

# Lavazza: Charting Growth Plans for the Indian Coffee Market

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## I. Introduction

On the 19<sup>th</sup> of November, 2012, it was reported that Italy's Luigi Lavazza Spa was looking for a strategic partner or even an outright buyer for its Indian coffee chain Barista only five years after acquiring it, and has begun preliminary talks with potential partners and buyers<sup>1</sup>. In the early 2000s, Barista Coffee pioneered the sale of coffee through espresso bars at many locations throughout the country and emerged as a strong brand. It was even hyped to be the future Starbucks of India. However, with change in ownership for over three times the brand subsequently lost its sheen and arch rivals Cafe Coffee Day and Costa Coffee strengthened their presence. The arrival of Starbucks and Dunkin Donuts in India poses further threat to alter the market dynamics. A Lavazza spokesperson said "India is extremely important for the company's overall global growth plans and it is open to possible partnerships in the country. It is strategic to Lavazza's overall growth initiatives across the world and there is no intention to move back from this," the spokesperson stated in an email. "Keeping this in mind and to optimize the opportunities in the Indian market, Lavazza is open to strategic partnerships, including agreements, joint management of the cafe chain Barista Lavazza."<sup>2</sup>

The Lavazza spokesperson, however, said the company has "neither handed an official mandate to address this, nor has initiated any discussion for sale of equity". But a senior executive from the food and beverages industry, aware of Lavazza's plan, said a boutique investment firm is already helping the Italian company scout for an outright buyer or a strategic investor for the loss-making coffee chain. The Italian company plans to focus on the more profitable coffee vending business, which it currently operates under the Fresh & Honest and Lavazza brands in India, he added. Lavazza is seeking a strategic investor at a time the market for coffee through cafes is set to double to \$410 million by 2017, from about \$230 million now. India, on an average, has added about 250 coffee outlets a year in the past five years taking the total to 1,950, up from about 700 outlets in 2007, according to consultancy firm Technopak Advisors. Technopak says about 1,000 more coffee stores will be added in the next five years with global coffee titans, including Starbucks and Dunkin Donuts, setting foot in India in recent months and some more global players planning investments. Existing players too are expected to ramp up. During its initial years, Barista was one of India's fastest-growing brands and had anticipated opening 1,000 stores by 2010. However, continuous changes in ownership<sup>3</sup> and shifting focus hampered growth, and it lost out to Cafe Coffee Day, which emerged as India's largest coffee chain. Cafe Coffee Day has more than 1,300 stores nationwide while Barista - the No. 2 coffee chain in India - has about 180 outlets. According to financials shared by Lavazza with some prospective buyers and partners, Barista clocked a turnover of around 75 crore in the last financial year with operating losses of 9 crore.

## II. Lavazza In India

The US\$1.4-billion Italian coffee maker Luigi Lavazza SpA (Lavazza) Group entered the Indian market in 2007 by buying out the entire stake of the Chennai-based Sterling Infotech group's (Sterling) Barista chain of coffee bars and the coffee vending business Fresh & Honest. Sterling was a major player in the premium coffee market of the Indian sub-continent, with 150 cafés in Asia, of which 132 were in India alone.<sup>4</sup> Barista Lavazza wanted to double the network from 230 in mid-2011 to 500 branches by 2014, targeting locations like highways and petrol stations.<sup>5</sup>

When asked whether the original business strategy for the Indian Market was tweaked, Giuseppe Lavazza, vice president and a board member at Luigi Lavazza SpA, explained, "The strategy has changed a little bit for India. Our business in India generated more than 30 million Euros, which is 3% of our total global sales. At present, 60% of our business comes from

<sup>1</sup> Rasul Bailay & Chaitali Chakravarty, "As Starbucks & Dunkin walk in, Lavazza Spa looks to get out of Indian coffee chain Barista", Nov 19, 2012

[http://articles.economictimes.indiatimes.com/2012-11-19/news/35203644\\_1\\_barista-lavazza-barista-coffee-coffee-outlets](http://articles.economictimes.indiatimes.com/2012-11-19/news/35203644_1_barista-lavazza-barista-coffee-coffee-outlets)

<sup>2</sup> Rasul Bailay & Chaitali Chakravarty, "As Starbucks & Dunkin walk in, Lavazza Spa looks to get out of Indian coffee chain Barista", Nov 19, 2012

[http://articles.economictimes.indiatimes.com/2012-11-19/news/35203644\\_1\\_barista-lavazza-barista-coffee-coffee-outlets](http://articles.economictimes.indiatimes.com/2012-11-19/news/35203644_1_barista-lavazza-barista-coffee-coffee-outlets)

<sup>3</sup> The Barista brand has witnessed a spate of changing heads since its birth. Lavazza had bought it for \$125 Mn in 2007 from takeover tycoon C Sivasankaran's firm – Sterling Infotech Group, which had bought the stake from Turner Morrison and Tata Group back in 2004.

