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## Viscaffé: Ready for the Second Cup?

It was August 2016 and Argie Pomida, the manager of Viscaffé (Visayas State University Alumni Café), was feeling jubilant. She was looking forward to the upcoming 92<sup>nd</sup> Visayas State University Anniversary. Everyone on VSU's campus in Pangasugan, Baybay City, Leyte, Philippines<sup>i</sup> was thrilled about the weeklong celebration. Guests and visitors would be flooding the campus. The festive mood brought joy to the hearts of everyone who visited the university. It was an opportune time to visit VSU, a "home away from home." It was during the previous year's anniversary that Viscaffé went into business. The event helped jumpstart the business and, since then, Viscaffé had grown substantially.

Pomida's reverie, however, turned sour when thoughts about café operations started to plague her mind. She became anxious imagining: it was the first day of the anniversary and Viscaffé was running out of coffee and other drinks. Customers were coming in to ask if the café also served meals. The staff might have just as well played a recorded response saying, "Sorry, but we don't serve meals here yet."

Established in the second quarter of 2015, the one-year-old Viscaffé could not ignore opportunities for growth and expansion. The business was the only café on campus and had no direct competition. The café's target market was growing and there was demand for new products. Pomida had to think about the

<sup>i</sup> Visayas State University is located in Barangay Pangasugan, Baybay City, Leyte in Region 8 (Eastern Visayas) of the Philippines. It is one of the premiere state universities in the region. The university celebrates its anniversary in the month of August. Preparations for festivities last for a month, while the celebration lasts a week.

next strategic move for Viscaffe: Was it time for the café to expand? What factors must be considered to assess the café's readiness for expansion? What kind of growth strategy would be best for the café?

## The Beginning

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Pomida earned her agribusiness management degree from VSU. She then became a faculty member of the department of business and management and an active member of the VSU Alumni Association (VSUAA). The association envisioned a food business venture that would cater to the unserved needs of the university populace and guests alike.<sup>1</sup> The VSUAA owned and operated the housing facility, New Balay Alumni. The food business venture was to be located on the ground floor of the housing facility. It would cater to those housed at New Balay Alumni, college students residing in nearby dormitories, the high school on campus, guests, and passers-by.<sup>2</sup>

This vision was partially realized on August 5, 2015 when Viscaffe formally opened. Instead of the original food venture plan, the alumni established only a coffee shop due to the ease of starting the business and the availability of inputs such as coffee pods and a coffee machine, which were provided by members of VSUAA. An active member of VSUAA, Pomida was chosen as manager. Viscaffe was founded with the aim of providing quality coffee products, generating local employment, and providing a source of funding for the Alumni Scholarship.<sup>3</sup>

The unserved needs of the VSU populace and visitors were not identified until Viscaffe became operational. One of the most pressing demands from faculty, staff, and students was for a meeting place. Viscaffe became a cozy and accessible venue on campus to treat friends and family with great coffee. Life at VSU, as Pomida experienced, was rather simple. The campus was hidden away from the city rush. One would wake up early in a calm and serene environment. After a busy school day almost everyone took an early rest. The food establishments on campus closed as early as 8 p.m. and students stayed in the dormitories after curfew.

The 1,479-hectare<sup>4</sup> campus was home to high school and college academic departments, research and training centers, and staff and student housing facilities. Pomida lived in a student dormitory during her undergraduate years. Together with friends, Pomida would walk from one building to another to attend classes. They enjoyed simple meals served at the VSU market or student fast food center. Financially challenged students could avail themselves of the "eat-now-pay-later" schemes of the very generous owners of the small eateries on campus. The scenery on campus was more than enough to relax an exhausted student or teacher. Weekend getaways did not have to be off campus because Pomida and her friends could readily relish a moonlit stroll on the VSU beach and picnics with a pleasant tropical view.<sup>5</sup>

The basics for living were provided by small convenience stores and wet markets.<sup>ii</sup> The new generation of students experienced what Pomida had enjoyed in the past. Internet cafés<sup>iii</sup> had also popped up on campus. The university populace traveled to Baybay City proper<sup>iv</sup> to satisfy any needs that could not be met on campus.

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ii A wet market is a market selling fresh meat, fruits, vegetables, and other produce.

iii The internet cafés on campus were limited to providing computer rentals for web browsing, printing, and other office and school work. They did not serve food or drinks.

iv Baybay City is one of the municipalities in the province of Leyte. VSU is located in barangay Pangasugan, Baybay City, Leyte. The center of trade and business activities is in Baybay City which is 20-minute ride from VSU.

