

SURVIVAL STRATEGIES FOR INTERNATIONAL FRANCHISEES IN INDIA: A CASE STUDY

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ABSTRACT

Ruchi Enterprise is an Indian food service company that owns Taco Roast, Sitaram, and Romino's restaurant franchises. Taco Roast is a Mexican-inspired fast-food restaurant chain. It came to India in the third quarter of 2016, with a total of ten franchises, all of which were purchased by Ruchi Enterprise. Taco Roast believed India to be the most suitable market to open its outlets since it has Mexican food to be served at an affordable rate, based on the eating habits of Indians, particularly young people, who frequently visit quick-service restaurants and sample new cuisine. The percentage of profits of Taco Roast outlets began to decline after a few years due to the taste preferences of the Indians as well as their menu containing unfamiliar names as meals. Now, the challenge in front of the board is that either they switch to another brand franchise, Sitaram, which is offering 27 franchises at a 20 percent waive in franchise fee for the lifetime or opt for newer strategies in Taco Roast outlets to survive in the near future. Because Taco Roast owns around 65 percent of the company's total outlets, dumping it is a critical element to consider. But how can they afford to pass up such a huge offer from Sitaram?

Keywords: Survival, Strategy, Indian Restaurant, Franchise

INTRODUCTION

On the evening of January 3, 2021, Ruchi, Managing Director of Ruchi Enterprise, was in a serious discussion with Steward, Managing Director of Taco Roast, a fast-food restaurant chain serving Mexican-inspired food headquartered in Irvine, California. Ruchi Enterprise is the Master Franchisee of Taco Roast, with 187 out of 1530 franchisees owned and operated in India. The focus of the conversation was Taco Roast's Indian outlets' declining percentage sales. The screen displayed a falling profit curve in recent quarters. Steward believes that the cause of the dropping sales percentage is due to the widespread COVID-19 and that this will not last for long. Ruchi, on the other hand, has a

different perspective and has proposed some additional causes for the decline in sales. In this case, both managing directors must decide whether to change their strategy or stick with the existing one.

INDIAN RESTAURANT MARKET

As of the fiscal year 2020, the market value of the Indian restaurant and foodservice industry was around 53 billion USD. While the country's restaurant and food service market is split into two segments, the unorganized segment makes up most of the market. Individuals or families selling ready-to-eat food through vendors, dhabas, food carts, street stalls, and other disorganized outlets make up the unorganized segment. Quick Service Restaurants (QSRs), food courts, pubs, clubs, bars, and lounges make up the organized sector which is worth 21.5 billion US Dollar [1]. The organized restaurant market is expected to grow at a CAGR of 10.3% for the next 5 years. In the fiscal year 2020, Indian restaurants accounted for the biggest consumption among food service markets across the country. The success of Indian restaurants was due to a symbiotic growth between the food business and the rapidly growing middle class. The dominance of food-service restaurants in India is due to Indians' urge to explore new foods, growth in the frequency with which they eat out, and the spread of brand recognition. Additionally, rising disposable incomes, urban lifestyles, and a growing market allowed for the occasional foregoing of home-cooked meals, promoting restaurants.

Domino's, McDonald's, Subway, and Burger King are just a few of the prominent fast-food chains. After Indian cuisines, such as *raj kachori*, *parantha*, *pani puri*, *dosa*, *idli*, *pav bhaaji*, etc., Western and Chinese food is highly consumed by the Indians. Hence, when individuals eat out in India, Indian food continues to be the most popular. *Burgers*, *pizzas*, *spring rolls*, and *sandwiches* too were quickly embraced by the Indians, but *tacos* and other Mexican foods still had a space to grow in the Indian market. This enticed Mexican food companies, such as Taco Roast, to expand into the Indian restaurant industry.

