WHITEPAPER

THE RISE OF DARK KITCHENS: RECIPES FOR SUCCESS

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THINK HOSPITALITY

Introduction

There's no dispute that dark kitchens were around before the pandemic started.

Even before 2020, the takeaway food delivery market represented 8% of the UK foodservice sector.

However, consumer trends have shifted significantly since the onset of the pandemic with takeaway orders surging by over 20% in the first week of lockdown. In London alone, restaurants are selling an extra 900,000 meals a week through third-party platforms such as Deliveroo and Uber Eats.

"Takeaway orders surged by over 20% in the first week of lockdown"

WHAT IS A DARK KITCHEN?

This growth has been staggering, yet it has also inspired brands to innovate, and there are still many opportunities ahead.

Today, the concept of dark kitchens has broadened into a wider range of business models and is often confused with virtual kitchens or multi-kitchens. There are slight differences between these three terms, however, as we explain below:

"Until today, restaurants were operating very static. Some restaurants don't change their menus for decades. But customer's preferences change, which leads to a lot of restaurants standing on the brink of bankruptcy. With clean processes, we ensure that they can react to new trends in the short term, thus ensuring capacity utilisation and jobs"

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Co-founder, Marco Langhoff.

DARK KITCHENS

The standard operational model of a dark kitchen is where an existing brand rents a location with a purpose-built kitchen for delivery only, without offering the public-facing entrance or service they offer in other locations. The brand will already be well-known through its physical restaurant sites and are using dark kitchens as a way of optimising through online delivery orders. This is often done via third-party aggregators, though sometimes through their own delivery teams.

MULTI-KITCHENS

This model is where food is prepared for a range of brands out of an existing kitchen. Some virtual kitchens may sell their brands solely online via their website or third-party aggregates. Others may already have an existing brick and mortar restaurant, yet their kitchens also produce food for additional brands for online sale only. One very successful example of this is Azzurri Group, which market three Italian-style brands out of their UK locations: Coco di Mama, Ask Italian, and Zizzi.

VIRTUAL KITCHENS

These kitchens run on a delivery-only basis, but for brands that are not sold in any brick-and-mortar restaurant. In other words, these brands only exist virtually and can be ordered via online delivery platforms.

German virtual kitchen startup, eatclever, was started in 2015 by three friends who were tired of not being able to order healthy takeaway food. So, they decided to do it themselves with a very limited budget but soon attracted investment from one of their main customers, Tarek Müller.

The company has since grown exponentially and today with over 100 restaurants in Germany, Austria, Switzerland and the UK, which is its second biggest foreign market. Driven by ambition and a great vision, they always had the goal to serve as a blueprint for further food trends, by being agile and adapting to customer preferences over time.

THE PROS AND CONS OF DARK KITCHENS

Like most business models, dark kitchens have their advantages and disadvantages.

ON THE PLUS SIDE:

- Setup costs for new or additional outlets are greatly reduced in comparison to physical restaurants.
- Running costs are significantly lower than a bricks-and-mortar restaurant (lower costs for staff and premises).
- Dark kitchens expand your brand footprint exponentially.
- Working through delivery aggregators saves on marketing costs as they work on a commission-based payment model.
- It can be used as a proof of concept.
- Consumer demand for delivery is increasing.

ON THE OTHER HAND:

- Brand longevity is not guaranteed.
- Environmental impact: there is an increasing aversion towards single-use plastics so packaging needs to be appropriate. The product must reach the customer at the agreed and expected brand standard and within the allocated budget.
- It is more difficult to harness customer feedback when face-to-face interaction is removed. One secret to a dark kitchen's success is being able to adapt to customer preferences quickly, so this listening is vital to keep on-trend.

"Being able to quickly adapt to customer preferences is one key to success"

DARK KITCHENS: RESTAURANTS OF THE FUTURE?

Dark kitchens are not a new trend, and while COVID-19 accelerated its rise, it isn't the sole reason for their success.

The online delivery market is growing due to lifestyle changes, increased internet penetration rate, people are now extremely comfortable with online ordering and banking systems are becoming more simplified. What is clear, however, is consumers' increasing tendency to stick with their preferred delivery platform, independent of what they are ordering. Research shows a growing consumer preference for convenience, a familiar and safe payment system, and the simplicity of ordering through one app as opposed to searching different platforms to choose their meal.

