

BEANS 'N CREAM COFFEEHOUSE...AND MORE?

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This case was prepared by the author (Jaffke) and is intended to be used as a basis for class discussion. The views represented here are those of the case author and does not necessarily reflect the views of the Society for Case Research. The views are based on professional judgment.

Introduction

Good Things Happen Over Coffee...an appropriate tagline for a business that Caroline McCourt and Beth Mielcarek started in May, 2005. As Caroline pondered the last 6 years, she outwardly acknowledged, "We really initially viewed this whole thing as a hobby". Beth added, "and a place where the residents of Sun Prairie could regularly gather and enjoy each other's company." Beans 'n Cream Coffeehouse, centrally located in Wisconsin, has been in business for six years offering their customers the "3rd spot" (home, work, Beans 'n Cream)... a comfortable place where relationships can begin and grow while enjoying a good cup of coffee.

As Caroline and Beth looked to the front door of their shop, the long-winding line of customers provided a great sense of accomplishment while at the same time was disheartening. A long-standing customer walked by commenting "see you tomorrow Beth and Caroline, too many people here today". Caroline pondered whether this distraction of over-crowding would dissuade their current customers for not just the day but permanently. As Caroline moved toward the front of the shop, she knew she could solve the issue of today's crowd but the ongoing problem was another matter that needed to be addressed soon.

Background

The path of Caroline's dream commenced in 2002 as she found herself intrigued by the coffee shop atmosphere and began contemplating the idea of opening a coffee shop. With this revelation, she investigated resources such as the Wisconsin Women's Business Initiative Corporation (WWBIC) and began networking with a variety of small business owners. Through an ongoing personal education process including taking small business courses, Caroline began to realize that fulfilling her dream just might be a viable option. That vision became quite clear in the early part of 2003 as she developed a relationship with her new business partner, Beth Mielcarek. Armed with both of their business backgrounds, they visited coffee shops all across the state, not afraid to ask the owners about their experiences and for their recommendations. Additionally, they received continual hands-on training from a coffee distributor located in nearby Madison, Wisconsin. The final "ah-ha" moment came in September 2003 when they attended Coffee Fest 2003 (coffee industry convention) in Seattle, Washington. They both agreed that this was the moment when they realized they were going forward with the plan to open a coffee shop. The timeline of events for the development of Beans 'n Cream is presented in Table 1.

Table 1. Timeline of Events

| | |
|----------------|--|
| Fall, 2003 | Partnership formed between Caroline McCourt and Beth Mielcarek |
| October, 2004 | Beans 'n Cream opens with Sun Prairie shop |
| December, 2006 | Beans 'n Cream shows a profit with Sun Prairie shop |
| June, 2007 | Madison shop opened Beans 'n Cream does not show a profit |
| July, 2009 | Madison shop closed Beans' n Cream does not show a profit |
| December, 2010 | Beans 'n Cream shows a profit with only the Sun Prairie store open |

Location

Sun Prairie, a thriving community with a 2009 population of 29, 105 up from a 1990 population figure of 15,333 had experienced significant growing pains. This 47% growth rate over the course of 10 years calculated to an average annual growth rate of 4.7% (US Census Bureau, 2009) recording Sun Prairie as the fastest growing city in the state of Wisconsin. Centrally located in the state of Wisconsin, Sun Prairie provided the advantages of a suburban lifestyle while being located just outside the capital city, Madison. In respect to demographics, the community was family based with 7,881 households of which 38.3% have children under the age of 18 years old (ibid). The median age of a Sun Prairie citizen was 33 years old. The racial make-up of the city was 92.68% white with the median income for the city was \$51,345/household (ibid).

With the ongoing population growth of Sun Prairie, and the advantages of their own personal networks, Caroline and Beth felt that locating their coffee shop in Sun Prairie was an opportunity in the waiting. Knowing that the downtown area was slated for significant development, they wondered if this might be a good location. Caroline pondered this because the downtown was run-down with a significant amount of empty storefronts and quite frankly, no traffic flow. Beth stated that they realized the significant risk, but decided to look forward and pursue the downtown location for their site location. Once they made this decision, Caroline and Beth made it their goal to be the first “out of the gate” in obtaining a site.

About the Shop

In establishing a vision statement, their focus was around the Sun Prairie market.

