Coffee Bean and Tea Leaf Strategic Analysis

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Group 1
Executive Summary

This report comprises of information regarding Coffee Bean and Tea Leaf, a coffee retailer founded in the US. The report will begin with an introduction of the company, discussing the origins, values and mission of the coffee retailer. This will be followed by a business canvas model, a detailed study of nine essential elements that create an idealistic portfolio of the company’s operational background and relationships. A further analysis will take the form of a Porter analysis, which defines the competition the company must face as well as external factors affecting the companies performance, such as the threat of substitutes, new entrants to the market, and the powers held by suppliers and buyers. The external analysis continues in the form of a PESTEL analysis, which focuses on the US and factors within the US that can effect Coffee Bean and Tea Leaf's course of business. Finally, a SWOT analysis will bring to reality the strengths, weaknesses, threats and opportunities faced by the company.

The report will begin to discuss Coffee Bean and Tea Leaves strategy, bringing focus to the areas they emphasize to be critical to their success. The strategy will then be plotted on a strategy map to outline the steps to be made to achieve their financial goals. The map comprises of 4 perspectives, starting from Learning & Growth, then Internal Processes, Customers, and finally the Financial. Each of these stages are analyzed individually, where the objectives of each stage are recognized and a means of measurement for each objective are made. Lastly, before the conclusion, a balance scorecard will be presented to portray a strategy map, objectives and measures that summarize the perspectives into a strategy.
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Introduction

Coffee Bean and Tea Leaf was first formed in 1963 in Los Angeles, California. This year marks their 50th anniversary in selling high quality coffee and tea around the US and Asia. Coffee Bean and Tea Leaf strive to deliver the maximum satisfaction to their customers, and do so by handcrafting their beverages to the customer’s preference (Franchisepool, 2010). Much of their success is due to their well-known customer service. Their company vision and mission revolve around this fact. Their vision is to be "simply the best roaster and global retailer of coffee and tea", and their mission is “to create a spirit within our Company that inspires our Team Members to provide our customers with a Total Quality Experience: Quality of Product, Service and Environment” (Franchisepool, 2010).

Coffee Bean and Tea Leaf currently have over 900 stores around the US and Asia. It is the largest and oldest privately held specialty coffee and tea retailer in the US with company owned stores in California, Arizona, Singapore and Malaysia. Their franchises are spread across the US and Asia, with new stores in Australia, Egypt, India and Mexico. Coffee Bean and Tea Leaf serve over 100 million coffee and tea beverages every year worldwide (Franchisepool, 2010).
Business Model Canvas

Key Partners
The key partners of Coffee Bean and Tea Leaf consist of farms from Latin America, Asia Pacific and East Africa who supply the raw ingredients to Coffee Bean and Tea Leaf stores across the US and Asia (Franchise pool, 2010). Another key partner would be the franchises across the US and Asia. These stores collectively build the brands reputation and create revenue for the brand.

Key Activities
Coffee Bean and Tea Leaf sell their products through stores owned by franchisees. They also have an online store, where customers can purchase coffee beans and coffee machines to enjoy high quality hot beverages in their own homes (Coffee Bean & Tea Leaf, 2013).

Key Resources
Coffee Bean and Tea Leaf offer high quality products made from the best ingredients they can acquire. Their key partners supply them with the best coffee beans for the best tasting coffee, and the best tea leaves from Sri Lanka, Thailand, India and Kenya to create the perfect hot beverage (Franchise pool, 2010). Another key resource is the dedicated staff that work in across 900 stores. Coffee Bean and Tea Leaf put a strong emphasis in delivering great service in their mission and values, and keep the mission and values relevant in all their stores, maintaining a strong work force to represent the brand (Coffee Bean & Tea Leaf, 2013).

Cost Structure
Coffee Bean and Tea Leaf allocate their costs across different sectors such as advertising, equipment, ingredients, human resources and transportation costs. Coffee Bean and Tea Leaf are a value-driven company, meaning that they focus on maximizing the value of their products and services rather than focusing on minimizing costs.

Value Proposition
Coffee Bean and Tea Leaf offer to their customers high quality tea and coffee sourced from exotic locations, as well as delicious food and a comfortable environment for dining in their stores. Coffee Bean and Tea Leaf distinguish themselves from their competitors by their unique recipes, high quality coffee beans, and high quality service (Franchise pool, 2010).

Customer Relationships
Face to face services is the front line of establishing a relationship. Coffee bean and Tea Leaf offer face-to-face services to frequent coffee drinkers in local stores every day. Each drink is handcrafted, the stores are designed in a comfortable way and possible gifts or accessories are given away in stores with purchases. By offering face-to-face service, the core value of Coffee bean is assured; “each Team Member is able to build bonds of trust with our customers and their guests. By demonstrating our Core Values (known as FROTH, or Friendly, Respect, Ownership, Teamwork and Honesty), we inspire all employees to treat each other with respect and to provide the Total Quality Experience our
customers have come to expect when they visit The Coffee Bean & Tea Leaf” (franchisepool, 2013).

When expecting higher performance and revenue, customer relationship management is taken into account. For franchisers, franchising support is offered. This includes almost every activity from store design to delivery; “Our real estate and development team assists in store design, stores specifications and construction. Our support team includes a dedicated Franchise Business Manager for day-to-day operations and ongoing support, as well as franchise trainers and training centers in Los Angeles, Kuala Lumpur and Singapore” (coffeebean, 2013). Meanwhile, market entry strategy suggestions are offered; “Our marketing team provides collateral, resources and guidance to increase brand visibility and help maintain the integrity of Coffee Bean & Tea Leaf name while continuing to expand and strengthen the brand around the world” (coffeebean, 2013).

Home delivery is a part of their services as well, as customers can order online now. Once a total order reaches 75 $, the shipping is free. Meanwhile, for taking care of those customers who are not familiar with online network, orders can be made over the phone.

