



ORACLE

Essential Guide to Cloud Kitchens

CONSIDERATIONS FOR RESTAURANTEURS



Essential Guide to Cloud Kitchens



OVERVIEW

For entrepreneurs just starting, the cloud kitchen model provides a lower cost, faster time to market option than opening a full-service restaurant. For existing brands, cloud kitchens provide a lower risk method to expand into new areas or test out an entirely new concept.

Cloud Kitchens are influencing and reshaping the food service industry. They enable businesses to start or expand a food business at minimal cost, leading to relatively frictionless scaling, and the opportunity to explore new concepts, virtual brands and diversify.

Many of the food companies running cloud kitchens are using them as an experimental space, optimizing staff and inventory while testing the market with fresh ideas.

This incredible flexibility is unprecedented in the industry and could be its most profitable ally. It allows businesses to diversify while cutting back their two biggest operational cost barriers – rent and labor. No servers, no uniforms, no furniture, soft-furnishings or other expensive décor just straight food service for a group of chefs and cooks delivering to their customers.

This guide explores everything you need to consider when setting up a cloud kitchen or starting a virtual brand. We hope you find it useful.

The Delivery Market

A recent report by UBS found that:

- The online food delivery market will grow 10 times in the next 10 years, from \$35 billion globally to \$365 billion by 2030.
- Online food delivery is part of a mega-trend, combining the on-demand and sharing economies.
- There could be a scenario that most meals currently cooked at home are instead ordered online and delivered from either restaurants or central kitchens.



ONLINE FOOD DELIVERY TO GROW 10X BY 2030

What is a Cloud Kitchen?

Cloud kitchens provide the 'kitchen' piece of a restaurant operation without the on-premises dining or direct customer interaction - no host or wait staff and no cashier. The contactless customer model focuses on off-premises service only, delivered mainly via third parties, delivery aggregators and in some cases collection locations.

Virtual Kitchen
Commissary Kitchen
Dark Kitchen
Cloud Kitchen
Virtual Brand
Ghost Kitchen
Cyber Kitchen



Business Models

Type 1: Shared Space Cloud Kitchen

A shared space cloud kitchen operates out of a rented space which is already fully equipped with restaurant appliances. It's set up specifically for multiple cloud kitchens to simultaneously share the same space. In some cases, the space may also come with pre-existing technology that a brand can use to hit the ground running.



Advantages

- Minimal (often no) equipment cost
- Reduced equipment cost means less risk if the venture doesn't work out
- Services such as cleaning are often provided – providing understood labor costs
- Technology is sometimes provided and may be integrated with delivery services



Disadvantages

- Month-to-month cost may be higher in the long-term compared to a bulk up-front cost
- Restaurants must use what is in the space – cannot move/sell equipment
- Likely cannot have a customer space for order pickup; all orders will go through delivery

Type 2: Dedicated Space Cloud Kitchen (Dark Kitchen)

A dedicated space cloud kitchen is a new or existing kitchen that has been rented (or purchased) by a brand solely for its own use. The brand may decide to put one concept or several different concepts in the one location, but it doesn't have other brands operating out of that space.



Advantages

- Can control the brand message, look and feel
- Can change equipment and move things around as needed
- Can have space for customers to pick up orders
- Can control who goes in and out of the space



Disadvantages

- High start-up costs
- You need to purchase your own equipment
- High risk for non-established brands
- Medium risk for established brands, which can be mitigated with good research



Type 3: Virtual Brand

A virtual brand allows you to diversify your offering and reach new customers. Creating a virtual brand means using your existing kitchen, equipment and supplies, under new branding, to test out a new concept or cuisine without heavy investment.

This gives you an opportunity to:

- Develop new ideas and new concepts under a new brand name with lower risks and costs
- Reduce food wastage in your kitchen
- Test new dishes and styles before adding them to your established brand menu



Advantages

- Minimal start up investment
- Utilize existing kitchen space
- May already have equipment or can repurpose existing equipment
- Low risk – if it does not work out, you can shut down the operation without worrying about rent and selling equipment



Disadvantages

- May take up valuable space in a crowded kitchen
- Need to be able to effectively separate out the reporting of multiple concepts to properly evaluate the profitability
- No foot traffic – to avoid branding confusion, operation is done as delivery-only and may be hard to promote, resulting in additional marketing costs

Do Your Research



Know Your Demographic

Opening a new business can be overwhelming and making sure to do your research ahead of time is very important to the success of the business. Here are some ideas to help you get started:

Research your demographic of your customer, and where you plan on selling. This should allow you to see a few key points about who you will be selling to. Some of these points include:

- Will my concept appeal to the local market?
- If the answer is yes – is the market already saturated with the concept?
- What is the age demographic? Should you consider taking phone orders rather than orders via a mobile app? Should you offer kid-friendly menu items/sizing

Know Your Location

- Where can you deliver to? Does this restrict or change any of the aforementioned topics?
 - If you have options for carryout, does the neighborhood look nice/safe/appeal to your audience?
 - If you decide to expand, how will you go about it?
 - Does your space come with equipment? If so – are you able to add any more if needed? If not, what kind of equipment should you purchase?
- 

Packaging



No matter how good your food is, if it's not packaged well, it can ruin the customer experience and your damage your brand reputation.

