

The Daily Dispatch

Friday Special Feature

February 11, 2021

Ghost kitchens and delivery-only restaurants may be too popular for their own good

By: Amelia Lucas—CNBC (Published on February 1, 2021)



It's time for a reality check.

The coronavirus pandemic accelerated the adoption of ghost kitchens and the creation of virtual brands. Both were seen as potential fixes for restaurants caught in a highly unusual predicament. Some eateries were coping with surging delivery orders, while others were looking a lifeline as government restrictions clamped down on dining capacity and slashed sales. But these once-creative solutions have been replicated too many times, at times, diluting their effectiveness.

Ghost kitchens, which are also known as cloud or dark kitchens, allow restaurants to prepare food solely for delivery. This can be critical for businesses seeing strong demand as consumers' appetite for food delivery grows. Third-party food delivery sales grew 138% in December, according to analytics firm Second Measure.

Start-ups like Kitchen United or Travis Kalanick's CloudKitchens house multiple restaurant brands within one location and tout their models as more efficient, lowering labor and rent costs for eateries.

Meanwhile, virtual restaurant brands are found only on third-party delivery apps, relying on those platforms for marketing rather than a physical storefront. Food from

these brands is made either in a traditional restaurant kitchen or in a dark kitchen. For some struggling or failing restaurants, virtual brands have turned out to be lifesaver.

After Otto's Tacos, a Manhattan fast-casual chain with four locations, permanently shuttered all of its storefronts in December, it approached a fellow Manhattan-based chain, Mighty Quinn's Barbeque. The two companies opened their flagship locations in the East Village neighborhood two blocks away from each other less than a decade ago, and their founders were friendly, swapping industry updates and tips, particularly as the coronavirus pandemic hammered New York City.

But rather buying Otto's Tacos outright, Mighty Quinn's struck a deal instead to license the brand and bring it back to life as a virtual brand. The barbeque chain also sells chicken wings under the virtual brand Sugar Wing.

"We decided, rather than bringing on additional kitchen capacity, to utilize what we already had at Mighty Quinn's to execute their menus," said Mighty Quinn's co-founder Micha Magid.

Magid said that the company had toyed with the idea of launching a virtual brand before the pandemic. A brand that targeted the top three delivery categories – burgers, pizza or Mexican – were the most attractive, but Mighty Quinn's lacked pizza ovens or grill tops, making Mexican food the most sensible choice, according to Magid. Otto's also came with tens of thousands of social media followers, a level of trust from consumers who had eaten inside its restaurants before and a higher percentage of delivery customers even before the crisis.

But for Otto's and Mighty Quinn's, the winning element of the formula might just be the personal relationship and trust between the two companies. Magid said that he didn't think that the model would work for other struggling restaurants.

The Daily Dispatch

Saturating the market

In June, Chili's owner Brinker International started a virtual brand called It's Just Wings. The delivery-only brand's food is made in Chili's kitchens and sent out by third-party delivery companies. Brinker has said that the chicken brand is generating sales at a rate of \$150 million per year.

But every success story seems to generate a new wave of copycats. Applebee's and Bloomin' Brands are among the full-service restaurant chains that have decided to step into the arena and create their own virtual brand that serves chicken wings.

"You can't keep just throwing up virtual brands – at some point, there's saturation," said Dan Fleischmann, vice president of Kitchen Fund, a venture capital firm that focuses on the restaurant industry.

Despite running two virtual brands, Magid echoed the sentiment.

"What I think what's honestly happening now that will be different this time next year is that there's honestly too many virtual brands popping up that are based on nothing more than a menu that seems to be on trend and some pictures," Magid said.

Ghost kitchens are seeing similar trends. New companies, like Trolley Eats, seem to pop up every week, along with announcements from the likes of Famous Dave's and Fat Brands that they're leasing a dark kitchen.

"From what I'm hearing, the demand for those [ghost kitchens] is skyrocketing, and so are the prices," BTIG analyst Peter Saleh said at the virtual ICR conference in January.

Saleh told attendees that he spoke with a restaurant operator who said he would pay the same amount for a 200-square-foot space in a ghost kitchen as a 3,000-square-foot restaurant in the same market.