<sup>4</sup> [www.lavazza.com](http://www.lavazza.com)

<sup>5</sup> "Indian Coffee Battle Heats Up," [www.warc.com](http://www.warc.com), June 6, 2011.

Italy and the rest from over 90 countries globally. In the next five years, we want India to contribute around 10% to our group's turnover, which will effectively mean that India will be our biggest revenue generator after Italy. So, clearly, India is becoming the most important market for us. We are setting up a new plant in Hyderabad for roasted coffee, which will be used as a hub for international business."<sup>6</sup>

Many industry analysts had doubts regarding Lavazza's big dreams for India. Though India was the sixth largest coffee producer in the world, with an annual output of 300,000 tons, domestic consumption was only a third, or 100,000 tons. That was because like most of Asia, India was predominantly a tea drinking nation.<sup>7</sup> Moreover, competition was increasing in India's coffee market, as global chains like Starbucks and Dunkin' Donuts push around for position with a variety of local operators. Café Coffee Day, the number one player in India with 1,132 outlets was planning to open another 1,000 by 2014.<sup>8</sup> Giuseppe should work out strategies that help realize his dreams for Indian coffee markets, characterized by low coffee consumption and increasing competition.

### III. Background Note

Luigi Lavazza SpA. was an Italian manufacturer of coffee products. Founded in Turin in 1895 by Luigi Lavazza, it was initially run from a small grocery store at Via San Tommaso. At the beginning of the 20th century, Luigi was the one who invented the concept of blends, i.e., combining coffee beans from different origins to attain an original, unique and tastier coffee. Lavazza was the first company in Italy to introduce vacuum-packed ground coffee, which was a revolutionary innovation for the early 1960s. Lavazza was still headquartered in Turin, even over a century after the company was founded. In the 1980s, Lavazza expanded towards international markets, but its roots remained in Italy. As of 2011 Lavazza had its presence in more than 90 countries around the world covering five continents with 11 subsidiaries.<sup>9</sup>

Lavazza was the tale of a family that worked passionately for four generations. Its history was the story of a company, striving to unite quality, tradition and originality. In 2011 the business of Lavazza SpA was administered by the third and fourth generation of the Lavazza family.<sup>10</sup> Branded as "Italy's Favourite Coffee," 16 million out of the 20 million coffee purchasing families in Italy chose Lavazza.<sup>11</sup> The company strove very hard in building its deal of trust with customers around the world and through every channel. Its creativity had always set it apart and made its customers perceive that, drinking a Lavazza coffee would always be a pleasure.<sup>12</sup>

### III. Indian Coffee Market

Coffee culture was growing steadily in India. The social gatherings and group networking embraced a new practice of meeting over coffee, to discuss business and pleasure, at coffee shop. Three major factors contributing to the growth of coffee market in India include: rise in spending among youths, lack of alternative hang-outs, and increasing number of new office complexes and colleges. India had been a tea-drinking society for a long time. By the turn of 21<sup>st</sup> century there was a steady increase in coffee intake as the young and middle-class aspired for more Western tastes. The Indian market became home to multiple coffee brands including Café Coffee Day, Barista Lavazza, Java Green, Costa Coffee, and Gloria Jean's Coffee, but the market was still in a nascent stage. India was the sixth largest coffee producer in the world with 4 percent share of global coffee production. But, it consumed relatively a very tiny volume for a population of 1.2 billion.<sup>13</sup> Indian market was estimated to grow by at least 100 million new coffee drinkers in the near future. These predictions would result in potential for more international and domestic coffee chains' entry into the country. As on 2011, more than 1,400 coffee shop retail outlets were registered in India, majority of which belonged to homegrown giant Café Coffee Day.<sup>14</sup>

<sup>6</sup>Sagar Malviya, "Gradually, All Our Businesses Will Be Under Lavazza Brand," Economic Times, Jan 31, 2011

<sup>7</sup>"Capturing India's Percolating Coffee Market," <http://knowledge.wharton.upenn.edu/india/> June 2, 2011

<sup>8</sup>"Indian Coffee Battle Heats Up," [www.warc.com](http://www.warc.com), June 6, 2011.

<sup>9</sup>"A Three-Colour Cup To Celebrate The 150th Anniversary Of Italian Unification," [http://www.lavazza.com/corporate/en/news/150\\_anni\\_italia.html](http://www.lavazza.com/corporate/en/news/150_anni_italia.html)

<sup>10</sup><http://en.wikipedia.org/wiki/Lavazza>

<sup>11</sup><http://en.wikipedia.org/wiki/Lavazza>

<sup>12</sup>"A Three-Colour Cup To Celebrate The 150th Anniversary Of Italian Unification," [http://www.lavazza.com/corporate/en/news/150\\_anni\\_italia.html](http://www.lavazza.com/corporate/en/news/150_anni_italia.html)

<sup>13</sup>Jane Shi, "Starbucks, Café Coffee Day Favorites to Conquer India's Emerging Coffee Market," [www.2point6billion.com](http://www.2point6billion.com), April 6, 2011

