

Profits from Tea and Coffee Sales

Unit: Preparing Foods

Problem Area: Beverages

Lesson: Profits from Tea and Coffee Sales

- **Student Learning Objectives.** Instruction in this lesson should result in students achieving the following objectives:

- 1 Explain the financial impact of coffee and tea sales on profits.
- 2 Explain the financial impact of emerging coffee and tea markets on profits.

- **Resources.** The following resources may be useful in teaching this lesson:

E-unit(s) corresponding to this lesson plan. CAERT, Inc. <http://www.mycaert.com>.

Brown, Douglas R., Elizabeth Godsmark, and Lora Arduser. *How to Open a Financially Successful Coffee, Espresso, & Tea Shop* (Kindle edition). Atlantic, 2009.

“Coffee Shop 2012,” SBDCNet. Accessed Sept. 27, 2013. <http://www.sbdnet.org/small-business-research-reports/coffee-shop-2012>.

“Coffee, Tea Brew Up \$18 Billion in Sales,” *Food Product Design*. Accessed Sept. 27, 2013. <http://www.foodproductdesign.com/news/2012/03/coffee-tea-brew-up-18-billion-in-sales.aspx>.

Perry, Greg. *How to Make Maximum Money with Your Coffee Shop—Skyrocket Profits, Increase Customers, and Work Less* (Kindle edition). MakeRight, 2011.

Richardson, John, and Hugh Gilmartin (contributor). *Wake Up and Smell the Profit: 52 Guaranteed Ways to Make More Money in Your Coffee Business*. How to Books, 2009.

Starr, John W. “Coffee Profitability: The Genesis of Profit Calculators,” *tea & coffee*. Accessed Sept. 27, 2013. <http://www.teandcoffee.net/0204/retail.htm>.



■ **Equipment, Tools, Supplies, and Facilities**

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with printers and Internet access
- ✓ Classroom resource and reference materials

■ **Key Terms.** The following terms are presented in this lesson (shown in bold italics):

- ▶ ancillary products
- ▶ barista
- ▶ beverage cost
- ▶ beverage cost percentage
- ▶ bottom line
- ▶ café au lait
- ▶ caffè latte
- ▶ caffè macchiato
- ▶ cappuccino
- ▶ chai tea
- ▶ coffee
- ▶ contribution margin
- ▶ decaffeinated beverages
- ▶ espresso
- ▶ gourmet coffees
- ▶ gourmet teas
- ▶ market
- ▶ profit
- ▶ single-serve
- ▶ specialty cocktails
- ▶ sweet tea
- ▶ tea

■ **Interest Approach.** Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

Have three pots of different types of coffee on hand or three types of tea—or coffee and tea. Have condiments and cups available. Do not tell the students this is coming, and do not tell them where you are headed. Just have these beverages (hot or cold) ready when students arrive.

When all students are assembled, tell them what is in the carafes, and ask if anyone wants a cup. Then tell students the prices. Charge them (to raise money for charity), but make your prices cheap (e.g., nickel, dime, and quarter). There must be a variance in price between the types of flavors. Create your own product names to promote one as being better than the next, with prices rising between the types. See who still wants beverages.

Of those who partake, ask how they made their choice. Was it flavor or price? Was it the possibility that one was better than the other based on price? How many students have purchased similar beverages in the past? What did they pay? What do they think is the vendor cost?

What is the major ingredient they actually bought when they purchased the beverage (water)? Was that a good price for water? Why did they spend so much? What is it about the beverage that attracts them, even if it is pricy? How do students think the price of the coffee or tea was set? Do they think the prices you charged today were enough to cover your costs? What do they think your costs (per serving) were?

CONTENT SUMMARY AND TEACHING STRATEGIES

Objective 1: Explain the financial impact of coffee and tea sales on profits.

Anticipated Problem: What is the financial impact of coffee and tea sales on hospitality industry profits?

