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COFFEE HOUSE BUISNESS PLAN

Executive Summary

The concept

Thanks primarily to Starbucks, within the past 20 years the coffeehouse has become a familiar feature of American life. Every day, millions of Americans stop for an espresso-based coffee drink. People who would not have dreamed of spending more than 50 cents for a cup of coffee a few years ago now gladly pay \$3 to \$5 for their cappuccino, mocha latte or vanilla ice blended drink.

The specialty-coffee business is growing at a healthy pace. During the past 20 years, there has not been a single year, despite war and recession, in which specialty coffee sales have not grown. In many years the increase has been in double digits. In addition, no coffeehouse chains have failed during this time, although the list of casualties in other industries is quite long.

Starbucks, The Coffee Bean, Peet's, Diedrich's and other major chains serve average quality drinks in establishments that have the same generic design appearance. Indeed, Starbucks and The Coffee Bean are often referred to as "fast food" coffeehouses due to their "cookie cutter" design. Now that Americans' coffee preferences have broadened and matured, many are asking for more from their coffeehouse.

A niche exists that has yet to be filled for a high-volume, upscale, quality-driven coffeehouse with a warm, inviting atmosphere. Dark Roast Java meets this need and fills this niche. We offer high-quality products in an upscale environment. Furthermore, our high-profile location in Pleasantville provides a mixed customer base that will maintain high levels of business in every season, at all times of the day, every day of the week.

Founders

Ned Powers-Sebastiane, founder of Dark Roast Java, has a long career as an entrepreneur and marketing executive. He is the founder of Powers-Sebastiane Advertising & Public Relations and Pan National Motor Tours. Co-owner Curt Yamaguchi has an intuitive understanding of the real estate market. As a highly successful real estate broker and investor he brings several key capabilities to the Dark Roast Java team, not the least of which is his ability to procure highly desirable locations for future stores.

Financials

The company anticipates rapid acceptance of the Dark Roast Java concept in Pleasantville, with revenues of \$600,000+ in the first fiscal year, rising to more than \$1,000,000+ in year three. Net profit is projected to be approximately \$99,000 in year one, growing to an estimated \$265,000 by year three.

An advanced and expandable point-of-sale system

After carefully tracking the performance of the Pleasantville store through an expandable and highly detailed point-of-sale system, we will use this as a "blueprint" for expansion. For example, daily sales are tracked and analyzed by item, time period and cost of goods. Labor requirements are matched to projected in-store sales based upon past performance for maximum efficiency. Even after paying higher than average wages, we expect to allocate no more than 25% to labor costs.

Objectives

- Make Dark Roast Java the number one destination for coffee in Pleasantville
- Sales of \$600,000+ the first fiscal year, \$750,000+ the second fiscal year and \$1 million the third fiscal year
- Achieve a 15% net profit margin within the first year and 30% by FY3
- Achieve a total net profit of \$150,000+ in FY1 and \$200,000+ by FY3
- Be an active and vocal member of the community, and provide continual re-investment through participation in community activities such as the Chamber of Commerce and financial contributions to local charities and youth organizations
- Create a solid concept in the industry and track performance in order to begin expanding to other markets within six months

Keys to Success

The keys to our success will be:

- A superior-tasting product backed by a unique quality store
- A relaxing, upscale interior design
- Prime site selection with an upscale affluent population, year-round tourist activity, heavy pedestrian traffic by the site, a dynamic student population and a concentration of local businesses
- A market that exposes Dark Roast Java to high-profile "trend-setters" and "key influencers"
- Ongoing, aggressive marketing
- Highly trained and friendly staff
- Multiple revenue streams including gift items, gift baskets and coffee gift/frequency cards in addition to coffee, pastry, chocolates, tea, juice, water and soft drinks
- A dynamic website with online sales capability

Mission

Our goal is to be the coffeehouse of choice for the local Pleasantville community, downtown business workers, tourists who visit the city, and students, by providing a higher quality experience than any competitor. As a result, we intend to create coffeehouses that quickly achieve profitability and sustain an attractive rate of return (20% or more annually) for our investors.

We also want to make our contribution to the welfare of the local community by supporting charitable and civic activities. We will support the farmers who grow our coffee by using Fair Trade, Sustainable Production and Organic products whenever possible.