Fleischmann, who was skeptical of ghost kitchens even before the pandemic boom, said that he doesn't think that most restaurants will be able to make the economics of a ghost kitchen work.

"It's still such a low-margin business to begin with, the owner taking 30% out and then having to go through an aggregator like DoorDash or UberEats is really difficult," Fleischmann said.

With every order placed on a third-party delivery app, restaurants pay a commission fee to the platform. These charges range from 15% to 30% of the order total, although some U.S. cities have placed fee caps on delivery companies during the pandemic to aid restaurants.

Bartaco CEO and founder Scott Lawton said that the chain has opened two ghost kitchens to relieve some pressure from its own kitchens when it comes to preparing its takeout orders. While one location is in a multibrand ghost kitchen, the other is the result of an agreement with another restaurant that shuttered temporarily. Lawton said that the multibrand ghost kitchen has more costs associated with it. "

At this point, there's too many hands in my pocket there, and I don't really understand how people make money doing that," he said.

C3, a food hall and virtual kitchen subsidiary of hospitality company SBE Entertainment Group, finished 2020 with nearly 200 kitchens and 15 virtual brands less than a year after its launch, according to SBE CEO Sam Nazarian. It's committed to opening more than 400 new kitchens this year so far. Its growth is largely thanks to the consortium that created C3: SBE, hotelier Accor and mall owner Simon Property.

"We feel that the opportunity to take advantage of the real estate environment and to be aggressive as far as tenancy around the country and the world is what is a differentiator for us right now," Nazarian said.

Stabilizing delivery sales

Analysts are forecasting that some trends will bolster ghost kitchens' future prospects. In a note looking ahead to the next five to 10 years for the restaurant industry, Bank of America analyst Gregory Francfort wrote that dark kitchens will struggle to compete with casual dining's unused kitchen capacity.

The Daily Dispatch

“But an emerging ghost kitchen concept will partner with one of the biggest aggregators, unlocking rapid consumer brand visibility, creating a successful model,” he added.

Saleh wrote in a note to clients that President Joe Biden’s \$15 wage proposal could aid in the adoption of ghost kitchens, which have fewer workers than a traditional restaurant.

But as vaccines are distributed across the U.S., food-delivery sales are expected to stabilize. While the crisis has introduced many consumers to Grubhub or Postmates for the first time, they will also likely want to return to dining in-person at some point. Falling demand could mean fewer tenants for ghost kitchen companies and orders for food from virtual brands.

“I think when the pandemic is over, a lot of these restaurants will come off the delivery apps,” Nazarian said. “The virtual brands will not make it ... they’re not true operators.”

C3 is betting that consumers who grew to love its virtual brands like Krispy Rice and Sam’s Crispy Chicken will want to visit the company’s food halls that will soon host physical locations of those same brands. C3 signed licensing deals with about 50 airports last year, according to Nazarian.

“I kind of equate it back to the dotcom era when everybody had a website. Some of the websites worked, some didn’t,” Nazarian said.

Source: Amelia Lucas (2021) ‘Ghost kitchens and delivery-only restaurants may be too popular for their own good,’ *CNBC*. Available at:
<https://www.cnbc.com/2021/02/01/why-a-reckoning-may-be-ahead-for-ghost-kitchens-delivery-only-brands.html>

The Daily Dispatch

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TODAY'S TOP NEWS

Globe's 2020 income down 13% due to pandemic

Globe Telecom, Inc. posted a 13.04% decline in its core net income for 2020 mainly due to the impact of the coronavirus pandemic on its businesses except for the home broadband. The listed Ayala-led telco's core net income for 2020 went down to P19.52 billion from P22.45 billion in 2019.

Basic Energy unit plans 50-MW wind farm

A unit of Basic Energy Corp. has approved the principal terms of a 50-megawatt (MW) wind energy service contract with the Energy department in Mabini, Batangas. The company said the pro-forma wind energy service contract provides for a non-extendible five-year pre-development stage and a 25-year development stage.

