Company Participants

- Atul Sood, Chief Business Officer
- Michael Halen, Senior Restaurant & Packaged Food Analyst
- Zachary Goldstein, Founder & Chief Executive Officer

Presentation

Michael Halen {BIO 18797919 <GO>}

Hi. Welcome to the BI Webinar, "The Future for Restaurants in an On-Demand World." My name is Michael Halen, I'm the Restaurant Analyst here at Bloomberg.

Quickly some administrative notes. So, today's presentation will be recorded and available for playback. You can access the replay via the link sent to you in the e-mail from Bloomberg Webinars, and we'll be sending out a transcript to everyone who had signed up. At the bottom of the slide window you can adjust the volume and you can maximize your screen. Please feel free to ask questions to our guests by submitting one to the right of the slides. We'll try to address as many questions as we can at the conclusion of the presentation.

And just for those of you that aren't familiar, Bloomberg Intelligence is Bloomberg's in-house research arm. We provide credit company government litigation research to our 300,000 plus Terminal subscribers around the globe, we cover 135 Industries, almost 2,000 stocks and we have about 280 analysts across the globe.

So today, I'll be joined by Zach Goldstein, the CEO and Founder of Thanx; and Atul Sood. So, Zach is the CEO and Founder of Thanx. Thanx was founded in 2011 that help merchants identify, engage and retain their best customers. Prior to starting Thanx, Zach worked at Bain where it's focused on customer satisfaction and retention.

We also have Atul Sood, the Chief Business Officer at Kitchen United. So Kitchen United offers commercial kitchen space with business intelligence and resources to help restaurants succeed with minimal risk and capital outlay. Prior to Kitchen United, Atul was a Director of Global Business Development for Mcdonalds Digital, which was formed to help spur technological innovation across the restaurant.

I thank both of these gentlemen. In addition to being smarter than I, they are both very well suited to talk about the changes in the restaurant industry due to the popularity of the on-demand economy and the two biggest opportunities that may be out there off-premise dining and marketing personalization.

So, with that, I'm going to do a quick overview. Let's start with the definition, what's the on-demand economy? The economic activity created by digital marketplaces that fulfills quick consumer demand via immediate access to and convenient provisioning of goods and services. All Right. And this is all done with the magical remote control that we know as a smartphone. All right. So everyone known. I assume for everyone, but most people around in the United States are using this as a remote control basically to change their environment, to order goods and services on-demand and in the restaurant industry order food exactly when and where and how they want it. Consumers really want greater control and that's what these mobile apps, especially mobile order and pay are giving them right now.

And what we're seeing in the public markets is that the companies that do this well, companies that have superior mobile apps are vastly outperforming their peer. So you can see on this chart, Domino's Pizza and Starbucks were widely recognized as having the best mobile apps out there or knocking the cover off the balls of last decade. Right now, Panera is private, but if Panera was public they'd be right up there and with those other two. Customers are really seeking this greater control.

A big part of the reason why these companies also are doing so well, they control their own data, right. So this is a slide from one of the Domino's Investor Days and they know who their customers are, they know what their customers want to eat, they know which devices they use to order, they know how they like to receive their messages, and they actually know how they can really influence their purchasing behavior. And Starbucks is really known for this. Their app is really considered the gold standard and really, really impacts consumer behavior.

Both of those companies also have superior loyalty programs. As we know, it's a lot more cost efficient to get your current customers in the door more frequently than it is to actually acquire new customers, right, which is a lot more expensive. So these companies have done a good job with their loyalty programs to incentivize repeat behavior, right. So, whether it'd be the -- their birthday rewards and the order ahead features and some of the core stuff that you can do through Starbucks. Domino's has done some interesting things where some of the rewards aren't just repeat, there could be shares of stock or even store profits to generate greater consumer retention and loyalty.

And this dovetails nicely into delivery, right. People are using their mobile phones to order food and food delivery of the combination. My three favorite things, food not moving and avoiding people, maybe not all of the time but sometimes where I might not want to have shower and get changed and go out to a restaurant, it's a lot easier and more convenient to have food delivery delivered to my house. And the convenience factor is really at play here and it's what's driving this rapid growth of delivery orders right now.

So what we're seeing is a really a mad rush to grow the delivery piece of the business by both fast casual, QSR and casual dining restaurant chains. The quickest and least expensive way to do this is through third-party aggregators like Grubhub and Caviar. So there's a lot of pros and cons, right. The name -- the company that we mentioned that have been doing this for a while and own the process are knocking the cover off the ball. So these that are coming into this late and they want to get up to speed quickly are using these aggregators and there is definitely pros and cons.

Number one, in the pros category is that, it boost sales, right. I mean some restaurants are seeing jumps up 25% to 30% in sales. The guest check averages tend to be higher when people can take their time, improves the entire menu, they tend to order additional items and spend a little bit more. This gives the restaurants access to new customers that they might not have had prior, and, as I mentioned, low startup cost, because you don't have to buy vehicles, you don't have to pay for insurance, and you don't have to hire as well.

