WELCOME TO THE COFFEEHOUSE

A TEAM ACCOUNTING CHALLENGE

Critical thinking skills are crucial for success in accounting. This week-to-week challenge helps students further develop those skills by putting them in charge of running a local coffee shop chain. Students will work through real-world business and accounting situations by evaluating and making strategic decisions that affect the company's bottom line.

Each week (for up to 12 weeks), you'll present a situation to your class that touches on one of the business areas accountants contend with, such as management, marketing, operations and finance. Working in teams (of 3-5), students must discuss the situation and the proposed strategic options for dealing with that situation. In addition to selecting the option they think is best for the company based on the details provided, teams will also create lists of additional questions they would ask, information they would need and factors they should consider in making that decision. The depth of these lists will depend on how much weekly class time you'd like to devote to the challenge.

Once teams have made their decisions and compiled their lists, you'll lead a class discussion (using the included Teacher's Notes) about which of the three options would be best for the company. Discussions should revolve around supporting rationale for the best decision, reasoning as to why the other options weren't as strong and what students were able to come up with for their lists. Sharing these lists as a class will not only present additional discussion topics as they relate to curriculum, but also allow students to learn from one another and see how their natural curiosity can be used in a career in accounting.

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COMPANY BACKGROUND

The Daily Grind Coffeehouse was founded in 2007 by two friends who love nothing more than a hot cup of joe. The company has always prided itself on putting quality first—from the beans they brew to the knowledge and friendliness of people who serve it. Their goal has always been to be the coffee shop that makes the absolute best cup of coffee in town. They strongly believe in fair trade and donate 5% of their profits to support the communities of their farming partners.

Over the last 10 years, The Daily Grind has managed to grow from a single storefront to a local coffee chain with eleven brick-and-mortar locations. The Daily Grind Coffeehouses are decorated with a retro industrial vibe. They feature art and signage that tells the story of their crop-to-cup process and educate customers on various coffee-related topics.

This privately held, LLC offers premium coffee beverages and breakfast items. Each of their cafés average $2,750 in sales per day, with some locations performing much higher than others depending on location, square footage and whether or not they have a drive-thru (all but two locations do). The average transaction is $5.74. Last year, The Daily Grind saw $10,900,000 in total revenue.

As the accounting department for The Daily Grind, your team is responsible for evaluating strategic decisions for the company that come down from the owner and CEO. Your advice and input provide direction for the company, so that The Daily Grind can continue to grow its profits.

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WEEK 1

Ben's Beans, the local roastery The Daily Grind has been using for the last two years, has been late in delivering orders several times in the past quarter. This has forced The Daily Grind to temporarily pare down their various coffee offerings to guests—which has had a slightly negative effect on quality and guest experience. As a result, The Daily Grind has decided the current partnership is no longer working. Should The Daily Grind:

A.) Start buying beans that are pre-roasted. To keep it local, which is very important for The Daily Grind's brand, their only option would be to go with the one other coffee roaster in town, Java Jane's, which sources their own beans. Although the beans would not be hand-selected by The Daily Grind, there would be an overall cost savings of 17%. Java Jane's also vacuum seals their bags increasing their shelf life from one month to 12 months. As a result, on-time fulfillment of specific single origin and coffee blends would not be an issue.

B.) Buy out the roaster. This option would bring The Daily Grind's roasting in house, making it solely responsible for every step from sourcing all the way to brewing. Ben's Beans currently can't afford to expand to meet your growing demand. As a result, they would be willing to sell the business to The Daily Grind for $325,000. The Daily Grind would then invest an additional $55,000 into expanding the roastery's output. Current staff at Ben's Beans would continue to work in the roastery providing the expertise The Daily Grind has come to expect from them, while also training select The Daily Grind employees on the roasting process.

C.) Become an investor in Ben's Beans. The Daily Grind could invest $100,000 into Ben's Beans so they would be able to make the necessary expansions to fulfill The Daily Grind's orders. As a result, The Daily Grind would own 33% of the roastery and would be able to negotiate a discounted price for roasting its beans.

