

Future of Desi Coffee Parlours in INDIA

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Introduction

Indian organized coffee retailing is Rs. 400 crore rupees industry today. In the present global economic scenario, how the coffee retail industry would perform is a million dollar question. Lot of Multinational players are eyeing seriously on Indian market. Even though India is one of the important coffee producing countries in the world, Tea is also popular in India. As it was in history, even today, when tea is associated with common man, coffee is associated with luxury. India exports more than 73 per cent of the coffee that it grows. A new coffee culture is brewing in the country. Even north Indian Metros and big cities are sporting swanky coffee houses today. Youngsters are the targeted segment.

Organized coffee retailing is in a nascent stage. When the local players are just trying to establish in the sunrise sector, Multinationals are eyeing on Indian market. Multinationals are very eager to enter Indian Retail segment. Many have entered India through franchisee route. One billion plus population with big component of youth is an attraction for these companies. According to Harish Bijoor, CEO of Harish Bijoor Consultants, there are 336 urban centers in India. Out of this cafes have entered only 106 cities. Out of 336, eight of these are metros. 71 are tier 2 towns (with a million plus population), 26 are tier 3 towns

(with 5, 00,000 to one million population). According to Bijoor, based on prosperity, growth profile, disposable income, and spending capability there is potential for 4500 cafes compared to 1227 cafes dotting Indian cities today. But, understanding a diverse country of contradictions of over one billion people with many cultures and sub cultures is not an easy task for any strategist.

In the past, many Multinationals have 'gobbled' very successful brands in different sectors. Thumps Up of Mr. Ramesh Chauhan is a standing example. Foreign capital is not even sparing 'Vada Pav' and 'Samosa' business. Biggest complaint against Multinationals in India is their threat to Small and Medium Enterprises. The 'Barista' an Indian brand coffee chain has been taken over by Italian Coffee company Lavazza. Ramifications of globalization are felt in different sectors. The whole global economy is so integrated, what happens in US or Europe would have clear ramifications on Indian economy, both at macro level and at micro level. The recession in the economy is another big problem for this segment. Even big coffee houses like Starbucks are facing the challenge of slow down. In this background the challenge is, how would *Desi* coffee parlours face the heat?

Coffee Parlors in India

Table 1 : COFFEE PARLOURS OPERATING IN INDIA

Sl. No	Name of the cafe	No of cafes	No of cities	Remarks
01	Café Coffee Day	774	104	The company is promoted by V.G. Siddhartha. This is perfectly a <i>Desi</i> Coffee House. Plans 950 stores by 2009.
02	Barista	200	29	Taken over by Lavazza, Italy's largest coffee company
03	Java Green	114	22	From Reliance Anil Dhirubai Ambani Group (Shop-in-shop model)
04	Coasta Coffee	37	08	UK-based Group through a master franchisee with Devyani International Ltd. Plans 300 stores by 2012.
05	Qwiky's	37	12	Some time ago in the heart of Silicon Valley, Sashi and Syam — the founders of Qwiky's.
06	Coffee World	26	15	It is more a shop-in –shop format.
07	Café Mocha	25	06	It plans expansion to tier two cities.
08	Craze-Not Just Coffee	11	07	Craze is a part of Enkay group of companies which is Delhi based and a name to reckon with, both in social and business circles, with over 5 decades of existence. Plans to have 20 outlets by December, 2008.
10	Gloria Jean	03	02	Gloria Jean's Coffee is from Australia. Plans 90 stores by 2011.

The India Coffee Houses were started by the Coffee Board in early 1940s, during British rule. In the mid 1950s the Board closed down the Coffee Houses, due to a policy change. The thrown-out workers then took over the branches and renamed the network as Indian Coffee House. The first Indian Coffee Workers Co-Operative Society was founded in Bangalore on August 19, 1957. The first Indian Coffee House was opened in New Delhi on October 27, 1957. Gradually, the Indian Coffee House chain expanded across the country. Over a period of time many coffee houses were forced to close down due to heavy losses.

