

COLD IS THE NEW *HOT*



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AGENDA



Analysis

Industry
Background

Implementation

Marketing

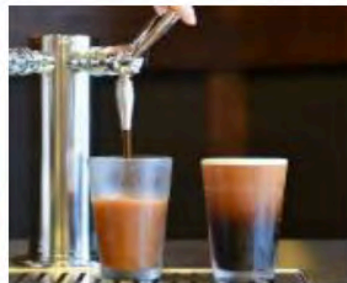
Impact

Questions

Analysis // Industry // Implementation // Marketing // Impact // Questions

COLD BEVERAGE SPECTRUM

Criteria	CHILLED (~10.5B QSR Servings)	ICED (~27.7B QSR Servings)	FROZEN (~3.8B QSR Servings)
Industry Demand	0	0	+
Industry Growth	+	+	0
Opportunity to Expand Portfolio	+	+	0
Seasonality	+	-	0
Employee Reaction	+	0	-
Total	+4	+1	0



CHILLED-DRINK ALTERNATIVE ANALYSIS

Criteria	Importance	Kombucha	Italian Soda	Cold Brew	Fresh Pressed Juice
Profitability	High	+	0	0	-
Long Term Sustainability	High	+	+	-	-
Seasonality of Product	Medium	+	0	+	0
Brand Alignment	Medium	+	-	+	+
Cannibalization	Medium	+	+	-	0
Competitor Risk	Medium	+	0	0	-
Risk of Implementation / Success	High	0	0	+	0
Customer Impact	Medium	+	-	0	0
Employee Reaction	Medium	-	+	0	-
Total		+6	+1	+1	-3

Analysis // Industry // Implementation // Marketing // Impact // Questions

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Customer Impact	Medium	+	-	0	0
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Analysis // Industry // Implementation // Marketing // Impact // Questions

WHAT IS KOMBUCHA?



Fermented tea

Borders on .5% alcohol

Combines *less traditional flavors*
with more mainstream flavors

Many believed **health benefits**

Difficult to make at home

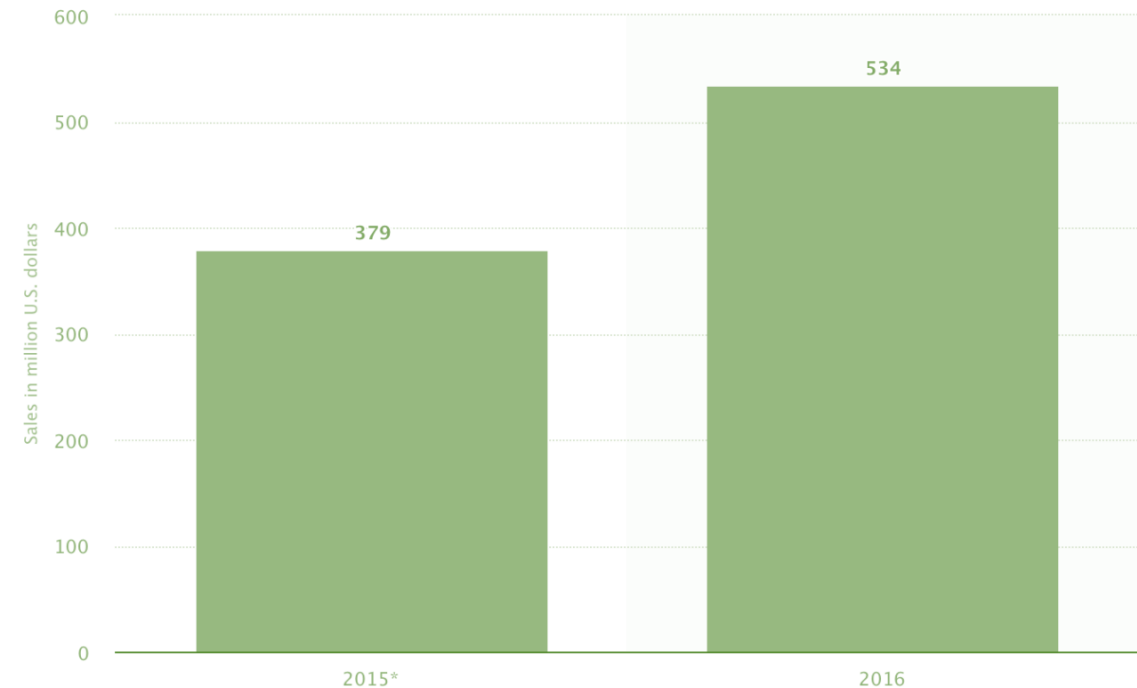
INDUSTRY GROWTH

Grown in appeal as part of the functional beverage category

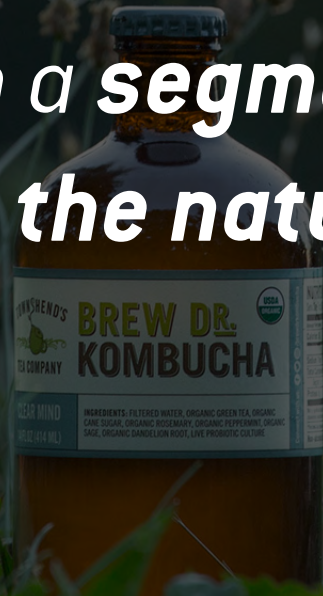
**41% growth to \$534 million is
U.S. sales in 2016**

No signs of growth slowing

Global sales expected to rise to
\$4.46 billion by 2024



*“Kombucha has **evolved** from being a specialty item among an extreme sub-segment of foodies on the West Coast to a **segment of broad interest even transcending the natural-foods channel**”*



INDUSTRY ATTRACTIVENESS

Low guilt & health-focused

15% of 25-34 year olds
drink kombucha

14% of 35-44 year olds
drink kombucha

Popularity among younger shoppers (under age 45) indicate ***potential for future growth***

31% order kombucha *away from home*

52% drink kombucha within the afternoon

TARGET MARKET

Starbucks

Men and women age 25-40

Young adults age 18-24

Kids and teens age 13 to 17

Kombucha

Ages 18-44

*Connected Bohemians,
Young Digerati, The
Cosmopolitans*

**Complete overlap in target
market**

Bringing in new customers &
generating more revenue from
existing customers

IMPLEMENTATION



IMPLEMENTATION ALTERNATIVES



Analysis // Industry // Implementation // Marketing // Impact // Questions

TOWNSHEND'S BREW DR. KOMBUCHA



WHY BREW DR. KOMBUCHA?

Sells to Costco & Whole Foods

in the Pacific Northwest, Midwest, Northwest,
Northern California, Rocky Mountains and South
region

\$12 million

in revenues in 2016

Distribution to **US** and **Canada**



RISKS & MITIGATION

Kombucha Awareness

With Starbucks position in the market we will introduce it as a **healthy segment** leading people to see the benefits.

Fitting the “Starbucks” Image

Round out their portfolio to address their healthy and artisan customers

Scaling Up

Constructing **4 new tea houses** and hiring about **550 total new employees** over 5 years

Maintenance

Employees will go through **training** about kombucha and ways to handle the new product.

IMPLEMENTATION TIMELINE

YEAR 0

Acquire and Partner with Brew Dr. Kombucha



Incorporate upper management for Brew Dr. into corporate culture and align goals.

