

**DROP IN – EXPERIENCE THE TASTE**

by

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## **Abstract**

Wine is a growing industry and there are over 75,000 types of wine. Consumers are intimidated by the selection of wine and are afraid to ask questions of friends, bartenders, and retailers. Uneducated consumers also are reluctant to request samples of wine at liquor establishments. There are very few establishments in the downtown Vancouver area that offer a venue to sample the wine or educate the consumer. Drop In is an establishment that offers a pour or glass of different types of wine from various vineyards throughout the world.

This paper provides a business plan. The paper analyzes the on-site and off-site liquor primary industry and specific locations for the establishment. The paper also analyzes B.C.'s liquor laws, current competitors, and specific locations. The analysis provides guidance for targeting specific customers and establishing a competitive position. The paper demonstrates the use of technology and loyalty program to maintain customers. This technology will allow consumers to track their experiences. This interaction or marketing strategy through e-commerce and smart phones will enhance total customer service and experience.

The analysis develops a replication strategy and growth plan to sustain a competitive advantage and develop barriers to entry. The development of the growth plan provides a process that is specific to Drop In and unique in the industry. The plan covers tasks, objectives, strategies, policies, and procedures. The business model allows for growth by expanding to new locations. Expansion occurs by franchising the business and opening

new corporate locations. The financial analysis includes short-term commitments, long-term growth projections, and a decision-making analysis.

## **Dedication**

I would like to thank my wife Shavita, my children Shawn and Shanelle, and my parents for supporting me through this wonderful experience. I would also like to thank my cohort and the faculty at Simon Fraser University's Beedie School of Business for increasing my knowledge and confidence.

I am also grateful to a special friend and an older brother, Curtis Leong, who inspired and challenged me to create this business plan. My mentors, Cheryl Nex, Richard Oraziatti and, Rod Santiago were my guides and offered wise counsel throughout the process. I am very grateful for their honest feedback and inspiration.

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# **1: Introduction**

The introductory section discusses a business plan for a start-up venture including a company description, structure, and an explanation of the concept.

## **1.1 Objectives of the Business Plan**

The business plan examines the potential for opening a wine tasting bar in downtown Vancouver, British Columbia (B.C.). The business plan has several objectives. The first is to seek additional funding from potential venture capitalists. The second objective is to evaluate strategic locations and propose a location and the third is to create a marketing plan that will ensure the company can sustain a competitive advantage. The fourth objective is to outline strategic partnerships with suppliers, governments, associations, and local wineries. The partnerships and relationships, also addresses corporate social responsibility, which is a strategic objective. Finally, the business plan proposes a replication strategy to grow the business into a strong brand.

The business plan has four major components:

- An analysis of the concept introduces the company structure, which describes the services and products, presents an industry analysis from the perspective of a new entrant, and defines the wine dispensing e-commerce technology.
- The marketing opportunity assessment component includes profitability and scalability based on projected sales and capacity, an analysis of core competencies,

strategic location, and strategic partnerships. This component will illustrate various marketing themes to enhance customer experience.

- Technological opportunities to extract big data analytics and forecast market trends will also be investigated. This component will discuss e-commerce capability combined with a loyalty program to enhance customer satisfaction and create a competitive advantage.
- Recommendations will include a replication strategy to expand the business supported by financing and implementation.

This business plan addresses several main concerns expressed by Drop In prior to launching the business. These questions are fundamental for a successful launch of the business. These major questions include:

- Who are the major competitors in the market?
- How can we differentiate the services from our competitors?
- How can we successfully bring in repeat consumers?
- Is this a sustainable venture for the long term?
- How much is the cost to implement and sustain the e-commerce technology?

## **1.2 The Company – Drop In**

### **1.2.1 Company Description**

Drop In is a new establishment that offers consumers over a 100 varieties of wines to taste. Drop In charges a small fee for a pour in a relaxed atmosphere. Consumers can walk into the establishment and taste any wine without any questions or intimidation. If the consumer is shy to ask for assistance, he or she can use tablets in the establishment to gain further knowledge on the wine that he or she sampled at the Drop In. Currently, consumers have a limited number of wines to sample in a retail establishment or local

restaurant. If the establishments have numerous wines, the consumers are reluctant to ask for a sample because they are afraid of being unintelligent. Drop In offers an opportunity to learn about wines and vineyards through smartphone applications, tablets, and trained professionals. The company offers a loyalty program through a smartphone application and/or loyalty card. The loyalty program will be similar to that of Starbucks®. The goal of the company is to create a strong brand and replicate brand awareness to various strategic locations within North America. The goals are achieved by being a first mover and a dominant player in the market, while being a profitable venture. The corporate flagship venue will be in downtown Vancouver. There are three major investors Curtis Leong, Sanjeev Lal, and a silent investor with equal control of the company. Curtis was a Chief Financial Officer (CFO) for the Girls Scouts of America and Sanjeev Lal is a Certified Management Accountant with over 13 years' experience in large complex organizations. The silent partner is a veteran in information technology (IT). Currently, Drop In is preparing to open its first establishment in the second quarter of 2015.

### **1.2.2 The Company Structure**

Drop In has a decentralized structure with three primary teams. The operational team is responsible for organizing daily operations, training staff, and marketing the product and services. The financial team is responsible for securing venture capital, implementing policy and internal controls, establishing human resources, obtaining a legal and financial advisor, and developing financial reports. The IT team is responsible for developing big data analytics, gathering personal data, ensuring data security, maintaining IT applications and network, and implementing e-commerce.

The Chief Executive Officer (CEO) is the head of the organization and leads the operational team. The CFO reports to the CEO and leads the finance and human resource team. The Chief Information Officer (CIO) heads the IT team and reports to the CEO. All three sit on the board of directors. The board of directors, which include three external directors, are volunteer positions. Two management trainees will run day-to-day operations and three part-time servers will be responsible for serving the wine, as per B.C. liquor laws. Drop In will outsource and manage IT services through service level agreements.

### **1.2.3 Drop In – Experience the Taste**

Wine consumption in North America is a growing trend. Generation X, also known as Gen Xers, and Millennials, the generations following the post-war baby boom, consume more wine than baby boomers on special occasions. The younger generation is acquiring a taste for wine.

There are over 75,000 varieties of wine worldwide. A bottle of wine can cost from ten dollars to thousands of dollars. There are various categories of wine, such as desert wines, red wines, white wines, sparkling wines, and fortified wines. Each category has sub-categories and each sub-category has different ingredients, such as different type of grapes and fruits, oaks, and other creative ingredients. Further complicating the matter, the taste varies from region to region and from year-to-year depending on the climate. In some years, the wine is bold and rich in flavour, while in other years the wine is flat.

Wine taste depends on each person's palette. One individual may like a bold red wine, while another person may like a sweet desert wine. With so many different types of wine,



choosing wine at any location can be very intimidating for the new consumer. The variety, region, and category of wines available at an establishment can overwhelm and cause pain for the customer. There are limited options available for consumers to taste wine prior to purchase. Currently, in Vancouver, there are only a few tasting bars with limited wines available for sampling. These tasting bars are similar to a restaurant or a bar because only a few wines are available for sample. Opening numerous wine bottles for sampling is costly for the organization. There are no establishments in Vancouver that offer over 100 varieties of wine to sample at one location.

Drop In offers a unique experience for the consumer. By purchasing a sampling card or uploading an application through a smartphone, the consumer can taste over 100 wines dispensed through an Enomatic machine. The sampling card is the mechanism that operates the Enomatic machine. The consumer approaches the Drop In staff and purchases the card. This preloaded card is then used to make the purchases. The consumer selects the wine and provides the server with the card. The server pours the wine, as per B.C. liquor laws, and provides the card and the wine to the consumer. The consumer can purchase a full glass (5 oz), single pours (2 oz), or double pours (3 oz) for a small fee depending on the cost of the bottle of wine. For example, a 2 ounce pour will cost the consumer three dollars for a 10 dollar bottle of wine. The consumer is unaware of the cost of the bottle. Also, the consumer is not committed to buying the bottle of wine, so consumer can spend the small fee for an experience. The consumers can rate the wines and determine which wine they prefer. The value proposition is the experience to taste the wine and being able to record the experience. When the consumers purchase the

wine from the retailer, they can recall the information and make an informed decision prior to purchase.

Enomatic machines are wine dispensing units that come in various forms and shapes. The machines use nitrogen gas to preserve the wine. Enomatic dispensers aerate and preserve the wine for over 30 days. They have smart technology that manages e-commerce, retains data history, and maintains inventory control. Currently, very few establishments offer this service. Drop In will offer various themes; the consumer will have a different experience each time he or she visits. The ambiance of the establishment will be similar to an Apple store, which is quite different from a restaurant or a bar. The consumer is free to walk around the establishment or sit down and enjoy a glass of wine.

In the future, the B.C. liquor laws will change. Grocery and convenience stores will be able to sell liquor in B.C. With more establishments selling wine, consumers will have more choices. Drop In intends to provide the consumer an opportunity to taste wine and electronically document his or her experience, which will help the consumer make an educated choice when purchasing wine for a special occasion.

Drop In will design a unique aggressive training and loyalty program and will replicate the program to enable to company to expand operations to various locations throughout North America.

## **2: Competitive Environment in the Liquor Industry**

This chapter reviews the external analysis of the market environment for Drop In. The analysis assesses current and future factors that affect the industry and the ability to sustain a competitive advantage to ultimately profit in an industry. Porter's five forces framework is used to analyze competitive forces. In addition, B.C. liquor regulations are examined and proposed recommendations to the liquor laws in B.C. The chapter concludes with an external market assessment.

### **2.1 Competitive Forces in B.C. Wine Tasting Services**

This section analyzes the industry using Porter's five forces framework. The framework identifies the key structural features that determine the strength of the competitive forces and hence, industry profitability (Porter 1998 pg 4). In relation to the industry analysis, the strategic framework identifies strengths and weaknesses and provides a foundation for a defensible position against the five competitive forces. For purpose of this analysis, the industry is defined as an establishment of on-site and off-site consumption of liquor, primarily wine, and food.

### **2.1.1 Threat of New Entrants**

New entrants to an industry can reduce profitability by increasing competition, which results in higher costs and lower prices. This section examines the barriers to entry in the liquor service industry, assesses the barriers as low or high, and examines anticipated reactions from existing competitors.

#### **2.1.1.1 Liquor Primary License**

Entry into the liquor service industry is relatively easy. The Liquor Control License Branch (LCLB) is responsible for licensing new establishments. The application fee is a non-refundable \$2,200 and the annual fee for the first year is also \$2,200. Prior to granting a license, the establishment must be ready for inspection and comply with B.C. building and fire codes. Licensing can take seven to twelve months from the application date.

#### **2.1.1.2 Capital Requirements**

The capital requirements can range from a hundred thousand to millions of dollars depending how much the investors are willing to spend. The major capital requirement is the location cost, which can be decreased by leasing infrastructure and reducing the size of the establishment. The price per square foot is based on the location. Robson Street, in Vancouver, has one of the highest prices per square foot in Canada. Other capital requirements include inventory, construction, IT, furniture, alcohol-dispensing units, and architectural and interior design plans.

### **2.1.1.3 Switching Costs and Access to Distribution Channels**

Currently, there are very few switching costs. In British Columbia, the government controls supply and there is only one supplier, the Liquor Distribution Branch (LDB). Consequently, distribution is the same for all liquor primary establishments. Alcohol beverages are priced at LDB minimum levels. The dispensing equipment is not unique or proprietary. The buyer faces very few switching costs because no loyalty program currently exists in the liquor service market.

### **2.1.1.4 Product Differentiation**

Product differentiation means that the established firms have brand identification and customer loyalties that stem from past advertising, satisfactory customer service, and first mover advantage (Porter 1998 pg9). Product differentiation is important in service industries, such as public accounting, investment banking, and insurance. Product differentiation creates a barrier to entry by forcing new entrants to spend heavily on advertisements to overcome existing customer loyalties. In the current market, there are quite a few establishments comparable to Drop In in downtown Vancouver. Majority of the establishments are restaurants or bars. The restaurants, such as Joey's, the Keg, or Cactus Club are fine dining venues that specialize in food and experience. The restaurants offer wine and liquor; however, wine is not the primary product or service. The bars are located throughout downtown Vancouver, with the majority located on Granville Street and in Gastown. The ambiance ranges from nightclub to a neighbourhood pub, typically with loud music and a young customer base. Customer loyalty is low and there are no loyalty programs.

### **2.1.1.5 Threat of Entry – Conclusion**

Overall, barriers to entry are very low. The liquor license is inexpensive to obtain with the proper documentation through an online application. The capital cost is minimized by strategically leasing space and spending the minimum amount on furniture and design. Product differentiation is a key to barrier to entry. Customer loyalty through a strong brand can establish a good barrier to entry; however, this will take time and require considerable investment. Currently, there are no liquor primary bars that offer customer loyalty programs. In downtown Vancouver, a very few establishments offer customers e-commerce payment through smartphone applications and interactive experience through technology.

### **2.1.2 Power of Suppliers**

Suppliers can reduce profitability by raising prices or reducing quality of input resources.

Suppliers' bargaining power is high if the following apply (Porter 1998 pg 27):

- 1) there are a few suppliers in the industry
- 2) there are a few substitute products available in the industry
- 3) the industry is not the main customer for the supplier
- 4) the product is an important resource to the industry
- 5) the supplier has created a switching cost
- 6) the supplier or group poses a threat to improve the industry (labour)

The main suppliers in the liquor service industry are the LDB, labour, and property lessors. The LDB will be discussed later in Section 2.13, Government.

### **2.1.2.1 Labour**

According to Statistics Canada, as of January 2014, the unemployment rate in B.C. was 6.4 percent. With a lower unemployment rate, there is a reduced labour supply. This reduced labour supply may increase labour costs because the business is willing to pay a premium for limited labour resources. As of May 2, 2012, the general minimum wage in B.C. is \$10.25 per hour and the minimum wage for liquor servers is \$9.00 per hour. The rate for liquor servers only applies to employees who serve liquor to guests or members in an establishment that has a licence issued under the LCLB act.

To serve or sell liquor in B.C., employees and managers must obtain a Serving it Right (SIR) certification, as per the LCLB act. SIR certification exam is available on-line. The Labour Policy Review has made recommendations to enhance and expand SIR certification.

The B.C. economy is projected to grow by 2.4 percent in 2014, based on real gross domestic product (Statistics Canada 2013). Anticipated growth in the liquefied natural gas industry in B.C. will increase demand in the labour market, which will result in higher labour costs.

With the current economy and the forecast growth, qualified labour shortages can be a threat to the industry. Creative solutions, like career development and employee empowerment through strong human resource training, can decrease employee turnover and reduce labour cost. Human resource training is a short-term additional cost to the organization; however, it is a long-term solution for growth and expansion.

### **2.1.2.2 Liquor Suppliers**

A primary liquor establishment must buy the liquor from the LDB and any approved manufacturers that have written approval from the General Manager of the LDB. The LDB controls the importation and distribution of all liquors in B.C. There are certain circumstances where manufactures may discount stock; manufacturers require written approval from the General Manager to discount the price of the liquor. Orders must be prepaid and take 48 hours to process.

The power of liquor suppliers is very high. The LDB controls the price, distribution, and terms and conditions based on the Liquor Control and Licensing Act.

### **2.1.2.3 Power of Suppliers – Conclusion**

Labour has moderate power in B.C. The supply of labour depends on economic conditions and the unemployment rate. If the supply of labour decreases or the demand for labour increases, the cost of labour will increase; consequently, labour costs will reduce profitability in the industry. The LDB is a major supplier and controls the price and distribution of the product.

### **2.1.3 Government**

Government is a non-market major supplier and it can change policies that can disrupt the industry. The recent Liquor Policy Review made 73 recommendations that could result in significant and disruptive changes in the industry. The recommendations include allowing retail sale of liquor in grocery and convenience stores and allowing retail liquor establishments to provide samples of liquor to their customers.

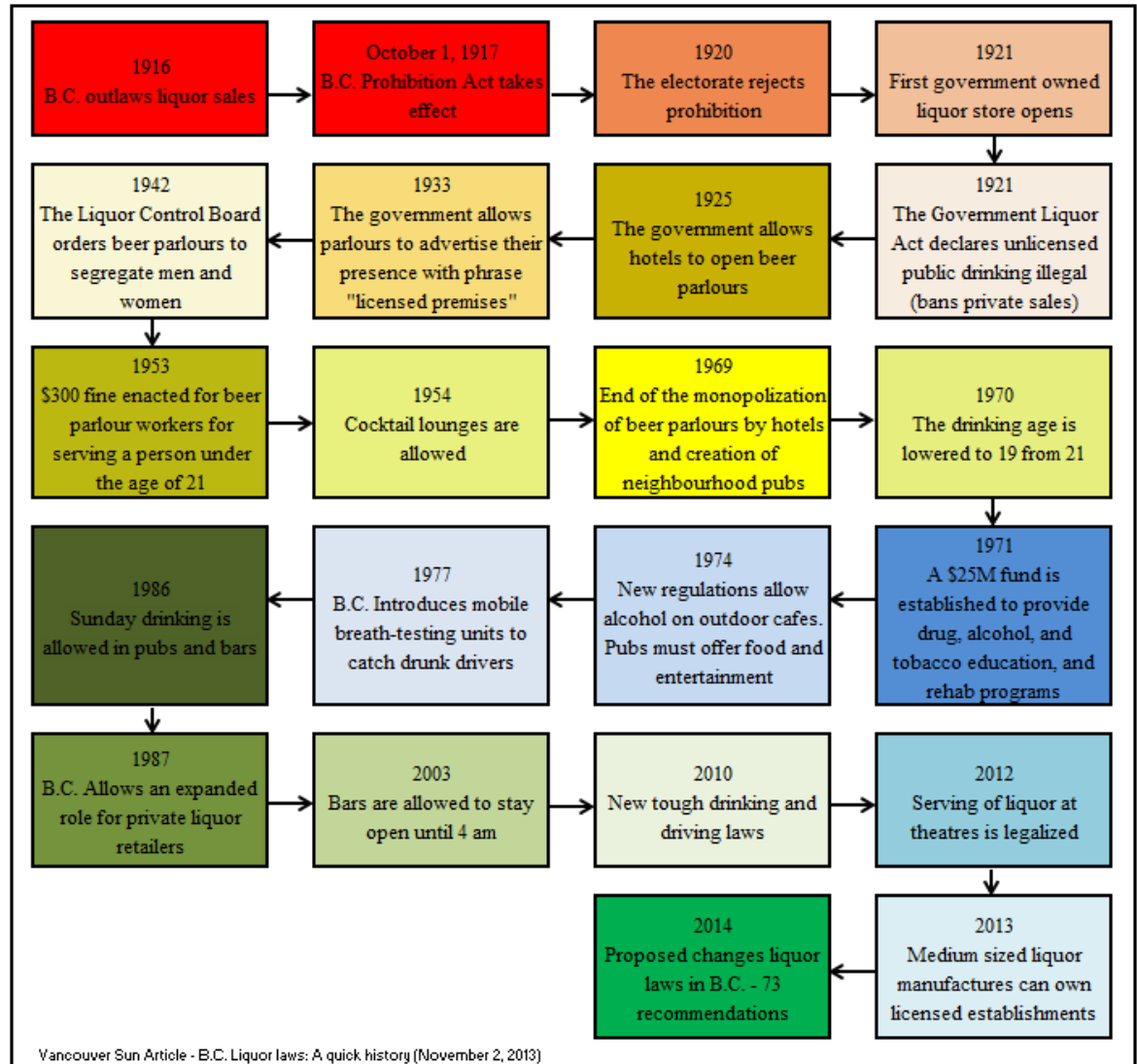


This section analyzes the government's influence on the industry. Under the Ministry of Justice, the LCLB and LDB control liquor licenses, policies, regulations, and laws. There is a moratorium on retail licenses until July 2022 and significant changes to liquor policies are expected. In his final report on BC.'s Liquor Policy Review, the Honourable John Yap, parliamentary secretary to the Minister of Justice has made 73 recommendations. If the recommendations pass legislation, the impact on the industry will be significant. With grocery and convenience stores able to sell liquor, barriers to entry will decrease. Rivalry among competitors will intensify because restaurants and pubs will be able to can entertain families with children. Supplier power will increase because manufactures can set up off-site consumption. Government recommendations and policies have an effect on all of Porter's five forces and the recommendations will undoubtedly impact profitability in the industry.

