Juan Valdez®: A Traditional Colombian Company Facing an International Giant

Track: Management Education and Teaching Cases

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Juan Valdez®: A Traditional Colombian Company Facing an International Giant

Procafecol S.A. was a company created by the National Federation of Coffee Growers of Colombia in 2002 in order to manage Juan Valdez shops. In mid-August 2012 in Bogotá, after knowing that Starbucks planned to bring their stores into the country by July 2014, the board of Procafecol S.A. was faced with the dilemma of what strategy to take in order to deal with this competition and not lose their position in the Colombian market.

The House of Colombian Coffee Growers

The National Federation of Coffee was created in 1927 in order to improve and ensure the quality of Colombian coffee. Once this was achieved, the federation was in charge of promoting coffee and its features globally to achieve market positioning among coffee experts and other consumers.

In 1958, it was necessary to promote Colombian coffee in order to show the consumers the importance of bearing in mind the different factors that made this coffee unique, such as the origin and quality of grain that identified Colombia as a coffee producer. For this reason in 1959 the idea of creating a character that reflected the core values of the Colombian coffee producer took shape and was given the name Juan Valdez®. [1]

Figure 1. First Advertising Campaign. http://www.coffeeclubca.com/2014/03/the-history-of-coffee-1900-to-present.html

In 1960 the first advertising campaign was launched with the image of Juan Valdez ®. In 1982 the company Doyle Dane Bernbach created the brand logo, which was gradually introduced in products of the Federation. However, the National Federation of Coffee Growers thought it was necessary to *"generate added-value business that represented the coffee growers and Juan Valdez* ®" (Juan Valdez Café, 2015). Thus, Procafecol S.A. Company was created with the license to use the brand in order to promote Colombian Coffee.

Figure 2. First Logo. http://www.federaciondecafeteros.org /

Procafecol: Generating Added-Value Business to the Colombian Coffee Grower

Procafecol S.A. was created in November 2002 in order to add value to the brand Juan Valdez®. This was done through the creation of specialized coffee shops, generating royalties through the use of the mark and projects that promoted Colombian coffee as unique.

1 http://xcafe.co/blog/2013/06/27/la-historia-de-juan-valdez/

The relationship between Procafecol and the farmers operated in three main ways: the payment of royalties to the National Coffee Fund for the use of the brand, the implementation of positioning strategies about Colombian coffee in the world, and the collaboration with the National Federation of Coffee growers of Colombia (Juan Valdez Café, 2015).

Procafecol was monetarily distributed as follows: 12% corresponded to the International Finance Corporation (IFC) of the World Bank, 4% to 18,700 retail coffee growers represented by their families and 84% to the National Federation of Coffee Growers (Mendez, 2014). Investment decisions, acquisitions and strategies were decided by the Procafecol Board of directors, constituted by the executive committee (see **Appendix 1**), three external members who could be representatives of the state committees or businessmen, and the president of the National Federation Coffee Growers of Colombia (Moreno, 2015).

Figure 3. Juan Valdez logo. http://www.federaciondecafeteros.org /

Procafecol's activity during the 10 years of existence had allowed Juan Valdez® to be recognized nationally and internationally as the flagship brand of the Colombian coffee growers through the a variety of products it offered.[2]

What did Juan Valdez® Sell?

Juan Valdez stores were characterized by offering three product lines: the first line consisted of selling hot or cold coffee, either filtered or espresso, pastries and confectionery. The second line consisted of selling packaged coffee as roasted whole beans or grounded coffee, and the third line was the sale of brand Juan Valdez® itself.

By selling hot or cold coffee either filtered or espresso, Juan Valdez® offered a variety of products in which traditional hot drinks were prepared in different ways based on roasted or ground coffee. They also offered cold drinks made from fruits, ice cream, and cold coffee in different presentations (see **Appendix 2**).

The bakery and confectionery was outsourced. The providers of these products had to have the ability to perform daily deliveries to more than 100 stores, they had to be able to handle a production that would supply the demand and have unique and quality products. Procafecol had different suppliers in each of the cities where it had stores, which made the product range not homogeneous. The philosophy of the management of Juan Valdez® was not only to sell good coffee, but to add supplements to help boost sales as well (see **Appendix 3**).

2 http://www.juanvaldez.com/#/home/

In the marketing line of packaged coffee, three types of their special characteristics of quality, origin and presentation were enhanced generating added value to the brand Juan Valdez® and allowing differentiation between local and international competitors. These were: roasted coffee, special coffee, and Café @CAsa (see **Appendix 4**).

Furthermore, Procafecol hired services from Almacafe S.A.[3]. Almacafe was responsible for carrying out the processes of roasting coffee (roasting), quality assessment services, and coffee vocation[4]. This link generated higher costs of production for Procafecol because the product packaging, production processes, and quality controls accompanied the aforementioned services. Roasting was not Procafecol´s core business and was done by outsourcing because the company did not have the necessary infrastructure and their staff was not trained properly.

In the line of Juan Valdez® the store used to offer products for home and personal use or to give away, such as clothing, coffee mugs, tableware, coffee, and other items (see **Appendix 5**).

How was Juan Valdez® Selling?

Juan Valdez® Café had 4 business lines: specialty shops, supermarkets, an institutional channel, and an e-commerce portal. In November 2002 the first store opened at the El Dorado Airport in Bogota. From 2004, additional stores were opened in other cities. By the year 2013 Procafecol had opened 194 stores throughout Colombia.

In 2005 Juan Valdez® began its internationalization process in many countries such as Spain and the United States through Joint Ventures. A year later Procafecol created alliances with international companies such as Falabella from Chile, Casual Brands Group from Spain and Latincafé - int Food Services Corp from Ecuador (Juan Valdez Café, 2015) in order to open new Juan Valdez® stores offering premium Colombian coffee to a different clientele (see **Appendix 6**).

Through big supermarkets, Procafecol distributed Juan Valdez® coffee so that consumers could have this product in their home or office without having to go to a Juan Valdez® shop. This business line was active internationally in supermarkets in 17 countries, and nationally in chain stores as Carulla and Exito.[5]

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3 This company belongs to the National Federation of Coffee Growers.

