

The cataracts' harvard business review

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The Cataracts' Harvard Business Review case is ultimately about improving profitability, the ultimate goal for any business.

Profitability can be improved by growing revenues, decreasing expenses, or, in a best case scenario, doing both. Christine Day, SSP of Administration, is proposing that a significant investment in labor hours will improve the customer experience at Cataracts' retail stores which will ultimately increase revenues, thereby driving profitability. I agree with Day's recommendation to invest in the customer experience to grow profit.

I also think here are other opportunities for Cataracts to grow profits including further investments in technology to improve efficiency, reduction of SKU to provide more space for higher margin activities and increased distribution, both domestically and globally. Throughout the case, Day shares several programs or core values that Cataracts deems important - many of which center around the customer experience.

It's this laser sharp focus on the customer experience that supports my decision to invest in labor hours that will ultimately drive an improved experience.

Some examples include: Cataracts' Value Proposition. There are three components in the value proposition, one of which is "customer intimacy". Customer intimacy defines the interaction and feeling that Cataracts wants its customers to experience every time they visit. This intimacy can only be created and sustained by individuals, i.e.

Labor force. Partner Satisfaction. Howard Schulz, CEO, strongly believes that happy “partners” or employees make happy customers.

Investing in the labor force will prevent Cataracts partners from becoming over worked, stretched too thin or stressed out, all of which results in unhappy employees, leading to unhappy customers. Legendary Service. The ability to create a “memorable” experience is what makes a vaults legendary.

Similar to the customer Intimacy value proposition, legendary service is a direct result of the time, effort and energy of individuals, i. e. labor force. Further, recent survey results indicate a decline in customer satisfaction results – primarily based on speed of service.

Speed of service can be improved in a number of ways – several of which Cataracts has already initiated, including: Technology Investment.

Driving efficiency through technology is a must and Day hared how Cataracts has already improved speed by installing automated espresso machines which resulted not only in increased efficiency, but reduced waste and improved consistency. Another technological Innovation that Cataracts' implemented to speed up the process was the prepaid card payment system.

And, more recently, Cataracts' became an early adopter of mobile payments making it even easier (and quicker) for customers to pay for their purchases using their has taken to improve speed including removing unnecessary tasks, simplifying the process and removing bottlenecks. Given the steps Cataracts has already taken to improve speed, increasing labor hours is the

next most obvious option and the quickest and easiest. Additionally, the analysis below shows a favorable return on investment.

The \$40 million investment requires each store to serve 44 additional customers per week or, as few as, 6 additional customers per day to break even.

Break Even Investment: # of Stores: 4, 500 Investment per Store: \$8, 889
 Investment per Store/Wok (@52 was): \$171 Average \$\$ cuts: \$3. 85 # of
 Addle Cuts Required to Break Even per Wok: per Day: 6 Assuming the same
 level of efficiency, I. E. 11 customers served per hour, the additional 20
 hours of labor would result in 222 additional customers served per week -
 over 170 more than required for break even. The revenue earned from the
 222 additional customers served is \$853/wok or over \$ask per year - a 6%
 annual increase in revenue in return for a 1% investment per store.

Payback Current Adulator's Labor Hours/Wok: 360 Bag Cuts Served/Day: 570
 4, 212 Bag Cuts Served/Her: 11 Average \$\$ Ticket: \$3. 85 20 32 602 Bag
 cuts served/Wok: 3, 990 Revenue: \$15, 400 \$ 853 \$ 16, 253 Revenue, yr:
 \$800? 00 \$ 44378 \$845, 178 It's likely that the increased labor would
 improve efficiency, thereby increasing the umber of customers served per
 hour. A modest 5% improvement in efficiency would result in . 55 additional
 customers served per labor hour (approve 1 customer every 2 hours). Over
 the course of a week, 211 additional customers would deliver \$800 in
 revenue.

A more aggressive 10% improvement would result in 1 additional weekly
 revenue target of \$ask. In addition to improving efficiency and servicing
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more customers per hour, the increased labor support should result in improved customer satisfaction. Four of the top ten (or 3 of the top four) key attributes in creating customer satisfaction (exhibit 10) are attributable to the labor force: 1 Clean Store. Increased labor hours provide ability for manager to schedule more coverage allowing partners to maintain store cleanliness throughout their shift. 3 Treated as Valuable Customer.

Increased labor hours mean more partners working throughout the day which should deliver Improvements to Service... Defined in exhibit 11 by 34% of respondents as primarily friendlier, more attentive staff and faster, more efficient service. #4 Friendly Staff. Increased labor hours gives partners more time to interact with customers and employ the "soft skills" they learned in training including making eye contact, smiling, remembering customer's names and drink orders and initiating conversations.

#7 Faster Service.

Increased labor hours allow the staff to service more customers per hour especially when combined with technology improvements. Leveraging the findings from exhibit 9, Cataracts' Customer Behavior by Satisfaction Level, an improvement in satisfaction levels from the investment in labor hours could result in an increase of revenue from a satisfied customer of \$2.75 (assuming a small increase in visits and ticket size) up to >\$12 (assuming a large increase in visits and tickets size). Range of Improvement for Satisfied Customers Satisfied Customer (4.

3 visit/MO @ \$4. 6/visit) \$ 17. 46 Small Improve Modest Improve Large Improve Addle # of Visitors: 0. 5 1. 5 2.

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5 Increase in Bag Ticket Semitic: \$ 0. 15 Impact of Improvements 0. 20 \$ 0.

30 # of Visits/Mo: 4. 8 5.

8 4. 21 \$ 4. 26 \$ 4. 36 Bag Rescues/Mo: 6. 8 Bag Ticket Semitic: \$ 24. 71 20.

21 \$ 355. 78 7. 25 \$ 12. 19 29. 65 Bag Rescues,'r: \$ 242.

50 Incremental Rev/Mo/Cuts: \$ \$ 296. 50 2. 75 Continuing the earlier example from page two, improving the satisfaction of the 602 customers served per day and assuming the smallest of improvements in additional sits and increase in tickets size (\$2. 5) would result in an incremental \$1, 600 of revenue per month...

And, that's just one days worth of customers. Competitive advantage is their brand and the experience they are creating for their customers, I. E. The "third place". They also have an advantage over their more traditional competitors such as Dunking Donuts or Caribou Coffee in relation to distribution. However, other competitors interested in winning over the specialty coffee crowd, such as McDonald's, can be found in more places and always has a convenient drive thru window.

Cataracts strengths include the quality of their coffee, the welcoming and friendly environment of their stores and the ability to customize your coffee order to your exact specifications. However, it's that very customization that is also Cataracts' weakness. As noted in the HUB case, customization of drinks slows down the overall process and leads to longer wait times. The chance for customers to become frustrated with longer wait times and to seek out other coffee shops is a constant threat for Cataracts. All it takes is

one favorable experience at a competitor's coffee hop for a customer to begin to question their loyalty to Cataracts.

The best (and hardest) competitive advantage and/or value proposition for Cataracts to maintain is the customer experience. The quality of coffee can be measured, modified and maintained. The store location, look and logistics can be changed or updated as needed. The experience or intimacy that customer's feel when they visit a Cataracts can only be created by the partners working there. Investing additional labor hours to ensure partners have the ability to deliver legendary service is a good decision - especially given the favorable return on investment.