#### **2.1.3.1 The B.C. Liquor Laws**

In B.C., the provincial government has jurisdiction over the sale of alcoholic beverages. As shown in Figure 2.1, the provincial government is a major stakeholder in liquor sales in B.C. The government changes liquor laws quite frequently, which changes the landscape for liquor business establishments.

**Figure 2:1 History of B.C. Liquor Laws**

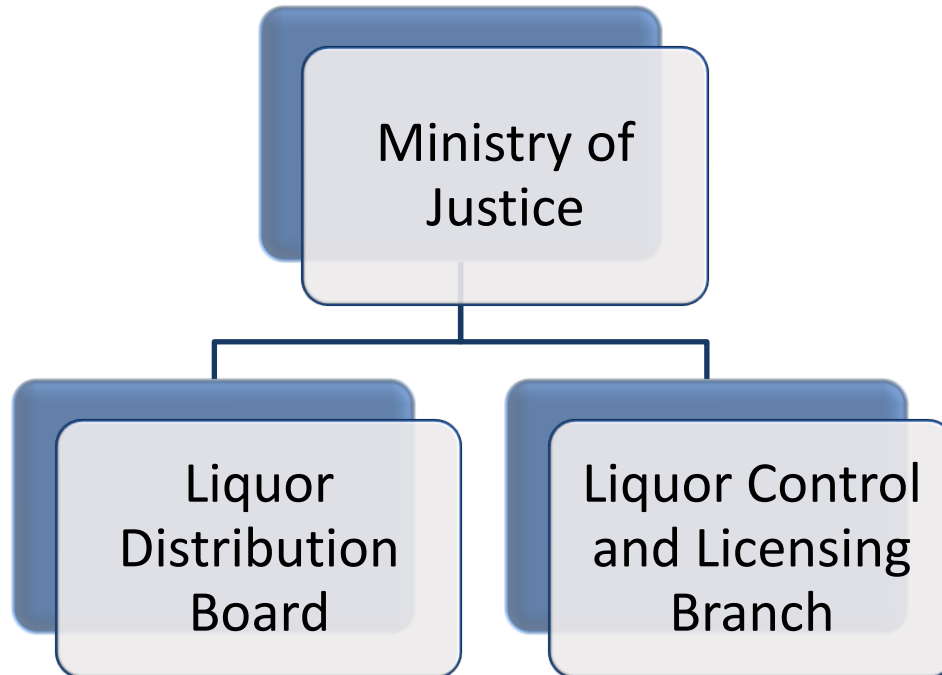


Modified by author. Source Vancouver Sun 2013

### 2.1.3.2 Current Liquor Laws in B.C.

Two agencies under the Ministry of Justice regulate the liquor industry in B.C., as shown in Figure 2:2.

**Figure 2:2 Structure of Liquor Laws in B.C.**



Developed by author based upon the information from Ministry of Justice

The LCLB regulates the following:

- liquor service in bars and restaurants,
- private liquor stores,
- liquor manufacturers and importers,
- Ubrews and UVins (for personal liquor manufacturing), and
- liquor service at catered and special occasion events. (Liquor Control and Licensing Branch, 2014)

Under the Liquor Distribution Act, the LDB has the sole right to purchase alcoholic beverages for resale and reuse from within B.C. and from outside the province (Liquor Distribution Branch, 2014). From 2012 to 2013, B.C. Liquor Stores sales were 1.2 billion dollars. As shown in Figure 2:3, wine had the highest sales, followed by spirits and then beers.

**Figure 2:3 B.C. Liquor Store Sales 2012/13**



Developed by author based on the information from the Liquor Distribution Branch

Currently, there is a government-imposed moratorium on new licenses for retail liquor and wine stores, which limits new entrants. There are only a few restrictions on licenses for liquor services, such as special occasions, restaurants, and bars. There are currently over 8,000 licenses for bars and restaurants within B.C.

### **2.1.3.3 Proposed Changes to The Liquor Laws in B.C.**

The B.C. Liquor Policy Review made 73 recommendations in four major categories:

1. Health, safety, and social responsibility
2. Retail and convenience
3. Licensing and cutting red tape, and
4. Change management.

The 18 health, safety, and social responsibility recommendations focused on public awareness and safe consumption of alcohol. Within these, three recommendations will influence the liquor service industry: enhance and expand the Serving it Right (SIR) program, permit licenses to offer time-limited drink specials (happy hour); and matching

minimum prices to the amount of alcohol. For the latter, the price of beer with four percent alcohol content would be less than beer with seven percent alcohol content.

The 15 retail and convenience category recommendations focused on the sale of alcohol. Here, two will change the retail sale of alcohol in B.C: the sale of liquor at grocery stores and allowing alcohol manufactures to have off-site locations where consumers can sample and buy products.

Licensing and cutting red tape received the most recommendations. Of the 38 recommendations in this category, the three significant changes are:

1. Minors, accompanied by a parent or guardian, should be permitted in certain liquor establishments.
2. Food primary can transition, after a certain time, from food primary to liquor primary establishment.
3. Any establishment that sells liquor should be able to provide samples.

The change management category had two recommendations that addressed the issue of change management and economic development (B.C. Liquor Policy Review Final Report, 2013)

#### **2.1.4 Government – Conclusion**

The government exercises significant control over the primary liquor service industry in B.C. The government plays a major role through the Ministry of Justice. The LCLB controls licences and the LDB controls the distribution and price of the liquor. Liquor orders must be paid in advance and there are no returns; unless, the product was defective or there were errors in processing the order.

### **2.1.5 Threat of Substitutes**

Substitute products can reduce profitability by placing a ceiling on the prices that a firm can charge in an industry (Porter 1998 pg 23). Substitute products and services are identified as product or service that performs the same function. In downtown Vancouver, a limited amount of disposable income is shared among establishments. This section will analyze substitute services available to the customer through restaurants, entertainment venues, and social events.

#### **2.1.5.1 Activities and Attractions**

In downtown Vancouver, there are numerous activities and attractions to entertain tourists and local citizens. The consumer can choose from the following:

- 1) Sporting events such as Vancouver Canucks, B.C. Lions, Vancouver White Caps, or the Vancouver Giants.
- 2) Theatres such as Cineplex, Queen Elizabeth, Firehall Arts Centre, Arts Club Theatre Company, or The Clutch.
- 3) Nightlife and casinos, such as the Roxy, River Rock Casino, and various other bars and neighbourhood pubs.
- 4) Restaurants such as the Donnelly group, Cactus Club, Steamworks, and Mark James Group (Yaletown Brewery).
- 5) Special events such as the Wine Festival, car and boat Shows, or conventions, like the recent TED Conference.

Downtown Vancouver is a tourist destination and there are numerous experiences available for the tourists and the public. Substitute products and services decrease profits due to need to make heavy expenditures on marketing and by lowering prices to attract customers.

### **2.1.5.2 Threat of Substitutes – Conclusion**

The threat of substitutes in liquor primary on-site establishments is very high. Tourists and the public can choose from numerous bars, restaurants, casinos, theatres, and sporting events. There is very little loyalty or switching costs, except for sporting events and local theatre productions.

### **2.1.6 Power of Buyers**

Buyers can force down prices and bargain for better service and higher quality products. Buyers are powerful when purchasing in comparatively large volumes and when switching costs are low. Power also accrues to buyers when products or services are undifferentiated and when they have access to full information. Full information is the quality, value, and use of the products or services. This information is compared to competitors, so the buyer can make an educated decision.

#### **2.1.6.1 Liquor Primary – Wine Consumer**

In our region of interest, the product and service offered to the wine consumer is relatively rare. There are only a few wine only establishments in downtown Vancouver. If a consumer is seeking an establishment that offers only wine, there are two direct competitors the greater Vancouver region, Everything Wine with locations in North Vancouver and Surrey, and the Swirl Wine Store with locations in Vancouver and White Rock. These potential competitors are retail wine stores, also known as off-site liquor consumption establishments. They offer wine tasting experience at limited times from a limited selection of wines; wine tasting is not the core value of the organization.

The wine consumer demands wine knowledge, consistency, and service. If the consumer is disappointed with the service, particularly with the availability of information about wine, there are very few wine easily accessible alternatives or substitutes. The consumer can rely on the Internet or magazines for information; however, these offer an incomplete experience. The actual taste and smell of the product is the ultimate experience. Buyer switching costs are high because there are few establishments that have the resources to educate the wine consumer and offer an extensive variety of wine from various regions.

#### **2.1.6.2 Power of Buyers – Conclusion**

The power of buyers is moderate. Price, convenience, quality, and service are factors that influence a buyer's decision. Consuming wine is a leisure or recreational activity and, assuming limited disposal income, buyers have numerous choices in downtown Vancouver. Here, switching costs are very low. However, if the consumer is seeking a wine only experience, switching costs are high because there are a limited number of wine experts and establishments in Vancouver. A strong loyalty program will further increase buyer switching costs; wine consumers who appreciate variety, quality and the availability of expert wine knowledge, are likely to remain loyal consumers. In this context, customer loyalty is somewhat similar to the relationships that develop with professional service providers; individuals are generally reluctant to change doctors, accountants, or lawyers.



### **2.1.7 Intensity of Rivals**

Rivalry in an industry occurs because firms see an opportunity to improve their position among competitors. This has a counter effect because competitors respond and adjust their position to regain profits. The firms in the industry are mutually dependent. Moves and countermoves reduce profitability; associated price wars or product differentiation increase costs. Intense rivalry exists when the following conditions pertain: numerous competitors, a slow economy, high fixed costs, low switching costs, diverse competitors and high strategic stakes.

Rivalry in the liquor primary on-site consumption sector is very high. Liquor is available in a diverse range of establishments, including restaurants, neighbourhood pubs, bars, and cafes. Each type of operation has a high fixed cost. Here, it should be noted that downtown Vancouver has one of the highest commercial lease rates in the world. To understand the rivalry among competitors, the following sub-sections will look at three potential competitors.

#### **2.1.7.1 Restaurants and Neighbourhood Pubs**

There are over 5,000 restaurants in Vancouver ranging from small eateries to fine dining experiences. Many restaurants are licensed and can provide on-site liquor consumption. Neighbourhood pubs generally have a limited menu. The price of a meal can range from five dollars to hundreds of dollars depending on the establishment. The major players in the restaurant business are the Donnelly group, Mark James Group, Cactus Club, Joey's, Earls, and various other food restaurant chains. The major players have high fixed costs and provide diverse dining experiences.

### **2.1.7.2 Sporting Events**

There are four major sports teams in Vancouver, the Canucks, the Lions, the Whitecaps and the Giants. The Vancouver Canucks are a National Hockey League team with a large following and a strong loyal fan base. Home games are usually sold out. Each season there are approximately 42 home games that are played at Rogers Arena, which is located in the heart of downtown. The B.C. Lions play in the Canadian Football League. The team is heavily invested in the community and has a strong fan base. Their nine home games are played at BC Place, which is also in downtown Vancouver. The Vancouver Whitecaps is a Major League Soccer team that is enjoying a resurgence of interest and is gaining an increasingly large fan base. The Whitecaps play at BC Place. The Vancouver Giants is a Western Hockey League team that plays its home games at the Pacific Coliseum. Each of the venues offers on-site liquor consumption with food.

### **2.1.7.3 Arts and Culture**

Vancouver is well known for its arts and culture. Vancouver has numerous theatres, clubs, and cultural activities. There are casinos, live theatre productions, concerts, conventions, and late night bars to entertain consumers. The Vancouver Trade and Convention Centre is adjacent to the cruise ship terminal dock and public transportation. The waterfront is a major attraction for tourists. All arts and culture establishments in Vancouver have high fixed costs, including labour and infrastructure. The various arts and culture venues offer consumers diverse products and services.

#### **2.1.7.4 Intensity of Rivals – Conclusion**

There are numerous liquor on-site consumption competitors in downtown Vancouver. Establishments have high fixed cost and offer diverse products and services. The threat of rivals is extremely intense. There are high exit barriers due to the high fixed costs for inventory and infrastructure. The Liquor Control and Licensing Act stipulates that liquor inventory can be returned only if there is a processing error or the product is defective. The entry barrier is low for liquor primary on-site consumption because it is easy to obtain a liquor license. If the economy slows down, consumers with limited disposable income will reduce their expenditures. Firms in the industry will use extreme tactics to win business and the industry will suffer.

#### **2.1.8 Industry Dynamics and Attractiveness**

This section analyzes the industry dynamics and attractiveness. Due to regulatory changes, the liquor industry has undergone numerous changes, as shown in Figure 2:1. These changes represent a threat to all participants in the industry. Firms may exit if exit barriers are low or respond by lowering prices and introducing higher quality products or services, which will increase costs and reduce profits. Figure 2:4 illustrates Porter's forces (Porter, 1979) and Table 2.1 compares Porter's five forces and the influence of government and technology in the on-site liquor consumption industry, which includes a variety of businesses. As shown in Table 2.1, industry rivalry is quite high for restaurant, bars, and cafes.

**Figure 2:4 Competitive Forces in the Liquor Industry**



Developed by author. Adapted from Porter, 1979

**Table 2.1 Comparison of Competitive Forces by Activities in Vancouver**

	Drop In Tasting Bar	Restaurants	Sporting Events	Cafes and Bars	Arts and Culture
Threat of Entry	High	High	Low	High	High
Supplier Power	High	Moderate	Low	High	Low
Buyer Power	Low	Low	Low	Low	Low
Substitutes	High	High	Moderate	High	High
Industry Rivalry	High	High	Low	High	Moderate
Government	High	Moderate	Low	High	Moderate
Technology	High	Low	Low	Low	Low

Developed by author. Adapted from Porter, 1979

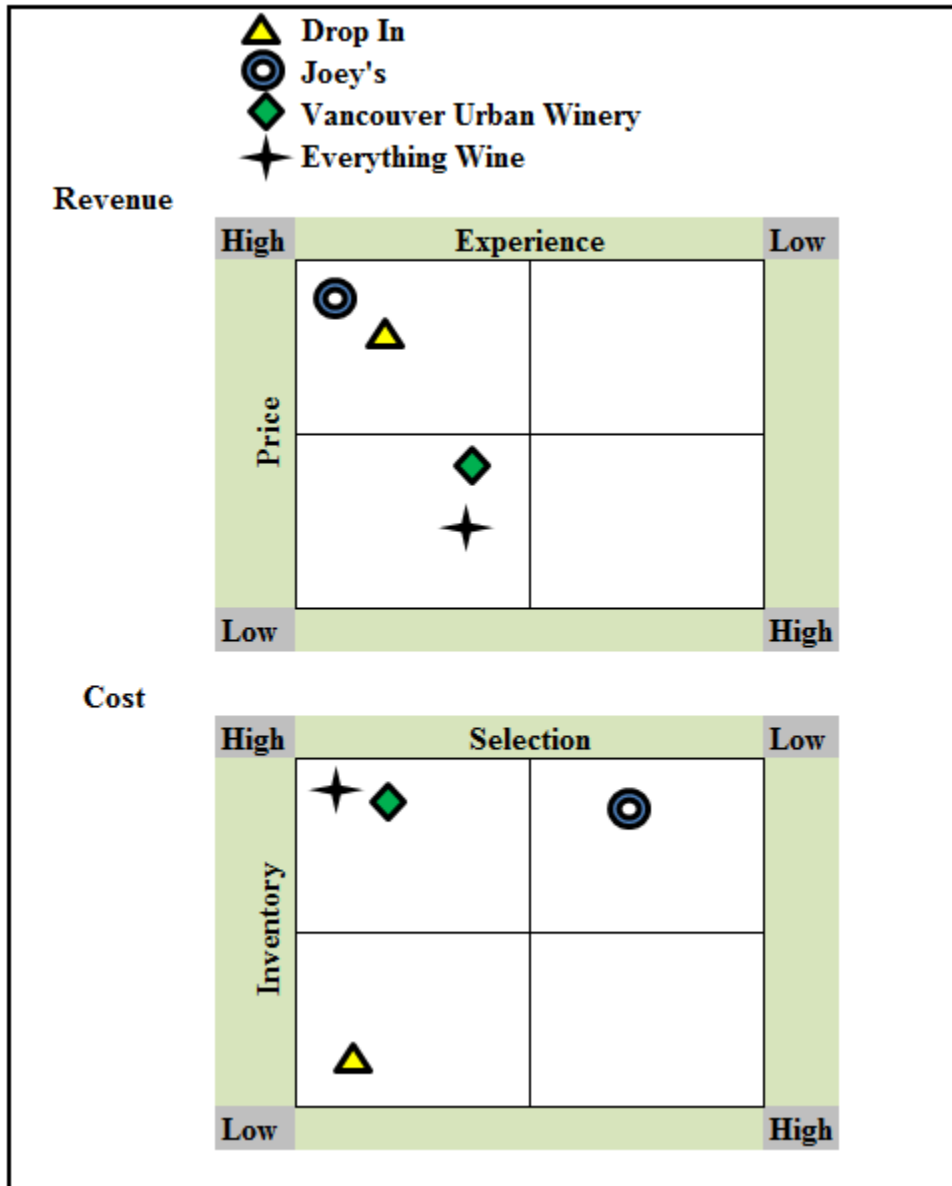
To analyze the competition, Table 2.2 provides a comparison between Drop In and its competitors in Vancouver for various competitive factors. Figure 2:5 illustrates the position of revenue and cost drivers for Drop In and its competitors.

**Table 2.2 Overview of Competitors**

	Drop In	Joey's	Everything Wine	Vancouver Urban Winery
Experience	High	High	High	High
Fixed Costs	Low	High	High	High
Inventory	Low	High	High	High
Price	High	High	Low	Low
Selection	High	Low	High	High
Product Differentiation	Moderate	Moderate	Low	Low
Expertise	High	Low	High	High
Size	Small	Moderate	Large	Large
Number of Locations	High	Moderate	Low	Low
Technology	High	Low	Low	Low

Developed by author based upon information from competitors from interviews and websites

Figure 2:5 Comparative Potential Revenue and Cost Matrix



Developed by author 2014

An analysis of the forces influencing the liquor primary on-site consumption industry reveals low-level attractiveness. Competitive forces indicate that supplier power is very high due to government policies and intervention. The rivalry among competitors is quite intense due to the number of players in the industry. There is an abundance of substitute products and services that can influence a consumer. The power of buyers is relatively

low due to low switching costs. The threat of entry is low due to high fixed costs of existing firms. Barriers to exit are high and firms are willing to compete; consequently, firms can regain their position. For new firms entering the industry, licenses for on-site liquor consumption are available on-line and at a low cost.

In the initial analysis, the industry is unattractive, as noted above. However, Figure 2:5 suggests that there is an attractive position. Switching cost is very low in the industry, except for sports events. The technology is relatively simple and there is no disruptive technology. The products are undifferentiated; liquor establishments offer very little variety. There are few wine tasting only firms in the industry with limited replication. By offering advanced technology through e-commerce solutions, numerous locations, and a large variety of products and services, the switching cost for buyers becomes high (loyalty program) and barriers to entry are increased by an efficient process and brand awareness through a replication strategy.

