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FICCI

Unlocking the potential in the food and beverage services sector

2015



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Foreword

The Indian Food and Beverage (F&B) service Industry is one of the most vibrant industries that has seen unprecedented growth in the recent past and continues to expand rapidly. This can be attributed to the changing demographics, increase in disposable incomes, urbanisation and growth of organised retail.

The F&B service market is worth INR 2,04,438 crore and is expected to reach INR 3,80,000 crore by 2017. The sector is dominated primarily by the traditional segment. The brands and restaurant chains of both Indian origin and multinationals have not optimally penetrated the market so far. The F&B sector has evolved over the past decade, giving rise to exciting new concepts in food and beverage offerings and new and innovative service elements.

Segments such as fine dining, casual dining, quick service restaurants, cafes, etc. have found favour with the consumers. The F&B industry has been at the forefront of attracting investments into India and has played an integral role in portraying India as a land of opportunity. Several success stories of both domestic and multinational companies tapping into the Indian food services sector are examples of the current trends.

This report titled 'Unlocking the potential in the food and beverage services sector' highlights the overall potential of the industry and some of the challenges faced while opening a restaurant or restaurant chain in India and points to ways to mitigate these challenges. The report also focusses on how to improve 'Ease of Doing Business' in this sector and make it more attractive for both Indian and foreign investors.

I am confident that the deliberations of the seminar and the recommendations of the report would provide a roadmap for the Industry to grow and achieve its true potential.



Dr. Arbind Prasad
Director General,
FICCI

Executive summary

The Food and Beverage service industry is one of the most vibrant service industries within India with over 25% yearly growth. Although predominantly concentrated in the unroganised space, with the advent of foreign and Indian restaurant chains, the organised market is likely to expand quite rapidly.

Food expenditure constitutes the majority of our consumption basket and with an increasing young population, eating out will only grow. Eating out has evolved from an occasion driven activity to an occasion in itself for the youth for whom eating out is the most favoured activity besides hanging out with friends.

Amongst the various segments within the restaurant sector, Quick Service Restaurants and Casual Dining Restaurants constitute the largest categories – combined they constitute more than 77% of the overall market.

The Restaurant Sector has been one of the first sectors to attract foreign interest due to huge opportunity. Indian entrepreneurs will capitalise on the opportunity and it is likely for more organised chains to emerge in the next decade.

Some of the key issues marring the industry include:

- Lack of quality infrastructure
- Shortage of skilled manpower
- Increasing real estate cost
- The large number of licenses required and the lead time to obtain them
- Tax incidence

In this report, we have attempted to highlight the key issues and suggested certain measures to counter these based on industry feedback.

Overview of the Indian F&B sector

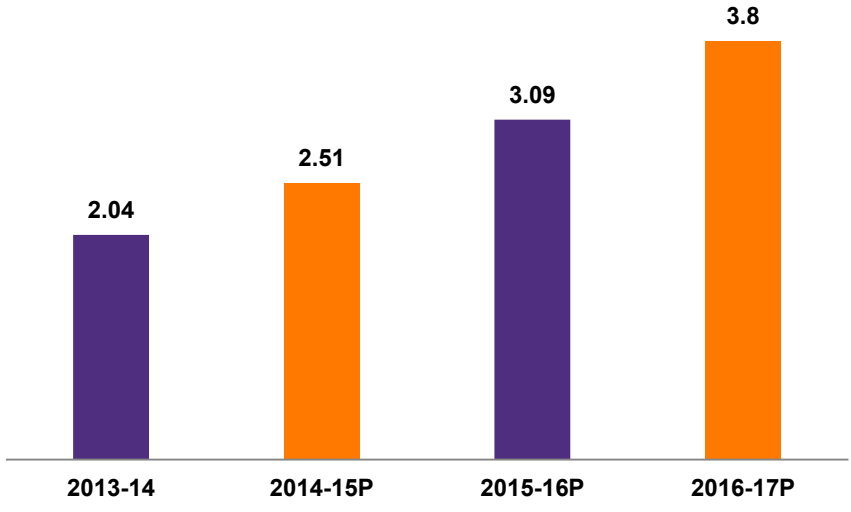




Market overview - Indian F&B services sector

- Changing demographics, increase in income, urbanisation and growth in organised retail is driving India's F&B sector
- The combined F&B service market is worth INR 204,438 crore, growing at compound annual growth rate (CAGR) of 23-24% and is expected to touch INR 380,000 crore by 2017
- Quick Service Restaurants (QSR) and casual dining are the two most popular formats that form 45% and 32% of the overall market respectively.
- The F&B service market is dominated by unorganised segment and although it will decline significantly over the next 4-5 years, it is likely to remain more than 60% of the market
- Brands/ chains of both Indian and MNC brands are still less penetrated and there exists a large opportunity in this space to create bigger restaurant chains
- The maximum growth being witnessed is still in the standalone restaurant space where local taste along with uniqueness of concept are the key deciding factors

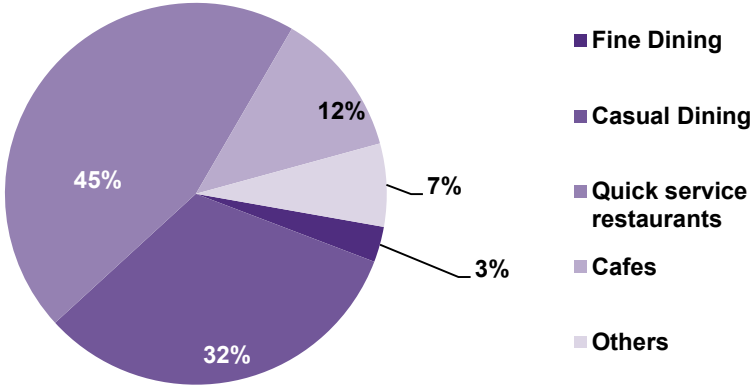
Food and Beverage service industry (in INR lakh crore)



