



March 25, 2022

**Oppose SB 2740: Extending Third Party Delivery Fee Caps Indefinitely
are Harmful to Recovery Efforts**

State Sen. Eric Lesser
Joint Committee on Economic Development
and Emerging Technologies
Massachusetts General Court

State Rep. Jerald Parisella
Joint Committee on Economic Development
and Emerging Technologies
Massachusetts General Court

Dear Chairman Lesser, Chairman Parisella and Members of the Committee:

On behalf of Chamber of Progress, a tech industry coalition promoting technology's progressive future, I write to urge this committee to **reject the pending proposal to extend third party delivery fee caps indefinitely as stated in SB 2740**. The bill poses inadvertent consequences that will ultimately disadvantage Bay Staters, drivers, and independent restaurants.

Throughout the pandemic, delivery apps proved to be a vital service to business owners and their consumers. The use of delivery service apps have allowed residents to patronize local restaurants and grocery stores from the convenience of their home, helping to contain the spread of the coronavirus. For this reason, cities across the country identified food delivery as an essential service. Beyond simply handling the logistics for a network of drivers, third party delivery services also provide marketing, insurance, background checks, credit card processing, and even customer service. Services like Doordash, Grubhub, and UberEats now offer a range of services to restaurants at different fee levels. Restaurants (through fees on each order) and customers (through delivery fees) help fund them.

In a well-intentioned effort to protect restaurants severely impacted by the pandemic, Massachusetts imposed a temporary 15% cap on the fees paid by restaurants to delivery services. While the cap on fees has offered some relief to restaurants, there are harmful effects which suggest its use to be an ineffective approach.

A cap on fees fails to account for the cost-shift to delivery services which only adds to the base costs of paying drivers, conducting background checks and providing customer services. As a result, consumers ordering from local restaurants through app-based delivery services inherit the burden of increased costs through higher prices or recovery fees. In cities where similar fee caps have been imposed, demand for delivery services drastically decreased. This is due to the fact that families have displayed common behavior by choosing to place fewer orders, less frequently. For many restaurant owners, delivery service apps have been heavily relied upon to break even given the financial strain of the pandemic.¹ Not only does this undermine the initial purpose of supporting

¹Kabir Ahuja & Vishwa Chandra, Ordering in: The rapid evolution of food delivery, (Sept. 2021)
<https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/ordering-in-the-rapid-evolution-of-food-delivery>

restaurants, it poses financial risk to drivers who are likely to experience a detrimental loss in wages.

Cities with fee caps saw chain restaurants thrive and independent restaurants decline. After analyzing 14 U.S. cities that have implemented temporary or permanent fee caps, Boston College economics professor Zhuoxin Li and University of Delaware economics professor Gang Wang found national chains fared better while independent restaurants fared worse. The demand for chain favorites in regulated cities was 3.6% higher than in non regulated cities, while independent restaurants were 6.8% lower.² The authors conclude that these changes are likely driven by the increase in delivery fees put on consumers and changes in how platforms market independent Restaurants.

Despite recovery funding, many states across the country, including Massachusetts, continue to grapple with remedies to counter the loss restaurants and businesses have endured. While it may be a common practice, imposing a permanent delivery fee cap misses the mark. The food and service industry has been utterly transformed by the pandemic and we must seek to support carryout, curbside pickup and delivery on demand as the new norm.

Rather than pass this bill, we encourage the Massachusetts legislature to explore opportunities for collaboration among third party delivery providers, restaurants and community members for innovative solutions that will propel communities forward.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jamie Pascal', with a stylized, cursive script.

Jamie Pascal
Director of Civic Innovation Policy
Chamber of Progress

² Zhuoxin Li & Gang Wang, *Regulating Powerful Platforms: Evidence from Commission Fee Caps in On-Demand Services*, (Nov. 2021) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3871514