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WEEK 2

Based on your item sales analysis reports for the past two quarters, you've brought it to the attention of the executive team that sales in the grab & go cases in all of the stores have become stagnant. The executive team has tasked you with bringing them several suggestions—including one recommendation—for new products to try. Your recommendation will be piloted for three months in the busiest location to assess demand for this new product. After researching lots of options you've narrowed down your suggestions. Of the three options you're proposing, which one do you recommend?

A.) Local fresh-pressed juices. Nature's Nectar is a local artisanal juice bar that offers 12-oz juice blends at wholesale for $4.75 per unit. The drinks have a shelf-life of three days and come in eight different juice blends. Nature's Nectar will offer The Daily Grind a special pack size during the trial run, as a result of the exposure they'll receive at your busiest location. This special pack includes four units (per flavor), with a minimum order of six packs every-other-day, which is in line with their delivery schedule.

B.) Bagel chip & flavored cream cheese snack packs. This is a relatively new product from a well-known national brand. These snack packs come in four different varieties, two savory and two sweet. They have a shelf life of approximately four months and wholesales at $.65 per unit. A case includes 24 units and your distributor requires a four-case minimum for every order.

C.) Local chocolate confections. A friend of one of The Daily Grind's store managers is trying to get her confectionary company off the ground. For the opportunity to showcase her products, Ellie is willing to negotiate several factors. She'll deliver product weekly for free, requires no minimum order and will provide marketing materials to promote the new product. Ellie's Bon Bons include two large pieces of decadent chocolate candy per pack, have a shelf life of one week and wholesale for $1.50.

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WEEK 3

The largest national coffee chain has decided to expand aggressively in your market. While The Daily Grind is confident their coffee is better tasting and fresher, they have seen a 10% drop in sales at their three locations closest to the competitor's new locations since they've opened. As a result, the executive team has decided to invest more money into marketing and promotions. They've come to you with several ideas they'd like to get your perspective on. Which option would you advise them to go with?

A.) Introduce a customer loyalty program. The Daily Grind could create their own rewards program offering discounts and small-value incentives to guests. It could be based around a buy-10-coffees-get-one-free model and/or include random freebies, such as size upgrades or additional espresso shots. The Daily Grind could legally modify the program without giving customers prior notice—making it easy to tweak the program as it develops. On top of the value of the freebies themselves, costs for setting up a loyalty program like this include scannable key chain tags costing $.74 per unit (with an initial activation fee of $.30 per unit), that will require $600 to design. The Daily Grind would also have to invest $379 into a gift card software program that works with its current POS system, along with a one-time processing set-up fee of $75 per location.

B.) Invest in new digital menu boards. Transitioning to digital menu boards in all 11 The Daily Grind locations would be another option. Digital menu boards make it easy to add new products and promote various selections quickly based on supply, profit margins, etc., and are proven to influence customer purchasing patterns. The salesperson at BCG Signage has quoted a cost of $3,790 per store to equip them with digital boards. BCG also offers hour-long training sessions to teach store managers and assistant managers how to operate, change and troubleshoot the boards. They recommend training two employees from each store at a cost of $50 per employee. Based on BCG's customer research, these boards can increase sales anywhere from 10-25%. BCG also estimates it will take The Daily Grind 24 months or less to recoup the initial cost of the digital menu board investment.

C.) Volunteer staff time and donate product to local events. The Daily Grind could also choose to focus on increasing community involvement. This would involve finding local events that align with The Daily Grind's mission and brand—as well as donating product, in the form of coffee and food. Costs could run anywhere from $50-$1,000 per event, depending on size, audience, etc. Employees would be able to volunteer a set number of working hours per quarter, so their hourly wages would also be a cost to consider. (Baristas earn $10-$15 per hour, while assistant managers make a salary anywhere from $28,000-$35,000 and store managers $40,000-$55,000.) While it would be a one-time expense, The Daily Grind would also need to create various sizes of signage to use for different events that would cost approximately $4,300 to design and print. All expenses incurred would be in addition to the 5% of profits already donated to The Daily Grind's farming partners.

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WEEK 4

The executive committee has asked you to join them to discuss what to do with this year's training budget. Currently, The Daily Grind has a program in place where employees can request outside training opportunities to be approved by their supervisor. Within the program, non-management employees can receive up to $500 and managers up to $1,000 for relevant training. To access this training benefit, employees fill out a form detailing the training they're interested in, how it will expand their knowledge and how it will improve their ability to do their job. Over the past five years, fewer and fewer employees have taken advantage of the program. Of those who have, many submitted the same training opportunities, making it difficult to accommodate everyone and continue running the business on those days. During this discussion, several ideas are brought to the table. Which one would you recommend and why?

