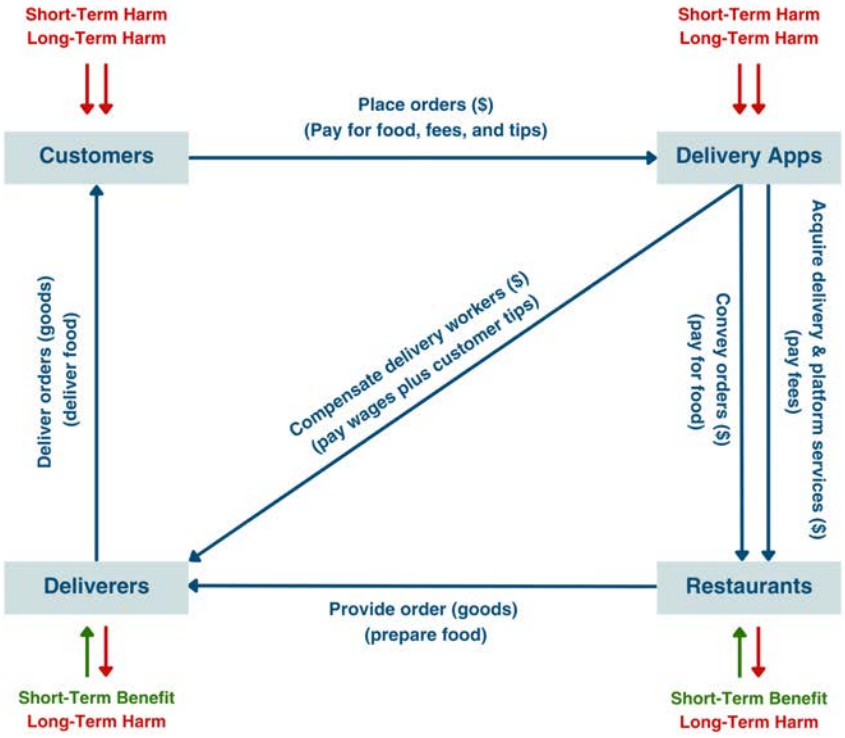

Figure 1 demonstrates how Restaurant Delivery Economy stakeholders – customers, apps, restaurants, and deliverers – are connected through the transfer of money and goods. Restaurants pay fees to be listed in the app and for delivery and marketing services. Customers discover restaurants, place orders on the app, pay restaurants, tip deliverers, pay delivery and order fees to the app, and pay government-imposed fees and taxes. The apps remit funds to the restaurants, pay deliverers, and pass through tips. And deliverers transport food from restaurants to customers.

This system reaches an economic equilibrium when customers are satisfied with the food and delivery service they receive for the amount of money they pay, deliverers are satisfied with their compensation for the services they perform, restaurants are satisfied with their sales for the amount they pay to apps, and the apps generate sufficient revenues to offset their costs and earn reasonable returns for investors. **Government-mandated minimum pay disrupts this equilibrium** and have several short- and long-term effects. (Overall, while the effects of mandatory wages cannot be completely separated from that of existing fee caps, we focus on the new wage regime below.)

- In the short term, NYC deliverers **benefit** because they will receive more pay for doing the same work, and in cases where mandatory wages apply to idle time, they are paid more for doing no work at all.

- On the other hand, NYC customers are **harmed** because they will pay more due to increased or new delivery app fees – a way for apps to mitigate the effect of restaurant fee caps (see Table 2).

- Longer term, all of the stakeholders will be **harmed** because the Restaurant Delivery Economy will seek a new equilibrium as participants adjust their behaviors. (Remember, these are all interrelated - see Figure 1.)

    - **Customers** will reduce the number of delivery orders and/or the dollars spent on such orders due to increased costs in the form of new or increased fees and lowered or poorer selection due to reduced investment/availability by delivery apps.

    - **Restaurants** will eventually suffer due to reduced customer delivery orders and diminished competition among delivery apps as some NYC apps reduce service or even exit the market.

    - **Deliverers** will earn less money - *despite increased wages* - because they will have fewer orders to deliver due to reduced delivery orders from customers and fewer apps to deliver for due to reduced or canceled service in the NYC market. And if customers decrease their average order amount over time, corresponding tips will decrease too.

    - **Delivery apps** will have reduced revenue if, for example, they cannot pass all of the increased wage costs on to consumers, forcing consolidation, layoffs of employees and delivery workers, and likely reducing investment or service availability in NYC.

As described in more detail in DCI's previous policy analysis memo and working group report on this topic, there are secondary effects of these longer-term harms. Chain restaurants will be advantaged over independent ones, lower-margin customers and underserved neighborhoods will be disadvantaged, and delivery app companies will likely invest in wholly-owned "ghost kitchens" that directly compete with local restaurants for delivery orders.

To more specifically quantify and illustrate how these new minimum deliverer pay rates will affect the NYC Restaurant Delivery Economy, we modeled different "restaurant delivery scenarios" (Table 1). In scenario one ("Fast Food"), imagine that a customer orders a large pizza with toppings and two bottles of soda for $25. That $25 is subject to a maximum 20% fee that the restaurant pays the app ($5 in this case). The app earns $5 but also pays the deliverer $10 (assuming an average of 30 minutes for a deliverer to complete an order and the 2025 minimum hourly pay rate of $20), losing $5 just on this single order. Small orders are unprofitable for app-based delivery companies under both fee caps and guaranteed deliverer wages.

