2019 Texas Farm Credit Entrepreneurial Dreams Symposium

Top 6 Presentation: Maggie Branch, The Branch Coffeehouse

Transcript

This is the "top six" business pitch presentation by Maggie Branch '19, who conducted her AGEC 424-AGEC 425 project on The Branch Coffeehouse. Branch won "Most Likely to Begin Business," as well as other awards for her presentation, written business plan, and placements in other categories. The 2019 Texas Farm Credit Entrepreneurial Dreams Symposium was held April 30 and May 1, 2020, at the Thomas G. Hildebrand, DVM '56 Equine Complex, at Texas A&M University, College Station, Texas.

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Maggie Branch

Last presentation before lunch, but I promise there will be pictures of food; so I'll make you nice and hungry. I'm going to be talking about my business, The Branch Coffeehouse. My name is Maggie Branch. I am a senior about-to-graduate Agricultural Economics major with a Rural [Agribusiness] Entrepreneurship minor. I'm also getting my certificate in International Trade, due to my new-found passion for the coffee industry. I always grew up loving to bake. I loved—I grew up in the kitchen. I'm a farm girl; that's what we did. That's how my family bonded.

Then when I came to A&M, I took the coffee-processing class through the horticulture department. My mentor Rodrigo Chavez is involved in that, and it taught me everything I needed to know about the coffee industry. But really where my inspiration for this business came from was my study abroad in Ireland. If I have not convinced all of you in this room who talked to me yesterday to go to Ireland, then I have not done my job because it literally changed my life. What I particularly was passionate about when I visited there is going to the coffee shops. They have a very unique business plan when it comes to these little cafés that are focused on the community and making you feel like a member of the community, and making, providing an experience alongside quality product which I just didn't see in, in, in any other coffee shop I had been to. And I was inspired by this mentality and this way of serving people through the things that you're making—and that was the inspiration for The Branch Coffee House.

So, this is something that I really want to do. The Branch Coffee House will serve specialty coffee; homemade baked goods and desserts; and then healthier soups, salads, and sandwiches. I don't feel like you should do anything without putting your own unique stamp to it, so that's why everything on my menu is going to be made from scratch. I personally like to live a healthier lifestyle. I make everything that I eat from scratch, and I wanted to bring that to the business to provide that unique experience aspect that I wanted to give to my customers.

Some convenient aspects for me: there's a lot of significant market opportunities and openings in this business. Not only do I see the health trends today looking more for an experience associated with wherever the customers going, people are becoming a little more health conscious of what they put in their bodies—preservative—no preservatives, make things your own, make your own baby's food is even one of the trends.

I'm seeing a lot of that, but the most significant market opportunity that I want to focus on today is the specific community in the Jim Ned Valley. It's a growing population of 8,500; and this is a small town, but it's growing at 12% per year. It's

an influx of people that are coming in from Abilene, which is immediately above us. They are raising property taxes, so people are deciding to go out to the country all of the sudden. There's a big influx of new, new people buying expensive houses, and they're used to having options. In a small town—I'm sure a majority of us are from a small town—there's not a lot of options in small towns. You're left with a convenience store, you're left with fast food; and personally I, I am insulted by that. I think communities like mine deserve better, they deserve to have options, and they deserve to have what they want, more importantly. That's what to me an entrepreneur does. They see a market, they see an opening in that market, they see what the consumers are wanting, and they fulfill that need. So, conveniently it is something I am passionate about doing; so that's very nice for me.

This is a prosperous farming town. There is very limited competition. Again, I would be serving the **only** coffee within 20 miles, and most of these people work in Abilene, so they are commuting from my town to Abilene, over a 30-minute commute, with no option to get coffee before they get to work. So, what my business could be offering to these people is exactly what they are missing, which according to them is quality coffee, fresher food options, and healthy lunch alternatives.

That's why I'm providing three different enterprises into this business. I have the beverages, the sweets, and then savory. I split those up to see how they perform separately from each other, and then combined them, then, into the one overall business.

I'll be targeting the entire population, of course, but I'm specifically focusing on a couple different groups in my community. I think that these, these groups are not serviced as there is no, no place specifically for them, and this is where a majority of my sales could be coming from—so specifically, the commuting/working population. Again, these people that are working in Abilene have a long commute. They are stressed out. They, they have to drop their kids off at school, but they're late to work. I am conveniently situated, in my location, 50 yards away from the middle school and high school. So, on my location that we have already secured for the business, it is on the highway as you exit town. So, it's a convenient way for these commuting/working populations. Imagine a single mom who's late to work: she gets to drop off her kid, swing by and get, at least a cup of coffee because she is stressed out and she needs to get to work on time. And then, there is also the potential that she could pick up her lunch as well, because I would offer that savory enterprise on the side as a to-go option.