“Our vision is to provide the people of Sun Prairie with an establishment to come and enjoy a specialty drink, pastry, lunch or possibly an ice cream. We plan on being active and contributing business owners to the community we live in. We plan on providing a place for not only current patrons of the downtown area but we are looking to serve all the new residents that will be moving into the area in the future as part of the revitalization plan.” (Mccourt, C., 2005)

Caroline remembered thinking that it was important to both Beth and her that their mission statement reflected their desire to being business owners that made a significant contribution to

the city of Sun Prairie. The idea was that their business became a part of the greater whole. As the development of the downtown area continued, Caroline and Beth secured a location at the center of the development near a small pocket park. In October, 2004, they opened Beans 'n Cream Coffeehouse in Sun Prairie, Wisconsin at 345 Cannery Street in the revitalized Cannery Square portion of downtown Sun Prairie. They were the first retail shop opened in the square with 1585 square feet leased as retail space.

The atmosphere both inside and outside of the store was themed to the story of Sun Prairie with seating indoors and outdoors. The ambiance was inviting with tapestry on the walls and a central fireplace separating the restaurant into two separate areas giving a more personal feel to each area. The complete sound system ensured a relaxed and peaceful feel to the shop's environment. A small corner of the café was carpeted and housed a play area for younger customers to socialize while providing their parents with space for some adult networking. The table and chairs, counter area, and comfy seating in front of the fireplace rounded out the "living room" feel.

Service was prescribed as a significant part of their product offering with courteous knowledgeable service a must. The staff consisted of owner operators, Caroline McCourt and Beth Mielcarek, Jeff (full time Operations Manager) and part time employees. The philosophy of service at Beans 'n Cream was to provide all employees with extensive training including an understanding of how to brew the best coffee as a "good cup of coffee doesn't just happen". Adherence to customer service policies which included but wasn't limited to prompt courteous service with a smile and a solid knowledge base of the coffee and products was absolutely mandated (Mccourt, 2005). Enhanced personal selling was regarded as an ongoing component of their promotional mix. In exchange, Caroline, Beth and Jeff offered their staff schedule flexibility and an atmosphere of open communication and feedback. Beth commented that they like to think of the operations of the shop as a team effort towards the common goal of providing their customers with the best experience. The efficiency of the operation was continually being upgraded with staff recommendations highly encouraged. An example of this was when they re-organized the machines within the kitchen in order to increase the speed at which they could serve the customer.

Their product menu included not only coffees but specialty drinks, Rishi tea, Sassy Cow Ice Cream as well as breakfast and lunch menus that relied heavily on organically produced ingredients. Their signature sandwiches, wraps, soups and salads used products from local suppliers chosen to encourage growth in the local economy. This partnership between the local suppliers drove the price point higher but customers realized and appreciated the support to the local community as well as the option of "healthy" organic foods. Caroline and Beth both felt that these two factors alone brought in more customers. Free Wi-Fi and a children's play area were additional services provided within the store. A unique offering was self-service refills with a "historic" custom of a cup using the honor system suggesting that the customer drop in coins to cover their refill. This was initially implemented to offer customers the ability to avoid standing in a line for a refill but evolved into a "charm" within the theme of the shop.

The pricing strategies were established with at the market or possibly even above the market level prices with the intention of providing a higher quality product and experience for the

customer. The competition within the Sun Prairie city limits was limited to a Starbucks and McDonalds which Caroline and Beth actually did not consider to be their direct competition. They felt that their product offerings were unique to what was offered at Starbucks and McDonalds. Additional competition was offered by Panera and other local coffee shops located within 10 minutes of Sun Prairie and located within the city limits of Madison.

Initially, the shop was open from 6:00 am- 3:00 pm each day but due to the popularity of the shop and customer requests, the hours were expanded with a close time of 8:00 pm. Additionally, the menu had expanded to include serving breakfast all day long. Other learning developed as they included beer and wine on the initial menu but removed this keeping their focus on the coffee shop concept.

The target market was diverse depending upon the time of the day. During the weekdays, the target market included stay-at-home parents with young children and retired folks meeting friends. While there were some business people gathering for lunch meetings, this group was not a main target market for this location. Evenings, the customer profile expanded to include local high school aged students.

Marketing

Local media included newspapers, such as the Sun Prairie Star, which had a circulation rate of 5,300 and the Hometown Advertiser with a circulation rate of 35,000 (American Factfinder). Being located in close proximity to Madison, the Wisconsin State Journal also served the area as a prime regional newspaper with significantly better exposure. Sun Prairie was host to two local cable access stations include KSUN-12 and KIDS 4. Additionally, Madison provided radio and television programming to the area.

