

Trends
technopak | 2014

India Food Services Trends

www.technopak.com

About the Trends

The year 2013 has been a mixed bag for food services operators in India. On the one hand, the entry of several global chains was announced, which indicates a positive outlook within the Indian food services sector. On the other hand, pressures from both supply and demand sides kept operators on their toes and presented newer challenges.

The year 2014 is likely to be a critical year for the Indian economy. General Elections are scheduled in the second quarter of the year and thus, no major policy changes can be expected in the first half. It can only be hoped that the voters will deliver a clear verdict and that the next government will take urgent and concrete steps towards reviving a sluggish economy and boost market sentiment.

We have captured some expected trends for the year ahead, both on the consumer as well as operator fronts. These cover the aspects of operational efficiency, social marketing, choice of menus and concepts as well as their extensions, as also emerging F&B destinations.

The Indian consumer essentially remains diverse in choice and dynamic in nature, demanding newer, better, and more innovative F&B options spanning more variety, delightful taste, superior quality, and better value every day. It is this consumer that drives the growth of the business more than anything else and it is in exceeding the expectations of this vibrant consumer that foodservice operators will find their true calling.

Food Division Services

Business Strategy

- Opportunity Assessment
- India Entry Strategy/Market Entry Strategy
- Competitive Assessment
- Business Plan Development
- Business Expansion Plan

Supply Chain Assessment

- Supply Chain Strategy
- Inventory, Warehouse and Logistics Management
- Process Re-Engineering

Performance Audit

- Revitalize Business Positioning
- Evaluate Product, Price, Market, and Location Strategy
- Address Opportunities for Improvements
- Conduct and Establish Plant Audit Process

Turnkey Solutions

- Feasibility Studies, Business Planning
- Technology/Machinery Selection
- Product Selection and Development
- Implementation Support

Sector Opportunity Scan

- Industry/Sector Specific Snapshot
- Define Processing Mix or Crop Mix
- Marketing and Procurement Planning
- Equipment, Machinery and Infrastructure Planning
- Land Use Planning
- Develop Detailed Business Plan

Implementation Assistance

- Project Management Consulting
- Construction Management Support

Partner Search

- Business Strategy for the Local Market
- Identify and Shortlist Prospective Partner
- Schedule Meetings
- Signing of MoU and Partner Selection

Sector/Consumer Insights

- Trends and Consumption Insights
- Segmentation Studies
- Product Testing

Contents

01

EFFICIENCY: A KEY
FACTOR FOR GROWTH

02

UNLIMITED FOOD
LIMITED PRICE

03

INDIAN CUISINE
REVITALIZING THE LOCAL
DINING EXPERIENCE

04

GROWING DEMAND FOR
TAKEAWAY AND HOME
DELIVERY SERVICES

05

CONVENIENCE FOOD
GAINING SHARE IN THE
MENU

06

SOCIAL MEDIA
STIMULATING THE BRAND
CONNECT

07

INCREASING IMPORTANCE
OF SIDES AND DESSERTS
WITHIN THE MENU MIX

08

GROWING CULTURE
OF TASTING MENU &
SMALLER PORTIONS

09

INCREASING
INFUSION OF HEALTH
FOOD

10

EMERGENCE OF NEW
10 F&B DESTINATIONS

Authors:

Reetesh Shukla | Associate Director
Ravindra Yadav | Principal Consultant
Vidul Sharma | Principal Consultant

Design & Development:

Arvind Sundriyal | Assistant Manager-Design
Sonali Rawat Sharma | Graphic Designer

TREND
01

Efficiency

A Key Factor for Growth

2013 has been a tough year for Indian F&B operators. While the entry of global players like Starbucks and Dunkin' Donuts was seen as a positive step towards the globalization of the Indian industry, the cost of operations has been posing a continual challenge and operators are having a tough time keeping their necks above water. The past year saw an unprecedented increase in prices of all F&B inputs, with Fruits and Vegetables (F&V) leading the pack throughout the year. The coming year seems to offer no respite, and operators may continue to face twin pressures, from a decline in demand as well as from increasing costs. Efficiency will not only continue to be the buzzword but will, in fact, become a necessity for survival for food service operators.

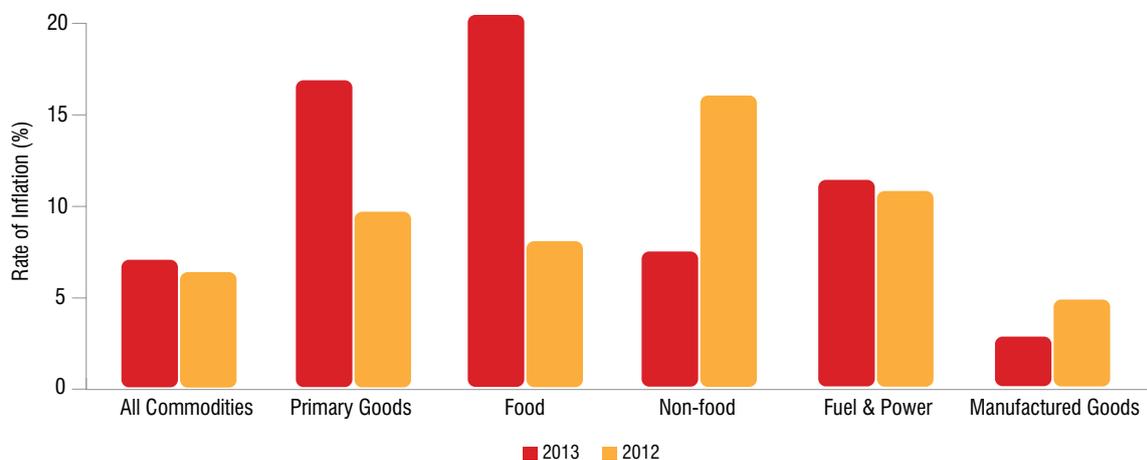
Inflation in Food Prices

While the past 5 years saw inflation remaining consistently high, 2013 was exceptionally challenging with prices rising on average over 10%. Food inflation stood at 19.93% in November, 2013 and was the highest contributor to the overall inflation rate (7.52%).

Given that 2014 is an election year, the actual rate of inflation will also be impacted by the mandate delivered by the voters; a fractured one can mean an extended uncertainty over policymaking by the new government. At this juncture, however, going by past trends, a medium-to-high food inflation rate can be expected in the coming year as well.

