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# Café Britt: A Costa Rica Pride<sup>1</sup>

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Add value, and look for your economic reason for being. Nobody'll ever pay you if you're not adding value...I'm a commercial guy, a trader. I just happen to be in the high end of the market. The future of coffee here is niches, finding things that other people aren't doing.

> Steven Aronson Founder, Café Britt

It was a beautiful, sunny, October day in 2011 in Herridia, Costa Rica. Managers of Café Britt, Costa Rica's leading supplier and retailer of gourmet coffee, chocolates, and gifts sat in the Don Prospero Restaurant listening to chief executive officer, Pablo Vargas, and the company's

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<sup>&</sup>lt;sup>1</sup> The author developed the case for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case is based on both primary and secondary (i.e. published) data. Contact person: Issam Ghazzawi, University of La Verne, 190 Third Avenue, La Verne, CA 91750, <u>ighazzawi@laverne.edu</u>.

president and chairman of the board, Philippe Aronson, review the state of the company. The successful opening of the first Café Brit in 2001 store in San Jose's international airport led to its international expansion. The company opened its first international shop in the Lima, Peru airport in 2005. Next, the company opened stores in eight other countries including its latest ventures in the international airport of the Americas in the capital city of Santo Domingo, and in the airports of Samaná and Puerto Plata in the Dominican Republic in early August 2011.

After eight consecutive years of an exceptional growth fueled by online gourmet coffee orders and international expansion, Café Britt had experienced a downturn in revenues in 2009, prior to a second round of growth. While managers were convinced that Britt's foreign operations had transformed the company into a truly international company, they felt it was time to reflect and re-visit the growth strategy. Pablo and his management team wanted to design an organizational structure to help manage Britt's explosive growth, while effectively managing its international operations.

# **Britt: THE CREATION OF A BRAND**

The young Steven Aronson never knew that one day he would settle in Central America. Steve had been a passionate coffee lover and an avid coffee broker. Born in the Bronx area of New York City, <sup>2</sup> he came to Costa Rica in 1977 from Ecuador as a coffee broker and exporter for a UK-based commodity trader. Aronson, a "self-confessed child of the Vietnam war" was fascinated with the fact that Costa Rica has not had an army since 1948. Mr. Aronson recalled his dissatisfaction when he had a cup of coffee at the historical Gran Hotel Costa Rica in the capital San Jose, and reflected on the need to provide a good cup of coffee to tourists and hotel visitors especially in the good hotels of a coffee producing nation. He was determined to pursue this idea.

While Aronson continued his role as a broker and an exporter of green coffee beans, he started Café Britt in 1985 to supply coffee to the gourmet market. The company was incorporated in Curaçao <sup>3</sup> at a later time and adopted Grupo Britt, N.V. as its incorporated name. Aronson's business philosophy was described as: "Add value, and look for your economic reason for being. Nobody will ever pay you if you're not adding value" (Aronson, 2004). With a forward thinking mission to roast the best beans from the country's best coffee plantations, Britt became a brand that helped make Costa Rica a new kind of coffee wonderland. In the midnineties, Britt expanded its product offerings to include coffee- related confections.

<sup>&</sup>lt;sup>2</sup> The Bronx is the northernmost of the five boroughs of New York City. It is also known as Bronx County, the last of the 62 counties of New York State to be incorporated. Bronx is located north of Manhattan and Queens, and South of Westchester County. It is the only borough that is located primarily on the mainland. According to the 2010 United States Census, the Bronx has a population of 1,400,761. For more information, see: <u>http://en.wikipedia.org/wiki/The\_Bronx</u>.

<sup>&</sup>lt;sup>3</sup> Curaçao is an island in the southern Caribbean Sea located of the shore of the Venezuelan coast. Curaçao is the largest and most populous of the three ABC islands (i.e. Aruba, Bonaire, and Curaçao) of the Lesser Antilles, specifically the Leeward Antilles. Curaçao has a land area of 444 square kilometers (171 square miles) and its population was 141,766 as of 1 January 2009. For more information, please refer to http://en.wikipedia.org/wiki/Cura%C3%A7ao.

In addition to numerous awards, Café Britt was awarded the 2003 Innovation Award by the Costa Rican Chamber of Commerce. It was also named as one of the 100 most admired companies in Central America by Summa Magazine in 2004. It was also named as the third most competitive company in Latin America among the region's top 100 in 2005 and awarded the Overall Excellence Award for outstanding performance in leadership, customer service, processes, environment, innovation, and human resources by the Costa Rica's Chamber of Industries in 2006.

# AN OVERVIEW OF THE COFFEE INDUSTRY

### **Coffee at a Glance**

Coffee became the most widely traded, tropical, agricultural commodity in the world. In the global market, coffee and tea manufacturers generated about \$70 billion in annual sales. The world's top green coffee producing countries were and still are Brazil, Indonesia, and Vietnam. In 2009/10, coffee crops were valued at about U.S. \$15.4 billion. The Exporting Members of the International Coffee Organization, some 70 countries <sup>4</sup> were responsible for over 97 percent of the world output. In 2010, the coffee industry employed an estimated 26 million people in 52 producing countries (International Coffee Organization, n.d.). See Appendices A, B, and C for facts on world coffee production; green coffee bean exports; and total coffee exports by country. See also Figure 1 for global coffee export.

The worldwide coffee consumption of coffee in the year 2009/10 totaled around 133.9 million bags, of which 72 million bags were consumed in the Importing Member countries, 21.2 million in non-member countries, and 40.7 million in producing countries. See Appendices D and E for world coffee consumption and total coffee imports by country.

Since the early 1980s, consumption has increased by an average of 1.2 percent annually. Japan had the most increase of such consumption averaging some 3.5 percent a year that made it the third largest importer of coffee in the world (International Coffee Organization, n.d). Contrary to Japan, market growth in Europe has been weak in the last five years or so. In fact, coffee consumption in Europe showed signs of stagnation and possible declines. In the meantime, the U.S. situation was a little better; the consumption of coffee has grown at a low rate despite the boom in the specialty sector (International Coffee Organization, n.d).

The supply of and the paid price for the green coffee beans always depended on a few major factors including the weather in the growing country; the political and economic conditions of grower countries; and the influence of trade organizations (e.g., the International Coffee Organization) that restrict coffee beans supply and control prices to protect the growers. While coffee manufacturing and distributing companies may have relied on just a single estate (grower) for a particular type of coffee; coffee shops, in particular, depended on the supply of the higher-

<sup>&</sup>lt;sup>4</sup> The International Coffee Organization (ICO) is the main intergovernmental organization for coffee. It brings together exporting and importing governments with the aim to collaborate and resolve the challenges facing the worldwide coffee industry. Its members represent 97% of world coffee production countries and over 80% of world consumption countries.

priced coffee beans Arabica needed to make its premium coffee (Hoovers-Coffee and Tea Manufacturing, 2012).

In the U.S., coffee and tea manufacturing industry included about 300 companies with combined annual revenues of about \$9 billion. The major companies that manufactured coffee (and tea) included: "Green Mountain Coffee Roasters and Farmer Bros, as well as divisions of the JM Smucker Company (Folgers), and Kraft Foods (Maxwell House). The industry is highly concentrated: the top 50 companies generate more than 90 percent of revenue." Coffee comprised close to 86% of the aforementioned figure of \$9 billion, while roasted coffee accounted for 75%, and coffee concentrates 11% percent. Tea, on the other hand came in at 13% (Hoovers-Coffee and Tea Manufacturing, 2012).

According to a Fair Trade USA report that was released in April 2012, the U.S. imports of Fair Trade Certified coffee<sup>5</sup> have increased 32% in 2011 from the previous year (Hoovers-Coffee and Tea Manufacturing, 2012).

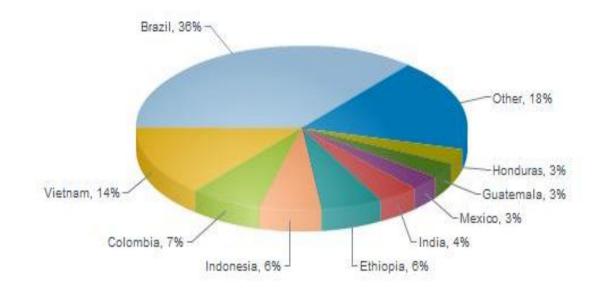


FIGURE 1: Global Coffee Exports - International Coffee Organization, 2010

**Source:** Hoovers-Coffee and Tea Manufacturing (2012). Retrieved July 22, 2012 from Hoovers.com.

The U.S. coffee consumer segment included grocery stores, grocery wholesalers, mass merchandisers, warehouse clubs, drugstores, and specialty food stores, the U.S. coffee shop

<sup>&</sup>lt;sup>5</sup> Fair Trade Certified Coffee is an indicator of demand for coffee and tea products. According to coffeeresearch.org, Fair trade coffee, or equal exchange coffee, is coffee that is traded by bypassing the coffee trader and therefore giving the producer (and buyer) higher profits. Fair trade certified coffee does not necessarily mean that the extra money trickles down to coffee farmers. The article was retrieved on June 28, 2012 from: http://www.coffeeresearch.org/politics/fairtrade.htm

industry included about 20,000 stores with combined annual revenue of about \$10 billion. The U.S. coffee shop industry is very concentrated. Its major players included Caribou Coffee, International Coffee & Tea (The Coffee Bean & Tea Leaf), Peet's Coffee, and Starbucks. The top 50 companies generated more than 70 percent of the U.S. coffee shop sales. In fact, Starbucks dominated the coffee shop industry (Hoovers- Coffee and Tea Manufacturing, 2012). It virtually saturated the market in some areas.

Coffee shops have faced stringent competition from a growing number of fast-food chains and fast-service restaurant chains that have realized the benefits of adding premium coffee drinks at lower price. In addition, the growing bakery cafés that specialized in breakfast items, baked products, and coffee drinks presented another source of competition to the coffee shops. Finally, gas stations and convenience stores, added more competition by offering gourmet coffee (Hoovers-Coffee and Tea Manufacturing, 2012).

### The Origin and the Documented History of Coffee

Legend has it that a 6<sup>th</sup> Century Ethiopian goat herder in the province of Kaffa became disoriented when he discovered that his goats were showing unusual energy after consuming a particular kind of cherry. The herder tried the delicately sweet cherries, and experienced increased energy levels as well. Thus the plant became regionally famous with coffee cherry plantations flourishing in Yemen. The Arabs later discovered a means of extracting a brew from the cherries, which was then turned into a beverage. By 900 AD, coffee had become a popular plant and a common drink in the entire region of Arabia. From this period until 1500 AD, coffee farming practices were still a well-kept secret, although coffee beans were already being exported to other places (Grierson, 2006).

