

GRUPO BRITT*

An Expanding Business in Latin America

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for it to be used as basis
for discussion and not as
an example of adequate
or inadequate
management in a specific
situation.

*"Add value, and look for your economic reason for being.
Nobody will ever pay you if you're not adding value."*
—Steve Aronson

It was 20 November 2015. It was the anniversary of the founding of Grupo Britt. Pablo Vargas, the company's CEO, was strolling along the *Coffee Tour* offered to visitors at the company's facilities in Costa Rica. Pablo recalled his early years as intern 25 years before, when the Company was just an idea Britt was only an idea.

Britt was a brand with unquestionable success. In the past 15 years, its sales had increased 1,300%, climbing from \$10 million in 2000, when Pablo took over as CEO, to \$133 million in 2015. These results positioned it as one of the most important travel retail and *coffee* businesses in Latin America.

The company had initially focused solely on trading coffee. At present it had two business units: a) coffee and chocolate, b) *retail* stores. Growth and innovation had been a constant factor in its strategy and, although the results had been outstanding, the company's leadership was not willing to settle. The leadership team wanted to continue driving the business forward by drawing up a new strategic plan to ensure success towards 2021. Pablo was looking at various growth alternatives with his top team, addressing cultural, management and operating challenges.

The big question was: How could they drive sales to 200 million in five years? With this in mind, Pablo and his closest team members planned an offsite meeting that *week* to develop the plan. It was drizzling, and the scent of roasted coffee filled the atmosphere. "Costa Rican coffee is definitely among the best in the world," reflected Pablo as he continued walking.

* Some data were modified to support the learning objectives of the case.

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Grupo Britt: The Genesis of a Coffee Company

The founder of Grupo Britt, Steve Aronson, was a coffee enthusiast born in the United States, who decided to move to Costa Rica in 1977 to engage in coffee trade. Steve had experience in the international *commodity* market, including coffee and cocoa. He was well acquainted with operators, quality, prices, buyers, and the potential of Costa Rica's "golden bean," and he had been working as intermediary between coffee producers and traders for quite some time at an international level. He arrived in Costa Rica to serve at an executive position for a European coffee trader, and he soon ventured as an independent *trader* focusing on export of "green coffee," as the industry referred to the product.

Over the years, Steve became increasingly involved in the industry, eventually identifying an untapped business opportunity. Costa Rica had been gaining strength as a tourist spot. Its best coffee beans were being exported, leaving low-quality beans for domestic consumption. Visitors to the country were not having the opportunity to taste high-quality coffee locally. In 1985, he decided to set up a coffee roaster in the garage of his home to distribute some of the roasted coffee that was meant for exports in hotels and restaurants. That marked the beginning of Grupo Britt. "Britt" is a female Scandinavian name, which is easy to remember and it is pronounced the same in English, German, Spanish and French. Those were the factors that made the name the winner in a small contest that Steve ran with his collaborators to decide the name for the future project. Steve thought it was a perfect name to capture what he was aspiring to achieve with his *gourmet* coffee line. Grupo Britt started operations as a craft business in the garage of his home, and it continued to do so until late 1990.

That same year, Pablo Vargas started working with Steve on the thesis project he undertook for a Master's program in Agricultural Economics he was studying at Michigan State University (US). His research focused on ways to help local producers to mitigate price risk within the market of the second most traded *commodity* in the world—right below oil—coffee. His aim was to find ways to differentiate the product and add value to the country where it was produced in the first place. At that moment, Pablo would not have imagined that he would implement many of the ideas he explored in his research in the context of the Café Britt brand. After graduating and spending one year working in Mexico, Pablo returned to Costa Rica. On August 20, 1992, at around 7:00 pm—after a long day tasting coffee and talking about the market—Steve invited him to develop a business plan for the Britt brand, aiming to raise funds and put their ideas into practice.

Developing the market for a "Gourmet" coffee

Coffee had been a traditional product in the region since the 19th century. Local farmers exported the bean to North American and European markets, where the product was effectively transformed and marketed. In an industry where the common practice was to grow the coffee in one country and roast it in another, resulting in 90% of the value being kept outside the producing country, the aim was to become the number one exporter of roasted coffee as a finished product from its country of origin. Since Britt was a very small company, Pablo was in charge of fundraising, exports, and finance. With much enthusiasm about his new role, he undertook the task of finding banks and investors to get the new company project under way.