Source: Grant Thornton Analysis, Industry Sources

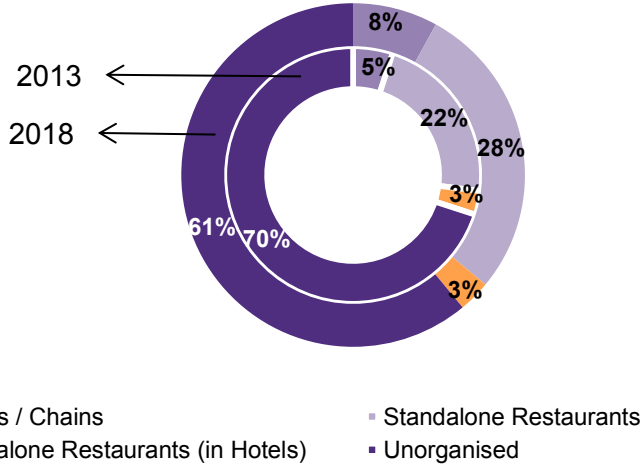
Market overview - Indian F&B services sector

Food and Beverage service industry composition



Sources - Technopak analysis

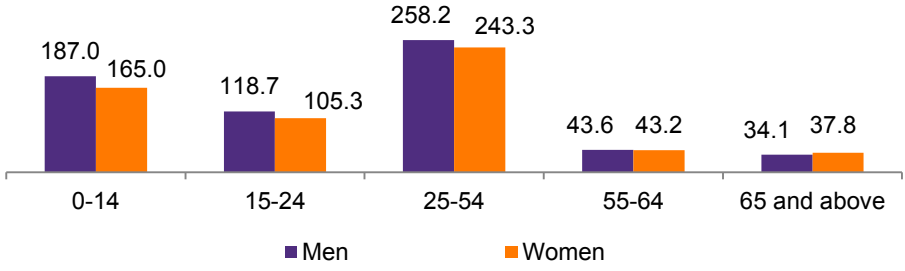
Segment share



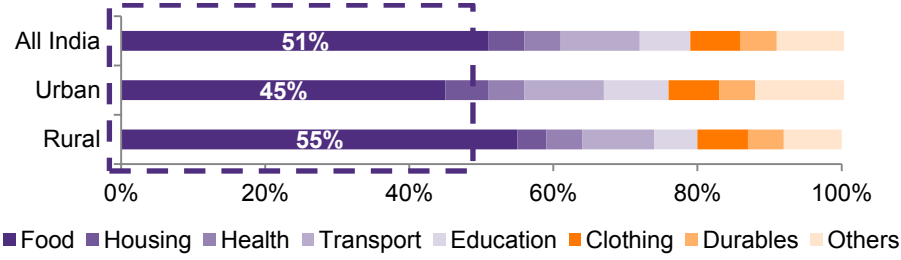
Source: Grant Thornton Analysis, Industry Sources

Food constitutes half of our consumption expenditure. Thanks to the large young population in the country, this trend is not likely to witness a change in the next 20-25 years.

Age-wise consumption of food (Figures in millions)



Distribution of routine expenditure – Food is a major item in the consumption basket



Source: Industry sources

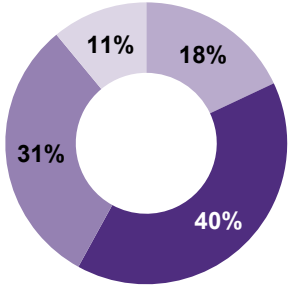
A high percentage of India's population will be in the age group of 5-25 years– with increased urbanisation and consumerism, they will be more likely to consume processed food and eat out more often.

- The Indian economy is expected to add another trillion dollars to its GDP in next 5-6 years, enabling per capita CAGR of 12%. The resultant income growth would lead to a rise in the number of middle class customers
- High expenditure on food and related items coupled with the large portion of the population being a part of the target market, the growth of this sector is expected to be high

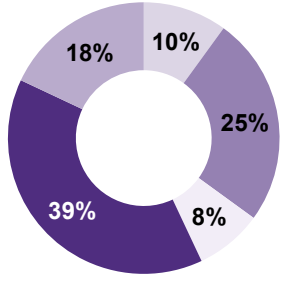
The youth shall drive the food service industry towards explosive growth due to their sheer number and consumption habits.

- People in the young category are the most likely to eat out – around 58% of the people eating out are in the age group of 18-30 years
- This is the segment with the maximum disposable income and in the demographic pyramid, the largest segment within India
- This segment is also the most price sensitive and statistics show that 73% of the youth (13-24 years) consider price the most important consideration while making purchases.
- Besides hanging out with friends, eating out is the most favoured activity amongst the youth (13-24 years)
- Eating out has evolved from an occasion driven activity to an occasion in itself. It has become a form of entertainment for consumers today
- Indian consumers are increasingly dining out, particularly in urban areas
- Urbanising double-income households, changing lifestyles and food preferences are spurring the organised market within the dining out sector

