

*Interview—Growing by franchise: a case study of Cibo Espresso*

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**Introduction**

*In the second of this series, an interview is held with Roberto Cardone. It offers valuable insights into key business and management topics like new venture creation, branding, franchising, target marketing and merger.*

*Roberto Cardone is Brand Man for Cibo Espresso, a chain of coffee houses in Adelaide, South Australia. He is one of four founding partners of the company (established in 2000) and has a background in restaurant management and ownership. The company has grown rapidly and this interview explores Roberto's role in its success and changing structure.*

*The interview was, in fact, spread over two occasions. Associate Professor Anthony Lowe conducted the second interview and wrote the commentary that matches the findings to the literature.*

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## **The Interview**

### *For a start, how would you describe the Cibo Espresso brand?*

If it were a person it would be someone who is warm and generous, the kind of person who lifts your spirits every day

We are offering a true Italian experience. All four of the founding partners were either born in Italy or have at least one Italian parent. We wanted to bring to Australia a sense of the atmospheric coffee bars that line the narrow streets and piazzas of Rome. Straplines like ‘fresh from Italy’ and ‘a little Italy’ are about branding more than marketing.

The logo itself, which includes a square and a chevron, tells a story. The square is like a ‘stop’ button, inviting you to stop for a coffee; while the chevron is the fast forward sign, conveying a sense of grabbing a coffee on the run. And the dominant colour, red, has instant appeal and is popular with different ages and cultural groups.

Cibo has become a household word in the city.

### *What is the so-called coffee culture?*

Unlike the tradition in Italy, a coffee culture in Adelaide is relatively recent. Obviously, the existence of a large Italian community locally is one factor but there are other reasons too, and Italians are by no means the largest group in our clientele.

We have found that coffee appeals to different age groups and to different cultures too. On balance, more women come into our coffee bars than men; women generally find the ambience more welcoming than a traditional pub.

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Another general feature is that most of our customers are in the age range between 22 and 45, but this band is constantly widening. Recently, we have been surprised to see a significant increase in the 12 to 18 age group. We call this the ‘gelati generation’ and our belief is that many have become accustomed to Cibo through accompanying their parents when they were younger and sampling a child’s version of coffee or one of our flavoured gelati.

At the other extreme, there are grandparents and baby boomers, who are more conscious of alcohol limits than a previous generation. Being diet conscious, too, they are likely to prefer a smaller meal with a coffee or soft drink.

Our coffee bars are also favoured as venues for business meetings and for networking. It is not uncommon, as well, to see students hard at work on their laptops and in small group discussions around a table.

All the signs are that the coffee culture is here to stay.

***How do you know who your customers are?***

We don’t need to rely on surveys because we are always close to our customers; we learn from direct experience what they like. With my own background in restaurants, it is second nature to me to know my customers. Obviously, the larger we are the harder it is to retain close contact, but we are never far from our various outlets. I personally visit each franchisee at least bimonthly. Sometimes we carry out surveys but that is not our preference.

With two new menus each year, we are in a good position to respond quickly to what our customers want. In the present economic climate, we have to be especially price sensitive while, at the same time, maintaining our normal standards.

As well as talking to our customers and frontline staff, we monitor carefully the respective sales of products. Often it is the subtle differences which count. Our customers like the

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Italian experience and yet we know that some products that are popular in Italy would not be so in Adelaide. We have to prepare our menus to match local preferences.

***How important is customer care?***

Because of our total customer orientation, it is vital that we excel in this aspect of our staff training. Although our outlets are franchised, we have a direct involvement in many staff appointments. We also provide training programmes for staff at all levels and prefer to hold these in our central production and administration unit.

We have a brand to maintain and improve, and our staff are the key. Our programmes are directed to all aspects of work, from how to manage effective teams to the essential task of making good coffee. Communication is important and one way we try to ensure that all staff stay in touch is through the availability of an iPad in every store. We also distribute a biweekly newsletter to all staff.

Obviously, we take customer complaints very seriously and these are always responded to. I am personally responsible to see that action plans are prepared and followed up. No-one wants to receive complaints but, when we do, we turn them into a positive source of learning.

***What is your approach to product development?***

Coffee is the core of our business, so that has to be of the highest quality. We source 100% Premium Arabica coffee beans, roasted and blended to our own recipe. Every stage of the process, from the sustainable farms to the final step when the barista prepares the particular order, is meticulously planned and monitored.

From this base of good coffee, we have developed a unique line of Italian food. These include gelati and pastries, and a range of savoury items. All of these are produced to our own recipes and prepared in our central kitchens, before being distributed daily to each of our

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Adelaide stores. The new menu twice a year enables us to introduce new items to meet changing tastes and demand. As a business, we could not survive on coffee sales alone and these additional items represent about 50% of our revenue.