Channels
The channel for distributing materials and other products is done by a third party distributor. By using third party logistics distributors, Coffee Bean and Tea Leaf can focus on what they do best and leave the distribution part to more professional parties. “Our 3rd party distributors are equipped with a 50,000-square-foot warehouse located in Compton, California, where our finished products are sent for distribution and shipping. Daily shipments to our stores ensure the freshest, most satisfying coffee and tea products available anywhere. Our Customer Service department, which takes care of all orders for 20 countries, is also located here” (franchisepool, 2013). Since this integrated supply chain is used, Coffee Bean and Tea Leaf can offer different solutions to different franchisers and customers in different global markets.

Another way of distributing is franchising; “We partner with qualified developers who share our passion and enthusiasm for the brand” (coffeebean, 2013).

Franchising is a good way to take full advantage of local elements, such as cultural differences, customer behavior gaps and fluctuating demand etc. Franchisers will know the local environment better then Coffee Bean and Tea Leaf itself, thus by franchising, an adaptive downstream supply chain is established; “We strive to have stores everywhere our customers work, live and play. With an ability to adapt to market-specific demands and location-specific needs, we take into consideration the environment, local community standards, cultural nuances, customer habits and market demands” (franchisepool, 2013).

Local stores are an excellent way of approaching glocalization- think globally and act locally. Coffee bean have numerous local stores in over 20 countries, and in each local store are the products which fit local demand. Selling activities are designed in a local way. For countries like the US, where demand and customer behaviors differ from city to city, local stores become especially important; “Stores – Each new location becomes a part of the community and a welcome oasis for our customers. We’re passionate about our product and proud of our company’s heritage” (franchisepool, 2013).
Customer Segments
There are several different customers segmentations. The first is 18-40 year old consumers. Customers in this segmentation are most likely students, teenagers, the working class and working parents. They value coffee and tea as a part of their lives and may feel under pressure from working, living and studying.

Yuppies are living a free life style, in which casual coffee drinking is frequent. Regular coffee drinkers can be working people who need coffee for stress relief, and elderly people drink for social gatherings and leisure.

Another segmentation is the business-to-business market (B2B), in which there is a high potential growth. Coffee Bean and Tea Leaf expressed that their products are not only offered in stores, but in B2B markets; “You can find The Coffee Bean & Tea Leaf products in grocery stores, restaurants and offices” (coffeebean, 2013).

Figure 1; Segmentation (Wordpress, 2013)
Revenue streams

The general revenues come from sales and franchising. The total revenue in 2012 is $450 million USD (wikipedia, 2013).

<table>
<thead>
<tr>
<th>Working Hours</th>
<th>Price / cup ($)</th>
<th>Total revenue per day per outlet</th>
<th>Total monthly revenue per outlet</th>
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<tbody>
<tr>
<td>Peak Hours*</td>
<td>Non-Peak Hours**</td>
<td>$6.50</td>
<td>4290</td>
</tr>
<tr>
<td>4 x 75 = 300</td>
<td>8 x 45 = 360</td>
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<td></td>
</tr>
</tbody>
</table>

*Peak Hours – assuming 75 cups sold per hour, 12 – 2 & 6 – 8 pm
**Non-Peak Hours – assuming 45 cups sold an hour

Figure 2; Expected growth (Wordpress, 2013)

Figure 3; Monthly revenue in Singapore. (Wordpress, 2013)
Figure 4: Estimated Coffee Bean and Tea Leaf (International Coffee & Tea LLC) profit in Singapore (Wordpress, 2013)

<table>
<thead>
<tr>
<th>% value</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<td>Harry’s International Pte Ltd</td>
<td>8.4</td>
<td>9.8</td>
<td>12.6</td>
<td>13.7</td>
<td>15.4</td>
</tr>
<tr>
<td>Starbucks Corp</td>
<td>17.7</td>
<td>16.8</td>
<td>15.5</td>
<td>15.3</td>
<td>15.4</td>
</tr>
<tr>
<td>International Coffee &amp; Tea LLC</td>
<td>19.0</td>
<td>16.8</td>
<td>14.8</td>
<td>15.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Sarita Coffee Co (S) Pte Ltd</td>
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<td>13.8</td>
<td>13.7</td>
<td>14.0</td>
<td>13.1</td>
</tr>
<tr>
<td>BreadTalk Group Ltd</td>
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<td>4.4</td>
<td>5.1</td>
<td>5.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Ya Kun International Pte Ltd</td>
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<td>4.2</td>
<td>3.7</td>
<td>4.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Coffee Club Pte Ltd</td>
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<td>4.0</td>
<td>4.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Baker’s Inn Holdings Pte Ltd</td>
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<td>3.7</td>
<td>5.0</td>
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<td>3.0</td>
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<td>Killiney Kopitiam Pte Ltd</td>
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<td>2.7</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
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<td>2.8</td>
<td>2.9</td>
<td>2.4</td>
</tr>
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<td>0.4</td>
<td>0.3</td>
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<td>ABR Holdings Ltd</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Compass Group Plc</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>19.1</td>
<td>12.9</td>
<td>10.7</td>
<td>9.1</td>
<td>14.7</td>
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<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure: percentage ranking of brand value globally (Wordpress, 2013)

Original source: Euromonitor International

As seen above, the brand value of Coffee Bean and Tea Leaf is ranked at third place with 14%. Starbucks as its biggest competitor ranks at the second place with 15.4%. In general, Coffee Bean and Tea Leaf is building up brand value and generating revenue sustainably.
Porter’s Five Forces of Coffee Bean and Tea Leaf

**Threat of new entrants**
Coffee is popular among different types of people from different age groups, so coffee retailers tend to appear regularly in the industry due to a lack of barriers of entry. The primary barrier is competing against well-established brands and funding the opening of a store, but coffee can be sold in small stores, or even through machines that require little space. Well-established brands dominate the market through years of operation, as well has successful marketing efforts. Even a brand such as McDonalds can enter the industry and dominate by adding coffee to their menu.