Dark Roast Java also awards its business to as many local suppliers as possible, keeping the business in the community or, at the least, in the state. and sustain an attractive rate of return (20% or more annually) for our investors.

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Company Summary

Dark Roast Java launches with its first coffeehouse located in downtown Pleasantville. Dark Roast Java will offer residents and visitors a totally new style of coffeehouse - one offering a uniquely flavorful coffee drink and a comfortable, upscale environment at which to socialize, relax or work.

- **Variety:** No other coffeehouse in the area will provide the range of coffee drinks, tea, cocoa, juice, smoothies and other products that Dark Roast Java does.
- **Location:** Dark Roast Java will be located in the prime section of downtown Pleasantville in the heart of the shopping and entertainment district. Dark Roast Java locations are designed for high volume year round, with revenues and profits to match.
- **Expansion:** Assuming this store is successful, it will be the first of a chain of Dark Roast Java coffeehouses located in markets that have similar demographic profiles, significant traffic by the store, year-round tourist activity and a sizeable student population.

The Dark Roast Java Concept

At one time Cadillac was the acknowledged quality automobile in America. Then came Mercedes-Benz. And then Lexus, with its superb product and service approach. Dark Roast Java will be the first "Lexus" of the coffeehouse chain industry, offering a higher quality product and better quality service in an exceptional environment. The only coffeehouse that comes close to being as upscale as our concept in the Pacific Northwest is Torrefazione, with its high style Italian decor (they were recently part of a \$72 million dollar buy-out by Starbucks).

product, and by making small incremental improvements in the costs of items we expect to increase overall COG by a minimum of 5% during the first year of operation. As expansion occurs, the POS system can be adapted to each individual location and allow the central office to monitor the stores remotely as well as the overall combined operation. Close monitoring will allow us to achieve a high level of communication between stores as well as spot problems immediately and take corrective action.

Sales Forecast

Conservatively, we are forecasting an average of 300 customers per day during the first year with an average guest check expenditure for all items of \$4.10. This figure was arrived at by surveying the customer traffic at the nearest competing coffeehouses which have a range of 150 - 500 customers per day and an average customer expenditure of \$4.10. We have estimated our customer expenditure to be slightly higher (2.5%) due to the premium price we will charge for some of our items. Total cost of sales is approximately 25%. We expect growth to occur across all categories at about 10% annually as the business becomes more established and well-known, reaching 400+ customers per day within a year and more than 500+ within three years. These estimates are likely conservative. However, it is possible we could attain a 1,000-per-day customer count within three years. Dark Roast Java sells high-quality specialty coffee beverages,

tea, juice, water, soft drinks, pastries, chocolates and gift items. Despite being an upscale coffeehouse, our prices are in line with the leading national chains.

Product Description

The Dark Roast Java menu sets us apart from other coffeehouses, giving us a competitive edge.

We offer six groups of drinks—coffee, tea, Italian sodas, smoothies, juice and cocoa—with several choices within each group. This enables us to provide more variety than our competitors while keeping

The first Dark Roast Java is located in Pleasantville. Other Dark Roast Java coffeehouses will eventually be located in select affluent markets that support the business model (e.g. Mount Hill, Newburg, Springfield, Bayview, Orchard Valley, Beachey Head, Capital City). Dark Roast Java offers a superior coffee product, delicious pastries, fresh juices, the finest tea drinks, Ghirardelli cocoa, gourmet chocolates and gift items.

The Dark Roast Java staff members who prepare the coffee (baristas) are highly trained and experienced. They know how to prepare an excellent espresso-based drink and brew tasty coffee. We use the highest quality equipment and ingredients to deliver a noticeably superior product.

Our design style is different from all other coffeehouses, an upscale "Cote d'Azur" look. It features stained glass decorations, art glasswork, Mediterranean Riviera style furnishings and outdoor dining.

Dark Roast Java is a privately held corporation. It is registered as a state LLC Corporation, with ownership shared by Ned Powers-Sebastiane, Victor Lubitsch, Curt Yamaguchi and other outside investors.

Start-up Summary

Start-up expenses are in line with those of other coffeehouse chains. For example, Starbucks spends approximately \$380,000 on average to build-out a new store location. Our costs are an estimated \$225,000 and \$25,000 for opening inventory and operating capital. Future stores should cost no more than \$175,000 to build out since many of the costs incurred here will not have to be repeated later.