A.) Create a Professional Barista program. This elite program would be created as a way to reward those baristas who really know their stuff—both with recognition and increased earning potential. It would also establish a clear path for baristas who are being groomed for management positions. The program would require management to comprise a series of learning modules for baristas to study, train on and be tested on to showcase their knowledge and skills. To maintain its exclusivity, baristas would have to be nominated by their supervisors and there would be a limit of two baristas per store in the program at any given time—although some stores might not have any. The program could potentially take a year for management to design and deploy. Hard costs would include the creation of printed materials along with the food costs associated with the training (a comparable expense to the one incurred during new employee training).

B.) Invest in regular on-site cuppings and classes. Cuppings are a great way for staff members to learn about the various coffees that The Daily Grind serves. The practice involves smelling and slurping a variety of coffees in order to study their distinct aroma, taste (i.e., mouthfeel, sweetness, acidity and flavor), aftertaste and region of origin. This option would include monthly cuppings and quarterly training courses (in subjects like latte art) by trainers who are brought in by the company. Cuppings and courses would all take place at headquarters, but each event would be offered at several different times to allow for the greatest staff participation. Hard costs for cuppings would consist of purchasing extra cups, spoons, tables, coffee grinders and kettles. Bringing in outside trainers would average $3,000-$8,000 per engagement.

C.) Expand bean-sourcing trips to include more employees. Each year, the president and CEO take a few trips to find new fair-trade farming partners across the globe. This allows The Daily Grind to ensure they're getting the best possible products and continuing to expand their coffee selection. Past destinations have included Ethiopia, Guatemala, Costa Rica and other top coffee-producing regions. Expanding the sourcing team to include district managers and two top-performing store managers would mean cutting down the number of sourcing trips per year, at least in the short term. However, over time, this expanded sourcing team could theoretically divide and conquer with a portion of the group going to each planned destination, making it more cost-effective over time.

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WEEK 5

It's been almost three years since The Daily Grind last negotiated a contract for their advertising and marketing, and its current contract term will be up for renewal in three months. Currently, The Daily Grind works with a local agency, Isley+Ava, for the design and production of its branding, signage, collateral, packaging, printed materials and digital assets. The Daily Grind has been happy with the work quality of Isley+Ava, however, the company wants to make sure they're investing their money into the most beneficial marketing and advertising option. Of the following marketing and advertising choices, which one would be in the best interest of The Daily Grind?

A.) Sign another contract to stick with their agency. Currently, The Daily Grind has a monthly retainer of $15,000 with Isley+Ava based on 100 hours at a $150 blended hourly rate. If projects go over the retainer, The Daily Grind is charged anything from $60-$250 per hour, depending on the hourly rate of the employee working those hours. Last year, The Daily Grind had four months where they didn't need all of the hours included in the retainer, five months where they went over between $1,500-$3,000 and three months that went over between $3,001-$8,300. The contract also includes a 15% mark up on all materials used (copies, supplies, proofs, etc.), media purchased and third-party vendors used.

B.) Bring a copywriter and designer/art director on staff permanently. The Daily Grind could also hire a full-time, in-house creative team (consisting of a copywriter and an art director or designer). Securing a creative team with would mean adding two salaries, each between $62,000-$80,000, depending on applicants' experience, plus benefits. Finding candidates would require creating and paying for job postings on several sites as well as updating the jobs page on The Daily Grind's own website. The hiring process would also mean carving out time for multiple members of the leadership team to review resumes and portfolios, reach out to applicants and conduct interviews.

C.) Use a local team of freelance creatives. One of the district managers knows a freelance copywriter and art director who would be willing to take The Daily Grind on as a client. Brandon and Elizabeth's individual hourly rates are $75, they only charge for the hours they spend and do not charge a mark-up on media purchases or working with third-party vendors. Brandon is really into coffee and has been a customer at The Daily Grind for more than six years, so he's familiar with the brand and excited by the prospect of having the company as a client. They each have over 10 years of experience and their portfolios show a wide variety of solid creative work including several award-winning campaigns.

