

foodService

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editor-in-chief amitabh taneja
editorial advisor r s roy
director - planning anjali sondhi
deputy editor sanjay choudhry
contributing editor nupur chakraborty
sr. assoc. editor-cum-chief of bureau nivedita j pawar (mumbai)
sr. correspondent bhavya misra
correspondent varun jain

creatives

art director pawan kumar verma
sr. layout designer prakash jha
sr. photographer vipin kardam
asst. photographer deepak malik
photo coordinator kamal kumar
publisher s p taneja
chief operating officer sandipan singh

business development

general manager, product head lokesh arora
assoc. vice presidents & regional heads waseem ahmad (mumbai)
managers (advertising) piyali roy oberoï (kolkata)
karun saluja (delhi)
anirban sarkar (kolkata)
marketing associates s venkatraaman (chennai)
9444021128 (m)
hemant gupta (punjab)
9814019745 (m)
assoc. vice president (circulation) anil nagar
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production

general manager manish kadam
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Start of a new journey

These are exciting times for the foodservice industry in India. Indian economy, already the fourth largest in the world by purchasing power parity, has acquired critical mass. As the disposable income of Indians rises, so do the fortunes of foodservice business. The industry is growing at a jaw-dropping 20 to 25 per cent every year, propelled by its expansion into smaller cities and the increasing average spend of Indians on eating out.

We believe the time has finally arrived for a magazine dedicated exclusively to the Indian foodservice industry. It is thus a proud and joyous moment for us to present to you the first edition of *FoodService India*, brought out in collaboration with the prestigious *FoodService Europe & Middle East*. This magazine would be a partner in the growth of the Indian foodservice industry, marching in step to highlight the various issues facing it, charting its progress, celebrating its successes, warning it of new challenges, profiling the people behind it, carrying its story far and wide and acting as a powerful voice that lobbies with the powers-that-be on its behalf.

Our inaugural issue conducts a broad sweep of the industry, focusing on the dynamics of the Indian QSR market, the success mantra of McDonald's in India, the turn-around strategy of Starbucks, the growth of institutional catering, and the policy makers' new-found interest in cold chains. There are also interviews, trends, updates, market research, international design concepts and much more.

This issue has been passionately put together by deputy editor Sanjay Choudhry, assisted by senior correspondent Bhavya Misra and correspondent Varun Jain. A very special thank you is also due to Nupur Chakraborty, Gretel Weiss, Dr. Marc Liewehr, Carmen Alt, Lokesh Arora and Nivedita Jayaram Pawar. Samir Kuckreja, president of the National Restaurant Association of India (NRAI), was kind enough to share with us his perspective of the Indian foodservice industry.

We hope this is the beginning of a long and eventful journey and you, dear reader, will be with us all the way.



Amitabh Taneja

IMAGES MULTIMEDIA PVT. LTD.

Delhi: S-21, Okhla Industrial Area, Phase II, New Delhi 110020, India
T: +91-11-40525000 | **F:** +91-11-40525001 | **E:** info@imagesgroup.in

Mumbai: 1st Floor, Bharat Tin Works Opp. Borosil Glass Works, Off Military Road Marol Maroshi, Andheri (E), Mumbai - 400 059
T: +91-22-42567000/29200043/46 | **F:** +91-22-42567022
E: waseemahmad@imagesgroup.in

Kolkata: 30-B, Anil Roy Road, Ground Floor, Kolkata - 700 029
T: + 91-33-40080480 | **F:** +91-33-40080440
E: piyalioberoi@imagesgroup.in

Bangalore: 523, 7th Cross, 10th Main (Jeevanbhima Nagar Main Road), H.A.L. 3rd Stage, Bangalore - 560075
T: +91-80-41255172, 41750595/96 | **F:** +91-80-41255182
E: bangalore@imagesgroup.in

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Editor: Amitabh Taneja

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A foodservice market of the magnitude of India, growing at a scorching 25-30 per cent year-on-year, has barely 10-15 QSR brands. The opportunity is huge and so are the challenges. So what exactly are these bottlenecks, and why does so much of fast food in India look so American?

