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INTERVIEW

Business model for Indian retail sector: The Café Coffee Day case

In conversation with V.G. Siddhartha, Chairman, Coffee Day

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Retail business model;
Indian retail;
Café Coffee Day;
Customer value proposition;
Revenue model

Abstract Given the distinctiveness of the Indian retail sector, and the lack of reliable data on the sector, developing an appropriate business model for the Indian retail sector is a challenge. In this exploratory study of the Café Coffee Day (CCD) chain of cafes, we use corporate presentations of the organisation and interview its Chairman, Mr. V.G. Siddhartha, to develop a business model along the parameters of customer value proposition, profit formula, key processes, and key resources to develop a retail model for Coffee Day Company. We generalise the model to the Indian retail sector to improve its sustainability and scalability.

Introduction

Globally, the retail business has been going through unprecedented upheavals in the last decade. While the retail sector has shown overall growth, the rate of growth of organised retail has been at best steady and most often disappointing. Large retailers, who have suffered from lack of growth in their home countries/core businesses, have shown a decided interest in expanding globally and in multiple verticals. Consequently, retail has undergone significant modifications and innovations. Most successful marketers have started adopting multi-format/multi-channel models to ensure maximum penetration and an optimal consumer base. India, being an integral part of the same churn, has also experienced its share of fluctuations. However, the Indian retail story is distinct and its distinctiveness has been highlighted by several empirical reports over the years on the Indian retail sector (Indian Retail Report, 2009, 2011, 2013; Kearney, 2006; KPMG, 2009). A few points on the distinctiveness of Indian retail are as follows:

i) The share of organised retail remains around 7.5% even after 20 years of existence.
ii) Even though India's economic fundamentals have been quite stable, multiple economies coexist within the

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country (Bijapurkar, 2009). Given the disparity between rural India and the metros and big cities, the same retail strategy and business model would not be successful in all parts of the country.

iii) Given the vast cultural and social diversity in the country, targetting consumers accurately and satisfying them adequately is a potentially difficult proposition.

iv) Due to the poor infrastructure, logistics and supply chain efficiency are seriously compromised. Hence, it is always a challenge to ensure economies of scale in supply chain and operations.

v) The organised share in the food and grocery pie is miniscule (1%). Apparel and accessories are the major benefactors of organised retail.

vi) Foreign direct investment (FDI) has not been implemented in retail even though the law enabling it has been passed by the central government. As the decision to implement FDI in retail lies with each state government separately, it might take time to be effective.

There is lack of availability of credible databases/panel data and detailed data points regarding the retail sector. Therefore, analytics based decision making and appropriate forecasting is challenging. For example, in the two sets of available datasets depicted in Table 1 (retail employment data) and Table 2 (the retail market scenario), while Table 1 provides the retail employment data over the last seven years, it does not provide any information on the skill level of the retail workforce. We do not have the demographic details of the retail workforce, their competency levels, or their efficiency levels.

While Table 2 provides the details of the Indian retail sector vis-à-vis the organised retail sector, there is scarcity of specific in-depth data related to both the organised and the unorganised sector in terms of the number of outlets, type of outlets, average space per store, average turnover per store/per category, number employed per store/per category, and so on. Some of the data mentioned above are available for brand/organised retail store level (Euromonitor International, 2012; Indian Retail Report, 2013). However, the available data are not comprehensive, inclusive, and detailed.

In such a context, the ideal retail business model of the US and the European countries may not be appropriate for the Indian retail sector. Further, we cannot contend that India is following the same pattern of growth as the US did 50 years ago and hence will follow the similar model of retail growth (Bijapurkar, 2009). With FDI liberalisation, there is an expected flow of funds into the Indian retail sector and several Indian and multinational retailers are developing their retail strategy and expansion plans. However, one of the biggest challenges here is the appropriate business model for the Indian retail sector. Sorescu, Frambach, Singh, Rangaswamy, and Bridges (2011), McGrath (2010), Magretta (2002), and Porter (1996) have also highlighted the significance of an adequate business model and the appropriate business strategy for improving the probability of success in business. In this paper, we intend to analyse the existing business model of a firm and comment on its appropriateness for generalisation to the retail sector in India.

Literature review

Traditionally, the business model is considered as equivalent to the revenue model which is derived from the cost structure (Johnson, Christiansen and Kagermann, 2008; Magretta, 2002; Sorescu et al., 2011). However, recent thinking conceptualises a business model as a series of interdependent activities that integrate into a whole system. Afuah and Tucci (2000) conceptualise the business model as a system that is made up of components, linkages between the components, and dynamics. Zott and Amit (2010) define a business model as the content, structure, and governance of transactions designed to create value through the exploitation of business opportunities. As per Sorescu et al. (2011), a business model is a well specified system of interdependent structures, activities, and processes that serve as a firm's organising logic for value creation (for its customers) and value appropriation (for itself and its partners). This concept of business model is supported by Chesbrough and Rosenbloom (2002), Gambardella and McGahan (2010), Teece (2010), Osterwalder, Pigneuer and Smith (2009) and Sosna, Trevinyo-Rodríguez, & Velamuri (2010). Essentially, the set of activities/processes constituting the business model must display the required synergy and cohesiveness to satisfy the organisational goals effectively.

Here it would be significant to differentiate the business model from strategy frameworks. As per Hambrick and Fredrickson (2005), while strategy is an externally oriented concept that provides overall direction/guidelines on how to achieve organisational objectives, the business model provides the detailed mechanisms (interdependent activities, systems, and processes) that propel the organisation towards the goal. Casadesus-Masanell and Ricart (2010) also agree with the viewpoint and describe the business model as the reflection of the firm's realised strategy.

