QUICK SERVICE RESTAURANTS IN INDIA

2011

Objectives

- To identify existing opportunities in the Indian QSR space

- To summarize the macroeconomic environment of the industry

- To explain the working of a QSR

- To indicate the current trends

- To summarize key player profiles and understand their positioning vis-à-vis one another

- To understand the challenges faced by QSRs in an emerging market like India

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Contents

Executive Summary

- India is witnessing rapid urbanization of small towns and growth of mid-sized cities. This along with rising population in key metros and higher disposable incomes is fuelling growth in every industry. 35% of India's population will be in urban centres by 2020 totaling to 53 crores compared to the current urban population of 32 crores.

- Consumer markets are being driven by the country's youth population. Be it college goers or the young working class, exposure to the international environment and culture, has created a demand for world-class products at affordable prices.

- This has led to the rise of Quick Service Restaurants (QSRs) in India, the fastest growing segment in the eating out market. By 2012, there will be at least 2000 more QSR outlets across India.

- With QSR giants like Starbucks and Dunkin' Donuts yet to foray in the market, there is a lot to look forward to.
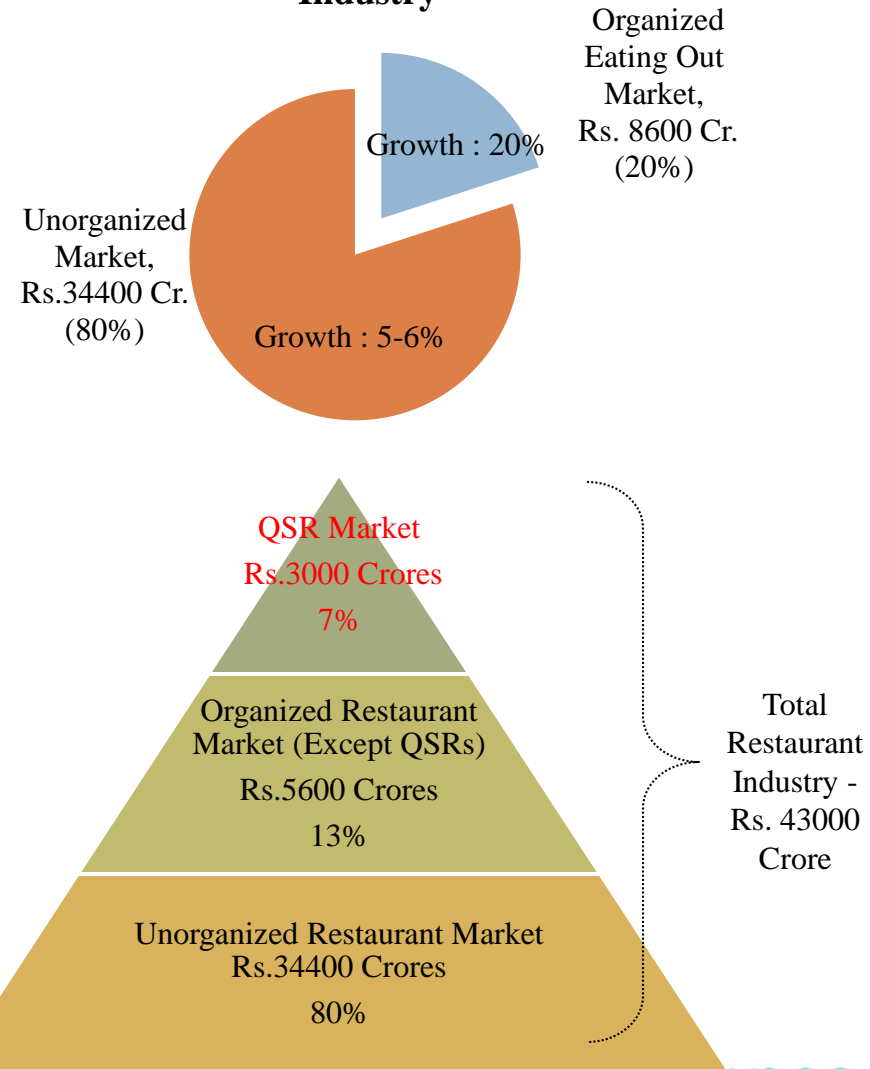
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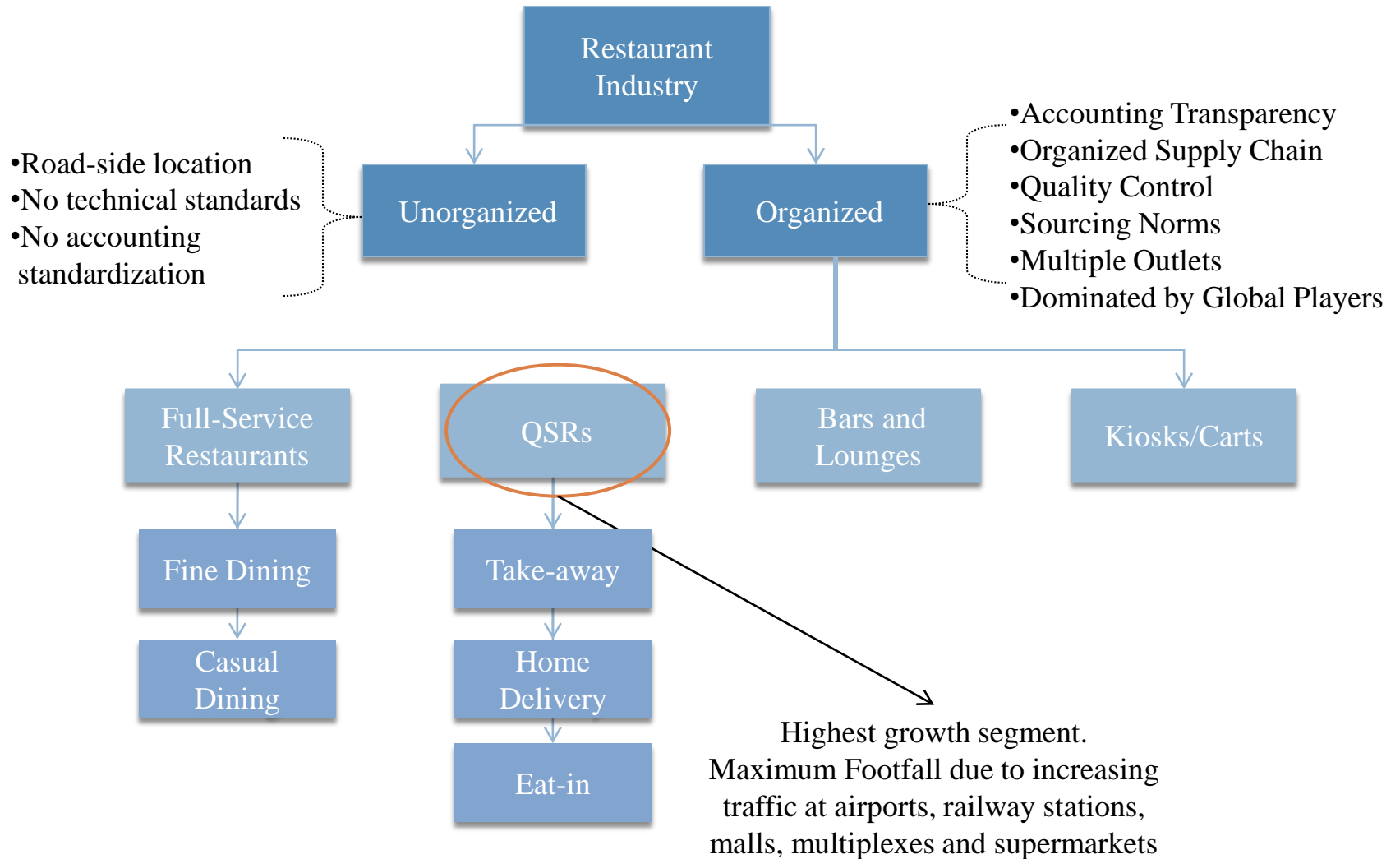HOSPITALITY ADVISORY SERVICES

Industry Overview

- The Indian fast food market is growing at an annual rate of 25-30 per cent, Foreign fast food chains are aggressively increasing their presence in the country.

