



WELCOME TO THE COFFEEHOUSE

A TEAM ACCOUNTING CHALLENGE

Critical thinking skills are crucial for success in accounting. This week-to-week challenge helps students further develop those skills by putting them in charge of running a local coffee shop chain. Students will work through real-world business and accounting situations by evaluating and making strategic decisions that affect the company's bottom line.

Each week (for up to 12 weeks), you'll present a situation to your class that touches on one of the business areas accountants contend with, such as management, marketing, operations and finance. Working in teams (of 3-5), students must discuss the situation and the proposed strategic options for dealing with that situation. In addition to selecting the option they think is best for the company based on the details provided, teams will also create lists of additional questions they would ask, information they would need and factors they should consider in making that decision. The depth of these lists will depend on how much weekly class time you'd like to devote to the challenge.

Once teams have made their decisions and compiled their lists, you'll lead a class discussion (using the included Teacher's Notes) about which of the three options would be best for the company. Discussions should revolve around supporting rationale for the best decision, reasoning as to why the other options weren't as strong and what students were able to come up with for their lists. Sharing these lists as a class will not only present additional discussion topics as they relate to curriculum, but also allow students to learn from one another and see how their natural curiosity can be used in a career in accounting.

COMPANY BACKGROUND

The Daily Grind Coffeehouse was founded in 2007 by two friends who love nothing more than a hot cup of joe. The company has always prided itself on putting quality first—from the beans they brew to the knowledge and friendliness of people who serve it. Their goal has always been to be the coffee shop that makes the absolute best cup of coffee in town. They strongly believe in fair trade and donate 5% of their profits to support the communities of their farming partners.

Over the last 10 years, The Daily Grind has managed to grow from a single storefront to a local coffee chain with eleven brick-and-mortar locations. The Daily Grind Coffeehouses are decorated with a retro industrial vibe. They feature art and signage that tells the story of their crop-to-cup process and educate customers on various coffee-related topics.

This privately held, LLC offers premium coffee beverages and breakfast items. Each of their cafés average \$2,750 in sales per day, with some locations performing much higher than others depending on location, square footage and whether or not they have a drive-thru (all but two locations do). The average transaction is \$5.74. Last year, The Daily Grind saw \$10,900,000 in total revenue.

As the accounting department for The Daily Grind, your team is responsible for evaluating strategic decisions for the company that come down from the owner and CEO. Your advice and input provide direction for the company, so that The Daily Grind can continue to grow its profits.

WEEK 1

Ben's Beans, the local roastery The Daily Grind has been using for the last two years, has been late in delivering orders several times in the past quarter. This has forced The Daily Grind to temporarily pare down their various coffee offerings to guests—which has had a slightly negative effect on quality and guest experience. As a result, The Daily Grind has decided the current partnership is no longer working. Should The Daily Grind:

- A.) Start buying beans that are pre-roasted.** To keep it local, which is very important for The Daily Grind's brand, their only option would be to go with the one other coffee roaster in town, Java Jane's, which sources their own beans. Although the beans would not be hand-selected by The Daily Grind, there would be an overall cost savings of 17%. Java Jane's also vacuum seals their bags increasing their shelf life from one month to 12 months. As a result, on-time fulfillment of specific single origin and coffee blends would not be an issue.
- B.) Buy out the roaster.** This option would bring The Daily Grind's roasting in house, making it solely responsible for every step from sourcing all the way to brewing. Ben's Beans currently can't afford to expand to meet your growing demand. As a result, they would be willing to sell the business to The Daily Grind for \$325,000. The Daily Grind would then invest an additional \$55,000 into expanding the roastery's output. Current staff at Ben's Beans would continue to work in the roastery providing the expertise The Daily Grind has come to expect from them, while also training select The Daily Grind employees on the roasting process.
- C.) Become an investor in Ben's Beans.** The Daily Grind could invest \$100,000 into Ben's Beans so they would be able to make the necessary expansions to fulfill The Daily Grind's orders. As a result, The Daily Grind would own 33% of the roastery and would be able to negotiate a discounted price for roasting its beans.

WEEK 1 • TEACHER'S NOTES

BEST OPTION:

Buy out the roaster. While having the largest upfront investment, this option allows The Daily Grind to have the utmost control over every step in the supply chain (the financial term for this type of acquisition is 'vertical integration'). With responsibility over the entire process, The Daily Grind would be able to better fulfill their mission of providing the absolute best possible cup of coffee to their guests. Including roasting into their operations, The Daily Grind would no longer have to worry about potential partnership issues in the future. By buying an existing roastery business, they would not have the risk associated with the downtime and additional costs involved in building their own roastery from scratch—or have to invest a significant amount of time and money into coffee-roasting training. The Daily Grind would also benefit from the continuity provided by using the same machinery and roasters, so that the taste of their final product would not be affected. Lastly, the acquisition of Ben's Beans would provide The Daily Grind with the opportunity to enter into another market, selling roasted beans on a wholesale basis. Although selling roasted beans to possible competitors would seem like a conflict of interest, The Daily Grind would gain an additional revenue stream, affording them the opportunity to increase annual revenues.

ISSUES WITH OTHER OPTIONS:

Start buying beans that are pre-roasted. Although this option does provide significant cost savings and ensures late delivery would no longer be an issue, it would go directly against The Daily Grind's commitment to superior quality. The Daily Grind would lose the ability to control sourcing for their beans, which as the first step in the process, is the single-most important factor in producing a quality cup of coffee. Extending the shelf-life of the roasted beans also goes against their mission—once beans have been vacuum sealed and stored for more than three months, it degrades its overall quality.

Become an investor in Ben's Beans. While investing in Ben's Beans would still allow for product continuity and mitigate the fulfillment issue, owning a minority interest in Ben's Beans would still present a lack of control over future business decisions made by that company. Generally speaking, the negotiated discounted rate for roasting The Daily Grind's beans would only be good for a set amount of time. Also, if Ben's Beans made poor business decisions in the future, then the value of The Daily Grind's equity investment could decrease. All of which mean this option would not be a permanent solution to The Daily Grind's bean-roasting issue.

WEEK 2

Based on your item sales analysis reports for the past two quarters, you've brought it to the attention of the executive team that sales in the grab & go cases in all of the stores have become stagnant. The executive team has tasked you with bringing them several suggestions—including one recommendation—for new products to try. Your recommendation will be piloted for three months in the busiest location to assess demand for this new product. After researching lots of options you've narrowed down your suggestions. Of the three options you're proposing, which one do you recommend?

