

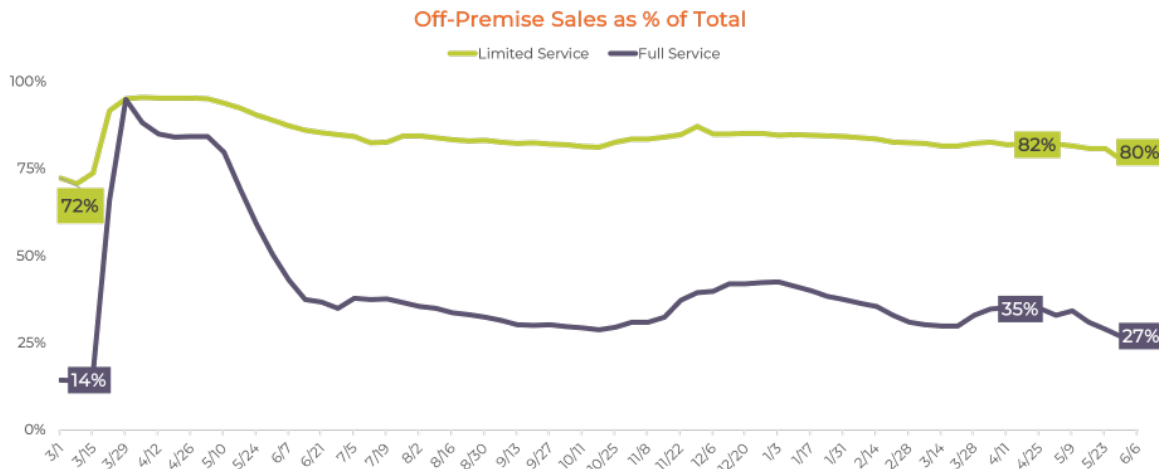


THE EMERGENCE OF **GHOST KITCHENS** & THEIR RISING IMPACT



BLACK BOX
INTELLIGENCE

LONG LASTING SHIFT IN OFF-PREMISE SALES



Data from Black Box Financial Intelligence™

Sales & traffic data covering \$76 billion in annual sales and 32,000 restaurant units

Off-premise sales was on the rise long before the pandemic; regional and federal restrictions simply accelerated its growth. Now that people are dining out again, the initial spikes have leveled off.

Even still, the percentage of sales for both limited and full-service restaurants from off-premise remains higher than it was pre-pandemic, with no signs of slowing. The industry has evolved from operating in an era of people going to food and to now having food come directly to them.

Enter the ghost kitchen. Virtual brands have emerged over the past few years as a response to shifting consumer preferences for more, convenient options.

As more brands introduce virtual concepts and expand their reach, examples of strategies that work are becoming more clear. From menu and brand development to site selection and staffing, this guide will walk you through an overview of all the things to consider when launching a virtual concept.



THE RISE OF GHOST KITCHENS

Existing chains already know how to build brands. Trying out new concepts virtually is a great way to experiment before scaling the business. Or you may simply want to try different menu items that don't fit your current brand. You can launch a virtual brand with lower overhead, quicker startup time and fewer staff than a traditional brick-and-mortar unit.

Recent events have accelerated a shift toward more off-premise dining, but that was already occurring before the coronavirus pandemic. As a result, many chain restaurants might find their units with extra kitchen space and most likely, fewer staff members. Operating a virtual concept can be a means to help ease some of the staffing crisis.

OPERATIONAL CHALLENGES

Unexpected costs

Unexpected costs can arise, especially when dealing with multiple third-party providers. When third-party app sales were only a small part of overall restaurant sales, commissions and fees were worth the incremental boost in sales. For a virtual-only brand, those fees can add up quickly and significantly reduce your profit margin.