- The market is dominated by global brands like McDonalds, KFC and Dominos specially in the organized fast food segment. Growing trend of consumption of new cuisines and increasing brand awareness has led to the increase of global players. The new age Indian consumers have also played a significant role.

- Organized modern formats like malls, multiplexes and food courts have also become a favoured destination. Larger companies are teaming up with small franchisors to set-up their brand.

- QSRs started with big metros, but are now building their presence in Tier 2 cities like Pune, Ahmedabad, Chandigarh and Bangalore.

Estimated Size of the Indian Restaurant Industry

Organized Eating Out Market, Rs. 8600 Cr. (20%)

Growth : 20%

Unorganized Market, Rs.34400 Cr. (80%)

Growth : 5-6%

QSR Market Rs.3000 Crores 7%

Organized Restaurant Market (Except QSRs) Rs.5600 Crores 13%

Unorganized Restaurant Market Rs.34400 Crores 80%

Total Restaurant Industry - Rs. 43000 Crore

Sources: *www.nrai.org,, www.rncos.com*

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Market Segmentation

```
                    ┌──────────────┐
                    │ Restaurant   │
                    │ Industry     │
                    └──────┬───────┘
              ┌────────────┴────────────┐
   ┌──────────────┐              ┌──────────────┐
   │ Unorganized  │              │ Organized    │
   └──────────────┘              └──────────────┘
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•Road-side location
•No technical standards
•No accounting standardization

•Accounting Transparency
•Organized Supply Chain
•Quality Control
•Sourcing Norms
•Multiple Outlets
•Dominated by Global Players

Full-Service Restaurants	QSRs	Bars and Lounges	Kiosks/Carts
Fine Dining	Take-away		
Casual Dining	Home Delivery		
	Eat-in		

Highest growth segment.
Maximum Footfall due to increasing traffic at airports, railway stations, malls, multiplexes and supermarkets

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Growth Drivers

25% of population eats out at least twice a month and spends Rs.150-Rs.500 / meal

GROWTH DRIVERS

Expanding Middle Class

Urbanization

Youth Spending

Nuclear families

Better logistics

Mall and Multiplex boom
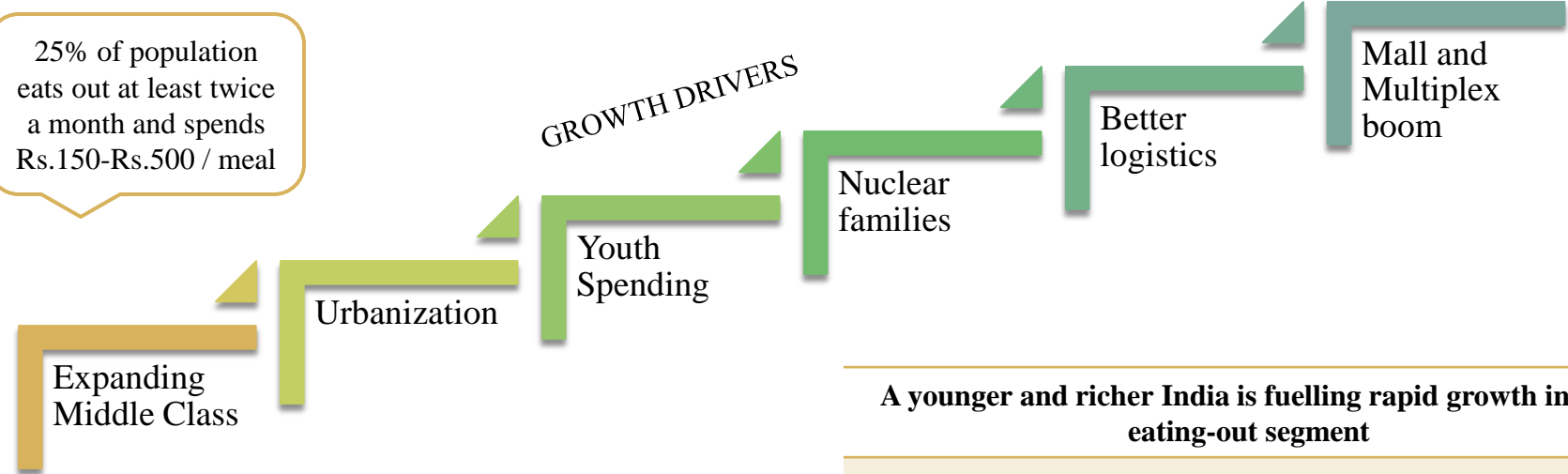
Household Distribution By Annual Income

- 1%
- 2%
- 11%
- 86%

- 2%
- 5%
- 29%
- 64%

- Affuent
- Upper Middle Class