Examples and illustrations of business models have been provided in a few significant studies. Casadesus-Masanell and Ricart provide pictorial business models for Ryanair, TDC, and Telemore and carry out conceptual analyses of the same. Zott and Amit (2010) present an activity system perspective for design and analysis of business models and provide multiple illustrations. Teece (2010) provides the elements for designing a business model and steps for the development of successful and sustainable business

Table 1 Employment in retailing.

(In '000)	2006	2007	2008	2009	2010	2011
Total employment	394,162.5	405,171.6	415,647.2	420,588.0	427,978.6	437,369.2
Employment in retailing	37,031.0	37,768.4	38,596.0	39,224.0	40,008.5	40,808.6
Employment in retailing %	9.4	9.3	9.3	9.3	9.3	9.3

Table 2 Indian retail sector.

At market prices	2006—07	2007—08	2008—09	2009—10	2010—11 (Estimated)	2011—12 (Estimated)
Total Indian retail market (Rs. Crore)	1,309,764	1,504,502	1,731,743	1,948,916	2,221,764	2,555,029
Growth (%)		14.9	15.1	12.5	14	15
Retail market as % of private consumption	52.9	53.3	53.7	53.3	53.7	53
Organised retail market (Rs. Cr)	78,300	90,000	105,000	126,680	158,603	206,500
Growth (%)		14.9	16.7	20.6	25.2	30.2
Organised retail market as % of GDP	1.8	1.8	1.9	2.1		
Organised retail market as % of total retail market	6	6	6.1	6.5	7.1	8.1

models. Table 3 shows the elements and process of a business model, based on Teece (2010).

Johnson et al. (2008) too present the elements of a successful business model (Table 4).

A comparison of both the models displays similarity of parameters for designing a business model. Hence, one can use the same parameters (constructs) to analyse a retail business model.

Methodology

For development and analysis of business models, typically, empirical data is collected through primary and secondary means. Researchers also usually use the case study method while working on business models. The objective of data collection is to identify the activities within the various systems of any organisation and their inter-linkages. Data collection also deals with the identification of the customers and the various business partners as well as the value proposition to them. Brettel, Stresse, and Flatten (2012) use empirical data collection from primary sampling and secondary sources such as the German Chamber of Industry and Commerce. Johnson et al. (2008), Sorescu et al. (2011), Batista (2013) and Reinartz, Dellaert, Krafft, Kumar, and Varadarajan (2011) follow the case study method for their studies. In this study, we follow the case study method to develop and analyse a retail business model in the Indian context.

As the study is exploratory in nature, we decided to focus on a single organisation and collect as much empirical/case study data as possible to conduct the study. The organisation under study is the Café Coffee Day (CCD) chain of cafes. The corporate presentations of the organisation and the interview with Mr. V.G. Siddhartha, the Chairman of Coffee Day Company, including CCD, have been used to develop the business model. Launched in 1994, the group is now a Rs 1400 crore (14 billion) (in coffee), ISO 9002 certified company. In the following section, a brief introduction to CCD is given, followed by the interview with Mr. Siddhartha. Subsequently, a business model is developed based on the available information regarding CCD and it is analysed.

Table 3 Elements and process of a business model (Teece, 2010).

Serial no	Elements	Usage
1	Product features	Select technology and features for the product
2	Product benefits	Determine benefits to the customer from product usage
3	Segmentation	Identify market segments
4	Revenue model	Validate available revenue framework
5	Value delivery	Ensure the mechanism to deliver value to the customer

The Cafe Coffee Day business

The parent company, Coffee Day Co. is a multi-business organisation which includes agri-business, retail, logistics, investments, and infrastructure verticals in its portfolio. Following is a brief description of each business vertical.

Table 4 Elements of a business model (Johnson, Christensen, & Kagermann 2008).

Serial no	Elements	Constituents of the element
1	Customer value proposition	Target consumer Jobs to be done Offerings
2	Profit formula	Revenue Cost Margin Stock turns
3	Key processes	Processes Evaluation criteria and benchmarks Norms and policies
4	Key resources	People Technology Equipment Information Back end as well as front end channels Partnership Brands

Agri-business

This could be considered the family heritage for Coffee Day Co. The promoter (V.G. Siddhartha)'s family has been in the coffee business for more than 140 years (since 1870). Currently, the group owns 11,000 acres and manages another 3000 acres. Eighty per cent of the plantations grow Arabica coffee and the remaining 20% grow Robusta. The largest producers of Arabica coffee in Asia, all their estates are UTZ certified for best management and traceability practices. (Coffee Day was the first company in India to get the UTZ certification, a certification provided for responsible professional coffee growing.) They employ more than 3000 skilled plantation workers. Coffee Day Company's Amalgamated Bean Coffee Trading Company Limited is the largest integrated (growing, processing and retailing) coffee company in India.

