Rose–Patisserie and Coffee House:
Business Development Alternatives

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EXECUTIVE SUMMARY

This case traces the life of a new endeavor, starting with a small patisserie and coffeehouse and the subsequent development of the business, considering three alternatives, namely optimizing the concept, expanding through a franchise network, and building a network of company-owned stores. The story of Rui and Joana raises a wide range of issues that managers need to address. After reading and working through the case, students will be able to evaluate the product portfolio, based on actual sales data, and to evaluate and propose strategic options using classical models.

ORGANIZATION BACKGROUND

On the return to their homeland in Porto, Portugal, following a six-year journey around the world, Rui and Joana decided to open a gourmet-style patisserie and coffeehouse, certainly a reminiscence of their past and of the atmospheres they had experienced. Therefore, they decided to use all their knowledge, skills, and professional experiences, as well as an understanding of the habits and behaviours of the local market, to create this new gourmet-style patisserie and coffeehouse concept in Porto.

While Porto has many coffeehouses and patisseries, few have the combination of service quality, products, and the atmosphere they could recall from their travels. While tasting a coffee with raspberry-hibiscus fragrance and preparing for the lunchtime rush, Rui and Joana reflected on the changes the business had gone through since they first envisioned their distinctive hand-made cakes and superior

coffee business concept. Not even in their most enthusiastic scenarios did they imagine that it would evolve into an extremely popular shop, providing daily indulgences to their customers.

They started with a single patisserie and coffeehouse and, from the beginning, they felt that they could grow into something really big. Their dream was to expand the store, replicating the concept in multiple locations. The business progressively grew, and revenue and operating profits reached a reasonable level. Driven by the success of the first patisserie and coffeehouse in one of the most important touristic destinations in Portugal, they realized that the potential for this concept was either national or international. Given such success, they face tough decisions ahead. What should be the way forward? Should it be to consolidate and optimize the business as it was? Should it be to expand through the opening of new stores putting more capital at risk? Or would it be advisable to expand using franchisees? Rui and Joana could stay with one patisserie and coffeehouse or they could develop their business furthermore. For that purpose, there were three alternatives: 1) they could expand by opening additional stores by themselves; 2) they could sell franchises of their patisserie and coffeehouse concept; 3) they could optimize the business by improving the concept, making it more appealing, more efficient, and eliminating existing gaps.

Expanding organically by opening self-owned stores was costly, laborious, and hard to manage. They would also have to acquire resources, skills, knowledge and hire staff. An additional obstacle related to this alternative was the need to put more of their capital at risk, which they did not want to. On the other hand, it would be difficult to keep the business running smoothly and simultaneously have the time to travel to various locations around the country or abroad. Expanding through franchising was enticing. However, they only had one patisserie and coffeehouse location, business was somewhat immature and franchising management was unfamiliar to them. Rui and Joana faced the facts, and they had to be pragmatic: Franchising was one of some possible models for business development and was usually used all over the world. There is a reasonable number of factors supporting the benefit from adopting a franchising strategy instead of a growth through organic expansion strategy, namely lower capital investment, less painful consequences in the event of failure, lower risk of failure, and faster development. The main disadvantages stem from a decrease in control, the possibility of franchisees changing the original concept with the consequent negative impact on the brand and the need to have a distinctive and proved concept. But above everything else, they realized that their concept could be refined.

SETTING THE STAGE

Rose - Patisserie and Coffee House is a patisserie and coffee shop located in Porto downtown. The store has an exquisite decoration and a stylish image. The company covers two distinct economic activities. The first one is framed in NACE 5630 (beverage serving activities), while the second one is similar to the activities framed in NACE 562 (event catering and other food service activities). These two segments show idiosyncrasies, despite sharing company's resources. While the first segment is constituted by end consumers, in the second segment the customers are companies. It is also relevant to say that consumption can occur inside the store or, alternatively, customers can order the products by phone, to take-away. For these reasons, they will be subject to individual analysis.

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