Britt coffee started to gain popularity among tourists, but local consumers did not understand why they needed to pay twice the price for a *gourmet* coffee. Steve proposed creating an interactive tour where tourists could come and visit, and where consumers could immerse themselves into the world of coffee.

They called the touristic tour the *Café Britt Coffee Tour*. Using a small plantation, a modest theater and local actors, Britt told the story behind each bag of coffee explaining the coffee growing process, the roasting process, and the local traditions. Along the tour, visitors were taught how to distinguish and appreciate the aromas and flavors offered by high-quality coffee, and they had the opportunity to buy Britt coffee. The tour began operations in December 1991, and it was for many years Café Britt's primary marketing tool.

Transformation of the Business Model

With sales points in hotels and restaurants on the rise and the *Coffee Tour* beaming with success, an opportunity arose in 1995 to set up a vending cart to sell coffee at the international airport of San José, Costa Rica. With this, the company would have direct contact with tourists, offering them the opportunity to take a genuine souvenir of the country: a high-quality coffee bag. In 1996, Britt began its online selling channel through its website (www.cafebritt.com), creating the first e-commerce site in Costa Rica. Subsequently, a partnership was established with DHL for the distribution logistics of online sales in the US.

In 2000, Costa Rica's airport terminal was offered in concession, providing the opportunity for Grupo Britt to take part in the bidding process for gift shops. As a result, Britt was granted a couple of shops inside the terminals. While there was the opportunity to participate in the tender for coffee shops, they considered that gift shops would provide a better opportunity to increase income because the average receipt value in them was usually higher than that of coffee shops.

With the opening of these stores, which they called Britt Shops, the company undertook a change of strategy, leaving the coffee trader model behind and turning into a travel retail business with a great diversity of items beyond coffee: chocolates, music, jewelry, crafts, and everything within the category of *souvenirs*. The travel retail industry involved the sale of products to international travelers passing through airports.

The travel retail concept was based on Duty free shops, which were exempted from taxes as long as the goods were sold exclusively to those leaving the country. However, Britt Shops in Costa Rica operated under the duty paid concept. In 2014, global travel retail sales amounted to \$63 billion and were projected to increase to \$125 billion by 2025.¹

His vision of the business, continuing quest for innovation, and relentless commitment to the project led Pablo to take over from Steve as CEO of the company in June 2000.

International Expansion

The new business model of Britt Shops was so successful that in 2004 the airport operator invited Britt to open shops in the new terminal they were building in Lima, Peru. Pablo recalled:

*To be honest, we were a bit doubtful at the beginning...
It's several hours' flight time from Costa Rica to Peru, and it has certain similar circumstances
in terms of its tourist appeal, but there are also differences due to its culture.
It wouldn't be easy to create a local brand or to expand the same brand to position it locally.
Britt was a very small business, but it had an international vision,
which is why we have worked with international standards from the beginning.*

The opportunities to grow the business were increasingly opening up, but funding was scarce and expensive. Thus, the company sought funds in the stock market. In March 2011, Grupo Britt issued \$10 million in dollar debt, due in 2017, in the Costa Rican Stock Exchange.

On November 15, 2012, Britt's majority shareholder (Gambsa) issued a new bond in the Panama stock exchange. The stocks were due in five years. In March 2015, Britt decided to pay off in advance the stocks issued in the Costa Rican Stock Exchange. Pablo explained that the company decided to start a process to

¹ Duty free/travel retail sales worldwide from 2013 to 2025 (in million U.S. dollars). Statista, 2017.

remove the listing of its stock because of the existing market conditions, with low interest rates making it more appealing to opt for a bank loan.

As part of the more recent development plans, in 2015 Grupo Britt expanded the presence of gift shops for tourists to the Galeão International Airport in Rio de Janeiro, Brazil. With over 800 m² in five shops, that commercial area became one of the company's five largest airport operations, along with Chile, Costa Rica, Peru and Colombia. However, in 2015 Brazil was well into the worst recession in its recent history. Pablo decided to reduce the space and continue operating with a conservative approach, trying to be patient and waiting for the outlook to improve.

