

# Scaling Authenticity: A SAP-LAP Based Case Study of California Burrito

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## EXECUTIVE SUMMARY

California Burrito, the Mexican fast-food restaurant chain which started in Bengaluru in 2012, has grown to become more than more than 100 company-owned, company-operated restaurants chain with revenue of 196 crore INR by the end of FY24. However, company was been struggling to be profitable for the period of five years prior to 2024. Although it has shown healthy top line growth (Revenue) IN FY24 its net profit margin remains relatively low (3.5% in FY24).

This case study explores California Burrito's growth model which largely relies on food delivery aggregators (Zomato and Swiggy) for about 60% of its revenue, and also advocates for a capital-intensive Company-Owned, Company-Operated growth model with a hefty commission of 20-30% on every sale that is made through these delivery platforms like Zomato and Swiggy. Through an in-depth exploratory case study using SAP-LAP (Situation-Actors-Process-Learning-Action-Performance) framework, channel profitability decomposition, unit economics modelling, and sensitivity analysis, this study examines both the figures and underlying reasons.

The analysis concludes that low marketing expenditure (4% of revenue) and a purely Company-Owned, Company-Operated model approach made California Burrito adopt a low-margin channel mix and a high capital investment growth path.

The following three part strategy has been recommended to resolve the current business scenario; (1) increasing marketing investment up to 8-10% and introducing loyalty programs to boost dine-in from 40% to 55%, (2) adopting an asset light Company-Owned, Company-Operated + Franchise-Owned, Company-Operated business model to lower capital cost per store by 60% and (3) exploring menu strategies, by replacing premium limited-time offers with products that increase average order value.

Based on these recommendations, by FY30, it is projected that California Burrito will expand to 300 stores with net profit margin ranging between 10-16% and would be self-financing with more than 230 crore INR. This case offers valuable insights for platform era QSR companies on how to dominate channel margins, utilize authenticity as a price advantage, and how to divorce ownership and operation while expanding sustainably and authentically.

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# CHAPTER 1

## 1.INTRODUCTION

### 1.1 Background of the Study

The Quick Service Restaurant (QSR) sector in India has experienced remarkable growth in the past decade due to changing consumer habits, increasing urbanization, rising disposable incomes and the rising popularity of global foods (Mordor Intelligence, 2024). The rise of food delivery services such as Zomato and Swiggy has changed how consumers purchase food from restaurants (Parker, Van Alstyne, & Choudary, 2016). While such services have provided an incredible amount of opportunity for growth, there have also been new challenges to the restaurant industry's operations and profit margins, primarily driven by their dependence on delivery platforms, fees paid to those delivery platforms, and changing customer behavior (s). According to industry independent research, delivery platform dependence has continued to grow and become a major factor in a customer's ability to discover and order from local restaurants, which has a direct impact on a restaurant's profitability (Rochet & Tirole, 2006) .

California Burrito, which began in Bangalore in 2012 with a single kiosk, is an interesting example of what is happening in this fast-changing industry (Livemint, 2023). The brand has expanded from one to over 100 company-operated stores across the country and recorded an annual revenue of approximately 196 crore INR in FY24 (Financial Year Ending March 31, 2024). While the company has shown strong revenue growth and built a loyal customer base by providing authentic Mexican cuisine with no Indian modifications, California Burrito experienced a frustratingly long path to achieving sustainable profitability, reporting a net profit margin of 3.5% in FY24 after several years of reported losses (BusinessLine, 2024) .

Classic case of "growth-profitability dilemma" is exhibited by California Burrito. (Markides, 1995; Buzzell & Gale, 1987) Embedded in the paradox of relying heavily upon delivery aggregators makes their ability to achieve margins increasingly challenging. Approximately 60% of California Burrito's total revenues derive from delivery aggregators, which charge commissions varying from 20% to 30%(BNP Paribas Exane, 2023). This coupled with Company Owned Company Operated business model will create structural margin challenges for the Company (Combs, Michael, & Castrogiovanni, 2004). In order to maintain the key elements of brand identity and authenticity, the Company has articulated a goal of expanding to 300

locations (Economic Times, 2024). The expansion challenge raises the central strategic question for restaurants concerning how to find the right balance between growth, operational management/control and profitability in a platform-driven environment. This study seeks to explore the underlying causes behind California Burrito's growth-profitability challenge and provide strategic recommendations for developing a sustainable long-term growth strategy.

## **1.2 Problem Statement**

While the core issue is not related to generating demand—the kitchens are producing more than enough food and the brand has developed a loyal following—the answer lies in the structural margin trap created by two main issues.

1.2.1..Imbalance of Channel Margin: Approximately 60% of California Burrito's revenue is generated through delivery aggregator channels such as Zomato and Swiggy that take 20% - 30% commission of each purchase (BNP Paribas Exane, 2023). This, combined with the packaging costs at the store level, along with discounts which are forced on to platforms, are negatively affecting California Burrito's margin. A direct customer purchase from California Burrito's store should provide a gross margin of over 60% but the same order placed through a delivery app is providing a margin of approx. 30%; therefore, California Burrito is dependent on a low margin channel;

1.2.2. Capital Intensive Expansion Model: California Burrito is an exclusive chain using a Company Owned and Company Operated (Company-Owned, Company-Operated) expansion method to acquire and run all stores. While this allows California Burrito to create a consistent brand experience and retain operational control; it requires a large initial capital investment for each location (Lafontaine & Slade, 2007), therefore if California Burrito were to proceed with an all Company Owned and Company Operated (Company-Owned, Company-Operated) expansion to 300 locations they would expend the 120 crore that Elevation Capital is currently financing quickly and will have an inability to grow profitability in the near future (Entrackr, 2023).

The key strategic challenge for California Burrito is to scale its business to 300 stores by 2030 while increasing its net profit margin from 3.5% in FY24 to 8% - 10% over the next four years and preparing for an IPO.

### **1.3 Objectives of the Study**

This case study is designed to develop a strategic plan that meets two associated goals. First, scaling will be accomplished by expanding operations to 300 locations by 2030 (Economic Times, 2024). Second, increasing profitability will occur by increasing net profit margin from approximately 3.5% FY24 to a stable range of 8-10% FY28 (CNBC TV18, 2024; BusinessLine, 2024).

The plan will achieve both goals while maintaining the brand's true value proposition of providing authentic Mexican food (not Americanized). The solution must address the problem with a holistic approach through different channels (mix), expansion methods, and revenue generation through menu offerings(Combs, Michael, & Castrogiovanni, 2004) .

### **1.4 Scope of the Study**

This research aims to analyze the business model, channel profit structure, store expansion strategy, customer behaviour and operational economics of California Burrito, in order to identify the reasons behind California Burrito's margin pressures and growth constraints within the Indian QSR market (Mordor Intelligence, 2024). One of the primary causes of these issues relates to the impact of delivery aggregator reliance and the capital-intensive Company-Owned, Company-Operated model on California Burrito.

The case study also utilized analytical frameworks and tools such as SAP-LAP (Sushil, 2001), channel profitability decomposition, unit economics modelling and sensitivity analysis to diagnose the root causes of California Burrito's margin pressures and growth constraints and evaluate potential strategic options(Parker, Van Alstyne, & Choudary, 2016). Benchmarking and cross-case analysis will be completed using Taco Bell India, to obtain general managerial insights and improve external validity (Financial Express, 2024) .

The study relies primarily on secondary sources of information, including but not limited to, media articles, industry research reports, corporate financial statements and publicly available benchmark data. The study's conclusions and recommendations are intended to provide strategic recommendations for not only California Burrito, but also new QSR brands that are struggling to find a balance between growth and profit, brand equity and the complexities of a platform-based marketplace (Rochet & Tirole, 2006; Zhu & Liu, 2018).

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This case study is focused on a Mexican QSR chain, California Burrito which has a turnover of 196 crore INR and a profit of 6.8 crore (3.5% profit margin) (CNBC TV18, 2024; BusinessLine, 2024). This literature review aims at covering 4 sections namely growth-profits paradox, platform mediated markets and aggregator dependence, ownership model in QSR, and the SAP-LAP framework as the analytical model for the case study, in order to connect the literature to the outcomes of the California Burrito's case.

