

Impact of Covid-19 in QSR operations in India & Strategies to deal with them: A Review

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ABSTRACT. The research reviews the impacts of novel corona virus pandemic in Quick Service Restaurant segment of Food & beverage industry in India and the growth patterns post-Covid. It also examines the short term-impacts and medium to long-term impacts on QSR segment. The study also aims to identify strategies to reduce such impacts. Various research papers and reports were analysed in the study and the findings of the same have been shared herein. The analysis show that though like all Food & beverage Segments, QSR segment also witnessed a high dip in their operations. However QSR segment, especially chain brands witnessed significant revival in their businesses due to existing delivery infrastructure and availability of technology to access contactless dining options. Moreover these brands were able to capitalize on cheap real state. However standalone restaurants and outlets situated in malls were unable to witness similar patterns as chain brands due to various reasons. The short term impacts included product expiry, working capital requirements, and decline in sales and limited customer accessibility. Medium to long term impacts included supply chain management, Human resource management, Training & Development and expansion plans. The study also identifies various strategies which helped QSR segment to deal with impacts of pandemic as well as enlists factors that impacted the growth of QSR in India.

Keywords: Covid-19; global pandemic; Food & Beverage; India; impacts; strategies; sustainability; QSR

1 INTRODUCTION

The novel corona virus disease also known as Covid-19 originated in the city of Wuhan, China in December 2019. On 30th January 2020 WHO declared this outbreak a public health emergency of international concern and a Pandemic on 11th March 2020. By the month of April 2020, lockdown was imposed in nearly 90 countries as a short-term measure to curb the spread of the pandemic. For emergency situations, use of masks & alcohol based hand sanitizers were made mandatory. Social distancing also came into

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play to avoid close contact. Various studies have shown that imposing of lockdowns had helped flatten the curve of pandemic.

Over the next one year Covid 19 impacted lives of many across the globe pushing them towards poverty. Various restrictions imposed to curb Covid 19 were also the reasons to pull down the economic progress worldwide. The Global GDP dropped from 2 % to -6% in the year 2020, which was the steepest downgrade since recessions of 1990. Global remittances fell by 14% as people working overseas were not able to send money home. The businesses saw a grim phase worldwide as most of the businesses were on verge of closing down. Other business firms laid over their employees to cut down on costs. MSMEs were the ones to get a hard hit of covid 19 Pandemic in developing and semi-developed countries.

Food & Beverage related businesses were most badly hit by Covid 19 as the sales directly dropped to zero and expenses were high. The beginning of 2020 saw a downfall in F&B Operations. 84% downfall was recorded in the F&B Business. Stores were forced to shut down or forced to turn down the customers. The customer propensity to dine-in also declined due to health concerns.

India witnessed the similar impact of Covid19 and Prime Minister Narendra Modi announced a 21 day lockdown on March 24th 2020. However, due to increasing cases of Covid 19, the lockdown extended till the month of May and was completely lifted on May 31st 2020 with specific guidelines by Ministry of Health & Family Welfare.

Similar to the impact of Covid 19 in F&B Operations worldwide, Indian Food & Beverage industry saw a great decline in various segments of F&B such as Fine- dining, Banquets and Quick service restaurants. Many Restaurants witnessed a decline of 2-6% in the sales figure of First Quarter of 2020. The Catering establishments offering online services witnessed 50-60 % decline in their sales figure in the same period. Where the QSR industry in India was enjoying benefits of CAGR of 5% every year saw a drastic decline in their growth in FY2020. Due to the closure of restaurants many employees working in QSRs left for their homes, and even after the lockdown was relaxed in various parts of India simultaneously, these employees did not return partially due to the fear of Pandemic and partially due to the policies and guidelines of different state governments. The uncertainties of Covid related relaxations further broke down the morale of people to return. The customers were seldom worried about risk factors related to food before Covid 19, however post Covid witnessed customers focusing more on Hygiene and nutritional aspects of food & beverages as well.

However once the relaxations were provided, QSR businesses also saw a pattern of recovery. For most QSR giants in India, the growth was stagnant and slow. Such businesses shifted their mode of operations from dine-in to delivery system. Launching of their Apps further helped such business to stay in the market and maintain a contactless Service of Food & Beverages.

2 LITERATURE REVIEW

The Quick Service Restaurant segment revolutionized in mid 1990s when big brands like McDonalds, KFC and Dominos started to open their outlets in India. Phase I witnessed emergence of terms such as Quick Service Restaurants, Fine Dining Restaurants and Casual Dining Restaurants. They focused mostly on Tier-1 and metro cities with franchise, partnership and Joint venture models. Phase II (2010-2016) witnessed these business based consumer needs. New ventures started taking interest in Indian market. Brands started investing in Tier II cities as well due to change in country's demographic changes and advancement in technology. Phase III witnessed emergence of new concepts and expansions with advances in telecom sector and digitalization. Digitalization played a major role in QSR operations post Covid 19. (Technopak).

