

# Grab

THE RECIPE FOR SUCCESS



**BBA**  
THAMMASAT  
BUSINESS SCHOOL



**THAMMASAT UNDERGRADUATE BUSINESS CHALLENGE 2021**



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# Introduction

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It was another busy lunchtime for Grab drivers, who hopped on their motorbikes to deliver freshly prepared meals to waiting customers. The Thai food delivery industry has been booming, and firmly in the lead is GrabFood. As more consumers go online to fulfill their everyday needs, the number of GrabFood users climbs up by the day. But competition in the food delivery industry has been fierce, with food delivery companies constantly offering coupons, promotions, and deals in a war to attract users. As a result, profit is hindered, forcing delivery companies to look for a way to develop a sustainable competitive advantage.

A business model gaining traction is the cloud kitchen, a delivery-focused cooking facility. Cloud kitchens provide a number of benefits that will give delivery services an edge, including reduced delivery time and cost for orders and increased food selection in specific areas. Grab wants to develop a competitive advantage for GrabFood by making it a leader in providing a wide selection of preferred foods and beverages in more areas. To achieve this, the company is looking to leverage its own cloud kitchen business, GrabKitchen.



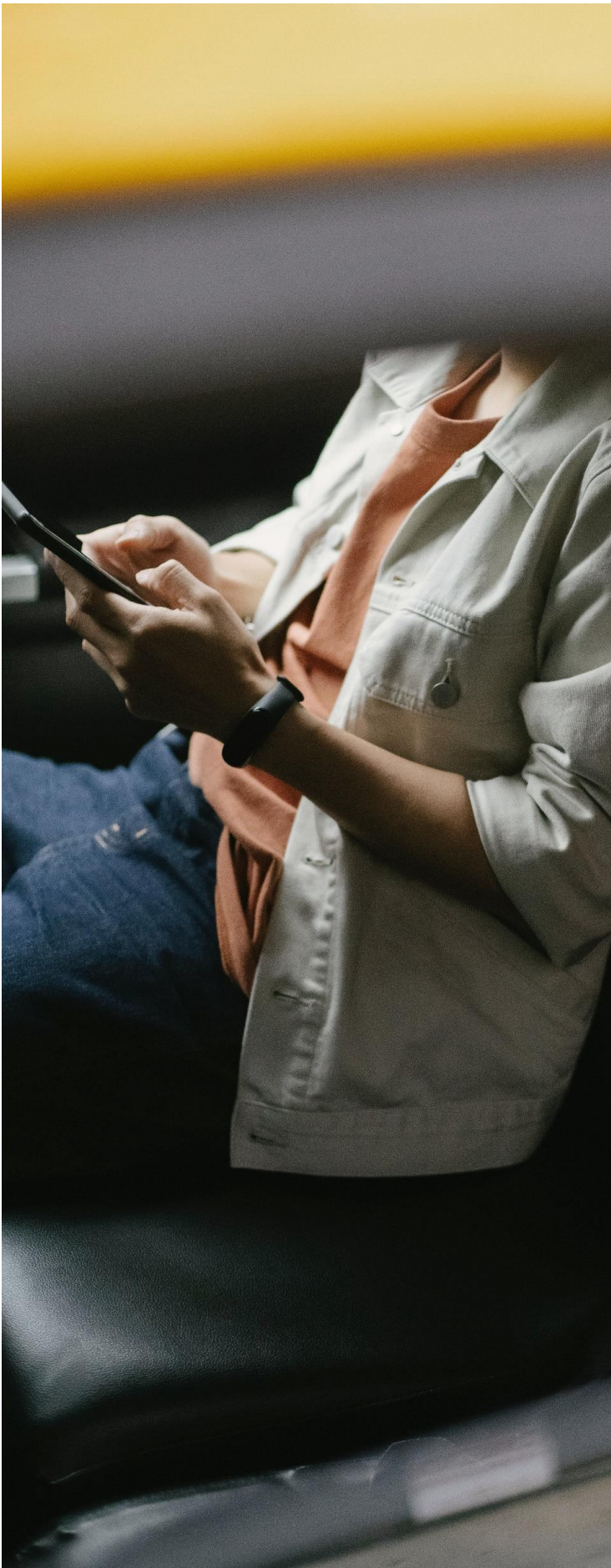


# History of Grab

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**A**nthony Tan's roots in the automotive industry run deep – his great grandfather was a taxi driver, his grandfather founded Tan Chong Motor Holdings Berhad, one of Malaysia's biggest automobile distributors, and his father became the CEO of the family-owned business. As head of marketing for Tan Chong Motor, Anthony seemed set on a path to continue his family legacy. But it was in 2011, while earning his MBA at Harvard Business School, that Tan conceived a breakthrough idea for a business of his own.