4 Coffee vocation is the classification given to parchment and / or exalted according to customer requirements and / or market. (Almacafé, 2015)

5 http://www.federaciondecafeteros.org/algrano-fnc-es/index.php/comments/juan_valdez_cafe_la_marca_icono_del_cafe_premium_de_colombia_cumple_10_anos/

The embedded marketing utilized by Juan Valdez® was responsible for consolidating and increasing the partnerships the brand had with hotels, cafes, and restaurants where Juan Valdez® products were sold. Additionally, training plans were carried out, and assessment of the quality of service for employees was conducted in order to ensure consistency in the offerings in specialty stores. Such alliances were intended to cover the possibility of coffee consumption by an increasing number of customers in places such as offices and airlines, among others.

Through e-commerce portal, Juan Valdez®[6] directly marketed its products in the United States and China.

Structure of the Juan Valdez® Stores

In 2012 Procafecol had 154 Juan Valdez stores nationwide (70% of the total) and 48 at international locations. And the 81% of stores in the country were located in the city of Bogota.

Juan Valdez® had three types of strategically located stores that were designed in order to attract a different type of clientele and potential demand. The Express Stores were located on islands, shopping centers, office buildings, universities, and hospitals. The Barra Shopping stood at local malls and medium locations. Finally, Shops Terraces placed on high traffic corners with stores that were bigger than the other two situations presented.

According to Director of Retail and International Relations, Maria Paula Moreno, architecturally Juan Valdez® stores had a proposal for warm, comfortable and casual environments showing the identity of Colombian coffee. The environment was made from wood and stone. The Internet service was subject to purchase and was low speed (for photos of the stores see **Appendix 7**).

In order to be able to identify the most adequate properties on which to develop a Juan Valdez® store, Procafecol carried out a feasibility research that was based on parameters such as pedestrian flow, capture rate, and the median capture of the surrounding businesses, among many others. When it was time to negotiate the lease terms for a Juan Valdez® shop, the real estate team was in charge of doing it, using "the figure of a guaranteed plus a variable minimum percentage of sales, which generally was 10%". (Moreno, 2015).

According to Moreno (2015), most of the locations of Juan Valdez® cafes were strategic. According to the same source, 20% of the premises were prime locations (places with bigger audiences, locations in key parts of the city that generated higher sales). Procafecol owned none of the premises and all of them were under the lease model.

6 http://www.juanvaldezcafestore.com.

Keeping in mind that these were not Procafecol owned prime locations, there was a risk that the competition would make a better offer and that Procafecol could not outbid the competitor's proposal. If the competitor decided to buy these premises, they would have to evaluate several factors. For example, the commercial square meter in the Unicentro mall in Bogota (prime location) was thirteen thousand dollars and the Andino shopping center in Bogota, around twenty thousand dollars. On average these stores located in malls had an area of 150 square meters. (Moreno, 2015).

Procafecol S.A. Competing in House

A study developed by Euromonitor International showed that for 2012, Juan Valdez® had several national competitors such as: RestCafe OMA SA, Mc Donalds, roasting Colombian Coffee, Coffee Ser SA, among others. According to this same investigation, Juan Valdez shops had a market share of coffee / bars of 45%, followed by OMA RestCafe stores with 26.9%, making it its biggest competitor.

On the other hand, OMA had 45 years in the domestic market and had 250 stores (Gomez, 2015) located in strategic points that Juan Valdez® did not count on, places such as clinics, ports, theaters, business streets, and supermarkets (Coffee OMA, 2015).

By analyzing the financial statements of OMA and Juan Valdez® (**Appendix 8 and 9**), we can see that Juan Valdez® sales levels outweigh OMA. However, OMA's average sales growth from 2009 to 2013 was 26.48% compared to an average sales increase of Juan Valdez of 16.16% in the same year period. On the other hand, Juan Valdez® average cost of sales were 41.22% over shop sales, compared with OMA that had an average cost sale of 44.78% for the period analyzed.

By reviewing some industry statistics it can be noticed that after 10 years of operation, the company achieved Juan Valdez® brand indicator through positioning and participating in the Colombian market with a 44.2% compared to a 16.8% from coffee Aguila Roja and 11.7% from OMA RestCafe.

Starbucks Conquering the Colombian market.

Starbucks was an international coffee chain that had started activities in the year 1971 in Pike Place, Seattle. This company had 19,767 stores worldwide when announcing his entry to the Colombian market[7].

7 http://www.starbucks.com/about-us/company-information.

Among the differentiating strategies that Starbucks developed, there was a particular one called the *"third place"* [8]. for its customers. Therefore, it had comfortable places, for serenity and provided an opportunity for relaxation. In these stores consumers could do work, study or socialize, making it one of the main strategies of Starbucks (coffee franchises, 2015). In order to make the stores attractive and that went beyond the mere setting, Starbucks also implemented as a strategy, "constant customer service", from the moment the customer stepped in till the moment the customer stepped out (coffee franchises, 2015). Also, Starbucks had constant innovation in its products and homogenization, which allowed customers to have the same options in a variety of coffee shops.

Figure 4. Logo Starbucks. http://www.starbucks.com/

The environment used by Starbucks stores compared to the Juan Valdez ® stores, showed that the latter was at a disadvantage because Starbucks stores had comfortable chairs that allowed the customer to have long stays, free WiFi that Juan Valdez just allowed when a purchase was registered and after that showed weaknesses in speed. Moreover, some international Starbucks stores had 24 hours service and this was not a proposal in Colombia (see **Appendix 10**).

As a strategy to enter this country in 2008 Starbucks had gradually come into the local market. One of the first decisions was to make Colombia one of its main suppliers of raw materials through the creation of four production plants, two of soluble coffee and two of roasted coffee. On the other hand, Starbucks implemented the Coffee Farmer Support Center, a joint program with the National Federation of Coffee Growers to promote research (El Colombiano, 2013)[9].

Due to the fact that the coffee industry in Colombia was relatively small, Starbucks' decision of entering the Colombian market was known by different coffee companies in mid August 2012. Rumors said that Starbucks would come in July 2014 through a partnership between the Mexican company Alsea that would be responsible for opening the stores in Colombia and the Colombian company Nutresa that would be responsible for supplying coffee to the coffee shops. The only condition of entry for this company was to sell 100% Colombian coffee in order to increase the income of farmers.

