

*A Research Paper On  
The Restaurant Services Market  
In India*

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*India accounts for 11.8% of the Asia-Pacific restaurants industry value*

*Market Value grew by 11% in 2014 to reach a value of \$151.6 billion*

*By 2019, the Indian restaurants industry will have a volume of 3,806 thousand employees, an increase of 9% since 2014*

*In 2019, the Indian restaurant industry forecasts to be at a value of \$245.5 billion with an increase of 61.9% since 2014*

*There were 692,298 thousand full service restaurants in India in 2013*

*Street and mobile vendors have the largest segment of the fast food market in India, accounting for 53.6% of the markets total value*

# Outlook of the Restaurant Services Market in India

## 1. Introduction

TAGS:

#Indian Restaurant Market

#Key Growth Drivers

#Annual Expenditure on Fast Food in Tier II & III Cities

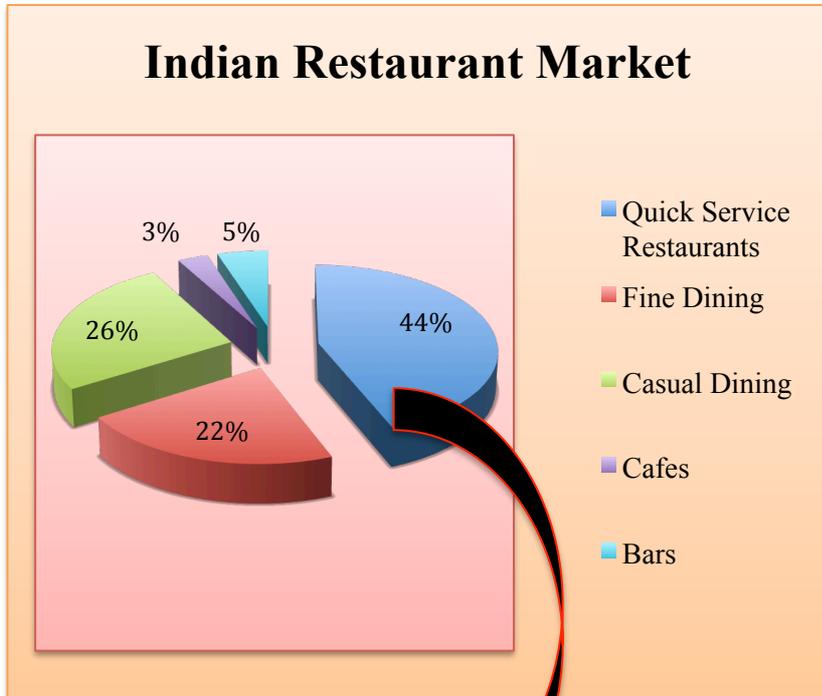
# Key prospects

#Snapshot of Investment Flow

#Growth in Indian QSR Segment

**1.1** India is one of the fastest growing economies in the world with an average growth rate of 7% over the past decade (The World Bank 2014). With a population of 1.2 billion, India offers to be one of the most lucrative markets for consumer products, therefore attracting a strong and continuous flow of investments in scalable businesses with a strong back end supply chain. As the purchasing power of the middle class increase along with the urbanisation of smaller cities, the demand for quick service restaurants, fine dining and casual dining restaurant will grow manifold in years to come. The estimated size of the food and beverage industry is valued at USD 341 billion (Linklaters 2013) within which the country’s restaurant sector is valued at USD 48 billion, with a potential to grow to USD 78 billion by the year 2018. Such demand represented by one of the most promising and emerging markets in the world implies businesses to invest in a market with large potential to flourish.