The QSR segment in India is highly dominated by international brands with market share of 44% and contributing 53% of total revenue generated by QSR market as of FY2020.(Technopak, Nirmal Bang Institutional Equities Research).Indian Food & Beverage industry accounted for 3% of India's GDP. Nominal GDP dropped down from 10.3% in FY2020 to 3.7% in FY2021 as per Covid impact Assessment report by NRAI. Data issued by techno park also shows that unorganized sector consisting of dhabas, and small restaurants is falling rapidly post Covid 19.

Reports by NSF global showed the impact of food delivery apps has been huge as well as positive in QSR operations post Covid 19. Delivery platforms such as Zomato and Swiggy have helped the businesses to survive amid first and second lockdown. Where these platforms were seen as ancillary points of sale before the Pandemic hit, have made their way as the most prominent players in the market post Covid. As per the reports shared by technopak the growth of online delivery market increased from 10% to 12.2% due to high emphasis on hygiene and safe delivery methods.

As per the reports shared by NRAI food service market will be able to achieve 85% of its pre-Covid estimates with the largest share of contribution from QSR sector, cloud kitchens and ghost kitchens. QSRs and cafes with existing delivery infrastructure and hygiene and safety measures were the first ones to start recording sales. The QSRs with Delivery apps acted as an asset. The delivery of food started from April 2020 as compared to Dine-in operations which resumed post month of June2020. QSRs also offered high discounts on Food Delivery combo plans.

Covid 19 also impacted supply chain management as restaurants shifted from normal deliveries to 'just-in-time' to reduce food wastages. Managers also suggested maintaining strong relations with suppliers helped building resilience, efficiency and customer experience. As per reports by NRAI the supply chains have benefitted through QSRs as the delivery modes opened up very quickly keeping them in market.

Marketing and Advertising have played a major role where the QSR segment operations lie today. The promotion of contactless ordering and delivery helped the QSRs to grow over the pandemic. Large players leveraged Sporting events like IPL to increase their sales amid Covid. (Technopark, 2021).

3 RESEARCH METHODOLOGY

The study majorly uses a systematic literature review method to analyze summarize and draw inferences from the available literature on QSR Operations. The goal of this study is to understand how QSR segment has dealt with Covid-19 and understand the short term and long term challenges faced by this segment of QSR. The articles figures and studies used for this paper are from year 2020 onwards. Online databases and official websites were used for this study.

4 RESEARCH OBJECTIVE

This study aims at understanding the impact of novel Corona virus in Quick Service Restaurants and the strategies these businesses have developed in last two years to overcome these issues and grabbing back their pre-Covid business. The overall questions intended to be answered with the help of this research are:

1. What are the growth trends in QSR segment Post Covid?
2. What are short term impacts of Covid 19 in QSR?
3. What measures were taken to overcome such impacts?
4. What is the long term impacts of Covid 19 in QSR?
5. What measures were taken to overcome such impacts?

5 FINDINGS & DISCUSSIONS

This section presents the primary findings of the study. The findings are based on the data and statistics analyzed from past researches and reports from official websites.

5.1 Growth trends in QSR segment Post-Covid

The impact of Covid on food service market started in March 2020 which impacted unorganized sector of food service the most because of perceived hygiene issues. However by the mid-march all food service segments witnessed dip in sales due to migration of workforce back home. The food services witnessed 31% dip in 4th quarter of 2020 as compared to 4th quarter of 2019 (NRAI report).

The QSR market also witnessed fall in their sales. The initial lockdown restrictions on Food & beverage Business due to Covid 19 hampered the QSR operations significantly during the initial stages. Government guidelines further guided the prospective customers' dependence on takeaway transactions and delivery. Contactless dine-ins was also introduced gradually by major players. The brands further exploited the technology launching apps to ensure contactless dine in options in FY2021. According to reports shared by Technopak Dominos major franchisee Jubilant Foods witnessed -3.4% of their sales targets, whereas Pizza Hut led Yum Brands witnessed -2.0% of their sales. McDonalds (West & South) witnessed -6.9% of their sales targets. Burger king India witnessed -5.4% of their sales. These figures further dropped in first Quarter of