- Lower Middle Class
- Bottom of the pyramid

2010   2020
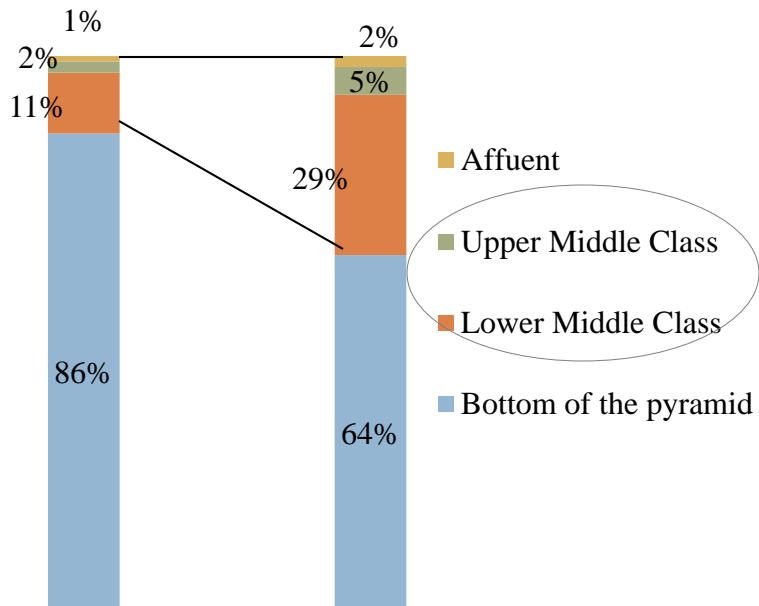
A younger and richer India is fuelling rapid growth in the eating-out segment

Total population of Gen Next (13-24 Age Group)	300 million
Total population of Gen Next living in urban areas	29.5 % or 88.5 million
Key consumption areas	Clothing & accessories, Food, Entertainment and durables
Spending Power	Rs.3000-40000 per month
Urban youth behaviour	• Socially active • Hangs out at coffee shops and malls • Prefers to be seen at the right places • Expresses one's identity through choice of brands consumed

Sources: *Marketing Whitebook 2011-12, Economic Times, MGI*

Maintaining Consistency in product and quality of service are the biggest challenges faced by QSRs

Challenges

Demand Side	Supply Side	Talent	Supply Chain
Health and hygiene concerns among buyers	Maintaining Quality of Service	Acquiring Key Talent	Building a cost-effective supply chain
QSR customers are very easy to sell to, but also very easy to lose	Localization of Menu	Managing high attrition rate amongst junior level employees	Establishing a supply chain in a new region
Beating local competition	Standardization of product across outlets		Monitoring quality of products procured from third parties
Low entry barriers	Monitoring multiple outlets		
	Reducing service time – efficient assembly line		

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SWOT Analysis

STRENGTH

- Risk-sharing in a franchise based model
- Abundance of cheap labour in India

OPPOTUNITIES

- Burgeoning middle class
- Increase in malls and multiplexes
- Increasing youth spending
- Urbanization

Positive

WEAKNESS

- Sourcing Talent
- Monitoring franchisees
- Maintaining quality standards across outlets
- Understanding Indian tastes

THREATS

- Food Inflation
- Product imitation
- Price Competition
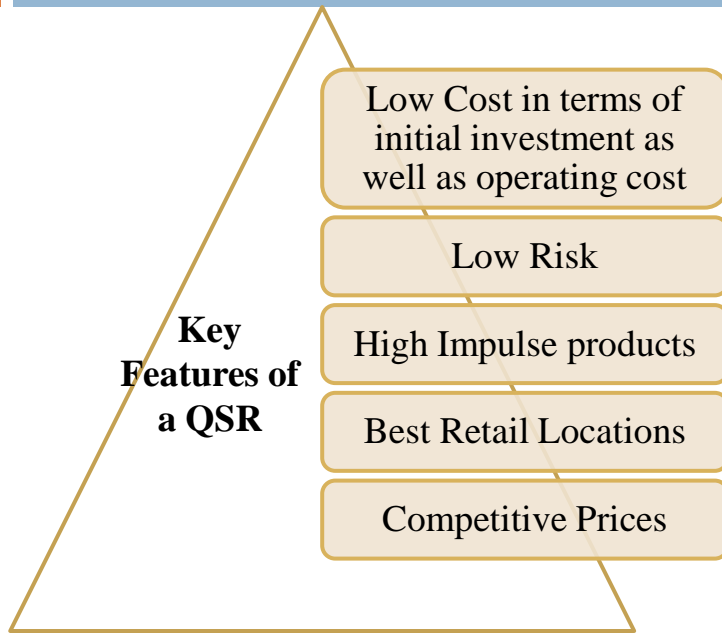- Dependency on third parties
- Local Competition

Negative

Internal Factors

External Factors

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Urban Youth Make Up The Prime Target Audience

Key Features of a QSR

- Low Cost in terms of initial investment as well as operating cost
- Low Risk
- High Impulse products
- Best Retail Locations
- Competitive Prices

Target Audience Behaviour

Hygiene & Taste conscious

Brand conscious

Westernized culture

Seeking international standards