Age group profile of people eating out

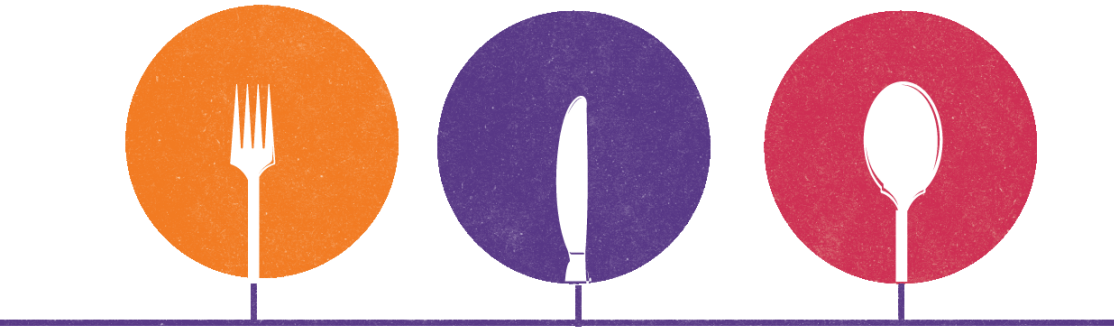


Favourite outdoor entertainment activity



Source: Marketing Whitebook, Industry Sources

Overview of the segments





Quick Service Restaurants (QSR) – the most popular category on the block

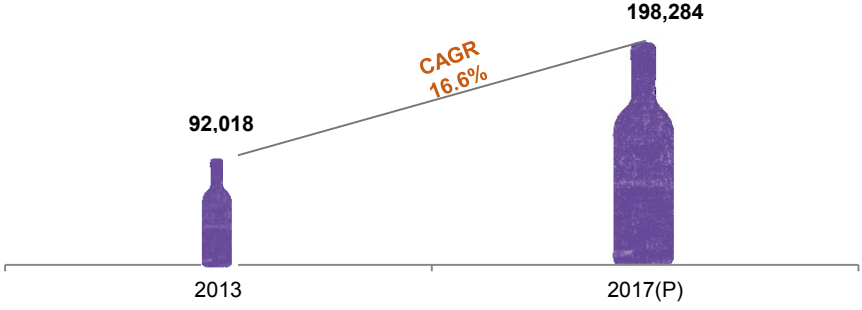
Definition

- Also called fast food joints; serve processed foods fast at low prices; typical menu items include burgers, pizza, milkshakes, French fries; minimal table service; also provide takeaway and home delivery

Status

- QSR has remained a key segment of the Indian food service market and has grown over the years
- A number of QSR chains have flocked into India over the past few years with specific cuisines and product offerings fuelling the market growth
- From metros and mini-metros, QSR brands are now expanding into smaller cities with smaller formats
- The overall market for QSR is estimated to be around INR 92,000 crore and is estimated to grow at an annual rate of 16%

Market break-up (INR crore)



Key players

- The chain space in the QSR segment has 90 to 100 brands with around 3,000 outlets spread across various cities
- Both the international and Indian chains have a say in this segment
- While known Indian QSRs like Haldiram's, Bikanerwala, etc. have a skew towards vegetarian food, the international players like McDonald's, Dominos Pizza, KFC, Subway, etc. offer a mix of both vegetarian and non-vegetarian offerings

QSR - Brands of Indian origin, although playing second fiddle to foreign brands, are growing much faster due to better acceptance by Indian consumers and also better localisation of tastes and preferences.

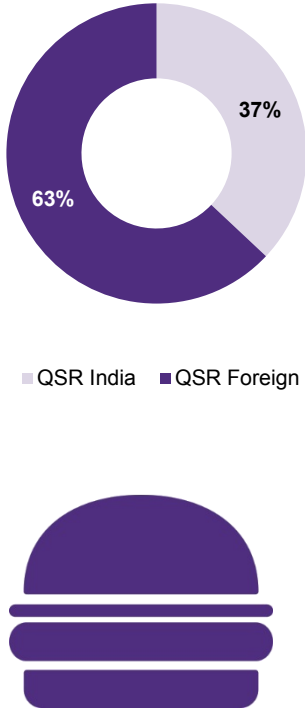
QSR of Indian origin

The segment grew by 37% in terms of number of outlets during 2013. One of the key players driving this segment has been Goli Vada Pav, which registered a growth of 35% in retail expansion. The revenue growth for the same period was more than 40% for the segment as a whole.

QSR of foreign origin

Retail outlets grew by 28% against 37% of Indian origin players. The sale revenue also increased by same percentage but the average sale per square feet per month has been a concern inspite of same outlet growth being close to 27%. Some of the major foreign QSRs are McDonald's, Dominos Pizza, Pizza Hut, Subway, Dunkin donuts, KFC, etc.

Market break-up - QSR



Casual dining – the second most popular category

Definition

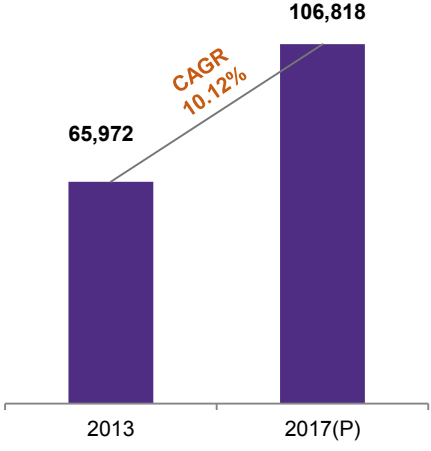
- Offer moderately priced food, casual atmosphere and quick table service
- Some also provide takeaway and home delivery



Status

- The dining out culture has evolved in India over time with casual dine restaurants now forming the second largest segment (32%)
- In 2013, the size of the casual dining market is estimated at around INR 66,000 crore, and projected to grow at a CAGR of 10% to reach a size of INR 106,818 crore by 2018

Market break-up (INR crore)



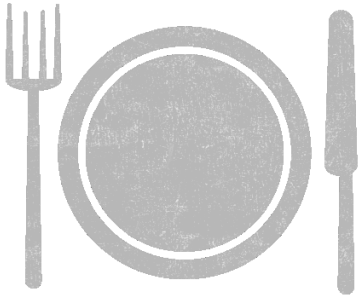
Key players

- **Examples:** SaravanaBhavan, TGI Fridays, Punjab Grill, Zambar, FresCo, Asia 7, Street Foods of India, Baker's Street, Chili's, Great Kabab Factory
- The chain casual dine market in India has around 1700-1800 outlets spread across major cities
- Known brands include Moti Mahal, Indigo Deli, Pizza Hut, Papa John's, Pizza Express, Rajdhani, Sagar Ratna, etc.