Fast and Furious

By Bhavya Misra

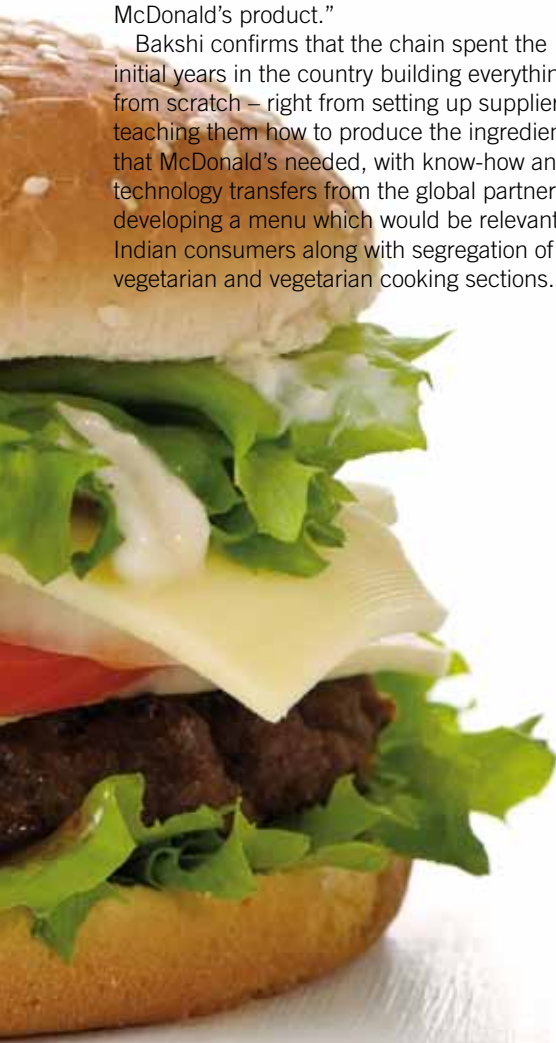


The Indian economy opened up in the year 1991. This was the time when leading multinational quick-service restaurant (QSR) brands, including McDonald's, Domino's, KFC, Pizza Corner *et al*, laid siege over a consumption boom that was soon to explode. The journey of some of these brands has been a mix of highs and lows. KFC, in fact, had to withdraw from the market during the initial entry phase after being buffeted by a storm over a controversial menu.

"India may look like a market easy to enter, but to be successful one really needs to have a lot of energies invested towards getting the back-end chain in place," says K Ramchander Raman, head of Food & Beverage at Cafe Coffee Day, which prefers to define itself as a cafe rather than a QSR.

"When McDonald's decided to enter India in 1989, there was nothing readily available here that would help us launch front-end restaurant operations instantly," Vikram Bakshi, managing director and JV partner, McDonald's India (North & East) explains. "The infrastructure was poor; the very concept of a cold chain did not exist! On top of this, there were no ready suppliers available who could deliver the ingredients that make a McDonald's product."

Bakshi confirms that the chain spent the initial years in the country building everything from scratch – right from setting up suppliers by teaching them how to produce the ingredients that McDonald's needed, with know-how and technology transfers from the global partners, to developing a menu which would be relevant to Indian consumers along with segregation of non-vegetarian and vegetarian cooking sections.



Market Opportunity

Prior to the year 1996, there were barely any QSR brands present in India barring Haldiram's (which jumped the chain-QSR bandwagon only much later). Nirula's, which had commenced operations way back in 1928, launched its first family-style restaurant only in the 1990s.

So, did the QSR phenomenon create a new consumption class altogether, or did the rapidly evolving consumers drive the need for fast food?

"Over the past few years, urban Indian consumers have become more "expenditure-oriented," with out-of-home dining being one of the top leisure activities. There is a substantial increase in both dine-in and delivery businesses in the industry. With the rise in disposable incomes of the average urban Indian consumer, the market size and potential of restaurants are only expected to rapidly grow in future," states Ashish Kapur, managing director of Yo! China. In a market dominated by unorganized players, he reckons the organized players accounting for only about 3,000 outlets all over India.

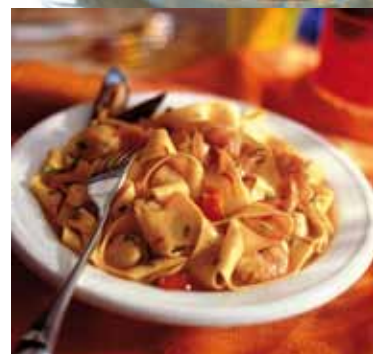
Samir Kuckreja, managing director and CEO of Nirula's, says: "The Indian restaurant industry has all the right ingredients for robust growth. Factors such as rapid urbanisation, growth of mid-sized cities, improved infrastructure, rising population, rise in the number of working women and higher disposable incomes have together made QSRs the fastest growing foodservice segment, growing at an annual rate of 25-30 per cent."