According to a recorded history of coffee:

The fruit of the plant, known as coffee cherries, was eaten by slaves taken from present day Sudan into Yemen and Arabia through the great port of its day, Mocha. Coffee was certainly being cultivated in Yemen by the 15th century and probably much earlier. In an attempt to prevent its cultivation elsewhere, the Arabs imposed a ban on the export of fertile coffee beans, a restriction that was eventually circumvented in 1616 by the Dutch, who brought live coffee plants back to the Netherlands to be grown in greenhouses (International Coffee Organization, n.d., para 1).

At the time, the authorities in Yemen encouraged coffee growing and consumption. According to tradition and record, the first coffeehouses or kaveh kanes opened in Mecca and eventually spread throughout the Arab world. Arabian coffeehouses became the center of male social gatherings, entertainment, and places to conduct business. Over time, however, Arabian coffeehouses also became centers of political activity, which led to their eventual suppression. Through several decades, while authorities attempted various bans against coffeehouses, they continued to reappear—a sign of a culturally inhibited phenomenon (International Coffee Organization, n.d.).

### The spread of the Coffee Plant to India, Java (Indonesia) and Europe

In the late 1600s, the Dutch grew coffee in Dutch Malabar, or Cochin, in the northern district of Kerala, a state in the south of India (International Coffee Organization, n.d.).<sup>6</sup> In 1699, the Dutch took some plants to Batavia, Java, in what is now Indonesia.<sup>7</sup>

Although coffee was brought and introduced to Europe by the Venetian traders in 1615, the Dutch colonies had become the main suppliers of coffee to Europe. In old Europe, coffee was believed to have medicinal remedies and was mainly sold by street vendors. The first known European coffeehouse opened in 1720, in the frescoed and historical Caffè Florian, which sits on the perimeter of the famed Piazza San Marco in Venice, Italy (International Coffee Organization, n.d.). Unknown to most, Lloyd's of London, the world's largest insurance company, was initially instituted as a coffeehouse by Edward Lloyd in 1688. At the time, Britain became known as the chief slave trading power in the Atlantic. As the trade grew dangerous and British vessels were lost, insurance became necessary. Given that Edward Lloyd's coffeehouse was a popular meeting establishment, it evolved to become the recognized place to obtain maritime insurance for both ships and cargo. Pioneering evolvement into a specialty insurance market continues to make Lloyds recognizable worldwide (Lloyds.com/About-us/History, n.d.).

### **Coffee in the Americas**

Coffee plants were easily spread throughout Central and South America by the Dutch, when it first arrived in 1718 in the Dutch colony of Surinam. From there plantations were begun in French Guyana and then into the state of Pará in Brazil. In 1730, the British brought the coffee plant to Jamaica's Blue Mountains where the most famous and expensive coffee in the world is still being grown (International Coffee Organization, n.d.).

In 1720, a French naval officer by the name of Gabriel Mathieu de Clieu, brought the coffee plant to Martinique, a French island in the Caribbean Sea. Planted in Preebear, a former plantation town, the tree grew and multiplied. By 1777 it was estimated that there were between 18 and 19 million coffee trees on Martinique, which helped create a major source of national income (International Coffee Organization, n.d.).

Coffee beans came to North America in 1668 and, soon after, coffee houses were established in New York, Philadelphia, Boston, and other towns. The Boston Tea Party<sup>8</sup> of 1773 was planned

<sup>&</sup>lt;sup>6</sup> Dutch Malabar, was the title of a commandment of the Dutch East India Company on the Malbar Coast between 1661 and 1795, and is part of what is today collectively referred to as Dutch India. For more information, refer to Dutch Malabar, in: http://en.wikipedia.org/wiki/Dutch\_Malabar.

<sup>&</sup>lt;sup>7</sup> Batavia, a large city and seaport on the north coast of the island of Java, and the capital of all the Dutch settlements in the East. Batavia is situated on both sides of the river Jakarta or Tjiliwong, in a swampy plain at the head of a capacious bay for more information, see: Batavia - Town, City, Dutch, and Java. http://www.libraryindex.com/encyclopedia/pages

<sup>&</sup>lt;sup>8</sup> The Boston Tea Party, referred to in 1773 as "the destruction of the tea", "was a direct action by the Sons of Liberty in Boston, a town in the British colony of Massachusetts, against the British government and the monopolistic East India Company that controlled all the tea imported into the colonies. On December 16, 1773, after officials in Boston refused to return three shiploads of taxed tea to Britain, a group of colonists boarded the ships

at the Green Dragon coffeehouse in Boston. Additionally, both the New York Stock Exchange and the Bank of New York started in coffeehouses in what is today known as Wall Street (Raphael, 2010; The Coffee House Press, n.d.).

While the 17<sup>th</sup> and 18<sup>th</sup> centuries witnessed the successful establishment of sugar plantations (fazendas) in Brazil, the weakening of sugar prices in the 1820s led to the migration of labor and capital to the southeast regions where coffee growing had been flourishing since 1774 in the Paraiba Valley. In fact, the 1830s saw Brazil as the world's chief coffee producer at 600,000 bags a year (60-kilogram per a bag). Next in line were Cuba, Java and Haiti with annual productions of 350,000-450,000 bags per year each, resulting in a total, global production of 2.5 million bags annually (International Coffee Organization, n.d.).

The rapid expansion of production in Brazil, Java, and other coffee producing countries led to a major worldwide price decline of coffee beans. However, it leveled in the late 1840s and peaked in the 1890s. The strong world demand encouraged the growth of coffee cultivation in other regions in the Americas such as Guatemala, Mexico, El Salvador, and Colombia (International Coffee Organization, n.d.).

Coffee was introduced to Colombia in early 1723 by Jesuit priests. However, civil strife and the inaccessibility of fertile coffee-growing regions hampered the growth of the Colombian coffee industry. Nevertheless, between 1899 and 1902, following cessation of hostilities after the "Thousand Days War," Colombians turned to coffee as their economic salvation. The larger plantations or "haciendas," dominated the upper Magdalena river regions of Cundinamarca and Tolima, while the country's peasants planted coffee in the mountainous regions to the west, in Antioquia and Caldas. New railways, relying on coffee for profit, allowed more coffee to be grown and transported. The opening of the Panama Canal in 1914 permitted the exports from Colombia's previously unreachable Pacific coast, which gave the port of Buenaventura an increasing importance (International Coffee Organization, n.d.).

Colombian coffee became increasingly popular with American and European consumers, and by 1905 Colombia was exporting 500,000 bags per year which was doubled by 1915. In the meantime, Brazil desperately tried to control its overproduction. During the same period, Central American countries exported 1.2 million bags to the U.S. up from 302,000 bags. (International Coffee Organization, n.d.).

During this period, the liberation/decolonization process taking place after the end of World War II, helped some newly independent African nations such as Uganda, Kenya, Rwanda and Burundi, to export coffee (International Coffee Organization, n.d.).

and destroyed the tea by throwing it into Boston Harbor. The incident remains an iconic event of American history, and other political protests often refer to it.

The Tea Party was the culmination of a resistance movement throughout British America against the Tea Act, which had been passed by the British Parliament in 1773. The Boston Tea Party was a key event in the growth of the American Revolution. Parliament responded in 1774 with the Coercive Acts, which, among other provisions, closed Boston's commerce until the British East India Company had been repaid for the destroyed tea. The crisis escalated, and the American Revolutionary War began near Boston in 1775.

In United States, the demand for coffee consumption in the 20<sup>th</sup> century continued to grow reaching a peak in 1946 with an annual per capita consumption of 19.8 pounds, double that in 1900. This increase came despite the political, social, and economic challenges of the period. The U.S. increase in coffee demand came at a time of high global prices, and thus led to an expansion of coffee production throughout the world coffee-growing regions (International Coffee Organization, n.d.).

The City of Seattle has become synonymous with a new type of café culture and an improved coffee beverage. The new café culture has spread to the rest of the world, even to countries with great coffee traditions of their own, such as Italy. The American café shop model has spread worldwide from Paris to Tokyo to Barcelona and even to Cairo. While society's consumption of coffee has increased dramatically, what has become crucial is the exposure to the diversity of café culture (International Coffee Organization, n.d.).

As a commodity, the coffee has become very important to the world economy. Next to crude oil, coffee has become the most sought after commodity, placing ahead of what used to be considered top global commodities including natural gas, gold, sugar, corn, steal, and wheat. With more than \$100 billion in sales, coffee exporting alone became a \$20 billion dollar industry (Business Insider, 2011).

Its cultivation, processing, trading, transportation, and marketing provide employment for hundreds of millions of people worldwide. Coffee is crucial to the economies and politics of many developing countries; for many of the world's Least Developed Countries, exports of coffee account for more than 50 percent of their foreign exchange earnings. Coffee is a traded commodity on major futures and commodity exchanges, most importantly in London and New York (International Coffee Organization, n.d. Para 13).

Produced mostly in developing countries, coffee is consumed mostly by industrialized nations. Present Worldwide consumption has been estimated at over 500 billion cups of coffee every year (International Coffee Organization, n.d.).

#### **Coffee Growing and Development in Costa Rica**

Costa Rica, or República de Costa Rica, which in Spanish means, "Rich Coast," is located in Central America.<sup>9</sup> It is bordered in the north by Nicaragua, in the east by the Caribbean Sea, in the south by Panama, and in the west by the Pacific Ocean. The country's climate provides the perfect opportunity for growing some of the boldest, high quality coffee beans in the world.

Enriched with volcanic ash, Costa Rican soil receives a slight degree of acidity and organic matter that helps the coffee plants' retain humidity and facilitate oxygenation. Such characteristics contributed to the high quality of Costa Rican coffee. By law of the Republic,

<sup>&</sup>lt;sup>9</sup> Costa Rica is located in Central America. Its area size is 19,730 sq mi (51,100 sq km). Costa Rica estimated population as of 2006 is 4,274,000. Its capital is San José. Most of Costa Ricans are of Spanish ancestry or are mestizos. For more information, visit: http://encyclopedia2.thefreedictionary.com/The+Republic+of+Costa+Rica.

Costa Rica was the only country where only the Arabica varieties may be grown (International Coffee Organization, n.d.).

The Arabica Coffee seeds came to Costa Rica in the early 18th century (See Figure 2 for an image of the Arabica coffee plant).

From their initial arrival, prominent Costa Ricans contributed to the development of Arabica in the country. According to Costa Rica's documented history, "Around 1790-1804, Governor Tomás de Acosta imported 6 lbs. of green coffee beans for planting from Panamá in 1808. Shortly thereafter, Father Félix Velarde began to cultivate the coffee beans in his garden, encouraging his neighbors in San José to plant coffee in their gardens, as well. Thus, cultivation of coffee in Costa Rica was begun, especially around the Central Valley near San Jose." (Tico Todds, n.d., para 1).