The Start-up requirements, below, include \$77,000 of short and long-term assets.

Long term assets: \$62,000

Undercounter Refrigerators	\$5,000
Service/Prep Counter	\$12,000
Ice Machine	\$3,500
Large Refrigerator	\$1,000
Milk Coolers (3)	\$1,000
Cash register (2) Point of Sale System	\$14,000

Espresso Machine	\$11,000
Fetco Coffee Brewer	\$2,500
Counters/Condiment bar/shelving	\$12,000

Short-term assets: \$15,000

Tables, Chairs, Furnishings	\$12,000
Persian Carpet	\$1,000
Lighting Fixtures	\$2,000

COFFEE

Coffees of the day: Dark Roast Java Blend, Riviera Roast, and Molokai Swiss water process DeCaf.

\$1.60 Regular \$1.85 Large

ESPRESSO

<u>Name</u>	<u>Description</u>	<u>Regular</u>	<u>Large</u>
<i>Espresso</i>	A double shot of straight espresso.	\$1.75 Double	
<i>Caffe Americano</i>	Espresso combined with hot water, a gourmet brewed coffee.	\$1.85	\$2.25
<i>Cappuccino</i>	Espresso with a smooth topping of milk foam.	\$2.50	\$3.50
<i>Caffe Latte</i>	Espresso combined with steamed milk, topped with a small amount of velvety milk foam.	\$2.75	\$3.25
<i>Caffe Mocha</i>	A Caffe Latte combined with Ghirardelli chocolate, topped with whipped cream and chocolate shavings.	\$3.00	\$3.75
<i>Espresso Macchiato</i>	A straight shot of espresso topped with a spoonful of rich milk foam.	\$1.75	\$2.50
<i>Espresso Con Panna</i>	A straight shot of espresso topped with a generous dollop of whipped cream.	\$1.75	\$2.50
<i>Espresso Latte Breve</i>	Our famous latte made even more creamy with half and half.	\$2.50	\$3.50
<i>Espresso "Red Eye"</i>	Espresso combined with our gourmet coffee of the day to get your day going.	\$2.00	\$2.75

COFFEE DRINKS

<u>Name</u>	<u>Description</u>	<u>Small</u>	<u>Large</u>
<i>The Banana Nut Java</i>	Coffee. Warm milk. Banana, macadamia nut and vanilla syrups. Topped with whipped cream and cinnamon dusting.	\$2.75	\$3.75
<i>The Cafe Milano</i>	Coffee. Warm milk. Amaretto and vanilla syrups topped with whipped cream and almonds.	\$2.75	\$3.75

FLAVORED ESPRESSO DRINKS

All flavored drinks feature quality Monin and Ghirardelli syrups.

<u>Name</u>	<u>Description</u>	<u>Regular</u>	<u>Large</u>
<i>Vanilla Cappuccino</i>	Cappuccino made with vanilla flavored milk foam.	\$2.50	\$3.50
<i>Vanilla Latte</i>	A Caffe Latte with vanilla essence added.	\$3.00	\$4.25
<i>White Chocolate Latte</i>	Espresso, white chocolate flavoring and steamed milk topped with velvety foam and white chocolate shavings.	\$3.00	\$4.25
<i>The 50/50 Latte</i>	Espresso. Vanilla and orange syrups, steamed milk and whipped cream topping.	\$3.00	\$4.25
<i>The Raspberry Mocha Latte</i>	Coffee. Raspberry and chocolate syrups. Half and half. Whipped cream topping.	\$3.25	\$4.50
<i>Chai Latte</i>	Espresso. Chai. Steamed milk and whipped cream.	\$3.00	\$4.25

HOT COCOA DRINKS

All hot cocoa drinks are \$2.75

<u>Name</u>	<u>Description</u>
<i>French Vanilla Cocoa</i>	Hot cocoa with vanilla and whipped cream.
<i>White Chocolate Cocoa</i>	Hot cocoa with white chocolate and whipped cream.
<i>Chocolate Truffle Cocoa</i>	Rich dark hot cocoa with whipped cream topping.
<i>Holiday Spice Cocoa</i>	Rich hot cocoa and holiday spices. Topped with whipped cream.
<i>Peppermint Cocoa</i>	Rich chocolate and refreshing peppermint. Topped with whipped cream.
<i>Ovaltine</i>	Ovaltine Chocolate Malt and milk.