<sup>14</sup>Jane Shi, "Starbucks, Café Coffee Day Favorites to Conquer India's Emerging Coffee Market," [www.2point6billion.com](http://www.2point6billion.com), April 6, 2011

The market growth could be attributed to India's growing youth segment. The 2011 estimates revealed that, around 50% of India's 1.2 billion people were 25 or younger. By 2015, this was expected to increase to 55%.<sup>15</sup> Coffee shops served as social hubs for the youth segment, particularly those with steady, disposable incomes. "Coffee chains offer a basic emotional need - refuge...they were brands between home and office," according to Shripad Nadkarni, Managing Director of Market Gate Consulting.<sup>16</sup>

It was not just local coffee chains that were looking to enter Indian coffee market. Foreign players were excited by India's increasing appetite for outside food and a rapid jump in the number of double-income families, helping quick service restaurants, casual dining and fine dining prosper in metros and smaller cities despite rising prices and signs of economic slowdown.<sup>17</sup> Since growth slowed down in developed markets, India became a hot spot for coffee retailers across the globe. "Foreign retailers have seen the phenomenal growth of homegrown brands like Café Coffee Day and Barista with increased out-of-home consumption of food. These companies have already established the café concept [in India], and the market is now beginning to look attractive to every coffee maker in the world. They feel they don't have to start from scratch,"<sup>18</sup> explained Ramesh Srinivas, executive director, KPMG<sup>19</sup>. The organized café market in India was estimated to be growing at a compound annual rate of 25%. It was valued at around US\$185 million<sup>20</sup>. A study by Technopark Advisors<sup>21</sup>, revealed that there were 1,500 coffee cafes in India as on 2011. And around 1,000 of them were opened in the past five years.

#### **A. Increasing Coffee Consumption**

India's per capita consumption of coffee was just 85 grams, compared to 4.5 kilograms in France, 4.6 kilograms in Japan and 6 kilograms in the US<sup>22</sup>. According to industry observer, India's coffee consumption pattern revealed that Indian market did hold enormous potential for growth. Coffee was preferred most only in the southern part of the country. Coffee consumption in India stagnated at 55,000 tons annually, till mid 1990s. The growing coffee café culture led by domestic brewers such as CCD and Barista resulted in enormous growth in coffee consumption. In fact, it had doubled since 1990s. Over the years, other coffee chains such as the Coffee Bean & Tea Leaf, The Chocolate Room, Qwiky's and Café Nescafe entered the Indian market. Hindustan Unilever Ltd., the Indian subsidiary of consumer packaged goods behemoth Unilever, was pilot-testing Bru World Café in Mumbai with four outlets.<sup>23</sup>

Consultants believed that the entry of global heavyweights would change the game further. "The entry of Starbucks and Dunkin' Donuts will energize the cafe market," said Harish Bijoor, a brand consultant. According to Bijoor, there was bound to be a deeper degree of investment by the existing cafe players, which would help broaden and deepen the base for coffee in India. "Add to it the different formats that will enter. Dunkin' Donuts worldwide is a pick-and-go play. On-the-go coffee consumption is still nascent territory in India, despite the population being peripatetic within cities. This will add more zing."<sup>24</sup>

#### **B. Competition**

Market Gate's Nadkarni opined that the entry of big global brands such as Starbucks and Dunkin' Donuts would address consumers who were already exposed to those chains. "That could be a threat to existing players who will have to work

<sup>15</sup> "Capturing India's Percolating Coffee Market," <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

<sup>16</sup> **MarketGate Consulting** is a strategic business and marketing consulting firm with solutions spanning across brand positioning, brand architecture, brand strategy, sales strategy, **marketing**

<sup>17</sup> Sarah Jacob & Ratna Bhushan, "Burger King, Applebees, PF Chang's, Pizzeria Uno, Donatos among Companies Waiting to Open Shops in India" [www.economictimes.com](http://www.economictimes.com), Sep 2, 2011

<sup>18</sup> "Capturing India's Percolating Coffee Market," <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

<sup>19</sup> KPMG: **KPMG** is one of the largest [professional services networks](#) in the world and one of the [Big Four auditors](#), along with [Deloitte](#), [Ernst & Young](#) (EY) and [PwC](#). Its global headquarters is located in [Amstelveen](#), [Netherlands](#). KPMG was formed in 1987 with the merger of Peat Marwick International (PMI) and Klynveld Main Goerdeler (KMG) and their individual member firms. Spanning three centuries, the organization's history can be traced through the names of its principal founding members - whose initials form the name "KPMG."

<sup>20</sup> Abha Garyali, "Aroma Of Coffee With A Dash Of Franchise," <http://www.franchiseindia.com/> June 9, 2011.

<sup>21</sup> Technopark Advisors: India's leading management consulting firm with more than 20 years of experience in working with organizations across consumer goods and services.

