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Java Plus Coffee: A Case Study in Economic Sustainability in a Non-Profit Organization

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Java Plus is a non-profit case study focusing on the coffee industry. The case deals with business strategy, multiple distribution channels, financial analysis, break-even analysis, operational, sourcing challenges and inventory rationalization. The profits of the company are used to help inner city youth gain experience in business and find a vocation that would support their dreams and aspirations.

SYNOPSIS

The coffee industry is a $100 billion dollar industry. After crude oil, coffee is the second most traded commodity in the world (Thurston, 2013). Coffee is grown in over 50 countries in Asia, Africa, South America, Central America and the Caribbean with 67% of the world's coffee grown in the Americas. On a worldwide basis consumers drink annually over 500 billion cups of coffee. Arabica and Robusto are the two main commercially grown and sold coffee beans. Arabica is the more common type of bean grown (70 percent of coffee is Arabica), and it's considered more flavorful. Robusta is hardier and cheaper, and is most commonly found in instant coffee jars (Goldschein, 2011).

In response to the increased attention on working conditions for farmers, a new initiative called “Fair Trade” coffee was instituted to provide growers with better conditions and a higher profit margin (Goldschein, 2011). Under “Fair Trade” rules, the coffee importer has a direct relationship with the grower, and pays additional compensation to maintain that relationship. Companies such as Starbucks, Caribou, Dunkin' Donuts and McDonald's all carry Fair Trade coffee.

Java Plus is a non-profit regional coffee business located in Minneapolis, Minnesota. The company’s mission is to sell premium Arabica coffee and other beverages to support programs for inner city youth. The company was founded in 2010 as a means of producing a consistent revenue source to help fund social enterprise programs. Java Plus employs urban youth, providing many people with their first work experience with the goal of working towards ending the cycle of generational poverty in Minneapolis, Minnesota.

Java Plus has recently been experiencing financial losses (Exhibit 3) impacting the organization’s ability to support youth programs and events. The business needs assistance with a formal business analysis along with recommendations for improvements. The struggle to generate positive income with the coffee business is perceived to be due to a number of factors:

1) The coffee business is extremely competitive with major brand names such as Starbucks and Caribou with retail store locations. In addition, they sell their Arabica coffee beans in national retailers like Target and Wal-Mart.
2) Coffee is being impacted by global warming which could have a negative impact on production and supply, resulting in coffee price fluctuation due to poor weather.
3) Java Plus has significant challenges selling to large retailers such as Target, SuperValue, Cub Foods and local grocery stores.
4) Operationally, there are a limited number of local quality roasters available with packaging options for large retailers. This is a constraint for Java Plus as they look at alternative companies that can roast the Arabica coffee beans and provide packaging in quantities significant for the retail channel.
5) The finest coffee beans are Arabica beans; the taste and consistency are a higher quality and also more expensive to purchase thus resulting in lower gross margin. Arabica beans are the benchmark required to compete against the major brands (Thurston, 2013).
6) There are inventory issues pertaining to the significant number of stock keeping units (SKUs) required to compete based on flavor, and packaging size in the retail market. Java recently introduced the new K-cups for the Keurig coffee dispensers.

LEARNING OBJECTIVES

1) Demonstrate an understanding of the process and operational challenges of the coffee industry.
2) Demonstrate a methodology for understanding Java Plus's channel strategies by determining the best way for Java Plus to remain competitive in the coffee business.
3) Perform financial analysis of the three channels. This includes horizontal, vertical and margin calculations and analysis business channel.
4) Perform an inventory analysis and recommend the stock keeping units (SKUs) to be offered in units and dollars for the retail market.
5) Draw meaningful conclusions and make final recommendations.

COMPANY STRUCTURE

The board of directors consists of 7 members: five members are from the business community and the remaining two are from the non-profit world. The board is very aggressive and committed to the current distribution channels (corporate, religious and retail market) because they believe the Java Plus brand will benefit from the exposure in all three areas. Aboard member was instrumental in getting the product into Target and Cub Foods and is convinced the retail channel is critical to sustainability. Each board member is very supportive and dedicated to the mission. Another board member, who works at a Fortune 500 company, has even supported Java Plus by providing free creative marketing services for packaging and other marketing materials. The board is very dedicated and wants to see Java Plus succeed in the market place. In addition to the part-time youth employed, there are 5 full-time employees: a managing director, internet coordinator, sales representative, marketing coordinator and an office manager. They currently rent a small, 1000 square foot office in downtown Minneapolis. Java Plus outsources the manufacturing and distribution process.

CURRENT SITUATION ANALYSIS

For the fiscal year ended 2015, Java Plus experienced a financial loss of \$239,000 on revenues of \$1,054,348. In fiscal year 2016, they experienced a financial loss of approximately \$15,289 on revenue of \$1,071,806 (Exhibit 3) resulting in an inability to contribute financial support to the youth programs and events. As mentioned previously, Java Plus sells products through three main channels of distribution: major retail stores, corporate accounts and religious groups. The following synopsis provides details for each channel.

Retail Channel

The retail market consists of Fortune 500 companies such as Target, Cub Foods, SuperValu, and smaller regional grocery chains including Kowalski's, Byerlys and Lunds. The retailers currently sell major brands in their coffee aisles including Starbucks, Caribou, Dunking Donuts and Peace Coffee.

In this market, inventory is referred to as a stock keeping unit (SKU) and analyzed on the turnover (sell through) of each unit. The majority of the Java Plus SKUs at the retail level include bags of coffee and newly introduced K-cups. The typical retail price for the competitors is \$ 7.95 for a 12 ounce bag of coffee; Java Plus sells the same 12 ounce bag for \$8.95. The new K-cups for Keurig have only been sold to the retail channel.