##### **2.1.1. The Growth-Profitability Paradox**

The trade-off between revenue and profitability is a common dilemma in strategy management; the "growth trap" according to Markides (1995). Buzzell and Gale (1987) identified a correlation between market share and profitability in a database analysis if economies of scale are present or bargaining power is exercised. Chen and Bowen (2001) stated that quick-service restaurants can also suffer from a reduction in margins as the number of stores increase, from the combination of store cannibalization and increasing managerial complexity. California Burrito serves as a strong example of this dichotomy; moving from a single kiosk to over 100 stores while barely making a profit margin of 3.5% (CNBC TV18, 2024). The case is an addition to a body of work, aiming to explain the paradox via the concept of channel mix. At 60% of sales from food delivery aggregators, the gross profit of a delivery order (estimated at 41%) pales in comparison with that of an order dine-in (at 70%), indicating that not just volume, but the origin of sales also matters for profitability.

##### **2.1.2. Platform-Mediated Markets and Aggregator Dependence**

Food delivery apps are prime examples of multi-sided platforms (Parker, Van Alstyne, & Choudary, 2016) that connect restaurants with customers, delivery providers and fulfill the front-end experience of the customer journey. Rochtet and Tirole (2006) indicated that platforms could tilt the balance of power in their favor once customers come to rely on them for access, which explains the high reliance on aggregators in the current Indian restaurant market. For Indian restaurant chains, aggregator commissions (typically 20-30%) exceed net profit margins and can thus foster a "winner's curse" situation. This is well demonstrated by the current situation at California Burrito where a similar orders placed through an aggregator (and at 25% commission plus packaging cost) brings in a gross profit of 41%, significantly lower than the 70% from dine-in (BNP Paribas Exane, 2023). The suggested solution (Project Dine-In Pull) which aims at shifting this ratio from 40:60 to 55:45 for dine-in/delivery

orders respectively would be in line with Rochtet & Tirole's(2006) suggestion to build up presence in the direct channels.

### **2.1.3.QSR Ownership Models: Company-Owned, Company-Operated, Franchising and a Franchise-Owned, Company-Operated Hybrid**

Extensive literature is available on company owned vs. Franchised stores. According to Combs, Michael and Castrogiovanni (2004), agency theory suggests that franchising can help overcome capital constraints and boost local management incentives but potentially compromise on quality. Residual profits of franchisee owned stores are thus generally more profitable than those owned by the company (Lafontaine & Slade, 2007). A hybrid model of 'plural form' was proposed by Bradach (1998) where the system benefits from benchmark stores, learning and flexibility. Currently, California Borrito is operated entirely under a Company Owned, Company Operated (Company-Owned, Company-Operated) system which ensures brand consistency and quality, but demands capital expenditure of 45 lakh per store. A 'Franchise-Owned, Company-Operated' (Franchise-Owned, Company-Operated) model, a variant where franchisee capital finances the store build, rent and deposits, and the company is in charge of daily operations, is proposed in the case. This new model, an alternative to the 'old fashioned' franchising (where franchisee also handles daily operations) can achieve 844% return on capital employed, compared to 66% for Company-Owned, Company-Operated, with only 5 lakh capital per store. This reinforces Barney's (1991) theory of resources by externalizing some required resources like capital, while maintaining specialized operational skills. Plural form is further advocated by Bradach and Franchise-Owned, Company -Operated is an innovative step in that direction.

### **2.1.4.The SAP-LAP Framework**

This framework, proposed by Sushil (2001) at IIT Delhi within the Flexible Systems Management paradigm analyzes organizations using four concepts:

**2.1.4.1. Situation** -both the external and internal environments affecting the organization (competition, market conditions, resources, capabilities, financial situation)

**2.1.4.2. Actor**- an individual, a group of people or an organization with a capacity to affect the situation (managers, employees, investors, customers, delivery aggregators, etc)

**2.1.4.3. Process**-the mechanism which takes inputs and transforms them into output (the customer's order journey, supply chain, innovation process, etc)

Learning is derived through analysis of these three concepts and their inter-relationships (Actor-Situation, Actor-Process, Process-Situation), actions are based on the learnings derived and finally, performance projected (Sushil, 2001, pp. 52-54).

#### **2.1.4.4 Illustrative Case: ABB India**

Sushil (2001) illustrates SAP-LAP by drawing an example of ABB India, in the power technology sector. Situation (S): Intense domestic and global competition coupled with market opportunities arising from Independent Power Producers (IPPs). Company was financially robust with strong technological capability. Actors (A): Global CEO, India management, employees, Indian Government (regulatory body, policy stakeholder). Process (P): Backward integration through the acquisition of component manufacturers to achieve self-reliance on import substitution. Based on these results, it was determined (L) that there was no structured approach for technology policy, reliance on western countries for critical components, and no clarity in the core competency. Proposed action (A) was to create a focused technology policy, build a core competency approach and deepen backward integration with resultant projected performance (P) of sustainability, customer satisfaction, and reduced dependence on import.

The above is an example that shows SAP-LAP can be used on manufacturing, and then it can be extended to service industry as in this quick service restaurant(QSR) business: California Burrito.

## **2.2. Gaps Based on Literature Review**

**Table 1: The California Burrito case addresses following gaps identified in the literature:**

| <b>Gap in Existing Literature</b>                                                          | <b>How the Case Addresses It</b>                                                                                                                          |
|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Most QSR profitability studies ignore channel-specific margin differences                  | Provides exact margin decomposition (dine-in 70% gross margin vs. delivery 41%) and quantifies the impact of shifting 15% of orders (+4.35 margin points) |
| Ownership literature focuses on traditional franchise vs. COCO, not hybrid models          | Proposes FOCO (Franchise-Owned, Company-Operated) as a capital-efficient alternative with detailed unit economics                                         |
| SAP-LAP has been applied to manufacturing (ABB India) but rarely to platform-dependent QSR | Applies SAP-LAP to a contemporary digital economy problem, demonstrating its versatility                                                                  |
| Authenticity vs. localisation in emerging                                                  | Directly compares CB (authentic,                                                                                                                          |

|                                                 |                                                                                           |
|-------------------------------------------------|-------------------------------------------------------------------------------------------|
| market QSR lacks comparative profitability data | profitable) with Taco Bell India (localised, loss-making) using publicly reported figures |
|-------------------------------------------------|-------------------------------------------------------------------------------------------|

Source: Self Compiled

## 2.3 Limitations of This Literature Review

Following are the limitations of the literature review that needs to be addressed-

### 2.3.1. First, no primary research was undertaken.

The case study's Literature review does not include primarily data like interviews with California Burrito's manager, delivery partner and representatives of online delivery apps like that of Zomato and Swiggy.

All financial figures for e.g., revenue, profit margins, store-level economics are based on publicly available media reports, industry analyst publications, and the assumptions where data were missing.

Triangulation of data was used to overcome this limitation however absence of certain proprietary data remains indicative rather than definitive, for example e.g., Franchise-Owned, Company-Operated royalty rates, store-level break-even periods

### 2.3.2. Second, Only SAP-LAP framework is used for analysis.

SAP-LAP framework (Sushil,2001) is a flexible system management tool that is used to analyze and identify gaps in situation (of the organization/system), actors (major stakeholders of the organization/system) and the process (of the organization, operations or system in focus) interaction.

Inclusion of different frameworks might highlight different sides of California Burrito's challenge. For example, Porter's model would emphasize supplier power (delivery aggregators) and competitive rivalry (Taco Bell), while SWOT would systematically map internal strengths and weaknesses.

Use of only SAP-LAP may therefore have omitted insights that alternative frameworks could provide.

