

K's Kitchen: To Expand or Not?

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Khushboo had just finished her daily chores and took a break to relax on her couch. Her mind, though, was not at rest. On this lazy Sunday afternoon in September 2020, she was concerned about the future of her venture, 'K's Kitchen.' Amid the fast changes brought in by uncertain COVID-induced lockdowns, she had to decide about the geographic expansion of K's Kitchen. She expected that such an expansion would lead to increased sales and profitability. Khushboo decided to put together an operating plan which could help her assess the feasibility of the expansion of K's Kitchen. She had gathered information about the last five and half months of operations of K's Kitchen. It was up to her to put the information together, make suitable changes, create an operating plan and decide on the expansion of her venture.

Background

Khushboo started K's Kitchen in the middle of April 2020, a period when India was facing a complete lockdown throughout the country due to the COVID-19 pandemic. The idea of starting a venture to supply home-cooked food came from a discussion on a WhatsApp group of women friends residing in neighboring apartments of the Gokul Housing Society (GHS). GHS was a middle-class residential area spread over approximately two square kilometers in the city of Nagpur, Maharashtra, India. It was comprised of multiple high-rise residential buildings. All buildings together, there were close to 1,000 apartments in GHS. The occupancy rate was around 45%. The discussion among the friends was about the problems many households were facing at that time due to the lockdown. Many people residing in GHS were staying away from their families. Before the lockdown, they depended primarily on nearby restaurants and eateries for their daily meals. These restaurants were located at a distance of around two kilometers from GHS. Although the supply of raw vegetables, milk, meat, etc., was allowed during the lockdown, the restaurants and eateries were forced to shut down. People dependent on such eateries started facing considerable problems getting their daily meals. Even if a restaurant/eatery was operating, it could not deliver due to heavy police patrolling during the lockdown. In addition, there were households where all adult family members were under home quarantine as they were infected with COVID-19 and thus, could not cook food. They were in dire need of home-cooked food as they found it difficult to manage due to quarantine restrictions. The friends discussed over the Whatsapp group if someone at the GHS could supply home-cooked food, these problems may be resolved. Since GHS was not spread over a large area, delivering food was not challenging. Being a closed residential complex, there were no police patrolling inside GHS. This gave rise to the idea of

supplying home-cooked food. Khushboo took the lead, became the first to deliver home-cooked food in GHS, and named her venture 'K's Kitchen.'

The response was not so exciting for the first few weeks, but the order book grew as people began trying food from K's Kitchen. Khushboo started with a limited choice of four dishes (refer to Exhibit-1). Later as the order numbers grew, she increased the options from four to eight and added a few Indian desserts. A couple of other women also started similar ventures in GHS.

Women supplying the food used an innovative approach to circulate the menu and take orders. A Whatsapp group, 'Foodies Delight,' was created, and people from GHS were added to it. Initially, only the friends and friends of friends joined the group. But as word of mouth spread, more and more people started to join the group. Women, like Khushboo, supplying the food, would put their menus on the group with the price, and people who wished to order would often send a personal message over Whatsapp. Customers were asked to place the order a day before. Such a practice was required as getting all the ingredients in a short time was difficult due to lockdown restrictions. Customers also understood that Khushboo was a homemaker who would cook food for them at her home; and that she did not have the kind of equipment, resources, and infrastructure as a restaurant might have. Moreover, they also understood that she was not in the full-time profession of delivering food. Once the order is delivered, customers would usually make a payment through online payment apps such as Paytm or Google Pay to avoid the exchange of physical currency in times of COVID-19.

Competition

Along with Khushboo, a few other women also started delivering home-cooked food. These women mainly delivered different delicacies and did not infringe on others' menus. However, as the order numbers swelled by the end of May, a few more women joined and started to compete for the same delicacy. That created some amount of competition among these ventures. By around middle of June 2020, eight women were supplying home-cooked food in GHS.