By the end of the year, Grupo Britt added 130 more Britt Shops in various airport terminals, which generated the bulk of its income (Exhibit 1). The company managed to have presence in 13 countries, including Mexico, the U.S., Dominican Republic, Colombia, Chile, Curaçao, Peru, Brazil, and Uruguay, going over \$130 million in sales (Exhibit 2).

A critical element for cementing and growing the business can be attributed to the “Britt culture.” Britt was known for being a pioneer in environmental sustainability issues, including the marketing of organic coffee and recycling programs. Its innovation and entrepreneurial culture allowed the company to successfully venture into international markets.

The Britt Culture

At Grupo Britt, responsibilities and positions were distributed due to a need for order, but hierarchies were not well regarded. The everyday language included the words “team and family” and it seldom included those referring to positions. “*Hierarchies are a necessary evil and working in teams is foremost of all*,” said Pablo while sitting in his small office with transparent glass in a modest corner of the company’s building. For a long time, they did not even include titles in their business cards. They eventually decided to use them more often because people from outside the company were getting confused, but not because they needed them for internal recognition. Pablo defined some of the practices within the company:

*We address people by their first name and we keep the organization as flat as possible.
We often challenge the ranks between the senior management and the BSPs (Britt Shopping
Partner) working in the stores.
We have only five levels in the chain of command.
And if we could reduce them, we would. This is how we see management here.*

Store openings were the culmination of the experience of working at Britt, and anyone could bring up new ideas for discussion. “*No one knows more about clients than BSPs, who spend 8–10 hours a day serving them*,” said Pablo. Grupo Britt sought collaborators with an *intrapreneur* profile, feeling engaged and becoming involved in decision-making, planning and execution.

For management decisions, there was an executive team made up of eight people who met once a month to follow up and discuss operational matters and financial results. Six of them reported directly to the CEO. The meetings were devoted to openly discussing the short-term and long-term strategic plan of the company. “

Britt is not for everyone. It is only for those who know how to work in teams, those who share information—good or bad—and those who produce results collaboratively.”

Technology has played a key role in the effective operation of the organizational structure. The new forms of communication have made expansion and communication among countries much easier. This has also

helped the organization maintain a flat structure. However, the idea of adopting best practices from other organizations has never fully convinced Pablo, who always remarked:

*Don't believe everything that experts say...
...We have developed our systems in-house, and experts always told us:
When you get to 10 million, that system will no longer be able to support the growth,
and you will need to buy one of the two or three ERP systems offered by global brands.
And we made it without any such systems.*

*Oh! ...but when you get to 50 millions... and we made it.
Well, when you get to 100 million you will definitely need to switch, the experts replied...
We're nearing 150 million, and our systems are actually part
of our competitive advantage.*

*Experts suggest adopting the practices that are best for other organizations.
We believe in innovating and developing our own practices.
It seems as if a chess player attempted to beat an acknowledged master in a chess match
by copying every move he or she makes.*

One of its most important strengths is having created its own technology system, a form of communication and an organizational structure that neatly fits its business model, its commercial structure, and its culture of cooperation.

With regard to its trading partners, Grupo Britt sought to create partnerships that would result in mutual benefits. Many of its suppliers were small coffee producers and artisans from rural areas who received support in terms of innovation and quality through training workshops and partnerships between the government, the academic sector (with students of industrial design engineering from Costa Rica's TEC University), and the private sector. Britt made sure that those local suppliers met the quality, presentation, and service standards required within the company.

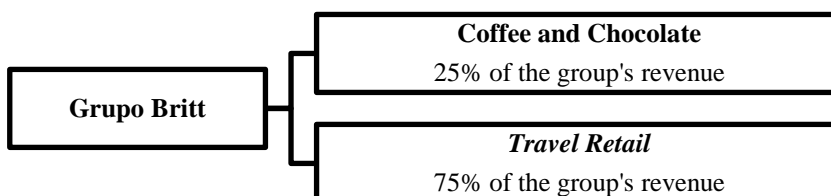
Another one of Britt's major pillars was its strong commitment to the environment, leading them to explore new forms of reuse and recovery in coffee production. That marked the beginning of *Maestro Recolector*, a program for collecting *Britt Espresso* coffee pods. The pods were transformed into 100% recycled pallets, sheets and panels to replace wood by using the packaging materials, turning them into plastic wood for tables, chairs and benches—among other structures—which were then donated to schools.