SMOOTHIES

All smoothies are \$3.75

<u>Name</u>	<u>Description</u>
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<i>The Espresso Chocolate Malt</i>	A chocolate malt for grownups.
<i>The Double Dutch Chocolate Smoothie</i>	Very chocolatey!
<i>The Mocha Smoothie</i>	An all-time favorite.
<i>The Vanilla Smoothie</i>	Rich natural vanilla flavor.
<i>50/50 Smoothie (Orange and Vanilla)</i>	A 50's favorite.

ICED TEAS

Classic American Iced Tea, just like you remember as a kid.

\$1.50 Small, \$1.75 Medium, \$2.00 Large

HOT TEA

\$1.50 Regular

- *Earl Grey*
- *English Breakfast*
- *Peppermint*
- *Herb Apricot*
- *Earl Grey Lavender*
- *Darjeeling*
- *Formosa Oolong*
- *Golden Flowers Herbal*
- *Herbal Lemon*

Sales Literature

Coffee roasting is provided by Grizzly Mountain Coffee Company, Pleasantville.

Tea is primarily supplied by Harney & Sons Tea, Connecticut.

Our water vendor is Crystal Geysers, St. Helena, CA

Juices are provided by Longhorn Orchards, Corpus Cristi, TX (fresh orange juice and lemonade) and Genesis Juice, Eugene, OR

Pastries are provided by local Pleasantville companies such as D'Angelo's Bakery, Pleasantville Biscotti and Pleasantville Cheesecake.

Chocolates and cocoa are from Ghirardelli Chocolate Company, San Francisco, Bellagio, Los Angeles and Black Forest Chocolates, Arnold, CA

Gift items are from various vendors

- Soft drinks are provided by Sprecher's Brewery, Milwaukee, WI, and Thomas Kemper Soda, Seattle, WA

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Market Analysis Summary

Dark Roast Java launches with an exciting new coffeehouse concept in a receptive and steadily growing market segment—the specialty coffee retail business. product, and by making small incremental improvements in the costs of items we expect to increase overall COG by a minimum of 5% during the first year of operation. As expansion occurs, the POS system can be adapted to each individual location and allow the central office to monitor the stores remotely as well as the overall combined operation. Close monitoring will allow us to achieve a high level of communication between stores as well as spot problems immediately and take corrective action.

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Our sales strategy includes:

- Staff salaries that are 10% above the industry average in order to attract the best people
- Hiring for attitude so that we always have a friendly, enthusiastic staff to make customers feel welcome and appreciated; constant staff training to assure the best quality possible
- State-of-the-art sales/inventory system to (A) reduce customer waiting time, and (B) create efficient product ordering
- Create a mobile kiosk to take Dark Roast Java into the community at special events, farmer's markets, art shows, etc.

- Sell coffee, gift baskets and glass artwork on our website
- Establish coffee service at local businesses
- Sell gift cards, frequency cards, pre-paid cards, and offer discounts to key groups
- Create an ongoing sampling program
- Conduct a consistent, aggressive marketing program
- Be an active member of the community; be visible at charitable functions
- Solicit customer feedback to constantly improve and streamline our operation

Key Strategy: an advanced and expandable point-of-sales system

After carefully tracking the performance of the Pleasantville store through an expandable and highly detailed point-of-sale system, we will use this as a "blueprint" for expansion. For example, daily sales are tracked and analyzed by item, time period and cost of goods. Labor requirements are matched to projected in-store sales based upon past performance for maximum efficiency. Even after paying higher than average wages we expect to allocate no more than 25% to labor costs.

Sales are linked to inventory to both streamline the efficiency of ordering and reduce "shrinkage" by instantly alerting us to unusual shortages compared with revenues. product, and by making small incremental improvements in the costs of items we expect to increase overall COG by a minimum of 5% during the first year of operation. As expansion occurs, the POS system can be adapted to each individual location and allow the central office to monitor the stores remotely as well as the overall combined operation. Close monitoring will allow us to achieve a high level of communication between stores as well as spot problems immediately and take corrective action.

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Schedules can be sent via email to staff members. Cost of goods can be monitored for increased efficiency too. As we continually research methods of delivering a high quality but cost-efficient