In June 2020, the Government of India started to lift the lockdown restrictions in a phased manner. The lockdown was limited to containment zones identified by the Government. With the easing of lockdowns, services of restaurants and eateries also started to open. However, the workforce turned out to be a big challenge for restaurants. Small restaurants and eateries usually employed workers on daily wages, who generally came to cities from different rural areas. During more than two months of lockdown, many daily wage workers lost their employment and migrated back to their villages. This reverse migration of workers to rural areas created a significant labor shortage for many industries, including restaurants.

Moreover, many small restaurants and eateries faced tremendous losses in two and half months of complete lockdown and were forced to close down permanently. Customers were also very skeptical about eating outside or calling for food from a restaurant due to the COVID-19 scare. Thus, although the restaurants started to operate partially by July 2020, they did not pose a big competition to K's Kitchen. Customers in GHS had given a good response to K's Kitchen preparations. The testimony of the good response was the feedback it received over

the 'Foodies Delight' and frequent repeat customers. However, in September 2020, Khushboo could feel the heat of dropping volume. By the middle of September 2020, the orders received by K's Kitchen were somewhat less than half of August 2020 orders. Khushboo was unsure whether the decline was permanent or a temporary fluctuation.

Operations

Khushboo started K's Kitchen from her home. Initially, K's Kitchen offered a small menu of four meal options viz. Sambhar Dosa, Poha, Pav Bhaji, and Stuffed Parantha (Exhibit 1). Being a vegetarian, she kept the options limited to vegetarian meals. Khushboo expanded the menu by adding more vegetarian delicacies as the demand grew. By June 2020, her menu had four additional meal options and four desserts (Exhibit 2). The desserts were mainly ordered along with the meal. The price was decided considering the affordability of the middle-class families residing in GHS.

Initially, she used her household resources (viz., utensils, the gas for cooking, etc.) to cook the food. However, as the orders started to grow and she increased the food choices, she decided to invest in kitchen utensils, equipment, gas stove, etc. Exhibit 3 provides details of the money invested. All the equipment was bought through Amazon in June 2020 when Amazon started to deliver products after partial relaxation in lockdown. This equipment and other assets were assumed to have a useful life of 3 years with negligible salvage value.

The orders were received over WhatsApp or sometimes over a phone call a day in advance. Once the order was received, Khushboo would ensure that the required ingredients were available. If anything was short, she would buy the same from local vendors. The local vendors, such as grocery and vegetable stores, were allowed to open during the lockdowns as they were covered in the list of essential items.

Khushboo estimated that the meal's ingredients cost was close to 40% of the price, whereas, for desserts, it was around 60% of the price (Exhibit 4). The reason was that Indian desserts required more expensive ingredients such as almonds, raisins, cashews, saffron, and cream. However, desserts required lesser packing material. All meals had two or more parts, the cooked vegetable with or without gravy accompanied by bread, some salad, and pickles. In contrast, desserts were a standalone delicacy not accompanied by bread, sides, etc. Thus, meals required two packing boxes, aluminum wrap, and cutlery, whereas desserts only needed one box and cutlery. In addition, there was the cost of fuel used for cooking the food. In India, Liquefied Petroleum Gas (LPG) was used as a fuel for cooking purposes. Petroleum companies in India supplied LPG for domestic purposes in low carbon steel cylinders containing 14.2 Kgs of LPG. Khushboo estimated that close to 200 meal orders could be made using one cylinder. However, a dessert required double LPG as that of a meal. She also occupied a room in her home where she had set up the kitchen for her venture. She estimated that this kitchen occupied nearly 20% of the house, for which the monthly rent was Indian Rupees (INR)25,000. Other costs, which were common and unrelated to the number of orders, included cleaning supplies and a worker's salary to clean utensils twice a day and another worker's salary to clean her venture's kitchen room once a day.

The Expansion

A highly uncertain business environment and declining sales in September 2020 concerned Khushboo. She had to decide the future direction of her venture. She envisioned K's Kitchen becoming a restaurant over the long term. To expand, she decided to deliver food to other nearby residential areas within eight kilometers. These areas included Jafar Nagar, Friends Colony, and Anant Nagar. These were residential areas such as GHS but had higher population density than GHS. Unlike GHS, these areas had independent houses rather than high-rise buildings. The occupancy rate was close to 80%, much higher than that of GHS. She believed that such expansion could increase the volume of meals by 60% and that of desserts by 40%.