HISTORY OF TACO ROAST

Taco Roast, founded in 1982 by Alexander Paul Steward, is one of the top ten fast-food businesses in the United States, according to demand. It is also recognized as one of the healthiest fast-food chains across the nation. The first outlet was opened in San Fernando, California. Taco Roast's target market segment was people aged between 18 to 30, who had less time to cook and wanted healthy cuisine at a reasonable price. Taco Roast intended to provide not only food but also a homey atmosphere. Doritos Lacos Tacos, for example, has become well known for their inventive meals. It has been presenting new strategies to stay ahead of the competition. Taco Roast has emerged as a breakfast business serving excellent toasted burritos. On the outlet's menus, there was an appealing pronunciation text written of the items which grabbed the attention of the customers. The brand has grown in popularity in the United States with catchy taglines such as 'Run for the Extra,' and 'Taco gives you more.'

There were 100 Taco Roasts in 1987, and more than 200 places were covered in the United States during the next five years. Taco Roast's stock price has increased by 400 percent since its IPO in 1998, and more outlets have opened in international markets such as the United Kingdom, Finland, Iceland, Spain, Dubai, Switzerland, and New Zealand. In 2015, there were around 1200 Taco Roasts around the world. Taco Roast, known for its creativity, tested up a new tactic in Singapore and New Zealand by installing a small

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PlayStation at each of their latest locations. In New Zealand, there was not much of a hike, but Singapore has been a massive success. When children see the outlets, they insist their parents take them there. Consequently, retail traffic grew, and the sales increased by 48% in two years with the installation of the PlayStations. The company failed to expand in many international markets like Mexico because Mexico already offers decent affordable Mexican food. They pulled out from China due to people's taste preferences and strict government regulations. Even after failing in a few locations, Taco Roast successfully entered India in the third quarter of 2016, with a total of ten franchises, all of which were purchased by Ruchi Enterprise.

HISTORY OF RUCHI ENTERPRISE

In 1985, Vikas Kumar started a business with 12 single movie theatres in prime locations in New Delhi. By the end of 1999, four of them had closed due to competition. Vikas Kumar diversified and ventured into the food service industry in the year 2000 with the goal of providing Indians with cuisine from all around the world and registered it as Ruchi Enterprise in the name of her daughter. Ruchi Enterprise is a brand-new unicorn for the year 2020 running 297 food outlets all over India holding a master franchise for Taco Roast, Sitaram, and Romino's. It is worth 7754 crores at present with quarterly sales of 157 crores being a good indicator to expand. Ruchi Enterprise is dedicated to giving joy, contentment, and convenience to its customers' lives by delivering the great taste of food to them, and its efforts are geared toward fulfilling this promise to a broad and ever-growing customer base. It is committed to working with three principles i.e., customer satisfaction, on-time service, and product value. It is also noted for its societal gestures of sharing excess food to the less fortunate after each mealtime. Such measures instilled value in the minds of customers, resulting in increased revenue and a positive brand image. Even though it has invested in international franchises, the outlet's interior design has always been influenced by Indian culture, with original artwork on the open kitchens, walls, and traditional designs. This model was adopted since the urban population is generally unaware of such traditions and enjoys visiting areas that are distinct from their daily workplaces and residences.

Ruchi, after completing her MBA in Marketing from Panipat Institute of Engineering & Technology became the MD of the enterprise in 2015. Observing the growth of QSRs in India, Ruchi Enterprise plans to open 500 additional outlets by the end of 2030 and declare its initial public offering (IPO) in the second quarter of 2022 at Bombay Stock Exchange (BSE) in exchange for the sale of 40% stake to the public. Ruchi's brother, who has a PGCM from IIM Nagpur and is also a board member, believes that now that they are a unicorn and developing at a fast pace, it is high time to start franchising under their own name. It will provide them with greater control over their outlets and reduce interference from third parties. It can help them go far, and as a result, their brand's popularity will rise significantly.