One market change that has been evident in recent years is that young professionals especially are less likely to cook an evening meal. As a result, we have responded to a demand for ready-made meals that can be taken home.

In Adelaide alone there are many coffee outlets, some of them individual businesses and others in a chain, although international chains like Starbucks have failed to make an impact here. There is intense competition but we enjoy customer loyalty because we offer something unique with consistently high standards. Our food products are supplied only to our own stores and, with our specially blended coffees, are designed to offer a genuine taste of Italy.

***What encouraged Cibo to follow the franchise route?***

We started our first three outlets through partnerships, where we owned 60% and our partners owned 40% of the stores. Progressively, when we grew and needed more capital to set up our food manufacturing kitchen, we allowed our partners to increase their share of ownership and assume more responsibilities. With less involvement from us, we noticed that these stores actually performed better than they had done before. That was an important lesson, so in 2002 we opened our first fully franchised store. It was also a good move because it removed from us the burden of payroll tax for these particular operations.

We envisaged initially that we would only franchise five or six stores. However, the model worked well and the number increased, so that now we have nineteen franchised stores in Adelaide and two in Brisbane. We have always been firmly of the belief that so long as we maintain our quality, and continue to be responsive to changing demands, we would continue to grow.

***So why did you decide to sell some of your franchising rights to Retail Zoo?***

Although we were doing well, we could see that in Adelaide there were limited opportunities for further expansion. In order to continue to grow at the rate we wanted, we would have to expand interstate and even internationally. When Retail Zoo came in with an offer (at the end of 2012), it seemed to be the right time to make a step-change.

Based on their own direct experience as a juice outlet, Retail Zoo promotes itself as a ‘brand developer’, helping catering firms in the retail sector to continue to grow. This is why the initiative is not regarded as a takeover so much as a synergistic alliance between the two companies, since we have retained a 35% share of the franchise, and full ownership of our food manufacturing business.

Retail Zoo was favoured because it has the ability to provide the necessary capital injection to finance further growth. There will need to be significant investment in new food kitchens when we expand into another state or overseas. The issue here is less one of raising the necessary capital so much as managing the operating losses until there are at least seven or eight stores in the new region. It is, therefore, necessary to have a quick entry into the market and to open at least five company-owned stores in the first year.

Another advantage is that Retail Zoo has an effective network and expertise in franchising nationally and internationally, as well as an appropriate management infrastructure. The latter includes a dedicated franchising department, marketing team, site selection team, in-house lawyer, and departments for HR, design and project management, and finance. With this level of support, Cibo can then concentrate on what we do best. As the CEO of Retail Zoo indicated during our negotiations: ‘We will do all the paper shuffling, formalise them, make them legal, and make sure that we are doing everything correctly. You must focus on the bigger picture of keeping the culture, innovation and what the brand means.’

## **Commentary on the Interview**

The Cibo story is not only interesting in itself but it can also offer insights in relation to various aspects of business and management, notably, new venture creation, entrepreneurialism, branding, target marketing, franchise and merger.

### ***New Venture Creation***

Cibo started as a single store just thirteen years ago, with a founding team of four who were passionate to bring a taste of Italy to Adelaide. They were all determined to succeed and shared an Italian heritage with complementary skills in the hospitality industry (De Groot 2011).

It is said that the key determinants for a successful new venture are the entrepreneur and the founding team, the opportunity, and the resources needed to start a new venture. A good entrepreneur will deliberately search for an opportunity and shape it so that it has the potential to be a commercial success. The entrepreneur then gathers the resources that are necessary to start a business to capitalise on the opportunity (Timmons, Zacharakis & Spinelli 2004).

Most new ventures are characterised by severe resource constraints. Sufficient financial, technical and human resources are often not available when needed (Hitt, Ireland, Camp, and Sexton 2001), and Cibo was no exception. One of the ways of overcoming resource issues is to use other people's resources and franchising is one way to do so.

### ***Entrepreneurialism***

When one looks at successful entrepreneurs, one sees profiles of careers rich in experience. Time and again there is a pattern among successful entrepreneurs. They have all acquired ten or more years of substantial experience, built contacts, garnered

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know-how, and established a track record in the industry, market and technology niche within which they eventually launch, acquire, or build a business. .... The more successful ones have made money for their employer before doing it for themselves (Spinelli & Adams 2012, p.43).

