

## Northern Lights: A Student-Run Cafe

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Tom Johnson was hungry and tired. The buildings at Northern University had become increasingly quiet, as students had retreated to their rooms or quiet study spaces. At midnight, there were few, if any, options for a reinvigorating snack. His homework and studying would require much attention tonight and his stomach was growling. Tom Johnson had had just enough of this.

The lack of practical late-night dining options had been a huge void on the smaller, residential campus of Northern University. In 2009 there was a population of approximately 600 students who took classes on the Wildbrook campus, but lived on the Cliffside campus. Unlike Wildbrook, which had late night food service options on campus, Cliffside dining services closed by 10 PM. Weekend options on Cliffside were limited to mostly daytime hours. Students often spoke of their wish to have a place on campus to congregate, or to get food without taking a long drive to an off-campus food site.

In spring 2007, Tom, a business honors student decided to do a market opportunity study for a late night café on the Cliffside campus as part of his senior honors thesis. His initial market research showed significant demand for late night dining and events. Tom explored space on the Cliffside campus. A large space that had been previously used as a weekend grill and pub in the 1980s would be perfect as a late-night café. However, he couldn't reach an agreement with the dining services to allow a new late night café to open, so he graduated without having done anything beyond the market research.

### Market Research

Nothing further happened with Tom's idea until spring 2009, when two freshmen wanted to start an entrepreneurship club. One of the club's functions would be to start and run a business on campus. Spurred on by a marketing faculty member and the results of Tom Johnson's research, the students decided to try to set up a café on the Cliffside campus in the location Tom had identified. The objectives of the café were to expand convenient late-night dining options, help student employees gain experience running a financially self-sustaining, market-responsive small business, and foster a more close knit, welcoming community environment.

An online student survey was conducted to evaluate the demand for late night dining services on campus, as well as to better understand the competitive landscape. Off-campus competitors were also identified, and their hours and distance to the campus were evaluated.

Figure 1 shows an example of responses from the survey. The results confirmed that there was still demand for a late night cafe, especially after the regular on- and off-campus dining options closed for the night. With the help of a business school faculty member and numerous negotiation meetings, a key university administrator and the dining service approved the plan to open a late-night, student-run café on campus.

**Figure 1.** Sample survey results 2009

10. How likely would you be to go to Northern Lights to buy late night snacks?				
#	Answer		Response	%
5	Very Likely		48	30%
4	Likely		61	38%
3	Undecided		26	16%
2	Unlikely		12	8%
1	Very Unlikely		12	8%
	Total		159	100%

9. Hours of operation preference (pick one)				
#	Answer		Response	%
1	9pm-11pm		16	10%
2	10pm-1am		72	46%
3	9pm-12am		50	32%
4	Other		20	13%
	Total		158	100%

### Accepting Payment

The dining services provider was receptive to the idea of a student-run café. However, there were concerns about market cannibalization. The café managers wanted to be able to accept dining services' meal plan cards. This would make the new business significantly more attractive to potential customers, who would not need to worry about carrying cash. However, dining services

had forecasted annual revenue targets, and if students used their meal plan at the new café, they would buy less from the existing operations. A compromise was reached. The café would be allowed to accept meal cards, in exchange for a 33% fee on all meal card transactions.

### **Financing & Operating**

With a plan developed to accept payment, the students turned their attention to securing financing, acquiring equipment, renovating the café space, and evaluating food suppliers. The university agreed to do modest renovations to the space to bring it up to code for use, and also agreed to provide a cash register. A display refrigerator, counters and cupboards were already there, along with two back rooms that could be used for storage. The Dean for Students office agreed to cover payroll for a pilot to test out the idea, and the student government provided a small grant to help with opening expenses. A BJ's warehouse club membership was obtained at \$125 per calendar year to allow the students to procure food for sale at the café.

### **Creating an Organizational Structure**

Once the funding, infrastructure, and vendors were all in place, the students used their knowledge of functional and divisional structure and considered how to organize their business. It was decided that there would be 6 senior managers and 4 shift employees. Senior management consisted of a general manager, an operations manager, a finance manager, a purchasing manager, a marketing manager, and an inventory manager. There were more managers than shift employees for several reasons. There needed to be students in charge of running the café at all times, even if the café was not busy. The main purpose of the café was to give business students management experience. The students were also doing jobs that would normally be full time, but on a part time schedule.