Bakshi estimates the overall size of the QSR industry in India to be about Rs 43,000 crore, with the organized segment accounting for a paltry 16 per cent of the market. However, this ratio is expected to change in the next few years. "The organised segment would increase to about 45 per cent of the market by 2015, when the overall size of the industry would reach around Rs 62,000 crore," he says. The Indian restaurant industry is growing at a scorching pace of 20-25 per cent per annum. The organised segment is expected to grow faster at the rate of 25 per cent per annum. "I am seeing a trend that shows unorganised segment fast becoming organized. Added to this is the growth of current organised players, which would double the size of the sector," adds Bakshi.

Indian Fast Food QSRs: Where are They?

The entry of multinational QSR brands appears to have propelled the growth of indigenous chains, which lay almost dormant until the entry and rapid expansion of brands such as Domino's, Subway, KFC and McDonald's. However, given the rich diversity of Indian street foods, pan-Indian specialist domestic QSRs are still hard to find in the country. The main problem seems to be a lack of standardization and the huge gestation period required before a restaurant chain comes alive.

Says Harneet Singh Rajpal, vice president of





McDonald's India is lovin' it!

By Varun Jain

The Golden Arches of McDonald's today dwarf other players in the Indian QSR market. With hundreds of outlets spread in all corners of the country, it has over the years pioneered and developed an impressive number of stores, backed by an elaborate network of supply chains and cold chains. What makes McDonald's tick in India? Why has it grown from strength to strength where many others have failed to take off? What is its success mantra? The answer: an ability to think out-of-the box and a long-term perspective.

Fifteen years since it entered India, McDonald's has emerged as a formidable player in the country's QSR market, which is now Rs 43,000-crore-strong, with its organised component growing at a CAGR of 20 to 25 per cent. With over 200 outlets spread across the length and breadth of India, you are almost certain to be greeted by the famed Golden Arches, no matter which small town you go to, with all of them offering exactly the same menu and promising the same quality and taste as anywhere else.

Driven by a smart advertising campaign, the McDonald's brand has almost made itself synonymous with the QSR industry, so much so that today when you think fast food, you think McDonald's. What lies behind this impressive success is innovation, an understanding of the market, right entry strategy, aggressive pricing, localisation and a strong supply chain.

Virgin Territory

When McDonald's decided to enter India in 1989, there was nothing readily available that would help it launch the front-end restaurant operations from the word 'go.' The infrastructure of the country was poor, the concept of cold chains simply did not exist and there were no suppliers available who could offer the dozens of ingredients that would go to make the uniquely Indian product range of McDonald's.

There was also the problem of cultural sensitivities. The standard fare of McDonald's sold across the world -- beef being its mainstay -- could not readily be launched in India because beef

benefited the farmers at one end and customers on the other, who got to enjoy the highest quality fresh food at a great value.

States Amit Jatia, vice chairman, Hardcastle Restaurants, which runs McDonald's outlets in South and West India: "Setting up this extensive cold chain distribution system involved the transfer of state-of-the-art food processing technology by McDonald's and its international suppliers to pioneering Indian enterprises which today have become an integral part of the McDonald's cold chain in the country. Quality food suppliers were very few and in some categories such as lettuce, they were non-existent."

Number of Global Restaurants:
More than 32,000

Number of Countries:
117

Number of worldwide employees:
1.7 million

Percentage of franchised restaurants around the world:
More than 80 per cent



and pork are anathema to a majority of Indians. A substantial chunk of them are also vegetarian, which called for a large non-meat product range customised to Indian tastes.

Says Vikram Bakshi, managing director and JV partner, McDonald's India (North and East): "We spent the pre-launch years building everything from scratch. We set up the suppliers by teaching them how to produce the ingredients that we needed. We offered them know-how and technology transfers from our global partners. We also developed a menu which would be relevant to the consumers in the country."

A unique innovation of McDonald's in India is segregation of cooking sections for vegetarian and non-vegetarian items. This sanctity is maintained not only in the restaurants but has been the integral part of its back-end operation which inspires tremendous confidence in McDonald's large base of vegetarian consumers in India.

The company's initial strategy was simple. Bakshi says it was to be sensitive to the local culture, diversity that exists in the country, and introduce a menu that is relevant to local tastes and sensibilities.