The competitive brands roast their own coffee and are fully integrated with control over roasting, packaging and distribution. Java outsources the roasting process and is therefore subject to other constraints in the manufacturing processes: higher processing costs, quantity and size of roasting runs, timing dependencies at the roaster, competitive product being manufactured and packaging supplies.

Recently, Target and Cub Foods have communicated their disappointment with the SKU turnover of individual packages and K-cups which are currently less than one pack per store per week. The standard SKU turnover rate for the coffee category is 7-10 units per store per week and at lower retail prices. The Java Plus retail price point was 10-15% higher than the major brands due to a higher cost of goods sold (COGS) price from the local roasting outsourced partner. In retail, mark-down money is used by the retailer to offer a "special price" to the shopper. In the coffee category, a normal mark-down would be a \$1 dollar per bag which helps match the major brands at \$7.95 for a 12 ounce bag. When the Java Plus brand is on mark-down, the SKUs increase but still fall short of the required turnover required by the retail partners. When products are marked down, the money is charged back to Java Plus and netted against revenue having a negative impact on gross margin and profitability (Exhibit 3, Total Discounts).

Coffee product gross margin requirements for companies in the retail channel range from 35% to 40% as such, price adjustments have not been an option for Java Plus. Another challenge is obsolescence of product. Due to the disappointing inventory turnover, the product was consistently getting close to or exceeding its expiration date which negatively impacted the taste of the product. The end result was a higher priced product, with a poor consumer tasting experience; not a winning formula at retail. The highly competitive coffee market makes it challenging to hold market share in the retail sector due to the number of national brands that have established consumer loyalty.

Java Plus and its board believe in the retail market due to its consumer exposure for the brand and the mission of the organization. The board believes that the retail marketplace represents the greatest potential revenue and can greatly assist in creating economies of scale with the other channels that have lower revenue streams. The retail market also is perceived to have the opportunity to reach the largest audience. The retail channel positions the brand in front of the consumer through accounts that are already established.

With retail stores being so highly competitive and saturated with coffee brand options, this marketplace unfortunately represents lower gross margins when compared to other channels of distribution. This is a combination of meeting retailer requirements, along with the higher cost of goods sold for the smaller packages. In addition, contributing to the profitability issues in the retail marketplace is the amount of staff time required for managing these retail accounts. The retail group consumes a large amount of staff time and is not meeting the demanding retail unit turnover requirements for the coffee category.

Religious Channel

There are several mega church groups in the Twin Cities area of Minneapolis and St. Paul (Twin Cities) which purchase coffee from Java Plus for member meetings and services. They prefer to buy in bulk packages of 5 pound bags and 8 ounce portion packs designed for large coffee urns. They also sell hot chocolate mix, miscellaneous items (Styrofoam cups, stir sticks, napkins and brand merchandise). The board of directors believes the religious organizations represent a significant opportunity to expand the reach of the Java Plus's core mission outside of the Twin Cities market. The relationships have been beneficial to the organization and its brand image. Some of the church groups have 5,000 or more members in their congregations and have become large customers for Java Plus. Thus the religious accounts are an identified market opportunity that can reach a potentially large, influential consumer population. The overall revenues Java Plus realizes from this channel continue to increase, with very little promotional effort, as there is no required use of markdown dollars to provide incentives to purchase. Thus historically the religious organizations have offered higher gross margins than the retail channel (Exhibit 3).

In summary, the religious accounts provide an environment that is easier to do business with as it is not as competitive and saturated as the retail environment. There is more emphasis placed on relationships and mission than in the other distribution channels. It should be noted, that there may be a small sales risk in selling to religious organization due to the number of days that the organization would have a need for coffee and related products.

Corporate Channel

In the Twin Cities, there are several large Fortune 500 corporations that purchase coffee from Java Plus for their cafeterias and coffee shops including Best Buy and General Mills. Historically the corporate channel has been a very loyal group of customers who, like the religious channel, are extremely supportive of the mission, the brand, and its cause. The board of directors believes the corporate accounts represent a significant opportunity to expand into other organizations and potentially offer a small scale retail environment within the existing main campus buildings. This channel could be a growth opportunity for Java Plus as they look to expand to 3M, Delta Airlines, Medtronic, Boston Scientific, St. Jude Medical, local, state government and others. The corporate accounts will also positively impact customers and expose them to the Java Plus brand. The Java Plus sales staff is dedicated to nurturing these relationships given the competitive nature of the coffee industry. The risk is that employees of the corporations may potentially request a different brand or brands be sold based on support of the corporate mission or they may prefer specific big coffee brands based on taste requirements.

The corporate sales channel reflects lower cost of goods with the product being sold in five pound bulk, eight ounce pre-portion bags for large coffee urns. They also sell hot chocolate mix, and miscellaneous items (ie Styrofoam cups, stir sticks, napkins and brand merchandise). The larger portion SKU's result in more favorable gross margins (Exhibit 3). This sales channel requires more initial relationship development and sales efforts to establish the accounts, but over time this amount is significantly decreased due to customer loyalty.

FINANCIAL ANALYSIS

Java Plus is classified as a 503c non-profit organization for tax purposes. There has been turnover in the accounting and finance functions and the current controller has corporate but not non-profit financial acumen. Internally the interim financials are organized as modified profit and loss and statement of financial position to allow for detailed financial analysis (Exhibit 3 & 4).

In the most recent year 2016, Java Plus had over 140 customers and total revenues of $1,071,806. Once discounts from promotions, damaged, and expired product and cost of goods sold are deducted, Java Plus's Gross Profit of $358,437 was not enough to cover their $367,500 in fixed costs, leaving them with a net loss of $15,289. Java Plus's has three separate channels: corporate, religious organizations, and a retail category. Analysis has not been perform to determine which of the channels (corporate, religious, retail) have a higher contribution margin.