Thinking about the Strategy

On the morning of September 7, 2012 Procafecol Board of directors met to come up with strategies that could protect the company against this big competitor. The options that emerged during the day were: capitalize the company through an IPO (Initial Public Offering), acquire RestCafe OMA, buy a bakery and produce their own pastries, get a roasting machine, buy the land where they had their shops or redesign them. After a week of work and taking into account

8 The place where everyone goes after home and work.

9 http://www.dinero.com/empresas/articulo/tiendas-cafe-colombia-juan-valdez-starbucks-oma/198725

the importance, reputation and international coverage of Starbucks, the board of Procafecol wondered which of the above strategies or a combination of them was the most convenient. While there were 21 months remaining before the entry of its competitor, each option entailed finding resources and an implementation phase, so the final and justified decision had to be ready as soon as possible.

Appendices

Appendix 1. Structure Procafecol S.A.

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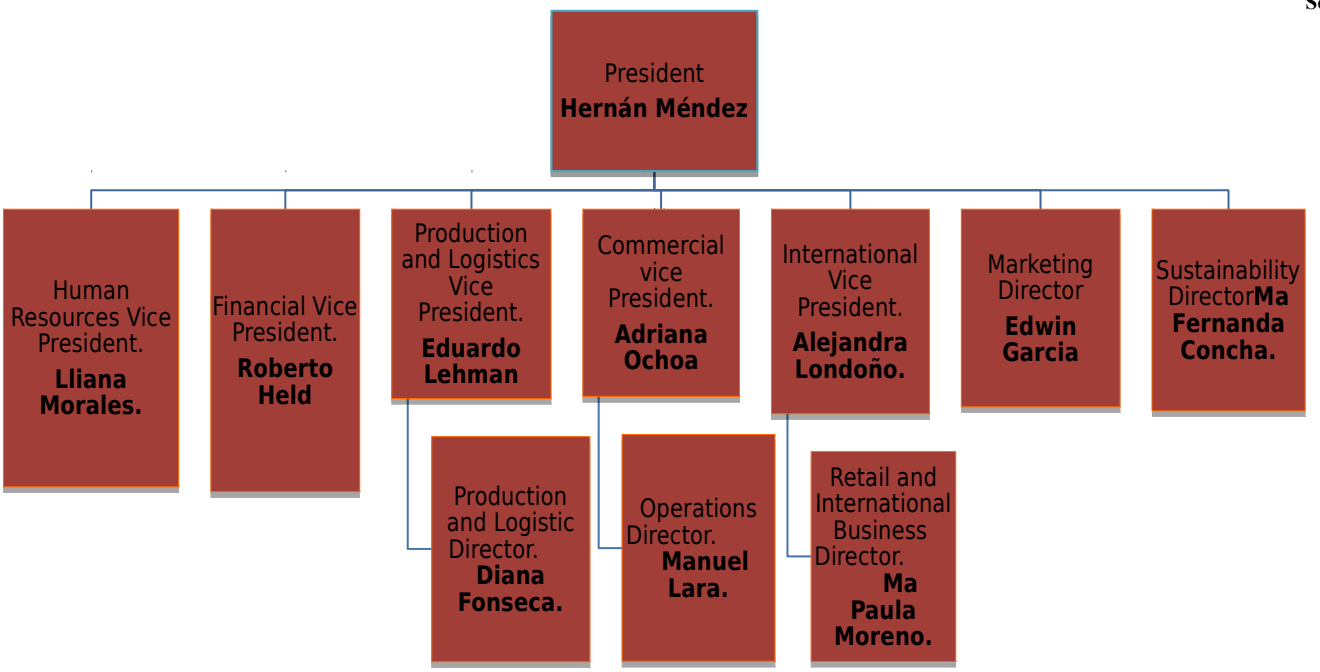

urce: Information provided by Procafecol SA http://www.juanvaldezcafe.com/es/accionistas/informes-de-gestion.

Appendix 2. Drink hot or cold Juan Valdez's store.

Figure 5. Images taken from http://www.juanvaldezcafe.com/

Appendix 3. Pastry Shops Juan Valdez

Figure 6. Images taken from http://www.juanvaldezcafe.com/

Appendix 4. Juan Valdez coffee packed.

Figure 7. Images taken from http://www.juanvaldezcafe.com/

Appendix 5. Juan Valdez Accessories

Figure 8. Images taken from http://www.juanvaldezcafe.com Images /

Appendix 6. Shops in other countries.

Figure 9. Images Supplied by Procafecol

Appendix 7. Juan Valdez shops Atmosphere.

Figure 10. Images supplied by Procafecol

Figure 11. Images supplied by Procafecol

Figure 12. Images supplied by Procafecol

Figure 13. Images supplied by Procafecol

Appendix 8. OMA's Financial Statements.