Exhibit 1

Inflation by Commodity

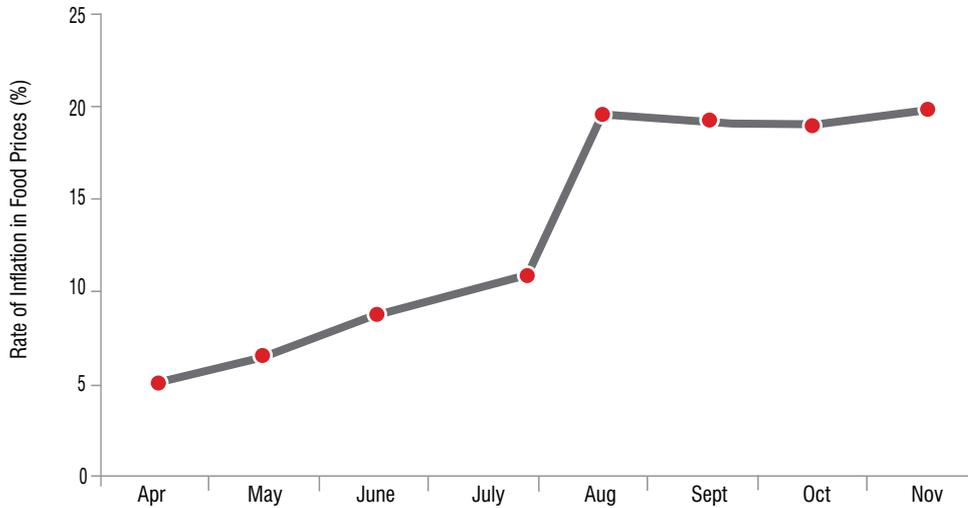


Source: Ministry of Commerce, Technopak Analysis



Exhibit 2

Inflation in Food Prices, 2013



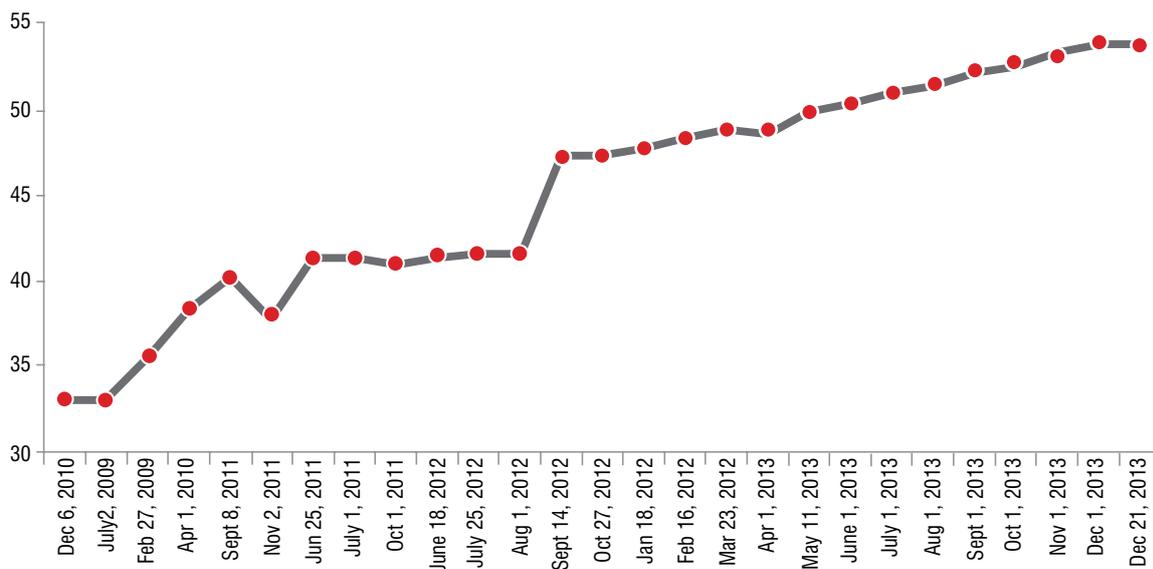
Source: Ministry of Commerce & Industry, Technopak Analysis

Staff Costs: In view of the persistently high rate of inflation this year, the dearness allowance (which is linked to the Wholesale Price Index (WPI)) was hiked, leading to an increase in the cost of labor and further pressurizing the industry. In the coming year, the average wage increase is anticipated to be ~11%, as a consequence of which it will be increasingly imperative for operators to keep a sharp eye on this cost head.

Energy Costs (HLP): The average increase in energy costs this year was 11%. The price of diesel in Delhi, for instance, increased at a CAGR of 18% from INR 32.86/liter (l) in December, 2010, to INR 53.78/l in December, 2013. This has impacted not only the cost of logistics but also the cost of power backup for operators. This trend, of increasing diesel prices, is expected to continue, given the government’s stated policy of reducing diesel subsidy in a bid to contain the Current Account Deficit (CAD).

Exhibit 3

Price (per litre) of Diesel in Delhi (INR)



Source: Secondary Reports



At the same time, the higher cost of diesel has increased input costs at the farm level, leading to a further spike in food prices. Simultaneously, the costs of electricity and cooking gas have also increased, adding to the burden on most food service operators.

Occupancy Costs: Despite a slowdown in 2013, India continues to experience a shortage of quality real estate. Given that location is the most important factor affecting the success of food service operators, the demand for quality locations is always high thereby resulting in a high occupancy costs at good quality locations. For food service operators, rentals can amount to anywhere between 8-25% of their revenues, depending on the format. This is in sharp contrast to operators in developed economies, wherein the typical cost of occupancy is ~15% of revenues. Apart from rental costs, Common Area Maintenance (CAM) charges, levied by mall operators, have also seen a sharp increase in tandem with the rise in such input costs as security, housekeeping, and common area power costs. For most chain operators, expansion is necessary in order to achieve economies of scale and neutralize fixed corporate overheads. Since these operators are seen as “bulk” consumers of real estate, they are generally able to manage more efficient rental deals, with some of the risk covered via revenue-sharing. While they will continue to drive the demand for real estate, it will create additional pressure on small and non-organized operators due to their weaker negotiating power with developers.

The Way Ahead

2013 saw a further slowdown in GDP growth, leading to a general slowing of demand. Given the uncertainty over employment continuing for most of the year, households cut down on aspirational/non-essential expenses, to get maximum value out of each rupee spent. As a result, the F&B industry, which is already challenged on the cost front, has not been able to pass on the impact of spiraling prices to the consumer, adding to the pressure on bottom lines. The greatest impact is felt by non-organized players who are least insulated against inflation, and by the value-driven chains for whom entry-level pricing is a key demand driver.

In the coming year, operators will have to walk a tightrope in terms of balancing high input costs while generating additional revenues in an otherwise low-growth economy. They will have to improvise on their sales and marketing strategies to attract consumers and, at the same time, indulge in smart menu engineering, efficient use of real estate, smart hiring and strict F&B controls to cushion the impact of high input costs. The last quarter results of major food service players has actually shown a degrowth, which is a cause of serious concern for them.







Unlimited Food Limited Price

Fixed price menus have emerged and evolved within the Indian food services space in recent years, and especially in the CDR and FDR formats. Their growth can be attributed to the changing lifestyles of the urban population (of which youngsters make up a high proportion), double income households, and single working women with a high propensity to spend. Furthermore, the increased exposure to eating out in the media has helped develop the market by enticing people to try new cuisines, concepts, and recipes, and eat out frequently. This widespread shift in lifestyles has encouraged operators to try formats and concepts that cater to the needs of this growing segment and give them an engaging platform. Fixed buffet menu restaurants, which were traditionally popular within hotels, have registered growth outside such premises as well. CDRs and FDRs are now coming up with fixed buffet menus that offer a medium-to-large spread of options in various meal courses at a fixed price.