## **2.2 Drop In Market Assessment**

This section assesses the business opportunity based on business concept, location, market size, target market, competitors, and partnerships.

### **2.2.1 Quality of Business Concept**

B.C. is known for its wine industry. Wine consumption is a rising trend around the world. India and China are purchasing wine at an alarming rate and there could be a wine shortage in the near future. Currently, only a few establishments in downtown Vancouver educate consumers on wine. Establishments like Everything Wine offer consumers a



large variety of wines; however, only a few varieties are offered for tasting. Wine production, consumption and appreciation are art forms. With more than 75,000 different types of wine, there is a need to educate the consumer. There is an opportunity to create a brand that offers consumers an opportunity to learn and taste a variety of wines without purchasing the entire bottle. There is no brand loyalty in liquor primary on-site consumption. Buyer switching costs are low. By establishing a loyalty program through smartphone technology, the consumer can inventory his or her experience. This experience is transferable anywhere in the world. By replicating the technology and experience, the establishment can seize an attractive market and be profitable. Utilizing the Enomatic wine-dispensing machine presents a unique opportunity. The Enomatic wine-dispensing machine has the ability to collect data and e-commerce payments. These features assist with inventory control and purchases, while collecting payments in real time. The data collection feature facilitates the introduction of a loyalty program. Starbucks is a good example of the business model. On-site liquor primary establishments do not provide advanced technology that allows buyers to record their experience.

### **2.2.2 Market Size and Trends**

This section will review the market size in Vancouver. The analysis provides information on tourism in the region, local population and demographics, employment, and gender.

### **2.2.2.1 Demographics**

Vancouver is one of the world's most liveable cities. Vancouver is sometimes referred to as Hollywood North because the city is the third largest film production centre in North America. It is also known as the City of Neighbourhoods because Vancouver has ethnically diverse neighbourhoods. Vancouver is one of the most densely populated cities in North America.

From 2011 census data, Vancouver's population is 603,502. Forty-nine percent of the population speak English as their first language and 25.3 percent speak Chinese. The gender balance is almost equal; females comprise 51 percent of the population and males comprise 49 percent. The median ages of female and male residents are 40 and 39, respectively. The median household income is approximately \$68,970 (2011 Statistics Canada).

### **2.2.2.2 Tourism Vancouver**

Tourism is a large industry in B.C. In 2011, the tourism industry represented 13.4 billion dollars in revenue for the B.C economy. The industry employed 126,700 people in 2011. In Vancouver, nearly nine million tourists visit the city annually; 60 percent of the visitors are from Canada. Conventions and meetings in Vancouver account for \$600 million in revenue and this number is expected to grow by 50 percent in the next few years (Vancouver Economic Commission).

Two tables taken from B.C. Statistics' Tourism Indicator Methodology for March 2009 are presented in Figure 2:6. The tables provide the percentage of dollars earned by retailers from tourists. The data presented show that liquor stores earn five percent of

their revenue from tourist dollars and restaurants and bars rely on tourists for 22.5 percent of their business.

**Figure 2:6 Tourism Spending**

*Table 3: Retailers that sell directly to tourists*

<b>NAICS code</b>	<b>Description</b>	<b>Tourism share (%)</b>
4412	Recreational vehicle dealers	63.0
4413	Automotive parts & accessories stores	2.0
4422	Home furnishing stores	2.0
44313	Camera & photographic supply stores	5.0
4451	Grocery stores	7.5
4452	Specialty food stores	7.5
4453	Beer, wine & liquor stores	5.0
446	Health & personal care stores	7.5
447	Gasoline stations	15.0
4481	Clothing stores	7.0
4482	Shoe stores	7.0
4483	Jewellery, luggage & leather goods stores	12.0
4511	Sport, hobby & musical instrument stores	4.0
4512	Book, periodical & music stores	10.0
452	General merchandise stores	10.0
45322*	Souvenir stores	100.0
4533	Used merchandise stores	5.0
45392	Art galleries	6.0

\* Souvenir stores are part of 45322 (gift, novelty & souvenir stores)

Source: B.C. Statistics – Tourism Indicator Methodology March 2009

*Table 10: Tourism-related accommodation & food services*

NAICS code	Description	Tourism share (%)
<b>Accommodation services (721):</b>		
	Hotels	90.0
	Motels	90.0
	Vacation rentals	100.0
	Campgrounds	95.0
	B&Bs, fishing lodges & guide outfitters, etc	100.0
<b>Food services (722):</b>		
7221	Full-service restaurants	22.5
7222	Limited-service eating places	22.5
7223	Special food services (caterers & mobile caterers, including lunch wagons & snack trucks)	10.0
7224	Drinking places (bars, lounges & night clubs)	22.5

Source: B.C. Statistics – Tourism Indicator Methodology March 2009

### **2.2.3 Customer Segments and Target Market**

Market segmentation is important for two reasons. First, it analyzes customer needs based on customer segment. Second, the data analytics help the business allocate funds wisely based on customer needs. Ideally, customer segmentation will result in cost reduction and increased profitability because customer segmentation creates focus.

This section analyzes three customer segments based on demographics. The segment analytics will determine the best target market for Drop In. The target market is determined by potential disposable income, interest in technology, and knowledge of wine. Drop In is offering consumers an opportunity to increase their wine knowledge for a reasonable fee and the ability to use technology available on smartphones and tablets to track their experiences. Accurately identifying the target market will increase the potential for profits and will also suggest feasible locations.

### **2.2.3.1 Baby Boomers**

Baby boomers were born between 1946 and 1964. They are considered the most active and wealthiest generation because the post-World War II period was characterized by economic growth, an expanding labour market and relatively easy access to higher education.

Baby boomers make up 20.1 percent of Metro Vancouver's population. Based on 2011 census figures, this equates to 462,000 individuals from a population of 2.3 million ([www.metrovancouver.org](http://www.metrovancouver.org)). The majority of baby boomers do not reside in downtown Vancouver. In the downtown core, the Coal Harbour neighbourhood has the highest density of baby boomers.

Baby boomers represent 40 percent of wine drinkers. As the baby boomers grow older, they consume less wine due to health considerations and financial constraints. This generation is well educated in wine and have acquired a taste for wine.

### **2.2.3.2 Generation X**

Generation X was born between 1965 and 1984. Generation X is a smaller group than baby boomers, and due to its size is unable to sustain growth in the economy. Another words, due to the limited size, the group is unable to purchase same volume of goods compared to baby boomers. Generation X is ambitious and family-centric; they are educated and self-sufficient. It is not uncommon for Gen-Xers to be heavily in debt. Generation X experienced numerous adverse economic events, such as the OPEC crisis, high interest rates in the mid-80s, the collapse of Asian markets in the 90s, and the sub-prime mortgage crisis in the late 2000s. Generally, Gen-Xers are dual income families,

have experienced periods of low economic growth and are characterized by diverse ethnic demographics.

Generation X makes up 29.1 percent of Metro Vancouver's population. Based on the 2011 census, this equates to 672,000 individuals from a population of 2.3 million.

Generation X represents 20 percent of wine consumers. This generation did not inherit the baby boomer's taste for wine; however, generation X is slowly developing a preference for wine.

### **2.2.3.3 Millennial Generation**

The Millennial generation, also known as Generation Y, was born between 1985 and 2005. This generation has high workforce participation rates. They are tech savvy and team oriented. As a group, they are family-centric, seek work-life balance and are confident in their abilities. This group is larger than Generation X and is quite independent.

Millennials make up 18.6 percent of Metro Vancouver's population, which equates to 429,000 individuals in a total population of 2.3 million, based on the 2011 census.

The Millennial generation represents 28 percent of wine drinkers and they typically consume wine on special occasions. The Millennial generation is showing a great interest in wine at a relatively young age.

#### **2.2.3.4 Target Market**

This section analyzes the target market for Drop In. The customer segmentation analysis indicates that the target market for Drop In is the Millennial generation. The Millennial generation is larger than Generation X and consumes more wine than Generation X. The Millennial generation is technologically advanced, has high workforce participation rates, and is interested in information. The majority of the Millennial generation who live in Metro Vancouver reside in the downtown area.

Fifty-one percent of wine consumers are female. The Yaletown neighbourhood has the most female residents in the downtown Vancouver area. Females also spend more money on wine than males. Consequently, Drop In is targeting the Millennial female wine consumer. In general, Millennials are technologically sophisticated and are likely to be adept smartphone and tablet users, which fits with Drop In business model. Drop In has identified Yaletown as a feasible location due to demographics and its strategic location.

#### **2.2.4 Associations and Partnerships**

Associations and partnerships are important for a successful business. Drop In intends to development relationships with the Yaletown Business Improvement Association (YBIA), the Modernize Wine Association of B.C., the B.C. Wine Institute, and the B.C. Wine Grape Council.

Drop In also intends to forms long-term partnerships with the Culinary Art Institute and Vancouver Community College. These partnerships will help Drop In attract talent and create an internship program. Potentially, these institutions could be encouraged to develop sommelier training programs. Sommeliers, also known as wine stewards, are

trained and knowledgeable wine experts. Partnerships could also include universities to promote the creation of management-trainee programs.

The community is another important partner. Drop In will collaborate with the Vancouver Police Department and the Royal Canadian Mounted Police to promote increased awareness of the dangers of drinking and driving and reduce harm associated with irresponsible consumption of alcohol. These partnerships will form part of Drop In's corporate social responsibility strategy, which will be discussed in a later section.

### **2.2.5 Competitors**

This section analyzes Drop In's four major competitors: Swirl Wine Store, Everything Wine, Brix Restaurant and Wine Bar, and the Yaletown Brewery. These businesses have been identified as direct competitors who are willing to change positions to retain or regain profitability.

All four are located in close proximity to Yaletown and represent a potential threat to Drop In's profitability and capacity to expand.

#### **2.2.5.1 Swirl Wine Store**

Swirl Wine Store is located at 1185 Mainland Street in Vancouver, B.C. with a second location in White Rock. The Mainland Street location is shown in Figure 2:7. The store opened six years ago. The hours of operations are 11 am to 7 pm Monday through Thursday, 11 am to 8 pm Friday and Saturday, and 12 pm to 6 pm on Sundays.

Swirl Wine Store offers a wine school and a wine club and maintains a large inventory with one of the largest selections of wines in B.C. It has six qualified staff and one store



manager. The business is a liquor primary off-site consumption establishment. The store has a small tasting room, as shown in Figure 2:8.

**Figure 2:7 Swirl Wine Store**



Source: <http://www.swirlwinestore.ca/Locations.tsp>

**Figure 2:8 Swirl Wine Store – Tasting Room**



Source: <http://www.swirlwinestore.ca/Locations.tsp>

### **2.2.5.2 Everything Wine**

Everything Wine is located in North Vancouver and White Rock. Everything Wine is a liquor primary off-site consumption retail store with over 3,000 bottles of wine in stock. The hours of operation are from 10 am to 9 pm Monday through Saturday and from 11 am to 6 pm on Sundays and holidays. The business offers tasting events from 2 to 3 pm, social media interaction, a wine club, gift cards and wine merchandise. In addition, Everything Wine offers private instruction by trained sommeliers.

Everything Wine spends tremendous amount on advertising. They have purchased a full-page ad in the Vancouver Sun and sponsor weekly discussions on Team 1040, a popular sports radio station. Everything Wine has also attracted endorsement; Terry David Mulligan; a local celebrity, endorses Everything Wine. Currently, Everything Wine is not located in Yaletown. If Everything Wine decided to enter the Yaletown market, it would represent a threat to Drop In.

### **2.2.5.3 Brix Restaurant and Wine Bar**

Brix Restaurant and Wine Bar is restaurant catering to wine connoisseurs. It is located on 1138 Homer Street. Brix has 60 types of wine on its menu. The establishment is very trendy and earned a 2013 certificate of excellence from Tripadvisor®. They also cater weddings and corporate parties. The décor is modern, with low lighting, wood finishing and the red brick walls that are typical of Yaletown businesses. Brix Restaurant and Wine Bar is a food primary on-site liquor consumption establishment and is open for lunch and dinner by reservation.

#### **2.2.5.4 Yaletown Brewery Company**

The Yaletown Brewer Company (YBC) is part of the Mark James Group. It is located at 1111 Mainland Street. It is a food primary on-site liquor consumption establishment. Its hours of operation are 11:30 am to midnight Sunday to Wednesday, 11:30 am to 1 am on Thursday and from 11:30 am to 3 am on Friday and Saturday.

Opening in 1994, YBC has become known for its craft beer. The establishment seats 160 people. It has won numerous awards for craft beer and food. It is a very popular establishment in Yaletown.

#### **2.2.5.5 Overview of Competitors**

In Drop's competitors can be classified as off-site liquor consumption or retail stores and on-site liquor consumption. Everything Wine and Swirl Wine Store are retail stores that offer limited wine tasting. Their primary business is selling wine. Brix Restaurant and Wine Bar and YBC are liquor service establishments. Both businesses are food primary establishments. Table 2.1 compares Drop In and its four major competitors.

**Table 2.3 Competitor Comparison**

	Drop In	Everything Wine	Brix Restaurant	Swirl Wine Store	Yaletown Brewery
Experience	High	Moderate	High	Low	High
Selection	High	High	High	High	High
Wine Expertise	High	High	High	High	Moderate
High Fixed Costs	Low	High	High	Moderate	High
Technology	High	Low	Low	Low	Low
Food	Low	Low	High	Low	High
Inventory	Small	Large	Large	Large	Large
Size	Small	Large	Large	Moderate	Large

Developed by author based upon information from competitors 2014

The above demonstrates that there is an opportunity to differentiate service. By providing an on-site liquor primary establishment (wine only) with basic food, Drop In can differentiate and offer something unique. In Yaletown, there are no wine only liquor primary on-site operations. Smartphone technology introduces value to the consumer through the loyalty program. While enjoying a glass or small pour of wine, the consumer experience is enhanced by the availability of technology.

### **2.3 Summary**

Chapter 2 has provided an external environment analysis for Drop In. The analysis provided insight from external competitive forces, considered current and future liquor laws, assessed the market, and identified a feasible location and possible competitors. Porter's five forces analysis showed that the industry has with low attractiveness. In general, the industry has no loyalty programs, little technology, high fixed costs due to

infrastructure, labour, and inventory. There is an opportunity in the industry. The organization can gain profitability by positioning itself with low cost infrastructure and utilizing its technology and reducing labour and inventory costs.

Yaletown is the best location for a number of reasons. The area has high foot traffic, and is experiencing high growth and is known for creative and trendy businesses. Typically, residents have high disposal income and a high number of Millennial female residents. In addition, few direct competitors are located in Yaletown.

Drop In has an opportunity to be the first mover to establish a loyalty program with smartphone technology for a wine only liquor on-site primary business in Vancouver.

With strong associations and partnerships, Drop In can position itself by service differentiation.

### 3: Internal Characteristics of Drop In

The external environment analysis identified opportunities and threats in the industry. The internal analysis focuses on the strengths and weaknesses of Drop In. This chapter evaluates Drop In's resources and capabilities, and provides a value chain analysis. The resources and capabilities are the strengths of the organization. This includes management, design, IT, marketing, and big data analytics. The value chain analysis reviews the process to sustain profitability from the target market (See Figure 3:1 Internal Environmental Analysis Process). The following section below analyzes the strengths, weaknesses, resources, and capabilities of the firm.

**Figure 3:1 Internal Environmental Analysis Process**



Modified by author. Source Duncan J., Ginter P., and Swayne L. 1998

### 3.1 Drop In – Resources and Capabilities

The resource and capabilities are the strengths a firm relies on to leverage profits and gain competitive advantage. Wherever possible, Drop In’s resources and capabilities are compared to those of competitors in the industry. The resources and capabilities analyzed in this section are design and ambiance, management expertise, IT, marketing, and big data analytics. Table 3.1 compares strengths and weaknesses against value, rareness, imitation, and sustainability (Duncan, Ginter, and Swayne pg11).

**Table 3.1 Drop In’s Resources and Capabilities**

S –Strength or W - Weakness	Value	Rareness	Imitation	Sustainability
Design and Ambiance - S	Distinctive	Distinctive	Competitive	Competitive
Management Expertise - S	Distinctive	Distinctive	Competitive	Competitive
Information Technology - S	Distinctive	Distinctive	Distinctive	Distinctive
Marketing - W	Uncompetitive	Uncompetitive	Uncompetitive	Uncompetitive
Big Data Analytics - S	Potential	Distinctive	Competitive	Competitive

Developed by the author 2014

Table 3.1 indicates that Drop In’s primary strengths are technology, management, and design. In the future, as data becomes available, big analytics is a potential strength. The following sections outline the reason why each competency is a strength or weakness.

### 3.1.1 Design and Ambiance

Currently, the industry is characterized by two distinct types of ambiance and design features. The retail side focuses on inventory and tasting facilities. Typically, inventory is displayed on shelves and there are small tasting rooms or a wooden table surrounded by inventory, as shown in Figure 3:2.

**Figure 3:2 Everything Wine**



Source: <http://www.everythingwine.ca/>

The selection is enormous and can be intimidating. In addition, the consumer is unable to taste the wine prior to purchasing their selection because this is a cost to the firm. Once a bottle of wine is open, it must be consumed within a few days unless the establishment has an Enomatic wine-dispensing machine. In typical retail operations, the consumer is restricted to a formal seating arrangement; the design does not allow the consumer to walk around.

The restaurant or bar design has a formal bar and bar stools; a server pours and serves the liquor or wine. The ambiance is low lighting and loud music; there are tables and seating; however, if they are not actually eating consumers prefer standing and talking, as shown in Figure 3:3. Joey's Wine Room has won awards at the Vancouver Wine Festival and the



owner has spent over a million dollars to renovate and decorate the room shown in Figure 3:3.

The ambiance in restaurants, which are food primary established, is formal. The guests sit at tables and wine by the bottle or glass is served at the table. Guests guest may have to wait for service because the establishment is busy or due to lack of service.

**Figure 3:3 Joey's Wine Room**



Source: <http://www.straight.com/blogra/photos-crowds-drink-2012-vancouver-playhouse-international-wine-festival>

Ambiance at Drop In will be quite different from Joey's Wine Room and Everything Wine. The design plan calls for an all-white interior with relatively bright white light, as shown in Figure 3:4. The space will be open; consumers will be free to walk around the facility and purchase over 100 different types of wine by pour or glass. The sense of space will be enhanced by wall mirrors; music will be mellow jazz played at a non-

intrusive volume. The interior walls are design to move to facilitate changing the layout to accommodate theme and marketing events. The location will have Wi-Fi and all the wines will be dispensed through Enomatic machines. The venue will have tablets, televisions, and entertainment for consumers. The devices will be provided to educate the consumer on wines and vineyards; use of these devices will reduce labour costs. As shown in Figure 3:5, the setting for the Drop In venue is similar to an Apple store.

