



Recipe for success

Having crossed the ₹1,000 crore mark in India, McDonald's plans to double it by 2022

Jatia: a multi-pronged approach

Westlife Development Ltd (WDL), operator of McDonald's outlets in west and south India (which account for nearly two-thirds of its exposure in India), held an investors' day on 13 June 2018. The management's key messages were – it expects to nearly double its store count, with more Indians eating out, as the growing economy boosts incomes; it aims to double revenues and margins by 2022 too, as it increases the number of McDonald's restaurants to 450-500 (from the present 277), besides raising the number of McCafé store counts to 300-350 (from 149) during the same period; and it aims to increase the number of McDelivery hubs to 300-325 from 165 now.

What does it translate into? WDL has targeted a revenue of ₹2,000-2,500 crore (March 2018: ₹1,130 crore) by 2022, by maintaining the same store sales growth of 7-9 per cent. In terms of profitability, the management is looking at operating profit margins represented by EBIDTA (earnings before interest, tax, depreciation and

amortisation) margins, which it projects to double at 13-15 per cent from the current 7.5 per cent.

"We will achieve this through a multi-pronged approach," explains Amit Jatia, 54, vice-chairman, WDL. "For one, demand for quick-service restaurants (QSRs) is growing and the momentum is likely to continue. Driven by new products, the company will open 25-30 stores a year and capitalise on our new 'Experience of the future' (EoTF) offerings". Jatia, a pioneer of the QSR industry in India, is credited with taking on the challenge of launching and growing the McDonald's brand in the country, which consequently set the stage for an industry that would see the proliferation of various fast food chains and cafes, going forward. In his three decades of business experience, Jatia has been responsible for setting up the West Pioneer Properties Group (WPR), a company that owns and operates malls and hotels in India, which is listed on the alternate investment market (AIM), London (a part of the London Stock Exchange).

The family's entry into food and QSR has been spearheaded by Amit Jatia, whose family business includes paper, textiles, mining, food processing, hospitals and speciality chemicals, amongst others. He never dreamt of entering into foods, especially non-vegetarian, but still did so. In 1992, at the age of 28 years, Jatia had witnessed a reorganisation within the family, whereby his father, B.L. Jatia retained the lubricant business and the investments in Indraprastha Medicals, a hospital in Delhi. "The lubricant business had just undertaken a joint venture and I was busy growing the business, but the family was looking for new investment because of the separation, explains Jatia. "In 1994, when Walter Saldana, CMD, Leo Burnett, who is a friend, suggested that I take up the partnership offered by McDonald's, I agreed, though reluctantly, at first." Saldhana had assured him that McDonald's would be flexible about how to do business in India. Jatia took it as a chance to learn because McDonald's was a large corporation.

Meanwhile, Jatia had also read an article on McDonald's in an



Smita Jatia: most products grown in India

international magazine – about how they are growing in Poland, etc. “So, in May 1994, I met the McDonald’s people for the first time; by December 1994, I had found out that I was comfortable doing this; and, in February 1995, I got a call from the company, saying that they wanted me to be a partner. On 31 March, we signed the joint venture agreement and, on 20 April, I was in Indonesia, undergoing training. We also recruited 20 managers, who were also trained in Indonesia. That’s how I ended up with a company that appreciated the fact that I had no background on food business, because any experience I acquire would be fresh. McDonald’s is unique in the way it runs its business – the management was happy that I would learn things the right way from the McDonald’s point of view,” adds Jatia candidly.

While initiating McDonald’s entry into the country, with a single restaurant at Bandra in the western suburbs of Mumbai, one of the biggest challenges Jatia faced was to develop its own menu – keeping beefburger and hamburger out of it – and cater to the local tastes and preferences in the servings of chicken, fish and vegetables, while also maintaining its international USP of QSC&V (quality, service, cleanliness and value) and sustain the image of a good ‘family restaurant’. In just two decades, it has established itself to run over 250 restaurants across West and South India. It is Jatia’s vision, strategy and

focus that helped build an entity that employs over 8,000 people and serves about 200 million customers a year.