Prior to its India launch, McDonald's spent six long years developing a unique cold chain that has now brought about a veritable revolution in food handling in the country. This has immensely

“ While McDonald's Happy Price menu aggressively targets low price points, the Spicy menu goes in the opposite direction. ”



Food Is the New Fashion



Increasingly you find food and foodstuff in settings which are not directly related to eating: such as in design, advertisement, art, fashion – as bearer of messages, values and visions. The combination of food and fashion in particular shows us fresh, natural and basic but also extravagant products not inferior to even the most spectacular Haute Couture creations from Paris, Milan and New York. Food, it seems, it is no longer trendy, it is the new fashion! But what does all this mean for our food culture? Hanni Rützler, futurefoodstudio Vienna, explains how food culture defines the new trends according to food occasions. www.futurefoodstudio.at

Last autumn, on a beautiful sunny day, I was passing by the big shop-windows of Printemps and Lafayette in Paris. Guess what I saw? A room filled with food, women dressed with spoons and their heads covered with a large green cabbage. This reminded me of some pictures of a fashion show I had seen a year ago, where models, decorated with food, were walking down the catwalk. They were wearing periwigs made of salad, scarves of octopus and cami tops of Lasagne. Pictures which you can also admire in the book Fashion Food written by Roland Trettl and Helge Kirchberger.



Cold Chains: In from the cold

The cold-chain infrastructure in India, which is valued at between Rs 8,000 crore and Rs 10,000 crore, continues to be woefully inadequate. Government statistics indicate that India has about 5,400 cold storage facilities with a total capacity of about 24 MT, of which 80 per cent is used only for potatoes. Consequently, over 30 per cent of fresh produce and 5-7 per cent of total food grain output in India ends up as wastage. But there is new hope.

By Varun Jain

According to a FICCI report, about 30-35 per cent of the country's annual fruits and vegetables production of 60 MT is wasted due to inadequacies in cold storage and logistics. In value terms, fresh food worth Rs 58,000 crore is annually lost in wastage in India, which is more than the total production of fresh fruits and vegetables in the UK.

The CII has estimated that India's cold-chain infrastructure will require at least Rs 18,000-20,000 crore investment over the next five years to meet the rapidly growing requirements for such facilities, while the industry size, at the current pace, will grow from Rs 8,000-10,000 crore to Rs 40,000 crore by 2015.

Recognising this appalling state of affairs, Finance Minister Pranab Mukherjee has confirmed that investments in cold storage projects will be gaining momentum. Presenting the Union Budget for the current fiscal earlier in the year, he revealed that 24 cold storage projects with a capacity of 1.4 lakh metric tonnes have been sanctioned under the National Horticulture Mission. In addition, 107 cold storage projects – with a combined capacity of over five lakh metric tonnes – have been approved by the National Horticulture Board. Approval has also been given to set up 15 more mega food parks during 2011-12, according to the finance minister.

Clearly, the government appears committed to up the ante in the cold chain sector. But will these announcements translate to actual and measurable capacity expansion? The general mood within the industry appears positive, though some point out that the path to world-class supply chain efficiencies is likely to be anything but smooth.

Government Initiatives

To encourage setting up of cold chain facilities in the country, the Government currently operates several Plan Schemes under which financial assistance is provided for setting up of cold storages and cold chain facilities. The Ministry of Food Processing Industries (MoFPI) has also a Plan Scheme for Cold Chain, Value Addition and Preservation Infrastructure during the 11th Plan to provide financial assistance to project proposals received from public / private organisations for cold chain infrastructure development. The initiatives are aimed at filling the gaps in the supply chain, strengthening of cold chain infrastructure and establishing value addition with infrastructural facilities like sorting, grading, packaging and processing for horticulture including organic produce, marine, dairy, poultry, etc.



The Budget also exempted air-conditioning equipment and refrigeration panels used in cold chain infrastructure, including conveyor belts, from excise duty. It also extended excise duty exemption to equipment used in cold storages, *mandis* and warehouses.

“The Union Budget has indicated that a long-term initiative to effect modernisation of India’s cold storage has now started, albeit in the last year of the 11th Five Year Plan. The move will create cold storages for highly perishable non-cereal foods such as fruits and vegetables,” notes Ravi Kannan, CEO, Snowman Logistics, a leader in cold chain logistics.

Even while noticeably containing post-harvest wastages, it is expected that big ticket investments in cold storage will also boost big volumes in processed foods that use fruits and vegetables as the primary raw material.

Rahul Kulkarni, director, WestCoast Group, which supplies multiple frozen and packaged food products to numerous foodservice (HoReCa) and modern retail businesses across the country, observes that over the years different government policy announcements have been made from time to time for the benefit of this sector. “While the country is seeing some growth in cold storage companies, we feel more should be done. One might avail of some subsidies offered by the government, central or state, but until a favourable outlook is not accorded holistically – say, to power availability and tariffs – the intended flourish will not take effect. It is vital that the growth of this sector match the pace of overall growth in other sectors,” he says.