- A.) Local fresh-pressed juices.** Nature's Nectar is a local artisanal juice bar that offers 12-oz juice blends at wholesale for \$4.75 per unit. The drinks have a shelf-life of three days and come in eight different juice blends. Nature's Nectar will offer The Daily Grind a special pack size during the trial run, as a result of the exposure they'll receive at your busiest location. This special pack includes four units (per flavor), with a minimum order of six packs every-other-day, which is in line with their delivery schedule.
- B.) Bagel chip & flavored cream cheese snack packs.** This is a relatively new product from a well-known national brand. These snack packs come in four different varieties, two savory and two sweet. They have a shelf life of approximately four months and wholesales at \$.65 per unit. A case includes 24 units and your distributor requires a four-case minimum for every order.
- C.) Local chocolate confections.** A friend of one of The Daily Grind's store managers is trying to get her confectionary company off the ground. For the opportunity to showcase her products, Ellie is willing to negotiate several factors. She'll deliver product weekly for free, requires no minimum order and will provide marketing materials to promote the new product. Ellie's Bon Bons include two large pieces of decadent chocolate candy per pack, have a shelf life of one week and wholesale for \$1.50.

WEEK 2 • TEACHER'S NOTES

BEST OPTION:

Local chocolate confections. While Ellie's Bon Bons is a new company, and therefore has a greater risk of failing, The Daily Grind has an opportunity to get in on the ground level of a local business with an excellent product. That risk is lowered by the fact that The Daily Grind would only be committing to a trial run. The Daily Grind would be supporting another local business, which strongly jives with their brand. Profit margins are relatively high with this product, considering it could retail upwards of \$3. Ellie including her own collateral materials also provides free marketing for The Daily Grind to advertise their new offering. Given that Ellie will deliver new product every week suggests she is committed to the same level of quality and freshness as expressed in the mission statement of The Daily Grind. Ellie's products would be considered compliments to the various coffee products sold by The Daily Grind.

ISSUES WITH OTHER OPTIONS:

Local fresh-pressed juices. While the Nature's Nectar brand would easily marry with the The Daily Grind brand, there are distinct obstacles with selling these juices. With eight different flavors, The Daily Grind would either have to use a substantial amount of real estate in the grab & go case to house the large variety, or would have to choose a limited number of flavors, in order to avoid inventory obsolescence issues. The extremely short shelf life is also concerning, since each unsold product would cost the company nearly \$5. Plus, the profit margins on these juices would be very poor. Additionally, having the time and resources to analyze which flavors are selling the best to reorder appropriately could prove difficult—considering their every-other-day delivery schedule.

Bagel chip & flavored cream cheese snack packs. While these snack packs offer the lowest food cost and greatest potential profit margin percentage (considering they could retail for around \$2) and have the longest shelf life by far, they also present several drawbacks. In addition to coming from a national brand, which goes against The Daily Grind's mission of offering fresh products to customers, the large minimum order means The Daily Grind would have to devote a substantial amount of fridge space for storage. Plus, selling this product would also put The Daily Grind in competition with grocery and convenient stores, that could offer it at a better price point. Arguably, The Daily Grind would be more profitable by partnering with a local bagel maker to provide customers with high quality products, as opposed a manufactured or processed alternative.

WEEK 3

The largest national coffee chain has decided to expand aggressively in your market. While The Daily Grind is confident their coffee is better tasting and fresher, they have seen a 10% drop in sales at their three locations closest to the competitor's new locations since they've opened. As a result, the executive team has decided to invest more money into marketing and promotions. They've come to you with several ideas they'd like to get your perspective on. Which option would you advise them to go with?

- A.) Introduce a customer loyalty program.** The Daily Grind could create their own rewards program offering discounts and small-value incentives to guests. It could be based around a buy-10-coffees-get-one-free model and/or include random freebies, such as size upgrades or additional espresso shots. The Daily Grind could legally modify the program without giving customers prior notice—making it easy to tweak the program as it develops. On top of the value of the freebies themselves, costs for setting up a loyalty program like this include scannable key chain tags costing \$.74 per unit (with an initial activation fee of \$.30 per unit), that will require \$600 to design. The Daily Grind would also have to invest \$379 into a gift card software program that works with its current POS system, along with a one-time processing set-up fee of \$75 per location.
- B.) Invest in new digital menu boards.** Transitioning to digital menu boards in all 11 The Daily Grind locations would be another option. Digital menu boards make it easy to add new products and promote various selections quickly based on supply, profit margins, etc., and are proven to influence customer purchasing patterns. The salesperson at BCG Signage has quoted a cost of \$3,790 per store to equip them with digital boards. BCG also offers hour-long training sessions to teach store managers and assistant managers how to operate, change and troubleshoot the boards. They recommend training two employees from each store at a cost of \$50 per employee. Based on BCG's customer research, these boards can increase sales anywhere from 10-25%. BCG also estimates it will take The Daily Grind 24 months or less to recoup the initial cost of the digital menu board investment.
- C.) Volunteer staff time and donate product to local events.** The Daily Grind could also choose to focus on increasing community involvement. This would involve finding local events that align with The Daily Grind's mission and brand—as well as donating product, in the form of coffee and food. Costs could run anywhere from \$50-\$1,000 per event, depending on size, audience, etc. Employees would be able to volunteer a set number of working hours per quarter, so their hourly wages would also be a cost to consider. (Baristas earn \$10-\$15 per hour, while assistant managers make a salary anywhere from \$28,000-\$35,000 and store managers \$40,000-\$55,000.) While it would be a one-time expense, The Daily Grind would also need to create various sizes of signage to use for different events that would cost approximately \$4,300 to design and print. All expenses incurred would be in addition to the 5% of profits already donated to The Daily Grind's farming partners.

WEEK 3 • TEACHER'S NOTES

BEST OPTION:

Introduce a customer loyalty program. Rewards programs are proven to be effective, which is why so many companies have them. While this option could feel too corporate to customers, creating a rewards program would directly address the issue of losing customers by giving them a reason to choose The Daily Grind over the competition. This approach does involve some upfront costs, however many of those expenses are either small or nonrecurring, meaning the cost of the program decreases over time—especially since the number of customers joining will slow after the initial roll out. A 2013 study showed people use less than half of the reward programs they're enrolled in, and of those cards that are used, the vast majority of the rewards they provide go unused. Signing up not only helps strengthen the relationship between The Daily Grind and its customers, but also gives The Daily Grind its customers' personal information, allowing for future direct marketing. Key chain cards become their own form of advertising—even if guests don't actually use them. They are much more visible to others than paper punch cards that stay in wallets when not in use.

ISSUES WITH OTHER OPTIONS:

Invest in new digital menu boards. Digital menu boards can drastically decrease or even eliminate printing, delivery, installation and removal costs of analog in-store signage and menus that frequently need updating. Plus, they are more eco-friendly than traditional print. They might be a great long-term solution for modernizing the various The Daily Grind locations, however they wouldn't be the best solution for counteracting the effects of a competitor's new stores. That's because customers who are no longer coming to The Daily Grind—the ones we're trying to get back—will never see them. This option also has the largest upfront cost, though typically offset by some tax savings. And while they're proven to increase sales, those projected percentages typically diminish over time. Digital menu boards also could come off as too flashy and corporate, going against The Daily Grind's brand image.