	Values in Millions of Pesos COP				
	2009	2010	2011	2012	2013
Cash	$768.00	$1,062.00	$4,536.00	$2,074.00	$7,691.00
Investment	$322.00	$457.00	$0.00	$0.00	$1,531.00
Account Receivable	$768.00	$528.00	$5,318.00	$10,429.00	$7,798.00
Inventory	$945.00	$1,139.00	$3,455.00	$3,478.00	$3,651.00
Deferred Assets	$113.00	$377.00	$1,517.00	$2,342.00	$596.00
Total Current Asset	**$2,915.00**	**$3,565.00**	**$14,826.00**	**$18,324.00**	**$21,267.00**
Long Term Investment	$31.00	$0.00	$0.00	$0.00	$0.00
Long Term Account Receivable	$0.00	$0.00	$0.00	$0.00	$6,308.00
Property, plant and Equipment	$923.00	$2,816.00	$3,052.00	$6,433.00	$10,148.00
Intangibles	$7,288.00	$4,293.00	$41,654.00	$36,880.00	$33,025.00
Long Term Deferred Assets	$150.00	$0.00	$0.00	$0.00	$3,085.00
Valorizations	$5,636.00	$5,291.00	$6,253.00	$6,421.00	$6,421.00
Total Long Term Assets	**$14,028.00**	**$12,401.00**	**$50,959.00**	**$49,734.00**	**$58,987.00**
Total Assets	**$16,943.00**	**$15,965.00**	**$65,785.00**	**$68,057.00**	**$80,253.00**
Financial Obligations	$1,763.00	$1,310.00	$2,608.00	$18,733.00	$5,628.00
Suppliers	$2,273.00	$2,223.00	$3,383.00	$3,062.00	$4,302.00
Accounts Payable.	$766.00	$1,204.00	$1,908.00	$2,952.00	$3,742.00
Tax Payable.	$716.00	$770.00	$1,512.00	$1,642.00	$1,372.00
Wages Payable.	$760.00	$808.00	$1,034.00	$1,284.00	$1,545.00
Estimated Liabilities.	$348.00	$669.00	$598.00	$1,106.00	$1,647.00
Deferred Liabilities		$0.00	$452.00	$917.00	
Other liabilities	$169.00	$157.00	$182.00	$338.00	$318.00
Total current liabilities	**$6,796.00**	**$7,142.00**	**$11,676.00**	**$30,034.00**	**$18,554.00**
Long term financial obligations	$3,126.00	$1,601.00	$16,572.00	$0.00	$21,350.00
Long term deferred liabilities	$0.00	$0.00	$0.00	$0.00	$1,382.00
Total Long Term Liabilities	**$3,126.00**	**$1,601.00**	**$16,572.00**	**$0.00**	**$22,732.00**
Total Liabilities	**$9,921.00**	**$8,743.00**	**$28,247.00**	**$30,034.00**	**$41,285.00**
Social capital	$591.00	$591.00	$21,320.00	$21,320.00	$21,320.00

Surplus	$0.00	$0.00	$16,843.00	$16,843.00	$16,843.00
Reserves	$118.00	$173.00	$0.00	$0.00	$32.00
Surplus Equity	$1.00	$1.00	$0.00	$0.00	$0.00
Net profit	$549.00	$545.00	-$626.00	$317.00	$944.00
Last net profit	$127.00	$621.00	$0.00	-$626.00	-$340.00
Valorization´s surplus	$5,636.00	$5,291.00	$0.00	$168.00	$168.00
Total Equity	**$7,022.00**	**$7,222.00**	**$37,538.00**	**$38,024.00**	**$38,968.00**
Total liabilities and Equity	**$16,943.00**	**$15,965.00**	**$65,785.00**	**$68,057.00**	**$80,253.00**

Table 1. Financial Statements OMA.

	Values in Millions of Pesos COP				
Income Statement	**2009**	**2010**	**2011**	**2012**	**2013**
Sales	$ 44,012	$ 48,399	$ 81,142	$ 90,927	$ 105,701
Cost of sales	$ 18,462	$ 20,653	$ 42,465	$ 40,601	$ 44,682
Gross profit	**$ 25,551**	**$ 27,745**	**$ 38,677**	**$ 50,326**	**$ 61,019**
Administration Expenses	$ 2,916	$ 2,507	$ 4,037	$ 6,479	$ 7,351
Sales expenses.	$ 21,453	$ 23,680	$ 30,583	$ 41,614	$ 52,519
Operating Profit	**$ 1,182**	**$ 1,559**	**$ 4,057**	**$ 2,234**	**$ 1,149**
Non-operating income	$ 1,267	$ 782	$ 1,536	$ 2,535	$ 2,947
Non-operating expenses	$ 1,654	$ 1,305	$ 5,734	$ 3,601	$ 2,506
Financial	$ 924	$ 445	$ 1,039	$ 1,473	$ 1,504
Before Tax Profit	**$ 795**	**$ 1,036**	**-$ 141**	**$ 1,167**	**$ 1,591**
Taxes	$ 245	$ 491	$ 484	$ 850	$ 647
Net Profit	**$ 549**	**$ 545**	**-$ 626**	**$ 317**	**$ 944**

Table 2. Information taken from http://www.portafolio.co/empresassectores/empresas/home/empresa.php?ide=3907337

Appendix 9. Financial Statements Juan Valdez.

Assets (in Millons of COP)					
Current Assets	**2,009**	**2,010**	**2,011**	**2,012**	**2,013**
Cash	$ 1,457.35	$ 1,463.50	$ 1,766.07	$ 3,425.27	$ 1,939.49
Investment	$ 3.76	$ 2,798.47	$ 714.28	$ 670.15	$ 3,624.12
Account Receivable	$ 32,595.12	$ 5,453.07	$ 8,779.40	$ 11,620.69	$ 12,055.93
Inventory	$ 6,353.15	$ 5,725.75	$ 7,601.88	$ 8,239.17	$ 9,056.06
Deferred Assets	$ 62.89	$ 548.22	$ 414.55	$ 1,273.31	$ 739.26
Total Current Assets	**$ 40,472.27**	**$ 15,989.01**	**$ 19,276.18**	**$ 25,228.59**	**$ 27,414.86**
Long term Investment	$ 12,021.91	$ 10,651.11	$ 9,902.96	$ 9,092.33	$ 9,963.91
Long Term Account Receivable.	$ 44,903.47	$ 66,662.39	$ 59,042.53	$ 50,891.93	$ 45,739.76
Property, plant and Equipment	$ 12,778.70	$ 12,600.47	$ 12,017.18	$ 12,648.49	$ 19,448.64
Cost of property, plant and equipment.	$ 18,837.14	$ 20,507.62	$ 21,425.47	$ 23,202.41	$ 33,862.73
Accumulate Depreciation.	-$ 6,058.44	-$ 7,907.15	-$ 9,408.29	-$ 10,553.92	-$ 14,414.09
Intangibles	$ 10,224.37	$ 5,121.01	$ 2,973.14	$ 2,637.45	$ 931.87
Long Term Deferred Assets	$ 7,486.00	$ 4,469.38	$ 3,033.29	$ 3,760.19	$ 5,741.18
Valorizations	-$ 5,745.34	-$ 5,447.09	-$ 5,805.69	-$ 4,265.41	-$ 4,516.43
Long Term Assets	**$ 81,669.11**	**$ 94,057.27**	**$ 81,163.41**	**$ 74,764.98**	**$ 77,308.93**
Total Assets	**$ 122,141.38**	**$ 110,046.28**	**$ 100,439.59**	**$ 99,993.57**	**$ 104,723.79**
Current Liabilities	**2,009**	**2,010**	**2,011**	**2,012**	**2,013**
Financial Obligations	$ 15,294.25	$ 6,109.80	$ 5,976.54	$ 5,718.95	$ 5,030.11
Suppliers	$ 3,776.54	$ 2,995.53	$ 3,645.81	$ 4,960.36	$ 5,593.81
Account Payable	$ 4,293.04	$ 4,282.82	$ 4,982.99	$ 5,290.47	$ 7,571.61
Tax Payable	$ 740.10	$ 702.74	$ 530.98	$ 1,247.74	$ 803.46
Wages Payable.	$ 543.82	$ 626.58	$ 792.54	$ 845.58	$ 1,093.91
Estimated Liabilities	$ 2,388.08	$ 3,826.47	$ 4,403.33	$ 5,186.56	$ 8,994.30
Deferred Liabilities	$ 13.50	$ 15.14	$ 11.61	$ 48.09	$ 42.18
Others Liabilities	$ 1.58	$ 4.47	$ 73.95	$ 279.10	$ 457.87