**Figure 3:4 Drop In Proposed Design**



Source: <http://www.groovinheads.com/ultramodern-house-the-glass-pavilion-in-california-by-steve-hermann/clean-large-and-luxury-white-kitchen-with-bar-stool-and-a-wine-room/>

**Figure 3:5 Apple Store**



Source: <https://www.apple.com/retail/lincolnpark/>

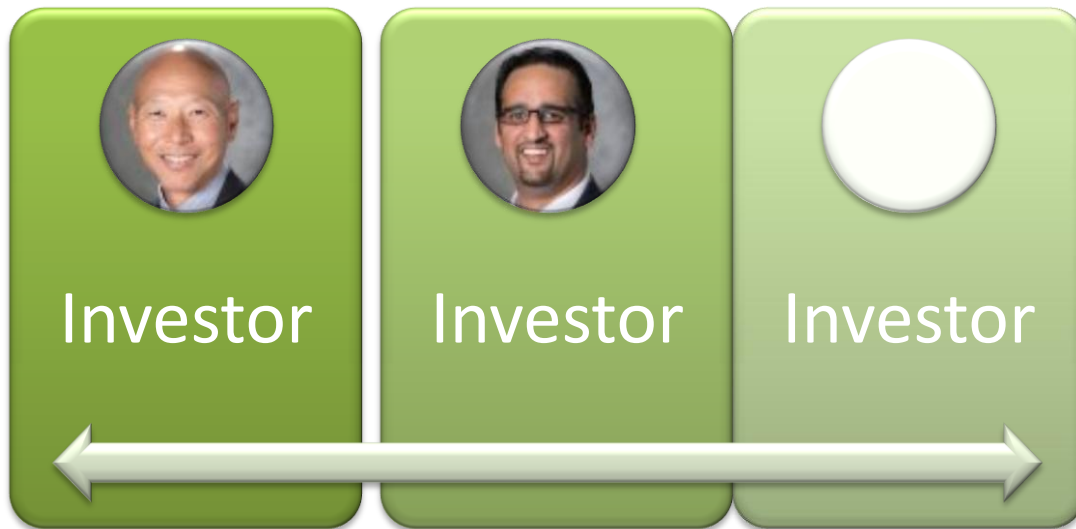
### **3.1.2 Management Team**

The three major investors have strong educational credentials and diverse management experience. Curtis Leong is from Honolulu, Hawaii. He was the CFO for the Girl Scouts of America for several years. Curtis is passionate about wine; he has a large private wine collection. He has travelled to various regions around the world to visit vineyards and taste wines.

Sanjeev Lal is Certified Management Accountant. He worked with a large utility company in British Columbia as a Finance Professional. He has over 13 years' experience working in large complex businesses. Sanjeev grew up on a small family farm in a Vancouver suburb and is very familiar with small businesses. The silent investor is an expert in information technology. He works for a major information technology firm

that offers software and hardware to the health industry. Drop In's organizational structure is illustrated in Figure 3:6.

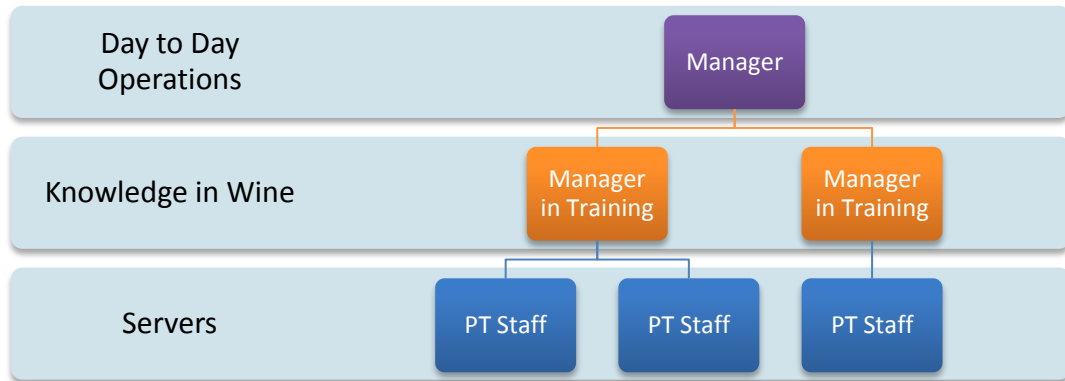
**Figure 3:6 Drop In's Organizational Structure**



Developed by author 2014

The operational team consist of Curtis Leong, supported by two managers in training. Initially, Curtis will mentor the managers. Once a manager gains sufficient experience, Drop In will expand to a new location. The goal is to develop managers who are capable of managing new strategic locations. The managers in training will be customer focused and manage the inventory and part-time servers. The manager in training will be responsible for scheduling and hiring staff (see Figure 3:7). Part-time employee's main responsibilities will be to sell loyalty cards, handle transactions, and serve wine.

**Figure 3:7 Operational Team**



Developed by author 2014

### **3.1.3 Information Technology and Ecommerce**

IT and e-commerce are key success factors for the organization. Drop In's technological capability is provided by the Enomatic Wine Service System, which enables the establishment to offer a large variety of wine. The Enomatic system comes in several sizes and configurations, as shown in Figure 3:8. Drop In will have a variety of Enomatic machines to increase the range of wines available to the customer. The wines are preserved and protected for approximately four weeks through the Enomatic Nitrogen Gas Preservation System.



**Figure 3:8 Enomatic Machines**



Source: <http://www.bornrich.com/enomatic-wine-serving-system-for-wine-lovers.html>



Source: <http://www.enomatic.it/new/default.asp?catIDPadre=41&catID=42>

In addition to Enomatic's ability to preserve and pour precise measurements of wine, the machines also have a sophisticated smart card or chip card system. Customers can purchase a pre-paid (loyalty) card using credit or debit cards. When the customer registers the card

online, it becomes a loyalty card. The card enables the consumer to purchase wine making a selection and giving the card to the server. Under B.C. liquor laws, the consumer cannot pour their own wine.

A computer system integrated with the smart card will track the wine inventory and e-commerce payments. Loyalty cards assist customers with their purchases and rating the wines. If the consumer forgets or loses their loyalty card, they can use a smartphone application. Their records are available through the smartphone application. The IT structure is heavily safeguarded through service level agreements. Drop In is negotiating with various IT companies, including SOPHOS and 14Oranges, which are based in Vancouver.

Drop In will have several tablets and televisions available for customers to use to complete their registration and provide profile information for the smart card system. These devices can also be used to obtain information about wines and vineyards. The tablet devices display menu items, and provide full details on the wine selection available, accessories, and access to Drop In's social media sites, such as Facebook, LinkedIn, and Twitter. Drop In location venues will be equipped with Wi-Fi; consumers will be able to connect to the Internet.

Drop In will tie marketing promotions using IT. The use of promotional codes will enable customers to access their accounts to obtain discounts or incentives.

Each Drop In server will be equipped with a tablet device that serves as a point of sales machine. This point of sales system is similar that used in Apple stores. Each server has the ability to access customer data and assist with sales through credit card transactions. As

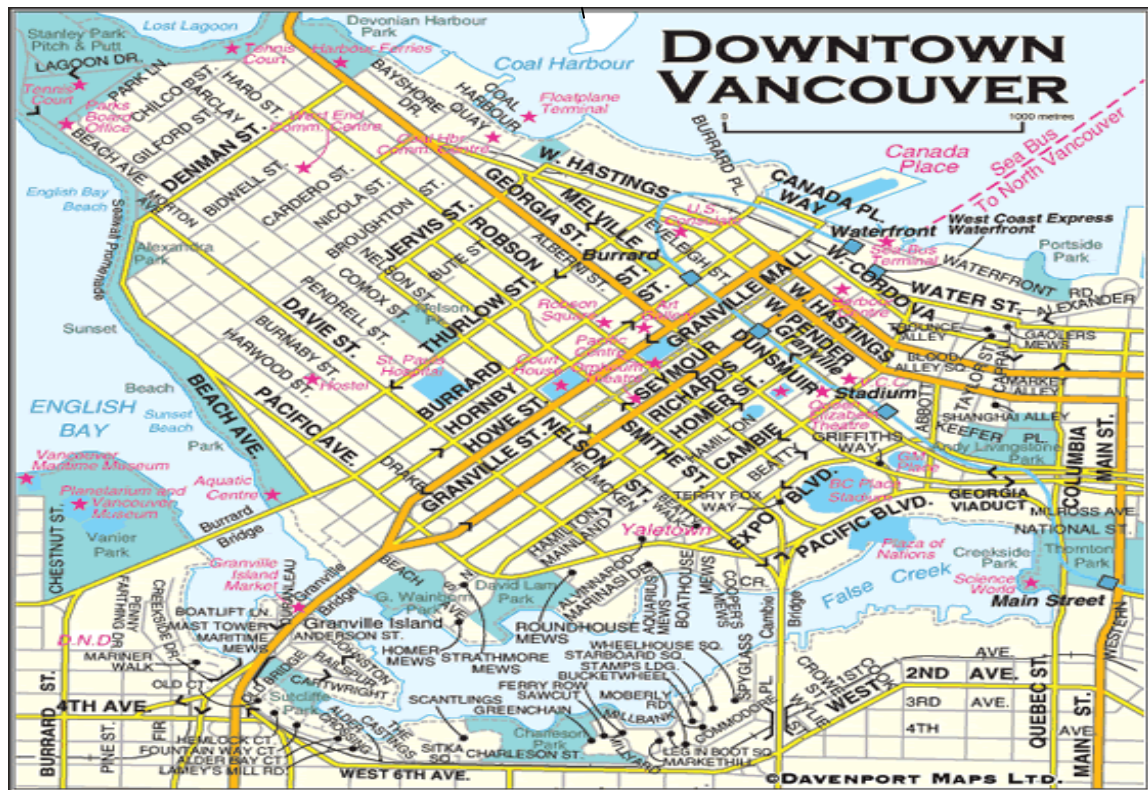
Drop In expands, the technology will facilitate integration of an on-line reservation system to accommodate capacity and maintain loyalty.

#### **3.1.4 Feasible Locations**

This section analyzes a feasible location for Drop In. Downtown Vancouver is divided into four segments. The lower right portion of the map shown in Figure 3:9 is Yaletown. It is located near B.C. Place and Rogers Arena. The upper right portion of the map is Gastown, which is Water and Main Street. Coal Harbour, various waterfront attractions, and the cruise ship terminal are located near Canada Place, which is shown center-right in Figure 3:9. The West End can be found on the right side of the map; Denman Street and Beach Avenue are major thoroughfares in the West End. The city's main business and commercial areas, which include Pacific Centre, Robson Square and the Art Gallery, are located in the centre of the map.



Figure 3:9 Map of Downtown Vancouver



Source: www.ourbc.com – © Davenport Maps LTD.

### 3.1.4.1 Yaletown

Yaletown is in the southeastern portion of downtown Vancouver. Yaletown is bordered by Homer Street to the west, Beatty Street to the east, Smithe Street to the north, and Drake Street to the south. Yaletown is one the trendiest parts of Vancouver and is home to 900 businesses mainly focused on designer or creative industries. There is an enormous range of establishments in Yaletown, including 17 cafes, 30 fashion and gift shops, 60 health, mind and body clinics, 19 home ware shops and galleries, two hotels (Opus and Rosedale on Robson), 62 restaurants, 67 service and convenience outlets, 44 spas and hair salons, 31 specialty shops, and 229 business offering profession services.

Yaletown has numerous apartments and condominiums with an estimated population of 11,608. The median age of residents is 37 and average annual household income is \$71,000. The average house price is \$592,000. Yaletown has a very strong business improvement association. The Yaletown business community funds the association and, in return, the association creates a strategic and marketing plan for the community.

**Figure 3:10 Outdoor Patios in Yaletown**



Source: <http://yaletowninfo.com/wordpress/wp-content/uploads/2013/08/YaletownShopathon-35.jpg>





Source: <http://victoriasfoodsecrets.com/2010/05/urban-thai-bistro/>

#### **3.1.4.2 Gastown**

Gastown is the oldest part of Vancouver. It is bounded by Water Street in the north, Richards Street to the west, Main Street in the east, and Cordova Street to the south. It is a tourist destination with a strong nightlife and mix of hip and contemporary businesses. Annual popular events like the International Jazz Festival and Global Relay Gastown Grand Prix international bike race take place on the cobblestone streets of Gastown. The steam clock shown in Figure 3:11 is a landmark tourist destination.

Gastown is known for its independent fashion and interior design. The demographics are young professional adults aged 20 to 40 without children. In the past ten years, young professionals have been purchasing high-end housing. Popular Gastown restaurants

include Steamworks, Rogue, the Old Spaghetti Factory, and Meat and Bread. The nightlife is quite diverse with live bands and various pubs and bars. Gastown is changing; there is significant new development and the area is becoming a new hotspot in Vancouver.

**Figure 3:11 Water Street in Gastown**



Source: <http://en.wikipedia.org/wiki/Gastown>

### **3.1.4.3 Coal Harbour and the Waterfront**

Coal Harbour and the Waterfront are bounded to the southeast by Burrard Street, to the southwest by West Georgia and West Pender Street, and to the northwest by Stanley Park. The neighbourhood has numerous high-rise office and apartment buildings, as shown in Figure 3:12. The neighbourhood is home to upper class baby boomers with considerable disposable income. There are private marinas, several rowing and boating clubs, and a community centre. Real estate is very expensive and the area has a significant amount of foot traffic to Stanley Park and the downtown core. The neighbourhood is minutes away from the cruise ship terminals and public transportation. The views are among the finest in the world. Cactus club recently opened its flagship restaurant in the Jack Poole Plaza across from the Olympic Cauldron and the Vancouver Convention Centre (Figure 3:13).

**Figure 3:12 Coal Harbour**



Source: [http://en.wikipedia.org/wiki/Coal\\_Harbour](http://en.wikipedia.org/wiki/Coal_Harbour)



**Figure 3:13 Coal Harbour Cactus Club**



Source: <http://www.cactusclubcafe.com/location/coal-harbour/>

#### **3.1.4.4 West End Vancouver**

The West End is bordered by Stanley Park to the west, West Georgia Street to the north, Burrard Street to the east, and Pacific Avenue to the south. The West End has the busiest and best beaches in Vancouver. It is a family oriented neighbourhood and it known to be a gay-friendly community. The community hosts multiple events such as the Celebration of Light Firework, the Vancouver Sun Run, and the Pride Parade.

Robson Street, a major east-west thoroughfare, is the most famous shopping street in Vancouver. Davie Street, also known as Davie Village, is home to young, trendy, and gay professionals, while Denman Street is more family oriented and attracts an older generation. The population of the West End is 44,560 with an average household of 1.5. The average household income is \$39,000. The average household income is low due to

seniors living in senior facilities. Figure 3:14 provides a glimpse of a diverse neighbourhood in the West End.

**Figure 3:14 West End Vancouver - Beach**



Source: <http://archive.citycaucus.com/2011/07/vancouver-west-end-an-sanctuary-for-status-quo>

The West end of Vancouver is home to numerous businesses, including 15 accommodations and hotels, 16 bars and clubs, 182 restaurants, 132 shops and convenience stores, 120 professional services, and 60 beauty, health, and fitness establishments.

Denman Street offers many types of ethnic food, and the street is packed with restaurants, ranging from upscale French cuisine to fast food pizzerias.



#### **3.1.4.5 Feasible Locations – Summary**

This section analyzes feasible locations for Drop In. Yaletown is a suitable location for Drop In. Yaletown has many attractions, such as Rogers Arena, B.C. Place, and the Queen Elizabeth theatre. The population has high disposable income and is the trendiest among Canadians. The Yaletown business association is one of the strongest business associations in Vancouver. Creative and designer businesses in Yaletown complement the wine industry. There are also other liquor primary on-site establishments, such as the Yaletown brewery, that attract significant foot traffic.

There is also considerable development in Yaletown. For example, Paragon is proposing a half-billion dollar investment in a casino near B.C. Place, which will increase foot traffic in the area. There are two high-rise developments that will also increase the population in the area. Yaletown has the greatest potential due to the ongoing development and high disposable income of its residents.

#### **3.1.5 Marketing and Themes**

Marketing focuses on four factors, price, product, promotion, and place. These four Ps can be expanded to seven Ps for services by considering people, process, and physical evidence, as shown in Figure 3:15.

**Figure 3:15 Marketing Seven Ps**



Modified by the author based upon information from <http://www.entrepreneur.com/article/70824>

Drop In's niche market is young female professionals with a median average salary of \$80 K and an appetite to expand their knowledge of wine. This demographic makes up 51 percent of the downtown core and includes local residents and commuters.

The image of Drop In is one of a happy hour experience. This is a place where consumers can enjoy, learn, and be social. The Drop In marketing approach is as follows:

- Monthly wine themes, such as Italian, French, Chilean, and Argentinean, to promote local, regional, and foreign wines. The themes will include local community neighbourhoods and will exhibit these cultures in the Drop In establishment.
- Monthly contribution to blogs, local magazines, and wine associations regarding the latest wine trends.
- Join the YBIA and chair local events to increase customer traffic and reputation in the community.
- Associate with local restaurants to provide coupons to consumers.

- Associate with the Vancouver Police Department to create awareness about responsible drinking. This aligns with the corporate social responsibility strategy.
- Establish business as an alternate venue to host private and business functions.
- Promote the Drop In loyalty program, which allows consumers to receive points for purchases. In addition, provide loyalty cards with a free first time sample to local businesses to spread the word and encourage repeat customers.
- Create a buzz marketing campaign to promote a pre-launch party for local residents and businesses, as shown in Figure 3:16. Buzz marketing will continue with various themes, such as inviting guests from B.C. wineries.
- Create daily sales targets for staff. Staff must serve four customers per hour. The consumer must purchase a \$20 loyalty card. This will be part of Drop In's performance metrics.

**Figure 3:16 Marketing Flyer for Drop In**



Designed by Robert Baron 2013

Chapter 6 will analyze the marketing strategy in detail.

### **3.1.6 Big Data Analytics**

Drop In will capture significant amounts of data from customers. This data will be transformed to information using specific algorithms. Analysis of this information will yield knowledge (big data). Through a profit centre approach, Drop In will sell information and knowledge to wine distributors and manufacturers. This information, including customer ratings, point of purchase trends, repeat customers, and other data, will be useful for wine manufacturers and distributors around the world. In addition to being able to view user data, the information will allow Drop In to identify trends, which will assist in determining product offerings and wine themes.

Host computer systems and data are relatively inexpensive through cloud-based solution providers, such as Amazon and Google. One of the numerous local IT shops will network the establishment, which will allow Drop In to gather data from various locations as it expands.

## **3.2 Drop In – Value Chain Analysis**

This section focuses on the value chain analysis and processes that create profit for the organization. Competitive advantages can be lost very quickly. Organizations sustain competitive advantage for only as long as the services they deliver and the manner by which they are delivered demonstrate attributes that correspond to the key buying criteria of a substantial number of customers (Duncan, Ginter, and Swayne pg 7). Internal and external environments change rapidly, and competitive advantages are often a function of a firm's flexibility and ability to respond to current trends.

The value chain processes begin with the customer purchasing a loyalty card or downloading the mobile application on their smartphone or tablet. The point of sale occurs on the devices shown in Figure 3:17. This device allows the servers or manager to walk around the establishment freely to make sales, which is a convenience for both the customer and Drop In. Once a consumer purchases a loyalty card, the loyalty card is used to make all purchases in the store, including merchandise, wine, food, and services. The e-commerce process controls inventory purchases and reduces administrative labour costs by electronically tracking what has been selling at each location. This reduces manual review and provides real-time information; thus, the firm can make fast strategic decisions based on current market trends. All merchandise and inventory will be tracked by electronic devices using special codes.

