ANE VALDEZ WAS READY for a change after 30 years of 12–15 hour workdays, 6 days a week. Jane had grown up in Collegetown and graduated from the local university there, majoring in engineering with a minor in business. After graduation, she worked at Hewlett-Packard and Apple Computer in the 70s and 80s. Like many of the technology workers of that era, she soon forged out on her own, starting several companies, failing at two, but hitting on a successful formula with her third venture—handheld computing devices for hospital applications. In 1995, she took her company public and eventually sold the company before the high tech bubble burst. Soon thereafter, she was a founding partner of a successful venture capital firm, but now she is ready to return to her roots and slow down a bit.

However, she wants to share her success in a unique way, by helping college students learn about business by operating their own company. Select student teams will receive a $25,000 start-up loan at 10% interest to manage their own coffee shop for a year as an independent study for credit. Jane is confident that teams will have no trouble paying back the entire loan with interest by the end of the year.

**Overview**

Jane studied various locations and found a good potential storefront on Main Street, not far from the business school and on the downtown pedestrian mall. There are a number of retail establishments nearby such as restaurants, clothing shops, as well as service businesses.

The retail space available contains 1000 sq. feet with glass frontage on Main Street and 2nd Street providing good visibility for pedestrian foot traffic (see layout). The space is next door to R.C. Fox Women’s Clothing, an independent retailer catering to more upscale buyers. Across the street is a trendy restaurant, Salamanca, which is primarily a dinner destination. Next to the restaurant is Readerwise Booksellers, an independent bookstore which has been in business over 20 years.
Rent is $24 sq. ft. / year, or $24,000 total for the year. A deposit equal to one month’s rent must be paid in advance and monthly rent of $2000 is due on the first day of each month. In addition to paying rent, the lessee (your company) will also be responsible for paying utilities – water and electricity. These are estimated at approximately $500/month based on historical usage of the restaurant that had previously occupied the location, but may vary based on hours open and traffic.

Jane expects the coffee shop to be a success because of the good location downtown near retailers and the business school. For instance, businesspeople might stop by on their way to work or for a meeting place, students could go between classes and at night, and local residents would find the shop a great place to meet friends or relax while they are downtown shopping. She expected long-term demand to be primarily a function of the quality of the experience (atmosphere, length of wait, friendliness of the staff, etc.) and the price charged for the coffee.

The students had some sales information on a specialty drink shop that recently closed due to the owner moving to another area. Though not a perfect comparison and incomplete, Jane believed this information would be helpful to the students when trying to calculate the necessary operational capacity for the shop.

Pat’s Coffee and Chocolate: Weekly Demand (Cups Ordered)

<table>
<thead>
<tr>
<th>Week Starting</th>
<th>Daily (M–F)</th>
<th>Saturday</th>
<th>Sunday</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1st</td>
<td>1000</td>
<td>750</td>
<td>550</td>
<td>$3.50</td>
</tr>
<tr>
<td>Jan 8th</td>
<td>1150</td>
<td>720</td>
<td>510</td>
<td>$3.50</td>
</tr>
<tr>
<td>Jan 15th</td>
<td>1070</td>
<td>780</td>
<td>530</td>
<td>$3.50</td>
</tr>
<tr>
<td>Jan 22nd</td>
<td>1045</td>
<td>950</td>
<td>690</td>
<td>$3.50</td>
</tr>
</tbody>
</table>

Jane also suggested to the students that the shop could stimulate additional demand through advertising and by offering special promotional deals. She has arranged for a team of information technology students to create a web site for the business as a course project, and online and radio advertising can be used to drive traffic to the site.

In addition, the local weekly circular has a weekly poll on many of the local businesses including two awards given to specialty drink shops. Jane knows the importance of such awards for word-of-mouth and creating a "buzz" around a business. Jane wanted to be sure her students were aiming to win one of these two awards.
• Best in town specialty drink - ambiance
• Best in town specialty drink - satisfaction

Jane knew that the easy (and fun) part of running a business is creating the concept and getting everything set up, but that most retail shop success, especially service oriented ones, is made "in the trenches"— the day to day running of the business. Will her students hire enough quality staff to serve the customers in a friendly and timely manner? Will they have enough supplies and inventory so they don’t run out of what customers want? Will they be able to handle the rushes before class / work? It sounds easy enough, but her students will likely need a cadre of part-time college students to work at the shop. Keeping them organized, attentive, and happy working there won’t be simple.

