



CHALLENGES AND SCOPE FOR STARTUPS IN THE RESTAURANT INDUSTRY IN INDIA: A STUDY OF DELHI NCR

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ABSTRACT:

Startups in India, particularly in the restaurant sector in Delhi NCR, face a myriad of challenges that impact their growth and sustainability. This research paper explores these challenges through a comprehensive study, utilizing the information from secondary sources. The findings reveal critical insights into regulatory hurdles, financial constraints, market competition, and operational complexities that influence the success or failure of startups in the restaurant industry. Recommendations are provided to address these challenges and foster a conducive environment for entrepreneurial ventures in Delhi NCR.

KEYWORDS:

START UPS, FOOD DELIVERY, INNOVATIVE STRATEGIES, ONLINE SERVICES.

1. INTRODUCTION

The restaurant industry in India is experiencing a dynamic shift with the emergence of startups playing a pivotal role in its evolution. Startups in the restaurant sector are redefining dining experiences, leveraging technology, and addressing diverse consumer needs, thereby expanding the scope and opportunities within the industry.

One of the key areas where startups are making a significant impact is in catering to niche cuisines and dietary preferences. Whether it's organic, vegan, regional specialties, or fusion food, startups are innovating with unique concepts and flavors, attracting a diverse customer base.

Moreover, technology integration is transforming the operational efficiency of restaurants. Startups are introducing online ordering platforms, digital payment solutions, and AI-driven analytics to streamline processes and enhance customer convenience. This tech-savvy approach not only improves customer experience but also optimizes resource utilization for restaurant owners.

The rise of food delivery services has further boosted the growth prospects for startups in the restaurant industry. With the increasing demand for home-delivered meals, startups focusing on cloud kitchens and delivery-only concepts are thriving. These models offer scalability and cost-effectiveness, attracting both investors and entrepreneurs.

Additionally, the growing urbanization, rising disposable incomes, and evolving lifestyles are fueling the demand for dining-out experiences, creating a fertile ground for innovative restaurant startups. This trend is not only reshaping the industry landscape but also presenting ample opportunities for entrepreneurial ventures to flourish.

b. Stages of the startup lifecycle

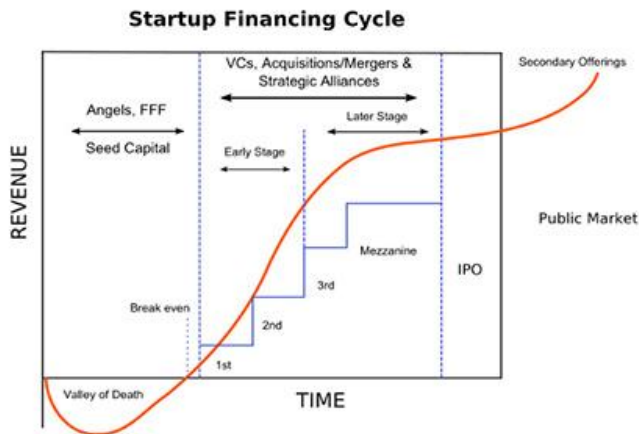


Startups have become pivotal in driving economic growth and innovation in India. The restaurant sector, particularly in the Delhi National Capital Region (NCR), reflects the vibrancy and challenges inherent in the startup ecosystem. Food has always served as a unifying force, bringing together communities, cultures, countries, and people since the dawn of human civilization. With the advent of globalization, restaurants representing diverse cuisines from around the globe can now be found in major metropolitan cities worldwide.

Restaurants in Delhi are often referred to as "positive cash flow machines," a title that reflects their robust profitability, exemplified by popular locations like Cyber Hub and Select City Walk in Saket. Despite the challenges they face, these restaurants continue to thrive and generate significant profits in Delhi. This success is largely attributed to Delhi's enduring appetite for diverse cuisine and the population's adventurous spirit when it comes to food experimentation.

In addition to conventional strategies employed by restaurateurs to enhance sales, we have identified some underrated yet effective ideas to propel restaurant sales to

new heights. However, before delving into these strategies, it is crucial to understand why many restaurants in Delhi struggle to sustain themselves in the first place.



2. RESEARCH METHODOLOGY

Secondary data from the published papers, books and online information have been taken as a source of data for the study.