THE CHALLENGES OF USING DELIVERY AGGREGATORS

When setting up a dark kitchen, using delivery aggregators means a swift entry to market but the advantages can be offset by the following challenges:

- Unit economics are attractive at the outset as dark kitchens involve none of the costs associated with front of house staff. The key challenge here, however, is that the high order volumes from delivery aggregators with elevated commission rates can significantly reduce profitability. They can even cancel out the benefits of low rent and savings in front of house.

- Many operators are proactively encouraging and driving direct sales through enhanced brand building, nudging existing aggregator orders into direct orders on future visits and better leveraging direct data. There is a perception among this group that continuing to pay over and over for the same customers doesn't make commercial sense.

- Others believe that the aggregators are the preferred use of the consumer, with one app and one trusted brand. They recognise the fact that they provide a one-stop solution. and the respective cost of brand building, direct marketing and delivery operations outstrips the costs they pay in commission, as well as removing operational complexities.

- There were considerable regional differences in whether aggregators were deemed to be a positive or negative contribution. The availability and cost of labour particularly influenced these regional differences. Some believe that aggregators will reduce commissions in the mid-term as they reach a tipping point of profitability and market penetration.

INNOVATION AND DETERMINATION TO WEATHER THE STORM

The pandemic stretched operators' resilience to the maximum, and innovation has been the key to survival. Some, on the other hand, were ahead of the game and saw the opportunity before its onset.

CASE STUDY

FROM FAST AND CHEAP TO EATING FAST AND WELL

Anton Soulier was an executive during Deliveroo's early days and set up Taster in 2017. Today, the company is well-established with 52 digital restaurants across the UK, Spain and France, offering a range of Japanese, Taiwanese, Vietnamese, Korean cuisine, as well as A Burger, its plant-based burger offering. He identified the shift in consumer trends from eating fast and cheap, to eating fast and well. Following a second round of funding, Soulier's slick model is sailing through 2021 with its sights firmly set on covering a total of 40 cities.

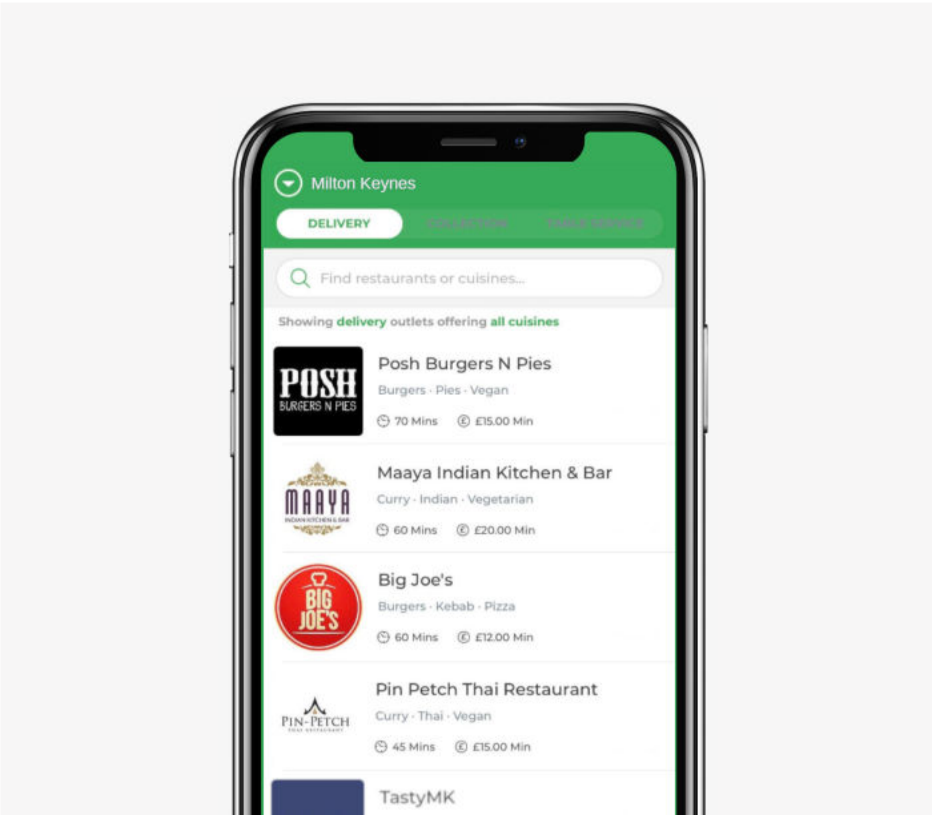
"Taster's proposition is incredibly exciting. From the food itself to the packaging and online experience, everything is designed specifically for the takeaway customer, resulting in a far superior experience and very high levels of repeat business,"

Octopus Ventures' Rebecca Hunt.