Fixed Menu-based Formats

Barbeque Nation, which started operations in 2006, now has more than 35 operational outlets, while Pirates of the Grill has 3 outlets. Apart from these, brands like Sigree Global Grill (4 outlets), Pind Balluchi Grills and Platters (3 outlets), and Indian Grill Room and Chutney Chang (2 outlets each), also follow a similar model. While the break-evens are high given the higher space requirement and food costs, there is significant revenue potential and, at higher revenue levels, a high ROI is assured.

In the FDR segment, The Great Kabab Factory operates 17 outlets, with 15 in India and 2 abroad, and has been successful for many years. The popularity of the concept arises from several benefits that appeal to consumers, including the greater variety of dishes, the unlimited portions, the fixed price, and the sheer experience. The suitability of this format when eating out in large groups is another attractor.

Greater Variety

Consumers might have a fixed menu from which to choose, but they can try a greater number of dishes unlike a la carte concepts wherein the offerings are limited given that dish is individually priced. The added attraction for consumers is that they can sample every course, viz. soup, appetizer, salad, main course, and dessert, and, in comparison to the cost of ordering each course separately, the cost appears to be a great bargain.

Unlimited Portions

Apart from the wider choice available, there is also the added benefit of “eat-all-you-can” portions, of which multiple helpings are served based on consumers’ choice. In addition to sampling more dishes, consumers can also partake of greater quantities of the most-preferred dish, again without impacting the cost of the meal.



Fixed Price

Consumers are also drawn to this format by the fixed price aspect, which, although different for vegetarian and non-vegetarian meals, offers much at one price. Also, there are no surprise costs attached, which helps conscious consumers plan meal budgets without giving up on any meal component.

Experience

Operators have also focused on improving the customer experience through innovative means. Adding a live grill to the table, for instance, as Barbeque Nation has done, creates that essential amount of theatre to the experience. People become chefs for their tables by selecting their marinades and applying them to nearly-cooked products. This also makes the dining experience more exciting and immersive for the customer.

Well-suited for Large Groups

Irrespective of whether it is a group of professionals or family and friends, these concepts are excellent for eating out as a large group. There is enough variety to suit everyone's tastes; the portions are unlimited; and the price is fixed. Guests need to spend less time in ordering and passing dishes around, and thus get more quality time to interact with each other. For the host, the foreknowledge of the cost of the meal eases any anxiety, allowing him/her to enjoy the company and the meal.

Key Considerations for Operators

The fixed price formats in the Casual Dine Restaurants (CDRs) and Fine Dine Restaurants (FDRs) spaces work very differently from a la carte formats in terms of space requirement, food costs, staff requirements, menu planning, as well as sales and marketing. These formats need larger spaces and correspondingly higher investments, larger dwell times resulting in lower seat turnover, lesser upselling opportunities, higher food costs, greater controls and have higher breakeven points as compared to pure a la carte models, factors that operators need to take cognizance of while doing their business planning. However, on the consumer side, they seem to have captured the imagination and are delivering handsome revenues and returns to the operators, resulting in greater growth of these concepts.





Indian Cuisine

Revitalizing the Local Dining Experience

While the last few years have seen the Indian Foodservices market take giant leaps in terms of exploring cuisines from all corners of the world, recent trends suggest a parallel increased interest in the Indian cuisine, even beyond the traditionally popular North & South Indian variants.

Indian cuisine is widely accepted as one of the most broad-ranging and interesting cuisines worldwide. The regional diversity and variation in soil and climatic conditions make India an agriculturally-rich country, and nowhere does this manifest itself better than in the spread and strength of regional cuisines. Restaurant operators today are not only dipping into these cuisines to present local favorites in an organized and hygienic setup, but are also innovating to come up with delicious twists. Some examples include Punjab Grill's Chukander ke Kebab and Paan Shots; Dhaba by Claridges's Paan Kulfi; Punjabi by Nature's Golgappa Shots; and Made in Punjab's Bhel in a Cone, Kheema Kaleja on a Maska Bun, and Mutton Seekh Kebab with Blue Cheese dressing, etc.

Having realized the potential of the organized food services market, operators are trying to innovate and come up with newer concepts that can help them cash in on the extant opportunity. Punjabi by Nature, for instance, has launched its 'Punjabi by Nature Express' format aimed at food courts. In the QSR category, Kebab Express, by Rossell India, has launched 2 outlets in Delhi/NCR and plans to open 30 more across the country over the next three years, with a focus on efficiency and speed of service. This trend is expected to gain traction, especially given the time-poverty of today's consumers.

While, on the one hand, Indian foodservice operators continue to focus and innovate by dishing out the food closer to home, they are also invoking nostalgia in the process. With the change in lifestyles, it has become increasingly difficult for working women or even housewives in the country to produce some time and labor intensive "traditional" dishes which seem to have gone out of our kitchens, but can thankfully still be enjoyed at a restaurant. In the process these restaurants create a feeling of deja-vu and earn the loyalty of their patrons.

The other interesting offshoot of this increasing interest in local cuisine is the growth of regional cuisine at the national level. The Gujarati thali, Rajasthani thali, and Punjabi thali can now be had in any part of the country. Hitherto local chains like Vasudev Adiga's, Mast Kalandar, Ammi's Biryani, Goli Vada Pav and Kaati Zone are rapidly expanding their footprint to venture into newer parts of India and cater to the widespread, value-centric Indian audience.

Haldiram's and Bikanervala, which started out as pure-play sweet shops are also now well-established in the QSR space. These sweets-cum-snacks outlets are being seen as a revenue churning, as they seem to be age-, class-, and occasion-agnostic. Given that they also have a low cost-to-sales ratio, they offer a viable financial opportunity as well.

Indian food will not only continue to be relevant in India, but will thrive and reach new pinnacles of innovation and rediscovery in the years to come. This will happen largely because of, and not despite, a huge youth population in the country, which is as happy to consume butter chicken and Masala Dosa as Pizzas and Burgers.



TREND 04 Growing Demand for Takeaway and Home Delivery Services

The demand for takeaway and home delivery services has swelled over the years across all formats and cities, driven by factors like increasing time poverty, long travel times, increase in the number of working women and a consequently greater dependence on prepared food, a younger population, higher disposable incomes, increasing all-round efficiency of the delivery business in India in terms of the order-taking process, the packaging, the delivery time, coverage, and value offers, and the growth of online channels.

Additionally, the ease of communication has spurred demand for takeaway and delivery channels, and has in turn encouraged operators to trigger formats that are purely focused on maximizing revenues earned through this channel, e.g. Domino's Pizza, Pizza Hut Delivery, etc. Food service operators are also investing substantially in delivery infrastructure to facilitate higher efficiencies and reduce transaction costs. For example, McDonald's, which only launched its home delivery service (McDelivery) in India in 2004, also invested USD 0.55 million in 2007 to strengthen this delivery channel and widen its reach across the Indian market. Thus, the home delivery segment is evolving, with growth estimated in the range of 30-40% over the next five years. Food service operators are trying their hand at the home delivery format as an added revenue stream which, on average, adds ~10-20%. The potential of the delivery format has also gained traction with the evident success of prominent pizza chains in India which have derived 40-65% of their revenues from this format.