Motivated by a classmate to make taxi rides safer, Anthony and Tan Hooi Ling, another HBS classmate, launched the mobile app "MyTeksi" in Malaysia in 2012. MyTeksi was a taxi booking app that connected taxi seekers with taxi drivers closest to their location. The business solved some of the Malaysian taxi industry's most pressing issues in a way that mutually benefits customers and drivers: rides were safer for customers, and the direct communication between drivers and prospective customers meant that customers could more conveniently reserve a ride, while drivers no longer had to drive endlessly seeking fares.



**A**fter managing to secure early-round financing, Tan made the decision to forgo his role at his family business in pursuit of developing and expanding his own. In 2013, MyTeksi expanded as GrabTaxi to several Southeast Asian countries, including the Philippines, Singapore, and Thailand. Throughout the following years, the company launched GrabCar, GrabBike and GrabExpress, and eventually rebranded as "Grab" in 2016 to encompass its new services. Continuing with its vision to be an everyday-app, the company launched its online food-delivery service GrabFood in January 2018. GrabFood quickly became the fastest-growing business unit within Grab, with GrabFood orders increasing 25% month-on-month on average from May 2018 to March 2019. Grab's super-app ecosystem and demand for its services kept on growing. By its sixth anniversary, Grab Thailand achieved over 320 million bookings across ride-hailing, food and parcel delivery.

Today, operating in more than 400 cities across 8 countries, Grab is Southeast Asia's leading super-app, offering a highly integrated suite of services consisting of mobility, food, package and grocery delivery services, mobile payments, and financial services. Grab has achieved over 214 million mobile downloads, giving users access to more than 9 million drivers, merchants, and agents. With an expanding array of service offerings, Grab continues to integrate authentically into the lives of its users and drive Southeast Asia forward by creating economic empowerment for everyone.

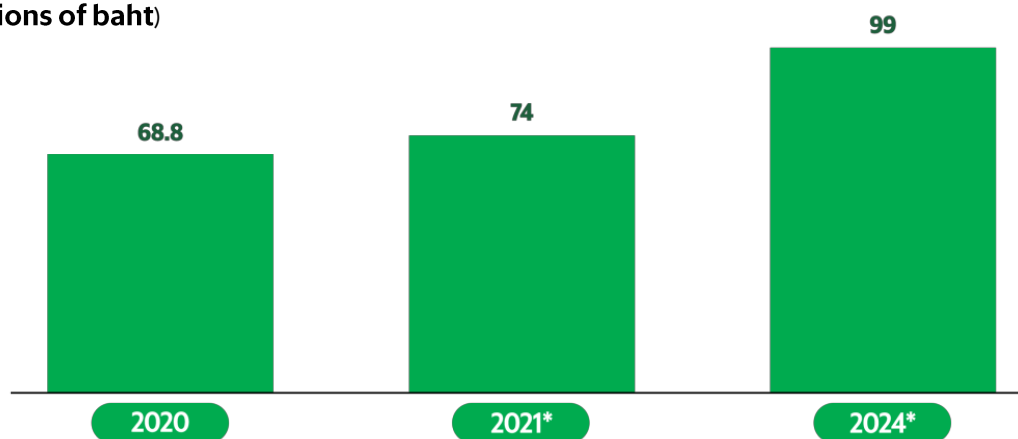


# Food Delivery Industry in Thailand

**F**ood delivery apps have played a central role in the development of the food delivery industry. With food delivery apps, consumers are now able to quickly browse through menus, prices and reviews, and even track the progress of their food deliveries in real-time. These apps also help restaurants reach out to new groups of customers, which in turn widens the selection of restaurants for customers. As a result, the rise and adoption of food delivery applications have propelled the food delivery industry in Thailand to grow by over 10% annually from 2014 to 2018, more than double the growth rate of the restaurant business in the same period.<sup>1</sup>