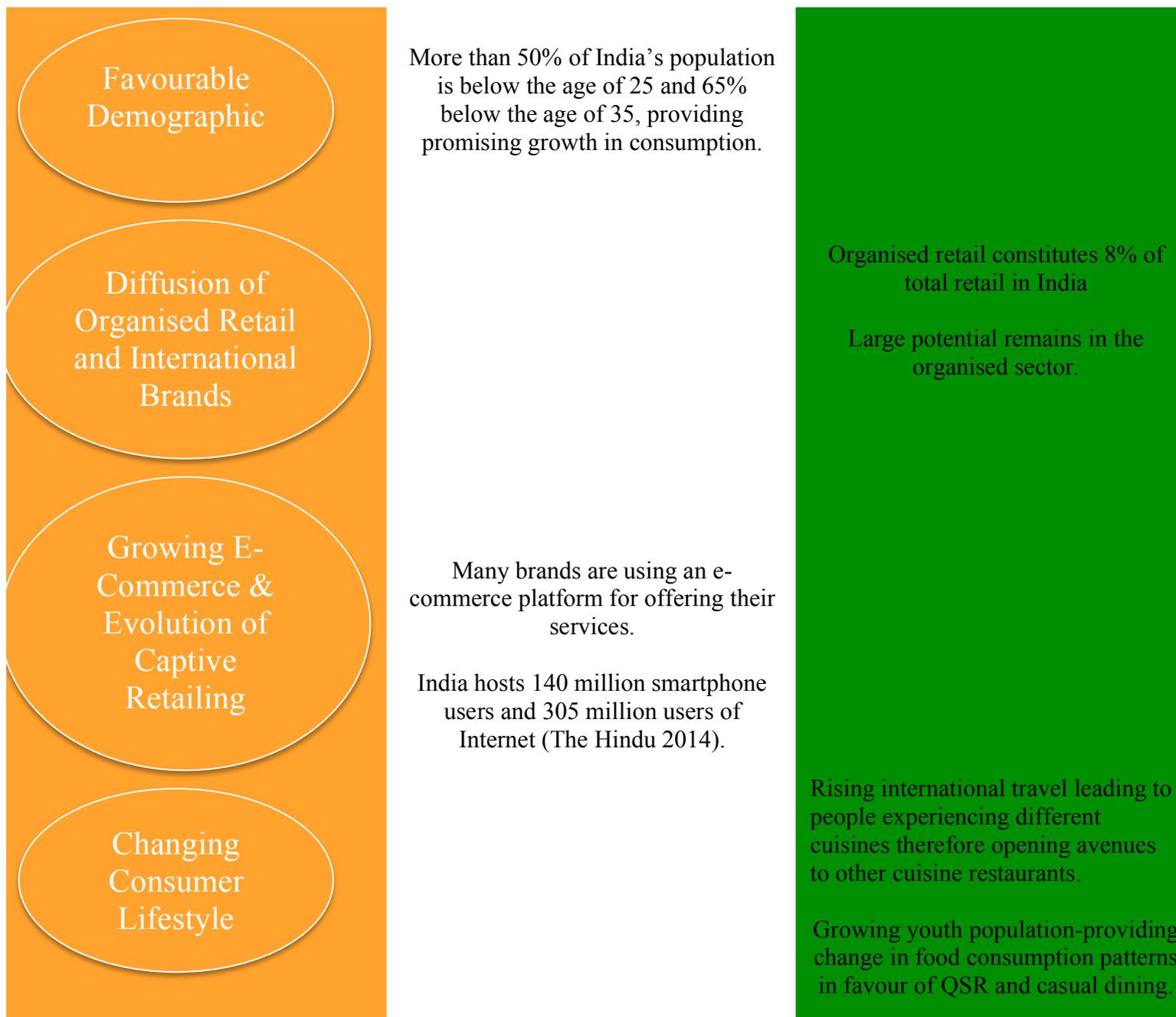
The restaurant services market has been divided into four areas; quick service restaurants, fine dining, casual dining and cafes, bars and pubs. The food and beverage service market has witnessed a compounded annual growth rate of 20% (Technopak 2012). The overall scenario of the food and beverage sector has transformed from a time where a handful of restaurants existed to a time now where consumers are flooded with choices of cuisines, locations and range of prices.