Volunteer staff time and donate product to local events. This option does offer the most flexibility and scalability of all the choices and would likely require the smallest financial investment, making it a tight second for the best solution. It directly aligns with The Daily Grind being part of our community. Attending events in person would also help reinforce the idea of shopping local, keeping money within the community and growing relationships with existing customers. It would also introduce The Daily Grind to a large number of potential customers. However, employing this option as The Daily Grind's sole approach to combatting a large national chain would require a presence at many different events. The amount of coordination it would take to schedule and orchestrate various volunteer opportunities, employee volunteers, brew in bulk for events, supply wares and transportation to and from events, etc. could have a greater effect on the day-to-day operations of The Daily Grind than it's currently able to handle.

WEEK 4

The executive committee has asked you to join them to discuss what to do with this year's training budget. Currently, The Daily Grind has a program in place where employees can request outside training opportunities to be approved by their supervisor. Within the program, non-management employees can receive up to \$500 and managers up to \$1,000 for relevant training. To access this training benefit, employees fill out a form detailing the training they're interested in, how it will expand their knowledge and how it will improve their ability to do their job. Over the past five years, fewer and fewer employees have taken advantage of the program. Of those who have, many submitted the same training opportunities, making it difficult to accommodate everyone and continue running the business on those days. During this discussion, several ideas are brought to the table. Which one would you recommend and why?

- A.) Create a Professional Barista program.** This elite program would be created as a way to reward those baristas who really know their stuff—both with recognition and increased earning potential. It would also establish a clear path for baristas who are being groomed for management positions. The program would require management to comprise a series of learning modules for baristas to study, train on and be tested on to showcase their knowledge and skills. To maintain its exclusivity, baristas would have to be nominated by their supervisors and there would be a limit of two baristas per store in the program at any given time—although some stores might not have any. The program could potentially take a year for management to design and deploy. Hard costs would include the creation of printed materials along with the food costs associated with the training (a comparable expense to the one incurred during new employee training).
- B.) Invest in regular on-site cuppings and classes.** Cuppings are a great way for staff members to learn about the various coffees that The Daily Grind serves. The practice involves smelling and slurping a variety of coffees in order to study their distinct aroma, taste (i.e., mouthfeel, sweetness, acidity and flavor), aftertaste and region of origin. This option would include monthly cuppings and quarterly training courses (in subjects like latte art) by trainers who are brought in by the company. Cuppings and courses would all take place at headquarters, but each event would be offered at several different times to allow for the greatest staff participation. Hard costs for cuppings would consist of purchasing extra cups, spoons, tables, coffee grinders and kettles. Bringing in outside trainers would average \$3,000-\$8,000 per engagement.
- C.) Expand bean-sourcing trips to include more employees.** Each year, the president and CEO take a few trips to find new fair-trade farming partners across the globe. This allows The Daily Grind to ensure they're getting the best possible products and continuing to expand their coffee selection. Past destinations have included Ethiopia, Guatemala, Costa Rica and other top coffee-producing regions. Expanding the sourcing team to include district managers and two top-performing store managers would mean cutting down the number of sourcing trips per year, at least in the short term. However, over time, this expanded sourcing team could theoretically divide and conquer with a portion of the group going to each planned destination, making it more cost-effective over time.

WEEK 4 • TEACHER'S NOTES

BEST OPTION:

Invest in regular on-site cuppings and classes. Now that The Daily Grind has its own roastery, cuppings would be easy to implement and have the lowest hard cost of any option. Cuppings, along with quarterly classes, would allow for all employees to benefit from training—not just those in-store, but also those who work at corporate headquarters. Once The Daily Grind completes their cuppings set up, outside groups could potentially also book cuppings. This would further substantiate the company's image as being leaders in the local coffee scene, as well as create an additional revenue stream for The Daily Grind, in order to recover the costs for the on-site cupping classes. Additionally, Quarterly classes would provide more varied options for training, allowing for greater flexibility based on trends and continued employee input.

ISSUES WITH OTHER OPTIONS:

Create a Professional Barista program. While not the absolute best of the three training options, implementing this type of training would have many benefits and very few drawbacks. Creating a clear path to management and rewarding outstanding baristas would help with employee retention, specifically of baristas, which is an issue across the industry. Having such a program would also serve to set The Daily Grind apart from their competitors. While the cost of this program would be minimal, it would take a long time to implement and would not engage every employee, just baristas—and of those only the top performers. That being said, it wouldn't be a bad idea to work on creating such a program for implementation in future fiscal years as a complement to the cuppings and classes.

Expand bean-sourcing trips to include more employees. This type of training option would be a huge benefit and reward to those who receive it—one that would create even greater loyalty amongst district managers and top-performing store managers. It would help expand operational knowledge, strengthening the top tier of the company and lessening The Daily Grind's risk if something happened to the president and CEO (who are currently solely responsible for sourcing) and better prepare the company for a smooth transition when they retire. On the other hand, it would be the most-costly option and would affect the smallest number of employees. It would also present a logistical issue for oversight of stores if both district managers and two store managers were out of the country at the same time and for extended periods. Lastly, and probably most importantly, management has to consider how every dollar spent will be recovered, and this option doesn't provide the company with a return on this type of expense.

WEEK 5

It's been almost three years since The Daily Grind last negotiated a contract for their advertising and marketing, and its current contract term will be up for renewal in three months. Currently, The Daily Grind works with a local agency, Isley+Ava, for the design and production of its branding, signage, collateral, packaging, printed materials and digital assets. The Daily Grind has been happy with the work quality of Isley+Ava, however, the company wants to make sure they're investing their money into the most beneficial marketing and advertising option. Of the following marketing and advertising choices, which one would be in the best interest of The Daily Grind?

- A.) Sign another contract to stick with their agency.** Currently, The Daily Grind has a monthly retainer of \$15,000 with Isley+Ava based on 100 hours at a \$150 blended hourly rate. If projects go over the retainer, The Daily Grind is charged anything from \$60-\$250 per hour, depending on the hourly rate of the employee working those hours. Last year, The Daily Grind had four months where they didn't need all of the hours included in the retainer, five months where they went over between \$1,500-\$3,000 and three months that went over between \$3,001-\$8,300. The contract also includes a 15% mark up on all materials used (copies, supplies, proofs, etc.), media purchased and third-party vendors used.
- B.) Bring a copywriter and designer/art director on staff permanently.** The Daily Grind could also hire a full-time, in-house creative team (consisting of a copywriter and an art director or designer). Securing a creative team with would mean adding two salaries, each between \$62,000-\$80,000, depending on applicants' experience, plus benefits. Finding candidates would require creating and paying for job postings on several sites as well as updating the jobs page on The Daily Grind's own website. The hiring process would also mean carving out time for multiple members of the leadership team to review resumes and portfolios, reach out to applicants and conduct interviews.
- C.) Use a local team of freelance creatives.** One of the district managers knows a freelance copywriter and art director who would be willing to take The Daily Grind on as a client. Brandon and Elizabeth's individual hourly rates are \$75, they only charge for the hours they spend and do not charge a mark-up on media purchases or working with third-party vendors. Brandon is really into coffee and has been a customer at The Daily Grind for more than six years, so he's familiar with the brand and excited by the prospect of having the company as a client. They each have over 10 years of experience and their portfolios show a wide variety of solid creative work including several award-winning campaigns.

