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Chatar Patar: The Scaling-Up Dilemma

*Devika Trehan and Priti Bakhshi wrote this case solely to provide material for class discussion. The authors do 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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Chatar Patar Foods Pvt. Ltd. (Chatar Patar) was a quick service eatery that was opened in 2012 with the vision of expanding to multiple outlets. Prashant Kulkarni, managing director of the company, and his team had planned to expand their business by 2018, once the brand was popular, and the company had established a name in the market. As with every new venture, the team was ready to put in hard work and establish a good reputation. The team had expansion plans, and at the top of the list was the option of entering into a franchise model of business.

In 2016, it had been more than a year since the franchise offers started coming in, and the team had not yet decided what to do next. The team members did their research and consulted people in the same field to learn more, with the hope of developing a lucrative solution to the problem. Kulkarni wondered whether he and the team were taking on their expansion plans too early before they were prepared or had a sufficient plan. Should they wait? If they proceeded, which method of expansion should they adopt?

The Entrepreneur

It was the summer of 1995 when Kulkarni ran to his father with ₹230[[1]](#footnote-1) in his hand. His father was surprised to see his son with so much money and asked Kulkarni in a firm tone who had given him the money. Kulkarni replied in an innocent and excited voice that he had sold a total of 20 handmade boats. Kulkarni’s father was taken aback and enquired further, asking how Kulkarni got the material to make these boats. The boy shared that he had used all the waste material that was kept in the garage. Kulkarni beamed with excitement and happiness, pleased that he had sold all of his boats. Like his father, Kulkarni was an entrepreneur, and that day marked the beginning of Kulkarni’s entrepreneurial journey.

Over the years, Kulkarni had many ideas. Some worked, but others, no matter how good they looked on paper, were difficult to implement. Two of Kulkarni’s successful ventures were a CD (compact disc) shop, followed by a business in tire tubes. But ventures were short-lived and even though Kulkarni’s father saw potential in the boy, he asked him to pursue a college program. Kulkarni completed an honours bachelor degree in commerce and was immediately placed with an information technology (IT) firm in Jaipur, India after graduation.

Kulkarni loved food, and his new job gave him the opportunity to try out new dishes every week. One week, he had a craving for panipuri, so Kulkarni set out to find a street vendor selling the snack. He returned home, having enjoyed his dinner, only to feel ill. He went to bed nauseated and woke at 2:00 a.m. with sudden abdominal pain. By morning, the pain was worse, so Kulkarni went to the hospital, where he was diagnosed with food poisoning. When he disclosed his diet of the previous few days, the doctor immediately identified the panipuri as the culprit. The doctor shared that they had at least two patients every week sick after consuming street food, and in almost 90 per cent of the cases, panipuri was the cause.

After spending a week in the hospital, Kulkarni was discharged home with instructions to take certain precautions with what he ate. He resolved that he would refrain from panipuri indefinitely.

Kulkarni completed his tenure with the IT company and decided to continue his education and pursue a master’s degree in business administration in his hometown. Indore was known for its delicacies of Indian street food, but Kulkarni’s brush with food poisoning had stayed with him. He did, however, meet with his friends one day and joined them as they went to a street vendor for their favourite panipuri. It was then that Kulkarni noticed for the first time that the vendors prepared his favourite dish with a total lack of hygiene, a factor Kulkarni had never considered before when eating his favourite street food. He also noticed that the quality of the ingredients was poor and that the vendors offered a limited choice of flavours. Kulkarni realized that whatever happened to him could happen to anyone. He wondered how many people would refrain from eating the food or stop their family members from enjoying this delicious dish because of its preparation or serving methods, or because preparation was not hygienic or healthy.

The Company

Kulkarni researched the idea of providing people with healthy panipuri that was an amalgamation of hygiene, health, and taste. He always believed in the power of ideas, although this idea was fuelled by memories of a week in hospital with several painful injections and bitter medicines. He needed to get a brand into the unorganized world of Indian street food.

Kulkarni worked on his idea with his younger sister, Pallavi, and his colleague, Arti, pushing the idea further every day. After in-depth study over 18 months, the trio learned that although panipuri was a favourite food across the entire Indian subcontinent—India, Pakistan, Sri Lanka, Nepal, and Bangladesh—it was often frowned upon because of the vendors’ lack of hygiene. Although panipuri was popular and offered health benefits because of the variety of herbs and spices used, many people did not consider panipuri to be a healthy eating option. The same was true with a variety of other savoury snacks served by roadside vendors.

