CLOUD KITCHEN, QUICK-SERVICE RESTAURANTS (QSR) OR CASUAL DINING –

Which Model Suits You The Best?

GLOBAL FOOD SERVICE TRENDS

According to a study in Researchmarkets.com, it has been estimated that the global foodservice market was an estimated **US$ 3.4 Trillion** in 2018. It is expected to reach US$ 4.2 Trillion by the year 2024. Foodservice is the sale of food and beverages that is either prepared for takeaways or immediate consumption/home deliveries. There are three systems of operation in this sector –

i) Conventional system – ingredients are procured assembled, prepared and served in the same premises (Casual Dine Restaurants)

ii) Centralized system – food is prepared in one location and transported to kitchens at different locations or takeaway (ghost kitchens)

iii) Limited menu - Food is sometimes cooked in bulk in advance and kept hot, and is finished and packaged to order (quick service restaurants).

Demand for food varieties along with the options for customization are among the key factors. Consumers are keen on customizing according to their taste, diet and budget preferences. The market is driven specifically by the working force mostly comprised of Millenials who have an increased preference for convenient, hassle-free, hygienic and nutritious food. Combine this with steady technological development (mobile apps), efficient distribution channels and packaging innovations are contributing to this growth. Lastly, socio-economic factors such as increase in women workforce, higher disposable incomes and reduced practice of home-cooked meals have accelerated the growth of this sector.

The story is similar across markets around the world. India specifically has some interesting insight to lend to the growth of this sector. Indians have been earning more and in turn, spending more on food. Compared Globally, Indians spend a high proportion of their incomes on groceries and food (as per **2017**, 31% of the consumption basket is spent on food versus 9% in the US, 17% in Brazil and 25% in China). The food delivery segment is particularly a high beneficiary from this segment.

There is an expected boom in the online food ordering market at around 16% annually that is likely to be in the region of 17 Billion $ by the year 2023 according to a study by **Market Research Future**. This study also points out that 78% of consumers were more likely to order food online purely for convenience. 73% point to the variety available as the reason for ordering online. The hassle-free, convenient model has taken India by storm over the past 5 years with multiple food delivery aggregators (Swiggy, Zomato, Food Panda, UberEats and more) creating delivery models to improve the efficiency, quality, variety and availability to the consumer.

The introduction of multiple food delivery systems/ models has created a healthy atmosphere of competition that pushes the competitors to innovate new ways of food creation and delivery while trying to keep costs low and in turn, improving

margins over time. These innovations have morphed the landscape of the traditional kitchen systems with the advent of technology. The same study showed that 95% of respondents surveyed online food options owing to promos and discounts. Several different models that exist, let's look at the comparative study of the most prominent models – the cloud kitchen, quick-service restaurants (QSRs) and casual dining restaurants (CDRs).

THE CLOUD KITCHEN

A cloud kitchen which is also known as a dark or a ghost kitchen works on the hub and spoke model, it functions as a production unit for preparing food. There is no dine-in facility, there might be takeaway. There can be a centralised kitchen where the food is prepared and delivered to outlets for distribution. The food is distributed through an effective delivery mechanism and orders are taken through food delivery apps mostly. Examples of Rebel foods, EatFit, FreshMenu, Swiggy Access are best associated with this setup.

QUICK-SERVICE RESTAURANTS (QSRs)

The quick-service restaurants is a popular term for traditional fast-food restaurants. McDonalds, KFC, Dominos and Burger King. Menus at QSRs are generally limited and specific, the food is mostly on a takeout or delivery basis. The setup is mostly functional with the chain's branded graphics, adequate seating.

Over time certain companies have adopted the cloud kitchen model in terms of technology for acquiring orders

CASUAL DINE RESTAURANTS (CDRs)

CDR's are mostly the traditional restaurant type with a casual, relaxed ambience and plenty of seating available. The setup is located in one location i.e. the kitchen, the dining and the staff. CDR's is an experience-based dining and customers expect to be seated and eating for a longer period of time versus the previous two models. Examples of such set-ups can be Barbeque Nation, Nando's, Berco's.