Value seekers

Experimental

Particulars	Target Audience Profile
Category	Young Urban Professionals on the move
	Teenagers
	Students
	Multiplex audience
	Shoppers
Age group	16-35
Location	Cities and towns
Social Class	Middle and Upper Middle Class
Lifecycle	Dependent and Pre-Family*

based on Sagacity Lifestyle Model

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Working of a QSR

Brand Image, Ambience and Overall Experience are important intangible factors for QSR customers

- A QSR is meant to create instant interest in the mind of the consumer. It has to have

  - Mass appeal

  - A characteristic ambience

  - A unique experience

  - A strong brand identity

- One cannot find Ronald at any other burger joint except McDonalds.

- The service, which is the only human touch, plays a big role in creating a unique experience. A lot of time and resources are spent on training the staff ,as they represent the brand. KFC employees are expected to live up to their 3 F's to create to perfect environment – Fun, Friendly and Familiar.

- In an effort to maintain the same experience across outlets, the service, interiors and menu items are standardized .

Intangible parameters that make a QSR successful

Brand

Experience ⟷ Ambience
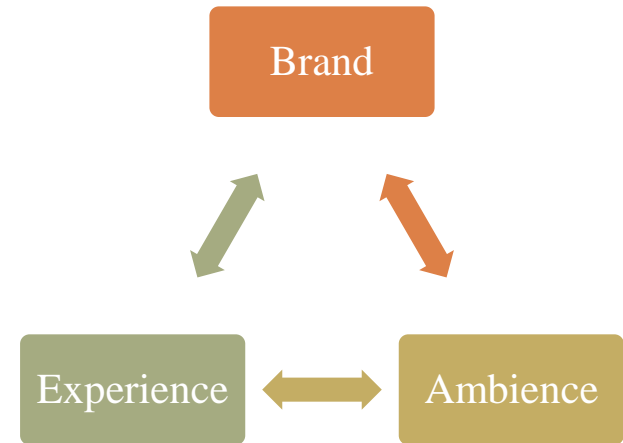
QSR Formats and Locations

QSR FORMATS

- Restaurants
- Food Court Counters
- Kiosks/Food Carts
- Take-away/Delivery
- Drive-ins

LOCATIONS

- Malls
- Tourist hubs
- Corporate hubs
- Shopping Centers
- Multiplexes
- Airports/ Railway Stations

Case Study – Dominos India

60 international markets

9000+ outlets worldwide

400 million pizzas sold each year

364 outlets in India

9000 employees in India

Jubilant Foodworks Ltd. operates the 364 Dominos outlets in India, pursuant to a Master Franchise Agreement with Domino's International, which provides them with the exclusive right to develop and operate Domino's pizza delivery stores and the associated trademarks in the operation of stores in India, Nepal, Bangladesh and Sri Lanka. The pizza stores in Sri Lanka are operated by their sub-franchisee, DP Lanka.

It is the largest Pizza chain in India, way ahead of its immediate competitor Pizza Hut with 50% of market share in the Indian Pizza market and 70% market share in the home delivery market.

Source: dominos.com, dominos.co.in, reuters.com