<sup>22</sup> Suparna Goswamy Bhattacharya, "Starbucks Could Cause A Veritable Tempest In Local Coffee Mart," <http://www.dnaindia.com/money/report>, April 11, 2011,

<sup>23</sup> <http://moneyslash.com>, July 10, 2011

<sup>24</sup> "Capturing India's Percolating Coffee Market," <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

harder to retain customers,”<sup>25</sup> he said. The cafe chains like CCD and Barista, entered into newer territories like highways, and captive locations such as hospitals and college campuses. They were trying out scalable new formats embracing kiosks and coffee carts. They firmed up on supply chains; refined and expanded menus, and improved the overall experience quotient. According to Santosh Unni, CEO of Costa Coffee, “the biggest challenge today is the relatively small size of the cafe market and new coffee retailers will only grow the market. According to industry estimates, India, in the current context can take 5,000 cafes and there is space for three to four large pan-India players... In any case, we are fighting them in 26 countries and we will also fight them here,”<sup>26</sup>

**i) Cafe Coffee Day:** Popularly known as CCD, the company was the market leader in the café retail market in India. It was a division of Amalgamated Bean Coffee Trading Company Ltd (ABCTCL). As on 2011, it has 1,185 outlets across India. CCD functioned in three formats -- lounges, cafes and kiosks.<sup>27</sup> CCD won the best BREWMASTERS in the country. It had impressive track record at the IBC (India Barista Championship) & WBC (World Barista Championship)<sup>28</sup>. (Refer Exhibit 1). “The company has a plan to aggressively expand the number of outlets it operates to 2,000 cafes by the end of 2014,”<sup>29</sup> Cafe Coffee Day president (marketing) K Ramakrishnan said. He felt that it was an indication that demand for specialty coffee was rising every year. To attract customers CCD had also revamped its menu. CCD stores at National Highways served Indian staples like idlis (rice cakes), dosas (rice crepes), paranthas (stuffed flat bread) and biryani (vegetable rice) to travelers. CCD Lounge customers were allowed to cook up their own treats with a do-it-yourself menu. According to Venu Madhav, COO of CCD, “Earlier, the functional need of consumers was coffee and conversation. Now, the consumer is spoiled for choice.”<sup>30</sup> However, he was not too concerned about the competition as he felt that the category was still small and can grow by 40% in the next few years. According to Madhav, there was scope for another 4,000 to 5,000 new outlets over the next five years.<sup>31</sup>

**ii) Starbucks:** With 17,000 stores in 55 countries, including 426 in China, Seattle-headquartered Starbucks brewed an agreement with Tata Coffee, India’s largest coffee producer, in January 2011. Starbucks would source and roast green coffee beans from Tata Coffee and would also set up retail outlets in partnership with the Tatas. Starbucks CEO Howard Schultz, said the company was “enthused” about entering the Indian market. According to Schultz, Starbucks would look to create different entry points for different demographics and “will create food relevant to Indian consumers that [it does not] provide anywhere else.”<sup>32</sup> Starbucks wanted to enter Indian market much earlier, and initially thought of entering without any partner. But the company's efforts were stalled by FDI regulations in the country. Since India did not allow 100% foreign ownership in single-brand retail outlets -- Starbucks was compelled to take the partnership route.<sup>33</sup>

**iii) Dunkin' Donuts:** In February, 2011, Dunkin' Donuts entered into a franchise agreement with north India-based Jubilant FoodWorks, which managed the Domino’s pizza chain in India. “We will raise the bar for existing players,”<sup>34</sup> said Ajay Kaul (Kaul), Jubilant’s CEO, who was the in-charge of Dunkin’ expansion. Dunkin’ Donuts, earned a unique position globally for pairing coffee with donuts and bagels. It was banking on food to capture a share in Indian coffee market. “Unlike others who are pure cafes, the Dunkin’ story was about all-day food, donuts and coffee for premium and middle-class consumers,” said Kaul.<sup>35</sup> In the US market, coffee and other beverages accounted for 60% of Dunkin’s revenues. Whereas in Asia, food accounted for almost 80% of its revenues, and mere 20% came from beverages. “There's a big opportunity for both coffee and food in India,” Kaul said. Dunkin's would like to gradually expand its Westernized menu to include Indian fare. Kaul had plans to look at all formats for the new stores, including 100 to 150 square-foot kiosks. The first Dunkin' store was likely to open in the first quarter of 2012. The target was to open 30 outlets in three years and increase to 100 in the next five years.<sup>36</sup>

<sup>25</sup> Capturing India's Percolating Coffee Market,” <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

<sup>26</sup> “Costa Coffee Plans Fourfold Increase In Outlets” <http://Www.Rediff.Com/Business/Report/> April 15, 2011.

<sup>27</sup> “Cafe Coffee Day Plans To Double Its Outlets,” <http://Www.Financialexpress.Com/> Aug 19, 2011

<sup>28</sup> “International Exposure Of Café Coffee Day,” [Www.Scribd.Com](http://Www.Scribd.Com/), October 10, 2011

<sup>29</sup> “Cafe Coffee Day Plans To Double Its Outlets,” <http://Www.Financialexpress.Com/> Aug 19, 2011

<sup>30</sup> [www.Littleindia.Com/Business/8151-Hot-Java.html](http://www.Littleindia.Com/Business/8151-Hot-Java.html), August 5, 2011

<sup>31</sup> “Capturing India's Percolating Coffee Market,” <http://Knowledge.Wharton.Upenn.Edu/India/> June 02, 2011

<sup>32</sup> [www.Littleindia.Com/Business/8151-Hot-Java.html](http://www.Littleindia.Com/Business/8151-Hot-Java.html), August 5, 2011.