**The bargaining power of suppliers**
Suppliers have medium bargaining power since they usually come from developing countries and because of the vast competition between suppliers. The product is standardized, making dependency on one supplier non-existent. There is also an increasing demand for eco-friendly coffee, organic coffee and gourmet specialty coffee, increasing the selling price for coffee. The bargaining power of suppliers depends on the economic situation of the country.

**Threat of substitute**
Many products such as sodas and soft drinks that contain caffeine are in competition coffee and tea. As coffee and tea are also morning drinks, beverages consumed such as juices and smoothies as part of a balanced breakfast can substitute the consumption of hot beverages.
**Bargaining power of buyers**
The buyer power for Coffee Bean and Tea Leaf customers is high as there are many other coffee retailers to choose from, such as Starbucks and Costa Coffee, and since the prices of these retailers are universal, the customers face no opportunity cost in price when choosing one coffee retailer over the other. Thus, product differentiation is key to influence the customers’ decisions.

**Rivalry among existing competitors**
The rivalry among existing competitors is high. Competitors include Starbucks, McDonald’s, Burger King, Dunkin Donuts, Costa Coffee and independent coffee retailers. These coffee retailers use value added services to diversify their stores over one another, such as coffee blending, market identification and training. These can gain a brand customer loyalty, an extremely important factor that sets aside market leaders from one another.
PESTEL USA COFFEE INDUSTRY

**Political:** the most conflictive political problem for coffee’s industry is the fair trade commerce of the coffee bean. This means that there exist regulations that control the price of raw material in order not to disfavor developing countries, the general suppliers of raw materials such as coffee beans.

**Economic:** USA is ranked 20th in the consumption of coffee in the world according to www.muyinteresante.com, and recent trends in the US show an increase in awareness for organic coffee from fair trade schemes. This means customers are willing to pay extra if the countries that supply the major brands with raw materials are not discriminated.

**Social:** The United States is a busy society where time is money, and so fast services, such as ‘take away coffee’, are increasing in popularity for the working American. Coffee is also a part of Latin American cultures, which is important as there is a large demographic of Latin Americans living in the US.

**Technology:** To compete in the US, coffee retailers must position themselves well in the industry through the best forms of communications, such as online promotions through social networks and commercials in the media. As well as this, infrastructure in the US is continuously developing. This places a strong emphasis on store locations. Prime locations include within proximity of public transport stations and on route between suburban and urban areas for daily work commuters.

**Environmental:** To offer an organic coffee and to be ecofriendly is important in USA, and so Coffee Bean and Tea Leaf must be considerate about how they recycle their materials, as well as using recycled materials in store. The origin of the coffee they offer to costumers is also vital to customer satisfaction.

**Legal:** In 2001 and 2007, major changes were made regarding the global agreements regulating the prices of coffee and defending fair trade. These changes protect the consumer from being overcharged for coffee products. Apart from the laws that regulate these kind of issues, there are nonprofit organizations that gives their support to the coffee bean suppliers, helping them to get the most profit they can and not to be discriminated. These organizations tend to put pressure on coffee retailers to abide to fair trade agreements.
Swot Analysis

Strengths
- Price power
- Company’s marketing strategy
- Recruitment & training
- Environmentaly friendly
- Innovative culture
- Differentation

Weakneses
- Lack of recognition
- Increasing competitors
- Rising prices
- Weak management

Opportunities
- Technological advances
- New services
- New products
- Emerging international markets
- Innovation

Threats
- Intense competition
- Substitute products
- Economic decline of coffee industry
- Cost changes

Strengths

- **Price power:** Coffee Bean and Tea Leaf has the ability to charge premium prices whilst retain customers because of the quality of their products and services.

- **Company’s marketing strategy:** Coffee Bean and Tea Leaf prefer to own the whole unit instead of sub-franchising it because as the CEO said: “The reason is attributed largely to be limited size of the marketplace as the products are targeted at a specific niche rather than the general public...coupled with the high cost of rent, franchisees will not to be financially viable if the ownership is limited to one or two stores.”

- **Recruitment and training:** Coffee Bean and Tea Leaf want their employees to assist their customer with total quality experience based on the company’s core values: friendliness, respect, ownership, teamwork and honesty.

- **Innovative culture:**
  - Invented the trademark ‘Ice Blended’
  - New drink categories, e.g. frozen drinks
  - First specialty coffee extract producer
**Weaknesses**

- **Franchise's policy:** it is not possible for the head franchise to sub-franchise their outlets.
- **Weak management:** Franchises can have weak management systems in some franchises located in countries where work ethics aren't the same as in the US.
- **Target market:** As Coffee Bean and Tea Leaf charge a premium price for their products, it will be difficult for them to serve customers who are within their target market but may be price sensitive, e.g. students on a budget.

**Opportunities**

- **Technological advances:** as well as improving their products and services, new technology builds competitive barriers against rivals.
- **New products and services:** Coffee Bean and Tea Leaf recently began to sell coffee machines online, allowing customers to bring the high quality taste of the company’s coffee to their homes.
- **Emerging international markets:** Coffee and tea are increasing in distribution around the world and is growing in popularity because of successful coffee retailers such as Coffee Bean and Tea Leaf.

