

French Fries and Health Files

The Unlikely Combo You Didn't See Coming

Krishna | Amrit | September 2024



At first glance, the quick service restaurant (QSR) industry and diagnostic sector may seem world apart. After all what do burgers and blood tests have in common? But when we dig a little deeper, the similarities are quite striking. Both industries although serving different needs, share some key traits that have allowed them to grow rapidly in India. Let us delve into these commonalities through a dialogue between two businessmen—one from the QSR industry and the other from the diagnostic sector.

On a cozy Friday evening, two friends—Amrit, a QSR franchise owner who spends his days flipping burgers and frying fries, and Krishna, a diagnostics lab owner who makes a living poking needles and running blood tests—were sipping their coffee in a corner cafe. The conversation took a rather unusual turn.

• Eksight •

Amrit: You know, Krishna, if someone saw us chatting like this, they'd wonder what on earth we have in common. I mean, I feed people, and you... well, you bleed them dry—literally.

Krishna: Oh, please! At least when I take blood, I give people something valuable in return—answers about their health. You just give them cholesterol and regret.

Amrit: But hey, don't underestimate the power of a good burger! People need comfort food after seeing their test results, especially if it's bad news.

Krishna: Fair point. But jokes aside, we're not that different, yaar. Think about it. We both operate in a world where speed is everything. Your customers want their burgers faster than they can say 'diet,' and my patients want their blood test results like... yesterday.

Amrit: Krishna, ever think we're in the same business, just serving different products? I deal with burgers, fries, and pizzas, and you deal with blood tests and diagnostics, but the way we run our industries... it feels like we are on similar tracks.

Krishna: I have thought about that. At first glance, QSRs and diagnostics labs seem like they couldn't be more different. But once you peel back the layers, it is amazing how similar the models actually are.

Convenience is king: Why it matters in today's world

Amrit: I think, we both are in the business of convenience. Customers come to us because they do not have time to wait and the easier and faster, we make it for them, the more loyal they become.

Krishna: Absolutely "Convenience is king." For you, it is about fast-food delivery and quick dine-in options. For us, it is about making diagnostics available through home collections, online booking, and even digital test results. People want everything at their fingertips now and they want it easy, fast, and efficient.



Data insight:

- 🍔 "Our previous letter written on Convenience: **The Lazy Economy**"
- 🍔 Technology is revolutionizing both industries. Food delivery apps like Swiggy and Zomato contribute significantly to QSR growth, with online orders making up about **30–40% of total sales for major chains**
- 🔍 Similarly, diagnostics players are leveraging tech to enhance patient experience. Vijaya Diagnostic Centres generated **₹8.5 crore in revenue from home collection services in FY24**, highlighting the growing demand for convenient healthcare solutions in the diagnostics industry. This trend is becoming a key revenue driver across the sector

Franchising: Scaling without owning everything

Krishna: But here is the kicker. We both grow fast because of the asset-light, franchise model. I mean, look at your industry. How many QSR chains own their own outlets?

Amrit: True. Majority of the fast-food chains like SUBWAY, La Pinos scale by franchising. While other big brands like Dominos Inc. or Mc Donalds Corporations have given master franchises to Companies like Jubilant Foodworks or Westlife Foodworld. We focus on the brand, the supply chain, and the customer experience. Franchisees handle operations, which lets us expand without sinking too much capital into real estate.

Krishna: And it's the same with diagnostics labs! Most of the big names like Thyrocare, SRL, Dr. Lal Path Labs do not own all their centers. They work with franchise partners who manage local labs, while the core company focuses on technology, branding, and training. It is a win-win.

Amrit: Right, it's all about scaling smart, not hard. But I'll admit, even with the franchise model, it's not easy. Scaling QSRs comes with its own set of challenges.

Krishna: Tell me about it! Diagnostics face similar issues. Scaling sounds great on paper, but keeping the quality consistent across all locations is the toughest part. In both our industries, customers expect the same experience everywhere. That means the same Big Mac, the same blood test results no matter where they are.

Amrit: And that's where brand trust comes in. People trust a QSR chain because they know what to expect. It's the same with diagnostics labs, right? Patients aren't just buying a test; they're buying trust in the accuracy and reliability of their results."

Data insight:

- 🍔 Today La Pino'z has 700+ outlets across India majority of which are franchisee stores
- 🩺 Metropolis is set to establish 25 labs and 500 centers in FY25 as part of its growth and expansion strategy

Demand: Both Boomingggg But Why?

Amrit: Here's something else that's been on my mind. Demand for QSRs has been booming, especially after the pandemic. People want quick, affordable meals they can trust. Is diagnostics seeing the same spike?