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WEEK 6

The owner of the strip center where one of The Daily Grind's stores is located recently reached out with a business proposition. The tenants in the unit next door are not renewing their lease, so the landlord has offered it to The Daily Grind to expand their current location. In light of recent changes in corporate tax rates, The Daily Grind has enough to invest in the expansion of this location. With this being one of the company's two locations without a drive-thru (since it's in the middle of a strip center), the idea of expanding their footprint in this well-trafficked shopping destination is particularly appealing. In fact, this expansion would make this location The Daily Grind's largest by far. The executive team has decided to lease the unit next door, but is still debating the best use of this additional space. Based on their ideas, which option would you recommend?

A.) Make this location into a specialty store. This direction would also allow for expansion of the current café's seating area to accommodate more guests. The specialty store would sell a wide variety of coffee brewing products, from single-serving French presses all the way to high-end espresso machines, books, mugs, other coffee-related accessories and branded merchandise. The cost associated with this build out would include additional tables and chairs, shelfing and cabinets for merchandise, an additional counter and register, as well as the wholesale cost of the products for the store. Staffing for this location would need to increase to employ cashiers in the new portion of the store.

B.) Turn this location into a training store. In this approach, the extra square footage would be used to create a sort of mock café that somewhat mirrors the existing space but is used exclusively for training all new employees. A second counter and service line with a register would be added to the new area along with extra tables and seating for written portions of training, testing and tasting—in addition to guest overflow from the original store. Two full-time trainers would need to be hired. The hard costs associated with this build out would be similar to a new store, minus the cost of the kitchen and deep storage for product.

C.) Add an in-house bakery to this location. Another way to utilize the space would be to turn it into a bakery, which would provide product to this store and all of The Daily Grind's locations moving forward. This approach would also allow for a small increase in the size of the café seating area for guests. The build out cost would be higher than the other two options, as it would include a separate kitchen with multiple ovens, industrial-sized mixers and other equipment as well as baking supplies, utensils, etc. This would also require specialized labor in the form of bakers to operate this portion of the store.

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WEEK 7

Now that they have successfully incorporated the roastery into their business, the executive team at The Daily Grind believes the greatest opportunity for revenue expansion is in the retail space. Based on several examples they've seen from successful like-minded coffee roasters in other markets, the executive team has developed an approach to expanding its retail opportunities. They're now asking your advice on which one would be the best to start with, since they will have to take a phased approach with this expansion.

A.) Sell beans in high-end grocery and specialty stores. This option would involve procuring shelf space at local stores, such as high-end grocery, health food, co-op, gift shops and other stores with a focus on local and superior-quality products. With shelf space being as highly coveted as it is, it would likely leave room for selling just The Daily Grind's two most popular coffees, the house blend and El Salvador. Based on some preliminary research by the executive team, they have found approximately 15-20 locations they think would be a good fit.

B.) Wholesale beans to other coffee shops under a different brand name. The Daily Grind could also start its expansion plans by wholesaling beans to other coffee shops that don't roast their own. It would require creating and designing a new brand, packaging and an accompanying website, plus marketing to attract potential coffee shop customers. The Daily Grind would plan on pursuing customers both locally and nationally.

C.) Push to become the sole coffee supplier to local restaurants and other venues. In this approach, people from corporate would leverage their personal relationships with local restaurant and venue owners (or managers) to convince them to make The Daily Grind the only coffee they serve. It could also include cold calling and drop-ins with samples, for business owners that do not have existing relationships with someone in the company. With this option, The Daily Grind would actively pursue businesses that align with its mission and values. Businesses that sign a contract with The Daily Grind would get to choose from a selection of small promotional pieces (such as a window sticker, table tents or other printed piece) to display and promote this exclusive relationship to their customers. Currently, the executive team has identified approximately 35-45 locations they would like to pursue contracts with.

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WEEK 8

For nearly two years, The Daily Grind has had contracts with three different companies for all its stores' service needs, including one for HVAC, another specifically for brewers and espresso machines and a third, more general one for everything else (such as plumbing, ice machines, refrigerators, etc.). Since the company's service contracts are coming up for review soon, the executive team wants your input on the options for servicing equipment in its stores. Of the following choices, which would you recommend?