Commercial Strategy

"Our business focuses on selling products to travelers, and in our efforts to anticipate their needs we found in chocolates a new world to develop new products."

Pablo Vargas

Initially, the commercial strategy focused on marketing coffee, but, as the business evolved, two business units were created:



Product Strategy

The product portfolio of the Britt brand included: Coffee, Chocolate and Travel Retail.

Coffee

Café Britt offered 33 types of coffee from Brazil, Costa Rica, Peru, Mexico and Colombia. These products could be found in various types of roasts. In 2015 the company launched *Britt Espresso*, a new division focusing on selling coffee pods and machines to prepare cappuccino and espresso coffee. The coffee pods were available in various presentations: Antigua, Intenso, Clásico, Tarrazú, Orgánico, Decaf and Valle Sagrado.

This strategy focused on markets where the brand's local positioning was strong. Along with this effort, a new shop was opened in Costa Rica to promote the sale of domestic coffee machines, similar to Nespresso. They expected to export this concept to Peru, and then to Chile, in 2016.

Chocolate

Choco Britt, a coffee bean covered with *gourmet* chocolate, was the starting point for the diversification process of the company's offering. This chocolate was one of the top grocery items sold by the company worldwide, including online purchases.² In addition, they launched a new stuffed chocolate product that came in different flavors including: guava, coconut, cas, passion fruit and caramel fudge. Some products were sold in specific seasons—e.g., Easter chocolates, anniversary coffee with exclusive blends, for Father's Day and Mother's Day celebrations and for Christmas.

Travel Retail

Grupo Britt operated about 86,000 SKUs in its various Britt Shops. Nearly 1,000 products were developed by company employees and about 10,000 were designed by the company and manufactured by third parties. In addition, Grupo Britt bought certain products from representative companies in each country to sell them in its stores. Product category revision was a dynamic function at Britt, constantly assessing and adjusting the categories showing higher and lower growth in each store.

Positioning, Differentiation and Pricing Strategy

*“Differentiation is linked with price,
that is why you must be very creative and innovative in the industry.”*

Steve Aronson

The company decided to position the brand as *premium*, using the slogan “*From our plantation to your cup*.” The company chose a natural, colorful, high-quality image, which was conveyed in its artisan packaging. Britt represented a landmark *souvenir* of the person's stay in the country. The brand also became a benchmark for local consumers, who regarded Britt products with patriotic pride and positioned the brand as “*representative of that which distinguishes us*” in supermarkets, restaurants and coffee shops. This was initially true for *ticos*,³ but the strategy for the brand called for an extension of this sense of ownership to the countries where the company was selling. Their biggest aspiration was “*that Peruvians can feel Britt as a Peruvian company, and Chileans as a Chilean company*,” said Pablo.

The pricing strategy was consistent with the brand's positioning, setting higher prices than their competitors representing a higher quality, a richer experience and a better customer service. Since Britt's primary market was tourism, recurring purchases were lower than in the other channels, and maximizing service encounters

² “Grupo Britt aprendió a diversificar su oferta de productos,” *El Financiero*, November 2015.

³ *Ticos* is a nickname for Costarricans.

with customers was critical. Discounts and special bundle prices constituted a key push strategy to boost income.

To convey the fact that it was an international company that nevertheless behaved as a local company in each country—both in terms of product and concept development, and in terms of human development—Britt saw itself as a *multi-local* company, coining this term to use it in internal training.

Channel Strategy

Grupo Britt's distribution strategy was based on five channels that provided a broad reach in Latin America.

HORECA Channel (Hotels, Restaurants and Coffee Shops)



It was the company's oldest sales channel, accounting for 6% of sales. This channel was implemented in markets with greater brand positioning. The shops served Britt coffee to consumers and guests, using tableware bearing the brand logo in many of these places. Grupo Britt provided technical assistance and training to customers to help them make the right preparation of their coffee. The products offered in this business unit were ground coffee and the *Britt Espresso* product line, machines and pods.