The trio decided to start their own venture, opening an outlet that served the most liked and popular Indian street food. Their plan was to establish a name in this particular segment of the food industry. They did not want to be just another outlet on a long list of random outlets regularly launched to serve panipuri; they wanted their outlet to be different. And so they launched Chatar Patar, an eatery store in the quick service restaurant sector that served standardized Indian street food that could be customized with an extensive scope of products, all of it hygienically prepared and served. The vision was to deliver Indian street food that was healthy, hygienic, and tasted good.

The Industry

The Indian quick service restaurants sector, a portion of the restaurant industry, was estimated to have a market value of ₹68 billion in 2014. The market was expected to grow to ₹150 billion by 2020, providing lucrative opportunities for investors and entrepreneurs to be a part of this growth story.[[2]](#footnote-2)

Another report highlighted that changing consumer behaviour and demographics were expected to drive the Indian quick service restaurants to a compound annual growth rate (CAGR) of 18 per cent by 2020 for a market value of US$27.57 billion. Approximately 10 per cent of the fast-food market in India was organized. Novonous’s market research estimated that the organized fast-food market in India would grow at a CAGR of 27 per cent by 2020. Vegetarian fast food constituted approximately 45 per cent of the fast-food market in India and was expected to grow at a CAGR of 18 per cent by 2020.[[3]](#footnote-3)

Casual dining restaurants (CDRs) in the organized fast-food sector in India were projected to grow at a CAGR of 27 per cent by fiscal year (FY) 2019/20. Non-casual dining restaurants (NCDRs) or fast casual dining restaurants had gained a tremendous market share over the previous 10–15 years. That sector was also projected to grow at a CAGR of 27 per cent over the next five years. The quick service restaurants market in the organized fast-food sector in India was projected to grow at a CAGR of 20 per cent by FY 2019/20.[[4]](#footnote-4)

The Growth Phase

Kulkarni brought his signature product, panipuri, to the customers of Chatar Patar, “the house of India’s first branded golgappas (panipuri) Gapagap.” Kulkari and his team were pioneers in introducing the world’s first panipuri brand, Gapagap.

Kulkari and his team started their venture with an initial capital of just ₹40,000. They opened their first outlet, the parent store, in Indore, Kulkarni’s hometown, initially offering 18 products on the menu. They leased space next to the university, hoping the location next to their primary target market—youth—would give them visibility. They decided that it would be the founding team that handled the operations, from procurement of the raw material to preparing and serving the snacks. The store made a profit after the first month, so the team expanded. They hired two employees, who were trained to prepare the snacks and attend to customers.

The venture was an immediate success. Word-of-mouth publicity and the networking skills of the founding team led to increasing sales despite their inexperience. Customers were drawn in and made regular visits. The store was making profits much above the initial expectation of the team. Yet, that was not enough for Kulkari. Even though the team had delivered on two of their promises—providing hygienic and healthy street food—they had yet to deliver on the third promise, taste.

The team took on the challenge and decided to expand the flavours offered. As they did not want to be just any other store in this line of business, they chose to establish a niche with their flavours. Starting with seven flavours, they developed a total of 60 flavours within two months, and then over time, expanded to 112 flavours of pani, the main ingredient in Gapagap.

The team members were proud to be pioneers, adding various flavours to an age-old Indian street food. Really, they had revolutionized the food. Word of mouth was strong, which increased their footfalls and proved to be helpful in taking the next step.

Strategic Shift

Kulkari and his team were overwhelmed by the customer response, but Kulkari still questioned what was next and how they would get there. The answer came when Singh, a regular and loyal customer, visited Chatar Patar on a day when the team was a little less occupied. Singh was an experienced businessman and liked the team’s concept of multi-flavoured, hygienic, and healthy food. He congratulated them on their success and asked whether they had considered expanding. Kulkari shared that this was exactly what was bothering him, wondering what was next.

Singh proposed a franchise business model, but Kulkarni wondered whether it was too soon. The team had researched websites dedicated to promoting the franchise business model, and they could develop and use their own website to advertise available franchises. They had a brand, but the brand was not yet big enough that people would want to invest. And Chatar Patar charged prices that were a bit higher than what street vendors charged. But Singh maintained that franchising was the path and offered to be Chatar Patar’s first franchisee, opening an outlet in Rajkot.

