



ROYAL KULFI: THE NATIONAL ROLLOUT DECISION

In 2018, Sheikh Daniyal Iqbal, proprietor **Royal Kulfi**, was contemplating a **nationwide rollout** of his retail network. Royal Kulfi had grown from a **'Kiosk'** in Daniyal's family **Shell petrol station (gas station)** on Session Chowk, Jhang, in **2014**; to **24 retail outlets in 2018**, all except two in **Lahore**. Sales had grown from **600 kulfis a day at inception**, to about **10,000 per day in 2018**. The retail outlets had **four different formats: kiosks (company-owned), shops (company-owned), stalls (franchise), and freezers (in non-company owned retail outlets)**. Royal also supplied kulfis to **some departmental stores at a 20 percent gross margin**. Daniyal was, in general, concerned about what **strategy** he should have as he expanded nationwide. However, among the specific issues which were worrying him were: **what would be the ideal format, organisational structure, and salesforce incentives?**

Royal Kulfi-Initiation

Daniyal came up with the idea of producing and selling Kulfis (see **Exhibit 1**) while driving in Jhang¹ in **2013**, where he was managing his family's **petrol station, a rice mill and a flour mill**. Daniyal had started managing the family enterprises in Jhang after his graduation, in BS Mathematics, from the University of Ottawa in 2012. These enterprises were set up by Sheikh Muhammad Iqbal, Daniyal's grandfather, who was also a Member of the Provincial Assembly from the city. Daniyal spent most of the week in Jhang; however, he spent about three days every week in Lahore, where his wife and children lived, and where he also managed a Total/Parco petrol station, that the family-owned on MM Alam Road, Gulberg.

While **driving through Jhang on a hot summer afternoon**, Daniyal wanted to buy a kulfi, his favourite treat and realised that he could not find one that he would consider **'hygienic'**. The only available kulfis were those produced by the **cottage sector and sold by roadside vendors** in pushcarts. He spent the **next six months researching the kulfi production process**. He hired a couple of workers from existing kulfi manufacturers in Lahore and also searched online. His research convinced him that he could sell hygienically produced kulfis at a competitive price.

By March **2014**, Daniyal had started a small scale **kulfi production in his flour mill** in Jhang. He also bought a kiosk, designed and fabricated in Lahore that he placed at the Session Chowk petrol pump in Jhang. The **kiosk, including the freezer, costed PKR 500,000**; Daniyal was personally involved in its development. Session Chowk (intersection in Urdu) was an **intersection of four major roads**, in the **centre of Jhang city**. He started selling kulfis in **three sizes, priced at twenty, thirty, and forty rupees²**, respectively. Daniyal's prices were almost the same as the prices charged by the roadside vendors (pushcarts). Within the first ten days, Royal Kulfi sold 600 kulfis per day.

Royal Kulfi's first expansion was selling kulfis on bicycles and tricycles in Jhang. This added another 350 kulfis to the monthly sales by **September 2014**. **However, Royal Kulfi barely broke-even in the first year (the rental cost for the manufacturing facility or the kiosk was not incorporated in Daniyal's calculations)**. In that year

¹ Jhang was next to river Chenab in central Punjab, Pakistan

² PKR 137 = USD 1, in January 2019

Daniyal faced a lot of production losses. Royal Kulfi faced high production wastages, high staff turnover, and problems in procuring milk (from open market). Consequently, most of Daniyal's time was consumed in 'perfecting' his production process.

Lahore Expansion

The experience in Jhang convinced Daniyal that 'kulfis produced hygienically and presented properly had a good market'. However, to maintain his quality at a reasonable price, he needed volume. In Lahore too, kulfis were mostly produced by the cottage sector; yet, in the last couple of decades, a few small kulfi producers had sprung up in the organised sector in different parts of the city. In April 2015, Daniyal opened the first kiosk at the MM Alam Total petrol pump in Gulberg, Lahore (see Exhibit 2). Sales at MM Alam went from 400 kulfis on the first day, to 1,300 kulfis a day within a year; however, sales were seventy-five percent lower in the four winter months. A second kiosk was opened in Muslim Town, Lahore, in July 2015 (see Exhibit 3).

In March 2016, Daniyal opened a shop, with a seating capacity for eight customers, in Allama Iqbal Town, Lahore (see Exhibit 4). While almost all kiosks were nine square metres (3 metres x 3 metres) in the area, the shops ranged from 30-36 sq. m. Daniyal only opened a shop because he could not find a suitable kiosk site in what he considered an 'important' area in the city. Although the Allama Iqbal Town shop was frequented by customers who liked to have their kulfi while sitting in the shop (as opposed to DHA shop where almost all customers were takeaway), the costs of operating the shop were significantly higher than of a kiosk (see Exhibit 5).

