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Indian QSR Industry - Opportunities and Strategies to Harness Them

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Abstract

In a country with more than a billion people, opportunities in India are abound. This has led to a rapid growth of the QSR industry. However, simultaneously, it has also created a canvass that has many failures and carcass. Several outlets have been closed, a large number are struggling, still a large number are just about surviving and a lot many of them have not been able to find their feet. There are a lot who are successful, but, more importantly, there is almost a complete absence of national chains, except of two cafes, three – four international chains and a few regional chains. This indicates to the fact that just having a lot of opportunities is not enough. These opportunities need to be harnessed and converted into profitable enterprises. This paper is an attempt to understand the industry, its key success factors and draw a framework for developing a road map for success.

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Introduction

Indian QSR Industry is growing very rapidly. It is a reflection of the change in the lifestyle, food habits and consumption pattern of the population. The incidence of Dining out, ordering from home as well as takeaways is rising creating an opportunity to cater to a wide mass of population. What was the domain of upper class, singles or forced bachelors, has percolated to all echelons of society. The incidence and value differ substantially, but penetration of such consumption habits is wide spread and is on the increase. Although largely an urban phenomenon, the pattern is also emerging in rural areas with better road connectivity, increased vehicle ownership and rise in income levels.

In a country with more than a billion people, opportunities in India are abound. This has led to a rapid growth of the QSR industry. However, simultaneously, it has also created a canvass that has many failures and carcass. Several outlets have been closed, a large number are struggling, still a large number are just about surviving and lot many of them have not been able to find their feet. There are a lot who are successful, but, more importantly, there is almost a complete absence of national chains, except of two cafes, three – four international chains and a few regional chains. Even these are very recent phenomenon and many of them are struggling.



This indicates to the fact that just having a lot of opportunities is not enough. These opportunities need to be harnessed and converted into profitable enterprises. This paper is an attempt to understand the industry, its key success factors and draw a framework for developing a road map for success.

This report focuses on the urban population, even though a large population lives in rural area. In no way does this report wish to ignore the potential. It is just that urban markets tend to offer better opportunity due to the lifestyle of the customers as well as concentration of demand.

The Market

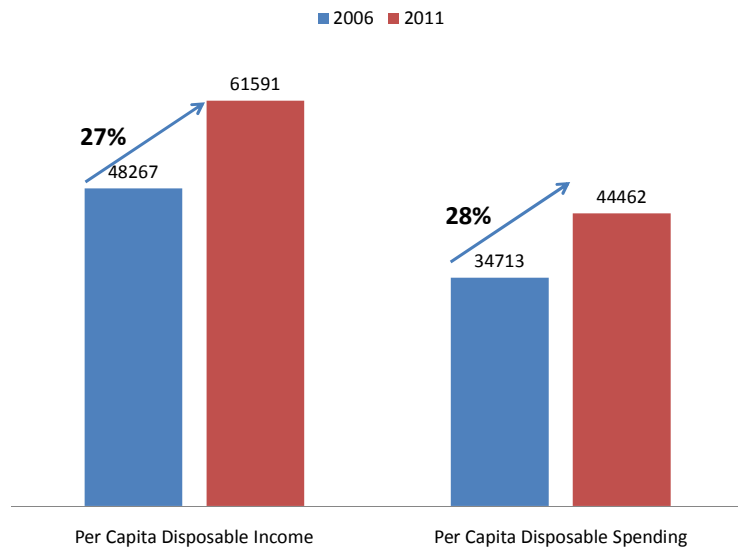
The Indian consumers are portraying an ever changing lifestyle, one of the key characters of an emerging economy. The phenomenon takes a new meaning when a large proportion of population is young and very receptive to new ideas, products and services.

In 2011, India's Gross Domestic Product reached Rs. 91.7 trillion. It increased significantly from Rs. 62.6 trillion in 2006. The per capita disposable income increased from Rs. 48,267 in 2006 to Rs. 61,591 in 2011. The per capita spending also increased from Rs. 34,713 in 2006 to Rs. 44,462 in 2011.¹

India is a very young country. People between the ages of 18 – 35 contribute a significant proportion. This is also the spending years, food and lifestyle and hence QSR. In the top 10 cities

this population also shows more discretionary spending, usage of credit cards and changing eating habits. About one thirds of them constitute the top layer consisting of SEC A and B who are educated and are professionally employed. The NCAER reports call them as Achievers and Aspirants. There is also an increase of the share of leisure and lifestyle spending in the PFCE of the Indian population. In 2011, the number of Indians above the age of 60 years-old was about 93 million, representing 7.6 % of the total population. This proportion is expected to increase to nearly 10% by 2020. Since many of these are more educated and have greater financial independence, they are spending time recreation and fitness activities, travel, and entertainment.

About 15% of the total labour force has regular salaried jobs. While employment in the public sector grew at just 0.4% between 2010 and 2009, private sector employment grew at 4.5%.² Organised and new industries have shown an increase in job creation especially in manufacturing, banking and finance, IT, pharmaceuticals, media and entertainment, online business, mobile services, healthcare services, health insurance and the hospitality sector. There is also an increase in the proportion of women work force in these industries. Long working hours, especially among those in management, is common, especially in private sector. Also in large cities, workers tend to commute. According to Payscale, a US-based salary tracking firm, Indian workers spend more time commuting as compared to many very large cities like New York. Commutes in Mumbai, Delhi and Bangalore spend on an average 47.5 minutes, 43.6 minutes and 40 minutes respectively. Most workers bring lunch from home, though with hectic work schedules and busy work life the incidences of dining at foodservice venues nearby their offices are increasing.



¹ www.euromonitor.com

² www.euromonitor.com

EATING HABITS

Dining In

The per capita expenditure by Indian consumers on food and non-alcoholic beverages between 2006 and 2011 has grown by 3.6%. Indian households follow the traditional dining culture which places great value on freshly prepared meals. They eat traditional foods and cook fresh at home for every meal. Vegetables and meats are bought fresh. Meals are prepared fresh every time. A large number of Indian consumers still prefer vegetarian dishes though the demand for non-vegetarian food is on the rise in India, even among conservative households. Indian cuisine is wide-ranging and diverse. Different regions have clearly differentiated tastes and preferences. In recent years consumption of processed and packaged foods has grown strongly in urban areas more affluent households with working women. The number of such households is large but consumption is still very low. Indian consumers often celebrate at home over home cooked meals. This is especially true during religious festivals. The main meals as well as the desserts and special celebratory food items are still typically cooked at home. Ordering in is also on the rise. Among the SEC A, B and C households in large cities, more than 25% ordered in for more than 5 times in a month, 20% once a week and 22% once a month.³

There is a strong preference for Indian flavours and cooking styles. The interest in international dishes is on the rise but most Indian consumers continue to prefer Indian-style dishes. The more popular international cuisines include Chinese, Mexican, Thai, and Middle Eastern. In a large number of cases international dishes are prepared with Indian spices to suit to the local palates

Snacking Habits

Snacking is very popular in India. There is a preference for salty, sweet and savoury snacks rather than chocolate, confectionery and ice cream. Popular sweet/savory snacks include potato chips/crisps, extruded snacks and traditional snacks such as crisp Bikaneri bhujia string-like fried sev and chivda. Although most traditional sweet/savory snacks consumed in India are unpackaged or homemade, the share of packaged traditional snacks has seen a significant increase in demand. In recent years, there has been a broadening of the range of snacks flavoured with popular Indian flavours. Instant noodles have become a very popular snack for kids. There is an increase in the proportion of bakery products, especially cakes and pastries. Snacks also are high on the choice of customers when ordering in at home or office.