FY2021 when the Government declared Covid curfew across the nation. Jubilant Foods witnessed -61% of their sales targets, whereas Pizza Hut led Yum Brands witnessed -74% of their sales. McDonalds (West & South) witnessed -54% of their sales targets. Burger king India witnessed -68% of their sales. Second Quarter of FY2021 witnessed the beginning of revival of QSR business. The sections of QSR chains which had different POS infrastructures such as Delivery, started recording their sales in second of FY2021 using basic hygiene and safety measures as mentioned in government directives issued from time to time (NRAI report). Top players of QSR grabbed this opportunity over other segments of food & Beverage providers as they already had the required infrastructure to restart their businesses. With a little modifications in their SOPs, brands like McDonalds & Dominos, started to witness their first sales post Pandemic. The QSR segment also benefitted due to closures of various food and beverage segments such as Fine Dining restaurants, casual Dining restaurants, and small standalone restaurants from the unorganized segment. Jubilant Foods witnessed -20% of their sales targets, whereas Pizza Hut led Yum Brands witnessed -33% of their sales. McDonalds (West & South) witnessed -40.7% of their sales targets. Burger king India witnessed -48.6% of their sales targets respectively as compared to sales of last Financial Quarter. By the Fourth Quarter of FY2021 these businesses started witnessing positive growth as compared to same financial Quarter in FY 2020.

On the other side, many restaurants of major QSR players were not able to generate enough revenue to cover their costs. Such restaurants were forced to close down. These were mainly standalone restaurants offering only dine-in options or the restaurants located inside malls and other such facility management areas. The reason being the Covid guidelines imposed in such Units. The restrictions on malls had a huge impact on operations of such Units. However due to market slowdown many QSR brands were able to renegotiate on rentals by 20-30% (Technopak, 2021).

The above statistics clearly show the upward growth patterns in QSR segments especially in organized sector.

5.2 Short-term impacts of Covid-19 in QSR segment

As discussed above the major short term impact of the Pandemic on QSR operations was the huge decline in their sales. Dominos major franchisee Jubilant Foods witnessed -3.4% of their sales targets, whereas Pizza Hut led Yum Brands witnessed -2.0% of their sales. McDonalds (West & South) witnessed -6.9% of their sales targets. Burger king India witnessed -5.4% of their sales. These figures further dropped in first Quarter of FY2021 when the Government declared Covid curfew across the nation. Jubilant Foods witnessed -61% of their sales targets, whereas Pizza Hut led Yum Brands witnessed -74% of their sales. McDonalds (West & South) witnessed -54% of their sales targets. Burger king India witnessed -68% of their sales. National-wide lockdown followed by strict Government guidelines issued by MoHFW. made a major impact on the operations of this Segment. During 1st phase of lockdown restaurants were not allowed to open through any mode, hence the sales figure dipped to zero and businesses witnessed negative sales patterns.

Another major immediate concern for QSR businesses was shortage of working capital. The segment witnessed huge cash-flow shortages due to lack of sales which made it very challenging to cover operational expenses such as rent, electricity, employee wages, utility expenses and equipment maintenance. This further led to permanent closure of various QSR businesses especially in the unorganized market. The relatively smaller units of organized players also witnessed the closure due to non-fulfillment.

Product expiry emerged as a primary concern once the outlets were closed due to pandemic. The businesses especially organized market had planned and stocked products as per their businesses, however sudden closure of food businesses created a major challenge of how these products had to be utilized and avoid getting expired. Short expiry products impacted the outlets the most.

The QSR segment witnessed more challenges once the curfew restrictions were lifted in June 2020. The first challenge was staff crunch as most of the employees who migrated back to their native places were not willing to return back partially due to impact of Covid-19 and partially due to the strict inter-state transport protocols. Limited business hours added more this challenge. Retaining staff became very tough for QSR segments. Most of the QSR brands had already halted the new recruitments and trainings. These challenges coupled with the post lockdown challenges made it very hard for the outlets of this segment to survive in the market.

5.3 Strategies planned to overcome the short-term impacts

With the beginning of Lockdown in March 2020, QSR segment started facing big blow in their business due to very high dip in sales. To ensure the QSR segment started focusing on other points of sale to generate revenue for their businesses. Many brands such as McDonalds, Dominos & KFC already had existing infrastructure in terms of Delivery System and online Ordering Applications. The share of revenue from delivery increased from 10% to 29% post first lockdown. Marketing strategies were used to further promote these platforms to generate revenue. Unorganized segment of QSR with no Delivery infrastructure, joined hands independent delivery partners such as Zomato & Swiggy to restart their operations. Many QSR brands introduced table-top Ordering system to ensure contactless dining-in experience for their guests. Unorganized Brands cashed the options of online payment apps such as Phonepay, gpay, paytm for contactless payments.