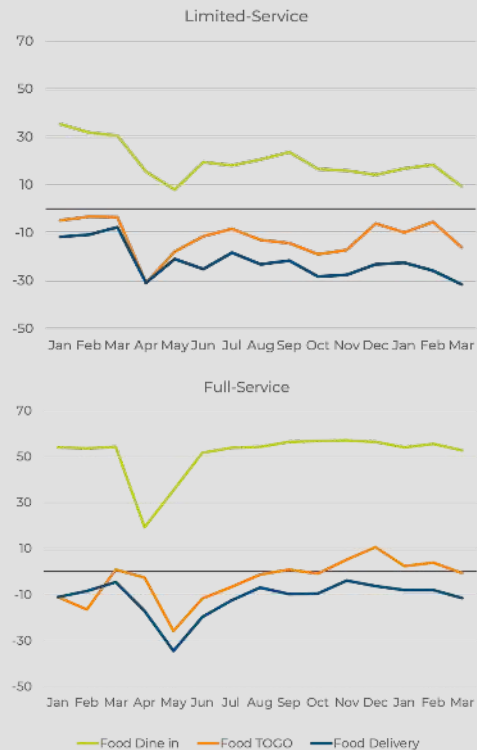
Hot Food Hot, Cold Food Cold

Engineering packaging for off-premise is critical. With fewer customer touch points, the virtual brand experience is based primarily on food quality. Ensuring that food maintains the right temperature, textures and moisture levels is crucial to guaranteeing a positive guest experience.

External Influences

The entire industry is going through the same economic situation, labor shortage and supply chain issues. Ghost kitchens are not exempt from these challenges. You may have perfected a recipe and found the perfect packaging but, at the end of the day, you only have what is available to you.

Guest Sentiment by Month



Dragging Guest Sentiment

Guest satisfaction is significantly lower for off-premise food for full- and limited-service restaurants. It can be challenging to have much control over what happens to your food once it leaves your kitchen. Continued customer service and managing the relationship with your delivery partners is key to keeping guests happy.

Data from Black Box Guest Intelligence™

Analyze guest sentiment in real-time through social media, review sites and guest satisfaction metrics and bridge the gap between sentiment & sales

SITE SELECTION & KITCHEN DESIGN

Use Existing Space

For many chain restaurants, you will have existing kitchen space to dedicate to delivery-only functions, or even potentially use on top of your brick-and-mortar restaurant operations. You can find ways to streamline your current kitchen to service all your brands using the same equipment and similar ingredients. You may need to make some changes to handle increased volume, such as adding more vents or larger appliances.

Repurpose Retail or Office Space

Without the need for foot traffic, non-traditional spaces are fair game. Instead of needing an eye-catching storefront, factors like parking for delivery drivers and maneuverability for your kitchen staff take priority. Ghost Kitchen Brands, for example, rolled out a hybrid ghost kitchen/virtual brand concept that operates in kitchen spaces inside Walmart Stores.

Shared Spaces

Commercial kitchens have surfaced to help operators launch virtual brands by leasing kitchen space and equipment from their facilities. Many of these companies handle all the front of house interactions, so operators can focus on the back of house. Brands operating in these shared spaces can additionally create a virtual food hall, where customers are able to order from multiple brands at once. Some restaurants go the “host kitchen” route and have successfully partnered with other brands or leased their unused kitchen space to different restaurants.

GHOST KITCHENS

"NOW WE WANT A LOT OF WALK-IN TRAFFIC, IT'S NOT JUST LIMITED TO DELIVERY. WE THINK WE OFFER A GREAT CONVENIENCE PACKAGE FOR CONSUMERS AND FOR WHOEVER OUR RETAIL HOST IS AS WELL. WE'VE SEEN LOTS OF LOCATIONS WHERE WE DRIVE TRAFFIC TO OUR HOST BECAUSE PEOPLE ARE COMING JUST FOR OUR BRANDS. SO, IT'S A GOOD PARTNERSHIP BECAUSE OUR HOST BRINGS TRAFFIC. AT THE SAME TIME, WE BRING A DIFFERENT TYPE OF TRAFFIC."