In a delivery-only restaurant business, the food you serve remains one of the main parameters to differentiate your brand from the rest. However, the packaging of food is important as it captures the attention of customers and creates a desirable brand perception.

No matter how good your food is, if it's not packaged well, it can ruin the customer experience and your damage your brand reputation. Not only is it important for the food packaging to be cost-effective and functional, but the food presentation must also align with customer expectations.

Packaging also depends on the type of food you're serving. Apart from being aesthetically pleasing, the primary purpose of packaging is to protect food from contamination, maintain the right food temperatures and prevent it from spilling during delivery. When done right, packaging helps you uphold the standard of quality you want to be known for and uplifts the overall experience for customers.

You should also consider environmentally friendly and sustainable packaging, if that's in line with your brand values. It's also a great way to communicate to your customers that you care about the environment.

With growing concern about the environment and the use of recyclable material, food packaging has become more green. You can eliminate single-use plastics and switch to biodegradable, recyclable, or reusable packaging.



Staffing

The secret sauce behind a successful restaurant is the team, the chef being the most critical part of the team, as they not only prepare the food but also help in designing the menu.

Since there is no front of house, you don't need a large staff in your cloud kitchen. You can easily open your business with 2-3 staff who'd be focused on processing orders, preparing and delivering the food.

Third-party delivery aggregators such as UberEats, DoorDash and Deliveroo, provide the technology for taking orders online, which means you don't necessarily need to have your own online ordering system - this can save you time and money in the short term. One draw back is that these delivery services charge a commission on a per order basis, reducing your profit margin.

It's important that you weigh up the costs of partnering with delivery apps, versus the costs of hiring your own staff for delivery, and having your own system for taking orders, either online or over the phone. You will need to factor in the costs of setting up your own online ordering platform, which might mean a financial outlay in the short-term, but a more cost-effective system long term, depending on the fees charged by delivery providers and how many of these providers you choose to partner with.



For take-out it's crucial to limit your delivery menu to about 12 items or less, enabling the customer to make a quick decision. If you operate within an existing dine-in restaurant, you may want to consider refining your full menu offering.



Menu Design



When designing new menu items to better serve delivery and take-out customers, you need to consider the portability of the items on your menu, whether they will hold heat well, and be durable in transportation.

Avoid or alter food that will become soggy or wilt and steer clear of combinations that will mix or mash together during delivery, such as sauce and purees.

You may need to look at the time and distance the food is travelling and set limits, for example to ensure food quality is preserved you may only deliver certain items within a 15-20 minute radius.

In preparing menu items for delivery, you need to think about the components within a dish that may need adjusting in a delivery and to-go order. For example, you may need to package dressings and sauces in separate containers. Or you may want to provide the special sauce to the top of your signature burger in a separate container, rather than directly to the burger bun. This will allow the meal to keep better during delivery.

For take-out it's crucial to limit your delivery menu to about 12 items or less, enabling the customer to make a quick decision. If you operate within an existing dine-in restaurant, you may want to consider refining your full menu offering.

Make sure the recipes are profitable - items that are high on carbohydrates and low on protein make good money – it's no accident that pizza, rice and noodles are popular for delivery. If you're using a third-party delivery service, it's essential that you have a very good margin in every item.



Choosing the Right Tech Stack



Technology plays a crucial role in cloud kitchens, as most orders are made online through a website, mobile app or delivery aggregators. A cloud kitchen requires an integrated technology system for accepting online orders, processing payments, and efficient kitchen management.

Point of Sale (POS)

A key requirement for a cloud kitchen is a [point-of-sale](#) (POS) system that accepts orders from various channels, such as delivery aggregators and online ordering platforms. Having a POS system that is open to integrations with third party solutions increases efficiency as orders coming through different channels don't need to be manually entered into the POS terminal. This not only saves time and reduces the risk of errors, it also means you cut down on your labor costs.

Reporting and Analytics

Having access to powerful [reporting tools](#) is key to running a successful cloud kitchen or virtual brand - it gives you valuable insight into what is actually happening in your business so you can make quick decisions that will impact your bottom line. From making sure you have the right number of staff, to reducing waste through effective stock management, to designing a profitable menu and easily identifying your top sellers - having the right reporting tools will help keep business costs in check and profits flowing.

