RISING OPPORTUNITY IN
CLOUD KITCHEN

Rise in Demand of Cloud Kitchens

Pandemic has worked as a catalyst in the growth story of cloud kitchens. The convenience of ordering safe & hygienic food through apps has driven the demand.

Owing to the mandates of social distancing, restaurants and F&B establishments are in for a tough time. So naturally, the F&B industry is looking for options elsewhere and for the time being, all the food service companies worth their salt are betting big on cloud kitchens and the potential opportunity in this space is burgeoning by the day.

What is a Cloud Kitchen and how Does it Work?

1 Cloud Kitchen is a commercial cooking facility that has no physical dining space and caters only to delivery of orders placed online. The space in the cloud kitchen can optimally be utilized, as one restaurant may run multiple brands or virtual restaurants, all operating under one roof.

2 Cloud kitchen menu items are designed in a way that they offer ease of production. The basic aim of a cloud kitchen is to create the entire chain in a way that the order can be delivered to the customer's hands as fast as possible.

3 Cloud kitchens are uniquely tech-enabled. They take advantage of the now-ubiquitous food delivery apps such as Swiggy, Zomato, Uber Eats, etc. By doing so, they use large amount of data to determine what type of food to produce for specific neighborhood and when the demand is likely to be the highest.

Factors that Lead to the Growth of Cloud Kitchen in India

Technology has changed the lifestyle of everyone, including the food industry. Approx. 59% of hospitality facilities normally fail in a period of 3 years while the failure rate in the first year is higher, with 26% now in India. In this digital era, people prefer to stay indoors in their comfort zones, enjoying delicious food, rather than move outside. A new concept of cloud kitchen is paving its way in the country.

In the post-COVID 19 world, cloud kitchen will gain more traction as they better suit the needs of socially distanced customers and are more cost-effective for the food operators as well as they can minimize rent and staff costs.

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> **Setting up a cloud kitchen typically requires 1/3rd of the investment required to set up a restaurant.**

Companies like Swiggy, Zomato have brought the disruption in food aggregators and accounted for major market share. As per a recent survey, Zomato has 55% market share while Swiggy has 60% revenue share in the Indian online food delivery market. Here, the online delivery start-ups harbinger the cloud kitchens in comparison to Dine-in restaurants.

The cloud kitchen concept is gradually gaining momentum in India. The online food delivery market has reached a value of US$3.6 Billion in 2019 and expected to reach US$12.7 billion by 2025. As per the 2019 survey, global presence of the online food delivery market would reach $134.5 billion till 2023, at an estimated growth of 9% annually.

The Prosus ventures-backed start-up (Swiggy) has established 1000 kitchens for its restaurant partners PAN India. An obligation to reduce non-essential outdoor activities and an increased supply of cloud kitchens in both existing brands and new entrants will accelerate the Pre-COVID trend of ordering in and takeaways, and become a permanent shift post-crisis.

Cloud Kitchen Companies in India

Foreign markets have their eyes on India, multinational companies have already planned to invest in tier-1 & tier-2 cities which will generate employment, a major chunk of the workforce will shift, open opportunities for other industries such as F&B. Currently, cloud kitchen companies have deepened their roots during the pandemic, dine-in restaurant businesses are also adopting an online delivery platform which disrupts the cloud kitchen demand abruptly in the Indian market.

01 Zomato

02 Swiggy

03 Fassos

04 Behrouz Biryani

05 Oven Story

06 Sweet Truth

07 Firangi Bake

08 Mandarin Oak

09 The Good Bowl

10 The 500 Calorie Project

11 The Bohri Kitchen

12 Petoo

13 Box8

14 Holachef

15 FreshMenu

Preferred Location & Rentals

The cloud kitchen can be set-up at high customer demand areas such as residential or Industrial vicinity, shopping areas back-lanes, unused parking lots, etc. where high demand can be expected. It does not require a location with high footfall and prime property. The monthly rental per sq.ft. in some of the top cities in India ranges between INR 60-80 per sq.ft. In Pune and Gurgaon the rentals are approximately INR 63-70 per sq.ft. and in Noida the rentals are even lesser for cloud kitchen spaces and is around INR 54-60 per sq.ft., while it goes slighly up to INR 72-80 per sq.ft. for Delhi market. The affordable rental options, industrial area and unused warehouses are the first preferences of cloud kitchen operators.

Advantages of Cloud Kitchen

Cloud Kitchen improves operational efficiency and helps the brands in scaling up

With most of the brands facing existential crisis and shutting shops, especially the ones in the same trade zones, cloud kitchen brings them an opportunity to keep on catering the same catchment without having multi-outlets and can cater to big trade zones or geographies from a single centrally located cloud kitchen facility. So from a capital and operating expenditure perspective, cloud kitchen puts a brand in a position to sustain and grow optimally.