Retail business

Coffee Day Company's retail business consists of the Café Coffee Day chain, Coffee Day Xpress, Coffee Day Beverages, Coffee Day Fresh and Ground, and Coffee Day Exports. Pioneering the coffee café concept in India, Café Coffee Day was launched in 1996 with equal weightage on being an Internet café and as a speciality coffee café. Today there are over 1450 Café Coffee Day stores in 200 cities in India where around 500,000 guests visit the cafes every day. The stores range from 800 to 2000 square ft. All cafes are company owned and operated. There are 45 Café Coffee Day Lounges that are targetted towards families and the trendy affluent and offer more varieties of food (breakfast, lunch items etc.) and better ambience. The Café Coffee Day Square is the high end café serving single origin coffees from across the world. It is targetted towards international customers and affluent Indian customers. The Coffee Day Xpress is the regular café with varieties of coffee, tea, cold beverages, and limited food options. It is targetted towards the youth and the average middle class Indian consumers. Currently there are over 900 Coffee Day Xpresses and many of them are at high-footfall and captive locations such as large corporate campuses, office buildings, hospitals, metro and railways stations, and so on. Internationally too there are two CCD cafés in Vienna and 14 in the Czech Republic. Coffee Day Fresh and Ground deals in retailing of fresh ground coffee powder in 22 different blends. There are 412 outlets in South India and 4500 clients in the HoReCa (hotel, restaurant, catering) segment. Coffee Day Beverages also sells indigenously manufactured coffee vending machines. They have about 6500 corporate accounts and 18,000 vending machines have been placed across India serving freshly brewed coffee. About 50 million cups of coffee and tea are dispensed monthly from these vending machines. They also retail single-serve solutions in coffee in the form of capsules and sachets and the company has plans for more variants as well as aggressive expansion plans.

The Coffee Day Co also has coffee curing and roasting facilities at two places in the Western Ghats, 200 km from Bangalore, with a curing capacity of 70,000 tons/annum and roasting capacity of 7000 tons/annum (soon to be upgraded to 12,000 tons/annum). Coffee Day's coffee blends are created at the Coffee Lab at Bangalore (with more than 22 blends to their credit) and the production and packaging of all food and beverages used in the Café Coffee Day chain is handled by the R&D lab at Chikmagalur. Both these centres of excellence are manned by qualified (from *Central Food Technological Research Institute* — CFTRI and *Defence Food Research Laboratory* — DFRL, Mysore), experienced and renowned personnel (cup tasters headed by Ms. Sunalini Menon). These facilities serve as the back end support for their front end retail business. As the back end operation too is owned by the CCD group, it provides superior control over quality and timely delivery of merchandise. Apart from that, Amalgamated Bean Coffee is among the top three exporters of coffee from India, and it is able to source the best coffee beans grown in the country.

Logistics business

The CCD group owns Sical Logistics which is a single window multi modal logistics solution company (port — rail — road — ICD (inland container depots) — CFS (container freight station) — dredger). Sical handles more than 26 million tons of bulk cargo and 600,000 TEUs per annum across all major Indian ports. It is also the market leader in surface logistics with a pan-India presence. It also has cold chain operations for the captive needs of CCD and container train operations between Chennai and Bangalore.

Investments business

With his investment banking experience, stock market operations have been one of Mr. Siddhartha's major strengths. Apart from his own investment firm, he has significant investments in multiple IT and technology based business ventures (viz., Mindtree, DSP Technologies, Way 2 Wealth, etc.).

Infrastructure business

Coffee Day Co. owns Tanglin Development Ltd. that develops world-class infrastructural facilities for technology enterprises. They have a 120 acre campus in Bangalore with SEZ approval that houses companies like Mindtree, Accenture, EDS, Kyocera, Texas, Textron, Sonata, Keane etc. They also own the Tech Bay at Mangalore and the Integrated Township at Mumbai. Apart from these, there is the Coffee Day Hotels and Resorts Chain (the Serai Resorts) at multiple places in the country (Karnataka, Kerala, Rajasthan, Andaman and Nicobar Islands) targetted towards the affluent class.

Interview with Mr. V.G. Siddhartha, Chairman, Coffee Day Company

Ashis Mishra (AM): We would like to start from the beginning. What we know about Café Coffee Day was that it started around 1986 ...

V.G. Siddhartha (VGS): My family has been growing coffee since 1870, in Chikmagalur in Karnataka. We were allotted a lot of land by the British and on the suggestion of European planters, we started growing coffee. When the family lands were partitioned in 1956, my father's share was around 500 acres. We were a family of agriculturists with little knowledge of business, but we valued education. After my post-graduation in economics from Mangalore University, I returned to my family estates, after narrowly having lost out on joining the army! During college, I used to frequent libraries and I read a lot on my own — I read Russian history and read up on Karl Marx. I also developed an interest in investments and in the creation of wealth.

Back home, I told my father I wanted to do business. He gave me 7½ lakh (750,000) rupees, even though he was against my doing business, and added that if I lost the money I should come back home and he would give me property to manage. So I came to Bangalore in 1982. I invested 5 lakh (500,000) rupees in a site as a standby.

By this time I had become interested in the stock market and trading. I took a chance and made an impulsive visit to Mumbai, and gate crashed into the office of a leading investment banker, and landed a job as a trainee in their research department. I worked very long hours, answering calls, analysing balance sheets, attending to the trading desk; it was a wonderful learning opportunity. I worked there for two years. Market capitalisation in India in 1983 was Rs 30,000 crore i.e. $10 billion. The exchange rate against the dollar was Rs 30—32. Today market capitalisation is Rs 1.3 trillion or so. So the market has gone up 130 times. If one had been smart one would have grown 500 times or 1000 times better than the market. This is the right time and the right place. Of course, one needs to make the right efforts as well.