- I. Financial impact of coffees and teas
 - A. Coffee and tea popularity
 1. **Coffee** is a beverage made from the green or roasted and ground seeds (beans) of an evergreen bush or small tree of the genus *Coffea*. At this writing, approximately 2.5 billion cups of coffee are consumed worldwide each day.
 2. **Tea** is an aromatic beverage prepared from tea leaves (or tea bags) by infusion with boiling water. Tea is the most consumed beverage in the world after water. The British alone consume 60.2 billion “coppers” of tea per year. Tea leaves are a product of an oriental shrub native to China (*Camellia sinensis*).
 - B. Beverage sizes—Starbucks™
 1. Hot beverages
 - a. Short (8 ounces)
 - b. Tall (12 ounces)

- c. Grande (16 ounces)
 - d. Venti (20 ounces; Starbucks has trade-marked this size designation.)
2. Cold beverages
 - a. Tall (12 ounces)
 - b. Grande (16 ounces)
 - c. Venti (24 ounces)
 - d. Trenta (31 ounces; available for iced teas, iced tea lemonades, and iced coffees)
 3. Espresso shots
 - a. Single is one shot of espresso.
 - b. Double is two shots.
 - c. Triple is three shots.
 - d. Quad is four shots.
 4. Espresso drinks (lattes, cappuccinos, and macchiatos)
 - a. Short and tall sizes = one shot
 - b. Grande and hot venti = two shots
 - c. Iced venti = three shots
 5. Americano coffee
 - a. Tall = two shots
 - b. Grande = three shots
 - c. Venti = four shots
 6. Teas: Three types (green, black, and herbal infusions)
 - a. Short = one tea bag
 - b. Tall = one tea bag
 - c. Grande = one tea bag
 - d. Venti = two tea bags
- C. Gourmet coffee and tea sales
1. Last year, combined coffee and tea sales in the United States were \$19 billion, which was a huge portion of the consumer beverage market. Of particular interest is the growth in this market in recent years. Forty percent of 18- to 24-year-old people are now frequent purchasers of coffee and tea products, up 9 percent in the past two years. Further, a recent survey found 75 percent of adults drink coffee, and 58 percent of them drink coffee daily. This large chunk of the U.S. population equates to huge sales.
 - a. Coffee drinkers surpass tea drinkers in the United States, but it is not by much. Recent U.S. statistics indicate that approximately 183 million people are regular coffee drinkers, and 173.5 million people consider themselves regular tea drinkers. The tea drinker number continues to grow, indicating an ongoing potential for huge sales and profits.
 - b. Coffee may outsell tea in the United States for any number of reasons, such as cultural preference, the availability of a larger variety of coffee products, and the higher level of caffeine in coffee compared to tea.

2. Gourmet sales figures of these products are up. This is significant because gourmet beverages sell at a higher price than “regular” coffee and tea products. It suggests that coffee and tea sales are so strong they are resistant to a poor economy. Therefore, people treat themselves to these beverages even when money is tight. While Americans may cut back on dining out, the trend indicates they will still purchase their favorite gourmet beverages. Coffee and tea are considered “staple” beverages for many people. They are consumed daily and multiple times a day. Gourmet varieties or not, people find comfort and satisfaction in these beverages and want ready access to them in virtually every setting.

D. Coffee and tea profits

1. **Profit** is a financial gain; it is the difference in the amount earned over the amount spent. It is the money that remains after all expenses are paid. The ability to turn a profit in the hospitality industry becomes more difficult as expenses rise and people are more cautious about how they spend their money. Moreover, many food items do not provide much profit, even though they are considered the “main sell” of the restaurant. The hospitality industry is well aware that the “hook” for customers might be an item that is loved but not terribly profitable, and the business requires the sale of “supportive” items to keep the cash flowing.
2. Coffee and tea are the quintessential supportive items in the hospitality industry. High-income-generating items are exceptionally popular. Coffee and tea sales are critical to the **bottom line** (the net income or net loss) of restaurants, coffee shops, doughnut shops, fast food operations, and even nonprofit centers (e.g., schools and hospitals). The dollars generated from coffee and tea sales can make the difference between a business making a profit or taking a loss. Few, if any, other items have such a dramatic effect on a business’s bottom line.
3. The **contribution margin** is the difference between the cost of the raw product and the selling price. Items with high contribution margins are critical to reaching profitability in any business. The larger the contribution margin, the more cash remains after beverage (and food) costs have been paid. In the food service industry, many items provide a minimal contribution margin, but beverages consistently provide some of the highest. Generally, the more beverages sold, the more profit. For example, if a tea bag’s cost is \$0.05, and a cup of tea sells for \$1.25, the contribution margin is shown as \$1.20.
4. **Beverage cost percentage** is the actual cost incurred (from the invoice) divided by the actual sales generated (menu price). The formula is beverage (bvg) cost ÷ bvg menu price. As an example of how contribution margin for coffee is portrayed mathematically, consider the purchase of a large coffee at a local fast food restaurant at a cost of \$1.95. The cup holds 24 ounces and requires the use of 2 ounces of coffee grounds at a cost of \$0.50. In this situation:
 - a. $\$0.50 \text{ (bvg cost)} \div \$1.95 \text{ (menu price)} = 0.256$ or 25.6 percent of menu price is used to buy the coffee grounds