PROFIT MARGIN OF CLOUD KITCHEN

Commissions, %25

Fixed Costs (Rental, Wages, Energy), %25

Profit Margin, %10

Raw Material, %40

PROFIT MARGIN OF DINE IN RESTAURANTS

Packaging, %5

Rent Salaries, %24

Food Costs, %18

Ads & Discounts, %25

Commmisions, %25

Profit Margin, %3

This concept is based on the Hub & Spoke model. It requires minimal capital expenditure in comparison with dine-in restaurants, saves other expenses like furniture, large space rent, manpower cost also helps in the large market penetration due to the lower cost of food items.
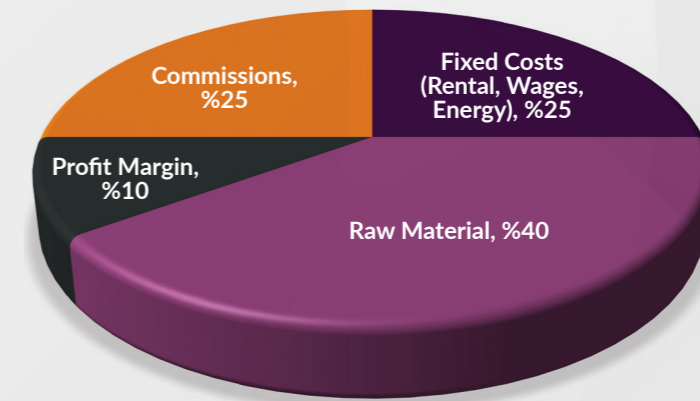
Sizes & Investments – cloud kitchen can be operated with a minimum area of 500 sq.ft. to a maximum of 10,000 sq.ft. and a minimum investment of INR 10 Lakhs. The start-up investment cost includes Lease rent, equipment, License & Registration, franchise security deposit, franchise fee and approx. maximum 7-8 staff (Manpower) for operation and that all would provide a better yield.

Competitive Pricing – Lower operational costs will help to reduce the price due to higher profit margin and create competition in the market. The focus area would be on two points only i.e. the quality of food and delivery services.
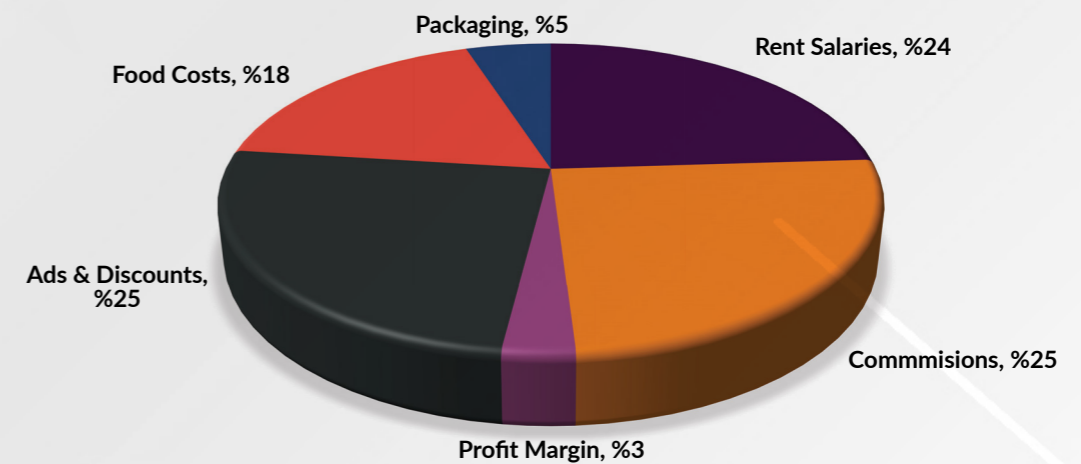
The difference of economies of scale in dine-in and cloud kitchen model - The drivers of economics are quite different for cloud kitchens compared with dine-in operations which entail location, kitchen size and utilization, multiple versus single cuisine configuration, order aggregation and delivery.

Better Expansion Opportunities – The expansion opportunities in the cloud kitchen increases multiple folds, contrary to the old dine-in restaurant concept. The restaurant owners are flexible to operate multiple brands using the same infrastructure, equipment, resources and inventory or expand geographically with kitchens in more kitchens.