## Thai Food Delivery Market Value

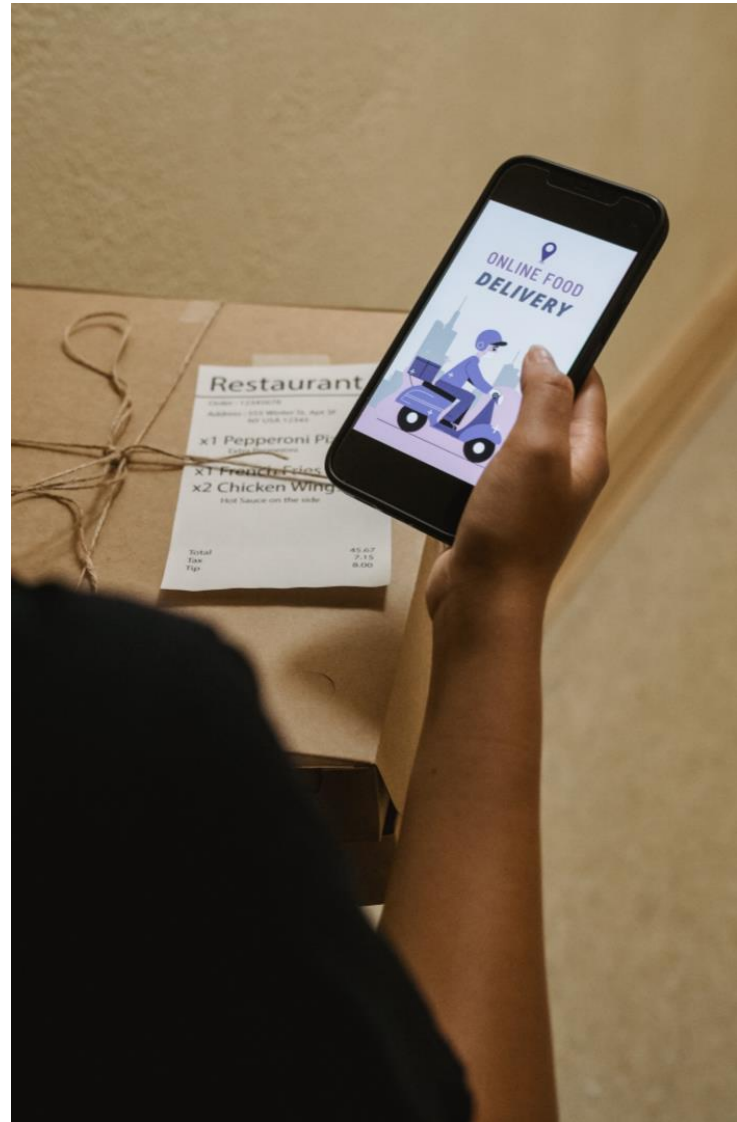
(in billions of baht)



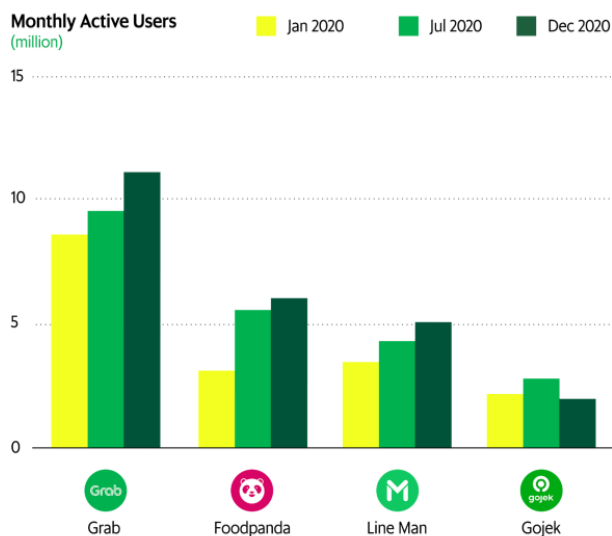
\*Forecasted values  
(Source: Eurmonitor)

1. KResearch. "Competition among food delivery apps continues to push food delivery business to THB33-35 billion in 2019," May 22, 2019.

**W**hen the first wave of COVID-19 hit Thailand in early 2020, many businesses suffered from the economic impact on consumer spending and stringent countermeasures issued by the government. Social distancing guidelines, nationwide lockdowns, and curfews have all led to severely limited business operations. However, this was not the case for the food delivery industry, as the countermeasures became the catalyst for this industry's explosive growth. Since restaurants were forced to suspend dine-in services, the only options left were takeaway and online food delivery. Consequently, order volume for food delivery via online platforms soared by 150% in the first half of 2020 compared to the same period of the previous year.<sup>2</sup>



## TOP 4 FOOD DELIVERY APPS



(Source: Bangkok Post. "Line Man defends lower rider pay." March 31, 2021.)