But there's also cons, right. So there's weak profitability. So these aggregators are taking sometimes between 15% and 35% of the sale. There's also packaging costs involved. You also have fewer high margin drink sales associated with these orders. These orders are cannibalizing higher margin dining room sales. It's complicating operations, because a lot of the restaurants aren't equipped for a 25% jump in orders and they're not equipped to handle large amounts of delivery and takeout orders. The change were also ceding control of the customer experience. And, finally, as we've mentioned before with the data, you don't necessarily know who your customers are, which can be an issue.

And the restaurant margins is a big issue and I think what we're seeing is a lot of these public chains kind of own up to the fact a little bit, but it is not all sunshine and not at tops, right. So for a while everyone's been saying how it's totally incremental and these are all new sales that they want to had, it's amazing. But now that some of these changes are couple of years into the process, we're seeing some of them admit that maybe it's not all as rosy as once thought. So, this is a quote from Lenny Comma, the Jack in the Box CEO saying, I think the jury is still out in terms of how it shakes out. If the fees being as high as they are delivered really only makes sense if the transactions are incremental. And then have restaurant financing development conference be constant of what are happening abundant? He said, listen, on the incident where someone goes through Grubhub and they order Red Robin, that is incremental, because they wanted deliveries. So, if Red Robin didn't deliver the food, they weren't getting that sale. But at the same time, it is cannibalizing possibly a visit later in the week, right. Because if I order Red Robin hamburger via delivery tonight, I'm probably not going to the store tomorrow or Friday or Saturday. And so there is some level of cannibalization that's not being measured.

And then another issue, I think, that restaurants have to be really cognizant about is ceding control, right? So delivery customers are more likely to being in the restaurant for a bad experience. As you can see on this pie chart, so this was from SeeLevel, who did a great research report about delivery and this is specifically about delivery service gone wrong. And I think the first one that jumps out is 43% of the time there is some sort of an issue, right. So I think this speak for the fact that a lot of restaurants really aren't equipped to do this well just yet. And, secondly, customers of 70% more likely to blame the restaurant than they are the delivery service. So you're risking some of your brand equity by partnering with some of these delivery companies and drivers who don't necessarily care too much about the end customer, right. So the all concerns that restaurants need to think about before kind of jumping into some of these things.

So, with that, I'm going to pass it off to Atul, so he can speak to you for a couple of minutes about Kitchen United and the very cool things that they're doing over there.

Atul Sood

Great. Thank you, Michael, and happy birthday by the way. Your LinkedIn tells me it's your birthday today.

Michael Halen {BIO 18797919 <GO>}

Thank you, Atul.

Atul Sood

So, as Michael said, my last job was at McDonald's and -- but I eventually ended up doing there was, I was the Global Lead on Delivery Partnerships for Food Delivery to the Consumer. And what I saw as I executed that role was the massive shift that's happened internationally in delivery across East Asia, across the Middle East, even across Europe, some restaurants are making north of 50% of their revenues through food delivery.

And as Michael just went through, we think that wave is coming here. And, at Kitchen United, we thought that restaurants need another option to serve that off-premise consumer. So what we do is, we provide kitchens fully stocked with equipment for restaurants to start up new operations to serve their off-premise diner in a capital-light way and much more quickly and efficiently and cost effectively than they could do it on their own.

At each Kitchen United location, we have two currently open, I'm actually standing in our Kitchen facility in Chicago right now. And our first one opened in Pasadena in June. Each one contains between 10 and 15 restaurants working side by side, but in their own four-wall space. And those restaurants could do range anywhere from large national QSR chains to local independent mom-and-pops that are trying to expand their footprint. In addition to the actual kitchen equipment and the utilities, plumbing all of that, we also provide a suite of services. So we get the restaurant set up on also for the third-party delivery service providers.

We have dedicated back of house labor to do things like wash dishes, receive food product in the morning, we have a process through which we work with cities to expert at permitting, software and technology stack that takes orders from different tech platforms and prints them out through one Kitchen printer, so the cooks in the back of the house aren't spending their time managing tablets and we help restaurants to find which locations to open in based on some of the business intelligence data that we have. And so essentially we do everything except the cooking and the driving. And each of our Kitchen centers also have a small retail presence where customers can pickup to go, because a lot of this off-premise dining business is still pickup.

We are, as I said, small right now, just two facilities open, but we are expanding quickly. By the end of this year, we'll have 20 facilities opened across the cities that you see over there. Our next one will be opening in Jersey City later this quarter and we'll be opening in Atlanta this quarter as well. We do have a very aggressive expansion plan. We are fortunate to have our Chief Operating Officer, who is the former Chief Development Officer of Taco Bell. And so she opened a 1,000 Taco Bells in four years and feels very comfortable that she can open 100 facilities in the next three years, which would take us to over 1,500 restaurants across the country operating their off-premise dining business through us.

And, with that said, I'm looking forward to answering your questions, Michael. And I will pass the baton to Zach.

