

REGIONAL GROWTH CHAINS

Focus on tea leaves Argo chain with high growth potential

BY KATE ROCKWOOD

Cappuccino, Frappuccino ... Teapuccino? If the owners of Argo Tea have their way, people across the United States will soon be turning to the tea leaf, rather than the coffee bean, to help get them through their morning commutes.

The Teapuccino, a blend of black, red or Earl Grey tea mixed with steamed milk and froth, debuted when owners Arsen Akavian and Simon Simonian first opened the doors of Chicago-based Argo Tea in June 2003. Childhood friends with a shared background in technology and management consulting, Akavian and Simonian had noticed while traveling abroad that tea cafes were as popular as coffee shops in Europe, though the idea hadn't yet caught on in the United States.

"Tea is still, for Americans, an unexplored area, though it's the second most-consumed beverage worldwide, after water," said Kari Ginal, director of marketing for Argo. In a nod to the owners' Mediterranean roots, Argo Tea takes its name from the ship navigated by Jason as he sought the

believe in guerilla marketing and in word-of-mouth."

To lure latte-addicts out of their morning routines, the owners of Argo opened their first cafe, which can sit 24 people inside and an additional 20 on the patio, directly across from a busy Starbucks in Chicago's Lincoln Park neighborhood. With generous sampling, a sleek interior and a creative menu of tea-focused drinks, Argo quickly began drawing crowds of its own.

"I'm usually a coffee drinker, but they were sampling the pomegranate tea one day and I tried that, and it was pretty good," said Ryan Gallagher, a 25-year-old graduate student. Since moving to Chicago in January, Gallagher frequents the Argo Tea in his Lakeview neighborhood twice a week, and though his coffee consumption still outpaces his love of tea, he said Argo has opened him up to tea.

"They have a lot of original teas that you can't find at too many other places," he said.

In four years Argo has grown to include seven cafes in the Chicago area, with two more slated to open this fall. Its roster of nine employees in 2003 has also grown to an

in America has grown to 2,200 from 200 in the last decade. The bulk of tea cafes are single stores, although Cambridge, Mass.-based Tealuxe, which opened in 1996, now has three tea cafes in the Northeast, with plans to expand to Florida, Arizona and New York.

For most tea cafes, though, Starbucks is the main competitor. The company, which opened 2,199 new locations in 2006 alone, recently acquired Seattle-based Tazo Tea and beefed up its tea offerings to include tea lattes and additional flavors.



Founded in 2003 in Chicago, Argo Tea has seven locations and plans to expand beyond Illinois next year.

hand-rolled together. The average price tag of a 1-ounce package of loose leaf tea is \$2.50.

The cafes also sell coffee drinks — roughly 20 percent of Argo's customers opt for coffee — sandwiches, quiche, and pastries, in addition to loose-leaf tea and tea

Lacking the funds to conduct market research or invest in an aggressive advertising campaign, Akavian and Simonian drew on their entrepreneurial spirit for courage and the charisma of their baristas for street-level marketing. On most weekends, even now, a barista stands in front of each of the cafes, handing out 2-ounce tea samples to pedestrians.

"Sampling is just an integral part of our strategy," Ginal said. "We have people out on the streets and we always sample at the counter as well. More than expensive advertising campaigns, we

The Chicago-area cafes are 1,100 to 1,800 square feet and seat 25 to 45 people. The average customer check is \$4. For the owners of Argo, giving tea a generational facelift with broad appeal meant breaking away from the doily-filled stereotypes of a traditional tea parlor and designing a space that was modern yet familiar. Argo cafes offer free wireless Internet service and are decorated in mellow hues of green and dark wood, with a curvaceous bar and small, round cafe tables. Though patrons can still order a mug of oolong, the most popular drinks are creative concoctions that are ready in a matter of minutes.

According to Akavian, who would not disclose specific figures, each cafe has been cash-flow-positive from the very beginning, generating a return on each initial investment within the first or second year.

That's no surprise, considering the tea industry's tremendous expansion in the last decade. According to the Tea Association of the USA, the number of tea cafes



merchandise, such as Beehive tea kettles and Filio teapots.

In anticipation of its planned expansion, Argo in June began baking its own pastries, which are flown in frozen from national and international vendors, on-site in each cafe.

"What we've been doing in Chicago is getting the model down," Ginal said. "As we expand, we're looking to be leaders in the cafe area. I think this is something that other cafe chains have really struggled with, including us, but now this really seems to be working."

As Argo prepares to expand, the owners are confident the concept will receive as warm a reception in other cities as it has in Chicago.

"I think the business is built on passion and that shows," Akavian said. "It's very unique, and it will remain so." ■

"What sets us apart is our focus," Akavian said. "We're not worried about Starbucks. Obviously, that's a phenomenal growth story and there's a lot to be learned from them, but I do believe we are successful because we focus on tea."

Argo brews its teas ahead of time, as concentrates, so that both hot and cold drinks can be finished quickly by adding water or milk. The decision to centralize the brewing process has also helped the company to expand without letting its product suffer.

"We've increased the speed of service and we've increased the quality and consistency of the product," Akavian said. Daniel Lundwisser, Argo's procurement manager, travels mainly to Asia to purchase teas for Argo, though the red tea is from Africa and the Earl Grey from Europe. One-ounce packages of the 36 available teas range from \$1.95 for simple Earl Grey or ginger-peach to \$5.60 for jasmine pearls, which consists of two delicate leaves and one flower bud

Some of the most popular drinks at Argo include the Maté Laté, made with mate tea, milk, almond extract and cocoa; the Tea Squeeze, made with hibiscus ice tea and lemonade; and the MojiTea, which combines iced mint tea and lime juice. Drinks are priced from \$1.55 to \$4.35 and account for more than two-thirds of the store's overall revenue.

"Our customers are mostly women who are health-conscious and eco-friendly," Ginal said. "It's important to us to use natural

leaves and one flower bud

CHAIN FACTS

NAME: Argo Tea Inc.

HEADQUARTERS: Chicago

MARKET SEGMENT: quick service

MENU: Tea-based beverages, coffee drinks, sandwiches, quiche and pastries

CHECK AVERAGE: \$4

NO. OF UNITS: 7

SYSTEMWIDE SALES: N/A

LEADERSHIP: Arsen Akavian and Simon Simonian, co-founders

YEAR FOUNDED: 2003



Argo's tea-focused beverage menu features a blend of fresh-squeezed lemonade and hibiscus iced tea.

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