- b. Another way to see this is that about 75 percent of the menu price or \$1.45 is the contribution margin. In the food service industry, this is a large contribution margin percentage, particularly when the number of large coffees sold is considered. This data is so crucial to becoming profitable that typically the beverage cost percentage is set first, and the price is determined based on the desired beverage cost percentage. The formula is: $\text{cost} \div \text{beverage cost percentage} = \text{selling price}$. For example:
 - (1) A latte beverage cost is \$0.54.
 - (2) The set (desired) beverage cost percentage is 19 percent.
 - (3) The selling (menu) price is determined as $\$0.54 \div 0.19 = \2.84 selling price.
 - c. Comparatively, the contribution margin percentage for a cheeseburger on the “dollar menu” may be tiny. The selling price is \$1, and the food cost is \$0.69, leaving only \$0.31 as the contribution margin. This restaurant depends on selling other foods with higher contribution margin levels to remain profitable.
 - d. Specialty coffees and teas are able to sell for much higher prices, even though beverage costs may only go up marginally. The sale of these “gourmet” coffees and teas generates huge contribution margins and leads to profitability.
5. **Beverage cost** is the sum total of the ingredient prices for a menu item. Water is the primary ingredient in beverages and is an ingredient of minimal cost. When calculating the cost of beverages, the highest cost is generally the flavoring agent(s), such as syrup, sugar, corn syrup (canned and bottled soft drinks, beer, wine, etc.). In this case, tea leaves and coffee grounds are the highest cost. Low beverage costs leave plenty of room to mark up the selling price and bring in high profits.
6. Beverage ingredient cost is only part of the pricing equation when determining cost and profit on “To Go” tea and coffee drinks. Similar expenses apply to all food and beverage sales. Menu items with low food or beverage cost provide the greatest potential for profit. In addition to the following list of costs related to “To Go” beverages, in-house beverages require the purchase of chemicals and machinery to wash china cups, saucers, and flatware. The selling price of “To Go” beverages requires:
- a. Labor
 - b. Cups, lids, and sleeves
 - c. Condiments—cream, milk, sweeteners (e.g., raw sugar and honey), cinnamon, nutmeg, whipped toppings, caramel, etc.
 - d. Lemon, orange, etc.
 - e. Napkins, straws, and stirrers
- E. Multiple forms and purposes
1. Coffee and tea benefit from being sold in multiple forms and for multiple purposes. Both are sold as beverages to accompany meals and are sold as after-meal beverages. A soft drink or alcoholic drink may be consumed before or

- with a meal, and many customers enjoy coffee or tea after the meal. This type of “triple beverage” opportunity increases the store’s overall beverage revenue.
2. Both beverages are sold hot and cold and caffeinated and decaffeinated, increasing sales potential. **Decaffeinated beverages** are drinks with most of the natural caffeine stimulant removed. Anytime the options for sales of coffee and tea are broadened, sales and profits tend to increase.
 - a. Hot coffees and iced coffees
 - b. Hot teas and iced teas
 - c. Hot decaffeinated coffees and iced decaffeinated coffees
 - d. Hot decaffeinated teas and iced decaffeinated teas
- F. Gourmet types
1. **Gourmet teas** are drinks that have herbal or fruit essences added to black, green, and oolong teas. Coupled with the popularity of bottled, canned, and herbal teas, the tea market has exploded with sales in the past 10 years.
 - a. **Chai tea** is a highly spicy drink with fruity overtones, usually served with milk. It has grown in popularity as a hot and iced and as a caffeinated and decaffeinated beverage, particularly in specialty coffee and tea shops.
 - b. **Sweet tea** is a beverage that is brewed, chilled, and highly sweetened before service. It is a favorite beverage in the southern United States and has become popular across the country.
 2. **Gourmet coffees** are beverages that add flavoring agents—natural and chemical—to roasted coffee beans. Flavored coffees are exceptionally popular and, as with tea, these coffees contain caffeine and can have the stimulant largely removed and be sold as decaffeinated coffee. A wide variety of coffees are available from a variety of countries. The popularity and increased coffee sales, particularly of the gourmet varieties, are directly related to the ease of manipulating coffee into different types of beverages. The following specialty beverages sell at higher prices than a simple cup of coffee, but the beverage costs are similar, providing for an even greater contribution margin.
 - a. **Espresso** is a level of bean roasting and an exceptionally intense and heavy coffee beverage made by the cup and generally served in small portions (1½ to 2 ounces per serving) because of its richness (café espresso). Dark-roasted beans are the basis of espresso—a brew typically sold as a “stand alone” drink rather than a meal accompaniment beverage.
 - b. **Cappuccino** is an espresso coffee beverage “softened” and flavored with the addition of steamed and frothed milk. Coffee, milk, and foam are in equal proportion. It is milder than espresso due to the addition of milk and is often sweetened and sometimes flavored. Again, cappuccino is typically a “stand-alone” sale or an after-dinner beverage: hot, iced, and decaffeinated. NOTE: All iced coffees are brewed double strength because ice dilutes the beverage as it melts.
 - c. **Caffè latte** is one part espresso and four parts scalded or steamed milk, with no foam. Lattes are gaining popularity as cold beverages, extending their sales into new territories. Caffè latte is a “stand-alone” sale or an