In the first year, they signed a regional deal as supplier for the Marriott hotels, and by 2010 Britt was the coffee that was offered in all international hotels chains in Costa Rica. By the end of 2015, the HORECA channel had 1,600 accounts in Costa Rica, 250 in Peru, 90 in Chile, and 50 in Mexico.

The Digital Channel



The e-commerce channel was launched in 1996, a year in which local regulations on coffee exports in Costa Rica were relaxed, allowing Britt to export directly to the US. The online platform offered all the varieties of coffee, coffee beans and ground coffee, packed in 340g bags. People could find coffee from various regions including Costa Rica, Peru, Colombia, and Brazil. They also sold nuts, candy, cookies and some items to prepare coffee. This business unit accounted for 3% of the group's sales.

The platform offered customer loyalty programs: *Britt Coffee Lovers*, a subscription allowing periodic coffee shipments to customers in the US and Canada; *Gift Program*, a single payment to get a box with a gift and a personalized card in any country; and the *Wholesale Program*, offering discounts to clients who made wholesale purchases. Britt established its own distribution center in Miami, from which shipments were made every day by using suppliers like UPS, FedEx, and DHL.

Travel Retail Channel



This channel comprised the travel retail stores, which were called Britt Shops. They operated about 86,000 SKUs, and although most products were *premium*, they also had some hook products. Britt Shops were the most representative business unit of the group, accounting for 80% of annual sales. The items that were sold in Britt Shops belonged to any of 10 different categories: textiles, candy, jewelry, coffee, crafts, toys, books and magazines, travel items, souvenirs, and snacks (Exhibit 3). Pablo remarked:

In each market, the Britt brand features landmark flavors of each country, offering traditional products and local items, ensuring always the gourmet quality and using local ingredients as much as possible.

The success of Britt Shops was attributed to the “*sense of place*”—or *multi-local*—concept, in which efforts were made for the brand to be perceived local in each country where the company operated. There was a multidisciplinary team tasked with conducting a thorough study on the culture of the country where the next openings will happen, identifying the most representative elements and products.

Every detail was taken care of with utmost care—the ambience, the type of product, the uniforms, and even the architecture—so that every store could be perceived as a local store. The *multi-local sense of place* was achieved by drawing attention to the *gourmet* products that were manufactured with indigenous raw materials and the handicrafts made by local artisans, as well as by including the music and colors that were characteristic of each country, which altogether turned into differentiating elements.

Modern Channel

The modern channel involved traditional *retail* sale in both supermarkets and convenience stores. In 1996, the company gained access to Albertsons, one of the largest retailers in the US. During the first year, Britt coffee was sold in over 800 Albertsons’ stores. In 1998, the company also gained access to Sam's Club, a retail chain with strong presence in the US market. Although the packaging was changed and campaigns were carried out to promote the product, profit margins were low, like those of any standard commodity. This led Pablo and his team to question the desirability of making such a big effort to make so little profit and, eventually, in early 2000, Britt decided to withdraw from this channel in the US.

By contrast, in the Latin American countries where it had achieved a strong brand positioning, local consumers began to appreciate the quality of a *gourmet* product that was sold at a higher price, and the demand for the products started to increase in retail chains. The items that were sold in every country were primarily coffee and cookies, but the selection differed in each market. In 2015, this business unit accounted for 6% of the Group's annual sales.

International Distribution

Grupo Britt has kept direct clients or agreements with distributors in some international markets where it does not have local presence with stores. This includes the US, Australia, China, Korea, Lithuania, Russia, the United Kingdom, and several islands in the Caribbean. Some of these agreements are still active, and new distributors often come up in new markets.

Brioche Dorée Coffee Shops



The success of coffee shop franchises like Starbucks and Juan Valdez inspired Britt to acquire the Brioche Dorée franchise (meals and drinks) by the end of 2015 to conduct its operation in Latin America. Brioche Dorée was a French franchise founded in 1976, with operations in Africa, Asia, Europe and America. It was a recognized and well-positioned brand, primarily in Europe. With a cobranding scheme using the Café Britt and Brioche Dorée brand in coffee shops, they did the first opening at the Juan Santamaría airport in Costa Rica and included a strategic plan for a potential expansion to other airports in the region (Exhibit 4).

