CASE STUDY – Group Exercise 3

Part A. Read the information about Green Mountain on the next page and the answer the following questions:

Q1. What does Green Mountain do?

Q2. What are the core components of the Green Mountain business?

Q3. How does Green Mountain position itself in the market against competitors?

Q4. Why did Green Mountain chose the “top tier for its IT systems” in its business strategy?

Q5. In what ways did information system and information technology help improve Green Mountain performance?

Part B. For strategic planning answer the following generic analytical questions. The company below refers to Green Mountain.

QSP-1. What business is the company in? What is it related but not in?

QSP-2. What value does the business provide to the customer?

QSP-3. What are the most important issues facing the business?

QSP-4. What are the apparent problems?

QSP-5. Are the apparent problems the real problems or only symptoms of the real problems?

QSP-6. Your recommendations. On first reading what do you think the company should do?

QSP-7. What are the possible problems you anticipate will arise with your suggested recommendations?

QSP-8. What are the characteristics of the environment that the company operates in?

QSP-9. What are the characteristics of the industry that the company is in?

QSP-10. How does the company compare with other similar companies?
INFORMATION FOR CASE STUDY

Company: Green Mountain Coffee Roasters

October 15, 2005
By Duff Mcdonald

Green Mountain Makes IT Support Relationships

When a little company has big plans, it requires big planning to get it done. Nine years ago, when Green Mountain Coffee Roasters Inc. was still just a modest, $34 million coffee distributor, the company was already making big, expensive IT decisions in anticipation of its future growth. Call it "optimistic alignment."

According to CIO Jim Prevo, Green Mountain CEO Robert Stiller has always looked to his IT people to make changes to the company's business processes with growth in mind. "Of course, it's been a constant challenge over the years to make sure our business peers were 'good customers' of IT," says Prevo. "But we want IT decisions to be driven from the business, as opposed to dangling shiny IT items in front of them."

Lucky for Prevo, at Waterbury, Vt.-based Green Mountain, IT is actually treated as part of the team, as opposed to a necessary evil. "Our goals have always been aligned. We have never approached projects as IT projects—because they're not. They're cross-functional business projects, and they require cross-functional business teams."

In some ways, the coffee business isn't all that complicated. All you need is $10,000 for a commercial roaster and an exotic-sounding name. Becoming a major player in the business, however, is another matter entirely.

At that point—like many commodities businesses—it becomes about relationships. And the folks at Green Mountain Coffee Roasters have shown an ability to cultivate those relationships with the best of them. Of course, those relationships cost money to create, maintain and grow.

Green Mountain sold $137 million worth of coffee in 2004, having increased its revenues more than two-fold over the past five years. It sells all that coffee—more than 17 million pounds last year—through a network of relationships that includes more than 7,000 wholesale accounts, as well as to customers via mail order and over the Web.

The company sources 50 to 60 unique green coffees and sells it in packages that range from single servings to bags of whole beans. Green Mountain's products—such as Kenyan AA and Colombian Supremo Popayan—end up in corporate offices, gas stations, convenience stores, grocery chains and individual homes. And the company's IT systems were designed to handle even double that business.

The prime driver behind Green Mountain's recent growth has been its relationship with Keurig Inc., a Wakefield, Mass.-based coffeemaker manufacturer. Keurig's big
seller: The suddenly popular single-cup machine, in which you insert a small container of the flavor of your choice and it brews just a single cup.

Green Mountain now sells four million individual-serving size "K-Cups" a week, up from just 35,000 in 1999, according to one analyst. That's four million people looking at the words "Green Mountain" every week—an impression that makes a difference when those same people are shopping for coffee in the supermarket or stopping in at a gas station for a pick-me-up.

How did Green Mountain make sure the systems were in place to handle that kind of growth? Prevo says the most important decision he made came nine years ago. Technologically, the company had grown from just two PCs when it started, in 1981, to 200, and management wanted to know whether to spend a lot of money when choosing an ERP platform—or a whole lot of money.

Prevo told them to go top tier, arguing that if they ever found themselves at $250 million in sales, it would be a terrible time to have to start all over again—especially as customer relationships grew bigger and more complex.

They went with PeopleSoft (now Oracle), a decision that required short-term pain for a long-term gain. "It hurt their earnings for two years," says Mitchell Pinheiro, an analyst at Janney Montgomery Scott LLC. "But in retrospect it was absolutely the right move to make. It allowed them to get their arms around a very complex business—the number of SKUs they have to manage is enormous." Most important, it left the company with the flexibility to take on new business opportunities without jeopardizing its current growth path. "It will scale to whatever size we grow to," says Prevo.

For example, about three years ago, Green Mountain executives realized that instead of gaining efficiencies at the management level as the company grew, it was instead adding more overhead. A sales staff that had been using a hodgepodge of tools to keep track of their relationships—a handful of PeopleSoft reports, Microsoft Outlook, Excel, Word documents, PDAs and their own heads—was becoming increasingly difficult to manage, and would clearly become more so over time. The sales team's reports were exceeding the 65,536 rows available on Excel spreadsheets on a regular basis.