Zachary Goldstein {BIO 18719896 <GO>}

Wonderful. Thanks, Atul. My name is Zach Goldstein. I'm the CEO and Founder of Thanx. And we recognize a fundamental truth in the restaurant industry, which is that the vast majority of revenue comes from just a small number of customers. This data showed that 62% of revenue comes from the top 25% of customers. When we talk about winners in the industry, such as the ones that Michael highlighted earlier, Starbucks and Domino's, they have a deep understanding of who these people are and their personalizing their interactions with them. But the majority of restaurants are not. Thanx is a complete CRM and marketing automation platform. We consider customer engagement to be a core strength of businesses and it involves knowledge of who you are customers are; the ability to capture detailed feedback from them in a private channel; running personalized targeted campaign to move businesses away from generic, spray and pray e-mail and to start measuring success in terms of opens and clicks, but in terms of revenue; and, finally, driving loyalty and long-term retention.

And so at the core of the Thanx platform is understanding who those customers are, a small graphic in the bottom left is personalized feedback in a private channel that is not on public sites such as Yelp, so you can talk to customers individually. In a world of off-premise, this matters a lot. So that you have that ability to talk to customers about the experience they're having. A single platform to run all of customer outreach in a single place, because too many restaurants that we work with from midsize all the way to enterprise have one technology for e-mail, another technology for loyalty, perhaps they're running reservations or pickup ordering or certainly third-party delivery, and each of those are different systems. Thanx pulls it all together into a single platform and delivers, again, revenue, incremental revenue as opposed to opens and clicks, because opens and clicks don't equal revenue.

And so, happy to talk about what we're seeing with businesses that are successfully building an owned audience as opposed to a pool of anonymous customers, who they are hoping to visit them, but in owned audience where they actually know deeply who these customers are and they can deliver personalized marketing that enable those individuals to feel a connection with the brand and come back and spend more money over time.

So, I'll kick it back to Michael to run us through some Q&A.

Questions And Answers

A - Michael Halen {BIO 18797919 <GO>}

Hi. Great. Thanks, gentlemen. Yes, let's jump right in. Atul, so with the rapid growth of delivery, is it time for restaurants to question their business models? How can they differentiate their brands with great food delivered hot and fresh? Can they optimize for food quality of delivered food? And how our cutting-edge change are reducing expenditures on waiting areas, dining rooms and some of the other less used areas of the restaurants?

A - Atul Sood

I've been talking to restaurants up and down the food chain, so to speak. Everybody, I think, from the nationals to independents to completely new startup brands are reevaluating their business models are saying here is the deliveries, can you drive through. We think it's the biggest shift to happen in the restaurant industry for 40 to 50 years and I think restaurants are going to have to adapt.

You mentioned Red Robin earlier. If you walk into any of the kind of last generation Red Robin restaurants, you'll see a massive waiting area that was holding customers, while there are lines, there is significant square footage dedicated to seating as well. If you go into new Red Robin's, you'll see that changed dramatically. I believe, they are actually now architecting stores with separate holding areas for food pickup and delivery, definitely much smaller store footprints. I read an article this morning about Sous Vide [ph], which is a kind of cult favorite restaurant in San Francisco. They opened a new store in the Marina or just about to open at 1,700 square feet, only 4,00 square feet dedicated to in-house dining, the rest dedicated to kitchen space and they expect 60%, which is shocking, 60% of their revenue to come from delivery. So I think they're all kind of looking at how to restructure their business and we're having great conversations. Restaurants are now appointing VPs of Innovation, VPs of New Concept Development and that whole job is to figure out the soft and the standing wave.

A - Michael Halen {BIO 18797919 <GO>}

Interesting. Zach, the arrival of third-party delivery seems to run the risk of disaggregating restaurants from their customers. As I mentioned before, the last point of contact is a lot of times that the delivery driver with the person ordering the food and not that restaurant, right. So, is this risk real? And what are the restaurants doing to combat it? How do you see this evolving over time?

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah. I'd say the risk is very real and one way to combat it is indeed to change the footprint of the restaurant to be very delivery-focused. You're changing your cost basis, such that you can actually take the margin hit that comes with delivery and Atul mentioned a couple of those and Kitchen United is a good example. But the vast majority of restaurants across the country don't have that opportunity, the footprints are already fixed, the restaurants in place and they've been relying on repeat purchasing as the lifeblood of the business. Delivery separate that. In fact, someone who has a great delivery experience might even return to the delivery app to buy from that specific restaurant only will get distracted by different restaurant and go elsewhere. I mean, the competitive dynamics are fierce and restaurants do not have any relationship directly with that customer.

I've mentioned this before, but the way to combat that is to have an owned audience of customers who you already know, you already know things about, such that if that weekly regular stops coming in, you can reach out to them and ask them did they shift their transaction behavior to delivery or did they stop coming in entirely. You can understand that the person who is a lunchtime regular or a catering customer needs different communication than the customer who is an occasional visitor. And those are the things that most restaurants are lacking. I mentioned before that the vast majority of restaurants are still doing marketing through spray and pray, send out millions of e-mails and cross your fingers and hope those people come in.