YEAR 1

Train Starbucks employees on kombucha benefits and facts



Add 2-3 keg taps and bottles on **shelves in the Pacific Northwest region**

Promote through happy hours, media campaigns, and samples



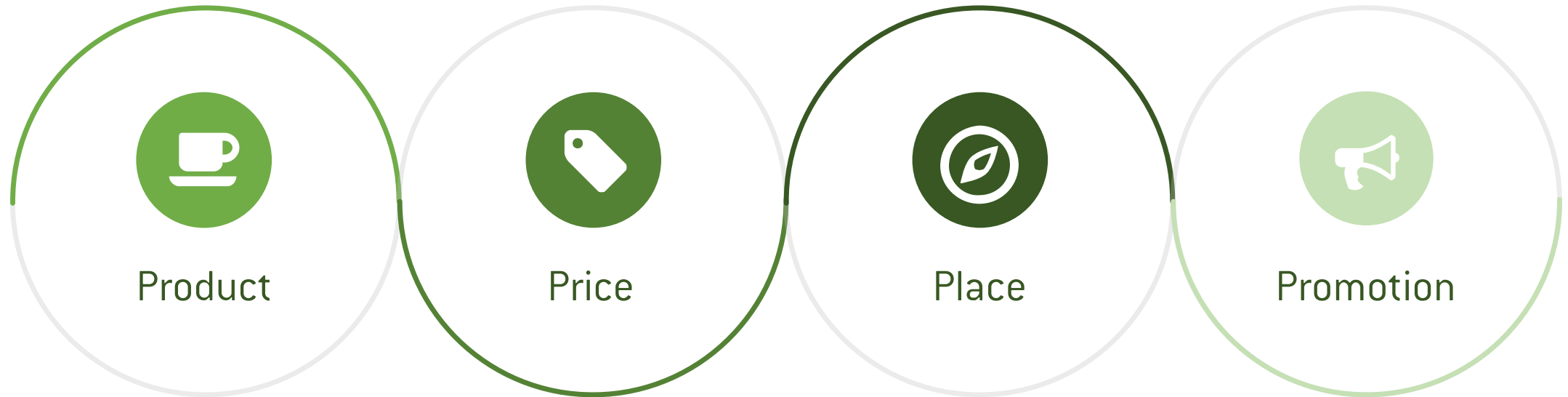
Start **joint marketing plans** on Brew Dr. Platforms as well as Starbucks

YEARS 2-5

Start **scaling up** to other geographic locations
100 new stores at a time



MARKETING STRATEGY



Analysis // Industry // Implementation // Marketing // Impact // Questions

PRODUCT



PRICE

Tall \$3.00

Grande \$4.00

Venti \$6.00

Trenta \$7.75

Bottle \$3.50



PLACE



PROMOTION



KOMBOGO

3 pm to 6 pm

Buy one get one
half off

Similar to Frappuccino
Happy Hour



**STARBUCKS,
KOMBUCHA,
& YOU**

Interactive online
campaigns



**STARBUCKS
MOBILE APP
REWARDS**

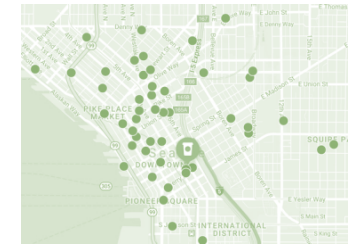
In-app advertisement
& messaging

Email sent to all
rewards members



**FREE
SAMPLES**

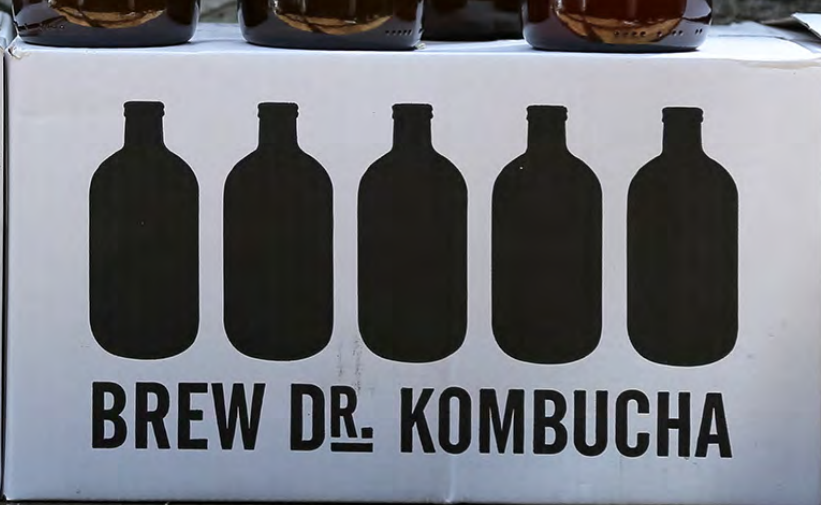
Offer in-store samples
during peak business
hours



**BREW DR.
WEBSITE**

Start showing that Brew
Dr. is now available at
every Starbucks location
on west coast
Add Starbucks acquisition
to their story

FINANCIAL IMPACT



ACQUISITION EVALUATION

TOWNSHEND'S
**BREW DR.
KOMBUCHA**

Comparable Companies
Market Cap.:

\$32.8 M

FINANCIAL ASSUMPTIONS

*Brew Dr. Kombucha (and 98% of the industry) is **private***

10% Starbucks' WACC

39.1% corp. Tax rate

Growth rate = 40% industry growth + 8% synergy benefit = 48% growth →
43% adjusted growth

Gross margin = 50% stated by outside sources → **40% conservative estimate**

Marketing expenses timeline: Yr 0= 3.79M, Yr 1= 22.7M, Yr 2-5 Flatline

SG&A expenses timeline: Yr 1= 8.61M (scale up proportionally to revenue)

FINANCE

5 YEAR PROFITABILITY

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net Profit	(\$2,308,110)	(\$6,419,932)	\$8,314,971	\$12,882,896	\$18,654,438	\$28,193,513

ROI = 152%

FINANCIAL IMPACT

SHORT TERM (5 YEARS)

IRR 24% > Hurdle rate

NPV = \$32.2M

ACCEPT

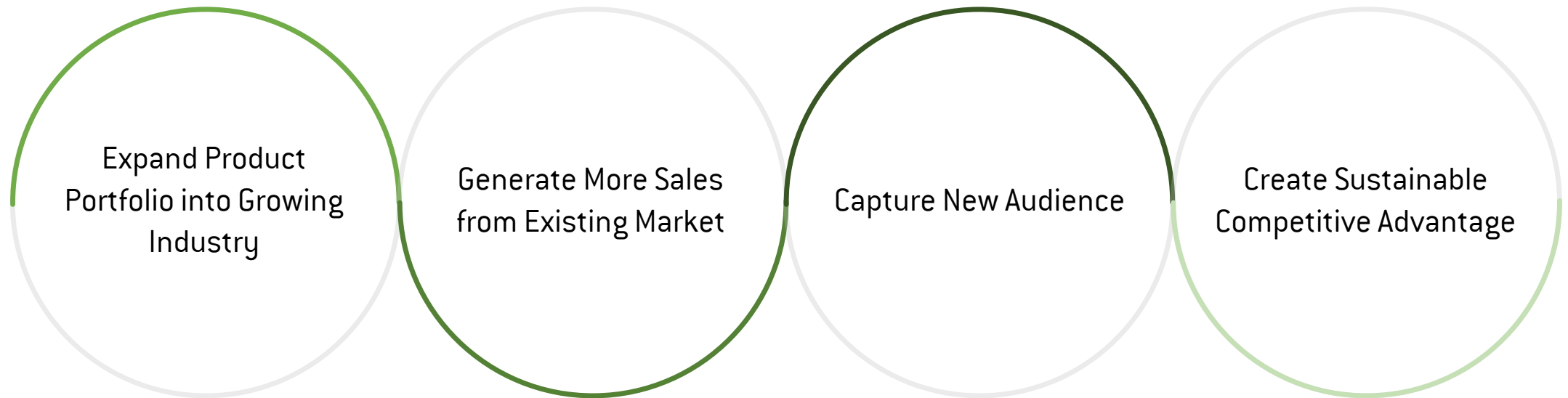
LONG TERM (15 YEARS)