THE BIG GLOBAL PLAYERS

The global food delivery market was estimated to be worth around 133 billion euros at the end of 2020, with 44.5% of global market revenue accounted for by the Asia Pacific region.

The market is fragmented, with several big players vying for the majority market share, including Takeaway.com, Doordash, Deliveroo, Uber Eats, Zomato, Swiggy, Domino's Pizza, Grubhub, foodpanda and JustEat.



CASE STUDY

NEW PLAYERS TAKE ON THE GIANTS

Nevertheless, some brave new local businesses are seeing a niche for an alternative in their local area, such as MK Eats in Milton Keynes, UK, for example.

As lockdown gave rise to a surge in takeaway and delivery services, MK Eats emerged to support and promote local businesses at a time where their customers simply stayed home. The initiative is part of a wider franchise named Local Eats, which has proven so popular that it has overtaken "the big three" in the areas it operates in, thanks to its low commission rates and genuine support for local businesses.

As restaurants benefit from higher profit margins, many offer discounts to their local residents. In turn, residents are happy to support local businesses and benefit from a greater range of options as larger delivery apps lean more towards larger national chains and smaller businesses are often put off by the high commission rates.

WHAT TO CONSIDER WHEN SETTING UP A DARK KITCHEN

While dark kitchens have lower costs than physical restaurants, there are still a series of factors to consider before setting up:

RULES AND REGULATIONS
Even though your dark kitchen may not be open to the public, you will still have to comply with all of the regulatory and legislative requirements for hospitality businesses, such as those related to:

- Alcohol licensing (if applicable)
- Health and safety: risk assessments, COSHH, HACCP, Health & Safety at Work Act, etc)
- Food safety: kitchen cleaning, food and fridge temperatures, staff hygiene, oil quality, etc.
- Environmental health: food hygiene, storage and management, the physical condition of your premises, waste disposal, etc.
- Fire regulations: cooking appliances and equipment, staff training.
- Data protection: ensure your business complies with GDPR.
- Trade descriptions: product labelling and advertising must match what you deliver.
- Your team: working contracts, training, conditions, and hours.

This list is not exhaustive and ensuring you comply with all the regulations can be a mammoth task. Fortunately, technology can help you simplify and streamline processes so that you don't have to spend vast amounts of time worrying about them while also guaranteeing that your business is compliant.

"Dark kitchens have the same regulatory and legislative obligations as other restaurants."

ORGANISING YOUR KITCHEN EFFICIENTLY

Dark kitchens focus on one channel only: delivery. This generally means lower volumes of food orders in comparison to a brick-and-mortar store or pickup. However, the nature of delivery requires operational simplicity and a sound concept from the outset:

Production time is vital to success:
Aggregators suggest a maximum of eight minutes from order to leaving the kitchen to achieve an optimal delivery time.

Operational efficiencies are vital:
With lower volumes, aggregator commissions and tight production turnarounds, you need to ensure your concept is suitable and your operating model, simple.

Simplicity and complementary products:
If you`re planning a multi-brand kitchen, be sure to work with a minimised range yet good overlap of products that can be handled by a limited number of chefs. That way you'll keep wastage to a minimum and streamline your training for greater efficiency to ensure you maintain high product standards.

LOCATION IS KEY

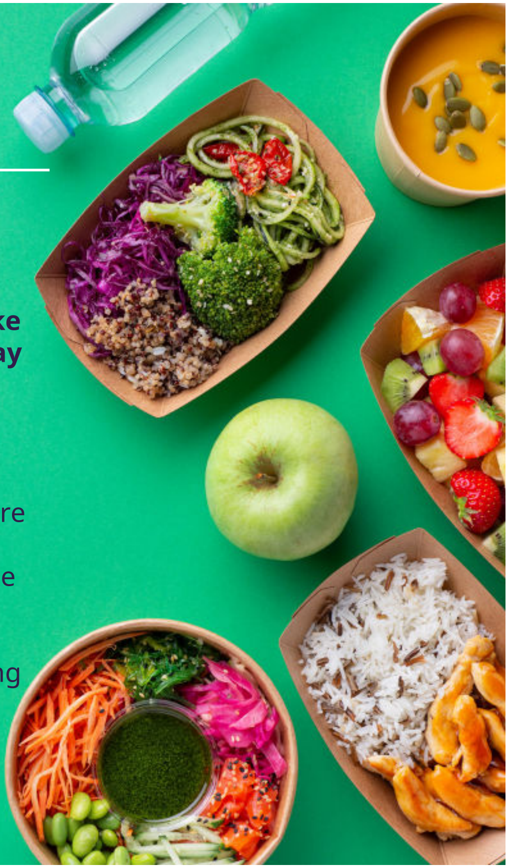
Dark kitchens do not depend on footfall but proximity to a sufficiently large target market is essential.

