

Rise of the Virtual Kitchen



Virtual kitchens: solution or competition?

The concept began to flourish in Jakarta following rising demand for food delivery.

- Food delivery services have surged significantly over the past few years fuelled by a rise in ‘super app’ development. The recent pandemic has also accelerated home-delivery transactions following dine-in restrictions during the lockdown period.
- To capture demand, platforms have begun to optimize their food merchant directories and improve delivery strategies by introducing a new F&B business model called cloud kitchens which focuses solely on online sales.
- The two biggest super app players in Indonesia, Gojek and Grab, recently expanded their cloud kitchen business following the success of their food delivery platforms, GoFood and GrabFood.
- Prior to cloud kitchens, delivery from malls was found to be difficult because of the time it would take for a driver to park, enter the mall, order the food and deliver. A complementary kitchen which only takes delivery orders helps reduce delivery times from restaurants to consumers.

“Virtual or cloud kitchens – also known as ‘ghost kitchens’ – are a virtual restaurant which operate solely for delivery services. Unlike traditional restaurants, cloud kitchens do not necessarily have seating areas for dine-in or even a shopfront.”

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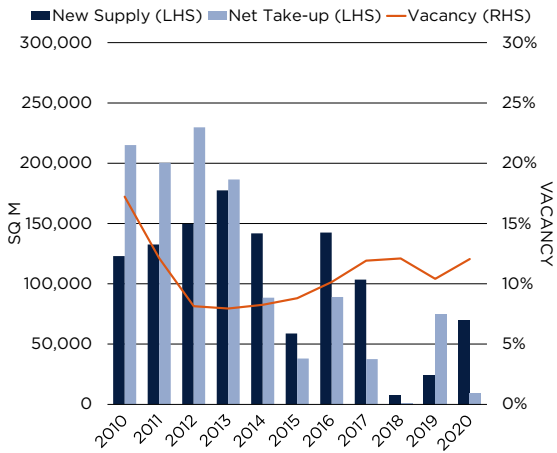
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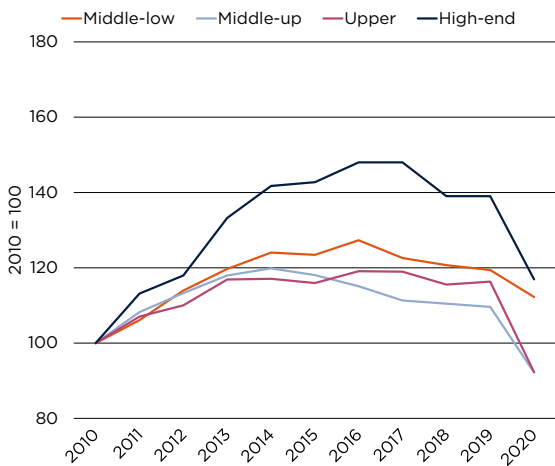
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GRAPH 1: Overall Retail Supply, Demand and Vacancy, 2010 to 2020



Source Savills Research & Consultancy

GRAPH 2: Retail Rental Index, 2010 to 2020



Source Savills Research & Consultancy

RETAIL PROPERTY LANDSCAPE AFTER THE PANDEMIC

The new digital era and the global economic downturn following the pandemic has caused massive disruption to many businesses including the retail property sector. Even before the pandemic hit, mall owners were faced with tough challenges following e-commerce boom. The global pandemic put further pressure on the retail sector as stores have faced restricted opening during lockdown, resulting in plummeting sales. As stores and restaurants are still not allowed to open to full capacity, some tenants have begun to look for alternatives and started to develop their online presence through e-commerce and delivery services. According to a recent survey by Google, 34% respondents use online food delivery services more often due to COVID-19 lockdowns across Southeast Asia¹. To capture the increasing demand, various platforms have begun to optimize their food merchant directories and improve delivery strategies by introducing a fresh F&B business model popularly known as ‘virtual or cloud kitchens’ which focuses entirely on online sales orders.

CLOUD KITCHEN CONCEPT

A cloud kitchen, also known as a ghost kitchen, is a ‘virtual restaurant’ which operates solely for delivery services. Unlike traditional restaurants, cloud kitchens do not necessarily have a seating area for dine-in services or even a shopfront for customers to walk in. This type of business was introduced in 2011 by Rebel Foods, an India-based cloud kitchen company which currently operates hundreds of cloud kitchens in Asia.

Cloud kitchens are not an entirely new concept in Indonesia. An earlier model of a cloud kitchen – a single kitchen managed and operated by a single brand focused only on delivery and takeout – was adopted by fast-food

¹ Google, Temasek and Bain, e-Conomy SEA 2020

chains like Domino’s Pizza and PHD (Pizza Hut). Instead of one single building for one single brand, the cloud kitchen model has now adopted a ‘co-working style’ kitchen which accommodates multiple brands from the same or different owners operating in the same premises. This usually comes in the form of a stand-alone building, divided into smaller kitchen booths (or pods) where each pod is rented out to different brands and tenants. Its main purpose is to minimize costs, as tenants do not need to spend much on physical layouts and staff.

In general, we see similarities between cloud kitchens and the co-working concept:

1. Shared building divided into several workspaces (kitchen space) available for rent along with other parties.
2. Provides sense of community and interaction between operator and tenants.