<sup>33</sup> [www.moneyslash.com](http://www.moneyslash.com), July 10, 2011.

<sup>34</sup> “Capturing India's Percolating Coffee Market,” <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

<sup>35</sup> “Capturing India's Percolating Coffee Market,” <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

<sup>36</sup> [www.moneyslash.com/](http://www.moneyslash.com) July 10, 2011.

**iv) Gloria Jean:** At the beginning of 2011 Gloria Jean, headquartered at Sydney, Australia had 16 outlets in Mumbai and Delhi. Gloria Jean's regional general manager Tony White was looking to increase that number to 25 by the end of the year across other metros, and then jump eightfold to 200 by 2014. "Once we establish beachheads, we will go to smaller towns," he said. White was also fine-tuning the company's sourcing strategy for the Indian market. For the first time Gloria Jean's was sourcing and roasting coffee beans outside of Sydney; in this case, in India itself. That's because coffee attracts a 112% import duty in India and in a price sensitive market like this, passing on the extra costs to the consumers would be suicidal for any player. "It just didn't make sense importing them," White opined. "We want to be at the upper end of the mainstream market and have to be cost effective."<sup>37</sup>

**v) Costa Coffee:** The UK-based retailer Costa Coffee, entered India in 2005 through the Jaipuria Group as its master franchisee. It had aggressive expansion blueprint, under which it planned to take the 73-store tally to 300 by 2014. Santhosh Unni, chief executive officer of Costa Coffee felt that pressure points in Indian retail industry are many. Unni said, "coffee prices are at a 14-year high, sugar and milk costs are soaring, having a direct impact on margins. Soaring real estate rentals are another major problem". Unni felt, "coffee retailers have only a limited option of passing on the cost to consumers. But the only silver lining is that competition is also going through the same problems"<sup>38</sup>.

In spite of its late entry Costa Coffee claimed the highest average realization per customer. By 2011 the company had an average billing size of Rs. 150 per customer - high by industry standards. "Late entry into the coffee retailing segment has actually worked in our favor as we could learn from the existing players,"<sup>39</sup> Unni claimed. Costa Coffee was aiming to become a mass market player. It was planning to open new channels such as presence in airports, multiplex, etc. The company wanted to maximize consumer touch points and penetrate deep into the market. The retail chain was opening bigger stores with an increased average size of 1300 sq ft from 1000 sq ft earlier to accommodate more customer footfall. It was also adopting location-specific branding strategies to drive footfall. Local store managers were free to design their brand strategies. Average age of its customer in its cafes was 25-28 years. But Costa Coffee aimed to reduce it further by building strong propositions for a younger audience. It has also launched a Facebook page at the beginning of 2011. However, some analysts were skeptical of Costa Coffee's plans to push into the mass market as it was a price-conscious segment.

**vi) The Chocolate Room:** Two Indian Techies as master franchisees brought Australia's The Chocolate Room (TCR), to Indian coffee market in 2007. The Chocolate Room has been running since 2005 in Australia by its owners named Jim Richardson and Kathy Richardson<sup>40</sup>. The chocolate room india pvt. ltd. was entitled to give away franchisees across India. As on 2011, TCR had 40 outlets, and was aiming to add 10 more outlets by 2012, comprising of standalone shops and kiosks in malls. "We will spend a lot on marketing and visibility,"<sup>41</sup> said L. Chaitanya Kumar, managing director of TCR India.

**vii) Java Green:** JAVA Green coffee parlours were started in 2003 as just an add-on service at Reliance Infocomm's WebWorld stores.<sup>42</sup> By 2011 it was operational across 10 cities in India with a mix of store in store formats and independent outlets. They opened outlets at over 90 locations in Lucknow, New Delhi, Chennai, Bangalore, Hyderabad, Kochi, Ahmedabad, Mumbai, Pune, and Kolkatta.<sup>43</sup>

The strategy at Java Green was to open stores in locales like colleges and office campuses that had a captive audience. In exchange for free space and electricity, the institutions demand a 10% to 20% discount on all of Java Green's offerings. The company aimed at generating volumes for Java Green and also bringing in subscribers for Reliance Telecom. But experts felt that this schema had made Java Green a fringe player in the café market. "The store has a good brand name and beverage range, but needs an aggressive owner. It's a miniscule business for Ambani," according to Chennai based G. Giridharan, who was closely associated with the brand during its initial days.<sup>44</sup>

<sup>37</sup> Rajesh jain, "Capturing India's Percolating Coffee Market," <http://smallbusinessideasinfo.com/>, July 10, 2011

<sup>38</sup> "Costa coffee plans fourfold increase in outlets" <http://www.rediff.com/business/report/> April 15, 2011.

