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REVIEW ARTICLE

QUICK SERVICE RESTAURANTS: FUTURE IN INDIA

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ABSTRACT

Quick Service Restaurants are a key segment of the organized Indian Food Services market and have expanded rapidly over the years. This is because the young population of India(356 million as per a UN Report, Nov 2014) is brand conscious and these fast food chains provide quality food at affordable prices. They have become an aspiration for the rural masses as with the penetration of mobile phones and internet, even they are aware about international brands and cuisines and are a regular hangout place for the urban lot. The present paper focuses on the factors that will trigger growth in this segment, challenges that the businesses in this trade will have to overcome, the level of competition and the kind of investments being made, etc. All these factors would help in understanding the Quick Service Restaurants segment in a refined manner and provide insight in framing a winning strategy for the players in this sector.

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INTRODUCTION

The Food and Beverage sector has all the 3 types of activities – Primary activities, which deal with the production of agricultural and horticultural produce like- fruits, vegetables, nuts, grains, pulses, milk, meats, eggs, seafood, etc. -Secondary activities, which deal with the processing of products obtained from primary segment into products like-processed fruits and vegetables, ready-to-eat food, canned products, alcoholic n nonalcoholic beverages, etc and-Tertiary activities, which deal with food and beverage retail. This can be either in the form of Food retailing (grocery stores and supermarkets) or a food service establishment. The food service establishment in turn can be organised like-quick service restaurants, hotels, etc or be unorganised like-dhabas, street stalls ,etc.

This paper focuses on a particular segment of the organized food service markets, i.e. -Quick Service Restaurants. As per a news item in the Business Standard dated Jan, 2015 the Indian organised QSR industry is a Rs 7,000-crore market and organized eating outlets would lead with a projected growth rate of 21 per cent till 2020.

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Another report published on the cnbc website on 2nd April 2015 mentions that the India's fast-food industry is expected to double in size between 2013 and 2016, to \$1.12 billion, according to the Economist Intelligence Unit. But presently, India has only a little over 2,700 fast food chain outlets for its billion plus population (data from www.cnbc.com, Apr 2, 2015) which makes a vast majority of people outside their reach. Therefore, to tap this untouched consumer base more and more companies are investing in is sector including many multinationals. The following section analyses some of the features of this sector

Drivers of this Sector

Rising disposable incomes and expanding middle class

The disposable income of the people of India is on a continuous increase. The middle class population is expected to triple itself from the current level in the next decade (GT report, 2014). With rising income, people are more likely to increase their entertainment expenditure, of which dining is a significant component. This is proved by a report of the National Restaurant Association of India (published in trak. In on Jan 22, 2015), which says that 50% of the Indian population is eating out at least once in every three months and eight times every month in metros.

In developed economies this figure is much higher- 14 times for the US, 11 times for Brazil, 10 times for Thailand and 9 times for China.

Women workforce

As more and more women are getting educated and finding themselves well paying jobs, there is little or no time to cook. This is increasing dependence on the food service providers. In order to serve their regular customers better they are coming out with healthier options which can be had daily without having negatives consequences for health.

Changing demographics

Nuclear families, the concept of DINK (Double Income, No kids)is catching up fast in India. People are increasingly spending more money on themselves and experimenting with various places, food, etc. Also due to rising literacy levels migration to urban areas is increasing. Indian population in towns and cities is expected to be 600 million by 2031, according to a new UN-backed report). All this is bound to increase business for QSRs.

Localisation of menus

Indian taste is different from rest of the world. People here prefer spicy food as compared to other countries. Also a large part of the population is vegetarian specially in North India. International brand's strategy of adapting their offerings according to the local taste is helping their businesses to grow and cater to a large population which would otherwise have been left untouched.

Gen Z

Generation Z refers to the cohort of people born after the Millennial Generation. This is the generation that was born from the mid or late 1990s or from the mid 2000s and continues till today. This is the generation that wants everything quickly–be it information or food. They are more adventurous than any of their predecessors. Ordering online, adaptability to international tastes, etc are some of their characteristics. They are the ones who are expected to drive this sector from sluggish demand that it has been encountering in past few quarters.

Health and hygiene consciousness

Due to increasing literacy levels, awareness programmes by the government and by companies as a part of their CSR initiative, people have become more conscious about eating healthy and hygienic food. The more people focus on quality, the more would be the sales of these QSRs.