That is going to increasingly be an ineffective strategy and many would argue it already is, that the open rates are going down, but increasingly ineffective in a world where those customers are moving to delivery and you don't get any information about them. And so, we'll talk about some of the trends that are coming up, but I think we will increasingly see sophisticated brands demanding that information about customers, because owning an audience of customers or CRM, if you will, which has worked in e-commerce and B2B business, is going to become mission critical for the success of running a restaurant.

A - Atul Sood

Yeah, agreed. And in other words I think that you mentioned earlier in your prepared remarks talking about that connection and strengthening your connection with your consumers is very, very important, because a lot of these younger generations really only want to shop and eat at places where they have a strong emotional connection or they only want to work at a place where they feel that they have a strong emotional connection. So I think it's a very important, especially for some of these younger generations.

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah, we're watching rewards, which traditionally were discounts and cash-back move meaningfully towards experiential programs through the opportunity to visit other stores or trying new menu items or wear branded apparel, the entire concept of a loyalty program used to be spend X get Y, and it's evolving quite meaningfully because of the demand from consumers they want that relationship, they want to feel connected to your brand, it's -- it doesn't work just giving them $5. But obviously that means the degree of difficulty in running these programs has gone up considerably, you have to be able to build data analytics, which most brands, Starbucks and Panera have invested, you hear CAVA investing in data science, but 99% of restaurants don't have that and the skill up there yet.

A - Michael Halen {BIO 18797919 <GO>}

Atul, you see (multiple speakers) Sorry. No, please. And both of you guys please don't say -- as we go on. Sorry.

A - Atul Sood

All I was going to say I heartily endorse with what Zach just said. All I was going to say is that, I'm seeing an urgency to this, both to rewards and to scaling and to delivery, there's just an urgency in the market, because I think the next big restaurant brands have been created because whether it'd be The Halal Guys' pizza, kind of these fast growing surging fast-casual brands and there is an urgency in management teams to figure this out.

A quick example I'd give you is, when we first launched, it was actually before we were open, I just joined the company and the company had just been formed, I had a call with the CIO of a large wings player and yes -- and what we did, I explained to him and he said, okay, I'll call you back. Calls me back 15 minutes later and says the CEO, the Chief Development Officer and the Chief Operating Officer would like to visit next week and that's on a Thursday. So that's the level of urgency that I'm seeing in the market and I'll pass back to you, Michael. Sorry to interrupt your question.

A - Michael Halen {BIO 18797919 <GO>}

Yeah. I agree, I see the same thing with these public chains. Man, they see the results, you know, most of them are all behind as we know the restaurant industry in general has been very behind when it comes to technology, but the results don't lie, numbers don't lie, right. I think as the chains see, the amount of outperformance by some of these technologically advanced chains -- and that's really what's motivating them to move so aggressively.

A - Zachary Goldstein {BIO 18719896 <GO>}

I told, you see an opportunity for startup restaurant brands to square -- scale quickly using a primarily offline premise dining model.

A - Atul Sood

Very much so, and through additional first model. I mean, we're all probably aware of the success that's sweeping about -- Under 19 stores, a million active app users, they announced 50 million -- 50% of their orders are digital order they had and they are not even into delivery yet. I've been talking to other startup brands that are true startups, very early stage. There is a brand called Salted in the LA area and they operate six different sub-brands under the same line, under the same herd, cross-utilize ingredients and so optimize their the purchasing of products, so that they can have low wastage, they operate everything from a pizza brands to a salad brand to a Korean ball brands all under the same line. So there --- and they are virtual. They're entirely virtual, and we did agreed and takeout. And so when brands like that gets funded by big venture capitalists and get set on large growth plans that can create a national brand quickly. And one of our -- one of the questions were asked often is, would McDonald's ever work with you? And I don't think McDonald's would ever work with us, we don't fit the bill for them, but I think we can help create, very rapidly, national brands that have national ambitions and want to do it in a cost-effective, low risk manner.

A - Michael Halen {BIO 18797919 <GO>}

Interesting. And are you seeing some of these startups test their brands? Are you seeing them using it more to maybe try to see if it works in different markets, so maybe to expand their brands, is it a combination of both?

A - Atul Sood

Yeah, it's a combination of both. We are seeing both in kind of just brand new concepts from some notable chefs, you might have a Top Chef winner, who is trying to start a fast casual line, if they were to build out their own restaurant and will cost them a $1 million to $1.5 million. So we're seeing interest from people like that who want to start from their $5,000 a month. We're also seeing us being used as a test facility, and so take a fast growing national brand or regional brand that wants to see if a site in Columbus, Ohio, would work. Instead of building it out, they can test us for six months or a year, year and a half, to see what the demand is and then either supplement their virtual restaurant with a brick and mortar or close down their virtual restaurant and set up a brick and mortar to service the demand that it was in the market.