The one which was dotting MG Road in Bangalore closed its shutters in March, 2009.

Café Coffee Day (CCD) is part of India's largest coffee conglomerate, Amalgamated Bean Coffee Trading Company Ltd. (ABCTCL), a Rs. 750 crore ISO 9002 certified company with a tradition of over 135 years of coffee growing and the first to roll out the 'coffee bar' concept in India with its first café in Bangalore. This whole group is brought under the popular name 'Coffee Day Holdings'. CCD is the largest retail chain of cafes with 774 cafes across 104 cities in India.

ABCTCL owns five cafes abroad, three in Vienna and two in Karachi. The Karachi cafes are run by a franchisee and the ones in Vienna by a fully-owned subsidiary registered in Cyprus. The company has decided to foray into the Middle East, Eastern Europe, Eurasia, Egypt and South East Asia. In addition to its stand alone, high way, shop-in shop, book store, and corporate office cafes, Coffee Day has planned to unfurl three new premium formats. Coffee Day Square, specializing in 'single origin' coffees-classic beans sourced from a single estate in a single country across the world- targeted at a more discerning consumer. Coffee Day Lounge will be cafes where beverages are paired with food, where people 'meet over a meal' and not just coffee. The third format, still to be named, may resemble café nightclub and would look at offering a more vibrant experience with live DJ music and barstool seats.

ABCTCL's retail business in addition to Café Coffee Day, includes Coffee Day Xpress kiosks. It is to grow from the present 730 to 1000 kiosks by the end of December 2009. These Kiosks' coffee are priced less and for customers who are on the move. ABCTCL plans to grow its automatic vending machine (Take away) segment from the present 9000 to 10,000 installed units. In coffee powder retailing segment ABCTCL is the leader in India. It's 'Fresh and Ground' brand with 450 outlets is very popular. 'Coffee Day Perfect' is FMCG packaged coffee powder segment of the group. ABCTCL is the one of India's leading exporters of coffee, shipping out between 15,000 to 18,000 tonnes a year. CCD serves the coffee it grows on its 10,000 acres of coffee estates and is India's only vertically integrated coffee company. ABCTCL has two curing works at Chikmagalur and Hassan curing over 70,000 tonnes of coffee per annum, the largest in the country. Recently this group has entered into hospitality sector by opening

its first hotel in Chikmagalur under the brand name 'The Serai'.



CCD is essentially a youth-oriented brand with several exotic international coffees, food items, desserts and pastries. In addition, exciting merchandise such

as caps, T-shirts, mugs, badges etc are available at the cafes. The coffee is attractively priced from Rs. 50. CCD runs many types of cafes to address the various segments. Most of its cafes are stand-alone cafes but it also has corporate cafes which are located in the premises of large office campuses like Infosys. On office campuses subsidized rates are worked out with the administration departments in lieu of rentals. Coffee Day's favour was its strong positioning as a "third place" away from the 'home' from the 'college or workplace' for the young and the young at heart. In August 2008, Café Coffee Day announced that leading international brand consultant Landor will help it to reinvigorate its brand and take it to the next level.

The promoter of CCD, V.G. Sidhartha was awarded the best Entrepreneur award by Economic Times in 2003. Again CCD is adjudged as Best Exclusive Brand Retailer of the year and Best Food services retailer of the year at ICICI Bank retail excellence awards 2005. Subrato Bagachi, co-founder of the Information Technology and R& D services company MindTree Consulting, and author of the book *The high performance Entrepreneur*, adds: "Café Coffee Day, has redefined the coffee experience; it has been a trendsetter in the café space. Siddhartha has raised the coffee from the brew to an experience".

CCD customers

Behaviour of the given segment of customers is crucial for a café chain. In different parts of the world, cafes have been the birthplace and sanctuary for various creative minds, revolutionaries and thinkers. The most recent example is the author J.K. Rowling, who has written most of the Harry Potter series of books, sitting at her local café. The CCD being a youth oriented brand with majority of the customers falling in the 15-29 year age bracket, it has become a place where this segment of customers comes to rejuvenate themselves and be themselves. The marketing strategy and literature provided by CCD is also indicative of its youthful image. The menus, posters, pamphlets are all designed to attract young and young at heart.