The increase in sales volumes made it feasible for Daniyal to start procuring milk directly from milk farms. Milk was about 55 percent of the cost of goods sold for Royal Kulfi, and bulk buying reduced procurement costs by about five percent. The increasing volumes also made it feasible for Daniyal to invest in process expansion and improvement. He replaced the large milk boiling pans with steam boilers. He also added a large 'ice bank' that helped fight the heat and cool the milk at a faster pace, which, in turn, helped control the quality variation due to temperature variations in the summers. These process improvements helped reduce manufacturing costs by another five percent while improving the consistency, and quality of the product.

The Jhang outlets were supplied directly from the manufacturing facility. At the same time, the cold storage served the Lahore outlets with a four tones capacity at the MM Alam Road site in Lahore. Royal also had a fleet of six refrigerated vehicles for transporting kulfis to retail outlets.

Product Line Expansion

In December 2016, when Royal's milk purchase had reached sixty tons/month, Daniyal added a pasteurizer plant to his operations setup, which allowed him to add milk to his product line. 'Sweet-cold' milk with almonds added, was a favourite drink in Pakistan. Royal's purchase of fresh milk further increased to seventy tons/month, within six months. Seventy percent of Daniyal's time was spent in managing milk collection and kulfi production.

Marketing

Royal Kulfi had no marketing or advertising expense, nor did it have any online or social media presence. According to Daniyal:

I only believe in the word of mouth marketing. However, 'visibility' of the retail outlets does have a significant impact. As you drive down the road, the signage should be very prominent. The other key variable in our sales seems to be 'traffic'; i.e., if your shop is on a high traffic point, you will have high sales. However, this is not always true. For example, Temple Rd. has low sales despite the high traffic. Upon analysis, I realised that parking space, and a socio-economic class of the surrounding locality makes a big difference.

Franchising

Daniyal gave out his first franchise in January 2018. He wanted to open a kiosk on the GT Road, Shahdara, (a significant entrance for Lahore from the north). He discovered a high visibility site, at Ravi Trucking station (owned by the army). Daniyal could not finalise the deal; however, he reached an agreement with the person who was able to secure the site through his connections. Under the agreement, the person paid for the kiosk and the freezer, PKR 50,000 as security, all the running costs, and would buy kulfis from Royal at a twenty percent lower cost (from the sales price). He would maintain the Royal Kulfi signage, prices, and products.

While the deal allowed Royal to keep its manufacturing margin which was about half of the retail margin and increased sales at no additional responsibilities or variable expenses, but it still had its challenges. The franchisee's kiosk and freezer, although of acceptable quality, was cheaper (PKR 350,000). The franchisee himself worked elsewhere, and when his salesperson left, the kiosk was closed for three days. Overall sales, nonetheless, were above 750,000 per month.

Talking about his experience with franchising, Daniyal said:

Through experience, I realised that 'any' franchisee is not good enough. An investor who is not managing the kiosk on-site is less responsible, takes less pain, damages the brand, and results in low sales. A franchisee who has his bread and butter dependent on the business will go the extra mile and is my ideal franchisee.

Also, a franchisee is less patient. If the sales, in the beginning, is low, a franchisee is more likely to be discouraged, hence, will give less attention, causing further deterioration in the future. A franchisee wants an easy return; they are not willing to go the extra mile to make things work. For example, our DHA shop and Airport road Kiosk (BYCOO) had low sales earlier; however, we persisted and stayed our ground, and Alhamdulillah, there was a steady increase in sales over one year by forty percent. It would have been hard to make a franchisee do the same.

Point-of-Sales

Also, in 2018, Daniyal experimented with 'point-of-sales' freezers. He finalised a deal with the Battle Axe petrol station in the cantonment area. Under the agreement, Royal Kulfi would place their freezer in the convenient store of the petrol station. Battle Axe management would get twenty percent on sales. Within a few months, the sales were stable at about PKR 150,000 per month.

Human Resource

A cashier and a helper ran each shop or kiosk. Two helpers were assigned to outlets with sales of more than 600 kulfis a day. However, in certain places like Allama Iqbal Town, two helpers were hired as one would serve the customers sitting in the shop, and the other served the customers who preferred to be served at their vehicle (car or motorcycle).

A cashier's salary was PKR 15,000, while the helper earned PKR 12,000. Royal also had to partially pay for the guard's salary that was shared with the neighbouring shops, as well. This expense was saved at the kiosks since the petrol stations were already required by law to hire guards. Traffic at the petrol stations showed a slight increase after opening up of the kiosk. Daniyal treated his manufacturing and retailing parts of the business as independent business units. The gross margin assigned to retailing was 20 percent. Personal salaries and rent were subtracted from the gross margin to calculate the net margin.

Royal Kulfi also had four supervisors, (salary was PKR 23,000 per month, approximately) who were each responsible for four shops/kiosks, respectively. A supervisor would spend about two hours in each shop/kiosk and was responsible for housekeeping, helping cashier with customer related issues, and maintenance. Each

supervisor was also assisted by an electrician, who was on contract, paid a monthly salary, and would attend to maintenance issues.