**Threats**

- **Intense competition:** The Coffee retailing industry is very competitive due to the emergence of highly successful brands such as Starbucks, Costa Coffee, McCafe (McDonald’s) and many more.
- **Substitute products:** Drinking coffee at home, or other caffeinated beverages can serve as a substitute to buying Coffee Bean and Tea Leaf beverages.
- **Economic issues:** Specialty coffee and tea are considered to be luxury goods, therefore may reduce in demand when the disposable income of household decline due to problems with the economy.
- **Political changes:** Political changes can affect Coffee Bean and Tea Leaf’s business. For example, Coffee Bean and Tea Leaf must pay import taxes when shipping in their raw ingredients from regions such as South America and East Africa. If the taxes increase, they may have to increase the cost of their products to absorb the higher import cost.
**SWOT Matrix**

<table>
<thead>
<tr>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee Machines</td>
</tr>
<tr>
<td>Introduce new beverages to a new market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value for price sensitive consumers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee Machines</td>
</tr>
<tr>
<td>Introduce new beverages to a new market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer service</td>
</tr>
<tr>
<td>Increase product line</td>
</tr>
</tbody>
</table>

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase training</td>
</tr>
</tbody>
</table>

**SO**

- The innovation of introducing coffee machines to their product line means that Coffee Bean and Tea Leaf can now bring the great taste and quality of their products to the consumers home. This can help them exceed their competition.
- The introduction of new beverages, such as ‘Ice Blended’ allow Coffee Bean and Tea Leaf to enter into emerging international markets with a stronger product line, making a bigger impact on the market.
**ST**

- To overcome the competition in the industry, Coffee Bean and Tea Leaf need to take their strongest aspects and use them to their full advantage. Their customer service is a unique selling point and can be a driving force to win customers over their competitors.
- By increasing their product lines, Coffee Bean and Tea Leaf can avoid being subject to substitutions taking their business. For example, a substitute to coffee in the Summer would be cold, refreshing drinks. By introducing beverages such as ‘Ice Blended’, Coffee Bean and Tea Leaf can continue to satisfy their customers and avoid losing sales to substitutes.

**WO**

- As Coffee Bean and Tea Leaf sell their products at a premium price due to the high quality of the products, sales can be lost by price sensitive consumers. However, through the use of promotions, such as a loyalty scheme that rewards return purchases, Coffee Bean and Tea Leaf can attract price sensitive customers as they are creating value for them.

**WT**

- Different countries carry different work ethics. For Coffee Bean and Tea Leaf, customer service is a key factor that distinguishes their company over others in the industry. The company, however, cannot monitor all franchises on a daily basis, and therefore will be oblivious to any indications of poor service or management until a review period. Training must be completed by all managers to ensure that the vision and mission of the company are translated onto the employees correctly, and to avoid poor service.
Coffee Bean and Tea Leaf’s Strategy

The strategy of the Coffee Bean & Tea Leaf will be analyzed in different aspects, such as customer aspects, product aspects and financial aspects.

Product Oriented Strategy

Coffee Bean & Tea Leaf is considered as the second largest coffee, and other related products, producer and retailer. Higher than standard quality of products is what the company is known for. The company commits to its customers to bring different tastes of coffees and teas discovered all around the world to them in the best qualified products - just as they said on their website: “Find your Flavor” isn’t just words; it’s a commitment to our customers and the foundation upon which we operate.

To assure the best quality, Coffee Bean & Tea Leaf has a clear strategy for selecting suppliers and purchasing; “We select only the top one percent of Arabica beans and first hand-plucked, whole leaf teas” and “On the road to tea perfection, we insist on staying connected to the harvest by purchasing directly from the growers - without middlemen, wholesalers, or importer-exporter” (www.coffeebean.com, 2013). The company builds up a good relationship with private and small farms so that the best conditioned materials can be delivered without any intermediate interference.

Compared with the most popular coffee drink retailers, Starbucks, the variety of products are not that high; however the company uses competitive pricing strategies which definitely take prices of competitors into account. The competitive pricing strategy shows that Coffee Bean & Tea Leaf are aiming at gaining market shares with a high standard/low price product approach.

For raw material delivery, both downstream and upstream, the company makes sure that every step is under control. The strategy can be described as integrated supply chain management. They express on their website, “we have an integrated supply chain with worldwide distribution capabilities, owning the process from seed to cup” (www.coffeebean.com, 2013). This guarantees a good level of flexibility and efficiency, which increases delivery reliability.

Customer Oriented Strategy

The Coffee Bean & Tea Leaf values its customers in a great degree. The company commits to bring customers best taste of coffee and tea. As they have said: “since opening our first café in Brentwood, California, we have always been passionate about connecting loyal customers with carefully handcrafted product” (www.coffeebean.com, 2013), customer loyalty has always been considered as an important aspect. The company aims to keep satisfying loyal customers and increase general customer loyalty.

Local store delivery and home delivery is a core strategy in their distributing channel, this assures that the company can be closer to customers and always on track with different demands. Customers will also benefit from a bonus of online ordering and free shipping if the total amount reaches 75$
It is also possible to order by phone for a home delivery, which definitely benefits customers who lack access to the Internet.

Another distribution strategy is franchising; “We partner with qualified developers who share our passion and enthusiasm for the brand” (www.coffeebean.com, 2013). Together, franchising support will be offered; “Our real estate and development team assists in store design, stores specifications and construction” (www.coffeebean.com, 2013). This franchising strategy will take advantage of local effects and capacities of partners and generate better revenue; however franchiser evaluation and selection shall also be taken into account if the company would like to maintain a good image.

Customer care management is another strategy when dealing with complaints, keeping track of new demands and build up good relationships; “We are dedicated to providing you with the excellence in the products we sell, the services we provide and the environments where you shop. We care about what you have to say about your relationship with us, the quality of our products and your experience as a customer” (www.coffeebean.com, 2013).

The marketing strategy used can be described as glocalization- think globally and act locally. The company has global products, which are planted world wide, and to satisfy local customers in the best way several products are adapted to local demands, some new innovated tastes are even established. The sale activities also adapt to local environments. In Europe, Christmas is a good period when sale increases, however in Asian sales only increase according to local holidays, vacations and festivals.

To give customers motivation and inspiration in modifying and customizing their own drinks, the company has innovated a self –served system for their coffee called CBTL. “CBTL was launched in the United States, Singapore, Malaysia, Philippines and Korea in, 2010 and was referred to by CEO Mel Elias as the company’s “biggest innovation to date.” The System is available in department stores and retail outlets in the United States, Korea, Malaysia, Philippines and Singapore. CBTL is additionally distributed in Thailand, United Arab Emirates and Brunei” (www.coffeebean.com, 2013).

