



CENTRAL PERK

Smoothing Demand to Increase Profits

Team 7 Consulting

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Overview

Central Perk is a boutique coffee shop in New York City. The owners assert that they have a loyal customer base, and they have asked our team to test their assumption by analyzing historical sales data to uncover true demand patterns. The owners hope to understand their customer behavior better so that they can develop incentives and pricing adjustments to both normalize demand while simultaneously generating additional revenue. Through analyzing existing patterns in Central Perk's transaction history, our team was able to develop concrete recommendations that met the objectives of the owners and investors.

Analysis & Recommendations

1) Customer Loyalty

Our first objective was to determine whether Central Perk does in fact have 'loyal' customers. We found that there are 119 customers who met our definition of 'loyal' - that is, customers who have visited the shop at least once per week (on average) for a period of time longer than 30 days and within the last two months. We determined that these loyal customers generate \$71.91 of contribution on average, whereas other customers generate only \$4.20 of contribution on average across the dataset. Lifting demand therefore, depends largely on leveraging loyal customers and creating new, loyal customers. Our team recommends implementing a simple punch card system to incent customers to become repeat customers and - eventually - loyal customers.

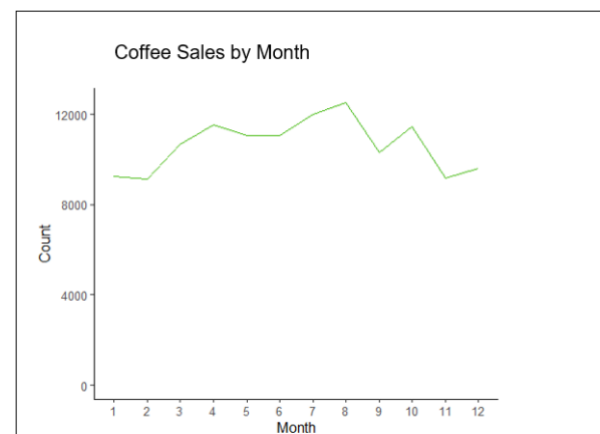
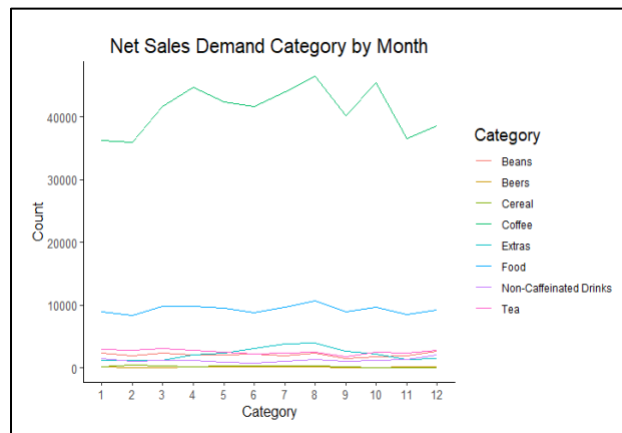
2) Smoothing Demand

Our team then looked at demand trends and observed three cyclical patterns: monthly, weekly, and hourly. As a result, our recommendations target each one of these patterns and aim to lift the low-demand times through offering new products, bundled products, discount coupons, and happy hours.

a) Increase Overall Demand in the Winter

The average demand pattern month over month can best be approximated by the 'coffee' category. Coffee itself represents nearly 70% of sales and 'extras' and 'food' are highly correlated with coffee unit sales.

Overall, coffee sales are approximately \$40,000 per month; however, they are generally closer to \$45,000 between April and October and closer to \$37,000 between November and March. This seems to indicate a



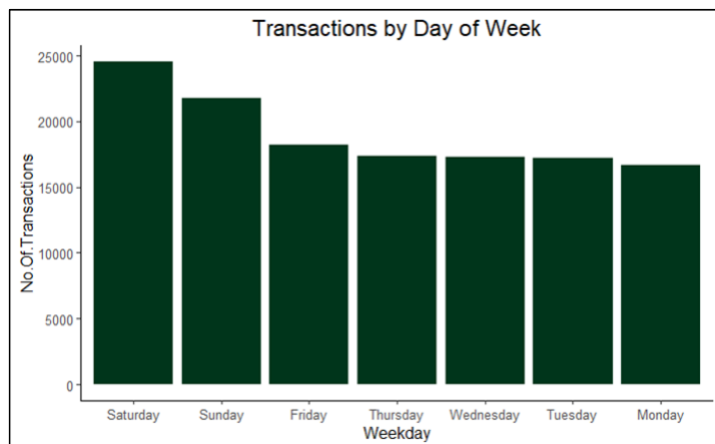
preference for frequenting the coffee shop in the summer and suggests that demand needs to be boosted between November and March.