Drinking

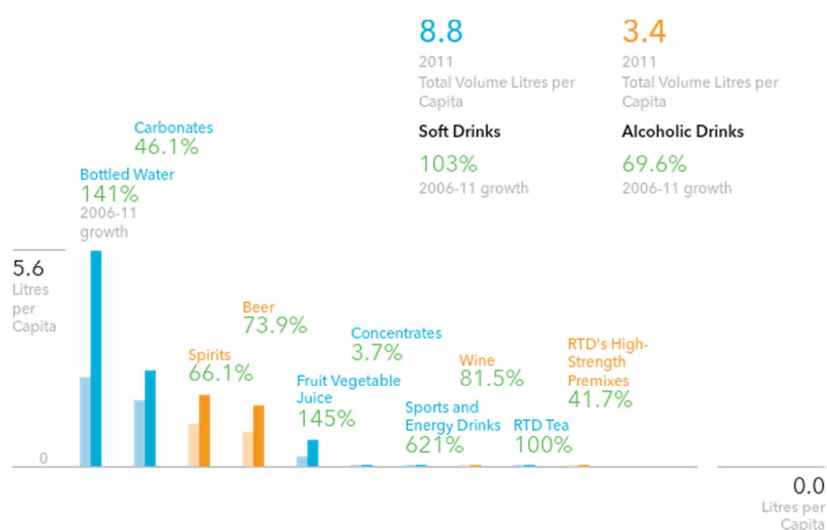
According to a study by the World Health Organisation (WHO), a smaller proportion of Indians consume alcohol compared to consumers in Western countries. Approximately 67% of males and 92% of females in India are lifetime abstainers. Consumption of alcohol in India is increasing as opposed the trend in many Western countries. This has been driven by rising disposable incomes and greater acceptance of consuming alcoholic beverages by the society. The per capita consumption of alcohol in India increased from 3.3 litres in 2006 to 5.4 litres in 2011. Times of India said "Indians love their whisky, vodka and rum but are yet to develop a taste for wine. An average

³ White paper on Indian Restaurant Industry, 2010, National Restaurant Association in India, p 33

Indian adult (15 years and over) drank 2.6 litres of 'pure alcohol' between 2003 and 2005. This was higher than the per capita consumption in the south-east Asia region which stood at 2.2 litres. For every six men, one woman drinks alcohol in India."⁴

Outside of the homes, alcohol is consumed in restaurants, beer bars, pubs, clubs and discotheques. Many restaurants mark off separate areas called 'permit rooms' which accommodate the sale of alcohol. According an article on nightlife in India on website goindia.about.com, "the country's bars tend to be divided into two categories: cheap, seedy local bars frequented by India's male population and classier venues catering to the progressive middle- and upper-class crowd. The latter can only be found in major cities". The site adds "An interesting term used in India is that of the 'resto-pub' or 'resto-bar'. These are restaurants that double as places where you can drink, and sometimes dance later in the night, as many restaurants don't serve alcohol in India".⁵

Per Capita Consumption of Alcoholic Drinks and Soft Drinks by Category in 2011



Source: Euromonitor International

Dining Out

Dining out has seen explosive growth in recent years as urban consumers seem to have found more occasions to celebrate and more opportunities to dine outside the home. Birthdays, wedding anniversaries, graduation parties, Valentine's Day celebrations, reunion parties and many more occasions are celebrated by dining out, at least by affluent consumers. According to the India Leisure and Entertainment Report by the Knowledge Tree company, dining out is now one of the three most popular recreational activities among Indian consumers. This is also due to lack of space in most urban dwellings. According to a 2011 study on Indian consumers' attitudes toward dining out conducted by the US Department of Agriculture (USDA), traditional eating habits in India are changing and consumers who traditionally always ate at home are now increasingly dining out. Busy

⁴ Euromonitor.com

⁵ <http://goindia.about.com/od/nightlife/a/indianightlife.htm> accessed on June 3, 2012

urban workers often pick up a quick breakfast from street stalls located close to office; lunch (and often dinner, too) is often purchased from stalls close to office. But while the vast majority of dining out consists of purchases at street stalls, restaurants have nevertheless accounted for a rapidly growing share.

According to the USDA report, dining out in India used to be reserved only for special occasions but increasingly younger consumers and consumers from middle- and upper-income households are dining out more often. Many have shed the biases often held by older and more traditional consumers regarding the quality of international franchises and foreign foods in general.⁶ Many international chains such as McDonald's, KFC and Domino's Pizza, Baskin-Robbins and Indian chains like Haldiram, Nirula's and Bikanerwala have evolved. These are modernised with menus and service to compete with the leading outlets. According to an industry journal Express Hospitality, the main dining out trends are contemporary Indian, Asian street food and grill, Pan-Asian cuisine and gastro-lounge-bars that focus more on their food offerings with sparse décor. The three major trend in the cuisine are growth of regional Indian food, chef-led innovation into fusion cuisine and popularity of international food and styles.⁷



Going Out

One of the most common activities in both urban and rural areas is going to the cinema. It is also one of the more affordable entertainment options. Another common (and affordable) activity is going on picnics at nearby parks, beaches or other locations of interest. An article on leisure trends in the Times of India mentioned that the increasingly busy pace of urban living in India is driving a greater appreciation of 'down time' in the country and consumers are becoming more and more willing to spend money on relieving their stress.

A tourism website india-hotel.net notes that "As a rule, traditional Indians did not use to believe in nightlife and its associated activities. However with Western influences and work ethics coming in, the rules of the game have changed. Most big towns and cities have pubs and discos that are open all through the week. Even then the major crowds will only surface on the weekends yet from time to time some events are organized which will draw in the crowds".⁸ Cities such as Mumbai and Delhi offer a wide range of nightlife activities and venues. These include restaurants clubs, lounge bars and discotheques. Indians typically go out on a weekly basis but some go out more often. The night life is still restricted and regulated. According to website goindia.about.com, "In most cities in India, nightlife is early to start and early to end because of the curfews in place. While Mumbai may have the biggest selection of party places in the country, come 1.30 am they're all starting to close for the night. With a few exceptions, the scene is similar in Delhi and even worse in Chennai, Bangalore and

⁶ Euromonitor.com

⁷ White paper on Indian Restaurant Industry, 2010, National Restaurant Association in India

⁸ <http://www.india-hotel.net/nightlife.htm>, accessed on June 3, 2012

Hyderabad which have 11pm or 11.30pm curfews. Even in Goa, most places are forced to close by 10pm due to noise restrictions. Many venues have found that the solution to the curfews is to open during the day or early evening. A ban on dancing was introduced in Bangalore in 2008, but it was finally removed in late 2011 after a series of protests".⁹

Café Revolution

Although, tea shops serving fresh and affordable tea are in large numbers and are located very conveniently, in recent years the number of cafés has grown significantly catering to urban affluent consumers. These consumers are younger consumers influenced by western dining and drinking



trends. These cafés are considered as joints or addas to relax and to escape from the stress of urban living. The posh Western interiors, good music and attractive lighting make cafés very interesting places for young consumers to spend their time. They also offer food and other beverages such as tea and juices. Increasing base of credit/debit card holders is also fuelling growth in eating out market. It is estimated that 25 million people were using cards for money transactions in 2008 and the growth is poised 20-25 per cent year-on-

year. Travel, hotel and dining category accounts for 35 per cent of credit card usage.¹⁰

The Foodservice Industry

Catering to more than 1.2 billion people, the foodservice industry in India is large and growing rapidly. The country is estimated to have more than 2.1 million outlets serving out cuisine that is diverse and appealing to diverse taste buds. More than 85% of these are standalones. The different locations where these outlets are found include retail, leisure, lodging and travel. All these locations are showing growth, but the growth at retail and travel is much faster. By 2015, these are expected to have about 145,000 and 87,000 outlets respectively, amounting to 12% of total outlets.¹¹