Kulkarni and his team were surprised by Singh’s offer and requested time to consider it. In the meantime, Kulkarni hired a friend to create a company website. Within three days, the website was ready and working. With the website live, the team began to promote their restaurant on social media platforms, sharing their success story and directing people to their franchise business model, which was available on the company website.

As word spread, more franchise offers came in. The team had already prepared a rough draft of a franchise business model offer, but had yet to refine it. They did not anticipate such a quick response, but they did not want to lose the opportunity. Before discussing business with Singh or looking at the other offers, Kulkari and the team did more research and refined their franchise business model.

Under their franchise business format, Chatar Patar offered the following:

* The rights to use the Chatar Patar brand, trademarks, signs, and logos to operate a store
* The ability to prepare and sell Chatar Patar’s standardized products by sharing the recipes and transporting the ingredients required for the preparation
* Use of the strategic business model and systems developed by Chatar Patar
* Support with local promotion using well-thought-out campaigns and creative inputs
* Use of the support, training, and research used by Chatar Patar’s headquarters

Franchisees could choose one of two types of ownerships:

* A single unit franchise, or
* An area franchise with the opportunity to develop multiple units within the franchise, referred to as a master franchise (see Exhibit 1).

Competition

The ethnic fast-food market in India was expected to experience considerable growth with a projected CAGR of 31.95 per cent by FY 2019/20. Millions of people were consuming ethnic fast food daily. To leverage this market and customer segment, many players had entered the market as organized outlets between 2013 and 2015.[[5]](#footnote-5)

The United Nations reported that India had 356 million people between the ages of 10 and 24—the largest youth population in the world. India’s economy was growing and more young people were entering the workforce, giving them money to spend. There were also more women in the workforce, bringing a need for different tastes and products. Also, consumers were more mobile; they needed food on the go, so the need for access to quick service restaurants increased. As a result, the consumers in the Indian fast-food market were hungry for more availability of quick service restaurants with a diverse menu, which paved the way for entry of international brands such as McDonald’s, KFC, Subway, Domino’s Pizza, and Dunkin’ Donuts, which competed with local Indian fast-food restaurants.[[6]](#footnote-6)

Technology and social media gave quick service restaurants the ability to make menus available online and gave customers the opportunity to post their reviews of the restaurants.[[7]](#footnote-7) Customers could also take advantage of online ordering and home delivery of items, methods leveraged by many players. Slowly, but steadily, the competitors were focusing on three areas: quality food ingredients, online ordering and home delivery, and customized and dynamic menus to match customers’ taste interests. Panipuri was distinct in that it could not be ordered online because the most important part of the dish was its preparation and service on the spot. Consuming it right away accentuated the taste.

Challenges

Although franchising seemed to be the next logical step for Chatar Patar, and the team was elated with the response of prospective franchisees, Kulkari wanted to continue to maintain a niche and exclusivity in the market. The challenge was to expand while maintaining and delivering on Chatar Patar’s promise of health, hygiene, and, most importantly, taste. The goal was to maintain the exclusive taste so no matter which outlet the customer visited, the Gapagap would taste the same.

The team planned to travel to all the locations and train the staff to prepare the products the right way, but the team had no previous experience with how a food outlet was run, nor did they have any experience with distributing to franchisees.

The team had made the ingredients, the pani, of their signature product, Gapagap, in liquid form. The immediate challenge was how to transport the contents and ingredients to the kitchen teams in the franchises. The company was still in the initial growth phase and its income was limited, so whatever method was adopted needed to be cost-effective. At the same time, delivery needed to be done with minimal to no damage to the contents. The ingredients in the semi-liquid state had a shelf life of only two to three days, and the goods risked being damaged in transit as a result of breakage or spillage. The team wanted the same method of delivery for all franchise outlets, and they wanted a method of distribution that was lucrative in both the short and long terms. They were not looking for a stopgap solution; it had to be a permanent solution.

The Way Forward

The franchisee offers were pouring in. The team was already negotiating with seven prospective franchisees who were satisfied with Chatar Patar’s proposal and were ready to take up the franchises.

The team again researched and found methods for transporting the ingredients to the franchisees. Their first thought was to emulate the methods adopted by the beverage giants, such as PepsiCo, Inc. or The Coca-Cola Company. The team worked out an option for transporting the semi-liquid formula from the main store in Indore to the first franchise offer they accepted in a nearby city in Rajkot (see Exhibit 2).