A.) Renew all existing service contracts. The Daily Grind hasn't had any major issues with any of their providers, but also hasn't been thrilled with the service they've received, either. Contracts with large service providers like these typically include discounted hourly rates that are anywhere from 15-30% lower than those of independent contractors. They also receive wholesale prices on any parts needed, and even though they do charge a markup on parts, the final cost to The Daily Grind is still less than buying parts at retail. However, two of the three companies (the HVAC and the general service provider) plan to increase their hourly rates by 5% and 10%, respectively, at the end of the current contract—which is up in four months.

B.) Work with several independent contractors. With this option, The Daily Grind would build up a pool of independent contractors that they could call upon on an as-needed basis. This would likely include a few contractors who specialize in each of the areas in which The Daily Grind needs service. The company has worked with independent service providers in the past, so it already has relationships with several contractors. It could also inexpensively evaluate additional technicians by trying them out on a single project, to see if they have the potential to be put into regular rotation.

C.) Staff a service person full time. The Daily Grind could also choose to hire a single service person full time. Doing so would require The Daily Grind to create a new position within the company and, based on how much experience the chosen candidate has, pay a salary ranging from $30,000 - $38,000, plus benefits. Additionally, due to the specialized nature of the brewers and espresso machines, the Daily Grind would have to either keep that specific service contract, find an independent contractor who is a certified coffee/espresso machine technician or pay to train the full-time service person (via a four week, 40-hour certification course).

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WEEK 9

The Daily Grind recently heard from one of their long-time farming partners in El Salvador that their latest crop of beans was ruined as a result of disease. They have taken the necessary steps to mitigate the problem and introduced organic fungicides so it doesn't happen to future crops. However, this diseased crop will affect The Daily Grind's usual supply. How should The Daily Grind handle this situation?

A.) Stop offering that option until stock becomes more readily available. The Daily Grind currently offers seven different coffee options, including four single-origin coffees and three coffee blends. The crop that was affected by the disease is one of The Daily Grind's permanent coffees, not one that they rotate out regularly. It also happens to be the best-selling single-origin coffee, second in overall sales only to the house blend—this includes both brewed coffee-by-the-cup sales as well as retail sales (for one-pound bags of whole beans). In addition to lowering the number of coffees offered, dropping the El Salvador altogether would also require changing the menus, menu boards, signage, etc.

B.) Find another grower in the same region with a similar flavor profile. Because the president and CEO are tied up with other business, they would be unable to make a sourcing trip to El Salvador themselves. Therefore, buying beans from a different grower would require finding a reputable coffee broker to work with. Coffee brokers import unroasted (or green) beans from various origins to supply roasters with product. In the past, The Daily Grind tried to work with a broker, however they found the broker to be more interested in pushing the beans they already had in stock as opposed to finding the product The Daily Grind was looking for. As a result, this effort could require consulting with several brokers to find the right one, then roasting and tasting small batch samples to find a supplemental product that would hit the same notes as the El Salvadorian coffee they currently offer.

C.) Buy pre-sourced and roasted beans from a previous crop at the same farm. When farmers' crops yield more beans than they are able to sell directly to their roasting customers, they often sell the remainder to coffee brokers. With this option, The Daily Grind would have to reach out to their farming partner to try to track down extra product from last year's crop. There is a chance that the product could not be available, even if they are able to find the broker the farmer used. If this is the case, The Daily Grind would continue its search by reaching out to the farm's other roasting clients to see if they could buy out their stock, likely at a premium, until they can purchase enough from other roasters to last until the farm's next crop is available.

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WEEK 10

Several of the initiatives The Daily Grind has invested in this year are really starting to pay off for the company. As a result, the executive team has decided they want to reinvest a percentage of their newly gained profits back into the business's technology—up to $60,000. In an effort to put the money where it's needed most, the executive team reached out to the roasters, two district managers and all store managers to get their input. After reviewing the responses, the executive team has narrowed it down to their top three choices and are now asking for your opinion. What would be the best way to invest in the company's technology?