Roberto Cardone and his team have definitely served their apprenticeships. Before launching Cibo they were already highly experienced in the hospitality industry. As Roberto said himself in the interview, ‘Thinking about the last twelve years, we have made a number of mistakes but we learned from our mistakes. It is the *live and learn* attitude that keeps us motivated’.

Successful entrepreneurs recognise that they need to play to their strengths and recruit others who can do the things that they cannot do well themselves. Team formation is, therefore, a crucial stage in the development of a new venture since it is the source of lasting legacies for the future organization (Ruef 2002). ‘*If well understood, the process of team formation could be shaped to enhance ventures’ chances of success*’ (Forbes et al., 2006, p.226). Critical ingredients of a successful entrepreneurial team have three main foci: the process of team formation (and the resulting team composition); team functioning (social interaction and interpersonal processes within teams); and influences of team make-up (the potential links between the team and new business outcome and the team’s turnover) (Ben-Hafaiedh-Dridi 2010).

### ***Branding***

The Cibo brand is a powerful emblem that has been carefully nurtured during the life of the company.

Brands are not built by advertising alone. Customers come to know a brand through a range of contacts and touch points, such as personal observation and use, word of



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mouth, interaction with company personnel, online or telephone experiences and payment transactions. (Kotler & Keller 2012, p.273)

It is important to note that all the offerings and activities ('the contacts and touch points') have to match or harmonise with the brand's image.

A brand can be defined as 'a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of the competitors' (Kotler & Keller 2012, p. 263). In other words, the brand identifies the source or maker of a product and allows consumers to assign responsibility to a particular manufacturer or distributor. A brand performs valuable functions for the company:

- it can signal a certain level of quality so that satisfied buyers can easily choose the product again; and
- brand loyalty provides predictability and security of demand for the firm and creates barriers for other firms. Branding can be seen as a powerful means to secure a competitive advantage.

On the other hand, 'branding is endowing product and services with the power of a brand. Branding creates mental structures that can help consumers organise their knowledge about products and services in a way that clarifies their decision making and, in the process, provide value to the firm' (Kotler & Keller 2012, p.265). The Cibo branding appears to be effective in all these ways.

### ***Target Marketing***

Target market is 'the part of the qualified available market the company decided to pursue' (Kotler & Keller 2012, p.32). For any firm, it is essential to have a comprehensive knowledge of its target market and the profiles of its target consumers. This knowledge and

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understanding will enable the firm to develop a market offering that will meet the needs and wants of its customers. Cibo has a good knowledge of its changing target market (for example, their ages) and understanding of the needs and wants of its customers.

The enterprise started at a propitious time and since then it has been part of a growth industry. Sales of hot drink products in Australia surpassed AU\$1350m in 2008 and are expected to be worth AU\$1473m in 2013, with the coffee category accounting for the largest share, followed by tea. The main source of growth in coffee is coming from out-of-home consumption, with more consumers adopting the idea of a café culture. Currently, for every seven cups of coffee consumed by an average Australian, one is consumed out-of-home (Datamonitor 2010).

In August 2008, when the US coffee chain, Starbucks, announced it would close 61 of its 84 Australian stores, the conclusion was drawn that the company had failed to understand the Australian market. The President of Starbucks Asia Pacific, John Culver admitted: *'I think what we've seen is that Australia has a very sophisticated coffee culture'* (Adam 2012).

Cibo founders have recognised the increasingly sophisticated coffee culture and changing lifestyle in Adelaide. According to Wong (2010), Australia, unlike other Asian countries, boasts a traditionally strong coffee culture started by European immigrants in the form of local cafés. Now, there is a huge demand from the new age consumers who find sitting and sipping coffee in the well decorated cafés fashionable.

Note that Cibo does not seem to do much market research, apart from observing and talking with customers, and checking sales figures. This approach seems to work well for Cibo—*'We don't need to rely on surveys because we are always close to our customers; we learn from direct experience what they like. Sometimes we carry out surveys but that is not our preference'* (Cardone 2013). Market research, however, does add additional sources of information using methods such as focus groups, in-depth interviews, surveys and even secret customers (Kotler & Keller 2012).

## ***Franchising***

Franchising occurs when an individual or an organisation ('the franchisor') develops a business model and sells the rights to operate it to another entrepreneur ('the franchisee'). It has been (and continues to be) at the heart of the Cibo success story.

