Chronicle of a Foodpreneur

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ABSTRACT

Technology has brought about a big change in the operations of restaurant industry. Today most of the urban customers have one or the other online food delivery application (like Swiggy, Zomato, Food Panda, etc.) installed on their smartphones. With ever growing competition in the restaurant business; the experimental nature of customers to try out varied preparations from different joints and the increasing popularity and usage of food delivery services has resulted in lower footfalls at the restaurant and reduced margins for the owners. This case on a family run restaurant named Kuk-du-kuu describes the challenges of running a stand- alone restaurant. Prolonged marketing efforts require finances and short term efforts on the marketing and communication activities do not yield desired results. The increasing popularity of cloud kitchen has drawn the attention of the protagonist, the fitness of which, the readers can discuss for business development of Kuk-du-kuu restaurant. The case illustrates various decisions taken by the protagonist which the readers can discuss from an entrepreneurship and business development point of view

Keywords

Entrepreneurship, Restaurant, Zomato, Business Development, Food Delivery Services, Cloud Kitchen

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Introduction

On a sunny January afternoon of 2020, Bharat, the owner of Kuk-du-kuu restaurant was having a candid discussion with his wife Vineeta about their journey so far in the restaurant business and the challenges they were facing in present times to increase footfall at their restaurant. For the past two and a half decades, the husband and wife had faced many challenges to be successful in this restaurant business. They had always taken various risks and grabbed opportunities from time to time to create a brand of their own. In the present times, owing to the mushrooming of eating joints in the city, it was getting difficult to increase the bottom line of the business. Further, with online food delivery applications like Zomato, Uber Eats, Swiggy etc. gaining popularity and changing the customers' dining-out habits from visiting a food joint to getting home delivery of their favourite dishes at discounted prices or offers, Kuk-du-kuu restaurant also was compelled by market scenario to be listed with these online food delivery service providers. This was further eating up on their profit margin. From a mere 10% in 2016, the online food delivery orders from Kuk-du-kuu restaurant were accounting for close to 43% of the total sales by 2019. However, the footfalls at restaurant was witnessing a steep decline and from 73% business through orders at restaurant in 2017, it had declined to 57% restaurant based sales in 2019. With declining footfalls at the restaurant, the thought which continuously bothered Bharat was how to further build Kuk-du-kuu brand with limited financial reserves which were insufficient for carrying out marketing communications and other brand building activities. He wondered if shifting the business model on cloud kitchen concept would bear better results?

Business Background- Chopstick Restaurant

Restaurant business was not new to Bharat. Since 1990 till 2006, for good 16 years, Bharat and his wife Vineeta were successfully running a family owned Chinese restaurant by the name Chopstick in a very prime locality in the city of Jabalpur (in the state of Madhya Pradesh-India). Owing to the taste and a strong loyal customer base, the word of mouth encouraged people to try out various delicacies offered at this Chinese restaurant and the business grew over a period of time. Along with the business of restaurant, Bharat was also involved in supplying medicines to government bodies. However, with the pressing demands on time of the proprietor, to look at various functions of restaurant business, Bharat finally gave up his pharmaceutical assignment and focused solely on the functioning of Chopstick restaurant. Prior to joining the family business of the restaurant in 2003, Ms. Vineeta was actively involved with an NGO- Gods Ministries run by the chapel of St. Josephs Convent, Jabalpur. However, when the business started growing, Ms. Vineeta had to put her social work engagements as a second priority and contribute more towards the family business. Bharat and Ms. Vineeta had two daughters and all were residing in the ancestral home where two brothers of Bharat were also residing with their families. As the business flourished, the families of the brothers of Bharat started being more spendthrift and being the youngest sibling, Bharat and his wife could not raise any objection. They were pained but could not resist the continuous demand for money for wasteful expenditures like parties, foreign trips etc. Bharat felt like leaving the city and settling in some other place but this decision was not at all easy, as, setting up business from scratch and establishing a good customer base in a new location involved high risks.