The second group that I would be targeting is the student population. Again, being 50 yards away from the middle school and high school, I would be remiss to not be targeting this group: after-school snacks, walking distance, before football games. This would be a major opportunity for my business, and I would make sure to cater to their needs by offering things that they might like. Listening to them—that's another benefit to being a small business and working and owning a business in a small community because you can tailor whatever you offer to whatever they want. So, I would be looking into ways to solve whatever market needs that they need as well.

I'm a big proponent of starting small and reducing my risk. I don't like to risk more than I should in any situation, which is why I developed this two-phase approach. The initial operation, the initial years of operation would be conducted out of a smaller, more inexpensive portable building, so I wouldn't have so much upfront cost. I threw around the idea of a portable storage building; but after talking to you guys in the past couple weeks, I've done research into more of a trailer-type facility. So, imagine a giant—not a coffee truck, but like a NASCAR-size trailer that is longer than this stage, and doubly as wide, and is fully equipped, and is mobile, and has the option to be mobile, but is still, still facilitating a nice drive through, and has a permanent location as well. Then if the market becomes more feasible and that my equity is such that we think it would be beneficial for the business to build a permanent structure, I would then expand and develop more of that community gathering place: the permanent facility with indoor seating, and Wi-Fi, and things like that. But that depends, again, on what the community wants.

Looking at what I need to start the business. Of all the capital assets that I need, I will be purchasing $93,000 of it, and all of my analysis is run off that phase-two plan so that I wouldn't be discounting some costs. So, it's the maximum assets that I would need from the entire, from the final stage.

The investment that I'm looking at getting is the $25,000 of my own equity. I'm asking for $45,000 from my silent partner, and then I'm taking out a $45,000 equipment loan which I put a 30% down payment. I've used those investments to buy that $93,000 and then have [$]8,500 left in cash reserves (including, within that 93,000, $10,000 of working capital and [$]10,000 of capital cost contingencies), in order to make sure that I am covering all my bases. I have a liquidity ratio of 155%, and I own, between me and my silent partner, almost 69% of the business.

I estimated, at this size of a community, I could sell 200 cups of coffee a day and 200 food items a day for 300 days of the year to come up with my size. I think that

this is a feasible number. I was actually very pessimistic with these numbers. Industry standards say that you get at least 3% of your target population. I put it at 2.4% in order to be safe. I think that I could at least go under this number. I set my prices based upon recommendations of my margins, so I kept it at least 75% gross margin in order to develop my enterprise budget, and I did that through all three enterprises.

Developing my DIRTI5 and overhead costs, I found that it would take about 12 cents of my capital asset ownership, ownership cost per unit; and then in my overhead (which includes my salaries, my utilities, and everything like that), I would be having two full-time employees, and I accounted for three part-time baristas. I was told that I might not need all three as well, but I wanted to, again, be conservative and include one more.

So, all and all at this level of sales, I found the business as a whole was economically feasible at $133,280 for the entire, entire business throughout all of the enterprises. I did some breakeven analysis again to see how flexible and resilient my business was and found that I could go down to even 55% of my size to breakeven and 65% of my price. So, all and all, coffee is a very profitable industry. There is a high mark-up; you make a lot of money off of it, so it was a very flexible business.

So, when we look just at economic feasibility, it looks like we should start the business; but we learned from Dr. Rister never to look at just one number. You have to look at several numbers. You have to do the analysis. You have to look at all of your options in order to see if a business is feasible or not. So, we ran pro forma parameters, or pro forma projections, and projected the business out seven years. Years One through Four were a slow ramp up from 65% to 120% capacity of the business. And in Year Five, he hit us pretty hard with a shock, and to 65% of our size and 70% of our price with a 13% inflation rate. So, that's, that's a pretty significant—and all the students were surprised with how hard he hit us with that, and then we followed up with two average years.

The results show that I start making money in these parameters in Year Two, and then in an average year I can generate about $100,000 in retained earnings per year. So, for a small business working in a small community, $100,000 to pay back your debts and maybe acquire new assets, this seems like a feasible number. And again, this is after all salaries are paid, after all the overhead, and all depreciation expenses, and all accordingly.

The liquidity and the equity remained above minimum requirements throughout the entire period. You see in Year Five I finished paying off my equipment loan—that's why there is an "N/A" there. I have no current liabilities at that moment.