In 2020, Thailand was the second largest food delivery market in Southeast Asia with \$2.8 billion in gross merchandise value (GMV), behind Indonesia at \$3.7 billion. The Thai food delivery market is dominated by four main players: Grab, Foodpanda, LineMan, and Gojek. Although Grab joined relatively recently with GrabFood in 2018, it has swiftly taken the lead, now at 50% of the market share among online food delivery apps in terms of GMV, followed by Foodpanda at 23%, LineMan at 20%, and Gojek at 7%.<sup>3</sup>

**D**espite the enormous growth of this industry, turning a profit remains a challenge for food delivery operators. In 2019, the top four food delivery and ride-hailing players registered losses exceeding 4.2 billion baht in total.<sup>4</sup> This is primarily due to the fierce competition in this segment, which has pressured delivery platform providers to subsidize delivery costs and offer extensive promotions to attract users. For example, GrabFood and other food delivery platform providers frequently offer coupons on top of already deep discounts and free delivery for nearby orders. Food delivery providers will need to find a way to develop a sustainable competitive advantage, as this battle for customers will only further eat into profit margins.



GrabFood Promotion, August 2021 (Source: Grab.com)



(Source: Grab.com)

Growing profitably will be a challenge, but the potential in this market has incentivized Grab to press forward in this industry. The Thai food delivery market still has room to grow. In 2019, this market was valued at 35 billion baht, whereas e-commerce was estimated at 300 billion baht.<sup>5</sup> As more and more consumers adopt a digital lifestyle, the role of food delivery will only be increasingly important.

***“We do see that the food industry has better margins than ride-hailing.***

***We believe that the food business is going to really fuel our growth and get us to profitability in the long run.”***

- Kell Jay Lim, regional head of GrabFood -

(Source: Saheli Choudhury, “Grab says its food business could push the company to profitability,” CNBC, September 16, 2019.)

4. Suchit Leesanguansuk, “Delivery platforms dig in for war,” Bangkok Post, August 10, 2020.

5. Suchit Leesanguansuk, “GrabFood in biggest-ever marketing push,” Bangkok Post, August 26, 2020.



# Cloud Kitchens

**A** new business model that has emerged in response to the growth of and intensifying competition in the food delivery business is the cloud kitchen. Cloud kitchen, also known as ghost kitchen, dark kitchen, and shadow kitchen, is an umbrella term encompassing any food service business that focuses entirely on takeaway and deliveries. Cloud kitchens do not have dine-in areas. Instead, space is utilized as a kitchen to prepare meals, which are then delivered to customers, typically through online food delivery applications.

There is a broad range of variations of the cloud kitchen business model, but most variants fall into two categories based on the owner of the cloud kitchen business:

## **1. Restaurant owned (independently owned)**

A restaurant employing this model rents a facility to set up its cloud kitchen. The cloud kitchen takes orders from the restaurant's online website, application, or partner food delivery app(s), then delivers the orders by itself or a delivery service.

By shedding dine-in space, the operator saves on real estate costs along with associated wages for front-of-house staff such as servers and cashiers. Furthermore, the restaurant retains the freedom to partner with any food delivery app, thereby gaining access to the widest customer base possible. However, upfront investment, including rent and kitchen equipment, can still be high, and the operator is still responsible for its advertising and raw materials procurement.

## **2. Aggregator owned**

A food aggregator using this model supplies a shared kitchen space with all necessary kitchen equipment to participating restaurants. The aggregator handles orders and deliveries, and may even provide additional services such as advertising and raw materials procurement, allowing restaurants to focus fully on making quality foods and beverages.

This model has attracted investment from food delivery platform providers seeking to expand their coverage area and increase revenue streams. Revenue models vary, but the cloud kitchen operator generally takes a share of its restaurants' gross profit. For restaurateurs looking to scale their business in an inexpensive and low-risk way, participating in this type of cloud kitchen is an appealing solution due to the simple setup and low initial costs. However, participating restaurants can only receive food orders from their partnered delivery platform.

**W**hile each type of cloud kitchen model comes with its own set of tradeoffs, there are some clear benefits that all models share. First, cloud kitchens are an economical way to expand business opportunities for both big and small restaurants. Whether it is expanding independently or partnering with an aggregator, cloud kitchens require distinctly less capital investment than their brick-and-mortar counterparts. Second, cloud kitchens bring food and beverage brands closer to customers, reducing delivery time and cost for orders. In the case of aggregator-owned cloud kitchens, this is further enhanced by the fact that customers can order foods and beverages from multiple brands in a single transaction.