Consumer Food Service Outlets ('000)											
Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standalone	1,143	1,244	1,340	1,428	1,523	1,609	1,685	1,737	1,771	1,791	1,803
Leisure	5.9	7.6	11.3	12.5	13	14.4	15.5	16.9	17.7	19.2	19.8
Retail	31.4	44.9	55.9	75.5	87	99.1	112.3	119.9	130	136.1	144.7
Lodging	54.8	56.3	57.3	58.2	60.5	63	63.1	65.5	67.4	68.8	69.2
Travel	31.8	40.7	48.2	55	64.2	68	72.7	76.5	79.8	82.7	87.1
Total	1,267	1,394	1,513	1,629	1,748	1,853	1,949	2,016	2,066	2,098	2,124
Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standalone	90.2%	89.3%	88.6%	87.6%	87.1%	86.8%	86.5%	86.2%	85.7%	85.4%	84.9%
Leisure	0.5%	0.5%	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%
Retail	2.5%	3.2%	3.7%	4.6%	5.0%	5.3%	5.8%	5.9%	6.3%	6.5%	6.8%
Lodging	4.3%	4.0%	3.8%	3.6%	3.5%	3.4%	3.2%	3.2%	3.3%	3.3%	3.3%
Travel	2.5%	2.9%	3.2%	3.4%	3.7%	3.7%	3.7%	3.8%	3.9%	3.9%	4.1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The total foodservice market is expected to be Rs. 43,000 crores. The organized segment of the restaurant industry, at approximately Rs. 7,000 crores to Rs. 8,500 crores, forms 16% - 20% of the

⁹ <http://goindia.about.com/od/nightlife/a/indianightlife.htm>, accessed on June 3, 2012

¹⁰ http://www.franchiseindia.com/buyrepNbooks_food_11.php, accessed on April 27, 2012

¹¹ Euromonitor.com

industry. The size of the industry is expected to be Rs. 62,500 crores by 2015. The organized segment is growing, at 20 - 25% per annum. The overall restaurant industry (organized/unorganized) is growing at 5% - 6% per annum. The value growth is largely taking away from the standalones. It must be noted that while the rate of growth is slowing the number of standalones would still keep growing, though the value may stagnate, before it starts showing any downward trends. The chains still comprise a very miniscule proportion of the outlets, though growing at the rate of 43%.¹²

Consumer Food Service Value (Rs. Billion)											
Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standalone	1,778	1,973	2,183	2,518	2,755	3,091	3,285	3,429	3,532	3,601	3,655
Leisure	23	31	45	55	59	70	76	83	87	94	98
Retail	128	167	201	257	290	344	389	434	474	508	531
Lodging	211	226	240	262	272	298	304	317	323	327	330
Travel	88	108	121	150	168	191	208	220	231	242	253
Total	2,227	2,504	2,789	3,241	3,543	3,993	4,261	4,483	4,647	4,772	4,867

Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standalone	79.8%	78.8%	78.3%	77.7%	77.8%	77.4%	77.1%	76.5%	76.0%	75.5%	75.1%
Leisure	1.0%	1.2%	1.6%	1.7%	1.7%	1.7%	1.8%	1.8%	1.9%	2.0%	2.0%
Retail	5.7%	6.7%	7.2%	7.9%	8.2%	8.6%	9.1%	9.7%	10.2%	10.6%	10.9%
Lodging	9.5%	9.0%	8.6%	8.1%	7.7%	7.5%	7.1%	7.1%	7.0%	6.8%	6.8%
Travel	3.9%	4.3%	4.3%	4.6%	4.7%	4.8%	4.9%	4.9%	5.0%	5.1%	5.2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

The QSR segment has shown the fastest growth with a value growth of 15% - 20% in both 2006 and 2007.¹³



Per Capita Expenditure on Consumer Foodservice by Chained and Independent (2011)

Source: Euromonitor International

¹² Euromonitor.com

¹³ White paper on Indian Restaurant Industry, 2010, National Restaurant Association in India

Competitive Landscape

The industry has high potential. It is also showing high growth. However, it is also witnessing high competitive intensity. This happens because the entry and exit barriers are low in the industry. Even though there are failures, more and more new outlets are started as the market is witnessing growth.



The reasons for entering into this business are several. It is found that a lot of enterprises are more out of the glamour. Many enter into this industry to give their children or spouse an employment. They treat the investment as a 'gift' and are not expecting return. If it succeeds, the children are 'settled'; else they would find some other employment. The premises, if bought, is seen

as a creation of asset, hence no risk. A large number of these outlets are started by chefs or those with hotel management background. While they have the culinary expertise and have worked in some establishment, they are entrepreneurs by nature. The focus on food and culinary expertise is more and limited on the business essentials and hence when faced with difficult time, they tend to go asunder. The other group consists of people from the real estate fraternity who have set up property and make foodcourts integral to the property. Their return expectations and revenue source is rent and not sales revenue. This makes the competitive landscape as complex as some of the Indian Dishes where despite knowing the recipe, once is not able to get a great dish.

Another factor that leads to competitive intensity is the cost structure of the business. Most of the costs in this business are fixed, such as premises, fixture, personnel, lighting, air-conditioning, and municipal taxes. These are not linked to the sales. Hence, even when the outlet is not performing, the cost of continuing is small. The fixed costs are considered as sunk and like airlines business, even when only the operational costs are covered the enterprise keeps going. The continuance of such outlets, even though not very profitable, attracts more enterprises. With the competitive pressure, there is pressure on margin. Since revenues cannot be increased so easily, the efforts are towards cost cutting, subjecting the outlet to a downward spiral, leading to closer after a long suffering. But till they survive, and there are many of them, the market remain highly competitive.

The organised sector takes a different route. They start with a larger capital investment and hence have higher breakeven point. They require a large number of customers with higher level of spending in every visit. Since the customers are variety seeking and the frequency of eating out is not very high, the number of customer required to make profitable business increases substantially. As they tend to use mass media communication, the novelty of the outlets draws a lot of customers. There is also a higher level of frequent repeat visits. However, unless managed well, in a large number of cases, sales dip after hype. Most outlets are not prepared for this dip and take to knee-jerk reaction of increasing sales, losing margins in the process. Also a hugely successful launch brings competition faster and the available market suddenly shrinks. Outlets tend to drop prices, offer value packages or increase communication efforts. All these lead to lower profitability, even though revenues go up. Sometime later, the customers also get immune to such activities and churn faster.



Chains have their own set of issues. Different stores cater to a different city and its characters. Each outlet is unique in terms of its catchment area, competitive landscape and physical terrain in terms of location, traffic patterns and consumer habits. This requires a localised management while being part of a chain. The costs tend to be high and hence such outlets end up serving high end customers. QSRs have a found a way of bringing down the costs by limiting the offers in

terms of menu and service and standardising the offers across the chain. The consistency requires a high level of quality management and better and centralised sourcing. While the front end costs are reduced, the back end costs increase putting huge pressures on profitability. Chains also have a problem of a high corporate overhead which are required to bring the focus and efficiency into business, but weigh heavily on the profits till a certain number of outlets are setup and stabilised. It is very common to find that outlets become profitable sooner than the corporation.