Mark Choy
President
Ghost Kitchens

Quoted from The Ghost Kitchen Conference

MENU DEVELOPMENT

Venture Out but Start with Less

Don't shy away from products that haven't traditionally been associated with takeout food. Customers like fried food, for example, but if you have too much of it on your menu your staff working the fryer will get slammed. Think about grilled or cold items instead that can help alleviate stress from production and increase your team member satisfaction. One strategy is to start with less and add more, versus starting big and taking away items that may have developed a fan following.

Spread Out by Dayparts

Consider activating different brands for different dayparts while cross-utilizing certain ingredients. Keeping your menus specific for each brand will help streamline the production process for your staff and keep your costs for ingredients lower than if your concepts require drastically different ingredients.

Menu Consistency

Keeping your menu items consistent is great in terms of meeting brand expectations and keeping your customers happy. Nonetheless, commodities challenges everyone is facing might not make that possible. In this case, consider the ease of swapping out items when necessary and think of how you can work your menu to accommodate changes when you are forced to make them.

"AT ANY GIVEN TIME, THE KITCHEN IS ACTIVE WITH BRANDS STARTING AT 7 AM. THAT GOES PAST MIDNIGHT IN SOME OF OUR LOCATIONS. WE HAVE CROSS UTILIZED OUR PUFF PASTRY THAT WE USE FOR OUR BREAKFAST BRAND IN OUR LATE-NIGHT BRANDS. THERE'S LOTS OF SYNERGY WITH INGREDIENTS. WE'RE SUPER CONSCIOUS WITH THE STORAGE THAT WE HAVE."

Joey Simons
Senior Vice President of
Operations
C3

Quoted from The Ghost Kitchen Conference



TECHNOLOGY & EQUIPMENT

Electric is the Future

Gas-fueled equipment is a contentious topic among local and state governments. Cities such as Berkeley banned the use of natural-gas connection entirely, and others are prohibiting jurisdictions from enacting such bans, like Texas and Georgia. If you have concepts in multiple states, you don't need to be looking at different equipment packages for each individual store. You will want to select equipment that is scalable and works across all jurisdictions. Even though there is an appreciation for cooking on a gas range, the trend seems to be pointing toward requiring electric appliances for new and remodeled kitchens.

Drones and Delivery

So far, most news about autonomous delivery has come from overseas; however, some chains have begun testing land-based robot delivery and even drones in the US. The technology is certainly there, but FAA and privacy concerns are the biggest factor. In the meantime, there are use-cases for using robots in the ghost kitchen, even if it is simply to take orders to the front of house.

Choose the Right Partners

Having multiple applications and platforms can be a major headache. Choose partners that integrate with your existing software. Look for operator-first companies that are aimed at putting more money in your pocket versus charging you more fees and commissions. Whether you build it internally or outsource it, ideally you will have a central mechanism to control order flow, guest information and the customer experience. There is a lot of technology and resources available to sift through, but there is no reason to resist it; the consumer is ready for it if it improves the experience.

BRAND DEVELOPMENT & DIGITAL MARKETING STRATEGIES

Leverage Existing Customers

The good news for chain restaurants is that most have an existing database of customers. You can easily spread the word about new concepts through email and entice with an offer. Chances are, if they dine with you regularly already they will be happy to try your new brand. You can also use packaging to your advantage and throw in coupons or flyers for your other brands in your to-go orders with instructions on how to order next time.

