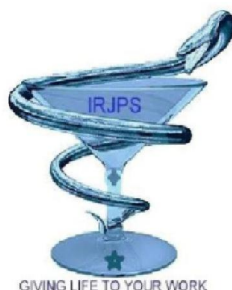


Original Research



CORRELATION BETWEEN LOGISTICS & FAST FOOD CHAIN

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ABSTRACT:

To be precise effective logistics plays an important role for the success of fast food chains across the world. Logistics means most efficient, cost effective quick delivery of food items from main kitchen to the franchisees not only in India but across the world. The profitability depends upon the prompt service to customers across various destinations.

KEY WORDS: Logistics, Fast food profitability, Prompt service

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INTRODUCTION:

The people across various countries including India are busy in their jobs and they live far away from work place. Commutation takes more than two hours in metropolis cities. The couples do not have time to prepare food at home. Off course in the City of Mumbai we witness a strong network of DABBAWALLAS who deliver home-made food across the city correctly to thousands of customers whose offices are 30+ kilometers away from their homes. This perhaps the best example of MOST EFFECTIVE LOGISTICS in the world and is second to none.

A **fast food restaurant**, also known as a **quick service restaurant (QSR)** within the industry, is a specific type of restaurant characterized both by its fast food cuisine and by minimal table service. Food served in fast food restaurants typically caters to a "limited menu; is cooked in bulk in advance and kept hot; is finished and packaged to order; and is usually available ready to take away, though seating may be provided. Fast food restaurants are typically part of a restaurant chain or franchise operation, which provisions standardized ingredients and/or partially prepared foods and supplies to each restaurant through controlled supply channels.

This is precisely why LOGISTICS plays such a key role. As typically, food is made centrally and then dispatched to the various branches of the chain. Unlike a traditional restaurant, where food is prepared on Premises, where it is to be served.

There are some disputes about the actual first fast food chain however two are the oldest. Perhaps the first fast food restaurants originated in the United States with A&W in 1919 and White Castle in 1921. Today, American-founded fast food chains such as McDonald's and KFC are multinational corporations with outlets across the globe.

Variations on the fast food restaurant concept include fast casual restaurants and catering trucks. Fast casual restaurants have higher sit-in ratios, and customers can sit and have their orders brought to them. Catering trucks often park just outside worksites and are popular with factory workers.

The popular brands like McDonald's, KFC and Domino's have main kitchen thousands of miles away from their sales outlets known as franchisees.

Fast Food Chain network is growing as compound growth rate of 30% per year compared to 10% growth in normal food service sector. According to the National Restaurant Association of India 50% of population in India eight times per month outside compared to USA 14 times, Brazil 11 times, Thailand 10 times, Thailand 10 times and China 9 times.

Mc Donald's and Subway are increasing their veg menus every year incorporating many traditional flavours. Mc Donald's Masala grill, Maharaja Mac burgers, Paneer wraps, Mc spicy burgers are some of their India-only offerings. Even Mayonnaise in Indian Mc Donald outlets is free from eggs!

And we certainly don't need the statistics to know that the numbers of Mc Donald's, Domino's and KFC outlets have increased considerably when they start to appear every 5 km away. Foreign QSRs are slowly entering India to cash on the huge adolescent population, for example Krispy Kreme, Burger King, Starbucks and Dunkin' Donuts debuted the QSR landscape recently.

Now however, the new destination for the fast food chains is Tier II and III cities. In a report on eating habits, ASSOCHAM's study revealed that each middle class household spend on eating out in Tier II and III cities has increased to Rs. 5,200! In metros this number is much higher. Also the QSR sector was the most immune to economic slowdown and made \$50 billion in spite of the inflation.

"A younger population, higher rate of urbanization, larger disposable incomes, higher protein consumption, increased participation of women in the workforce, and exposure to Western lifestyles are leading to the experimentation with, and adoption of, new dietary habits and more occasions to eat out for all levels of Indian society", said Asitava Sen, head of F&A for Rabobank. In the report by NRAI.