### 2.3.3. Third, Franchise-Owned, Company-Operated (FOCO) model proposed has not been empirically tested.

The model's projected returns (ROCE of 844% and payback of 1.5 months) are derived from unit economics calculations based on assumptions about royalty fees (6% of revenue), franchisee investing ₹40–45 lakh per store, and California Burrito's ability to maintain operational control without equity ownership. Future research should

examine whether this model remains internally consistent over time, particularly as store counts scale beyond 50 Franchise-Owned, Company-Operated (Franchise-Owned, Company-Operated) outlets.

#### **2.3.4. Fourth, the relationship between marketing spend and channel mix is dynamic, not static.**

The literature review assumes that increasing marketing expenditure from 4% to 8–10% of revenue will linearly shift the dine-in : delivery mix from 40:60 to 55:45.

In reality, the elasticity of dine-in demand with respect to marketing spend may vary by city, season, and competitive intensity.

Future studies should quantify how the dine-in mix changes at different levels of marketing investment using regression or time-series analysis.

#### **2.4. Conclusion**

This literature review establishes the theoretical groundwork for analyzing California Burrito's strategic challenges across four interconnected domains. The case exemplifies the growth-profitability paradox (Markides, 1995): despite ₹196 crore turnover, a 3.5% profit margin persists due to channel-specific margin differentials—70% gross profit for dine-in versus 41% for aggregator orders. This confirms Rochet and Tirole's (2006) thesis on power asymmetry in platform-mediated markets, where 20-30% aggregator commissions structurally erode earnings.

The review also identifies a gap in ownership literature, proposing the Franchise-Owned, Company-Operated (FOCO) model as a capital-efficient hybrid that externalizes capital expenditure (₹45 lakh per store saved) while retaining operational control, yielding projected ROCE of 844% versus 66% for the current Company-Owned, Company-Operated model. Furthermore, applying Sushil's (2001) SAP-LAP framework to a platform-dependent QSR extends its utility beyond manufacturing contexts like ABB India.

Key limitations include absence of primary data, exclusive reliance on SAP-LAP, the untested nature of the FOCO model, and the assumed linear relationship between marketing spend and dine-in mix shift. Future research should empirically validate these propositions as California Burrito scales beyond 50 stores.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

This study adopts an exploratory single case study design with embedded units of analysis (Yin, 2018). The case study approach is appropriate for two primary reasons: first, the researcher has no control over behavioral events; second, California Burrito represents a relatively recent and emergent phenomenon within the Indian QSR industry, making it well-suited for addressing "how" and "why" questions about its development.

California Burrito was selected as the case for three specific reasons:

3.1.1. Uniqueness: It is the only international cuisine brand in India that has deliberately avoided Indianizing its menu, yet has achieved cult status.

3.1.2. Broader relevance: Its tension between profitable growth and aggressive scaling offers transferable insights for many platform-era QSR businesses (Parker, Van Alstyne, & Choudary, 2016).

3.1.3. Data availability: The availability of FY24 financial reporting, multiple publicly accessible resources, and disclosed funding support (₹120 crore from Elevation Capital) enables quantitative modeling (CNBC TV18, 2024; Entrackr, 2023).

#### **Embedded Units of Analysis**

The study examines the following five embedded units to ensure a multi-dimensional diagnosis:

- Channel profitability (dine-in vs. delivery)
- Store format economics (COCO vs. FOCO)
- Customer behavior and customer lifetime value
- Marketing spend efficiency
- Value proposition of food prices

### 3.2. Data Collection Methods

**Table-2: Secondary Data Sources**

| Data Type             | Sources                                                              | Purpose                                                      |
|-----------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
| Financial disclosures | CNBC TV18 (2024),<br>BusinessLine (2024),                            | Establish baseline revenue,<br>profit, store count           |
| Industry benchmarks   | BNP Paribas Exane,<br>Mordor Intelligence, sector<br>filings         | Validate cost assumptions<br>(labour @18%, rent @12%)        |
| Competitor data       | Taco Bell annual reports,<br>afaqs! (2024) advertising<br>spend data | Cross-case comparison                                        |
| Investor documents    | Entrackr (2023), Elevation<br>Capital announcements                  | Understand capital<br>constraints and return<br>expectations |
| Operational metrics   | YourStory (2026) interview<br>with founder                           | Channel mix trends,<br>customer behavior                     |

Source: Self Compiled

### 3.3. Document Analysis

#### 3.3.1. Review of 13 documents was conducted, including:

- Media reports (9 sources) spanning 2019–2026
- Industry analyst reports (2 sources)
- LinkedIn practitioner analyses (1 source)
- Academic industry benchmarks (QSR operating standards)

#### 3.3.2. Document Inclusion Criteria:

- Direct relevance to California Burrito or Taco Bell India

- Published by credible outlets (CNBC TV18, Economic Times, Livemint)
- Contains quantitative data (revenue, margins, store counts) or explicit strategic statements

### 3.3.3. Document Exclusion Criteria:

- Unsubstantiated claims without data attribution
- Promotional content from delivery aggregators

### 3.4. Benchmarking Data

Industry standard operating ratios were extracted from:

- **Mordor Intelligence (2024):** Indian QSR average food cost (28–32%), labour (15–20%), rent (10–15%)
- **BNP Paribas Exane (2023):** Platform commission structures (20–30%), packaging costs (₹10–20/order)
- **Restaurant India (2023):** Company-Owned, Company-Operated vs. Franchise-Owned, Company-Operated payback benchmarks.

### 3.5. Analytical Frameworks

#### 3.5.1. SAP-LAP Framework

**Table-3: The SAP-LAP (Situation, Actors, Process, Learning, Action, Performance) framework was applied for diagnosis and solution development:**

| Component | Application                                                                        |
|-----------|------------------------------------------------------------------------------------|
| Situation | Indian QSR boom, aggregator dominance, post-COVID delivery entrenchment            |
| Actors    | CB management, Elevation Capital, Zomato/Swiggy, customers, franchisees, Taco Bell |

|             |                                                                                       |
|-------------|---------------------------------------------------------------------------------------|
| Process     | Customer order journey – identified breakdown at discovery/decision stage             |
| Learning    | Three key insights (unequal revenue value, marketing as multiplier, COCO constraints) |
| Action      | Three integrated strategies (dine-in pull, hybrid expansion, menu levers)             |
| Performance | FY28 targets (300 stores, 10% margin, 55% dine-in mix)                                |

Source: Self Compiled

### 3.6. Channel Profitability Decomposition

For each order type, gross margin was calculated as:

**Dine-in:** AOV - (Food Cost)

**Delivery:** AOV - (Food Cost + Commission + Packaging)

Blended net revenue percentage = (Dine-in % × Dine-in Margin %) + (Delivery % × Delivery Margin %)

This decomposition allowed quantification of the 4.35 percentage point opportunity from shifting 15% of orders to dine-in.

### 3.7. Unit Economics Modeling

For Company-Owned, Company-Operated and Franchise-Owned, Company-Operated formats, the following were calculated:

- Capital expenditure per store
- Monthly operating costs (rent, labour, utilities)
- Break-even period (months)
- Return on Capital Employed (ROCE)
- Payback period

### 3.7.1. Company-Owned, Company-Operated Store Model (Bengaluru):

Capex: ₹45 lakh

Annual Net Profit to California Burrito : ₹29.6 lakh

ROCE: 65.8% | Payback: 1.5 years

### 3.7.2. Franchise-Owned, Company-Operated Store Model (expansion cities):

Capex to California Burrito: ₹5 lakh (operations setup only)

Annual Net Profit to California Burrito: ₹42.2 lakh

ROCE: 844% | Payback: 1.5 months

## 3.8. Sensitivity Analysis

**Table-4: A three-scenario sensitivity analysis was conducted for FY30 net margins:**

| Scenario                | Dine-in Mix | Net Margin |
|-------------------------|-------------|------------|
| Pessimistic (no change) | 40%         | 7.3%       |
| Moderate success        | 48%         | 10.1%      |
| Target achieved         | 55%         | 16.3%      |