Senior managers would be paid for four hours each week, to provide them with higher take-home pay in return for their managerial roles. The extra hours for managers were for time spent doing extra work outside of managing a shift. This included buying inventory, doing accounting work, creating posters and distributing them, posting on Facebook, reviewing and approving electronic timesheet hours, shopping for food and supplies, and other tasks.

### **Assessing Demand**

Once the organizational structure was determined, the students discussed what items to sell. Table 1 shows the original menu. Initial menu decisions were made based on the consensus of the management team. Plans were made to reassess product offerings in the future based on demand. To cover the cost of the dining services fee, the students set meal card prices at 150% of the cash prices.

**Table 1.** The original menu and pricing.

<u>Item</u>	<u>Cash Price</u>	<u>Meal Card Price</u>
Coffee	\$1.00	\$1.50
Gourmet Coffee	\$1.50	\$2.25
Tea	\$1.00	\$1.50
Hot Chocolate	\$1.00	\$1.50
Gatorade	\$1.50	\$2.25
Orange Juice	\$2.50	\$3.75
Sobe drinks	\$2.50	\$3.75
Amp energy drinks	\$2.50	\$3.75
Soda	\$1.50	\$2.25
Water	\$1.50	\$2.25
Ice cream cone or dish	\$2.50	\$3.75
Ice cream novelties	\$2.00	\$3.00
Bagel with butter	\$2.00	\$3.00
Bagel with cream cheese	\$2.50	\$3.75
Muffins	\$1.00	\$1.50
Fresh popped popcorn	\$1.00	\$1.50
Bagged salty snacks	\$1.00	\$1.50
Candy and gum	\$1.00	\$1.50
Pizza	\$2.00	\$3.00
Soft pretzels	\$2.00	\$3.00
Cup of Noodles	\$2.00	\$3.00
Easy Mac	\$2.00	\$3.00
Hot Pockets	\$2.00	\$3.00
Pudding	\$2.00	\$3.00
Yogurt	\$2.00	\$3.00
Waffles	\$1.00	\$1.50
Bananas	\$1.00	\$1.50

The students also wanted to assess demand for the café's services at different hours of the evening. After much analysis and discussion, the students decided that the café hours would be 9 PM – 1 AM, 7 days a week. Each evening was divided into 2 consecutive, 2.5 hour shifts, 8:30 – 11 PM and 11 PM – 1:30 AM. For each shift, the students planned to have two employees, one of whom functioned as the shift manager. All shift employees received the state minimum wage of \$7.25 per hour, while managers received slightly more at \$8.00 per hour.

In fall 2009, additional students got more involved in planning the café logistics, such as what type of cooking equipment could be used in the space, what foods could thus be sold, and how college meal cards could be accepted. The students chose a strategy based on continuous managerial assessment and customer feedback, to revise the menu and improve service, while seeking to avoid direct competition with the university food service provider. The goal was to work with them to fill this unmet need.

With the operating schedule agreed on, the students prepared for the café's opening day. It was decided that the café would open on a pilot basis for the last 5 weeks of the spring 2010 semester. If all went well, the café would re-open for the full 15 weeks in each of the fall 2010 and spring 2011 semesters.

### **Opening Day**

The hard work and diligent planning resulted in great success. The café opened in April 2010 on a pilot basis, and was met with heavy turnout. As a result, the café opened officially in fall 2010. As operations expanded beyond the initial trial period, school administrators requested a formal Profit and Loss Statement. Table 2 shows financial information for the 2010-2011 year.

