

# **BUSINESS PLAN**

## **SIP**

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## II. EXECUTIVE SUMMARY

Tea is the second most consumed beverage worldwide, but in the United States it ranks 6<sup>th</sup> or 7<sup>th</sup>, behind soda and other unhealthy beverages. Now more than ever, Americans are interested in joining the rest of the world and choosing to drink tea, primarily driven by their desire for a healthier beverage. The tea industry is projected to grow 19% between 2009 and 2014. Packaged facts estimates that tea sold through retail and food service channels is \$8.5 billion, with this sector growing at a rate of 4%. Moreover, margins are incredibly high, ranging well over 50%.

To take advantage of this market, we are proposing a business that will aim to modernize the tea drinking experience: Sip. Today, if you want to drink tea outside the home you either have to spend \$70 at a fancy restaurant or \$4 at a fast food like environment such as Starbucks or Argo. Sip fills the whitespace between these two options by providing its patrons with a place to enjoy the tea experience and light healthy food in an intimate social gathering in the late afternoon or evening and even be an alternative to a bar or club. Sip will have three basic tenants (1) unique blends of specialized tea, tea/alcohol combinations, and healthy small plates of food (2) edgy, mysterious, vintage, and modern atmosphere, and (3) late afternoon and evening hours. We estimate the average transaction to be \$15/person.

The target consumer for Sip are the “Healthy Socialites.” Focus group research and Scarborough analysis confirm that this target exists and is seeking a flavorful, healthy alternative to coffee and soda to be served in a social environment. This target represents and estimated 4% of the population, an addressable market of 88,000 individuals in the urban Chicago area, Sip’s flagship location. This group is equally split between males and females, the age range is 21-49, and average household income is \$94,000.

We will sustainably differentiate our business from competition in two key ways: (1) brand strategy and (2) capturing footholds in key markets via franchise model. The brand strategy and in-store experience will be tempting, mysterious, edgy, vintage and modern, appealing to the “Healthy Socialite” target market. Franchising allows for rapid expansion of 30 locations (10 corporate owned stores and 20 franchised locations) by year 5 to key cities: Baltimore, Boston, New York City, Seattle, and Denver.

With this combination of factors, we expect our business to produce \$18 million in annual revenue and \$5.5 million in profit by year 5. In order to accumulate these profits we’re asking for an initial investment of \$500 thousand that will go toward opening the first flagship location in Gold Coast, Chicago. An IRR of 68% can be expected.

### III. MARKET OPPORTUNITY

## Why Tea?

We see three main reasons why tea currently presents an attractive opportunity as the anchor product for our Sip stores.

1. Americans already drink a lot tea and this market continues to grow
2. Need for a place to socialize and gather with friends
3. Desire for healthier beverage experience

The data to support these themes is very persuasive. 75% of the U.S. population buys some sort of tea, with 15% of those who buy tea are buying loose leaf teas. At Starbucks alone, tea sales accounted for about 10% of the chain's drinks sold in 2011, totaling approximately \$800 Million in revenues. And Starbucks and other cafes/restaurants are not the top place that Americans are consuming tea. *Packaged Facts* estimated that the U.S. market for tea sold through retail and food service channels was \$8.5 billion in 2009, and of that total, food service establishments were only responsible for \$3 billion (See Table 3-23 in Appendix). Despite their relatively small footprint now, food service sales of tea are expected to grow at an annual rate of 4%.

Additionally, although once the market-leader as America's "third place" away from the home and office, CEO Howard Schulz recently admitted in a leaked company memo around the closing of 600 of his stores, that the Starbucks "stores no longer have the soul of the past and reflect a chain of stores versus the warm feeling of a neighborhood store" (Quelch, <http://hbswk.hbs.edu/item/5973.html>). Although we do not believe that Sip needs to directly compete with Starbucks for customers, we do believe that a market opportunity exists to create a new unique "third place" environment for the consumer centered on tea.

Whereas Americans are accustomed to drinking their coffee on the go, consumption of tea has a long tradition of being a social activity. The interest in sitting down and enjoying a cup of tea is evidenced in the recent increase of tearooms in this country. Fifteen years ago there were a mere 200 tearooms in the U.S. Today there are nearly 3,000 (USA Tea Association). And it is not just current tea drinkers who are looking to consume tea in a social environment - many former coffee drinkers are making the switch to tea. Coffee consumption in the U.S. is down 2.3 percent from 2006 through 2009, and tea drinking is up 4.5 percent, to 117 eight-ounce servings per capita in 2009 (Beverage Digest).