- after-dinner beverage that may be served hot, iced, caffeinated, or decaffeinated.
- d. **Caffè macchiato** (macchiato means “marked” or “stained” in Italian; mah-key-ah-toh) is espresso with a teaspoon of milk or foam to “stain” the surface of the brew. It may be served hot, iced, caffeinated, or decaffeinated.
 - e. **Café au lait** is a beverage with equal parts of strong coffee and hot milk, with sugar added to taste. The French call it “dark-roasted milk,” and in New Orleans it is brewed with chicory (a dried ground roasted root used to flavor coffee). In France, it is uncommon for orders of café au lait after breakfast. It may be served hot, iced, caffeinated, or decaffeinated.
3. Gourmet coffee and tea target markets
- a. Most beverages have high contribution margins. With sugary, carbonated beverage sales sagging, the void is being filled with surging coffee and tea sales. This is particularly evident in younger consumers, as public service campaigns and schools have curbed sales of sugary, carbonated beverages. As a result, the consumption of tea and coffee has become more acceptable and even chic as the beverage choice for teens and young adults.
 - b. Teens and young adults are a prized consumer block because of their disposable cash and their willingness to spend cash on themselves. Generally, they have few family obligations. This group is the most desirable market for pricy coffee and tea specialty beverages. All areas of the hospitality industry are catering to their wants and needs and are making huge profits as a result.

Teaching Strategy: Many techniques can be used to help students master this objective. Use VM–A through VM–D to facilitate a discussion. Assign LS–A.

Objective 2: Explain the financial impact of emerging coffee and tea markets on profits.

Anticipated Problem: How do emerging coffee and tea markets impact hospitality industry profits?

II. Emerging coffee and tea markets

A. Creating a market

1. A **market** is a group with similar wants and needs. Creating a market—or convincing a group of people about what they want—benefits from a product that the group did not want yesterday. Creating a market is a profound financial tool for success.
2. As food and lodging sales vary by season and at the whim of the economy, developing and capitalizing on new products and product variations is critical to staying profitable. The hospitality industry has capitalized and promoted new

tea and coffee products, and it continues to reinvent them to keep the market fresh and growing for the upcoming coffee and tea trends to come.

B. Specialty coffees and teas

1. The popularity of coffee has migrated into beverage sales outside restaurants, coffee shops, and institutions—further increasing beverage sales. Bottled coffee beverages—latte and Frappuccino—are now commonplace in grocery and convenience stores as well as in hotel gift shops.
2. **Specialty cocktails** are hot or cold beverages mixed with different flavorings and alcohols. These specialty drinks have extended sales in bars, lounges, and restaurants, further stretching the coffee market. Often decorated with whipped cream or other garnishes, these specialty cocktails sell for premium prices and generate high contribution margins. The variety of specialty coffee and tea cocktails has exploded with the growth of coffee and tea as high-end beverages.

