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nukkad, THE CHAITASTIC teafé: Considering efficacy in growth options

Bandinee Pradhan, Ritu Srivastava, and Meeta Dasgupta wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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One morning in December 2016, Priyank Patel, the founder of Nukkad, The Chaitastic Teafé Pvt. Ltd. (Nukkad), an organized tea café retail chain, was checking his notifications on his phone. He saw that Nukkad had garnered positive reviews and ratings on TripAdvisor, Facebook, and other social media pages. Patel was proud of his social enterprise, which encompassed two cafés based in Raipur, a city in Chhattisgarh, India.

Since its inception in 2013, Nukkad had created quite a buzz in Raipur for its distinctive initiative: it specifically employed youths with speech- and hearing-related disabilities. Patel’s aim was to expand Nukkad to more locations so that more people with these disabilities could be employed and a larger customer base could be reached, and he was trying to determine the best way to achieve this aim.

Patel questioned whether franchising represented the optimal expansion route, or whether he should continue growing with his own outlets. He realized that his decision could adversely affect his business and, as a result, his employees; if the expansion was not successful, it could cost people their jobs or dilute Nukkad’s hard-earned reputation. Moreover, Nukkad’s business model was exceptional with respect to its offerings, employees, and social values. If the model expanded to new markets, Nukkad had to be prepared to face the challenge of serving customers with different preferences.

NUKKAD

Company History and Background

Patel was originally an electronics engineer, working for various organizations from 2007 to 2011. During that period, he also volunteered his services to several non-governmental organizations (NGOs). His work with these organizations helped Patel realize that he wanted to work in the marginalized segments of society.

In 2010, Patel learned of a fellowship program run by the ICICI Foundation, which was established by the Industrial Credit and Investment Corporation of India (ICICI) Group, an Indian multinational banking and financial services company headquartered in Mumbai, India. Patel applied to the program and was chosen to be one of the designated fellows, at which point Patel left his corporate job. The program was designed to empower Indian citizens to participate in India’s inclusive growth by helping rural development projects; it centred on experiential learning and transforming the fellows into socially responsible leaders. The newly designated leaders spent 15 months working on grassroots development projects with NGOs, intermixed with modules on management training and leadership development.

Patel became a part of a community working to solve issues in remote locations. This experience became a turning point in Patel’s life. He worked in villages within three Indian states—Orissa, Maharashtra, and Gujarat—for 18 months. This opportunity resulted in two successful projects: the Community Resource Centre in Gujarat, in which Patel worked with underprivileged communities to empower socially marginalized individuals by providing them with livelihood services, employment skills, wellness, and education; and Tribal Women Cooperatives for Non-Timber Forest Products (NTFP) Trades in Orissa, which organized trading and enhanced income for women in rural regions collecting non-timber forest products. His time with the ICICI Foundation was transformative for Patel: it provided him with insight, knowledge, and—most importantly—a commitment to inclusive growth.

Patel gained a new perspective. He realized that disadvantaged young Indians needed to join the social sector to bring dynamic change and bridge the skill gap. Patel started developing ideas to create a bridge that could help society benefit from these individuals, and offer them an enriching experience in return. As of 2011, India had nearly 27 million disabled citizens (see Exhibit 1); increasing their social and economic participation might have a positive effect on everyone.

After six months, Patel had the idea of creating a social space for people and groups to meet, join, and converse while adding value to society in different ways. This train of thought led him to create Nukkad, The Chaitastic Teafé.[[1]](#footnote-1) Founded in 2013, Nukkad was a for-profit tea café with a mission of providing employment to individuals with disabilities and a platform for discussing various social issues. The café was decorated in a Bohemian theme, with murals, posters, and artifacts (see Exhibit 2). It served 29 varieties of tea, 17 varieties of coffee, snacks, and non-alcoholic cocktails in a calming ambience.