Finally, ever since the first infusions of *Camellia Sinensis* in China about 4,700 years ago, the health benefits of tea have been examined. Recent studies have linked tea drinking to the prevention of heart disease, cancer, and hypertension. Fueled by an increase in health consciousness and rising environmental awareness, demand has grown for the broad natural foods category which tea is a part of. Driven by this demand, sales for

natural foods are growing faster than any other segment of the food industry. Annual sales for this segment are topping anywhere from \$16.3 billion to \$29.7 billion.

### Who is our Target Customer?

The Sip target market is “Healthy Socialites.” Focus group research has determined that this target market is seeking a “cool place to socialize with friends” and enjoy good tasting beverages that are healthier than other alternatives (soda, coffee, etc.). They love to try new places and new foods and beverages. They desire to be healthy, fit, and attractive. They are early adopters and enjoy “discovering” a new spot.

Addressable Market in Chicago (flagship location in Gold Coast, Chicago):

- ❖ Age: 21-49
- ❖ Buy tea, either loose leaf and/or dry tea at grocery stores and/or drink ready to drink tea and/or specialty coffee
- ❖ Equally split male/female
- ❖ Over-index on beer/liquor consumption
- ❖ 86% has visited a sit down restaurant in the past 30 days
- ❖ Over-index on visits to Starbucks, Panera, and Potbelly’s
- ❖ Often walk places in the city with over 25% having walked over 3 miles in the last seven days
- ❖ Highly digital, over-indexing on mobile phones and social networking
- ❖ Average household Income (Gold Coast): \$94,000

Based on Scarborough analysis, the size of this market is approximately 4% of Chicagoans that live in the Chicago urban vicinity, approximately 88,000 individuals. Locating the flagship store in the Gold Coast of Chicago allows Sip to attract the Healthy Socialites.

## **IV. PRODUCT**

### The Offering

Sip will sell custom tea blends, tea-infused wine, marTEAnis, small plates of food, cheeses, charcuterie, and desserts. Sip will not have an oven to simplify its operation, yet will create delicious and creative food items that do not require cooking. (See Menu in Appendix.) Sip’s average transaction is estimated to be \$15. This pricing allows up to fill a gap in the marketplace. Today, if you want to drink tea with friends you either have to spend \$70 at a fancy restaurant or \$4 at a fast food like environment such as Starbucks or Argo. Sip fills the whitespace between these two options. Sip will provide its patrons with a place to enjoy the tea experience and light healthy food in an intimate social gathering in the late afternoon or evening and even be an alternative to a bar or club. Sip will be located in urban areas in major U.S. cities.

## The Design

The design of the bar is critical to the success of Sip. Sip's brand character will be brought to life via creative design. The venue will look edgy, mysterious, vintage and modern and will find inspiration in the Jonny Depp version of Alice in Wonderland. It will lure you in and tempt you to try something new. The outside appearance is mysterious, intriguing and inviting. Successful duplication of the design across franchise locations will give Sip a consistent yet unique feel and ensure economies of scale in the design investment. (See Sip Layouts in Appendix.)

## The Locations

Initially, a flagship store will be built in the Gold Coast of Chicago, ideally on Rush Street near Michigan Avenue. Thereafter, Sip will expand to seven additional cities by year five of operation: Baltimore, Boston, New York City, Seattle, and Denver. The criteria for the selection of these cities was based on the following: caffeine consumption, tea consumption, lack of competition (Argo, Peet's, Coffee Bean), and temperature (assuming it's better to be in colder cities. Based on the assumption that each individual Sip location can support 2 million people in its direct vicinity, and 30 corporate owned and franchised location will exist in year five of operations, we estimate the number of Sips per city to be the following:

- ❖ Chicago – 7
- ❖ Baltimore – 3
- ❖ Boston – 3
- ❖ New York City – 11
- ❖ Seattle – 3
- ❖ Denver – 3

## The Competitive Advantage

Sip's sustainable competitive advantages will be the following:

- ❖ Brand image
- ❖ Capturing footholds in key markets via aggressive roll-out/franchise model

## **V. SUPPLY CHAIN**

### Sourcing

Sip will engage in long term supply contract with wholesale tea distributors (initially in the U.S. and then globally) to purchase tea and other products. In addition, Sip will closely work with suppliers and other downstream parties in the supply chain to develop

quality standards and agree upon a set of covenants to ensure that supplies meet the required quality and delivery agreements.

