

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** New Restaurant Business Models and Strategies during COVID-19

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**Report Highlights:**

The outbreak of COVID-19 has had a significant impact on the foodservice sector. Due to ongoing disruptions during the crisis, operators need to stay agile and adapt their business strategy in order to survive. New business models, such as Cloud Kitchen, Delco Model with franchising, and Omni-Channel marketing are becoming popular among foodservice operators.

## **Thailand's Foodservice Sector during the COVID-19 Outbreak**

Restaurants have been facing ongoing challenges due to operating restrictions to curb the outbreak of COVID-19 since it first started in March 2020. Some of the restrictions imposed on restaurants include limiting business hours and the number of guests according to social distancing policies or even banning dine-in service. Thailand has not been able to get the outbreak under control since the start of the third wave in April 2021. Thailand is now in its fourth wave with the Delta variant becoming the dominant variant in Thailand. The number of new cases a day is now higher than 15,000. The continued restrictions have unnerved some businesses operators who previously believed they would be able to recover from what they had lost in 2020. The Thai Restaurant Association, however, estimated that the Thai food industry is losing up to 1.4 billion baht (US\$44.97 millions) per day and more than 500,000 workers will lose their jobs by the end of Q2 of 2021. About 50,000 restaurants have shutdown, either temporarily or permanently since April 2021. The association also forecasts that at least 10,000 restaurants will go out of business by the end of the outbreak.

### Full-Service Restaurants

Full-service restaurants have been severely and continuously affected by declining revenue and rising infrastructure costs, especially those located in department stores and other venues where foot traffic has dropped. The total sales for full-service restaurants shrank about 9-12 percent between the second quarter of 2020 and the second quarter of 2021, according to Kasikorn Research Center. Total sales have declined by about 40 percent when compared to pre-pandemic levels.

### Limited-Service Restaurants and Street Food Stalls

Limited-service restaurants and street food stalls have been moderately impacted. Their diverse sales channels and flexible cost structures and investment strategies helped them endure the difficult business environment. A high proportion of sales for this group of restaurants is off premises, so these restaurants can react quicker to changing operating parameters and can adopt new business models when needed. These restaurants are usually in smaller locations that can be used as hubs for home delivery.

## **The Emergence of New Restaurant Business Models**

The demand for food delivery was expected to slow down in the second half of 2020 after the first wave of the pandemic. However, the demand for food delivery remained higher in the second half of 2020 than pre-pandemic levels. Restaurateurs began realizing that consumer behavior was changing. The growth of the food delivery market prompted operators in the food chain to not only invest in food delivery services, such as launching food ordering platforms from new service providers, but also to adopt new restaurant business models.

**Cloud Kitchens** have become a popular way to deliver food while limiting operational costs. There are two categories of Cloud Kitchens in Thailand: 1) allowing different restaurants to rent space at a central kitchen, and 2) bringing together the different brands of large food operators into one location. The model benefits small and medium-sized restaurant operators who can adapt to the new business rather than large restaurant chains or brands that already have several physical locations. Several of the benefits of the Cloud Kitchen business model include lower start-up and operational costs, increased

efficiency to receive orders from various platforms, and the ability to monitor ordering trends for further adaptability. There are also some challenges with Cloud Kitchens including food quality control, food safety and hygiene, and relying on third party applications.

The first player utilizing the Cloud Kitchen model in Thailand was GrabKitchen who brought together popular restaurants in one place in various busy areas such as Sam Yan Market, Thonglor, Lat Phrao, and Sathorn. The success of GrabKitchen and continued operating restrictions due to COVID-19 encouraged some large restaurant groups to adapt the Cloud Kitchen model. Sizzler Cloud Kitchen includes the Pizza Company and Bonchon, while Oishi Group, the largest Cloud Kitchen implementor, opened the Oishi Kitchen at the Big C Extra on Rama IV Road. The Oishi Kitchen allows consumers to pick a variety of dishes from Oishi Group's 4 Japanese chain restaurants chain (i.e., Oishi Buffet, Shabushi, Oishi Ramen, and Oishi Delivery) in one order via food delivery applications. Oishi Group is planning to open another 8-10 Oishi Kitchens in prime metropolitan areas by the end of 2021.