Fine dining – dominated by hotel segment, but slowly seeing more international chains also venturing into this

Definition

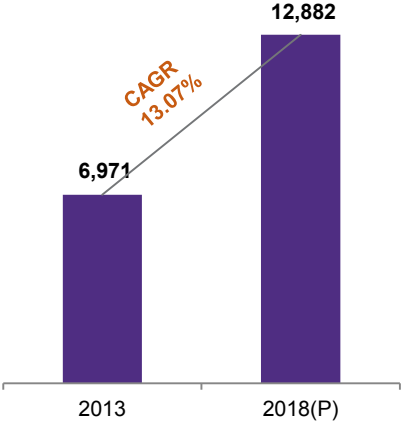
- Offer finest in food, service, and ambience; high priced; staff highly trained; usually located in luxury hotels in metropolitan cities.



Status

- The Fine Dine market thrives largely on the affluent consumer and is around 3% of the market
- The segment is growing at around 15% per year
- There is a renewed interest in this segment and a large number of multinational chains are entering the market such as Haka San, Akira Bak, Benihana, etc
- The Fine Dine market size is estimated to be around INR 7,000 crore currently, and estimated to reach almost INR 13,000 crore by 2018

Market break-up (INR crore)



Key players

- **Examples:** Taj Hotels, The Leela Hotels, Oberoi Hotels, Sheraton Hotels etc all have fine dining concepts
- The chain fine dine market in India has around 50 players with 150 to 200 outlets spread across major cities
- Known brands include Haka San, Akira Bak, Punjab Grill, Mainland China, Smokehouse Grill, Olive Bar & Kitchen, Taman Gang, etc.

Cafés – A growing culture amongst urban Indians

Definition

Outlets serving a range of coffee and other hot and cold drinks, and quick bites such as pastries and sandwiches and breakfast.



Status

- Coffee chains in India remained an underpenetrated market till recently.
- The Café market has witnessed an aggressive expansion by established brands, both domestic and international
- Over the past five years, the café culture has grown with many new cafés opening across all major Indian cities
- The market size for cafe's is around INR 25,000 crore and is growing at 10% per year
- Newer brands such as Starbucks and Costa have been aggressive with opening new branches
- With the recent acquisition of Barista, it is expected that the chain will also start growing rapidly after a brief consolidation of their portfolio

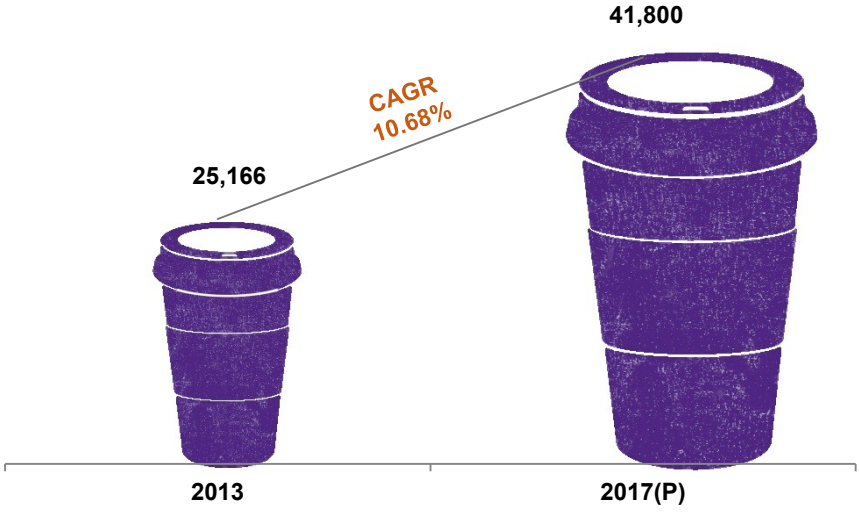
Key players

- **Examples:** Café Coffee Day, Barista, Costa Café, Starbucks, Brahmin's Coffee Bar, Gloria Jean's, Coffee Bean and Tea Leaf, Dessert Café, Chai Point, Au Bon Pain, Le Pain Quotidien, Cinnabon, Dunkin' Donuts

- Currently there are around 100 chain cafes and bakery brands with an estimated 3,100 to 3,200 outlets. Market leaders include Café Coffee Day and Barista Lavasa with presence across all four formats – lounge, café, express and kiosk; while others like Starbucks, Gloria Jean's Coffee and Au Bon Pain have presence in more than two formats. Costa Coffee is presently only in the Café segment

Cafés – A growing culture amongst urban Indians

Market break-up (INR crore)



> India is a very large market and we find that there is a very large untapped opportunity in the Tier II and III towns for quality eating out chains.

Devndra Chawla
Co-Chair, FICCI Task Force on Food Retail and CEO - Food Bazaar, Future Group



Success story: Dominos India

Introduction

Jubilant FoodWorks Limited is a Jubilant Bhartia Group company. It was incorporated in 1995 and initiated operations in 1996. The company got listed on the Indian bourses in February 2010. The company and its subsidiary operate Dominos Pizza brand with the exclusive rights for India, Nepal, Bangladesh and Sri Lanka. The company is the market leader in the organised pizza market in India with a 67% market share*. Dominos Pizza India operates 772 restaurants located in 28 states and Union Territories, covering 158 cities across the country.

The challenge

In 2005, Dominos was facing huge losses financially. Business was highly cost focused, key divisions like quality and HR were operating as one or two men teams and focus on supply chain and operations was lacking. They had also opened as many as 40 new stores at a frenzied pace and lacked the capability to run them effectively and efficiently.



*Euro monitor report 2013

Success story: Dominos India

The solution



- They started **by incentivising employees** by offering them ESOPs. They also made major changes to their entire supply chain and logistics network
- They launched an **IPO** in 2011 which was oversubscribed by 311%
- Dominos also altered its products to suit Indian tastes with the introduction of localised toppings like "Peppy Paneer" and "Chicken Chettinad," and it was also one of the first fast food chains in India to spread its wings into the mini-metros and tier II & III locations
- What works for the company is that it has been successful in establishing a **strong brand recall with the "30 minutes" delivery proposition**

Result

The company is the market leader in the organised pizza market with a 67% share in the pizza home delivery segment in India.