Like the food delivery industry, the cloud kitchen business has gained momentum in the ongoing pandemic. The temporary closures resulting from COVID-19 have made restaurants switch to takeaway and delivery-only, transforming traditional stores into cloud kitchens overnight. Restaurants that were forced to close, such as those in shopping malls, have also turned to this model for survival. As for food delivery platform providers, the heightened competition in the food delivery industry has made cloud kitchens an attractive way to cope. The major players Grab, LineMan, and Foodpanda have already jumped on this trend in order to strengthen their food delivery platforms. With cloud kitchens, a delivery platform provider can achieve lower delivery costs and times but also increase the food selection in specific areas, giving the operator a crucial competitive edge.



**C**loud kitchens are a global phenomenon and can come in formats that do not even need a new kitchen facility. For example, American food delivery platforms Uber Eats and Grubhub offer their merchant partners the ability to launch *virtual restaurants*, a type of cloud kitchen in which merchants open a second, delivery-only menu concept. The virtual restaurant is operated from an existing physical branch but will appear as a separate restaurant on the delivery app, allowing restaurants to create new brands and deliver new cuisines without the risk and expense of opening another physical store.

In Southeast Asia, the popularity of cloud kitchens has upsurged with the booming food delivery market. Grab has already set up over 50 cloud kitchens across the region, including in Thailand, Singapore, and the Philippines. Indonesia, being the largest food delivery market in Southeast Asia, has received heavy investment. Grab opened over 40 cloud kitchens in the span of a year in Indonesia, while Indonesia-based Gojek has launched 27 cloud kitchens.<sup>6</sup>



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6. Jun Endo and Marimi Kishimoto. "Southeast Asia's cloud kitchens swell, powered by Grab and Gojek." Nikkei Asia. Nikkei Inc. June 28, 2020.



# GrabKitchen

**G**rab has opened a total of 12 GrabKitchens across Thailand: 11 in Bangkok<sup>7</sup> and 1 in Chiangmai, with the first being launched in October 2019. GrabKitchen is a cloud kitchen that unites multiple food and beverage brands into a single central facility to solve the cuisine gaps in specific areas and diversify food options. By leveraging data from GrabFood, Grab identifies locations with pent-up demand for cuisines and brands that are less accessible to consumers. GrabKitchens are then strategically located to bridge consumer demand and the availability of food selection. This will yield a long-term advantage for the GrabFood platform, which will be able to offer a wider selection of preferred foods to a larger area.

Like GrabFood, GrabKitchen currently sits atop its industry, as it is the best-selling cloud kitchen business, generating four times more than any other cloud kitchen business in Thailand.

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7. See appendix for locations of GrabKitchens in Bangkok



**G**rabKitchen is designed to give merchant partners a capital-light and convenient way to expand the geographic area they serve. Each GrabKitchen is offered rent-free and comes equipped with fully-functional kitchens with electricity, gas, and water systems. Front-of-house management and activities are also taken care of, allowing merchants to focus all their attention on preparing foods and beverages. GrabKitchen also supports merchant partners by recommending the right location for them, suggesting optimal promotions, and providing special marketing tools to increase visibility.



(Source: Brand Inside, <https://brandinside.asia/grabkitchen-food-delivery-market/>)



(Source: grabmerchantth.com)

Recently, in April 2021, Grab announced a partnership with Central Restaurant Group (CRG), a major restaurant chain under Central Group, to launch GrabKitchen by Every Food. As Grab is first and foremost a tech company, it faces some challenges when expanding the GrabKitchen business, for example, finding kitchen spaces to rent and building kitchens. With this partnership, GrabKitchen by Every Food will combine GrabFood's strength in food delivery and CRG's strength in restaurant business management.

# Case Question

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GrabKitchen will allow GrabFood to provide a vast selection of sought-after foods and beverages to more areas. Because of this, Grab plans to expand the GrabKitchen network to strengthen GrabFood's competitiveness in the long run. But for the expansion to be successful, each GrabKitchen outlet will need the right ingredients. The two crucial factors of any GrabKitchen's success are cloud kitchen location and restaurants within the cloud kitchen, as these factors will determine the demand for the service.

Your task is the following:

## 1. Develop a set of criteria for location selection

How should Grab choose the locations for new GrabKitchen branches? One of the criteria currently used for selecting a location is if there is a sufficient supply and demand gap. For example, the first GrabKitchen opened at Samyan Market, a prime spot connecting Bangkok's central zone with many other key locations, including central business districts such as Siam, Silom, and Sathorn.