Market and Competition

India was one of the biggest tea-producing countries in the world, and the fourth-largest exporter of tea. During fiscal year 2015/16, India exported 232.92 million kilograms of tea; the export valuation reached US$686.67 million, with 90 per cent penetration in domestic markets.[[2]](#footnote-2) Growth in disposable income and urbanization had resulted in strong growth in the ready-to-drink tea market. However, the popularity of ready-to-drink was limited among urban consumers aged 13 to 34. International firms, such as Costa Coffee, Starbucks Corporation, Barista Lavazza, and Coffee Bean & Tea Leaf, rose to prominence at a fast pace in the Indian café market. The prior success and demand of domestic tea and coffee, along with an abundant consumer population, attracted these companies to India.[[3]](#footnote-3)

Maharashtra was the top state when it came to spending money on tea, but most tea consumption occurred in the home. Outside of the home, consumption of tea had increased, while consumption of coffee had fallen since the year 2012 (see Exhibit 3).[[4]](#footnote-4) There had been an acceleratory growth in the number of tea start-ups, which led to an increase in tea drinking. These start-ups focused on increasing the quality, quantity, and ready availability of tea (see Exhibit 4). Nukkad was the first themed café of its kind in Raipur; the city’s other cafés served varieties of coffee. However, attracting customers that would be willing to pay from $0.45 to $2.24 for tea was difficult, because tea was available on every corner of Raipur for as little as $0.07.

Advertising and Promotion

In 2016, Nukkad had a 4.6 rating in Google reviews, and 4,400 “likes” on Facebook. The business was also featured on a television series, *OMG! My Chhattisgarh*, that aired on History Channel India. The series ventured into various parts of the state to cover incredible stories of courage, inspiration, progress, and culture.

According to Patel, at the core of Nukkad’s success was its employees, its grounded philosophy in encouraging good conduct in people, and its opportunity to give employees a platform to discuss various social issues.

The business had no advertising budget, and its marketing communication was mainly done through social media platforms like Facebook and Instagram. Patel had created some promotional campaigns in the form of social experiments that were aligned with Nukkad’s vision.

“Digital Detox”

It was believed by some that smartphones (and especially social networking apps and games) negatively affected the quality of face-to-face discussions. Nukkad promoted social interaction by offering a 5–10 per cent discount on the total bill if customers deposited their smartphones at the counter for the duration of their time at Nukkad.

“*GyaanDaan* (Donation of Knowledge)”

Nukkad maintained a small library that encouraged an exchange of books. Customers could deposit a book in the café and exchange it for another that could be taken home for three days.

“*Bill by Dil* (Pay by Heart)”

On Nukkad’s first anniversary, the business customized a special menu that had no prices displayed. Customers ate what they liked and paid what they wished to; bills were not generated, and at the end of the meal, the staff placed an envelope on the table into which the customer could put whatever amount they wanted to pay.

“The Charity Chai”

The Charity Chai promotion created an opportunity for customers to pre-pay for a cup of tea for underprivileged members of society.

choices AND CONCERNS

Patel was considering his options for Nukkad’s expansion. The first option was to set up his own outlet, and the second option was to pursue franchising. The franchising route could be further classified into three different models with respect to the ownership and operation: franchise owned, franchise operated (FOFO), franchise owned, company operated (FOCO), and company owned, franchise operated (COFO). Patel knew that choosing any one of these options could affect Nukkad at its core, challenging all aspects of how the company evolved and operated. Above all, Patel’s priority was sustainable growth for Nukkad. Patel picked up his notebook and summarized the options.

Expanding Traditionally with Own Outlets

Patel had identified Nagpur as a potential location to expand Nukkad beyond Chhattisgarh. Nagpur was a Tier 2 city in Maharashtra—the third largest city in the state and the largest city in Central India. However, taking Nukkad to Nagpur presented possible challenges as well as opportunities.

Patel saw great risk in pushing his existing model into new markets. Entering into a new state without any prior connection there could leave Nukkad open to unknown market risks and aggressive competitors. Nukkad would face bigger competitors (that would potentially be more aggressive) and an unfamiliar environment. Patel wondered if he should outsource by bringing in a temporary executive who had experience in expansion, train his staff in a new technology, or start a new café with new equity rather than with existing cash flow.

