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Apoorva: A facility location dilemma

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On April 16, 2016, a hot and humid afternoon, Srikanth Rao, the owner of Apoorva Mess[[1]](#footnote-1) (Apoorva) in Manipal, India, looked out his office window, lost in thought. The ever-increasing competition in the fast food industry was taking its toll on his business, a fact that was reflected in falling sales figures over the past couple of months. As in the past few years, Rao worried that this year his business would again be affected by upcoming summer vacations in Manipal. He was constantly thinking about opening a full‑service economical restaurant and taking Apoorva closer to his customers. He had six potential locations in mind, and he had even visited them along with Apoorva’s manager, Avinash Poojari. However, he had not been able to pinpoint the final location. He now had less than 48 hours to finalize the location, as he had to inform investors of his decision during the much-awaited investor meeting scheduled for April 18. Rao wanted an in‑depth evaluation of these potential locations before the meeting.

background

Apoorva started operations in early 1993 with a single outlet near Tiger Circle, Manipal. Rao partnered with one of his friends to set up a food business catering to the students of T. A. Pai Management Institute (TAPMI). Apoorva’s focus on hygiene and food quality won over the students, and soon the business took off. Rao took care to provide personalized services, a fact that was well appreciated by his customers. Within a short period, Apoorva’s customer base rose to 900. Soon, Rao was able to set up two more cafés near the Manipal Institute of Technology campus. Apoorva experienced a steady growth in revenue (see Exhibit 1).

In 2009, TAPMI relocated to a spacious, lush, and green 40-acre campus, 5 kilometres from Manipal. By then, Rao had increased his customer base to 1,800 on the Manipal Institute of Technology campus and added another 300 customers from the new TAPMI campus. Poojari, a young, dynamic management graduate, joined him to look after the three facilities at the two different locations. Unfortunately, in 2010, Rao suffered a road accident and was confined to bed for almost a year. The business began to suffer a dip in sales. To make matters worse, the contracts with both the Manipal Institute of Technology women’s and men’s hostels were not renewed. Poojari was asked to run Rao’s business at Manipal.

Poojari was a conscientious worker, and was admired by both employees and customers. To improve sales, he experimented with different flavours and dishes on the menu. He ushered in some tactical changes, all of which translated into a steady growth in revenue. He introduced innovations such as sponsoring food and beverages for participants in social events, which further increased Apoorva’s visibility and brought in more customers. He went the extra mile to please customers and often interacted with them to understand their requirements, even customizing some dishes to their tastes. This led to the creation of one of Apoorva’s signature dishes, the Bombay Tawa Sandwich, which was popular with customers.

Ninety per cent of Apoorva’s customers were undergraduate and postgraduate students of Manipal. The average ticket price for registered members at Apoorva was ₹135,[[2]](#footnote-2) whereas for others it was ₹170. Most of the un-registered members were medical patients, labourers, and friends of members from around the Manipal–Udupi region. While they enjoyed the food and services of the mess, they often complained that the distance from the town was a major factor that dissuaded them from visiting more frequently. Some of them even requested that Rao bring Apoorva closer to their locations.

About Manipal

Manipal was a small suburb in the district of Udupi, Karnataka, with an area of 26 square kilometres and a population of just over 37,000 (see Exhibit 2). Known as the “university town,” Manipal housed some of the leading educational institutes in the country, including the Manipal Institute of Technology, Kasturba Medical College, and TAPMI. The student community constituted over 75 per cent of the town’s population, with around 7,000 international students from 60 different countries (see Exhibit 3).[[3]](#footnote-3) The average student age was 22, and most students belonged to the upper middle class of society.

Besides their diverse student population, Manipal and Udupi (3.5 kilometres from Manipal) had witnessed a surge in medical tourism, as both of these towns attracted many patients from India and the South Asian Association for Regional Cooperation (SAARC) countries, who came for allopathic and alternative medicine treatments. In addition, the government and corporate businesses invested in infrastructure projects in this region, which brought a huge migratory labour force to the region, mostly from the northern and eastern states of the country. The ancient Udupi Krishna temple and other spiritual places also brought in their share of domestic and international tourists.[[4]](#footnote-4)

Since Manipal was located near the Western Ghats and the western coast, it witnessed tropical weather conditions, with a hot and humid summer and heavy rainfall from June to September. The rainy season generally affected the public transport system, resulting in the closure of schools and colleges.

Competition

In the past few decades, Apoorva had enjoyed a distinct advantage in catering to the Manipal Institute of Technology students, and a monopoly with respect to TAPMI. However, in recent years, many domestic and international fast-food restaurant chains such as Mavalli Tiffin Room, Sagar Ratna, Kentucky Fried Chicken, Subway, Pizza Hut, Domino’s Pizza Inc., and Café Coffee Day had opened outlets in the region, causing a temporary dip in business for Apoorva. After each such dip, Apoorva had managed to bounce back. Yet the pressure was beginning to grow, especially considering that these established brands had better logistics, including home delivery, that were denting Apoorva’s business. Online food aggregators, too, had entered into the arena, further harming Apoorva.