Expansion

Satisfied with Royal's performance to date, Daniyal dreamed of the country-wide expansion of the retail network. As he contemplated his options, he was sure he would be able to add 'a region at a time'. It could be Faisalabad, or Islamabad, or perhaps the Motorway. However, what he was not sure about was, should he roll out with a standardised format, or a mix as he had in Lahore?

Exhibit 1: Kulfi

Kulfi with strawberry sauce



Pistachio, vanilla, and rose-flavoured kulfi

Kulfi or **Qulfi** /kolfi:/ is a frozen dairy dessert originating from the Indian subcontinent in the 16th century. It is often described as "traditional South Asian ice cream". It is popular throughout India, Sri Lanka, Pakistan, Bangladesh, Nepal, Burma (Myanmar), and the Middle East, and widely available in restaurants serving cuisines from the Indian subcontinent around the world.

Kulfi has similarities to ice cream in appearance and taste, but it is denser and creamier. It comes in various flavours. The more traditional ones are cream (malai), rose, mango, cardamom (*elaichi*), saffron (*Kesar* or *zafran*), and pistachio. There are newer variations such as apple, orange, strawberry, peanut, and avocado. Unlike ice cream, kulfi is not whipped, resulting in a solid, dense frozen dessert similar to traditional custard-based ice cream. Thus, it is sometimes considered a distinct category of frozen dairy-based dessert. Due to its density, kulfi takes a longer time to melt than Western ice-cream.

Kulfi is traditionally prepared by evaporating sweetened and flavoured milk via slow cooking, with almost continuous stirring to keep milk from sticking to the bottom of the vessel as it might burn. It is stirred until reduced to half in volume, thus, thickening it, increasing its fat, protein, and lactose density. It has a distinctive taste due to the caramelization of lactose and sugar during the lengthy cooking process. The semi-condensed mixture is then frozen in tightly sealed moulds (often kulhars with their mouths sealed) that are then submerged in ice mixed with salt to speed up the freezing process. The ice/salt mix, along with its submerged kulfi moulds, is placed in a matka or an earthen pot that provides insulation from the external heat and slows down the melting of ice. Kulfi prepared in this manner is hence called *Matka Kulfi*. Kulfi, thus, prepared by slow freezing, also renders a unique smooth mouthfeel that is devoid of ice crystals.

Source: Wikipedia.

Exhibit 2: MM Alam Road (Gulberg) Kiosk

Source: Company Records.

Exhibit 3: List of Owned Sites (with opening dates)

Site	Format	Date Open	Sales/month	SEC	Visibility	Other Comments
Session Ck, Jhang ³	Kiosk	March 2014	540,000	A/B	High	Junction of four roads. Parking: V. Good
Bus Stand, Jhang	Kiosk	May 2014	150,000	C	Low	Commercial area. No 'take home' customers. Parking: tight. Rush
MM Alam Rd, Gulberg	Kiosk	April 2015	10,000,000	A	High	Parking: Very Good
Muslim Town	Kiosk	July 2015	600,000	A/B	High	Three major Kulfi shops in neighbourhood
Allama Iqbal Town	Shop	March 2016	502,260	B	High	Many 'take home' customers. Parking: good. High rent
Faisal Town	Shop	July 2016	598,724	A/B	Medium	Parking: tight. Students area. Students sit-in and eat.
Township	Kiosk	Aug 2016	600,449	B	High	Parking: Good. Easy access.
Wapda Town	Kiosk	Sep 2016	550,000	A/B	High	Many 'take home' customers. Parking Okay
Temple Road	Shop	Nov 2016	273,056	C	Low	No parking. Hi traffic. Rush
Samanabad	Shop	Feb 2017	370,000	B	Low	Parking: Very tight. High rent. Less front
DHA	Shop	April 2017	433,335	A	Medium	Almost all 'take home' customers. Low traffic.
Shimla Pahari	Kiosk	May 2017	709,561	B/C	High	Intersection of four roads.
Shadbagh	Kiosk	June 2017	281,015	C	High	Cashier had behaviour issues. Few repeat customers
NFC	Shop	Dec 2017	280,000	A/B	Medium	Very small shop. Gate of NFC. Low traffic
BYCOO (Airport Rd)	Kiosk	April 2018	735,000	A	High	Parking: Good

Source: Daniyal's Notes.

³ All locations are in Lahore, unless stated otherwise.

Exhibit 4: Allama Iqbal Town Shop

Source: Company Records

Exhibit 5: Monthly Expenses

ROYAL KULFI LAHORE				
	Monthly Expenses (Rupees)			
Location	Rent	Utilities	Labour	Missel
SHOPS				
IQBAL TOWN	64,167	18,914	33,000	1,867
FAISAL TOWN	43,050	17,604	33,000	2,042
D.H.A	55,198	13,772	17,000	1,575
TEMPLE ROAD	19,250	12,022	17,833	1,167
KIOSKS				
TOWNSHIP	21,000	16,713	33,000	1,050
SHIMILA	28,000	12,740	38,000	1,283
SHADBAGH	23,333	12,513	25,000	933
BYCOO	35,000	16,625	38,000	1,342

Source: Company Records