Total Current Liabilities	**$ 27,050.91**	**$ 18,563.55**	**$ 20,417.75**	**$ 23,576.85**	**$ 29,587.25**
Long Term Financial Obligations	$ 24,640.03	$ 39,886.39	$ 32,689.35	$ 26,314.09	$ 20,738.34
Total Long Term Liabilities	**$ 24,640.03**	**$ 39,886.39**	**$ 32,689.35**	**$ 26,314.09**	**$ 20,738.34**
Total Liabilities	**$ 51,690.94**	**$ 58,449.94**	**$ 53,107.10**	**$ 49,890.94**	**$ 50,325.59**
Social Capital	$ 87,938.48	$ 87,938.48	$ 87,938.48	$ 87,938.48	$ 87,938.48
Surplus Capital	$ 35,477.35	$ 35,475.28	$ 35,619.96	$ 35,477.81	$ 35,514.92
Reserves	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Surplus Equity	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Profit	-$ 12,760.12	-$ 19,150.25	-$ 4,049.97	$ 1,372.00	$ 4,509.48
Last Net profit	-$ 34,459.93	-$ 47,220.05	-$ 66,370.29	-$ 70,420.25	-$ 69,048.24
Surplus de valorizations	-$ 5,745.34	-$ 5,447.12	-$ 5,805.69	-$ 4,265.41	-$ 4,516.44
Total Equity	**$ 70,450.44**	**$ 51,596.34**	**$ 47,332.49**	**$ 50,102.63**	**$ 54,398.20**
Total Liabilities and Equitty	**$ 122,141.38**	**$ 110,046.28**	**$ 100,439.59**	**$ 99,993.57**	**$ 104,723.79**

Table 3. Pyg Juan Valdez. Taken from: Superintendencia Financiera de Colombia.

Income Statement	**In millions of COP**				
	2,009	**2,010**	**2,011**	**2,012**	**2,013**
Sales	$78,438.89	$85,998.35	$104,101.39	$119,566.21	$142,376.52
Cost of Sales	$33,939.92	$34,828.02	$43,803.02	$48,814.25	$56,164.07
Gross Profit	**$44,498.97**	**$51,170.33**	**$60,298.37**	**$70,751.96**	**$86,212.45**
Adminitration Expenses	$12,762.25	$24,000.57	$15,762.09	$15,627.84	$18,633.48
Sales Expenses	$38,110.69	$38,506.08	$42,096.12	$47,729.62	$58,703.42
Operating Profit.	**-$6,373.97**	**-$11,336.32**	**$2,440.16**	**$7,394.50**	**$8,875.55**
Non operational income	$4,307.41	$1,520.57	$1,420.20	$2,188.45	$3,433.45
Non operational Expenses	$9,953.46	$8,631.76	$7,379.35	$7,658.89	$6,081.68
Financial	$8,602.09	$6,664.83	$5,331.13	$5,646.63	$3,928.77
Other Expenses	$1,351.37	$1,966.93	$2,048.22	$2,012.26	$2,152.91
Before Tax Profit	**-$12,020.02**	**-$18,447.51**	**-$3,518.99**	**$1,924.06**	**$6,227.32**
Taxes	$740.10	$702.74	$530.98	$552.06	$1,717.84

Table 4. Income Statement Juan Valdez. Taken from: Superintendencia Financiera de Colombia.http://www.juanvaldezcafe.com/es/accionistas/informes-de-gestion.

Appendix 10. Starbucks Stores´ Atmosphere

Figure 14. Taken from http://www.businessreviewamericalatina.com/ Images

Figure 15. Images taken from terra economy

Figure 16. Images taken from www.stilo.com.mx

Figure 17. Images taken from http://www.excelsior.com.mx/

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Juan Valdez®: A Traditional Colombian Company Facing an International Giant

Teaching Notes

Case Summary

The case shows Procafecol Company SA, a Colombian company dedicated to the administration of the Juan Valdez brand. In 2012, when the company had about 10 years on the market, it learned that the multinational Starbucks which is one of the largest sellers of coffee worldwide was going to enter the Colombian market. Therefore, the board of directors of Procafecol SA decided to draw up strategies to help cope with the arrival of this new competitor, without losing positioning and participation in the Colombian market. The aim of this exercise is to get students to think about and analyze strategies that a local company can perform in order to face competition from one of its major international rivals.

General topic

Strategic Planning

Specific topics

• To come up with strategies that help maintain the positioning and participation in the domestic market.

• To implement tools for the analysis of strategies such as SWOT, GE and McKinsey-SPACE matrices.

• Financial statement analysis.

Learning Objectives

General

To create and analyze strategies that a local company could perform when facing competition from a major international rival.

Specific

Analytical

• To propose strategies that may be useful to a company that is facing international competition.

• To establish and study the advantages and disadvantages of each strategy proposed.

• To analyze the availability of resources of all kinds to make business decisions.