The taste of the dishes at his restaurant was so good that it had customers from nearby cities too visiting it. Among the elite customers of Chopstick were Mr Chhabra and Mr Anand from the city of Indore in Madhya Pradesh which was 520 Km away from Jabalpur. Chhabra had delivered landmark projects under multiple disciplines like malls, hotels, business parks etc. while Anand was the owner of the very famous Anand Jewellers at Indore. Whenever Chhabra and Anand used to visit Jabalpur, either for business or to meet up their relatives, a visit to Chopstick restaurant was a must. It was during such visits that they became friends with Bharat and used to always suggest him to start his restaurant in Indore, which was an industrial city with higher customer purchasing power unlike the city of Jabalpur. During the same time, Akbar Khwaza, a very good friend of Bharat had offered him the franchisee of US Pizza, provided, he shifted his base to the city of Indore. In 2005 big malls were coming up in Indore and the businessmen and industrialists were seeing good business potential of the city. BCM heights was one such real estate residential cum shopping complex project and in one of his visits to Indore, Bharat, with a dream of starting afresh in a new city with higher potential, explored the possibility of investing in shop floor in the project. This decision would also help him move out of the ancestral home and his siblings without further straining his relationships with them. In December 2005, Bharat sold out his Chinese restaurant and invested 85Lacs, of which, 55 lacs were through a bank loan, to purchase 3 shop spaces and a residential apartment for his family to shift to Indore from Jabalpur. Two shop spaces were combined to make a bigger shop space while plans were to rent out the third shop space. In April 2006, Bharat shifted his base to Indore with his family and within a year the third shop space was sold out to pay up the loan taken from the bank.

Restaurant Operations @Indore

Bharat took the offer of Akbar Khwaza and started the operations of US Pizza in 2006. It was the 83rd operational outlet of US Pizza in India. The operations were on a 35/65 investment arrangement where 65% of the investment was from company's side. Despite the presence of Pizza Hut and Dominos Pizza chains in the city, US Pizza caught on really well with the customers. The unique offerings of unlimited pizza, salad assortments and garlic bread at Rs. 99/- was the hot selling offering at US Pizza. Even when the prices of this offering went up to Rs. 135/- in 3 years' time, it was still a budget option for the youth where they received value for money. During this three years' span, Bharat had taken franchisee of US Pizza in the city of Bhopal as well, which was 200 Kms away from Indore. Getting into the operations of US Pizza taught a lot to Bharat about the nuances of running a restaurant business - be it sourcing of vegetables, bakery items, other raw materials, compensating chefs and workforce or coming up with interesting meal combo offers and pricing them such that margins are not compromised. Although earnings were good (close to Rs. 3 lacs per month), the capital contribution of Bharat being only 35%, a large chunk was draining away to the franchisor, partly as royalty and partly towards paying up towards the 65% contribution of the franchisor. Further as time progressed there were disagreements between the company and Bharat, related to some policies, because of which he decided to discontinue the franchisee of US Pizza both in Indore and Bhopal in 2011. Since the franchisor of US Pizza had invested capital in the interiors and branding of the shop space, Bharat had to pay a sum close to Rs. 20 Lacs while settling accounts with them.

In 2011, the premises were leased out to Maxim Pizza. This restaurant however did not click well with the customer taste and had to shut down its operations in 2013. For a brief period between 2013-2014, the premises were rented out to Smokin' Joe's Pizza, which offered assortments of Pizza, salad and garlic bread. This too did not last long and in 2014, the shop space was given on lease to Jaiswal, a close friend of Bharat who despite being new to the restaurant business, wanted to experiment and start a restaurant by the name of Kuk-du-kuu Club. Bharat had agreed to help him out with his know how of running the restaurant business.

Shift to Bakery Business & Its Challenges

The not so good experience with running the franchise of US Pizza was the sole reason for Bharat and his wife for not starting a restaurant of their own and giving the shop space on lease. However, relying solely on rental income of the shop space was never the plan behind shifting to Indore. In the past, when Bharat was involved in the operations of US Pizza, he was receiving offers from INOX Multiplex to become a supplier of bakery items to be sold during the intermission of movies. At that point of time he had brushed aside the proposal as he was having no time or resources to spare for this idea. It was in 2011 when the shop was leased out to Maxim Pizza, that Bharat revisited the proposal of supplying bakery items at a nearby multiplex and took a shop space on lease in the locality of Basant Vihar which was close to BCM Heights. This facility was to be used for making bakery items like pastries, cakes, patties, burger and samosa to be delivered to nearby multiplex. Further, being close to BCM heights, Bharat could frequently visit his friend Jaiswal, who depended on Bharat for branding advice for Kuk-du-kuu Club. Bharat also helped Jaiswal in pricing of various items and in doing digital marketing for customer acquisition. The bakery at Basant Vihar had its own challenges in terms of complying with the strict quality standards set by the multiplex. The biggest challenge however was in supplying the items at a very short notice of about 2 hours. The placement of orders by the multiplex owners was based on the sale of items during the movie breaks. The quantity ordered for different items varied, depending upon the sale of items in the previous show of the movie. This required Bharat and his wife to always be on their toes to cater to the changing demand pattern after each show. It also restricted them to pre-plan their inventory and gave them no time to focus on either expanding or diversifying their business. During the same time period, Ms. Vineeta received business proposals for setting up their bakery outlet, one at the club house of a newly constructed residential society which was far away from the city and the second one was from Indian Institute of Management-Indore(IIM-I), which was again located in the outskirts of the city and being a residential educational institute, the students had to be provided with some additional food options apart from the routine mess facilities. Juggling between four assignments: one- supplying at Multiplex, two- setting up bakery outlet in a residential society, three-supplying items at IIM-I and four-helping Jaiswal set up Kuk-du-kuu restaurant was very difficult and was taking a toll on the health of both husband and wife.