We observed that Central Perk is already selling beer and is presumed to have a liquor license; therefore, we think that the shop can make better use of its license by offering “Irish” coffee specials in the winter – that is, hot coffee products with a shot (or two) of whiskey as an ‘extra’. We also noticed that most bakery goods were purchased in single units; however, there were several items that were purchased more often and represent good opportunities for bundling. Specifically, ‘Anchor’, ‘Croissant’, ‘Donut’, ‘Financier’, and ‘MapleVal’ were all items that could be offered in a “buy two bakery items, get one free coffee” promotion. Similarly, ‘Ethiopian’, ‘Hairbender’, ‘Hot Chocolate’ and ‘Beer’ were beverages bought in quantities of more than 1, indicating that they could be bundled and offered in a discounted bundle of two or more. Offering these deals in the winter could help boost demand for the store.

b) Increase Overall Demand on Weekdays

While weekday revenue represents nearly 63% of all revenue, total weekday profit is fairly steady - around \$17,000 per weekday per year - whereas total weekend profit averages more than \$25,000 per weekend-day per year.

The fact that weekday sales are much lower than weekend sales implies that our weekday prices may be too high, or we may not be offering the right products that weekday customers demand. To explore why demand is lower during the week, we recommend leveraging a customer survey of our most loyal weekend customers given by our baristas in exchange for a free coffee to see what



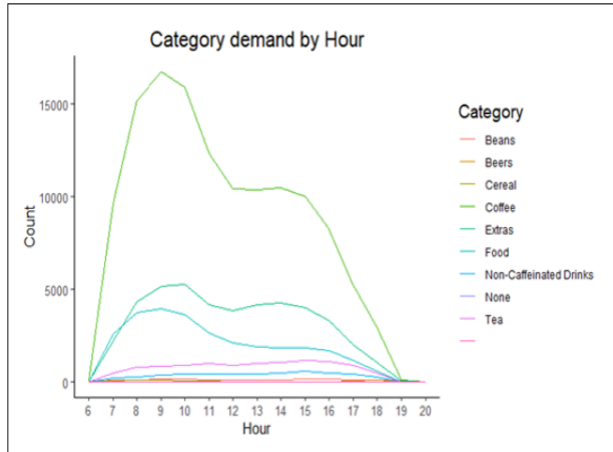
additional events or promotions would make them want to visit on weekdays. Additionally, to boost demand during the week, our team recommends initiating a weekday discount on coffee during the hours of 12pm – 5pm.

c) Increase Overall Demand in the Evening

At the hourly level, overall demand peaks between 8 and 11am and remain fairly constant between 12 and 3pm, after which it drops significantly. This trend indicates that demand for coffee and caffeinated beverages seems to drop off at 3pm and Central Perk does not have other products that generate comparable demand. ‘Beer’ and ‘non-caffeinated drinks’ represent 0.2%

and 2.0%, respectively, and collectively represent a beverage category that is undersold and can be grown to smooth demand and increase profits.

Considering the precipitous drop in demand for coffee at 3pm and the low sales for beer and non-caffeinated drinks, our team proposes a two-fold solution. First, offer buy-one-get-one



(BOGO) coupons to morning patrons on weekday mornings between the hours of 7am and 9am to be redeemed for discounted alcoholic and non-caffeinated beverages ‘after work’ during happy hour. The reason for this strategy is that the most-loyal patrons visit overwhelmingly between the hours of 7am and 9am, and our team assumes that these people are locals. These local customers already seem to visit the shop on their way to work, and therefore, this group represents the population most likely to come back ‘after work’ on their way home. Since customers

tend to not want caffeinated beverages after 3pm, Central Perk can grow its beer and non-caffeinated drink category through this promotion, flattening demand and increasing sales in the evening. The BOGO coupons should be used on a limited basis (perhaps one to two weeks) to make customers aware of Central Perk’s beer sales and to promote a newly founded happy hour from 5 to 7pm. This will increase end-of-day sales of non-caffeinated and alcoholic beverages, and it can encourage those who fall in the previous category of ‘after work’ customers to stay for ‘just one more’ after redeeming their BOGO coupon.

Conclusions

Overall, our team found that though there are a few loyal customers that frequent the store in the mornings for primarily drip coffee, so overall demand lags in the winter, on weekdays, and in the evenings. To address these issues, we recommend multiple things: First, implement a simple punch card system to increase loyalty. Second, offer “Irish” coffee products and bundle coffee and food in the form of “buy two bakery items, get one free coffee” to increase winter demand. Similarly, they should bundle beverages including ‘Ethiopian’, ‘Hair Bender’, ‘Hot Chocolate’, and ‘Beer’ in discounted bundles of two or more. Then, initiate a weekday discount on coffee during the hours of 12pm – 5pm and administer a survey of loyal weekend customers to see what would make them visit during the week. Finally, offering limited BOGO coupons to morning patrons between the hours of 7am and 9am to be redeemed during a newly implemented happy hour from 5 to 7pm to increase nightly demand and increase sales of non-caffeinated and alcoholic beverages. Through this combined strategy, we are confident Central Perk can smooth demand and increase profits. In the future, Central Perk should consider looking at its costs to determine whether certain item and the liquor license is worthwhile.