<sup>39</sup> "Costa coffee plans fourfold increase in outlets" <http://www.rediff.com/business/report/> April 15, 2011.

<sup>40</sup> <http://thechocolateroomindia.com/aboutus.php>

<sup>41</sup> "Capturing India's Percolating Coffee Market," <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

<sup>42</sup> Anuj Byotra, "Coffee with Reliance: Java Green," Business World, December 2003.

<sup>43</sup> <http://www.java-green.com/about.htm>

<sup>44</sup> "Capturing India's Percolating Coffee Market," <http://knowledge.wharton.upenn.edu/india/> June 02, 2011

#### IV. Lavazza's Entry Into India

On 9<sup>th</sup> March 2007 Lavazza signed an agreement with Sterling Infotech Group to acquire Barista Coffee Company Limited and Fresh & Honest Café Limited. At that time Barista was the second-largest Indian coffee shop chain in terms of outlets, with 150 coffee shops of which 132 in India, mainly located in the capital city of New Delhi, in Mumbai and Bangalore. The total investment for the acquisition and commercial development of the two companies in India was estimated to be approximately €100 million over the next three years. The transaction was carried out based on a precise development strategy that would lead to the opening of 400 outlets by 2010. Lavazza was sure to achieve this target by leveraging on the excellent premium positioning and importance reached by Barista on the Indian market. Fresh & Honest Café focuses on the vending business, specifically on office coffee service, and was the leading company in the bean-to-cup segment (high quality bean product). With an extensive footprint in over 22 Indian cities, Fresh & Honest Café supplies an average of 300,000 cups of coffee per day, equal to about 800 tons of coffee per year. The company was expanding rapidly and had a production site in the southern region of India. It served most prestigious hotels in India. "The acquisition is part of our strategy aimed at expanding our operations in markets with a high development rate and a high growth potential, through a careful policy of acquisitions and alliances," Alberto Lavazza, Vice President and CEO of the Group summarized the reason for entering into India. "This ambitious policy has a strong economic impact due to the importance of this transaction, but it also has a significant impact in terms of international expansion and development of our brand"<sup>45</sup>. With this acquisition Lavazza emerged as one of the leading players in India in the premium coffee sector, thus strengthening also its position as a worldwide player.

#### V. Lavazza's Strategies for Customer Acquisition and Retention

Acquiring and retaining customers is one of the most important components of running a successful business. Client turnover can be reduced to a great extent by employing qualified professionals and implementing best practices that ensure customers will want to continue a business relationship with a service provider. Listening to feedback, fulfilling needs and fostering client relationships can greatly improve customer acquisition and retention. To attract more customers and retain the current ones, coffee retail chain Barista Lavazza launched different acquisition and retention initiatives.

##### A. Bean-o-holic scheme

In order to boost their sales Barista Lavazza launched a loyalty program called Bean-o-holic. Under this scheme customers get a loyalty card with dual benefits. On a minimum "one-time" spend of Rs. 199/, guests could obtain the loyalty rewards. Loyalty card holders earned cash rewards of 5% on their total spend and they also earned redeemable points. It served as a membership card, and was also the perfect gifting option. A customer could simply upload the card with a desired amount (in multiples of Rs. 100/-) and could use it for the gifting purpose. Thus it's a Loyalty card with dual benefits, wherein the card could also be used as a payment mode<sup>46</sup>. Speaking on the strategy on which the Bean-o-holic scheme was based, Sanjay Coutinho, CEO, Barista India, explained, "Being one of the largest coffee brands in India, we always believed in enhancing guest experiences by focusing on multiple touch-points – the design of the store, the level of services and the quality of the products. Our goal is to build an excellent reputation and credibility as a reliable and competitive coffee chain. Bean 'O'holic is an initiative and an opportunity which will enable us to enrich the experience of our loyal guests and to take our services to the next level."<sup>47</sup>

In India these types of cards were already used by FMCG retailers, modern apparel stores, and quick service restaurants, to increase their sales. But, Barista was the first to start a loyalty program, in Indian coffee retailing. "The cards, like any other loyalty card programme, are aimed at customer acquisition and retaining them,"<sup>48</sup> said Coutinho.

##### B. Branding and Retailing

Barista Lavazza had clear plans in place to cater to a diverse range of customers. It already signed up deals with oil companies like Hindustan Petroleum Corporation Limited, Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited to open up more outlets on highways by the year 2012.<sup>49</sup> According to Saurabh Swarup, Marketing Head, Barista Lavazza India, "Barista Lavazza started out with no publicity, the espresso bars were the advertisements. The

<sup>45</sup> [http://www.lavazza.com/export/download/lavazza\\_pressrelease/UK\\_PDF\\_PRESS/Lavazza\\_India\\_agreement.pdf](http://www.lavazza.com/export/download/lavazza_pressrelease/UK_PDF_PRESS/Lavazza_India_agreement.pdf)

<sup>46</sup> Aadeetya Sriram, "Coffee Gets Loyal," <http://retail.franchiseindia.com/> March 29, 2011

<sup>47</sup> "Barista to focus on customer acquisition with 'Bean-o-holic'," <http://articles.economictimes.indiatimes.com/February 13, 2011>.