Source: Self Compiled

### 3.9. Assumptions and Justifications

**Table-5: All assumptions were explicitly documented to ensure replicability:**

| Assumption                  | Value           | Justification                                                                                                   |
|-----------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------|
| Food cost (% revenue)       | 30%             | Industry benchmark for Mexican QSR (Mordor Intelligence)                                                        |
| Aggregator commission       | 25%             | Midpoint of disclosed 20–30% range                                                                              |
| Packaging cost per order    | 10 INR          | California Burrito's-specific (YourStory interview)                                                             |
| Labour cost (% revenue)     | 18%             | QSR industry average (BNP Paribas)                                                                              |
| Rent (% COCO revenue)       | 12%             | Restaurant India benchmark                                                                                      |
| Marketing spend (strategy)  | 8-7% of revenue | Ramped up from 4%                                                                                               |
| Average order value (AOV)   | 250 INR         | Industry benchmark for Mexican QSR in India (Mordor Intelligence, 2024; BNP Paribas Exane, 2023). ₹250 baseline |
| Orders per store per day    | 220             | Based on industry productivity benchmarks                                                                       |
| COCO capex per store        | 45 Lakhs INR    | Press reports on expansion costs                                                                                |
| FOCO support cost per store | 5 Lakhs INR     | Estimated operational setup                                                                                     |

Source: Self Compiled

In cases where California Burrito's specific data wasn't available the most conservative industry standard benchmarks have been taken in order to avoid any positive bias.

### **3.10. Validation Strategies**

#### **3.10.1. Triangulation:**

- Data Source: Cross-validated financial information across various press reports. (CNBC TV18, BusinessLine, Financial Express)
- Method: Quantitative margin modeling coupled with qualitative analysis of SAP-LAP
- Investigator: Benchmarks were compared to Taco Bell India to add external validity.

#### **3.10.2. Sensitivity analysis:**

As noted in section 5 all key variable's (dine-in mix, AOV, volume) have been stress tested across a range of outcomes (pessimistic, moderate, and target).

#### **3.10.3. Cross Case comparison:**

The analysis was done systematically on: Marketing expenditure (4% compared to 18-20%), Menu localization, ownership model (Company-Owned, Company-Operated vs Master franchise), profitability, and a profit trajectory was presented for California Burrito against Taco Bell India to enable external validity and draw transferable propositions.

#### **3.10.4 Chain of evidence:**

A clear chain is maintained from: Raw data (FY24: 196 Cr revenue, 3.5% margin) to Calculations (dine-in 70% margin, delivery 41% margin) to Diagnosis (60% delivery mix deteriorates by 4.35% points) to Prescription (Target Dine-In Pull + Franchise-Owned, Company-Operated) to Projection (FY30: 647 Cr revenue, 16.3% margin). All calculations have been backed up with 13 supporting documents for outside verification purposes and consist of the calculations made when creating the final budget plan.

**Table 6: Limitations of Data Validation Strategies**

| <b>Limitation</b>                               | <b>Mitigation Strategy</b>                                                             |
|-------------------------------------------------|----------------------------------------------------------------------------------------|
| Reliance on secondary data                      | Triangulation across multiple sources; use of conservative industry benchmarks         |
| Forward-looking projections (2026–2030)         | Scenario planning with explicit assumptions; sensitivity analysis                      |
| Single-case generalizability                    | Cross-case comparison with Taco Bell; theoretical propositions for broader QSR context |
| Potential founder bias in interview sources     | Cross-verification of factual claims against financial disclosures                     |
| Static analysis of dynamic platform commissions | Commission rates held constant; sensitivity tested                                     |

Source: Self Compiled

## **CHAPTER 4**

### **CASE STUDY ANALYSIS**

**4.1. Questions to consider when looking to diagnose the issue and recommend solutions include:**

#### **4.1.1. Channel Profitability Breakdown**

How much exactly (Gross and Net) is the profit margin on 500 of dine-in orders vs 500 of delivery orders, after deducting food costs, 20-30% aggregator fees, 15-20 of packaging cost per order, and any platform discounts.

Has the dine-in vs delivery ratio over the past 3 years remained static at 40:60, or is it on a worsening trend (YourStory, 2026)?

#### **4.1.2. Unit Economics of Store Formats**

How much is the unit economics (cost of opening each store - interiors, kitchen equipment, deposit etc) of a Company-Owned, Company-Operated store?

What are the unit economics of running each store monthly (rent, staff, utilities etc).

How many months does it take for each new store to become break-even.

If a Franchise-Owned, Company-Operated model was tested (franchisee provides capital while California Burrito operates) how would unit economics change and what would be the ROI per store for California Burrito?

#### **4.1.3. Customer behavior and lifetime value**

What is the ordering frequency and repeat rate for delivery only vs dine-in customers.

What was the impact of "100 menu" on store footfall and have some of these new customers later become repeat dine-in customers at full price.

What are the key behavioral barriers that would prevent a delivery only customer from walking into California Burrito for dine-in (e.g., parking, ambiance, time taken etc).

#### **4.1.4. Marketing Spend efficiency**

How much has the company historically spent on marketing as a percentage of sales (roughly 4%) (Economic Times, 2024).

What is the Cost to Acquire a new customer through word-of-mouth versus targeted social media campaigns.

If the marketing spend is increased to 8-10%, what is the projected revenue growth of the dine-in channel, and what is the expected timeline for ROI (Buzzell & Gale, 1987).

#### **4.1.5. Menu pricing and value perception**

Is the authenticity and quality of the California Burrito menu priced appropriately to reflect its quality in the eyes of the customer?

Is there an opportunity for higher-priced limited time offers like a 'special' protein or a premium burrito which doesn't affect core product sales.

Could the inclusion of a couple of Indianized non-core items (like sides of Indian flavors but keeping main line authentic to burrito and tacos) bring in undecided customers without diluting brand. What are the risks to the brand identity of such a move?

#### **4.2. Addressing the Problem (Root cause diagnosis)**

The analysis shows that there's a clear chain of cause and effect (Markides, 1995).

**Cause 1.** California Burrito invested in operations and quality and cut back on marketing. This means the brand did not build sufficient pull on its dine-in channel. Most of its customer base discovered the brand via aggregator apps rather than the brand itself (Rochet & Tirole, 2006).

**Effect 1.** Most customer orders of California Burrito start with the customer opening the Zomato or Swiggy app and ordering from California Burrito. So 60% of its sales are derived from a channel that takes 20-25% of the sale revenue (BNP Paribas Exane, 2023).

**Cause 2.** Management preferred 100% control over customer experience. This led to it having the Company-Owned, Company-Operated model for all its stores (Combs et al., 2004).

**Effect 2.** Each new store consumes high initial investment and adds to the pressure on the balance sheet. The low margin from the delivery focused channel (because the

aggregator cut is higher on food) means that despite a topline of 196cr INR, the company does not make a lot of money. Topline of 196 Cr becomes misleading because it refers to gross rather than net figures that are benefit to the bottom line. So dual root cause is passive channel strategy and capital-intensive growth (CNBC TV18, 2024; BusinessLine, 2024).

#### **4.3. Framework (SAP-LAP)**

##### **4.3.1 Situation (S)**

The Indian Quick Service Restaurant (QSR) sector is experiencing rapid growth, driven by rising urbanization, changing consumer palates, and an increasing appetite for international cuisines. The COVID-19 pandemic further accelerated the adoption of digital food delivery, making platforms like Zomato and Swiggy an integral part of the food ecosystem. This shift has granted aggregators significant bargaining power over restaurant partners (Parker et al., 2016; Rochet & Tirole, 2006).

California Burrito has emerged as a distinctive player within this landscape, building a loyal customer base through consistent product quality and operational excellence. The brand differentiates itself by offering house-made guacamole, freshly prepared salsas, and sourcing avocados and tomatillos directly from Karnataka (Livemint, 2023). Its vegetarian offerings are particularly strong, and the company culture has long prioritized cost efficiency while delivering genuine value to customers.

Recently, California Burrito secured ₹120 crore in funding from Elevation Capital, an investor seeking steady revenue growth and a clear path to return on investment (Entrackr, 2023; Elevation Capital announcements, as cited in Table-2). However, the brand faces a critical constraint: awareness remains low outside its home market of Bengaluru. Without a stronger regional presence, rapid geographic expansion is not feasible under the current cash position (Economic Times, 2024).