**Figure 3:17 Mobile Point of Sale Device**



Source: <http://tabtimes.com/news/ittech-stats-research/2012/03/26/mobile-shoppers-want-retailers-ditch-cash-registers-tablets>

The IT is the hub for inbound activities and services. Figure 3:18 illustrates the value chain process and the links to profitability. Inbound activities include inventory purchases, which includes food, wine, beverages, and merchandise. Operations include setting up the Enomatic machines, scheduling events, maintaining the establishment, changing products in the Enomatic machines, cleaning glasses, and selling products. Outbound activities include the loyalty cards and the smartphone applications the consumer uses to record their experience. The consumer is taking away an experience and tacit knowledge. Drop In's marketing and sales strategy is a pull strategy. Services and products will pull the consumer to the establishment because the consumer wants the products and services. The ability to provide the consumer with a large variety of wines with information and no purchase obligations is a pull marketing strategy (discussed in Chapter 6). Consumers seek information and want to sample various types of wine. For example, the Vancouver Wine Festival hosts thousands of people that attend sold out wine-tasting events.

Services are activities that enhance inbound activities. The services are partnerships, associations, and the supply chain. Inbound activities add value to the products and services (Stabell and Fjeldstad 1998). Wineries will have opportunity to market their products at Drop In. Rather than opening their own establishments, wineries can work with Drop In to market new wines. This presents a service opportunity. Wine can be delivered to the consumer's house from the winery or liquor store using the Drop In technology.

**Figure 3:18 Value Chain Activities (Stabell and Fjeldstad 1998)**



Developed by author 2014. Adapted from Stabell and Fjeldstad, 1998

### **3.2.1 Products and Services**

Drop In will carry the following products and services:

- 1) Wine by pour or glass (alcoholic and non-alcoholic).
- 2) Coffee, juices, and soft drinks for non-wine drinkers.
- 3) Fresh pre-packaged food made by local chefs, including desserts, fruits, vegetables, meats, and cheeses.
- 4) Wine accessories, such as cork screws, wine glasses, cheese cutting boards, Enomatic machines, and wine aerators.
- 5) T-shirts and novelties.
- 6) Pictures and videos of customers drinking and enjoying the most expensive wines or champagnes in the world.
- 7) Weddings and private events, such as business and bachelorette parties.

The products and services will be high quality and will show the Drop In logo. Each service and product will have performance metrics to meet and are expected to exceed customer expectations. With the smartphone application and loyalty program, Drop In will have the ability to receive real-time feedback regarding its services and products.

### **3.2.2 Customer Service**

Excellent customer service is vital to the firm. Drop In will train employees on customer service and explain that customer service is a primary focus. This includes five distinct activities that the staff must learn. First, customers are number one. Customers are number one when the firm understands the customer's current and desired perceptions. In addition, the company must understand the factors that influence those perceptions (Pitt 2013). Consumer perceptions change over time; thus, it is important to engage customers and understand their perceptions. The knowledge from these engagements will be documented and transferred to employees. This empowers employees to understand the customer's needs. This is similar to the clothing company Zara's marketing process. Zara's managers communicate with the supply chain about the latest trends in their market based on manager interaction with customers and observation of the business environment. However, such activity is prone to weakness because the shared internal knowledge can be transferred to other firms by employees that possess the knowledge (Brydon and Vining 2006). Drop In must engage staff, provide proper incentives, and protect intellectual property, including documents and IT.

The second distinct activity is training the staff about wines and their respective regions. The staff must possess basic wine knowledge, and the employees will be required to pass exams that Drop In will create. Drop In will provide training and reading material; thus, employees will be successful and will feel confident in their ability to complete the exams. All employees will be required to complete three sets of training per year. This training is required because there are various types of wines from different regions. It is



important that staff learn about wine regions of the world because part of the Drop In experience will be various themes from these regions.

The third distinct activity is the rewards or loyalty program. Customers will earn more rewards as they visit Drop In more frequently. The rewards include wine tastings, glasses of wine, merchandise and food, private seminars, winery tours in the Okanagan, and an all-expense paid trip to a French or Italian vineyard.

Reward points are calculated based on the cost of the reward. Over time, more rewards will be added to enhance the customer experience. This reward program is based on customer feedback and may change with market trends.

The fourth distinct activity is customer convenience. Customers value their time; thus, by providing staff with point of sale tablets, customers may make purchases anywhere in the establishment. This will decrease line ups and allow customers to better enjoy their time in the establishment. This customer experience will be enhanced by personal service.

This experience works very well at Sephora, which allows transactions to be completed using tablets.

The fifth distinct activity is documenting the experience. A customer with a smartphone or tablet can record their experience, including rating wines based on their taste, recording distinct flavours, and the ability to buy wine from associated liquor stores.

### **3.3 Summary**

Chapter 3 has analyzed the internal competencies of Drop In. The resources and capabilities were reviewed in the internal analysis and indicate that Drop In will be distinct and competitive. Drop In differentiates itself from its competitors by taking

advantage of customer convenience and offering expertise. The IT and management adds to this convenience and expertise by:

- 1) providing pre-paid cards to decrease labour costs and increase customer enhancement,
- 2) providing tablet devices and mobile applications to track consumer experiences,
- 3) gathering data, information, and knowledge in real-time to facilitate the ability to make quick strategic decisions,
- 4) reducing cost by strategically purchasing inventory in a timely manner.

The design and decor caters to young professional females that seek wine knowledge and social events. The design appeals to this female demographic and is located near establishments that females frequently visit, such as spas, hair stylists, and boutiques.

This also adds to the customer convenience. In addition, the loyalty program, which provides added value to the consumer, is similar to those used at Starbucks, Sephora, and Dior.

## **4: What Is Drop In's Competitive Advantage?**

Competitive advantage is a firm's ability to capitalize on its strengths and correct its weaknesses, while blocking threats and embracing opportunities. Strengths and weaknesses are determined by internal organizational assessment and are measured against competitors, while industry assessment defines opportunities and threats. Competitive advantage, which is the core competencies of the organization, creates profitability within the industry. These core competencies drive Drop In's value and differentiate the organization from its competitors. The firm could compete in five areas: price, expertise, low cost, convenience, and variety or selection (differentiation); however, it is impossible to compete in all five areas. Drop In's competitive advantages will be derived from information technology (convenience) and brand awareness (expertise - trust and loyalty). This section discusses these distinct competitive areas, which are information technology, brand awareness, and competitive position relative to competitors.

### **4.1 Customer Experience - Information Technology and Ecommerce**

Currently, competitors in on-site liquor consumption have taken limited advantage of information technology. The point of sale controls inventory and sales; however, there is no loyalty program at competitor establishments. Loyalty programs enhance the customer's experience. For example, Starbucks has captured the loyalty program in the coffee industry. In addition, Tim Horton's is also working on a loyalty card program. In

the on-site liquor consumption sector, there is opportunity to provide consumers with a unique experience that is supported by a loyalty program. The consumer experience can be transferred to other locations through technology as the organization expands. In addition, big data, which will be obtained through customer experience, will be a by-product or service. Wineries and other retail outlets can purchase this data to help them understand customer demographics. IT is the backbone of Drop In's customer experience. This technological backbone will be difficult for competitors to copy because Drop In is the first mover and will have both the information and knowledge to initiate expansion. The required IT is expected to be a one-time investment for the firm. This one-time investment will help establish the organization's essential core competencies, which is customer experience through IT. As the organization expands rapidly to various locations, IT will enable the organization to share information, perform training, and standardize procedures. This is part of the replication strategy and IT is the supporting infrastructure to enable that growth.

IT is a tool used by the target market, which is the Millennial generation. The Millennial generation utilizes technology and values their time. They seek information to make informed decisions. Drop In's IT is the hook for this target market. In addition, Drop In's competitors are currently focusing on social media, web sites, and advertising to offer its products, which is a push marketing strategy. By using IT and gathering consumer data, Drop In will strategically capture this target market using a pull marketing strategy. IT will differentiate Drop In from its competitors. It will be a critical component of ordering inventory and merchandise that will allow the firm to reduce inventory and labour cost

and increase revenue, while offering consumers a convenience and a positive memorable experience.

## **4.2 Brand Awareness**

Creating a brand requires time, money, and effort. Starbucks grew through aggressive expansion by providing a standardized speciality coffee experience. In the start-up stage of Starbucks' business, the public's perception of Starbucks was a coffee for the upscale trend-setting crowd. It was difficult for the average consumer to order a speciality coffee due to the large number of choices available; however, Starbucks has successfully gone mainstream, and latte is now a household term. Starbucks used coffee as a vehicle to provide an experience for their consumers. McDonalds and Tim Horton's also have lattes in their product lines and are trying to catch up in the specialty coffee industry, but their experience is different from Starbucks. Recently, Starbucks acquired a tea company as a part of product diversification, which allows them to offer substitute products. Starbucks has created a powerful brand by providing consumers with an experience. This experience comes at a cost to the consumers; however, consumers have demonstrated their willingness to pay for the experience.

Wine is in the same category as specialty coffee. Wines are expensive and there are limited places to sample or enjoy a variety of wines. Drop In is creating a brand for wine consumers that is similar to a speciality coffee brand. By concentrating on customer service, strong IT, big data analytics, associations, and fast expansion, Drop In will capture a large market share in the on-site wine-only consumption business. The target market is perfect for expansion. Young professional women are excellent prospects to

expand the brand, and the women will pull the other demographics, such as young professional men to Drop In. By expanding, standardizing, and training, Drop In will create a strong brand.

The consumer considers a brand as value added to a product or service. By adding value, the firm can charge a premium for the experience. Thus, a strong brand is important to maintaining consumer interest. However, the firm must maintain resiliency by ensuring that the value added experience results in profit. This is a slippery slope because, as the consumer becomes more sophisticated and more knowledgeable about the products or services offered, the consumer will request more value added experience for their dollar. Firms continually offer a variety of products and services to maintain consumer interest. For example, McDonald's maintains consumer interest by offering a variety of standardized products at low price. Starbucks offers various types of coffees and foods, as well as seasonal products, such as eggnog lattes during Christmas. Variety and selection maintains consumer's interest in the establishment.

### **4.3 Drop In's Competitive Position**

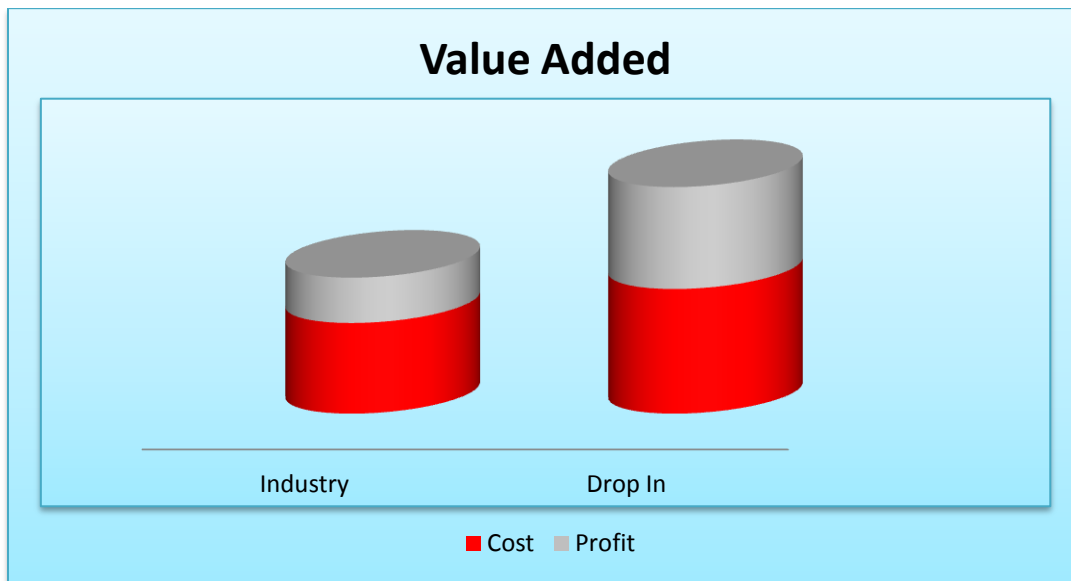
As a start-up venture, how can Drop In create a competitive position in the on-site liquor primary industry? This section discusses seven important initiatives that Drop In will perform to gain a competitive advantage in the industry.

#### **4.3.1 Develop Drop In's Brand**

Drop In's brand is its value added consumer experience. Drop In will maintain competitiveness by offering high quality service with expertise and convenience. Figure

4:1 compares Drop In's economic value add against the competitors. Technology, management expertise, and effective design enhance customer experience. This enhanced experience generates greater profits because the consumer is willing to pay more for the experience.

**Figure 4:1 Economics of Value Added Experience**



Developed by author 2014

Drop In's brand starts with a strong logo that evokes an emotional response. Figure 4:2 shows the Drop In logo, which is an imprint of a red wine stain with a bold name in the middle. The name is simple and easy to remember.

**Figure 4:2 Drop In Logo**



Designed by Rob Baron 2013

The second attribute to creating a strong brand is a credo. What is the company's value? What does the company stand by with its product or services? What will consumers expect from the brand? Does the brand relate to consumer behaviour? Are all stakeholders aware of the company's values and expectations? The brand makes a unique and welcoming promise according to functional and emotional values (de Chernatony, McDonald, and Wallace pg 324). The Drop In credo creates a connection between employees, partnerships, associations, and customers. Drop In's credo is a statement "experience the taste", which the statement is an open invitation to everyone. The brand is symbolic, and the credo is the flag that represents the organization (Wexler 2012). Drop In's brand is superior customer service and experience, while providing the customer with knowledge. This knowledge is available to the consumer through technology at their convenience. With the loyalty program and by electronically documenting the experience, the customer can recall the experience using tablets and smartphone applications. This experience is similar to reviewing a picture. Pictures drive



positive memories and experiences, and repeated experiences add value to the customer while creating profit. The experience must be positive; thus, it is important that customer service is Drop In's number one priority. The brand creates trust, and this trusting relationship between the firm and customer is the foundation for a successful brand.

### **4.3.2 Develop Documentation and Training**

Documentation and training are important for two reasons. First, documentation and training creates a uniform experience and expectations because it records and communicates the positive and negative experiences. The staff members learn from the documentation and training and they adjust their service to enhance customer experience. The living documentation is electronic and can change with the market and expansion. Second, the documentation is knowledge that disseminates throughout the organization, which empowers employees. Training is a requirement; thus, all employees are training throughout the year. This allows the organization to maintain high customer service and feedback from employees, which is valuable to the organization. Drop In's technology gathers information from customer, employee, and partnership feedback through smartphone applications, social media, and the loyalty program. Technology is a vital piece of documentation and training, and our competitors lack effective technological expertise and infrastructure, so our competitors are slow in making informed decisions, while Drop In is able to make real-time decisions and communicate the information to their employees.

### **4.3.3 Develop Customer Service Guidelines**

Customer service is very important to Drop In. It is essential for the survival of the organization, and Drop In must have a guideline program for employees. The guidelines will cover the following:

- 1) Greet the customer with a smile. The customer is number one.
- 2) Actively listen to the customer and document what the customer desires from the establishment.
- 3) Communicate and document what is and is not working with customer service.
- 4) Observe the customers. Who needs assistance? Who is unhappy? Are the customers enjoying themselves?
- 5) Customer satisfaction—ensure the customer has a wonderful experience.
- 6) Sell loyalty cards so customers can access promotions.
- 7) Activate smartphone applications and loyalty cards.

The guidelines are live electronic documents that are available online. The documents will form the foundation of Drop In University. Drop University is a strategic long-term initiative that educates employees on customer service. The online documentation is important, so Drop In will manage the documentation and safeguard the information.

### **4.3.4 Develop Tools for Analytics**

Technology will provide data about consumers and the industry. This data is very valuable because the mined data can be profitable. The mined data will provide market trends and promotional campaigns. This intellectual property is very valuable; thus, it is important to secure data against theft and compromise.

The development tools will be operated in-house but initial development will be outsourced. The analytical tools include algorithms, reporting tools, and statistical analysis. The analysis and reports are by-products, and these by-products are a profit

centre for the organization. Big data analytics is a key for gaining knowledge in the wine industry and learning about the consumer. Currently, competitors have very little data analytics, so Drop In has opportunities to gain data on the industry and the consumers.

#### **4.3.5 Offer Diversify Product Line**

This section examines the product line that Drop In offers to its customers. It is important to maintain consumer interest in the products or services; otherwise, consumers may lose interest and move to competitors. Drop In management and employees must be aware of current market trends, and the organization must be flexible so it can move swiftly with market changes. By creating buzz about new products and services, the organization can maintain customer interest and loyalty.

#### **4.3.6 Offer Specialty Products and Services**

Drop In will introduce wines, seminars, and wine accessories as its products and services. Initially, it may be difficult to maintain interest in one type of beverage; however, interest depends on marketing campaigns. Among similar businesses, Drop In will have the largest variety of wines and accessories, and these varieties will change frequently which will help maintain consumer interest. Drop In will purchase the most expensive wines and allow consumers to sample these wines. Such expensive products provide the consumer with a unique experience for a fraction of the normal cost. There is no commitment to purchase an entire bottle of wine. The customer can discuss the experience with friends and colleagues, which will create buzz in the target market. Specialty products will be available for only a limited time, which creates urgency. These specialty products are central to a successful organization. For example, Kopi Luwak

coffee is a highly specialized product. Kopi Luwak coffee is made from a coffee bean that is digested by an Indonesian civet cat. The coffee bean sells for over \$500 per pound. Few speciality cafes offer this product; however, publicity has drawn a large number of customers to the cafes that sell Kopi Luwak coffee.

It is important to maintain buzz and keep consumer interest. This is where technology can provide advantage. Technology is a mechanism that provides timely information to the target market with relative ease. With big data analytics, Drop In can inform its target market of specialty products, such as foreign wines, expensive champagnes, travel packages to B.C. vineyards, and food pairing seminars. Speciality products require Drop In management to be vigilant and aware of products from around the world. It is also important for Drop In to develop strong relationships with various associations and B.C. wineries. Other services include, private wine parties, corporate events, bachelorette parties, private wine seminars, market B.C. vineyards, and family functions.

#### **4.3.7 Offer Variety of Experiences**

Drop In is not a manufacturer or a distributor. Drop In is a service provider, and as a service provider, Drop In will offer various experiences. Drop In will have various themes that will be employed strategically.

Drop In will offer wines from various regions. Drop In will dedicate a week of marketing to each region. The entire establishment will transform according to regional themes. For example, if it is Italian week, the establishment will invite the Italian community, provide Italian food and wine, and play Italian music. Drop In will cover most regions, and will involve local communities and celebrate special occasions.

During sporting events, Drop In will support local teams. Drop In will invite individuals to enjoy beverages while watching sporting events. The management team will partner with local sports events to give away souvenirs during games. Drop In will use the same model for musical and theatre events, such as Cirque du Soleil.

As part of corporate social responsibility, Drop In will collaborate with the Vancouver Police Department. This partnership will focus on the impacts of drinking and driving. This will help create positive awareness of responsible drinking. Drop In offers wine samples, and this positive social awareness will help consumers can make informed and socially responsible decisions when purchasing wine products. The establishment offers a responsible drinking venue, and as part of Drop In's superior customer service, the smart card application limits the number of drinks per customer.