**Table 2.** Summary of the café's financial information for September 2010 – May 2011

	Fall 2010	Spring 2011	TOTAL
Food sales	\$ 45,476.75	\$ 61,929.25	\$ 107,406.00
Payroll grant	\$ 7,000.00	\$ -	\$ 7,000.00
Income from rebates	\$ 168.33		\$ 168.33
T- shirt grant	\$ -	\$ 552.00	\$ 552.00
Food purchases	\$ 10,989.29	\$ 17,578.98	\$ 28,568.27
Spoilage	-	\$ 462.54	\$ 462.54
Advertising and Promotion	\$ 343.44	584.37	\$ 927.81
Dining Service Fees	\$ 14,744.50	\$ 19,488.57	\$ 34,233.07
Computer and Internet Expenses	\$ 30.98	\$ 98.22	\$ 129.20
Decoration Expense	\$ 22.84	\$ 242.99	\$ 265.83
Depreciation Expense	\$ 98.39	\$ 257.16	\$ 355.55
Entertainment expense	\$ 29.49	\$ 550.00	\$ 579.49
Board meetings	\$ 159.00	\$ 928.51	\$ 1,087.51
Office supplies	\$ 17.91	\$ 275.34	\$ 293.25
Restaurant supplies	\$ 317.00	\$ 842.06	\$ 1,159.06
Uniforms	\$ 210.45		\$ 210.45
Tips		\$ 70.00	\$ 70.00
Charitable contributions	\$ -	\$ 1,110.00	\$ 1,110.00
Shipping	\$ 48.60	\$ 247.49	\$ 296.09
Other expense	\$ 617.65	\$ 85.00	\$ 702.65

Payroll expense to be calculated from shift schedule

Operating expenses included depreciation for restaurant equipment, food purchases, supplies and entertainment, dining services' fees, tips, uniforms, and shipping. Office expenses included basic supplies and computer software. Payroll expenses included payment at the rates stated above for hours worked at the café, plus hours that managers worked outside of their shifts. Marketing efforts were significantly expanded in fall 2010 to include charitable contributions, decorations, events, advertising, and special promotions. Another payroll grant of \$7,000 was received from the Dean for Students for fall 2010, but by spring 2011, the café was doing so well that it met payroll without additional school grants.

### Making Adjustments

However, it soon became clear that changes had to be made. Initial quality assessments identified a lot of food waste. For example, bananas rotted and yogurt spoiled. Certain items had lower

than anticipated demand. A deal was made with a coffee supplier to give the café a large, direct-plumbed Keurig coffee machine, but very little coffee of any kind was sold. Huge volumes of Keurig K-Cups accumulated in the storage area due to a minimum purchase requirement set by the coffee company that provided the Keurig machine. The café also sold regular brewed coffee, but most of this was discarded at the end of each night. The managers estimated that spoilage as a percentage of sales could be reduced by 50% with some changes in operating procedures.

## Menu

Managers also considered how to deal with student complaints about the limited menu. Requests were put in for items like tater tots and French fries that could not be cooked in a microwave. Students complained about the soggiessness of frozen pizza when cooked in the microwave, and long wait times when the small toaster oven was used to improve quality. A grill was considered, but this could not be added due to issues with ventilation. One of the board members for Northern Lights suggested that the café might want to consider purchasing a Turbo Chef oven like many restaurants use. This would improve the quality of food and shorten lead times, but cost, even for a used one, would be at least \$3,000. One additional freezer and a new hot dog roller were added in spring 2011. At the end of spring 2011, the value of equipment that had been purchased by the café totaled \$1,778. The equipment was depreciated using straight-line depreciation over a five year period.

## Staffing

In spring 2011, a mid-shift was added for Sunday through Thursday nights 10 PM – 12:30 AM. This shift added an additional employee to help deal with large groups all arriving and ordering at once. Table 3 shows the shift schedule from spring 2011. The fall 2010 shift schedule was the same except without the addition of the mid-shift. Students agreed that it would be necessary to keep the mid-shift moving forward as sales were expected to grow. The student managers also felt that it was important to reward returning students, so they decided to give all returning employees a \$.25 per hour raise each semester. This was the equivalent of approximately a 6% annual raise that would need to be factored into any payroll expense projections moving forward.

**Table 3.** Shift schedule from spring 2011 (same for fall 2010, but without mid-shifts)

Day	Title	Shift	Time	Hours
Monday	Shift Manager	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Mid	10:00-12:30am	2.5
	Employee	Late	11:00-1:30am	2.5
	Shift Manager	Late	11:00-1:30am	2.5

Day	Title	Shift	Time	Hours
<b>Tuesday</b>	<b>Shift Manager</b>	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Mid	10:00-12:30am	2.5
	Employee	Late	11:00-1:30am	2.5
	<b>Shift Manager</b>	Late	11:00-1:30am	2.5
Day	Title	Shift	Time	Hours
<b>Wednesday</b>	<b>Shift Manager</b>	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Mid	10:00-12:30am	2.5
	Employee	Late	11:00-1:30am	2.5
	<b>Shift Manager</b>	Late	11:00-1:30am	2.5
Day	Title	Shift	Time	Hours
<b>Thursday</b>	<b>Shift Manager</b>	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Mid	10:00-12:30am	2.5
	Employee	Late	11:00-1:30am	2.5
	<b>Shift Manager</b>	Late	11:00-1:30am	2.5
Day	Title	Shift	Time	Hours
<b>Friday</b>	<b>Shift Manager</b>	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Late	11:00-1:30am	2.5
	<b>Shift Manager</b>	Late	11:00-1:30am	2.5
Day	Title	Shift	Time	Hours