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Case Study – Dominos India
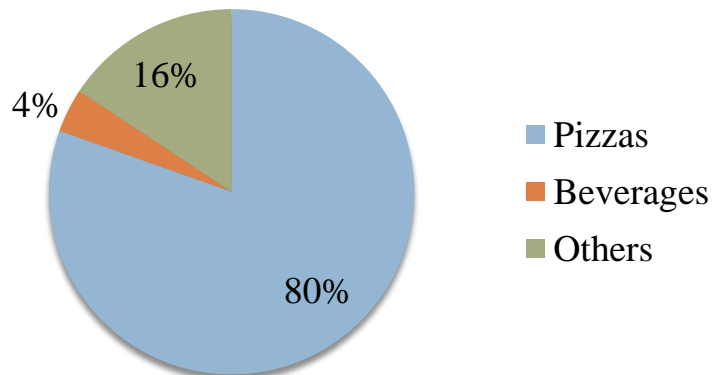
Market share in the Indian Pizza market – 50%

Market share in the home delivery segment –70%

80% of their sales come from the Pizza segment, and the remaining is attributed to beverages and side items.
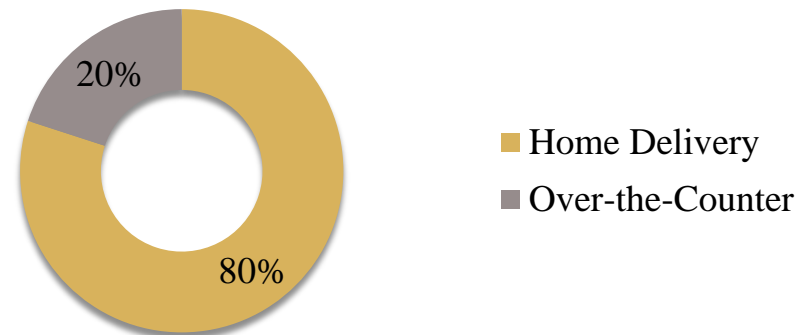
80% of sales come from home delivery and 20% from OTC sales.

Particulars	
Sales Per Day Per Outlet	Rs.56600
EBIDTA margin (9M FY2011)	18%
Same Store Sales Growth (9M FY2011)	38.7%
Market Share	65%

Sales Break-up: Cuisine-wise

- Pizzas
- Beverages
- Others

16%
4%
80%

Sales Break-up: Segment-wise

- Home Delivery
- Over-the-Counter

20%
80%

Source: indiainfoline.com, dominos.co.in
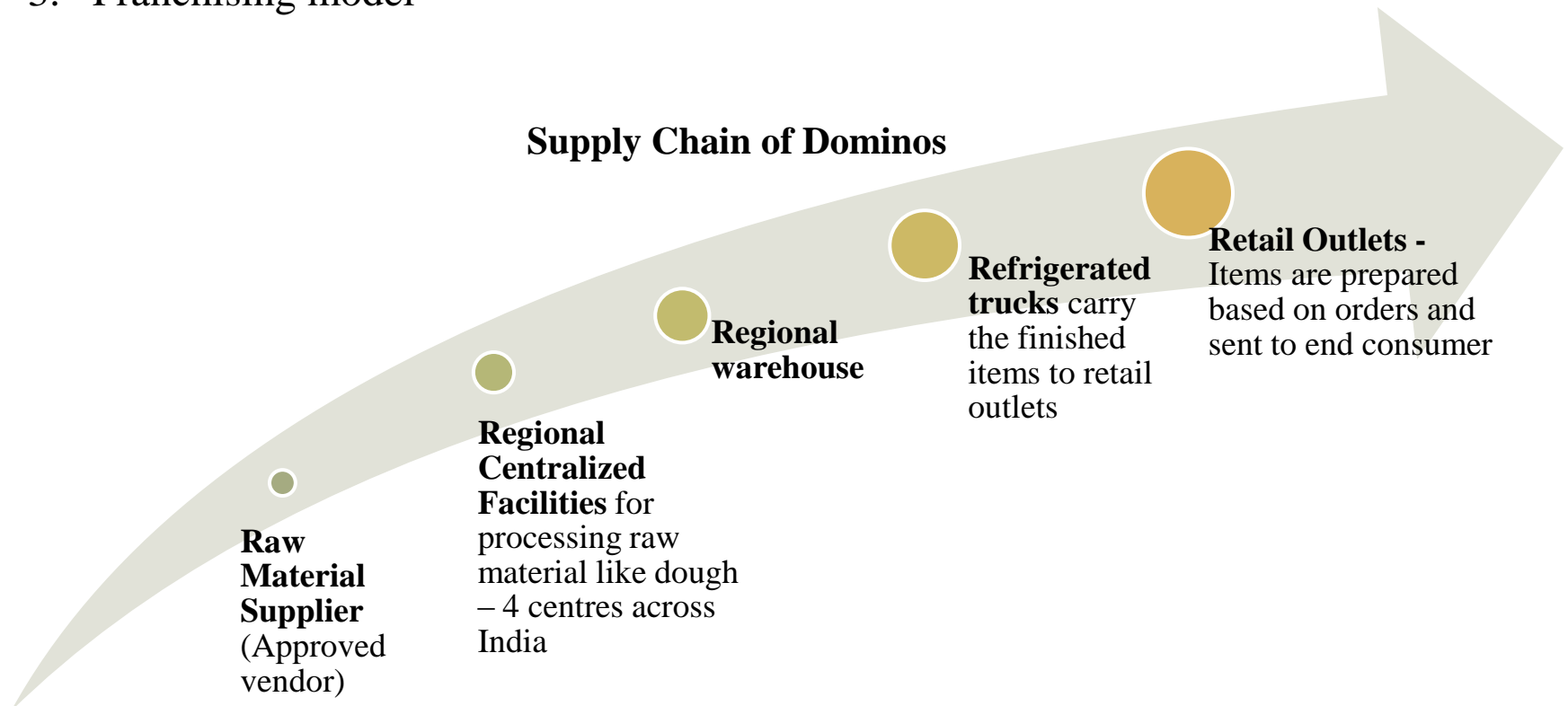
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Critical Success Factors of Dominos India

Critical Success Factors

1. Delivery-oriented model reduces cost

2. Dominos has a vertically integrated supply chain. (as seen below)

3. Franchising model

Supply Chain of Dominos

Retail Outlets - Items are prepared based on orders and sent to end consumer

Refrigerated trucks carry the finished items to retail outlets

Regional warehouse

Regional Centralized Facilities for processing raw material like dough – 4 centres across India

Raw Material Supplier (Approved vendor)

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Trends and Future Prospects

Big brands – Small cities – Small formats

Locations

- Large chains expanding to smaller cities
- Domestic chains setting up in big cities

Formats

- Express Outlets
- Smart Carts/Kiosks

Cuisines

- Basic street Foods entering organized market – Vadapav, Ice Gola
- Regional cuisines– Kebab Lucknow Wale, Malwaneez
- Integration of concepts – so Mcdonalds serves coffee and CCD serves sandwiches
- Menu diversification by introducing Indian flavours – Chicken TandooriSub at Subway

Technology

- Online ordering systems
- IVR system for placing order and making payment via Credit Card

Kiosks have managed to attract huge footfalls at sales points. Even big chains are now customizing their outlets to smaller models like 'express' and 'stand-ins'

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Investors are queuing up to get a big slice of the pie

- With the number of QSRs growing at 30% per year, the industry is attracting investors' interest, especially after the IPO of Jubilant Foodworks, the master franchise of Dominos Pizza in India