### Product Development

Sip's R&D efforts will be focused on creating unique blends of tea and alcohol beverages as well as small plates of food that do not require an oven to be prepared. Sip will consult with a creative local chef in each city of operation to ensure menu items meet the local pallets and trends of its patrons. The "lab" will be a small room in the back of the corporate-owned store in each city. Approximately 80% of the menu will be corporately chosen, and the other 20% left up to the creativity of the franchisee and the local chef.

## **VI. BRAND STRATEGY**

### Branding

Branding will be a critical element to Sip's competitive advantage. Sip's brand aspiration is to inspire health and friendship one sip at a time. Sip is the bar where you can "drink healthy" and savor the taste because the experience centers on flavorful tea. The point of difference in the Sip brand is that it offers uniquely blended tea beverages associated with an experimental group experience. Sip's point of parity is that it will be compared to other bars. The brand character can be described as follows: vintage, edgy, mysterious, social, and modern.

As validation support for this brand character, we surveyed 72 Healthy Socialites to confirm the appeal of the name "Sip". (See proposed Sip logos in Appendix)

### Marketing Strategy

Sip's marketing strategy will be one that makes the Healthy Socialites feel as if they discovered Sip. Our marketing plan will be intentionally organic, guerilla, and grassroots. The Sip brand will not be commoditized via traditional mass media channels. We believe this is important to maintain integrity and authenticity of the brand name and will keep marketing costs relatively low.

We will do this in the following ways:

1. Elaborate Social Media campaign including Twitter, Facebook, Four Square, etc.
2. S Club Loyalty Program including direct mail/email to members of loyalty program.
3. Public Relations activities that include the Sip brand name or brand-sponsored events associated with exclusive parties, potentially including celebrities that appeal to Healthy Socialites.
4. Controversial menu item that is changed out seasonally to create buzz and WOM.

The marketing effort will be split into 3 phases:

1. Opening: We will place heavy weight on all activities mentioned above (excluding S Club) to induce strong trial of Sip.
2. Ongoing: A flexible campaign (using the above media) assessed seasonally syncing with the change of our menu.
3. Point of sale: A well-trained staff can increase the average check as well as enhancing the customer's overall experience. Word-of-mouth referral is very important in building a customer base.

## VIII. SOCIAL RESPONSIBILITY

Sip is committed to sustainable business practices, and we firmly support the conservation of natural resources—both in our café as well as in how we operate and grow our business together with our business partners. The leadership at Sip believes that social responsibility should be at the core of its products and operations. A commitment to social responsibility isn't just good business; it also promotes a connection between a company and its products that is rewarded by consumers who share in the vision that companies should be stewards of the planets resources and population.

Sip would endeavor to market only organically grown teas that carry the International Fair Trade Certification Mark. Additionally, Sip would identify farms and farmers that would meet certain standards so that a livable wage is generated by its tea growers. We recognize that the labor and environmental conditions of many tea plantations are below internationally accepted standards. We will strive to work with our suppliers to promote higher standards while recognizing the limited influence we will be able to have as a small company.

Also, we intend to become a visible presence in the communities where our products are sold. We plan on incorporating various initiatives into our business model such as every season we will have a cup of tea related to a social cause around the world. For example, a current menu option might be "Free Celopatra" where proceeds from sales support Egypt's efforts to develop better internet infrastructure. When possible, we will integrate the cause with the type of tea – so this example would be a black tea with Egyptian spices. Our team projects that donating revenues from such sales will result in 2% of total revenues going to charitable causes on a yearly basis.



## VII. OPERATIONS AND MANAGEMENT

### Corporate Owned and Franchised

Sip will initially construct a flagship location and then embark on a dual operational structure of building additional corporate locations and offering geographically franchised opportunities. The corporate owned locations will give Sip the chance to experiment with operational nuances that could then become best practices for the entire organization. The franchised locations will allow for more rapid expansion of Sip locations across the U.S. With a properly structured franchise agreement, there will be room to for the franchisee to customize the format to that particular location.