C. **Ancillary products** are items related to the primary product of interest. For instance, heightened sales of coffee and tea in restaurants have created a market to sell additional pastries, biscotti, and other snacks. Books and magazines may be sold as well. In addition, electronic devices may be used while enjoying the beverage. The interest and heightened sales of coffee and tea have increased the sales of ancillary products in and out of the hospitality industry. In many cases, consumers can purchase coffees and teas in the restaurants, coffee shops, and tea shops in which they are purchasing their favorite made-to-order beverages. Many of these operations have branded their own coffees and teas. They may offer coffee and tea brewers, cups, mugs, flavorings, and other related coffee and tea tools and ingredients. The sale of coffee and tea in virtually any form encourages the sale of other goods to accompany the beverage.

D. Single-serve beverages

1. **Single-serve** (premeasured one-use servings) coffees and teas with specialty brewing machines are a direct response to the growth of the coffee and tea industry. A market was created for a product invented to capitalize on the coffee and tea profit center.
2. Single-serve coffees and teas are a profit center for the hospitality industry in several ways. Some restaurants, cafes, pastry shops, and hotels sell their own branded products and the machines to brew them. In some cases, the success of one item feeds another. A gift of branded single-serve coffee may lead to the creation of a new customer for the business center, similar to the popularity of an in-store product leading to sales of single-serve products to be used at home and the workplace. Single-serve is a product that feeds sales in multiple directions.

E. Fast food gourmet

1. Starbucks™ may have initiated the trend of coffee and tea as high-end fashionable beverages. However, many other companies have joined the competition. The market is so profitable that fast food chains plunged into high-end coffee and tea sales with major advertisement campaigns and promotions. It is

- no fluke that fast food burger and donut chains moved into high-end coffee sales. There are high profits to be made from selling upscale coffee and tea.
2. By recognizing the financial value of high-end coffee and tea sales and moving it into fast food operations, a new and emerging market continues to evolve and bring new revenues to the hospitality industry. Further evidence of the acceptance of high-end coffee and tea beverages is found in school, gas station, and public venue vending machines.
- F. With the growth of the coffee and tea industries comes employment opportunities: a direct benefit to the hospitality industry. A **barista** (Italian for bartender) is a coffeehouse employee who makes and serves beverages to the public. Baristas and other retail vendors also sell coffee- and tea-related merchandise: coffee and tea products and equipment, servers, cups, brewers, tea caddies, and related products. Baristas understand how people want their shots poured. For example, when a Starbucks™ barista prepares a beverage, the following is understood when the drink is ordered:
1. With no specific requests from the customer, the default is to pour the shots first and then add the milk. A normal espresso shot takes 20 seconds to pull.
 2. Option 1: “Ristretto” espresso shots take about 12 seconds to pull. Ristretto pours have less espresso (about $\frac{3}{4}$ of a regular shot) and are a bit sweeter than a full shot.
 3. Option 2: “Half-caf” espresso shots are one shot of decaf plus one shot of regular.
 4. Option 3: In “stirred” espresso shots, the drink is stirred after pouring. For example, if a person orders a mocha beverage, a request to make it “stirred” will mix the chocolate more evenly into the drink.
 5. Option 4: “Macchiato style” is one or more espresso shots poured on top of the drink. “Macchiato style” may be requested of any drink. Because there is espresso in the foam of macchiato style drinks, the first sips are stronger than the remainder of the drink.

Teaching Strategy: *Many techniques can be used to help students master this objective. Use VM–E through VM–H to facilitate an awareness and discussion. Assign LS–B.*

- **Review/Summary.** Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Scenarios and role-playing can be extremely useful in this unit. If a textbook is being used, questions at the ends of chapters may be included in the Review/Summary.
- **Application.** Use the included visual master(s) and lab sheet(s) to apply the information presented in the lesson.

- **Evaluation.** Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

- **Answers to Sample Test:**

Part One: Completion

1. contribution margin
2. decaffeinated beverages (or decaffeinated coffees and teas)
3. To Go
4. sweet tea
5. espresso
6. baristas

Part Two: Multiple Choice

1. d
2. c
3. b
4. c
5. b
6. a

Part Three: True/False

1. F
2. T
3. T
4. F
5. T
6. T
7. F

Profits from Tea and Coffee Sales

► Part One: Completion

Instructions: Provide the word or words to complete the following statements.

1. The difference between the cost of the raw product and the selling price is known as the _____.
2. To increase coffee sales in the evening, shops offer _____.
3. Beverage ingredient cost is only part of the pricing equation when determining cost and profit on _____ tea and coffee drinks.
4. A southern U.S. tea style that has spread around the country and increased sales is _____.
5. Coffee shops and restaurants have jumped on the bandwagon of selling _____, which is an intense coffee made from dark-roasted coffee beans.
6. Coffeehouse employees who make and serve beverages to the public are _____.