WEEK 5 • TEACHER'S NOTES

BEST OPTION:

Use a local team of freelance creatives. This option is the most cost effective and least wasteful. Freelancers only charge for the hours they actually work and, unlike advertising agencies, their rates do not include any mark-up—either for media purchased, working with third-party vendors or to cover the agency's overhead. Working with Brandon and Elizabeth also provides much more flexibility, including the ability to scale up and down (depending on the volume of projects at any given time) and the ability to meet tight timelines more easily, considering freelancers often work nights, weekends and other non-traditional hours to meet client needs. Also, with Brandon having been a loyal customer for many years, his perspective as both a professional and a regular guest of The Daily Grind give him a unique understanding of their marketing needs. The biggest potential drawbacks would be the time it will take to get the freelancers up to speed and developing that new working relationship.

ISSUES WITH OTHER OPTIONS:

Sign another contract to stick with their agency. The biggest benefit to this option is that The Daily Grind knows exactly what they're getting with Isley+Ava. Having worked with this agency for a while, Isley+Ava wouldn't want to lose The Daily Grind as a client and therefore might be willing to renegotiate the terms of their contract. This would mean potentially increasing the amount of the retainer and/or including a 10% bulk-rate discount. However, this option still presents fiscal waste during The Daily Grind's slower months. Working with a full-service agency means The Daily Grind is getting expertise from a variety of disciplines (including account planners, media planners, account execs, copywriters, designers, creative directors, etc.), however the flipside of that is with so many people on their account, projects require a longer turnaround and it can be difficult to change direction once a project has started.

Bring a copywriter and designer/art director on staff permanently. While hiring a creative team would mean having a dedicated team (whose only "client" would be The Daily Grind), finding and hiring that team would take a lot of upfront work for the executive team. Also, considering the ebb and flow of The Daily Grind's project needs from month to month, there would likely be times when the creative team wouldn't have enough work. There would be other times when they would have too much, which could also present an issue in being able to realistically meet deadlines. This option would be financially less wasteful than sticking with an agency, however, still less cost effective than hiring independent contractors (freelancers)—especially since freelancers don't receive employee benefits, which are quite costly. This option also has the drawback of needing to get the new team up to speed and figuring out a new set of internal processes to guide their work.

WEEK 6

The owner of the strip center where one of The Daily Grind's stores is located recently reached out with a business proposition. The tenants in the unit next door are not renewing their lease, so the landlord has offered it to The Daily Grind to expand their current location. In light of recent changes in corporate tax rates, The Daily Grind has enough to invest in the expansion of this location. With this being one of the company's two locations without a drive-thru (since it's in the middle of a strip center), the idea of expanding their footprint in this well-trafficked shopping destination is particularly appealing. In fact, this expansion would make this location The Daily Grind's largest by far. The executive team has decided to lease the unit next door, but is still debating the best use of this additional space. Based on their ideas, which option would you recommend?

- A.) Make this location into a specialty store.** This direction would also allow for expansion of the current café's seating area to accommodate more guests. The specialty store would sell a wide variety of coffee brewing products, from single-serving French presses all the way to high-end espresso machines, books, mugs, other coffee-related accessories and branded merchandise. The cost associated with this build out would include additional tables and chairs, shelving and cabinets for merchandise, an additional counter and register, as well as the wholesale cost of the products for the store. Staffing for this location would need to increase to employ cashiers in the new portion of the store.
- B.) Turn this location into a training store.** In this approach, the extra square footage would be used to create a sort of mock café that somewhat mirrors the existing space but is used exclusively for training all new employees. A second counter and service line with a register would be added to the new area along with extra tables and seating for written portions of training, testing and tasting—in addition to guest overflow from the original store. Two full-time trainers would need to be hired. The hard costs associated with this build out would be similar to a new store, minus the cost of the kitchen and deep storage for product.
- C.) Add an in-house bakery to this location.** Another way to utilize the space would be to turn it into a bakery, which would provide product to this store and all of The Daily Grind's locations moving forward. This approach would also allow for a small increase in the size of the café seating area for guests. The build out cost would be higher than the other two options, as it would include a separate kitchen with multiple ovens, industrial-sized mixers and other equipment as well as baking supplies, utensils, etc. This would also require specialized labor in the form of bakers to operate this portion of the store.

WEEK 6 • TEACHER'S NOTES

BEST OPTION:

Make this location into a specialty store. Creating a specialty coffee store would open up a new revenue stream for The Daily Grind. It would also likely do well at this particular store since it's already located within a shopping destination. The cost to implement would be fairly low, compared to the other options, and even though The Daily Grind would still have to hire additional employees, they wouldn't require any specialized labor. It would present a great opportunity to further The Daily Grind as being the go-to source for all things coffee and allow the company to bring in even more local products, further supporting its brand and mission. Also, the fact that many of the items for sale would be non-perishable means they lack the limited shelf life that much of the company's offerings must take into consideration.

ISSUES WITH OTHER OPTIONS:

Turn this location into a training store. Taking training out of the individual stores would increase store efficiency because the flow of business would not be effected as a result of a new employee training. It would also mean less interference with food costs (due to training waste) at each location. Training would become more efficient and consistent. This space could also be used to train franchisees in the future, if the company ever decided to include franchising in its business plan. The biggest issue with this option is that it does not directly generate additional revenue, which is problematic since leasing the space will be costly. Also, having to hire trainers adds two new positions to the company. And because it would require trainers that are already deeply ensconced in the company, it would mean losing solid store managers. Replacing these managers would negatively affect the stores they come from while new managers are trained and become acclimated to the job.

Add an in-house bakery to this location. The positives of this option would be that The Daily Grind would no longer have to rely on an outside vendor for its bakery. This would also allow The Daily Grind to quickly and easily make changes to their baked goods, offer special featured items and restock more quickly if a store runs out of an item. The downside would be the cost associated with essentially starting a bakery from scratch—which includes lots of equipment and the need for specialized labor. Even though it opens the company to a new revenue stream, horizontal integration goes directly against The Daily Grind's mission and is not a part of the company's core competencies. They should instead focus on expanding revenue streams that revolve around coffee, to fully utilize the company's strengths.

WEEK 7

Now that they have successfully incorporated the roastery into their business, the executive team at The Daily Grind believes the greatest opportunity for revenue expansion is in the retail space. Based on several examples they've seen from successful like-minded coffee roasters in other markets, the executive team has developed an approach to expanding its retail opportunities. They're now asking your advice on which one would be the best to start with, since they will have to take a phased approach with this expansion.