## 2. Develop a set of criteria for restaurant selection

Each GrabKitchen branch has an average space of 200 to 300 square meters and contains 8 to 10 rooms. Given that there is limited kitchen space, how should participating brands for a GrabKitchen be chosen in order to best provide a long-term competitive advantage for GrabFood?

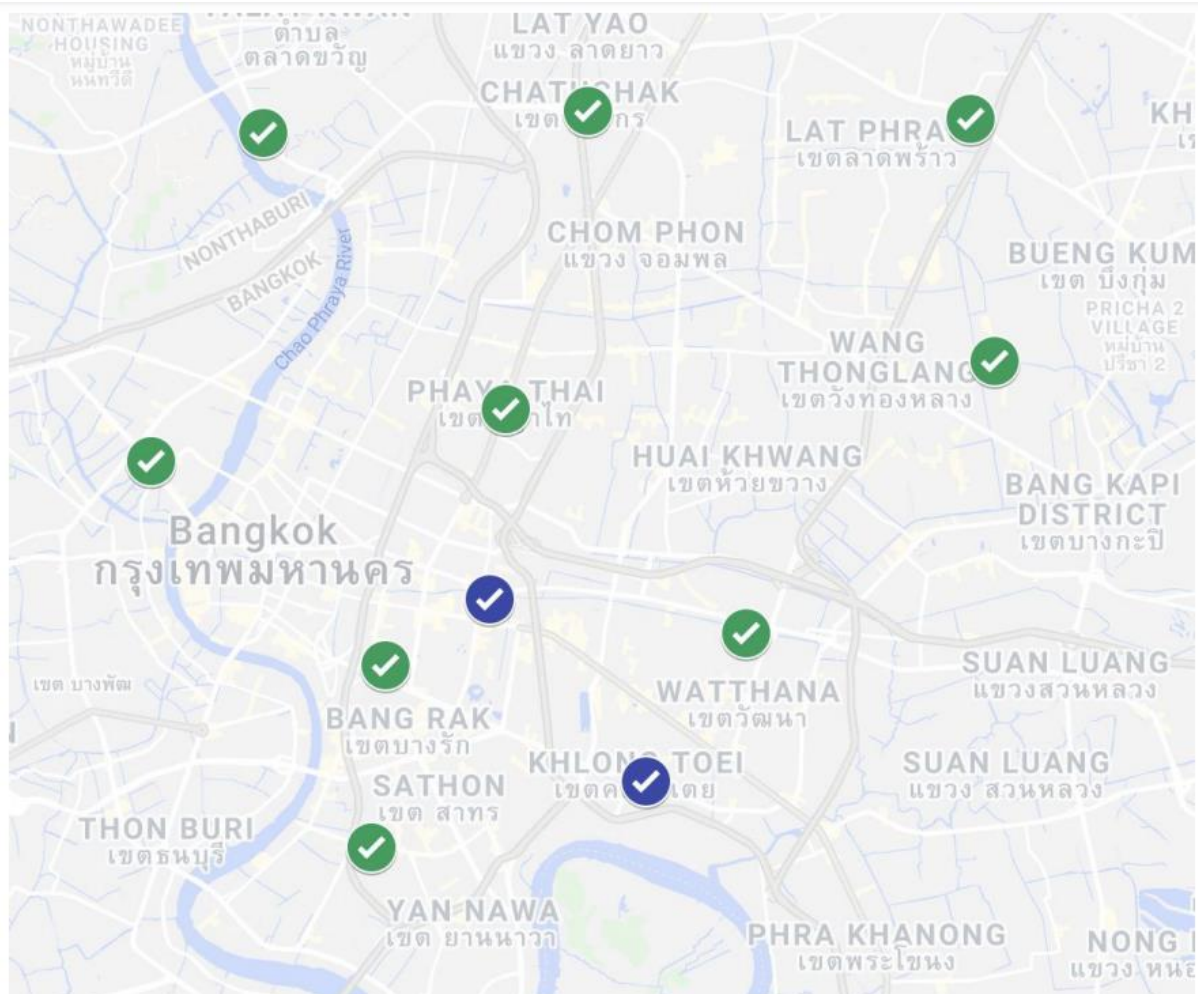
## 3. The next GrabKitchen

Please apply the criteria developed to come up with a potential recommendation for what the next GrabKitchen might look like.



## Appendix

Locations of the 11 GrabKitchens in Bangkok (indicated by check marks)



\*Normal delivery radius is 25 km

\*\*Most customers order from <8 km

Source: Grab

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