

THE RISE AND FALL OF A GREAT COFFEE CONCEPT

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In the mid 1980's a husband and wife team opened a specialty retail (arts and crafts) store in the suburb of a large Midwestern city. This was their first venture into retail, and they had limited money available for inventory. They found that their location was "under merchandised" - in other words, they had wasted open space in their store. Not having a lot of money for their first store's start-up, the husband came up with a novel solution. He purchased some empty whiskey barrels, filled them with whole bean fresh roasted coffee, and set up a "coffee corner" in their store, including scales, grinders, and one pound bags.

Shortly after opening, they found that the "coffee corner" was generating 90% of the store's sales! Customers loved this new, exciting concept: being able to scoop, weigh, and bag fresh roasted coffee. They decided to close their first retail venture, remodel it, and reopen a completely new store. This new store was dedicated to fresh-roasted, whole bean coffee and was one of the first retail concepts dedicated to gourmet coffee.

Customers loved the high quality coffee, along with the other complementary products in the store: bright, colorful cups and mugs, imported teas, and related coffee and tea gift items. Shortly after reopening, a storefront in a major regional mall - actually, at that time, the premier retail space in the U.S. -- became available. The husband and wife team took advantage of the opportunity, and the rest, as they say, is history.

That store and the hundreds that followed later were based on:

- A passion for quality coffee - the best of the best. Only the finest coffee was selected. Coffee beans were chosen for their quality and consistency. All were high grade Arabica coffees. Hand-picked, mild, high-altitude coffees were selected from all over the world.
- Spotless, upscale retail locations. The interior of the store was designed to convey a warm, inviting look to all customers. Earth tone carpets, oak display units, shining brass accent rails, and hunter green walls became the trademark look for the retail chain.

- Exceptional customer service. Employees at all locations were required to greet customers with a warm smile and a personal greeting. An offer of a free sample was to quickly follow. Everyone working in the location was to be smartly dressed and wear a proper apron and name tag. Employees were expected to be knowledgeable and helpful, educating customers in the best coffees and teas.

Early in their growth stage, the couple went to a leading law firm and began the process of franchising. The company's initial success, thanks to franchising, began to fuel rapid growth outside their home state to other parts of the U.S. As franchise sales came in, more and more money was available to fuel yet improved franchise marketing that resulted in even more franchise sales. Keep in mind, that during this growth frenzy, the company sold franchises to some people who were not suited to open a franchise.

Unfortunately, with the success, more and more problems began to appear. These problems included:

- **Lack of managed manufacturing and fulfillment operations.** The existing systems in place that could re-supply a handful of stores began to disintegrate under the demands of dozens of stores. The company roasted, flavored, and packaged coffee. In addition, the franchisor supplied thousands of other items to its corporate and franchise locations. Incomplete orders, shipping errors on orders, and late deliveries began to generate concern among store operators.
- **Autocratic nature of the owners.** The owners, like many entrepreneurs, enjoyed their new found success. They also wanted to share this success, so many of their relatives were given positions within the company, in spite of background, training, or ability.
- **Lack of support for franchise operations.** The company focused on growth and franchise sales. Operational support was not given serious consideration until almost five years into the franchise program. In the meantime, franchisees became disenchanted with the Franchisor, and the beginnings of a militant franchisee organization began to gain momentum.
- **Lack of market focus.** Franchises were sold, regardless of their potential location. No thought was given to clustering stores to increase effectiveness of field personnel, or to enhance the "critical mass" needed to generate brand awareness in a market.
- **Misunderstanding of franchisor/franchisee relationships.** Throughout their tenure as owners, the founders of the company were reluctant to interact with franchisees. True, they occasionally visited a nearby franchise location, but remote stores never received the care and

attention they needed. At social events, like the annual convention, the founders were aloof, or as one franchisee put it, “Here come the king and queen!”

To their credit, the owners began to notice that things were not operating smoothly, and they called in outside help. In 1989, a management consultant, provided by their accounting firm, began a complete review of their operation’s strengths and weaknesses. This operational review included corporate offices and staff, their complete coffee roasting facility, as well as franchise locations selected at random.

The review generated a report that exposed serious shortfalls within the company’s infrastructure. Some of the problems encountered were:

- Lack of integrated systems.
- Insufficient staffing in critical areas.
- Lack of planning and monitoring or progress against budgets.
- Changes to products or packaging without proper lead time for reengineering of the equipment needed to manufacture them.
- Lack of support for franchisees.
- Inaccurate pricing of products.
- Failure to communicate between departments.

Meetings with the owners produced a commitment to move forward with the re-engineering of the company. Priorities were set and the first improvement project was set in place. For the next six years, a continuous quality improvement process was set in motion. Major accomplishments included:

Implementation of an Enterprise Resource Planning Software Solution. This technology improved control of raw material, component products, and finished goods, as they moved from production to retail stores. Training of production and warehouse people increased pick/pack/ship accuracy to over 98%. The installation of upgraded POS terminals in all stores also gave the company useable sales information for the first time!

Creation of a Franchisee Advisory Council. After five years of franchisee neglect, a process was created for electing franchisees from four areas of the U.S. to an advisory council. Members were elected by the other members of their region, and the council acted as a sounding board for the future direction of the company. The council was a critical element in the selection of marketing strategies, new product

development, and in setting the long-term goals of the company.

Upgrade of franchisee training, training staff, and materials. The company's Franchisee Operations Department was overhauled completely, and a new training curriculum was developed. This new training approach was more hands-on and put franchisees through a new intensive boot camp for retailers.

The addition of in-house video. In order to improve training and also to improve the communication to over 100 retail locations, video production was brought in-house. Training videos were created to be used for the training of new franchisees and their store employees. Monthly videos were also distributed for in-store promotion and to increase store performance.

Improved corporate communications. This effort included the creation of a newsletter for monthly distribution to franchisees and also the commitment to send corporate executives, on a regular basis, to local or regional "town meetings" with franchisees. District Managers were hired to be the voice of the company with their local franchisees, and systems were put in place to distribute store performance information to franchisees.

This renewal of the company helped reinvigorate the company and enhance its position within the industry. Leaders of the company became more active within the Specialty Coffee Association of America, while the company simultaneously opened its first international stores in Japan, Mexico, and Puerto Rico.

Lessons to be learned from this company's success? Franchise sales, when not properly balanced with development of required support infrastructure, can be a potential recipe for disaster. Franchisees become quickly disenchanted with their relationship with corporate when they see no value in being part of the franchise operation. Planning advice and direction in the company's early years would have allowed them to grow faster, without the later missteps they encountered. Controlled growth is always better than scattered, unfocused sales of franchises. Having a market or growth plan allows a company to better utilize its resources – especially in its early years – and ensures franchisee satisfaction.

In 1995, the husband and wife team that founded the company sold their interest in the company for over \$30,000,000. They divorced shortly afterwards.

The new owners were not committed to franchising nor were they committed to quality. Retail sales dropped, because of customers' disappointment with the new, low-quality coffee being offered. Franchise sales stopped. Within a year, the company was sold again.

It has now been sold four times in the past ten years. Because of the turmoil and the transition from its varied owners, there has been: confusion and unrest among the franchisees, upheaval in its proven product line with dramatic loss of sales, as well as a loss of standing within the specialty coffee industry.