#### **4.4 Summary**

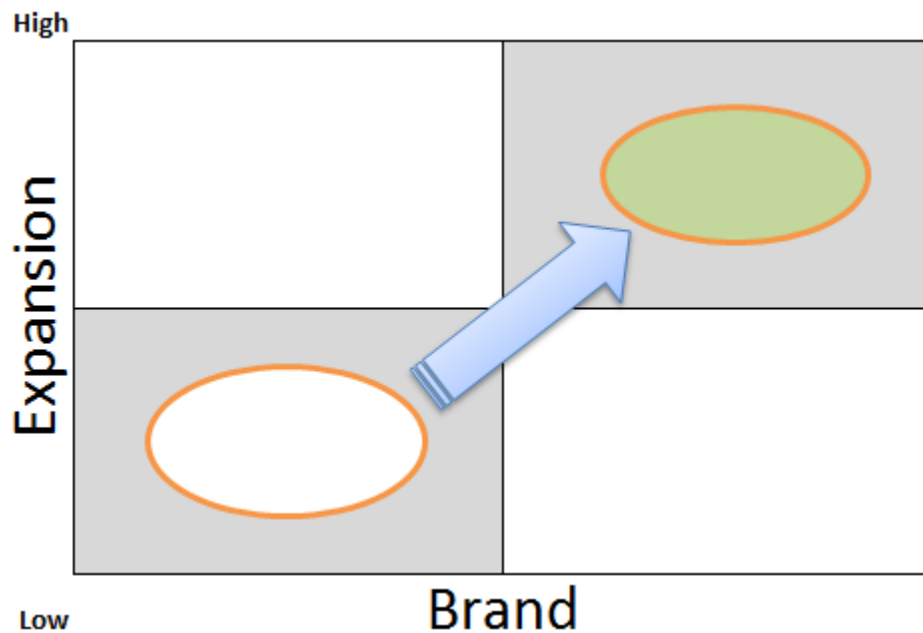
Drop In's competitive advantage begins with brand awareness and supported by technology. This technology adds value for the customer. The technology is a mechanism by which the customer can receive promotions and be part of the loyalty program. The technology offers continuous reminders to consumers about the variety of experiences provided by Drop In.

The brand creates an emotional bond between customer and organization. The emotional and functional values are experiences that are based on trust. The organization creates trust with expertise and knowledge, which the consumer relies on to make educated choices. The brand will become stronger as the organization expands and gains further trust from a greater number of consumers, and this growth will continue to add value to

the brand. In turn, the brand creates profit for the organization. Figure 4:3 illustrates how growth creates brand awareness. Expansion creates awareness among a greater number of consumers. Therefore, as consumer awareness of Drop In's products and services grows, consumer loyalty and brand credibility will also grow.

By offering a variety of experiences, specialty products and services and developing customer guidelines, documentation and training, and data analytics, Drop In will create a competitive position among the on-site liquor primary establishments. The organization will gain tacit knowledge, which enhances the brand awareness. The strong customer experience will lead to higher willingness to pay, which is an advantage for Drop In.

**Figure 4:3 Expansion vs. Brand**



Developed by author 2014 based upon information from de Chernatony, McDonald, and Wallace pg 324

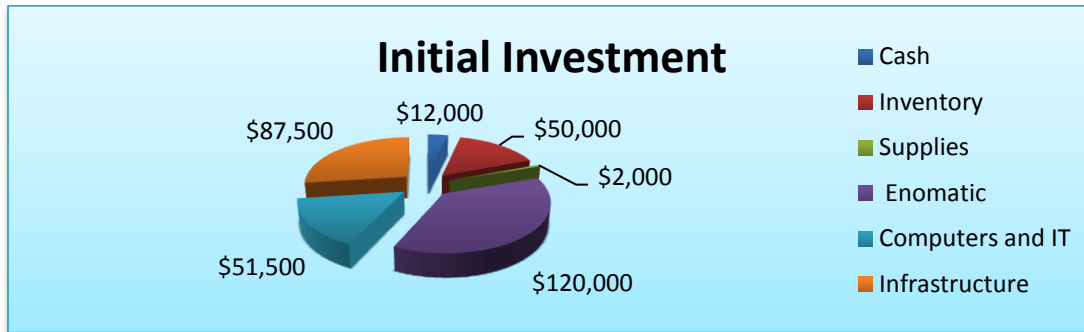
## **5: Financing**

This chapter describes start-up costs, sources of funding, break-even analysis, five-year financial projections, discounted cash flow, and capacity analysis. The pro forma financial statements are in the appendices, including an income statement and balance sheet. The chapter concludes with a financial risk analysis associated with market and financial projections.

### **5.1 Start Up Costs**

The detailed listings shown in Figure 5.1.1 are the start-up costs for Drop In. The major investments are the Enomatic machines and the IT, which collectively equal 53% of the initial investment. The Enomatic machines and IT enhance customer experience, lower costs, and enable quick decisions for the organization and customer. There is a potential to decrease start-up costs by negotiating volume discounts on the Enomatic machines and lowering infrastructure costs. The infrastructure cost includes a 25% contingency for new washrooms. If a location has an existing washroom, the infrastructure cost will decrease.

**Figure 5:1 Start-up Costs**



Developed by author in 2014 based on financial projections

## **5.2 Source of Funding**

The initial investment for start-up is \$323,000. The source of funds is \$50,000 long-term debt from a bank at a 6% small business interest rate. The three major investors are investing \$50,000 each, and influential local business investors are funding the remaining \$118,000.

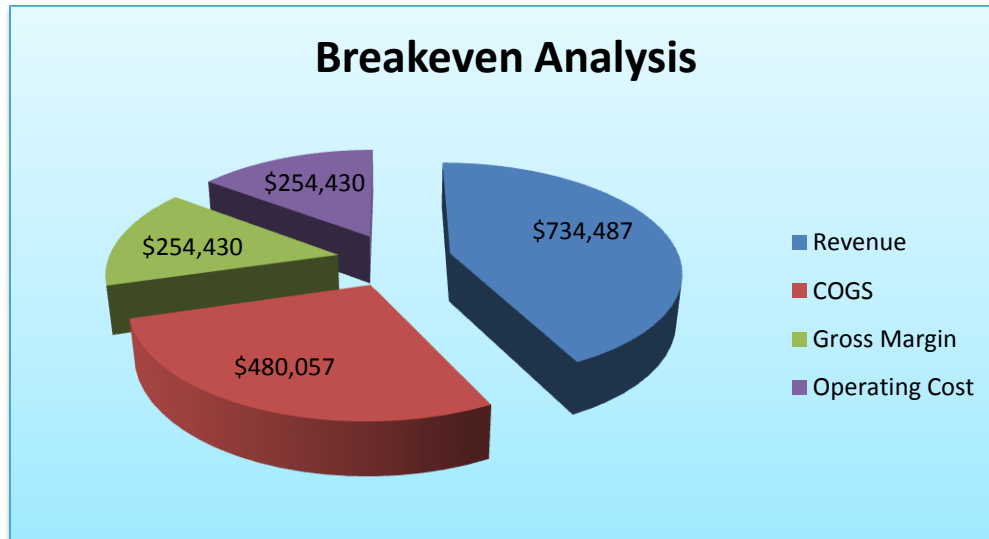
Further investment will be required for expansion; however, this investment will be less than the original start-up cost because the organization will be investing in a centralized IT system.

## **5.3 Breakeven Analysis**

This section reviews Drop In's breakeven analysis. The annual operating cost for Drop In is \$254,430, and the variable cost is \$480,057. Thus, Drop In must generate \$734,487 in revenue to break even. Figure 5:2 illustrates Drop In's breakeven analysis.



**Figure 5:2 Breakeven Analysis**



Developed by author 2014 based on financial projections

To further breakdown the volume of pours required to breakeven, the company must sell 32 bottles per day, which is 768 ounces per day based on a 24 ounce bottle. If a single customer has six wine pours per day, i.e., 12 ounces, Drop In must serve 64 customers daily. This is approximately six customers per hour in a 10-hour operation. Annually, Drop In must sell 11,427 bottles (i.e., 274,245 ounces).

Drop In will be selling loyalty cards or smartphone app transactions at \$10 increments.

To break even, Drop In must sell 73,449 \$10 transactions (breakeven revenue is \$734,487). This equates to 204 transactions daily based on a 360 day per year operation.

Every hour of operation, Drop In staff must complete 20.4 transactions, or one \$10 transaction every three minutes.

## 5.4 Financial Projections

Based on the financial projections from 2015 to 2020, Drop In will be a profitable venture. In Appendix I, the Pro Forma Income Statement shows a \$225,096 net income after taxes in the first year. The projections show \$1.4M revenue. \$1.1M of the revenue is from wine pours, which equals daily consumption of 65 bottles or 1,560 ounces by approximately 130 customers, each drinking 12 ounces of wine or six samples.

The gross margin is 47 percent and increases slightly from 2017–2020 based on 10 percent annual growth. Figure 5:3 provides a breakdown of Drop In’s pricing strategy. The wine will be priced in four categories. Wine bottle cost, ranging from \$10 to \$25, will represent 75 percent of the inventory and will have the highest gross margin. This price point is attractive to the target market. The lowest gross margins are in high price point wines. Price per pour is extremely high and high priced wines are not lucrative due to holding inventory cost and waste. The pricing strategy is discussed further in Chapter 6.

**Figure 5:3 Pricing Strategy**

Bottle Cost		Gross Margin	2 oz	3 oz	6 oz
Represents 75% of customers	\$ 10.0		72%	69%	64%
	\$ 15.0		58%	53%	46%
	\$ 20.0		44%	38%	29%
	\$ 25.0		31%	22%	11%
Represents 14% of customers	\$ 30.0		50%	46%	50%
	\$ 35.0		42%	38%	42%
	\$ 40.0		33%	29%	33%
	\$ 45.0		25%	20%	25%
	\$ 50.0		17%	11%	17%
	\$ 55.0		8%	2%	8%
Represents 10% of Customers	\$ 60.0		50%	50%	40%
	\$ 65.0		46%	46%	35%
	\$ 70.0		42%	42%	30%
	\$ 80.0		33%	33%	20%
Represents 1% of customers	\$ 90.0		25%	25%	10%
	\$ 100.0		17%	17%	17%
	\$ 150.0		17%	6%	6%
	\$ 200.0		17%	17%	17%
	\$ 300.0		17%	6%	6%

Developed by author 2014

Table 5.1 provides six key financial ratios, which are good indicators of organizational performance. The return on sales is the net income earned over sales. With high gross margins on pours, the return on sales is 21 percent in the first year and grows to 34 percent in 2020. The increase is due to lean operating cost structure enabled by Drop In's IT infrastructure. The debt to equity rate is very low because investors are funding the business. The debt increases cost in the form of interest and there are obligations to pay debt in a timely manner. With a very low debt structure, there is a potential to increase debt to expand the business in the future.

Return on equity is an important profitability calculation that demonstrates the return of money based on investment. In the first year, the shareholders will gain 84 percent return

on their investment, and as the business grows at 10 percent, the return on equity will also grow. The financial projections support the business model.

**Table 5.1 Financial Ratios**

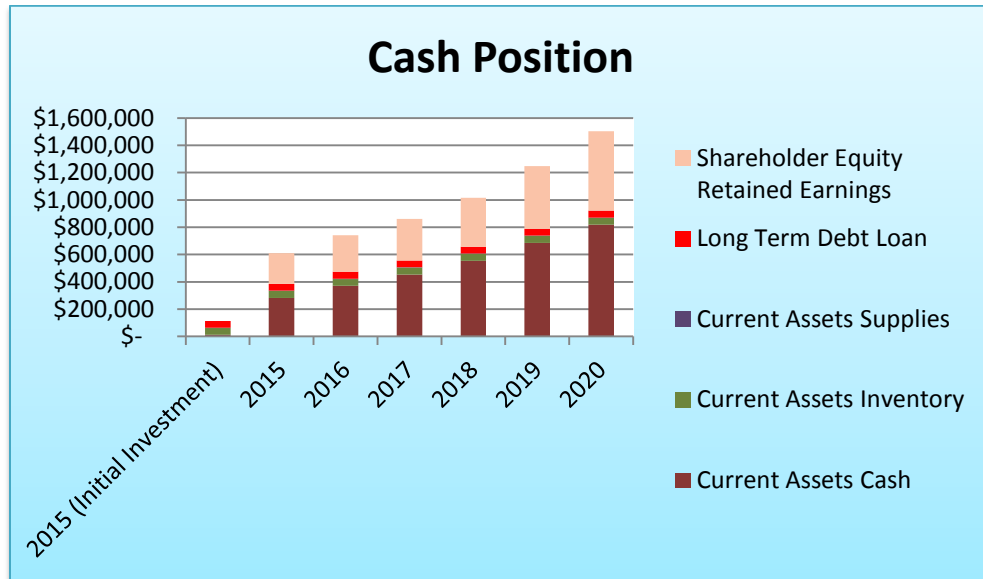
Years	2015	2016	2017	2018	2019	2020
Ratios						
Return on Sales	21%	23%	24%	25%	30%	34%
Gross Margin	47%	47%	48%	48%	50%	51%
Cash From Operations	\$270,721	\$313,548	\$350,779	\$405,581	\$504,416	\$628,292
Working Capital	\$329,721	\$418,173	\$501,029	\$601,456	\$733,041	\$865,667
Debt to Equity	0.11	0.10	0.10	0.09	0.08	0.06
Return on Equity	84%	100%	114%	134%	171%	217%

Developed by author 2014 based on financial projections

## 5.5 Discounted Cash Flow

Discounted cash flow analysis is a method to determine if an investment is attractive in current dollar values. Before we discuss results, it is important understand the cash position of the organization. Figure 5:4 illustrates Drop In's cash inflow. As can be seen, cash is projected to grow on an annual basis. The initial investment is a cash outflow. The discounted cash flow determines the cash inflow in current dollars versus the initial investment. If there is a positive cash flow (cash inflow minus initial investment) in today's dollars, the business is considered a good proposition.

**Figure 5:4 Cash Position**



Developed by author 2014 based on financial projections

Figure 5:5, which shows the discount cash flow, illustrates a positive cash inflow in current dollars. The discount rate is 80 percent, which is very high. This is a very conservative approach for discount cash flow analysis. Start-up organizations are very risky; thus, to compensate start-up risks, a high discount rate is a fair assessment. With a high discount rate, cash inflow must be also high. As is shown in Figure 5:5 , cash inflow is the net income from Appendix I. Based on financial projections and a discounted cash flow analysis with a very conservative discount rate, Drop In is a good investment for shareholders.

## Figure 5:5 Discounted Cash Flow

### Discounted Cash Flow

Discount Rate	0.80	<i>the discount rate is very high for start up businesses due to high risk</i>
Inflation	0.02	<i>based Consumer Price Index</i>
Nominal Rate	0.82	
Years	6	
Initial Investment	\$323,000	

NPV Calculation	F2015	F2015	F2016	F2017	F2018	F2019	F2020
Cash outflow	-\$323,000						
Cash inflow		\$225,096	\$267,923	\$305,154	\$359,956	\$458,791	\$582,667
NPV	\$ 2,196						

Developed by author 2014 based on financial projections and initial investment

## 5.6 Capacity Constraints

The City of Vancouver bylaw 8191 stipulates that a licensed beverage-serving establishment cannot exceed one-person per 12.917 square feet of usable space. Drop In's retail space is 700 square feet, of which 600 square feet is usable space. Thus, Drop In occupancy cannot exceed more than 46 individuals at any given time. Drop In may have up to six employees working at any given time; therefore, the maximum number of simultaneous customers is 40. If 40 individuals remain in the establishment for 30 minutes, and Drop In remains open for 10 hours, 800 customers can be served in a day. This equals 288,000 customers at maximum capacity for 360 days of operation. Based on the revenue projections of \$2.4M in 2020, the establishment is under capacity, while maintaining 10 percent growth over six years.

## 5.7 Financial Risks

Drop In is a start-up; therefore, financial projections are estimates. The accuracy of financial projections will be closely monitored and adjusted accordingly. The financial results will vary relative to economic conditions and the industry. The fundamental risk

to the organization is not sustaining repeat sales. It is important to maintain customer interest. Customer interest may change as the market changes. Drop In must establish sales targets and ensure that revenue is monitored relative to forecasts. The operating budget includes a healthy marketing budget. The management is responsible for designing the marketing campaign for the target market, and IT is critical to effective customer engagement. Therefore, Drop In will aggressively target the market to increase sales.

The establishment is vulnerable to new entrants due to low entry barriers. The IT, which helps position Drop In as a first mover, provides important advantage and a core competency. The custom applications and loyalty cards are difficult to design and implement, and as such, represent a significant cost. However, competitors with adequate funds will be able to compete in the on-site liquor sector. Thus, it is very important that Drop In's customer service is superior to competitors. In addition, Drop In must continuously upgrade the IT to add improved convenience and consumer experience.

## **6: Drop In's Short-Term and Long-Term Strategies**

The external and internal analyses and the assessment of financial implications support the business model. To implement the business model, it is imperative that Drop In establishes a short-term business strategy to penetrate the market and a long-term corporate strategy to sustain continued competitive advantage. The short-term business strategy focuses on market entry through a pull marketing strategy. The long-term corporate strategy focuses on expansion through a growth strategy. This growth will create strong brand awareness, which creates high entry barriers in the industry for potential competitors.

### **6.1 Business Strategy – Product and Service Differentiation**

In business, there are two types of activities, i.e., upstream and downstream activities. Upstream activities are production, distribution, and logistics. Firms with upstream activities build unique assets or capabilities and construct a wall to prevent them from leaking to competitors (Dawar 2013 pg 1). Downstream activities deliver products or services for a specific occasion or circumstance. Here is an example of upstream and downstream activities. A consumer is planning a bike ride through a local park. The consumer purchases a six-pack of vitamin water. The six-pack costs the consumer 75 cents per beverage; however, the consumer must carry the beverages and keep them cold during the bike ride, which is inconvenient. There is a local vendor at the park that offers the same beverage for two dollars. The consumer is willing to pay two dollars for the



convenience, which is a value added proposition for the consumer. The downstream competitive advantage resides with the linkages to the customer, channel partners, and complementors. It is often embedded in the processes of interacting with customers (Dawar 2013 pg 2). Downstream activities add differentiation and customer value.

Drop In is creating a value proposition for the consumer by providing experience and convenience. By using technology, Drop In differentiates its services from competitors. The consumer has access to Drop In experience information at their convenience. This information is shared with Drop In immediately, which allows Drop In to react immediately to consumer feedback. One of Drop In's competitive advantages is derived from this real time information. Drop In will use this information to create brand awareness, which will inform and educate the target market.

There are two specific strategies to gain target market penetration. The first is location, which is critical to a successful launch. The second is pricing strategy to gain profits from the industry. The third is the marketing strategy, which will pull the target market into the establishment.

### **6.1.1 Location**

In Chapter 3, the internal analysis investigated the potential target market. The analysis determined that young Millennial professional females comprise the best target market. The optimal location for this target market is Yaletown, Vancouver. The area is conveniently located near transit, spas, bars, and has a significant volume of young professionals with high disposable income. The location is strategic because it offers convenience to the consumer. The consumer can enjoy wine responsibly near their place

of residence. The location is upscale and trendy, which helps create brand awareness. In addition, with high-density housing close to the location, word of mouth advertising can easily spread. The location facilitates strategic downstream activity.

### **6.1.2 Pricing Strategy**

Drop In's pricing strategy is a critical component of the business strategy. Figure 6:1 provides a breakdown of how the organization will charge customers. The price will depend on the cost of a specific bottle of wine. Seventy-five percent of the inventory cost will range from \$10 to \$25, 14 percent will range from \$26 to \$55, 10 percent will range from \$56 to \$90, and 1 percent will range from \$91 and above. This pricing structure will reduce inventory; however, the gross margin will remain high. As shown in Figure 6:1, the pricing strategy is similar to purchasing popcorn at a movie theatre. The price of small popcorn is close to a medium popcorn; however, a large popcorn is usually priced higher. Similar to this pricing strategy, Drop In's small and medium pours are priced closely. If the customer enjoys the wine, the consumer can purchase a full glass. The most expensive wines will be the least attractive based on price point; thus, they have the lowest gross margin due to price sensitivity. If there is turnover of high priced wines, Drop In will change its pricing strategy. This is part of the replication strategy, which will be discussed later in this chapter.