Look for high-density residential areas with a population of at least 60,000 in its radius. At the same time, it's important to keep costs down by choosing a cheaper or less desirable location with lower rents.

A SUFFICIENT BUDGET

Existing restauranteurs will have a customer base and a good idea of who and how to target, but newcomers will take longer to establish the best way of running a successful dark kitchen operation.

It's therefore essential to spend wisely, ensure your operations are as efficient as possible, plan and train your team well to guarantee good service and avoid under or overstaffing. So, it's vital to calculate your budget considering all the above-mentioned factors, as well as to ensure your ROI will balance your expenses with expected revenue, and when.



BUILDING YOUR TEAM

When recruiting for your dark kitchen, you're essentially looking for employee profiles similar to that of a fast-food restaurant.

Smaller sites will require smaller teams, which may not always count on an experienced manager. Quick turnaround times can lead to stressful situations and these factors combined can result in high staff turnover. Preparing for these challenges through solid training and proactive culture building can help you combat them. The best way to achieve this, especially if you're unable to do this on site, is to leverage digital tools to improve the commitment, performance, and well-being of employees in these locations.

Flow Learning makes training simple and engaging for employees, with mobile-friendly, bite-size modules they can complete on the go. Fast and easy-to-use, its learning resources will ensure they are trained to meet your brand standards and maintain your company culture throughout.

One significant cause of stress for employees is financial instability that often ensues when unpredictable expenses arise, whether that be a broken washing machine or car. Today, you can alleviate this problem significantly and enhance their financial wellbeing by enabling them to access their accumulated salary before payday. Workforce by MAPAL, for example, recently teamed with Hastee to enable companies to offer their teams this option. It's integrated into the Workforce team app and employees can request a pay advance whenever they need it, with no extra cost or paperwork for the employer. Find out more about this here.

THE FUTURE: WILL THE BUBBLE BURST?

Dark kitchens have been on the increase for years, but we did see a significant surge during the pandemic.

At first glance, they present a simple and innovative solution for restaurants to diversify their operations through delivery without overwhelming their on-site business.

That doesn't mean they are without their flaws, however. Concerns are arising about the mental health of staff confined to solitary kitchens, or of this business model outcompeting more traditional style local restaurants.

Traditional restaurants using delivery aggregators are finder it increasingly harder to maintain a profitable menu. Third-party delivery aggregators commission charges force established restaurants to increase their mark-up on meals ordered through the apps. This is in addition to the surcharges customers have to pay.

As a result, virtual kitchens with no walk-in premises have fewer overheads and can charge lower prices for meals delivered through these apps. Many restaurants are moving away from the aggregators and investing in their own delivery teams or exclusive ordering systems.

In conclusion, there's no doubt that virtual kitchens are here to stay, whether businesses have a brick-and-mortar premises or not. Customer expectations and labour shortages indicate that this business model is here to stay, and that technology will play a crucial part in the future of food delivery.

WHICH DIGITAL TOOLS CAN HELP YOU RUN EFFICIENT DARK KITCHEN OPERATIONS?

MAPAL OS, for example, offers a complete suite of management software to help you comply with all these regulations and ensure your team is properly trained to meet them.

You can learn more about these, and other MAPAL applications via: www.mapal-os.com/applications

Compliance by MAPAL digitises all your food safety checklists and procedures, helping you and your staff comply with hundreds of daily requirements. Your team can access their checklists via mobile, which shows them exactly what to do and how to do it, saving time and guaranteeing your business is compliant.

Easilys f&b not only digitises your recipes, inventory, and waste management to help you optimise food costs and comply with food waste regulations. And you'll no longer need to spend hours preparing orders to top up your inventory. Once your recipes and inventory are digitised, Easilys f&b will do it for you every time you sell a meal and automatically includes all the necessary ingredients in the next order.

Workforce will help you manage your team, improve communication, create schedules and control working hours and avoid excessive overtime. You'll also be able to help improve their work-life balance, as staff can submit shift preferences, request holidays, and leave and access their schedules via mobile.

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