THE CASE OF TACO ROAST AND RUCHI ENTERPRISE IN INDIA

When Taco Roast established its first outlet in Bengaluru in April 2016, the response was overwhelmingly favorable. The first outlet's beta testing revealed a 24 percent increase in monthly revenue, an increase in footfall from 10,710 visitors in the first month to 13,174 visitors in the second month and a 29 percent increase in profitability at its Bengaluru location (*see Exhibit 1*). Considering this, further outlets in Hyderabad, New Delhi,

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Gurugram, and other metropolitan cities have been opened. Taco Roast believed India to be the most suitable market to open its outlets since it has Mexican food to be served at an affordable rate, based on the eating habits of Indians, particularly young people, who frequently visit quick-service restaurants and sample new cuisine. After witnessing the first excitement of Indians flocking to taste Tacos, Burritos, Quesadilla, and other Mexican food, Ruchi Enterprise invested heavily in Taco Roast and introduced 187 units across India by the end of September 2020 along with 110 outlets of other brands like 70 franchisees of Sitaram and 40 outlets of Romino's. Sitaram is a chain of Indian restaurants, while Romino's is a Chinese restaurant.

Consumers were attracted to anything new, thus each outlet had a solid footfall for the first few months. However, once individuals have visited the shop, they are unlikely to return. Another issue emerged when consumers were unsure what they were ordering because of the names of various Taco Roast items. Customers were seen ordering random food items, and if they did not like the flavor, they did not return. Subsequently, sales began to decline by 1.5 percent quarterly, and it was predicted that by the end of 2026, Taco Roast's Indian locations would be operating at a loss (*see Exhibit 2*).

Mr. Jha, Manager at Ruchi Enterprise, advised that the menus (*see Exhibit 3*) at the outlets be changed to enhance sales, or the names of menus be changed to something Indian sounding (*see Exhibit 4*), but Steward argues they cannot because they specialize in Mexican food, and it may dilute their overall brand. He went on to say that it took decades to create the brand and that any modifications would be unwelcome by the company's shareholders. He advises that they go with the PlayStation model (*see Exhibit 5*), which is similar to the one opted at their Singapore stores, to reposition themselves in the Indian market. He mentions a 48 percent gain in sales over two years in the respective outlets, even though revenues were dropping in 2016-17. He says that because India is well-known for its food market, it cannot afford to lose its grip and has offered to spend more on television and newspaper advertising. Mr. Jha added that they attempted to promote by providing complimentary topped nachos with every Supreme meal on the menu, but they were unable to attract many customers. In our case, these tactics appear to be outmoded, he added.

If Ruchi Enterprise tries the PlayStation model, which was effective in Singapore but failed in New Zealand, they risk losing a profitable deal with Sitaram Pvt. Ltd., India's largest and most profitable quick-service restaurant chain as Sitaram has offered them 27 franchisees at a 20 percent waive in franchise fee for lifetime. Sitaram will give the franchises to Rubiliant Foodworks, Ruchi Enterprise's greatest competitor, if they reject this offer. Also, if they attempt the model even though they are not sure it will work, they may end up losing a lot of money. Ruchi Enterprise is currently unwilling to take major risks because its initial public offering (IPO) is set to take place in the coming year. Now, they must make a quick decision of staying with Taco Roast or diverting those funds towards increasing business with Sitaram which has been growing continuously even during the pandemic.

WHAT NEXT?

Steward cannot afford to lose the company's most important player, with 12.22 percent of total stores worldwide and India as the company's second-largest market. Changing the menu may also result in a blemish on the company's image. Ruchi, on the other hand, must evaluate whether Steward's insistence on using the same models and

procedures is risky at this critical moment when an IPO is about to hit the market. Experimenting with a PlayStation model in such a fleeting period is again not an easy feat. If they continue with Taco Roast without any change in strategies, how are they going to survive? Dumping Taco Roast is a crucial factor to consider because Taco Roast owns about 65 percent of the company's total outlets. However, how can they afford to miss such a big deal offered by Sitaram?