**Figure 6:1 Pricing Strategy**

*Price Purchased from Liquor Distributor Branch (less 10% from wholesale)*

Bottle Cost		2			3			6			Price per Pour		
		2 oz	3 oz	6 oz	2 oz	3 oz	6 oz	2 oz	3 oz	6 oz	2 oz	3 oz	6 oz
Represents 75% of customers	\$ 10.0	\$ 0.83	\$ 1.25	\$ 2.50	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00
	\$ 15.0	\$ 1.25	\$ 1.88	\$ 3.75	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00
	\$ 20.0	\$ 1.67	\$ 2.50	\$ 5.00	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00
	\$ 25.0	\$ 2.08	\$ 3.13	\$ 6.25	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00	\$ 3.00	\$ 4.00	\$ 7.00
Represents 14% of customers	\$ 30.0	\$ 2.50	\$ 3.75	\$ 7.50	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00
	\$ 35.0	\$ 2.92	\$ 4.38	\$ 8.75	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00
	\$ 40.0	\$ 3.33	\$ 5.00	\$ 10.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00
	\$ 45.0	\$ 3.75	\$ 5.63	\$ 11.25	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00
	\$ 50.0	\$ 4.17	\$ 6.25	\$ 12.50	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00
Represents 10% of Customers	\$ 55.0	\$ 4.58	\$ 6.88	\$ 13.75	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00	\$ 5.00	\$ 7.00	\$ 15.00
	\$ 60.0	\$ 5.00	\$ 7.50	\$ 15.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00
	\$ 65.0	\$ 5.42	\$ 8.13	\$ 16.25	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00
	\$ 70.0	\$ 5.83	\$ 8.75	\$ 17.50	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00
	\$ 80.0	\$ 6.67	\$ 10.00	\$ 20.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00
Represents 1% of customers	\$ 90.0	\$ 7.50	\$ 11.25	\$ 22.50	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00	\$ 10.00	\$ 15.00	\$ 25.00
	\$ 100.0	\$ 8.33	\$ 12.50	\$ 25.00	\$ 10.00	\$ 15.00	\$ 30.00	\$ 10.00	\$ 15.00	\$ 30.00	\$ 10.00	\$ 15.00	\$ 30.00
	\$ 150.0	\$ 12.50	\$ 18.75	\$ 37.50	\$ 15.00	\$ 20.00	\$ 40.00	\$ 15.00	\$ 20.00	\$ 40.00	\$ 15.00	\$ 20.00	\$ 40.00
	\$ 200.0	\$ 16.67	\$ 25.00	\$ 50.00	\$ 20.00	\$ 30.00	\$ 60.00	\$ 20.00	\$ 30.00	\$ 60.00	\$ 20.00	\$ 30.00	\$ 60.00
	\$ 300.0	\$ 25.00	\$ 37.50	\$ 75.00	\$ 30.00	\$ 40.00	\$ 80.00	\$ 30.00	\$ 40.00	\$ 80.00	\$ 30.00	\$ 40.00	\$ 80.00

Developed by author 2014

### 6.1.3 Marketing Strategy

When consumers actively seek products or services, this is known as a pull marketing strategy. Pull marketing strategy creates demand through mass media or advertising. Pull marketing strategy is an expensive proposition; however, it is very effective when building a strong brand. There are several tactics for a pull marketing strategy, including mass media campaigns, buzz marketing, promotions and discounts, loyalty programs, word of mouth, and effective customer relationships.

Several months prior to launch, Drop In will initiate a buzz marketing campaign. This campaign will target the local community. The buzz will be very specific and provide very little information, which will trigger consumer interest. The campaign will employ word of mouth and social media. One month prior to the launch date, Drop In will run

print advertisements with local newspapers. There will be very little detail provided in the campaign and advertisements. The only information given will be the name, address, and the date of launch. The Drop In website will also have limited information; however, potential customers can register to gain further information. The registration process will allow Drop In to monitor the buzz marketing campaign and offer early loyalty incentives to consumers. One day before launch, registered consumers will receive an exclusive invitation to receive free samples and merchandise. On the day of the launch, there will be a celebration with free food and live music. In addition, local B.C. wineries will receive invitation to display their wines to the public. Drop In will proudly display its logo throughout the city. The logo is an important part of the marketing strategy. The logo is easy to remember and associates to the brand. The colours of the logo have been carefully selected to appeal to the target market.

To sustain buzz marketing, Drop In will offer various themes, such as French Wine Weeks, B.C. Wine Tours, or Exotic Wines. These themed events are also part of the marketing campaign. This marketing strategy is similar to a strategy used by Circus du Soleil, which has employed various themes. These themes provide different experiences for the customer and help maintain the customer interest in Circus du Soleil.

Drop In will use its IT to penetrate the identified target market. This will reduce the costs and time required to connect to the target market. Drop In will collaborate with numerous associations and create strong relationships with local businesses, which will help develop a good support structure. Drop In will also offer discounts and promotions on behalf of local businesses, including spas, restaurants, and beauty salons. This pull marketing strategy is the foundation for creating a strong brand. Management will

monitor the success of this marketing campaign based on the number of registrants from the smartphone application and the loyalty program. In addition, it is important that the customer stays engaged throughout the year; therefore, Drop In will evolve its services and products based on evolving market trends.

## **6.2 Growth Strategy: Replication**

A replication strategy has two distinct characteristics, a broad scope of knowledge transfer and attention to the dynamic capabilities that accumulate in the centre or focal organization (Winter and Szulanski 2001 pg 731). The characteristics noted above breakdown to three key criteria: urgency, a stable business model, and transition from exploration to exploitation.

Urgency is a trademark of replication strategy because the value is lost when rivals compete for the same opportunity. The time value of money dissipates when entry barriers are low. The industry can become saturated, and rivals will compete at lower profits. Urgency comes at a cost because the business model may not be stable and may require ongoing assessment and change. Thus, in the early stages of the venture, the business model will continue to have challenges, and the venture will be in an exploration stage. This is similar to innovation, which is a part of the life cycle of an organization. In the exploration stage, an organization gains experience, learns best practices, and designs a template. This process is known as “Arrow core” (Winter and Szulanski 2001 pg 731). This process helps determine which attributes are worth replicating or creating within the organization. The next stage is the transition from exploration to exploitation. This stage

is critical because the organization refines and creates capabilities that support replication activities.

Replication activities are only favourable if the information used to reproduce and operate a successful business is nonrivalous. In other words, information gained through replicated activities improves and does not diminish. Thus, knowledge or information obtained from learning is used to enhance capabilities and exploit opportunities.

For successful exploration, the organization must be flexible and capable of changing its Arrow core. A good example is the initial change made by the Starbucks chain. The first outlet was an Italian style espresso bar with Italian decor, music, and menu. These attributes were unfamiliar in Seattle, and people started to complain. At this critical point, Starbucks focused on the experience and quality of the coffee; they listened and changed.

Drop In will establish an Arrow core immediately. The activities will be documented online and will be flexible; thus, permitting senior management to make appropriate changes in a timely manner. Drop In takes advantage of e-commerce and technology; thus, Drop In will receive real-time feedback from customers. In addition, big data analytics will enhance the replicating attributes. The organization can change replication activities very quickly and adapt to the collected information and knowledge. All the information and knowledge will be safeguarded, as noted in Chapter three. The employees will require extensive training and be capable of managing new locations. This is the foundation to Drop In University. The university is the Arrow core template which is an everlasting online knowledge portal.

### **6.2.1 Expansion**

Expansion, which is critical to a competitive advantage, has three advantages. First, when the organization expands to multiple locations, it can utilize IT to exploit collected information and knowledge to gain further understanding of the target market. The cost of the technology is spread across multiple locations because the technology is centralized at head office. Second, expansion creates a strong brand and good customer loyalty. With multiple locations, consumers are able to utilize the loyalty program and take advantage of uniform service. The strong brand also creates high barriers to entry, making it difficult for competitors to imitate the brand. Finally, expansion creates economies of scale. As the organization grows, overhead costs can be spread across multiple locations, which will reduce cost and increase profitability. With significant economies of scale, the organization can negotiate deeper discounts by purchasing larger volumes, which in turn stimulates profitability. This also creates a barrier to entry. Figure 6:2 illustrates the growth and expansion cycle. The profits of the organization are reinvested in expansion, and expansion will lead to growth, which in turn will lead to greater profits.

**Figure 6:2 Growth Cycle**



Developed by author 2014

Drop In will grow in two stages. The first stage is developing corporate establishments. There will be seven corporate locations in North America. The corporate locations will be strategically located based on target markets. When the organization produces a solid return on investment at all seven locations, the organization will begin phase two. Phase two is franchising.

### **6.2.1.1 Corporate Locations**

The seven corporate locations will be in major North American cities, including Vancouver, Seattle, Portland, San Francisco, Toronto, New York, and Miami. Each of these cities has similar demographics, with a young Millennial population with high disposal income residing in the downtown core. By establishing in high density cities, the organization can acquire significant amounts of information in a short period of time. In addition, high foot traffic will help create brand awareness. If the establishment is



successful and operates above capacity, a second location can open in the city to accommodate continued growth.

#### **6.2.1.2 Franchise**

Franchising is a lucrative opportunity. The benefits that arise from franchising include securing funds to expand the business with limited shareholder equity, and very fast growth. In addition, franchisees have associated risks and are motivated to perform, and the centralized organization can remain small, which helps keep administrative costs low. Franchising can also provide additional sources of income through royalties and purchasing power.

However, franchisees must conform to certain rules. The franchisee will have limited input relative to the design of the store and the location. The location and the store décor are part of the Drop In brand and this will be enforced in the franchise contract. This prevents the franchisee from defecting and changing the name. The franchisee's responsibility will be to run the day-to-day operations. In addition, the franchisee will go through rigorous testing to ensure that they can run operation according to Drop In's business model. The franchisee will train for four weeks at the corporate flagship location in Yaletown. During the launch of a franchisee store, corporate staff will monitor marketing efforts and customer service. Drop In will monitor sales in real-time using centralized IT and the franchisee will have set sales targets.

However, there are disadvantages to franchising. During the training, confidential training information is revealed to the franchisee. This information is part of the Arrow core and the replication strategy. As part of the Arrow core template, the actual

monitoring and learning diminishes in the franchise outlet because the corporate office does not monitor local routines. This is referred to as faux-replication (Winter and Szulanski 2001 pg 732). During expansion through franchising, inexperienced franchisees can compromise customer service, decrease quality, and diminish the brand. Franchising the business is a good approach to expanding the business; however, there are risks associated with this approach. Drop In must set up a quality audit team to ensure that a franchise follows the guidelines established by the corporate office. This additional cost will be part of the royalty fees.

### **6.2.2 Corporate Social Responsibility**

Alcohol does have a negative connotation. It is important for the organization to give back to the community. The organization will sponsor local community activities and associations. Initiatives will include charity events for the homeless during holiday seasons, regular contribution to the Heart and Stroke Foundation, and assistance to local wineries.

In addition, Drop In will collaborate with Vancouver Police Department to reduce drinking and driving. Drop In will dedicate a weekend for the Vancouver Police Department to set up a charity event for their staff and friends. Half of the profits from this two-day event will go to the Vancouver Police Department. Corporate social responsibility is a core value of the organization, and the organization is acutely aware of the effects of alcohol on many people in the community.

### **6.2.3 Exit Strategy**

Having an exit strategy is also very important. As Drop In grows, and may be an opportunity to expand to international operations. This will require vast capital resources. To obtain capital resources, Drop In can seek venture capitalists or establish an initial public offering. Prior to seeking capital resources, the organization must have a solid business model and established operations. There should be at least 15 locations across North America. The stores will be located in major cities and must demonstrate a positive net return. The other exit option is to sell the entire operation. Sixty-seven percent of the shareholders must agree to sell the business; otherwise, the operations will remain with the shareholders. This is part of the corporate governance agreement.

## **7: Strategic Alternatives**

This chapter analyzes three distinct strategic alternatives. The alternatives outline opportunities and risks based on the external analysis, internal analysis, competitive position, and the strategic analysis. The recommendation offered is based on the greatest opportunities and least risk to the shareholders.

### **7.1 On-site Liquor Primary Establishment**

An on-site liquor primary establishment is a location where customers can drink wine or other beverages within the premises. This requires two sets of licenses. First, the organization must submit an application to the LCLB. The application fee is \$2,200, and it takes several months to obtain a license. During this time, the organization can build its infrastructure and purchase inventory. As an on-site liquor primary, labour wages for a server are \$9.00 per hour compared to the minimum wage of \$10.25 per hour in B.C.

As an on-site liquor primary establishment, food is not a primary product. However, the location must have minimum cooking infrastructure. The establishment may remain open until 4 am. The second license is Serving It Right certification. All on-site employees must have Serving It Right certification, and the premise must be licensed to stock alcohol according to LDB regulations. The alcohol inventory for an on-site liquor primary cannot be sold as retail because retail sales require a retail license. The inventory cost of an on-site liquor primary establishment is very low; thus, Drop In can strategically

purchase inventory based on big data analytics. This will ensure quick turn over of inventory.

## **7.2 Off-site Liquor Primary Establishment**

An off-site liquor primary establishment must comply with numerous rules and regulations. A retail liquor license is required to sell alcohol as a retail product. Currently, there is a moratorium on new licenses until July 2022. The cost of existing licenses is very high due to significant demand and limited supply. The sale of licenses is approved by the LDB. In addition, inventory purchased from the LDB cannot be returned unless there is a processing error or the product is defective, and retail liquor stores must have a 1 km radius from other retail liquor stores. In Vancouver, there are only two locations with proximity greater than 1 km. Private liquor stores receive a 16 percent discount on product. To stay competitive, private stores have a very minimal markup compared to government owned liquor stores. The retail stores operate at significant risk due to the 73 recommendations in a recent report issued by the Ministry of Justice. In future, retail liquor licenses will be offered to grocery and convenience stores. This will increase competition in the industry, and as noted above, the markup is fairly low. In addition, such establishments must close at 11 pm. Operating hours are strictly enforced by the LDB, and such retail establishments must be separate from the on-site liquor primary.

## **7.3 Food Primary Establishment**

A food primary establishment is a typical restaurant. This type of establishment requires three sets of licenses and numerous inspections to satisfy fire bylaws. A food primary

establishment requires a food primary liquor license, which differs from an on-site liquor primary license. The establishment must obtain Serving It Right certification, and the establishment must obtain a license from the city to operate a restaurant, which requires inspections from the Canadian Food Inspection Agency. The primary activity in such an establishment is food consumption; liquor consumption must be accompanied by food.

#### **7.4 Recommended Alternative**

The liquor laws in B.C. are changing, and the landscape of the industry will change in the near future. As retail licenses are awarded to grocery stores, off-site liquor primary establishments will face more competition with lower margins. Liquor prices are controlled by the LDB; thus, there is great risk of holding inventory. A food primary establishment is a risky proposition because food is the primary product. Therefore, the food products must be high quality and consistent, which is not a core competency of Drop In. Drop In has very limited knowledge and information about operating a restaurant, and it is difficult to utilize Drop In's IT for food products.

An on-site liquor primary is the best alternative. The major risks to the organization are the retail lease, labour, and Enomatic machines. These costs are uncontrollable and require frequent sales; however, there is less risk than a food primary or off-site liquor primary because these have significantly higher costs, including perishable food, high liquor inventory, utilities, large workforce, and quality of customer service. In addition, developing a replication strategy for such establishments is more difficult. An off-site liquor primary cannot be replicated due to the limited liquor licenses and location requirement, while a food primary requires multiple learning curves relative to food and

service. The on-site liquor primary is less risky because the IT is centralized, the Enomatic machines are standard, and retail space is available near the target market.

It is recommended that Drop In operate as an on-site liquor primary establishment in B.C. B.C. is the most difficult area to operate a business with liquor products. Therefore, B.C. is the best place to create a replication strategy and Arrow core template because the regulations in B.C. change and the target market is growing. In addition, the wine industry in B.C. continues to establish a strong reputation. The company has the best attributes to create a solid Arrow core template by gaining information and knowledge through interactions with various stakeholders. While the template is in the exploration phase and there is sufficient information, Drop In can expand with urgency to other regions. As Drop In expands to other locations, acquired knowledge will be applied to the template. Thus, Drop In can increase the rate of expansion. This can only be achieved if the organization remains focused on its core competencies, i.e., wine education and wine products through IT. This differentiates the service from other on-site and off-site liquor establishments.

## **8: Implementation**

The above recommendation states that Drop In should operate as an on-site liquor primary establishment. This chapter reviews the implementation plan for a successful launch. The overall implementation plan is a five-step process that involves identifying opportunity, developing IT, determining a strategic location, developing a marketing campaign, and developing partnerships and associations.

### **8.1 Opportunity Identification**

In early 2013, Curtis Leong and Sanjeev Lal saw an opportunity. There are countless types of wines. Wines are very expensive and consumers have limited budget to purchase the entire range of wines they desire. When a customer purchases a bottle, they commit to consuming the bottle or spilling the contents down the drain. This experience can be joyful or disappointing. Currently, there are a limited number of establishments in B.C. that offer tasting for over 100 different wines. In addition, there is no technology that records the experience. There is an opportunity to combine such technology and an establishment so the customer can record their wine-tasting experience. According to recent market research, the young Millennial generation is purchasing wine and acquiring a taste for the beverage. This presents opportunity to target this market and provide a service that is lacking in this industry.



## 8.2 Information Technology Development

In early 2014, there were discussions with numerous firms regarding IT development. Several stages of development have been identified. The first stage is the back-end development of hardware and software to network machines to implement e-commerce. Sophos has provided an initial quote of \$60,000, which includes a service level agreement. This infrastructure will have numerous safeguards to protect consumer information and other data. This back end will connect with the mobile applications and the website. The website will have a dedicated page for the loyalty program, where customers can register their loyalty cards. The information will be safeguarded and backed up automatically every five minutes in the cloud.

The mobile applications for iOS and Android platforms will cost \$35,000 and will be developed by a local company, 14Oranges. The mobile applications will tie back to the back end infrastructure and the point of sale system. The point of sale system will collect data based on the smart card technology implemented in the Enomatic machines. Figure 8:1 illustrates the links between each IT component. The Enomatic machines are critical and are currently under-utilized in the industry. The technology will be developed prior to establishing a location because it is a core competency of the organization. The technology will be tested and service level agreements will be signed prior to developing the building infrastructure. This is a risky approach; however, the business model depends on the technology, and the customers will rely on this technology to make purchases and record their experiences. It is important that all technological issues are resolved prior to launch.

**Figure 8:1 Information Technology Configuration**



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Inside the location, the entire store will be equipped with Wi-Fi, and there will be numerous tablets available for customers to self-educate on the products. The servers will be equipped with point of sale tablets, which will allow the servers to move around the store freely. The servers will pour wine as per B.C. liquor laws. There will be two large televisions to entertain customers. In addition, the music will be very subtle, which will allow customers to interact with staff and other customers. The customers can log in to their accounts and register their account information. In addition, customers can update their profile and review available wines. The enterprise will be the most technologically advanced on-site primary liquor establishment in North America.

### **8.3 Strategic Location**

The selection of a strategic location is dependent on the target market. The analysis and research indicates that the young female professional Millennial target market primarily resides in Yaletown. Yaletown is an affluent area with high disposal income. There is

significant foot traffic in Yaletown. Many amenities and activities are located close to Yaletown, such as transit and sporting venues, which offer convenience to the consumer. There are multiple locations available in Yaletown with the required lease space. Leases in the area are typically for five years; however, there is opportunity to sub-lease for a shorter period. Drop In will need to design the location according to target market feedback. The initial design will accommodate the ability to determine a visually appealing décor for the target market. The initial design is simple; thus, changes can be made according to the Arrow core template. In late 2014, a lease space will be located. At this time, all necessary applications will be completed and will meet LCLB requirements. In addition, the hiring and training process will commence at this time. Staff will be hired one month prior to launch to minimize initial wage costs. Staff will be trained during this one-month period.