<sup>48</sup> "Barista To Focus On Customer Acquisition With 'Bean-O-Holic'," <http://articles.economictimes.indiatimes.com/February 13, 2011>.

<sup>49</sup> Preeti Hoon, "Barista Lavazza Aims To Be Mass Class Brand; To Expand Retail Network,"

<http://www.exchange4media.com/> August 18, 2010.

posters, tent cards and ambient graphics inside each espresso bar did all the talking, in a tone of voice that was witty, warm and welcoming. The rest happened through word-of-mouth, creating a group of loyalists along the way, for whom Barista Lavazza today is more than just a habit. Our belief is that the store is our brand ambassador and word of mouth kind of publicity is the way forward.”<sup>50</sup>

### **C. Product placements, Store Looks and New Menus**

Barista Lavazza Espresso Bars featured in commercials and feature films, as part of modern product placement strategies. Swarup added, “Customers always find something new to look forward to at Barista Lavazza, be it special menus created for Valentine’s Day or the Friendship Jam, which involved exciting contests and activities for an entire week. There are the occasional live music performances, tarot card readings, handwriting analysis sessions, makeovers and caricature artists to enhance the overall guest experience.”

Barista believed in refreshing its store look regularly. New beverages and food were added to the menu each quarter to meet the changing consumer trends. In April 2010, new summer menu, ‘Tropical Delights’ was launched. It was followed by a Breakfast menu at all their outlets in Bangalore, Mumbai, Kolkata, Hyderabad and Delhi in May 2010. In the same year, it tied up with UB Group to launch Four Seasons Wines at Barista Crème Lavazza, Lavelle Road, Bangalore.

### **D. Hot Deals**

Barista Lavazza, launched another new initiative ‘Hot Deals’.<sup>51</sup> Guests were entitled to this new initiative through simply registering of themselves on the Barista Lavazza website or Facebook. Being registered, the guests would get directed to the page on the website, where they can access Hot Deals, Post your Idea, Share a memorable experience and Share a recipe. Guests registered could download an attractive offer coupon from the hot deals section. They had to present the coupon at the nearest coffee shop to avail the attractive offer. This was executed across all Barista Lavazza cafés in the country except for corporate, franchise and airport stores.

On launch of Hot Deals, Swarup, Head-Marketing, said, “At Barista Lavazza, we always strive to present the best coffee experience to our guests. This is yet another step towards this direction. We welcome our guests to explore the exhaustive range of Barista Lavazza delicacies in the most attractive and exciting ways.”

### **E. Online Communities**

Barista Lavazza tried the digital wave to build online communities that spread positive word of mouth. It tried to create a virtual online Barista Lavazza space, which symbolized the identity of the brand. The company’s idea was to develop a huge Barista Lavazza community that was passionate about coffee and the café culture. The company got great responses on Facebook to its weekly contests like tagging and puzzles that were engaging in nature. Barista Lavazza also ensured interactivity through all the social media channels with regular updates on launches and events, interaction with and feedback forums.

### **F. Barista Lavazza and Visa**

In association with Visa, Barista Lavazza facilitated its customers to withdraw money at its outlets. Coutinho, said: “Barista Lavazza has always been ahead in the services it offers. We have continuously delivered exciting services keeping in mind consumer needs and requirements while offering them with a complete experience. We are extremely proud to become the first café chain in India to partner with Visa to launch the country’s first Cash at PoS facility at our cafés.” Visa debit cardholders are entitled to withdraw an amount of up to Rs 1,000 in a day at any Barista Lavazza outlet<sup>52</sup>. Visa debit cardholders could withdraw cash at over 170 outlets located across the country and they were not charged for such transactions.<sup>53</sup> Further, cardholders were not obliged to make a purchase to get cash. As part of this association, Barista Lavazza offered up to 30 per cent discount to all Visa debit cardholders on customized meal deals.<sup>54</sup>

## **VI. The After Effects of Starbuck Entry Into India**

<sup>50</sup> Preeti Hoon, “Barista Lavazza Aims To Be Mass Class Brand; To Expand Retail Network,” <http://www.exchange4media.com/> August 18, 2010.

<sup>51</sup> “Barista Lavazza Launches New Offering ‘Hot Deals,’” <http://www.business-standard.com/>

<sup>52</sup> “Swipe your Visa Debit card at Barista Lavazza for coffee and cash,” <http://www.business-standard.com/india/news/> June 10, 2011.