Quick Service Restaurants account for 44% of the restaurant market and together with casual dining contribute a market share of 70% in the financial year 2013 (PWC), therefore accounting for a major portion of the revenues of the organised market in India (Reuters 2013)

## 2. Key Drivers of the Market

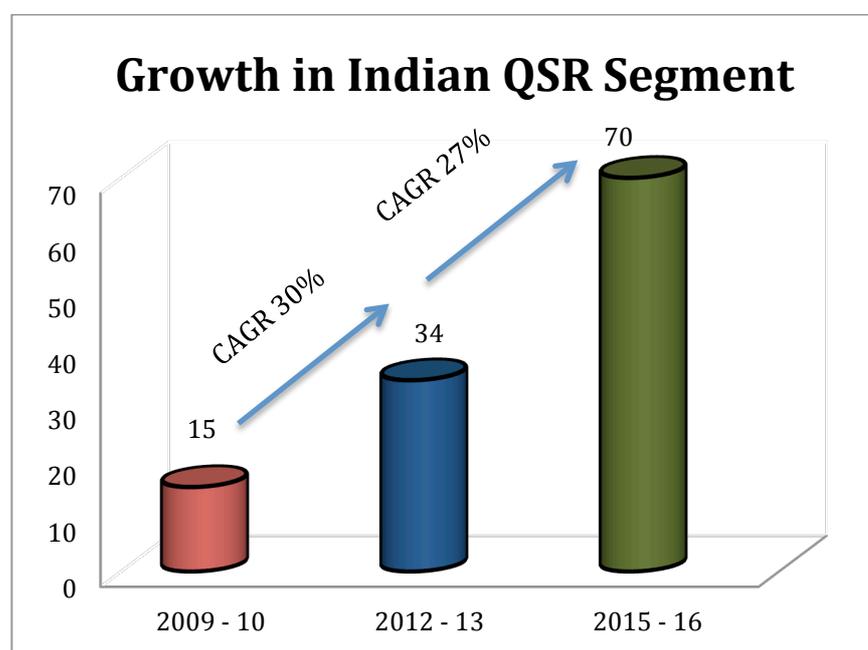
2.1 The Indian food and beverage industry has witnessed healthy growth over the recent years and has illustrated a forward moving approach, resulting in multiple factor that escalates consumption for F&B industry in India. The diagram below depicts the major factors that are contributing to the growth of this industry.



**2.2** India presents countless opportunities in the restaurant service market being the second most populous country with 65% of its population below the age of 35 proposing enormous growth prospects for existing and new restaurant businesses. It can also be noted that India is likely to become the world's youngest country, with 64% of its population in the working age group presenting interesting opportunities for the quick service restaurant and casual dining segment. Growth of the middle class, supported by the growing Indian youth population is also a driving force in India's rising consumption story. With the increase in spending power, the Indian consumer market is seeking more entertainment options, driving the growth of the restaurant segments.

Moreover, the increasing penetration of the organised sector contributing 8% to the total retail in India suggests huge potential for the organised sector to grow. Existing global brands have been popular amongst the Indian consumer market due to their capability of adapting to the local taste of India and continue to penetrate the Indian market. Amid the growth of mall culture and organised retail, food service industry is also expected to grow within.

It is evident that with the development of new avenues along with the increase of food courts at malls, forecourts, airport and railway lounges and along freeways is driving growth of the organised Quick Service Restaurants and dining segment.