"We were running some scenario planning that assumed we would quadruple our business over some period of time," says James Jennings, director of applied insight at Green Mountain (he manages all CRM-related issues, including sales forecasting, reporting, and customer and product analytics).

"And we realized that if we just scaled everything up four times, it would be awful. So we were aware we needed to make some significant changes to our business processes—changes we couldn't make with Excel and Outlook."

How to make those changes? "It's a proposal process with different stages," says Jennings. "First, you must have your C-level stakeholder. The proposition has to make sense to them—the ROI analysis must be in very clear terms, along with a cause and effect. The cause is the IT project. The effect is an improvement in revenue or a reduction in cost." After a long process of evaluation, the company
licensed a CRM suite from PeopleSoft and began switching the sales staff over to the new technology.

The goal was to get to a point where the organization, rather than individual sales reps, could begin to handle more of the customer relationship function, thereby freeing up sales people to focus on sales—the key to further growth.

At the same time, the hope is that the software will make it easier to manage those salespeople more effectively. According to Jennings, the company's direct sales force—the largest of six sales channels, accounting for about a third of overall business—includes 40 individual reps whose performance varies considerably. Responsible for selling directly to bagel shops, delis, bakeries, convenience stores and specialty food stores, some sales reps in the channel have brought in substantially more new customers than others.

By improving performance management with the CRM software, the company hopes to boost the bottom 40 percent of the sales staff up to the midpoint for the channel over the next three years—an enhancement that would result in a considerable increase in revenues.

Simultaneous improvements through simplified work processes—such as pre-call planning and the creation of custom-tailored sales propositions—could produce a double-digit increase in productivity, with even greater performance boosts from sales reps who are focused exclusively on customer acquisition. The company is confident that the new processes will help it grow faster the bigger it gets, as opposed to the decreasing economies of scale it foresaw from sticking with the status quo.

Prevo, Jennings and the rest of the team say they're prepared for some resistance from a staff that's used to the old way of doing things. "They need to understand it's not merely the corporate office being invasive—that we're actually offloading tasks they're not so suited for and freeing them up to grow their business faster," says Prevo.

Just recently, for example, Prevo and his team have pulled responsibility for sending out special offers to certain customer groups into the corporate office, where it can do a mail merge extremely efficiently, thus eliminating the need to have sales people do it out of their home offices.

There will be some hand-holding at first, admits Jennings—like one-on-one training in the new software—but, at some point, the sales team needs to realize that it's not an optional change in the way the company will do business. "It's like Shackleton's expedition to Antarctica," he says. "At one point, the ice started crushing the boat. They knew then that they couldn't stay where they were. We have to provide that level of clarity: You cannot stay on the boat."

Not that there are too many people so stubborn as to resist the inevitable—especially when it's ultimately for their own good. Adds Prevo, "The resistance goes away when they realize that it's a team effort and not Big Brother—that they will actually benefit from the changes."

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Another aspect of Green Mountain Coffee Roasters Inc.'s business in which IT has played a crucial role has been in the introduction of a warehouse execution system at the company's new distribution center.

Three years ago, Green Mountain realized that if order growth continued at its current pace, their smaller distribution center would no longer be able to handle the increased volume. And so in November 2003, the company broke ground on a new center. New software was installed in July 2004, and, by that fall, Green Mountain began moving different types of orders to the new system.

The company started with full pallet loads, and then moved small, commercial-customer FedEx business to the new DC. Just this past summer, residential orders — which, while small in size, make up a large volume of orders — made the transition. All together, it took Green Mountain just ten months to phase in all outbound shipping to the new distribution center.

It's truly a "software as the brains of the operation" set-up: As orders of myriad shapes and sizes come through the company's PeopleSoft system—anywhere from a truckload for a supermarket, to a few ounces for a Web customer—the warehouse software logs in those orders, assigns them to packing stations, and then begins either lighting lights for employees picking out particular coffees, or issuing a set of instructions that are uploaded to equipment loaders' handhelds telling them to load a full pallet of coffee. All full-carton orders short of a full pallet are picked and placed on one of three different conveyor belts, which then find their way up to a 100-foot by 200-foot oval sorter.

The changing mix of the company's orders has made it somewhat difficult to isolate and determine savings from the new system—Is it cost per pick? Cost per pound?—but Jon Wettstein, vice president in charge of supply chain operations for Green Mountain, says he's confident they're on track toward overall productivity gains, however those are ultimately measured.
GREEN MOUNTAIN COFFEE ROASTERS – BRIEF

**CEO** Robert Stiller

**CIO** Jim Prevo

**Revenues** $156.9 million (trailing 12 months)

**3-year revenue growth** 12.9%

**3-year net income growth** 10.4%

**IT Budget** 2.5% of overall sales

**Discretionary IT spending** 10% of overall IT spending

**Total Company Employees** 600-plus (includes part-time)

**IT Staff** 18

**Growth Strategy** Continued expansion into various sales channels. Single-cup servings are the company’s most robust source of new sales.

**The Bottom Line** By making tough decisions early, Green Mountain continues to harness the power of its enterprise software and warehouse management systems to boost sales and improve profitability as it grows by expanding its global penetration.