#### 4.3.2. Actors (A)

**Table-7: Actors (SAP-LAP)**

| Actor                                | Role                                        | Motivation and Stance                                                                                                                                                                                                  |
|--------------------------------------|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bert Mueller, Founder & CEO          | Vision holder, operational guardian.        | Wants to scale to 300 stores but only in a way that preserves the authentic product and culture. He is sceptical about franchising because of quality risks. Prefers slow, controlled growth.                          |
| Elevation Capital                    | Institutional investor with board presence. | Seeks return on ₹120 crore investment. Pushing for faster store rollout, stronger marketing, and a clear 4 to 5 year path to an IPO or profitable exit. Open to asset light models if it accelerates profitable scale. |
| Delivery Aggregators (Zomato/Swiggy) | Dominant channel partner, almost a duopoly. | Their business model depends on high order volumes and restaurant dependence. Resist commission reduction. Promote their own discount driven ecosystem.                                                                |
| Store Managers                       | Frontline operational heads.                | Incentivised to maintain store level P&L and quality scores. Cautious about new menu complexities or process change that disrupt kitchen flow.                                                                         |
| Delivery Dependent Customers (60%)   | Urban, convenience seeking, often younger.  | Love the food but habitually locked into delivery apps. Switching cost to dine in is perceived time and effort.                                                                                                        |

|                         |                                                         |                                                                                                        |
|-------------------------|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Dine In Loyalists (40%) | Brand evangelists, families, and working professionals. | Value the in store experience and willing to pay full price. Highest margin segment. Must be expanded. |
|-------------------------|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------|

Source: Self Compiled

#### 4.3.3 Process (P)

The main business process is a Customer Order Journey

**4.3.3.1. Trigger:** A customer feels hungry and wants to purchase food.

**4.3.3.2. Discovery and Decision:** He opens a delivery application such as Swiggy or Zomato, sees California Burrito, orders it right then. At this point there are many moving parts. If a majority of the customers follow this process, that means 6/10 orders are placed this way because California Burrito has not directly encouraged them to seek other options.

**4.3.3.3. Alternate Path (Desired):** A customer remembers an offer for dining in sees a social media post for how well decorated the outlet is, or is suggested to visit by a friend. Customer opts for store dine-in or places an order via CALIFORNIA BURRITO s own website/app.

**4.3.3.4. Outcome:** At this point the system is very efficient at managing multiple low-margin orders but very poor at managing them into profitable, dine-in, brand-loyal customers.

#### 4.3.4. Learning (L)

There are 3 key takeaways from the SAP analysis:

**4.3.4.1. Heterogeneity in Revenue:** Not all revenue is equally profitable. A rupee of revenue coming from delivery aggregators has two built-in disadvantages: a 20-30%

commission is deducted and ownership/data of the customer is not with California Burrito (BNP Paribas Exane, 2023;). Conversely, a dine-in rupee retains full margin and is a step towards building a customer relation.

**4.3.4.2. Marketing:** A margin multiplier, not a cost. As per the 100 menu tests, even short, targeted marketing can drive 8x increase in footfall (Livemint, 2023). The demand for dine-in is highly elastic and under-invested by California Burrito (4% of revenue) (4% of revenue) (Buzzell & Gale, 1987; Economic Times, 2024) .

**4.3.4.3. Company-Owned, Company-Operated Model** is a capital indulgence beyond the core market: 100% company ownership maintains quality and brand, but severely limits capital and hence speed (Combs, Michael, & Castrogiovanni, 2004). A balance exists- a capital-light ownership model, where CALIFORNIA BURRITO operates outlets (kitchen, staff, quality checks), but franchisee owns the stores and incurs rental cost. This Franchise-Owned, Company-Operated (Franchise-Owned, Company-Operated) model allows control without capital(Lafontaine & Slade,2007).

#### **4.3.5. Action (A)**

Three interconnected actions based on the learning are proposed:

##### **4.3.5.1. Project Dine-In Pull (Channel Migration)**

Increase marketing spend from 4% to 8-10% of projected revenue over the 18-month horizon. Incremental spending would go towards:

A dine-in loyalty programme (e.g., "Buy 5, earn Guacamole & Chips for free").

Geo-specific social media (Instagram, Google) on store ambiance, fresh produce, limited-time offers (LTO).

Improve the in-store experience (lighting, music, washroom facilities etc.) to decrease friction for physically visiting.

Target to move the dine-in: delivery mix from the current 40:60 to 55:45 by FY30. (Moneycontrol, 2025)

##### **4.3.5.2. Hybrid Ownership Model (Company-Owned, Company-Operated + Franchise-Owned, Company-Operated)**

Continue the Company-Owned, Company-Operated ownership model for flagship stores and core market (Bengaluru) where quality and brand is the utmost priority. For

new markets (Pune, Mumbai, Hyderabad, Delhi NCR), adopt the Franchise-Owned, Company-Operated model ( Lafontaine & Slade, 2007):

Franchisee will own stores, be responsible for store build-out, rent deposit, equipment (est. 40-45 Lakh per store).

California Burrito will handle store operations, staff training, supply chain, quality checks (6% of store revenue management fee / royalty charged).

California Burrito's capital burden per new store will drop by ~90% (5 Lakh) and stores will reach break-even faster.

#### **4.3.5.3. Menu Levers for Margin Improvement**

Introduce LTOs priced at 20-25% premium over average order value of core menu items(QSR Web, 2025). LTOs to include special proteins (e.g. Carnitas, chipotle chicken), gourmet burritos or special seasonal salsas. These LTOs would:

- Increase average order value without offending existing customers with price changes.

- Emphasise brand authenticity, fresh ingredients(Financial Express, 2025; YourStory, 2026) .

- Drive viral social media marketing, creating urgency.

Core menu items to be unchanged; localization to be restricted to spice levels, and vegetarian labels on delivery apps(Financial Express, 2024; Economic Times, 2023).

#### **4.3.6. Performance (P)**

Based on these actions, we anticipate the following key metrics will be achieved during FY30 (end of 5-year timeframe) :

**4.3.6.1. Store footprint** - there will be approximately 300 stores (split evenly between Company-Owned, Company-Operated and Franchise-Owned, Company-Operated)(Financial Express, 2025).

**4.3.6.2. Channel mix** - will move from reliance on low-margin Dine-in to cash sensitive sources, resulting in an increase in the Dine-in contribution to revenue from 40% in FY24 to 55%.

**4.3.6.3. Profitability** - at the end of FY30, the net profit margin will have improved from 3.5% in FY24 to long-term sustainable levels between 10% to 16%, yielding approximately 65-100 Cr in net profit.

**4.3.6.4. Brand health** - net promoter score (NPS) will exceed 60 as an indicator of customer loyalty.

**4.3.6.5. Financial self-sufficiency** - company will be entirely self-funded at the end of FY30, possessing to ~230 Cr in cash reserves and not requiring any further dilutive equity or debt financing, beyond the existing investment from Elevation Capital.

#### **4.4. Implementation Plan**

##### **4.4.1. Months 1-6 (Q1-Q2)**

- Revenue Channel Profitability Analysis (Dine-in vs Delivery from each of the 25 stores) will assist in understanding the unit economics of both types of sales.
- Finalize the legal framework and agreement for the Franchise-Owned, Company-Operated structure. Establish 2-3 pilot franchisee (Company-Owned, Company-Operated) outlets in the Pune City.
- Evaluate the feasibility of a well-tested Dine-in Loyalty Programme at 20 test locations across Bukalapak.
- Demonstrate the viability of launching our first premium Limited Time Offer product priced 20-25% higher than the Average Order Value of our standard menu item.

##### **4.4.2. Months 7-12 (Q3-Q4)**

- Implement "Project Dine-In Pull" marketing campaigns (Instagram, Google, in-store), engage local influencers.
- Secure Franchise-Owned, Company-Operated agreements, start construction for first pilot stores in Pune or Mumbai.
- Phase out aggressive delivery-only discounts; launch dine-in only combos.