Costa Rican officials at the time supported the establishment of the country's coffee industry. Indeed, the first two heads of State Juan Mora Fernández and Braulio Carrillo, envisioned coffee as a product that would develop Costa Rica's economy (SCACR, 2013).

Costa Ricans' interest in coffee cultivation increased as soon as the first coffee plants multiplied to 17,000 coffee producing trees in 1821. Coffee exportation began in 1820, when Costa Rica exported its first two quintals of coffee to Panama (SCACR, 2013).



### FIGURE 2: An Arabica Coffee Plant from the Central Valley

Picture Credit: Sarah Simon (November 16, 2011). Used with permission.

To help develop and promote this infant industry, Costa Rican authorities implemented a series of measures, most notably:

1821: The Municipality of San José distributed free coffee plants among residents;

1825: The Government exempted coffee from tithe payments;

- 1831: The National Assembly decreed that anyone who grew coffee for five years on idle land could claim ownership of the land;
- 1840: A decree was issued to plant coffee on the undeveloped land to the west of San José (Pavas) (Café de Costa Rica, 2011).

The whole country was designated as a coffee growing region; particular regions of Costa Rica provided a premium quality and a better tasting bean. Such differences resulted from soil acidity and body. Additionally, high altitudes played a major role in the quality of the beans. The finest beans were typically grown at altitudes of 1,200 to 1,700 meters (i.e., 3,940-5,575 feet). The most productive coffee growing regions in Costa Rica were the provinces of Alajuela, Heredia, Cartago, and San Jose, especially around the area of Tarrazu (see Table 1 for Costa Rica's Coffee Growing Regions) (Aventura, 2011).

Region	Altitude	Harvest Season	Quality of Crop
West Valley	3940-5575 feet	Nov. – March	High fine acidity Very good body Very good aroma
Central Valley	3940-5250 feet	Nov. – March	High fine acidity Good body Good aroma
Tarrazu	3940-5575 feet	Dec. – March	High fine acidity Very good body Very good aroma
Tres Rios	3940-5400 feet	Dec. – March	High fine acidity Very good body Very good aroma
Orosi	2950-3940 feet	Sep. – February	Good acidity Good body Good aroma
Brunca	2620-3940 feet	August – January	Normal acidity Normal body Normal aroma
Turrialba	1970-2950 feet	July – Dec	Normal acidity Little body Good aroma

### **TABLE 1: Costa Rica's Coffee Growing Regions**

**Source:** Aventura (2011). This table was retrieved on May 28, 2012 from: <u>http://www.aventura-cafe.com/costarica-eng.htm</u>.

The commercialization of coffee began in 1832, when Don Jorge Stiepel first exported coffee to Chile and 10 years later, Captain William Le Lacheur started direct trade with English ports. In 1843, Le Lacheur made the trip from London to Puntarenas on a ship named the "Monarch" to transport back a shipment of 5,005 quintals of coffee, which marked the largest amount of coffee exported from Costa Rica at that time. Afterward, other freighters full of coffee sailed to

England. In 1860, the country shipped its first shipment of coffee to the United States weighing almost 25% of total coffee exports (Cartmell, n.d.).

Throughout the country's history, coffee has been a fundamental pillar of the Costa Rican society, and the driving force behind its economical revival and development. Not surprisingly, Costa Ricans called it "the golden bean." (SCACR, 2013). The "golden bean" development, cultivation, and world trade success brought an unprecedented economical, social, and cultural surge. It helped the country's underdeveloped infrastructure improve dramatically.

According to the recorded history of coffee development in Costa Rica:

Associated with the coffee boom were many advances in development, including the founding of banks (with a combination of British and Costa Rican capital), the construction and improvement of roads and port facilities, the establishment of the country's first telegraph system which connected Cartago with Puntarenas (via San José, Alajuela, and Heredia), and the building of the nation's first railway linking Alajuela, San José, and Cartago. Even the construction of the country's premier architectural showpiece, the National Theater, can be traced to the prosperity brought by coffee Production (Goepel, 2012, para 5).

Coffee has accounted for 11 percent of Costa Rica's total export revenue and 2.6 percent of the world's coffee production. The country has become a key regional player with a production accounting for 20 percent of the entire coffee production of Central America (SCACR, 2013).

### AN OVERVIEW OF THE CONFECTIONS INDUSTRY

### **Confections at a Glance**

According to the National Confectioners Association, candy has a long history of adding joy to the holiday celebrations all over the world. In the U.S., an estimated 25% of confectionery spending usually happened around four major holidays: i.e. Halloween, Easter, Christmas and Valentine's Day. While confectionery sales in the U.S. accounted for \$29.4 billion in 2010, an increase of 2.8% over 2009, chocolate sales contributed to 60% of all confectionery sales (Profile of the U.S. Candy Industry, n.d.). The U.S. candy manufacturing industry included about 1,600 companies. The major companies included The Hershey Company, Mars, Tootsie Roll Industries, and Russell Stover Candies (NCA, n.d.).

The industry composed of three major segments: (1) Companies that made chocolate from beans, (2) companies that made chocolate candies and (3) companies that made non-chocolate candies. All of the aforementioned three segments were concentrated. Confections manufacturing facilities were located in over 40 states. However, the states that had the most concentration of manufacturers were Pennsylvania, New York, New Jersey, Illinois, Ohio, and California (NCA, n.d.).

To drive sales, growth, and increase market share, new products have been very critical for confection companies. As concerns have grown, confections manufacturers introduced more

healthy products such as healthy snacks, diet offerings, fortified products, and premium and organic chocolate (Hoovers- Candy Manufacturing, n.d.).

### **Industry Concentration**

It was a fact that the confections industry is concentrated in a few big companies. The major confections companies included Mars, Incorporated (located in Mclean, VA); Meiji Holdings Co. Ltd. (located in Tokyo, Japan); Cadbury Ltd. (Located in Uxbridge, Middlesex, England); Cargill B. V. (located in Amsterdam, the Netherlands); the Hershey Company (located in Hershey, PA), as well as a few others who collectively dominated the world's market (Hoovers-Candy Manufacturing, n.d.).

In the U.S., Hershey and Mars dominated the U.S. chocolate candy segment. Accordingly, smaller companies lacked scale advantages in purchasing, manufacturing, marketing, and distribution. Consumers frequently purchased confections products based on brand recognition, and that made it difficult for smaller companies to grow and compete (Hoovers- Candy Manufacturing, n.d.).

Additionally, as large companies moved further towards production of low sugar chocolates, organic, and premium; this move further put more stains on smaller companies.

# CAFÉ Britt: COMPANY OVERVIEW

Britt is located in Heredia, a colonial town about an hour's drive from San Jose. Although Heredia has been damaged by various earthquakes over the centuries, it remained a charming town and was much more intact than other towns of the same vintage in Costa Rica. The path to Heredia was flanked by farms, coffee plantations, and colorful homes from which generations of Costa Rican farmers had eked out a subsistence living. See Figure 3 for location and an area map.

### FIGURE 3: Café Britt Location and an Area Map



### Source: Café Britt. The above image was used with permission of Café Britt

From its beginning in 1985, Café Britt processed and sold premium coffees from Costa Rica, Mexico, and Peru. Its products varied from light, medium, dark, and espresso roasts as well as decaffeinated and certified organic beans. The name "Britt" is Scandinavian and means "the good one" or "the exalted one." According to Vargas, company's CEO: "Scandinavian countries, back at the time, consumed the world's best coffee beans. Mr. Aronson "wanted a name that would evoke quality...it was Britt" (2011). The name sent a message to the industry in the sense that this coffee was suited for the most quality discriminating customers in the world.

He [Aronson] roasted the strictly hard coffee beans. Strictly hard beans (SHB) grew at altitudes higher than 4,500 feet above sea level and were known by coffee experts to have the inherent consistency and taste attributes of high grown beans. Said beans were usually more desirable, and generally more expensive than coffees grown at lower elevations.<sup>10</sup>

Right after its incorporation in the mid-eighties, Café Britt got into the espresso business. At that time, Costa Rica probably had only three espresso machines. Steven decided to become the first representative of "La Pavoni", an Italian manufacturer of espresso and cappuccino coffee machines. He had to buy 10 machines and all its spare parts to get the representation. It took him three years to sell them all (Aronson, 2004). Back then, no one knew anything about cappuccinos, espresso, lattes, or even gourmet coffee. A determined Steve knew that educating customers was the key.

Laughingly, he remembered a survey from the early 1980s when U.S. consumers named Italy as the world's number two coffee producer (after Brazil) (Aronson, 2004). The Italians were and continued to be the masters of roasting and blending Brazilian and Robusta coffees (known as Coffea Canephora or Coffea Robusta);<sup>11</sup> however, coffee had never been grown in Italy (Aronson, 2004).

<sup>11</sup> Robusta coffee is a variety of coffee which has its origins in central and western sub-Saharan Africa. According to Wikipedia.org, "though widely known as *Coffea Robusta*, the plant is scientifically identified as *Coffea canephora*, which has two main varieties - Robusta and Nganda. It is mostly grown in Vietnam, where French colonists introduced it in the late 19th century, and also in Africa and Brazil, where it is often called conillon. Approximately 20% of the coffee produced in the world is robusta". Retrieved March 2, 2012. See also Jessee D. Dagoon (2005). Agricultural and Fishery Technology. Rex Bookstore, Inc. P. 58.

<sup>&</sup>lt;sup>10</sup> While the term is synonymous with "strictly high grown (SHG)", "strictly hard bean (SHB)" usually refers to coffee grown at altitudes higher than about 4,500 feet above sea level. Beans grown at high altitudes mature more slowly and grow to be harder and denser than beans grown at lower elevations. The inherent consistency and taste attributes of high grown beans makes them more desirable, and generally more expensive, than coffees grown at lower elevations.

On the other hand, hard bean is synonymous with "high grown (HG)", "hard bean (HB)" refers to coffee grown at altitudes about 4,000 - 4,500 feet above sea level. Beans grown at high altitudes mature more slowly and grow to be harder and denser than beans grown at lower elevations. The inherent consistency and taste attributes of high grown beans makes them more desirable, and generally more expensive, than coffees grown at lower elevations. Strictly Soft (SS) beans are grown at relatively low altitudes (under 4,000 feet). Beans grown at lower altitudes mature quickly and produce a lighter, less dense bean. Strictly Soft Arabica beans have a more rounded flavor compared to the generally more flavorful and dense Arabica beans grown at higher elevations. The aforementioned information was retrieved on February 29, 2012 from: http://www.zecuppa.com/coffeeterms-bean-grading.htm.

While at a specialty coffee association convention in the U.S. in 1998, a representative of La Cimbali, an Italian manufacturer of espresso machines, asked Aronson to represent them. La Cimbali set up training courses for Aronson and others in Milan. Immediately, Mr. Aronson created a five people department dedicated to selling and servicing espresso machines all over the Americas and the Caribbean. They set up two full-fledged espresso bars, one at Britt in Heredia and the second at the Costa Rica's historic National Theater in downtown San Jose' (Aronson, 2004).