Financial oriented strategy
Coffee Bean & Tea Leaf is a private Limited Liability Company; their financial goals will be to generate profit for investors and stakeholders. Thus, Coffee Bean& Tea Leaf is positioning customers and products at a high level, but not forgetting its shareholders and investors. The general strategy of the company can be phrased as “to generate revenue and realize potential profits for our stakeholders by satisfying customers with the best qualified and innovative product and services” (www.coffeebean.com, 2013).

The Critical Success factors
As showed in the chart, several aspects need to be reached before realizing long-term goals. What needs to be mentioned is that these factors are not only directly
related to success, but also related to each other; thus achieving success is not only an inside-out process but also an internal-internal related goal-approaching program.
The following strategy map outlines the objectives within 4 perspectives that must be considered when formulating a strategy. It works on an ‘if/then’ basis, for example, if Coffee Bean and Tea Leaf employ highly skilled workers and train them to become knowledgeable and productive employees, then they will be capable of delivering the best tastes and aroma in stores. This capability will increase customer satisfaction, and thus increase the company’s revenue.
### Learning and Growth

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measure (PIs)</th>
<th>Target (1 year)</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledgeable employees</td>
<td>% Of time spent on training</td>
<td>Employees spend 10% of their time training at work</td>
<td>Regular assessments</td>
</tr>
<tr>
<td></td>
<td>% Of higher positions filled</td>
<td>Employees spend 10% of their time training at work</td>
<td>Mentoring and continuous learning</td>
</tr>
<tr>
<td></td>
<td>internally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of organizational culture</td>
<td>Organizational Culture</td>
<td>Identify where changes are desirable</td>
<td>Create an OCQ for employees</td>
</tr>
<tr>
<td></td>
<td>Questionnaire</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee productivity</td>
<td>Increase in revenue per</td>
<td>Increase employee output by 20%</td>
<td>Time management, Multi-skill development</td>
</tr>
<tr>
<td></td>
<td>employee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee retention</td>
<td>% Of attrition rate</td>
<td>Reduce attrition rate by 20%</td>
<td>Incentives &amp; Perks, Talent management interviews</td>
</tr>
<tr>
<td>Franchising support</td>
<td>Franchiser satisfaction level</td>
<td>Above 90%</td>
<td>By understanding franchiser demands</td>
</tr>
<tr>
<td></td>
<td>Franchiser profitability</td>
<td>Above 15%</td>
<td></td>
</tr>
<tr>
<td>Social responsibility process</td>
<td>Company reputation score</td>
<td>80 from scale 1 to 100</td>
<td>Charity participation (Caring Cup)</td>
</tr>
<tr>
<td>(brand image)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Knowledgeable Employees**

Employees are a key asset to an organization. Their input into daily operations generate the output of the organization, thus the quantity and quality of the outputs are dependent on the skills and knowledge of the employees. As part of the Learning & Growth of an organization, a key objective is to ensure a knowledgeable workforce. This can be achieved during the hiring process, that is, assessing individuals from a large pool of potential employees and acquiring the best for the job. Coffee Bean and Tea Leaf hire for their core values, and identify candidates who match the characteristics of their vision and mission. With Coffee Bean’s growth and expansion, they offer their employees opportunities of career advancement through continuous development (Coffee Bean & Tea Leaf, 2013). The knowledge of the employees can be measured by the percentage of time that is spent training them regularly, and by the percentage of higher positions in the organization filled internally, that is, by employees who started working from the bottom of the hierarchy to higher positions.

**Nature of Organizational Culture**

Organizational culture is the personality of the organization, comprising the assumptions, values, and norms of organizational members and their behaviors (McNamara, 2013). This has a direct link to how an organization operates on a daily basis. How employees behave and react to one another determines how well they work together and communicate. How an employee values the organization determines his loyalty to the company and his level of productivity. Through an Organizational Culture Questionnaire (OCQ), an organization can distinguish and measure what kind of organization they operate under (Clan, Adhocracy, Hierarchy, or Market), and identify where changes may be desirable. Organizational change is a difficult process, especially for well-established organizations (Tharp, 2009). Coffee Bean follow a Clan organization. This is evident because of their open and friendly environment where workers share a
lot of themselves. The leaders are perceived as mentors, and group loyalty is strong. There is an emphasis on long-term human resource development (Tharp, 2009).

**Employee Productivity**
A strong determinant for an organization's success is the level of productivity from its employees. A high rate of productivity means high levels of output, thus an increase in revenue. As productivity can be a collective effort, it is vital to measure the productivity of an individual employee rather than the organization as a whole. Coffee Bean provides training for their employees in time management and multi-skill development to ensure a productive workforce, and can measure the progress of each employee's development through the revenue they make for the organization.

**Employee Retention**
The management of an organization must provide for their employees' financial and social needs if they wish to keep them, as well as other needs every individual can fulfill in the workplace. Coffee Bean have a generous benefit plan for their employees to reduce attrition and increase retention. Included in the benefit plan are medical, dental and vision insurance, flexible spending accounts, disability protection, life insurance, a retirement plan, and a pre-paid legal service plan. As well as this are team member perks and work-life programs. These are programs and services for employees to help them achieve a balance between their work and home lives (Coffee Bean & Tea Leaf, 2013). The employee retention rate can be measured by analyzing the attrition rate regularly. A low attrition rate means that less employees leave Coffee Bean & Tea Leaf to find new work.