In 2011, Jubilant was valued at par with the US brand owner, Dominos. Dominos India is the second largest member firm of the chain after Dominos USA.

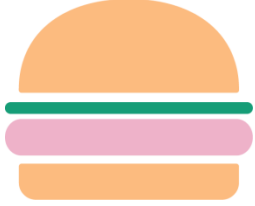
"Jubilant Foodworks has made the Indian franchise of Dominos one of the biggest success stories in the F&B sector across the world. The company has been able to do so through localisation of inputs and standardisation of quality while focusing on a core value proposition – Quality Pizzas delivered quickly!"

Siddhartha Nigam
Partner,
Grant Thornton Advisory Pvt. Ltd.

Success story: McDonald's India

- Opened first restaurant in 1996 but work began as early as 1990
- At that time the concept of eating out and that of Western food was still not widely accepted
- The more pressing challenges at that time were establishing the supply chain which could provide quality food inputs and consistently
- The company began working with farmers and empowering them with the right technology to source the right quality of inputs especially on potatoes and lettuce
- They worked with their global suppliers to bring international food processing technologies to India and tied-up with local businesses to ensure a smooth exchange of know-how
- They also had to set up the whole cold chain from scratch - they introduced compartmentalised trucks with specialised temperature controlled sections to ensure that produce was transported under strict quality standards to ensure they retained their freshness
- They then had to position the restaurant and work towards making the brand as a family brand, a warm place to go for special occasions
- Completely Indianised the menu to match the local tastes and preferences
- Value for money with special low pricing for certain menu items







Success story: McDonald's India

Constraints for growth

- Multiple taxes
- Complex and multiple licensing system
- High food and commodity costs
- Shortage of skilled manpower
- Hindering laws such as permitted operating hours and working hours for women employees
- Adequate infrastructure development to help manage and better the supply chain and cold storage systems
- Implementation of GST and its impact

Current situation

- 300 restaurants currently operated by two partners – Hardcastle Restaurants (West and South India) and Connaught Plaza Restaurants (North and East India)
- Hardcastle plans to open around 250 outlets in the next 5 years with investments of more than INR 750 crore

Demand and supply drivers



Demand drivers

Demographics

Youth is a growth driver for the food industry

India, with its population of 1.2 billion, is one of the largest consumer markets in the world. It is also demographically one of the youngest with around 50% of its population below the age of 25 and around 65% below the age of 35. The majority of Indian consumption of fast food is driven by people between the ages of 18 and 40. The appetite of the young Indian population has been a key driver in QSR industry growth.

Increase in disposable income

Growing economy has resulted in higher expenditure on food and related products

Increase in disposable incomes of middle class families resulted in them spending more on food consumption. Per capita income increased by CAGR 9% to US$ 1,350 in 2013 compared to US$ 450 in 2000. Consumers are now spending as high as 51% of their income on food products.

Change in customer preferences

Increasing number of people prefer eating out and convenience food

Food habits have changed due to changes in family structures. With the changing habits there is an increased preference for convenience and higher instances of eating out. Certain section has been exploring culinary experiences due to the global mobility of the Indian consumer. This resulted in the emergence of the QSR industry and also the ready-to-cook/ ready-to-eat segments of the food & beverage industry.

Demand drivers

Rise in number of working women

Increasing incidence of working women is resulting in frequent eating out occasions

Women form nearly 25% of the workforce now. With more women spending a substantial number of hours at work, there is little to no time to prepare elaborate meals at home, as generations before them did. More working women are spending their disposable incomes on eating out or serving ready-to-eat or prepared foods picked up on the way home from work.

Health and hygiene consciousness

Awareness for hygiene and health have increased sale of organised section of market

Rising awareness and incomes among upwardly mobile urban consumers are making them care more about health and fitness. The mushrooming of juice bars and kiosks selling salads and wraps are cases in point. Consumers are opting for healthy options at the supermarket as well. Many now cook with healthier oils as opposed to ghee and butter, the traditional cooking medium in India.



Supply drivers

Economic liberalisation

A free economy enables growth in food sector

With economic liberalization in the early 1990s, barriers to doing business were either removed or minimised. Economic reforms helped India attract investments in the sector from foreign companies wanting to enter the Indian market and also from private equity firms.

Infrastructure development

Growth of third party logistics providers

As an offshoot of the growth in this sector, third party logistics providers, which transport the produce and food products from source to destination have also emerged.

Contract cultivation

Global brands now outsourcing their raw materials

Companies are signing contracts with farmers to grow a specific crop and guaranteeing to buy the produce at an agreed price—has emerged as a preferred way to source agricultural produce. Take the case of potatoes. McCain Foods, which supplies McDonald's, has 400 farmers cultivating 2,000 acres of potato fields in Gujarat under contract. Pepsi Foods has over 2,000 farmers on contract, covering 7,000 acres across Haryana, Punjab, and Uttar Pradesh.

Supply drivers

Multiple cuisines

Increasing number of consumers accepting multiple cuisines

The foray of Indian restaurants into a variety of global cuisines is having a positive impact on the F&B sector. Customers are more willing to experiment with different cuisines because it is now easily accessible in the cities they live in, and this trend could also increase Indian consumers' frequency of eating out.

New retail formats

Food courts in malls have given a boost to the sector

Emergence of new and diverse retail formats in the F&B sector has resulted in companies finding a new format for operations in the form of food courts in large format malls. These food courts offer consumers, largely a conversion of mall's footfalls, easy access to food at the time of shopping and entertainment activities and also offer a choice of multiple cuisines.