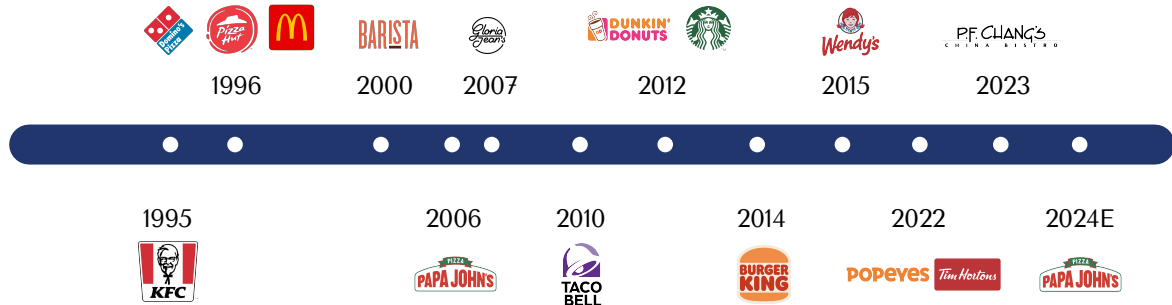
Krishna: Absolutely. There's been a huge surge in diagnostics post-pandemic, especially with increased awareness about regular health check-ups and preventive care.

Amrit: So, in a way, we're both riding this wave of heightened consumer awareness and convenience-driven demand. People want their health managed, and they want their food fast. Different needs, but the same sense of urgency.

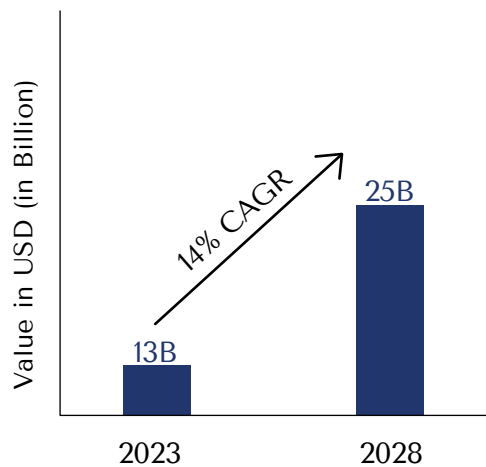
Data insight:

- The Indian QSR market is just **\$5 bn** market which is expected to grow at **14% CAGR** for the next decade

QSR Entries in India over the Years



- The Indian diagnostics industry is currently valued at approximately USD 13 billion in FY23 and is projected to reach USD 25 billion by FY28, reflecting a compound annual growth rate (CAGR) of around 14% over the next five years



A Shared Secret: The Hub and Spoke Model

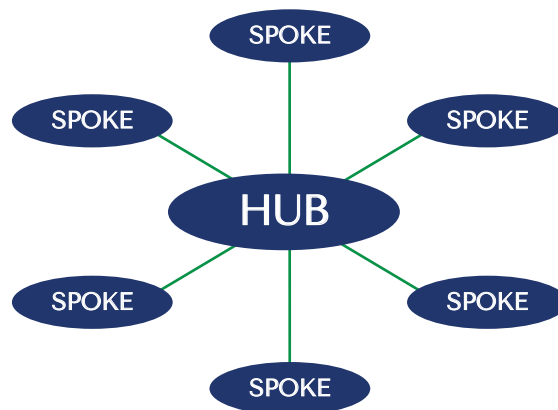
Krishna: It's all about the hub-and-spoke model. We have one central lab, but we set up collection centers all over town. Samples come to us, and we process them centrally.

Amrit: So, in a way, we're both riding this wave of heightened consumer awareness and convenience-driven demand. People want their health managed, and they want their food fast. Different needs, but the same sense of urgency.

Krishna: Exactly, logistics play a really crucial role for both our industries in maintaining the quality and consistency of services.

Data insight:

- 🔪 This "hub-and-spoke" model is common to both sectors. In diagnostics, companies like Thyrocare and SRL use central labs to process tests from various collection points, helping them maintain scale and efficiency



- 🍔 Similarly, in QSR, chains like Domino's and Pizza Hut they rely on central kitchens to ensure uniform quality while minimizing infrastructure costs. Both industries are expanding into Tier 2 and Tier 3 cities by leveraging this model



Other Key parameters:

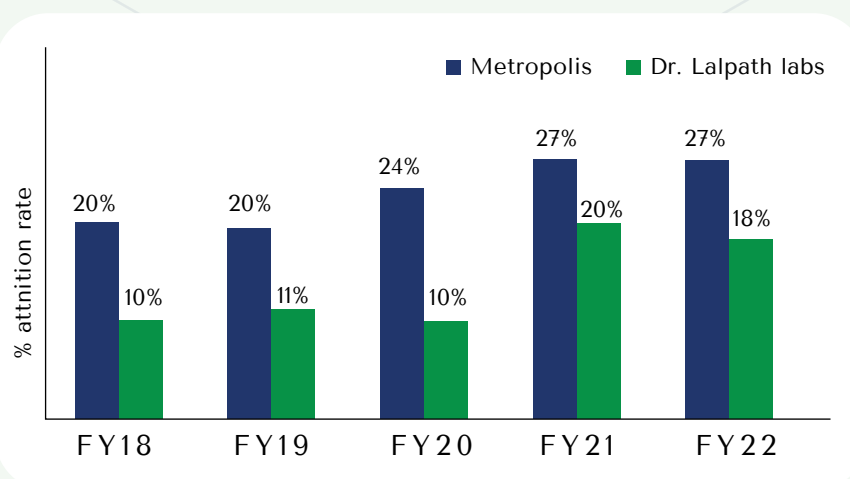
Amrit: You know, when it comes to the QSR sector, there are some critical parameters we can't overlook—like rentals, store location, manpower, payback period, menu items, and same store sales growth. I bet we see some parallels in your world too.