► Part Two: Multiple Choice

Instructions: Circle the letter of the correct answer.

1. Chocolate raspberry cream coffee is an example of a/an _____.
 - a. espresso
 - b. latte
 - c. herbal tea
 - d. flavored coffee
2. The contribution margin of a cup of tea that uses a tea bag that costs \$0.11 and sells for \$1.75 is:
 - a. \$0.11
 - b. \$0.06
 - c. \$1.64
 - d. \$1.86

3. High profits from coffees and teas are important to the hospitality industry because _____.
a. coffee and tea are expensive
b. other menu items don't always generate much profit
c. they don't sell well compared to other beverages
d. labor costs are high
4. All of the following are ancillary coffee and tea products except _____.
a. pastry
b. cream
c. pens
d. mugs
5. The hospitality industry counts on strong tea and coffee sales to _____.
a. satisfy people
b. help the bottom line
c. lower beverage cost percentage
d. create markets
6. Profit is _____.
a. financial gain
b. money paid to vendors
c. an ancillary sale
d. the expenses of the coffee shop

► **Part Three: True/False**

Instructions: Write T for true or F for false.

- ____ 1. Chai is a type of coffee.
- ____ 2. Cappuccino is made with frothed milk.
- ____ 3. Teens and young adults have become a major market for tea and coffee sales.
- ____ 4. Beverage cost refers to the selling price of an item on a menu.
- ____ 5. Fast food restaurants offer gourmet style coffees and teas because these drinks are profitable.
- ____ 6. A group of people who wish to brew high-end gourmet tea by the single-serve cup at their office desk is the definition of a market.
- ____ 7. The lower the beverage cost percentage, the lower the selling price.

BEVERAGE MATH

- ◆ **Contribution Margin** is the amount of money left after the product's ingredients are paid.
 - Menu Price – Beverage Cost = **Contribution Margin**
 - EXAMPLE: Latte \$3.25 – Ingredient Cost \$0.61 = **Contribution Margin of \$2.64**

- ◆ **Beverage Cost Percentage** is the percent of selling price paid to buy the ingredients.
 - Beverage Cost ÷ Menu Price = **Beverage Cost Percentage**
 - EXAMPLE: Ingredient Cost \$0.61 ÷ Menu Price \$3.25 = **Beverage Cost Percentage of 18.7%**

- ◆ **KEY:** The lower the beverage cost percentage, the higher the selling price and the greater the contribution margin!

- ◆ **KEY:** The higher the contribution margin, the more money generated toward profitability.

- ◆ **Selling price based on beverage cost percentage uses the formula:**
 - Cost ÷ Beverage (bvg) Cost % = Selling Price (pr)
 - EXAMPLE: Cost \$0.58 ÷ 0.21 bvg cost % = \$2.76 selling pr

BEVERAGE SIZES

◆ Hot Beverages

- Short (8 ounces)
- Tall (12 ounces)
- Grande (16 ounces)
- Venti (20 ounces; Starbucks has trade-marked this size designation.)

◆ Cold Beverages

- Tall (12 ounces)
- Grande (16 ounces)
- Venti (24 ounces)
- Trenta (31 ounces; available for iced teas, iced tea lemonades, and iced coffees)

◆ Espresso Shots

- Single is one shot of espresso.
- Double is two shots.
- Triple is three shots.
- Quad is four shots.



◆ Espresso Drinks (Lattes, Cappuccinos, and Macchiatos)

- Short and tall sizes = one shot
- Grande and hot venti = two shots
- Iced venti = three shots

◆ Americano Coffee

- Tall = two shots
- Grande = three shots
- Venti = four shots

◆ Teas: Three Types (Green, Black, and Herbal Infusions)

- Short = one tea bag
- Tall = one tea bag
- Grande = one tea bag
- Venti = two tea bags

Source: Starbucks™

ESPRESSO AND CAPPUCCINO

- ◆ Espresso is a dark, heavy, strong coffee brew made by the cup and generally served in small portions (1½ to 2 ounces per serving) because of its richness.
- ◆ Cappuccino is an espresso coffee beverage “softened” and flavored with the addition of steamed and frothed milk. Coffee, milk, and foam are in equal proportions.