Growth in Delivery-focused Formats

The commercial benefits of a purely takeaway/delivery-focused format have tempted operators to expend their time, money, and energy in this direction. Among these benefits is the lower initial investment required in terms of rentals, interiors, furniture, etc. to launch such a format. The fixed costs of such an operation are also lower, with such expense heads as CAM, labor, and utilities seeing considerable reductions. Most crucially, there is lower dependence on quality real estate, which comprises a major cost for restaurants.

Expansion of Delivery Services in Existing Restaurants

While the F&B industry is going through a tough time due to a slowing economy leading to challenges of demand, it has become imperative that establishments maximize business from their existing formats to rationalize their fixed costs and keep their business viable. Home Delivery is an important lifeline in this regard. It is not surprising therefore, that even fine and casual dining formats are fighting to get a larger share of the pie. Deliveries help them realize higher revenues per sq. ft., better economies of scale, overcome the “seat constraint” during peak times, and enhance existing consumer loyalty.

Exhibit 4

Presence of Delivery Models in the Organized Food Service Industry

| City | No. of Food Service Outlets | Food Service Outlets with Delivery Service | % of Total number of outlets |
|------------|-----------------------------|--|------------------------------|
| Ahmedabad | 2163 | 727 | 34% |
| Bengaluru | 5457 | 2608 | 48% |
| Chandigarh | 1169 | 549 | 47% |
| Chennai | 3804 | 2187 | 57% |
| Delhi/NCR | 9790 | 6006 | 61% |
| Hyderabad | 3458 | 1301 | 38% |
| Indore | 834 | 312 | 37% |
| Jaipur | 1135 | 372 | 33% |
| Kolkata | 2701 | 1313 | 49% |
| Lucknow | 847 | 265 | 31% |
| Ludhiana | 579 | 194 | 34% |
| Mumbai | 9972 | 7783 | 78% |
| Pune | 3726 | 2179 | 58% |

Source: Zomato.com

New Trends in the Delivery Business

Role of Apps and Web-based Ordering

With the growth in computer literacy and access to smartphones and the Internet, the home delivery business is all set to grow. Domino's Pizza is leading this change from the front; of its total reported revenue of ~INR 385 crore in third-quarter 2013, about 50% came from the delivery business. Again, ~14% of the total delivery sales (~INR 27 crore) were made through online channels, through both mobile apps and online ordering. Although the mobile app business, started in 2012, only contributes about 10% of the online business (which started in 2011), Domino's Pizza expects this to double within a year. About a million apps have already been downloaded, as per the company's claims. This is line with the experience of other retailers, who are realizing the potential of the e-tailing opportunity in India against the brick-and-mortar format.

Delivery-focused Websites

While Domino's Pizza has gone ahead with its own website and app, other operators are also tapping the food delivery market. Many players have joined hands with specialized delivery portals like FoodPanda, Tastykhana, JustEat, etc. as a means of testing waters. These businesses work on a commission-based model. The advantage to the consumer is that he can access multiple restaurants through a single website/mobile number, and that these companies often negotiate exclusive offers in terms of value from the restaurants.



Zomato, India's premier restaurant rating website, has also realized the potential of the home delivery business in India, and has developed a model whereby they have combined the brand visibility on Zomato.com with the third party administration of the delivery/dine in business. For a fixed monthly charge, they provide an advertisement banner and an exclusive phone number, which can be used by customers to call up restaurants for a reservation/delivery order. The additional benefit to the restaurant is that, apart from a surge in delivery orders and queries, they are also given access to call records, helping them to improve their services and make the ordering process more efficient.

Home delivery/takeaway formats have seen a major traction in captive locations like malls, offices, and residential complexes, wherein the target group for food-on-the-go and in-call dining are actively seeking new options. The kiosk format, which can be considered as an extension of the takeaway concept, is becoming prominent within captive locations.

Food-on-the-go and home delivery concepts will grow in tandem with the changing lifestyle of the urban population and the ever increasing travel time between destinations, not only in the metros and mini-metros but also in Tier I and Tier II cities.



TREND
05

Convenience Food

Gaining share in the Menu

Traditionally, Hotels, Restaurants, and Catering (HoReCa) operators have majorly relied on their chefs' craftsmanship for product preparation. The chefs, in turn, used to rely on complete backward integration of their recipes where they used to make their own chutneys and grind their own masalas to deliver a unique and signature taste which became the hallmark of the restaurant.

However, the dining scenario in India has evolved rapidly in the past decade or so. With the increasing popularity of standalone casual dining and QSR formats in the market, some of those old paradigms are shifting. The use of convenience foods, hitherto restricted to QSR formats is increasingly finding favor in casual dining and fine dining formats, though in varying degrees.

For Quick Service Restaurants (QSRs) players, convenience and consistency is a core deliverable. International players like McDonalds, Pizza Hut, Domino's Pizza, KFC, etc. prefer to use varied forms of convenience foods either as a part of their recipe or as the final serving to the consumer. Tomato Ketchup and other sauces, for instance, are used as an accompaniment, while frozen patties and sausages as recipe ingredients, and frozen French fries and wedges as side dishes. The food service industry has registered swift growth in the past decade, with both international (McDonald's, Pizza Hut, Domino's Pizza, etc.) and homegrown chains (Mast Kalandar, Rajdhani, Kaati Zone, Haldiram's, etc.) booming. It is projected to grow further, at a double-digit rate, over the next five years. This has encouraged both budding entrepreneurs and existing businesses to venture into this sector and glean knowledge from existing players in order to replicate their success. Among such knowhow is an exposure to and adoption of convenience foods. We now have well established companies which provide sauces, dairy products, processed meats, frozen foods, ready-to-eat, ready-to-cook, pickles etc. of a very high quality manufactured in plants of international standards. The availability of these ingredients in the market has in turn aided in the growth of the foodservices industry as a whole, with more and more chefs now believing in "smart" selection of ingredients therefore procuring ingredients at different levels of finishing, based on their importance in the recipes.



Overall, operators are now demonstrating a higher inclination towards using convenience foods as, apart from consistency of taste and quality, they help reduce labor costs and lower the dependence on skilled chefs; and provide insulation against such external factors as seasonality, price fluctuation, etc.

Additionally, the challenge of finding the desired retail space, amid soaring rental costs, has forced operators to opt for a smaller footprint, e.g. takeaway counters with limited seating and kiosk formats. Convenience food provides the best fit to adapt to this smaller footprint as a time- and space-saving resource. Sensing the opportunity, leading food companies in India like Unilever, Nestlé, PepsiCo, Cremica (Mrs. Bector's), Fun Foods (Dr. Oetker), Capital Foods etc. are augmenting their infrastructure and developing new categories of convenience foods like South Indian premixes, Soup powders, Readymade gravies, Cereal based breakfast options and various kinds of dessert mixes. Some brands have collaborated with food service operators and developed customized products to extend their own product portfolio, e.g. Cremica has worked with McDonald's to create new dips for the brand, Fun Foods has been associated with Subway in developing customized variants of sauces, etc.