Eating out is no more occasions driven; it's more of a habit for all those below 30 years. Indian traditional

fast snacks like Samosas, Vada Pav, Gol Gappas, Dabelis, Chaats, Paav bhaji whose taste is unquestionably delicious don't have glorified outlets like Mc Donald's due to which eating at small joints makes youngsters conscious.

QSR food price ranging from Rs.100 to Rs.500 are light on pocket and QSR's large sized outlets, music and western food seem to lure youngsters. But what goes into the food and the nutritional value is of great question to most people. Since costs play a critical role in the case of QSR and transport, warehousing and storage till demand becomes critical problem.

It's just not only the food, but also the colors that trigger hunger, psychologists say. Have you noticed how KFC is all red, Mc Donald's is red and yellow, Coke is red too, so is Pizza Hut and Domino's. Red is a color that triggers appetite and pushes you to go for it.

As on 2014, here are the statistics of the QSR food joints and their outlets in India

Lifestyle diseases are the major inhibition to the growth of QSR's which the chains are trying to combat with marketing. One of the key fronts to address TIER II and TIER III demand remains being able to reach these locations. Consistency is what drives the Fast Food / QSR space. Again Logistics whether it be capital items to give same look and feel to the stores or ongoing supplies of food items. Logistics is critical. The expansion of these chains shows us the change in lifestyle and attitudes among youth in dining.

Why Research Is Necessary

All Fast Food Chains must operate through franchising. This poses a peculiar problem for the Franchisor (fast food chain) as since the franchisees want to join the chain for assured profit ability, the chain must control all costs, in addition to creating demand through marketing. The very premise of fast food operations is possible only through mass production. And mass production means central production and distribution from the central point to the various distribution centres. And since everything

is expected to come and be supplied from the Franchisor's central kitchen, the problem is of LOGISTICS's. Hence logistics is the pivot around all operations.

For the industry to grow efficiently, systematically and profitably, understanding of the impact of logistics on the entire chain of restaurants becomes critical. A sonly then can one analyze what should be the end pricing of each and every menu item, how to properly change the menu, which all items should be combined with combos at unit level to ensure constant pushing of inventory etc. I from experience can say

“All fast food companies are not in the food business, but in the logistics business.”

What Is Franchising

A fast food chain restaurant is generally owned either by the parent company of the fast food chain or a franchisee – an independent party given the right to use the company's trademark and trade name. In the latter case, a contract is made between the franchisee and the parent company, typically requiring the franchisee to pay an initial, fixed fee in addition to a continual percentage of monthly sales. Upon opening for business, the franchisee oversees the day-to-day operations of the restaurant and acts as a manager of the store. Once the contract expires, the parent company may choose to "renew the contract, sell the franchise to another franchisee, or operate the restaurant itself." In most fast food chains, the number of franchised locations exceeds the number of company owned locations.

Fast food chains rely on consistency and uniformity, in internal operations and brand image, across all of their restaurant locations in order to convey a sense of reliability to their customers. This sense of reliability coupled with a positive customer experience brings customers to place trust in the company. This sense of trust leads to increased customer loyalty which gives the company a source of recurring business. When a person is presented with a choice of different restaurants to eat at, it is much easier for them to stick with what they know,

rather than to take a gamble and dive into the unknown.

Due to the importance of consistency, most companies set standards unifying their various restaurant locations with a set of common rules and regulations. Parent companies often rely on field representatives to ensure that the practices of franchised locations are consistent with the company's standards. However, the more locations a fast food chain has, the harder it is for the parent company to guarantee that these standards are being followed. Moreover, it is much more expensive to discharge a franchisee for noncompliance with company standards, than it is to discharge an employee for that same reason. As a consequence, parent companies tend to deal with franchisee violations in a more relaxed manner.

RESEARCH PROBLEM

Studying the effects of logistics on the entire chain can help increase profitability of the entire chain. This has multiple benefits to all concerned. It will help the Chains, the Logistics partners, The Franchisees which will have a complete over all affection the industry as a whole.