Reflecting on the espresso idea, Aronson stated:

That little semi-idea" we had in the 1980s about espresso, has finally kicked in here at home. We're selling 200 machines a year. The era of "After Espresso" (A.E.) has arrived. Today Costa Ricans have had a real change of attitude about specialty coffee. To their parents, an espresso machine was an oddball thing. This generation thinks it's cool to have a cappuccino or an espresso. A new hotel wouldn't dream of opening here without having espresso on the menu. Café Britt has had a real part in the espresso revolution. At some point along the way, espresso stopped being an Italian thing, an ethnic thing. And, it became a great way to enjoy coffee (2004, Para 9-11).

For over 20 years, Britt has been one of very few organic coffee producers in Costa Rica. The country had and continued to have strict rules for organic certification. To be certified as an organic grower, "you have to avoid using chemical fertilizers, pesticides, and herbicides for three years" (Luxner, 2003: para, 25). In addition to 4 acres of its own coffee growing fields, the company had purchased green coffee beans from a few cooperatives as well as from some small and medium size growers in Central Valley, Tres Rios, and Tarrazu (Luxner, 2003).

Looking to grow and build on Britt's success, Aronson handpicked Pablo Vargas; whom he had first met as a graduate student from Michigan State University in 1990, where he was doing an M.S. thesis on the international coffee market. After completing his graduate education (two masters' degrees, one in agricultural economics and one in business) from the Eli Broad Graduate College of Business at Michigan State University, Steve hired Pablo in 1992 and after assigning him different responsibilities at the company, he named him his CEO in 2000. Aronson, Vargas, and the Britt team worked hard to ensure that their gourmet coffee was the best in the country and in Central America. They wanted the locals as well as the visitors to taste Costa Rica's finest coffee beans that were not available before. They wanted tourists to remember and to purchase the Britt coffee brand via mail order long after their Costa Rican vacation was over. Aronson proudly noted that Britt has been an important player in the tourism industry as it was in the coffee industry. Its promotion budget was running around 5% of its sales (Luxner, 2003).

### **Britt Markets and Customers**

During the late 1980s and through 1990s, Britt supplied green or roasted coffee beans to major U.S. companies and supermarkets including: Wal-Mart, Target, Seattle Best Coffee, Starbucks,

and Legal Seafood Restaurants. However, Britt's supply and sales attempts to supermarket giants such as Wal-Mart and Target were not successful as indicated by the slow movement of its products from shelves. Aronson and team realized later that their export business had to change. Supermarket giants were looking for a high turnover item. Gourmet coffee is not for everyone, and Britt shifted its strategy and efforts to people. Aronson described it as follows:

Our main business, around 55% of the total, is exporting roasted coffee and local distribution to supermarkets and hotels... Our customers are hotels and restaurants in St. Thomas, Curaçao, St. Maarten and Aruba. And we're now a registered supplier to Puerto Rico. The biggest area of our exports is our web and mail-order business. We have a toll-free number (1-800) and call center here (in Luxner, 2003, para. 11).

The company developed an in-house warehouse/logistics system with four main components- (1) stores' special orders, supplies, and new products, (2) returns of damaged and/or expired products, (3) seasonal purchasing/re-stocking of warehouse inventories, and (4) restocking of Britt's stores based on the scanned sales.

In 2004, Café Britt was the winner of the BizRate.com's Circle of Excellence Gold Honoree. An award that recognized outstanding customer service for an online retailer that excelled at customer satisfaction with ratings above the Industry average in 7 key categories (i.e. on-time delivery, overall satisfaction, selection of products, customer support, product fulfillment of expectations, and customer repurchase intent.

Reflecting on Britt's failed attempts to sell and compete in big shops and countries, and their shift to focus on individuals, Aronson said:

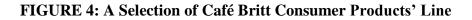
We sell to people with a first and a last name. We recognise that we are a small player from a small country, and that we have to pick our markets and niches. Those times that we have thought of ourselves as a big player, we have lost. We are much more interested in Riga (the capital of Latvia) than Paris, New Zealand more than Australia and Korea more than Japan (The Star, 2009: 2).

Given the development of liberal trade agreements between Central and Latin America countries, Britt created a distribution channel that offered coffee, chocolates, candy, nuts, and cold drinks, in addition to other related products to support regional hotels, restaurants, and coffee shops. It has developed a strong commercial customer base that included some of the most prestigious hotels in the Caribbean, Mexico, and in Central America including:

**Mexico:** JW Marriott Cancun; CasaMagna Marriott Cancun; Mandarin Oriental Riviera Maya; and Fairmont Mayakiba.

**The Caribbean:** Four Seasons Resort Bahamas; Four Seasons Resort Nevis; St. Kitts Marriott Resort; Frenchman's Reef & Morning; Star Marriott, St. Thomas; Hyatt Regency Trinidad; CuisineArt Resort, Anguilla; and Rosewood Little Dix Bay, Virgin Gorda. **Chile:** Santiago Marriott Hotel. **Peru:** JW Marriott Lima; Hotel Monasterio (Orient Express Hotel); Machu Picchu Sanctuary Lodge (Orient Express Hotel); SwissOtel Lima; and Libertador Hotels (Puno-Arequipa-Cuzco). **Costa Rica:** Four Seasons Resort; Real Intercontinental; Los Suefios Marriott; Ocean & Golf Resort; Hotel Puenta Islita; and Tabacon Grand Spa.

Additionally, and through its phone and online ordering, thousands of people around the world ordered its coffee. Britt promoted its online business via its "Coffee Lovers Club" website at <u>www.cafebritt.com</u>. To reach out to coffee lovers worldwide, the company created a team of five professionals who worked to improve its site and converted it into a virtual store that offered a broader product choice. Britt's website has been continuously updated with relevant company, product information, and promotional offers. See Figure 4 for a selection of Café Britt's consumer products' line. In 1995, Britt introduced Licor de Café, a product which competed with Mexico's Kahlua, Jamaica's Tia Maria and Costa Rica's first coffee liqueur called Café Rica.





Source: Café Britt. The images in the above Figures were used with permission from Café Britt.

### The Changing of the Guard at Britt

In October 2009, Steven resigned his post as chairman of the board, his son Philippe who served as the company's commercial manager became the new chairman. On his resigning as the Chairman of the board, Steve stated:

I have to admit that it's sort of hard for me not to run things. I've been running companies for over 20 years, even before Café Britt. But part of that privilege is knowing when it's time to move on. It's time to let these younger men take the lead. And as long as I'm the boss, it's sort of hard for that to happen. I've always been the entrepreneurial guy. At 62, I've got to say I still am, and plan to be for a while. My title and Britt nametag-will change to "Founder,"- a post from which I can never resign (Aronson, 2009, para 5 & 6).

While a teenager, the young Philippe began his coffee journey by handing out coffee samples at the San Jose (Juan Santamaria) international airport. Over the years, he followed in his father's footsteps by working in the coffee business in Costa Rica; Seattle, WA; Brazil; Nicaragua; and Peru. Philippe was credited for the company's expansion into Peru and Chile.

### **Competitors**

In 2011, Cafe Britt was the fifth largest coffee manufacturer and distributor in Costa Rica. It was well established in the niche area of the gourmet coffee business unlike its larger Costa Rican competitors, namely: Café Rey, Cia Numar, Café Volio, and Café Dorado (in order of the respective market share). While the larger competitors were very strong in the local market, offering a wide variety of high quality coffee at affordable prices, Britt had distinguished itself as the seller of coffee and souvenir products through its "Britt shops." Britt continued to successfully expand its business by selling gourmet coffee as well as other products domestically and worldwide through website. It also added its own coffee tour.

### THE COFFEE TOUR

Britt in Heredia received many visitors, who were interested to tour the plantation and learn more about coffee. In 1991, Aronson introduced "the Brett Coffee Tour", which was inaugurated on November 15, 1991, and was attended by the then Costa Rican President Rafael Angel Calderon (Vargas, 2012; Luxner, 2003). The purpose of the Brett Coffee Tour was to tell the story of the coffee. The tour guides "Jose" and his girlfriend "Marielitos", who were supposedly plantation workers usually led a group of visitors (mostly tourists) into Britt's plantation to show them how to pick ripe coffee beans and taste the juice, then move to the coffee plant designed to educate them on how the coffee bean cultivated, roasted, and processed. See Figures 5 and 6 for images of Britt's Tour welcome center in Heredia and Britt's tour coffee sampling and education.

Afterwards, Jose who was casually dressed in jeans and Marielitos who wore a sundress, an apron, and a scarf over her hair were joined by Don Prospero who together performed a theatrical play inside an air-conditioned auditorium. The play told the story of the coffee through a musical comedy show that took them back in time to Ethiopia where coffee was originated and then brought to Costa Rica to show them how coffee influenced the country's culture, and taught them how to taste and judge a good cup of coffee. It took some time for a visitor to realize that tour guides were not plantation workers but professional actors <sup>12</sup> (See also Luxner, 2003).



### FIGURE 5: Britt Sign Welcoming its Visitors to Coffee Britt Tour

Picture Credit: Sarah Simon (November 16, 2011). Used with permission.

Salvador Solis, who played Don Prospero in Britt's musical comedy show, told the audience "By law, all coffee in Costa Rica must be Arabica, not Robusta. Arabica beans are sweeter, have less caffeine, and get better prices on the international market. If you plant anything else, the Costa Rican authority will close your plantation." (Solis, 2011).

The coffee show ended with an unusual highlight where Marielitos wore the aristocratic 17th – century garb complemented with a fluffy white wig and a pink dress, and posing at the then queen of France got married to Jose where the best man and the maid of honor were chosen from the audience. While the ceremony ended with a toast of Britt's Licor de Café, visitors were guided to the Britt store that sold all kinds of Britt coffee, cookies, confectionery, mugs, T-shirts, caps, local handicraft, coffee books, and jewelry, in addition to other local and imported gift items.

Commenting on Café Britt's coffee tour, CEO Pablo Vargas stated "we look at the coffee tour as a way to connect with potential customers especially prospective on-line customers who

<sup>&</sup>lt;sup>12</sup> The author of this case participated in Britt's Coffee Tour on November 14, 2012 and November 16, 2011 and met aforementioned coffee tour characters.

eventually might order our products when at home rather than a source of revenue generating method". Since starting the tour, Britt has welcomed over 500,000 visitors from amateurs, to coffee lovers, to business travelers. That had become one of Costa Rica's major tourist attractions (Vargas, 2012).

FIGURE 6: Roasted and Unroasted Coffee Beans Were Sampled By Visitors During the Coffee Tour



Picture Credit: Sarah Simon (November 16, 2011). Used with permission.