<sup>53</sup> [www.thehindubusinessline.com](http://www.thehindubusinessline.com)

<sup>54</sup> [en.wikipedia.org/wiki/Barista\\_Lavazza](http://en.wikipedia.org/wiki/Barista_Lavazza)

The after-effects of coffee chain giant - Starbucks entering India is felt as Italian firm Lavazza plans to rope in a strategic partner. It was also reported that the company is in the process of scouting for an outright buyer for Barista or a possible strategic investor<sup>55</sup>. However a Lavazza representative mentioned India as an important location and waived off intentions of moving out from the country<sup>56</sup>. Last year the company launched its international brand Espresso, a high-end café, in New Delhi which could signal shifting Barista on the backburner. New international entrants comprise of Starbucks (in alliance with Tata) and Dunkin Donuts (entering through Jubilant Foodworks). Australian coffee chain Di Bella is already present in Mumbai with seven stores whereas American doughnut and coffee chain Krispy Kreme (partnering with Landmark group) and British firm Coffee Republic were also set to enter the Indian market.

## VII. Conclusion and Future Outlook

Saurabh Swarup, Marketing Head, Barista Lavazza India explaining the marketing strategy of Lavazza in India said, “Barista Lavazza opened 45 stores in 2009 and plans to continue the same momentum in the next 2-3 years. The focus is to enhance guest experience through consistency in quality, services & offerings. All store openings are done post extensive consumer profile research and mapping. Barista Lavazza launches new products every quarter keeping in mind guest feedback. An in-depth market analysis of the changing consumer tastes and preferences is conducted before launching any new product. Being present at airports & metros will be an integral part of Barista Lavazza expansion strategy.”<sup>57</sup> And he also said, “the focus is on expansion of retail network, new look and feel of stores and expansion plans in terms of opening in potential cities and markets.”

The company believed in enhancing guest experience on a perpetual basis. And to improve guest engagement quotient, it conducted customer-centric activities to maintain the excitement buzzing in stores. Barista Lavazza had been making serious strategic changes. From what once seemed to be a coffee chain has been transforming into an altogether different business venture. They were planning to bring everything under one umbrella, Lavazza. When asked about his plans for Indian market, Giuseppe Lavazza—vice-president and a board member of the Italian coffee maker<sup>58</sup> said, “The international strategy of the company is to leverage the Lavazza brand as the global brand. We want to introduce the brand to Indian customers through a smooth shift—from 100% Barista to 50-50% Barista-Lavazza to 100% Lavazza. Globally, Lavazza is a coffee company and not a coffee shop company. Cafe is for building the Lavazza brand; our vending machine platform, Fresh & Honest, is our core focus. The share between the coffee chain format Barista and the vending machine format is 50-50. But in the next five years, our wholesale business of vending machines and selling roasted coffee beans to institutions could contribute 75% to the total business while retail and coffee chain will account for the rest. We want to grow both our businesses, but probably the faster one would be Fresh & Honest.” It was evident from Giuseppe’s words that promoting Lavazza brand and getting into retail business of roasted coffee beans was the company’s prime focus. As the coffee culture has been in rise in India, the Lavazza was optimistic to push up the country’s contribution to its overall global revenues from 3% to 10%. Capuano, the company’s director for Asia Pacific said, “We do it by becoming suppliers to all office channels, food services outlets, cafes, hotels in order to allow consumers to start experiencing coffee in a proper way.”<sup>59</sup> Referring to competition Capuano confidently said, “We are not concerned and are looking closely at what is happening. Competition is getting tougher but it also means that if Starbucks is coming then market has potential.” If there are lesser players, he says, “we’ll fight bigger number of players in a tough market.”

Rivals like Cafe Coffee Day have scaled up their business much faster than Barista. The advent of global biggies like Starbucks may also dent Lavazza’s business in India. With the increased competition in Indian coffee markets, from global chains and local operators, how far can Giuseppe accomplish his dream of attaining 10% revenue from India? Despite half-a-dozen coffee chains, India remains a predominately tea-drinking market. Can Lavazza change it? It would be interesting to see how Lavazza will enter into the Indian coffee market where Nescafe by Nestle and Bru by Hindustan Unilever had very strong presence. In this scenario, what could be the future of Barista Lavazza, i.e. how easy would the transition be from 100% Barista to 100% Lavazza, would the shift be smooth?

<sup>55</sup> Paritosh Gajjar, “Lavazza Set To Rejig Coffee Chain Barista: May Sell Or Rope In Partner”, 20 November 2012  
<http://www.dealcurry.com/20121120-Lavazza-Set-To-Rejig-Coffee-Chain-Barista-May-Sell-Or-Rope-In-Partner.htm>

<sup>56</sup> Paritosh Gajjar, “Lavazza Set To Rejig Coffee Chain Barista: May Sell Or Rope In Partner”, 20 November 2012  
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<sup>57</sup> Preeti Hoon, “Barista Lavazza aims to be mass class brand; to expand retail network,” <http://www.exchange4media.com/> August 18, 2010

<sup>58</sup> Sagar Malviya, “Gradually, all our businesses will be under Lavazza brand,” ET Bureau Jan 31, 2011

<sup>59</sup> “Lavazza brews big plans for India, to set up Rs120 cr hub,” Source: CNBC-TV18, May 17, 2011.