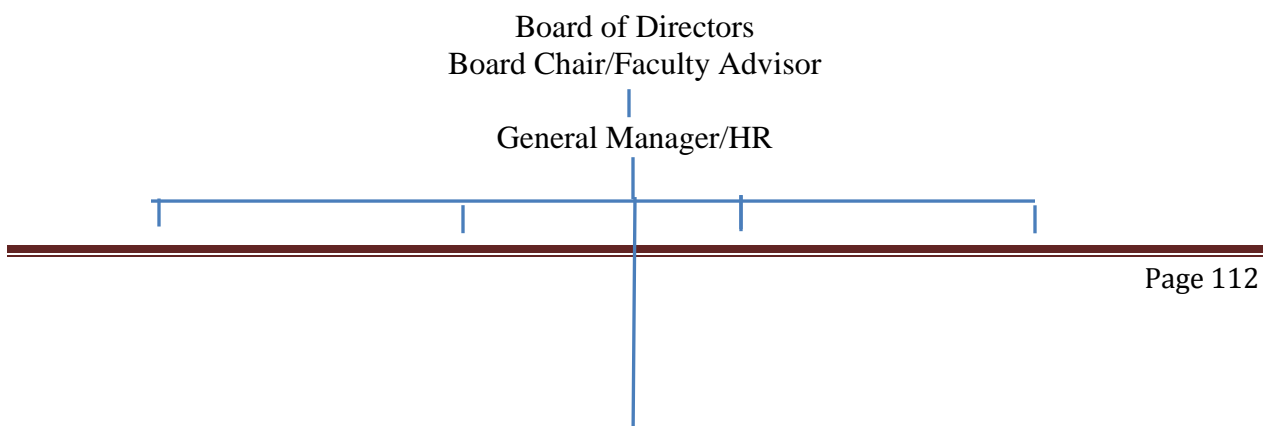


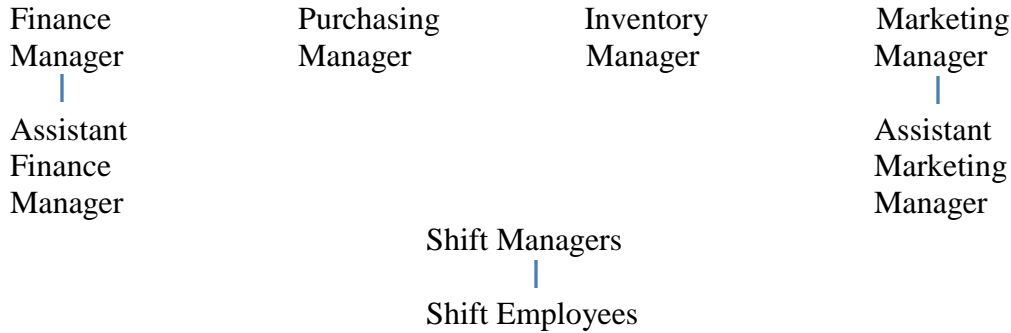
<b>Saturday</b>	<b>Shift Manager</b>	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Late	11:00-1:30am	2.5
	<b>Shift Manager</b>	Late	11:00-1:30am	2.5
<b>Day</b>	<b>Title</b>	<b>Shift</b>	<b>Time</b>	<b>Hours</b>
<b>Sunday</b>	<b>Shift Manager</b>	Early	8:30-11:00pm	2.5
	Employee	Early	8:30-11:00pm	2.5
	Employee	Mid	10:00-12:30am	2.5
	Employee	Late	11:00-1:30am	2.5
	<b>Shift Manager</b>	Late	11:00-1:30am	2.5

All employees earned certificates in food safety. To ensure oversight, the faculty advisor partnered with administrators from several school departments and formed a Board of Directors. The Purchasing and Inventory Managers teamed up to establish improved purchasing and inventory tracking procedures. The café advisor and three of the student managers obtained university procurement cards to be able to make purchases for the café, and transaction reports were filed monthly.