India was a diversified market with cultures and lifestyles that varied significantly from state to state. Nukkad had a presence in Raipur, but would it be possible to replicate the same success in Nagpur? Could an outlet sustain itself without any link to local market knowledge? Patel was unsure. Knowledge of the local market was crucial for any café: such knowledge would help in promotional activities (e.g., particular festivals and celebrations) and offer an understanding of the customer base, customer preferences, and food habits.[[5]](#footnote-5)

Expansion involved finding sources of funding—such as loans, investors, and any owner-contributed capital—but Patel could not count on his existing location for any funding. Rather, he had to consider the new café as an entirely new business venture, which would require that he invest in an initial set-up cost (see Exhibit 5). Notably, this cost could be much higher than it would be for any location in Chhattisgarh. Further, Patel’s model would require that he employ more people, such as managers, for this new location. The salaried managers’ earnings would be unrelated to their performance, and would be added to the monthly cost.

As a social enterprise, Nukkad faced unusual challenges with respect to its employees, because hiring and training involved a number of steps. Recruiting disabled individuals required collaboration with NGOs or social service institutions that worked for the disabled community or other sources.

Patel also had concerns about how well his team would be able to handle daily operations without his monitoring and continuous support at the new café. Even if he employed managers, would it be possible for the employed managers of the new café to have the same compassion and understanding as Patel did toward disabled workers?

Finally, what internal structural changes needed to be made? A larger business could not operate in the same way that a smaller one could; quite often, smaller businesses had ways of managing employees and dealing with human resource issues in ways that were not scalable. In pursuing significant expansion, these structures and processes could become unnecessarily bloated. Therefore, Patel believed that he may need to re- evaluate aspects like restructuring departments and redefining roles. Keeping an eye on every outlet was important for a business owner. Patel wanted to monitor every aspect of the business dealings but he could not be on site at all times. He would need to screen, hire, and train employees to take charge of the business for him in some ways.

Franchising Nukkad

The second option for Nukkad was to franchise the café; doing so would be a ready-made solution. Patel had received messages from individuals (based out of different cities across India, such as Nagpur, Aurangabad, Delhi, Chandigarh, and Ranchi) inquiring about Nukkad’s franchising options, including the following:

Dear Patel, I own a manufacturing business based in Nagpur, Maharashtra. I am a franchisee of [International Institute of Fashion Design], an educational institute. I came to know about Nukkad from friends and family and was very much interested in becoming a franchisee of Nukkad. I would like to know if you have an application form.

Hi Patel, I am based in Delhi, India. I operate a small cafeteria. My cafeteria is 10 years old and serves varieties of Indian snacks, tea, and coffee. I visited Nukkad recently while I was in Raipur to meet friends, and I would like to know if you are interested in franchising your café.

I run an NGO for mute and deaf [individuals] in Ranchi, Jharkhand, where we train them for employable skills. I visited Nukkad last year, and I am very impressed with the business model, as I also work with the vision of action and compassion towards the deaf and mute community members. I’m curious as to whether you have a franchise model.

Patel considered the requirements that would have to be met if he were to decide to franchise Nukkad. Despite the fact that franchising seemed like an easy solution to implement, Patel had doubts over losing control of the business. With this option, he would need to establish long-term relationships with the franchisees because he would be depending on them for profits and operations.

Potential Obstacles to Franchising

Nukkad’s foremost concern was its employees: its primary objective was to assist marginalized members of society by giving them employment. Patel feared that by pursuing franchising, he might be developing a work culture that did not prioritize Nukkad’s core values. He could not be sure that the franchisees would emphasize respect, compassion, teamwork, and collaboration as much as he did.

Moreover, Patel strongly believed that art was an important factor in Nukkad’s success, and he had deliberately developed the café’s Bohemian-esque environment himself. Nukkad was designed to nurture a creative, artistic, and supportive culture. Its walls were decorated with hand-painted murals, and most of the items in the café were handcrafted. Patel experimented with different activities to engage customers in socially beneficial initiatives and discussions. He organized a talk series at the café with local poets, activists, and journalists. On Nukkad’s third anniversary, he presented a poetry and storytelling event that was heavily attended by locals. He also helped local writers promote their books at Nukkad.