BY 2033, 20% market share
of global \$6bn industry

\$1.2B

Dr. Brew Kombucha Sales

KEY TAKEAWAYS



APPENDIX

COLD BEVERAGE SPECTRUM	CHILLED DRINK ALTERNATIVES	CATEGORY DECISION MATRIX	CATEGORY CONSIDERATIONS	IMPLEMENTATION TIMELINE
CRITERIA DEFINITIONS	SITUATIONAL SWOT	ANSOFF GROWTH MATRIX	THE 5 C'S	PORTER'S FIVE FORCES
FINANCIAL ASSUMPTIONS	5-YEAR PROFITABILITY	FINANCIAL IMPACT SUMMARY	SG&A, MARKETING COSTS	INVESTMENT TIMELINE
NPV SENSITIVITY ANALYSIS	PROJECTED CFs AND NPV	PROJECTED NET PROFITS AND ROI	EXPANDED FINANCIAL ASSUMPTIONS	WHAT IS KOMBUCHA?
INDUSTRY ATTRACTIVENESS	TARGET MARKETS STARBUCKS > KOMBUCHA	CONSUMER FLAVOR PREFERENCES	HEALTH BENEFITS	PRODUCTION AND DISTRIBUTION
INDUSTRY FACTS	INDUSTRY GROWTH	GLOBAL KOMBUCHA MARKET	WHY DR. BREW?	BUILD, BORROW, OR BUY
IN HOUSE, JV, OR ACQUIRE	WHAT COMPANY TO ACQUIRE?	RISKS & MITIGATION	ACQUISITION EVALUATION	WHY NOT FRAPPUCCINOS
WHY NOT SMOOTHIE BOWLS	PRODUCT	PRICE	PLACE	PROMOTIONS

CRITERIA DEFINITIONS

1. **Profitability:** Is this a profitable industry? Will the revenues outweigh the costs?
2. **Long Term Sustainability:** Is this a growing industry? Will Starbucks continue to be successful with this product line?
3. **Product Seasonality:** Is this product only successful during specific times of the year, or can it be adapted?
4. **Brand Alignment:** How well does this fit into the current Starbucks portfolio?
5. **Cannibalization:** Will the sales of this product eat into the sales of existing products?
6. **Competitor Risk:** How easy is it to replicate, how many competitors exist in the market.
7. **Risk of Implementation:** how likely is this to succeed?
8. **Customers:** How will customers react to this change?
9. **Employees:** How will employees react to this change?

CATEGORY CONSIDERATIONS

Frozen Blended Coffee Beverages: Expanding the existing line of frappuccinos, or creating a frozen coffee alternative.

Frozen Blended Non-Coffee Beverages: Introducing new smoothie flavors, smoothie bowls, or a line of Starbucks granitas to the menu.

Cold-Drink Coffee Beverages: Continuing to expand the cold brew lines: specifically the “nitro” cold brew line

Cold-Drink Beverages: Expanding products into non-coffee cold beverages (similar to the acquisition of Evolution Fresh). Potentially looking into ginger beer, kombucha, or sodas.

FULL CATEGORY DECISION MATRIX

Criteria	Importance	Frozen Blended Coffee Beverages	Frozen Blended Non-Coffee Beverages	Cold-Drink Coffee Beverage Lines	Cold-Drink Non-Coffee Beverage Segment
Profitability	High	+	0	-	+
Long Term Sustainability	High	0	+	-	+
Seasonality of Product	Medium	-	-	+	0
Brand Alignment	Medium	+	0	+	+
Cannibalization	Medium	0	+	-	+
Competitor Risk	Medium	+	+	0	0
Risk of Implementation/Success	High	+	-	+	0
Customer Impact	Medium	0	+	0	0
Employee Reaction	Medium	-	0	+	+
Total		2	2	1	5

SITUATIONAL SWOT

Strengths:

- Huge brand presence globally
- Large product variety
- Starbucks is the current share leader in Frozen Blended Coffee beverages with 50% of the market
- Iced brewed coffee leads the industry growth at 9% from 2013-2016

Weaknesses:

- Frozen blended coffee has grown by 2% over the same period, the industry volume actually decreased by 11% over the last year
- Price point is higher than many competitors

Opportunities:

- Steadily growing demand of cold (over hot) beverages

Threats:

- QSR Industry challenged in general as it is experiencing flat and even slightly reduced customer visits (traffic) over the years, while Fast Casual restaurants are experiencing the only growth in the food service industry
- Dunkin' Donuts and McDonald's are currently growing their frozen blended beverage market

Build, Borrow, or Buy

Criteria	Importance	In House	Joint Venture	Acquisition
Growth	High	-	+	+
Long Term Sustainability	High	-	+	+
Cost	High	+	0	-
Brand Alignment	Medium	+	0	0
Quality Control	Medium	+	-	+
Competitor Risk	Medium	-	0	+
Risk of Implementation / Success	High	0	-	+
Speed of implementation	High	-	0	+
Employee Reaction	Medium	-		-
Total		-2	0	+4

IN HOUSE, JV, OR ACQUIRE

	Pros	Cons
In-House	<ul style="list-style-type: none">- More oversight and quality control- Cheaper- Extend Business Offerings	<ul style="list-style-type: none">- Not enough capabilities, space or expertise- Expensive in short term- Slower to market
Joint Venture	<ul style="list-style-type: none">- Increase capacity- Reduced/shared costs- Access to more without a huge cost- Access to new markets	<ul style="list-style-type: none">- Potential risk of conflicts between companies- Unclear objectives and goals- Possible clash of cultures
Acquisition	<ul style="list-style-type: none">- Have trained staff- Have the capacity and technology needed- Operations run normally- Starbucks is familiar with acquisitions- Quicker to Market	<ul style="list-style-type: none">- Expensive in the long term- Less stability and control

WHAT COMPANY TO ACQUIRE?

<p>GT</p>	<ul style="list-style-type: none"> - Owns at least 50% of the market if not more - Went national through Whole Foods - More than 20 flavors - Widely recognized - Price per bottle = \$3.49 - Based in LA - Around \$300 million in Sales
<p>Brew Dr.</p>	<ul style="list-style-type: none"> - 8 tea houses - Distributed in the US and Canada - Based in Portland Oregon - Whole Foods in six regions: Pacific Northwest, Midwest, Northwest, Northern California, Rocky Mountains and South. - Brew Dr. currently makes 300,000 bottles per week and the improvements will allow the company to increase its production capacity to 750,000 bottles. - Marty Wall is VP of business development and came from the VP of sales of Stumptown (coffee) - 12 million revenue in 2016 and expecting 50 million revenues by 2018 or 2019 (Bevnet.com) <p>Pricing:</p> <ul style="list-style-type: none"> - Bottle – \$3 - Keg – \$85
<p>Iggy's</p>	<ul style="list-style-type: none"> - Located in Bainbridge Island WA - Local Brew House - Farmers markets - PCC, Pike Brewing, Triple Door, Hitchcock, SBP and over 100 locations throughout Washington and Oregon - \$5 per bottle

What Company To Acquire

Criteria	GT Kombucha	Brew Dr. Kombucha	Iggy's Kombucha
Revenue	+	+	-
Growth	+	+	+
Brand and Company Fit	-	+	+
Distribution Network	+	+	-
Resources/Technology	+	+	-
Scalability	+	+	-
Total	+4	+6	-2