McDonald’s International has been looking to get a toe-hold into India even before its representatives met the Jatis. It was in fact scouting the market to see whether a supply chain really existed there or not. And, the company learnt that there is a lot of work to be done on the agricultural side. Also, it realised that food processing industry in India was still nascent, and that MacDonal’d’s needed to make a substantial investment here before it can work out. Thus, it started a backward linkage to the farms.

Setting up shop

For six years (in the early 1990s), prior to the opening of the first restaurant, McDonald’s and its international supplier-partners worked together with Indian companies to develop products that met the parent company’s rigorous quality standards that also had to strictly adhere to the government of India’s regulations on food, health and hygiene. More importantly, it had to devise a new method to introduce a completely new taste for an Indian palate and a completely new way of serving – QSR – to pick up quick and tasty food.

“So, when we opened the door to my consumers, probably 90 per cent of my products were locally sourced and were made in India,” explains Smita Jatia, MD, McDonald’s. “What we did essentially was not only to ask our global suppliers to set shop in India, but also help Indian businessmen, with a small platform, to learn how to make the products matching our standards. We also got agricultural experts on our payroll to work with progressive farmers and start developing lettuce farms in India. The first thing we built was the ecosystem around the



Paliath: ushering in a vegetable revolution

supply chain, because we could not have given a great product to our consumer, if we were not sure about the quality. The second thing we did was to link up the food processing side. With the farms, the food processing and the restaurants organised, we created a cold chain to link them”.

Smita Jatia, wife of Amit, has been an active member of the McDonald’s India team, since its early days and has undertaken various responsibilities within the organisation over the years. She has been instrumental in launching, indigenising and building the McDonald’s brand over the last two decades. Having joined HRPL in 1996 as director, marketing, Smita soon moved on to take up the responsibilities of the COO. Under Smita’s leadership, McDonald’s India has also undertaken a host of community development programmes too, ranging from education of youth on environmental issues and cleanliness to traffic safety awareness programmes. She has been the driving force behind

Hardcore numbers turn profitable (₹ crore)

	2013-14	2014-15	2015-16	2016-17	2017-18
Total Revenues	740	764	833	930	1,134
Operating profit					
(EBITDA)	49	20	48	49	84
PAT	0.9	(29)	(20)	(12)	12
Stores	184	209	236	258	277
McCafe	5	37	75	111	149

Ronald McDonald House Charities Foundation, setting up its first Ronald McDonald Family Room, in partnership with the Bai Jerbai Wadia Hospital for Children, in India.

High quality products

Today, McDonald's India sources almost all its products from within the country. For this purpose alone, it has developed local Indian businesses, which supply them high-quality products. Fresh lettuce is sourced from Pune, Delhi, Nainital and Ooty; cheese comes from Baramati-based Dynamix Dairies; fresh buns are supplied by Cremica at Phillaur in Punjab and Mrs Bector & Sons, Khopoli; sauces are from Bector Foods, Phillaur and HUL's Best Foods Division,

Thane; and chicken patties and vegetable McPuff owe their existence to Vista Processed Foods, Talaja, Maharashtra. Dairy products are also sourced from Amrit Food, Ghaziabad, UP. The supply chain has benefited the farmers and the suppliers enormously. "In fact, McDonald's unique cold chain has brought about a vegetable revolution, benefiting the Indian farmers at one end, and enabling customers at retail counters to get the highest quality and safe food products, which are absolutely fresh adding great value," says Ranjit Paliath, senior VP, business operations & restaurant enablement, WDL. Paliath was one of the first employees and one of a batch of 20 managers, who went to Jakarta, where they underwent one

year's intense training to understand what it means to run a restaurant.