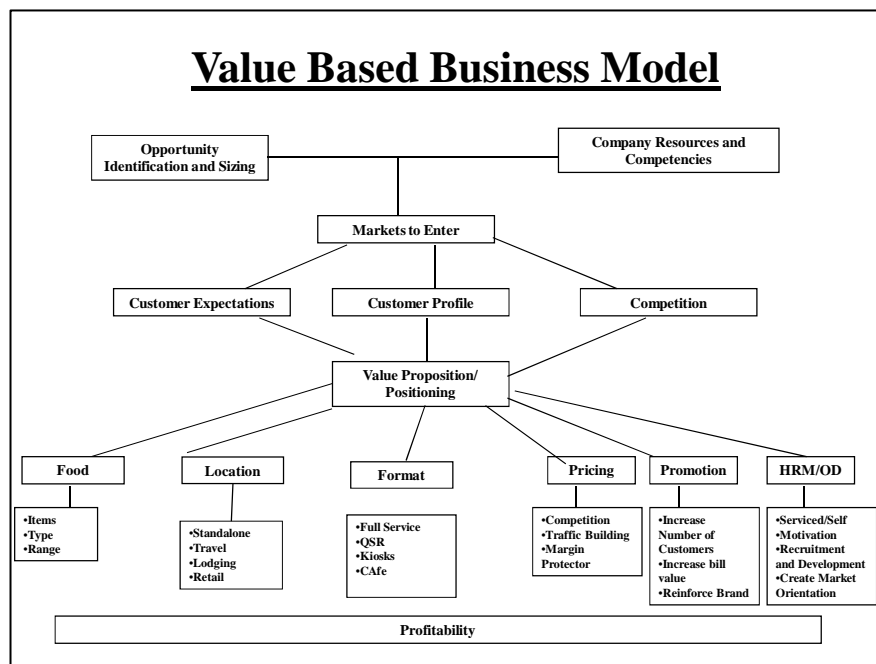
With entry of large Indian and MNC companies, the industry gets boost of authenticity and creates euphoria. This produces a bubble which grows and grows and grows as a lot many new entrants come into the industry swayed by the entry of large corporations and without really understanding the nuances of the business. Very soon the market becomes murky. Customer seems to be happy as they are getting choices and better prices but enterprises bleed. It is also expected that the growth in per outlet value would taper soon and even go down in some cases.

Average Per Outlet Consumer Food Service Value (Rs.)											
Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standalone	1,55,475	1,58,579	1,62,825	1,76,355	1,80,870	1,92,191	1,94,914	1,97,432	1,99,424	2,01,050	2,02,757
Leisure	3,93,220	4,02,632	3,95,575	4,40,000	4,51,538	4,83,333	4,90,323	4,88,757	4,92,655	4,89,583	4,92,424
Retail	4,06,369	3,71,047	3,59,392	3,40,132	3,32,989	3,46,620	3,46,483	3,61,968	3,64,385	3,73,255	3,66,966
Lodging	3,84,124	4,01,599	4,18,150	4,49,828	4,48,926	4,73,333	4,81,775	4,84,275	4,79,525	4,75,000	4,77,023
Travel	2,75,786	2,64,128	2,51,660	2,72,000	2,61,526	2,80,147	2,85,695	2,87,582	2,89,348	2,92,261	2,90,930
Total	1,75,704	1,79,673	1,84,324	1,98,969	2,02,695	2,15,482	2,18,674	2,22,409	2,24,918	2,27,455	2,29,200
Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standalone	100.0%	102.0%	102.7%	108.3%	102.6%	106.3%	101.4%	101.3%	101.0%	100.8%	100.8%
Leisure	100.0%	102.4%	98.2%	111.2%	102.6%	107.0%	101.4%	99.7%	100.8%	99.4%	100.6%
Retail	100.0%	91.3%	96.9%	94.6%	97.9%	104.1%	100.0%	104.5%	100.7%	102.4%	98.3%
Lodging	100.0%	104.5%	104.1%	107.6%	99.8%	105.4%	101.8%	100.5%	99.0%	99.1%	100.4%
Travel	100.0%	95.8%	95.3%	108.1%	96.1%	107.1%	102.0%	100.7%	100.6%	101.0%	99.5%
Total	100.0%	102.3%	102.6%	107.9%	101.9%	106.3%	101.5%	101.7%	101.1%	101.1%	100.8%

The Bottom – Up Value Based Approach

We suggest that the entrepreneurs who are already there and want to scale up or those who are entering into this high growth fast paced dynamic industry should follow a customer value based approach to build a sustainable business. The industry is fraught with replication but has lacked scaling up. Even Calvin Care have decided to withdraw. That the opportunities are there has no doubts. What one needs a business model to harness this opportunity. We present a framework that

could be used to build such models. It covers three main processes – sensing value, creating value based offers and deliver value. Core of this model is company's very own, the value proposition it promises to deliver and not the opportunity that lies out there.



Identifying the Value Proposition

The value proposition identified by the firm is a combination of the entrepreneur's own values that they cherish, the values being delivered by the competitors and the values that would be relevant to the customers. Sanjeev Kapoor feels, "We might be registering a shift of 'mom n pop' shops from conventional mode to organised retail, but restaurants suffered from high level of inefficiency and low 'effort to return ratio'. I firmly believe that food retail will go the telecom way in the next four-five years. Entrepreneurs need to break the mould and go ahead with growth."¹⁴ The statement clearly indicates that there is need to bring a change in the paradigm to succeed. One of the more common term used in this regard was propagated by Al Ries and Jack Trout in early 1980s as called USP – Unique Selling Proposition. They proposed that we must have something different or differentiated to succeed. While this is a gem of an advice for entering a business, it need not be helpful in sustaining. The more pertinent question to be asked is:

Unique: How do I maintain the Uniqueness?

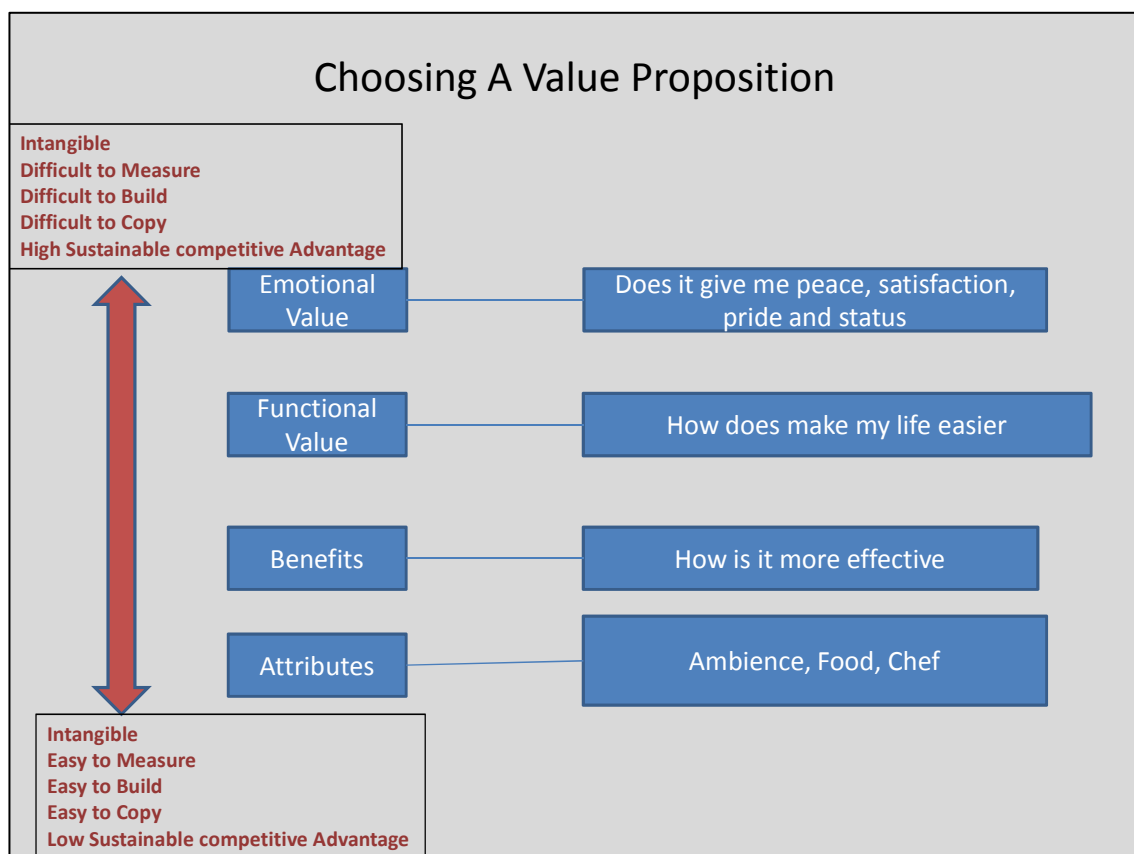
Sustainability: How do I remain relevant to my customers?