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KOMBOGO

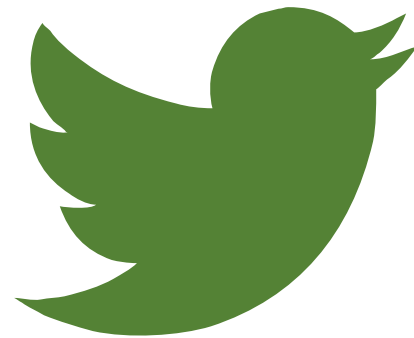
3 pm to 6 pm

Buy one get one half of

Similar to Frappuccino Happy Hour



STARBUCKS, KOMBUCHA & YOU

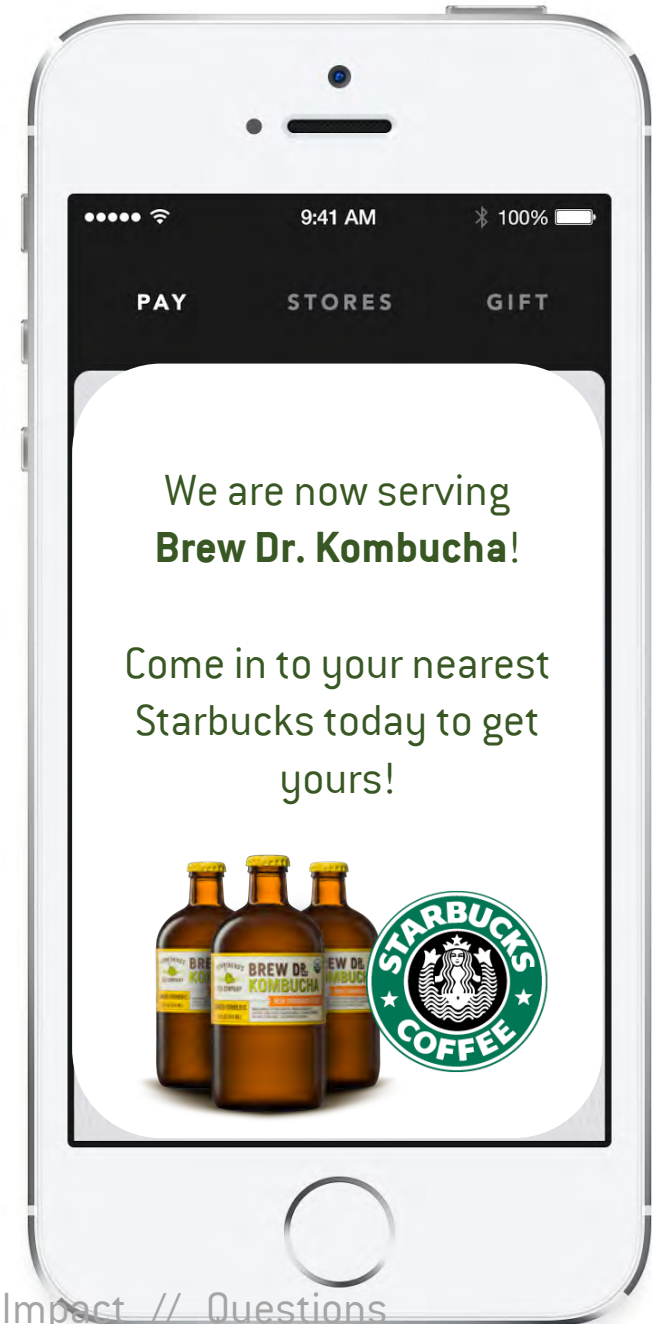


REWARDS

STARBUCKS MOBILE APP REWARDS

In-app advertisement & messaging

Email sent to all rewards members



FREE SAMPLES

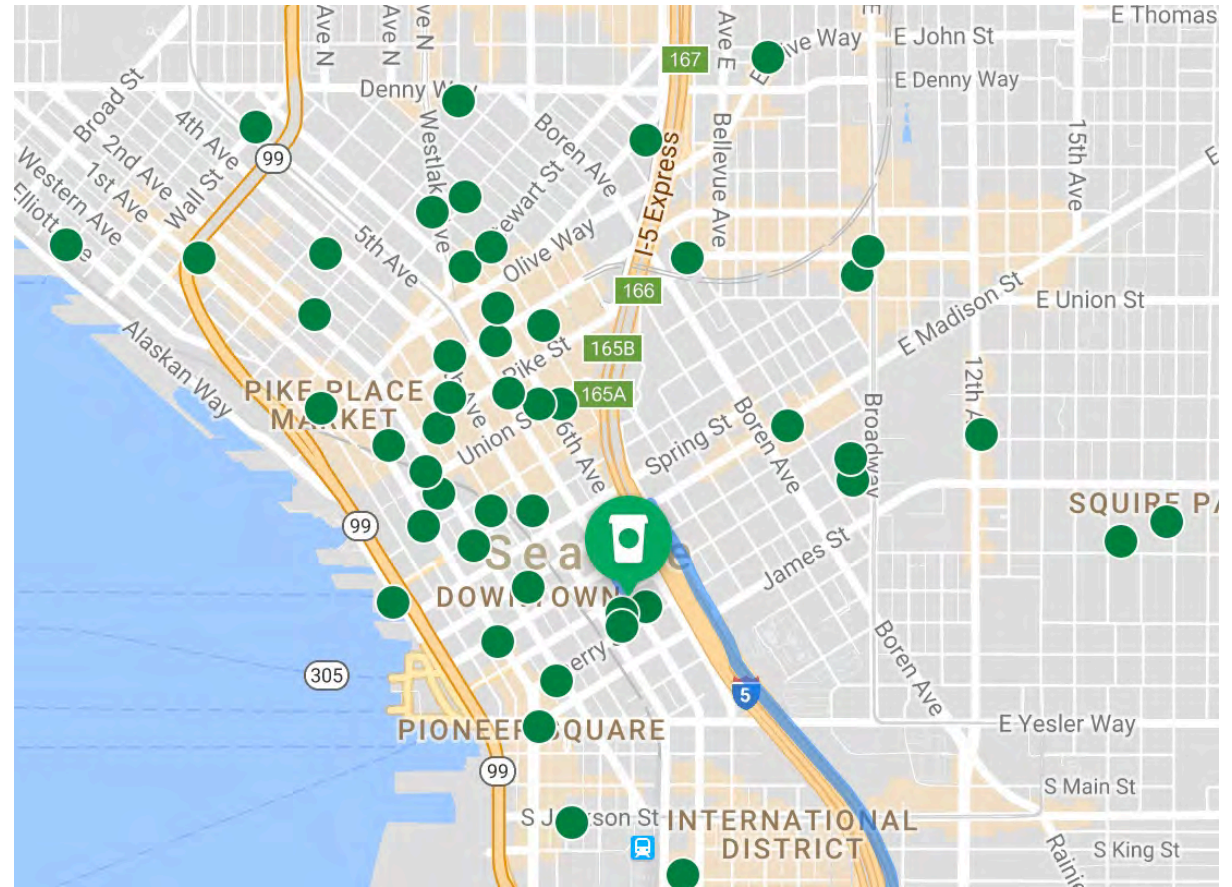


Analysis // Industry // Implementation // **Marketing** // Impact // Questions

BREW DR. WEBSITE

Start showing that Brew Dr. is now available at every Starbucks location on West Coast

Add Starbucks acquisition to their story



RISKS & MITIGATION

Kombucha Awareness

With Starbucks position in the market we will introduce it as a healthy segment leading people to see the benefits.