OBJECTIVE STUDY

- 1) Across the world Fast Food Industry is increasing by leaps and bounds with most international brands so liked by customers because of their brand popularity specially McDonald's Krispy Kreme, Burger King, Starbucks, Dunkin's Donuts as quick servicing food items. "A younger population, higher rate of urbanization, larger disposable incomes, higher protein consumption, increased participation of women in the work force, and exposure to western lifestyles are leading to the experimentation with new dietary habits with more hygienic preparations I propose to study how the effective fast efficient logistics can give better outcome to the fast food industry. If logistics fails to deliver the result will be disaster to this industry.

- 2) Secondly we can assess the increase in profitability depend on the efficient existence of logistics i.e. quick delivery of demanded items at far off destinations across various places where their outlets operate.
- 3) Thirdly how can we increase the efficiency of logistics to increase profitability.

LITERATURE REVIEW

Logistics plays a critical role in the scale and size of all fast food chains. Typically a fast food chain can spend anything from 5 – 20% of costs on the logistics of food items. In the case of India, the food supply chain and logistics is still at a very nascent stage. While the entry and operations of foreign chains has accelerated the process, the number of players is still very limited. And the number of player, in the systemized organized space is even less.

Variety of case studies, mainly by logistics companies, Assocham and those done by QSR chains, shall be studied to understand in depth what exactly the scenario is in terms of their distribution and reaching out to locations and branches.

RESEARCH METHODOLOGY

The present study of fast food chains precisely described why logistics place key role in various branches of the chain QSR. All fast food chains operate through franchising. This poses a problem for franchisor of fast food chains as the franchisees once to join the chain for assured profit ability, the chain must control all the cost. All fast food business are not in food business but in logistic business.

Primary Data:

Survey of existing scenes of present logistics for food chains. Instrument is to ask questions to respondents on the subjects, Sample size, stratified random sampling

Secondary Data:

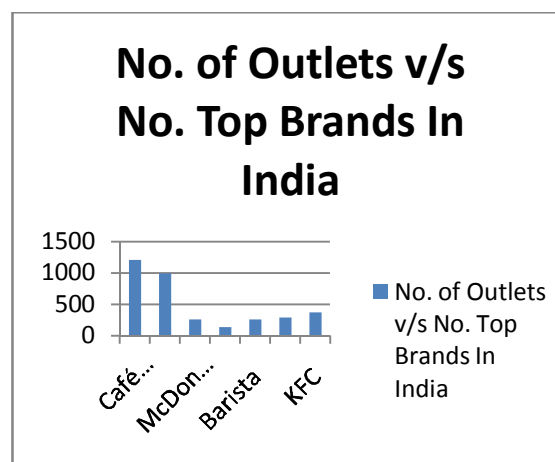
The published work in the subject on distribution network of big brands across the world. Research papers already published.

Website Data Analysis

Name	Cuisine	Parent Company	Origin	Location	Formats	Outlets	Expansion Plans in India
McDonalds	Burger	Hard Castle Restaurants Pvt. Ltd.	USA	PAN-India	Dine-in, Food courts, Drive-in	250+	To add more 20 outlets before 2017
KFC	Fried Chicken	Devyani International Ltd.	USA	PAN-India	Dine-in, Food courts	372	500 outlets by 2017
Pizza Hut	Pizzas	Devyani International Ltd.	USA	PAN-India	Dine-in	131	--
Dominos	Pizzas	Jubilant food works	USA	PAN-India	Dine-in, Delivery, Food courts	989 (2015)	--
Papa Johns	Pizzas	Om Pizzas & Eats	USA	West Zone	Dine-in	90	100 by 2017
US Pizza	Pizzas	United Restaurants Ltd.	India	PAN-India	Dine -in, Delivery	90	125 by 2017
Smokin' Joes	Pizzas	Smikin'joes Pizzas Pvt. Ltd.	India	PAN-India	Dine-in, Delivery	66 (2015)	100 by 2017

Table 1: No. Of Outlets v/s No. Of Top Brands In India

Chain	Outlets
Café Coffee Day	1200
Dominos	989
McDonalds	252
Pizza Hut	131
Barista	258
Subway	287
KFC	372



All fast food chains operate on franchising meaning to assign the brand name to sales outlets across India or world over. The chains are responsible to control or bear costs so as to get assured profit promised by their principal Franchiser. The franchiser makes arrangement to produce various food items on mass scale. It is costing principle that the cost reduces if quantity increases. The raw materials for food items get damn cheap on wholesale price. Cost analysis consists of PRIME COST (direct material direct labour direct expenses) most indispensable costs and OVERHEAD (indirect materials+ indirect labour indirect expenses) and PROFIT MARGIN.