THE CLOUD KITCHEN TREND IN INDONESIA

The cloud kitchen market in Indonesia is gaining momentum particularly in Jakarta, a vibrant economic hub and home to more than 10 million people. In 2018, Grab launched its first cloud kitchen model, called Grabkitchen. A year after Grab launched its cloud kitchen, Grab’s competitor Gojek also launched its own cloud kitchen called Dapur Bersama GoFood. Both are quite similar concepts, where tenants are mostly selected merchants from the Grab and GoFood platforms.

More operators have begun to enter the market, including Everplate, Yummykitchen, Kita Kitchen, Telepot and Eatsii. We estimate that there are currently around 70 cloud kitchen branches consisting of more than 500 kitchen pods operated by seven operators across Jakarta. (see Table 1)

GRAPH 3: Typology of Delivery Restaurants in Jakarta



Single kitchen, single brand, shopfront with dine-in area (co-traditional restaurants)



Single kitchen, single brand, limited dine-in area for takeaway & delivery (e.g. PHD, Domino’s Pizza)



Single kitchen, multiple brands owned by the same group, delivery only (e.g. Hangry)



Single kitchen, divided into small pods rented by multiple brands owned by different owners, delivery only (e.g. GrabKitchen, Everplate, Telepot, etc)

Source Savills Research & Consultancy

TABLE 1: List of Cloud Kitchen Operators in Jakarta

NO	OPERATOR NAME	LAUNCH	LOCATION	TYPICAL POD SIZE	MINIMUM CONTRACT	RENTAL FEE (START FROM)	BRAND EXAMPLES
1	Grabfood Kitchen	2018	24 outlets	10-20 sq m	1 year	Revenue sharing	SaladStop! Sour Sally Kopi Kenangan
2	Dapur Bersama GoFood	2019	10 outlets	14-25 sq m	1 year	Revenue sharing	Sisterfields Sibling Espresso Bar
3	Everplate	2019	7 outlets	6-17 sq m	1 year	Fixed rent 6 mio/month	Fish Streat SaladStop! Tokyo Belly
4	Yummy Kitchen	2019	28 outlets	5-10 sq m	6 months	Revenue sharing 7 mio/month	Djournal Dailybox Padang Merdeka
5	Kita Kitchen	2020	2 outlets	6-17 sq m	6 months	Fixed rent 5 mio/month	D'Crepes Yoshinoya SaladStop! Eatlah Colette Lola Stack
6	Telepot	2020	1 outlet	7-19 sq m	6 months	Revenue sharing 6 mio/month	N/A
7	Eatsii	2021	N/A	N/A	N/A	N/A	N/A

Source Savills Research & Consultancy

TABLE 2: Comparison between Cloud Kitchen and Typical Mall Space

CLOUD KITCHEN	VS	TYPICAL MALL SPACE
Not necessarily in prime location	Location	Must be in prime location with good exposure
Yes	Common areas with shared facilities	Mostly no
High	Operator involvement in tenants' marketing scheme and monthly sales performance	Low
Small size, no dine-in area	Size area	Medium to large size to accommodate dine-in area
High	Flexibility	Relatively lower
Short term, 6 months to 1 year	Contract	Long term, 3 to 5 years
Low	Initial investment	High
Mostly revenue sharing	Payment scheme	Fixed rent
Low	Staffing	Medium to high
Newly established brands; micro, small and medium enterprises (UMKM)	Tenant profile	Mostly reputable and well-established brands

Source Savills Research & Consultancy

COMPARISON WITH CONVENTIONAL RETAIL SPACE

Cloud kitchens are popular among early-stage F&B businesses for their flexibility and relatively lower initial investment compared to traditional retail space. Cloud kitchen units are move-in ready and do not need major fit outs thus lowering capital costs. They also offer shorter contracts, ranging from 6 months to 1 year. Since most cloud kitchen tenants are newly established brands and small to medium businesses, cloud kitchens use revenue sharing schemes for their rental fee with weekly to monthly payments.

One distinct difference between cloud kitchens and conventional retail space is their support for and involvement in tenants' growth by providing insights into a tenant's marketing strategy based on monthly sales to improve future sales performance. This gives cloud kitchens their sense of community and aligned interest. Cloud kitchens offer help to F&B start-ups to grow their business.

BENEFITS AND PROSPECTS

The cloud kitchen concept is seen as an attractive option for F&B businesses, especially newly established brands who have just entered the market. The business scheme offered by cloud kitchens have relatively fewer risks compared to conventional retail space because flexible agreements with a lower initial investment.

There is also greater opportunity to expand rapidly for brands who are willing to open multiple branches at the same time to capture more consumers but who want to control set-up and operational costs.

For consumers, cloud kitchens help them discover a greater variety of food choices with faster delivery times within a short distance from their home. Despite all the positive factors, there are a few challenges faced by the concept, such as the lack of a consumer dining experience and food quality control issues, since not all menus are "delivery friendly". The huge number of food deliveries also means more packaging waste is produced.

Will the cloud kitchen trend impact mall demand?

The current cloud kitchen model targets a different market from conventional malls. Most cloud kitchen landlords are targeting newly established F&B brands and small businesses, while chain restaurants still favour traditional outlets since many of them are not only selling food but also ambience and a dining experience to customers.

However, we see more reputable brands beginning to utilize cloud kitchens as 'satellite kitchens' - complementary outlets outside the mall to capture consumers in more remote catchments. Normally, deliveries from a mall are seen to be less effective since it takes too much time for a driver to park, enter the mall, order the food, and deliver. A complementary kitchen which only takes delivery orders helps reduce delivery times from restaurants to consumers. In the future, we could see more collaboration between traditional retail malls and cloud kitchens in a hybrid business model, thus creating immense opportunities for both sectors to continue to grow.