### **ORGANIZATIONAL GROWTH: THE Britt's WAY**

In the mid 1990's Britt's management felt that the San Jose (Juan Santamaria) international airport was an ideal place for travelers to and from Costa Rica to find Britt's coffee and other products. At that point, no bids for airport shops were available, and the only souvenir shop that existed in the airport was government owned and run. Adapting to this limitation, the company was able to get a permission to place a coffee cart where travelers could taste the company's Cappuccino, espresso, and other coffee varieties by the cup; and buy Britt coffee.

In 2001, Britt won the bid to operate gift shops in Costa Rica's airports. The first gift shop required an investment of \$350,000 and was designed by a Café Britt's designer. It opened in San Jose's Juan Santamaria international airport on May 5<sup>th</sup>, 2005.

The Britt shop concept grew beyond expectations. Out of a belief that the nature of any business was global in scope and had no boundaries, Café Britt implemented an international expansion plan. This plan involved exporting its business model in addition to exporting its products.

#### **Britt in Peru**

In 2005 Britt won the concession for significant retail area at the Jorge Chavez International Airport in Lima, Peru. That signaled the start of a new era for Café Britt. Right after signing the

management contract, the company initiated a successful 9-month plan aimed at entering the Peruvian market.



### FIGURE 7: Britt Shop in Peru, the First International Venture

Source: Café Britt. The image in the above image was used with a permission of Café Britt

The plan started with the creation of a core team from several departments who possessed complimentary skills. This team visited Peru and toured the country for several weeks in order to better understand what attracted travelers to the country. Britt then incorporated these themes into its Peruvian stores. In addition, a coffee roasting facility to process and roast local varieties coffee beans was established. While the company's innovation and development department in Costa Rica worked to develop products with local Peruvian characteristics, Britt visiting team to Peru established relationships with local artisans and other suppliers of Peruvian products that were identified as appealing to travelers and as potential stores' offerings products. The market entrance to the Peruvian market proved the scalability of the Company's business model and its ability to duplicate it somewhere. See Figure 7 for an image of a Britt shop in Peru, its first international venture (Vargas 2011 & 2012).

In 2007, Moodie Report awarded the Café Britt's Lima Jorge Chávez International Airport the "Destination Merchandise Stores of the Year". An award that recognized companies as the best destination retail stores worldwide.

### After Peru, Britt, a True International Company!

Consequently, after Peru (2005), the company pursued a selective group of international markets and opened its shops in Curacao, a Netherland Antilles (2006), Chile (2007), Miami, Florida (2008), St. Thomas (2008), Antigua and Barbuda (2009), Mexico (2010), and Dominican Republic (2011). In essence, Britt shops became retail concepts that celebrated the local culture of its store locations and offered customers the country's local touch and tradition. At any

location, the store ambiance made visitors feel that Britt was a local store and not a Costa Rican one. See Figures 8 and 9 for images of a typical Britt shop.

Reflected on the company's international success, Pablo Vargas, company's CEO said "we've made mistakes along the way. We've gotten out of some activities and perfected our models for sustainable business. With a high dose of innovation our business thrives in many countries" (Vargas, 2011-a, para 3).

FIGURE 8: A Typical Britt Shop by Britt: Britt shops in Costa Rica and Mexico



Source: Café Britt. The image in the above Figure was used with a permission of Café Britt

The company was able to expand Britt's name into confectionary products, such as its chocolatecovered coffee beans, nuts (including macadamia, cashew, and hazelnuts) and fruits (including: Guava, passion, and lucuma fruit). <sup>13</sup> In addition to that, Britt was able to develop its Britt brand in textiles "Morpho"; its gourmet tropical sauce "Jambo"; and Licor de Café. Leveraging its success in products' development, the company continued its efforts in designing non-branded products in the souvenir category. See Figure 9 for an image of Britt confectionary products.

Under its name brand (Britt Shop); Britt, marketed stunning varieties of souvenirs' including chocolates, candies, cookies, nuts, coffee mugs, hats, T-shirts, bags, handcrafts, books, and gift boxes in addition to its big display of organic coffee. Britt shop had a wide selection of English-language book and magazine titles. Britt products were sold at more than 92 duty-free Britt Shops (both kiosks and retail stores) in airports and hotels in nine countries (including Costa Rica) (Vargas, 2011-b) See Appendix F for Britt's map of its international locations.

<sup>&</sup>lt;sup>13</sup> Lucuma is a delicately flavored tropical fruit native to the cool highlands of coastal valleys in Peru.

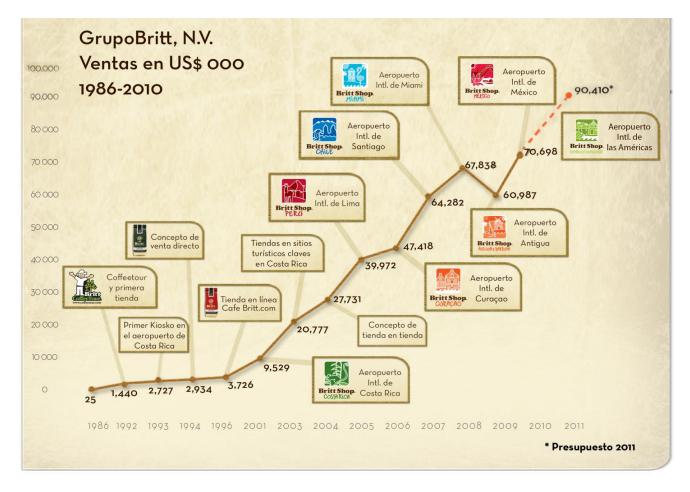
With Aronson's vision and leadership, the small Café' Britt company enjoyed a substantial growth over the years. It grew from humble revenue of about \$25,000 in 1986 to about \$90 million in revenue in December 2011. See Figure 10 for Britt's historical revenue for the years 1986-2011. See also Tables 2, 3, and 4 for the company's 2010 and 2011 consolidated financial statement; income statement, and cash flow statement respectively as of the end of December 2011. According to Vargas (2011-b), what made Britt successful was Aronson's simple business philosophy of: "Add value, and look for your economic reason for being".

Pablo Vargas, company's CEO commented by saying "Being the first, the leader, the innovatorthat's part of our DNA at Britt. Our company was founded on action, innovation, quality and service. They're the keys to our success; the bricks in the foundation of our company".

### FIGURE 9: A Sample of Britt Confectionary Products



Source: Café Britt. The image in the above Figure was used with a permission of Café Britt



### FIGURE 10: Historical Revenues in US \$ 000 for the Years 1986-2010 (calendar year).

Source: Café Britt. The image in the above Figure was used with a permission of Café Britt

### A Team Approach to Growth

Team approach was widely used at Britt. Employees not only learned it, but they practiced on a daily basis. Whatever was needed-from customers support to sourcing and to the introduction of new products to market; teamwork was apparent. As it was a common practice when opening a new shop, the company created a start-up team that was composed of its CEO and some experienced employees from other locations to train new employees. Reflecting on his opening of the Britt shops in the Dominican Republic, Pablo Vargas stated:

Our start-up team included coworkers from Costa Rica, Mexico, Peru, and Chile. Just seeing the impression they made on their new Dominican counterparts affirmed for me what a privilege it is to lead such a competent, creative, committed, and ethical group of people (Vargas, 2011-c, para 3). In a direct comment on Britt's team, Pablo Vargas told the author "without innovation, we cannot sustain our business." He then surmised, "Innovation and improvement would never happen if they did not work as a team."

# **TABLE 2:** GRUPO BRITT, N.V. AND SUBSIDIARIES Consolidated Statement offinancial Position as of December 31, 2011 (with corresponding figures for 2010)

Assets		<u>2011</u>	<u>2010</u>
Current assets:			
Cash and cash equivalents	US\$	2,129,952	4,886,547
Accounts receivable, net		7,291,636	5,659,302
Due from related parties		842,405	733,947
Inventories, net		21,366,933	18,699,331
Prepaid expenses		988,674	820,308
Total current assets		32,619,600	30,799,435
Long-term accounts receivable - coffee machines under finance leases		-	12,153
Long-term due from related parties		365,167	670,680
Property, plant and equipment, net		24,194,917	16,215,403
Intangible assets, net		6,231,900	2,867,454
Other assets, net		554,635	495,251
Equity-accounted investees		-	-
Deferred tax		1,939,529	495,251
	US <u>\$</u>	65,905,748	52,492,812
Liabilities and Equity			
Current liabilities:	TTOP	0.400.646	1.1.0 (
Bank loans	US\$	9,198,616	14,067,096
Loans and borrowing, current installments		2,169,429	3,869,429
Accounts payable and accrued expenses		8,248,621	6,593,305
Income tax payable		328,832	631,626
Due to related parties		213,175	207,754
Total current liabilities		20,158,673	25,369,210
Loans and borrowings, excluding current installments		25,170,206	13,748,357
Deferred tax		998,229	101,710
Total liabilities		46,327,108	39,219,277
Equity:			
Ordinary shares, US\$0.01 par value each. Authorized 50,000,000 shares;			
Issued and outstanding 8,965,741shares		100,000	100,000
Preferred shares, US\$0.01 par value each. Authorized, issued and			
Outstanding 1,000 shares		10	10
Translation reserve		(1,031,942)	213,068
Additional paid-in capital		6,571,952	6,567,467
Treasury shares, 1,067,259 ordinary shares at cost		(5,881,274)	(5,881,274)
Revaluation surplus		5,283,442	-
Legal reserve		709,081	580,243
Restricted retained earnings		12,000,000	-
Retained earnings		1,827,371	11,694,021
Total equity		19,578,640	13,273,535

#### <u>US\$ 65,905,748 52,492,812</u>

Source: Café Britt. The above information was used with a permission of Café Britt

# TABLE 3: GRUPO BRITT, N.V. AND SUBSIDIARIES. Consolidated Statement of Comprehensive Income as of December 31, 2011 (with corresponding figures for 2010)