Exhibit 5

Convenience Foods: Categories and Major Brands

| Product Categories | Subcategories | Brands |
|------------------------|--|--|
| Sauces & Sauce Powders | Mayonnaise, Tomato ketchup, Chinese sauces, Western sauces, Dessert sauces | Cremica, Fun Foods, Kissan, Best Foods, Maggi, Monin, Mapro |
| Soups | Indian, Western, Oriental | Knorr, Maggi, Keya, Ching's Secret |
| Frozen Vegetables | Potatoes, Peas, Beans | Safal, McCain, Lamb Weston |
| Processed Meats | Salamis, Sausages, Ham, Bacon, Meat patties, Cuts of meat | Venky's, Sumeru, Al Kabeer, Alchemist, Godrej Tyson, Pollo Fresco |
| Ready-to-Eat | Gravies, Dals, Parathas, Theplas, Biryanis, Vegetables, | Kitchens of India, MTR, Maiyas, Aashirvad, Kohinoor, Knorr, Maggi, |
| Ready-to-Cook | Dosa premix, Idli premix, Dessert Premixes, Breakfast cereals | MTR, Gits, Quaker |
| Ready-to-Drink | Juices, Milk Beverages, Cold Coffees | Real, Tropicana, Priyagold, Amul, Nestle |

Source: Technopak Analysis

Marketing efforts and the willingness to offer customized, institutional packs has extended the reach of convenience foods. However, there are operators in the food service industry who still rely on the craft being offered by trained chefs. Nevertheless, with the growing trend of chain formats and the limited availability of skilled chefs, convenience foods are poised to grab more space in the commercial kitchen. With the restaurant industry projected to grow at double digit numbers, and quick service segment and cafes leading this growth, the penetration of convenience food is likely to grow in tandem.



Social Media

Stimulating the Brand Connect

The connection between end-consumers and businesses has always played a pivotal role in the development and growth of any business. For consumer-driven segments, such communication becomes ever more important as it provides a platform by which operators can gauge the pulse of consumers. This helps businesses pull the right strings in terms of tapping into consumer behavior. The key drivers for growth in popularity of Social Media are elaborated hereafter.

Youth Connect

India has a median age of 26 years. The use of social media is part of this young population's lifestyle as this has become the preferred mode of expressing views, seeking opinions, and sharing feedback. The youth immediately connects with brands which are seen to be "socially" active as well as interactive. Since the youth forms the bulk consumer for most foodservice operators today, social media has evolved as the medium of choice for connecting with their consumers.

Exhibit 6

Number of Users of Various Digital Devices in India (mn)

| | 2012 | 2013 | 2019 (P) |
|---------------|------|------|----------|
| Mobile Phones | 406 | 475 | 522 |
| Smartphones | 27 | 65 | 365 |
| PC | 31 | 32 | 34 |
| Notebooks | 15 | 17 | 21 |

Source: Technopak Analysis

The usage and penetration of the Internet and handheld smartphones is rising, which in turn is driving access to, and usage of, social media. It is getting easier to be "seen" by the consumer via social media channels than through traditional ATL and BTL activities.

Facebook is the most preferred social media channel in India, with approximately 82 million users (June 2013), next only to the USA and Canada; India is also projected to have the largest Facebook user population by 2016. Some brands have also leveraged the power of such channels as YouTube; this video sharing website has millions of viewer in India, amounting to ~8.1% of total worldwide visitors.



Exhibit 7 below elaborates on the growing patronage for the food service industry on various social media channels.

Exhibit 7

Membership/Followers on Social Media Channels for Food Service Brands

| F&B Brand | Number of Facebook fans | Avg. no. of posts per month |
|-----------------|-----------------------------|-----------------------------|
| Pizza Hut | 1,329,186 | 42 |
| Café Coffee Day | 4,010,719 | 38 |
| Domino's Pizza | 5,707,034 | 85 |
| Cocoberry | 2,204,297 | 40 |
| McDonald's | 1,177,503 | n/a |
| Barista Lavazza | 244,118 | 26 |
| F&B Brand | Number of Twitter followers | Total no. of brand tweets |
| Café Coffee Day | 14,680 | 9,092 |
| Hard Rock Café | 13,115 | 8,343 |
| Domino's Pizza | 25,477 | 12,999 |
| KFC | 5,261 | 2,271 |
| Barista Lavazza | 1,596 | 2,620 |
| Cocoberry | 688 | 3,289 |

All data as of December, 2013
Source: Technopak Analysis

Cost-effective Medium

Social media is essentially a free-to-use medium, which is one of the major drivers of its popularity. Companies spend on buying advertising space, but this expenditure is much more economical, focused and controlled as compared to traditional channels.

Instant Reach

The instant turnaround time is one of the biggest advantages of social media over traditional media. The offers, incentives, product information, and promotions can be communicated in real time and the responses are also received quickly. Brands are also able to see feedback and reviews generated by consumers instantly and are able to take immediate corrective actions and carry out recoveries.

Versatility

Facebook, Twitter, Foursquare, Google Plus, Pinterest, etc. have emerged as the top social media channels, Facebook being the most preferred worldwide. They provide a platform for brands to reach out to both existing and potential consumers and offer a medium across which to converse about the brand's promotions/marketing offers. Different social media platforms have different uses and through a judicious use of various channels like Facebook, Twitter, YouTube and Foursquare, different levels of interaction and communication as per the needs of the activity can be harnessed. As can be seen from *Exhibit 7*, traffic on social media is soaring in the country, a trend which is set to continue in the future. The surge in the use of social media is boosting confidence among food service operators to utilize the strength of this medium in order to reinforce brand awareness and recall.

The additional benefit provided by social media is the extended reach for brands, thus helping them widen their consumer base. The traditional target group comprising those using social media is primarily in the age group 15-50 years; however, this bracket is widening, with adults over 50 years extensively patronizing social media channels. This is in part due to the pervasive presence of smartphones and mobile devices, and also as a result of hectic lifestyles which have forced them to avidly use online social networks to connect with friends/acquaintances. Further, the enhanced reach of social media channels is also extending the geographic periphery to even Tier II and Tier III cities, thanks again to advances in mobile and Internet technology, which are now more affordable than ever and consequently are much in demand even in smaller towns. This will benefit both international and homegrown chains planning to expand into Tier II and Tier III cities.



Increasing Importance of Sides and Desserts Within the Menu Mix

It is usually main course offerings that are considered to be the key to establishing a strong recall value among the target group, thus increasing footfalls and brand loyalty and driving revenues. Consequently, main courses have always enjoyed the focus of food service operators as a core product which not only needs to be maintained and safeguarded in terms of quality, consistency and signature taste, but also needs to be improvised over time to account for changing tastes. The focus of chefs and product innovation teams has largely been confined to development of main dishes. In terms of pricing strategy as well, it has been noticed that the side dishes and desserts had least recall for consumers, and were therefore not a focus area for operators.