3. OVERVIEW OF THE RESTAURANT INDUSTRY IN DELHI NCR

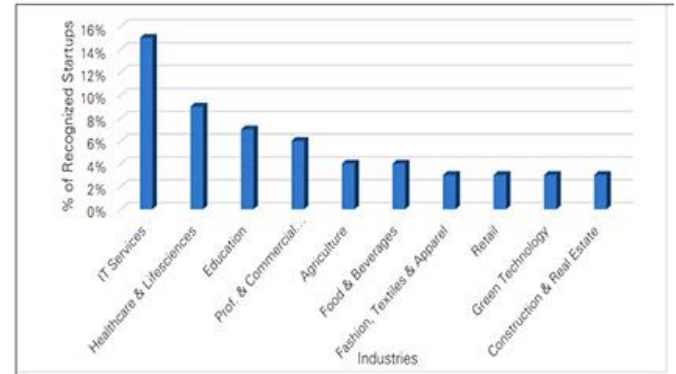
The National Restaurant Association of India (NRAI) has acknowledged Delhi-NCR region as the 'restaurant capital' of India, boasting the highest number of restaurants nationwide. Delhi hosts approximately 95,187 eateries, encompassing both organized and unorganized sectors. Among these, 32,777 establishments are classified as organized, distinguished by possessing FSSAI registration numbers and GST compliance.

4. CHALLENGES FACED BY STARTUPS IN THE RESTAURANT SECTOR

Delhi, renowned for its vibrant restaurant scene and bustling nightlife, faces a significant crisis in recent times. Issues surrounding liquor have overshadowed the once-thriving restaurant industry, causing substantial losses to businesses and prompting patrons to explore alternatives in neighboring cities like Noida and Gurgaon.

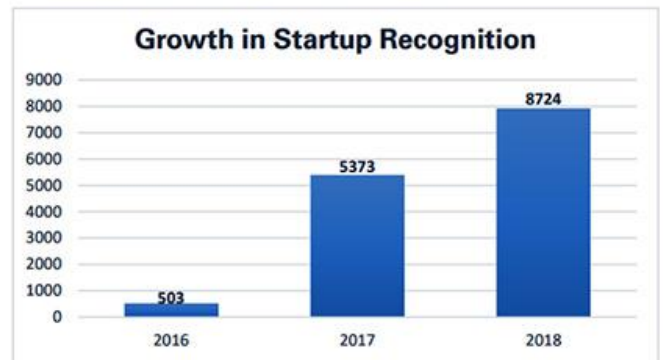
About a year ago, the Delhi government made a controversial decision to overhaul its existing excise policy, plunging restaurant owners and customers into uncertainty. Unfortunately, the business environment has yet to fully recover from the aftermath of this decision. Restaurateurs are grappling with two major challenges: a shortage of popular liquor brands and a mass migration of customers to nearby areas with more favorable conditions.

Graph 1: Start-up Statistics in India: Jan 2019



The absence of well-known brands such as Johnnie Walker's Black and Red Label, Bombay Sapphire and Samsara gin, Grey Goose vodka, Glenlivet, Jack Daniel's, and Monkey Shoulder whiskey, as well as Jagermeister, has raised concerns among restaurant owners. Regular patrons are frustrated by their inability to enjoy preferred drinks, resulting in decreased foot traffic and overall revenue.

Graph 2: 3 Year Start-up Statistics of India



Vinod Giri, director-general of CIABC, noted, "Delhi is facing a scarcity of premium alcoholic brands, which becomes more pronounced during peak seasons for drinks. This stems from various issues related to the mid-year shift back to the old excise policy. Many companies' well-known brands are yet to be re-registered in Delhi, some are pending government approval, and others are being withheld due to the unreasonable commercial feasibility of paying full-year brand registration fees for just half the year."

The problem has worsened during the peak summer months, when beer consumption typically surges. Liquor shops and retail outlets are struggling with beer shortages, compounding revenue losses for the hospitality sector. Restaurants, bars, and retailers alike are contending with a widening gap between demand and supply, making it increasingly challenging to meet customer expectations.