The transportation cost involved carrying the goods from the parent outlet in Indore to the receiving location of the first transport agent, which would take it from there to a local transportation company warehouse. The team estimated each trip would cost ₹250. At eight trips per month, the monthly cost would be ₹2,000.

From the local warehouse, the product would be moved to the transporter’s warehouses in the franchise cities. The cost for that stage would be ₹500 per trip. At eight trips per month, the monthly cost would be ₹4,000.

Finally, the product would then be transported from the city warehouses to the franchises. The cost for this stage of shipment was ₹250 per round trip. At eight trips per month, the monthly cost would be ₹2,000 (see Exhibit 3).

When the team discussed this plan with the transporting agents, the agents established that this plan could be used for all the cities that had direct bus links. Whether they transported their material to Rajkot, Baroda, Jamnagar, or Vizag, the cost would be the same. However, if the weight of the shipped goods was more than 120 kilograms, they would be charged an additional ₹10 per kilogram.

This method of transportation of semi-liquid ingredients also carried the risk of 30 per cent damage to the ingredients. If the product incurred damages, the loss would not only increase the transportation cost due to more shipments to replace the damaged goods but also decrease the profit margins. The shelf life of the product was two to three days, and even after transportation, there would likely be 30 to 40 per cent wastage because the ingredients did not taste fresh.

The next approach the team considered was that used by large fast-food chains, such as McDonald’s and KFC. With this model, the ingredients would be prepared and frozen, which would increase the shelf life of the ingredients. However, only 10 of Chatar Patar’s products could be converted to a frozen-food format; eight products needed to be freshly prepared.

Planning needed to be more strategic with the frozen format. First, a regular route would need to be established, then the stores would be opened along the route to optimally use the delivery channel. The company would need to lease cold storage space located centrally on the route and invest in a blast freezing process. Another requirement would be to maintain a large inventory that could meet the product demand. The advantage with this option was that it was damage-proof (see Exhibit 4).

The third alternative that the team considered was to convert the semi-liquid formula into a dry format. The cost for the drying process would be ₹300 for 120 kilograms of semi-liquid formula. The cost of transportation would be ₹1,000 (see Exhibit 5).

Yet another option the team considered was to share with the franchise owner the trade secret—the recipes and the exact procedure for creating their exclusive taste. This option would be the easiest for the parent company, doing away with all the logistics hassle of transporting ingredients. The disadvantage was that the team would lose control of their market advantage; franchise owners could give up their franchises at the end of the contract and start their own ventures under another brand name.

Another suggestion, proposed by Arti and Pallavi, was that they first focus on expanding in nearby cities, where the material could be transported within a matter of few hours. Kulkarni suggested that they could also focus on opening franchises in Indore itself.

Finally, the team considered whether they should standardize the five or six key products and leave the remaining products to the discretion of the franchisee. The franchises could customize the panipuri according to local taste and preference.

Exhibit 1: Chatar Patar Foods Pvt. Ltd.—Investment Details

|  |  |  |  |
| --- | --- | --- | --- |
| **FRANCHISE DETAILS** | | | |
| Products offered | 18 |  |  |
| **SINGLE UNIT** | | | |
| **Area** | **Investment** | **Franchise/Brand Fee** | **Royalty/Commission** |
| Store | ₹200,000–500,000 | ₹100,000 | – |
| **MASTER/MULTI AREA UNITS** | | | |
| **Area** | **Investment** | **Per Unit Brand Fee** | **Royalty/Commission** |
| State | ₹1–2 million | ₹100,000 | – |
| City | ₹200,000–500,000 |  |  |
| **TRADE PARTNERS (DEALERS, DISTRIBUTORS, MBOs, RETAILERS)** | | | |
| **Types of Channels** | **Investment** | **Margin** | **Area Requirement** |
| Distributor | ₹50,000–200,000 | 25% |  |
| **EXPANSION LOCATIONS** | | | |
| North | New Delhi, Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab, Uttaranchal, Uttar Pradesh | | |
| South | Kerala, Karnataka, Tamil Nadu, Andhra Pradesh | | |
| East | Assam, Meghalaya, Mizoram, Tripura, Arunachal Pradesh, Manipur, Nagaland, West Bengal, Sikkim, Orissa | | |
| West | Gujarat, Rajasthan, Maharashtra, Goa | | |
| Center | Chhattisgarh, Madhya Pradesh, Bihar, Jharkhand | | |
| Union Territories | Chandigarh, Lakshadweep, Daman and Diu | | |
| **FRANCHISE DETAILS (OPTIONAL)** | | | |
| Want to expand | | International, nationwide | |
| Exclusive territorial rights to a unit | | Yes | |
| Performance guarantee to unit franchisee | | No | |
| Anticipated percentage return on investment | | 60% | |
| Likely payback period of capital for a unit franchise | |  | |
| Other investment requirements | |  | |
| **CHATAR PATAR FOODS PVT. LTD., PROPERTY DETAILS** | | | |
| Type of property required for this franchise opportunity | | Owned or rented | |
| Floor area requirement | | 25–350 square feet (1 square metre = 10.76 square feet) | |
| Preferred location of unit franchised outlet | | Kiosk, high street footfall area | |
| **CHATAR PATAR FOODS PVT. LTD., TRAINING DETAILS** | | | |
| Detailed operating manuals for franchisees | | Yes | |
| Where is franchisee training provided? | | At franchise store | |
| Is field assistance available for franchisee? | | Yes | |
| Will someone from head office provide assistance to franchisee in opening the franchise? | | Yes | |
| What IT systems do you presently have that will be included in the franchise? | | In-house ERP | |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.02 on March 31, 2016. MBOs = multi-brand outlets; IT = information technology; ERP = enterprise resource planning. Source: Company documents.