Age profile of customers

Even though the broader age bracket of customers of CCD is 15 and 29 years, research shows that 37 per cent of the customers are between the age group of 20 and 24 years. This is the biggest segment of customers who visit CCD in terms of age profile. 27 per cent of customers are between the age group of 25 and 29 years.

Gender Profile

Majority of customers who visit the café are male. Sixty per cent of customers who visit the café are male and 40 per cent of the customers are female. This shows that majority of the customers are boys, who come to spend their time with their friends and loved ones. One more revelation of the research is that fifty two per cent of the customers who visit the café are students.

Frequency of visit

The customer behaviour towards frequency of visit is one of the important factor in

deciding the total sales of a café chain. Out of the total customers of CCD, eighteen per cent of customers visit the café daily. While another 44 percent visit weekly. Rest 38 per cent is not regular visitors to the café.

Customers and profile of the city

The customers' behaviour also depends on the size and nature of the city or town they hail from. Out of the 774 CCD cafes in 104 cities, 353 cafes are in just three metros (133 in Bangalore, 111 in Mumbai and 109 in New Delhi). These three metros account for close to 46 per cent of all cafes of CCD. Out of total 774 cafes 227 are in 95 towns and cities, at an average of 2.4 cafes per city. This clearly shows that café culture is more popular among the customers from metros compared to other customers in smaller towns and cities. But for few high way cafes which are closer to rural areas, the cafes have not succeeded to enter rural market.

Non-youth segment

Basically CCD is a youth brand. If CCD decides to enter non-youth segment, it should carve a separate niche among non-youths. It should not focus on competing with all segments of customers of 'traditional coffee parlours'- restaurants and Darshinis. The CCD has to focus on non-youth business class and customers from upper economic strata of the society who are now frequenting traditional coffee parlours- Restaurants and Darshinis. This segment of customers has affordability, but now may not like the 'youthful' trend in the CCD cafes. The CCD has introduced sub brand 'Coffee Day Square' to attract this segment of customers on a pilot basis in Bangalore. This sub brand has a different menu, including lunch option for the customers.

Barista Lavazza is the second largest café chain in India. Barista traces its roots back to

the old coffee houses in Italy-the hot beds of poetry, love, music, writing, revolution, and of course, fine coffee. Estimates are that Italy has over 1, 20,000 cafes-that's one café per 475 inhabitants. Barista, a chain of specialized Espresso bars was established in February 2000 to recreate the ambience and experience of the typical Italian neighborhood Espresso Bars in India. Barista's grew quickly to 200 stores. Since its launch in 2000, Barista's ownership has changed hands from Turner Morrison to the Tata Group to the Sterling Group and, last year, to Italy's leading roaster, the Lavazza group. Lavazza acquired Barista and the Fresh & Ground coffee vending business from Sterling group in March, 2007. Frequent change of management is one of the challenges that Barista has to tide over.

Gloria Jean is an Australia based coffee retail brand. It has presence in more than 30 countries with more than 770 cafes (435 cafes are in Australia alone). It plans to have 90 cafes in India by 2011 and 500 cafes by 2017. Gloria Jean has tied up with integrated hospitality major Citymax, part of Dubai based global retail giant Landmark group.

Qwiky's was started in India in 1999. Qwiky's has pioneered the Shop-in-Shop gourmet Coffee bar business. Qwiky has developed cafes within shopping partners including Lifestyle, Music World, Hidesign and Piramyd Stores. At present Qwiky's has presence in 9 cities in India. Chimayo Chains (P) Ltd. will develop the market in Indian subcontinent as a master franchise for the region.

Coffee World, an International Premium coffee chain is a part of Global Franchise Architects (GFA) and is the first international specialty coffee brand to expand through a combination of corporate stores and a network of single unit franchisees. It started its operations in India in 1997.