Initial marketing efforts for Beans 'n Cream included front page publicity in the Sun Prairie Star announcing the opening of the store. Both Caroline and Beth maintained a wide network within the community which also contributed to a significant word-of-mouth campaign. Sales promotions were conducted for faculty and staff within the local school district including coupons and to go mugs as well as gift cards and loyalty programs. Figure 1 indicates advertising and promotional spending of \$2,812 in the first year (2004) and \$5,829 in the second year. Upon reflecting upon these efforts, Caroline stated that these efforts really had a minimal effect on the sales of the shop. A website was set up for the store at www.beansncreamcoffeehouse.com. Local newspaper advertisements and participation in the local entertainment book were contemplated but avoided with the high expense of these options. Overall, Caroline and Beth thought that the most effective marketing campaigns for Beans 'n Cream was word-of-mouth and the website.

Expansion to Madison

Riding high on their 2006 profits of over \$7,000 at the Sun Prairie location (see Figure 1), the decision was made to open an additional shop located in the American Parkway business park within a strip center of business buildings in Madison, Wisconsin. Madison's 2006 census reflected a population of over 225,000 with a ranking of the 2nd largest city in the state of

Wisconsin behind Milwaukee. This indicated a strong platform of sustainability and growth for business in the area. The location of the Madison shop was approximately 8 miles southwest of the Sun Prairie shop. Caroline and Beth carefully researched the possibilities choosing this location based upon a variety of factors including the fact that it was centrally located within a large number of business offices. The location seemed perfect with no other coffee shops in the area and certainly nothing close to the unique atmosphere of Beans ‘n Cream. To attract this new target market, the shop also offered a drive-through for the busy business person as well a reading room marketed as an ideal business meeting location. Product offerings and price points remained the same at the new location.

The result was a fairly solid morning traffic crowd with lukewarm reception on usage of the reading room. As Caroline and Beth reflected on this venture, Caroline stated that the location of the shop was the issue. Beth concurred with the statement that there was no “destination” besides work. There was really no reason for customers to frequent their shop after business hours. As time wore on and customer traffic did not pick up, they gradually reduced the hours that the shop was open. Due to financial reasons as demonstrated in Figure 1 and Figure 2, this shop was closed in July 2009. Caroline wondered if they were in closer proximity to a shopping area as well as the business center if things would have been different. Or was their product and service offering not a good match for this new target market? Or was their communication not reaching the target market?

Financial Details

Figure 1. Profit & Loss Statement Summary
 (Years 2004-2010)

| | 2004 SP only | 2005 SP only | 2006 SP only | 2007 SP | 2007 MAD | 2008 SP | 2008 MAD | 2009 SP | 2009 MAD | 2010 SP only |
|----------------------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Total Income | 54,426 | 290,353 | 399,421 | 444,062 | 152,437 | 460,564 | 227,418 | 426,613 | 111,821 | 442,116 |
| Cost of Goods | 32,421 | 102,718 | 148,331 | 157,805 | 56,434 | 166,361 | 90,867 | 156,028 | 41,767 | 148,297 |
| Gross Profit | 22,005 | 187,635 | 251,090 | 286,257 | 96,003 | 294,203 | 136,551 | 270,585 | 70,054 | 293,819 |
| Total Advertising | 2,812 | 5,829 | 9,135 | 8,382 | 4,843 | 36,797 | 16,126 | 29,175 | 5,001 | 22,904 |
| Other Expenses | 24,067 | 190,982 | 234,809 | 235,910 | 161,240 | 206,067 | 199,298 | 213,649 | 79,587 | 226,698 |
| TOTAL EXP | 26,879 | 196,811 | 243,944 | 244,292 | 166,083 | 242,864 | 215,424 | 242,824 | 84,588 | 249,602 |
| Net Ordinary Income | -4,874 | -9,176 | 7,146 | 41,965 | -70,080 | 51,339 | -78,873 | 27,761 | -14,534 | 44,217 |
| Net Other Income/Exp. | 14 | -743 | 146 | 278 | 147 | -862 | -1,364 | -563 | 4,352 | -5,872 |
| NET INCOME | -4,860 | -9,919 | 7,292 | 42,243 | -69,933 | 50,477 | -80,237 | 27,198 | -10,182 | 38,345 |

Note: all figures rounded to nearest dollar
 Advertising category: Gift cards, loyalty cards, signs, coupons, etc.