Exhibit 2: Costs for transporting semi-liquid formula, per store

|  |  |  |  |
| --- | --- | --- | --- |
| **Contents** | **Quantity** | **Trips** | **Cost per Month** |
| Wet format transport | 120 kg | 8 | ₹8,000 |
| Damaged goods, possible | 30% of 120 Kg | ­– | ₹2,400  (additional cost for lost product) |

Note: kg = kilogram; ₹ = INR = Indian rupee; ₹1 = US$0.02 on March 31, 2016.

Source: Company documents

Exhibit 3: Transportation from Warehouse to Franchise Outlet

Source: Created by the case authors.

Exhibit 4: Costs for Transporting Frozen Ingredients, Per store

|  |  |  |  |
| --- | --- | --- | --- |
| **Contents** | **Quantity** | **Months** | **Cost** |
| Frozen food format | 360 kg | 3 | ₹4 per kg = ₹1,440 |
| Cold storage space, lease | 360 kg | 3 | ₹8,000 |
| Inventory cost | 240 kg | – | ₹100 per kg = ₹24,000 |
| Transportation cost | 120 kg | 1 complete trip | ₹10 per kg = ₹1,200 |

Note: kg = kilograms; ₹ INR = Indian rupee; ₹1 = US$0.02 on March 31, 2016.

Source: Company documents.

**EXHIBIT 5: COST FOR CONVERTING INGREDIENTS FROM SEMI LIQUID FORMAT TO DRY FORMAT**

|  |  |  |
| --- | --- | --- |
| **Contents** | **Quantity (Weight of the dry contents)** | **Process Cost** |
| Semi-Liquid Format to Dry Format | 120 kg | ₹300 |
| Transportation Cost | 120 kg | ₹1,000 |

Note: kg = kilograms; ₹ = INR = Indian rupee; ₹1 = US$0.02 on March 31, 2016.

Source: Company documents.

1. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.03 on July 15, 1995. [↑](#footnote-ref-1)
2. “Market Value of Independent Quick Service Restaurants in India from 2014 to 2020,” Statista, accessed May 10, 2018, https://www.statista.com/statistics/675886/value-of-standalone-quick-service-restaurants-in-india. [↑](#footnote-ref-2)
3. "Fast Food Market in India—A $27.57 Billion Opportunity by 2020, Reveals New Market Research Report by NOVONOUS," press release, May 19, 2015, accessed September 7, 2018. www.digitaljournal.com/pr/2558647; All dollar amounts are in US$ unless otherwise indicated. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. “Market Value of Independent Quick Service Restaurants in India from 2014 to 2020,” op. cit.

   Vaishali Gauba, “India’s Fast-Food Industry Is Becoming a Major Market,” CNBC. April 2, 2015, accessed May 10, 2018, https://www.cnbc.com/2015/04/02/indias-fast-food-industry.html. [↑](#footnote-ref-5)
6. “Market Value of Independent Quick Service Restaurants in India from 2014 to 2020,” op. cit. [↑](#footnote-ref-6)
7. “Market Value of Independent Quick Service Restaurants in India from 2014 to 2020,” op. cit. [↑](#footnote-ref-7)