However, in the recent past, food service operators, especially restaurant operators, have realized that sales growth is triggered by consumers' tendency to make impulse purchases. Side dishes and add-ons help initiate such purchases. At the same time, side dishes usually have lower costs and therefore add higher contribution not only to sales but also to the bottom lines. However, identifying the right dishes that complement the main course is a prerequisite, alongside training frontline staff members who can not only sell, but also deliver these with a balanced, pragmatic, and customized approach. The need to improve sales despite ever increasing competition, and the fact that sides can be used to boost Average Price per Check (APC) and sales, has encouraged food service operators to give equal, if not more, importance to getting the right mix of side offerings that match the core product and also suits the palate of their target group.

Exhibit 8

Drivers of Sides and Desserts

| Demand-side | Supply-side |
|--|--|
| Guests seek variety to complement the main product | Sides and desserts are seen as differentiators and add value to the core proposition |
| Growing trend of beverage consumption and the need for complementary sides | Add to APC and sales value |
| Growing youth population that demands more choice | Offer higher gross profit due to lower costs |
| Increasing resistance to potato-based sides for health reasons resulting in a demand for healthier options | Add to business during non-peak hours |
| Indulgence, especially in the case of single product restaurants like burger/pizza joints | |

Source: Technopak Analysis

The recent focus on side offerings by such prominent brands as McDonald's, Domino's Pizza, etc., which have strong, widely-accepted core offerings confirms the growing importance of side offerings for ensuring the sustainable growth of business revenues. McDonald's, for instance, is developing and promoting sides like Veggie/Chicken Pops, Veg Pizza McPuff, etc. to boost revenues and footfalls. Internationally as well, McDonald's has been trying such innovations as Chicken Wings, Mozzarella Sticks, etc. Domino's, on the other hand, has been marketing a side order menu offering over fifteen products apart from dips and desserts, e.g. Breads, Pastas, Italian Tacos, Chicken Wings, Chicken Kickers, etc.





At CDRs and FDRs, chefs have been more innovative in using health as a demand driver and are offering perceptibly healthy sides, using a greater variety of vegetables, rice, beans, etc.

Additionally, in the recent past, the desserts including ice-creams space has gained momentum as a way of capitalizing on the full-meal experience, with brands extending their menu offerings accordingly. While QSRs have been adding puddings, soft serves, brownies, etc., CDR and FDR operators have indulged customers by offering everything from exotic, even alcoholic kulfi flavors to gourmet ice-creams and fusion desserts, i.e. having a western base with an Indian twist or vice-versa.

The importance of side dishes has gradually increased because of the added advantages these can provide, if matched correctly, with the right product. Besides increasing revenues through additional sales, especially in the hotel/restaurant segment, such offerings are effective in any format, whether a-la-carte style table service or in counter-service QSR restaurants. Again, sides widen menu offerings for consumers in terms of appetizers or snacks, and can be served as a standalone dish for customers who do not wish to have a full meal. Sides also create additional touch points by increasing the customer base as they encourage the value-seeking consumer e.g. students, to experience the brand more often. These underlying benefits have encouraged brands to focus on product development and the coming years will see an even greater focus on side dishes and desserts as a driver of product differentiation and demand.



Growing Culture of Tasting Menu & Smaller Portions

The inclusion of smaller portions in restaurant menus was previously considered an attraction for the value-conscious consumer, but today it has transformed into a niche, attracting even the well-to-do. These smaller portions are now a useful tool to upsell as well, targeting the price- or calorie-conscious consumer. The popularity of smaller portions also stems from such factors as an increased awareness of health and wellness, the need for greater variety in a meal, a desire to experiment and seek adventure, sharing several items within a group, and experiencing innovative flavors and combinations brought out by creative chefs. A shift in meal planning is also a key factor, with some nutritionists now recommending the consumption of 5-6 smaller meals, rather than the traditional three meals. Again, snacking is also considered healthy rather than hunger-curbing, with the result that chefs are driven to innovate and showcase their culinary skills in unique ways that can act as differentiators. Again, for consumers who seek variety, smaller portions offer a means of sampling several cuisines within the same meal. Restaurants have thus started offering made-to-order meals whereby consumers can decide on the size of the portion and also add variety to their menu. Smaller sized combinations of soups, salads, and desserts are a big hit in restaurants with proximity to office complexes.

Eating out with a peer group and/or families is gaining in importance as people now hang out more often in groups. Within the same group, each person may have a different taste preference; smaller portions offer the flexibility of creating variety in the same plate and facilitate sharing.

The introduction of smaller portions can be a win-win situation for both the operator and the consumer. For the operator, smaller portions are a great tool to pull in crowds and thus boost same-store sales. These can also be a platform for introducing regular menu items, or, as sides, and can be promoted in order to increase sales.

The emerging concept of a tasting menu is gaining traction in the Indian market especially in the high-end food service segment wherein customers are served small portions. These tasting sessions are planned in advance by the restaurants, with chefs interacting with customers while they are served. This interaction allows the chef to take the customers on a culinary journey about the dish being served and also collect feedback from customers. These tasting sessions allow the restaurant to pilot their chef's creative range and incorporate the most acknowledged products into their menu. A good example here would be Indian Accent, a restaurant which is continuously engaging in tasting sessions.

However, not all dishes can be served as small portions; restaurant operators have to be smart enough to balance their menus in a way which captures the interest of consumers and also reflects positively on the overall experience.