And then my returns on equity and assets—the important thing to note here is that, after the shock year, I do lose feasibility in that current year because the shock was so harsh. We lost over $200,000 of potential earnings, and we had a negative net income of [$]77,000. I did lose feasibility in the moment, but this is when you take a look at the resiliency process to see how resilient your business is to such a bad shock in your business; and when I looked at that I found—that the business in the shock year lost $284,000 in cash deterioration—that's including several different factors. And then—but the business can generate $117,000 in excess performance per year, so it would only take the business 2.7 years to recover from the shock that I put on it. So, for a business that's looking to start up in a small community and looking to incorporate itself and maybe expand into something larger and being the center of the community, 2.7 years is a drop in the bucket, if you are planning to be there 50, 60 years, or beyond.

So, I was pretty pleased with these results; and I was even more pleased looking at the equity analysis because, even after the shock, the equity in the business increased significantly year by year. And even when it takes that hit in the shock, it's still higher than in the beginning of Year Four—which the upward trend is what I looked at when analyzing this equity. So, it points to financial feasibility as well.

Also, in Year Six we are able to take care of our silent partner. In Year Six we had $341,000 in equity; and though my silent partner only asked for a minimum of 12% return on their investment, I was able to provide a 15% due to the amount of equity. So, they invested $45,000; and, after the interest expenses of the amortized five-year payment, they ended up getting $90,000 on their investment. And then my own rate on return on investment is 54.6%. So I can't be upset about that.

So, again, financial feasibility—I know that there is a stigma of opening a small business in a small community. Several people have said, "Well, you can't make money in a small town." This analysis and the research that I've done in the market in which I want to open this business shows that you can. And I think that having a personal reputation in the town, and it being a family-oriented, community-oriented town—that reminded me of those towns that I saw in Ireland—can really be a big benefit to this business, and bring it, make it more successful than maybe that stigma or that stereotype would let on.

Some strengths and weaknesses of mine. I combined my strengths and weaknesses between my personal and my business because I'm not just selling the business, I'm selling myself as part of the business. My reputation and my service to the community is the business. And so, that's truly what I am passionate about. So, some weaknesses that I might need to consider is that a smaller market size is always going to be a concern; but again that local reputation, that community gathering, that community atmosphere is going to be what separates my business from Starbucks. Like, I know the students here would rather go to Sweet Eugene's than Starbucks because they get an experience there. They get what they are looking for there, and so I would be providing what my community is looking for to keep them from having to go to Abilene to get their coffee. Additionally, labor requirements, making everything from scratch is cheaper, really in ingredients, but it costs more in labor. It's a risk versus reward kind of, kind of exchangeability. So I have to make sure my labor requirements stay below 30%, recommendation; but with no direct competition, I have some flexibility to change things the way I see fit and maybe gauge what my consumers are wanting.

Some threats are other potential businesses. This community is growing so fast, and there are so few options there. I'm probably not the only one who's noticed. I'm sure there are other opportunities; other entrepreneurs that are noticing these opportunities and want to seize upon them. The threat of other businesses coming into the community might be, might be a threat of mine. I hope to mitigate that by offering things that are unique and things that they can't get anywhere else. There's a burgers-and-fries place already in the town, so I'm not offering burgers and fries; I'm offering what they are missing. I'm offering what the holes in the market are.

So not enough sales—in a small business you have to consider that as well. I'll have to make sure that I'm practicing efficient management skills and making sure that I'm doing the marketing; and I'm doing everything that I need to do to make sure I have enough sales per day. That includes maybe flexible operational hours. Me owning the business, if I need to be open for Friday night football games, I can; and I can suit my business to what my customers are looking for.

Some errors and omissions—I came up with that two-phase approach pretty late in the semester. So again all my capital assets are for that first, or for that second phase, for that final vision. I kind of like that phase one. After talking to you guys yesterday, I, I fell more in love with the phase-one part of the plan because it does offer more options and the mobility of it. And being—and though it does have a permanent structure and it does still give you that option to create an experience if I had a nice outdoor patio behind—around the pecan tree, lights hanging up. It still

gives you what you want to bring to the community, but it offers flexibility, the mobility, and the catering options available. So, I mean the expansion in the phase-two will all depend on how my community responds to the phase-one. If they like that better, if they think that's more popular, and that still makes a lot of money, I might consider keeping that longer or at least making it in addition to building my permanent structure. My mentors told me over and over, "You need to raise your prices" because I'm offering a higher-quality product, and I'm offering it for a manageable price for my community. It's still lower than Starbucks prices, and so I need to make sure I raise my prices there.