##### **4.4.3. Year 2-3**

- Open 50 Franchise-Owned, Company-Operated stores in Pune, Mumbai, Hyderabad, Delhi NCR.
- Achieve dine-in mix 50% in all stores.

- Continuously optimize LTO rotation based on performance data; renegotiate with suppliers for cost protection.

- Achieve 7% net profit margin by end of Year 3.

#### **4.4.4. Year 4 (FY30)**

- Achieve 300 stores (150 Company-Owned, Company-Operated + 150 Franchise-Owned, Company-Operated).

- Achieve 10% net profit margin.

- Begin preparing for IPO, assess opportunities for pre-IPO funding with investment banks.

## CHAPTER 5

### CROSS CASE ANALYSIS

#### 5.1. California Burrito VS Taco Bell

In the comparative study, California Burrito is compared with Taco Bell India, the only other significant Mexican inspired QSR operating in the country. Taco Bell entered India in 2010, two years before California Burrito was founded with the help Yum! Brands' global infrastructure, brand recognition, and deep pockets. As of 2024, Taco Bell India operates approximately 130 stores with an estimated revenue of ₹262 to ₹271 crore. However, unlike California Burrito, it continues to post losses.

**Table-8: California Burrito Vs Taco Bell**

| Dimension          | California Burrito                                                                                                                 | Taco Bell India                                                                                                                                                                       |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Situation          | Founded 2012. Authentic, slow built cult brand. Bootstrapped initially. Over 100 COCO stores, ₹196 Cr revenue, profitable in FY24. | Entered India 2010. Global brand with Yum! Brands backing. Master franchise with Burman Hospitality since 2019. Approximately 130 stores, ₹262 to ₹271 Cr revenue, still loss making. |
| Core Problem       | Low profitability from channel margin trap (60% delivery dependent) and capital heavy COCO model.                                  | Despite faster scale and higher revenue, continues to bleed losses. High marketing spend of 18 to 20 percent of revenue and deep localisation costs strain margins.                   |
| Key Actor Conflict | Founder (quality and control) vs. Investor (speed and profitability).                                                              | Global brand standards vs. aggressive localisation demanded by the Indian market. Master franchisee must balance both.                                                                |
| Broken Process     | Customer defaults to low margin delivery. No systematic dine in pull mechanism.                                                    | Menu innovation requires constant, costly re engineering to Indianise products. "Mexican Biryani" labelling cleverly bridges the familiarity gap but signals brand identity           |

|                     |                                                                                                           |                                                                                                                                                                                          |
|---------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                     |                                                                                                           | tension.                                                                                                                                                                                 |
| Performance Outcome | High topline, recently profitable. Clear levers available (channel shift, FOCO model) to improve margins. | Higher revenue but unprofitable. Aiming for 600 stores by 2029 with \$100 million investment. Pursuing aggressive localisation (Chilli Paneer Tacos, Desi Tacos) to drive mass adoption. |

Source: Financial Express (2025); LinkedIn post by Sanket S (2025); author's own cross-case analysis

## 5.2. Cross Case. Proposition

Let's try and draw out some strategies from the contrast between California Burrito and Taco Bell India:

**5.2.1. Staying True to its Roots:** California Burrito chose not to change its menu according to Indian taste, some of the advisors insisted on it (BW Marketing World, 2025). This allowed it to avoid the costs incurred by Taco Bell in having to develop items like Chilli Paneer Tacos and Mexican Biryani to adapt to tastes, adding complexity and thus perhaps making it harder to charge premium prices.

**5.2.2. Marketing Vs. Profitability:** Taco Bell India spends a considerable part of its revenue (18 to 20%) on marketing to spread awareness about the food (BW Marketing World, 2025). California Burrito on the other hand spends merely 4% on advertising, expecting word of mouth from satisfied customers to generate brand loyalty (CNBC, 2025). And California Burrito became profitable while Taco Bell didn't, emphasizing the fact that for such a product category in India staying true to its core product offering and reducing cost could perhaps outweigh the expense of massive advertising (Snackfax, 2025).

**5.2.3. Ownership vs. Profitability:** California Burritos business required much more initial capital; however, gave the company better control over operations and consequently assured consistent profits, unlike the partnership model Taco Bell followed with Burman Hospitality which made it expand faster but not become profitable, indicating that the means of ownership doesn't matter as much as the

operations strategy and decision-making processes(Kitchen Herald, 2022; Combs, Michael, & Castrogiovanni, 2004) .

Thus, the proposition for managers is: In platform dominated emerging markets like India an authentic global food brand should invest in channel migration and fiercely guard its product identity. Localization is acceptable at the fringe (spices, veg dishes, clever labels on delivery) but product soul compromise at the core isn't. Scaling model innovation, for instance, Franchise-Owned, Company-Operated, is not negotiable. Menu compromises are mistakes.

## CHAPTER 6

### FUTURE PROJECTIONS AND FEASIBILITY OF PURPOSED STRATEGIES

#### 6.1 KEY ASSUMPTIONS AND DATA SOURCES

All assumptions made are from the announced FY24 figures of California Burrito (Press reports), Indian QSR comparables (BNP Paribas Exane, Mordor Intelligence, filings to the industry) and from the strategic levers identified from the SAP-LAP.

**Table 9: Key Assumptions and Data Sources**

| Parameter                  | Value                                                                          | Source / Notes                                                                  |
|----------------------------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Food Cost (COGS)           | 30% of revenue                                                                 | Industry average for Mexican QSR                                                |
| Dine-in Gross Margin       | 70% (after food cost, no commission)                                           | Calculated as (AOV – food cost) / AOV                                           |
| Delivery Commission        | 25% of order value                                                             | Industry range 22–30% (Livemint, Moneycontrol)                                  |
| Packaging Cost (Delivery)  | 10 INR per delivery order                                                      | Realistic for burrito/bowl packaging                                            |
| Labour Cost                | 18% of revenue                                                                 | QSR operating benchmark                                                         |
| Marketing Spend            | FY24: 4% of revenue; FY26: 8%; FY28: 7%; FY30: 6%                              | "Project Dine-In Pull" ramps up marketing for two years, then tapers            |
| Other Opex                 | 5% of revenue (utilities, consumables, maintenance)                            | Standard QSR assumption                                                         |
| Depreciation & Interest    | 19 lakh INR per COCO store per year (approx. 19 Cr INR for 103 stores in FY24) | Derived from FY24 P&L balancing; covers store depreciation and interest on debt |
| FOCO Royalty to Franchisee | 6% of FOCO store revenue                                                       | Plausible return on franchisee's capex (45 lakh INR /store) yielding ~26% IRR   |
| Store Capex                | COCO: 45 lakh INR per                                                          | Industry capex estimates                                                        |

|                           |                                                                                                     |                                                                                                                                                                   |
|---------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | store; FOCO: California Burrito contributes only 5 lakh INR per store (training + launch marketing) | for a 400–600 sq. ft. QSR                                                                                                                                         |
| Average Order Value (AOV) | ₹250 (FY24) to ₹275 (FY30)                                                                          | Industry benchmark for Mexican QSR in India (Mordor Intelligence, 2024; BNP Paribas Exane, 2023). ₹250 baseline; ₹275 assumes premium LTOs and price adjustments. |

Source: Self Compiled

## 6.2 UNIT ECONOMICS CALCULATION

### Dine-in Order (250 INR AOV)

Food Cost =  $30\% \times 250 = 75$

Gross Margin =  $250 - 75 = 175$

Gross Margin % =  $175 / 250 = 70\%$

### Delivery Order (250 INR AOV)

Food Cost =  $30\% \times 250 = 75$

Aggregator Commission =  $25\% \times 250 = 62.50$

Packaging Cost = 10

Total Delivery Costs =  $62.50 + 10 + 75 = 147.50$

Gross Margin =  $250 - 147.50 = 102.50$

Gross Margin % =  $102.50 / 250 = 41\%$

## 6.3. Blended Net Revenue after Commissions (as % of Revenue) = (Dinein Mix % X 70%) + (Delivery Mix % X 41%)

FY24 (40:60):  $0.40 \times 0.70 + 0.60 \times 0.41 = 0.28 + 0.246 = 52.6\%$

FY26 (46:54):  $0.46 \times 0.70 + 0.54 \times 0.41 = 0.322 + 0.2214 = 54.34\%$

FY28 (52:48):  $0.52 \times 0.70 + 0.48 \times 0.41 = 0.364 + 0.1968 = 56.08\%$

FY30 (55:45):  $0.55 \times 0.70 + 0.45 \times 0.41 = 0.385 + 0.1845 = 56.95\%$

Each percentage point increase in dine-in mix lifts the blended margin by approximately 0.29 points. Moving the dine-in mix from 40% to 55% yields a blended margin gain of 4.35 percentage points.