Does it fit with the Starbuck coffee image?

Because it is not coffee, it will not cannibalize their existing sales and they will round out their portfolio to address their healthy and artisan customers

Will Starbucks be able to scale up?

We are planning on constructing 4 new tea houses and hiring about 550 total new employees over 5 years to handle the increase in demand

How will you maintain?

Employees will go through training about kombucha and ways to handle the new product.

ANSOFF GROWTH MATRIX

	Existing Product	New Product
Existing Market	<ul style="list-style-type: none">• Lower prices of frappuccinos• Advertise more happy hours, promo parties	<ul style="list-style-type: none">• Kombucha• Smoothies• Granitas• Milkshakes
New Market	<ul style="list-style-type: none">• “Health conscious market” with different milks, flavors etc.	<ul style="list-style-type: none">• Acai Bowls• Protein Shakes• Ice Cream

THE 5 C'S

Context	<ul style="list-style-type: none"> - Growing industry at around 40% annually in the US
Customers—now and potential	<ul style="list-style-type: none"> - Health conscious people, ages 18-44 mainly women - US and Canada - Potentially the millennial market and men as the benefits are introduced
Competitors	<ul style="list-style-type: none"> - Other kombucha companies like GT and Reeds - Strength: GT owns more than half of the kombucha market - Strength: They can produce on larger scales - Weakness: Can't reach a different audience
Collaborators	<ul style="list-style-type: none"> - Brew Dr. - Strength: Good brand name and brand fit - Strength: A good base to scale up with 8 teahouses Starbucks Employee - Weakness: Lack of knowledge - Strength: provides amazing customer service
Company	<ul style="list-style-type: none"> -Strengths: Huge brand presence globally, Large product variety, share leader in Frozen Blended Coffee beverages with 50% of the market, Iced brewed coffee leads the industry growth at 9% from 2013-2016 -Weaknesses: Frozen blended coffee has grown by 2% over the same period, the industry volume actually decreased by 11% over the last year, Price point is higher than many competitors

PORTER'S FIVE FORCES

Threat of New Entrants	- There is a medium threat because kombucha does not go with many of our competitors portfolios
Threat of Suppliers Bargaining Power	- Threat is low with an acquisition
Threat of Intense Segment Rivalry	- Besides GT Kombucha, the threat is low because there are not many big players
Threat of Substitute Products	- The threat is low because there is no other drink that gives the benefits that kombucha does.
Threat of Buyers Bargaining Power	- High, buyers could just go to the store and buy bottled kombucha instead of on tap

INDUSTRY FACTS

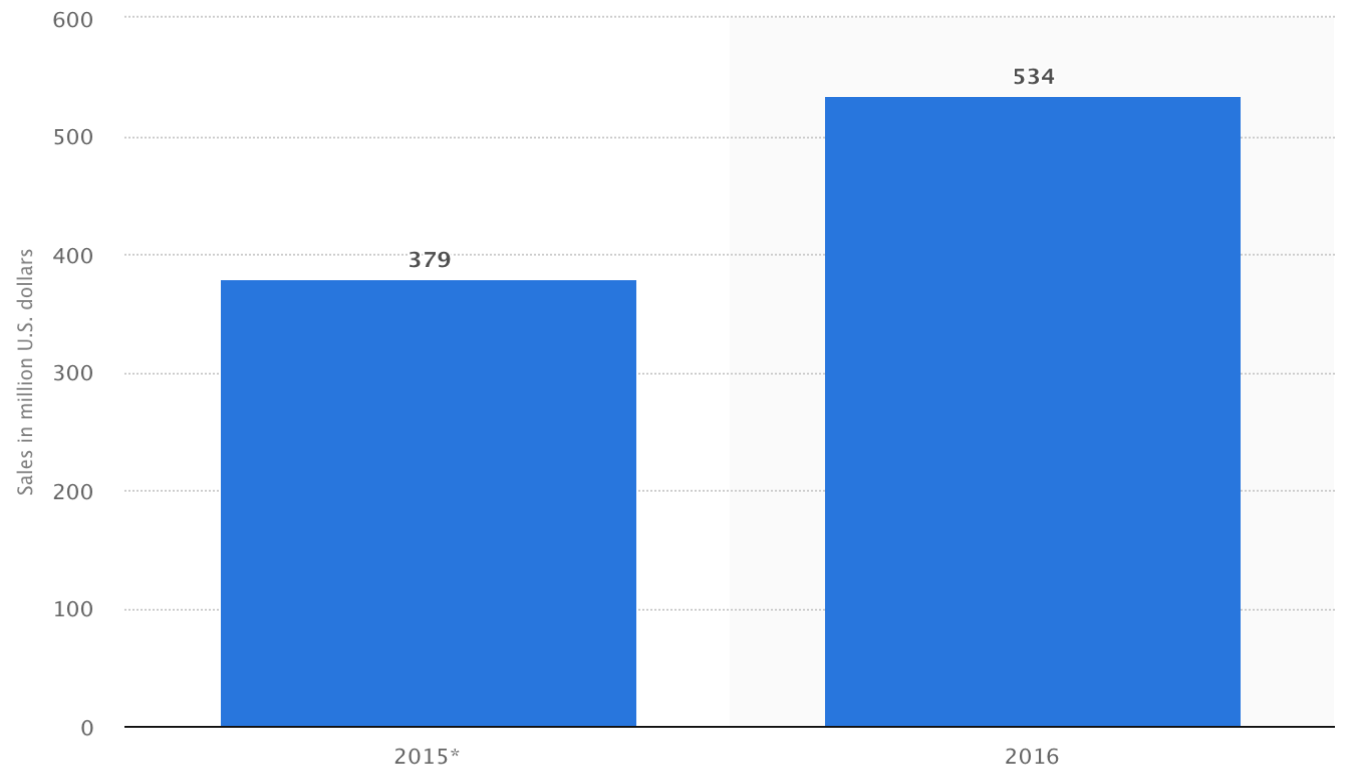
“Likely to gain attention from the 66% of consumers who like trying new/innovative coffee and/or tea drinks” (How Kombucha Stands Out in the Beverage Industry, Mintel 2016)

“In the past several years, Kombucha has grown in appeal as part of the functional beverage category due to associated benefits surrounding digestion, immunity, and more... More brands are entering the space... Trend toward kombucha shows no signs of slowing down” (US Healthy Dining Trends, Mintel March 2017)