Franchising is a preferred model for several very compelling reasons. One, it allows Sip to control the overall “look and feel” of a location. This consistency in appearance is beneficial to customers who want “their Sip” to be comfortably familiar no matter where they go. Two, it also shifts the capital expenditure needed to grow additional locations to well qualified franchisees. Each franchisee will go through a thorough due diligence to qualify his or her financial liquidity and operational experience. The franchisee will be expected to be responsible for the location lease, leasehold improvements, equipment and staffing thereby freeing up Sip’s capital. Three, it shifts the daily operational demands of a Sip location to the franchisee. With uniform training all franchisees will be responsible for day-to-day affairs. Four, an immediate revenue stream is created through the franchisee’s franchise payment, periodic royalty payments and mark-up profit on Sip branded teas and supplies. This periodic royalty percentage will be agreed upon by the franchisee and will be based upon a percentage of gross sales. A range of 5-6% is contemplating to be consistent with the restaurant industry standard. Lastly, Sip is offering a turnkey business model that would superior to any model that a stand-alone teahouse would be capable of building.

### Management:

Members of the team will include the following:

*Laura Barnett* is a passionate tea enthusiast who has studied the tea supply chain from leaf to cup, developing industry and product expertise. She spent five years at Procter & Gamble learning about consumer understanding and brand building. Laura has a Kellogg MBA focused in Marketing, Entrepreneurship, and International business.

*Elizabeth Ott* has 10 years of analytical experience from Stanford’s Institute for the Quantitative Study of Society while studying economics and public policy at Stanford. Elizabeth went onto work in the institutional investment management industry. She now works with Google’s advertising sales team helping them better use the reach of

Google's advertising platform to advertise these companies' various product offerings. Elizabeth has her MBA from Kellogg where she majored in Entrepreneurship.

*Erynn Herman* is a digital and new media expert currently employed by Starcom Mediavest. Erynn has sprits industry experience when she worked as an integrated part of the marketing group at Beam Global. Erynn also has experience creating brand cache. Erynn has a Kellogg MBA with a focus on Social Enterprise.

*Aditya Dasnurkar* is a Director of Business Intelligence at the Blue Cross Blue Shield Association managing the firm's global information management portfolio. Prior to Blue Cross, he served as a Principal at Hewlett Packard consulting Fortune 500 companies in retail, healthcare strategy and financial services. He has an MBA from Northwestern University Kellogg School of Management with concentration in Strategy, Marketing and Finance.

*David Chameli* is currently Associate General Counsel of Sears Holdings Corporation, a Fortune 50 holding company for Sears, Roebuck and Co. and Kmart Corporation. He has over 20 years of retail experience as a corporate and private practice attorney. David has successfully started several companies in real estate investment and his family operates the largest chain of independent hardware stores in upstate New York. David has a Kellogg MBA focused in Marketing, Entrepreneurship, and Strategy.

## IX. START UP EXPENSES/FINANCIAL PLAN

### Start Up:

The major start-up cost will be:

Description		Cost
1.	Architect fees/design	\$ 200,000
2.	Equipment	\$ 50,000
3.	Lease (12 months) 1,200 sq. ft @ \$xx.xx/sq.ft	\$ 100,000
4.	Leasehold improvements	\$ 20,000
5.	POS system +	\$ 150,000
6.	Inventory	\$ 20,000
7.	Wages (fully burdened)	\$ 300,000
8.	Permits, licenses	\$ 50,000
9.	Marketing	\$ 200,000
10.	Insurance	\$ 100,000
11.	Taxes	\$ 200,000
12.	Training	\$ 10,000
	Total	\$ 1,400,000

## XI. INVESTMENT OPPORTUNITY

### The Proposal

Sip is seeking a total capital infusion of \$ 500,000<sup>1</sup> to initiate the venture in 2012. This amount will cover the startup and operational (working capital) costs for the first establishment. Additional funding of \$ 250,000 will be required in second year as we expand. A combination of cash flow from operations and initial investments will fund the rest of growth beyond 2<sup>nd</sup> year. The management projects an NPV of \$ 8 Million and an IRR of 68%. Given the high margins (~70%), investors will have a return on investment of 10 times (~1043%) at the end of five years. Please refer to Appendix for detailed financial projections.