Important advantages of franchising and those that Cibo has discovered are:

- Franchising provides an excellent opportunity for rapid expansion without an enormous outlay of capital. It is a distribution system that allows a business to conserve capital, and at the same time achieve fast market penetration.
- The franchisor gets 100% commitment from their franchisees who have a stake in the business rather than staff or managers who simply work for a salary and may be less motivated.
- Franchising enables them to utilise the entrepreneurial skills of the franchisee network to achieve better results than might otherwise be achieved. (Spinelli, Rosenberg & Birley 2004)

The key success factors of a franchise consist of good and consistent brand image; quality offering; careful selection of franchisees and location; and a supportive franchisor and franchisee relationship (Spinelli, Rosenberg & Birley 2004). When Roberto Cardone was asked what he saw as the key success factors of Cibo's franchise arrangements, he responded: site selection, franchisee selection, treating franchisees as customers, and always delivering what you promise. Most important of all, it is the support from family, friends, and of course, hard work.

Franchising is an entrepreneurial alliance between a franchisor and franchisee, with each working cooperatively for mutual benefits. Therefore, careful selection of franchisees is one of the most important considerations for a successful franchise. The franchisor needs to select franchisees deliberately and cautiously, and allocate sufficient time to do it properly. It

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should not be based on finance alone. The franchisor must develop an ideal franchisee profile. For example, the franchisee must be an ambitious and committed individual; healthy and able to stand the stress and strain of being self-employed; independent enough to work on their own but also prepared to work within the franchise system (Spinelli, Rosenberg & Birley 2004).

Robert Cardone confirms the importance of good franchisee selection:

What I've learnt is the importance of finding the right person... So far, we have been lucky with our franchisees, because a number of them have worked with us for many years before they were offered a franchise, and others have known them for a while, or someone we know would recommend them. (Cardone 2013)

For a franchise to operate successfully there is a need for mutual trust and respect between the franchisor and franchisee. The franchisee should not only follow the signed franchisee agreement, but the franchisor should clearly lay out the parent company's expectations regarding how the franchisee should run their franchise, including stipulating in what areas the franchisee can or cannot make changes to the business model. On the other hand, the franchisor must provide on-the-job training and continuous communication so the franchisees know what and how to achieve the quality of goods or services for which the franchise is striving (Spinelli, Rosenberg & Birley 2004).

In addition, monitoring of franchisees is also important. At Cibo, one of the founders visits each of the franchisees bimonthly. On the other hand, it appears that their food and labour costs as a percentage of sales are checked regularly. Other franchisors have found that there are other methods of monitoring franchisees like external service audits, peer review, and asking their customers (Spinelli, Rosenberg & Birley 2004).

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Location selection is important for a franchise. First, the location needs to have a wide geographic reach for sales, and it should be strategically chosen to fill a need in a community or location. Second, the location needs to have easy access to local suppliers that can distribute the inventory required to produce and sell the franchise's final goods or services.

Cibo has benefited by knowing its city very well:

We know Adelaide well and have a good network. Most of the landlords are also our customers, so during the day we would organise to open up stores, and at night I'd be serving them dinner and having meetings. Other times, while serving them dinner, they would say, 'I have got an ideal site for your store, and why don't you take it'. They would come back next day for coffee and say 'I'm going to give you this corner of our shopping centre for your store; it's going to be great for you'. (Cardone 2013)

When it expands interstate and overseas, selecting the right location will become more of a challenge.

### ***Merger***

Towards the end of 2012, Cibo entered into an agreement with Retail Zoo to support the company's expansion plans. The expectation is that this will see an acceleration of growth based on the complementarity of goals and strengths that is the basis of a win-win relationship.

With this new arrangement, Roberto Cardone is confident that Cibo will continue to grow:

For the next twelve months, if we get this really right, we will be very successful. The merger with Retail Zoo will open doors for us nationally and internationally a lot faster. Nationally, we will be able to move into Victoria and New South Wales very quickly. Internationally, I think Singapore and Malaysia will be a great market for us.

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London could be another great coffee market. Retail Zoo has some very good partners in these regions and they have some very good traction to assist us in our future endeavours. (Cardone 2013)

## **Conclusion**

Cibo Espresso cafés highlighted the key success factors of a new venture and the franchising system. The founders have a clear vision with good knowledge of their target market and the necessity of providing high quality coffee and traditional Italian food that will meet the needs and wants of their customers. On the other hand, they also know their strengths and weaknesses. They realised that franchising can be used to grow their company in a relatively shorter period of time, and without heavy outlay of scarce resources. In addition, the founders' timing and harvesting option are carefully considered. They have harvested at the right time and merged with Retail Zoo to enhance the future growth.

‘At the heart of the entrepreneurial process is the founder: the seeker, creator, and initiator behind the start-up. Without this human energy, drive, and vitality, the great ideas will never come to fruition.’ (Spinelli and Adams 2012, p.1)

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