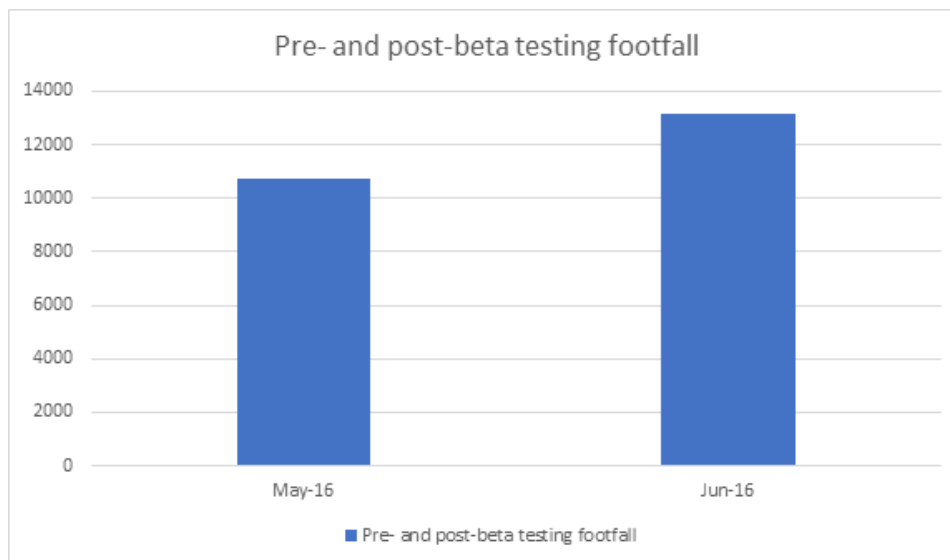
ALTERNATIVES AVAILABLE

As stated in the case study, Mexican restaurants have the potential to flourish in the Indian market; yet Ruchi Enterprise cannot afford to sell off Taco Roast at any cost. As a result, it chose to sell its theatre business because the real estate generated enough money to invest in Sitaram's offer. Going for a debt immediately before an IPO is not a good idea for any company because it will affect the firm's valuation as well as the views of the investors. To make tacos more appealing to Indians, a pinch of home-made Indian spices might be added. This will result in an increase in sales and, ultimately, profit. In addition, rather than changing the name of the brand or the dish, the names of the items might be changed to something Indian and intriguing that people could understand (*See Exhibit 5*). Ruchi Enterprise partnered with Hyderabad Infotainment, a new gaming startup, to install PlayStations in Taco Roast's 30 major outlets across India. After going public, Ruchi Enterprise may choose to spend more of its budget on advertising in the hopes of making a favourable impression on investors and making the IPO a success.

References

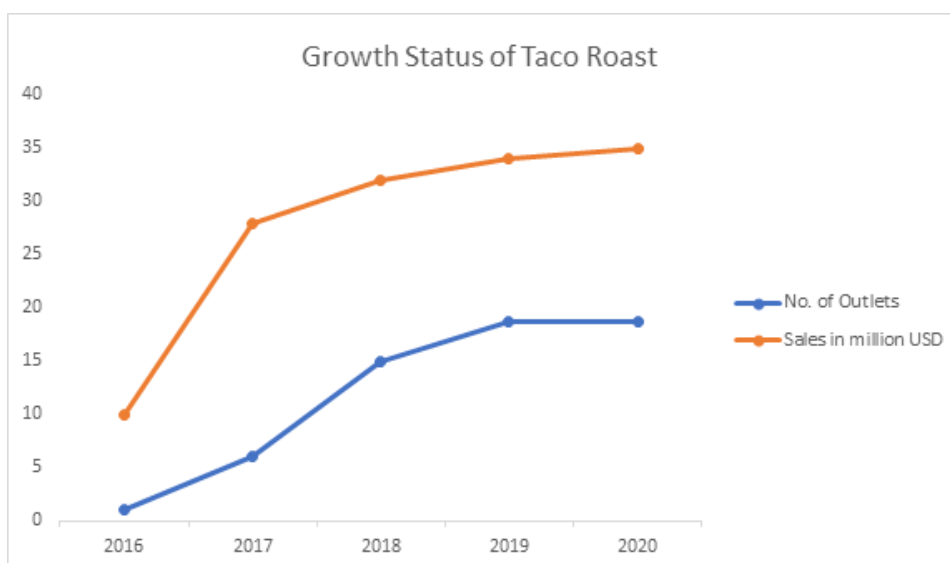
[1] [Restaurant industry in India - statistics & facts | Statista](#)