What I learned from this project? Getting in the habit of being realistic, if not pessimistic. If you're pessimistic in your numbers, you're pleasantly surprised instead of fooling yourself. So, I lowered my size—and Dr. Rister can attest to this—as I went through the spreadsheets three different times (because I went from a 300 cups a day size, to 250, to 200 because I wanted to make sure that I wasn't overestimating what my business could do). And I talked to people that do who—what you want to do. I interviewed almost every coffee shop owner in this town; and I've done this because I don't have the experience that they do, and I want to learn from them. And learning from their mistakes and learning from people like you who, who have done this for years, that—that is the point of this program. I would wholeheartedly recommend that.

[AGEC] 425 has completely changed who I am, and the way I operate. I am an introvert at heart; I will collapse after this [*audience laughter*], and I will be in a hole in the next three days, for the next three days. I have a final exam tomorrow that I haven't even looked at.

But, my immediate plans after graduation, because I have been so dedicated school—and in high school I was team captain of all my sports teams—I'm tired. [*audience laughter*] I have worked hard my entire life, and so I really want to take a break and travel. I want to go on a mission trip to Israel—is my main goal.

And then, I'm giving myself a year to start the business. I'd rather do it slow and smart then to rush into it and make a mistake. I'm giving myself a year, and I hope to expand into other small family businesses afterward, or maybe expand the Branch Coffee House. Maybe there's other small communities that I could branch out to, or I know we talked about several opportunities of opening in a H-E-B or partnering with larger businesses that have small Mom-and-Pop shops inside. That is an option if it does become popular; but ultimately my goal outside of the coffee, outside of the baked goods—I just want to serve my community. That is my main passion. I like to serve people the things that I make and make them happy. Food

makes people happy and so does coffee. And it makes me happy. [*audience laughter*]

The service in the community, that's what I'm really looking at. Thank you so much for all of your advice and all of the time you've invested in the program because it really does—it does make a difference in our lives.

[*pause for slide*]

> **Mentor Arlen Glenewinkel**
> I've been talking to you several times over the last several weeks now, and so I appreciate what you've done on this project. A couple questions: the first one being—I know that there is an advantage to you locating where you are planning on locating—have you looked at that to see if that is the most opportune place for you locate in that community, or if there's others that are better suited that maybe would ultimately make you more profit? The second question being— since I believe you are relying on the same customers over and over again from that fairly small community—have you considered any type of loyalty programs?

Maggie Branch
The location that we have secured for the business is—it could not be a more perfect location for what I want to do. When you cross the railroad tracks to come in our town, it is the first spot on the corner that you see. Right now it is a residential area that—my grandparent's cooperation owns rental properties, and that's one of their rental properties—and it is the first thing you see when you come to town is that rental home. And so, we'd be moving that off of it and establishing that mobile facility there. It is, again, 50 yards away from the middle school and high school, and on your way out of town, with convenient roads on all sides. It's a three-corner area. So, it's—it could not be a better setup for what I want to do, and I'm extremely blessed to have the family backing, and the opportunity that they have that available.

In regards to the loyalty programs, I—integrating yourself into the community is an important aspect. Being a member and going to football games, supporting the booster club, all of that, will be important to develop that loyalty. And also doing things like loyalty cards or discounts on buying their merchan—buying my merchandise. If you have my coffee cup, you get a discount on your coffee—things like that, I'm looking into ways to make it more, more of their business. This is their business, and I'm facilitating what they want. And that is what I truly want to do—is offer what they want, and I think the loyalty will come with that.

Mentor Steve McKinney
Maggie, great job! Steve McKinney, Class of '98. I guess first of all I just wanted to say, "This is a great program." This is my first year being at this, and you guys are way ahead business knowledge-wise and presentation-wise than where I was at this age. Congratulations to all of you. You are going to be successful no matter what.

Being so close to a middle school and a high school, obviously, you have a very captive audience coming in your store, maybe even during lunch. From your product standpoint, what have you thought about as far as catering more to those tastes—I guess, for a middle-schooler who may be not so concerned about items made from scratch and also cost sensitive, as we all know kids this age have no money? Have you thought of any pricing tiers in your restaurant?

Maggie Branch
Right, and again catering to their needs will be important. Several people have mentioned the fact that a 12-year-old, or even a 16-year-old, they don't care what they are eating as long as it tastes good. They don't care that it was made from scratch. But, that goes to having a balance between what your mission is and what you want to offer your product, or what you want to offer your customer. I have, I placed that brand on the business because that's what I'm passionate about and that's what my mission is. Drawing that line between being profitable and making sure that I'm not, you know—I'm still catering to their needs while abiding by my mission. That's the beauty again of having your own business, instead of franchising or doing something like that, because it is flexible—but that's an excellent question. I do need to consider that and make sure I'm catering to their needs and their pricing points as well.

[*audience applause*]

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