Let's look at a quick comparison to understand the differences between the 3 models:

FIRST LEVEL COMPARISON

	PRICE	MENU	TYPE	DELIVERY MECHANISM
CLOUD KITCHEN	Low to moderate pricing (2$ - 8$)	Multiple Cuisines; constantly changing Menu, fresh and frozen ingredients.	No seating, maybe takeaway. Less frivolities	Mostly through a delivery system
QUICK-SERVICE RESTAURANTS (QSR)	Moderate pricing (5-8)	Limited menu, frozen ingredients procured, seasonal or yearly updates to menus	Limited seating, basic setup. Branding chain graphics catering to all age categories	Partially through deliveries and takeaways
CASUAL DINING RESTAURANTS (CDR)	Moderate to High Pricing (8$ - 15$)	Fixed menu, fresh local ingredients	Proper set up for in house dining. Ambience & design is important	No particular system of delivery.

SECOND LEVEL COMPARISON

	LOCATION	STAFF COST	KITCHEN SETUP	MARGINS	PROS	CONS
CLOUD KITCHEN	Located in low footfall areas. Set up as customer demands in the area/zone	The cost will involve a kitchen staff (for a medium to smaller sized kitchen) and delivery set up	Basic kitchen set up with equipment requirements basis the number of cuisines catered to	15% and above	Easy, low cost set up, can be set up in any location	Dependent on a mobile and internet first approach along with 3rd party aggregators (commission based)
QUICK-SERVICE RESTAURANTS (QSR)	Located in medium to high footfall zones.	Larger setup for kitchen staff due to the size of kitchen. Additional staff for clean-up, security etc.	Medium kitchen set up for a specific kind of cuisine. Staff size is larger than QSR's but smaller than CDR's	5-8%	Relatively low cost set up, can have instant brand appeal if connected with a global brand.	Margins lower compared to CK as commissions and running costs are higher.
CASUAL DINING RESTAURANTS (CDR)	Located in high footfall zones to capture the best audience.	Larger set up than QSR	A full-fledged setup to cater to large volumes of seated customers	3-5%	Complete control over business, creating a unique experience is easier.	Capital input is the highest (kitchen, staff, space), marketing (offline and online) requires high spending.

CASE STUDIES

To understand each category better, let us study the best working example of it.

I) REBEL FOODS – CLOUD KITCHEN

Based in India, it was formerly known as Faasos, and rebranded themselves as Rebel Foods. It became the world's largest internet restaurant, creating more than 1000 restaurants in 24 months. Started in 2011 as QSR, it was a no fuss small-joint with a standing area with a table or two.

Owing to headaches of failures of outlets in high rent zones along with data showcasing that **70%** of their customer base had never stepped into an outlet, they shut the outlets', leased low rent spaces to move to a kitchen model with online delivery. This had a twofold effect, rent to sales ratio dropped from **14% to 5%** in the following 2 years. Secondly, the fatigue of finding a convenient location was removed completely.

In 2016, Behrouz Biryani was launched using the same Faasos kitchen and staff. Since it was a pure online creation, the cost of an online launch is super low compared to the perceptions, marketing strategies required to create an offline one. This new concept was piloted in a few kitchens and targeted to customers via 3rd party apps. The cost of feedback and data was fairly low. Within 18 months of careful deliberation and plugging the brand into the national framework, Behrouz had become a **$12 Million** business.

Not stopping there, Rebel Foods continued to expand operations using a multi-purpose cloud kitchen, multi–brand design. By October of 2018, 20 brands had been launched across multiple cuisine categories. Nothing was scaled unless it was a fit in the market. The result? Revenue skyrocketed by 4 times versus 20% growth in kitchen footprint.

According to founder **Jaydeep Barman**, "Food and the business of restaurants is undergoing a structural shift wherein there are two parts — The Brand and The Distribution. It is more efficient if Restaurants focus on brand building, supply chain, culinary innovation, robotics-led process and quality production, and if Aggregators focus on ordering choice, fleet management, drones and other logistics innovation".

II) QUICK SERVICE RESTAURANTS – DOMINOS

Dominos is one of the most recognized brands in the world. Founded in 1960, it competes with the QSR category globally. However over the last two decades, the company has disrupted their traditional strategy, moving to a technology first approach. Competing with local and global QSR brands, Dominos has invested highly in building digital capabilities, data analytics platforms and mobile technologies to set themselves apart from competitors.