I came back to Bangalore in December 1984. My experience in Mumbai helped me become a very good trader. In those days, inter market arbitration was a big business. Mumbai gave me an opportunity to analyse and to acquire the fundamentals. In those days even balance sheets and data about companies were not available. So we were not trained as speculators, we were trained on fundamentals. When I came back I set up a proprietary stock broking firm in Bangalore. With the capital I had left I set up offices in different cities of India together with four or five old friends. There were no formal agreements but there was and still is great trust between us. We were lucky and we were very successful. I made a lot of money trading in arbitration. When I used to work in shares, I used to analyse the coffee markets because of my background. I realised that the average international price of coffee had been $1.20 per pound for 17 years — this was before 1985. And Indian growers used to get 35 cents per pound. So I realised that there was a great opportunity, especially when a free market became a reality. I did not think it would happen so quickly.

By 1987, with the money I made in the stock market, I bought about 1500 acres of land — since agriculture was considered a priority sector, banks used to give 75% loan at very reasonable rates of interest. With the co-operation of the banks, by 1992, we had a plantation of 4000 acres.

However, my investment business was my goal, and this felt like a safe investment. I was managing my own portfolio — inter market arbitration.

I was reluctant to get into the coffee business. Being a grower I realised that in a small business such as this, we would be at the mercy of middlemen to market our produce. As a way out, together with a few friends, we decided to trade in coffee. We started a trading desk. We built one factory and gradually several more. Within two years, we became India's largest exporter because we had the trading skills.

At that juncture, in the course of a routine business dinner with a European buyer from my trading circle, I learnt that his company, Tchibo GmbH, the second largest processor of coffee in Europe today, began operations as a family concern in a 10 by 10 store in 1949 in Hamburg. I did not sleep very well that night. I kept thinking, would it be possible to brand and sell a completely Indian product? If I work hard today, in the next 40 years, can I be another Tchibo in this part of the world? That was my dream. I also realised that if I became a big trading house within two years of operation, the international players would come in and compete with me. After all what is a commodity without a brand? Given their resources, I would be out of the commodity market. My margins would be 2% or 3%.

AM: It's the branding that makes the difference and not the competitor.

VGS: Correct. I was really impressed with Tchibo and I made a beginning. I hired an MBA and explained my concept. I wanted to set up 40 stores, 20 in Chennai and 20 in Bangalore to sell coffee powder. I was told that selling coffee powder without a brand through small stores would be very difficult. But my thinking has always been contrarian. I have always taken the path less travelled and if you take the path less travelled you may get lost in the forest or you may succeed.

We put 20 stores in each city. We started selling modest amounts. It was difficult but it was not a bad idea. I then had the idea of putting up coffee stores and I spotted a possible location on Brigade Road in Bangalore, which had over 50,000 footfalls — there were no malls those days. However, my researcher came back to me after one week with a loophole. Exactly 50 m away there was a coffee shop which was selling coffee at Rs 5 a cup — it did not have air conditioning though. My plan was to have an air conditioned location with a certain style and price my product at Rs 25/-. He discouraged me saying India is a very price conscious consumer market. So, out of respect for professional advice, I gave up the plan.

In 1996, I was in Singapore attending a conference. At the end of the street, where a banker friend was buying me dinner, there was a pub where people were surfing the Net on computer screens and drinking beer. When I came back to India, I wanted to start cafes with similar Internet connectivity and decided to invest in the venture despite the misgivings of my professional adviser. I was ready to take a chance, to struggle on the road less travelled. Then we discovered that no dedicated 64 KB line was available to the public and we needed the connectivity it would provide. We applied to Delhi and we were the first to get a 64 KB line other than software companies.

If you had asked me in 1996, how many stores Bangalore would take, I would have said, Bangalore will take 3 stores, and India as a whole will take 15 stores. Today we operate 1500 stores in 210 cities in India, all company owned. I personally feel in the next five years our number will be 2500. Today the Indian market size is around 2000 stores. In the next five years, I expect, all brands put together, we will have 5000 stores. So we are occupying around 70% of the market. Once the international companies come in, only destiny and time will tell who will have what market share.

Once we realised that it made good business sense to pay café rentals and go ahead, we created several businesses.

AM: When you started off the Café Coffee Day venture in 1996, what was the biggest challenge? Getting people out of the filter coffee mode would have been a challenge ...

VGS: In 1996, when we started, we had an imported cappuccino machine. I remember paying seven lakh (700,000) rupees for it. But my team insisted that there should be filter coffee. One day I found my people filling coffee into the filter and I told them this would not do. It would kill the ambience and the spirit of the venture. We lost some of that business for a few months but we persisted. We started an Internet service and gave the coffee free. Or we said, you buy a coffee, you get half an hour Internet service free. It was a combination that we started. In 1999 we were around 12 stores — 7 in Bangalore, 3 in Hyderabad, 3 in Chennai. We decided to call the stores Coffee Day Cybercafé. But since "cyber" had become a common prefix, we decided on Café Coffee Day. We renamed and rebranded the business, and the store.

We designed the place as one where students and youngsters would hang out. The Internet was just coming in. We thought this would appeal to the software crowd in Bangalore, who had some international exposure. Bangalore had a small software export industry and this kind of culture was just picking up. We also built a team which decided on the quality of the menu and other things.

AM: How did you grow over the next 15 years?

VGS: In 2000, my investment business was doing very well. I had funded around seven companies by 1998, other than the listed equity. In 2000, my technology portfolio was valued at Rs 415 crores (4150 million). I was 100% owner of that company. So coffee was a small part of my business ventures. And India's retail market had not grown.