**Franchising Support**
There are over 900 Coffee Bean and Tea Leafs operating in the US and Asia. In order to keep these stores in line with the mission and values, as well as ensuring that each store is supplied with the correct ingredients and equipment needed to function, Coffee Bean and Tea Leaf regularly monitor the progress of the stores and receive feedback from the franchisers. This feedback can measure the satisfaction and profitability of the stores, and indicate where improvements need to be made and if the demands of a store are not met. Franchisers profitability will be measured by the gross margins of the franchisers, and then different franchisers in different markets shall be analyzed based on the margin or growth, thus an adaptive company strategy and franchising strategy can be established.

**Social Responsibility Process**
Brand image is a major concern for all brands. They want to be perceived as a contributor to a positive movement rather than the source of a problem. The reputation score of a company can be conducted in the form of questionnaires. A high score can be earned by showing the public a constant attempt to being charitable, or by creating a charity. The correlation between social responsibility,
charity and reputation can be found by applying this PI. Caring Cup is a scheme run by Coffee Bean and Tea Leaf with their suppliers from third world countries. This scheme ensures the farms used to grow their raw materials use environmentally safe methods of cultivation, and fair wages for the labor put into the farms (Franchisepool, 2010).

<table>
<thead>
<tr>
<th>Internal</th>
<th>Objectives</th>
<th>Measures (PIs)</th>
<th>Targets (1 year)</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>To keep the best quality of product (use the best ingredients)</td>
<td>Supplier reliability</td>
<td>Maintain 99.9%</td>
<td>By assuring the quality of material (Quality control)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchase reliability</td>
<td>Maintain 99.9%</td>
<td>By assuring the condition of transportation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distribution reliability</td>
<td>Maintain 99.9%</td>
<td>By applying quality control to purchasing process</td>
<td></td>
</tr>
<tr>
<td>To keep the best quality of tea (use the best ingredients)</td>
<td>Supplier reliability</td>
<td>Maintain 99.9%</td>
<td>By assuring the quality of material</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchase reliability</td>
<td>Maintain 99.9%</td>
<td>By assuring the condition of transportation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distribution reliability</td>
<td>Maintain 99.9%</td>
<td>By applying quality control to purchasing process</td>
<td></td>
</tr>
<tr>
<td>To maintain and increase customer satisfaction level (deliver the best taste and aroma)</td>
<td>Delivery reliability</td>
<td>Maintain 95%</td>
<td>By understanding customer and deliver correct products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer complaints</td>
<td>Below 5% of Feedback</td>
<td>By dealing with customer complaints</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer satisfaction to different products</td>
<td>Maintain 90% positive feedback</td>
<td>By understanding customer and deliver correct products</td>
<td></td>
</tr>
<tr>
<td>To increase loyal customers and generate more revenue</td>
<td>Repeat business percent</td>
<td>80%</td>
<td>By giving loyalty bonus</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Franchisees evaluation score</td>
<td>70 (from scale 1 to 100)</td>
<td>By offering full angle franchising opportunities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Franchisees retention rate</td>
<td>Above 95%</td>
<td>By understanding franchisee demands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer satisfaction of franchisees</td>
<td>Above 90%</td>
<td>By building up good franchisee relationship</td>
<td></td>
</tr>
<tr>
<td>To expend local network and increase revenue (franchising opportunities &amp; process)</td>
<td>B2B market growth</td>
<td>10% growth</td>
<td>By understanding B2B market demands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gross margin in B2B</td>
<td>15% growth</td>
<td>By being adaptive to different demands</td>
<td></td>
</tr>
</tbody>
</table>
It shall be mentioned that since there are very limited financial data directly related to Coffee Bean and Tea Leaf, the general data of coffee drinks and hot drinks industry are used. Meanwhile, competitive strategy is used in which the financial data of Starbucks is also taken into account.

**Use the Best Ingredients**

By using the best ingredients for their products, Coffee Bean and Tea Leaf can ensure high quality products for every sale made, but it's not enough to ensure the quality of the final product. The ingredients must be supplied by a reliable source, purchased to the correct specifications, and delivered on time. Supplier reliability is measured by the percentage of qualified products in total purchased from suppliers. Purchasing reliability is measured by the percentage of correct purchasing orders made. Delivery reliability measures the on-time and correct deliveries to customers in total of all deliveries.

**Deliver the Best Taste and Aroma**

Coffee Bean and Tea Leaf are constantly developing their products, and rely on customer feedback to evaluate whether their products need improvements or not. By the rate of positive feedback from customers, they can measure the rate of customer satisfaction. Negative feedback and complaints are taken into account to make improvements to the products or service.

**Increase Loyalty**

Loyal customers will always benefit a company for they will not only are they a strong source of revenue, but a free means of promotion for the company. Repeat business rate is measured by the percentage of frequently repeated buying activities from customers in total of the whole sales. It will give a better view of how customer loyalty influences the buying activities.

**Franchising Opportunities and Process**

It is important for Coffee Bean and Tea Leaf to monitor the franchises that carry their name across the US and Asia. This can be done through an annual evaluation of the franchises. A Franchiser evaluation form will be distributed yearly based on different relevant factors, then an evaluation score will be given. High performance franchisers will be rewarded. As for maintaining franchises, a retention rate must be monitored. A Franchiser retention rate is the percentage of remaining franchisers in total since the beginning of the year. This should be monitored annually.