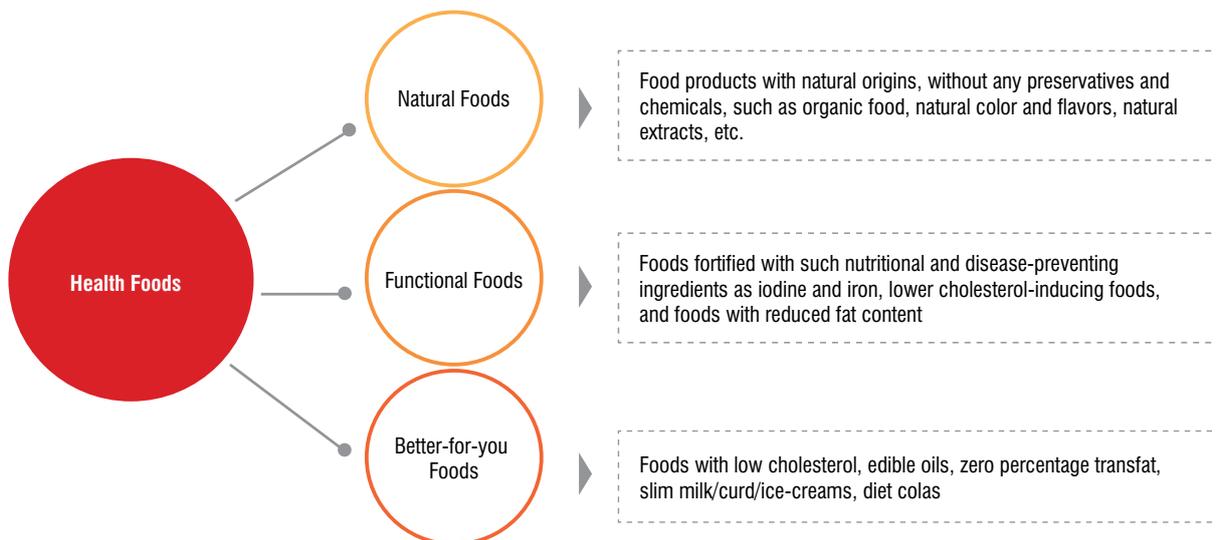


Increasing Infusion of Health Foods

The trend of eating out has been on the rise since the past decade and is projected to grow further with the growing time-poverty, higher disposable incomes, and changing lifestyles. At the same time, increasing awareness on the health and food connection has forced consumers to look out for healthier options, and to follow a balanced diet plan. Moving in tandem with this shift in preference, food service operators are incorporating different health food variants in their menus, either as a direct product offering or as an ingredient contributing to the final product. Such health foods as porridges, breakfast cereals, salads, organic soups, multigrain breads, fresh fruit-based juices/smoothies, green tea, caffeine-free tea/coffee, etc. are gaining in popularity in high-end premium restaurants. Concepts like Navdanya are offering a variety of multigrain breads while new concepts like Organic Express, The Yoga House, Honey Hut Café, Health Zongo, Green theory, etc. are emerging as standalone units with health foods as their core offerings. Additionally, concepts like health bars are evolving, with the involvement of both international players and domestic operators, to cater to the growing demand from health-conscious consumers, by providing them with selections through which they can obtain, and enjoy, their required daily requirement of vital nutrients.

Exhibit 9

Categories of Health Foods



Source: Technopak Analysis

Food service operators are offering all categories of health foods, however, better-for-you and natural foods are more evolved as compared to the functional foods sub-category, which is at a nascent stage. The market for better-for-you foods is poised to grow at a healthy rate as consumer awareness is high for this product range for such reasons as commonly available nutritional information and an upbringing focused on a healthy lifestyle. Additionally, better-for-you products like diet drinks, fresh fruit-based shakes and smoothies, multigrain bread, etc. have been present in the market for some time, because of which they have evolved to reach a wider consumer base, found acceptance, and whetted the appetite to spend.





The increasing popularity of the frozen yogurt concept is one example of the increasing affinity for health food. Brands like Red Mango, Cocoberry, Yogurberry, etc. are expanding their menus with multiple healthy toppings like fruits, nuts, zero-fat yoghurt, etc.

Organic foods, natural extracts, etc. have also found a niche within the food service industry, with a widening consumer base, especially in the premium formats. The old school association of nature with health and fitness drives the consumption for this sub-category. The challenge is the premium pricing of such ingredients which tends to increase the raw inputs costs for food service operators; these have to be either passed on to consumers or absorbed with the impact being lower margins. Conventionally, the additional cost is always apportioned to the consumer wallet which limits the reach of such products to mid-range to high-end consumers and limits their acceptance by a wider audience, especially as part of a regular diet. However, products like organic food and beverages are gaining popularity within the food service industry, in luxury/premium formats, with brands like Mainland China, Chor Bizzare, TGI Friday, Subway, etc. serving and promoting natural foods.

The third sub-category, Functional Foods, is also gaining importance through fortified foods, e.g. breakfast cereals, biscuits, etc. that are high on fiber, calcium, and other required nutrients. On the other hand, brands like Joost Juice, Jiffy Juice, Blendz, Fruit Forest, etc. are engaging consumers using beverages as medium. These brands have plans for a rapid expansion across India over the next couple of years, reflecting their confidence in the acceptance of functional foods in India.

Thus, it is apparent that health foods are gaining importance within the menu mix of food service operators, and that their share is projected to grow. This growth is a result of the shift in the eating habits of Indian consumers conscious about, and keen to, maintain a balanced diet and thereby live a healthy life. The barriers to the deeper penetration of the health food category are affordability and awareness. The challenges in terms of awareness about health foods are being mitigated through the continuous efforts of not only health food manufacturers and food service operators, who are educating consumers through advertisements, but also through the efforts of governments and NGOs through schemes aimed at minimizing health disorders arising from malnutrition, changing lifestyles, etc. As a result, there is rising demand for health foods both in the retail and the food service industry. However, the challenge to set the price points at a level appealing to a wider audience is a big hurdle that needs to be eliminated or reduced to enable the exponential growth of this category.



Emergence of New F&B Destinations

Food Hubs

While malls and high streets have been the traditional locations for F&B outlets, a new breed of food-centric destinations is emerging. Popularly dubbed “Food Hubs”, they typically have zero or negligible retail/entertainment quotient. In turn, these locations depend on commercial and residential catchments; the concentration of F&B offerings also makes them a destination of choice for foodaholics.

The market in Sector 29 in Gurgaon, which started operations two years back, features over 30 F&B outlets, with a mix of kiosks, cafés, QSRs, CDRs, and PBCLs. The fact that the primary catchment features a number of budget hotels, which target business travelers, has contributed to the popularity of this food hub.

Cyber Hub, in Gurgaon’s Cyber City, is a dedicated food hub which caters not only to office-goers, but has also become hugely popular with local residents. Many new brands have been launched at Cyber Hub, including - The Wine Company and SodaBottleOpenerWala. The restaurants present here are registering full houses, with long waiting times, on weekdays as well as weekends, setting a new benchmark in the success of F&B in India.

Typically, malls and high streets witness huge rush during the weekend and at dinner time, while weekdays and lunch hours are dull. On the other hand, for office-based F&B outlets, weekends see no business; the same is the case with the dinner hour on weekdays. A balanced mix of office and residential catchment is, therefore, the ideal mix for an F&B destination as it gives operators the best of both worlds, and increases the chances of their success manifold.

However, operators need to remember that needs differ across consumers and time segments; the menu and service style must recognize this reality. For instance, while the office-goer is usually looking for a quick meal, the casual visitor is looking for an experience. It therefore makes sense to tailor offerings accordingly and have separate lunch/dinner and weekday/weekend offers to maximize revenues and table turns.

With the resounding and unparalleled success of this format, which caters to both offices and residents, more such locations can be expected to come up, especially in such cities as Mumbai, Pune, Bengaluru, and Hyderabad, which are home to dedicated IT hubs and office complexes.

Airports

Over the past few years, Indian aviation has seen plenty of twists and turns. However, airline traffic in India has been registering a continuous growth in both the domestic and international segments.

This increase in traffic has necessitated the growth of infrastructure in the form of new airports as well as bigger terminals at existing ones. Since F&B is an important component of such terminals, this is expected to create many new opportunities for F&B operators in the years to come.



Growth in Number of Airports

Expansion/Modernization of Existing Airports

In September, 2013, Airports Authority of India (AAI) announced the modernization of six new airports, including Chennai, Kolkata, Ahmedabad, Guwahati, Jaipur, and Lucknow, which would be then handed over to private players under a PPP model, through an Operate-Manage-Transfer scheme.