INDUSTRY GROWTH

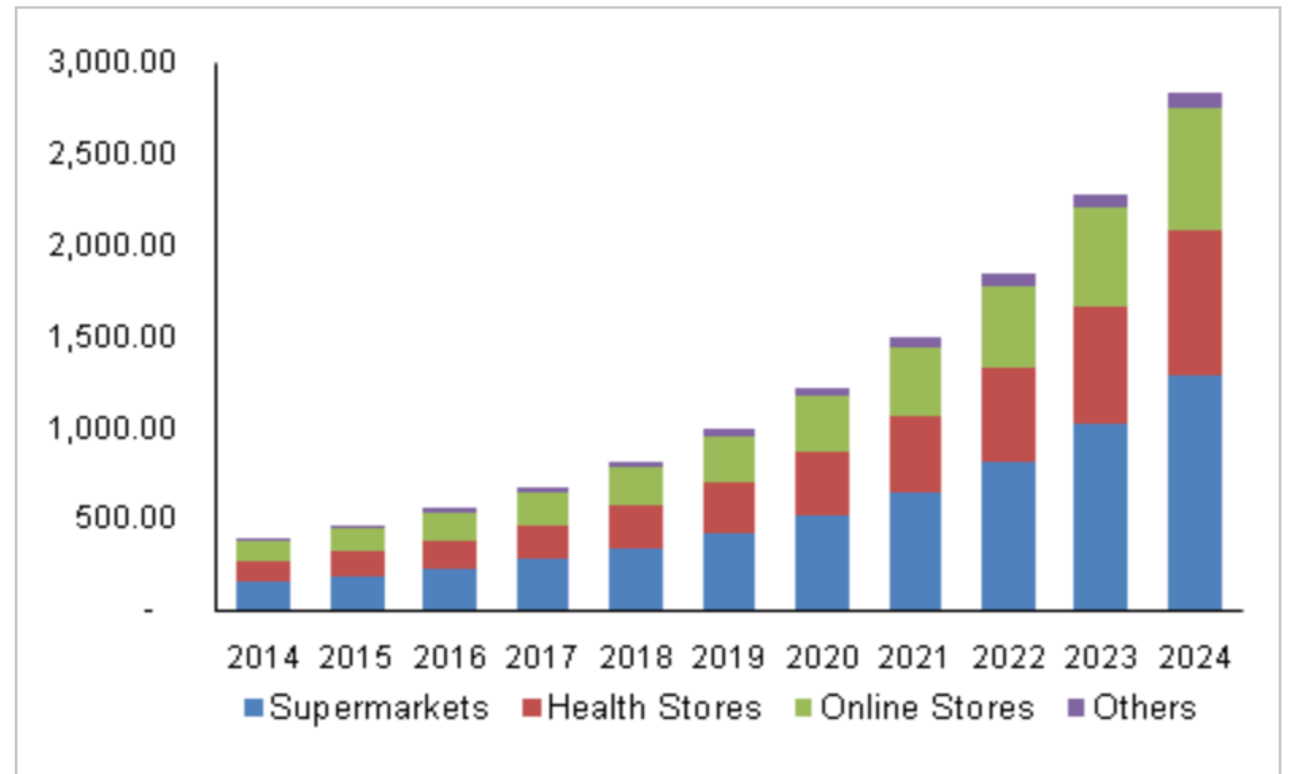
In the United States, kombucha **sales grew by 41%** in 2016 to **\$534 million in sales**. 2017 is following a similar pattern, and according to multiple reports, the next several years show no sign of slowed growth.

If 2017 has the same growth of **41%**, **sales will rise to \$752 million**.



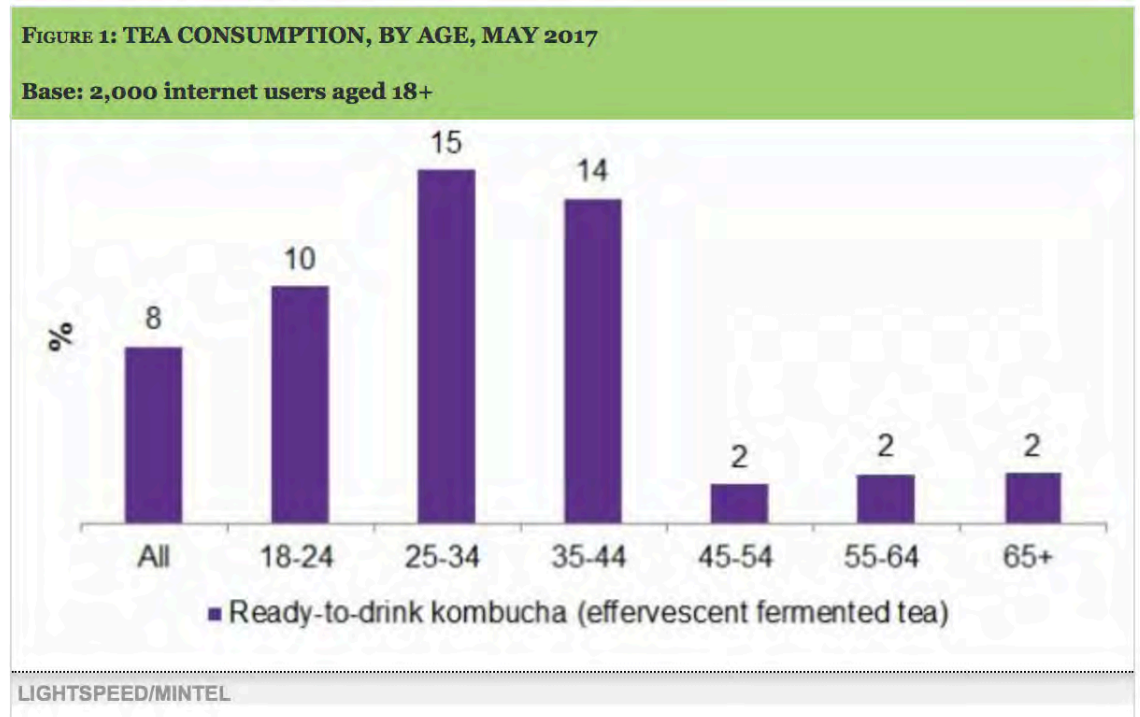
GLOBAL KOMBUCHA MARKET

- Global kombucha market is expected to reach USD 4.46 billion by 2024, Increasing awareness of the health benefits associated with consuming probiotic drinks is projected to boost market demand over the forecast period. (Grand View Research Report: “Kombucha Market”)
- North America= largest kombucha market, then Asia Pacific will be second largest by 2024, then Central and South America
- supermarkets have biggest role, then online, but in house is growing (Grand View Research Industry Analysis)



INDUSTRY ATTRACTIVENESS

- 15% of 25-34s drink kombucha, and 14% of 35-44s drink kombucha, that number will rise
- Popularity among younger shoppers (under age 45) indicate the potential for future growth, as these shoppers age into making up a greater share of the shopping public
- More vinegar based drinks and pickled foods are gaining popularity because of probiotic health benefits



MORE ON INDUSTRY ATTRACTIVENESS – AFTERNOON SNACK

Limited service segment for restaurants is growing faster than full service
Snacking is becoming a consistent habit for younger generations, which is good for Starbucks since it is a limited service store.

Beverages are a strong opportunity for growth sales in limited service restaurants, and innovative options such as house-made kombucha serve as midday snacks and are rising in popularity

From Dining Out Dec 2016 Mintel

<http://academic.mintel.com.offcampus.lib.washington.edu/display/808677/?highlight#hit1>

STARBUCKS CURRENT TARGET MARKET

Men and women aged 25-40

Account for almost half (49%) of total business

appeal to this consumer age group through hip, contemporary design that is consistent in its advertising and decor, and working to keep its products current as status symbols.

Customers tend to be urbanites with relatively high income, professional careers and a focus on social welfare.

This target audience grows at a rate of 3 percent annually

educated, with an average age of 42, and average income of \$90,000.

Young Adults age 18-24

Total 40% of starbucks total sales

positions itself as a place college students can hang out, study, write term papers and meet people

appeals to this consumer directly through introducing technology as soon as it comes available, focusing on social networking and actively cultivating a “cool” image

grows 4.6 percent each year

Kids and teens age 13-17

Account for 2% of starbucks total sales- most items for kids are purchased by the parents

Kids go there with their parents; both mother and child leave with cup in hand.

Teens meanwhile use Starbucks as a place to hang out with friends or study

Does not cater directly to kids- but it does make its products kid-friendly, offering special child sizes for instance

Chron Report: Who is Starbucks's Target Audience (<http://smallbusiness.chron.com/starbucks-target-audience-10553.html>)

CONNECTED BOHEMIANS

Midscale Younger Mostly w/o Kids

A collection of mobile urbanites, Connected Bohemians represent the nation's most liberal lifestyles. Its residents are a progressive mix of tech savvy, young singles, couples, and families ranging from students to professionals. In their funky row houses and apartments, Bohemian Mixers are the early adopters who are quick to check out the latest movie, nightclub, laptop, and microbrew.