Sector Constraints

Difficulty in setting up

Land acquisition under the new law is a costly and time consuming affair. Also property prices and rent, in India are quite high, especially in a commercial area. Therfore, a larger capital is required in order to establish a fast food service outlet.

Numerous licenses

The food service market is highly regulated. Opening a restaurant requires many licenses (which even differ across states) to be taken like- a health/trade license, eating house license, liquor license, clearance from fire department, etc. Along with these, this sector also falls under the purview of the Prevention of Food Adulteration Act. These regulations reduce flexibility of operations and increase costs(as license fees needs to be paid).

Irregular supply of electricity

A large part of the population of India has no access to electricity. And where ever there is access, it is not continuous. Food outlets have to spend money on power back up options like generators, etc. This increases their operating costs as well as their carbon footprint.

Under developed Logistics

The logistics segment in India is not well developed. Transportation infrastructure is poor (read overcrowded roads, roads with potholes, etc.).There is utter lack of storage facilities like warehouses, cold storage chains, etc. This delays the operations and results in unnecessary losses if the food gets spoiled in the process.

Lack of skilled manpower

There is a dearth of people with skills which are peculiar to this business. People who are multilingual, fluent in English and easy to approach ;those who have excellent culinary skills, etc are suited to this sector. But they are difficult to find as there are not many professional institutes who cater to the specific needs of this sector.

FDI policy

Government of India has permitted 100% FDI in single brand retail under the government approval route but only with a clause of procurement of at least 30% of the value of product from Indian small industries/village and cottage industries, artisans and craftsmen. For QSRs this might mean unstandardization of products across the globe as this would make the quality of input different from other countries and thereby loss of customer trust. Along with this approval from Foreign Investment Promotion Board is required, for setting up as well as diversifying the product offering, of a foreign food outlet who wishes to operate in India.

Rising food prices

Inflation in general and food inflation in particular has increased the input cost of this sector. This would affect demand if prices are increased to match rising costs.

Assembly line production-Not suitable for Indian food

It is not easy to adapt Indian food into assembly line operations. The ingredients used and the type of food is not such that it can be packaged and stored in cold chains. This increases the cost of operations as production processes cannot be standardized. And overtime if the international food chains don't offer Indian Cuisines then they would lose out on business.

Multiple taxes

Companies in this sector are burdened with multiple taxes like VAT, excise, service tax, etc besides various state taxes. This increases the cost of the product offered and in turn its demand.

Some major QSRs in India

Company	Stores
Café Coffee Day	1530(as per its site)
Mc Donalds	300(as per its site)
Domino's Pizza	887 (in May,2015 as per www.economictimes.indiatimes.com)
Goli vada pav	350(as per its site)
KFC	395(in 2014 as per its site)
Pizza Hut	431(in 2014 as per its site)
Subway	508(as per its site)
Barista Coffee Espresso Bars	200(as per its site)
Jumbo King	75+(as per its site)
Faasos	90 outlets(as per ET Bureau Feb 9, 2015)
Kaatizone	Around 30(Wikipedia)

International brands have outlets across the country. Indian brands like Jumbo King, Faasos, etc are catching up fast .Some Indian brands like CCD, Barista, etc, are already as big as their foreign counterparts in terms of presence in India. Barista even has espresso bars in Pakistan, Bangladesh, Sri Lanka, Nepal, etc But these are just few examples. Most other Indian brands are concentrated in a particular region like- Kaatizone's store are concentrated in South India.

QSRs in news

South African restaurant chain Nando's set up a fully-owned subsidiary in India, buoyed by the good response to its re modelled franchisee-run outlets in the country (Nov 10, 2014)

American quick-service restaurant (QSR) brand KFC plans to become the largest QSR chain in the country and expects to have over 500 outlets by end-2015(Jan 13, 2015).

Faasos Food Services, a technology-focused quick-service restaurant chain backed by Sequoia Capital, is raising $20 million (Rs120 crore) in a fresh round of funding led by Lightbox Ventures (Feb 9, 2015).

Jubilant Food-Works, the country's largest quick service chain and operator of Domino's Pizza and Dunkin' Donuts outlets, posted a 6.6% increase in same-store sales in the January-March quarter, indicating a recovery in the segment after about six quarters of stagnant growth or declining revenue. The company's same-store sales outpaced rivals Yum! Restaurants, which runs Pizza Hut, and Westlife Development Ltd, holder of the McDonald's franchise in parts of the country (15 May 2015).