Source: McCourt, C., Mielcarek, B. (2010). Beans n’ Cream financial statements.

Figure 2. Balance Sheet Summary
 (Years 2004-2010)

| | 2004 SP only | 2005 SP only | 2006 SP only | 2007 SP and MAD | 2008 SP and MAD | 2009 SP and MAD | 2010 SP only |
|---------------------|-----------------|-----------------|-----------------|-----------------------|-----------------------|-----------------------|-----------------|
| Current Assets | 56,053 | 36,688 | 67,806 | 47,449 | 40,907 | 30,320 | 39,213 |
| Fixed Assets | 100,523 | 115,107 | 100,917 | 221,574 | 190,452 | 98,067 | 92,120 |
| Other Assets | | | | 120 | 120 | 120 | 120 |
| TOTAL ASSETS | 156,576 | 151,795 | 168,723 | 269,143 | 231,479 | 128,507 | 131,453 |

| | | | | | | | |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Current Liabilities | 11,513 | 16,654 | 26,020 | 7,732 | 10,058 | 6,501 | 4,446 |
| Long Term Liabilities | | | | 100,000 | 88,500 | 71,071 | 34,550 |
| TOTAL LIAB | 11,513 | 16,654 | 26,020 | 107,732 | 98,558 | 77,572 | 38,996 |
| Equity | 145,063 * | 135,141 | 142,703 | 161,411 | 132,921 | 50,935 | 92,457 |
| TOTAL LIAB & EQUITY | 156,576 | 151,795 | 168,723 | 269,143 | 231,479 | 128,507 | 131,453 |

Note: all figures rounded to dollar

*Includes initial partner investments: \$75,000 Caroline, \$75,000 Beth

Source: McCourt, C., Mielcarek, B. (2010). Beans n' Cream financial statements.

The Dilemma

Fast forwarding to the present, the Sun Prairie shop has become increasingly popular with long lines developing during peak hours. Caroline stated, "I wonder how long it will be before our customers tire of the crowds, congestion and waiting." She remarked that the entire ambience of the shop is based upon a relaxing atmosphere where their customers could enjoy a good cup of coffee with their friends. As Caroline and Beth reflected upon Caroline's statement, they contemplated what their next move would be. Taking into consideration the popularity of their shop coupled with the 4.7% annual population growth rate in the size of Sun Prairie, it seemed obvious to her that an expansion of some sort was a good option to solve their overcrowding issue. Beth pointed out that they needed to consider the affect of their previous expansion attempt. As shown in Figure 1, this resulted in going from a profit of \$7,292 in 2006 with just the Sun Prairie shop open to a loss of \$27,690 in 2007 and an additional loss of \$29,760 in 2008 with both shops open. Beth asked whether they really wanted to jump into another expansion project. Appendix A presents a study by Entrepreneur magazine which supports many of these

same concerns expressed by Beth and Caroline identifying the 10 most highly perceived challenges by entrepreneurs and the 10 most feared events (2007).

Conclusion

As Caroline and Beth walked back into Beans ‘n Cream, they again pondered the situation at hand. How could they maintain the atmosphere of the current shop but somehow control the traffic flow? Maintaining the current level of customer service was a major concern leaving them with the question of how they would accomplish this. They both knew that it was time to take a hard look.

References

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Appendix A.

Entrepreneur magazine and PricewaterhouseCoopers conducted a study in which they polled 281 fast-growing firms of which 77% employed less than 100 people (Hendricks, 2007). The purpose of this study was to identify the top 10 perceived challenges as well as the top 10 more feared events that could harm their venture (damage factors). The below tables indicate their findings.

Perceived Challenges:

| | |
|----|--------------------------------------|
| 1 | Retaining key employees |
| 2 | Hiring qualified employees |
| 3 | New product (or service) development |
| 4 | Expansion of U.S. market |
| 5 | Cost reductions |
| 6 | Productivity increases |
| 7 | Business alliances |
| 8 | Technology upgrades |
| 9 | Cash flow management |
| 10 | Merger or acquisition |

Damage Factors:

| | |
|----|-------------------------------|
| 1 | Shortage of qualified workers |
| 2 | Unstable economy |
| 3 | Increased competition |
| 4 | Health care costs |
| 5 | Weaker capital spending |
| 6 | Shrinking profit margins |
| 7 | Interest rates |
| 8 | Government regulations |
| 9 | Weak consumer spending |
| 10 | Energy costs |