Each week you can keep track of your expenditures by reviewing your electronic checkbook. Payments for rent, utilities, wages, advertising, product purchases, and interest are automatically made at the appropriate times during the month. Daily cash receipts from sales are taken to the bank’s night deposit and added to your balance the following morning (except Sunday). You can track your current cash balance at any time by reviewing the checkbook. If cash from the loan provided by Jane runs out, you may be eligible for an additional small business loan if you provide sufficient rationale to your lenders.

**Startup Decisions**
To get your business started, you will need to decide on a name for your café, how to furnish it, and what equipment to buy for producing your product.

The name you choose should reflect the vision you have for your café, and differentiate your product from your competitors’.

Jane found some used tables and chairs at a local thrift and antique shop for $2,000. You can purchase these or select from a variety of new boutique sets of tables and chairs. The new furniture costs $4,000. Both used and new furniture options will provide sufficient seating for the shop.
<table>
<thead>
<tr>
<th>Used Furniture: Cost $2,000 (default)</th>
<th>New Modern: Cost $4,000 (optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Green: Cost $4,000 (optional)</td>
<td>New Country: Cost $4,000 (optional)</td>
</tr>
<tr>
<td>New Elegant: Cost $4,000 (optional)</td>
<td></td>
</tr>
</tbody>
</table>

Your team will also need to purchase new equipment for producing your product. Jane found a new basic 2-cup espresso maker for $3,000, or you can purchase a 4-cup model that is potentially 30% faster for $6,000. There was already a counter, sink, and enough room in the storage area for coffee beans, cups and other items necessary to run the business.
The furniture and equipment you purchase at startup may affect the operation and perception of your café. Make your selections carefully, as you may not have the opportunity to make changes later. The cost of the furniture and equipment will come out of your checking account before you open on January 1st and be depreciated over five years.

Note that while any member of the team can enter the startup decisions, your team leader must finalize them to allow access to the regular weekly decisions.

### Weekly Decisions

#### Management

**Managers:** Each store starts with two full-time managers to cover Monday – Friday. The first management decision is what to pay your managers. One manager must always be on site from one hour before the shop opens until one hour after the shop closes. You are guaranteed to always have two managers, but their effectiveness (productivity) will depend upon the wages you pay them and how well you manage the server staff. If you decide to open on weekends, a third manager may be needed (depending on the total hours your café is open). You must pay the same weekly amount to all managers.

**Servers:** Managers cannot do all the work in the shop; you will need to hire staff to help serve customers. Each server is part-time and works approximately 10 hours per week. In addition to the number of servers, you will need to set their wages. Wage rates are competitive with other shops in the simulation. Pay your servers too little, and you might not attract the best employees while those you do hire may be more likely to change jobs. Workers like to be busy, but not stressed out, so be sure to hire an appropriate number of servers to meet demand.
**Marketing**

**Pricing:** Coffee typically comes in three sizes: small, medium, and large. You start out offering medium size cups and may be able offer additional sizes as the simulation progresses. Every week you will need to set a price for each size. Prices must be set such that the difference between sizes ranges from 20¢ to $1.00 (increasing with size). Jane has also set a minimum of $1.00 per cup and a maximum of $6.00 per cup. Be careful about increasing prices as it may frustrate and disappoint customers, but better to have a price that works than one that doesn’t cover your fixed costs.

**Promotion**

Students may choose to advertise online or on one of the local radio stations. Radio spots can be used to promote awareness of the café. Online advertising includes listings on the Web, search engine optimization, and banner and mobile ads. Special promotions – one for 50¢ off a cup of coffee, the other a 2 for 1 coupon – can also be run in connection with the online ads.

**Operations**

**Shop Hours:** Students set the days and times the store will be open for business. The shop may open between 7–10am, and close between 8–11pm. The hours M–F must all be the same. In addition, if your instructor allows, you will be able to open the store on the weekends and set those hours as well.

**Coffee Purchase:** Coffee beans are ordered weekly in bulk, and you must specify the number of pounds to order. Coffee quality must be chosen as well (Good Quality, High Quality, or Organic). Small cups use 1 shot of espresso, medium use 2 shots and large cups use 3 shots. It is estimated that each shot of espresso requires approximately 7 grams of coffee or about 1/64 of a pound, but you may want to allow a bit extra in case your servers spill some. Thus, a large size would use approximately 3/64 of a pound of coffee. Coffee grinds are discarded immediately after use. Any coffee left at the end of the week is discarded for quality / freshness reasons. If you run short, local purchases are made at a higher cost than when ordering in bulk.

