MARKET REPORT

HVS Monday Musings: Growth of Cloud Kitchens in India

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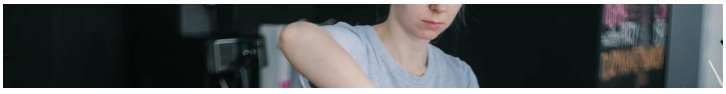
Cloud kitchens have grown in conjunction with dine-in restaurants in the past decade. This article discusses some of the factors that have helped in the growth of cloud kitchens in India.

Technology has become a part of every industry, and the foodservice industry is not far behind. Online ordering has become the norm as the convenience of one-click orders, timely delivery, and integrated payment systems are available from the comfort of your home. As per a recently released report, the Indian foodservice delivery market has grown at a CAGR of 33% during FY18-FY20 to US $5.2 billion in FY20 and is further expected to expand to US $13 billion by FY23. With the increasing penetration of food delivery services, the concept of cloud kitchens or delivery-only outlets, also known as ghost kitchens or virtual restaurants, has gained momentum in India.

Although cloud kitchens were prevalent even before the pandemic, the last year has made them much more lucrative, with people preferring online food delivery services over dine-in options due to the pandemic. As the lockdown led to the closure of restaurant dine-ins, food takeaway and delivery became the saviors for the foodservice industry. Despite the easing of restrictions, the majority of the population remained skeptical about dining out, leading to a drastic drop in customer footfalls at restaurants. Cloud kitchens thereby proved beneficial, owing to their restaurant-quality food being served in the safety and comfort of homes, with minimal contact with the outside world.

Evolution of cloud kitchens

Historically, the financial crisis of 2008 was the primary reason for the evolution of the concept of cloud kitchens globally. The traditional mobile canteens and food truck models have been in existence for a long time but witnessed increased popularity amongst cash-strapped consumers following the crisis, with high-end restaurants closing shutters. Technological advancements led to the era of online restaurants and ordering via social media platforms. The increased usage of smartphones helped land the food delivery concept in the hands of millions of consumers. Cloud kitchens cropped up as a solution to meet the growing consumer demand for hassle-free ordering, quick delivery, and providing a substantial variety of cuisines.





In the last decade, cloud kitchens, dubbed as the future of the food industry, have been emerging across India as well. Fassos, operated by Rebel Foods, founded in 2011, was one of the pioneers of this business model in the country. As per industry reports, the Indian cloud kitchen market is expected to grow five times from US $400 million in 2019 to US $2 billion in 2024.

With lower initial investment and operating costs such as rents and payroll, coupled with the ability to maximize orders and target multiple market segments, a cloud kitchen can break even within the first year itself. They also have greater flexibility, better efficiency, lesser risks, and increased opportunity to re-evaluate their offerings with evolving market trends. Needless to say, cloud kitchens offer a better margin to entrepreneurs compared to brick and mortar restaurants.

Though theoretically, the cloud kitchen model seems flawless, it does have its own set of challenges. While the setting up costs are less, so are the revenues. A cloud kitchen is a place where food is prepared and delivered to the doorstep while orders are placed via calls or online platforms. This means they rely on third-party delivery platforms for demand and delivery generation and pay heavy commissions to them. Moreover, a delayed pick-up or damaged delivery incident can tarnish the image of the cloud kitchen, which coupled with a lack of a physical storefront, make it difficult for them to build a loyal fan base. Also, with no ambiance, the prices must be modulated accordingly, with discount offerings, to attract customers.

The way forward

Cloud kitchens have grown in conjunction with dine-in restaurants in the past decade, both globally and India, driven by changing demographics, consumer preferences, and an increasing reliance on digital and mobile-friendly solutions. However, the clear line between dine-in restaurants and delivery-focused brands has blurred post the pandemic. Several hotel and restaurant operators are entering this space by introducing their own separate food delivery-centric brands. The hybrid business model – combining elements of delivery and takeaway with dine-in – offers quick service, convenience, and a restaurant-style experience to customers and diversifies revenue streams for operators, while helping them keep their costs minimal as they adapt to these evolving times.

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