The other thing we're seeing and this wings example I gave you is one of the possible clients who have there is restaurants, the restaurant's in-house operations get really complicated by delivery drivers coming in. They're not -- there's no space for them, there is no clear instruction on where to pick up the food, it impacts the customer experience for the in-store diner, and so we're seeing some restaurants come to us and say, hey, even if you're half a mile away from an existing facility of ours, we'd like to offload all of our delivery business and takeout business into your facility, so that it doesn't impact the customer experience here. And so that's a pretty interesting use case as well.

A - Michael Halen {BIO 18797919 <GO>}

Yes, that's a nice option for some of those restaurants, I guess they are doing pretty well. So, Zach, how do you think the industry will evolve if third-party delivery providers continue to charge 20% plus of orders? And what are some of the ways that restaurants can make this work?

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah. I mean, at the end of the day, that is a huge margin impact. We're hearing stories of businesses who are actually seeing revenue go up. They're touting delivery as an increasingly large portion of their revenue and they've gotten hooked on that drug, if you will. And the problem is, they're eating margin on that increasing large portion of their revenue and it's covering up the fact that they're losing traffic in the actual restaurant. But you only have two options if your business are in that situation, we need to materially change your cost basis, which is pretty hard If you're locked into a long-term real estate lease, or you need to focus on driving the higher margin portion of your business up.

And so, it can be a tide that raises all ships, if you will, if that revenue was incremental. If you are instead of crushing your kitchen during your already peak lunch hours, if you are driving delivery during the shoulder periods before and after lunch when it's unlikely that in-store you're going to be busy that can be really valuable. But if your delivery peak and your on-premise peak are at the same time, it can be challenging. And so, we're hearing stories of businesses that are building different make lines in the basement that are doing things to expand capacity. And if you can do that, that's great. If you're constrained on space and if your kitchen is reaching peak capacity, the only other option is to go back to the tried and true method of filling the restaurant with as many hours of your open and you mentioned it in the intro.

Acquiring new customers is getting really hard. Everyone is doing it. Competition is increasing, traffic is going down across the industry, the only antidote is to focus on the customer you already have, who already have a brand affinity. And this is unfortunately what many restaurants are doing wrong. They continue to focus on generic advertising online, on generic couponing locally and as I mentioned earlier on generic e-mail. If that's a core element of where the marketing team is spending their budget or more commonly their very limited hours, it's not going to work. We're going to see marketing department in the restaurant space judged in a way that they've never been judged before on driving ROI, on incremental revenue that they can prove, did that campaign actually getting new people in? And the good news is, when you build an owned audience, when you have a CRM and you know your customers you actually can measure those things.

And so, that's the focal point. The one other thing that I would say is that, we are starting to see bigger brands, demand from third-party delivery then if you're going to keep the fees high I need to know who these customers are. I need to share in that data and data is a very valuable currency. We'll be announcing in partnerships in the first half of this year with at least one national third-party delivery brand, who is now willing to share that information to enable the restaurant to reward their consumers for third-party orders and share that information back with the restaurant, so that they can build a deeper relationship with that customer. That's the type of innovation that I think restaurants are going to and need to demand from the delivery providers if they're going to continue to see this type of margin.

A - Michael Halen {BIO 18797919 <GO>}

Interesting. And do you expect any sort of shake out in terms of the fees for transactions where they're not sharing the data since it is kind of a fragmented industry right now? I'm sure some of these big chains like McDonald's are going to eventually start to move towards doing this stuff in-house. I mean, do you ever see, maybe, a decrease in the charges, the fees that these third-party aggregators charge?

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah, I mean, they are under pressure. And if you ask anyone in the restaurant industry, they should be the logistics player that delivers at an appropriate margin for logistics. Now that is not how the delivery players view it. They are a marketplace that is driving incremental spending to the restaurant and they believe that you should pay a premium. And so, that's kind of the existential debate that's happening right now in the industry. I think we'll find delivery players go on in two directions; they will hold firm on we are a marketplace, we own the consumer, we are driving incremental spending to you. And so, we are not going to share the data, because we don't want you taking -- we don't want you, the restaurant, taking back these customers, and we're going to hold our fees high. That's one model that some players will stick to.

I think we'll see a different model where some of the delivery providers are far more partner-oriented, far more focused on driving aggregate revenue to the restaurant and they may, for instance, lower their fees on follow-on purchases from the same restaurant. They'd be willing to share the data and enable rewarding consumers for those purchases and that model is far more restaurant-friendly. I think it will ultimately result in bigger more lead brands working with the third parties. I personally believe it's a winning strategy, but we're going to see both sides play out in the market over the next five years.

A - Atul Sood

Yeah, I agree with that. I also think that more restaurants during the course of this year are going to try to direct consumers through their own platform whether that would be web or app and use the partners like OLO to kind of funding of those orders through its dispatch platform to a delivery service provider who hold you at a reasonable rate. And so --

A - Zachary Goldstein {BIO 18719896 <GO>}

Completely agree with that.

A - Atul Sood

-- budget spend on that. Yes.