PHL lags in global export recovery

Philippine export performance remains below East Asian economies that are leading global trade recovery, a United Nations (UN) report said. Economies like China, Taiwan, Vietnam, and Korea posted global market share gains in exports.

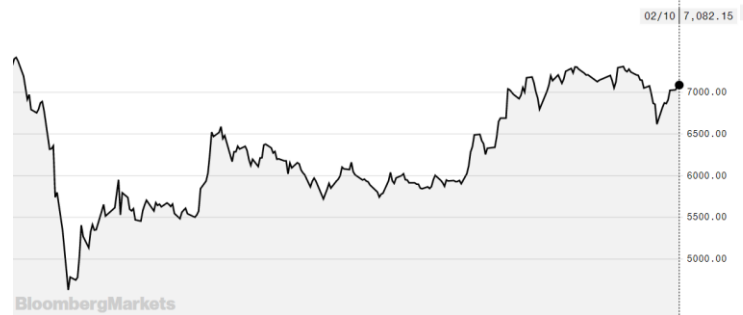
BSP extends zero spread on rediscount loans

The BSP has extended anew the zero spread on its peso rediscount loans by another three months to allow banks to tap the facility to meet their temporary liquidity needs amid the pandemic. BSP Governor Benjamin Diokno said the Monetary Board approved the extension of the temporary measures in the rediscounting facilities until April 30.

MM office vacancy to rise to 12.5% this year

Metro Manila office vacancy is expected to increase to 12.5 percent this year, the highest since 2003, as Philippine offshore gaming operations (POGO) vacate offices and outsourcing firms streamline office space requirements, real estate services firm Colliers International Philippines said.

Philippine Stock Market Update



Previous Close:

7,082.15

1 Yr Return:

-3.84%

Open:

7,059.48

YTD Return:

-1.66%

52-Week Range:

4,039.15 - 7,472.99

Source:

Bloomberg

Foreign Exchange

As of Feb. 10, 2021

US Dollar	Philippine Peso
1	48.027

PDST-R2 Rates

As of Feb. 10, 2021

Tenor	Rate
1Y	1.425
3Y	2.152
5Y	2.627
7Y	2.863
10Y	3.112
20Y	3.994

Daily Quote

"When the winds of change blow, some people build walls and others build windmills"

--Chinese Proverb

The Daily Dispatch

MORE LOCAL NEWS

Residential sector to grow despite pandemic

Sta. Lucia Land Inc. (SLI), a publicly-listed subdivision developer, expects the residential sector to continue growing despite the pandemic. David dela Cruz, EVP and CFO of SLI, said the company remained resilient despite the challenging business environment.

MSMEs urged to tap COVID-19 loans

The Department of Trade and Industry (DTI) is urging micro, small and medium enterprises (MSMEs) to avail of a lending program which has approved P2.35 billion worth of loans to help businesses recover and strengthen their operations amid the COVID-19 pandemic.

Converge extends fiber network

Pure end-to-end fiber internet service provider Converge ICT Solutions Inc. has more than doubled its fiber network last year despite the challenges brought by the pandemic, putting the company on track to meet its target of reaching more than half of the country's households by 2025.

Sugar firm to raise P558 million from share sale

Central Azucarera De San Antonio Inc. (CASA), a sugar mill based in Iloilo, is embarking on a direct public offering (DPO) to raise around P558.47 million. In its registration statement filed with the Securities and Exchange Commission (SEC), CASA said the DPO consists of 277,500 common shares at an offer price of P2,012.50 per

Converge fiber network reaches unserved areas'

Converge ICT Solutions Inc. said on Wednesday it has more than doubled its fiber network in 2020, providing Internet services to underserved and unserved areas in the country. CEO, Dennis Uy said the fiber network of Converge now runs to over 55,000 km, 28,300 km more than the prior year's 26,600 km of fiber optic cables.

8990 Holdings Inc. lists Series B preferred shares

8990 Holdings, Inc. led a bell ringing ceremony at the Philippine Stock Exchange (PSE) on Wednesday to mark the company's listing of P 3.7-billion Series B preferred shares. The proceeds from this follow-on offering will be used to finance obligations secured for operations and construction activities of its subsidiaries' housing projects.