From Kuk-du-kuu Club to Kuk-du-kuu

Kuk-du-kuu club kept struggling for customer footfalls. Bharat kept pointing out to Jaiswal about certain branding mistakes which Jaiswal was reluctant to accept. First problem was the name of the restaurant. The name Kuk-du-kuu Club was perceived as a place where customers were required to take a club membership and therefore the diners were not prompted to explore the joint. Very few actually would reach out to the reception of the restaurant to explore about club membership and upon learning that the word Club was just a part of name of restaurant, some customers would actually try out the dishes. Further, although the restaurant offered both vegetarian and non-vegetarian dishes the brand name Kuk-du-kuu with a picture of cock was perceived primarily a non-vegetarian restaurant (refer to Image 1).

Image 1: Kuk-du-kuu Club

Sourced from the restaurant owners by authors

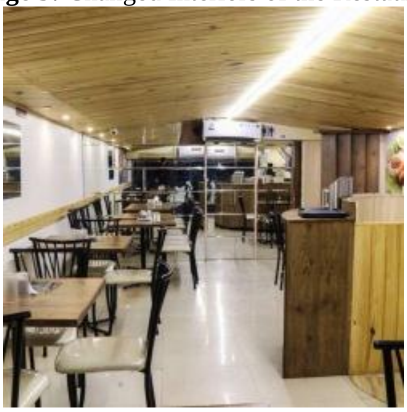
This repelled the vegetarian customers and also customer groups where having a mix of vegetarians and non-vegetarians preferred to visit other restaurants which offered a mix of dishes. The second mistake was using dark red theme in the interiors of the restaurant and pasting wall paper on the big glass window which overlooked the big parking space in front of the shopping complex of BCM heights where customers usually either waited for friends to arrive or just looked at various eating joints to decide upon which one to dine at. The dark red theme adopted for the interiors of the restaurant did not give an open and spacious feel to the restaurant and also the big glass frame which was covered with wall paper obstructed the view of both customers who were seated in the restaurant and those who entered it. It therefore generated a feeling of suspicion and repelled many customers from entering the restaurant. The ultimate result was that the restaurant was mostly occupied by those customers who lacked polished mannerisms. With continuous fall in the customers coming to Kuk-du-kuu Club, Jaiswal could not sustain the restaurant operations and finally decided to shut down the restaurant. It was then, that Bharat and Vineeta decided upon running the restaurant themselves. They decided on retaining the name of the restaurant with a slight modification that the restaurant was now called Kuk-du-kuu (Image 2) instead of Kuk-du-kuu Club.

Image 2: Kuk-du-kuu Restaurant Logo

Sourced from the restaurant owners by authors

The wallpaper on the big glass window which blocked the view of the customers was removed and the interiors of the restaurant were redesigned to give an essence of openness (Image 3).

Image 3: Changed Interiors of the Restaurant



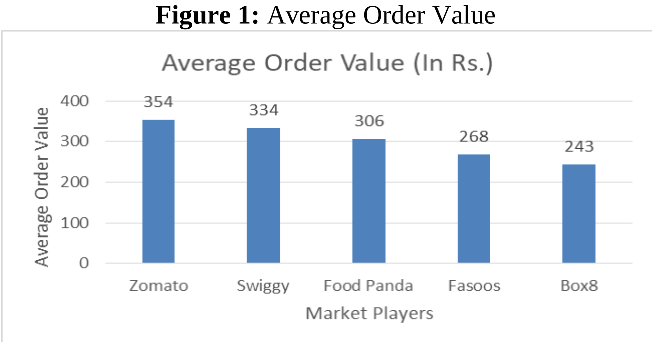
Sourced from restaurant owners by authors

Bharat sourced good cooks from restaurants in Delhi and got them to work for him by offering higher pay and better work conditions, so that there was no compromise on the taste and quality of the food. He also travelled a couple of times to China to source machinery for doing batch production for chapatis and for bakery related functions.