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah. I think we're seeing that and in fact OLO has had a wonderful rise, and it's a great business and a partner of ours, and they had a wonderful rise in pickup and now in dispatch doing off-premise and some things that are, I think, able to preserve margin better for the restaurant. One of the things that we have seen in our partnership there is that, it is actually quite possible for a business to own this audience for pickup, for delivery, through their mobile app, through their e-mail marketing, through various other things and maintain the margin and businesses once they see a pretty large volume coming from there, they actually stop promoting third-party sometimes in many ways. Now, I think, actually there is a world for both. There is a world where orders are happening through your own site and there is a world where consumers are discovering you in the third-party marketplaces, but they have different use cases and that's what restaurants are starting to figure out.

A - Atul Sood

Yeah. I think we're still in the kind of second phase of a three or four phased life cycle. If you remember the way all this started with Postmates back several years ago now, it's the Postmates started doing delivery from Chipotle without Chipotle's authorization. And the issue we had when I was negotiating deals in Talons was that, these third-party delivery services were using our brands to promote their app today. So they are getting consumers to our brand and then they were turning around and saying, now we're going to charge you what are the percent. And over time, their brands, particularly for the smaller restaurants out shine the restaurant brand. So they use it to build their business and then turn around and charge a lot for it and I think we're entering into a phase where restaurants are kind of taking back some control and being a little bit more aggressively question, I think that's going to play out over the course of the next 18 months or so.

A - Michael Halen {BIO 18797919 <GO>}

Yeah. Hopefully, they learn from the mistakes of the hotel industry, right?

A - Atul Sood

Yeah. Exactly.

A - Michael Halen {BIO 18797919 <GO>}

So, Atul, I've heard some horror stories about the negative impact of the third-party delivery has had on the -- both the front of the house where a lot of employees are living in "Tablet Hell" and also on the kitchen. So how are established restaurants using Dark Kitchens to alleviate some of these pressures?

A - Atul Sood

Yeah. I think it's actually -- it's front of house kitchen and its consumer or customer, because there is significant disruption to the dining experience when there all these delivery drivers coming in. The way that kind of Dark Kitchens help in this industry is several fold. One, we have a technology stack that aggregates different orders into one Kitchen printer that allows a ticket to be fired by a clerk, where you don't need somebody nice in tablets and updating menu items and seeing when you're out of product to make sure that that menu item is on the tablet. It all gets aggregated through a technology stack and that makes a much cleaner for the back of house, and the kitchen operator. Our restaurant partners operate with just two cooks in the kitchen at any one-time, so that keeps your at variable costs, much lower as well. Because of our shared services, the restaurant partners don't have to fully loaded cost of a dishwasher or expediter that takes through the driver or somebody who's managing the facility, which makes it dramatically cheaper for them to operate and then allows them to pay the 20 plus percent margins to deliver service providers in a way that they're margin profitable for them.

The other important aspect to it, and Zach talked a lot about how the delivery drivers, delivery service provider impacts the customer experience a lot. And the other aspect of it, I've been a driver for DoorDash. I've spent several days driving for DoorDash just few of the experience like and honestly experiences of driver was pretty horrible, you don't get treated with dignity, you don't get much time to kind of take breaks and go to the restroom, you don't know where to pick up the food next. It's a horrible experience and it's a hard job.

So one of things we do is, we treat drivers with dignity. There is a place for them to rest and relax. We give them free WiFi, if they want it, and their off shifts we give every driver ice tea or free coffee. So we make it a place that people want to come to and because we have 10 to 15 restaurants operating out of one kitchen, if a driver drops our food, he or she can be pretty, pretty sure that there is going to be food to be picked up from our kitchen center if they circle back around. So drivers are starting to use us kind of like an airport. They always know that there'll be a fare and that is an improvement to the customer experience, because it reduces order to delivery time or what I think Grubhub calls quick-to-door; from the moment I click the app to the moment the food arrives at my door is kind of an important metric for all these guys and having a driver-ready and waiting improves that time.

A - Michael Halen {BIO 18797919 <GO>}

Yeah, for sure. So what are some of the challenges in operating one's own brand to Dark Kitchen versus using a facility like Kitchen United?

A - Atul Sood

That's a good question, and I think restaurants are going to experiment with both models. Some of the benefits we see during a shared model is that you don't -- first of all, you don't have the CapEx build out costs, so you're not spending the $2 million, $2.5 million to build out a facility or if it's just one restaurant the kind of $800,000 to $1 million to build out a facility. So you don't have that, you -- because of our aggressive growth plans, I think we'll have more facilities opening, more kitchen options for restaurants pretty quickly. So the time to market is another one and really where the largest advantage lies is in the shared labor. It is -- I've done some work with some consultants and some restauranters, valets at McDonald's and modelling out the costs of operating your own Dark Kitchen. It's just -- the numbers don't work if you have to have a full time janitor, janitorial service or full time expediter or full-time person running kind of calls new General Manager. It just isn't -- it isn't cost effective. So that's really the biggest plan is, Michael, to doing a shared space like ours.

A - Michael Halen {BIO 18797919 <GO>}

Oh, cool. And what kind of outside of the start-ups, which we already talked about, what are the kinds of restaurants have been expressing interest in your model?