**Business to Business Processes**

As the process of Coffee Bean and Tea Leaf's products must pass through different stages operated by different bodies, such as from the supply of raw ingredients to the final product made in stores, the business to business process must be efficient and reliable. B2B market growth and gross margins will be analyzed, which then can be used to establish a B2B market strategy.
# Customer

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures (PIs)</th>
<th>Targets (1 year)</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase and maintain customer satisfaction</td>
<td>Satisfied-customer index (%)</td>
<td>Increase it by 21%</td>
<td>Improve performance according to customer suggestions</td>
</tr>
<tr>
<td></td>
<td>No. of customer complaints</td>
<td>Reduce in 2% the number of complaints</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer-loyalty index (%)</td>
<td>Increase it by 7%</td>
<td></td>
</tr>
<tr>
<td>Increase customer relationships</td>
<td>Number of customers per year</td>
<td>Increase this number to 60.000.000</td>
<td>Increase online activity through the official web page and social media</td>
</tr>
<tr>
<td></td>
<td>(52.000.000)</td>
<td></td>
<td>Increase franchising</td>
</tr>
<tr>
<td></td>
<td>Customer retention</td>
<td>Increase this ratio to 15%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer acquisition</td>
<td>Increase this ratio to 25%</td>
<td></td>
</tr>
<tr>
<td>Promote brand image and</td>
<td>Customers lost (9 %)</td>
<td>Reduce it to 4%</td>
<td>Participate in local community events, promote healthy living</td>
</tr>
<tr>
<td>reputation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market Share (11%*)</td>
<td>Increase this ratio to 13%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brand-image index</td>
<td>Increase this ratio by 4%</td>
<td></td>
</tr>
<tr>
<td>Increase customer</td>
<td>Marketing cost as a % of sales (%)</td>
<td>Increase this ratio to 7%</td>
<td></td>
</tr>
<tr>
<td>profitability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sales volume (1$ Billion)</td>
<td>Increase to 1.3$ Billion</td>
<td>Increase return purchases through promotions</td>
</tr>
<tr>
<td></td>
<td>Sales per channel</td>
<td>Increase store sales by 2% and delivery by 6%</td>
<td></td>
</tr>
</tbody>
</table>

*Market share level has been established by the interpretation of the coffee retailers industry data

---

**Maintain and Increase Customer Satisfaction Level**

Coffee Bean and Tea Leaf drive to maximize customer satisfaction, and do so through their high quality products and service. To record customer satisfaction, an index is established to bring the collective feedback from all stores. This index is key to bringing improvements to their product line and in-store services. It isn’t uncommon to receive complaints from customers, which is why it is important for Coffee Bean managers to recognize any dissatisfactions within the stores and deal with them promptly. As a performance indicator, the complaints can indicate where there is room for improvement to avoid future dissatisfaction.
from the same cause. As for customer loyalty, a loyalty index can show regular purchasing trends and return purchases, which can serve as a performance indicator showing various strengths and weaknesses of the franchises and how they gain loyal customers.

**Increase Customer Relationships**
In order to attract new customers and create value for Coffee Bean and Tea Leaf customers, it is necessary to improve the relationship between the brand and its customers. A strong relationship will create loyal customers, and it is easier to keep loyal customers than to acquire new customers.

The number of customers Coffee Bean and Tea Leaf serve annually is a performance indicator that can portray the popularity and progress of the company. The annual number can be increased by opening additional stores, or else by improving their relationships with customers through the media and online. As for customer retention and acquisition, Coffee Bean and Tea Leaf strive to maintain their customers and attract new ones. As a performance indicator, customer retention and acquisition can portray whether Coffee Bean and Tea Leaf’s efforts in marketing and promotion are effective or not.

**To Increase Brand Image and Reputation**
How the public view Coffee Bean and Tea Leaf as a brand is vital towards their long-term sales. This is because the public will not want to associate themselves with something negative to their health or the community. By stores participating in the local community, and by promoting a healthy lifestyle, Coffee Bean and Tea Leaf can create a positive brand image and favorable reputation. Coffee Bean and Tea Leaf’s market share in the US market is a good indicator of their performance. Coffee Bean and Tea Leaf are ranked second in the US behind Starbucks (Coffee Bean & Tea Leaf, 2013). Another indicator would be a brand image index, which could show how individuals portray the brand, and then their collective opinions form a more universal opinion.

Marketing costs as a percentage of sales is an important indicator to measure whether the marketing efforts contribute to the sales being made annually.

**To Increase Customer Profitability**
By increasing sales volumes, Coffee Bean and Tea Leaf can increase their profits substantially, but this is easier said than done. How they can increase their sales from an individual customer can translate to an increase in customer profitability, which can be achieved by increasing their return purchases from customers. Return purchases can be achieved through promotions and loyalty schemes, bringing value to the customers and continuous sales to Coffee Bean and Tea Leaf. The sales volume in a year can serve as an indicator of Coffee Bean and Tea Leaf’s performance in increasing customer profitability. If sales increase rapidly, but customer numbers increase at a slower pace, it would become evident that return purchases from already acquired customers are increasing, making these customers more profitable.
## Financial Objectives

<table>
<thead>
<tr>
<th>Measures (PIs)</th>
<th>Targets (1 Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
</tr>
<tr>
<td>Gross Margin (55.9%)</td>
<td>56.9%</td>
</tr>
<tr>
<td>Net Profit Margin (12%)</td>
<td>14%</td>
</tr>
<tr>
<td>ROCE (22%)</td>
<td>26%</td>
</tr>
<tr>
<td>ROI (12%)</td>
<td>14%</td>
</tr>
<tr>
<td>Cash flow from operations ($830,000)</td>
<td>$900,000 (+8.43%)</td>
</tr>
<tr>
<td>Comparable stores growth (4%)</td>
<td>7%</td>
</tr>
<tr>
<td>Net Revenues (450$ million)</td>
<td>480$ million (+6.7%)</td>
</tr>
<tr>
<td>Revenues from new products</td>
<td>20%</td>
</tr>
<tr>
<td>Revenue per employee ($39,500)</td>
<td>$42,000 (+6.33%)</td>
</tr>
<tr>
<td>Price earnings ratio</td>
<td>1$ for every 2.81$ of earnings</td>
</tr>
</tbody>
</table>

*PI’s and targets are estimates taken from the financials of the coffee industry (Starbucks, Costa Coffee, Dunkin Coffee, etc.). There isn’t public financial information of “Coffee Bean and Tea leaf”.