All business financial activities pertaining to revenue and cost of goods sold are tracked by division (corporate, religious and retail), and all shared expenses are combined into selling and administrative

(SG&A). Cost of goods sold includes product and roasting costs. SG&A includes wages salaries, marketing, interest on debt, etc. All net profits are defined as revenues less cost of goods sold less SG&A, and are donated to the youth organizations discussed previously thus resulting in a net income or loss of zero. For the past two years, Java Plus has realized negative net profits and thus has not been able to support the organization financially.

The Statement of Financial Position (Exhibit 4) reflects the current net asset position of the organization. Java Plus admittedly has issues with is operating processes struggling to collect on receivables, creating cash flow issues currently impacting the ability to pay the accrued donations to the sponsored organization. Inventory continues to increase as well, at times in relation to the sequencing and batch size requirements placed upon Java Plus at the outsourcing roasting partner. These issues have resulted in a reduced ability to stay current on payables, however the organization is current on its short and long term debt. As a non-profit there are no retained earnings or stock components.

COMPETITIVE ANALYSIS

The four major local competitors to Java Plus in the retail and wholesale marketplace include: Caribou Coffee, Equal Exchange, Stillwater Coffee, and Peace Coffee. The four competitors were taken into consideration based on their location, venues of sales, and their mission statements. Starbucks was not considered a local competitor given their global reach and their Seattle based headquarter location.

Caribou Coffee is a Midwest based company now owned by JAB Holdings which also owns Einsteins Bagels and Peet's Coffee. They have a strong presence in retail with over 273 company owned stores and 127 licensed coffee shops locations in over 22 states and over 4,600 employees. They also have coffee shops in 10 other countries. Their sales at the end of 2012 were over $500 million; they were taken private by JAB Holdings in 2013. They sell their coffee wholesale to the majority of the major retailers and have expanded their partnerships with Kemps Ice Cream and Keurig coffee cups. Their coffee and espresso beans are 100% Rainforest Alliance Certified. Caribou Coffee is also dedicated to giving back to charity organizations supporting breast cancer, children's literacy, and the environment.

Equal Exchange is unique in the coffee industry. The company is a cooperative and is worker-owned, faith based and maintains a strong retail and wholesale presence. They started in 1986 and have on-going relationships with small farmers that grow their coffee beans. They believe in sustainability by promoting organic agricultural practices for their farmer/partners. They offer coffee for church groups and focus on giving back to the farmers and all of the supply chain partners. Equal Exchange offers a variety of beverages (coffee, tea, and hot cocoa) and miscellaneous snacks (trail mix, product, and chocolate, among others). Their focus is on their farmers, interfaith, and fair trade partners. All of their beans are Fair Trade and they are looking for additional locations outside of Boston and Seattle.

Stillwater Coffee was founded in 1980 in Minnesota. They have a presence in 48 states and recently signed a private label contract with Costco. Its estimated sales are over $40 million annually. They have their own private label brand of coffee and they have focused on the grocery and club channels as a method of growth. They are primarily a wholesale coffee company. They roast their coffee in house for retail sales but also roast, package and distribute for other companies private label brands. They have a strong presence in local grocery stores and have an extensive online store. They purchase their beans from one of the largest bean suppliers in North America and control all aspects of the roasting, packaging, processing and inventory of the products. Stillwater Coffee private labels for Java Plus and also competes against them with their own brands.

Peace Coffee is based in Minneapolis and started by the Institute for Agriculture and Trade Policy. Their mission is to promote a community of fair trade, trading with small scale farmers at industry leading prices and to promote living wages through-out the company. They are committed to environmental sustainability, such as having bike courier services and using eco-friendly van for delivery. Peace Coffee uses its business plan as a part of marketing for their coffee. Their product line includes at home coffee blends as well as coffee shops both local and franchise shops.

STRENGTHS-WEAKNESSES-OPPORTUNITIES-THREATS (SWOT)

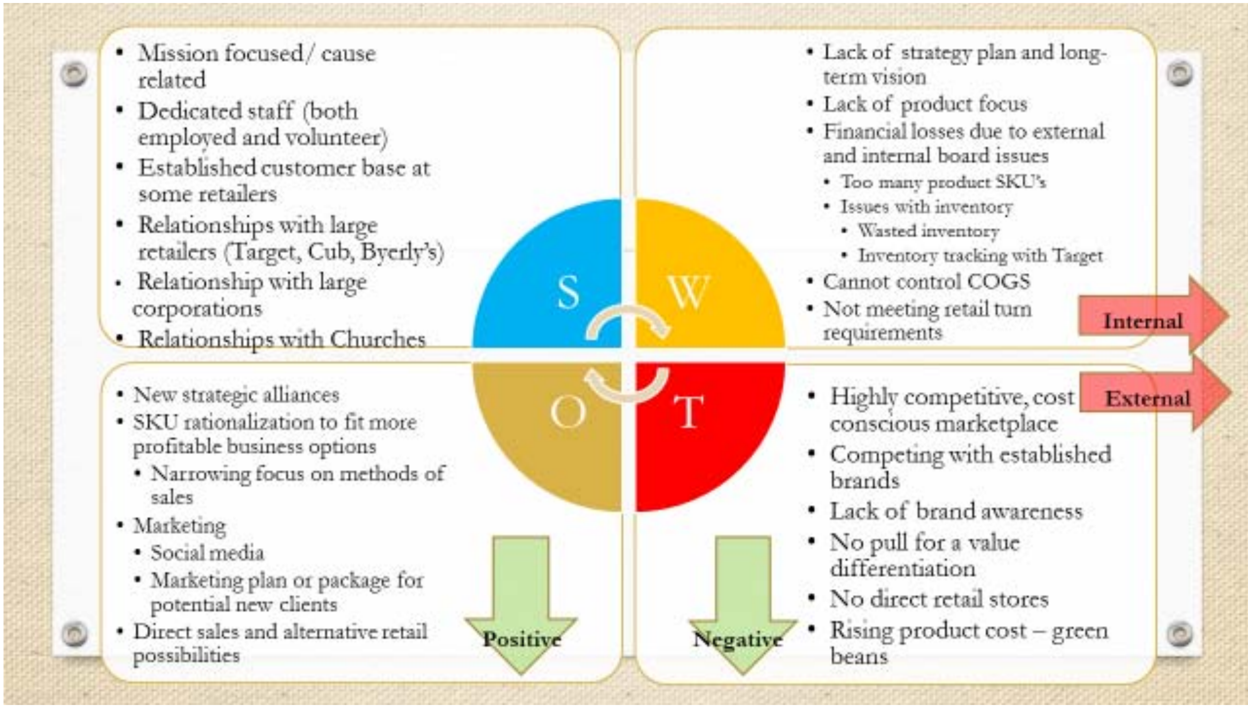
Java Plus has multiple strengths within their organization. The dedicated staff are some of their primary strengths. The Java Plus brand is a strength, as is the retail packaging, that was co-developed with the help of the marketing team at General Mills. The cause-related marketing theme is a strength with the profits used to help inner city children and adults. The customer base for Java Plus has been extremely supportive of their mission and has helped create brand loyalty with corporate, religious organizations and retailers. This is important since the coffee business is a competitive market and the channels help provide diversification and cash flow to Java Plus. The expansion into the Keurig™ cup business has helped position Java Plus with certain customers that have changed to that method of making coffee.