Delivery Apps

The most important role in the advent of cloud kitchens has been played by food delivery services. With services like Uber Eats, DoorDash and Deliveroo, food has become available in just a few clicks. These services will charge you between 15% and 35% commission. You'll need to weigh up the money you spend in commission fees versus the order volumes generated by these services.

So how do you connect to delivery apps? Technology that employs open integration to other solutions will help you adapt quickly to changing business needs and new customer trends, such as delivery. Having an [open-integration POS platform](#) will allow you to connect quickly and easily to delivery apps and streamline your processes to ensure service is fast and food quality isn't compromised.

While partnering with online delivery aggregators is an important consideration, it's also worthwhile to think about implementing your own restaurant website or mobile app for accepting orders, as an additional sales channel.

Inventory Management

Effectively managing inventory is essential for any restaurant, and the same stands true for a cloud kitchen. A smart [inventory management system](#) enables you to track daily stock consumption and prompts you to order more stock when needed. It helps you reduce waste, keep control of your food costs, and enhance menu profitability.

Kitchen Management

In a fast-paced cloud kitchen, order preparation time is usually around 10-12 minutes, if you want to deliver the order within 30 minutes. An integrated [Kitchen Display System](#) (KDS) will optimize order preparation time.

As soon as the order is received, it is instantaneously updated in the KDS. Kitchen staff can view the order details and the order pickup time immediately and prepare the order accordingly. This streamlines kitchen management, maximizes efficiency, and enables you to identify any lags to further optimize the preparation time.

Having a comprehensive technology platform with seamless integration between POS, online ordering platforms, KDS and inventory management will ensure operational efficiency and the smooth functioning of your cloud kitchen business.

Customer Loyalty & Marketing



For a cloud kitchen, marketing is critical as it's the single source of building awareness and generating orders. Since you're not spending money on setting up a bricks and mortar restaurant with expenses such as fit-out, furniture, decorations and front of house staff, you can set aside some funds for marketing.

Online marketing works in favor of cloud kitchens. The first thing you need to do is to get your business registered on restaurant listing and review sites, such as Zomato and Tripadvisor, and encourage positive reviews from your customers. It is not only important to get reviews, but also to consistently monitor them and respond where appropriate. Immediate feedback can make customers very happy and builds trust with your brand. It also gives you the opportunity to respond quickly to any negative reviews and to turn the customer around.

Advertising on social media is also effective, especially for exclusive deals and discounts for your followers. These social media platforms allow you to target by demographic and location to ensure you're reaching the right audience. You can set daily limits on your advertising in order to ensure you stay within your budget. Graphic design platforms, such as Canva, make it quick and easy to create eye catching social posts and offer basic functionality for free.

You may also consider distributing flyers around your local area as a way to spread the word. However, you will need to consider design and printing costs.

Once you start selling your dishes, you want your customers to keep coming back. Incentivizing them with promotional offers, loyalty rewards, discounts on future orders, or deals on special days (holidays, birthdays, etc.) is a great way to increase customer loyalty.

Retaining customers is far more valuable and cost-efficient than recruiting new ones. Having the right software to manage a loyalty program can help you drive repeat business. A [loyalty solution](#) allows you to build a customer database so you can see purchase history and keep your customers engaged with promotions and rewards that are relevant to them.



About Oracle Food & Beverage



By pioneering hospitality IT innovations in hardware and software for more than 40 years, Oracle Food and Beverage has become the industry's preferred solutions provider. We deliver best-in-class cloud technology — backed by trusted support and consulting services in a true partnership — to help food and beverage operators enhance the guest experience, increase revenues and reduce costs.

Book your free tour of the cloud kitchen technology stack

Reach out directly by phone US: +1 866-287-4736; UK: +44 207 5626 827; AU: 1300 366 386; LAD: 52 559 178 3146 | by [chat](#) or [submit an online inquiry](#)



Oracle Corporation
World Headquarters
500 Oracle Parkway
Redwood Shores, CA 94065
U.S.A.

Find your local Oracle contact number here:
<http://www.oracle.com/us/corporate/contact/global-070511.html>

Copyright © 2020, Oracle and/or its affiliates. All rights reserved. This document is provided for information purposes only and the contents hereof are subject to change without notice. This document is not warranted to be error-free, nor subject to any other warranties or conditions, whether expressed orally or implied in law, including implied warranties and conditions of merchantability or fitness for a particular purpose. We specifically disclaim any liability with respect to this document and no contractual obligations are formed either directly or indirectly by this document. This document may not be reproduced or transmitted in any form or by any means, electronic or mechanical, for any purpose, without our prior written permission.

Oracle and Java are registered trademarks of Oracle and/or its affiliates. Other names may be trademarks of their respective owners.



Oracle is committed to developing practices and products that help protect the environment