Reach New Customers

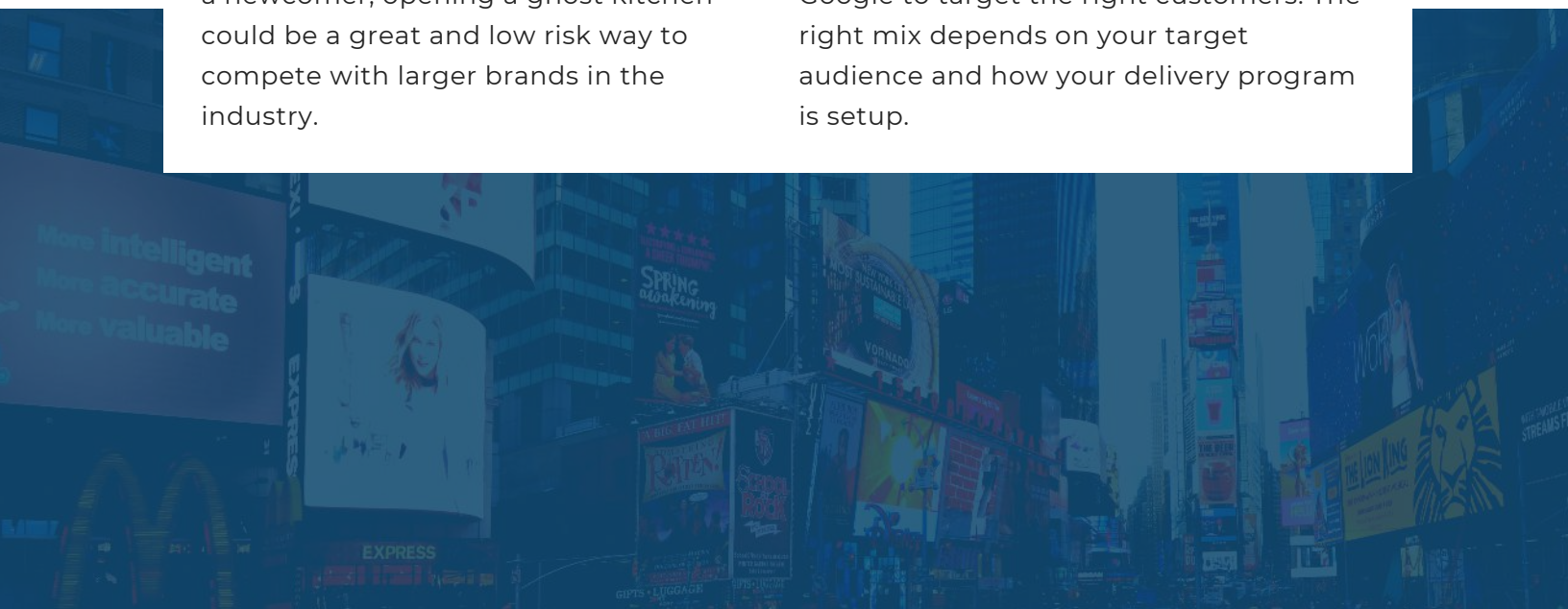
You're able to attract a higher volume of online customers since you're no longer relying on a physical brick and mortar store to drive traffic. This opens the door for an entirely new revenue stream to replace that lost customer base. If you're a newcomer, opening a ghost kitchen could be a great and low risk way to compete with larger brands in the industry.

Content is King

You need fresh content to keep your brand relevant. There is a lot of competition already and plenty more to come, so you will want your brand to stay top of mind for your customers. It's not easy to create content every day, but it's necessary to keep your customers engaged. If you don't have access to a content team, solicit feedback and content from your guests.

Budget Accordingly

Deciding where to put advertising dollars will depend on where you want your guests to find you. If you are only using third-party providers, then you will want to put most of your efforts toward getting more visibility on your platforms. If you have internal ordering and delivery, then you can utilize Facebook and Google to target the right customers. The right mix depends on your target audience and how your delivery program is setup.



Good

Fair



"WE HAD DEEP PARTNERSHIPS AND RELATIONSHIPS WITH THE DELIVERY SERVICE PROVIDERS WAY BEFORE THE PANDEMIC CAME ALONG. WHEN THE DINE-IN BUSINESS SUDDENLY STOPPED OVERNIGHT, WE WERE ABLE TO REALLY THEN LEVERAGE THAT RELATIONSHIP AND OUR EXPERIENCE ON THE DELIVERY SIDE."