Growth in investments in the F&B services sector



The restaurant sector has been one of the first sectors to attract foreign interest due to the large opportunity

- A large number of foreign brands have entered India over the last 15 years – with McDonald's, Pizza Hut, Dominos, Subway, KFC, Starbucks, Dunkin Donuts among the successful ones
- In the initial stages, foreign brands were more concerned about Master Franchise concepts and were not open to investment exposure in the country
- With the success of many restaurant chains and the Indian entrepreneurs wanting to balance risks, newer investment led models have been explored including complete ownership and JVs
- Foreign brand owners are now exploring how they can be part of the investments in India and reap a better ROI in the bargain
- A case in point has been the success of Dominos in India as a franchise unit and its valuation which at one point was much higher than that of the foreign brand owner
- Besides direct investments by foreign brands, there will also be large scale investments in the value chain – from kitchen equipment, cold chain, to development of a vibrant processed foods market in India

Brand	Year of entry	Mode of entry	Indian partner
Wendy's (US)	2015	Master franchise	Sierra Nevada Restaurants
Barcelos (South Africa)	2015	Company-owned	N/A
Burger King (US)	2014	Master franchise	Everstone Group
Fatburger (US)	2014	Master franchise	VAZZ Foods Private Limited
Johnny Rockets (US)	2014	Master franchise	Prime Gourmet Private Limited
Dunkin' Donuts (US)	2012	Master franchise	Jubilant Foodworks
Starbucks (US)	2012	Joint venture	Tata Global Beverages
Krispy Kreme (US)	2013	Master franchise	Citymax Hotels India Pvt. Ltd. for southern and western India
Pizza Express (UK)	2012	Joint Venture	Bharti Group

Constraints: Lack of ease of doing business in India; complex licensing regime; high real estate costs; high tax incidence

Indian entrepreneurs will capitalise on the opportunity and it is likely for more organised chains to emerge in the next decade.

- The F&B sector has been dominated by Indian entrepreneurs largely in the unorganised space
- As the opportunity grows, it is certain that more Indian entrepreneurs will start getting into organised restaurant chains
- In addition, this will also help develop the largely unorganised F&B catering industry
- There have been several success stories in the past of restaurant chains such as Café Coffee Day, Barista, Sagar Ratna amongst others

ILLUSTRATIVE

Indian Restaurant Chains

MAINLAND CHINA

Oh! Calcutta

sigree GLOBAL GRILL

street foods of INDIA

BARISTA COFFEE LAVAZZA

zambar COASTAL KITCHEN

Café Coffee Day

Fresco RESTAURANTE & BAR The Authentic Mediterranean Mood

PUNJAB GRILL GOURMET FINE DINING

Sagar Ratna VEGETARIAN RESTAURANT

Constraints:
- Lack of ease of doing business in India
- Complex licensing regime
- High real estate costs
- High tax incidence

The investments in F&B sector will also ensure indigenous development across the value chain.

- With investments expected both for expansion and by new entrants, there will also be a rapid development of the entire value chain within India
- With emphasis on 'Make in India', it is expected that the major international players for kitchen equipment and processed food will set-up units in India to supply to this sector
- In addition, there will be several domestic entrepreneurs who will make investments to increase quality levels and standards to meet the requirements of the sector

Kitchen equipment

Technology tie ups with foreign brands, innovations to suit Indian requirements, Indian manufacturing units by foreign brands to lower costs.

Processed foods

Sourcing of sustainable and consistent quality of processed foods for the restaurants, investments in food parks would see better infrastructure and thus sourcing of such items.

Cold chain

Cold chain infrastructure becomes critical for supplying consistent inputs across the country. The central government schemes for investments and food parks would get more investments in this space.



Key issues



Issue 1: Lack of quality infrastructure

Cold chain infrastructure

- The current cold storage capacity of ~30 million Metric Tonnes (MT) is dominated by storage facilities for potatoes, followed by multi-purpose cold storage facilities
- India's cold chain industry is still evolving, mostly in the unorganised sector with 50%+ of cold storages below the capacity of 1,000 MT
- The demand for cold storage is expected to grow to 47 million MT as food sector (retail and service) is getting organised with support from government initiatives on the back of demand for processed and frozen food
- The lack of proper cold storage infrastructure today hampers the growth of the food service industry as the restaurants rely on cold chain infrastructure for procurement of uniform quality produce (unprocessed and processed) across their outlets

> "The government has been of late focused on developing the food processing infrastructure through the promotion of cold chains and integrated food parks by subsidising the capital cost. This will not only ensure the right infrastructure availability to setup processing units to provide quality inputs to the restaurant sector, but also provide a big boost to the availability of processed foods within the country, which were in a number of cases, imported. These initiatives will go a long way in promoting the 'Make in India' initiative."

Vinamra Shastri
Partner,
Grant Thornton India LLP



Issue 1: Lack of quality infrastructure

Food processing industry

- The food processing industry is among one of the largest industries in India and ranks 5th in terms of production, consumption and exports – its market size is estimated to be around INR 7.5 lakh crore
- The food processing industry has a large presence of about 42% in the unorganised sector, whereas the organised sector is only 25% and the remaining is small scale industries
- Consumption of processed food is still nascent to India and with growing urbanisation and disposable incomes, this trend is now increasing
- The government is also providing incentives for reducing food wastage and increase the value addition to the end produce
- The uniformity and quality of processed food available is still not at par with global standards which are required by a buoyant restaurant industry – as the sector develops and focused collaboration starts for farm to fork production, the processed food available in India would also increase



Issue 1: Lack of quality infrastructure

Our solutions

- Identification of key belts where cold chain infrastructure is needed more for the industry can be helpful
- Concept of a food processing and pre-cooked food mall / industrial shed where a number of units can be housed and these are within close proximity to large metro cities which are restaurant hubs – if these can be made under the purview of food processing and the food park scheme (thereby giving them an impetus through grants & incentives), they can provide an opportunity for small & medium scale units to setup in a concentrated fashion, use common facilities and provide pre-cooked food to a large number of restaurants within the city. This will not only ensure quality & uniformity, but also ensure that kitchen requirements in restaurants decline. This will also lead to lower real estate costs for the operator

> "With limited food processing capabilities, a lot of the processed ingredients are either imported or done in-house. If such is available at an economical rate near to the restaurant locations, it would help in reducing my costs and also add to the overall quality of my dishes."