“There have not been private investments of a very high order in this sector, but we have seen the trend changing over the past 2-3 years.”



Untapped Potential

By 2015, the Indian food industry is expected to reach \$258 billion in size from the current level of \$181 billion (FICCI – Ernst & Young 2009), reflecting the expected surge in demand for world-class cold chain facilities and consequently, massive opportunities for cold chain companies.

“The openings are immense since this sector addresses the primary issue of food inflation. No wonder then that all recent government initiatives have been directed towards development of the cold chain sector in India,” explains Atul Khanna, director, Global Cold Chain Association (GCCA), India Division.

“Training of the cold store operators is of paramount importance as it constitutes the first building block.”

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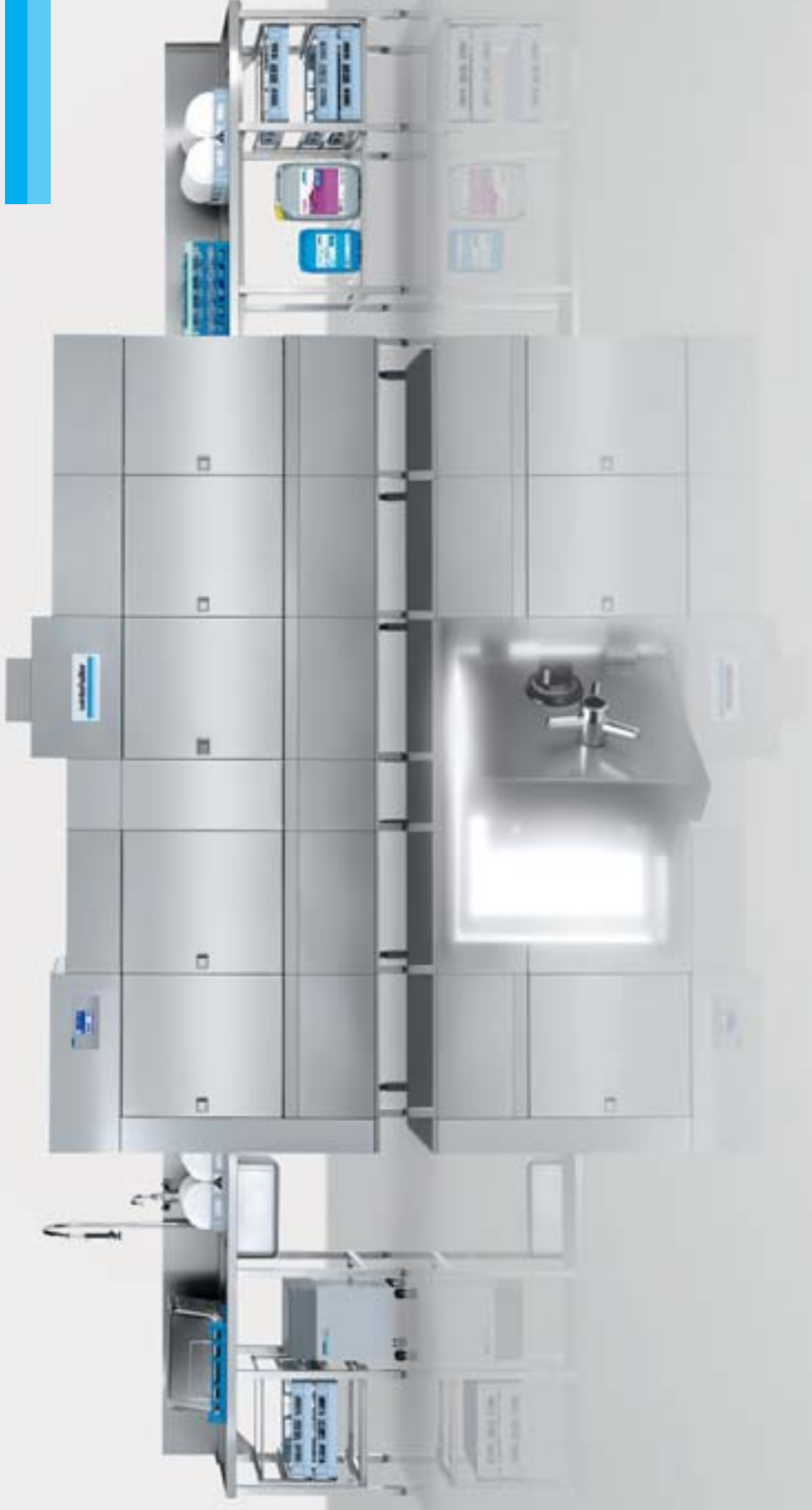
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