## **8.4 Marketing Campaign**

The marketing campaign is a pull marketing strategy. This requires word of mouth, mass media, and advertisements with promotions and discounts. The marketing campaign is a three stage process. First, there will be a buzz campaign prior to launch, followed by mass advertisements and special events, which will then be followed by promotional discounts.

### **8.4.1 Buzz Marketing**

Buzz marketing is a viral marketing technique that is used to generate interest in a product or service. This can be performed in many ways, such as secrecy, taboo, unusual,

or funny. The objective is to encourage people to talk about the product or service. This process is not random. It will be carefully calculated by the organization. The Redbull energy drink company used viral marketing for the space jump conducted by Felix Baumgartner. There was significant anticipation for the space jump, and television stations aired the jump and discussed the event on the news.

Two months prior to opening the business, Drop In will launch a buzz marketing campaign. There will be a full page advertisement in local newspapers indicating that something is coming to Vancouver. Only a few individuals will be aware of the opening of Drop In. The advertisement will direct people to the Drop In website, and the website will have very little information. However, individuals will be able to register to obtain more information. The information will provide the address of the location. The windows of the premise will be covered with paper so that no one can see the interior. The available information will be very limited, which will maintain consumer interest. Registered members will receive periodic emails regarding reminders and promotions, and social media will heighten the secrecy by providing very high level advertisements that include the name of the business and the website address. The website will display only the opening date and location

One month prior to opening day, the buzz marketing will increase anticipation by involving local news media. This is a strategic approach that will create greater buzz. The management will contact news media via social media. A spokesperson will indicate that something will be coming to Yaletown. The goal is to create enough buzz to encourage people to remember the opening date and the company name.

One week prior to opening, flyers will be strategically distributed across Vancouver. The management team and staff will distribute the flyers. The flyer will state the opening day, time, location, and website. The website will have further details and will offer some registrants a tour of the location and free wine samples as a show of appreciation.

#### **8.4.2 Mass Media Advertisements and Events**

After the buzz marketing campaign is complete, the mass media advertisement campaign will begin. The mass media will start with YouTube videos of the buzz marketing campaign. Facebook pages will be created and emails will be sent to registered users. Full page ads will be placed in the Vancouver Sun and Province newspapers. The advertisements will show customers enjoying the service and will include print from the website. There is significant advertising budget in the financial projections for mass media advertisements and promotions.

#### **8.4.3 Loyalty Program – Promotions and Discounts**

Special offers will be made to customers as part of the loyalty program. Similar to Starbucks, when a customer purchases a certain number of beverages or pours, the customer will receive a promotional pour or merchandise. During this promotion, discounts on merchandise and products will be available to show customer appreciation. The number of pours will be monitored by the back end system, and emails will be sent to the customers. Customers can accumulate promotions and upscale to larger promotions, such as B.C. Wine Tours, a bottle of wine, or meat platters. The ultimate promotion will be a tour of France or Italy. This promotion will be based on the number

of pours the customer purchases. This special promotion will be part of an ad campaign and will be profiled on the website and inside the Drop In premises. These special promotions will encourage customers to frequent the establishment and engage the loyalty program.

#### **8.4.4 Events and Themes**

Events and themes will also be a strategic marketing initiative. These themes and events will focus on the community. Each month there will be one week dedicated to a specific region, such as French wines and food pairings. The French community will be invited to attend the events. The same marketing initiative will occur for Italian, Argentinean, Chilean, Spanish, Australian, and South African regions. These regions are all popular wine-making locations.

Drop In will also dedicate one month to B.C. wines. This strategic marketing campaign will display all B.C. wines and will take place during the Vancouver Wine Festival. This event will allow customers to enjoy different types of wines and will be a major event at the Vancouver Wine Festival. In addition, Drop In will partner with B.C. wineries to promote local products.

### **8.5 Partnerships and Associations**

Drop In will also join the Yale Business Improvement Association (YBIA) when the retail lease is signed. The YBIA is a strong association that adds tremendous value to the community.

Drop In will join and be part of local and global wine associations, which include B.C. Wine Grape Council, Modernize Wine Association of B.C., and B.C. Wine Institute. Other partnerships include Simon Fraser University Career Management Centre, Culinary Art Institute, and Vancouver Community College, which Drop In will train their students in business and wine. The organization will take part in all major activities associated with wines. In addition, the Drop In website will include links to these associations, provide blogs, and present a wine of the week.

Drop In will partner with local wine retailers, which will allow customers to purchase wine. These partnerships will decrease competitiveness and provide better customer service, while reducing cost for the retailers. These partnerships will also benefit the consumer because they will provide added convenience.

Such partnerships with local wineries are vital to Drop In. B.C. liquor laws allow manufacturers to operate off-site sales. Thus, Drop In can add value by providing an establishment for these wineries, which will reduce infrastructure cost for wineries and allow Drop In to obtain product at a discount. As information is gained from consumers, it can be sold to wineries, which will allow them to brand product appropriately. The data, which will be sold to wineries by subscription, will be a revenue stream for Drop In. Drop In will also partner with sommeliers to provide private wine tasting and food pairing seminars

Drop In will also partner with the Vancouver Police Department to develop ongoing corporate social responsibility. This partnership will reinforce responsible drinking and further drinking and driving education. Other partnerships will be developed with the Vancouver Community College and the Institute of Culinary Arts. Students will have

opportunities for internships to learn various duties, and chefs will have the opportunity to display their talents. Partnerships and relationships are critical to the success of such organizations. As such, Drop In must build many partnerships and maintain positive relationships. Drop In's image will demonstrate that it is a positive member of the community and a strong partner in the industry.

## **8.6 Conclusion**

Drop In has an opportunity to fulfill a need in the on-site liquor primary industry, especially in wines. Consumers are reluctant to ask questions about wines because the consumers are intimidated with their lack of knowledge regarding wines. By offering a friendly and open environment, Drop In can attract these consumers.

The information technology is a value add proposition for the consumer, which they can retain and grow through repetitive purchases.

By expanding to strategic locations in North America, Drop In can create a strong brand and establish barriers to entry. The partnerships and associations increase tacit knowledge, which enhances customer experiences. Drop In, with a strategic and calculated approach, can establish a business very similar to Starbucks and take advantage of an opportunity that consumers are actively seeking in the wine industry.



## Appendices

## Appendix I – Income Statement

### Pro Forma Income Statement 2015-2020

Drop In						
Pro Forma Income Statement 2015-2020						
<i>Based on 65 bottles sold per day in 2015 (780 pours per day based on a 2 ounce pour)</i>						
		Growth				
	2015	10%	10%	10%	10%	10%
	2015	2016	2017	2018	2019	2020
<b>Revenue</b>						
Pours	\$1,061,502	\$1,167,652	\$1,284,418	\$1,412,859	\$1,554,145	\$1,709,560
Big Data	\$ -	\$ 10,000	\$ 20,000	\$ 30,000	\$ 100,000	\$ 200,000
Training Seminars	\$4,320	\$ 4,752	\$ 5,227	\$ 5,750	\$ 6,325	\$ 6,957
Products	\$79,100	\$ 87,010	\$ 95,711	\$ 105,282	\$ 115,810	\$ 127,391
Eatery	\$216,000	\$ 237,600	\$ 261,360	\$ 287,496	\$ 316,246	\$ 347,870
Corporate Events	\$12,000	\$ 13,200	\$ 14,520	\$ 15,972	\$ 17,569	\$ 19,326
Themes						
<b>Total Revenue</b>	<b>\$1,372,922</b>	<b>\$1,520,214</b>	<b>\$1,681,236</b>	<b>\$1,857,359</b>	<b>\$2,110,095</b>	<b>\$2,411,105</b>
<b>Cost of Goods Sold</b>						
Wine	\$583,826	\$ 642,209	\$ 706,430	\$ 777,073	\$ 854,780	\$ 940,258
Products	\$34,740	\$ 38,214	\$ 42,035	\$ 46,239	\$ 50,863	\$ 55,949
Eatery	\$108,000	\$ 118,800	\$ 130,680	\$ 143,748	\$ 158,123	\$ 173,935
<b>Total Cost of Goods Sold</b>	<b>\$726,566</b>	<b>\$799,223</b>	<b>\$879,145</b>	<b>\$967,060</b>	<b>\$1,063,766</b>	<b>\$1,170,142</b>
<b>Gross Margin</b>	<b>\$646,356</b>	<b>\$720,992</b>	<b>\$802,091</b>	<b>\$890,300</b>	<b>\$1,046,330</b>	<b>\$1,240,963</b>
<b>Gross Margin %</b>	<b>47%</b>	<b>47%</b>	<b>48%</b>	<b>48%</b>	<b>50%</b>	<b>51%</b>
<b>Operating Costs</b>						
<b>Total Operating Costs</b>	<b>\$254,430</b>	<b>\$263,177</b>	<b>\$286,998</b>	<b>\$290,896</b>	<b>\$294,872</b>	<b>\$298,927</b>
<b>Earnings Before Income Tax and Depreciation</b>	<b>\$391,926</b>	<b>\$457,815</b>	<b>\$515,093</b>	<b>\$599,404</b>	<b>\$751,458</b>	<b>\$942,035</b>
Depreciation	\$45,625	\$45,625	\$45,625	\$45,625	\$45,625	\$45,625
<b>Earnings Before Income Tax</b>	<b>\$346,301</b>	<b>\$412,190</b>	<b>\$469,468</b>	<b>\$553,779</b>	<b>\$705,833</b>	<b>\$896,410</b>
Tax 35%	\$121,205	\$144,266	\$164,314	\$193,823	\$247,041	\$313,744
<b>Net Income/(Loss)</b>	<b>\$225,096</b>	<b>\$267,923</b>	<b>\$305,154</b>	<b>\$359,956</b>	<b>\$458,791</b>	<b>\$582,667</b>

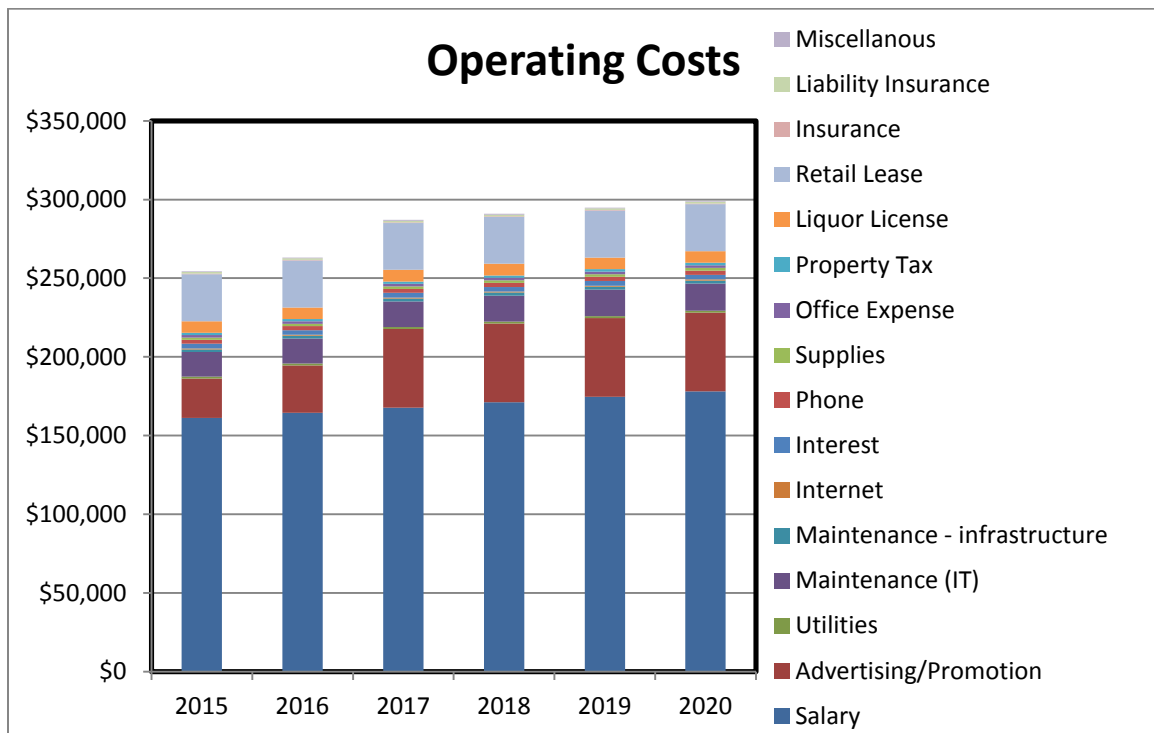
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Appendix II lists the detailed operating costs.

## Appendix II – Operating Costs

	2015	2016	2017	2018	2019	2020
<b>Operating Cost</b>						
Salary	\$161,280	\$164,506	\$167,796	\$171,152	\$174,575	\$178,066
Advertising/Promotion	\$25,000	\$30,000	\$50,000	\$50,000	\$50,000	\$50,000
Utilities	\$1,200	\$1,224	\$1,248	\$1,273	\$1,299	\$1,325
Maintenance (IT)	\$15,550	\$15,861	\$16,178	\$16,502	\$16,832	\$17,168
Maintenance - infrastructure	\$1,800	\$1,836	\$1,873	\$1,910	\$1,948	\$1,987
Internet	\$600	\$612	\$624	\$637	\$649	\$662
Interest	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Phone	\$2,400	\$2,448	\$2,497	\$2,547	\$2,598	\$2,650
Supplies	\$1,500	\$1,530	\$1,561	\$1,592	\$1,624	\$1,656
Office Expense	\$1,500	\$1,530	\$1,561	\$1,592	\$1,624	\$1,656
Property Tax	\$1,500	\$1,530	\$1,561	\$1,592	\$1,624	\$1,656
Liquor License	\$7,400	\$7,400	\$7,400	\$7,400	\$7,400	\$7,400
Retail Lease	\$29,750	\$29,750	\$29,750	\$29,750	\$29,750	\$29,750
Insurance	\$450	\$450	\$450	\$450	\$450	\$450
Liability Insurance	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Miscellaneous	\$500	\$500	\$500	\$500	\$500	\$500
<b>Total Operating Costs</b>	<b>\$254,430</b>	<b>\$263,177</b>	<b>\$286,998</b>	<b>\$290,896</b>	<b>\$294,872</b>	<b>\$298,927</b>

Developed by author 2014



Developed by author 2014

## Appendix III – Balance Sheet

### Pro Forma Balance Sheet 2015-2020

Drop In Pro Forma Balance Sheet 2015 - 2019							
	2015 (Initial Investment)	2015	2016	2017	2018	2019	2020
<b>Current Assets</b>							
Cash	\$ 12,000	\$ 282,721	\$ 371,173	\$ 454,029	\$ 554,456	\$ 686,041	\$ 818,667
Inventory	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Supplies	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
<b>Total Current Assets</b>	<b>\$ 64,000</b>	<b>\$ 334,721</b>	<b>\$ 423,173</b>	<b>\$ 506,029</b>	<b>\$ 606,456</b>	<b>\$ 738,041</b>	<b>\$ 870,667</b>
<b>Fixed Assets</b>							
Enomatic	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	
Accumulated Amortization	\$ -	\$ 24,000	\$ 48,000	\$ 72,000	\$ 96,000	\$ 120,000	
Net Enomatic	\$ 120,000	\$ 96,000	\$ 72,000	\$ 48,000	\$ 24,000	\$ -	\$ -
Computers and IT	\$ 51,500	\$ 51,500	\$ 51,500	\$ 51,500	\$ 51,500		
Accumulated Amortization	\$ -	\$ 12,875	\$ 25,750	\$ 38,625	\$ 51,500	\$ -	\$ -
Net Computers and IT	\$ 51,500	\$ 38,625	\$ 25,750	\$ 12,875	\$ -	\$ -	\$ -
Infrastructure	\$ 87,500	\$ 87,500	\$ 87,500	\$ 87,500	\$ 87,500	\$ 87,500	\$ 87,500
Accumulated Amortization	\$ -	\$ 8,750	\$ 17,500	\$ 26,250	\$ 35,000	\$ 43,750	\$ 52,500
Net Infrastructure	\$ 87,500	\$ 78,750	\$ 70,000	\$ 61,250	\$ 52,500	\$ 43,750	\$ 35,000
<b>Total Fixed Assets</b>	<b>\$ 259,000</b>	<b>\$ 213,375</b>	<b>\$ 167,750</b>	<b>\$ 122,125</b>	<b>\$ 76,500</b>	<b>\$ 43,750</b>	<b>\$ 35,000</b>
<b>Total Assets</b>	<b>\$ 323,000</b>	<b>\$ 548,096</b>	<b>\$ 590,923</b>	<b>\$ 628,154</b>	<b>\$ 682,956</b>	<b>\$ 781,791</b>	<b>\$ 905,667</b>
<b>Current Liabilities</b>							
Credit Line	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
A/P	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
<b>Total Current Liabilities</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>
<b>Long Term Debt</b>							
Loan	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
<b>Total Long Term Debt</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>
<b>Total Liabilities</b>	<b>\$ 55,000</b>	<b>\$ 55,000</b>	<b>\$ 55,000</b>	<b>\$ 55,000</b>	<b>\$ 55,000</b>	<b>\$ 55,000</b>	<b>\$ 55,000</b>
<b>Shareholder Equity</b>							
Retained Earnings	\$ -	\$ 225,096	\$ 267,923	\$ 305,154	\$ 359,956	\$ 458,791	\$ 582,667
Venture Capital	\$ 118,000	\$ 118,000	\$ 118,000	\$ 118,000	\$ 118,000	\$ 118,000	\$ 118,000
Peter Frankel	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Curtis Leong	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Innovative Creative Thinking Solutions Ltd	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
<b>Total Shareholder Equity</b>	<b>\$ 268,000</b>	<b>\$ 493,096</b>	<b>\$ 535,923</b>	<b>\$ 573,154</b>	<b>\$ 627,956</b>	<b>\$ 726,791</b>	<b>\$ 850,667</b>
<b>Total Liabilities and Shareholder Equity</b>	<b>\$ 323,000</b>	<b>\$ 548,096</b>	<b>\$ 590,923</b>	<b>\$ 628,154</b>	<b>\$ 682,956</b>	<b>\$ 781,791</b>	<b>\$ 905,667</b>

Developed by author 2014

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## **Interviews**

Vanessa Do, Senior Account Manager Business/Personal Royal Bank of Canada

Tel: 604-665-0512

Email: [Vanessa.Do@RBC.com](mailto:Vanessa.Do@RBC.com)

Interview on November 8, 2013 at 12:15pm until 1:30pm

Bruno Gerves, Sales & Technical Adviser. BevTech

Tel: 604-368-3911

Email: [bgerves@bevtech.ca](mailto:bgerves@bevtech.ca)

Interview on November 21, 2013 at 12:00pm

Joey's waitress on Burrard – Joey's Wine Room

November 16, 2013 at 1pm

Sylvain Marcotte – Sales, 14 Oranges Mobile Applications

Email: [sylvain@14oranges.com](mailto:sylvain@14oranges.com)

Phone: 604-816-0572

Interview on March 21, 2014 at 10:00am

Ashish Swali – Sophos

Email: aashish.swali@sophos.com

Phone: 604-783-9402

## **Websites Reviewed**

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