VSU had been identified as one of the tourist destinations in Leyte during “Pasyada ha Leyte 2015” (Leisure Trip in Leyte 2015).<sup>6</sup> This made Pomida proud. The university was also promoted by its administration as a resort university because of its VSU Garden Beach Resort, seafront suites, cottages, and bungalows catering to visitors and tourists.<sup>7</sup> Additionally, the university was the only school in the Visayas to become one of the Environmental Education Network of the Philippines’ “Dark Green Schools”.<sup>8</sup> Argie believed that tourism could open up a whole new market for the café.

Viscaffè instantly became a place to hang out — not only for those residing and working on campus, but also for guests. The café became an addition to the small businesses on campus, but it had a different business model.<sup>9</sup>

## The Business Model

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As a coffee shop registered as a corporation, Viscaffè was owned by VSUAA and was managed and run by VSU alumni who worked at the university. The structure of the organization included a board of directors. As the manager, Pomida reported to the board of directors and supervised two full-time staff members and a volunteer staff of active members of VSUAA.<sup>10</sup>

Pomida was proud that the café was the only coffee shop on campus that served quality coffee products. Viscaffè’s tagline, “A taste of home,” depicted its desire to let customers experience the feeling of being at home at VSU. Customers could savor their beverages in the café’s homey and comfortable environment. Pomida was active in preparing the café’s product lines that included hot and cold coffee concoctions and fruit shakes (see **Appendices A and B** for photos of Viscaffè’s product lines). Pastry products, best enjoyed with coffee, were also served at Viscaffè. Cakes and cookies were prepared by VSUAA members who resided on campus. Other products such as vacuum fried jackfruit, cassava chips, cassava cookies, and others were produced at research centers at the university. These products (see **Appendix C**) were sold to Viscaffè on a consignment basis. This arrangement increased the capacity of the café; Viscaffè had no kitchen facility to prepare the products itself.<sup>11</sup> Pomida went to work at the coffee shop during her free time and worked for extended hours during the early days of café operations (see **Appendix D** for a photo of Pomida as a hands-on manager). The establishment was one of the last on campus to close and had the longest operating hours, from 8 a.m. to 10 p.m. Delivery service was also available for orders on campus during these hours.<sup>12</sup>

The imported coffee supply of Viscaffè came from alumni residing abroad and was paid for at cost. Other coffee products were donated by alumni. Delivery of supplies took place every week, or at times, twice in a month. Local products sold were sourced from Cebu City and Tacloban City.<sup>13</sup>

Pomida turned music into an ingredient for Viscaffè’s “taste of home” (see **Appendix E** for a promotional ad showing Viscaffè’s tagline). She wanted the customers to enjoy Fridays at “home” by having talented VSU students perform at the café as part of “Thank God It’s Friday” celebrations. This spiced up Friday nights at the café and was expected to attract customers, while providing support to student performers through talent fees.<sup>14</sup>

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v As an institution of higher learning Visayas State University was accredited as one of the Dark Green Schools in the Philippines — a school dedicated to the protection and preservation of the environment.

## Existing and Target Markets

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The café was the first coffee shop established on campus and had no direct competition. Broadly defined by Pomida, the target market of Viscaffe was coffee enthusiasts. Specifically, Pomida and management identified the students, faculty, and staff as the café's market because these groups were present on campus. Early on, however, Pomida did not consider most of the student population to be a target market of the café, since a considerable number of students came from lower income brackets and prioritized their spending for schooling and basic needs.<sup>15</sup>

Management trimmed the target market into a niche market composed of the faculty and staff working in the university. Pomida believed that this target market was an attractive market because it was composed of regular income earners. This niche market considered the coffee shop as a venue to relax and treat family members and friends. Viscaffe was the most accessible and cozy venue on the campus for this consumer group.<sup>16</sup>

Pomida observed that the faculty and staff of the university, who were living with their families on campus spent time bonding with one another in the café at night. This observation confirmed Pomida's previous expectations of this target market. Additionally the café became a venue for the celebration of birthdays and other occasions.<sup>17</sup> Pomida unexpectedly noticed lovers were among the regular customers spending quality time together at the café.<sup>18</sup>

The student market was not initially considered viable. This presumption started to change, however, when Pomida spotted groups of graduate and undergraduate students in the café for group meetings and gatherings. Another interesting development happened when cold beverages such as fruit shakes were introduced at the café. Pomida saw that this new product line became an instant hit with high school students and they became regular customers. The once narrow target market of the café started to expand.<sup>19</sup>

There was also the seasonal influx of guests and visitors. The peak in demand occurred during the alumni homecoming which happened every summer (during the month of May), the Visayas State University Anniversary in August, the Christmas season, and during regular enrollment at the start of each semester.<sup>20</sup>

As the home to national and regional research centers, the university also regularly held trainings and seminars. Convention halls and training centers at the university were also rented by different organizations from the region for their activities. Pomida recognized these as opportunities for the café.<sup>21</sup>