**Cup Purchase:** Cups with a printed logo can be ordered in bulk on a weekly basis. Any unused cups will be kept in inventory until they are needed. If the logo cups are not ordered, standard cups from a local vendor are available on an as-needed basis, but at a slightly higher cost and without logos.

**Special Decisions**

**Creative Design:** This option allows you to use your more creative side. Your instructor may ask you to create a logo and/or design an ad for your café. After uploading your work to a public site on the Internet, you can enter the link to your design so it can be included in the industry newsletter.

**Incidents:** If your instructor selects this option, each week you will have an "incident" which you will need to address. An incident is like a mini-case. Your team will need to discuss the issue
presented and enter an appropriate response. Any costs associated with an incident will automatically appear in your checkbook just like a normal expense.

**Measuring Performance**

The success of your coffee shop will depend on the quality of your decisions in relation to the environment and in relation to each other. For example, when you are making pricing decisions, have you considered the impact a change has on other functional areas of your business such as staffing and product purchases? What impact does it have on demand for your product and net income? As the manager of a small coffee shop, you must make sure that all functional areas of your business are in line with your overall objectives and that all of your decisions are integrated—working toward producing the desired results.

There are a number of reports you can use to track performance as you operate your business. The first is to use the **Checkbook** to monitor cash flow. The change in balance for the week will give you an idea of whether your sales receipts are sufficient to cover expenses. Keep in mind that some weeks will see more cash going out than others due to payments made once a month, such as rent, utilities, interest, and payroll taxes. Using the **Cash Budget Analysis** can help you anticipate these payments.

For a detailed analysis of sales, view the **Daily Receipts** report. It shows the daily capacity, or maximum number of cups you can sell based on your equipment and staff, the actual number of cups sold, and the average price of the coffee sold (including promotions and different cup sizes). Comparing cups served to capacity is one way to measure how busy your staff was for a given day. If you served at capacity, it probably means that your servers were always busy and some customers may have left due to the long lines.

The **Materials** report provides information about the coffee and cups used in the past week. Check this report before ordering cups as you may have enough in stock (inventory) to meet demand for the coming week. Unlike cups, coffee is perishable and any coffee not used during the week will be discarded at the end of the week. If you do not order enough coffee or cups to meet demand, a local source will be used to fulfill orders, though at a higher cost than purchasing materials ahead of time.

You will need more than weekly reports to insure that you are making good business decisions. Fortunately, the university was able to find a retired accountant who has offered to create a monthly income statement and balance sheet for you. The **Income Statement** shows revenues and expenses on an accrual rather than cash basis, so items are expensed in the period they are used, rather than when they are purchased. For example, each month shows a depreciation
expense for the equipment you bought at startup, and cups are expensed as they are used, rather than when they are purchased.

The Balance Sheet shows your firm’s assets, liabilities, and equity. It "balances" because assets must equal the sum of liabilities and equity. Examples of assets are cash, rent and utility deposits, inventory, and equipment. Liabilities include taxes payable and loans. Cumulative profits will appear under equity on the balance sheet. Unlike the income statement, which shows results over a specified time period, the balance sheet is a snapshot of your business at a particular point in time.

In addition to viewing reports for your business, you will want to look at what is happening in the local market. The Newsletter is where you can view your competitor's logos and ads, if they choose to display them. In addition, you may find out how competitor prices and café hours compare to your own. The Local Labor Report provides the averages for manager and staff wages, average turnover rate (which tells you about how often the staff at local businesses is quitting), and the area's minimum wage. Finally, a local marketing research firm offers a weekly survey of coffee shop customers, which provides information on how they perceive and rate coffee shops in your area. The Customer Survey shows customer satisfaction with your café, which is an important measure of your performance.

Next Step

ANE VALDEZ IS CONFIDENT you will be successful in managing the coffee shop. While the fixed costs associated with running the shop are high, she is sure there is sufficient demand in the local market for your team to generate enough revenue within the next two months to keep cash flow positive. Your experience in BizCafe will have wide application for business management:

- make a good plan
- coordinate your management, marketing, and operations decisions
- analyze results
- make adjustments

Best of luck in running your café!