- ICICI Venture acquired 10% stake i.e. $55 Million in Devyani International who is the franchisee of KFC, Pizza Hut and Costa Coffee in India

- Also Mast Kalandar, a Bangalore-based QSR chain, secured a second round of investment from Helion Venture Partners, Footprint Ventures and Salarpuria Group.

- Chinese cuisine QSR Yo! China received funding of $5.5 Million from Matrix partners

- Accel Partners invested in Bangalore-based fast food chain Kaati Zone.

Source: vccircle.com

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QSR giants Dunkin Donuts and Starbucks set to foray into the Indian market

- **Dunkin' Donuts**- Jubilant FoodWorks is to develop, sub-franchise, and operate more than 500 Dunkin' Donuts restaurants throughout India over the next 15 years. The first Dunkin' Donuts locations are expected to open by early 2012. The Agreement marks the largest international store development commitment in Dunkin' Donuts' history.

- **Starbucks** – Tata Coffee is to bring Starbucks , the world's largest coffee chain to India through a Joint Venture

- **Quiznos** – The US-based subway restaurant chain has signed a master franchise agreement with Arjun Valluri for setting up outlets in Southern India.

- **BannaStrow's** – A 4-unit franchise concept that serves Crepes, smoothies, coffee and salads. The company is interested in a master licensee for Mumbai, Hyderabad and New Delhi or a master licensee for All-India

- **CKE Restaurants** – With 325 outlets already, the company wishes to identify area developers in India

- **Focus brands** – A multi-brand food service company and QSR franchisor that has 3200 franchised units. They wish to identify potential Master Licensees and Area Developers

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- www.dominos.co.in

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- Franchiseindia.com

Newspapers

- Deccan Herald
- Economic Times
- Business Standard
- DNA

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About D'Essence

Our Services

D'Essence Hospitality is Boutique Management Consulting firm based in Mumbai which provides specialty consulting services for the entire spectrum of the hospitality industry with a special focus on hotel operators, builders and investors

- **Feasibility Studies**