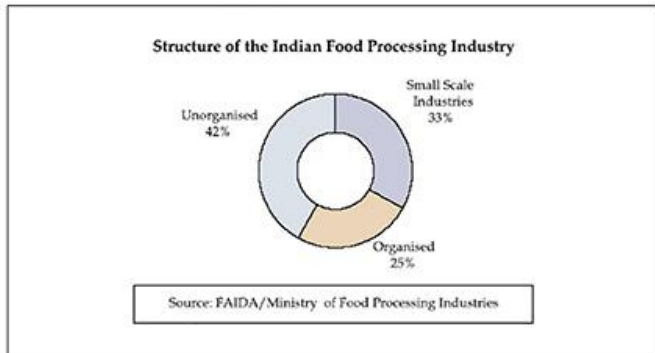
5. CASE STUDIES OF SELECTED STARTUPS

Lite Bite Foods, a prominent restaurant group operating well-known chains such as Punjab Grill and YouMee, has raised serious concerns amid the current situation. Rohit Aggarwal, Director of Lite Bite Foods, highlighted that the

months from April to June typically mark the peak season for beer consumption at their establishments. However, the unavailability of certain brands has hindered their ability to meet customer demand, potentially leading to revenue losses.

Since the implementation of the new liquor policy, many restaurants, bars, and cafes have faced significant revenue declines ranging from 20 percent to 40 percent due to alcohol shortages. Consequently, customers who prefer specific brands are now opting to visit venues in Gurgaon or Noida where their favorite drinks are available.

Graph 3: Food Processing Structure



For instance, Cafe Tonino, a popular spot in Connaught Place among young patrons, has seen a drop in revenue of approximately 25 percent to 30 percent because several beer and wine brands, including Erdinger, Hoegaarden, and Budweiser, are currently unavailable.

Similarly, Diggin, an Italian restaurant, has reported a business decline of around 25 percent, primarily due to the absence of Tequila brands like Don Angel and Viva Mojo, Greater Than Gin, and Sparkling Wine. The unavailability of popular beer brands such as Kingfisher, Heineken, and Budweiser has also contributed to their revenue loss.

An anonymous source confirmed that numerous brands remain unavailable, although there was some relief when Teacher's Whisky recently became accessible. However, specific details regarding the extent of brand unavailability were not disclosed.

Lord of the Drinks, a renowned dining destination in India, is grappling with a substantial revenue decrease of approximately 30 percent to 40 percent in their contemporary drink offerings. The impact of brand unavailability has been significant, particularly among their loyal customers, leading to decreased patronage, especially among young adults.

The scarcity of various liquor brands has emerged as a widespread issue affecting restaurants and bars across Delhi, influencing both revenue and customer loyalty. With discerning customers opting for alternatives in neighboring cities, it is crucial for establishments to address supply challenges swiftly to regain customer trust and maintain competitiveness in the demanding hospitality sector.

A study was conducted to conduct an environmental scan

of electronic word of mouth (eWOM) for restaurants in Delhi/NCR, aiming to provide a comprehensive assessment or 'health check'. This study summarizes the strengths and weaknesses exhibited by these restaurants. Additionally, it investigates whether upscale restaurants generally achieve higher levels of customer satisfaction compared to more affordable ones (Murphy, Forrest, & Wotring, 1996).

Traditional word of mouth has largely been replaced by online review platforms offered by various websites and social networking forums. Analyzing how post-consumption online reviews by the population impact the popularity of restaurants has become crucial. Such reviews often reflect consumer satisfaction or dissatisfaction with the restaurant experience. While some reviews may highlight shortcomings, an equal number of customers may provide positive feedback. The influence of these reviews depends significantly on the popularity of the reviewing platform, such as Google Local Guide, Yelp, Zomato, TripAdvisor, and others.

Recent studies emphasize the importance of 'consumer content contribution' in shaping perceptions of restaurants, often overshadowing the consumers' initial decision-making process.

6. REGULATORY ENVIRONMENT AND POLICY IMPLICATIONS

In India, the regulatory environment and policy implications play a crucial role in shaping the landscape for startups in the restaurant sector. The journey of starting and running a restaurant business involves navigating through a maze of regulations, licensing requirements, and policy frameworks set by various governmental bodies at the central, state, and local levels. These regulations are intended to ensure food safety, hygiene standards, labor laws, taxation, and compliance with environmental norms, among other aspects. However, they also pose challenges and opportunities for startups in this vibrant and dynamic industry.

To begin with, one of the primary regulatory hurdles faced by restaurant startups in India is obtaining licenses and permits. These include food licenses from the Food Safety and Standards Authority of India (FSSAI), health permits from local municipal corporations, fire safety clearances, and liquor licenses where applicable. Navigating through the bureaucracy and fulfilling the stringent criteria for these licenses can often be time-consuming and resource-intensive for startups, especially those with limited capital and manpower.