### Increase Profitability

The future growth of Coffee Bean and Tea Leaf relies on increasing their profitability. The following are performance indicators for increasing profitability:

**Gross Margin:** This ratio measures how much profit the company can make on each dollar of sales before expenses. Coffee Bean and Tea Leaf has a gross margin of 55.9%, and the target is to improve it to 56.9% in a year. A high gross margin means that company’s situation is going well because it indicates that either the sales prices are high or that production costs are kept under control.

**Net Profit Margin:** This ratio measures how effective the company is at generating profit on each dollar of revenue it brings in. As well as the gross margin, a high net margin means that the company’s situation is going well as it indicates that either the sales prices are high, or that all costs are being kept well under control. Coffee Bean and Tea Leaf has a net margin of 12%, and the target is to improve it to 14% in a year.

**Return on Capital Employed:** This ratio measures the company’s success and efficiency in generating satisfactory profit on capital invested and employed. A high ratio shows more efficient use of capital, and a low ratio shows less efficient use of capital. Generally, ROCE should be higher than the capital cost; if not, it shows that the company is not employing the capital effectively. Currently, Coffee Bean and Tea Leaf’s ROCE is about 22% and the target is to increase it to 26%.
**Return on Investments:** Is the value that measures the performance of an investment, to assess how efficient Coffee Bean and Tea Leaf are spending or are planning to perform. The higher the value of the ROI, the better. A negative ROI means Coffee Bean and Tea Leaf are losing money. The target is to improve Coffee Bean and Tea Leaf’s actually ROI by 2% in a year.

**Operating Cash Flow:** This ratio is the cash version of net income, namely, the cash flow after adjusting for operating differences such as depreciation and before adjusting for investments or financing. Target: from $830,000 to $900,000 in a year (an increase of 8.43%).

**Revenue Growth**
The following are performance indicators for revenue growth;

**Revenue from new products:** The general strategy is to generate revenue and realize potential profits for stakeholders by satisfying customers with the best-qualified and innovative products. Innovation is one of Coffee bean and Tea Leaf's main strengths, so the company should improve its revenue by offering new products to its customers. To get a 20% increase in revenue from new products would be a good target for the company.

**Net revenue:** Is the difference between total revenue and total cost, and it refers to accounting profit rather than economic profit. Their target is to increase net revenue from 450$ million to 480$ million in one year (an increase of 6.7%).

**Comparable stores sales growth:** This compares sales of retail stores that have been open for a year or more. This ratio allows the company to measure the productivity in revenue and whether the company's sales are increasing or decreasing over time. Their target is growing from 4% to 7%.

**Revenue per employee:** This ratio measures the amount of sales generated by one employee, namely, it shows the company’s sales in relation to the number of employees it has. Currently, Coffee Bean and Tea Leaf’s revenue per employee is $39,500 and the target is to get $42,000 (increase it by 6.33%).

**Price earnings ratio:** this ratio shows how much investors are paying for each dollar or earnings. We can calculate it by dividing the company’s market value by its net profit. Coffee Bean and Tea Leaf’s investors are paying 1$ for every 2.81 dollars of earnings and our target is that investors will pay 1$ for every 3.48 dollars of earnings.
### Balanced Scorecard

<table>
<thead>
<tr>
<th>Strategy map of objectives</th>
<th>Objectives</th>
<th>Measures</th>
</tr>
</thead>
</table>
| **Financial**             | Profitability | ✧ Gross Margin  
                                ✧ Net Profit Margin  
                                ✧ ROCE  
                                ✧ ROI  
                                ✧ Cash flow from operations  
                                ✧ Net Revenues  
                                ✧ Revenue per employee |
| **Customer**              | Customer Relationship  
                                Image | ✧ Satisfied-customer index (%)  
                                ✧ No of Customer Complaints  
                                ✧ Customer-loyalty index (%)  
                                ✧ Customer retention  
                                ✧ Customer acquisition  
                                ✧ Market Share  
                                ✧ Brand-image index |
| **Process**               | Deliver best service | ✧ Supplier reliability  
                                ✧ Purchase reliability  
                                ✧ Distribution reliability  
                                ✧ Supplier reliability  
                                ✧ Purchase reliability  
                                ✧ Distribution reliability  
                                ✧ B2B market growth  
                                ✧ Gross margin in B2B |
| **Learning & Growth**     | Relationship with Employees and Partners | ✧ % Of time spent on training  
                                ✧ % Of higher positions filled internally  
                                ✧ Organizational Culture Questionnaire  
                                ✧ % Of attrition rate |
Conclusion
After 50 years, Coffee Bean and Tea Leaf have grown to be the oldest and largest privately held specialty coffee and tea retailer in the US (Franchisepool, 2010). Their focus on customer service and quality within their products have led to the growth of the company at a rate of 1 new store every 4 days, and currently serving 1,000,000 customers around the world each week (Franchisepool, 2010). By proceeding with their current strategy based on maximizing customer satisfaction, maximizing product quality, innovating their product line, and maintaining their reliable delivery, Coffee Bean and Tea Leaf can continue to grow in hopes of becoming the market leader. Areas Coffee Bean and Tea Leaf should pay particular attention to is to further promote their brand image and reputation. This can aid the process of customer acquisitions, and in turn increase their revenue.

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Business Model Canvas

The Business Model Canvas

Key Partners
Small Farm Suppliers Coffee machine manufacturers Franchisers Outsourcing Distributors

Key Activities
Social responsibility activities Sell coffee + Bags Purchasing + Quality control

Key Resources
Best coffee ingredients Good staff

Value Propositions
Gourmet coffee + tea Quality Service Comfortable place to drink Price Image Cold beverages Original recipes

Customer Relationship
Face to face service Home delivery Franchising support

Customer Segments
18 - 40 year old Regular coffee drinkers B2B customers High segment Yuppies

Channels
Delivery Franchising Our stores

Cost Structure
Transportation Equipment Buy coffee & other ingredients Rent + Overheads Employees

Revenue Streams
Sales + Franchising

www.businessmodelgenerator.com