Each Nukkad location had three employees, one of whom handled the management desk while the others worked as chefs. The dress code was casual. Nukkad was functionally organized, and all communications between Patel and his employees were in sign language, because the employees had speech or hearing impairments, or both. Accordingly, Nukkad also had to adopt an unusual service concept with its employees and customers. Customers ordered their food and beverages in writing. When Nukkad first opened, Patel was not sure if people would react positively to this concept. Surprisingly, however, customers quickly adopted the method of ordering, and the response was overwhelmingly positive. Some customers even began to communicate in sign language with the employees.

Patel did not want to compromise on any of the distinctive aspects of Nukkad. Yet, while the franchisees would have to agree to operate their cafés according to Patel’s stipulations, there still remained some areas for innovation. Many ideas for new items on the menu could come from the franchisees responding to customer demand. Developing new products was crucial to any business, even one that had successfully relied on a limited menu for many years. Consumer tastes could change over time, and companies had to respond to these changes. Innovation could inject dynamism and allow Nukkad to utilize markets that Patel had previously overlooked. Each future franchisee would be required to put at least 40 hours a week into business development.

What to do NEXT

Apart from questions about replicating Nukkad’s distinct operations, Patel wondered whether franchising—a medium known for its focus on commercial success—could nurture a start-up that focused on a social cause. Patel knew that what separated a typical entrepreneur and a social entrepreneur was that the main goal of a social enterprise was to drive social change, and that was the potential payoff—an enduring, transformative advantage for society.

For the typical entrepreneur, the business would be organized to serve markets that could comfortably afford the new product or service, and it would thus be designed to create financial profit. Contrastingly, social entrepreneurs neither anticipated nor organized to create substantial financial profit for their investors or themselves. Unlike the entrepreneurial value proposition that assumed a market could pay for innovation and might even benefit investors, the social entrepreneur’s value proposition targeted an underserved, neglected, or disadvantaged population that lacked the financial means or political clout to achieve any transformative benefits without outside help. However, this did not mean that social entrepreneurs shunned profit-making value propositions as a rule. Profit, though not the primary objective for a social entrepreneur, was important for sustainable development of a social enterprise.

Patel believed that social franchising required co-operative development. He wondered if the well-trodden path to success that commercial franchising offered could work for a social enterprise like Nukkad. The fact that there were other tea cafés rapidly opening in multiple locations India indicated that making Nukkad a prominent tea café brand was unrealistic without expansion to more locations. Patel viewed expansion as crucial for Nukkad to remain competitive. He knew that it was the best time to start another branch of Nukkad in a new location if he was going to do so. How could he maintain Nukkad’s success and effectiveness in each new location opened? Was franchising the best way to expand, or should Patel employ the time and resources required to develop a tailor-made, in-house solution?

exhibit 1: Disability demographics in India (2011)

|  |  |
| --- | --- |
| **Type of Disability** | **Persons** |
| Seeing | 5,033,463 |
| Hearing | 5,071,007 |
| Speech | 1,998,535 |
| Movement | 5,436,604 |
| Mental Impairment | 1,505,624 |
| Mental Illness | 722,826 |
| Other | 40,927,011 |
| Multiple Disabilities | 2,116,487 |
| Total | 26,810,557 |

Source: Social Statistics Division, Ministry of Statistics and Programme Implementation, Government of India, *Disabled Persons in India: A Statistical Profile 2016*, 18–20, accessed July 17, 2017, http://mospi.nic.in/sites/default/files/publication\_reports/Disabled\_persons\_in\_India\_2016.pdf.

exhibit 2: InSIde nukkad



Source: Company documents.

exhibit 3: per CAPITA consumption of coffee and tea per month In each indian state (2011/12) (IN ₹)

Source: Dipti Jain, “Tea or Coffee?,” Livemint, October 28, 2014, accessed December 12, 2017, www.livemint.com/Opinion/ZlRWL4feW4byUjtDs1MVpM/Tea-or-coffee.html.