Profitability: How I generate enough surpluses to grow and defend in a competitive market.



¹⁴ <http://www.expresshospitality.com/20111015/market12.shtml>

Customers tend to have a value ladder in their minds. Principally, there are four levels in this ladder. The role and importance of each of these levels are depicted in the figure given below. An entrepreneur need to choose the level it wishes to operate. While it is possible to move within the levels, it not desirable as the movement would disturb the association with customers and would lead to a confused or wrong positioning, very detrimental to the business. Many enterprises do not pay attention to this in the race to increase their revenue and pay heavily later on in correcting their positioning.

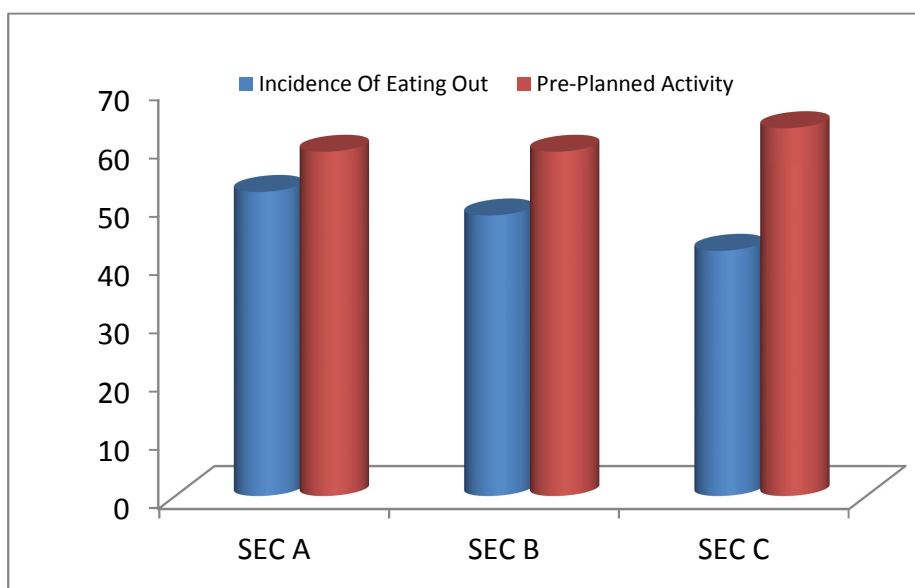


Most companies choose one value to build their outlets and chains due to the requirement of a different business model for delivering different values. The cases of Cafe Coffee Day, McDonald's, Subway, KFC, Haldiram exemplify this. For catering to different value segments, companies like Lite Bite Food, use different operating model such as Subway, Punjabi Grill, Asia Seven, Fresco Co, Zambar, each targeted at different requirements of the customers. An illustration of consumption of coffee at different location and their distinct value is given here.

Outlet	Value Sought	Price Sensitivity	Target Segment
Road Side Coffee Shanties	Convenience	Highest	Students, Labourers, Office Staff
Small Coffee Centres	Price	High	Salespersons of small companies, Office Staff
Coffee at Udipi-Type Restaurant	Quick Service	High	Middle to Lower Income
Madras Coffee House	Authentic Coffee	Medium	Filter Coffee Lovers
India Coffee House	Meeting Intellectuals	Low	Intellectuals and pseudo-intellectuals
Cafe Coffee Day / Costa	Meeting Friends	Low to Medium	Youth
Barista / Starbucks	Solitude	Low	Couples, Sales people of larger companies
Hotel Lounges	Status	Lowest	Senior Executives

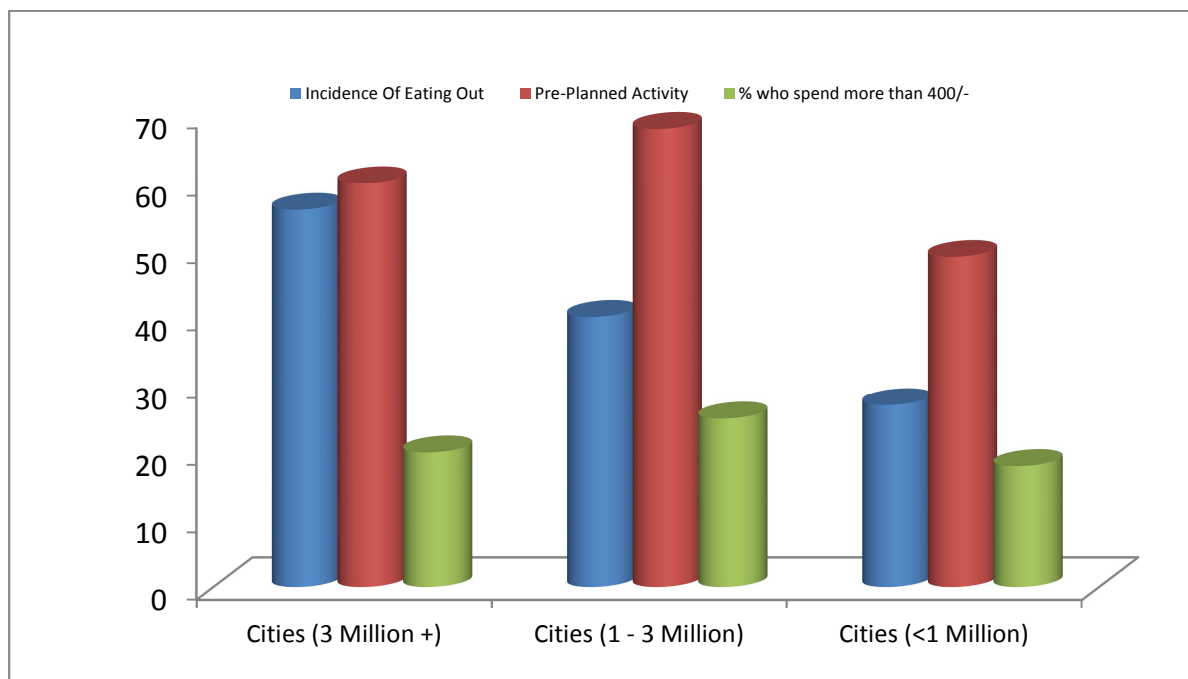
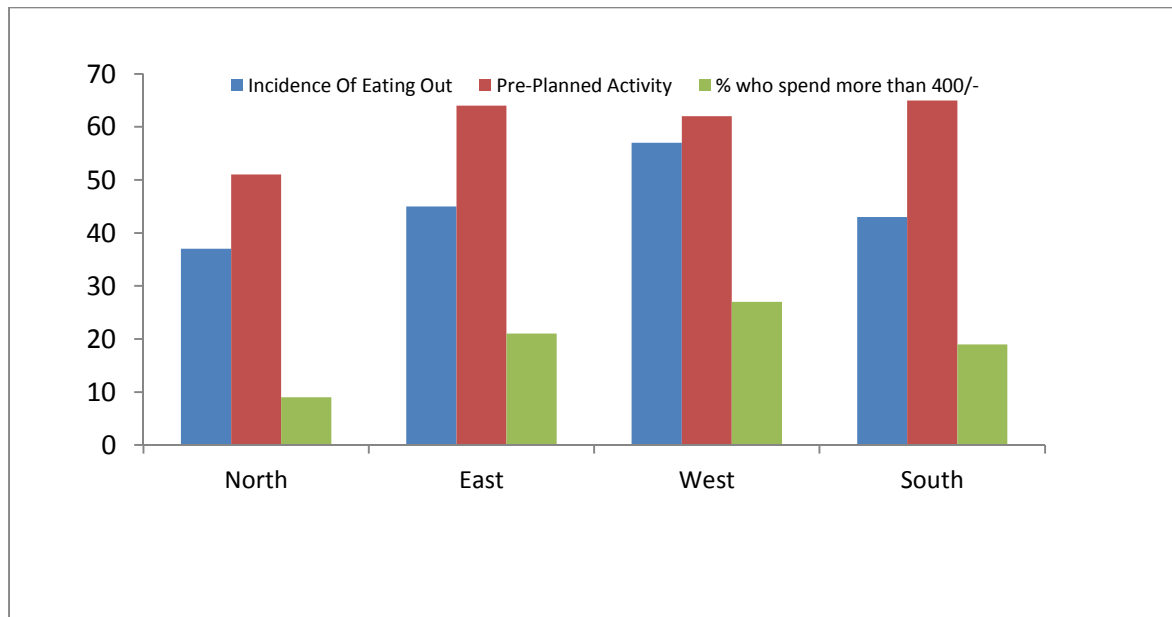
Developing Customer Profiles