The **Delco** model moves away from traditional locations in department stores and community malls to small stand-alone outlets in communities or areas where their actual target group exists such as on BTS station, petrol stations, and office buildings. The Delco model is bringing the food to the consumers instead of making consumers come to large public spaces. The Delco model is expected to support delivery and carryout services during the pandemic period and after as the lifestyles of consumers are changing. Small stand-alone locations are more attractive to customers, while also serving as a hub for delivery service.

The Central Restaurant Group invested more than 220 million baht to establish up to 70 outlets for their brands (e.g., Mister Donut, Auntie Anne's, Cold Stone Creamery, and Arigato Coffee). Mister Donut and Auntie Anne's sales revenue had increased more than 200% in 2020 due to the expansion of their outlets and their delivery channels. In addition, their menus were also customized to serve the targeted consumers at specific areas. For example, Mister Donut outlets located at BTS stations have more breakfast or quick food items. Sizzler also utilized the Delco model with outlets serving customized menus offering salad bowls and grab-and-go signature steak boxes at BTS stations and office buildings to access urban consumers. Food trucks, express outlets (A&W Express in 7-Eleven), and to-go shops also follow the Delco model and are growing in popularity. The Oishi Group invested in food trucks that offer grab-and-go Japanese sushi dishes. The Delco model allows more flexibility, helping businesses to minimize the risks caused by unpredictable circumstances. Likewise, consumers also enjoy the model since they can more easily access to the point of sales and experience different food menus from brands they are already know. The Minor Food Group, one of the largest casual dining and quick service restaurant (QSRs) companies in Thailand, has also announced a strategy to reinforce a kiosk model to serve as a grab-and-go service bringing the kiosk to consumers.

The Delco model has also opened new opportunities for franchises. The Central Restaurant Group (CRG) started franchising several of its brands (e.g., Mister Donut and Auntie Anne's) for the first time. The Delco model allows more operating flexibility allowing big companies to collaborate with small investors who operate small stand-alone outlets. CRG plans to sell 20 franchises in Q3 to Q4 of 2021 and aims to increase the model to 20-30% of the total portfolio within 3-5 years. CRG also established new restaurant brands completely under the Delco model such as Aroi Dee that sells street food. By 2025, CRG aims to make Aoi Dee the first Thai street food restaurant brand by expanding to 300 branches with 70% of franchise outlets located in petrol stations and convenient stores. Consumers are

looking for more affordable food options as their purchasing power has decreased over this past year. Implementing the Delco model with Thai street food, along with franchising, is bringing affordable food to consumers.

The **Cross Sale**, or collaboration model, is another business strategy to attract new and different target groups by bringing together two brands. Different brands can collaborate by either offering their current menu at their partnered restaurants or developing new menus from trusted brands. For example, MK restaurants are offering Fire Tiger Milk Tea products or Katsuya restaurants will serve dishes from Brown Café.

One of the most important adaptations business have made during the COVID-19 pandemic has been the expansion of digital marketing campaigns and **Omni-Channel** footprints. For example, KFC, under Yum Group, developed KFC's Self Pick Up allowing customers to manage their order via their phones and choosing to pick up from any store, dine-in, or being served in their car. Yum also redesigned KFC locations to facilitate delivery pick-up separating queues between customers and food delivery services. The new restaurant design also includes windows where customers can see how KFC prepares its food in response to concerns with hygiene and touchless practices. In addition, KFC is allowing various cashless payment methods. Customers can order KFC food not only via its own platforms such as KFC Facebook, Line, and Instagram, but also through food aggregators including Grab, Foodpanda, and Lineman. Consumers can expect to see more restaurants adopting omni-channel marketing tools in responses to the changing lifestyles of consumers.

There are lots of opportunities for U.S. food and beverages in the changing landscape. The increase in small branches or outlets will increase demand for products, especially for products that are quick and convenient.

## **End of Report**

### **Attachments:**

No Attachments.