A.) Invest in tools to help store managers and baristas. With a current barista head count of 217 spread over all locations, the 11 store managers have expressed an interest in a scheduling app. This would allow baristas complete access to their schedules—and let them trade shifts and make other scheduling requests directly in the app. The app can also track time and attendance as well as export timesheets to payroll, reducing the tasks managers are expected to perform. It costs $3 per employee per month and provides analytics. In addition to the baristas and store managers, the 18 corporate employees (which include the district managers and roasters) as well as the three members of the executive team will also need the app. Managers have also requested inventory scanners to help with the bi-weekly store inventory they're required to take. This new inventory system (which includes the barcode scanning device, software and a barcode printer) costs $1,495 and one will be needed for each of the 11 store locations as well as one for corporate and another one for the roastery.

B.) Update customer-facing aspects of cafés. The Daily Grind had previously explored the idea of transitioning to digital menu boards through BCG Signage (refer to Week 3 for details), but ultimately decided against it as a marketing tactic. However, the idea keeps coming up, so now might be the right time for the transition. In addition to digital menu boards, cafés would also switch from a traditional POS system to a touchscreen-based smart POS system. This will cost $999 per register (so the nine locations with drive-thrus will need two), plus a flat-rate fee of 2.75% per swipe for credit card transactions.

C.) Invest in an infrared roaster for the roastery. Infrared bean roasting is seen by some as a superior method for roasting coffee. It heats the beans faster, while using a lower temperature than conventional roasters, and creates a more uniform roast that's consistent from batch to batch. Infrared roasting also produces a coffee that is lower in acid, which can lessen the upset stomachs and indigestion some people experience with traditionally roasted beans. The infrared roaster the staff is interested in is $20,000 and can roast up to 22 pounds of coffee per hour. They would like to use this infrared roaster as a complement to their conventional roasters. Going this route would require new bags to be designed and created for retail sales—potentially for their three most popular coffees. Also, since the technology is used by approximately 2% of roasters, some education will be needed to help customers understand the difference and benefits of infrared roasting.

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WEEK 11

The executive team has decided to invest in adding a drive-thru to one of the two locations that doesn't currently have one. (You'll remember from Week 6 that the other location without a drive-thru is in the middle of a strip center, making a drive-thru there impossible.) Based on the sales numbers from the rest of the stores with drive-thrus, adding one to this location should increase its average ticket by $1.25-$2.00. Thankfully, the tenant who had this location before the most recent one was a bank, so the parking lot already has a drive-thru lane roughed in around the building. That means the work will entail cutting out the side of the building for the drive-thru window, putting in an illuminated menu board and intercom for ordering, reconfiguring the interior to include a second register at the window, making some other small tweaks to the area behind the counter to maximize workflow for both interior and drive-thru orders. Putting in the drive-thru will also mean losing three parking spots in the already small lot (those that are currently in the area where the window will go) along with re-stenciling the 10 remaining parking spaces and adding directional arrows for the drive-thru.

A.) **Close the store during construction.** The contractor claims that if the store is closed while the drive-thru is being installed, the work can go significantly faster. He estimates that instead of taking five weeks to complete, the job can be finished in just two since the crew will be able to work uninterrupted. As a result, the cost of the job will be reduced by approximately 20% because the workers will be working fewer total hours and equipment rental costs will go down significantly, since they won't be used over as many days. Because this is the route the contractor would prefer to go, and because he understands that closing a location will create additional issues for The Daily Grind, he has agreed to write a clause into the contract that forces his company to reimburse The Daily Grind for a significant portion of labor costs for every day the job goes beyond the two-week estimate.

B.) **Remain open, but only in the mornings.** Approximately 68% of the store's transactions happen between when they open at 5:30 and noon. This option would allow the store to function as close to normal as possible during its busiest hours, while closing in the afternoons so that construction can proceed uninterrupted. The contractor said he cannot write in the same reimbursement clause into the contract if The Daily Grind remains open in the mornings because there will be too many factors beyond his control. He estimates that this option would take three to four weeks to complete, although he can offer no guarantees.

C.) **Continue regular operation during construction.** The Daily Grind also has the option to remain open throughout the process with the understanding that doing so will affect the length of time it takes the construction team to complete the project. The contractor estimates that if business continues as usual, his crew will need five weeks to finish the project. Again, because his team will have to work around The Daily Grind's staff and customers, the contractor can offer no guarantees that work will be completed within his estimated timeframe.