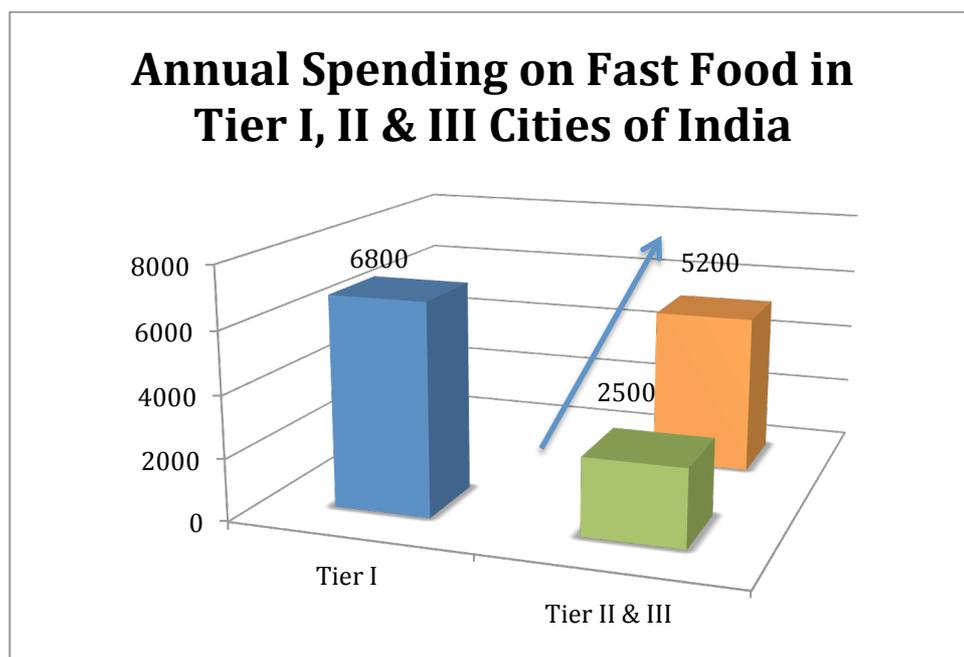
Source: CRISIL Research 2013

It can be viewed that the Indian Quick Service Restaurant Market has grown over the 5-year period, depicting positive growth in this segment in the future.

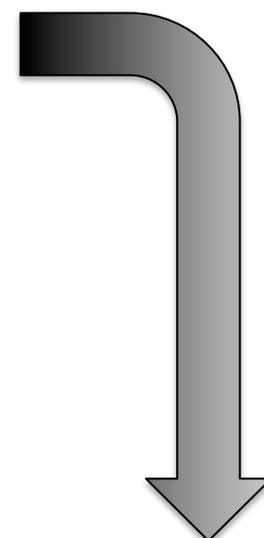


India currently holds more than 300 million Internet users, of which 173 million accesses Internet using their mobile devices (TOI 2014). Such figures depict enormous growth opportunities for companies like Zomato who provide reviews, location services, contact details, customer ratings and various other services for restaurants. This helps build the reputation of restaurants and enable them to be visible to a wider range of audience. It makes the Indian consumers more aware of the available options around them and at the same time becomes an advertising tool for new and upcoming restaurants.

2.3



Source: The Associated Chambers of Commerce & Industry in India 2014

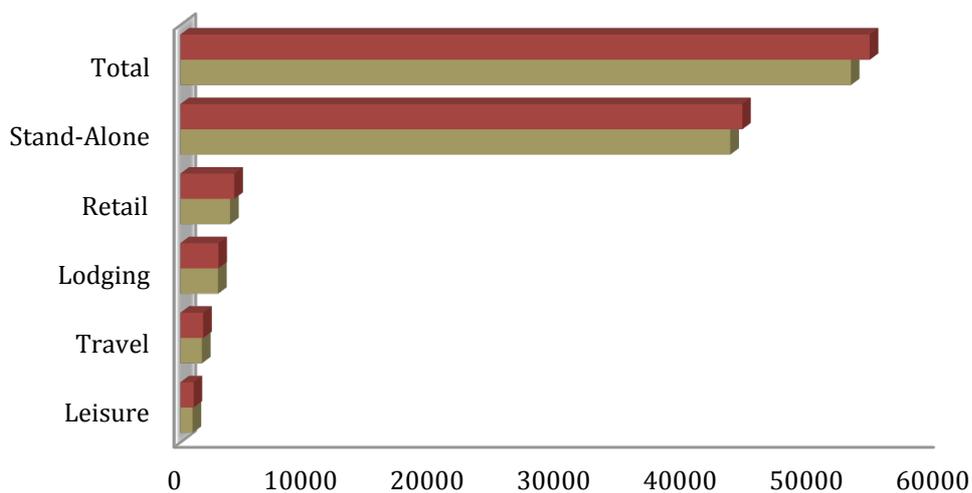


108% growth on spending's in fast food restaurants over the past 2 years in the Tier II & III cities (ASSOCHAM 2014)

According to the ASSOCHAM, the rising needs of consumers for convenience, increased appetite and hunger for international cuisines and exposure to global media, the annual spending of middle class households of tier II and III cities have witnessed an increase of 108% growth over the last two years (ASSOCHAM 2014)

The factors propelling this buoyancy include the changing economic and demographic profile of consumers in India who are exposed to international brands and are far more aware of global trends.