A - Atul Sood

It's amazing. It's been a lot of fun, because it's literally name a restaurant and I've probably had a conversation with somebody at that restaurant chain, restaurant brand. In many cases, it's been inbound inquiries, they contact us through the website. So large national brands that when I joined I didn't think QSR would be interested, at least not QSRs of the scale of some of the ones we're talking to. The fast growing fast casual brands, some of the pizza brands were reaching out to us. But really where part of our heart lies and where we think we can benefit the community is people who've been -- last night, I had dinner with a couple of guys from Mexico City. Their father has been running a restaurant here in Chicago in the suburbs for 15 years and they want to expand, they've got brand recognition, they've got the financing to do it. So helping those types of people who are passionate about the restaurant business, who want to potentially build the next large fast casual chain, that's really where there's a lot of excitement, because you can take an entrepreneur like that who might not have the budget to build out an $800,000 restaurant and you can get him or her going for literally under $10,000, all right. Start-up costs of under $10,000 to get a restaurant growing, and that's exciting both to that type of entrepreneur and to the big QSR. So it appeals to -- fortunately, it's going to be part of a business that kind of appeals across the spectrum of the restaurant industry.

A - Michael Halen {BIO 18797919 <GO>}

Sure. Zach, I'd like to quickly dive a bit deeper into the marketing side of things is. Obviously, that's the one-to-one marketing is really where the puck is moving. So when people don't have to walk or drive to get their food, obviously it lowers the barrier to trying something new, proximity is no longer really important, so how is this impacting restaurants in the way that they market to consumers and what are the winning strategies in this environment?

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah. I think, I'll give you a couple examples of things that we've seen that immediately drove impact on revenue. One is, when you think about online advertising, inherently the process has historically been identified demographics that look like your customers and try to find them on Facebook or on Google or on a variety of online channels. It's a pretty blanket and unsophisticated approach. When you think about what happened with e-commerce advertising, it used to be that you looked at banner ads that were highly relevant to you and now the thing that you clicked on and almost bought prompts you across the Internet, but the result is much higher conversion, much higher relevance, and actually consumers that prefer the advertising experience online, because they're looking at stuff that they actually care about. Restaurant marketing is going to move in the same direction and it's already doing it.

And so, we're seeing brands who have the asset of -- in owned audience of hundreds of thousands or millions of customers looking at, who are these people that are my top 1%, 2% customers and how do I build what are called look-alikes or target groups off of those VIPs, find more people that look like them, because you're far more interested in marketing to someone that has all the characteristics of a VIP than wasting your money, discounts, and energy with a more spray and pray approach spread across your local city or online. And so, that type of targeted look-alike modelling requires knowledge of who your best customers are to do it, but when you do it has generally about 6 to 10 times higher online.

Another example is taking things that were operational burdens or costs and turning them into strengths. So we work with the restaurant that did something quite innovative. They were quarterly hiring a focus group that, of course, they were paying for to test new menu items. And they got that feedback and brought it back to the kitchen and improve the product before they release seasonal menu items.

Well, in partnership with Thanx, they actually turn those seasonal testing sessions into a VIP book that they offer to their top 5% of customers as sorted by revenue. Not only did those customers come in and give more thoughtful feedback, because they truly are the core of that business' success with a better feedback session. We found out that they perceive that as an exclusive opportunity to build a deeper relationship with the restaurant and their spending increased in its own right after having participated in the net session. These are these personal opportunities that a lot of marketers have missed and it requires knowledge of your customer and talking to the ones that are actually spending money with you and honestly not wasting time and energy against the portion of your customers who are just occasional, who I call promiscuous customers. That's a challenge that every restaurant is facing and if you get distracted by trying to court promiscuous customers who are no matter what you do going to spend their money elsewhere, you're throwing a lot of money down the drain. You got to spend energy focusing on the ones that matter.

A - Michael Halen {BIO 18797919 <GO>}

Interesting. It would seem that with the increasing competition for the same consumers resulting from the delivery, restaurants are going to really need to evolve from just blasting out the same old e-mail content, you talked about a little bit about the spray and pray methodology. What are some of the top brands doing to really personalize their outreach?

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah. It's increasingly about using multiple channels successfully. I think about the story that I heard at the Fast-Casual Executive Summit from the CMO of Pincho, who talked about using Tinder, the dating app, yes, to announce a new burger and they actually created a profile for that Burger and matched consumers to it and gave them the opportunity to try it, if they were "in love" with the item. Now, you couldn't do that today. Tinder has crackdown on that and there are variety of things, but that's innovation, that is about making your brand stand out and Pincho is really one of the best in the industry at doing this and doing something unique for your customers.

I think we're also finding brands who have focused on. If you have die-hard fans, make them, give them the opportunity to be your billboard, walking around. Give those VIPs branded apparel, a restaurant that I love in LA, Fat Sal, is a famous brand for having their hats spread all across LA. Those hats are for purchase, but imagine if customers who spend thousands of dollars a year on sandwiches were also advocating for your brands when they talk to their friends.