The value takes different forms depending on the segment. It is very necessary that the organisation chooses the target segment carefully. The macro demographic segmentation may not be very relevant as can be seen from consumer studies. The table above also indicates that more than just the demographics, it is



the SEC that is more relevant for outlet choice. The NRAI study shows that the incidence of eating out is similar among all SECs, so are their preferences. The behaviour is similar across the region and size of the cities.¹⁵ Firms must therefore choose their segments very careful so that they can target their offering and not get swayed by the fact that everyone is eating out. The selection of outlets seems to be affected more by the values that the customers cherish and the lifestyle that they live.

¹⁵ White paper on Indian Restaurant Industry, 2010, National Restaurant Association in India

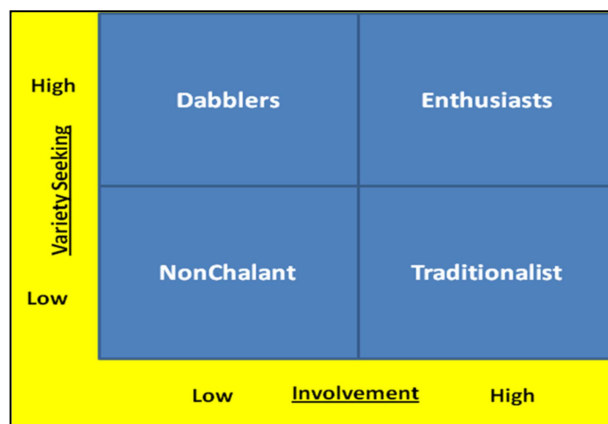


Customer Expectations

Eating out is not just food but a lot of experiences. Such consumer behaviours are shaped more out of expectations than the need. While good food is the most desired, the experiences desired by the different segments can be classified as “peak experience” and “consumer or supportive experience”. Peak experiences as those activities that are the primary focus of the trip, whereas supportive experiences are those peripheral activities necessary to accomplish the peak experience. In this

typology, this has been adapted to a lifestyle setting assuming that eating out behaviours can be similar when compared with touristic behaviours.¹⁶ Consumers also tend to show a variety seeking behaviour both in terms of the outlets, formats and food. The frequency of visit is also lower and it is a planned activity. In addition, in most cases, eating out is the only activity they perform in their outing.

Most customers visit with their families and friends. Added to it is also the expenditure in each visit. This makes the eating out a very involved activity. Combining the two aspects customers could be classified as in figure below. Each of these segments expects different experiences.



Typology	Type of Experience	Expected Behaviour
Non-Chalant	Supportive	Restricted to their habitats and customs. Refuse to try new foods or see novelty in new eateries or concepts. May perceive a sense of risk in eating outside their known habitats. May also view the notion of food and beverage consumption as a utilitarian facet of life. When they travel, they eat in only “safe”, “tourist friendly” restaurants that fit their traditional moulds of thought. They are not curious about emerging eateries not do they actively patronize them
Traditionalists	Peak	Limited to their cultural habitats, but see hedonic value in eating out. They restrict themselves to cuisines and experiences that are culturally tied to their own but are discerning and seek excellence in experiences. Typically engage in detailed information search prior to going out. They also show keen interest in newly opened restaurants or concepts that are within their cultural comforts
Dabblers	Peak / Supportive	This group is venturesome for variety’s sake. They are venturesome of experiences by opportunity and not design. Not traditionally set in tastes, they are usually aware of trends and new place, but know less about the nuances of offerings
Enthusiasts	Peak	Highly aware of their environs pertaining to eating out, this group seeks not just variety, but authenticity of experiences. They are highly discerning in their evaluations and during out of station travel, largely seek out local cuisine in their most authentic settings. They use food to as a way to learn about culture. They are usually keen patrons of culinary events and festivals and will buy culinary related souvenirs.

¹⁶ Quan, S. and Wang, N. (2004), “Towards a structural model of the tourist experience: an illustration from food experiences in tourism”, *Tourism Management*, Vol. 25 No. 3, pp. 297-305.

Choosing the Format

Historically, *restaurant* referred only to places that provided tables where one sat down to eat the meal, typically served by a waiter.¹⁷ Following the rise of fast food and take-out restaurants, a retronym for the older "standard" restaurant was created, sit-down restaurant. Most commonly, "sit-down restaurant" refers to a casual dining restaurant with table service, rather than a fast food restaurant, where one orders food at a counter. Sit-down restaurants are often further categorized as "family-style" or "formal". In British English, the term *restaurant* almost always means an eating establishment with table service, so the "sit-down" qualification is not usually necessary. Fast food and takeaway (take-out) outlets with counter service are not normally referred to as restaurants. Outside of North-America, the terms fast casual dining restaurants, family style, and casual dining are not used. The food service industry is also classified based on the formats as given in the table below.

The logo for Kaatizone, featuring the word "Kaatizone" in white lowercase letters on a red rectangular background. The letter "i" in "Kaati" has a yellow circular icon with a white question mark inside it.