In scenario two ("Gourmet Meal"), imagine that a customer orders an appetizer, steak entree, two sides, and a dessert from a popular chain steakhouse restaurant for a total of $150. The maximum fee is capped at $30 to the restaurant, and the app pays the deliverer $10 again. Here, the app nets $20 because of the size of the customer's order. Larger orders are more profitable for app-based delivery companies, even under both fee caps and guaranteed deliverer wages.

Table 1. Detailed Economics of NYC Deliveries With Restaurant Fee Caps and Minimum Pay Rates

Restaurant Delivery Scenario	**Customer's Food Cost** (to the restaurant)	**Max Fee to App** (20% of customer's food cost) (w/ NYC caps)	**App Pay to Deliverer** (avg. 30 min delivery time) (w/ NYC minimums)	**Revenue to Delivery App Co.** (w/ no changes) (max fee + app pay to deliverer)
"Fast Food"	$25	$5	$10	**-$5**
"Gourmet Meal"	$150	$30	$10	**$20**

How will app delivery companies likely react if they do not want to lose money on millions of future unprofitable small orders in NYC? One or more app companies could declare the NYC market not profitable enough and stop service in the jurisdiction. This would be drastic but possible. Another reaction would be to institute a minimum order size of $50, where the maximum 20% fee of $10 is roughly the same as the new minimum deliverer wage per half hour. However, this is unlikely, as many orders are far less than $50. A third and probably most likely avenue would be adding to the customer fees to compensate for the increased wages. Table 2 shows what this looks like.

Now the customer ordering "Fast Food" is facing a new $10 surcharge and paying a total of $35 for a pizza and two sodas, and the app is making a slim $5 profit. It's likely that while NYC customers like price-sensitive grad students would still order pizza, cheeseburgers, and other fast food (and the calculations above don't even include deliverer tips from the customers), they would order less of it this way, switch to self-pickup, or choose other food options.

In the Gourmet Meal scenario, the less price-sensitive customer is also paying the same new $10 surcharge, and now they're paying $160 rather than $150 for their three-course steak dinner - something they may not even notice or care about as they sip on a $75 wine in their $2.5 million townhouse. And the app delivery company is probably happy with its $30 revenue on this single big-ticket order. Unfortunately, over time, the trendlines will be against price-sensitive customers and smaller orders in favor of relatively well-off customers and pricey orders - which will hurt lower-income NYC residents who currently use these delivery services the most.

Table 2. Detailed Economics of NYC Deliveries With Restaurant Fee Caps, Minimum Pay Rates, and New App Surcharges

Restaurant Delivery Scenario	**Customer's Food Cost** (to the restaurant)	**Max Fee to App** (20% of customer's food cost) (w/ NYC caps)	**New NYC Per-Order Surcharge** (on Customers)	**Customer Cost of Food + Surcharge** (simplified - ignores taxes, tips, etc.)	**App Pay to Deliverer** (avg. 30 min delivery time) (w/ NYC minimums)	**Revenue to Delivery App Co.** (max fee + + new surcharge + app pay to deliverer)
"Fast Food"	$25	$5	**$10**	**$35**	$10	$5
"Gourmet Meal"	$150	$30	**$10**	**$160**	$10	$30

In conclusion, the pandemic-era fee caps that NYC has allowed to stay in place long past the emergency have already strained the NYC Restaurant Delivery Economy. Fee caps form an artificial price ceiling on what delivery apps can charge for services, ultimately hurting small restaurants and their customers. Unfortunately, NYC's new minimum pay rate for restaurant food deliverers could turn that strain into a dislocation. Government-mandated wage floors increase consumer costs and decrease consumer choice, which ultimately backfires against the workers whose wages were boosted. (The interested reader can find expanded economic arguments and references in DCI's previous policy analysis memo and working group report on this topic.)

Ultimately, under these limitations, the NYC Restaurant Food Delivery Economy will have fewer app options, fewer low-cost food options, low-margin service area "food delivery deserts," higher consumer costs, and bias away from independent restaurants towards chains or higher-end restaurant groups. Restaurant food delivery on apps may transform into something more like a luxury for NYC residents who can afford it. If NYC's metric of success is the continued growth of app-based restaurant food delivery in the city, restaurant fee caps combined with mandatory deliverer wages are the wrong way to achieve it.

About the Data Catalyst Institute

The Data Catalyst Institute (DCI) supports policymakers and other stakeholders as they undertake the important and difficult work of enacting sound public policy governing the use of technology and data. DCI reports on regulatory and legislative proposals to celebrate good policy and identify relevant challenges.

Proposals often evolve – before and even after enactment. DCI will monitor amendments, court cases, and other changes to adjust our analyses and conclusions to reflect future changes. Our objective is not to criticize or condemn but rather to support a better, broader understanding among all stakeholders.

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