- A.) Sell beans in high-end grocery and specialty stores.** This option would involve procuring shelf space at local stores, such as high-end grocery, health food, co-op, gift shops and other stores with a focus on local and superior-quality products. With shelf space being as highly coveted as it is, it would likely leave room for selling just The Daily Grind's two most popular coffees, the house blend and El Salvador. Based on some preliminary research by the executive team, they have found approximately 15-20 locations they think would be a good fit.
- B.) Wholesale beans to other coffee shops under a different brand name.** The Daily Grind could also start its expansion plans by wholesaling beans to other coffee shops that don't roast their own. It would require creating and designing a new brand, packaging and an accompanying website, plus marketing to attract potential coffee shop customers. The Daily Grind would plan on pursuing customers both locally and nationally.
- C.) Push to become the sole coffee supplier to local restaurants and other venues.** In this approach, people from corporate would leverage their personal relationships with local restaurant and venue owners (or managers) to convince them to make The Daily Grind the only coffee they serve. It could also include cold calling and drop-ins with samples, for business owners that do not have existing relationships with someone in the company. With this option, The Daily Grind would actively pursue businesses that align with its mission and values. Businesses that sign a contract with The Daily Grind would get to choose from a selection of small promotional pieces (such as a window sticker, table tents or other printed piece) to display and promote this exclusive relationship to their customers. Currently, the executive team has identified approximately 35-45 locations they would like to pursue contracts with.

WEEK 7 • TEACHER'S NOTES

BEST OPTION:

Push to become the sole coffee supplier to local restaurants and other venues. This option and the option of going into high-end grocery and specialty stores have a lot of the same benefits—and drawbacks. However, this option does have an edge over the other for being the first to pursue. Both options will require a lot of legwork for The Daily Grind to procure the business and get contracts signed. Both approaches also introduce new customers (who have never been to one of The Daily Grind's locations) to its product, and both potential groups of new customers align with the company's mission and values. Where things really differ, is that there's a higher sales potential for restaurant/venue locations and, more importantly, the exclusivity of the deal. Once contracts with restaurants and venues are signed, there is no more competition involved—it just becomes about fulfilling orders. Plus, the cost and creation of promotional materials for the restaurants and venues would not be very extensive.

ISSUES WITH OTHER OPTIONS:

Sell beans in high-end grocery and specialty stores. With all the similarities in benefits and drawbacks to the restaurant and venue supplier option, this approach would fit better as a second step. The smaller number of locations means smaller potential profits. Additionally, in a store setting (specifically a grocery store or similar) The Daily Grind would have to compete against the other coffee brands on the shelf, some of which will also be less expensive (more reputable and larger brands would have a cost advantage over other brands, such as The Daily Grind). The number of potential new customers is also lower since a person would have to commit to buying a one-pound bag of beans in order to try it, whereas in a restaurant simply ordering coffee would allow a person to sample The Daily Grind's product. This approach could also potentially negatively affect sales at The Daily Grind's own specialty store location, where the profit margins on coffee is higher because it is sold at retail instead of wholesale prices. However, as a second step, entering high-end grocery stores locally could also create potential to expand sales to a national market. This could also be a great potential marketing tool for introducing other markets to The Daily Grind's coffee in advance of taking the third step—although figuring out how the different brands work together would need to be explored first.

Wholesale beans to other coffee shops under a different brand name. While this option has the greatest potential for increasing sales—and could expand The Daily Grind's product from a local to a national one—it also comes with the highest cost to implement. There is also some concern that selling to local coffee shops could have a negative effect on customer loyalty and sales in The Daily Grind's stores, as it weakens the company's big differentiator of being the highest quality. Creating a new brand, website and packaging will be expensive and time consuming. To do it right, the time to market would be at least six months, likely closer to nine. Plus, there would be the additional cost of marketing. For these reasons, this option would be best saved for last, once the other options are successfully in place.

WEEK 8

For nearly two years, The Daily Grind has had contracts with three different companies for all its stores' service needs, including one for HVAC, another specifically for brewers and espresso machines and a third, more general one for everything else (such as plumbing, ice machines, refrigerators, etc.). Since the company's service contracts are coming up for review soon, the executive team wants your input on the options for servicing equipment in its stores. Of the following choices, which would you recommend?

- A.) Renew all existing service contracts.** The Daily Grind hasn't had any major issues with any of their providers, but also hasn't been thrilled with the service they've received, either. Contracts with large service providers like these typically include discounted hourly rates that are anywhere from 15-30% lower than those of independent contractors. They also receive wholesale prices on any parts needed, and even though they do charge a markup on parts, the final cost to The Daily Grind is still less than buying parts at retail. However, two of the three companies (the HVAC and the general service provider) plan to increase their hourly rates by 5% and 10%, respectively, at the end of the current contract—which is up in four months.
- B.) Work with several independent contractors.** With this option, The Daily Grind would build up a pool of independent contractors that they could call upon on an as-needed basis. This would likely include a few contractors who specialize in each of the areas in which The Daily Grind needs service. The company has worked with independent service providers in the past, so it already has relationships with several contractors. It could also inexpensively evaluate additional technicians by trying them out on a single project, to see if they have the potential to be put into regular rotation.
- C.) Staff a service person full time.** The Daily Grind could also choose to hire a single service person full time. Doing so would require The Daily Grind to create a new position within the company and, based on how much experience the chosen candidate has, pay a salary ranging from \$30,000 - \$38,000, plus benefits. Additionally, due to the specialized nature of the brewers and espresso machines, the Daily Grind would have to either keep that specific service contract, find an independent contractor who is a certified coffee/espresso machine technician or pay to train the full-time service person (via a four week, 40-hour certification course).

WEEK 8 • TEACHER'S NOTES

BEST OPTION:

Renew all existing service contracts. Even though this option is the best one, there are some negative aspects that should be taken into consideration. Most obviously is the cost increase that two of the providers will be implementing for future contracts. Also, when working with service companies, their priority of who gets serviced first is dependent on who has the biggest contract with them, which means The Daily Grind would have to wait if a larger client had an issue at the same time. However, as mentioned, The Daily Grind has not been disappointed by the service they've received, so response time hasn't been a large enough issue to influence the company's decision. The two biggest (positive) factors are the discounts The Daily Grind receives from the service companies' preset rates and savings on parts.

ISSUES WITH OTHER OPTIONS:

Work with several independent contractors. Even though working with independent contractors doesn't offer The Daily Grind any kind of discount, it does provide the flexibility to call the next provider on the list if the first one isn't available right away, which can decrease potential store down time. However, most independent contractors buy parts at retail, which adds to the overall cost of this option. Also, while having multiple options can potentially provide speedier service, it can also take more effort and time for The Daily Grind's store managers to find one who can come out when they call.

Staff a service person full time. The greatest benefit of this option is having one designated person that can be sent directly to any location at any time. Their only concern is The Daily Grind's needs. While it may seem easier (in some ways) to have labor costs set with a single salaried employee, any parts they would need would go above and beyond their salary. Additionally, not all labor costs would actually be included in the employee's salary. Hiring a more general service person means that they have less expertise, so The Daily Grind would still need to pay other technicians when the scope of a repair goes beyond their level of expertise—or when they are sick or on vacation. Even if The Daily Grind decided to put its service person through additional training, it would add even more cost and require a temporary replacement in the employee's absence. Plus, salary and benefits have to be paid regardless of whether or not there is enough work to keep them busy every day.