Devndra Chawla
Co-Chair, FICCI Task Force on Food Retail and CEO - Food Bazaar, Future Group



Issue 2: Lack of adequate skilled manpower

Shortage of manpower

- Gross annual demand of employees in the hospitality sector had crossed 500,000 in 2009 – 10 and is likely to grow to almost 920,000 in 2021-22
- It has been estimated that current supply available for trained manpower for the entire hospitality industry is only 9-12%. This leaves a very large gap to be fulfilled
- With a fast growing industry, the problem only multiplies and this is one of the main reasons hampering the further growth & development of the sector
- There are a total of 337 training institutes (March 2010) in the hospitality sector. This includes 38 government owned hotel management and food craft institutes and almost 200 others which are either affiliated to a university or approved by the AICTE
- The biggest gap is in the front office/ restaurant service/ waiter category:
  - Housekeeping, followed by F&B and front office, together account for 68% of the workforce in the hotels industry
  - In restaurants and other eating outlets, F&B service closely followed by the kitchen account for close to 70% of all employees
- Formal training is required to produce both managerial and non-managerial personnel



Source: National Skill Development Corporation (NSDC), Ministry of Tourism, Industry sources

Issue 2: Lack of adequate skilled manpower

Our solutions

- Industry sponsored training programs
- Leverage NSDC platform for settting up a private training institute funded by an industry consortia which can produce manpower to be absorbed within the industry itself
- Focus on grooming and communication skills
- Upgradation of programmes through revisions in the AICTE courses and working with those specific institutes to focus on the skills required

> One of my biggest problems is the availability and retention of quality trained manpower. Chefs as well as servers are often replaced and this hampers my business. Besides, my expansion plans always has to factor in the availability of the requisite manpower in the cities where I expand – unavailability often delays the plans and we need to impart an in-depth training programmes for our employees.

Dhruv Agrawal
Co-founder and Director,
Crazy Noodles

> There is an evident shortage of manpower in the F&B sector which is leading to poor customer service and also rising salary costs. To enable better standards in the service industry, manpower needs to be trained effectively and the initiatives such as those promoted by NSDC will provide the boost required.

Prashant Mehra
Partner,
Grant Thornton India LLP



Issue 3: High real estate cost

High real estate costs are a big hindrance to growth

- While the Indian F&B service space has seen rapid growth in the past few years, the rising real estate costs is proving detrimental to the holistic growth of the industry
- There is a shortage of quality real estate in India and due to the high demand, restaurants often find themselves paying global rentals at Indian prices. Real estate rentals have increased 3 to 4 times in the past 4 years, contributing a significant percentage to the total costs incurred during operations
- Real estate costs account for on an average 15-20% of the revenues and is the second largest item after raw materials – this is significantly larger than the global average of <15%. This is further accentuated with the addition of service tax on the rental value
- In such situations, the stand alone restaurants lose out as the larger chains / brand aggregators are able to lower the rentals through effective negotiations and cornering a large chunk of the prime space available
- Innovative models have been explored in retail which need to percolate in the restaurant business i.e. revenue share, deferred rents, equity share, etc.



Issue 3: High real estate cost

- Lobby with real estate developers to highlight that footfalls are generated through restaurants first (eating out is one of the most favoured entertainment options of Indian consumers)
- Real estate developers should offer the same deal to restaurant operators which they offer to retail i.e. revenue share, equity share, deferred / bullet rentals, etc.

High real estate costs limits the speed of our roll-out – with high working capital requirements and upfront deposits, the high rentals not only hamper our overall margin, but also limits the scalability. Sharing of real estate costs between developer and restaurant owner through a revenue share mechanism would help in lowering rentals and providing a kicker to the restaurant industry.

Dhruv Agrawal
Co-founder and Director, Crazy Noodles



Issue 4: Licensing

There are several different types of licenses required before one can commence his/her restaurant operations.

- With the large number of licenses required and the time taken for obtaining these, the restaurant industry always has a large lead time for opening new outlets
- In addition to the time taken, the cost of compliance is also high which can be easily avoidable
- Internationally, the ease of setting up a new restaurant is significantly high and in countries like Turkey, the number of licenses can be as low as 2

> "There are a large number of license requirements for opening a restaurant in India compared to 4 each in Singapore and China – this is a pure hindrance to the industry and should be simplified."

Anshuman Mohta
Founder,
Market Cafe

> "The major difficulties in the sector are plethora of multi-lateral statutory approvals required for opening of any restaurant / food & beverage outlet. There is no central or single point agency for such statutory licenses. Secondly, different state governments have different licenses / requirements thus making it difficult for a restaurant chain to plan timelines for opening restaurant chain across different states. The guidelines in this regard should be fulfilled on self-declaration basis."