Exhibit 4: NUKKAD’S COMPETITORS

**Chai Point**: A Bangalore, India-based, funded tea café chain start-up. Chai Point was one of the early entrants into the organized tea chain business and targeted young working professionals through its network of stores, dispensers on corporate premises, and a recently launched delivery business. Besides Bangalore, Chai Point expanded operations to Delhi and Pune. The firm also recently introduced “Chai on Call,” which allowed customers to enjoy tea in their workplaces and homes using a specially developed heat-retaining tea flask.

**Chai Thela**: A Noida-based tea café chain that provided the experience of a road-side cart. The main factor that differentiated the company from others was that it provided freshly brewed tea, preparing tea on demand and refraining from storing it in flasks as much as possible. Chai Thela had a kiosk-based model, and it focused on information technology parks and colleges as its prime market.

**Tpot**: Based in Delhi, Tpot flourished with its variety of tea and breakfast items. From speciality hibiscus tea to spice-flavoured masala tea, the company had a wide range of affordable products, including exotic breakfast items.

**Tea Trails**:Tea Trails offered a curated range of the finest teas with suitable tea accompaniments. A venture of Zone8 Tea World Pvt., Ltd, the company was founded by a group of successful entrepreneurs and professionals in 2012. It spent more than two years researching and developing products suitable for the Indian palate, and launched the first Tea Trails outlet in Mumbai in November 2013. The firm was a funded start-up, and the café chain planned to use the funds for its growth and expansion in focus markets. Its objective was to open 250 outlets by 2018. The outlets were mainly located in Delhi, Mumbai, Hyderabad, and Chennai.

**Chai Garam**: One of the oldest tea companies, Chai Garam was a chain of tea cafés that targeted the working population of the country with small outlets, low rentals, low prices, and faster turnaround times. Its specialty was selling 20 varieties of freshly brewed tea, handmade without the use of tea bags or vending machines, as well as offerings of cold beverages and snacks. The company’s outlets were mainly located in Gurgaon.

**Chotu Chai Wala**: One of the rising tea start-ups in Maharashtra, Chotu Chai Wala operated in Mumbai with five tea outlets. It offered the city’s famous “Cutting Chai,” a local synonym for tea in Mumbai. Chotu Chai Wala was an initiative of e-commerce website development platform Zepo Technologies Pvt. Ltd. After being intrigued by the *chaiwalas* (local tea vendors) of Mumbai for a long time, Zepo decided to empower these vendors by helping them to sell their products online in order to reach a much wider audience.

Source: Sangeetha Chengappa, “Chai Point to Invest ₹15cr to Open 60 Stores,” *Hindu Business Line*, August 11, 2016, accessed July 2, 2017, www.thehindubusinessline.com/companies/chai-point-to-invest-15-crore-to-open-60-stores/article8975013.ece; Vishal Dutta, “Chai Thela Raises Rs 1.5 Crore from Quarizon,” *Economic Times*, November 29, 2016, accessed July 2, 2017, http://economictimes.indiatimes.com/small-biz/money/chai-thela-raises-rs-1-5-crore-from-quarizon/articleshow/55678924.cms; Vinay Dwivedi, “Startup Tpot's Tea Chain Offers ‘Chai-Nashta’ in Cafe Style,” *Economic Times*, June 20, 2016, accessed July 2, 2017, http://economictimes.indiatimes.com/wealth/earn/startup-tpots-tea-chain-offers-chai-nashta-in-cafe-style/articleshow/52808002.cms; V. Rishi Kumar, “Chai Tea Trails, a Place for that Heady Tea,” *Hindu Business Line*, January 28, 2016, accessed July 2, 2017, www.thehindubusinessline.com/companies/tea-trails-a-place-for-that-heady-tea/article8163639.ece; Joyshree Saha, “The Budget Tea Café,” Franchise India, January 12, 2016, accessed July 2, 2017, www.franchiseindia.com/restaurant/The-budget-tea-cafe.6999; “Cutting and ‘Tapri’ Chai Goes Online on ChotuChaiWala.com! If You Live in Mumbai, You Can Now Order Your Tea Online,” News18, June 28, 2014, accessed July 2, 2017, www.news18.com/news/buzz/cutting-and-tapri-chai-goes-online-on-chotuchaiwala-com-if-you-live-in-mumbai-you-can-now-order-your-tea-online-698210.html.