Online Food Delivery- Changing Restaurant Business Scenario

Technology has brought about a big change in the operations of restaurant industry. Today most of the urban customers have one or the other online food delivery application (such as Swiggy, Zomato, Food Panda, Fasoos etc.) installed on their smartphones. As represented in Figure 1, the average order value on Zomato is of Rs. 354 followed by Rs. 334 for Swiggy and Rs. 306 for Food Panda

Figure 1: Average Order Value



Source: Inc42+: The Cloud Kitchen Market Opportunity Report 2019 (Recreated by Author)

Further, easy payment options using net banking, credit card, debit card, e-payment wallets and even cash on delivery have simplified the food ordering process. The customer can also track his/her order right from the stage of placing the order, to the order being prepared, being picked up by the delivery personnel and till the point it is finally delivered to the customer. The purchasing choices for food items of present day customer using online platform have been found to be governed by ratings and talks and discussions on online platforms. Exciting offers on these apps such as combo meals, buy one get one dish free, discounts on large orders, membership discounts etc. have prompted customers to order food using these apps. The display of dishes in the menu, quick delivery, hygienic packing of order, customization of order and finally the convenience to compare dishes, offers and menu from different restaurants on a single platform are some more factors which have led to the adoption of online food delivery applications (Singh, 2020). Customers are benefited by online food services apps as they can choose a restaurant based on the cuisine specialty and can even reserve tables by viewing the location and ambience of the restaurant beforehand. Furthermore the customer feels more empowered as he can post his positive or negative reviews based on the experience and these reviews are a matter of great concern for the reputation of the restaurant (Salunkhe & Singh, 2019).

Bharat started comparing the profit and loss statements for his restaurant for the FY 2017-2019. Although the sales revenue was increasing year on year, the thing which troubled him was that the footfalls at restaurant were decreasing and there was a steep decline in the sales at restaurant. The sales from online food delivery however had increased from 10% of the total sales in 2016 to 43% of the total sales by 2019. The sales from dining at restaurant had witnessed a steep decline from accounting for 73% of the total sales in 2017, to 57% of the total sales in 2019 (refer to table 1).

Table 1: Summarised Profit & Loss Statements- Kuk-du-kuu

Summarised Profit and Loss Statements			
	FY 2017	**FY 2018**	**FY 2019**
Revenue			
Online Sales (Zomato,Swiggy)	6,58,500	10,39,210	15,40,912
Less Commission to Online food delivery providers	1,18,530	1,97,450	3,39,001
Restaurant Sales	18,03,245	18,69,751	20,38,570
Net Sales	**23,43,215**	**27,11,511**	**32,40,481**
Expenses			
Salaries & Wages	5,45,500	6,37,450	6,45,231
Utilities (Electricity, water, internet, phone etc.)	1,86,050	2,39,659	3,57,138
Grocery &Perishable Items (vegetables, meat, fish etc.)	4,67,000	6,56,786	8,25,000
Maintenance	43,467	35,140	52,256
Licence cost	7,500	7,500	8,000
Cost of Goods Sold	12,49,517	15,76,535	18,87,625
Net Profit	**10,93,698**	**11,34,976**	**13,52,856**

Sourced by author from restaurant owner (Figures are close representation of actual figures)

This analysis was making Bharat ponder on the shifting consumer behavior towards dining-out. Delivering food through zomato, swiggy etc. resulted in reduced margins as the restaurants were charged a commission ranging from 15% to 23% depending on the average order value, geographic location of the restaurant and delivery costs. The online food delivery providers usually entered into a 11-month contract with the restaurant owners and fresh negotiations on commission are carried out at the time of renewal of the contract. They at times also pressurize the restaurant owners to provide promotional schemes to the customers. Kuk-du-kuu had paid 18% commission to online food delivery provider in 2017 and in 2019 the commission paid was to the tune of 22%. Bharat wanted to pull customers to his restaurant and not just order online for various dishes. He strongly believed that dining at restaurant gives a completely different experience as compared to getting the same dish packed and delivered at doorstep. Further, he did not want his restaurant business to day by day be dependent on the online food delivery companies. Till date, Bharat had not spent on marketing communications, for the sole reason of the steep financials involved in advertising. He was instead interested in getting associated with some youth activities wherein he could create awareness and attract the crowd to his restaurant. Another buzz in the restaurant industry was cloud kitchen.