Working capital was optimized by the organized segment of QSR by cutting down labour hours, optimizing manpower requirements due to limited hours of business. Re-designing of menu was done to optimize the equipment output. Supply management also changed from regular deliveries to Just-in-time depending upon the demand. Rent payments were either deferred or renegotiated with the landlords. QSR brands operating in Malls and food courts deferred their payments with mutual understanding with mall management. Product expiry was managed by rotation of products from other outlets with high traffic stores. First In First out was strictly followed for products having very short shelf life. These practices helped positive ROI and better supply chain relations as lesser credit notes were raised for expired products.

5.4 Long-term impacts of Covid-19 in QSR segment

Real income growth tends to be a major long-term concern for QSR segment. Even though the sales trends have been positive post Covid-19 for QSR segment, especially the organized sector, macro factors such as govt. policies, economic reforms and disposable income still remain key factors to ascertain the real time income attained by QSR segment. If the macro-economic environment does not build up as expected, wherein there is no major growth in disposable incomes, it will be very difficult for the QSR formats to grow, especially in smaller cities with limited resources. Whole economic progression of India will have a direct impact in the operations of QSR segment. Adaptability to change in this dynamic environment will be a major factor in sustaining the business in Food Service Industry.

Due to the pandemic, many people have opted out for consuming what may be termed as 'junk food' due to various health concerns. The major part of QSR segment caters to such products. The perception of this segment being unhealthy has its own negative consequences. This might affect the growth potential of the segment in the country.

Shortage of skilled manpower is also a long term concern for the segment. Major players in the organized market had halted the recruitment process during the 1st wave of Covid-19. Being a labor intensive segment this move had created a supply and demand gap for skilled and talented manpower. Attrition rate in the industry, which is nearly 35-40%, has further increased the cost of manpower. Unskilled manpower has further impacted the service standards and the overall food quality. The unorganized section of this segment relies majorly third party logistics to deliver the food to final consumers, who do not have any major food safety training, clean and suitable vehicles and appropriate food boxes. Major concerns arising from consumer end due to unskilled manpower include food tempering, cold food, unhygienic food boxes and sometimes unhygienic personnel. Similar situations are being faced by organized brands of Indian QSR market. Due to unavailability of skilled manpower, the brands had to settle for less skilled manpower that was available at the moment, even after having a good delivery infrastructure. This led to delays in delivery, poor standards of food and high dissatisfaction amongst consumers.

High real estate prices have been an additional factor of long term concern due to ever increasing prices of real estate in last decade. Rent is the second highest expense head after the raw materials which usually accounts for 10-15% of the total revenue. The increasing rate of rentals will hinder the growth of the Outlets for both Organized and unorganized segment.

5.5 Potential Strategies planned to overcome the long-term impacts

There have been various strategies planned or proposed to mitigate these impacts. The strategies may not be fully effective, but have been effective in minimizing the risks so far. Menu redesigning has been done by major brands across the nation so as to attract more customers. Big brands have introduced new products and have discontinued less

profitable products. Various discount strategies are being introduced in the form of combo meals to attract maximum consumers.

Emergence of new dynamics in the market has led the organized players of the segment to work on upgrading their Standard Operating Procedures as per the existing market environment. Focus on contactless delivery and strict hygienic food handling has become a priority post Lockdown due to change in consumer mindset. Food holding times have been reduced with the focus on Just-in-Time delivery methods so as to avoid cross contamination of food products and hygienic handling.

Cloud kitchens have emerged as a new trend in the Food service industry in India and many players from the unorganized segment of QSR have tried to benefit from it. No physical layout and home delivery as a mode of service, the unorganized sector has been able to optimize their expenses and increase their potential income. For organized section, renegotiations with the real estate players both for standalone outlets as well as mall outlets have helped the brands with the real estate rentals. Due to the slowdown in the market the real estate players especially mall management have been convinced to renegotiate the rentals by 20-30%.

6 CONCLUSIONS

The study explores and interprets the short term as well as medium to long term impacts of the Pandemic in the QSR segment of Food service industry in India. The study further analyses the growth patterns in the QSR segment post-lockdown. The segment has witnessed substantial growth as compared to other segments of the Food service industry and is expected to grow more by FY2025. However the market dynamics will keep posing challenges to this segment, both short and long term in nature.

The short term impacts discussed included product expiry, shortage of working capital and employee management apart from initial dip in revenue. The medium to long term impacts include change in consumer preferences, training and development, higher real estate prices and changes in changes in macro-economic factors of the nation.

The study has contributed to highlight the major concerns and potential solutions to such concerns however the study has few limitations based on the methodology used in the research. Although necessary steps have been taken to improve the reliability of findings, the study may lack generalizability. In future large scale surveys and studies may be conducted to increase generalizability of the research.

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