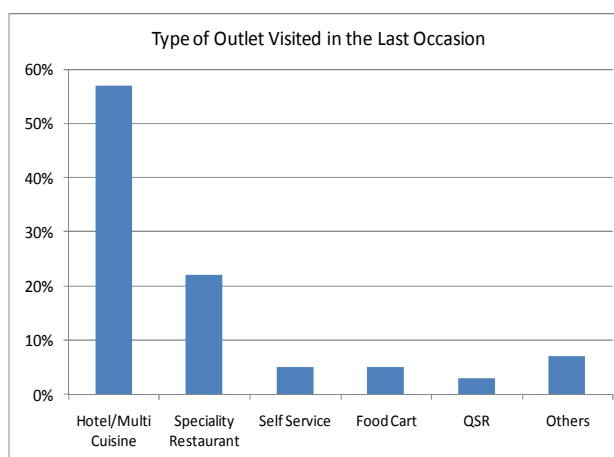
¹⁷ <http://en.wikipedia.org>

Type	Description
Fast food	Fast food restaurants emphasize speed of service. Operations range from small-scale street vendors with carts to mega-corporations like McDonald's. Also known as a QSR or Quick Serve Restaurant.
Fast casual restaurants	Usually do not offer full table service, but may offer non-disposable plates and cutlery. The quality of food and prices tend to be higher than those of a conventional fast food restaurant but may be lower than casual dining
Casual dining	A restaurant that serves moderately-priced food in a casual atmosphere. Except for buffet-style restaurants, casual dining restaurants typically provide table service. Casual dining comprises a market segment between fast food establishments and fine dining restaurants. Casual dining restaurants usually have a full bar with separate bar staff, a larger beer menu and a limited wine menu. They are frequently, but not necessarily, part of a wider chain, particularly in the United States
Family style	A type of casual dining restaurants where food is often served on platters and the diners serve themselves
Fine Dining	Full service restaurants with specific dedicated meal courses. Décor of such restaurants feature higher-quality materials, with an eye towards the "atmosphere" desired by the restaurateur, than restaurants featuring lower-quality materials and an eye away from the "atmosphere" desired by the restaurateur. The wait staff is usually highly trained and often wears more formal attire. Fine-dining restaurants are almost always small businesses and are generally either single-location operations or have just a few locations. Food portions are visually appealing. Fine dining restaurants have certain rules of dining which visitors are generally expected to follow.
Brasserie and Bistro	A <u>brasserie</u> has evolved from the original French brew-pub to a type of restaurant serving moderately priced hearty meals - French-inspired "comfort foods" - in an unpretentious setting; bistros usually have more refined decor, fewer tables, finer foods and higher prices. When used in <u>English</u> , the term <i>bistro</i> usually indicates a continental menu.

Type	Description
Buffet and Smörgåsbord	<p><u>Buffets</u> and <u>smörgåsbord</u> offer patrons a selection of food at a fixed price. Food is served on trays around bars, from which customers with plates serve themselves. The selection can be modest or very extensive, with the more elaborate menus divided into categories such as salad, soup, appetizers, hot entrées, cold entrées, and dessert and fruit. Often the range of cuisine can be eclectic, while other restaurants focus on a specific type, such as home-cooking, Chinese, Indian, or Swedish. The role of the waiter or waitress in this case is relegated to removal of finished plates, and sometimes the ordering and refill of drinks. Scatter buffet refers to the layout of separate food pavilions.</p>
Café	<p>Informal restaurants offering a range of hot meals and made-to-order sandwiches. Coffee shops, while similar to cafés, are not restaurants due to the fact that they primarily serve and derive the majority of their revenue from hot drinks. Many cafés are open for breakfast and serve full hot breakfasts. In some areas cafés offer outdoor seating.</p>
Cafeteria	<p>A restaurant serving ready-cooked food arranged behind a food-serving counter. There is little or no table service. Typically, a patron takes a tray and pushes it along a track in front of the counter. Depending on the establishment, servings may be ordered from attendants, selected as ready-made portions already on plates, or self-serve their own portions.</p>
Coffeehouse	<p>Casual restaurants without table service that emphasize <u>coffee</u> and other beverages; typically a limited selection of cold foods such as pastries and perhaps sandwiches are offered as well. Their distinguishing feature is that they allow patrons to relax and socialize on their premises for long periods of time without pressure to leave promptly after eating, and are thus frequently chosen as sites for meetings.</p>

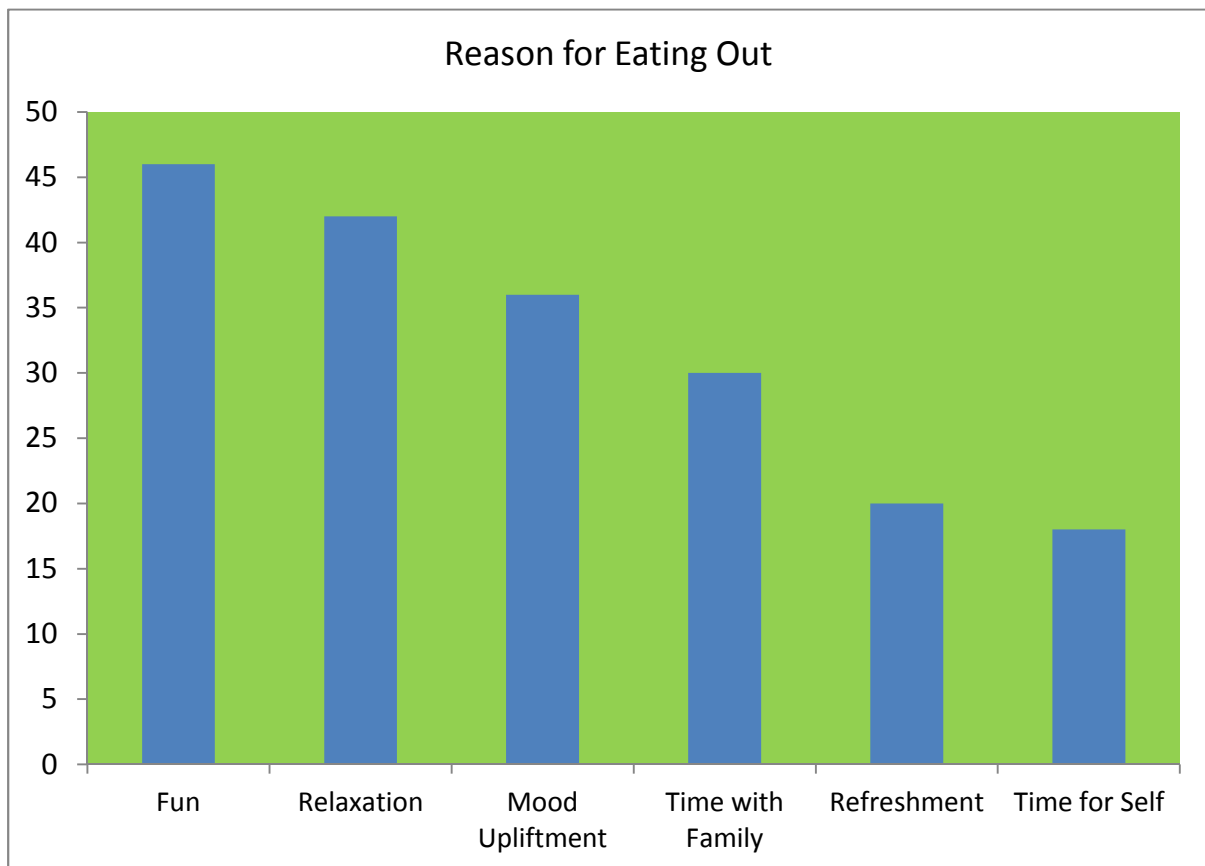
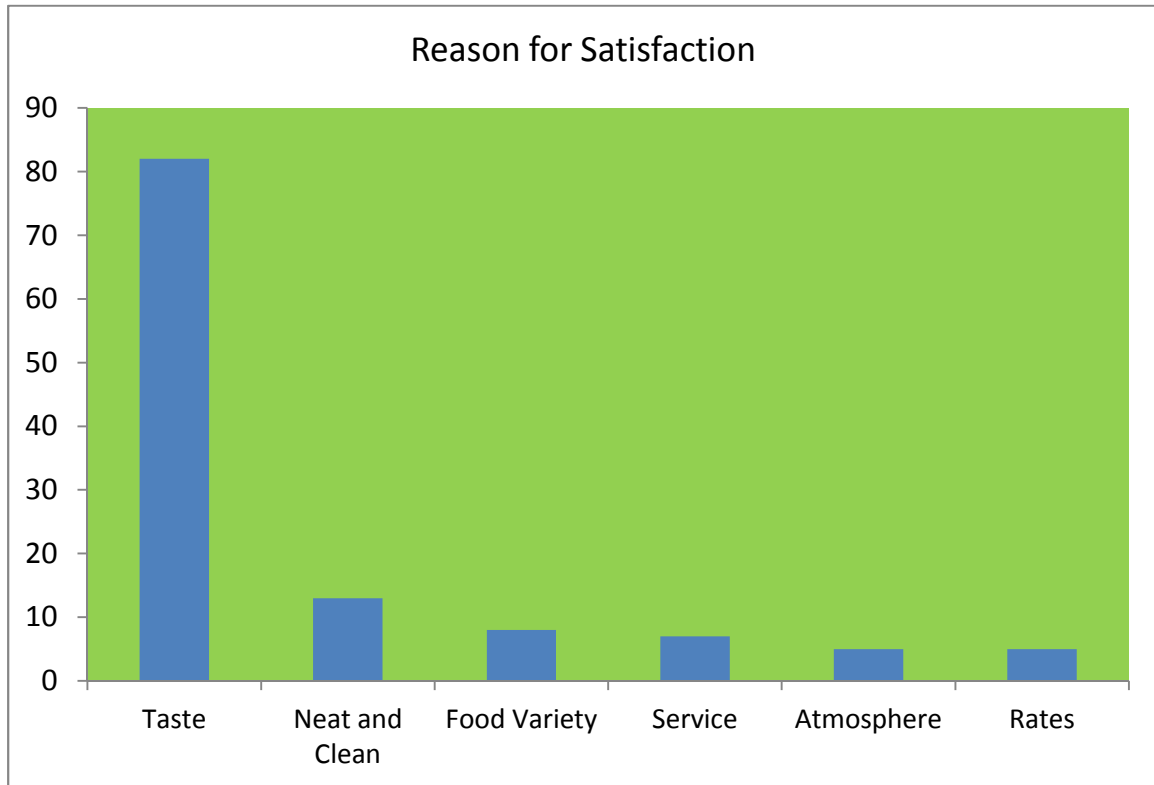
Type	Description
Destination Restaurant	A restaurant that has a strong enough appeal to draw customers from beyond its community
Tabletop Cooking	Customers are seated as in a casual dining setting. Food items are prepared by the establishments for cooking on embedded gas stoves, induction cookers, or charcoal grills; the customer has control over the heating power of the appliance
Pub	Mainly in the UK and other countries influenced by British culture, a pub (short for public house) is a <u>bar</u> that sometimes serves simple food fare. Traditionally, pubs were primarily drinking establishments with food in a secondary position, whereas many modern pubs rely on food as well, to the point where <u>gastropubs</u> are often essentially fine-dining establishments, known for their high-quality pub food and concomitantly high prices. A typical pub has a large selection of beers and ales on tap.
Bar	The counter at which drinks are served by a bartender is called "the bar". This term is applied, as a synecdoche to a bar as a business establishment that serves alcoholic drinks — beer, wine, liquor, and cocktails — for consumption on the premises. Bars provide stools or chairs that are placed at tables or counters for their patrons. Some bars have entertainment on a stage, such as a live band, comedians, go-go dancers, or strippers. Bars which offer entertainment or live music are often referred to as music bars or nightclubs.