Demographics Traits

- Urbanicity: Urban
- Income: Midscale
- Income Producing Assets: Moderate
- Household Technology: Highest
- Age Ranges: Age 25-44
- Presence of Kids: Mostly w/o Kids
- Homeownership: Renters
- Employment Levels: Management and Professional
- Education Levels: College Graduate

Lifestyle & Media Traits

- Owns a hybrid vehicle
- Eats at Starbucks
- Shops at Express
- Goes skiing/snowboarding
- Visits the Middle East
- Uses Yelp
- Listens to Alternative

THE COSMOPOLITANS

Upscale Younger Family Mix

Educated and upscale, The Cosmopolitans are urbane couples in America's fast-growing cities. Concentrated in major metro areas, these households feature older homeowners without children. A vibrant social scene surrounds their older homes and apartments, and residents love the nightlife and enjoy leisure-intensive lifestyles.

Demographics Traits

- Urbanicity: Urban
- Income: Upscale
- Income Producing Assets: Moderate
- Household Technology: Below Average
- Age Ranges: Age 25-44
- Presence of Kids: Family Mix
- Homeownership: Homeowners
- Employment Levels: Management and Professional
- Education Levels: Graduate Plus

Lifestyle & Media Traits

- Owns a BMW
- Eats at Starbucks
- Shops at Crate & Barrel
- Goes skiing/snowboarding
- Stays at Sheraton
- Uses Yelp
- Listens to Alternative

THE YOUNG DIGERATI

Wealthy Middle Age Mostly w/ Kids

Young Digerati are tech-savvy and live in fashionable neighborhoods on the urban fringe. Affluent and highly educated, Young Digerati communities are typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants and all types of bars, from juice to coffee to microbrew. Many have chosen to start families while remaining in an urban environment.

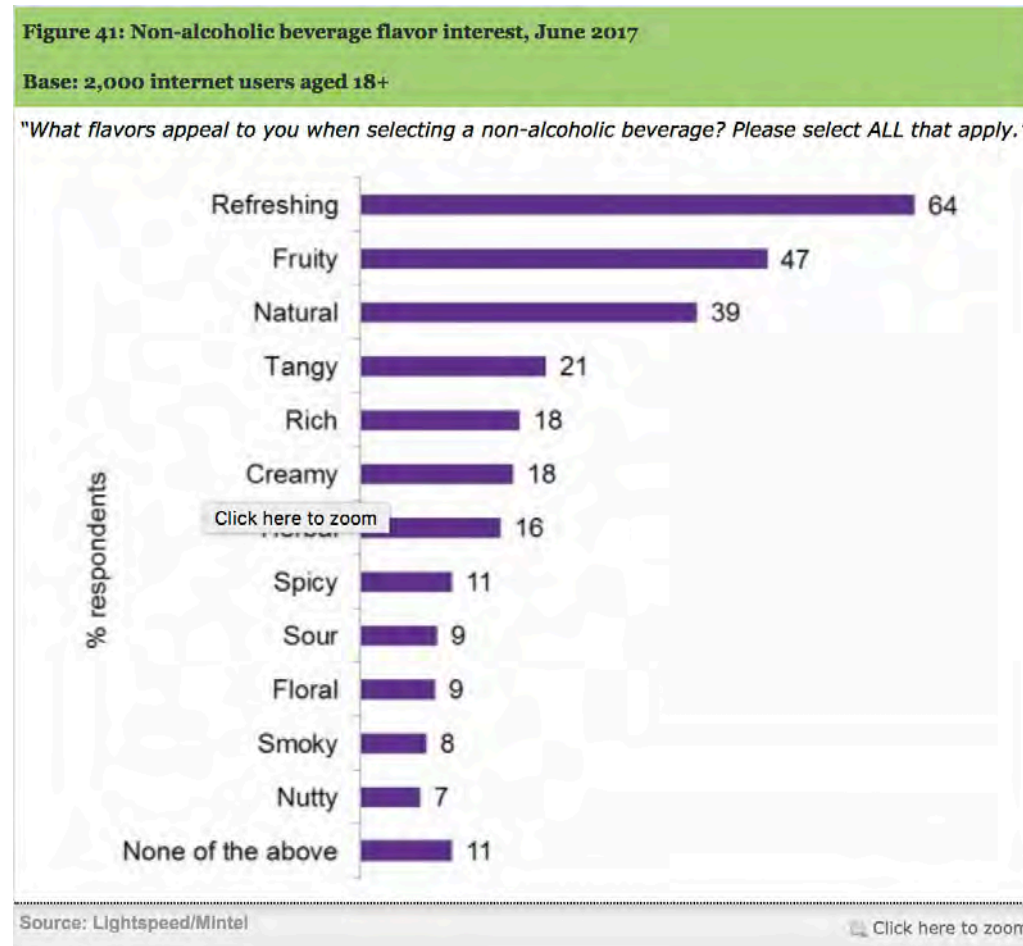
Demographics Traits

- Urbanicity: Urban
- Income: Wealthy
- Income Producing Assets: Millionaires
- Household Technology: Above Average
- Age Ranges: Age 35-54
- Presence of Kids: Mostly w/ Kids
- Homeownership: Homeowners
- Employment Levels: Management and Professional
- Education Levels: Graduate Plus

Lifestyle & Media Traits

- Owns a Mercedes
- Eats at Chipotle
- Shops at Banana Republic
- Goes hiking/backpacking
- Visits Asia
- Uses Yelp
- Listens to Alternative

CONSUMER FLAVOR INTEREST



HEALTH BENEFITS OF KOMBUCHA

Benefits:

“It has an association with probiotics even though it might not exactly fit into that strict definition, but people seem to feel a detox or ‘stomach-friendly’ effect.”

Going further, the market research firm’s report highlights that the beverages also contain various B vitamins, as well as lactic and acetic acids, which are said to support digestive health, BMC’s report states.

Detoxification and immunity enhancement also are other among the health benefits associated with the product, it adds.

<https://www.bevindustry.com/articles/90063-kombucha-market-up-41-percent>

Counterarguments:

It’s not bad for you, save a few bad homemade batches.

There is not extensive evidence that proves these health benefits are there.

Articles claiming that it cures cancer or sickness are problematic because there is no actual evidence that it has significant health benefits. The benefits from probiotics are all reported, but not scientifically proven.

Additionally, a lot of proponents of kombucha say you should drink it every single day which can be problematic because moderation is key.