Moreover, compliance with labor laws presents another significant challenge. Restaurant startups must adhere to regulations concerning minimum wages, working hours, employee benefits, and safety standards. Ensuring compliance with these laws while managing costs and maintaining operational efficiency is critical for the sustainability of the business.

Taxation is yet another area of concern. Restaurant

startups in India are subject to multiple taxes such as GST (Goods and Services Tax), which applies to both food and beverages served. Understanding the complexities of GST, filing returns, and managing input tax credits require specialized knowledge and expertise, often necessitating the involvement of tax consultants or accounting professionals.

The policy implications for startups in the restaurant sector are multifaceted. On one hand, government initiatives such as 'Startup India' aim to promote entrepreneurship by providing tax benefits, funding support, and easing regulatory compliance for startups across various industries, including restaurants. These initiatives encourage innovation, job creation, and economic growth within the sector.

In conclusion, while the regulatory environment and policy implications for startups in the restaurant sector in India present numerous challenges, they also offer opportunities for growth and innovation. Strategic planning, proactive compliance management, leveraging technology for efficiency, and engaging with industry associations and regulatory bodies can help startups navigate these challenges effectively. With the right support and conducive policy environment, restaurant startups have the potential to thrive, contribute to employment generation, and enrich India's culinary landscape in the years to come.

7. IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic has profoundly impacted the restaurant sector in India from 2020 to 2023, causing unprecedented challenges and reshaping the industry landscape. Initially, strict lockdowns and social distancing measures led to the closure of dine-in services, severely disrupting restaurant operations nationwide. This forced many establishments to pivot to delivery and takeaway services to survive, accelerating the adoption of digital platforms for ordering and payments.

The pandemic highlighted the vulnerability of traditional restaurant models, prompting a shift towards contactless dining experiences and hygiene-focused practices. Restaurants had to invest in sanitization protocols, redesign seating arrangements, and adhere to new government regulations, adding operational costs and complexity.

Economically, the sector faced significant revenue losses and job layoffs, impacting millions employed in hospitality. Many small and medium-sized restaurants struggled to stay afloat amidst fluctuating consumer confidence and reduced footfall even after restrictions eased.

Despite these challenges, the pandemic also spurred innovation within the industry. Restaurants experimented with new menu items, collaborations with food delivery aggregators, and creative marketing strategies to attract customers. Moreover, cloud kitchens and virtual dining concepts gained prominence as cost-effective alternatives to traditional setups.

Looking forward, the restaurant sector in India continues to navigate recovery phases with cautious optimism. Vaccination drives, easing restrictions, and evolving consumer behavior are gradually restoring consumer confidence and driving a resurgence in dining-out trends. However, resilience, adaptability, and a focus on safety remain crucial for restaurants to thrive in the post-pandemic era.

8. RECOMMENDATIONS AND CONCLUSION

In conclusion, the scope for startups in the restaurant industry in India is vast and promising. With innovation, technology adoption, and a keen understanding of consumer preferences, startups have the potential to revolutionize the way Indians dine and drive the industry forward into a new era of growth and prosperity.

Restaurant startups in Delhi NCR face several challenges that require innovative solutions for sustainable growth. One prominent issue is high real estate costs, which can eat into startup budgets. To address this, startups could explore shared kitchen spaces or consider suburban locations with lower rent while still maintaining accessibility.

Another challenge is fierce competition and consumer expectations. Differentiating through unique dining experiences, specialized cuisines, or themed concepts can help startups carve out a niche and attract loyal customers. Moreover, leveraging digital marketing and social media platforms effectively can enhance visibility and engagement.

Operational efficiency is crucial for profitability. Startups can implement technology solutions like POS systems, inventory management software, and online reservation platforms to streamline operations and improve customer service. Additionally, optimizing supply chain management to ensure fresh ingredients at competitive prices can reduce costs and enhance quality.

Regulatory compliance and licensing can be complex in Delhi NCR. Engaging legal advisors to navigate licensing requirements and food safety regulations from the outset can prevent costly delays and penalties.

Lastly, building a strong team with a passion for hospitality and providing continuous training can ensure consistent service quality and customer satisfaction.

By addressing these challenges proactively with strategic planning, innovative approaches, and a customer-centric focus, restaurant startups in Delhi NCR can overcome obstacles and thrive in a competitive market.

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