However, my style of functioning has always been hands on. I belong to the school of entrepreneurs who roll up their sleeves and get to work. You have to work hard meeting your people, motivating them; if not it doesn't work. We had a huge team. But I kept thinking, how do you help them to do better?

In 2000, one of our competitors put up 20 stores in Mumbai and 20 stores in Delhi on a similar concept. I had not expected the competition. I was of the thinking that I could scale up as needed. All of a sudden it felt as if I had lost the battle. It is when you get that left out feeling that you come back with vigour. So we revamped the team, and relaunched the store after rebranding. In 2001, we had 20 stores; our competitor had 40 stores, the only difference being we knew the business. We knew that the rent to revenue ratio should not be more than 20%, 25% maximum. Our competitor's rent to revenue ratio was 50—60%. So if you try to copy others, you fail in some ways.

AM: Like the game of chess. Black follows white's moves and suddenly black loses the game. It is the same scenario.

VGS: Yes. We took this as a challenge. By 2004, we were already 200 stores. A few months back we opened store number 1440. Other than these stores, we sought different ways of capitalising on the power of our brand. We have around 18,500 coffee vending machines — fresh coffee with milk. We vend coffee and tea, we sell 50 million cups of coffee and tea a day in 7000 corporates in India. We have another 900 kiosks in colleges, schools, and railway platforms. Altogether we have about 2700 retail outlets. But I feel that we will pick up as a real consumption store, only when per capita income of the country crosses $3000; it is $1500 or $1600 now. We are currently building the business to go up to that level. I foresee a lot of competition. If you ask me how happy I am with what I am doing, I will rate it at 60%. There is so much scope for improvement. It is a process. We are optimistic about our business because if you take any American brand, for example, McDonald's, KFC, Subway, they all started between 1945 and 1970. And the last 40 years has been the best time of American growth. The next 50 years will be India's best growth period. So if America has produced the top five food brands over the past 40 years, then India can produce one in the next 50 years. We feel we have a chance to be a world brand. That is the dream we are working on. In 20 years we should be one of the top three coffee brands in the world. You do not need to be number one. The first three ranks will all get a decent score. According to me that is fine. What is important is the passion, which would be there in all three. And yet, I did not study marketing, I did not do my MBA.

AM: Probably you know more about brands than the MBAs ...

VGS: No, we have a great team. I am only a custodian of the brand and I work with the team. Everything is team work. There are a lot of youngsters, with a lot of passion; I think that is our strength.

You asked me which are the major challenges I faced in running the business. There are two issues here. One is real estate. Today it is not just a café, or a food chain in competition with other food chains. Today if FDI opens in multi-brands they will head for the malls, the big departmental stores. But to go to the department stores, they need to have some high street stores — you know how the marketing game is... So the biggest problem is getting the right real estate at the right price. I cannot compete with a jeweller whose sales and profits are in crores. I sell coffee at 60 rupees, I have to make money and pay the salaries and the rent. It is a challenge. Second, even though we say India has huge potential, the salaries of the team members in the store are not such as to retain them. Even though salaries have gone up three times in India, you do not get the quality you want at that level. For those boys, opportunities are aplenty. For them even a 500-rupee variation is enough of a spur to change jobs. This is the biggest challenge. How do you retain them? How do you motivate them? How do you grow them?

We say we have 1.3 billion people, but quality is the problem. We cannot blame them either because in India the salaries in a retail supervisory role for example, are not on par with what is paid in the US or elsewhere in the West. However, I think that will change. But we have to put in a lot of time, energy, and training to improve the quality of our personnel. Also, we cannot sell our product at too high a price because the Indian market is not in a position to take such a high priced product. We can dream of putting up 2000 stores in the next three years, but is it really feasible? When we are looking to sell our brand, we are looking for broader markets, we do not say cheaper markets. We want customers across the board to come to our stores.

AM: Is there any change of strategy or change of pricing for smaller cities?

VGS: We have four types of pricing. We decide on the pricing according to the real estate and the power of the place.

AM: But the focus is still on the youth...

VGS: We do not have much of an option. Seventy per cent of India is below the age of 35, as are 80% of our customers. I think it is a great market. Our youth are very aspirational. They want the same experience that they see in the movies or television or get through the Internet. So while we have to be price conscious, we have to improve the quality to match international standards.

AM: Do you have plans for international expansion?

VGS: We have opened 18 stores internationally. We have around 12 stores in Prague and 2 stores in Vienna. In the next two years we will concentrate on India. But our dream is in the next 10 years we want to operate in 25 countries, have a couple of thousand stores. In our case, right from growing the coffee bean to the cup we do not have any middlemen. We make our own coffee machines, even our own furniture. So our costs can be cut.

We have a training centre where we train up to 900 people every year. We take 10th and 12th grade boys and train them in retail. We employ them for one year. After that they can go anywhere and seek opportunities in the job market.

AM: You were talking about the smaller cities and attracting the customers ...

VGS: On inter-city highways we have about 100 stores today — Bangalore—Mysore, Mysore—Ooty, Coimbatore—Chennai, Chennai—Bangalore, Vizag—Hyderabad, Delhi—Chandigarh, Chandigarh—Ludhiana, Jalandhar—Bhatinda and so on. With the percentage of automobiles on the road going up, travel will really be substantial. When people travel with families for long hours, they need a washroom. Our idea is to create a great washroom. People will want to relax and also have coffee, tea, or other beverages or something to eat. In the next five years, all brands put together, India will have 5000 stores. One thing we have realised is the importance of having a larger food component because Indians like to eat out and our beverage pricing will not help us to make money. So if the food sales go up a little bit, it will be much better.