Unit of Globe subsidiary's tax payment hits P1.5b

In absolute terms, payments to the Bureau of Internal Revenue coursed through the GCash platform reached almost P1.5b, according to Martha Sazon, CEO of GCash operator Globe Fintech Innovations Inc. The company is currently wholly owned by Globe Capital Venture Holdings Inc., which is in turn a wholly-owned subsidiary of Globe

Pandemic cuts SBMA operating revenue

Subic Bay Freeport—The economic slowdown brought about by the Covid-19 pandemic last year took its toll on the earnings of the Subic Bay Metropolitan Authority (SBMA), which reported more than half a billion losses in operating revenue in 2020.

TODAY'S TOP ASIAN NEWS

Gojek nears Tokopedia merger ahead of IPO

Indonesia's two most valuable startups, ride-hailing giant Gojek and e-commerce provider Tokopedia, are finalising terms for their merger and aiming to reach an agreement as early as this month, according to sources. The two companies have the goal of ultimately listing the combined entity in both Jakarta and the US.

GIC partners Chinese asset manager for Philips

Singapore's sovereign wealth fund GIC has teamed up with Chinese asset manager CDH Investments to submit a joint offer for the US\$3.6 billion (S\$4.8 billion) home appliance business of Philips, two sources told Reuters.

The Daily Dispatch

U.S. looks at restrictions on tech exports to China

The Biden administration will look at adding “new targeted restrictions” on certain sensitive technology exports to China in cooperation with allies, a senior official said on Wednesday ahead of the new president’s first call with China’s leader Xi Jinping.

S. Korea's jobless rate surges to highest in 20 years

South Korea's jobless rate surged to its highest in more than two decades, raising concern that an export-driven recovery could be masking a harsher scarring of the economy.

Uber's food delivery fails to offset ride-hailing

Uber Technologies reported declining revenue in the fourth quarter, showing that demand for food delivery isn't making up for a falloff in ridership. Sales dropped 16 per cent to US\$3.17 billion, short of an average of analyst estimates compiled by Bloomberg.

TODAY'S TOP GLOBAL NEWS

Mastercard to open up to select cryptocurrencies

Mastercard Inc said it was planning to offer support for some cryptocurrencies on its network this year, joining a string of big-ticket firms that have pledged similar support. Asset manager BlackRock Inc and payments companies Square and PayPal have also recently backed cryptocurrencies.

Cannabis stocks light up Reddit as sector surges

Interest from retail investors appeared to lift cannabis stocks broadly higher signaling that the recent trading frenzy behind Reddit favorites such as GameStop is shifting to other companies. Shares of Tilray jumped 40% in morning trading, while shares of Canopy Growth Corp and Aurora Cannabis Inc both rallied more than 12%.

Macquarie raises almost US\$2b for RE fund

Macquarie Group's green investment arm raised 1.6 billion euros (S\$2.57 billion) for a renewable energy fund. The company's Green Investment Group Renewable Energy Fund 2 (MGREF2) closed after exceeding its target of one billion euros and received commitments from 32 pension funds and insurers.

Oil in longest rally in two years

Oil prices rose on Wednesday, extending its rally for a ninth day, its longest winning streak in two years, supported by producer supply cuts and hopes vaccine rollouts will drive a recovery in demand. Falling US crude inventories were also supportive.

Heineken to cut 8,000 jobs globally

Dutch brewing giant Heineken said yesterday that it would cut around 8,000 jobs worldwide as the coronavirus pandemic kept much of the hospitality sector closed.

Twitter exploring letting users receive payments

Twitter chief executive Jack Dorsey said on Wednesday (Feb 10) the company is exploring allowing its users to receive tips, or digital payments, from their followers.

Surging inflation may force Fed to use YCC

Daniel Tenengauzer, head of markets strategy at Bank of New York Mellon Corp., is warning that if inflation gets hotter than the Fed’s new policy is aiming for, it may trigger widespread bond selling that ripples throughout other markets. That may force the central bank to adopt a tool to cap long-term yields—known as yield-curve control.