From October 1996-97 to 2002-03, the first phase, which Amit qualifies as 'build' at McDonald's, his team learnt what consumers were saying and quickly responded to localising flavours. "So, McAloo Tikki, McVeggie and the Pizza Puff were all priced affordably. During those days, we were particular about getting the menu right and building flavours, which were relevant to Indian customers," says Seema Arora Nambiar, senior VP, strategy, innovation & capability, WDL, who is responsible for fostering a culture of continuous innovation, besides leading consumer business insights, as also new product & menu development. She

The good food story

The Jatias announce re-engineering of the menu to make food more wholesome and nutritious

In April 2018, McDonald's announced an exciting phase in India with new store formats, digital interventions and menu innovations. "Business has been on an upswing for 11 consecutive quarters of positive 'same store sales' growth. To add to this excitement, we have 'the good food story' to reinforce our commitment towards promoting nutritive and wholesome food," says Amit Jatia, pointing out that, over the years, McDonald's has developed an indigenous menu completely unique to India. "The brand has always been cognizant of Indian sensibilities. It has kept its vegetarian kitchen separate from the non-vegetarian kitchen. The company also does not serve pork and beef in any of its restaurants in India".

The 'good food story' is one such journey that the company has undertaken to bring nutritious and wholesome food to them. The food giant has developed a menu that offers a wide array of choices to suit different preferences. There is a range of

high-protein products, which include *paneer*, chicken, egg and fish. McDonald's is the only restaurant chain in the QSR space in India that has a special breakfast menu, with Sausage & Egg McMuffin, Egg & Cheese McMuffin and Scrambled Eggs, giving just the right start to the day.

Other than the signature burgers and fries, the company has also launched the Chatpata Naan – a truly Indian delicacy, in an international form. With the recent launch of a rice-based meal – with the goodness of basmati rice and fresh vegetables – in select markets, "McDonald's has ensured there is something for everyone. The menu also offers a plethora of sides and desserts to complete a meal. Through McCafé, it offers a range of over 30 cold and hot dairy and fruit based beverages. This part of the company's 'good food journey' is what the customer will be looking for in the stores. But there is another path that the company has taken to ensure that nothing but the best is

served to its consumers," adds Smita Jatia.

McDonald's India has taken the initiative to reduce sodium by over 20 per cent across fries, nuggets, patties and sauces. Limiting sodium intake is good for health. Also, the oil content in mayonnaise has been reduced by 40 per cent, making it the first ever low-fat mayo in the Indian QSR industry. This has brought down fat content by up to 25 per cent in its products, resulting in calorie reduction by about 11 per cent.

"The result of these changes has been that the iconic McAloo Tikki Burger is now a balanced meal, in that it has the right balance of carbohydrates, protein and fat, as recommended in the guidelines issued by the National Institution of Nutrition," adds Amit, while talking about another flagship product, McVeggie Burger, which has the right balance of carbs and proteins.

"The overall lifestyle of Indians is changing, with many of them leading a sedentary life, with little physical activity," says J.S. Pai, executive director, Protein Foods & Nutrition Development Association of India, commenting on these initiatives. "This may cause obesity and deficiency of

essential nutrients. It is a good step that restaurants are now offering food choices with a better nutritional profile, which are richer in protein and dietary fibre, while being low in fat and sodium. This, along with nutritional awareness, will go a long way in ensuring a healthy lifestyle."

"Reducing the sodium content in the products is a significant step initiated by McDonald's," adds Naaznin Husein, president, Mumbai chapter, Indian Dietetic Association. "The effort taken to re-engineer their food towards a healthy shift is appreciable. Using technology innovations to reduce overall fat content may be a sustainable solution towards responsible nutrition. As Indians, a majority of our population is protein-deficient. In the future, more concentration could also be placed on increasing protein in all products. The steamed egg is a great value-add. Healthier choices like wraps, steamed eggs and other such options should be added to the basket of products. Also, portion control is important. The takeaway message is that these foods are 'sometimes' food and should not replace everyday healthy balanced meals." ♦



Arora: helping to lower costs

too has been associated with the company since 1999, when she began her career as a training executive. Owing to her growing interest in the other associated functions, she has, over the years, worked across functions in the company. Prior to joining McDonald's India, Nambiar had led employee training at Dominos India.