The internal weaknesses facing Java Plus are significant. The first weakness are the challenges operating in the retail sector: retail packaging, mark down dollars, and the number of stock keeping units (which are the number of items Java Plus sells to its customers). A number of stock keeping units (SKU), were brought in at the request of a single retail client without the benefit of analysis or a firm understanding of the rate of consumption. In addition, one of the challenges is the lack of control over manufacturing costs. Java Plus is not large enough to dictate with its manufacturing partner when items should be manufactured. Due to the quantities and the type of packaging (retail versus bulk) they need to produce. Because of this lack of control over manufacturing, the minimum manufacturing runs (5000 pieces at a time for example) required by Stillwater Coffee created inventory that might last over a year; thus impacting taste and quality. The retail presence is also a weakness due to the higher cost of doing business with large retailers, their operational and logistical requirements (EDI, smaller case quantities, point of sale data, gross margin, the need to pay a commission to an outside sales rep and the minimum inventory turnover requirements). The limited ability to control cost of goods sold is a significant weakness with Java Plus purchasing finished goods from a local roaster. Many of their competitors are more vertically integrated and have the ability to source and roast their own coffee. Java Plus does not control the raw material, roasting, and packaging costs.

In terms of opportunities, Java Plus is well positioned to take advantage of the continued growth in the coffee market and some of the new drinks that can be sold through their channels of distribution. The Java Plus brand has a great opportunity to grow and expand across all three channels and expansion into new customers. The emerging Keurig cup business is a significant opportunity for Java Plus to expand its product line and possibly enhance its gross margins.

In reviewing the organization threats, virtually all of the competitors have stronger brand awareness and spend a significant amount of money on marketing (Starbucks, Caribou, Dunn Brothers, Stillwater Coffee). The major competitors are vertically integrated with control over the Arabica bean sourcing, roasting (multiple locations) packaging and distribution. Many have their own stores as well which helps maintain higher gross margins and brand identity. This is a threat as Java Plus does not have the same brand awareness as their major competitors, nor do they have retail outlets which helps with production demand, inventory management, sales and customer loyalty. The organization must always be aware of times when rising raw material costs for the raw Arabica green bean due to demand or weather issues cause the beans to rise in costs. Our SWOT analysis in highlighted in Exhibit 1.

EXHIBIT 1



OPERATIONAL CHALLENGES

There are several operational challenges for Java Plus. The most pressing challenge is they do not control their supply chain for raw materials and their distribution center. Java Plus is a growing brand but without the capital assets of a roasting facility and distribution center. The flow chart below (EXHIBIT 2) indicates the sales and purchase process for Java Plus:

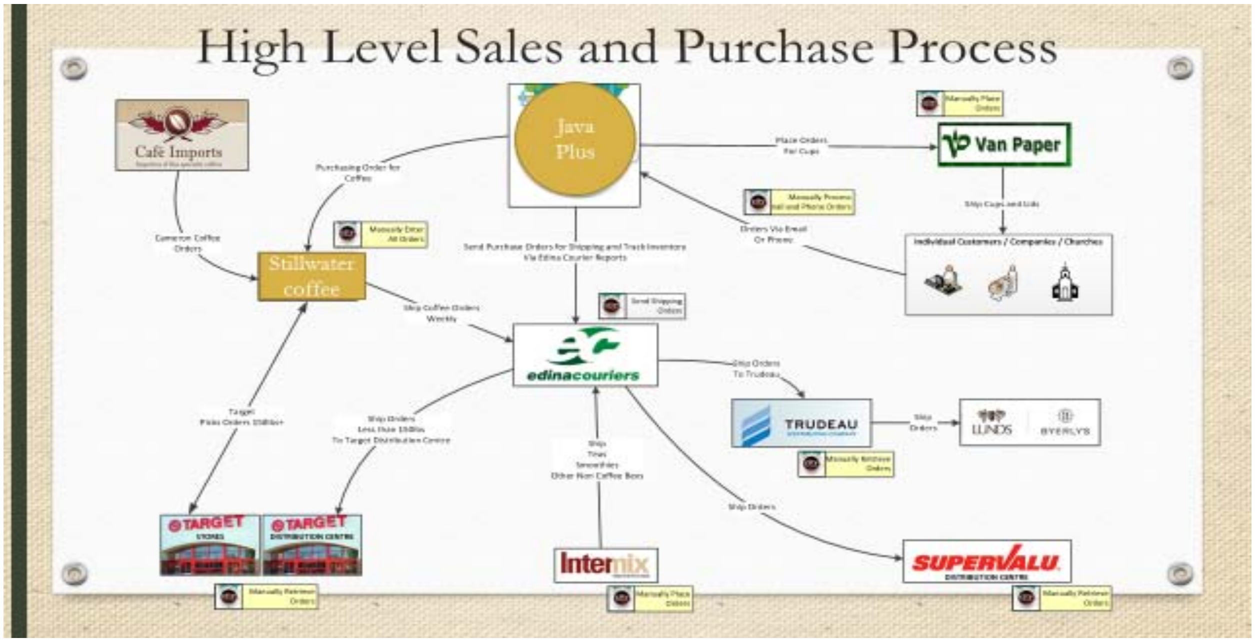
1) Café Import - raw materials (Arabica coffee beans) are ordered.
2) Stillwater Coffee roasts and packages the product and in some cases delivers to retail accounts if they have a direct relationship.
3) Edina couriers is sent product for church, corporate and some retail accounts.
4) Intermix and Trudeau are another distribution point for Lunds and Byerlys grocery stores.
5) Van Paper and other suppliers provide paper cups and other products for corporate and church clients.

Java Plus has the following challenges:

1) They rely on Café Imports for their Arabica raw coffee beans; the beans are purchased through their roaster, Stillwater Coffee.
2) They use an outside logistics company for storage and shipment. The logistics company has some challenges accepting orders via electronic data interchange (EDI); a requirement for most retail accounts.
3) They have to meet certain minimum production runs at their roaster which can lead to delayed manufacturing and overstock on items.
4) Retail packaging is expensive and a number of SKU's at the retail shelf were old packaging.
5) Obsolete inventory on a number of SKU's due to poor retail turns.
6) Too many SKU's that do not sell well at retail and create obsolescence.

7) Changing consumer needs for taste and delivery. The new Keurig cups are an excellent example of change.

EXHIBIT 2



ITEM AND STOCK KEEPING UNIT (SKU) ANALYSIS

As shown in EXHIBIT 5, the SKU's are separated by quantity, revenue, net profit, profit per unit, cost per unit, and return on investment (ROI). The purpose of this analysis was to identify the inventory with the highest margin in an effort to increase earnings and focus vital staff time on the best product inventory items. An analysis of the data will help determine the highest returns on investment coffee inventory, which items to keep and which items to potentially rationalize. The analysis, will also identify the SKU's stocked as part of the inventory but do not sell well; these items may have provided a specific niche offering to a customer or a marketing and sales opportunity at one time. The analysis will help determine which items are loss leaders that do not appear to provide large value to the sales efforts. The SKU's are listed below broken down by the channel of distribution. Based on the analysis, our consulting team must make a recommendation for the final number of SKU's. By focusing on the most profitable items, it should improve the gross margin and improve cash flow through reduced inventory.

INSTRUCTIONS AND KEY DELIVERABLES

Using the information provided in this case students are to assume the role of consultants hired by the board of directors to perform analysis and provide constructive recommendations for the future. The following deliverables should be prepared for presentation.

Deliverable	Learning Objective
Report: Prepare a detailed report to the board of directors with your recommendations for improvement. This report should be founded on the items you prepare for #2 below. Include a detailed explanation of how you would you improve the operations of the business. The recommendations must also include a suggested sequencing and specific timelines for implementation (10 to 15 pages)	1. Demonstrate an understanding of the process and operational challenges of the coffee industry 2. Demonstrate a methodology for understanding the channel strategy by determining the best way for Java Plus to go to market
Financial statement modeling and analysis: Prepare a professional Excel based model to include but not be limited to the following: 1) Horizontal, vertical and margin analysis of the statement of operations for past three years. Include analysis of the gross margin by distribution channel. 2) Inventory assessment including analysis and rationalization of the number of SKUs along with specific recommendations for expansion and contraction. Analysis of distribution channels along with a recommendation for which the organization should utilize going forward. Your position must be supported with data analysis. 3) Breakeven analysis for the company with all three channels of distribution and then for each scenario.	3. Ability to perform financial analysis of the three channels of distribution. This includes horizontal, vertical and ratio calculations and analysis, and breakeven analysis by business channel. 4. Perform an inventory analysis and recommend the stock keeping units (SKUs) to be offered in units and dollars for the retail market
Presentation Items: 1. Professional Power Point summarizing the key recommendations 2. Executive Summary – a one page, bullet point synopsis of the key findings and recommendations (Instructor note): For online courses these items could be placed in a shared file location, and delivered via an online forum such as Skype or Google Hangout.	5. Draw meaningful conclusions and make professional recommendations and presentations.