Cloud Kitchen

Rising competition and advancement in technology had made the food space quite volatile and of late Bharat was hearing a lot about the concept of cloud kitchen. The high real estate costs, high operational cost, thinning margins coupled with customer preferences for online food delivery had led to the conceptualization of delivery-only restaurants or cloud kitchens. These cloud kitchens, also known as dark kitchens, ghost kitchens, satellite restaurants or virtual restaurants are gaining popularity in Food and Beverage (F&B) space. Bharat started reading more about what the concept of cloud kitchen was and how it functioned. He came across a report published by Goldstein Research according to which, the global cloud kitchen market was valued at USD 700 million in 2018 and was expected to grow at a CAGR of 17.25% through the forecast period of 2017-2030 (Goldstein Research, 2020). While major food aggregators like Swiggy, Zomato and Ola Foodpanda have reshaped the dynamics of the restaurant delivery system, newer concepts like cloud kitchens are further revolutionizing the space.

The cloud kitchen model has three major players in the value chain: kitchen infrastructure providers, cloud kitchens themselves and food aggregators. Kitchen infrastructure providers give the kitchen space on rent wherein multiple restaurants are under one roof and share everything from kitchen space to walk-in fridges to utensils to pick up counters. There is a significant amount of saving in terms of the capital expenditure required in traditional restaurant business. Service providers like Uber eats, Swiggy, Zomato then pick up the orders and deliver to the customers. Their service charges range between 15% to 35% which is charged as commission from restaurants. Another report published by Inc42 stated that the total funding raised by foodtech startups between 2014 to H1 2019 was close to $2.93Bn and is projected to be a business opportunity worth $1.03Bn by 2023. Rebel Foods was the largest cloud kitchen company in India, while Zomato and Swiggy made up 63% of the total market share in food delivery as per the app installation data.

What started as a simple model of delivering food to the consumers is now in the second phase and the companies which were launched to fill the food delivery gap have started entering the kitchen as well with the cloud kitchen model. In India unicorns such as Swiggy and Zomato have launched kitchen infrastructure services. Foodpanda, the online food ordering and delivery company acquired Holachef Hospitality, a food-tech startup based out in Mumbai. This acquisition empowered Foodpanda to enter the cloud kitchen market and launch their own range of products in different categories and cuisines. The surge in user acceptance of cloud kitchens through brands such as Fassos, Freshmenu and many others were making the traditional restaurant business model look obsolete (Inc42, 2019).

Though Zomato entered the industry in 2008, it was with FreshMenu that it first tested and validated the concept in 2014. Later, players like Faasos and Ola Foodpanda joined the bandwagon. Oyo Rooms too have announced its entry into the cloud kitchen domain. The budget hospitality brand is, currently, doing a pilot of its first cloud kitchen under the Adrak brand. The Future Group is also mulling to enter the cloud kitchen business. Cloud kitchens work on a hub and spoke model and deliver food at the customers' doorsteps. They need low capital expenditure as dine-ins are a strict no. This way the restaurants can save money on furniture, rent and miscellaneous services. Many small businesses, initially, take up the route of cloud kitchen formats to enter the restaurant industry. The cloud kitchen franchise model helps lower the rent-to-sales ratio for a brand and the cost of manpower and rentals decreases. In addition, it also reduces the product price for the consumers. Rebel Foods, which operates 160+ cloud kitchens with brands such as Faasos and Behrouz Biryani, delivered kitchen sales growth of more than 75% in FY18 as compared to the industry average of 10-15% SSG (Khan, 2019).

The report by Inc42 highlighted that the higher dependence on the food delivery platforms such as Zomato, Swiggy etc. could make this segment more vulnerable to lower customer satisfaction due to delayed deliveries and damaged food in transit- in which cloud kitchens themselves have no say and this could be a potential risk for the cloud kitchens in long run. (Inc42, 2019).

Some other risks associated with the concept of cloud kitchen were the lack of direct customer interaction, lack of brand visibility, delivery startups also entering the cloud kitchen and finally the skewed adoption rate of the cloud kitchen concept as there is no physical restaurant for a customer to refer to while placing orders (Refer to figure 2)

Figure 2: Risks Associated with Concept of Cloud Kitchen

Source: Source: Inc42+: The Cloud Kitchen Market Opportunity Report 2019 (Recreated by Author)

Bharat had following thoughts going on: How could he increase the awareness and association of his restaurant in the present times when the footfalls in his restaurant are falling owing to the home delivery services offered by zomato, swiggy etc.? Should he change his restaurant to a cloud kitchen concept?

Questions

1. Discuss which entrepreneurship theory(ies) best fit in this case. Give justifications
2. Critically review the various business development decisions taken by Bharat.
3. Discuss the pros and cons of franchisee option for a restaurant business. Was Bharat's decision of renting out the shop floor correct?
4. With limited financial reserves how can Bharat (protagonist) increase the customer awareness and association for his restaurant- Kuk-du-kuu. Suggest some business development strategies.

Looking at the increasing business from online food delivery, should Bharat to get into cloud kitchen

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