Revenue       US\$       88,815,132       70,697,616         Cost of sales       35,711,423       28,079,194         Gross profit       53,103,709       42,618,422         Operating expenses;       35,711,423       28,079,194			<u>2011</u>	<u>2010</u>
Gross profit 53,103,709 42,618,422	Revenue	US\$	88,815,132	70,697,616
	Cost of sales		35,711,423	28,079,194
Operating expenses;	Gross profit		53,103,709	42,618,422
	Operating expenses;			
General and administrative8,702,5858,365,710	General and administrative		8,702,585	8,365,710
Selling 37,114,416 27,348,356	Selling		37,114,416	27,348,356
Early settlement of contracts with related parties - 2,747,927	Early settlement of contracts with related parties		-	2,747,927
Development of new markets 530,763 1,281,445	Development of new markets		530,763	1,281,445
Loss on disposal of productive assets125,13772,886	Loss on disposal of productive assets		125,137	72,886
Other operating income, net (207,203) (229,663)	Other operating income, net		(207,203)	(229,663)
Total operating expenses         46,265,698         39,586,661	Total operating expenses		46,265,698	39,586,661
Results from operating activities6,838,0113,031,761	Results from operating activities		6,838,011	3,031,761
Finance costs, net;	Finance costs, net;			
Finance expense         2,344,601         1,959,189	Finance expense		2,344,601	1,959,189
Finance income (1,321,243) (471,518)	Finance income		(1,321,243)	(471,518)
Translation effect, net (138,641) (41,716)	Translation effect, net		(138,641)	(41,716)
Net finance costs         884,717         1,445,955	Net finance costs		884,717	1,445,955
Share of profit (loss) of equity-accounted investees(5,421)14,957	Share of profit (loss) of equity-accounted investees		(5,421)	14,957
Profit before income tax 5,947,873 1,600,763	Profit before income tax		5,947,873	1,600,763
Income taxes;	Income taxes;			
Current 2,291,993 2,222,594	Current		2,291,993	2,222,594
Deferred (392,796) (922,038)	Deferred		(392,796)	(922,038)
Total income taxes         1,899,197         1,300,556	Total income taxes		1,899,197	1,300,556
Profit for the year $US$ 4,048,676 300,207$	Profit for the year	<u>US\$</u>	4,048,676	300,207
Other comprehensive income:	-			
Foreign currency translation effectUS\$ (1,245,010)35,245		US\$	(1,245,010)	35,245
Revaluation of land and buildings * 5,941,116 -	•			-
Tax effect on other comprehensive income(657, 674)	Tax effect on other comprehensive income		(657, 674)	-
Other comprehensive income for the year, net of tax 4,038,432 35,246	Other comprehensive income for the year, net of tax		4,038,432	35,246
Total comprehensive income for the yearUS\$ 8,087,108 335,453	· ·	US\$	8,087,108	335,453
Earnings per share:	•			
Basic earnings per shareUS\$0.45320.0317				
Diluted earnings per shareUS\$ $0.4532$ $0.0317$	Diluted earnings per share	<u>US\$</u>	0.4532	0.0317

Source: Café Britt. The above information was used with a permission of Café Britt

\* Revaluation is "an accounting term used when a company has to enter a line item on their balance sheet due to a revaluation performed on an asset. This line item is used when the

revaluation finds the current and probable future value of the asset is higher than the recorded historic cost of the same asset" (INVESTOPEDIA, n.d.; para. 1).

# TABLE 4: GRUPO BRITT, N.V. AND SUBSIDIARIES. Consolidated Statement of Cash Flow as of December 31, 2011 (with corresponding figures for 2010)

		2011	2010
Cash flows from operating activities:			
Profit for the year	US\$	4,048.676	300,207
Adjustments for:			
Depreciation		3,433,003	2,494,901
Amortization of software and intangible assets		1,500,745	691,514
Increase in allowance for inventory valuation		-	196,539
Interest expense		2,344,604	1,959,189
Income tax expense		2,291,993	2,222,594
Increase in allowance for doubtful receivables		-	10,443
Deferred tax		(392,796)	(922,038)
Loss on disposal of productive assets		125,137	72,886
Share of loss (profit) of equity-accounted investees		5,421	(14,957)
Translation effect, net		(138,641)	(41,716)
Issue of stock option plans		4,485	43,372
Early settlement of contracts with related parties		-	2,747,927
Share awards granted to directors		-	54,401
Cash from (used in) changes in:		13,222,624	9,815,262
Accounts receivable		(2,400,743)	(1,479,543)
Due from related parties		(108,458)	(107,757)
Accounts receivable – coffee machines under finance leases		12,153	25,372
Inventories		(2,667,602)	(5,496,762)
Prepaid expenses		(168,366)	(375,803)
Long-term accounts receivable		-	13,586
Accounts payable and accrued expenses		1,633,464	1,090,850
Income tax payable		(1,287,729)	(834,909)
Due to related parties		-	(1,118,393)
Interest Paid		(2,322,749)	(2,009,336)
Income tax paid		(1,307,058)	(1,260,383)
Cash from (used in) operating activities		4,605,536	(1,737,816)
Cash flows from investing activities:			
Additions to property plant and equipment		(6,661,932)	(5,355,694)
Intangible asset – Right of use of commercial outlet		(4,436,161)	(832,080)
Intangible asset – Additions to software		(523,850)	(303,911)
Proceeds from sales of productive assets		946,802	508,908
Increase in other assets		(59,384)	(294,571)
Net cash used in investing activities		(10,734,525)	(6,277,348)
Cash flows from financing activities:			
Dividends to shareholders		(1,786,488)	(1,335,967)
Long-term due from related parties		305,513	514,630
Repayment of ordinary shares		-	(120,000)
Stock options executed by director		-	294,000
Bank loans		(4,868,480)	4,989.522
Subordinated loans to shareholders		-	(2,201,183)
Long-term financing:		12 500 000	9 205 510
New loans		13,500,000	8,295,519
Payments		(3,778,151)	(794,879)
Net cash from financing activities Increase (decrease) in cash and cash equivalents		<u>3,372,394</u> (2,756,595)	<b>9,641,642</b> 1,626,478
merease (ucercase) in cash anu cash equivalents		(2,750,595)	1,020,478

# Cash and cash equivalents at beginning of year4,886,5473,260,069Cash and cash equivalents at end of yearUS\$ 2,192,9524,886,547BUILDING COMPETITIVE ADVANTAGE THROUGH ORGANIZATIONALSTRUCTURE AND DESIGN

In early stages of its life cycle when Britt was a very small growing company, it utilized a basic functional structure to coordinate its activities and motivate its employees. Britt employees were grouped together based on jobs' similarities (for instance production, sales, wholesale distribution finance, etc...). Until 1992, the company was very small and all managers reported to Steven Aronson who acted as the president and CEO. When Pablo Vargas became its CEO in 2000, all mangers became responsible to the new CEO who in-turn reported to the newly formed board of directors; chaired by Steven Aronson (Philippe Aronson became the president and Chair of the Board in 2009).

As the company grew and its international business became a core, its organizational structure has evolved too. Britt moved to a more complex, yet supportive structure. It moved to a hybrid organizational structure, a multi-country divisional/matrix one where managers grouped people and resources simultaneously in two ways: By function and country or product. Each person reports to a functional manager (e.g., sales) and a country manager (e.g. Peru). Pablo believed that such a structure allowed employees to learn from one another and become more skilled and productive when grouped together by functions. Additionally, it was easy to coordinate countries' operations and empowered countries' managers. The new structure helped Britt to maximize communication and cooperation between various countries' operations and head office teams.

The Britt's head office in Heredia, Costa Rica maintained all the needed heads in charge of functional departments (i.e. planning and budgeting, retail, finance, commercial sales, operations, country management, and IT) in addition to the Chief Executive Officer. As of the end of September 2011, Britt employed over 1,000 and had revenue of about \$90 million in fiscal 2011. See Figure 11 for Britt's Organizational Structure.

Name	Title
Philippe Aronson	Chairman of the Board
Pablo E. Vargas	CEO and Director
Eduardo Cascante	CFO
Bejamin Aronsonn	IT Manager
Esteban Brenes	Director
Guillermo Von Breymann	Director
Guillermo Groisman	Director

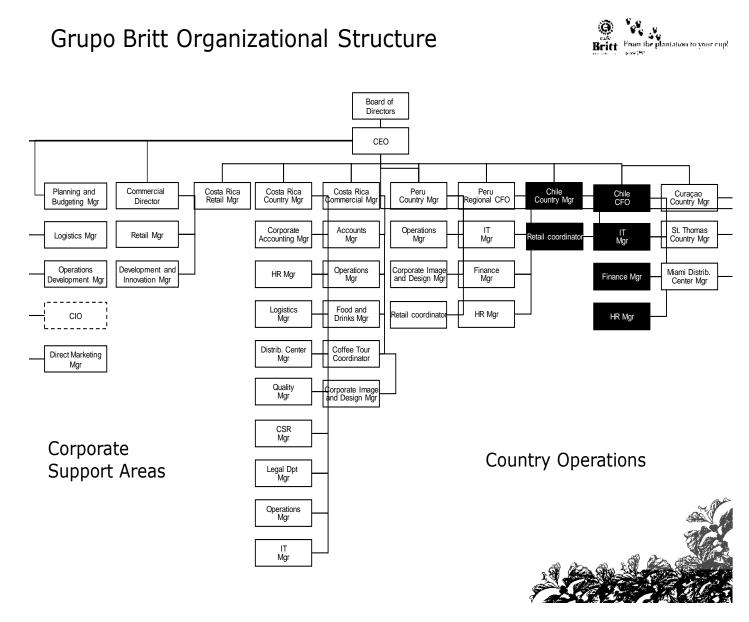
The company key executives were:

### **Britt's FUTURE**

Known as a strategic decision-maker, Britt's seasoned CEO Pablo Vargas liked to have a formal strategic planning that involved his top managers and the company's board of directors. While

he was very optimistic about past successes and its future impacts, he liked to challenge himself and others to always revisit their home works. What has worked in the past might not produce same future results.

### FIGURE 11: Britt Organizational Structure



Source: Café Britt. The image in the above figure was used with a permission of Café Britt

While Britt's top future strategic directions and its needed decisions seemed very clear to Pablo and executive management, the questions before them were very straightforward: "How could the international expansion opportunities best be managed?" and "What design choice(s) were available to create an effective organizational structure that could serve as a source of the company's competitive advantage?"

