

# LA BREVITEA: THE PRICING DECISION

**Basant Purohit, XLRI, Jamshedpur**

## CASE DESCRIPTION

*The primary subject matter of this case concerns pricing strategy by a café chain for a new product launch in an already existing product portfolio. Secondary issues examined include assessing the cannibalization effect on overall revenue of introducing the new product. The case has a difficulty level of five. The case is designed to be taught in one to one and a half class hours and is expected to require one and a half to two hours of outside preparation by students.*

## CASE SYNOPSIS

Established in the year 2000, La Brevitea an upscale cafe chain offers a wide range of beverages like masala tea, green tea, white tea, red tea, iced tea, filter coffee, latte coffee, mocha coffee, and cold coffee ice cream, fresh fruit juices, sandwiches, and garlic toasts. La Brevitea is planning its strategy on increasing revenues in response to the stiff competition it faced at all the five stores across Jamshedpur, India. In August 2021, Ms. Nandini, the owner of La Brevitea, had three pricing options viz., INR 75, INR 95, and INR 115 of a newly proposed vegetable frankie for revenue growth. The challenge was to decide which of these to approve. Using quantitative information on sales of the newly launched vegetable frankie and its impact on other menu items, she needed to decide how to proceed and needed to do it very soon.

**Keywords:** Strategy, Pricing.

## INTRODUCTION

The market value of the Indian restaurants and foodservice industry was about four trillion Indian rupees as of the fiscal year 2020 (Statista Research Department, 2021). Annual sales in the restaurant industry are US\$ 783 billion, and annual food and beverage purchases are at US\$ 279 billion (Malhotra, 2020). As of 2016, about 121 million households in India belonged to the middle-income bracket earning a gross annual income between \$ 7,700 - \$ 15,400, and by 2025 the middle-income group is expected to grow by 16% and become a massive component of the total population in terms of wealth and standard of living (Statista, 2021). On average, every Indian is earning 30 % more now than what he or she earned six years ago, which is in the fiscal year 2014-15 (Sharma, 2020). This rising income level in the population in general and in the target audience of this case study, in particular, is an exciting phenomenon because of three reasons. One is that 46% of the population is between the age of 15 and 45 years (Census of India, 2001). Second, nuclear families constitute 41.5 % of total households (Krishnan, 2019). Third, the national average of Indians consuming restaurant-cooked food is 6.6 times per month (Business Standard, 2019). What this leads to is not only an increase in spending but also an increase in spending with changed consumer behaviour. This is also seen in the change in the dining-out habits of consumers. The dining-out frequency has increased, and habits have undergone a drastic change in the last five years.

Furthermore, to cater to this increasing demand, different restaurants - fine, casual, fast food, food trucks, pubs, and cafe have come up.

### **La Brevitea**

La Brevitea, established in August 2000 by Ms. Nandini, is an upscale cafe chain with five outlets across Jamshedpur, India. Ms. Nandini knew that the location could determine the restaurant's success. Hence, the first store of La Brevitea was launched in North Bishtupur in August 2000 and looking at the increased demand, and the second store was opened in South Bishtupur in August 2002. To ensure that her cafe is visible, accessible, convenient, and attractive to the target audience, the Bishtupur area became a natural choice. It is a residential and commercial area of the city of Jamshedpur and is also a primary economic source of the city. The cafe expanded rapidly in those early years, and the third store was opened in August 2005 in Sakchi, a commercial area and is also known for the wholesale market. The remaining two outlets were opened in Mango and Sonari areas in 2016 and 2017, respectively, as these two areas witnessed a significant increase in residential flats. Proximity to two major market areas, fourteen schools, and six colleges ensured a steady footfall of customers at these outlets. Sales and profit growth continued till 2019, and then the sales stagnated. Facing solid competition at almost all the five locations, La Brevitea is planning its strategy on increasing revenues. Ms. Raagini, La Brevitea's marketing manager, proposed to launch a vegetable Frankie line in August 2021. La Brevitea has a wide range of beverages like masala tea, green tea, white tea, red tea, iced tea, filter coffee, latte coffee, mocha coffee, cold coffee with ice cream, and fresh fruit juices. However, it offers only sandwiches and garlic toasts for snacking.

### **Background of Ms. Nandini**

Ms. Nandini earned her master's degree in hospitality management from the International Institute of Hotel Management (IIHM), Jaipur, in 1998. Post her studies, she joined The Oberoi, New Delhi, and worked there for a year before moving on to JW Marriot, Mumbai. Her father inherited a bakery shop established in 1917 in Bishtupur by her grandfather to cater to the western palate. Ms. Nandini explained that she had spent considerable time searching for individual executives who had requisite managerial skills and fit well with the other functional team members and with the company's culture and values. She realized that deciding the target audience for a restaurant is very important as it has a bearing on the format of the restaurant. Since the target audience was high school students, college-going students, and customers below the age of 45 years, she had planned for a quick-service restaurant format for her retail chain.