AM: In the last year or so the menu has totally changed.

VGS: We have improved our food substantially. Now we have 20 people working on our coffee research and beverages research, and 20 people working on our food research.

AM: So if you have to divide your journey of 20 years starting from the first store, how many distinct phases would you say you have gone through?

VGS: In 1993 when we started we felt that if we control the coffee trade, the raw material will be controlled. Then we went to the powder coffee business, and then the café. We used to import machines at Rs 2½ lakhs—3 lakhs (250,000 to 300,000), now we manufacture our own at Rs 70,000—80,000, and along with branding it works out to within rupees one lakh (100,000). We manufacture in volume, lease the machines and get a rental income. Retail is at a very nascent stage in India. However, the trends are picking up and there is a huge market ahead and I think all of us can have a decent market share.

AM: What about tea? You have not focussed on tea as much as coffee ...

VGS: We sell lot of tea as well through our vending machines. However, we have to improve the quality of our tea. As I told you earlier, we have achieved 60—65% of our potential. American brands have an advantage as they started 60 years ago. They have gone through so much research and development. For people without knowledge of branding and marketing, it is a trial and error situation. Luckily for us, despite our mistakes we still survived. I think it will take another four to five years for us to become mature. I think the international competition will put us through the process of putting our house in order.

AM: You told me that real estate and getting manpower is the biggest challenge today. From the consumers' side do you see any significant changes?

VGS: As far as the consumer is concerned, other than your core products you need to introduce new products, or products with variations, often. And you have to rotate the food. You have to take care of the ambience and the experience.

AM: Can you tell us about the different kinds of stores you have?

VGS: We have the lounge, the square, and the café. A different experience is offered in each category in order to cater to every segment of the market.

We have 45 lounges. Lounges look completely different. And there's more food there. The square is the highest end. We charge more than any international chain. In the next three years, we would like to have 25 squares, 200 lounges, and around 1700 to 1800 cafes.

AM: So what is the segment for lounges and what is the segment for squares because as far as the café is concerned, largely you are talking about youngsters?

VGS: Lounges are for the office going crowd and families. We offer more freshly cooked food and a different ambience. Whereas the square offers international coffees of seven or eight different origins — from Columbia, Guatemala, and from India as well, belonging to specific estates, such as from our estate, Dark Forest — Kathlekhan in Kannada. We offer exotic coffee and international food. I say that the square is for the Gucci, Louis Vuitton crowd. Lounge is for the regular, not-very-young crowd. Café is for those who seek value for money, and that is what we want to concentrate on, the regular store.

AM: You were talking about the challenge of the work force and so on ...

VGS: Manpower is always challenging in retail growth. Everybody wants to grow. So we have to constantly build our supply side substantially.

In our vocational training school we take youngsters from the village and put them through six months of rigorous training. This is my personal initiative because I believe a decent portion of my earnings should go towards not-for-profit purposes. When we make money I feel we should spend some money on what is good for society. This is one initiative we have undertaken. We spend thirty thousand to forty thousand rupees per student. When they come to our school, they are shy, village kids. When they graduate in six months, we give them a certificate, and they can work in our stores for one year, after which they travel to different places. Some of them have done very well; they now earn a salary of 30,000 rupees. We also have a 33% reservation for girls. That is our effort to see that the girls stand on their own feet.

AM: Those are your initiatives in the front end. But what about the middle, the level of the store manager?

VGS: We have an HR department with 70 people in HR and recruitment. We have a training department with 80 people. It is a system and is driven independently.

AM: If you look at your competitors from the real estate perspective, everybody is a competitor. But from the consumer's perspective, the consumer today has many options apart from going to only a specific fast food place. So how do you think the consumers look at it?

VGS: We do not see ourselves competing with fast food chains. Ultimately, we will be in the coffee and beverages segment. There are two or three names here that we see as our main competitors, and they are international names. We see ourselves as participating in a marathon and not a sprint. International competition will expand the market. They put systems and processes in place. We learn a lot from them. And that helps build our aspirations. If you look at the leading international brands, they have been built over a period of thirty or forty years. Twenty years down the line we can be like one of them if we do the right thing. And if somebody is number one in the world, what is wrong if you dream of being number three or number four in the world? And in the world if we are number three or number four, as a late entry, and as an Indian, I will be very proud of it.

AM: Does it finally come down to the place, the real estate?

VGS: Not only real estate, but also pricing and the nature of the offering. International competitors will concentrate on the niche market and with their pricing and so on; they will concentrate on 5% of the market. With our segmented offering, we already have 40% of the market. And we are aiming to broaden the market. We will do our homework and make our best effort.

AM: So finally what would be your message for the coffee industry, cafe industry in general?

VGS: I think we are the only coffee company who started as a grower and converted into a brand company. The real game is played in the multinational segment. We want to make our presence felt in every segment. I believe the big competitors will survive and they will do well. The market will expand. And we will also have enough of a share for what we want to dream and achieve. There are not many players in this industry. For us to dream, to become one of top three brands in the world in the next 20 years is not a big thing. We can, if we take the right steps and get our strategy and finances right.

AM: Thank you sir for sharing your experiences and the Café Coffee Day story with us.

