

## Indian PBCL Market

India is opening up to the culture of consuming shots of a range of drinks, from vodka to whiskey to tequila. With advent of socialization, drinking slowly permeating into the urban Indian lifestyle, new themes and concepts are being offered, both in terms of new products and venues. This PBCL industry comprises both chain and standalone formats, focusing on music and alcoholic beverages, e.g. microbreweries, night clubs, sports bars, etc. It is valued at ~USD 1.64 billion<sup>1</sup> with over ~5300 units spread across urban India. Again, this number is exclusive of outlets operating as part of hotels and also excludes the smaller “machaan” format which functions as a part of liquor-selling stores in some cities. This market is expected to reach ~USD 2.68 billion by 2018, at a CAGR of ~10%, while the number of units is expected to grow at a CAGR of 7% over the next few years.

As illustrated in *Exhibit 1* below, the chain market contributes ~7% of the total market, and is expected to register an above-average CAGR to increase its contribution to ~8% by 2018, reflecting the expansion of existing players and/or the foray of international chain players. The standalone brands, which currently constitute the bulk of the market, are also expected to expand continually over the next 5 years.

The market is largely organized, licensed, and tax-paying, as a result of the licensing requirements in place related to serving liquor. The segment, though, is underpenetrated in terms of the number of chain players, and is dominated by standalone concepts which are essentially city-specific, e.g. Toits, Monkey Bar, 13<sup>th</sup> Floor in Bangalore; Dublin, Bottles & Chimney in Hyderabad; Leather Bar, Q Bar, Illusion in Chennai; Kitty Su, TC, Howzatt in Delhi, etc. Among the well-known chain brands, TGIF, Hard Rock Café, Shiro, and Geoffrey’s have a notable presence across the top 6-8 cities.

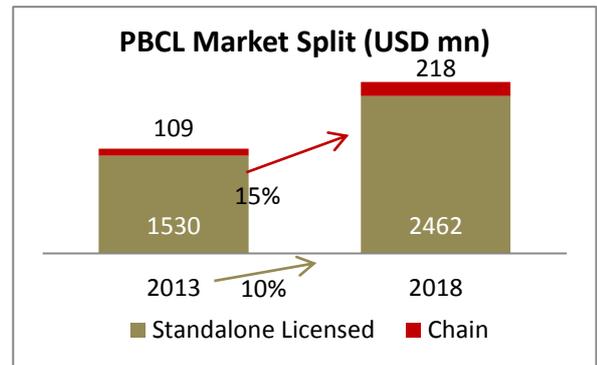


Exhibit: 1

The target group for such formats is 18-45 years but this usually differs for different brands on the basis of the outlet’s theme, genre of music, ambience, price points, entry restrictions in terms of age and cover charge, location, among others. Since the business profitability is linked to the differentiation stemming from such value-adding aspects as ambience, theme, and complementing food, entrepreneurs are exploring such new themes as vodka and whiskey bars, microbreweries, entertainment- and ambience-based, etc.

Of these, microbreweries are relatively a late entrant in the beverage market, and are currently present in some geography, subject to a slew of excise regulations. Compared to traditional outlets whose offerings are restricted to bottled or draught beer, their strength is in brewing fresh beer and offering differently-priced variants. Again, they have an open setting whereby visitors can observe the actual brewing of their beverages. Some microbreweries also offer guided tours of their outlets to consumers. In essence, microbreweries borrow elements from the pubs of the US or UK, in terms of their interiors, the equipment and seating, and even the complementary food offered. Among the more established microbreweries are Howzatt, Striker, and Lemp Brewpub & Kitchen (Gurgaon), and Toits and Biere Club (Bangalore).

Outlets are also focusing on entertainment in order to draw more consumers to partake of their offerings. This has as much to do with the consumers own preferences as with the entry of a number of competitors. It is thus becoming common to see outlets with pool and foosball tables, board games, and even live performances, e.g. Cooper’s Grill & Bar, Blue Frog, and Comedy Store. Others like Howzatt and IIFA Buzz Café have adopted sports and Bollywood, respectively, as differentiators.

The JSM Corporation has commenced operations of its culture-based theme, in its Polynesian-themed restaurants, Mai Tai and Trader Vic. The décor and ambience therein draws upon the Tiki culture, including large wooden statues, Tiki-inspired traditional music, and a menu that offers a mix of ethnic and regular cuisines.

In addition to these, an increasing awareness, and curiosity about, wines, with consumption levels growing at a consistent 25% per annum, has resulted in the launch of exclusive off-premises formats such as the Delhi Wine Club for wine connoisseurs; Sulafest organised in Nasik, which promote wine consumption via heightening consumers’ awareness. There is also a shift in preference from classic cocktails and straight drinks to signature spirits and personalized mixes. Infused spirits, which combine different beverages and flavors e.g. tea in vodka, chili-infused wine etc., are also becoming popular. This has spurred cafés and casual dining chains like Café Coffee Day Lounge, Barista Crème, and Pizza Hut to offer beer and wine apart from their regular offerings.

Apart from the usual challenges that any food service outlet faces, e.g. food cost, quality real estate, rentals, scalability, quality manpower, etc., the most imperative challenge for PBCL outlets in particular, in terms of commencement, operations, and expansion, is liquor licensing and sourcing, i.e. the necessity to obtain a number of mandatory licenses, and also comply with regulations relating to hours of operation, consumers’ minimum age limit, etc.. Exacerbating this situation are further hurdles like

<sup>1</sup> 1 USD = INR 55

the long gestation period and hefty licensing fees. It can take anywhere up to a year, and a cost of up to INR 0.5 to 0.6 crore (USD 0.1-0.12 million), to procure the necessary licenses. The fees are even higher for obtaining a license to sell imported beverages. Again, outlet operators have to work against a discouraging anti-liquor mentality, which is manifested in the high tax rates, restricted licensing, monopolized procurement, distribution charges, etc.

The rising popularity of alcoholic beverages, especially with the youth, can be attributed to dramatic lifestyle changes which, in turn, are fuelled by rising income levels. The entry of international brands, and the phenomenon of social drinking at get-togethers, is expected to drive this segment. Going forward, brands are expected to focus on such factors as more varied food offerings, ambience, and engagement activities to ensure the vitality of their business model and create a niche for this segment.

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