### Sales in Full Service Restaurants by Location in India



	Leisure	Travel	Lodging	Retail	Stand-Alone	Total
2013 (in \$US mn)	1,034	1,796	2,994	4,246	44,367	54,438
2012 (in \$US mn)	953	1,694	2,965	3,918	43,420	52,951

■ 2013 (in \$US mn) ■ 2012 (in \$US mn)

Source: Euromonitor National Statistics 2014

### 3. Competitive Landscape

**3.1** With the rise in competition and constantly growing markets, brands are required to design an opportunity to differentiate themselves from others. While price-based competition exists within the industry, fast food establishments also compete on various fronts such as, location, food quality, style and presentation and food range. Innovative products, including healthier items, are introduced frequently, while variety and service are also fundamental.



The use of social media and technology has become a vital tool used by Franchises and Restaurants to reach a wider range of consumers, providing them with a platform to present their views and ideas on how these companies can do better. Social media is also an effective tool for marketing as it provides brands with the ability to interact and engage with more people in real time (Angeles 2014).

On the hand technology however has made the experience for consumers more interactive and enjoyable with their online ordering and mobile applications. Dominos Pizza offer a online Pizza tracker which provides the real time status of the customers order and have also designed a new way to interact with their customers via a feature of chat where in customers can interact with the representatives about their order or any query (Jubilant FoodWorks Annual Report 2013-14).

This is how Dominos choses to distinguish itself from its competitors by offering addition services to their customers that create value.

**3.2** There is significant competition between franchise operators and other single-location fast food restaurants. Although franchise operators account for a relatively small share of establishments, their share of industry revenue is much larger. This relates to the distribution of their establishments, prominently in high-traffic locations along with ongoing investment in marketing their brands. However, an upward trend can be noticed towards the co-location of several different fast food establishments in the same geographic area such as in food courts at shopping malls and airports.

The competitive environment within full-service restaurants in India continues to be fragmented. Dominos Pizza enjoys a high brand recall in the home delivery channel whereas Pizza hut experiences high traffic in the seating in segment (Euromonitor 2014)

Innovation in food offering is an important trend that MNC's follow in order to create competitive edge.

Pizza Hut introduced Birizza, a combination of pizza and biryani for the Indian market in April 2014 (Euromonitor 2014)

### 3.3 Nutritional And Dietary Requirements



Subway differentiates its offering by providing a healthier alternative in the quick service restaurant market. Moreover, Subway also provides nutrition comparative tool charts, which allows its customers to compare the nutritional value of upto three subs. With the growing health conscious society of India, fast food chains would need to make their offering healthier and add nutritional value to expand their customer base.

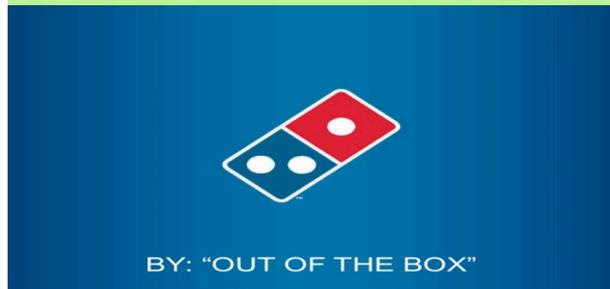
### 3.4 Consumer Connect and Loyalty

International brands employ different strategies to create a customer loyalty towards their brand. Many brands develop loyalty programs that increase customer engagement and provide discounts to customers who are visiting their stores on daily basis. Starbucks uses My Starbucks Rewards, which provides 1 star every time a customer spends INR 300 with their registered Starbucks Card at the store.



**3.5 Entry of Top 10 Foreign QSR Players**

<b>McDonald's</b>
<b>Kentucky Fried Chicken</b>
<b>Subway</b>
<b>Pizza Hut</b>
<b>Starbucks</b>
<b>Burger King</b>
<b>Dominos Pizza</b>
<b>Dunkin' Donuts</b>
<b>Papa John's</b>
<b>Krispy Kreme</b>



Currently, India's quick service restaurant segment is worth INR 60 billion and is expected to grow 26% each year to reach an astonishing INR 117 billion, fuelled by the arrival of more international chains and strengthening of local players

Fast food chains are estimated to grow at 30% CAGR by 2015. Mc Donald's and Subway are broadening their vegetarian menus every year by incorporating tradition flavours. Mc Donald's Masala Grill, Paneer wraps are some of their Indian offerings only.