Mr. Bean is a Tata group undertaking. The company wants to start 100 stores by 2012. It could also leverage on its buyouts of Eight o' Clock Coffee, Tetley, Mount Everest Water and other proposed global acquisitions.

Problems faced by Indian Coffee Parlours

Every coffee chain wants to snatch the customers of other chain. Unless coffee companies can convince more different age group customers to perk up, every one starts losing.

High real estate prices in Indian Metros leading to high rent.

All coffee parlours focusing only on one segment- youth.

Majority of all entrants focusing only on Metros and big cities. Only Café Coffee Day has entered Tier two and three cities.

This segment is not a time tested one. Every entrepreneur is experimenting. The first café started only in 1996.

A general gestation period of five years in India against three years in developed countries for coffee chains.

Asian scenario

Asia has spawned a number of domestic coffee stores. Figaro in the Philippines, San Francisco Coffee in Malaysia, Black Canyon Coffee in Thailand and Trung Nguyen in Vietnam are chains that spotted a business opportunity and worked quickly to establish themselves, while Starbucks was busy creating dominance in North America. Today, Asia is Starbucks' new target market.

The sale of Pacific Coffee to Chevalier Holdings in early 2005 caught many Hong Kongers by surprise on a number of counts. Few of the people who grabbed their morning

cuppa at Pacific Coffee remembered that it was a local chain, launched just over a decade ago in Hong Kong. And, for those who were aware, there seemed no reason to sell a business which had better penetration and a stronger image among locals than the new entrant. May be it was the fact that the newcomer was Starbucks which tipped the scales. Pacific Coffee was started by an American, Thomas Neir, who came to Hong Kong in 1990 as the finance director of a computer firm. Pacific Coffee grew to 47 outlets in Hong Kong and Singapore. According to reports Pacific Coffee earned a net profit of \$ 9.4 million for 2004. Starbucks entered Hong Kong in 2000 via joint venture with Maxim's, a subsidiary of Dairy Farm International Holdings- the largest food retailer in Asia outside Japan. Neir publicly acknowledged that tough times lay ahead as competition intensified; however, he remained committed to the business and, in an interview in 2003, even talked about expanding into China. Less than two years later, he has sold his business- when Starbucks has grown to 34 outlets in Hong Kong, just behind Pacific Coffee's 41. The buyer of Pacific Coffee paid \$ 205 million.



Starbucks is a globally renowned and world's largest US coffee house. In US alone there are 4,666 company operated and 2,222 licensed coffee houses in 50 states. Apart from this, it has operations in more than 44 countries outside US in which it has 1049 company operated coffee houses. In addition to these, there are Joint venture and licensed coffee houses in these countries. In total there are 15,012 Starbucks stores in 44 countries including joint-venture and licensed outlets. The company's annual turnover is \$5 billion

in the fiscal year 2006-2007. Starbucks performance and expansion plans are not up to the general industry expectations in the last financial year 2007-08. Even in the first two quarters of 2008-09 the company is forced to lower its earlier drawn plans in terms of expansion and profit expectation. The company is planning to close down 600 underperforming outlets in the US. The company is undergoing mid-life crisis. The company may be facing identity crisis. Starbucks is planning to come out of the slow down by following different strategies. One of the strategies they may consider is to enter the markets like India, which have huge potential. In 2007 Starbucks made a proposal to enter Indian market. Their proposal was rejected earlier by the Foreign Investment Promotion Board, a government body that approves foreign investment applications in India, on the ground that the equity structure was ambiguous. Starbucks still remains very bullish on India and company has decided to file a new proposal as the government sought some clarifications in its equity structure.

Discussion Questions

1. What is the future for Indian *Desi Coffee Parlours* as the market landscape changes? Would they go the 'Pacific Coffee' way?
2. What strategies *Desi Coffee Parlours* in India have to follow to compete with global giants like Starbucks?
3. Is there sufficient space in Indian market for local players and Multinationals to grow hand in hand?
4. Do you support FDI in organized retailing?
5. What strategies do you suggest to Indian coffee houses when big players like Starbucks are struggling to sail through?

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