Over the years, the Jantias have been innovating and adding to Maconald India's offerings to keep their customers engaged. For instance, in 2013, while they started re-imagining the restaurants, they started adding McCafé to them. "McCafé is a global McDonald's platform and we felt that coffee market was getting ripe for us to take," explains Nambiar. "The advantage with McCafé is that it is housed within a McDonald's unit; yet, it's a barista hand-crafted coffee. It opened up a new market that was not originally accessible to McDonald's, because we were not known for our coffee," says Amit, who launched 149 McCafés. "And, this growth has been just absolutely fantastic. We started with basic coffee and tea but today have smoothies, shakes – a full menu with 30-plus products. Secondly, we did not stop opening restaurants; we kept on opening 25-30 of them every year".

"The third thing we did was, we refreshed our value platforms, pushed our delivery business to the brim by adding a new app, by adding digital ordering through our website," adds

Sanjay Soni, senior VP, development, WDL. "We did that in 2014 and our business has more than doubled since then. So, what we did instead of discounting was to start building platforms. And, of course, the most important thing was the menu. If you look at our menu in 2012 and our menu today, you will find that it's a lot different. We have got the Maharaja Mac, the American Cheese Burger, Mexican McAlooTikki, etc. Also, we did a lot of what we call 'limited time' offers. We took in the spicy items – McDonald's McSpicy is a popular product – and did a face-off by calling it an Indi Spicy. And, we asked customers to vote which one they wanted to keep. We put our favourite McVeggie and McChicken beside an Italian McVeggie and McSpicy Chicken and gave consumers a lot of new items to choose from and a lot of reasons to come to McDonald's. And, for the last 11 quarters, which is now three years, we have remained positive, maintaining the same store sales growth".

Soni has been instrumental in bringing down the cost of establishing new outlets with the new 'restaurant operating platform' (ROP 2.0), which helps in boosting cash flow and savings in overheads, thereby resulting in a lower payback period. "We have taken initiatives like LED lighting and optimisation of space in new stores that will bring down overheads".

Innovative experience

Meanwhile, according to recent reports, the 'informal eating out' (IEO) market in India is estimated to be worth \$120 billion and growing at 7-8 per cent per annum, of which the fast food, Indian (IFF) and western (WFF), account for 18 per cent (about \$21 billion). YUM brands, Domino's, Burger King and McDonalds, key players in the fast food segment, together account for less than 10 per cent of the fast food market. According to the Euromonitor International 2017 report, in the QSR food service market, the WFF has grown its share in IEO from 1 per cent in 2014 to 1.3 per cent in 2017. This is expected to grow to 1.6 per cent in 2022.

According to a National Restaurant Association of India-Technopak report, "Increasing urbanisation and the fact that half of India's 1.2 billion population is below 24 years, is driving the



Soni: digital ordering has taken off

expansion of the restaurant and catering industry. It's expected to hit ₹5.5 lakh crore by 2022, growing at an annualised rate of 10 per cent from ₹3 lakh crore in 2016".

Currently, the 'experience of the future' (EoTF) has taken centre stage. "EoTF is not a one-off phenomenon, as it marks the start of an exciting and profitable long-term journey," feels the husband-wife team. "Our EoTF stores have self-ordering kiosks that are enabled by interactive digital screens. Users can place their order and complete payment on this kiosk, totally avoiding the long queues at the counter". They have been focussing on reimagining the company's stores to enhance customer experience for driving in new customers and increasing footfalls. "So far, the feedback has been good for reimaged stores. We are also concentrating on brand extensions to be able to service on all occasions and also paying special attention to the menu offered. WDL's consistent thrust on driving baseline sales has started showing results, as it has reported positive same store growth (SSG) for the past 11 consecutive quarters," concludes the Jantias, sounding confident of sustaining its higher SSG, going forward. Although WDL is geared up for aggressive expansion under Vision 2022, the company is equally focussed on sweating its existing assets to improve the return on capital.

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