

iMANAGEMENT BRAZIL®

Business

B

Development  
Coffee Shop  
Franchise

Chapter One: Acute Crisis Management

Is it possible to design projects with open results? That is not easy. Especially not if the initial situation is an acute crisis. The threatening dynamics make open-ended thinking almost impossible. So you can only move forward from success to success. Yes, but it gets easier and easier and the angle of view changes from a low-light normal lens to a high-light ultra-wide-angle lens. In this project report you can read how a project mission for crisis management became a business development project. And we have the impression that this journey is not over yet. A project report in three chapters.

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### Initial situation

In 2012, the economic situation in Brazil was still largely unproblematic. The country had the longest phase of an economic and social upswing in democratic times behind it. The financial crisis of 2008-2010 had been overcome extremely well, without really causing major upheavals. A new sociological-economic middle class had emerged in the context of the emerging global economies.

However, there were already clear signs of saturation in various industries at an early stage. However, there was no reason to expect a fundamental turnaround, no matter what the future political course of the country might be.

In this generally positive environment, a couple, professionally active in the creative sector of advertising and marketing, decided to establish a coffee store brand in the city of São Paulo in



2013. The city's urban complex has a population of approximately 23 million people, and as a result of the long-lasting economic boom of the past two decades, the purchasing power in the region is very high. They started with the first two branches.

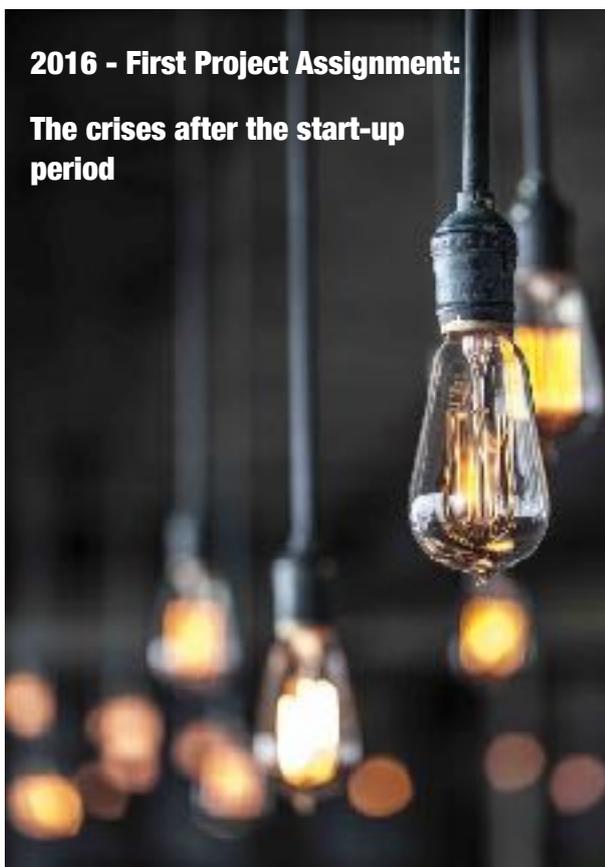
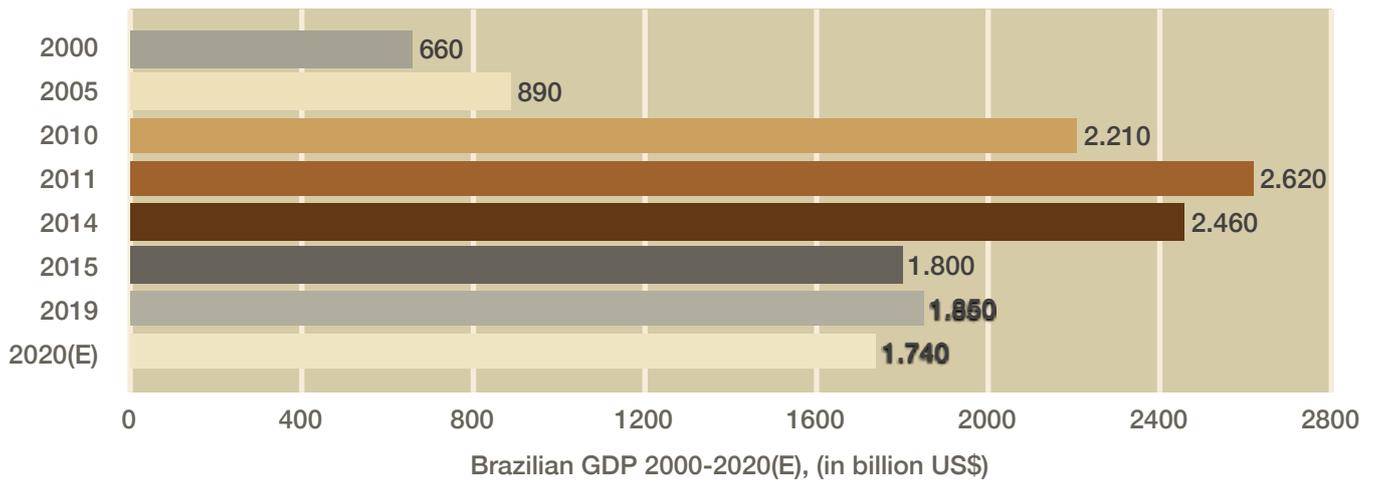