**EXHIBIT 5: FINANCIAL COSTS OF CREATING A NEW NUKKAD**

A. Initial Set-Up Costs (in US$)

|  |  |
| --- | --- |
| Infrastructure (1,000–1,500 square feet) | $1,500–$2,000 |
| Decoration | $900–$1,100 |
| Kitchen and appliances | $3,000–$4,000 |
| Operating capital (3 months fixed operating costs + 15 days variable operating costs) | $3,000–$4,000 |
| Employee hiring and training cost | $800–$1,000 |

B. Monthly Costs (in US$)

|  |  |  |  |
| --- | --- | --- | --- |
| **Estimated Fixed Costs (Monthly)** | | **Estimated Variable Costs (Monthly)** | |
| Employee salaries (3–5 employees) | $290–$360 | Maintenance | $40–$50 |
| Information technology infrastructure | $160–$200 | Raw material costs | $1,000–$1, 200 |
| Utilities (power, Internet, and maintenance) | $100–$180 |  |  |

Source: Company documents.

EXHIBIT 5 (CONTINUED)

C. Balance Sheet (in US$)

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** | **2014** | **2015** | **2016** |
| **Current Assets** |  |  |  |
| Cash | 4,985 | 9,627 | 12,901 |
| Inventory | 561 | 520 | 504 |
| Other Current Assets | 200 | 250 | 215 |
| **Total Current Assets** | **5,746** | **10,397** | **13,620** |
| **Long-Term Assets** |  |  |  |
| Long-Term Assets | 230 | 230 | 230 |
| Accumulated Depreciation | (70) | (140) | (210) |
| **Total Long-Term Assets** | **160** | **90** | **20** |
| **Total Assets** | **5,906** | **10,487** | **13,640** |
| **Liabilities and Capital** |  |  |  |
| Accounts Payable | 245 | 460 | 619 |
| Current Borrowing | 310 | 310 | 310 |
| Other Current Liabilities | 0 | 0 | 0 |
| *Subtotal Current Liabilities* | *555* | *770* | *929* |
| Long-Term Liabilities | 0 | 0 | 0 |
| **Total Liabilities** | **555** | **770** | **929** |
| Paid-In Capital | 620 | 465 | 310 |
| Retained Earnings | (155) | (155) | (155) |
| Earnings | 4,886 | 9,317 | 12,536 |
| **Total Capital** | **5,351** | **9,627** | **12,691** |
| **Total Liabilities and Capital** | **5,906** | **10,397** | **13,620** |

D. Income Statement (in US$)

|  |  |
| --- | --- |
| **Revenue** | **2016** |
| Sales | 19,000 |
| Investment Income | 1,200 |
| **Total Revenue** | 20,200 |
| **Expenses** |  |
| Salaries | 2,990 |
| Rent | 2,500 |
| Cost of Goods Sold | 2,400 |
| **Total Expenses** | 7,890 |

Source: Company documents.

1. Nukkad was a Hindi word used to describe a street corner, and most small tea stalls were located on street corners; hence, the name carried the connotation of a meeting place where tea was served. [↑](#footnote-ref-1)
2. “Tea Statistics,” Indian Brand Equity Foundation, accessed November 29, 2016, www.teacoffeespiceofindia.com/tea/tea-statistics. All currency amounts are in US$ unless otherwise specified; US$1 = ₹67.47 on January 31, 2017. [↑](#footnote-ref-2)
3. Dipti Jain, “Tea or Coffee?,” Livemint, October 28, 2014, accessed December 12, 2017, www.livemint.com/Opinion/ZlRWL4feW4byUjtDs1MVpM/Tea-or-coffee.html. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Cologne, “Indian Food Habits: Challenge or Opportunity?” Globe One (blog), March 7, 2014, accessed March 1, 2017, http://globe-one.com/indian-food-habits-challenge-or-opportunity-7013. [↑](#footnote-ref-5)