Sal Melilli
CEO
Hooters

Quoted from NRN's "Hooters CEO Sal Melilli: Virtual brands have helped us thrive during the pandemic"

MAINTAINING CUSTOMER EXPECTATIONS

Manage Third Party Delivery

Pick great operating partners that you trust. If you are using third party delivery platforms remember to treat their drivers as your guests. They have a lot of pull when it comes to where they go to pick up orders. If they are treated well, they will keep coming back to your area. You may also need to find ways to get data outside of third-party platforms if they are not sharing. You can get creative with packaging and your customer communication through the order process to drive them to your own channels for reviews or to make their next order.

Focus on Consistent Quality

Identify ways to hold operators accountable so food is on time and quality is consistent. Of course, if you are holding them accountable make sure you set them up for success. Make sure to track food through every single touch point so you can be clear about drop times and allow operators to forecast better.

Feedback is Key

Feedback, reviews and ratings are key to revenue, especially if you need visibility on third-party platforms. You should put just as much effort into ensuring your customers are happy that you put into the actual product. This means not only soliciting feedback but responding to it in a timely manner.



"WE HAVE TO BE MINDFUL THAT WE ARE THROWING ONE MORE THING AT A TEAM THAT HAS BEEN WORKING HARD AND IS EXHAUSTED. GETTING BUY-IN FROM THEM IS HUGE. HELP TEAM MEMBERS UNDERSTAND THAT THE GHOST KITCHEN MAY NOT MEAN MORE TIPS FOR THEM, BUT IF IT'S CREATING MORE SHIFTS AND MORE HOURS FOR THE RESTAURANT, IT WILL TRANSLATE TO MORE MONEY FOR THEM."

Gje Greene-Wallace
Fish Flaunter aka Director of
Marketing
Half Shells & Fish City Grill

STAFFING

Be Mindful of Current Staff

Find ways to ease operations for your existing staff. No one works in a restaurant because it's easy, and the last 18 months have been particularly challenging to say the least. If you are operating virtual kitchens on top of brick-and-mortar locations, you will be adding new menu items for your kitchen staff to prepare, and front of house may not be too happy with the increased off-premise volume, especially if they are left to interface with delivery drivers.

Evaluate Your Offerings

Labor challenges are nothing new to the industry, but they are harder than ever. The talent pool has shrunk so restaurants are finding ways to offer enhanced benefits, pay higher wages or offer different perks that stand out. Find out what the benchmark is for your area and figure out how to create an employment package that stands out.

Assess Your Talent Marketing Message

You may not need as many staff members to operate a virtual kitchen, but you still need employees. It might be time to rethink the wheel on where you are finding them and marketing your open positions. You may even be marketing to the wrong audience. If that's the case, spend as much time learning about this pool as you do your customers and figure out if your company is positioned in such a way that clearly communicates its purpose to potential employees.

[Check out Black Box Workforce Intelligence™](#)

Access robust restaurant employee workforce data covering 2.4 million employees benchmarked against your competitors

HOW BLACK BOX INTELLIGENCE™ CAN HELP YOU TRACK THE RIGHT METRICS

Thinking about starting or already operate a virtual kitchen? Make sure you are tracking the right data. Black Box Intelligence has solutions to benchmark sales and traffic, measure guest sentiment, compare workforce metrics and evaluate consumer spend. [Speak with a product expert today](#) to learn how to set up your virtual brands for success.



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Turnover
Compensation
Bonus
Total rewards

Bonus
Employee benefits
Demographics
Sales per labor hour



BLACK BOX
GUEST INTELLIGENCE

Food
Beverage
Service
Ambiance

Intent to return
Value
How your online sentiment affects sales & traffic



BLACK BOX
FINANCIAL INTELLIGENCE

By geolocation
By segment
By cuisine type
Comp sales

Weekly average
PPA check growth
Sales mix
Sales type