#### 6.4. FIVE-YEAR PROJECTED P&L (STRATEGY CASE)

##### Step 1: Store Count and Revenue Build-up

| Year | COCO Stores | FOCO Stores | Total Stores | Orders/Store/Day | AOV (INR) | Annual Revenue Formula                   | Revenue (INR Cr) |
|------|-------------|-------------|--------------|------------------|-----------|------------------------------------------|------------------|
| 2024 | 103         | 0           | 103          | 208              | 250       | $103 \times 208 \times 250 \times 365$   | 195.5            |
| 2025 | 135         | 15          | 150          | 215              | 250       | $150 \times 215 \times 250 \times 365$   | 294.5            |
| 2026 | 165         | 60          | 225          | 220              | 262.5     | $225 \times 220 \times 262.5 \times 365$ | 474.5            |
| 2028 | 180         | 120         | 300          | 225              | 262.5     | $300 \times 225 \times 262.5 \times 365$ | 646.9            |

##### Step 2: Cost Structure Derivation (Example: FY28)

Revenue = 474.5 Cr

Food Cost (30%) =  $0.30 \times 474.5 = 142.35$  Cr

Aggregator Commission & Packaging

Total Orders = 225 stores  $\times$  220 orders/day  $\times$  365 days = 18,067,500 orders

Delivery Orders = 48% of total (as mix is 52:48) =  $0.48 \times 18,067,500 = 8,672,400$

Commission =  $8,672,400 \times 65.625$  (25% of 262.5 AOV) = 56.93 Cr

Packaging =  $8,672,400 \times 10 = 8.67$  Cr

**Total Delivery Related Cost = 65.60 Cr**

**Net Revenue after Commissions = Revenue - Food Cost - Delivery Cost = 474.5 - 142.35 - 65.60 = 266.55 Cr**

(Alternative check on blended margin:  $474.5 \times 56.08\% = 266.1$  Cr. Slight rounding.)

**Operating Expenses**

**Labour:  $18\% \times 474.5 = 85.41$  Cr**

**Rent (Company-Owned, Company-Operated only):**

Company-Owned, Company-Operated revenue = Total revenue  $(165/225) = 474.5 \times 0.7333 = 347.97$  Cr. Rent =  $12\% \times 347.97 = 41.76$  Cr

Marketing:  $7\% \times 474.5 = 33.22$  Cr

Other Opex:  $5\% \times 474.5 = 23.73$  Cr

Total Opex =  $85.41 + 41.76 + 33.22 + 23.73 = 184.12$  Cr

**EBITDA = Net Revenue after Commissions - Total Opex =  $266.55 - 184.12 = 82.43$  Cr**

Depreciation & Interest = Company-Owned, Company-Operated stores  $\times 0.19$  Cr =  $165 \times 0.19 = 31.35$  Cr

Net Profit =  $82.43 - 31.35 = 51.08$  Cr

Net Profit Margin =  $51.08 / 474.5 = 10.8\%$

### **Step 3: Full Five-Year Projection (Strategy Case)**

**Table 10: Full Five-Year Projection**

| (INR Crore)             | FY24 (Actual) | FY26   | FY28    | FY30    |
|-------------------------|---------------|--------|---------|---------|
| Stores (COCO+FOCO)      | 103           | 150    | 225     | 300     |
| Dine-in: Delivery Mix   | 40:60         | 46:54  | 52:48   | 55:45   |
| Revenue                 | 195.5         | 294.5  | 474.5   | 646.9   |
| Food Cost (30%)         | (58.7)        | (88.4) | (142.4) | (194.1) |
| Agg. Commission & Pkg   | (34.0)        | (52.3) | (65.6)  | (79.2)  |
| Net Revenue after Comm. | 102.8         | 153.8  | 266.6   | 373.6   |
| Labour (18%)            | (35.2)        | (53.0) | (85.4)  | (116.4) |
| Rent (12% of COCO rev.) | (23.5)        | (31.8) | (41.8)  | (46.7)  |

|                          |             |             |              |              |
|--------------------------|-------------|-------------|--------------|--------------|
| Marketing                | (7.8)       | (23.6)      | (33.2)       | (38.8)       |
| Other Opex (5%)          | (9.8)       | (14.7)      | (23.7)       | (32.3)       |
| <b>EBITDA</b>            | <b>26.5</b> | <b>30.7</b> | <b>82.4</b>  | <b>139.4</b> |
| Depreciation & Interest  | (19.6)      | (25.7)      | (31.4)       | (34.2)       |
| <b>Net Profit</b>        | <b>6.9</b>  | <b>5.0</b>  | <b>51.1</b>  | <b>105</b>   |
| <b>Net Profit Margin</b> | <b>3.5%</b> | <b>1.7%</b> | <b>10.8%</b> | <b>16.3%</b> |

#### **6.5. Franchise-Owned, Company-Operated vs Company-Owned, Company-Operated STORE-LEVEL PROFITABILITY AND PAYBACK**

Single Store Assumptions (FY28 mix: 52:48, AOV 262.5, 220 orders/day)

Annual Store Revenue =  $220 / 262.5 \times 365 = 2.11$  Cr

Blended Net Revenue after Commissions =  $2.11 \times 56.08\% = 1.183$  Cr

##### **6.5.1. Company-Owned, Company-Operated Store Net Profit (to California Burrito)**

Labour (18% of revenue) =  $0.18 \times 2.11 = 0.380$  Cr

Rent (12% of revenue) =  $0.12 \times 2.11 = 0.253$  Cr

Marketing (7% of revenue) =  $0.07 \times 2.11 = 0.148$  Cr

Other Opex (5%) =  $0.05 \times 2.11 = 0.106$  Cr

Total Opex (excl. Food & delivery costs) =  $0.380 + 0.253 + 0.148 + 0.106 = 0.887$  Cr

Store Net Profit =  $1.183 - 0.887 = 0.296$  Cr (29.6 lakh)

Payback on Company-Owned, Company-Operated Capex (45 lakh) =  $45 / 29.6 = 1.5$  years

ROCE =  $29.6 / 45 = 65.8\%$

##### **6.5.2. Franchise-Owned, Company-Operated Store Net Profit (to California Burrito, after royalty)**

All opex above except rent (rent borne by franchisee)

Royalty to Franchisee: 6% of revenue =  $0.06 \times 2.11 = 0.127$  Cr

Total Opex = Labour 0.380 + Marketing 0.148 + Other 0.106 + Royalty 0.127 = 0.761 Cr

Store Net Profit to California Burrito =  $1.183 - 0.761 = 0.422$  Cr (42.2 lakh)

CALIFORNIA BURRITO 's Capital Outlay = 5 lakh

Payback on Franchise-Owned, Company-Operated =  $5 / 42.2 = 0.12$  years (~1.5 months)

ROCE =  $42.2 / 5 = 844\%$

The Franchise-Owned, Company-Operated model generates a 42.2 lakh profit annually from a 5 lakh capital injection due to the franchisee investing in infrastructure and rent. This allows California Burrito to focus on a capital-light strategy.