*Inside view of the first shop close to Av. Paulista*



*Inside view of the second shop in the South District*

Starting in 2014, Brazil's situation deteriorated rapidly and an economic downturn occurred, which has not really stopped until today.



**2016 - First Project Assignment:  
The crises after the start-up  
period**

*Vintage lighting in one of the coffee stores, São Paulo, Brazil*

The two founders had virtually no experience in using administrative tools. Brazil's GDP had collapsed by 28% since its founding and there was no sign from the political side that efforts were being made to reverse the ongoing trend. The core of the economic boom of the past 15 years or so, the newly emerging middle class, was beginning to erode. In this environment, the founding couple recognized the need for robust financial

management and reporting in light of the ongoing economic crisis in Brazil. It was all about defining the future and finding and implementing options for action.

iMB has a network of highly qualified experts who are ideally suited to support projects that involve building or rebuilding brands. Our group of network managers for this area is not large, but they are equipped with a very high level of experience and implementation competence.

At the same time, this project mission also required an interim manager with combined expertise as a financial manager and brand specialist. The project budget was extremely tight, so there was a multiple focus on efficiency.

The first step was to determine and robustly implement the necessary financial systems and processes for managing and monitoring margins and sales. The ultimate goal was to massively improve cash flow by managing purchasing, sales and margin control.

Potential improvements in logistics and customer service were also identified and implemented. Our interim manager also advised on the change of supplier, as well as on a more integrated composition of the teams and their management in the coffee stores.

Furthermore rents were renegotiated. The market for commercial real estate was so tense due to the crisis in the meantime that significant reductions were achieved. Fundamental was the consultation on improved conditions for credit card settlements with card providers. Here too, new providers entered the market and increased the pressure on traditional payment providers. By this time, the Brazilian *Fintech* market, especially in Sao Paulo, was already noticeably well developed.



*Detail view from Coffee Shop*

After a macroeconomic analysis of the situation and considering the now stringent internal organization, a future perspective had to be found. Simply to proceed according to the motto that at the current moment the cash flow is under control and factors such as suppliers, teams in the stores and electronic payment modes as well as rents are in harmony would simply be too short-sighted. The environment was too dynamic to simply wait. The question of a possible discontinuation of the business was also latent and had to be considered as a real option. Closure is part of restructuring, but not an option in the reorganization or transformation of business models.

In this environment, we came to the joint decision to focus on expansion. From that moment on it was all about brand development - our interim management mandate switches from crisis mode to business development. The option to be evaluated was the possibility to further consolidate the brand and transfer it into a franchising model. In this context, the option was also evaluated whether an expansion into existing fast food restaurants in the form of complementary businesses could offer

corresponding added value. The establishment of small kiosks in the city and in shopping centers was also an option to be evaluated.

The migration to existing fast-food chains as complementary suppliers was quickly ruled out, as for this purpose the own brand would have had to operate as a franchise. At that time the concept was not sustainable to migrate the business model in this direction. Also, the strategic orientation to build up an own brand DNA was not compatible with such a step.

So the decision was made to quickly implement own small kiosk-like coffee stores. However, the new tenants were already involved as minority shareholders, and the model of a future franchise was specifically envisaged.

### **Outcome**

After one year, growth of over 25% was achieved at the beginning of 2017 and profits increased by 100% compared to the previous year. The installed simple financial control system improved efficiency and cash flow in the small local coffee store chain. All installed coffeeshops were back in the blue zone. (FPN)