EXHIBIT 3

EXHIBIT 3: Statement of Operations			
	FY 20X4	FY20X5	FY20X6
Revenue			
Bulk Sales (Corporate)			
40110 · Bulk Cocoa	$ 22,400	$ 22,624	$ 23,076
40310 · Bulk Coffee	82,600	85,491	88,911
40130 · Other Products (tea, merch, cups, filters)	27,013	27,553	27,553
40320 · Portion Packs (8 oz)	171,484	175,772	181,045
40350 · Single Serve (2.5 - 3 oz)	28,892	29,470	30,501
Total Bulk Sales (Corporate)	$ 332,389	$ 340,910	$ 351,086
Bulk Sales (Religious)		-	-
40110 · Bulk Cocoa	28,600	29,458	30,636
40310 · Bulk Coffee	81,617	86,106	91,273
40130 · Other Products (tea, merch, cups, filters)	33,016	33,676	34,518
40320 · Portion Packs (8 oz)	209,592	215,880	225,595
40350 · Single Serve (2.5 - 3 oz)	35,313	36,019	37,279
Total Bulk Sales (Religious)	$ 388,138	$ 401,139	$ 419,301
Retail Sales		-	-
40330 · Retail 12 oz bags	295,500	301,410	296,889
40120 · Retail K Cups	-	6,400	9,737
40600 · Revenue - Other Products	118,107	119,878	121,676
40390 · Total Discounts	(112,400)	(118,582)	(126,883)
Total Retail Sales	$ 301,207	$ 309,106	$ 301,420
Total Net Revenue	$ 1,021,734	$ 1,051,155	$ 1,071,806
		-	-
Cost of Goods Sold		-	-
COGS -Bulk (Corporate)		-	-
50110 Bulk Cocoa	2,410	2,507	2,607
50310 Bulk Coffee	20,371	21,593	22,564
50130 Other Products (tea, merch, cups, filters)	16,302	17,117	18,144
50320 Portion Packs (8 oz)	92,723	95,505	99,325
50350 Single Serve (2.5 - 3 oz)	39,355	39,749	40,544
Total · COGS - Bulk (Corporate)	$ 171,161	$ 176,470	$ 183,184
COGS -Bulk (Religious)		-	-
50110 Bulk Cocoa	3,077	3,201	3,329
50310 Bulk Coffee	20,128	21,336	22,296
50130 Other Products (tea, merch, cups, filters)	19,925	20,921	22,176
50320 Portion Packs (8 oz)	113,328	116,728	121,397
50350 Single Serve (2.5 - 3 oz)	48,101	48,582	49,553
Total · COGS - Bulk (Religious)	$ 204,559	$ 210,767	$ 218,751
COGS - Retail		-	-
50330 12 oz Retail Bags	168,280	181,742	194,464
50120 Retail K Cups	18,390	19,126	19,891
50340 Expired Product & other coffee	3,500	3,745	4,063
50600 Other Products&Shipping	86,000	89,010	93,015
Total COGS - Retail	276,170	293,623	311,434
Total COGS	$ 651,891	$ 680,861	$ 713,370
Gross Profit	$ 369,843	$ 370,294	$ 358,437
Operating Expenses			
Total SG&A Expenses	367,500	373,726	373,726
Net Profits	$ 2,343	$ (3,432)	$ (15,289)
Donations to Youth	2,343	-	-
Net Income or Loss	$ -	$ (3,432)	$ (15,289)

EXHIBIT 4

EXHIBIT 4: Statement of Financial Position		
		FY20X6
Assets		
	Cash	$ 42,050
	Restricted Cash (donations)	-
	Trade Receivables	65,220
	Inventory	95,413
	Other Current Assets	17,201
	Total Current Assets	219,884
	Property Plant & Equipment, net	113,200
	Intangible Assets, net	48,100
	Total Long Term Assets	160,562
Total Assets		$ 380,446
Liabilities		
	Accounts Payable	$ 124,030
	Donations Payable	37,500
	Short Term Debt	75,230
	Total Current Liabilities	199,260
	Long Term Debt	130,000
	Other Liabilities	51,186
	Total Long Term Liabiliities	181,186
Total Liabilities & Net Assets		$ 380,446

EXHIBIT 5

Item	Description	Cost	20X6
Retail			
10-110-12-100GR	12oz Java Blend, Ground	$ 3.43	$ 42,172
10-110-12-1100WB	12 oz whole bean - Decaf Espresso	$ 3.75	$ 37,955
10-110-12-1200GR	12oz Lake Street Blend, Ground - Rainforest Alliance	$ 3.43	$ 37,955
10-110-12-1300GR	12oz French Roast, Ground - Rainforest Alliance	$ 3.43	$ 37,955
10-110-12-1300WB	12oz French Roast, Whole Bean - Rainforest Alliance	$ 3.43	$ 37,955
10-110-12-200WB	12oz Sumatra, Whole Bean	$ 3.43	$ 29,520
10-110-12-400GR	12oz Dark Roast Sumatra, Ground	$ 3.43	$ 33,737
10-110-12-500GR	12oz Decaf Colombian, Ground	$ 3.43	$ 22,773
10-110-12-600WB2	12 oz whole bean - Guatemalan Decaf	$ 3.71	$ 8,434
10-110-12-900GR	12oz Highlander Grogg, Ground	$ 3.43	$ 8,434
			$ 296,889
K-Cups			
Keruig K-Kup Reusable		$ 18.79	$ 590
Keurig Machine	Keurig Machine	$ 150.00	$ 1,475
K-10-110-12-100GR	12oz Java Blend, Ground	$ 6.50	$ 1,475
K-10-110-12-1100WB	12 oz whole bean - Decaf Espresso	$ 6.50	$ 1,180
K-10-110-12-1200GR	12oz Lake Street Blend, Ground - Rainforest Alliance	$ 6.50	$ 1,180
K-10-110-12-1300GR	12oz French Roast, Ground - Rainforest Alliance	$ 6.50	$ 1,475
K-10-110-12-1300WB	12oz French Roast, Whole Bean - Rainforest Alliance	$ 6.50	$ 2,360
subtotal K-cups			$ 9,737
Other Revenue			$ 121,676