EXHIBIT 1: BETA TESTING RESULTS



Note: The testing proved to be a good indication to set up new outlets in other regions.

EXHIBIT 2: TACO ROAST SALES IN INDIA



Note: There was a great reception once the first ten outlets were opened. Ruchi Enterprises obtained many franchises in various sections of the country in the next year.

EXHIBIT 3: TACO ROAST INDIAN MENU

Tacos		Burritos	
Soft Taco	110	Bean Burrito	110
Crunchy Taco	110	Burrito Supreme	28
			0
Soft Taco Supreme	140	Quesarito	26
			0
Crunchy Taco Supreme	140	Crunchwrap Supreme	29
			0
Nacho Cheese Doritos Locos Tacos	147		
Chalupa Supreme	252	Nachos	
		Chips and Nacho Cheese Sauce	14
Supreme Taco Party Pack	690		0
		Nacho Grande Combo	53
			0
Desserts		Quesadillas	
Chocodilla	83	Steak Quesadilla	32
			0
Cinnamon Twists	75	Cheese Quesadilla	24
			0
Churros'n Chocolate	90	Black bean Quesarito	25
			0
Cheesy Fiesta Potatoes	125	Corn Quesarito	25
			0

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Breakfast		Drinks	
Cheesy Toasted Breakfast Burrito	95	Pepsi 300 ml	20
Cheesy Toasted Potato Burrito	90		
Hash Brown Toasted Burrito	210		
Grande Toasted Burrito Steak	270		
Breakfast Crunchwrap Combo	215		

Note: All the values are in Indian Rupees.

EXHIBIT 4: TACO ROAST RECOMMENDED MENU

Tacos		Burritos	
Light Taco	110	Desi Burrito	110
Teekha Taco	110	Malai Burrito Supreme	280
Malai Taco Supreme	140	Quesarito Tikka	260
Karara Taco Supreme	140	Shaahi Crunchwrap	290
Cheese Doritos Local Tacos	147		
Chalupa Supreme	252	Nachos	
Supreme Taco Pariwarik Pack	690	Chips and Nacho Cheese Sauce	140
		Nacho Grande Combo	530
Desserts		Quesadillas	
Dilkhush Chocodilla	83	Steak Quesadilla	320
Desi Kali Mirch Twists	75	Cheese Quesadilla	240
Churros'n Chocolate	90	Black bean Quesarito	250
Cheesy Fiesta Potatoes	125	Salty Corn Quesarito	220
Shaktishali milk cake	99		50

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Breakfast		Drinks	
Cheesy Toasted Breakfast Burrito	95	Pepsi 300 ml	20
Cheesy Toasted Potato Burrito	90	Breakfast Special Drinks	
Gym Diet Special Burrito	210	Vegetables Platter Auga	45
Maharaja Toasted Burrito	270	Fruits Platter Watermelon	45
Breakfast Crunchwrap Combo	215	Agua	
		Lemon Auga	40

Note: All the values are in Indian Rupees.

EXHIBIT 5: PLAYSTATION MODEL



Note: Visual Reality (VR) headsets were installed in the outlets for the kids to enjoy food while viewing educational videos on Mexican culinary and other topics.