Job responsibilities were later re-organized to more effectively handle the increased operational complexity. When the café opened, there were 6 senior managers and 4 shift employees. Senior managers each were paid 4 hours above the time they spent working at the café. Starting in spring of 2011, this was changed to 5 senior managers, 2 assistant managers, 2 shift managers and 3 shift employees. As business increased, the time needed to complete managerial tasks also increased, leading to the need for Managers and Assistant Managers to submit their hours and substantiate what they had done outside of their time at the café. Additional manager hours averaged six hours per week for senior managers and four hours per week for assistant managers. All departments reported to the General Manager, whose responsibilities included human resources management. Figure 2 shows the café's organizational chart in spring 2011.

**Figure 2.** Organizational chart for spring 2011.





### Accounting

As the café grew, more advanced accounting techniques were introduced. Computer software was purchased to help with the evolving accounting procedures. The café began using QuickBooks Online instead of Excel to keep the financial records for the café. An Annual Report was generated for reporting to the board. It also became very important to accurately track payroll expenses.

### Operations

The managers analyzed customer flow, although they ultimately decided that operating hours would remain the same. The managers found that 97% of sales involved meal cards, and sought to reduce the accompanying fees. Further discussions with dining services resulted in the lowering of the meal card fee to 20% of meal card sales starting in fall 2011.

### Marketing

The café built a strong social media and web presence to raise brand awareness and solicit customer feedback. A Facebook page was created. Photos of events, café news, invitations to upcoming events, and announcements, such as the arrival of fresh pizza, were posted regularly. A website was created, featuring café news, an event calendar, job openings, a menu, and a virtual suggestions box. A round of Facebook pay-per-click advertising targeted resident students. This advertising effort increased the number of likes of the café's Facebook page from 285 to over 400 in just a few months. Weekly drawings for fans were offered on Facebook.

Other customer initiatives followed. The managers revised later versions of the menu to more accurately reflect demand, and to include student suggestions for new products. New items included energy drinks and fresh pizza purchased twice a week.

The café managers also sought to indirectly create demand. Group discounts were offered to encourage student organizations to hold their official functions at the café. Weekly events were offered. These brought in customers who purchased food during their visit.

The managers continued to brainstorm additional ways to increase activity at the café, and get more students to stay there. They considered having more items in the café to entertain students, improving events to make them more interesting, making the furniture more comfortable and

appealing, and raising brand awareness by participating in charity events. The managers estimated these initiatives would require a 20% increase in marketing expenses. Some managers advocated introducing coupons and loyalty cards for free food and beverages. The cost of printing plus food and beverages given away would raise marketing expenses by an additional \$1,000. The combined effect of all these ideas was expected to result in a 10% increase in sales.

The managers considered some renovations. The cafe had two pool tables, but no seating near them. There were thirteen small green metallic tables with about sixty chairs that students universally agreed were both ugly and uncomfortable. There were two large rugs that were dirty and worn. There was an old 35" TV in a corner with four worn-out couches. There was also a stage on one side of the cafe that was about a foot high and large enough for performances. Table 4 shows the costs for potential new purchases that would help to improve the space.

**Table 4.** Costs of potential new purchases for 2011-2012

Pay-per-click Facebook advertising	\$.39 per click or \$200 per semester
Turbo Chef commercial convection oven	\$10,000 new \$3,000 used
Blender	\$200
Small round tables (12 in café)	\$200 - \$300 each
Chairs (100 in café)	\$20 - \$35 each
Rugs (2 large in café)	\$500 - \$600 each
Freezers	\$300 each
Pub table with four chairs	\$250 each set
Xbox with Kinect	\$450
55" flat screen television	\$1,000
Projector with large screen	\$2,000

### What Now?

In May 2011, after exams were over and most students had gone home, the Northern Lights café student managers took a break from their usual heavy workload, to reflect on how far the café had come. It had been a long, complicated path since Tom Johnson came up with his original idea, but the café was profitable and successful. To help ensure continued growth, the café's faculty advisor asked the managers to begin planning for the next academic year.

The team had many questions to think about. How could they increase awareness of the café? How could they increase student knowledge of the café's offerings and get them to try the cafe? How could they encourage students to keep coming back after trying the café? How could they convince students to hang out at the café, not just buy food to take back to their dorms?