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# **APPENDICES**

Table 03A Coffee Production Thousand 60-Kilogram Bags								
		Thousand CO-I				Jun		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13		
roduction								
Angola	30	30	30	25	25	30		
Bolivia	140	135	140	125	140	150		
Brazil	39,100	53,300	44,800	54,500	49,200	55,900		
Burundi	209	250	300	235	205	225		
Cameroon	695	650	590	715	865	900		
Central African Republic	50	10	30	27	16	20		
Colombia	12,515	8,664	8,100	8,525	7,500	7,500		
Congo (Kinshasa)	315	300	305	265	265	265		
Costa Rica	1,867	1,580	1,475	1,575	1,800	1,800		
Cote d'Ivoire	2,098	1,853	2,350	1,600	1,500	1,800		
Cuba	70	127	120	120	125	125		
Dominican Republic	465	545	500	500	500	500		
Ecuador	825	635	635	650	600	605		
El Salvador	1,650	1,550	1,300	1,860	1,175	1,475		
Ethiopia	5,000	5,500	6,000	6,125	6,300	6,500		
Ghana	27	19	30	57	85	100		
Guatemala	4,110	3,980	4,010	3,810	3,860	3,850		
Guinea	250	400	445	325	400	42.5		
Haiti	335	360	275	300	300	300		
Honduras	3,642	3,225	3,550	3,975	4,600	5,000		
India	4,365	4,375	4,825	5,035	5,335	5,100		
Indonesia	8,000	10,000	10,500	9,325	8,300	9,700		
Jamaica	35	31	28	21	19	20		
Kenya	700	900	700	680	780	850		
Laos	355	350	390	500	550	575		
Liberia	25 555	7 530	2 475	4 550	5	5 57 5		
Madagascar Malawi	25	25	4/5	25	25	25		
	770	975	1,000	1,100	1,000			
Malaysia Mexico	4,350	4,550	4,150	4,000	4,500	1,000 4,300		
Nicaragua	1,850	1,650	1,925	1,675	1,600	1,800		
Nigeria	1,850	30	30	30	35	1,800		
Panama	150	100	100	87	85	90		
Papua New Guinea	970	1.035	1.085	865	1.350	1.150		
Paraguay	28	25	25	25	25	25		
Peru	2,800	4,000	3,300	4,100	5,200	4,800		
Philippines	460	360	245	460	455	455		
Rwanda	230	340	240	317	240	300		
Sierra Leone	42	87	90	50	60	70		
Sri Lanka	35	35	35	35	30	35		
Tanzania	740	1,150	600	1,050	1,000	1,000		
Thailand	900	800	900	900	900	900		
Тодо	255	185	450	615	62.5	650		
Uganda	3,490	3,260	2,870	3,212	3,330	3,450		
United States	151	133	107	108	105	100		
Venezuela	996	1,000	725	625	850	880		
Vietnam	18,000	16,980	18,500	19,467	21,000	22,400		
Yemen	150	150	150	145	150	150		
Zambia	60	39	27	7	10	10		
Zimbabwe	31	22	21	10	8	10		
- Total	123,948	136,239	128,505	140,337	137,583	147,925		

### **APPENDIX A: World Coffee Production**

Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October.

Foreign Agricultural Service/USDA Office of Global Analysis

June 2012

**Source:** USDA. Foreign Agricultural Services, Office of Global Services. Retrieved June 12, 2012 from: http://www.fas.usda.gov/psdonline/circulars/coffee.pdf

	Thousand 60-Kilogram Bags								
	2007/08	2008/09	2009/10	2010/11	2011/12	Jun 2012/13			
xports									
a	4	4	8	5	7	7			
a	73	73	74	66	85	75			
	23,770	28,396	26,580	31,810	27,250	30,630			
di	300	250	290	235	200	230			
roon African Bonublic	560 50	480 6	690 25	650 22	800	825			
al African Republic Ibia	10,770	8,160	6,445	7,400	16 6,500	6,500			
(Kinshasa)	110	117	102	75	75	75			
Rica	1,640	1,385	1,200	1,255	1,550	1,600			
d'Ivoire	1,550	1,180	1,755	725	1,200	1,400			
	5	6	7	5	10	10			
nican Republic	41	42	36	48	50	50			
or	180	179	450	42.5	596	600			
vador	1,580	1,506	1,236	1,770	1,100	1,400			
bia a	2,800	3,000 18	3,250 30	3,235 57	3,400	3,500			
mala	3,890	3,783	3,860	3,650	3,650	3,650			
a	195	375	410	300	350	375			
-	19	17	10	6	8	10			
Iras	3,440	3,050	3,200	3,900	4,150	4,500			
	2,620	2,125	3,040	4,260	4,100	4,000			
esia	5,510	6,625	7,425	7,375	4,675	6,100			
ca	30	26	23	16	14	15			
1	820	980	740	650	72.5	800			
3	225 25	250 7	290 2	400 4	450 5	475			
a Jascar	165	115	40	105	100	125			
/	25	25	24	24	24	24			
0	1,910	2,125	1,790	1,735	2,000	1,800			
agua	1,580	1,425	1,650	1,525	1,350	1,600			
a	1	1	3	2	7	5			
na	96	45	53	37	35	40			
New Guinea	900	1,070	1,040	850	1,300	1,100			
uay	10 2,660	5 3,830	5 3,150	5 3,880	5 5,100	4,600			
da	2,660	340	240	3,880	240	4,800			
Leone	250	70	70	30	40	50			
nia	760	1,200	800	1,000	850	950			
nd	25	4	4	15	40	50			
	250	185	440	615	625	650			
la	3,210			3,150		3,400			
uela	225		120			80			
						20,000			
						20			
						5			
						101,756			
	3,210 225 15,600 40 59 27 88,031 avert soluble coffee ies begins either in puntries begins in	3,050 200 15,430 35 39 18 91,252 e to the green bean eq n October (Colombia), Dctober.	2,670 120 18,425 30 27 17 91,776 uivalent. April (Indonesia) or Ju	3,150 100 18,780 20 7 6 100,547	3,200 100 19,000 20 10 3 95,100				

# **APPENDIX B: World Green Coffee Beans Export**

Foreign Agricultural Service/USDA Office of Global Analysis

June 2012

**Source:** USDA. Foreign Agricultural Services, Office of Global Services. Retrieved June 12, 2012 from: http://www.fas.usda.gov/psdonline/circulars/coffee.pdf

		Table 06A Total	•			
		Thousand 60-H	Kilogram Bags			Jun
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Exports						
Angola	4	4	8	5	7	;
Bolivia	73	73	74	66	85	7
Brazil	27,290	31,475	29,780	35,010	30,300	34,000
Burundi	300	250	290	235	200	230
Cameroon	560	480	690	650	800	82.
Central African Republic	50	6	25	22	16	13
Colombia	11,525	8,935	7,435	8,385	7,300	7,30
Congo (Kinshasa)	110	117	102	75	75	7.
Costa Rica	1,640	1,385	1,200	1,255	1,550	1,600
Cote d'Ivoire	1,890	1,555	2,045	985	1,500	1,700
Cuba	5	6	7	5	10	10
Dominican Republic	41	42	36	48	50	50
Ecuador	942	861	1,140	1,250	1,542	1,800
El Salvador	1,585	1,510	1,240	1,772	1,103	1,403
Ethiopia	2,800	3,000	3,250	3,235	3,400	3,50
EU-27	185	225	170	485	450	500
Ghana	26	18	30	57	85	9
Guatemala	3,890	3,783	3,860	3,650	3,650	3,650
Guinea	195	375	410	300	350	37.
Haiti	19	17	10	6	8	10
Honduras India	3,440	3,050	3,200	3,900	4,150	4,500
India Indonesia	3,660 6,360	2,9 <b>4</b> 5 7,700	4,265 8,750	5,860 9,680	5,600 7,175	5,400 8,100
Jamaica	30	26	23	9,680	14	1
Kenya	820	980	740	650	725	800
Laos	225	250	290	400	450	47
Liberia	25	7	2	4	5	
Madagascar	165	115	40	105	100	12
Malawi	25	25	24	24	24	24
Malaysia	900	1,100	1,460	1,675	1,750	1,900
Mexico	2,610	2,735	2,480	2,460	2,750	2,500
Nicaragua	1,745	1,585	1,806	1,600	1,500	1,72
Nigeria	1	1	3	2	7	
Panama	96	45	53	37	35	40
Papua New Guinea	900	1,070	1,040	850	1,300	1,100
Paraguay	10	5	5	5	5	!
Peru	2,660	3,830	3,150	3,880	5,100	4,600
Rwanda	230	340	240	317	240	300
Sierra Leone	25	70	70	30	40	50
Tanzania	770	1,205	805	1,005	855	95
Thailand	775	644	684	1,207	775	850
Тодо	250	185	440	615	625	650
Uganda	3,210	3,050	2,670	3,150	3,200	3,400
Venezuela	260	235	125	100	100	80
Vietnam	15,735	15,565	18,670	19,010	19,350	20,450
Yemen	40	35	30	20	20	20
Zambia	59	39	27	7	10	10
Zimbabwe	27	18	17	6	3	ļ

### **APPENDIX C: Total World Coffee Beans Export**

A conversion factor of 2.6 was used to convert soluble coffee to the green bean equivalent.

Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples.

Coffee marketing year for non-producer countries begins in October. For each non-producing country, the balance between imports and exports was used in order to remove double-counting from these trade figures.

Foreign Agricultural Service/USDA Office of Global Analysis

June 2012

Source: USDA. Foreign Agricultural Services, Office of Global Services. Retrieved June 12, 2012 from: http://www.fas.usda.gov/psdonline/circulars/coffee.pdf

	2007/08	2008/09	2009/10	2010/11	2011/12	Jun 2012/13
Domestic Consumption	2007,00	2000/02	2000,20			
Algeria	2,050	2,070	2,080	1,785	1,900	2,050
Argentina	690	680	740	790	82.5	875
Australia	1,180	1,225	1,330	1,390	1,475	1,550
Bolivia	80	80	75	75	70	75
Brazil	17,390	18,030	18,760	19,380	20,060	20,760
Cameroon Canada	75 2,800	75 2,865	75 3,170	75 3,375	75 3,300	75 3,600
China	425	435	610	930	900	1,050
Colombia	1,137	1,100	1,200	1,080	1,200	1,200
Congo (Kinshasa)	200	200	200	200	200	200
Costa Rica	232	261	305	423	418	413
Cote d'Ivoire	300	300	300	300	300	108
Croatia Cuba	410 295	380 361	380 333	350 340	355 340	380
Dominican Republic	424	503	464	452	450	450
Ecuador	155	167	169	205	217	223
El Salvador	161	170	180	270	270	270
Ethiopia	2,300	2,500	2,800	2,860	2,900	3,000
EU-27	43,490	39,575	49,505	41,640	45,450	44,500
Guatemala	310	325	340	350	375	375
Haiti Honduras	340 213	340 200	28 <b>4</b> 200	29 <b>4</b> 286	292 440	300 463
India	1,260	1,235	1,230	1,000	1,043	1,04
Indonesia	1,720	1,890	1,940	1,700	2,355	2,540
Iran	175	185	335	245	250	275
Japan	6,880	6,915	6,780	6,860	6,850	7,050
Jordan	300	420	360	330	350	375
Kazakhstan	280	290	270 50	190	200 50	223
Kenya Korea, South	50 1,550	50 1,680	1,705	50 1,930	2,000	2,100
Laos	130	100	100	100	100	100
Madagascar	450	450	450	455	450	450
Malaysia	530	525	500	470	550	600
Mexico	1,800	1,950	1,900	1,975	1,950	2,050
Morocco	570	600	580	540	525	500
New Zealand Nicaragua	260 90	280 90	285 90	270 90	275 90	280 90
Nigeria	34	29	27	28	28	25
Norway	680	700	670	710	640	700
Panama	54	55	47	50	50	50
Papua New Guinea	30	30	30	30	40	46
Paraguay	35	35	35	34	25	20
Peru Philippines	150 1,380	150 1,690	160 2,220	170 2,839	170 2,255	170 2,670
Russia	4,120	3,190	3,805	4,190	4,500	4,900
Serbia	690	660	595	620	62.5	650
South Africa	500	390	470	550	550	573
Sri Lanka	40	41	35	35	30	35
Switzerland	1,710	1,800	1,950	2,180	2,200	2,300
Tanzania Thailand	25 572	25 616	35 711	35 795	45 830	45
Turkey	230	260	275	315	300	325
Uganda	120	130	140	150	150	150
Ukraine	2,160	1,670	1,510	1,370	1,400	1,500
United States	22,596	22,650	22,060	22,888	22,985	23,300
Venezuela	810	835	875	1,305	1,315	1,320
Vietnam Yemen	850 110	950 115	1,200 120	1,335 125	1,665 130	1,775
Total	127,731	124,656	137,184	132,936	138,910	141,708
	127,701	124,000	107/104	101,000	100,010	141,700