Analysis and interpretation

Based on the available information, an exploratory business model can be designed for the retail business of Coffee Day Co. Subsequently, the business model can be generalised for the Indian retail sector. In developing the business model, the parameters suggested in the literature review (Tables 3 and 4) can be considered.

Customer value proposition

The customer value proposition includes identifying the target customer, defining the benefits to the customer from the consumption point of view and based on the same, designing the offerings which satisfy consumer needs. The positioning scheme would be in accordance with Ander and Stern (2005) who suggest that every retailer needs to be the best in one of five dynamic positions (hot-est, easy-est, big-est, quick-est or cheap-est; fine-est added here) while being acceptable in all other positions. Otherwise, in their effort to be the best in all dimensions (being everything to everyone), retailers enter into retail black hole (point of no return). The customer value proposition for Café Coffee Day (retail business) is given in Table 5.

Profit formula

The profit formula essentially deals with the financial sustainability of the business in the long run. It consists of the revenue model, the cost structure, the margin model, and the resource velocity. Each of these is discussed below.

Revenue model

The revenue model decoded would be the market potential for the business (viz. how much money can be made). Quantitatively it can be expressed as price times volume. In the CCD case the volume is unlikely to pose a challenge. According to Mr. Siddhartha, in 1996, India had a capacity for about 15 cafes. Today, it is about 2000 cafes. In another five years, it could rise up to 5000 cafes. Cafe Coffee Day today has about 1500 stores in 210 cities in India and it could go up to 2500 stores in five years. Today the CCD chain has 70% of market share and even with the impending foreign competition, it might still have 50% market share. So the market is on the growth path. With more café chains and superior promotion, consumer awareness would increase and in turn the market size is set to grow further. On the price front, CCD follows four different pricing models based on the cost of real estate and the purchase potential of the place. Hence, one can safely assume the sustainability of the revenue model of the CCD chain.

Apart from that, the market size and brand awareness of CCD increases multifold due to the 18,500 vending machines all over the country and over 900 kiosks in schools, colleges, and railway platforms selling 50 million cups of coffee and tea per day. Even though it is an indirect retail model, it definitely does contribute to the robustness of the revenue model. Also in the long run, the brand awareness and customer satisfaction might lead to cross selling in the CCD cafes.

Cost structure

The cost structure model includes the allocation of costs over the various activities (viz. key assets, direct costs,

Table 5 Value proposition for Café Coffee Day.

Customer segment	Benefits	Offerings	Positioning
Youth/middle class	Relaxation, good price, convenience with coffee and food	Café Coffee Day Express	Easy-est
Family/upper middle/ upper class	Quality and variety of food and coffee with in-store experience, quality time	Café Coffee Day Lounge	Big-est
Affluent/international	International café experience in India	Café Coffee Day Square	Hot-est
Single serve/travel	Quality, convenience	Capsule and Drizzle	Easy-est
Family/Connoisseur	Quality, convenience	Coffee Day Fresh and Ground	Fine-est
Institutional (Horeca)	Indigenous vending machines, good price	Coffee Day Beverages	Easy-est

indirect costs etc.) and the economies of scale. While the exact cost structure is not available for this article, the background information provides adequate input concerning the assets and the economies of scale. The brief on Coffee Day Co. gives ample evidence of the complete optimisation of the procurement and supply chain. The company owns the plantation and the curing as well as roasting facility and hence the complete input supply. Being one of the largest exporters of coffee in India, they also have access to the best quality coffee in the country. They also own the cold chain and logistics for efficient and effective delivery of their input raw materials. Therefore, the economy of scale in procurement and supply chain of CCD is evident. So it is again quite safe to accept the optimality of cost structure of the retail vertical of Coffee Day Co.

Margins and inventory turnover

While exact figures were not available, the available information sources indicate that margins and inventory turnover are quite adequate and satisfactory for sustainability and growth of CCD.

Key resources

Key resources play the most significant part in the delivery of the customer value proposition. The key resources of any

Table 6 Key resources for Café Coffee Day chain.

Key resources	Illustration	Challenges
People	17,000+ People in growing, processing, and retailing coffee; 20 people working on coffee research and beverages research; 20 people working on food research; Coffee Lab at Bangalore; R&D Lab at Chikmagalur; own training facility; 70 people in HR and recruitment; 80 people in training; system driven approach	Getting skilled manpower; paying enough salary to retain them for a period of time; providing them with a growth path
Technology	Latest technology in coffee plantation, curing and roasting; state of the art Probat Roasting Machine with a capacity of 7000 tons/annum; both drum & hot air roasters to cater espresso & filter coffee needs Indigenously developed low cost vending machine	None as of now. However, needs constant capacity upgradation and technology upgradation
Merchandise	22 Blends of coffee, international coffee (Columbia, Guatemala etc.), varieties of food and cooked food, varieties of tea as well as other beverages	Needs to remain relevant based on target segment modifications and format development
Equipment	Probat Roasting Machine; both drum & hot air roasters; state-of-the art equipment in food preparation and at retail; vending machines	None as of now
Information	Know everything about coffee business (for 140 years there); gradually exploring and evolving café business	Have identified the significance of educating customers and hence aggressive promotion efforts
Channels	Multiple customer segments and hence multiple formats (café, lounge, square); also corporate clients (7000+) and schools, colleges as well as railway stations through vending machines; single serve solutions and powdered coffee, accessories, for families as well as connoisseurs	May need to modify segments or find micro-segments/niches to increase reach or nullify competition
Brand	The Economic Times — Brand Equity survey for the last 5 years: India's most trusted brands — ranked No. 2 in the Food & Beverage segment; CCD ranked as No. 26 in the top 50 service brands; V.G. Siddhartha was voted as the Entrepreneur of the Year by Economic Times in 2003; awarded as the Nextgen Entrepreneur award by Forbes in 2011	Need to consolidate in face of international competition

firm include the people, technology, products, equipment, information, channels, partnerships, alliances, and the brand. The key resources for the CCD chain are given in Table 6. Cafe Coffee Day has strong assets to support a sustainable business model.