• To determine the feasibility of the proposed strategies to face competition.

Conceptual

• To understand the operation of the FODA matrix in making business decisions.

• To use the McKinsey-GE matrix in order to evaluate each of the available opportunities that the company has.

• To identify through the SPACE matrix some strategies about the competitive position of the local company.

Activities

Preparation before class

It is recommended that the student has read the case in detail and reviewed the following material for the day of discussion:

• Gallardo, J. R. (2012). Administracion Estrategica de la Visión a la ejecución. En J. R. Gallardo, Capitulo 5, Planeacion Estrategica: La sintesis (pág. 133). Mexico: Alfaguara.

Also you must have clear the following concepts:

• FODA Matrix

• McKinseY-Ge Matrix

• Space Matrix

Finally, the student must answer suggested questions 1, 2, and 3.

Meeting in small groups

In groups of up to four people, randomly selected, students will discuss responses to the suggested questions in the previous section and also answer questions 4, 5 and 6 in approximately 30 minutes.

Each group will be assigned one or two strategies to analyze them through FODA, McKinsey-Ge or Space matrices. They will also study the financial statements provided in the case (30 minutes).

Plenary

The entire class will meet for an hour and the strategies proposed by the Board of Directors and other strategies that could have arisen from the discussion in small groups will be analyzed. It will conclude with suggested questions 13, 14 and 15.

Suggested questions

1. What was Procafecol S.A. and what was its relationship with the brand Juan Valdez?
2. What does the brand Juan Valdez represent in Colombia and which were its main competitors?
3. What do you think was the main threat to Juan Valdez with the entry of Starbucks in Colombia?
4. What are the benefits and risks the location of Juan Valdez stores posed? How could have Starbucks used this fact to its advantage?
5. What differentiating factors did Starbucks have in their stores so their admission to Colombia had a high impact on the market?
6. What strategies did Procafecol SA propose to face competition from Starbucks?, do you think that there is some other option (use the analysis matrices for Procafecol SA)?
7. What do you think were the internal and external factors that influenced the decision to purchase the confectionery? Do you think that buying a bakery was the ideal course of action adopted by Juan Valdez? YES/NO… Why?
8. According to the analysis of financial statements of RestCafe OMA, what advantages do you see in the strategy of buying RestCafe OMA? Do you think buying this was the best strategy to deal with competition? Justify your answer.
9. What benefits and what risks did you observe when analyzing the strategy of buying the prime locations of Juan Valdez?
10. In analyzing the strategy of buying the roasting, why do you think this strategy was the best option for Juan Valdez?
11. In reading the case and observing the images provided in it, what aspects of the design of the stores do you think it was necessary to modify? With the arrival of Starbucks, was the redesign of the shops a viable strategy to maintain market position? Justify your answer.
12. In analyzing the financial statements of the company, how do you think the capitalization through an IPO (Initial Public Offering) would give Juan Valdez the necessary tools to face competition?
13. What are the implications of the Procafecol´s making decisions structure on each of the strategies?
14. Based on the strategies raised by the Board of Procafecol S.A. and those arising from additional groups, what combination thereof could have been raised to reduce the risk of losing market position?
15. After analysis of the case and each of the strategies that were raised, what strategy should Procafecol choose? What should have been the sources of funding the best strategy (ies)?

Analysis

Procafecol S.A. was a Colombian company created in 2002 by the National Federation of Coffee Growers in order to manage Juan Valdez shops, which in turn was a brand created by the National Federation of Coffee Growers to publicize Colombian coffee in the world . During the ten years of market share, Juan Valdez ® was known nationally and internationally as the brand of Colombian coffee growers.

In 2012, Procafecol S.A. had a share in the domestic market of 45%, followed by OMA RestCafe stores with 26.9% which by that time was the biggest competitor of Juan Valdez stores. Other competitors included Mc Donald´s Coffee Shops, Tostion Colombian Coffee and Ser Café S.A.

Due to Starbucks entry to the Colombian market, Procafecol S.A. was threatened to lose positioning. Juan Valdez ® would start competing locally with the world´s biggest coffee shop.

One of the biggest risks that Procafecol S.A. identified was that the prime locations were rented. Furthermore, the pastry offered in their stores was not homogeneous, and the service and facilities offered were not the most appropriate to make these places the "third place".

Juan Valdez stores were located in key locations for the industry. These locations were strategic for selling coffee products. Given its benefits, Starbucks could offer higher prices to lease or even buy these stores. If Juan Valdez would have bought these shops before Starbucks, it could block the entry of the latter to sites with high influx of customers.

Moreover, Starbucks, a US company, was originated in 1971 in the city of Pike Place, Seattle. It had in 2012 19,767 stores worldwide. Among the differentiating strategies that implemented this international company was to be the "third place" for their customers, so they had comfortable places for serenity, relaxation, where consumers could go to work, study or socializing. Additionally, Starbucks was implementing a strategy of customer care since she/he entered until leaving the shops. Moreover, he had constant innovation in its products and homogenization of them in its stores worldwide.

In order to be prepared for the entering of Starbucks to the Colombian market, the board of Directors of Procafecol S.A. raised a number of strategies within which were: the purchase of a bakery, acquisition of RestCafe OMA, buying prime locations, obtaining its own roasting, redesigning facilities or access to the capital markets through an IPO (Initial Public Offering). The analysis of each option through the study of matrices is as follows:

1. **Purchase a pastry**

Purchase a Pastry	
External Factors	
Opportunities	**Threats**
If, Juan Valdez ® bought the bakery, it had the freedom to choose suppliers of inputs and raw materials that offered better prices and quality for making pastries.	Existence of competitors with more experience in the bakery business.
The business became more horizontal, not only increasing production but also	To find stores that were willing to be acquired by Juan Valdez ®

diversifying the portfolio.	
The pastry could have strategic locations that would become Juan Valdez's property.	
Internal Factors	
Strengths	**Weaknesses**
It could offer greater variety in baked goods.	This was one of the strategies to be implemented but it did not fully mitigate the risk of loss of market share.
It could totally control the delivery time, quality assurance and Juan Valdez would be more authentic and original.	It was hard to find a bakery that met the conditions Juan Valdez required such as authenticity and high quality products, times and points of delivery and production capacity.
Higher contribution margin.	Overruns by hiring and training staff.
	Greater investment in advertising and marketing to link the brand of pastry with Juan Valdez.