Another potential target market for the café was tourists. The university was being promoted by its administration as a tourist destination. Using the acronym VSU, the university was positioned as a "Very Scenic University" because the campus was blessed with an abundance of beauty. It was strategically located between the green forest of the majestic Mt. Pangasugan in the east and the clear blue waters of the Camotes Sea in the west (see **Appendices F, G, and H** for photos of VSU beach and Mt. Pangasugan).<sup>22</sup>

As one of the locals that reveled in the beauty of the campus' natural endowments, Pomida was hopeful that VSU would become one of the most sought after tourist destinations in Baybay City, Leyte. Pomida anticipated that the arrival of local and foreign tourists would increase the demand for the products of Viscaffe.<sup>23</sup>

## Industry Overview

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A decade ago, Bo's Coffee Club<sup>vi</sup> proprietor Steve Benitez said the Philippine coffee shop industry was still in its "heyday." There still was not a coffee shop on every corner, especially in suburban areas. The coffee shop industry had yet to penetrate the provincial areas where residents were starting to adopt an urban lifestyle, which included socializing in coffee shops.<sup>24</sup>

In Metro Manila, there were more coffee shop brands, both foreign and local. The homegrown operators of coffee shops were able to fight with the giants as most of them were also investing in creating a premium shop ambiance and developing gourmet and specialty coffee products. The specialty coffee industry was expected to expand into neighborhood coffee shops, offering the same type of products and ambiance as that provided in malls and highly urbanized areas.<sup>25</sup>

In Cebu City, one of the main business districts in Visayas, food-and-beverage-related businesses were still attractive; the market was just starting to embrace coffee shops as a destination for people across all ages and social groups.<sup>26</sup> In the early years of the coffee shop industry in the Philippines, the market only attracted the middle- to high-end market segments. By 2016, all market segments had adopted the lifestyle.<sup>27</sup>

Government support was available for local business people; the Department of Trade and Industry encouraged small- and medium-sized enterprises to target the growing demand for premium coffee in the country. Government interventions included branding and promotions, loans, capacity building, and equipment.<sup>28</sup> Coffee shops had started to penetrate the provinces, first in urban areas and then the suburban areas.

### Trends

According to Euromonitor, there was a premiumization of cafés in the Philippines due to the opening of artisanal coffee shops. The coffee shops had taken coffee drinking up a notch with their use of high-quality coffee beans and latte art.<sup>29</sup>

### Competitive Landscape

Starbucks had the widest network of cafés with 243 outlets across the Philippines in 2014, according to Euromonitor's report on cafés and bars in the Philippines. The brand's success was due mainly to the consumer experience. The drinks at Starbucks were priced higher than the more popular instant coffee mixes on offer in traditional Philippine coffee shops, but patronage of Starbucks was also often viewed as indicating affluence.<sup>30</sup>

### Prospects

Premiumization in cafés, in general, was likely to be sustained as other high-end brands were reported to be entering the local market. Artisanal coffee shops were expected to remain a niche area of specialist coffee shops, catering to more discerning coffee drinkers. These outlets were not expected to pose a significant threat to chains such as Starbucks.<sup>31</sup>

### Competitors

Locally, the indirect competition of Viscaffe included the local food establishments on campus such as the VSU Guest House, VSU Pavilion, a food establishment and catering service owned by a local cooperative, and the small eateries at the VSU market. The direct competitors included the bakeshops and coffee shops in Baybay City, Leyte. Newly opened cafés that served hot and cold beverages, pasta,

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vi A coffee chain in the Philippines.

and burgers also started to create a buzz in the city. These shops were open for extended hours — as late as 12 p.m.

### **Partners**

Owned by VSUAA, Viscaffe had access to imported coffee through alumni who were working abroad. Locally, the products sold in the café, such as the pastries and baked products, were produced by alumni residing on campus. The promise to supply coffee was verbal and highly informal. The capacity of the café's kitchen was limited to preparation of hot and cold beverages only, so the partnership with alumni on campus expanded the capacity of the café.<sup>32</sup>

### **Year One Operations**

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Pomida was satisfied with the results of Viscaffe's operations. With Pomida as a hands-on manager joined by two regular staff members, the approximately 30-seat café earned positive net income in its early months of business with the presence of a sustainable target market.<sup>33</sup>

The business was located on the ground floor of the New Balay Alumni, a lodging facility on campus that was owned by VSUAA. With the business space already available, the in-kind capitalization used to start the café operations was mostly provided by the owners of the café. These included the kitchen equipment such as a coffee maker, supplies, and the imported coffee. Sourcing local inputs for other products was facilitated by the proximity of Cebu City and Tacloban City, two business districts in the region.<sup>34</sup>

### **The Challenges**

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Pomida knew there was expansion potential for Viscaffe in terms of market, because the café was the only coffee shop on the VSU campus. Competitors were in Baybay City, which was a 20-minute ride from the university. The café had a captive market on the campus, including the faculty, staff, and high school and college students. The early months of operations had shown that the target market of the café was sustainable.