Mayank Jalan
Managing Director,
Keventer Agro

Issue 4: Licensing

The license requirements are mostly consistent throughout India except for states like Maharashtra that may have some regulations specific to that state only. Following are some of the key licenses required to open a new restaurant in the country:

Indicative

General Licensing Requirements		
Nature Of License	Issuing and Regulatory Body	Compulsory/ Optional
Health/Trade License	Municipal Corporation / State Health Department	Compulsory
Eating House License	Licensing Branch – Police Commissioner	Compulsory
Liquor License (L17 as per new excise law)	Excise Commissioner	Compulsory for service of liquor
Approval/ Re-approval of restaurants	Dept. of Tourism of the state concerned	Compulsory for obtaining a liquor license
Playing Music in restaurants- License	Phonographic Performance Limited/ Indian Performing Rights Society	Compulsory if recorded/ live music of copyright holders is being played
Environmental Clearance	As per state laws	Compulsory
NOC (Fire Department)	State Fire Departments	Compulsory
Lift License	Concerned authority of states/ Office of the Labor Commissioner	Compulsory if lift is to be operational
Insurance 1) Public Liability 2) Product Liability 3) Fire Policy 4) Building & Asset	Insurance policies are must can be obtained from any insurance company	Compulsory
Nominations Under PFA(Food Adulteration) Act 1) 1954 section 17 (2) 2) Rule 12 B of 1955	Director Prevention of Food Adulteration of the State	Compulsory and to be applied for in prescribed form
Shop and Establishment Act	Applicable as per act and state law	Compulsory
Signage License	Municipal Committee/ Corporation of city	Compulsory

Issue 4: Licensing

Our solutions

- Simplified licensing requirements with a single-window clearance approach
- Also adherence to quick turnaround times for licenses as the real estate costs are being incurred while waiting for the licenses

> The time lost in obtaining the large number of requisite licenses especially liquor (it can take more than 40 days) are painful while opening a new restaurant – my costs are on and I cant expedite this as it is out of my hands. A faster and simplified process with a unified license can ease this and help grow the industry faster.

Amit Arora
Founder and Managing Director, Buddy Retail



Issue 5: Tax incidence

- The Indian restaurant industry is burdened with multiple taxes like VAT, excise, and service tax, besides different state taxes, which add up to 17.5-25% of the bill value
- The 2 key taxes levied are VAT and Service Tax:
  - VAT rates can vary between 5% and 20% usually and is different in case of food items & alcoholic drinks – the states decide on the rates
  - Service tax is the tax levied by the government on the services rendered by specifically air-conditioned restaurants and is charged at 12.36% of 40% of the total bill value. This can be equated to 40% x 12.36% = 4.94% on the total bill, including food, drinks and the service charge
- In comparison to regular retail, the incidence of such taxes are around 10-15%
- Since this is usually charged to the customers, with a customary tip / service charge of 10%, the incidence of taxes and charges over and above the bill value is almost 33%
- In addition, charging VAT and service tax on the same bill value (even though 60% reduction is available on service tax), amounts to double taxation as by definition, they should not be charged on the same item
- This inflates the overall cost to the consumer thereby dissuading them from returning frequently

> “Our concerns primarily are on multiple taxes, high food and commodity costs, shortage of skilled manpower and archaic laws on permitted operating hours and working hours for women employees and infrastructure development to help manage and better supply chain and cold storage systems, implementation of GST and multiple licensing among others. We look to the government to work closely with us on resolving these issues.”

Amit Jatia
Vice Chairman,
Hardcastle Restaurants

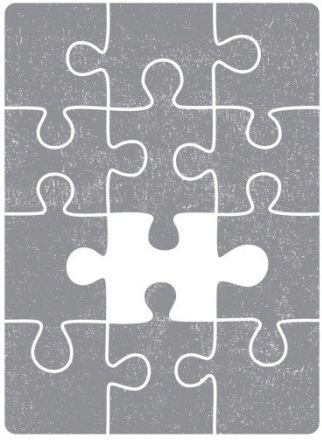
Issue 5: Tax incidence

Our solutions

- Rationalisation of taxes levied on the restaurant industry – although GST would address this, but the rollout is still not underway
- In the meantime, there should be a business case put forth to the government to relook at the incidence of service tax on the restaurant industry and remove the same

> We can have one of the taxes, VAT or service tax which should be mutually exclusive and levying both on the same invoice amount leads to product going of reach of consumers. This further limits the consumption patterns of consumers which limits the growth of the industry.

Devndra Chawla
Co-Chair, FICCI Task Force on Food Retail and CEO - Food Bazaar, Future Group





Common pitfalls during expansion



Common pitfalls

Grant Thornton has identified eight common pitfalls internationally that F&B companies face while expanding their operations.

Follow the leader

Every company and every product is different in the eyes of consumers. Do not assume that you can succeed internationally based on the achievement of an established market leader or competitor.

Hasty action

A distributor or retailer may want your goods in the market. They say that you need to jump now at this rare opportunity. Be patient. Apply the same analytical rigour and due diligence that you would with any other opportunity.

Deep pockets

Only the largest F&B companies are likely to be able to launch and sustain an international expansion through cash flow. Establish realistic financial models that project cash requirements. Get a feel for sources of available funding.

> “Foreign brands need to ensure that although they see India as a large opportunity, there needs to be an appetite for risk taking. India is a difficult terrain to operate out of with multiple taxes, complex licensing and high operating costs. In addition, tastes and preferences vary significantly based on the location within India. With correct planning and customisations, companies can see explosive growth of their concept in India.”

Piyush Patodia
Executive Director,
Grant Thornton India LLP

Common pitfalls

One size fits all

It is rare that any company's business model and organisational structure translates precisely into a foreign market. Some elements of how you do business will change.

Rigid planning

F&B consumers are fickle. Trends and trouble emerge overnight. But change should not necessarily mean failure. Your expansion plan should include regular monitoring of markets, competitors and regulations so that you can adapt.

One more market

No corporate structure can be stretched without limit. As international expansion occurs, make sure that existing domestic and international operations retain the level of support necessary to deliver required revenues and profits.

Just like home

Even the most promising market can turn sour quickly due to geopolitical, economic or natural events. Monitor the political and fiscal barometer of the market regularly.

No exit

Even a successful market expansion can have a shelf life. Develop an exit strategy that allows your company to remove itself from local partners and repatriate your cash without burning bridges.

Source: Expanding horizons: Food and Beverage looks for growth, Grant Thornton Food and Beverage Report, 2014

About FICCI



About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry.

FICCI serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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About Grant Thornton



About Grant Thornton

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