CHAI TEA

One of the most popular flavored iced teas is chai tea. It is often served in a handled glass. The spice mixture typically includes cinnamon, cardamom, cloves, ginger, and peppercorns. However, regional chai spice mixtures would include the typical spices plus selected spices of the following: allspice,



lemongrass, chocolate, coriander, bay leaves, nutmeg, mace, licorice root, fennel, vanilla, roasted poppy seeds, tamarind, star anise, and saffron.



EMERGING MARKETS: GLASSWARE, TOOLS, AND FLAVORS

The Matcha green tea latte pictured here is in a specialty cocktail glass and uses an Asian whisk for the final preparation. The light and dark coffee cocktails are served in stemmed glasses with additions of chocolate or cinnamon. The Thai iced tea is an example of a tea cocktail. What is your favorite flavor to add to coffee or tea?



ANCILLARY PRODUCTS

Coffee shop menus used to just include coffee and tea. Now ancillary products (e.g., pastries, biscotti, and other snacks) as well as books, magazines, and electronic devices are available for sale while enjoying your beverage. Ancillary products are good for the bottom line.



SINGLE-SERVE BEVERAGES

Single-serve hot beverage machines are now the rage of the home market. The variety of coffee and tea capsules (e.g., K-cups) is growing daily.



BARISTAS

- ◆ As coffee and tea sales increase, employment of people in that industry and related industries increases. Thirty years ago, “barista” was not a job title in the United States.
- ◆ A professional barista must understand and apply the artistry of coffee making (e.g., blends, grinds, and brewing) with the technical skill (e.g., scalding, frothing, and whipping at the correct temperature) to produce a great cup of coffee or tea.



Coffee and Tea Profitability

Purpose

The purpose of this activity is to complete the following coffee and tea industry terminology and profitability calculation problems.

Objectives

1. Compare and contrast coffee and tea beverages.
2. Solve beverage profitability problems.
3. Create rationales for marketing programs.

Materials

- ◆ writing utensil
- ◆ scratch paper
- ◆ calculator
- ◆ textbook or related materials
- ◆ VM-A (optional)

Procedure

1. Work independently to complete this lab sheet. In the quest to create profitable coffee and tea sales, master your skills by answering and solving the following problems.
 - a. What are the benefits of selling gourmet coffees compared to only standard coffee?



- b. When you sell a cup of coffee for \$1.50, have you just made \$1.50 in profit? Why or why not?

- c. What is contribution margin?

- d. How can your coffee and tea shop sell more beverages in the evening? Think “outside the box,” and give at least two suggestions.

- e. In simple terms, explain beverage cost percentage.

- f. What makes coffee and tea profitable items to sell? Think about the products, and be specific. State your rationale.

- g. What is the difference between a cappuccino and a latte?

- h. Is coffee or tea a bigger seller in the United States? What would explain this?

- i. What caused the surge in coffee and tea sales in the 18- to 24-year-old age group? There is no one right answer. What is your rationale for your answer?

 - j. A large apricot decaf tea sells for \$2.25, and the beverage cost is \$0.31. What is the contribution margin?

 - k. Based on the information given in the item above, what is the beverage cost percentage for that cup of tea?

 - l. To determine the profit for a cup of coffee, what costs must be considered? Provide as many elements as possible.

 - m. You want to sell a cappuccino beverage at a cost per cup of 17 percent and a beverage cost of \$0.44. What is the selling price?

 - n. You are selling a wide variety of coffees and teas in your café, but you would like to see your overall sales (and profits) increase. What other items might you sell in your shop?
2. Turn in your completed lab sheet to your instructor.