Foreign brands dominate the Indian QSR market segment with higher market share and the ability to cater to a larger number of customers. However, domestic brands are also keeping pace by trying to scale up their operations and use their understanding of local taste of the Indian market to their advantage. The local QSR players include Café Coffee Day, Nirula's, Kaati Zone and Goli Vada Pav, who are successfully holding on to their niche customer base.

## 4. Major Challenges: Hampering The Growth Of The Market

### Competing with the Unorganised Sector

The Indian market loves variety and localised flavour. Thus, the demand for unorganised sector exists, which comprises of most of the market. This sector offers low selling prices due to their low cost of infrastructure, facilities, labour, material and regulatory compliances.

### Real Estate Cost and Availability

At time multinational brands possess low negotiation power with developers who offer feudal terms in terms of location and revenue sharing. Furthermore, development of upcoming sites have paced down over the years placing further stress to brands on the availability of quality places.

### Availability of Trained Labour

Another challenge includes the availability of competent manpower and high attrition due to plundering from domestic and international competitors and unrelated sectors. Organisations also incur high personnel costs, which account for 15 to 20 percent of their revenues.

### Infrastructure and Supply Chain Issues

Scalability is reduced due to the absence of adequate and necessary infrastructure. The unavailability of raw materials restricts the width and depth of cuisine and price offerings. Locating and building relationships with a good vendor base takes time and money ultimately reducing the pace of growth.

### Access To Capital For Growth

As India is inviting a lot of interest from large fast food chains, businesses will need to make their business model scalable, which will be a key differentiator. Therefore, businesses will require capital infusion to support growth.



## 5. Addressing The Challenges

Place grave importance to customer service

Structuring of the store size for optimum utilisation of space

Partner with training institutes to bridge labour requirements and focus on retaining front-end staff

Differential pricing strategy - use competitive pricing for standard services and premium pricing for niche products

Set up special lease agreements on a revenue sharing basis

The restaurant service players primacy is to display consistency in offering a memorable experience to its customers with quality food, attractive pricing, reasonable food portions along with a good customer service experience and ambience. The market can also adopt differential pricing strategy where in competitive pricing is offered for standard services like at McDonald's, Haldirams, KFC and Subway and premium pricing for niche products like Bukhara, Mainland China and Indigo.

The restaurant players also need to pay attention to minimising cost and maximising value by adopting strategies such as preferential lease agreements on a revenue-sharing basis and optimum utilisation of space. Furthermore, restaurant service market can set up alliances with training institutes to bridge labour requirements. This will reduce staff turnover and improve efficiency within the market.

## 6. Key Prospects For Tapping Growth Opportunity

### **Innovation in menus with relevance to the consumer set**

Engaging with consumers about what they like and maintaining consumer interest is vital. Innovation in menus that brings variety and at the same time build a healthy eating culture will drive footfalls of regular customers. Building close relationship with the customer is fundamental to the restaurant service sector as it drives future revenue for the organisation.

### **Managing a diverse customer portfolio**

To utilise capacity, restaurants are required to align with customer requirements. For example, buffet offering during lunch hours meet the quick service demand of customers.

### **Infrastructure and Supply Chain Management**

A new competitor may need to invest 20 – 50 percent of total investments in establishing back-end operations such as sourcing, processing units, and storage and distribution.

### **Modes of Communication and Incorporating Technology in the Delivery Process**

Communication across media platforms such as Facebook, Twitter is fundamental to generate and sustain interest in restaurants. A good example of incorporating technology in the delivery process would be the Pizza Tracker at Dominos Pizza. This differentiates Dominos Pizza from its competitors and provides other players in the market with an opportunity to develop and integrate a unique taste of their own to create value for their offering amongst consumers.

## 7. Snapshot of the Investment Flow in the QSR Segment

ICICI Venture acquired 10% stake in Devyani International who is the master franchisee of Pizza Hut, KFC for \$55 Million.