<https://mic.com/articles/108502/if-you-re-kind-of-repelled-by-kombucha-you-might-have-the-right-idea#.7hLV6NRS2>

PRODUCTION AND DISTRIBUTION

<https://www.inc.com/magazine/201503/tom-foster/the-king-of-kombucha.html>

Most emerging kombucha brands are small, locally owned businesses with small scale production by the owner personally
GT's, the largest Kombucha brand, started out inside the owner's house, but expanded to a factory in 1996 as he continued to scale up

WHY NOT SMOOTHIE BOWLS

Strengths

- Fits Starbucks objectives and brand
- Consumer preferences leaning toward refreshing and fruity

Threats

- Already saturated industry
- Lots of competition
- Consumers consider smoothies and smoothie bowls a very occasional purchase occasion; it's a "special treat"
- Seasonality

Opportunities

- Capitalizes on growing health trends
- Aesthetic properties; good for photographs
- Word of Mouth marketing

Innovation on the Menu (Mintel 2017)

<http://academic.mintel.com/offcampus.lib.washington.edu/display/853651/?highlight>

Weaknesses

- Starbucks
- Smoothies already offered
- Cannibalize smoothie and breakfast sales
- Would have to find new suppliers of fresh fruit like acai
- Create new packaging and bowls

WHY NOT FRAPPUCCINOS

Strengths:

- Established Brand
- Innovative Flavors

Weaknesses:

- Does not go with health conscious trends
- Already concentrated internally (73 frappuccinos on menu)

Opportunities:

- Aesthetically Pleasing (“Instagrammable”)

Threats:

- Many competitors
- Seasonality
- Consumer preferences leaning toward refreshing, natural, and fruity
- Mature market

NPV SENSITIVITY ANALYSIS

		Growth scenario		
		Good	Average	Poor
Starbucks' WACC	12%	\$ 103,186,243.04	\$ 29,810,086.06	\$ 651,793.75
	10%	\$ 115,453,716.59	\$ 32,225,829.50	\$ 4,654,699.09
	8%	\$ 128,996,345.70	\$ 46,444,281.09	\$ 9,066,321.04

FINANCE

SG&A, MARKETING

Sales, General and administrative		\$8,160,000	\$12,076,800	\$18,719,040	\$30,886,416	\$52,506,907
Incremental MKTG Costs	\$3,790,000	\$22,740,000	\$3,790,000	\$3,790,000	\$3,790,000	\$1,895,000

INVESTMENT TIMELINE

Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
\$ (38,158,393)	\$ (3,000,000)	\$ (3,000,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)
Cost of acquisition + 2 new teahouses + \$4M R&D	2 new teahouses + Maintenance	2 new teahouses + Maintenance fee	Maintenance fee	Maintenance fee	Maintenance fee + investment in new plant

PROJECTED CASH FLOWS AND NPV

Incremental Projected Free Cash Flows of Brew Dr. Kombucha									
Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Supporting Assumptions		
	2018	2019	2020	2021	2022	2023			
Quantity sold (grande) 000s	0	12,723,900	18,195,177	26,019,103	36,426,744	50,997,442	See K2-M3		
Price	\$4	\$4	\$4	\$4	\$4	\$4	Adjust L3 for price sensitivity		
Revenue 000s	\$0	\$50,895,600	\$72,780,708	\$104,076,412	\$145,706,977	\$203,989,768	Quantity Sold*Price		
Variable costs	\$0	\$30,537,360	\$43,668,425	\$62,445,847	\$87,424,186	\$122,393,861	50% margin researched, 40%		
Gross margin (est. 40%)	\$0	\$20,358,240	\$29,112,283	\$41,630,565	\$58,282,791	\$81,595,907	Revenue-VC		
Operating Expenses									
Sales, General and administrative		\$8,160,000	\$11,668,800	\$16,686,384	\$23,861,529	\$33,406,141	68 new hires for paperwork		
Incremental MKTG Costs	\$3,790,000	\$22,740,000	\$3,790,000	\$3,790,000	\$3,790,000	\$1,895,000	Invested percentage of startup		
R&D							\$4M in R&D to develop GTM		
Operating Income	(\$3,790,000)	(\$10,541,760)	\$13,653,483	\$21,154,181	\$30,631,262	\$46,294,767	Gross margin - operating Exp		
Depreciation		(\$1,600,000)	(\$8,800,000)	(\$8,800,000)	(\$8,800,000)	(\$8,800,000)	12 teahouses depreciated str		
Taxable income		(\$12,141,760)	\$4,853,483	\$12,354,181	\$21,831,262	\$37,494,767	Operating income - Deprecia		
Taxes (39.1% corp fed tax rate)	\$0	\$4,747,428	(\$1,897,712)	(\$4,830,485)	(\$8,536,023)	(\$14,660,454)	Assume 39.1% corp tax rate		
After Tax Income	\$0	(\$16,889,188)	\$6,751,195	\$17,184,666	\$30,367,285	\$52,155,220	Taxable income - taxes		
Add back Depreciation = OCF	\$0	(\$15,289,188)	\$15,551,195	\$25,984,666	\$39,167,285	\$60,955,220	After tax income + Depreciat		
Change in NWC	(\$4,444,650)						15 kegs of kombucha invento		
CAPEX	(\$38,158,393)	(\$3,000,000)	(\$3,000,000)	(\$1,500,000)	(\$1,500,000)	(\$1,500,000)	See K10-P12		
FCFF	(\$42,603,043)	(\$18,289,188)	\$12,551,195	\$24,484,666	\$37,667,285	\$59,455,220			
NPV	\$ 32,183,279.31								
IRR	24%								

Analysis // Industry // Implementation // Marketing // Impact // Questions

PROJECTED NET PROFITS AND ROI

Incremental Projected Income Statement of Brew Dr. Kombucha								Supporting Assumptions				
Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	2018		2019	2020	2021	2022
Quantity sold (grande)		0	12,723,900	18,195,177	26,019,103	36,426,744	50,997,442	See K2-M3				
Price		\$4	\$4	\$4	\$4	\$4	\$4	Adjust L3 for price sensitivity				
Sales		\$0	\$50,895,600	\$72,780,708	\$104,076,412	\$145,706,977	\$203,989,768	Quantity Sold*Price				
Variable costs		\$0	\$30,537,360	\$43,668,425	\$62,445,847	\$87,424,186	\$122,393,861	40% margin is conservative				
Contribution Margin (40%)		\$0	\$20,358,240	\$29,112,283	\$41,630,565	\$58,282,791	\$81,595,907	Revenue-VC				
Period Costs:												
Sales, General and administrative			(\$8,160,000)	(\$11,668,800)	(\$16,686,384)	(\$23,861,529)	(\$33,406,141)	new hires * \$120k ea/yr, gross				
Incremental MKTG Costs		(\$3,790,000)	(\$22,740,000)	(\$3,790,000)	(\$3,790,000)	(\$3,790,000)	(\$1,895,000)	Invested percentage of start-up				
R&D								\$6M in R&D to develop focused				
Depreciation			(\$1,600,000)	(\$8,800,000)	(\$8,800,000)	(\$8,800,000)	(\$8,800,000)	brewhouses depreciated straight				
Taxable Income		(\$3,790,000)	(\$10,541,760)	\$13,653,483	\$21,154,181	\$30,631,262	\$46,294,767	Gross margin - operating expenses				
Taxes (39.1% corp fed tax rate)		\$1,481,890	\$4,121,828	(\$5,338,512)	(\$8,271,285)	(\$11,976,823)	(\$18,101,254)	Assume 39.1% corp tax rate				
Net Profit		(\$2,308,110)	(\$6,419,932)	\$8,314,971	\$12,882,896	\$18,654,438	\$28,193,513	Taxable income - taxes				
Total Profit for 5 years		\$59,317,777										
Initial Investment	\$	(39,158,393)										
ROI		151.48%										

EXPANDED ASSUMPTIONS

EXPANDED ASSUMPTIONS						
# Stores in year C		Price (grande)	Grandes sold /stc Starbucks	Wacc		
3486	\$	4.00	10	10%		
Growth Rates						
Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	
25%	25%	20%	15%	15%	15%	
43%	43%	43%	40%	40%	40%	
48%	55%	65%	70%	70%	70%	
CAPEX						
Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	
\$ (38,158,393)	\$ (3,000,000)	\$ (3,000,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	
Cost of acquisitio	2 new teahouses	2 new teahouses	Maintenance fee	Maintenance fee	Maintenance fee	