Easy internet café – case study essay sample

It is a fact that the company didn't achieved the best results in last years, reason way a radically revamp of our operations is required. In order to implement the new strategy regarding the franchise for easy internet cafe we qualified 4 offers from UPS, Excel Globalserve and Ingram for 3rd party logistics. My analysis took in consideration the following factors: total cost per store, ownership of goods, experience and expertise in supply chain for all 4 competitors, cost reduction and our core competency.

All the 4 offers are described in the next chapters in more details.

From all of them I will recommend option 1 from Ingram Micro, company that is able to provide an integrated solution: procurement, warehouse, transportation, configuration, billing & payment collection, returns management, with other words a complete solution that suit eIc needs.

Using current in-house method eIc spends approximately £1300 for all the logistics activities involved in opening a new store, not including the outbound transport to the franchisee, with a eIc labor costs of £602 per store. Alternate, the Ingram solution is £560 (£179 logistics cost + £381 eIc labor cost) in case the equipment are bought from them. Many other benefits are described in detail in my analysis.

Issue Identification

Because of continuing losses from 1999 to 2002 (£80- £100 million), we decided to radically revamp our operations, in order to eliminate the need for future investments in new stores.

It was decided to appoint franchisees for the new stores and also, if possible, for the existing legacy stores. According to the new strategy, the franchisee would be required to bear the costs of the property and the hardware and will be equipped with 20 to 30 PCs. Our goal is every cafe to look the same, with common signage, furnishings and PCs. Easy Internet Cafe

Facts to consider:

The new philosophy is to franchise the operations. So far the company had created about 20 franchised cafes, mostly in Europe, with 5 in the New York City area. The company has established itself as the per-eminent internet café chain in Europe, but it has still not made a profit.

In May 2000 eIc received funding from Apax Partners and Hewlett Packard, together investing £25 million into the venture.

From 1999 to 2002, easyInternetcafé owned and operated all their own stores (eIc incurred cumulative losses of £80- £100 million over the period).

In 2003, in order to eliminate the need for future investments in new stores, the strategy was changed. It was decided to appoint franchisees for the new stores and also, if possible, for the existing legacy stores (i. e. Company-owned stores). According to the new strategy, the franchisee would be required to bear the costs of the property and the hardware. It was hoped that these actions would reduce eIc’s drain on capital.

Environmental and Root Cause Analysis

It was decided that smaller stores with 20 to 30 PCs was the way forward. A plan to create quick growth was to be implemented, with a goal of opening

10 stores per week over the next 2-3 years. The goal was to create Internet cafes that could be completely unmanned, with no staff required at any store aside from regular maintenance.

eIc decided to stick to their core competence and outsource all the non-core activities. Their core competence was thought to be the yield management business model applied to the Internet café business and the proprietary hardware and software to implement it.

Under the new business model, eIc only needed to research and award franchises and deliver the equipment to the franchisees. Each store opening was considered a “ project” in project management terms.

A summary of the major steps and their predecessors is listed in the table below:

Total lead time to open a store:

7 + 28 + 28 + 2 + 2 + 2 + 2 + 1 = 70 days

Ordering lead time:

Since, the opening plan with 4 new stores/week for the next 3 years, has been established by eIc, I assumed that either the first 4 items from list above are already in stock or they are scheduled for delivery in timely manner.

Further more suposedly CVM and CVM spares include CVM PC and CVM UPS as well (equipment that eIc will endeavor to keep in stock due to the long lead time).

For items 6 to 19 the longest lead time is 28 days and they should be delivered after activity B and C. So, that means the franchisee has minimum 56 days (8 weeks) to order and received the items, and as a consequence all the orders for the equipment that can be bought by franchisee have the lead time covered. Even, let's say, they are waiting till last day of the activity B is finalized, still there are 28 days for activity C, good enough to have on time all equipment. To deal with uncertainty in lead time, eIc will have a special clause in the contract with franchisee to ensure receiving of all equipment within at least 5 days prior to activity E starts.

Because each franchisee it supposed to be a local company or at least to have an office in that specific area, they should have knowledge about what kind of internet connection can be provided by the local suppliers. Current Logistics Situation

Using current in-house method eIc spends approximately £1300 for all the logistics activities involved in opening a new store, not including the outbound transport to the franchisee. This figure included eIc labor costs of £602 per store. All calculations were based on a forecast of opening 4 new franchises per week for the next 3 years. The total annual logistics costs (excluding outbound transport costs which were eventually billed to the franchisee) are approximately £270, 000, which included annual labor costs of £125, 250 (based on 208 stores opening per year). If store openings will be fewer, the labor costs will still considered to be fixed.

Outbound transportation costs of eIc's equipment to each franchisee were divided into 3 zones based on distance from the UK: • Zone 1 – closest to UK

(France, Spain, Netherlands) – £300 per store • Zone 2 – mid-range from UK (Poland, Czech, Finland) – £450 per store • Zone 3 – farthest from UK (Greece, Turkey, Bulgaria) – £750 per store. Generally speaking the outbound transportation differentiates the steps and costs for each store/franchise.

The predecessors plan worked pretty well from point of view of marketing impact (opening simultaneous 10 stores per week), but ignored the costs associated with. The negotiations, investigation and discussions with a potential franchisee could take days for a simple individual franchise to several months for some of the more complex deals that included multiple locations. Some of the " activities" were logistics-related while others were not. The labor cost was fixed not individualized. The predecessors plan also created a sequence level, when one activity complete than another activity were start.