

Something Is Brewing In India: Coffee Bars

Commentary by Stanley Moss

In the seventeenth century, traders from the Dutch East India Company introduced coffee to the Western world, but today a reverse phenomenon has taken place. Borne on the shoulders of globe-hopping technology workers, coffee bars have now sprung up in unprecedented numbers in every major Indian city. Five years ago it wasn't this way. Today's traveling technocrat is as comfortable in San Jose as in Bangalore, and has come to expect the same quality venue - and beverage- in either location.

It's a global phenomenon, easily explained: coffee houses serve as social hubs, with the retail experience often sweetened by little extras like wi-fi access and clever brand extensions. The emergence of an Indian middle class with disposable income and a hunger for fashionable consumer experiences, fuelled by growth triggers like call centres and BPO firms means people are willing to shell out \$2-4 a purchase, and not only for coffee. The impressive array of brands already competing in the Indian marketplace tells the story, and most are unknown in the USA, home of Seattle-based Starbucks, who virtually invented the category. While Starbucks still seems to be puzzling out the Byzantine intricacies of Indian regulations, which won't permit 100% foreign ownership, big deals by others are obviously going down in the space on the national level.

Market leader **Barista** appears to be targeting college students aged 16-20, with an eye to developing lifetime brand loyalty over the longer term. Although the company is attempting to enhance the proposition by partnering with petrol stops and adding music to the product mix, a blogger saw through the gambit, chiding Barista for building its franchise on "all fun and no value." Barista is still the biggest player in the market, and may keep its foothold by sheer aggression and numbers. "I will make Barista the Starbucks of India," pledges C. Sivasankaran, majority owner.

Café Coffee Day, a Bangalore-based challenger, is promoting its secondary brand Coffee Day Express in kiosk locations, as it tests a number of different concepts, including a package of brand extensions (t-shirts, mugs, product innovations) and café concepts (fashion, bookstore) in high-traffic locations.

Nestle India, trading on its name recognition, history and legacy has over 350 retail outlets open, and sells more than 50 million beverages annually. The idea of Nestle as a mid-market brand may work in its favor for sheer volume, though the value perception probably cannot travel higher into the premium category, a barrier to the successful introduction of upper-end products.

Café Mocha, a smaller player with less than 50 locations, showcases imported coffees, catering to an upmarket clientele. This business will be built on margins as opposed to numbers, but may allow premium products to be developed in the young Indian market.

Qwiky's, owned by the Chimayo Chains, operates a format they call coffee pubs. Sashi Chimaya, CEO, believes they are selling "ambience and not the product... the issue for the café [is] the location."

From across the seas, **Starbucks** hasn't yet made a big move towards solving the Indian conundrum. The company currently sources beans from Tata, a major Indian producer. In the past year it has opened locations in Japan, South Korea, China and

Taiwan. It has partnered with the whiskey brand Jim Beam to introduce Starbucks' Cream Liqueur, a product not available in its retail locations, which has gained an 11% share in the US cordials market. But India remains elusive to Starbucks, whose domestic foothold is grounded in institutional sales supported by ubiquitous retail presence.

Fad or enduring presence? The jury is still out. Indian companies are learning that coffee is not enough- a location's success depends on sales of other drinks like badam milk and smoothies, not to mention an ever-changing mix of product innovation. In such a competitive environment, cost remains a critical factor of success. In the retail arena, evolution matters: a social venue today needs to transmute into a restaurant space tomorrow, sensitive to the needs of its loyal clientele. The greatest challenge to any business is retention, and coffee bars face an uphill battle in this quest.

Manas Fuloria, an executive with SupplyChainge, who is developing software for major US footwear and apparel companies, likes what is happening. "It's great to have the same atmosphere here or there," he says. "The market is so competitive that all the venues are trying hard to bring value to their locations. You get accustomed to a warm and friendly environment where you can go, where it's easy to kick back. You fire up your laptop, sip a cappuccino, and hang out with your old pals. If you don't like the place, there's always another one to try just down the street."