  - Market Viability   Management Model Viability

  - Technical Viability   Economic and Financial Model Viability

  - Business Model Viability   Exit Strategy Viability

- **Site Analysi**s - We have vast experience in project planning & site selection. In many cases it has been seen that planners & architects normally look into a project from design and land-use perspectives. But we do detailed site and market analysis to determine the viability of the project from financial and investment standpoint.

- **India Entry Strategy** - We help our clients to develop suitable market entry strategies through analyzing entry barriers (ease), geographical factors, incumbents' resistance and routs to market.

- **Management Contracts** - Branded operators have very stringent clauses in the contracts. To deal with them needs deep understanding of the domain and effects of each clause on the profit margins. D'Essence Hospitality Services makes full use of its expertise in understanding the management contracts and negotiating it for best acceptable terms.

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Our Services

☐ **Key Recruitments**

D'Essence Hospitality is dedicated to becoming India's leading executive search firm exclusively serving the Hospitality Industry. Our search team enables you to recruit for executive level management, divisional managers, general managers, culinary, finance, sales and marketing, food and beverage, engineering professionals who will all, directly affect and drive the profitability of your organization

☐ **Acquisitions**

From our years of experience, we advise our clients on which assets to buy and when to buy and based on our recommendations they devise strategies for buying assets. We also provide assistance to our clients to develop assets disposal strategies in order to maximize project performance

☐ **Business Model and Business Plan**

We assist our clients in the business planning process and then prepare a plan based on the available resources and their business objectives. Our Business Planning services include feasibility studies, business formation plans, strategic plans, new product plans, marketing and promotional plans, etc.

☐ **Fund Raising**

☐ **Mentoring**

☐ **Growth Strategy**

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THANKYOU

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