Six international airports in India are already working under such PPP arrangements, viz. Delhi, Mumbai, Hyderabad, Bengaluru, Kochi, and Nagpur. These have underlined that both the quality and volumes generated by F&B inside an airport can be greatly enhanced through the better placement of F&B offerings, innovative design, and the greater involvement of organized players.

Development of New Airports

In addition, the government has approved eight Greenfield airport projects and 51 low-cost airport projects in order to boost connectivity between Tier II and Tier III cities. As per a CAPA estimate, the total F&B revenues in India will exceed USD 700 million (INR 4200 crore) by 2021.

With more airports coming up, and older ones getting renovated, this sector is expected to register much excitement, on the F&B front as well, in the days to come. This encompasses new concepts, menus, service styles, and the innovative use of design and technology aimed at delighting the passengers.

Railway/Metro Stations

With increasing traffic congestion on the roads, greater pollution, and longer travel times, metros are fast emerging as a necessity in all major cities. After their success in Kolkata and Delhi, metro projects have now been launched in Bengaluru, Mumbai, Chennai, Kochi, and Hyderabad. These high capacity (3-6 coaches), high frequency trains carry a large number of passengers on an everyday basis. The Delhi Metro reportedly carries 2.01 million passengers a day comprising students, office goers, shoppers, and tourists. While economy is the buzzword and passengers are not expected to spend a great deal of money and time at public transport hubs, the sheer volume of traffic makes it an interesting proposition for F&B operators. While smaller stations manage with kiosks and grab-n-go formats, larger junctions like Delhi's Rajiv Chowk station see a more versatile offering comprising cafés and QSRs. As Metro trains become a part of more cities in India, and extend their existing networks, F&B will be carried along as an essential service.

On the whole, with a growing exposure to organized F&B across all consumer segments coupled with the fact that the quality of commuting centers will continue to improve over the next few years, travel related F&B opportunities are only going to increase and more and more offerings will be seen at Airports, Metro Stations, Highways and Railway Stations. Other non-traditional F&B avenues like college campuses, office complexes, hospitals, amusement parks and cinemas will also see development and provide exciting opportunities for F&B players.



About Technopak

India's leading management consulting firm with more than 20 years of experience in working with organizations across consumer goods and services.

Founded on the principle of "concept to commissioning", we partner our clients to identify their maximum-value opportunities, provide solutions to their key challenges and help them create a robust and high growth business models.

We have the ability to be the strategic advisors with customized solution during the ideation phase, implementation guide through start-up and a trusted advisor overall.

Drawing from the extensive experience of about 150 professionals, Technopak focuses on four major divisions viz. Retail, Consumer Products & E-tailing, Fashion - Textile & Apparel, Food Services & Agriculture, and Education.

Our Key Services

Business Strategy: Assistance in developing value creating strategies based on consumer insights, competition mapping, international benchmarking and client capabilities

Start-up Assistance: Leveraging operations and industry expertise to 'commission the concept' on turnkey basis

Performance Enhancement: Operations, industry and management of change expertise to enhance the performance and value of client operations and businesses

Capital Advisory: Supporting business strategy and execution with comprehensive capital advisory in our industries of focus

Consumer Insights: Holistic consumer and shopper understanding applied to offer implementable business solutions

Our Other Divisions

Retail, Consumer Products & E-tailing

Technopak aids retailers and consumer product companies in formulating growth strategy and performance enhancement mandates. Over the past two decades, we have worked on various facets such as entry into the Indian market, development of new category, activation of new retail formats, channel development, product extension, region expansion etc. One key reason why Technopak is considered the industry leader is the relentless focus on the Indian Market. We help clients understand the market dynamics in India and help them arrive at the best method to grow business in India. Our Retail and Consumer product expertise helps gain a competitive edge by providing execution capabilities and corporate strategies.

Fashion - Textile & Apparel

With almost 20 years of experience in delivering end-to-end solutions to the entire gamut of the textile industry, right from fibre to retailing, the Fashion division at Technopak assists the textile and apparel organizations in optimizing their profits through enhancement and expansion. Many leading Indian and international Textile manufacturers and Apparel brands have benefited from our offerings in the areas of business planning and strategy, apparel operations, supply chain management and strategic alliances. Our team consists of top calibre advisors who have worked closely with a diverse group of clients comprising textile manufacturers, apparel retailers, garment manufacturers and exporters, apparel sourcing organizations, trade promotion councils, industry associations, international development bodies, and financial institutions as well as central and state governments.

Education

Technopak's Education division has a vast understanding of the sector in terms of industry environment, growth potential, regulation and policy, which has enabled us to become a thought leader in the sector. Technopak caters to all the education segments – K-12, Higher Education, Vocational Training and ancillaries. Innovative business models and government thrust on privatization has led to assertive participation by private organizations. Such participation spans various levels of investment and operational scale, be it organization planning for expansion in the country or foreign institutions aiming to foray into the Indian education sector.

Disclaimer

- This information package is distributed by Technopak Advisors Private Limited (hereinafter "Technopak") on a strictly private and confidential and on 'need to know' basis exclusively to the intended recipient. This information package and the information and projections contained herein may not be disclosed, reproduced or used in whole or in part for any purpose or furnished to any other person(s). The person(s) who is/are in possession of this information package or may come in possession at a later day hereby undertake(s) to observe the restrictions contained herein.
- The information contained herein is of a general nature and is not intended to address the facts and figures of any particular individual or entity. The content provided here treats the subjects covered here in condensed form. It is intended to provide a general guide to the subject matter and should not be relied on as a basis for business decisions. No one should act upon such information without taking appropriate additional professional advice and/or thorough examination of the particular situation. This information package is distributed by Technopak upon the express understanding that no information herein contained has been independently verified. Further, no representation or warranty (expressed or implied) is made nor is any responsibility of any kind accepted with respect to the completeness or accuracy of any information as maybe contained herein. Also, no representation or warranty (expressed or implied) is made that such information remains unchanged in any respect as of any date or dates after those stated here in with respect to any matter concerning any statement made in this Information package. Technopak and its directors, employees, agents and consultants shall have no liability (including liability to any person by reason of negligence or negligent misstatement) for any statements, opinions, information or matters (expressed or implied) arising out of, contained in or derived from, or of any omissions from the information package and any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this information package and/or further communication in relation to this information package.
- All recipients of the information package should make their own independent evaluations and should conduct their own investigation and analysis and should check the accuracy, reliability and completeness of the information and obtain independent and specified advice from appropriate professional adviser, as they deem necessary.





For further dialogue, please contact:

Saloni Nangia
President

saloni.nangia@technopak.com

Reetesh Shukla
Associate Director

reetesh.shukla@technopak.com

www.technopak.com

Technopak Advisors Pvt. Ltd.

4th Floor, Tower A, Building 8, DLF Cyber City, Phase II, Gurgaon 122 002 (National Capital Region of Delhi)

T: +91-124-454 1111, F: +91-124-454 1198