

THE COFFEE POT

While sipping her morning coffee, Brooke takes stock of all that has happened since her dad died eight months ago. Giving into her family's wishes, Brooke quit her job as a biochemical engineer and moved back to Springfield to take over as President of The Coffee Pot. Sadly, things have not gone well. The Coffee Pot was still losing money and Brooke missed her father more than ever. He had been a charismatic guy, who used to spend his days visiting and playfully joking with The Coffee Pot staff while conveying his vision of how the perfect coffee shop should be run. In essence, he wanted all Coffee Pots to be the same – each would have the same friendly service, quality coffee, and inviting atmosphere. Today, Brooke thought, this was definitely not the case. In fact, due to high staff turnover, it was rare to even be served by the same person on successive visits.

Brooke's father founded The Coffee Pot in the early 1980s and had grown it to eight locations, starting in Springfield before expanding to Peoria. The Coffee Pot flourished during the 1980s and 1990s, but had lost money in recent years. Despite losing money, Brooke's father had not altered its strategy, which was based on being located in shopping mall food courts and relying on walk-by traffic. Realizing this, Brooke's first priority as Company President was to develop a new strategy.

Strategic analysis quickly confirmed that The Coffee Pot could not compete with Starbucks. The company therefore needed to find another way to compete if it were to be successful. Fortunately, Brooke's father had diagrammed a new brewing technology that would significantly reduce cost. Using her bio-chemical engineering knowledge, Brooke built a prototype of his brewing machine, which she called the cold mesamosis brewing system. After extensive taste-testing, the new brewing machine was declared a success; it brewed seven to eight times the amount of coffee from the same coffee grinds without affecting the taste. In fact, the taste was as good in the eighth brewing as the first.

Spurred by the success of the prototype, Brooke borrowed money from the bank to construct eight machines, and quickly installed them in all The Coffee Pots. With lower costs assured, Brooke embarked on a strategy of targeting price-sensitive coffee drinkers. In the months that followed, Brooke worked part-time, spending the rest of her days with her children and widowed mother. Still, Brooke was shocked when two weeks ago she received the quarterly financial report and saw that The Coffee Pot, Inc. was still losing money. Worse yet, there were not enough funds in the bank to meet the monthly loan payment.

Looking for answers, Brooke called Auntie Susan, her bookkeeper, who had been with The Coffee Pot since finishing high school in 1982. All Auntie Susan could do was send over previous quarterly financial reports. Brooke noticed that the quarterly reports lacked detail and there was a pattern of decreasing earnings despite her father's handwritten notes indicating that shop managers had promised each quarter to improve.

After reviewing the quarterly reports, Brooke realized she needed help. She decided to call an old schoolmate, Jane, who was a partner in a small accounting firm. While Brooke searched for Jane's phone number, Jack, the manager responsible for Administration, Purchasing, and Human Resources (HR), dropped by to show off his newest golf club, which one of the Coffee Pot's suppliers had just sent him. Brooke had grown to like Jack whom her dad, due to his failing health, had hired a couple of years ago. Jack frequently provided her with free tickets to concerts, hockey games, etc., which he received from suppliers.

Before Jack left her office, Brooke congratulated him on beating his previous quarter's numbers and, thus, earning his quarterly bonus. Jack often changed suppliers as he chased the lowest prices; his purchasing strategy appeared to be working as purchasing costs were lower than last year. His training expenses were also down, even though staff turnover was significantly higher than last year.

Still sipping her morning coffee, Brooke begins to read the report Jane had just sent over. Jane writes that she strongly supports Brooke's strategy, but has three areas of concern:

1. The Coffee Pot had overpaid lease rentals in some malls.
2. Although Jane suspected no problems, The Coffee Pot, Inc. has never been audited.
3. Brooke's biggest shock was reading that a recently hired manager in Peoria had doubled the size of the shop by taking over the lease of the adjacent space and was serving pizza and beer. The manager justified this to Jane by saying that due to the coffee bean quality he needed to expand the shop's product offerings.

Still unsure what to do, Brooke gets ready to leave for The Coffee Pot's quarterly management meeting. She is confident that her new strategy of offering quality, low-cost coffee to mall shoppers is the right one, but is uncertain how to make it pay off.

QUESTIONS

1. **Analyze The Coffee Pot's competitive environment using Porter's Five Forces Framework. When completed, propose key success factors for The Coffee Pot given its competitive situation.**
2. **Discuss the management control issues that may be hindering Brooke from increasing The Coffee Pot's profitability.**
3. **Propose recommendations that address the issues raised above.**