WEEK 9

The Daily Grind recently heard from one of their long-time farming partners in El Salvador that their latest crop of beans was ruined as a result of disease. They have taken the necessary steps to mitigate the problem and introduced organic fungicides so it doesn't happen to future crops. However, this diseased crop will affect The Daily Grind's usual supply. How should The Daily Grind handle this situation?

- A.) Stop offering that option until stock becomes more readily available.** The Daily Grind currently offers seven different coffee options, including four single-origin coffees and three coffee blends. The crop that was affected by the disease is one of The Daily Grind's permanent coffees, not one that they rotate out regularly. It also happens to be the best-selling single-origin coffee, second in overall sales only to the house blend—this includes both brewed coffee-by-the-cup sales as well as retail sales (for one-pound bags of whole beans). In addition to lowering the number of coffees offered, dropping the El Salvador altogether would also require changing the menus, menu boards, signage, etc.
- B.) Find another grower in the same region with a similar flavor profile.** Because the president and CEO are tied up with other business, they would be unable to make a sourcing trip to El Salvador themselves. Therefore, buying beans from a different grower would require finding a reputable coffee broker to work with. Coffee brokers import unroasted (or green) beans from various origins to supply roasters with product. In the past, The Daily Grind tried to work with a broker, however they found the broker to be more interested in pushing the beans they already had in stock as opposed to finding the product The Daily Grind was looking for. As a result, this effort could require consulting with several brokers to find the right one, then roasting and tasting small batch samples to find a supplemental product that would hit the same notes as the El Salvadorian coffee they currently offer.
- C.) Buy pre-sourced and roasted beans from a previous crop at the same farm.** When farmers' crops yield more beans than they are able to sell directly to their roasting customers, they often sell the remainder to coffee brokers. With this option, The Daily Grind would have to reach out to their farming partner to try to track down extra product from last year's crop. There is a chance that the product could not be available, even if they are able to find the broker the farmer used. If this is the case, The Daily Grind would continue its search by reaching out to the farm's other roasting clients to see if they could buy out their stock, likely at a premium, until they can purchase enough from other roasters to last until the farm's next crop is available.

WEEK 9 • TEACHER'S NOTES

BEST OPTION:

Buy pre-sourced and roasted beans from a previous crop at the same farm. While it is not optimal for The Daily Grind to work with brokers, this is a situation where they would be willing to do so. After all, they would be looking for beans from a farming partner they already have a relationship with. Even though this option could take a lot of legwork, there's a chance additional beans might not be available. Even if additional beans were found, they would likely cost significantly more than usual and might not be enough to tide the company over until next year's crop is ready. However, anything they can do to bridge the gap between when they anticipate running out of existing stock and when the next crop is ready will help The Daily Grind avoid a major overhaul to their successful business. Plus, the alternative options would both be potentially far more detrimental. This option presents less risk of jeopardizing the quality of coffee that customers currently enjoy. The other options present greater quality risk that could possibly disappoint customers, causing them to seek out coffee options from other sellers.

ISSUES WITH OTHER OPTIONS:

Stop offering that option until stock becomes more readily available. With the El Salvador being their most popular single-origin coffee, getting rid of it altogether would drastically affect sales—as well as plans for retail expansion. Additionally, The Daily Grind could risk losing customers who exclusively purchase that coffee option. This financial hit alone makes this option the least appealing and the fallout could produce irrevocable damage to the business.

Find another grower in the same region with a similar flavor profile. The number of brokers The Daily Grind would need to work with for this option, and the number of samples they would need to try are undetermined—especially since the company is so discerning when it comes to quality and taste. This inability to accurately gauge how long the process could take means The Daily Grind risks running out of their current El Salvador stock before they're able to find a comparable replacement. Even if a substitute is found, introducing a new coffee would also require the design and production of new packaging and changes to menus and other signage. Working with a broker also doesn't align with The Daily Grind's very hands-on, direct-buy approach to business.

WEEK 10

Several of the initiatives The Daily Grind has invested in this year are really starting to pay off for the company. As a result, the executive team has decided they want to reinvest a percentage of their newly gained profits back into the business's technology—up to \$60,000. In an effort to put the money where it's needed most, the executive team reached out to the roasters, two district managers and all store managers to get their input. After reviewing the responses, the executive team has narrowed it down to their top three choices and are now asking for your opinion. What would be the best way to invest in the company's technology?

- A.) Invest in tools to help store managers and baristas.** With a current barista head count of 217 spread over all locations, the 11 store managers have expressed an interest in a scheduling app. This would allow baristas complete access to their schedules—and let them trade shifts and make other scheduling requests directly in the app. The app can also track time and attendance as well as export timesheets to payroll, reducing the tasks managers are expected to perform. It costs \$3 per employee per month and provides analytics. In addition to the baristas and store managers, the 18 corporate employees (which include the district managers and roasters) as well as the three members of the executive team will also need the app. Managers have also requested inventory scanners to help with the bi-weekly store inventory they're required to take. This new inventory system (which includes the barcode scanning device, software and a barcode printer) costs \$1,495 and one will be needed for each of the 11 store locations as well as one for corporate and another one for the roastery.
- B.) Update customer-facing aspects of cafés.** The Daily Grind had previously explored the idea of transitioning to digital menu boards through BCG Signage (refer to Week 3 for details), but ultimately decided against it as a marketing tactic. However, the idea keeps coming up, so now might be the right time for the transition. In addition to digital menu boards, cafés would also switch from a traditional POS system to a touchscreen-based smart POS system. This will cost \$999 per register (so the nine locations with drive-thrus will need two), plus a flat-rate fee of 2.75% per swipe for credit card transactions.
- C.) Invest in an infrared roaster for the roastery.** Infrared bean roasting is seen by some as a superior method for roasting coffee. It heats the beans faster, while using a lower temperature than conventional roasters, and creates a more uniform roast that's consistent from batch to batch. Infrared roasting also produces a coffee that is lower in acid, which can lessen the upset stomachs and indigestion some people experience with traditionally roasted beans. The infrared roaster the staff is interested in is \$20,000 and can roast up to 22 pounds of coffee per hour. They would like to use this infrared roaster as a complement to their conventional roasters. Going this route would require new bags to be designed and created for retail sales—potentially for their three most popular coffees. Also, since the technology is used by approximately 2% of roasters, some education will be needed to help customers understand the difference and benefits of infrared roasting.

WEEK 10 • TEACHER'S NOTES

BEST OPTION:

Invest in tools to help store managers and baristas. Providing scanners for the managers will help increase the accuracy of their bi-weekly inventory checks as well as save them significant time that can then be used to provide additional training to baristas. The paperless is also more eco-friendly than the current manual method used. The greater level of transparency barcode scanners will provide makes ordering product more accurate, which cuts down on waste—and allows product to be moved between stores more easily, when needed. While managers will need to be trained on the new technology which will take immediate time away from their jobs, the benefits far outweigh the monetary and training time investment. Introducing a scheduling app will also save managers significant time, as scheduling is a time-intensive endeavor. The analytics provided by the app make it easier to make better-informed business decisions—they're more accurate than humans at predicting business volumes (using multiple factors—such as weather forecasts and scheduled nearby events) to make sure coverage is sufficient. While the app will allow for greater input from baristas, making scheduling requests and changes quick and easy for them, managers will still need to have the final say. When it comes to staffing their stores, managers will have to provide oversight and give approval, since baristas have varying levels of skills and experience. This option is the least expensive, but even though the scheduling app presents an ongoing monthly expense, this is still the best way to reinvest money into the company.