Fastfood chain Subway, which runs over 500 franchise stores in India, plans to increase the number of local outlets to 2,000 in the next five years (27 May, 2015).

McDonald's, which has a network of 209 restaurants in south and western India plans to double this in the next 3 to 5 years (29 May, 2015).

Inference-The above news items show that the fast food service segment is recovering after a sluggish phase. International companies are investing hugely into this sector. Already existing brands are expanding and new ones are opening up. Indian brands too are working hard to give tough competition to their international counterparts. All this points to the fact that competition will be intense in this segment and the goal of everyone would be to grab as much of market share as possible.

What can be expected from this sector

Continued dominance of Unorganized sector

The share of unorganized sector would decline but it would still dominate the Indian food service market (with more than 60% share) (report GT,2015)

Increased Online Ordering

In global markets such as the US, web and mobile ordering contributes more than 50% to sales of restaurants. In India, the trend is gaining ground very rapidly. For example, McDonald's online orders account for 35 % of its home delivery business. With the penetration of internet and increased use of smart devices, online ordering of food would increase and going online would almost become a necessity for even local stores in order to compete with international chains. Going online would not only help them gain business but also reduce their cost as processing of orders online is cheaper than a call which is routed through a call center. Also the offerings by the company, new schemes, etc can be directly communicated to the buyer when one has business online.

Marketing and menu innovation

As the fight for market share would increase, competition would mostly revolve around offering better deals and more choices in terms of food, ordering, delivery, etc. In this scenario of cut throat competition the consumer would be on the receiving end.

Indian player's variety V/s International player's low cost

Indian players offer multiple cuisines while their western counter parts focus on a single cuisine or product. This diversity in offerings increases the cost for the Indian players but serves a niche which seeks variety.

International players serve another niche that wants low cost products. But overtime these niches will overlap and people would want variety at low cost. It would be a matter of time to see who wins this battle.

Increased presence of Indian brands abroad

Indian brands like-Bikanervala Foods, MTR ready to eat foodstuff and ITC's Kitchens of India would become bigger brands abroad.

Greater use of Social media

Social media would become even more important for companies not just to promote its products or for data mining but to engage customers in conversations about their products and services. This is essential because people speaking for the company would be more beneficial than company speaking for itself.

Winning marketing strategy would be-Going beyond expectation

Businesses who go beyond the expected (despite increasing expectations) would gain. Like- dominos strategy of offering to deliver pizzas in 30 minutes despite India's nasty traffic has been a major contributor to its dominant position in the Indian market than any other foreign brand in the same segment.

International trends and their impact on India Demand for standardized labeling

Across the world there is increasing demand for standardization of labeling, both by the government and the consumers. With increasing literacy levels this would be a prospective demand of the average Indian consumer too.

Taxes on unhealthy food

Inorder to control obesity, many countries have imposed taxes on unhealthy food. Even though the obese population in India is large, the possibility of such a tax being levied here is hugely remote as the taxes imposed on the food service retailing sector are already high and such a move would be opposed by the players in the industry as well as the consumers.

Increase in organic food market

Organic food market is picking up in many countries .This shows that with higher consumer awareness and rising income levels people are shifting to organic food. This trend would pick up in India but not too much in the next few years.

Conclusion

India has one of the world's great culinary traditions and we are a nation of foodies. Our F and B industry is huge. Though currently it is dominated by unorganized service retailing but the coming years would see expansion of organized retail outlets (specially QSRs) in a huge way.

Though there are some constraints in this sector but they can be overcome with the following steps-

- Dilution of rules and regulations affecting this sector, in the form of delicensing, liberalization of FDI terms, reduction of multiple layers of taxes, etc, would increase flexibility of operations.
- Improvement in supporting infrastructure-like electricity supply, transportation, etc, would smoothen operations.
- Investment in professional institutes, would help overcome the problem of lack of skilled labour.
- Greater acceptance of the concept of kiosks would reduce initial investment.
- Measures to reduce food inflation would help in keeping cost low.

All these reforms, if undertaken, would fuel the high growth that is already anticipated in this sector. And if this sector grows it would contribute more to GDP, employment, exports, etc in a bigger way, all of which would be good for the Indian economy.

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