Expansion looked to be an exciting option. However, Khushboo realized that she did not have enough kitchen equipment to serve such a significant increase. She estimated that an investment of INR 20,000 was required in kitchen equipment to increase capacity. These pieces of equipment were expected to have a useful life of three years, the same as the earlier equipment. In addition, she was required to hire another cook at a monthly salary of INR 7,000. Additional space, however, was not needed to expand.

She planned to hire a contract worker who would use his own vehicle to deliver the food to the customers. It was decided that the contractor would make two trips in a day. He was to collect all orders once in the afternoon and once in the evening to deliver them to the customers. For each trip, Khushboo agreed to pay INR 100 to the contractor.

Although excited to expand, Khushboo was concerned at the same time. 'What if the number of orders is not as expected?' she thought. Puzzled with questions about lower volumes and additional investments, she decided to put the numbers together, make an operating plan and assess the financial feasibility of expansion.

Exhibit 2: Details of meals, prices, and sales volume of dishes added in May and June 2020

Name	Meal/ Dessert	Started in	Description	Price per serve (INR)	May	Jun	Jul	Aug	Sep (till mid- Sep)	Total Revenue (INR)
Thali	Meal	May-20	Mix vegetables and lentils served with flatbread, rice, and curd	180	12	18	21	24	14	16,020
Dal Bati	Meal	May-20	Deep-fried hard-rolled bread served with lentils, curry, spicy vegetables, and a semi-sweet mixture made of wheat, semolina, almonds, and cardamom	150	8	26	31	36	16	17,550
Chole Bhature	Meal	Jun-20	Deep-fried bread made from refined wheat flour and served with spicy chickpeas curry and salad	120	-	28	34	30	13	12,600
Poori Aloo	Meal	Jun-20	Deep-fried bread made of wheat flour and served with spicy potato curry	120	-	18	21	20	8	8,040
Kaju barfi	Dessert	May-20	Thickened milk containing cashew paste as the main ingredient added with other herbs such as saffron and cardamom	100	18	22	24	26	12	10,200
Gulab Jamun	Dessert	May-20	Fried wheat dough balls added with cardamom, saffron, and bits of almonds and soaked in thick sugar syrup	80	24	38	45	49	21	14,160
Sooji Halwa	Dessert	Jun-20	Indian pudding made with semolina, butter oil, almonds, sugar, cardamom, and raisins	100	-	16	21	26	12	7,500
Kheer	Dessert	Jun-20	Wet pudding made of milk, rice, sugar, almonds, cashew, raisins, and cardamom	120	-	9	10	10	2	3,720

Exhibit 3: Detail of Investments

Particulars	(INR)
Exhaust Fan	1,400
Kitchen Utensils	8,000
Kitchen equipment	12,000
Gas Stove	6,000
Gas Cylinder	1,500
Total	28,900

Exhibit 4: Cost estimates

Cost	Description
Ingredients	Vegetables, oil, and other ingredients used for cooking. Estimated at 40% of the price for meals and 60% of the price for desserts
Packing material	
- Box	Cost of INR 500 for 50 boxes; Each meal required two boxes, while each desert required one box
- Aluminium wrap	Cost of INR 200 for 20 meters; Each meal required a 0.5-meter wrap
- Cutlery	Cost of INR 350 for 100 pieces; Each meal and dessert were provided with two pieces of cutlery
LPG	Costs INR 800 for 14.2 Kgs cylinder; One cylinder could make 200 meals; Desserts required twice the LPG than a meal
Cleaning supplies	INR 3,000 per month
Salary for cleaning utensils	INR 2,000 per month
Salary for cleaning premises	INR 2,000 per month
Rent	INR 5,000 per month
Depreciation	INR 1,000 per month