With a change in TAPMI leadership in January 2016, the institution insisted on giving more options to its 900+ students and allowed three more vendors to cater to the same set of customers. In February 2016, the monthly subscription plan also underwent a change. It was replaced by a daily plan that gave students the power to choose from one of the four vendors for a day. Though Rao kept the day’s price reasonable (₹140) compared to Madhuvan Serai (₹180) and the other two vendors (₹200), the daily plan affected Apoorva’s revenue in these two months.

selecting a Facility location

Rao had always wanted to open a full-service economical restaurant in the Manipal–Udupi region, but was unable to give shape to his dream as he was bed-ridden from the accident. Over the years, Rao had served the students of Manipal; however, he had always wanted to cater to the needs of the lower middle class by providing them with hygienic food at affordable rates. For these people—daily wage workers, patients, and budget tourists—high-priced domestic and international food venues were out of their budgets; also, roadside food stalls offered unhygienic food that could have adversely affected their health.

Now that Poojari was successfully taking care of his existing business, Rao turned his attention to fulfilling his dream. With the price of land in Manipal reaching a very high level, he felt that places around Udupi or Parkala–Hiriadka would be more reasonable, and that the competition would be more manageable. Also, apart from fulfilling the demands of his existing customers in this region, he would be able to fulfill his dream of serving quality food to a lower demographic. Over the past year, he had contacted several property dealers and shortlisted six potential locations around the area. In January 2016, he visited all six locations to identify the one that would be best for his new restaurant (see Exhibit 4).

Based on his 20 years of experience running the mess and café, Rao knew that the three most important criteria for setting up a restaurant were space within the facility, parking space outside the facility, and the ability to serve hot and fresh food to customers not only in the restaurant but also through home delivery. He believed that a good facility should have around 1,000 square feet of carpeted area and a parking lot one and a half times the size of the facility. He also believed the average time required for home delivery should not be long. However, he still felt unsure, because all of his experience was based on running a mess for students at a university. Would it be sufficient to launch a successful business with a different clientele and a different location? He knew his strength was not in the local cuisine, so he would have to focus more on tourists, patients, students, and migratory labourers from other states rather than on locals.

In February, he approached a market research agency in Manipal, BrandScan, to help him identify the best location. He knew that the cost of land across these six potential locations might vary a little. However, he believed that a prominent location was the key to success for this type of business, and asked that the agency not focus on the land cost.

After conducting a two-phase survey—one with restaurant owners in Manipal–Udupi and nearby regions, and the other with the customers in these locations—the BrandScan team submitted a report to Rao in the first week of April. The report detailed the customer segments (see Exhibit 5A) and the set of criteria for evaluation, along with their importance in selecting the restaurant location (see Exhibit 5B). Rao wanted a thorough assessment of these six potential locations before making the final decision, understanding fully that the wrong choice would spell disaster for his business in the long run. He asked Poojari to gather the details of the locations corresponding to the criteria recommended by the survey report and submit it to him by April 16, 2016.

Rao was apprehensive about giving equal weight to the criteria in evaluating these locations. However, the research report recommended differential weights to be given to the criteria in selecting the best location. With only one day to evaluate and pinpoint the final location before the investor meeting, he knew he would have to work late.

Rao’s chain of thoughts was broken by the sudden entry of Poojari carrying the assessment report (see Exhibit 6). Looking anxious, he told Rao, “Sir, we have to decide fast. I just heard that a couple of restaurants are opening up by the end of this monsoon season.”

Exhibit 1: apoorva Sales figures, 2004–2016 (In ₹ million)

Source: Company documents.

EXHIBIT 2: Manipal DEMOGRAPHICS

|  |
| --- |
| Country: India |
| State: Karnataka |
| District: Udupi |
| Region: Tulu Nadu |
| Area: 26 square kilometres  (10 square miles) |
| Population (2011): 37,805 |
| Density: 1,300/square kilometre |
| Official language: Kannada |
| Regional language: Tulu, Konkani |

Source: Company documents.

EXHIBIT 3: Number of STUDENTs IN MANIPAL, 2012–2015

Source: Company documents.

