BUSINESS

# Heard of ghost kitchens? Delivery-only is here to stay

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Delivery-only restaurants rose in prominence during the coronavirus pandemic as patrons became increasingly wary of in-person dining and ate more meals at home.

But these so-called cloud kitchens or ghost kitchens predate the pandemic by several years, and industry experts and restaurateurs think they have the potential to outlast it.

Cloud kitchens appeal to prospective restaurant owners thanks to low overhead costs, and they provide the freedom to experiment with new concepts.

"People have different definitions of ghost kitchen," said Mark Kelnhofer, president and CEO of Return on Ingredients in Westerville and a lecturer for Ohio State University's hospitality management program. "But they have to have a small footprint, where you are manufacturing the menu items at one location, and it allows for pick up and delivery but eliminates the front-of-house component."

In other words, the restaurant has no dining room or service staff, and in many cases, cloud kitchens use third-party delivery apps, letting them skip the process of hiring drivers.

Industry experts say the food service industry was moving toward a delivery model well before the spread of coronavirus led to lockdowns and stay-at-home orders last spring. Smartphone apps like GrubHub and DoorDash were introduced years ago, building off the popularity of ride-sharing apps like Uber and Lyft.

"Millennials and Gen Z are starting to have more purchasing power," said Homa Moheimani, spokesperson for the Ohio Restaurant Association. "They're used to these apps, and they love delivery."

The pandemic, she said, merely accelerated the change.

Matt Rootes, who co-owns two traditional brick-and-mortar restaurants along with two cloud kitchens that work out of the same space in the Milo Grogan neighborhood, started researching the delivery-only model more than two years before the first cases of COVID-19 were diagnosed in Ohio.

He started the delivery-only Matt and Tony's at Home prior to the pandemic hoping to tap into the lucrative University District market. But Ohio State University canceled most in-person classes at the outset of the pandemic, and students continue to learn under a hybrid model, which Rootes said depressed sales.

## The appeal of cloud kitchens

Nonetheless, Matt and Tony's was consistently profitable.

"It started out slow, but sales have been good," Rootes said. "There hasn't been a month where we've lost money."

Four months ago, Rootes started the delivery-only M.T. Peckers Wing House, and he's eyeing a breakfast-focused delivery-only restaurant. The cloud kitchen model keeps expenses manageable, he said.

"Labor cost is very low," Rootes said. "We usually only have one person in there working."

The two eateries also share a storage area, further cutting down on the price of space.

Low overhead cost also means "it's easier to shut down and start over if you're just testing something," Rootes said.

And detailed information about delivery locations provided by third-party delivery services gives restaurateurs an intimate look into which communities are ordering their products, Rootes added.

## Expanding during the pandemic

While the coronavirus pandemic devastated the service industry, leading to the permanent closure of dozens of central Ohio bars and restaurants, it provided an opportunity for cloud kitchens.

A year ago, the delivery startup ClusterTruck had one location near Downtown Columbus that mostly delivered lunch to office workers, co-founder and CEO Chris Baggott said.

"We don't have any front-of-house, you can't pick up," he said. "Everything in our system is designed for delivery."

The company opened a second kitchen in a Dublin Kroger on Sawmill Road in January. After depending on 9-to-5 workers for so long, the company was hesitant to move outside Columbus.

"We were very urban," Baggott said. "(COVID) gave us the opportunity to test out going into the suburbs."

While sales initially dropped off at the height of the pandemic, revenue ultimately recovered, Baggott said, showing a strong demand for meal delivery even outside Columbus' urban core. ClusterTruck's sales were up 20% in 2020 compared with 2019. The revenue bump gave the company more breathing room to expand.

## Why they might outlast the pandemic

Delivery-only operations often share kitchen space. The company CloudKitchens runs a kitchen on Essex Avenue in Milo-Grogan that serves as the home for dozens of delivery-only restaurants.

A CloudKitchens representative did not respond to a message seeking comment.

Another kitchen on Front Street in the Arena District is home to several delivery-only operations.

Shared space, a small workforce and the use of third-party services keeps overhead costs down. That means a promising future for cloud kitchens, industry experts said.

"Owners and people in the industry are looking for ways to grow their brands with what seems like a too-good-to-be-true scenario," Moheimani said. "There's less capital, less labor, less complications, and reduced cost of real estate."

## Possible trouble ahead

But trouble could be on the horizon for cloud kitchens, Rootes said. The delivery-only venues have suffered from a lack of drivers in recent weeks.

Services like UberEats and DoorDash, which use independent contractors, were inundated with workers at the height of the economic downturn brought on by coronavirus, as the

newly unemployed and underemployed looked for ways to earn quick cash.

But as the broader economy improves and job openings proliferate, drivers are harder to come by, and Rootes has found that delivery is sometimes unavailable due to a lack of drivers.

Rootes said hiring his own drivers simply isn't as cost-effective as using a service with estab apps and a framework for hiring and paying drivers.

"You would have to develop so many things they all have already," he said. "They know it and how it works. It's seamless."

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