### **Background of Ms. Raagini**

Ms. Raagini earned her bachelor's degree in hospitality management from Guru Nanak Institute of hotel management (GNIHM), Kolkata, in 2009. She did her internship in the culinary department at a Marriot hotel in the USA for eight weeks. Ms. Raagini joined La Brevitea as a marketing manager in October 2016. Before joining La Brevitea, she had worked as a service manager with Cafe Regal, as a business development officer with Momo Nation Café, and as a marketing manager with Green City Café. Ms. Raagini was widely credited for opening the last two stores of La Brevitea in the Mango and Sonari area in 2016 and 2017.

Ms. Nandini asked the marketing team to suggest an optimal pricing strategy for the proposed vegetable frankie, given the intense competition in the regional restaurants and foodservice industry. Ms. Nandini wanted to gain an insight into how the target audience comprising of age group 17 years to 45 years would respond to price changes of the proposed new launch of vegetable frankie.

To price the vegetable frankie correctly, Ms. Raagini needed to consider four issues:

1. some idea of what the proposed frankie costs them to produce
2. how much the nearby competitors are charging for a similar item
3. how much of the proposed frankie will they be able to sell at what price
4. how much is the target audience prepared to pay for it.

Ms. Raagini learned that the variable cost per frankie was INR 30. Ms. Raagini took responsibility for conducting marketing research to evaluate customers' willingness to pay (henceforth, WTP) for the vegetable frankie and suggest appropriate pricing for increased overall revenue. After five weeks of intensive research at all the five outlets of the cafe, she found out that the target market for the vegetable Frankie is senior school (class 11 and 12), college-going students, and customers below the age of 45 years. Ms. Raagini and her team tested WTP for three price points – INR 75, INR 95, and INR 115 amongst 500 walk-in customers equally distributed across the five outlets of the cafe store. These price points were relating to the charges at the nearby competitors. The demand observed was 90, 70, and 53 respectively for vegetable frankie priced at INR 75, INR 95, and INR 115. To gain an insight into how much of the proposed frankie will they be able to sell at what price (refer to the third issue for pricing exercise mentioned above), Ms. Nandini informed the marketing team also to consider the additional sales of certain items like juices which go well with vegetable frankie, and reduced sales of other snacking items of the cafe.

Ms. Raagini revisited the research study and found that for every ten frankie sold, sales of juices increased by three units. However, sales of tea decreased by two units, sales of sandwiches decreased by four units, and sales of garlic toasts decreased by two units. She found from the database that the average margin for juices and tea items were INR 50 and INR 30, respectively. The average margin for sandwiches and garlic toasts were INR 30 and INR 20, respectively.

Although Ms. Raagini and her colleagues had done a great deal of research and discussion over the past few weeks, much remained to be done before the new product launch in August 2021. Ms. Raagini was unsure which pricing point to recommend. She also wondered whether there could be some other price points for the newly proposed product launch that could increase the cafe's revenue. She glanced at her watch. She had 75 minutes to figure out what to do before calling Ms. Nandini back.

## REFERENCES

- Business Standard (2019). Delhiites dine out most in India, people in Bengaluru spend more: Survey. Retrieved July 18, 2021, from [https://www.business-standard.com/article/lifestyle/delhiites-dine-out-most-in-india-but-bengaluru-spends-the-most-survey-119061300215\\_1.html](https://www.business-standard.com/article/lifestyle/delhiites-dine-out-most-in-india-but-bengaluru-spends-the-most-survey-119061300215_1.html)
- Census of India, (2001). Retrieved July 18, 2021, from [https://censusindia.gov.in/census\\_and\\_you/age\\_structure\\_and\\_marital\\_status.aspx](https://censusindia.gov.in/census_and_you/age_structure_and_marital_status.aspx)
- Krishnan, V.B. (2019). How the nature of Indian families is changing. Retrieved July 18, 2021, from <https://www.thehindu.com/news/national/how-the-nature-of-indian-families-is-changing/article28281107.ece>

- Malhotra, R. (2020). Different restaurant concepts and trends emerging in India. Retrieved July 10, 2021, from <https://www.indiaretailing.com/2020/02/18/food/food-service/different-restaurant-concepts-and-trends-emerging-in-india/>
- Sharma, S. (2020). Retrieved July 20, 2021, from <https://www.financialexpress.com/economy/indians-earn-30-more-now-than-six-years-ago-per-capita-growth-highest-in-this-backward-state/2089088/>
- Statista (2021). Households by annual income brackets India 2010-2025. Retrieved July 20, 2021, from <https://www.statista.com/statistics/482584/india-households-by-annual-income/>
- Statista Research Department (2021). Market value of restaurants and food service industry India FY 2020, by segment. Retrieved July 20, 2021, from <https://www.statista.com/statistics/1112822/india-value-of-restaurants-and-food-service-industry-by-segment/>