Customers tend to visit different type of outlets. Multi-cuisine is still the most visited. QSRs are visited by only 3% customers.¹⁸ It is still emerging and would slowly become preferable as the values sought by customers revolve around the psychological benefit of fun and enjoyment. Customers choose a restaurant based primarily on food.¹⁹ However, they expect more than just food. The choice of the outlet and the format is hence hierarchical in nature. An outlet that qualifies in each of these would become a preferred outlet.



¹⁸ White paper on Indian Restaurant Industry, 2010, National Restaurant Association in India

¹⁹ White paper on Indian Restaurant Industry, 2010, National Restaurant Association in India



Size of Opportunity

An enterprise would need to arrive at the right size of the opportunity. “The fact that we employ ten times to what hotels employ, makes restaurants an integral growth story. The future is bright as we move ahead tapping the untapped zones like travel retail for example railway stations.”²⁰ This is not exactly the total market, but the size of the market seeking those values. Since everyone is likely to visit the outlet but has a lower frequency and also variety seeking, the enterprise would have to target the share of the requirement and the share of the wallet, than the share of the market.

Market Size Calculation						
Particular	Proportion	City 1	City 2	City 3	City 4	City 5
Total Population (Lakh)		10	30	50	100	150
SEC A/B/C	40%	4	12	20	40	60
Incidence of Eating Out	60%	2.4	7.2	12	24	36
Those spending more than Rs. 200+ per Visit	70%	336	1008	1680	3360	5040
Total Value (Number of Visits)	25	8400	25200	42000	84000	126000
Proportion Visiting QSR	3%	252	756	1260	2520	3780



The proportion to actual size to the gross potential is 1:10. A firm must therefore build infrastructure based on the actual size. Unfortunately, most of the players design the plan based on the gross leading to higher entry cost. The gross potential also drives new entrants making the market potential vanish or difficult to get. Vikram Bakshi, MD & joint venture partner, McDonald's India (North & East) added, “Establishing the business takes time in India, especially restaurants. Therefore, finding relevance for customers to come in a restaurant becomes a vital parameter of consideration. The sector is growing at 25 per cent per annum and the important aspect is to find your restaurant relevant.”²¹

Building Resource and Capabilities

The enterprise would, based on the opportunity, now have to build resources and capabilities required. The value desired to be delivered would be the pivot to identifying these resources and capabilities. The main resource is NOT money. It is just one of the factors of success. The critical resources are the infrastructure, attention to details, perseverance and customer orientation. The capability to manage every customer, every transaction and changing competitive challenges determine the success. It is not just opening the outlets; managing it to the changing customer expectations is the core. QSR is a people business. Technology is becoming a



core of this business. It encompasses the complete value chain from supply chain too production to delivery. In addition to food preservation, production and preservation technologies, successful QSRs tend to use information technology to manage their operations as well as delivering high

²⁰ <http://www.expresshospitality.com/20111015/market12.shtml>

²¹ <http://www.expresshospitality.com/20111015/market12.shtml>

quality in-store as well in-home services. This would be then translated into decisions with regard to kind and range of food, location, supply chain, people, organisation and pricing.

Conclusion

Eating out is a common phenomenon in India. Customers tend to go to different types of restaurants. They tend to show a variety seeking behaviour in terms of outlets and variety of food. This has created a large potential. The industry is also growing a rapid rate with some of the formats growing at more than 20% per annum. It characterised by its fragmentation with a large proportion being unorganised. Even the organised sector consists of smaller independent units, very few chains and much less Indian enterprises. Attempts are being made by firms like Dabur, Reliance, Calvin Care and Haldiram to develop chains. The progress is slow and fraught with risks.

This paper is an attempt to suggest a framework when starting or scaling up the business. The core of the framework is the value proposition that the company promised to its market based on value of the targeted consumer than the potential of the market. The process is bottom-up to reach at the top of the market. The value could be built around the chef, the food, location, pricing and experience.

Enterprises must choose one value on which the business would be built. In case it wants to address different value segment, it must choose different format that require a different business models, than a linear extension.



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