Coffee and Tea Profitability

1. a. *The biggest benefit to selling gourmet coffee is that these beverages sell for a higher price than regular coffee and, therefore, have a higher contribution margin. More of the selling price goes toward profit.*
- b. *No. You have not made \$1.50 in profit. In fact, there is not enough information given to know if a profit was made. There was a \$1.50 sale, but all costs need to be paid. Also, money needs to be left over for a profit to occur.*
- c. *A contribution margin is the difference between the selling price and beverage cost. It is the money that remains after the beverage cost has been paid from the income from the sale.*
- d. *Answers will vary. The following list is not exhaustive. Use your judgment. There are several possibilities to increase evening sales in a coffee and tea shop. For example, offer varieties of decaf; run a sale—25 percent off after 8 p.m.; offer pastries, snacks, or light sandwiches; and add television monitors, magazines, books, and free Wi-Fi access.*
- e. *Beverage cost percentage represents the percentage of the selling price from the sale of a beverage spent to purchase the ingredients used.*
- f. *The primary reason coffee and tea are profitable items is that the bulk of the beverage is water, which is an inexpensive ingredient. Additionally, the mark up on these beverages is high, and the beverage cost is low. Other factors include the high sales volume and the ancillary items sold with the beverages.*
- g. *Cappuccino and latte beverages begin with espresso. Cappuccino adds frothed or steamed milk, and latte adds heated milk. Cappuccino has foam added and sometimes has a stronger coffee flavor than a latte.*
- h. *As of this writing, coffee outsells tea in the United States, but it is not by much. The reasons vary: cultural preference; a broader variety of available coffee products compared to tea; and a higher level of caffeine in coffee.*
- i. *Answers will vary but should be similar to the following response: Advertisements and promotions aimed at younger people have a direct affect on sales. Community standards find it acceptable for young people to drink caffeinated beverages. The image of these beverages has become “cooler” as the varieties expand. People in this age group have disposable cash to spend. Promotions to reduce sugary beverages (soft drinks) have shifted interest to coffee and tea.*
- j. *The contribution margin is **\$1.94***
- k. *The beverage cost percentage is **13.7%***
- l. *Answers will vary but should be similar to the following response. To determine the profit from the sale of a cup of coffee, you must consider the following elements: the cost of condiments (e.g., creamers and sugars); a disposable cup, lid, and stirrer; a China cup, saucer, and flatware purchase costs; chemical costs to wash the non-*

disposable items; the labor cost to prepare the beverage and wash the non-disposable items; and related business costs, including mortgage, utilities, insurance, equipment, etc.

m. *The selling price is **\$2.59**.*

n. *Answers will vary but would be similar to the following response. To increase profits, the following ancillary products could be sold: teas and coffees should be available to purchase so people can make it home; cups, brewers, tea steeping pots, etc.; pastries, snacks, and sandwiches; books, magazines, cards, branded shirts, and caps; and related “gourmet” items (e.g., jams, jellies, spices, wines, and candies).*

Write an Abstract to Launch a Coffee and Tea Business

Purpose

The purpose of this activity is to write an abstract to launch a coffee and tea business.

Objectives

1. Review the term “entrepreneurship.”
2. Research coffee and tea industry business plans.
3. Select a market audience.
4. Design marketing ideas to attract the target audience.
5. Design promotions to attract the target audience.
6. Write an abstract of your business to present to potential investors.
7. Present your proposal to the potential investors.

Materials

- ◆ paper
- ◆ writing utensil
- ◆ computer with word processing software and printer

Procedure

1. Work in pairs or small teams to complete this lab sheet.
2. Review the term “entrepreneur.” Entrepreneurs create ideas for products and businesses to fit a niche market, create markets where none existed before, and/or piggyback on the



ideas of current business trends. The coffee and tea business is currently a huge business trend, and you are about to jump into it.

3. Research successful coffee and tea industry business plans. Examine the products and services that have become part of the industry. Summarize three key points from your research.
 - a.
 - b.
 - c.

4. GOAL: Your business goal is to open a coffee and tea shop and to make your business stand out from all others by including a new product, service, or environment that is uniquely your own. The unique aspect of your business (the “hook”) does not have to be in the form of a new coffee or tea (though it could be), but the idea must logically fit a coffee and tea shop business. Use your own creativity and logic to create an original idea for a product or service that would make you successful in the coffee and tea industry. Summarize three potential ideas to develop.
 - a.
 - b.
 - c.

5. Select the business idea that your team would develop. Summarize the details of your business idea.

f. Promotions: Design a minimum of three promotions to attract the target audience. What will make people flock to your store?

(1)

(2)

(3)

(4)

(5)

8. Create a 10-minute presentation of your business idea and abstract to the class. Your classmates will be potential townspeople and investors from the location of your business. The potential investors will hear your proposal and give you direct feedback on whether or not they are attracted to your idea and your business and/or suggestions to improve the proposal. If the townspeople love your idea, the business succeeds. If the townspeople turn down your plan, you must find a new group of potential investors. (Remember that most entrepreneurs invest some of their own money in their business ventures. Therefore, if your idea fails, you have lost some of your own money.)
9. Conduct your presentation. Receive feedback, and make any edits to your business abstract.
10. Turn in your completed business abstract to your instructor.