### **The Concerns**

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The main product line of the café was hot beverages. The café's operations, including its facilities such as kitchen equipment, were concentrated on preparing and serving these products. Customers could also enjoy their beverage with baked products such as cakes and pastries. In response to customer demand, management decided to include cold beverages, such as fruit shakes. The decision to expand its product lines was easy because the investment for additional kitchen facilities as well as the labor requirement was minimal. Pomida was aware that she had a limited supply of imported coffee. She would have to find a way to increase the supply of coffee. She was also contemplating whether to serve meals. To be able to do this, the café would have to expand the capacity of the kitchen, both in terms of physical facilities and manpower.

## The Dilemma

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The demand for meals was first articulated by the visitors housed at the New Balay Alumni. The students residing at the dormitory also wanted to buy meals from the café instead of going to food establishments at the more distant VSU Market. Pomida was fully aware that the seemingly small market of the café was growing and she expected new markets to emerge.

Deciding to expand required Pomida and management to assess the readiness of the café. If they decided to expand, they would have to choose a growth strategy. This strategic move would be accompanied by operational and financial challenges. On the operational side, the café had to develop its capacity to sustain its lines of hot and cold beverages for the growing market. VSUAA would also have to invest in new facilities if Viscasse diversified by offering meals.

Ignoring the opportunity could mean a loss for the café. Given that the café was strategically located on campus and that there was demand for new products, Pomida wondered whether to take advantage of the opportunity, and, if so, how to do it.

## Appendix A

Product Lines of Viscaffe (VSU Alumni Association Café)

# Viscaffe

New Balay Alumni, VSU, Baybay City, Leyte Tel. No. +63 563-7151



## *A Taste of Home*



Source: Viscaffe Facebook Page



## Appendix B

### The Imported Coffee Sold at Viscaffè



Viscaffe: Ready for the Second Cup?

### Appendix C

Display of VSU Products Sold at Viscaffe on Consignment Basis



Source: Viscaffe Facebook Page

Viscaffè: Ready for the Second Cup?

## Appendix D

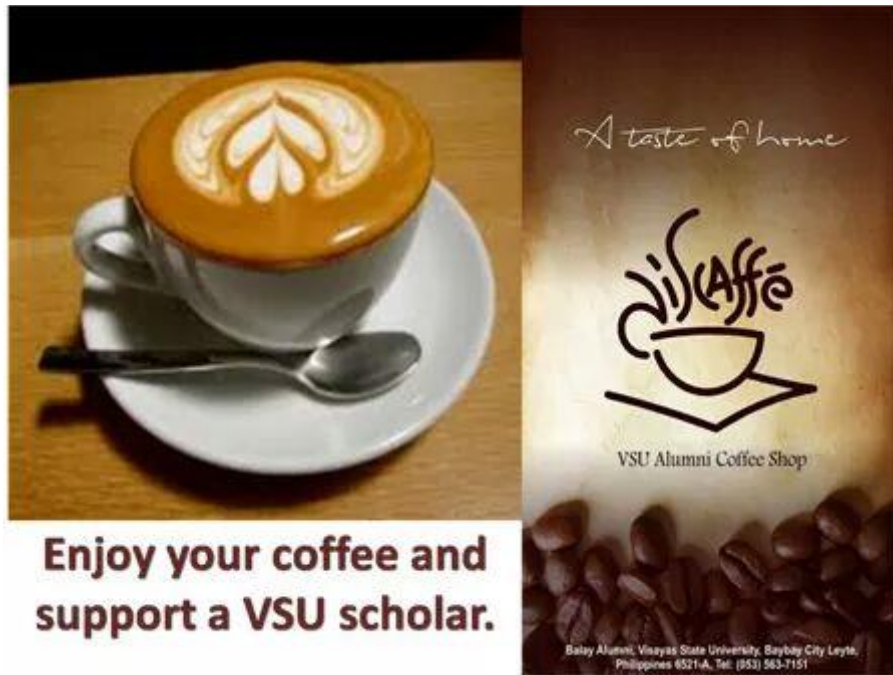
Professor Argie Pomida, the Hands-on Viscaffè Manager



Source: Viscaffè Facebook Page

## Appendix E

### A Promotional Ad Uploaded to Viscaffè's Facebook Page



Source: *Viscaffè Facebook page*

## Appendix F

### A Gorgeous Sunset at Visayas State University Beach



*Source: Amateur photographer*

## Appendix G

### The VSU Beach Shoreline



*Source: Amateur photographer*

## Appendix H

### The Majestic Mount Pangasugan



*Source: Amateur photographer*

## Endnotes

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