Projected Revenue

Legend:
- Restauarant to Consumer Delivery
- Platform to Consumer Delivery

Chart data:

Year	Restauarant to Consumer Delivery	Platform to Consumer Delivery
2017	2930.8	1876.1
2018	3656.8	2930.8
2019	4334	3396.5
2020	5401.1	4794.7
2021	5959.8	5706.1
2022	6421.4	6480.9
2023	6795.2	7100.6
2024	7094.6	7575.3
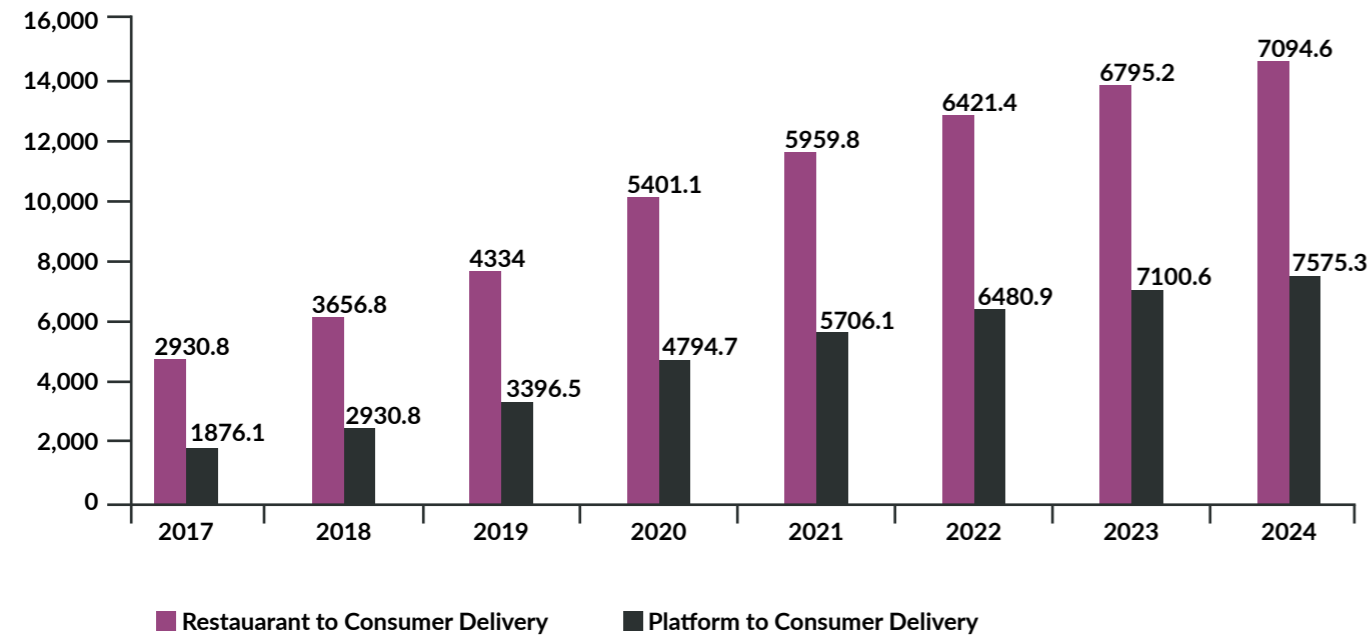
The projected revenue through online food delivery (Platform to Consumer delivery segment) would be US$ 7575.3m till 2024.

Treading with caution:

Although, cloud kitchen is a more lucrative business model for the Foodservice players in the pandemic times for most restaurants, switching to cloud kitchens isn't easy as they need to first understand the unit economics behind it clearly. Running a cloud kitchen will still need a different set of expertise. And for many, small establishments sustaining on a cloud kitchen model will also not be an easy task and only serious players with expertise and deep pockets or backed by investment will be able to operate and succeed in this model.

Trends

India has huge potential in the domestic market to flourish in the cloud kitchen business. The rapid urbanization, digitization and the improving standard of living will accelerate the cloud kitchen business in India.

During the pandemic, even the five-star hotels like Hilton and Marriott turned their kitchen facility into cloud kitchens and joined hands with the aggregators such as Swiggy and Zomato.

Marriott launched the "Marriott on Wheels" delivery service in partnership with Swiggy.

Usage of technology to create transparency and give better insights into kitchen facilities and hygiene factors has been on the rise. For example, Instapizza has launched a feature that allows the customer to watch a live stream of any of their kitchens to see how they maintain strict sanitization and hygiene levels.

Ola has opened 20-cloud kitchen across top cities in last year.

Oyo has also shown interest to open 100 cloud kitchens in country in next 5 years.

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