The Franchiser is smart to control cost of production and keeps sizable profit margin and spends more on logistics because the crux of his success is timely delivery of his products to far off destinations Also the BRAND IMAGE AND TYPICAL PRODUCTS ARE the backbone of his success.

SOME OF RESEARCH FINDING FROM SURVEY

In India 64% of people under age of 30 years prefer branded items.

Among educated working women 70% prefer fast food as they get less time to prepare food at home and they do not have elderly people at home to do so. Advertising is playing a major role to promote branded food items as Patanjali has devoted more time on advertising on TV more than UNILEVER and their growth in sales is highest than any multinational brands. Drawback is seen in Pantanjali having thousands of franchisees across India 50% suffer from poor delivery as the logistics is not good enough. After ordering goods the franchisees wait for long to get the demanded food item. Even though the company is professionally working but mass production as per demand is lacking across India by my personal observation.

Among the elderly people who are health conscious do not like to consume fast food as it is oily, more sugar, more salt and more maida which are prime enemies of human health.

We found that two tier cities and small town across India having famous Food Chain outlets are stuck in logistics as they do not say 40% do not get required items in Time. Big franchisers have three options (A) BY AIR , (B) BY RAIL, (C) BY ROAD. By air

is better option but cost of transport is three times higher than the other two. This is covered by charging customers more than 40% than other similar products of same items.

The word logistics is a compressive discipline of movement, supply chain of raw materials. Mode of transportation, (AIR, SHIP, RAIL OR ROAD), with ease to deliver the desired eatable product to the customer and final stage of accounting to get the monetary compensation to the company.

Big Brands like McDonald's has thousands of franchisees across the world and their logistics is very important and efficient to get profitability to the owner.

RAW MATERIAL SOURCING

Due to bulk purchase of raw materials like Maida, wheat, sugar salt oil vegetables cheese butter milk products

80% respondents say that bulk purchase is cheaper, profitable, and they have cold storage to keep them in safe without spoilage.

Big brands have a huge Kitchen to cook and make products. 85% say that their preparation is hygienic clean and safe for human consumption 95% of goods are packed in decent attractive packing as the shipping of goods to longer destinations with keeping food values intact to customers who are thousands of miles away BY AIR DELIVERY is the only option for big brands 100% use air transport for delivery to large network of franchisees.

In case of PATANJALIBRAND 50% franchisees say "That the materials arrive very late due to poor distribution and demand is very high to comply the goods. The location of franchisees store plays important role to attract customers and the respondents say near 75% people from age group 25 to 30 consume big brand fast foods in India

The system of payment from Franchisees to Franchiser is mostly ON LINE BANK TRANSFER as every item sold is cash to cash no credit is accepted 100% Franchisers respond that money they get is very fast no delay and 100% delivery is done by air only to reach on-time. Due to such efficient logistics the profitability goes up and this industry grows well due to best network.

Table No.2

Railway Station	60%
Market Yard	30%
Schools/ Colleges	10%

CONCLUSIONS & SUGGESTIONS:

The craze of consuming fast food items among young generation is fast growing because of affordability and FASHION STAUS SYMBOL

Best international brands like McDonald's, KFC, Domino's have very strong efficient logistics network across the world and they have kept the price tag more comfortable for them and also to their franchisees. They can afford air transport to deliver the food items across all destinations. So far profitability is concerned no one is at loss as the

marketing and Brand image is saving them to survive. There is a big challenge ahead from PATANJALI FOOD items because they are now entering TEXTILE SEGMENT to give cost effective outfits to young generation. Recently they had tie up with ARVIND& RAYMOND big textile giants with Patanjali. The company has acquired large space in different states to manufacture and their advertising is at every two minutes in any channel. They may increase logistic network a set back now to improve delivery which is still poor.

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