ISSUES WITH OTHER OPTIONS:

Invest in an infrared roaster for the roastery. Offering coffees for customers who are sensitive to the acid in conventionally roasted coffee beans would introduce a new revenue stream for The Daily Grind. In addition to opening up potential new customers to the coffee category, this would also create another big differentiator for the company. Using infrared roasting techniques also falls in line with their mission to bring the finest coffee to customers. However, this option does present several issues. Honing their skills with a new roasting method will take roastery employees time to perfect and could potentially decrease coffee output during that time, as well as present waste that will have to be factored in. Since infrared roasting is not widely known, education would be needed—for both employees and customers. Part of that education for customers would include free samples or tastings, which would also add to the cost and time investment in this approach. If this educational effort did pay off and interest in this low-acid coffee increased, demand (particularly for online sales) could outweigh supply—especially with the infrared coffee is spread across 11 stores, with extra going to the specialty store. Even though this could open a new revenue stream, it is the riskiest option. Coming up with additional shelf space in all of the stores to display the low-acid coffee, as well as finding space in the roastery to store inventory for online orders could also be an issue.

Update customer-facing aspects of cafés. Switching over to a smart POS system does have several benefits. In addition to giving The Daily Grind more analytics to help identify trends and inform business decisions, it also increases the speed of transactions—both for customers and the company. Customers transactions at the register are faster and it would allow The Daily Grind to typically process payments in less than 24 hours. Studies have shown that the suggested tipping significantly increases the amount and frequency of customers' tips, which can help with barista retention and job satisfaction. Plus, the simplicity of the equipment means The Daily Grind would incur no installation costs for the switch. As we discussed in Week 3, digital menu boards can drastically decrease or even eliminate printing, delivery, installation and removal costs of analog in-store signage and menus, which frequently need updating. They are also more eco-friendly than traditional print. Digital menu boards also increase sales in the short term, however those projected percentages typically diminish over time. Managers would need to be trained on how to use the menu boards and there would be the extra expense, although sporadic, when the boards need to be serviced. Digital menu boards could also come off feeling too corporate, going against The Daily Grind's brand image. This option costs approximately \$64,000 for both the POS system and the digital boards. But even though that number would likely be offset by some tax savings via tax depreciation deductions, it's still the option with the highest cost—and slightly higher than The Daily Grind was looking to spend.

WEEK 11

The executive team has decided to invest in adding a drive-thru to one of the two locations that doesn't currently have one. (You'll remember from Week 6 that the other location without a drive-thru is in the middle of a strip center, making a drive-thru there impossible.) Based on the sales numbers from the rest of the stores with drive-thrus, adding one to this location should increase its average ticket by \$1.25-\$2.00. Thankfully, the tenant who had this location before the most recent one was a bank, so the parking lot already has a drive-thru lane roughed in around the building. That means the work will entail cutting out the side of the building for the drive-thru window, putting in an illuminated menu board and intercom for ordering, reconfiguring the interior to include a second register at the window, making some other small tweaks to the area behind the counter to maximize workflow for both interior and drive-thru orders. Putting in the drive-thru will also mean losing three parking spots in the already small lot (those that are currently in the area where the window will go) along with re-stenciling the 10 remaining parking spaces and adding directional arrows for the drive-thru.

- A.) Close the store during construction.** The contractor claims that if the store is closed while the drive-thru is being installed, the work can go significantly faster. He estimates that instead of taking five weeks to complete, the job can be finished in just two since the crew will be able to work uninterrupted. As a result, the cost of the job will be reduced by approximately 20% because the workers will be working fewer total hours and equipment rental costs will go down significantly, since they won't be used over as many days. Because this is the route the contractor would prefer to go, and because he understands that closing a location will create additional issues for The Daily Grind, he has agreed to write a clause into the contract that forces his company to reimburse The Daily Grind for a significant portion of labor costs for every day the job goes beyond the two-week estimate.
- B.) Remain open, but only in the mornings.** Approximately 68% of the store's transactions happen between when they open at 5:30 and noon. This option would allow the store to function as close to normal as possible during its busiest hours, while closing in the afternoons so that construction can proceed uninterrupted. The contractor said he cannot write in the same reimbursement clause into the contract if The Daily Grind remains open in the mornings because there will be too many factors beyond his control. He estimates that this option would take three to four weeks to complete, although he can offer no guarantees.
- C.) Continue regular operation during construction.** The Daily Grind also has the option to remain open throughout the process with the understanding that doing so will affect the length of time it takes the construction team to complete the project. The contractor estimates that if business continues as usual, his crew will need five weeks to finish the project. Again, because his team will have to work around The Daily Grind's staff and customers, the contractor can offer no guarantees that work will be completed within his estimated timeframe.

WEEK 11 • TEACHER'S NOTES

BEST OPTION:

Close the store during construction. In addition to being the fastest way to complete the job and get the location back to normal as soon as possible, the contractor's reimbursement clause makes this option incredibly attractive. In addition to losing out on two weeks of this location's earning potential, the largest issue will be dealing with the employees. After all, they can't afford not to work just because the store is closed. To keep them from looking for new jobs, The Daily Grind will have to work this location's baristas into the schedules of other stores, which will require a lot of time from multiple store managers. The other major negative is the potential for customers to find alternatives while the store is closed and not return when it reopens. However, the amount of money The Daily Grind will save by allowing the crew to work without interruption and the ability to keep the disruption—for both customers and employees—to a minimum makes this option the best choice.

ISSUES WITH OTHER OPTIONS:

Remain open, but only in the mornings. If The Daily Grind stays open in the mornings it will allow the location to maintain some income during construction. However, while the store's regulars may still come in many will be turned off by the construction, so the amount the store will make during those hours will be significantly reduced. Even though the crew will only be working in the afternoons, their materials and some of their vehicles and equipment will remain in the parking lot throughout the project, taking up valuable parking spots. The construction zone itself will also need to be blocked off, taking up even more of the area of customers to park in. With no guarantees on when the project will be completed, the risk of going over budget or needing to make alternative plans if the timeline gets extended could create more issues for The Daily Grind. Being open part time will still require baristas from this location who have afternoon shifts to be scheduled in at other locations. Also, if business is significantly slower, this location's labor costs will go up substantially, which over time, will require additional rescheduling to other locations to keep employees from standing around.

Continue regular operation during construction. This option has many of the same drawbacks as remaining open in the mornings. The number of customers will decrease due to the unpleasantness of construction paired with the inability to find parking. Labor costs will go up as a result, which could require baristas to need to pick up shifts at other locations even though their location is still open. As with all construction jobs, the risk of the project running longer than anticipated means that these issues could go on even longer. And the longer the store is under construction, the more likely customers will be to find alternatives. So even though the store would still be bringing in some income, customers' experiences will be negatively affected, and it will add additional stress to the entire staff (especially the manager) who will have to work around the construction crew.