Key processes

This dimension of the business model highlights the systems and processes of the organisation for its daily operations. A system driven organisation most often is equipped to handle situations as per the best available procedure and hence generally is more stable than an individual driven organisation. The system also includes the rules, business metrics, and norms that define the business. In the case of CCD, most of the key processes viz. coffee quality and taste, food products, procurement, supply chain, HR (recruitment and training) etc. are well-defined and system driven. Over a period of time, the organisation has made the effort to develop benchmarks for each of the processes, strictly adhering to them and optimising operations. The evidence of the same has been demonstrated through the organisation brief, the interview with Mr. Siddhartha and the subsequent analysis.

Conclusion

After the presentation and analysis of the business model for the retail business of Coffee Day Co. we proceed to generalise the same to the Indian retail sector so as to improve its sustainability. As the Coffee Day business model deals with food items and the café business, it is appropriate to test its equivalence to the food and grocery sector. According to the Indian Retail Report (2013), food and grocery retail consists of the largest market in the Indian retail business accounting for almost 70% of the consumers' disposable income. It is also the sector where organised retail has the least presence (1%). A sustainable as well as scalable food and grocery business model has added significance considering that most of the large international retailers (Wal-Mart, Tesco, Carrefour, Target etc.) have their major presence in the food and grocery vertical.

According to our analysis, the Coffee Day business model demonstrates the fundamental strength of an Indian retail business model that is not only sustainable in the face of competition, but also scalable depending upon the market situation. Its vertically integrated business model makes it immune to fluctuations on the supply side which is the key asset for any retail business. The ability of CCD to identify different target segments with different needs and provide them with optimal value propositions, thereby building a strong brand is an ability that every retailer would consider primary. Hence, the CCD business model is an aspirational business model for the Indian retail business (specifically in the food and grocery sector). The key take away pointers are given below.

- It is significant to identify customers and develop relevant value propositions for each segment. One can safely say that the value proposition would not be the same for each customer segment. Customer experience is the most significant asset for any retailer and retailers must ensure the continuation of the level of customer experience.
- It is important to have high penetration levels to increase the customer base. However, one size does not fit all and one cannot be everything to everyone. The offer needs to satisfy the customer; it cannot just be the most comfortable solution for the retailer.
- One can minimise the cost and bring economies of scale in the supply chain by superior vertical integration. Reliable private labels (trustworthy and strong brands) lead to strong financial performance in the long run. However, there are exceptions to this business model as evident from the performance of Ford Motors which was one of most vertically integrated automobile companies at one time. Our response to the said exception is twofold. Firstly, no model is foolproof over a period of time without any modification and the drawbacks of a vertically integrated system have been described later in the article (word of caution). Secondly, the Indian retail sector is at an early stage of organised growth, whereas with Ford, the context is the declining stage of the lifecycle. Further, there are differences in the business model of a manufacturer and a retailer, and in its dynamics, in the long run. So, we would still recommend vertical integration and private labels at the introduction or growth stage of the retail life cycle.
- The focus should be on multiple channels and multiple formats to reach the customer. However, the implementation should be context specific.
- Manpower is one of the most significant components in retail business and skilled manpower is an unparallelled asset. However, manpower needs to be cultivated, nurtured, and trained to ensure a steady supply.
- Communication with the consumers as well as employees is equally significant. The organisation must invest in adequate promotions to ensure customer experience and customer bonding.
- Finally, systems and processes are the cornerstone of retail operations. Retailers need to invest in designing and implementing appropriate systems and processes.

Finally, a word of caution on the way ahead. One of the major drawbacks of a fully integrated organisation is its lack of flexibility. Therefore, in many cases, the organisation does not invest enough in adequate environmental scanning or tends to normalise unfavourable forecasts. Hence, on occasion, not only do opportunities pass by, but the threats come more as a shock and this has a permanent debilitating effect on the organisation. According to Day and Schoemaker (2006), "the biggest dangers to any company are the ones you don't see coming, and understanding these threats — and anticipating opportunities — requires strong peripheral vision". In the current turbulent business environment, traditional environment scanning or SWOT analysis could prove insufficient to identify opportunities and identify the vulnerabilities of the business so that they could be minimised or negated. The peripheral vision system helps the retailer to identify and track the key parameters of the business environment systematically; in turn, suitable interpretation of the trends helps minimise the vulnerabilities and optimise usage of the opportunities. Therefore, retail organisations are well advised to follow a structured strategy framework before adopting the business model. A typical strategy framework includes the study of the business background, setting of objectives and goals, developing planning models and positioning strategies, followed by implementation parameters. The whole model is integrated by a feedback and control mechanism. As part of the business background study, the retail organisation carries out self-appraisal vis-à-vis the environment/competitors, compares its own assets and liabilities, and looks for the possible opportunities and threats in the business environment. This process not only warns the organisation against the possible bottlenecks of the future, but also prepares the firm to take advantage of future opportunities. The structured approach of strategy and business model development is a prerequisite for sustainable retail business today.

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