Referrals, the rebirth of SMS, as a supplement to e-mail, mobile apps, obviously, and the real-time notifications, especially when they're personalized and then creative social media, these are the types of things that are differentiating the best marketers from the average what is not going to work, what I would say is a red flag that a brand should pause and reevaluate as if you are still blasting out 2 million, 5 million, 10 million e-mails to groups using very basic segmentation monthly, quarterly, whatever it is. Open rates on e-mails are declining, personalization is becoming a requirement, not a nice to have, and that is changing the dynamic in terms of what you can expect from marketing dollars spent. But what's not changing is the fact that restaurant teams are under heavy cost pressure and marketing functions are not getting bigger. They just need to get more sophisticated with access to data science, to machine learning, some tools that are going to make lives easier on this personalization front.

A - Michael Halen {BIO 18797919 <GO>}

Interesting. All right. So we only have a few minutes left and we have a lot of questions, so let's try to quickly get to a couple of them. One that's popped up a few times, can either of you, I guess more specifically like Kitchen United, but can -- to both of you, can you let the listeners know which maybe some of the restaurant companies that they know of that are maybe utilizing, leveraging your services or some other success stories you can share where they're seeing some ROI?

A - Atul Sood

Sure. So we're under NBA with a lot of restaurants that haven't yet opened since we only have one facility opened, but we've seen success with Canters Deli is the local restaurant and it's kind of iconic name in LA, last fourth generation in Jewish Deli. So they opened their second location with us in Pasadena from Hollywood. We will be announcing soon, but The Halal Guys will be opening with us and that will be in Pasadena as well. In Chicago, we are expecting to announce a large QSR as well as a large casual dining chain in addition to some local Chicago hotspots. And, by the way, if anybody has a question we don't get to, please just reach out to me on LinkedIn, I'm more than happy to have a separate conversation.

A - Michael Halen {BIO 18797919 <GO>}

Okay, great. And Zach, anything you'd like to share?

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah. I showed a couple on the slide earlier, but we work with brands ranging from click surf to fine dining, from SusieCakes, a well-known west coast cupcake and cake store in California and they're now spreading across the country to Michael Mina restaurants to Lou Malnati's Pizza in Chicago, an Oath Pizza, fast growing, fast casual chain on the east coast. So pretty wide range of restaurants, all sharing the same need, which is better understanding the customers and tools to drive incremental revenue easily.

A - Michael Halen {BIO 18797919 <GO>}

Okay, great. And I guess we'll just take one more, we had a question about how would a new consumer -- how can they have a connection with the Ghost Kitchen model? And I think that's appropriate for both of you.

A - Atul Sood

I can take the start on that. A new consumer -- see because the Ghost Kitchens only serve a small radius, kind of three to five mile radius or a 10 to 15 minute drive time, we do a lot of highly localized marketing, leveraging our brands not, not our own name, we don't particularly care for the consumer to know our name, but the brands are important, so we do everything from social media marketing, targeted ads to old school flyers. In Pasadena, we dropped 92,000 door hangers across the city, had tremendous lift in business after that. So just old school marketing, we have relationships with the delivery service providers as well where they promote some of our restaurants to the top of their list and then I think we should leverage banks, I think it will be important to build the rewards in all of these system and that is in a bit of -- and I think we should use that simply for that.

A - Michael Halen {BIO 18797919 <GO>}

Exactly.

A - Zachary Goldstein {BIO 18719896 <GO>}

Yeah, I think, the only thing I'll add there is that the ideal scenario in many ways is that a consumer doesn't necessarily know specifically which kitchen their food is coming from, but knows that it comes fresh, that it is still hot, that is presented well, that the delivery estimates were accurate, and whether that is through a Dark Kitchen or through Kitchen United or through a changing footprint at the restaurant, I think that's at the core. I mean, the second piece is about them, the restaurant having either through their own customers or through the third-party marketplaces the right tools to engage those repeat consumers and make them want to come back after their first order.

A - Michael Halen {BIO 18797919 <GO>}

Yeah, I agree and I think even a startup can really create a connection through -- you know, even though they're using a Dark Kitchen, whether it'd be with the ingredients they use, the type of ingredients that they're putting in, whether it'd be healthier for you or environmentally sustainable, also through charity, charitably giving and aligning with organizations and maybe giving back to some organizations that customers might have some sort of connection to. So I think there's a lot of ways for some of these Dark Kitchen to kind of create a personal connection with customers.

With that, I think we're going to wrap it up. We're pushing up on the hour now, but I want to thank both of you guys, Zach and Atul, for your time. I definitely learned a lot. For everyone that's still on, thanks for tuning in, and we'll be sure to send out a transcript in the next day or so. Thanks, everybody.

A - Atul Sood

Great. Thank you, Michael. Happy birthday, again.

A - Michael Halen {BIO 18797919 <GO>}

Thank you.

A - Zachary Goldstein {BIO 18719896 <GO>}

Thanks, Michael.

A - Michael Halen {BIO 18797919 <GO>}

Bye-bye.