# **APPENDIX D: World Coffee Consumption**

**Source:** USDA. Foreign Agricultural Services, Office of Global Services. Retrieved June 12, 2012 from: http://www.fas.usda.gov/psdonline/circulars/coffee.pdf

	Table 07A Total Coffee Imports								
Thousand 60-Kilogram Bags									
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13			
Imports									
Algeria	2,050	2,070	2,080	1,785	1,900	2,050			
Argentina	690	680	740	790	82.5	875			
Australia	1,180	1,225	1,330	1,390	1,475	1,550			
Canada	2,800	2,865	3,170	3,375	3,300	3,600			
China	425	435	610	930	900	1,050			
Colombia	142	695	610	755	1,040	1,040			
Costa Rica	4	15	130	175	150	120			
Croatia	410	380	380	350	355	380			
Cuba	230	240	220	225	225	225			
Ecuador	274	389	732	883	1,153	1,403			
El Salvador	96	157	136	147	194	214			
EU-27	43,550	43,350	44,200	44,175	43,500	47,000			
Guatemala	163	188	200	150	150	150			
Honduras	27	18	18	23	15	15			
India	490	555	725	780	775	770			
Indonesia	340	290	585	535	1,235	1,000			
Iran	175	185	335	245	250	275			
Japan	6,680	7,005	6,680	7,460	6,700	7,150			
Jordan	300	420	360	330	350	375			
Kazakhstan	280	290	270	190	200	223			
Korea, South	1,550	1,680	1,705	1,930	2,000	2,100			
Malaysia	660	650	960	1,045	1,300	1,500			
Mexico	171	114	245	400	220	270			
Morocco	570	600	580	540	52.5	500			
New Zealand	260	280	285	270	275	280			
Norway	680	700	670	710	640	700			
Philippines	990	1,325	2,320	2,000	1,875	2,200			
Russia	4,120	3,190	3,805	4,190	4,500	4,900			
Serbia	690	660	595	620	62.5	650			
South Africa	500	390	470	550	550	575			
Switzerland	1,710	1,800	1,950	2,180	2,200	2,300			
Thailand	530	400	545	1,070	700	850			
Turkey	230	260	275	315	300	32.5			
Ukraine	2,160	1,670	1,510	1,370	1,400	1,500			
United States	22,345	22,250	20,870	23,110	23,200	23,500			
Venezuela	5	5	316	622	606	400			
Vietnam	88	95	75	200	195	175			
Total	97,565	97,521	100.687	105,815	105.803	112,192			

### **APPENDIX E: Total Coffee Imports**

A conversion factor of 2.6 was used to convert soluble coffee to the green bean equivalent.

Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. For each non-producing country, the balance between imports and exports was used in order to remove double-counting from these trade figures.

Foreign Agricultural Service/USDA Office of Global Analysis

June 2012

Source: USDA. Foreign Agricultural Services, Office of Global Services. Retrieved June 12, 2012 from: http://www.fas.usda.gov/psdonline/circulars/coffee.pdf



# **APPENDIX F: Britt's Map of its International Operations**

### Notes to the above map:

In 2010, Britt had 86 shops. As of December 2011, Britt Shops were ninety-two (92) shops. In addition, Café Britt's coffee and chocolates production facilities were three (3) in 2011.

Source: Café Britt. The image in the above appendix was used with a permission of Café Britt.

# Café Britt: A Costa Rica Pride

By:

### Issam A. Ghazzawi, Ph.D.

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# SPECIFIC LEARNING OBJECTIVES

In today's global economy, organizations are faced with many challenges including motivating and rewarding employees; communicating and making effective decisions; evaluating group and team behavior; assessing their organizational structure and determining its effectiveness, assessing its leadership and determining its effectiveness; and evaluating alternative methods to managing change in the newly designed organization. Successful managers must learn the importance of creating functional and effective structures, processes, and understanding and managing the human side of the organization as this will enable people to effectively work together to achieve agreed upon goals. Therefore, this integrated term-long case is designed to give you an opportunity to design an effective organization.

After reading and responding to the case questions, students should be able to:

- Assess an organization's mission statement and tie said mission to the organization's goals.
- Evaluate an organization's culture and suggest a culture that promotes creativity.
- Identify the factors responsible for creating and transmitting organizational culture and for getting it to change.
- Identify and suggest effective techniques for motivating employees.
- Suggest and describe some of the steps needed to manage diversity in the workforce and their effectiveness.
- Explain the basic characteristics of organizational structure (i.e. hierarchy of authority, division of labor, span of control, line versus staff, and decentralization).
- Evaluate the different approaches to departmentalization-functional organizations, product organizations, matrix organizations, and boundary-less organizations; and suggest a structure to improve organizational effectiveness (pertaining to this case).
- Suggest and explain various methods to improve an organization's communication effectiveness.
- Suggest and describe various techniques (including high-tech techniques) that can be used to enhance the quality of individual and group decisions.
- Distinguish between the forms of leader behavior (i.e. person-oriented behavior and production-oriented behavior), and explain how grid training develops leaders.
- Describe various techniques used to develop leaders.
- Suggest and describe various techniques used to empower employees and managers.
- Define what groups are and identify the different types of groups operating within an organization.

- Define what teams are and identify the different types of teams that exist in an organization, and the necessary steps to build effective teams.
- Understand the nature of change process.
- Evaluate alternative methods to managing change in your newly designed organization.

### **CASE QUESTIONS**

While there is no one single approach/answer to designing an organization's effectiveness, an application of what students learned in the class is required. In five-member groups, students will be asked to consult the management of Café Britt to help design a more effective organization. A power point presentation and a written report of 20-30 pages should address the following questions:

- 1. Evaluate the current organization culture; do you have any suggestions for improvements?
- 2. Suggest effective techniques for motivating Café Britt employees.
- 3. Suggest and describe some of the steps needed to build effective training and diversity programs at Café Britt.
- 4. As stated in the case, Café Britt moved to a hybrid organizational structure, a multi-country divisional/matrix structure that helped the company to maximize communication and cooperation between various countries' operations and head office teams. Assess and explain the matrix structure and discuss its advantages and disadvantages. Make sure to provide a drawing of the matrix one.
- 5. While the structure of the organization could serve as a source of the company's competitive advantage, do you believe that moving to a global divisional structure might constitute an effective alternative organization structure? Assess the divisional structure taking into consideration the contextual variables of the case (i.e. products, growth, and geography). Formulate and discuss the advantages and disadvantages of the divisional structure.
- 6. The structure of the organization is critical to its sustainability and serve (as stated before) as a source of the company's competitive advantage. Do you believe that moving to a global multi-divisional structure might constitute an effective alternative organization structure? Assess the multidivisional structure taking into consideration the contextual variables of the case (i.e. products, growth, and geography). Develop and discuss the advantages and disadvantages of the multidivisional structure.
- 7. Suggest and explain various methods to improve Café Britt's communication effectiveness.
- 8. Suggest and describe various techniques (including high-tech techniques) that can be used to enhance the quality of individual and group decisions.
- 10. You need to analyze the leadership styles of Café Britt's top management team and its climate. Explain which styles seemed most and least effective. You have also been asked to craft a leadership development plan and provide management with your recommendations on how they should lead people and the organization into the future. How effective do you believe this plan would be? Why?
- 11. Explain the difficulties that are associated with initiating the changes that you are recommending. You need to identify and recommend possible change agents and specify which type of change agent makes most sense for your plan. Important note to remember that: All of the above components of the organization are interdependent. What happens in one, affects others.

### REASONS FOR THIS COMPREHENSIVE GROUP CASE STUDY

Successful managers must learn the importance of creating functional and effective structures, processes, and understanding and managing the human side of the organization as this will enable people to effectively work together to achieve agreed upon goals. Therefore, this case is designed to give you an opportunity to design an effective organization.

This case seeks to provide an applied, hands-on format for students to increase their understanding of the subjects of organization design, theory and behavior. Answers to the questions in the case will derive from what you learned from theories and concepts. The case is expected to be completed by the end of the term.

### TEAM REPORT AND PRESENTATION

Each team is required to write a 20-25 page report (12 point font, double-spaced and followed the APA's writing style- only one report is needed for each group) and do a 20-30 minute's PowerPoint presentation of their recommendations. Students are required to use the chapters assigned for the course. To support their responses and enhance their report, students must include outside references such as books, journals, newspaper, Internet information, or a direct interview as resources for the case answers (in case of an interview, they need to include their interview questions as an appendix of their report).

### USE OF POWERPOINT AND AUDIOVISUAL

It is recommended that students be encouraged to create an effective team presentation through the use of whatever audio-visual materials, including but not limited to PowerPoint.

### CONTENT AND GRADING

Students' answers and presentations should clearly and concisely demonstrate their knowledge and comprehension of the course concepts, as well as the team's ability to apply knowledge learned in class and through research, synthesize, analyze, and evaluate their work. Students will be graded based on the following criteria: 1. Use of innovative and creative ideas; 2. Application of concepts learned to the; and 3. Use of outside research to support the case.

At the end of the term, teams are required to report their results and present it to the class. Presentation time will be coordinated with the instructor 5-6 weeks in advance. Other teams will evaluate the results of the presenting team.

While class evaluation is recognized for grading purposes, it may or may not be reflected in the grade assigned by the instructor. This comprehensive team project constitutes 40% of the student's final grade.

### ANALYSIS

Since this case is an application of topics covered in the subjects of Organization Theory and Behavior and Organization Design, student understanding of the following topics will be essential: Organizational culture and ethical values; the nature of work motivation; management of diversity; the nature of work groups and teams; leaders and leadership, power and empowerment; communications in organizations; decision making and organizational learning; organizational design and structure, and organizational change and development.