EXHIBIT 4: POTENTIAL LOCATIONS AND THEIR DISTANCE (in Kms) FROM MANIPAL

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Thenkpete | Kunjibettu | Hiriadka | Chitpady | Ambalpadi | Parkala | Manipal |
| Thenkpete |  | 1.8 | 14.0 | 2.2 | 3.7 | 7.6 | 5.7 |
| Kunjibettu |  |  | 13.0 | 3.3 | 5.5 | 6.1 | 4.5 |
| Hiriadka |  |  |  | 15.0 | 17.0 | 7.3 | 10.0 |
| Chitpady |  |  |  |  | 3.9 | 8.6 | 6.8 |
| Ambalpadi |  |  |  |  |  | 11.0 | 9.0 |
| Parkala |  |  |  |  |  |  | 3.3 |
| Manipal |  |  |  |  |  |  |  |

Note: kms = kilometres

Source: company information.

EXHIBIT 5a: CUSTOMER PROFILES IN THE SIX LOCATIONS (IN % OF POPULATION)

Source: Company information.

EXHIBIT 5b: SURVEY REPORT SUBMITTED BY BRANDSCAN

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Number of Respondents: 45; Sample Point: Owner of mid-size restaurants; Average Years in Operation: 7.2** | | | | | |
| **Average Age: 52.5 years; Male to female ratio of respondents: 8:1** | | | | | |
| **Criteria** | **Definition** | **Unit of Measurement** | **Relative Importance of the Criterion** | **Mean** | **Standard Deviation** |
| Size of facility | Expected carpet area inside the facility | In square feet | 25 | 10.01 | 0.50 |
| Size of parking space | Expected dedicated space attached to the facility for parking customer vehicles | In square feet | 16 | 14.20 | 2.15 |
| Response time for home delivery | Expected maximum travel time between the potential location of the facility and customer locations at the boundary of the 5 kilometre-radius | Travel time in minutes | 14 | 13.50 | 0.75 |
| Availability of infrastructure | Expected availability of electricity, drainage, water supply, and waste disposal facility | Rating on a 10-point scale (where 1 is lowest and 10 is highest) | 9 | 7.25 | 1.25 |
| Size of target population | Expected number of target customers staying within a radius of 5 kilometres from the potential location of the facility | In ‘000s | 12 | 12.30 | 1.21 |
| Availability of road network | Expected quality of roads and connectivity to national/state highways in and around the facility | Rating on a 10-point scale (where 1 is lowest and 10 is highest) | 10 | 8.50 | 0.50 |
| Competition | Expected number of restaurants catering to the same target segments within a radius of 5 kilometres from the potential location of the facility | Number of competitors | 10 | 3.20 | 1.34 |
| Distance to market | Expected maximum distance of various marketplaces (fresh vegetables and fruits) from the potential location of the facility | In kilometres | 4 | 5.50 | 0.03 |

Source: Company documents.

EXHIBIT 6: ASSESSMENT REPORT PREPARED BY aviinash POOJARI

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Criteria/Location** | **Unit of Measurement** | **Thenkpete** | **Kunjibettu** | **Hiriadka** | **Chitpady** | **Ambalpadi** | **Parkala** |
| Size of facility | In square feet | 7.2 | 10.4 | 12.5 | 10.5 | 9.5 | 11.7 |
| Size of parking space | In square feet | 8.0 | 12.0 | 15.0 | 8.5 | 12.0 | 15.0 |
| Response time for home delivery | Travel time in minutes | 16.0 | 16.0 | 18.0 | 16.0 | 14.5 | 18.0 |
| Availability of infrastructure | Rating on a 10-point scale (where 1 is lowest and 10 is highest) | 8.5 | 9.5 | 7.0 | 8.5 | 8.5 | 7.0 |
| Size of population | in ‘000s | 20.0 | 16.0 | 15.0 | 12.5 | 13.0 | 14.0 |
| Availability of road network | Rating on a 10-point scale (where 1 is lowest and 10 is highest) | 9.0 | 8.0 | 6.5 | 8.5 | 8.5 | 7.0 |
| Number of competitors | Number of competitors | 9.0 | 3.0 | 5.0 | 2.0 | 1.0 | 2.0 |
| Distance to market | In kilometres | 2.0 | 3.2 | 15.4 | 4.0 | 2.5 | 10.5 |

Source: Company documents.

1. Mess referred to an eatery attached to an educational institution and primarily focused on serving students. [↑](#footnote-ref-1)
2. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.02 on March 31, 2016. [↑](#footnote-ref-2)
3. Indulekha Aravind, “Manipal: How a Barren Hillock in Mangalore Has Transformed into a University Town,” *Economic Times,* December 11, 2016, accessed August 22, 2017, http://economictimes.indiatimes.com/industry/services/education/manipal-how-a-barren-hillock-in-mangalore-has-transformed-into-a-university-town/articleshow/55915833.cms. [↑](#footnote-ref-3)
4. “Www.udipkrishnamutt,” Nirvana India Enterprise,” accessed August 22, 2017, www.udipikrishnamutt.com/. [↑](#footnote-ref-4)