The chain has been quick to adapt to local market demands where ghost kitchen models, thin margins and high customer acquisition and retention rates can threaten future business existence.

In India, Dominos was suffering from a drop in sales with the rise in food delivery options along with loss of its USP – food delivery! Combined with a drop in overall quality resulted in a shift for customers.

A strategy was devised with **4 key pillars** — Product Improvement, Seamless Customer Experience, Value for Money and Superior Technology. In fact, they have been partnered with third party delivery aggregators to ensure a wider audience base.

III) CASUAL DINING RESTAURANTS - BARBEQUE NATION

The USP for BBQ Nation has always been the live-grill setting. In the CDR space, costs are higher in terms of setting up since walk-in customers are specifically located in high footfall areas. This experiment was conducted in an upmarket area of India - Pali Hill in Mumbai. The business expanded to 13 more cities by 2011.

In a cluttered CDR space, BBQ Nation stood out from its competitors with prudent pricing, buffet options and live counters. This was a perfect attraction point for large groups, corporates and families. By 2018, BBQ Nation had 117 outlets, expanded into tier two & three cities. The turnover for the company has increased from Rs.184 CR in 2013 to Rs.503 CR in 2017. Profits have doubled in that duration. BBQ's MD, Kayum explains "In India, if you can crack the smaller markets, you can grow multi-fold. After a point, metros will give you a limited market to expand in".

SCALING – REQUIREMENTS & SOLUTIONS

The current challenge for many entrepreneurs is scaling up. While stepping into one of these models especially Cloud/ Ghost kitchens or QSR's has become easier over time with low investment requirements, breaking even and scaling to compete with players is the current challenge.

I) BUILDING A RELIABLE TEAM

Getting in the right kind of people to help with the expanding of operations especially in key positions. Promoting loyal employees to allow them to maintain high standards.

II) MULTIPLE REVENUE STREAMS

Diversify revenue streams to reduce dependence on just one stream. A dine-in doing delivery via a 3rd party aggregator is a good example.

III) KITCHEN AUTOMATION

Currently, there are examples from around the world where robots are replacing certain basic functions in the kitchen. Kitchen automation can address issues of speed, precision, standardisation and scalability. Of course, doubters will question the issue of loss of employment. Observations from leading experts in the field show that the result will always be dependent on the human equation.

Automation would be a more symbiotic relationship to tackle human errors rather than replace humans completely. In turn, processes can generate more employment as scalability would be possible and would mean more employment in areas where lack of technology would not allow players to come in and set up. It will change traditional ways of doing things, it will not take up a human job, and instead, it will shift human jobs.

THE FUTURE?

Ultimately, the decision to pick a model that suits you is dependent on geographical, capital availability situation and skilled labour availability. Setting and scaling up is a long term process that requires patience, sensible marketing strategy and investing in future technology (especially kitchen automation) to stay ahead of the curve and competition. To learn more about kitchen automation investments, click here.

ABOUT MUKUNDA FOODS

Mukunda Foods helps the global food industry fulfil their kitchen automation goals, gain competitive advantage, reduce operational costs and maximize customer satisfaction.

We are the pioneers and end-to-end solution provider in the kitchen robotics space. With our unique business model, we have food brands at the center of our innovation. We partner with brands to custom-create robotic solutions for them, thus automating their food-making process. From identifying their automation requirements to building customized bots that fulfill their technological and operational aspirations, we help brands gain competitive advantage that helps them scale up and succeed.

Our unrivaled domain and subject expertise, and proficiency in emerging technologies like IoT has led to the development of innovative food bots that are and will continue to change the shape of the food industry. We believe that technology and human experience can together create the new era of automation. And we are the frontrunners in this new age.

Mukunda Foods has been frequently honored with technology and entrepreneurial awards – Tech Exchange Winner, Tata First Dot Judge's Choice Winner, Wadhwani Foundation Entrepreneur of the Decade, to name a few.

Trusted by over 2000 outlets in 27 countries, Mukunda Foods has helped companies achieve their financial and business goals. To know more about us, our team and products, please visit www.mukundafoods.com. For business opportunity, please contact Dibyananda Brahma at dibyananda@mukundafoods.com

Contact:
Mukunda Foods Pvt. Ltd., +91-8088496555
Address: Bommnahalli, Hosur Main Road, Bangalore: 560068