The purchase of a bakery was needed to increase the diversity of pastry products and homogenize national production shops, but in turn this would bring greater cost overruns because they had to invest in employee training, and the acquisition of a new business. Moreover, the homogenization and greater variety of bakery products was not an option to completely solve the risk of losing market share.

2. Purchase RestCafe OMA.

The strategy of buying RestCafe OMA stores by Juan Valdez aimed to eliminate the possibility that Starbucks would acquire these locations as a vehicle to enter into the Colombian market, because by buying this company Starbucks would have obtained a big number of stores and this would have given them great market coverage.

Buying RestCafe OMA was not the best strategy because the debt level of the company was very high. Analysis of the financial statements showed that Juan Valdez did not have the budget to buy the company. This purchase does not appear to be the best strategy to compete against Starbucks because by acquiring RestCafe OMA not only the brand and the

locations were obtained, but also the debts and the staff, so it would take more time and more money to turn it into a profitable strategy.

3. Purchase of strategic locations.

The benefit of this option was to leave Starbucks without the ability to offer a higher price to the lessor, whether to take these same premises to rent or buy, so Juan Valdez ensured the prime locations.

On the other hand buying these locations required 279 billion pesos approximately, money that needed to be acquired through a loan abroad because Juan Valdez did not have the cash for such purchases according to the financial analysis. However, the purchase of these premises did not decrease the risk of losing market position to the arrival of Starbucks.

4. To acquire roasting machinery.

External Factors	
Opportunities	**Threats**
To undertake a leasing process for purchasing machinery.	More experienced competitors
The coffee roasting industry was under development.	Influence of the National Federation of Coffee Growers in taking decisions
Due to trade agreements, it had a reduction in tariff costs for purchase machinery.	To find land that met the conditions for installing the production plant
Internal Factors	
Strengths	**Weaknesses**
Reduction in production times and packaging coffee times.	Not have the capital for investment
To reduce production Costs.	Higher costs for employee training
Production increase.	Lack of experience in the processes of coffee roasting
More consistent quality control	Vertical investment

Buying the roasting plant was a "vertical" investment that could increase production, but the increase on coffee production was not the problem at the moment and if carried out could lead the company to money loss. Besides acquiring a roasting plant needed trained staff and this would generate a cost to Procafecol SA.

5. Redesign Stores

By looking at the pictures we can conclude that the store design was good, but did not have the ideal look for customers to remain on the premises. Furthermore, the low-speed Internet service discouraged customers, making their stays very short.

Through the redesign of the shops, Juan Valdez wanted to educate consumers about the origins and modes of preparation of coffee so the client could see the difference between types of coffee. This generated differentiation of Juan Valdez over other Colombian coffee sellers.

Moreover Juan Valdez could expand the supply portfolio of food and consumption choices through partnerships, coupled with the possibility of a more elegant look to stores through new colors, designs, and a renovated environment.

Similarly, Juan Valdez could have taken risks such as the closure of the shops to make renovations. Expansion of the portfolio could have an effect of "cannibalization"[10] of other bakery products featuring the shop. Also, if Procafecol S.A. would invest in remodeling national shops, it will limited it investment scope abroad "Flagship"[11]. Furthermore, investing in store remodeling will reduce the amount of money dedicated to marketing.

6. Capitalization of the company through an IPO.

Among the advantages obtained by carrying out this strategy was the possibility to buy the real estate where the stores were placed, as these were not their own; in addition to opening new stores and equipping them with everything needed for its operation.

Moreover, with an IPO Colombian investors could have had a fraction of Juan Valdez, which would generate a stronger link between ordinary people and the brand, as Juan Valdez had a high value in terms of national pride. However,

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10 When a company takes out a new product or service for sale and it takes away the costumers to the original product or service

11 These are stores that are installed in the most emblematic of foreign cities that are identified as being flashy.

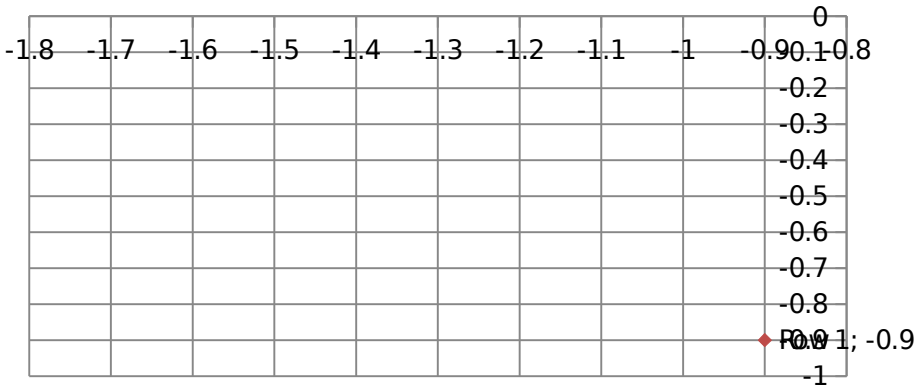
the ownership structure of Juan Valdez presented a problem because the FNC and the farmers would have lost control of the company.