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WEEK 12

For the past six months or so, The Daily Grind has been talking about opening a new location in town. Your department and the executive team have been working closely to figure out when would be the best time to invest in The Daily Grind's 12th location. After lots of financial analysis and future forecasting, the decision has been made to move ahead with the new location. The executive team has scouted out several potential locations and wants your input on which would be the best new site for The Daily Grind.

A.) **Near the river.** The riverfront area of town is approximately 12 miles long, with five of those being lined with restaurants, shopping, businesses and event venues. It's one of the most tourist-filled areas of the city as well as the one with the highest amount of foot traffic. The Daily Grind already has one location at the very end of the riverfront that is its third most profitable location. There are three other options for coffee in the area, including two belonging to a popular national chain and one location of a well-known regional chain, the closest being two blocks away.
The stand-alone building for this new location is four miles down the river, in the last mile of developed land. It's a 2,400-square-foot, three-floor building positioned on the lot in such a way that it would allow for a drive-thru, but at the cost of losing several parking spots in an already small lot. The lease would be for 10 years and build out costs (which include adding a drive-thru) would be approximately $50,000, of which the landlord will cover $30,000. Rent is $35 per square foot per year, but includes all additional fees (property taxes, insurance, etc.). The plan would be to have cold storage, kitchen and service on the first floor, guest seating on the second floor, and additional guest seating and storage on the third floor. Both the second and third floors have balconies large enough for seating with small café tables. Based on its size—which is larger than all of The Daily Grind's other stores—this location would likely require staffing of around 34 employees.

B.) **Close to campus.** Just a few miles from downtown, sit two universities—a large 24,000-student public university and a private women's college with close to 4,200 students. The local community college's largest campus (which serves about 3,500 students) is also within a one-and-a-half-mile radius of the universities. This location sits exactly halfway between the two universities—within walking distance of both. The local hospital is also located nearby, approximately two miles in the opposite direction of the community college. The Daily Grind has two other locations nearby, one that is a mile past the community college campus and another that is half a mile past the hospital in the other direction. A popular national coffee chain has two locations on the public university's campus (in the student union and its largest library), along with three campus-based coffee concepts that all operate out of outdoor kiosks. A well-known regional coffee chain also has a location directly across the street from the hospital. The prospective building is just a quarter mile from the major highway running through the city. It is 1,900 square feet and shares a large parking lot with the building next door. Rent will be $17 per square foot per year, plus $200 per month to cover property taxes, insurance and common area maintenance. The previous tenant was an ice cream shop, so the location is already set up with a drive-thru, which would make the build out costs roughly $40,000. The landlord is proposing a five-year lease and will give a $15,000 allowance for build out. This location would require a staff of approximately 24 baristas.

C.) **In the mall.** Of the two major shopping malls in town, the available space that The Daily Grind is considering is at the mall in the nicer area of town. In addition to most major department stores, this mall includes high-end specialty stores for everything from jewelry, shoes and designer handbags to stores for all things cooking and outdoor adventuring. The mall is centered around a food court, with four wings going out from there. The space that The Daily Grind would be going into is on the second floor in a wing that has a men's clothing store, a video game store, a tailor, a book store, an eyeglasses boutique, a perfumery, an art gallery, a Thai restaurant and a large department store at the end. There is a very popular national coffee chain location, as well as one other location (a dessert café) that serves coffee in the mall, but both are located in different wings. While The Daily Grind's hours of operation in all other stores are 5:30 a.m. to 6:30 p.m., mall hours are from 10 a.m. to 8 p.m. With no access from the exterior, The Daily Grind would have to adjust its hours at this location to fit within mall hours. The space itself is 1,200 square feet. The lease term is five years and the property management company is offering $15,000 toward the build out, which The Daily Grind anticipates being around $28,000. Rent is approximately $40 per square foot per year with a variable common area maintenance (CAM) fee that runs anywhere from $120-$300 per month. Due to the size of the store and its adjusted hours of operation, this location would need around 16 baristas.

Please note: The businesses named in this activity and the information about them are totally fictional. Any likeness to actual businesses is completely coincidental.