### Exit strategies

Exit options for Sip include: (1) IPO or (2) acquisition to a company with a like-minded credo (Whole Foods, Starbucks, Argo, etc.).

### Milestones/Timeline

	Description	Date
1.	Locate site	0 – 60 days
2.	Execute lease	60 – 120 days
3.	Leasehold improvements	120 – 180 days
4.	Soft/hard open	180 – 210 days

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<sup>1</sup> / Of the \$1.4 million in startup costs, the capital requirements is only \$500,000 in the first year as the remainder of costs will be funded via operational cash flows from the first store.

## XII. APPENDIX

**Table 3-23**

**Table 3-23**

**Projected U.S. Sales of Tea: Retail vs. Foodservice, 2009-2014**  
(in millions of dollars)

Year	Retail		Foodservice	
	\$ Sales	% Change	\$ Sales	% Change
2014.....	\$8,932	12%	\$3,438	5%
2013 .....	7,975	12	3,274	5
2012 .....	7,120	10	3,118	4
2011 .....	6,473	8	2,998	3
2010 .....	5,994	6	2,911	2
2009 .....	5,654	--	2,854	--

Source: Packaged Facts

## Sip Menu:



Serving healthy tea that actually tastes good is important to us. If you do not like what you ordered, please let your server know and they will introduce you to a new, more delicious product that is to your liking. Sip offers all organic and fair trade certified teas. The health benefits of tea are vast. It is known to fight and prevent the growth of cancer cells, boost the immune system, reduce the risk of heart attack, lower blood pressure, prevent Alzheimers, build bones, fight bad breath, burn calories, and lowers "bad" cholesterol.

Featured Blend \$6

### Free Cleopatra

(all proceeds go toward open internet projects in Egypt)

## Custom Tea Blends

(in order of most to least caffeine; all teas can be served iced)

### Black

Chai Guy, cinnamon ginger, cinnamon, and vanilla flavors  
Pu-Erhogant, earthy, rich, smooth, and finely aged  
Irish Breakfast, ceylon and Assam blend

### Oolong

WuLong Oolong, spicy with hues of cinnamon

### Green

Dragon Well, mellow, bittersweet, savory  
Castaway, pineapple and papaya mixed with green tea  
Nutty, hints of walnut in this sweet green tea

### White

Moonlight White, honeysuckle and fruit, lush and floral

### Red

Lip Smackers, strawberry, kiwi, refreshing botanicals  
Sweet Dreams, aromatic, soothing chamomile  
Lemongrass, grassy, lemonic, with a hint of ginger

### Custom Blend

Ask to speak with the teaologist to create your own blend

Glass, a single tea cup of any of the above blends \$5

Flight, flight of five of the above blends \$10

Carafe, 17.5 ounces of the wine of your choice \$10

## Tea-Infused Spirits

Wine (tea adds depth and body)

Pinot Noir with hints of hibiscus and cherry \$8

Malbec Chai with spicy aromas \$8

Sauvignon Blanc with a white peach \$8

Rose with lemongrass \$8

Asti with a strawberry kiwi herbal \$8

Brut with mint green \$8

Flight, flight of four of the above varietals \$15

Carafe, 17.5 ounces of the wine of your choice \$30

Marteanis (tea-infused cocktails)

Lavendar Pear, absolute pear and lavender tea \$10

Hibiscus Toddy, hornitos and loose flowers \$10

Bloomsbury Punch, tanqueray and earl gray \$10

Bourbon Chai, makers, chai and milk \$10

Mojitea, barcardi silver and green mint tea \$10

Flight, flight of four of the above cocktails \$20

## Light Fare

Small Plates \$9

Shaved Brussel Sprouts with pecorino noce

Salt-Roasted Beets with whipped goat cheese

Minty Chickpea Salad with Couscous

Mediterranean Shrimp Salad with lemon juice

Evening Cove Oysters in a fragile fluted shell

Roast Chicken with grape and blue cheese salad

Open-faced Tuna & Fennel Sandwich on wheat

Hummus with cucumber, tomato and pita bread

Tomato soup & farm house cheddar grilled cheese

Cheese (one ounce of each) \$5

Manchego, Fontina, Camembert Fermier, Cabot

Cheddar, Parmigiano Reggiano, Truffle Tremor,

Quadrello di Bufala, Blu di Bufala, Gouda

Charcuterie (one ounce each) \$5

Speck -smoked, ham with molasses and black pepper

Sopressata -dry cured salami

Coppa -dry cured pork butt

Lomo -spiced, cured pork loin

Bresola -spiced, cured beef

Treats \$4

Lavender scone

Warm beignets

Gelato (chocolate, pistachio, raspberry)