Mast Kalandar, a Bangalore based QSR chain, secured a second round of investments from Helion Venture Partners, Foodprint Ventures and Salarpuria Group.

Yo! China received funding of \$5.5 Million from the Matrix Partners.

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

Starbucks the world's largest coffee chain was brought to India under the name TATA STARBUCKS, a 50:50 joint venture between Tata and Starbucks.

## 8. Conclusion

With the on set of the advancement in the restaurant services market, the Indian market has to offer large prospects in the fast food, casual dining and fine dining segments. The proposition made by one of the fastest growing economies in the world will offer potential entrepreneurs an opportunity to invest in this sector, which has tremendous growth opportunities.

QUICK SERVICE RESTAURANT SEGMENT  
IS ESTIMATED TO GROW AT 30% CAGR BY  
2015

INTERNATIONAL FOOD CHAINS ARE  
INTRODUCING MORE AND MORE ITEMS TO  
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LOCAL TASTE AND FLAVOUR

YOUNGER POPULATION, GROWING  
URBANISATION, HIGHER SPENDING,  
INCREASE IN TRAVELS AND EXPOSURE  
TO WESTERN LIFESTYLES ARE LEADING  
TO THE ADOPTION OF NEW DIETARY  
HABITS

INDIA' S QUICK SERVICE RESTAURANT  
SEGMENT IS WORTH INR 60 BILLION AND  
IS EXPECTED TO REACH INR 117 BILLION  
BY 2017 WITH THE ARRIVAL OF MORE  
INTERNATIONAL FOOD CHAINS AND  
STRENGTHENING LOCAL PLAYERS

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## **9. Sources**

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*THE ASSOCIATE CHAMBERS OF COMMERCE & INDUSTRY IN INDIA*

*EUROMONITOR DATABASE*

*IBIS WORLD INDUSTRY REPORT*

*SPECIAKITY RESTAURANTS ANNUAL REPORT*

*FOOD NAVIGATOR*

*FNB NEWS*

## Disclaimer

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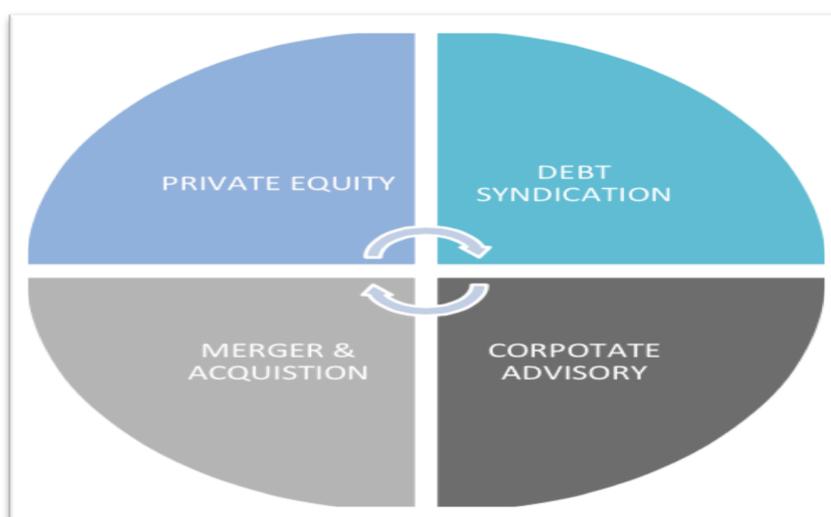
*Value Addition through **Best Practices** and **Proactive approach***

## CORPORATE FACTS

### Who we are:

- ❖ Branch offices in Bangalore and Gurgaon.
- ❖ Leading clients from 15 countries.
- ❖ Strong direct access to promoters of listed and un-listed corporates.
- ❖ Good success rate in Healthcare, Hospitality, Real estate, Auto Component, Education and many more.
- ❖ Associate firm of R.N. Marwah & Co. LLP, Chartered Accountants which has been established since 1946.

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The philosophy of RNM is to assist clients achieve business success through our professional advice and specialised services thereby creating long lasting relationships based on mutual respect, trust and confidentiality. Knowledge, principles, dignity, innovation and out of the box thinking are our hallmarks.

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