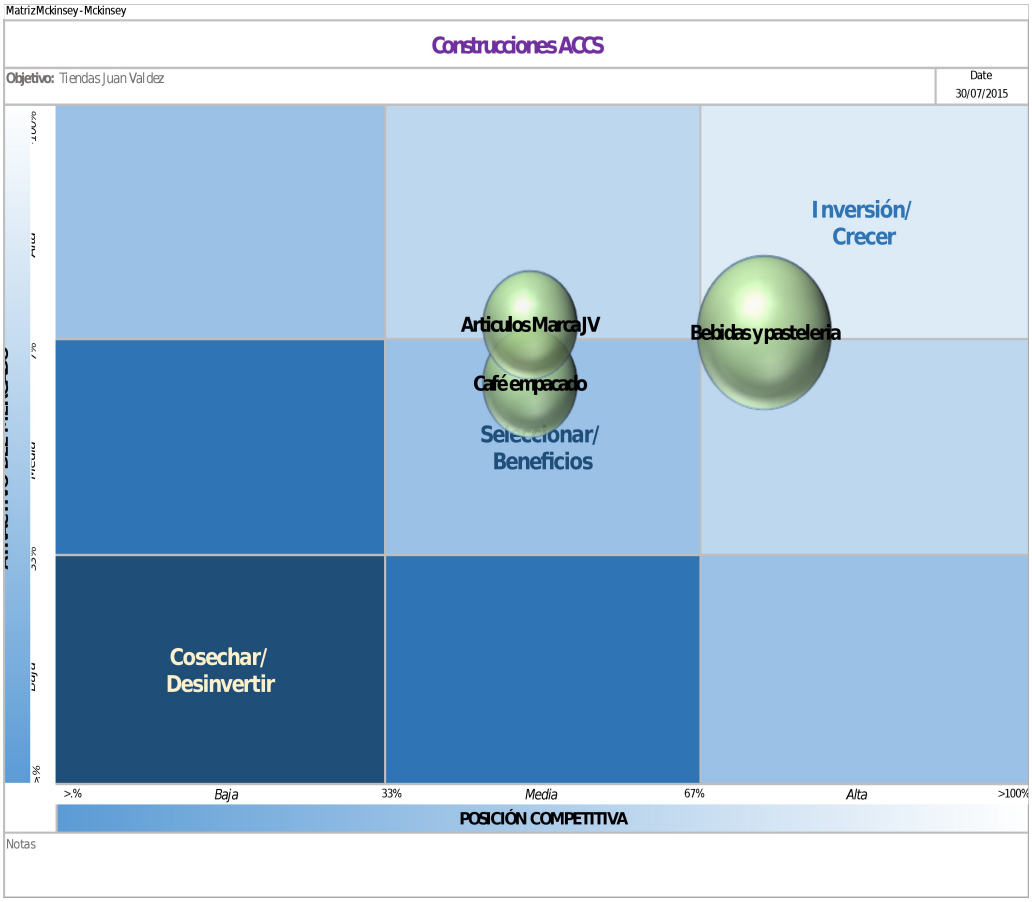
Strategies were complex to perform within the structure of the Board of Procafecol, and President of the Federation could have turned down some strategies since some of them incur loss of capacity for the Federation, or decreased participation of the coffee community, so some strategies were treated with caution.

To conduct a comprehensive analysis of Juan Valdez through arrays, SWOT, SPACE-GE and McKinsey, we obtain the following conclusions:

SWOT analysis of Juan Valdez®	
Strengths	**Weaknesses**
Brand positioning.	Lose of prime/strategic locations.
Coffee consumption worldwide.	Lose of workers.
Colombian coffee is positioned as one of the best in the world.	Outsourcing of the bakery and roasting.
The coffee industry is one of the most important in Colombia and one of the generating assets to the government.	Shops where not comfortable enough to establish other activities.
The coffee harvesting process is continuous throughout the year in Colombia.	Little general public knowledge about the characteristics of Colombian coffee.
Solidly structured company and supported by the National Federation of Coffee.	
Oportunities.	**Threats.**
Alliances with international chains such as Falabella, Latin Café group and others.	Competition starts in Colombia.
Expansion of the brand in foreign markets (US, Spain, Ecuador, Chile, etc.)	Low barriers to entry for foreign competitors.
FTA between Colombia and several countries (new markets for venture)	Low availability of resources to invest.
	Easy access to competitive raw materials.
	Threat of substitute products.

Space Matrix





In conducting the analysis of the three matrices, Juan Valdez had to take a defensive strategy to protect the entrance of new competition. Also, it should invest in products it already had, so it was important to develop a strategy that could improve their participation market and generate a stronger bond between the company and its clients.

Among the strategies that may have been raised was the reception of foreign investment and carry out a process of aggressive advertising to generate expectations in the Colombian community. Through these strategies the company could have leveraged these resources and created a stronger link with the customer.

Finally after a detailed analysis of the strategies generated by Procafecol S.A. and some additional ideas, we conclude that the best decision would be that of receiving foreign investment to buy prime locations and redesign stores through strategic alliances to make them more appealing to customers.

Epilogue

In late 2012, the board of Procafecol SA decided to invest in redesigning its stores, seeking to create an experience of comfort and cultural identity with the Colombian coffee offered in a Juan Valdez coffee shop. To achieve this objective the *Origins Stores* (see **Appendix 1**), located in the largest and most visited premises were modified internally and externally. Besides tasting tables and methods of preparation, coffee landscapes and additional items of decoration were included. (Moreno, 2015)

The first *Origins* store opened in November 2013, located in the G Zone in Bogota[12]. In it, the bakery, the music and the added terraces created likeness of the Colombian territory. Tasting tables and preparation methods were intended to educate consumers about the differences between each cup of coffee depending on its origin. Likewise, an alliance with two renowned chefs, the Rausch brothers, improved the menu by adding pastries and side dishes such as different options of sandwiches, corn tortillas, salads, among others.

Another change was the creation of Juan Valdez coffee experience, including a suitable environment for reading, working, studying, having work meetings or informal meetings. To achieve the right atmosphere in both *Origins* stores and other stores, chairs and tables were replaced with more comfortable booths that allow the customer to find a place to spend several hours peacefully; Wi-Fi networks were improved so that a more personalized and friendly service was provided by the staff of Juan Valdez (see **Appendix 2**).

12 It is an exclusive area north Bogota city.

According to Maria Paula Moreno, Director of International Relations of Procafecol SA, the idea was always to keep the Colombian identity above all else. The stores migrated to the world of education methods turning the Barista into a Coffee Sommelier and implementing what is known as the "*Third Wave*"[13] of coffee shops. Juan Valdez was clearly the only brand on the market that could capitalize on the opportunity to generate an experience "from tree to cup" exalting the origins of Colombian coffee.

Appendices

Appendix 1

Figure 1. Images supplied by Procafecol SA.

Appendix 2

13 It refers to producing high quality coffee and consider it as an artisanal product, rather than a commodity

Figure 2. Images supplied by Procafecol SA