Pastry du jour (ask your server)

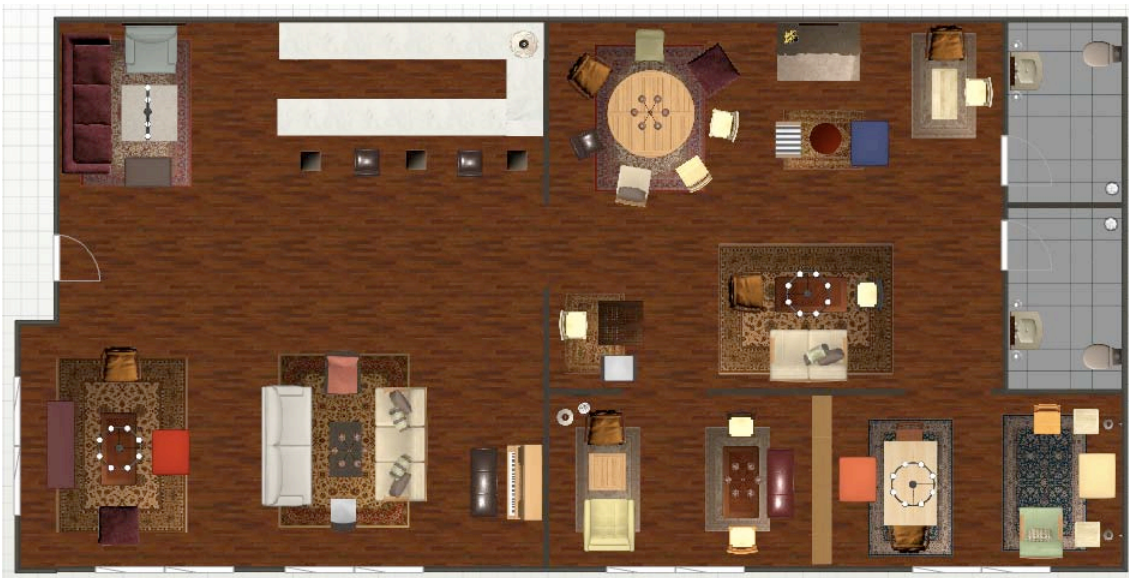
Proposed Sip Logos:



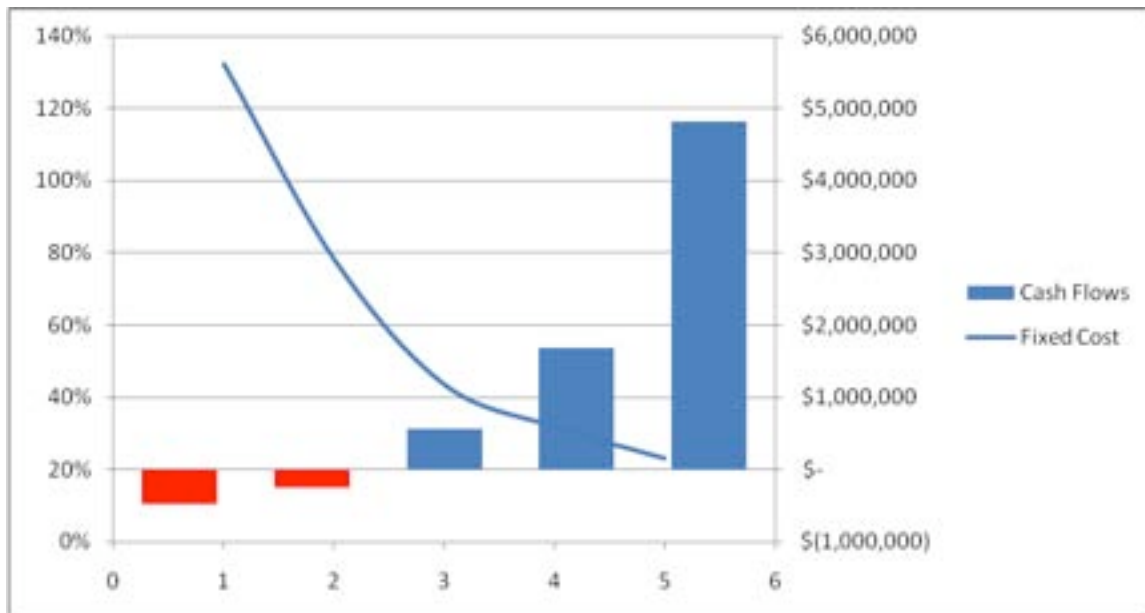
Proposed Sip Layouts:







### Dashboard:



### IRR:

Output	
IRR	68%
NPV	\$ 8,125,835
Total Investment Amount	\$ 729,026
ROIC	1043%



## Financials:

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Terminal
Customers/Store		150	165	182	200	220	
Customers/Store/Week		1050	1155	1271	1398	1537	
# Stores (Cumulative)		1	2	3	5	10	
# Franchises		0	0	5	9	20	
Average Transaction		15	15	16	16	17	
Franchising Royalty		\$-	\$-	\$525,671	\$1,042,273	\$2,716,060	
<b>Revenues</b>	0.00	\$819,000	\$1,855,854	\$4,179,695	\$8,170,914	\$18,190,773	
Variable Cost							
COGS							
Tea		\$40,950	\$92,793	\$208,985	\$408,546	\$909,539	
Food Services and Others		\$122,850	\$278,378	\$626,954	\$1,225,637	\$2,728,616	
Non-Tea Beverages		\$81,900	\$185,585	\$417,969	\$817,091	\$1,819,077	
<b>Total Variable Costs</b>	0	\$245,700	\$556,756	\$1,253,908	\$2,451,274	\$5,457,232	
Gross Profit Margin		\$573,300	\$1,299,098	\$2,925,786	\$5,719,640	\$12,733,541	
Gross Margins %		70%	70%	70%	70%	70%	
Fixed Costs (Operational)							
Labor		\$250,000	\$500,000	\$750,000	\$1,312,500	\$2,493,750	
Utilities		\$2,400	\$4,800	\$7,200	\$12,600	\$23,940	
Rent		\$80,000	\$160,000	\$240,000	\$420,000	\$798,000	
SG&A		\$750,000	\$787,500	\$826,875	\$868,219	\$911,630	
<b>Total Fixed Costs</b>	0	\$1,082,400	\$1,452,300	\$1,824,075	\$2,613,319	\$4,227,320	

Fixed Cost %		132%	78%	44%	32%	23%	
One Time Expenses + CapEx							
New Store Configuration (Cap Ex)		\$150,000	\$150,000	\$150,000	\$337,500	\$708,750	
Alcohol Licensing Fees		\$500	\$1,000	\$1,500	\$2,625	\$4,988	
Legal		\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	
<b>One Time Expense</b>		\$200,500	\$201,000	\$201,500	\$390,125	\$763,738	
EBIDTA		\$(509,100)	\$(153,202)	\$1,101,711	\$3,106,321	\$8,506,221	
Depreciation (@7% of Cap Ex)		\$2,100	\$2,100	\$2,100	\$4,725	\$9,923	
EBIT (Pre-Tax Net Income)		\$(511,200)	\$(155,302)	\$1,099,611	\$3,101,596	\$8,496,299	
Interest							
Tax		\$(178,920)	\$(54,356)	\$384,864	\$1,085,559	\$2,973,705	
Net Income		\$(332,280)	\$(100,946)	\$714,747	\$2,016,038	\$5,522,594	
Depreciation		\$2,100	\$2,100	\$2,100	\$4,725	\$9,923	
Cap Ex		\$150,000	\$150,000	\$150,000	\$337,500	\$708,750	
Cash Flow	\$(750,000)	\$(480,180)	\$(248,846)	\$566,847	\$1,683,263	\$4,823,767	\$24,118,834
Period	0	\$1	\$2	\$3	\$4	\$5	
PV		\$(369,369)	\$(147,246)	\$258,010	\$589,357	\$1,299,181	\$6,495,903