WEEK 12

For the past six months or so, The Daily Grind has been talking about opening a new location in town. Your department and the executive team have been working closely to figure out when would be the best time to invest in The Daily Grind's 12th location. After lots of financial analysis and future forecasting, the decision has been made to move ahead with the new location. The executive team has scouted out several potential locations and wants your input on which would be the best new site for The Daily Grind.

- A.) **Near the river.** The riverfront area of town is approximately 12 miles long, with five of those being lined with restaurants, shopping, businesses and event venues. It's one of the most tourist-filled areas of the city as well as the one with the highest amount of foot traffic. The Daily Grind already has one location at the very end of the riverfront that is its third most profitable location. There are three other options for coffee in the area, including two belonging to a popular national chain and one location of a well-known regional chain, the closest being two blocks away. The stand-alone building for this new location is four miles down the river, in the last mile of developed land. It's a 2,400-square-foot, three-floor building positioned on the lot in such a way that it would allow for a drive-thru, but at the cost of losing several parking spots in an already small lot. The lease would be for 10 years and build out costs (which include adding a drive-thru) would be approximately \$50,000, of which the landlord will cover \$30,000. Rent is \$35 per square foot per year, but includes all additional fees (property taxes, insurance, etc.). The plan would be to have cold storage, kitchen and service on the first floor, guest seating on the second floor, and additional guest seating and storage on the third floor. Both the second and third floors have balconies large enough for seating with small café tables. Based on its size—which is larger than all of The Daily Grind's other stores—this location would likely require staffing of around 34 employees.
- B.) **Close to campus.** Just a few miles from downtown, sit two universities—a large 24,000-student public university and a private women's college with close to 4,200 students. The local community college's largest campus (which serves about 3,500 students) is also within a one-and-a-half-mile radius of the universities. This location sits exactly halfway between the two universities—within walking distance of both. The local hospital is also located nearby, approximately two miles in the opposite direction of the community college. The Daily Grind has two other locations nearby, one that is a mile past the community college campus and another that is half a mile past the hospital in the other direction. A popular national coffee chain has two locations on the public university's campus (in the student union and its largest library), along with three campus-based coffee concepts that all operate out of outdoor kiosks. A well-known regional coffee chain also has a location directly across the street from the hospital. The prospective building is just a quarter mile from the major highway running through the city. It is 1,900 square feet and shares a large parking lot with the building next door. Rent will be \$17 per square foot per year, plus \$200 per month to cover property taxes, insurance and common area maintenance. The previous tenant was an ice cream shop, so the location is already set up with a drive-thru, which would make the build out costs roughly \$40,000. The landlord is proposing a five-year lease and will give a \$15,000 allowance for build out. This location would require a staff of approximately 24 baristas.
- C.) **In the mall.** Of the two major shopping malls in town, the available space that The Daily Grind is considering is at the mall in the nicer area of town. In addition to most major department stores, this mall includes high-end specialty stores for everything from jewelry, shoes and designer handbags to stores for all things cooking and outdoor adventuring. The mall is centered around a food court, with four wings going out from there. The space that The Daily Grind would be going into is on the second floor in a wing that has a men's clothing store, a video game store, a tailor, a book store, an eyeglasses boutique, a perfumery, an art gallery, a Thai restaurant and a large department store at the end. There is a very popular national coffee chain location, as well as one other location (a dessert café) that serves coffee in the mall, but both are located in different wings. While The Daily Grind's hours of operation in all other stores are 5:30 a.m. to 6:30 p.m., mall hours are from 10 a.m. to 8 p.m. With no access from the exterior, The Daily Grind would have to adjust its hours at this location to fit within mall hours. The space itself is 1,200 square feet. The lease term is five years and the property management company is offering \$15,000 toward the build out, which The Daily Grind anticipates being around \$28,000. Rent is approximately \$40 per square foot per year with a variable common area maintenance (CAM) fee that runs anywhere from \$120-\$300 per month. Due to the size of the store and its adjusted hours of operation, this location would need around 16 baristas.

WEEK 12 • TEACHER'S NOTES

BEST OPTION:

Adding a new location close to campus. This is a great location at a great price. Even with the additional \$200 in monthly fees, the rent would still be under \$3,000. While the public university does present some competition, the total number of coffee destinations on campus (five) are not enough to saturate the large market. Plus, the fact that three of those locations are outdoor kiosks means that there is little to no seating available—which is often a reason many students frequent coffee shops. Even though there are two locations of The Daily Grind within a two-mile radius, they appeal to different audiences. While this option does have the highest out-of-pocket cost for the build out, that money can be recouped relatively quickly considering the lower cost of rent and the benefit of the large parking lot. In addition to being surrounded by a large number of coffee-craving students, having a location within walking distance of two campuses will allow The Daily Grind to develop brand loyalty from young adults who will likely continue drinking coffee after they graduate.

ISSUES WITH OTHER OPTIONS:

Adding a new location in the mall. A location at the mall would allow The Daily Grind to introduce its coffee to customers who have yet to come to one of our other locations, particularly those who enjoy a more upscale lifestyle. These customers will appreciate The Daily Grind's premium products. While the mall does have the benefit of a somewhat captive audience, which can increase the number of guests coming in throughout the day, the fact that The Daily Grind would not be open during many of its busiest morning hours is a concern. This location would also be open for three fewer hours per day as compared to The Daily Grind's other locations—with those hours being skewed later in the day, when fewer people drink caffeinated beverages. While it's offset by the location's small footprint, the fact that rent here has the highest cost per square foot is also a negative. However, the small footprint and decreased hours are positives when it comes to the number of staff needed for the store. Another area of concern is the variable CAM fee, since it is constantly fluctuating it makes it more difficult to anticipate expenses and forecast for the future. From a broader business perspective, as online shopping continues to expand, malls are becoming less and less of a destination—an no one goes to the mall specifically to get coffee.

Adding a new location near the river. With one successful location already in the riverfront area already it could be appealing to The Daily Grind to add another. After all, the build out would only cost \$20,000 out of pocket and the two balconies lining the scenic riverfront would be a huge draw to passersby. However, the three-level building could also present some issues: toting stock back and forth between the first and third floors will not be ideal, and older customers will have issues getting to the second and third floors to find seating. With all seating on the second and third floors, customers waiting for their drinks could create a traffic jam on the first floor. While it is nice that the price of rent is all inclusive, the lease term is twice as long as the other options. Plus, 2,400 square feet is more space than is needed, which really adds up when the cost is \$35 per square foot. In addition to being the largest location, it would also require the largest staff to support it, so it will take longer to get that many people hired and trained besides being the largest ongoing expense. Add to that the small parking lot that will only get smaller when a drive-thru is added, along with the fact that a regional competitor is already established in very close proximity and it becomes more obvious that there are quite a few areas of concern with this location.