Item	Description	Cost	20X6
Corporate and Religious - Bulk products			
10-120-18-2.5-100	18 Count (2.5 oz bags) per case; Java Blend	$ 12.78	$ 1,807
10-120-18-2.5-300	18 Count (2.5 oz bags) per case; French Roast	$ 12.78	$ 7,230
10-120-18-2.5-400	18 Count (2.5 oz bags) per case; Dark Roast Sumatra	$ 12.78	$ 7,230
10-120-18-2.5-600	18 Count(2.5 oz bags) per Case; Decaf Dark Roast	$ 12.78	$ 7,230
10-120-18-2.5-700	18 Count (2.5 oz bags) per case; Vanilla	$ 12.78	$ 1,807
10-120-18-2.5-800	18 Count (2.5 oz bags) per case; Hazelnut	$ 12.78	$ 5,422
10-120-18-2.5-900	18 Count (2.5 oz bags) per case; Highlander Grogg	$ 12.78	$ 3,615
10-120-18-3-100	18 Count (3 oz bags) per case; Java Blend	$ 15.30	$ 3,615
10-120-18-3-300	18 Count (3 oz bags) per case; French Roast	$ 15.30	$ 7,230
10-120-18-3-400	18 Count (3 oz bags) per case; Dark Roast Sumatra	$ 15.30	$ 5,422
10-120-18-3-600	18 Count (3 oz bags) per case; Decaf Dark Roast	$ 15.30	$ 5,422
10-120-18-3-700	18 Count (3 oz bags) per case; Vanilla	$ 15.30	$ 5,422
10-120-18-3-800	18 Count (3 oz bags) per case; Hazelnut	$ 15.30	$ 5,422
10-120-18-3-900	18 Count (3 oz bags) per case; Highlander Grogg	$ 15.30	$ 904
			$ 67,781
10-120-18-8-100	Portion packs (8 oz bags) per case; Java Blend	$ 39.78	$ 91,453
10-120-18-8-300	Portion packst (8 oz bags) per case; French Roast	$ 39.78	$ 265,942
10-120-18-8-301	Portion packst (8 oz bags) per case; Sumatra	$ 40.78	$ 49,244
			$ 406,639
Cocoa			
Cocoa - 10 oz	Double Dutch Hot Cocoa - individual foil pack 10oz bag	$ 1.09	$ 5,245
Cocoa - 10 oz Bulk	Double Dutch Hot Cocoa - 40 10oz bags per case	$ 43.75	$ 5,245
CR-01-1000	Powdered Creamer Packets	$ 22.98	$ 2,835
DD-06-(6)2-01	Double Dutch Cocoa Mix (6 Count) 2lb bags	$ 18.90	$ 20,456
DD-06-10-01	Double Dutch Hot Cocoa Mix (6) Count 10 oz bags per	$ 10.94	$ 10,490
DD-06-10-01:DD-06-10-01*	Double Dutch Hot Cocoa Mix 10 oz bag	$ 1.27	$ 9,441
subtotal chocolate and cookies			$ 53,713
Bulk Coffee			
10-130-2-3000	4 (2lb bulk bags) per case, Java Dark Roast; Ground	$ 29.68	$ 20,433
10-130-4-100	4 (4lb bulk bags) per case; Java Blend WB	$ 15.26	$ 14,860
10-130-4-1000	4 (4lb bulk bags) per case; Espresso, WB	$ 15.26	$ 18,576
10-130-4-1100	4 (4lb bulk bags) per case; Decaf Espresso, WB	$ 15.26	$ 16,718
10-130-4-400	4 (4lb bulk bags) per case; Dark Roast Sumatra, WB	$ 15.26	$ 16,718
10-130-4-600	4 (4lb bulk bags) per case; Decaf Dark Roast WB	$ 15.26	$ 11,145
10-130-5-100	5 lb whole bean - Java Blend	$ 23.85	$ 24,148
10-130-5-1000	5 lb whole bean - Espresso	$ 24.75	$ 11,145
10-130-5-400GR	5 lb ground - Dark Roast Sumatra	$ 28.10	$ 18,576
10-130-5-400WB	5 lb whole bean - Dark Roast Sumatra	$ 28.10	$ 18,576
10-130-5-600	5 lb whole bean - Guatemalan Decaf	$ 24.65	$ 9,288
Bulk coffee subtotal			$ 180,183

RECOMMENDATIONS AND CONCLUSIONS

The recommendations and salient points we recommend in this case study include distribution, SKU rationalization, operational challenges, channel strategy, current financial assessment and a pro-forma income statement with the recommended changes. A successful implementation of the strategies identified will provide an opportunity for Java Plus to move into a profitable position.

Distribution

- Future expansion and growth in the Corporate and Religious sectors, along with an increased brand recognition and consumer loyalty will help poise Java Plus for future focused on its core mission by focusing expansion in the corporate and religious channels.
- Phasing out of the retail sector due to low gross margins, high competition and lack of turnover at retail
- By increasing corporate sales by 15%, adding 20 new Religious accounts under the current average sales of religious accounts, or by pursuing a licensing fee under the retail sector, Java Plus will move into a positive net income position.