Krishna: Absolutely! These metrics are just as vital in diagnostics. Store location and manpower are particularly key for us.

Amrit: Exactly! The success of same store sales growth really hinges on getting the location right. But let's not forget, the attrition rate is a real challenge for both our sectors. We're always in the hiring game to keep our operations running smoothly.

Data insight:

-  The QSR sector is experiencing high attrition rates with a monthly average of 10-40% employee turnover. Around 75 percent of the workforce has a tenure of less than 3 years, with 36 percent serving for just 1 to 2 years— Economic Times
-  The diagnostics industry faces a shortage of skilled manpower, leading laboratories to hire hourly staff. Training and retaining critical employees, like laboratory technicians, is a major challenge, particularly for standalone centers, impacting quality. For larger companies like Dr Lalpath Labs and Metropolis, high attrition rates are a significant concern.



The Derived Answer:

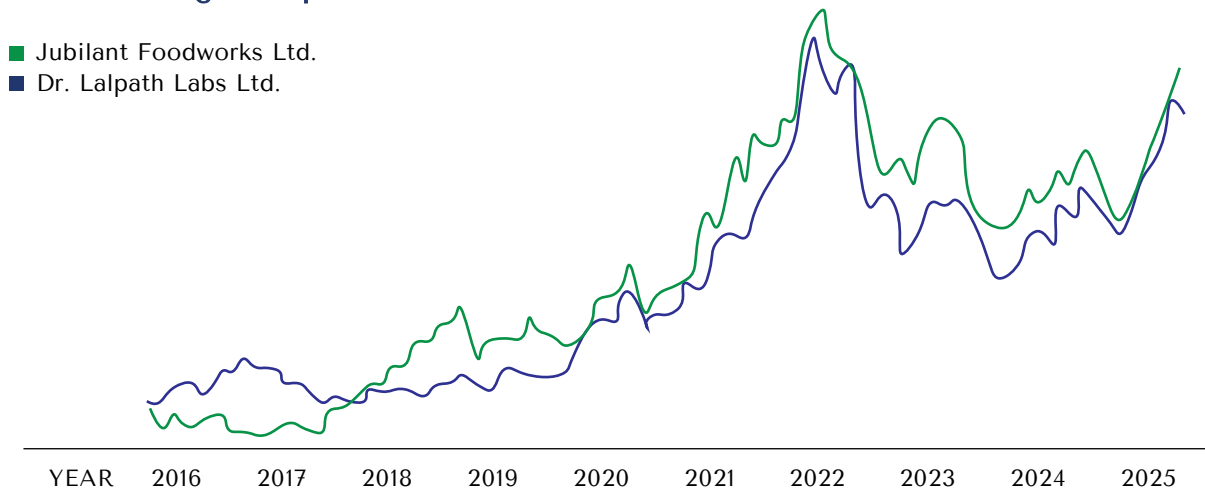
Amrit: You know, it's fascinating to think — is there a cause-and-effect relationship between the rise of QSRs and diagnostics? As people become busier and rely more on quick meals, I wonder if it impacts their health. Could the rise of fast food be leading to an increase in lifestyle diseases?

Krishna: It's possible. As we see more people coming in for tests related to diabetes, cholesterol, and hypertension, it does make you wonder are we diagnosing the side effects of convenience food? We might be part of a larger cycle. Fast food is convenient but not always healthy, and as people's diets changed, so did their need for diagnostic services. Could the very growth of QSRs be indirectly fueling the demand for diagnostics?

Data insight:

- 🌐 India is witnessing a growing incidence of lifestyle diseases, with diabetes affecting over 100 million people and cardiovascular issues on the rise. Interestingly, the QSR market has also grown by 15–20% annually over the last decade, largely due to urbanization and changing consumer habits. Could this be more than just a coincidence?
- 🌐 Share price of Jubilant Foodworks Ltd. & Dr Lalpath Labs Ltd. moving in sync doesn't look like a mere coincident

Long-term price chart of Dr. Lal Path Labs & Jubilant Foodworks



The Unanswered Question: A Cause-and-Effect Puzzle?

The tale of the QSR and diagnostics sectors leaves us with an intriguing question? Are these sectors not just similar, but influencing each other? As India's urban population increasingly relies on quick-service restaurants, could the very convenience that drives the QSR industry also be fueling the demand for diagnostic services by contributing to the rise of lifestyle diseases?

It is a curious link. Both the sectors are expected to grow at 14-16% CAGR until 2030.

But whether the fast food we love is creating the health issues, or whether both sectors are simply responding to the same societal changes, remains an open question.

----- Thank You for reading! See you Next Month! -----



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