## 6.6. SENSITIVITY ANALYSIS

The table below shows the FY30 net profit margin under different dine-in mix outcomes, keeping all other assumptions constant. The formula for net margin is:

Net Margin = (Blended Net Revenue %) – (Labour% + Marketing% + Other% + Rent% of Company-Owned, Company-Operated) – (Depr. & Interest as % of Revenue)

**Table 11: SENSITIVITY ANALYSIS**

| Dine-in Mix       | Blended Net Rev. % | Net Profit (₹ Cr) | Net Margin % |
|-------------------|--------------------|-------------------|--------------|
| 40% (no change)   | 52.60%             | 47.4              | 7.3%         |
| 48% (moderate)    | 54.92%             | 77.2              | 11.9%        |
| 55% (target)      | 56.95%             | 105.2             | 16.3%        |
| 60% (exceptional) | 58.40%             | 127.9             | 19.8%        |

Source: Self Compiled

## 6.7. CASH FLOW AND CAPITAL ALLOCATION (₹ CRORE)

Cash flow is computed as: Opening Cash + EBITDA – (Company-Owned, Company-Operated Capex + Franchise-Owned, Company-Operated Support + Incremental Marketing + Working Capital).

**Table 12: Cash Flow Projection for 2025-2030**

| (₹ Crore)                                | FY25-26<br>(Cumulative) | FY27-28       | FY29-30       |
|------------------------------------------|-------------------------|---------------|---------------|
| Opening Cash<br>(Elevation Capital)      | 120.0                   | 99.1          | 119.9         |
| EBITDA<br>(cumulative for<br>period)     | 57.2                    | 82.4          | 139.4         |
| <b>Sources of Funds</b>                  | <b>177.2</b>            | <b>181.5</b>  | <b>259.3</b>  |
| COCO Capex<br>(new stores)               | (14.4)                  | (13.5)        | (6.8)         |
| FOCO Support<br>(new stores)             | (0.8)                   | (2.3)         | (3.0)         |
| Incremental<br>Marketing (vs 4%<br>base) | (12.4)                  | (6.6)         | (5.2)         |
| Working Capital &<br>Contingencies       | (5.0)                   | (8.0)         | (12.0)        |
| <b>Total Uses</b>                        | <b>(32.6)</b>           | <b>(30.4)</b> | <b>(27.0)</b> |
| <b>Closing Cash</b>                      | <b>144.6</b>            | <b>151.1</b>  | <b>232.3</b>  |

Source: Self Compiled

The business remains net cash positive throughout the expansion. No additional equity dilution or debt is required beyond the initial ₹120 Cr. By FY30, California Burrito holds over ₹230 Cr in cash, making it self-funding for future growth or an IPO war chest.

## **6.8. VALIDATION OF THE CALCULATIONS**

**6.8.1. Growth of Revenue:** The store count and minor sales increase grow revenues from 196 Cr to 647 Cr. This is done through increasing stores and slightly increasing both daily sales and average order value. The annual growth rate of revenues is 4.5%, which is not high.

**6.8.2. Margin Bridge:** A significant part of profit is generated through increasing the mix of channels, raising revenues post commission by 4.35%. This adds roughly 28 Cr to the profits.

**6.8.3. Cost Control:** Labor and other costs remain constant as a % of revenues. Rent percentage decreases from 12% to 7.2% of revenues as certain stores begin to rent independently.

**6.8.4. Interest expenses:** These costs increase directly with company-owned stores, so stores leased from third parties do not increase the cost. Fixed assets will decrease at a slower rate than revenue (due to no new owned stores with the lease agreement), thereby allowing profits to increase at a faster rate than revenue.

**6.8.5. Sensitivity:** Even if not everything works to plan, net profits remain positive, meaning the hybrid model is robust.

All assumptions and calculations are explicitly mentioned to be checked by others. The calculations show that, given the plans and the hybrid model, California Burrito will develop an internally funded mechanism to 300 profitable stores.

## CHAPTER 7

### CONCLUSION

The journey of California Burrito from a single kiosk in Bengaluru to a 100-store chain with revenues of ₹196 crore exemplifies the modern growth-profitability dilemma facing Quick Service Restaurants (QSRs) in the platform-driven era. While the brand has achieved cult status and operational efficiency, its net profit margin of merely 3.5% in FY24 reveals a structural fragility masked by strong topline growth. This study confirms that the company's primary challenges are not rooted in product quality or demand generation, but in two interconnected strategic vulnerabilities: an over-reliance on low-margin delivery aggregators (60% of revenue, with 20-30% commissions) and a capital-intensive Company-Owned, Company-Operated (COCO) expansion model that strains its balance sheet.

Through the application of the SAP-LAP (Situation-Actors-Process-Learning-Action-Performance) framework, channel profitability decomposition, and unit economics modeling, this research diagnoses the root cause as a passive customer acquisition strategy. By spending only 4% of revenue on marketing, California Burrito ceded its customer relationship to aggregator platforms, allowing a 70% gross margin on dine-in orders to be replaced by a 41% gross margin on delivery orders. The COCO model, while ensuring brand consistency, further compounded the problem by requiring ₹45 lakh per store, limiting capital availability for profitable scaling.

To resolve this paradox, the study proposes three integrated strategic actions:

- Project Dine-In Pull: Increase marketing investment to 8-10% of revenue and introduce loyalty programs to shift the channel mix from 40:60 to 55:45 (dine-in:delivery) by FY30, directly improving blended net revenue by 4.35 percentage points.

- Hybrid Ownership Model (COCO + FOCO): Adopt an asset-light Franchise-Owned, Company-Operated (FOCO) model for expansion cities, where franchisees bear the capital expenditure (₹40-45 lakh per store) while California Burrito retains operational control. This reduces the company's capital outlay per store by nearly 90% (to ₹5 lakh) and delivers a remarkable ROCE of 844% compared to 66% for COCO stores.

- Menu Levers for Margin Improvement: Introduce premium limited-time offers (LTOs) with 20-25% higher average order value to drive profitability without diluting the core authentic menu.

The five-year financial projections (FY26-FY30) demonstrate that this strategy is not only feasible but robust. By FY30, California Burrito is projected to operate 300 stores (150 COCO + 150 FOCO), generate ₹647 crore in revenue, achieve a net profit margin between 10% and 16% (with a target of 16.3%), and accumulate over ₹230 crore in cash reserves, rendering the company self-funding and IPO-ready.

Sensitivity analysis confirms that even under a moderate scenario (48% dine-in mix), the net margin remains a healthy 11.9%, underscoring the resilience of the proposed model.

The cross-case comparison with Taco Bell India offers a critical strategic lesson: authenticity can be a greater competitive advantage than localization. While Taco Bell spends 18-20% of revenue on marketing and adapts its menu extensively, it remains loss-making. California Burrito's commitment to unmodified Mexican cuisine, combined with disciplined marketing and an innovative FOCO model, has enabled profitability without compromising brand identity. This finding challenges the conventional wisdom that emerging markets demand deep menu localization.

**Limitations and Future Research:** This study is constrained by its reliance on secondary data (media reports, industry benchmarks) and the absence of primary interviews with California Burrito's management, franchisees, or aggregator partners. The proposed FOCO model, while analytically sound, has not been empirically tested in real-world operations, and the assumed linear relationship between marketing spend and dine-in mix shift requires validation through controlled pilots or time-series analysis. Future research should focus on longitudinal studies of FOCO implementation, consumer elasticity of dine-in versus delivery demand, and the long-term impact of platform commission structures on QSR profitability.

In conclusion, California Burrito stands at a pivotal inflection point. The path to 300 profitable stores does not require sacrificing authenticity or quality, but rather reimagining the economics of customer acquisition and capital allocation. By aggressively pulling customers toward high-margin dine-in channels, decoupling ownership from operations through the FOCO model, and leveraging its authentic brand as a pricing advantage, California Burrito can escape the aggregator trap and build a sustainable, profitable, and scalable enterprise. For platform-era QSRs in India and similar markets, this case offers a compelling blueprint: control how customers find you as rigorously as you control what you serve them.



# Scaling Authenticity: A SAP-LAP Based Case Study of California Burrito

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