Finance and Inventory

Inventory reduction of product SKU's:

- SKU Reduction Plan
  - Improves gross margin
  - Focus on most profitable items
  - Remaining SKU's have a combined gross margin of only 22.89%
  - Improves cash flow through reduced inventory
- reduce the total number of product SKU's be reduced to the top XXX based on the sales-to-profit ratio

Marketing

- Exploring licensing options which could be valued at 10% of the annual sales.
- Social media
  - Research current customer trends
  - Continue focus on sharing youth success stories
  - Sharing upcoming events through different social media venues (ex: Facebook, Twitter, and Instagram)
  - Further research on competition

Operations

- Maintain out-sourcing operations until the business is stabilized.
- Once the business is profitable then management should explore roasting and packaging the product internally,

EXHIBIT 6

EXHIBIT 6: Statement of Operations - SOLUTION KEY	Vertical						Horizontal	
Horizontal and Vertical	FY 20X4		FY 20X5		FY 20X6		Change 20X5 to 20X6	
	Amount	% of Rev	Amount	% of Rev	Amount	% of Rev	Amount	%
Revenue								
Bulk Sales (Corporate)								
40110 · Bulk Cocoa	22,400	2.2%	22,624	2.2%	23,076	2.2%	452	2.0%
40310 · Bulk Coffee	82,600	8.1%	85,491	8.1%	88,911	8.3%	3,420	4.0%
40130 · Other Products (tea, merch, cups, filters)	27,013	2.6%	27,553	2.6%	27,553	2.6%	-	0.0%
40320 · Portion Packs (8 oz)	171,484	16.8%	175,772	16.7%	181,045	16.9%	5,273	3.0%
40350 · Single Serve (2.5 - 3 oz)	28,892	2.8%	29,470	2.8%	30,501	2.8%	1,031	3.5%
Total Bulk Sales (Corporate)	$ 332,389	32.5%	$ 340,910	32.4%	$ 351,086	32.8%	10,177	3.0%
Bulk Sales (Religious)								
40110 · Bulk Cocoa	28,600	2.8%	29,458	2.8%	30,636	2.9%	1,178	4.0%
40310 · Bulk Coffee	81,617	8.0%	86,106	8.2%	91,273	8.5%	5,166	6.0%
40130 · Other Products (tea, merch, cups, filters)	33,016	3.2%	33,676	3.2%	34,518	3.2%	842	2.5%
40320 · Portion Packs (8 oz)	209,592	20.5%	215,880	20.5%	225,595	21.0%	9,715	4.5%
40350 · Single Serve (2.5 - 3 oz)	35,313	3.5%	36,019	3.4%	37,279	3.5%	1,261	3.5%
Total Bulk Sales (Religious)	$ 388,138	38.0%	$ 401,139	38.2%	$ 419,301	39.1%	18,162	4.5%
Retail Sales								
40330 · Retail 12 oz bags	295,500	28.9%	301,410	28.7%	296,889	27.7%	(4,521)	-1.5%
40120 · Retail K Cups	-	0.0%	6,400	0.6%	9,737	0.9%	3,337	52.1%
40600 · Revenue - Other Products	118,107	11.6%	119,878	11.4%	121,676	11.4%	1,798	1.5%
40390 · Total Discounts	(112,400)	-11.0%	(118,582)	-11.3%	(126,883)	-11.8%	(8,301)	7.0%
Total Retail Sales	$ 301,207	29.5%	$ 309,106	29.4%	$ 301,420	28.1%	(7,687)	-2.5%
Total Net Revenue	$ 1,021,734	100.0%	$ 1,051,155	100.0%	$ 1,071,806	100.0%	20,652	2.0%
Cost of Goods Sold								
COGS -Bulk (Corporate)								
50110 Bulk Cocoa	2,410	0.2%	2,507	0.2%	2,607	0.2%	100	4.0%
50310 Bulk Coffee	20,371	2.0%	21,593	2.1%	22,564	2.1%	972	4.5%
50130 Other Products (tea, merch, cups, filters)	16,302	1.6%	17,117	1.6%	18,144	1.7%	1,027	6.0%
50320 Portion Packs (8 oz)	92,723	9.1%	95,505	9.1%	99,325	9.3%	3,820	4.0%
50350 Single Serve (2.5 - 3 oz)	39,355	3.9%	39,749	3.8%	40,544	3.8%	795	2.0%
Total · COGS - Bulk (Corporate)	$ 171,161	16.8%	$ 176,470	16.8%	$ 183,184	17.1%	6,714	3.8%
COGS -Bulk (Religious)			-		-			
50110 Bulk Cocoa	3,077	0.3%	3,201	0.3%	3,329	0.3%	128	4.0%
50310 Bulk Coffee	20,128	2.0%	21,336	2.0%	22,296	2.1%	960	4.5%
50130 Other Products (tea, merch, cups, filters)	19,925	2.0%	20,921	2.0%	22,176	2.1%	1,255	6.0%
50320 Portion Packs (8 oz)	113,328	11.1%	116,728	11.1%	121,397	11.3%	4,669	4.0%
50350 Single Serve (2.5 - 3 oz)	48,101	4.7%	48,582	4.6%	49,553	4.6%	972	2.0%
Total · COGS - Bulk (Religious)	$ 204,559	20.0%	$ 210,767	20.1%	$ 218,751	20.4%	7,984	3.8%
COGS - Retail								
50330 12 oz Retail Bags	168,280	16.5%	181,742	17.3%	194,464	18.1%	12,722	7.0%
50120 Retail K Cups	18,390	1.8%	19,126	1.8%	19,891	1.9%	765	4.0%
50340 Expired Product & other coffee	3,500	0.3%	3,745	0.4%	4,063	0.4%	318	8.5%
50600 Other Products&Shipping	86,000	8.4%	89,010	8.5%	93,015	8.7%	4,005	4.5%
Total COGS - Retail	276,170	27.0%	293,623	27.9%	311,434	29.1%	17,811	6.1%
Total COGS	$ 651,891	63.8%	$ 680,861	64.8%	$ 713,370	66.6%	32,509	4.8%
Total SG&A Expenses	367,500	36.0%	373,726	35.6%	373,726	34.9%	-	0.0%
Net Profits	$ 2,343	0.2%	$ (3,432)	-0.3%	$ (15,289)	-1.4%	(11,857)	345.5%
Donations to Youth	2,343	0.2%	-	0.0%	-	0.0%	-	#DIV/0!
Net Income or Loss	$ -	0.0%	$ (3,432)	-0.3%	$ (15,289)	-1.4%	(11,857)	345.5%

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