Communication Strategy

Grupo Britt was conservative with regard to its communication strategy, not making any investment in mass media, but rather focusing investment on the point of sale, where service to customers actually took place. They usually allocated 2% of sales to promotion and communication, focusing on a strategy around tastings and explanations of the products offered at the point of sale, along with PR activities.

Public Relations

The marketing efforts emphasized points of sales. However, they developed a PR strategy to stay active with articles in specialized magazines, primarily those aimed at tourists or businesses. Most articles were feature stories on the company and interviews with executives, with the company incurring no cost for them. They also maintained good relations with the academic sector, receiving dozens of student groups from international universities throughout the year. Some tests were conducted in Costa Rica with billboards showing the various products.

Digital Communication

Britt's digital communication used social media including Facebook, Twitter, Instagram and Pinterest. The strategy was based on the promotion of a culture and appreciation for good coffee. The website also worked as an advertising channel, offering the possibility of shopping online with delivery in less than seven days. Although online advertising had been explored with a pay-per-click campaign with Google, the company still maintained a modest presence in digital media because they had misgivings about the return on investment in their business.

Competition

Since Grupo Britt's business model involved two business units—coffee and chocolates and travel retail—there was actually no direct competitor to the brand. However, each business unit had its own competitors.

Competitors in the Coffee Shops Channel

Coffee was the number one hot drink globally, with a host of cultivated varieties. In 2015, global coffee exports totaled 9.31 million bags. Coffee consumption in 2015/2016 was 151.3 million 60kg bags, and the trend was rising at a 1.3% annual rate. Coffee trade was concentrated in a few multinationals, with Switzerland, Germany and the UK consuming 80% of the global coffee production.⁴

Within the coffee shops sector, there were various brands positioned as retailers (e.g. Lavazza, Illy), coffee shops (e.g. Starbucks, Costa), and Coffee & Bakery (e.g. Dunkin Donuts, Tim Hortons). Costa had 1,700 locations in 35 countries, having strong presence in Europe as the largest UK chain. Tim Hortons had 4,300 locations, primarily in Canada. Dunkin Donuts had 10,000 locations, mostly in the US, where coffee accounted for nearly 50% of its global sales. Starbucks had over 20,000 locations, with 65% of them in the US.

Some local players had been emerging in the Latin American market, starting with a strong positioning in their national markets to grow and compete against the major global players. One of the most successful of such brands was perhaps Juan Valdez, originating in Colombia, or Punta de Cielo in the Mexican market (Exhibits 5 and 6).

⁴ *The current state of the global coffee trade*. International Coffee Organization, August 2017.

Competitors in Travel Retail

The travel retail industry focused on the sale of goods to international travelers. Sales at Duty Free shops were exempted from taxes with the condition that goods were sold exclusively to passengers taking them outside the country. Although sales in airports were the most important segment, there were also sales during international flights, or in cruises and ferries. In 2014, travel retail sales amounted to \$63 billion and were projected to rise to \$125 billion by 2025.⁵

Britt's main competitor was Dufry, who operated the Duty free shops—retail outlets located in airports, primarily in international areas. Dufry had presence in 64 countries, with nearly 2,200 stores, 50,000 items and a little over 20% market share globally.⁶ Sales at airports dominated the market, with almost two thirds (61%), airlines accounted for 6% and ferries for 5%.⁷

Sales in Latin America accounted for 20% of the group's total sales. However, Britt's emphasis on local items with a *sense of place* is not the main focus of businesses operating Duty free shops because they focus on categories including liquor, perfume, luxury goods and tobacco. This turned Britt into an interesting option for airport operators, as a company selling local items, once they had assigned the Duty free spaces.

Grupo Wisa was another major competitor in Latin America. With its La Riviera stores, by 2014 Grupo Wisa had 104 Duty free shops, 133 local establishments, 11 border stores, 11 port stores, 92 airport stores, 86 La Riviera + Mac perfume shops, and 86 luxury boutiques. It had presence in 14 countries in Latin America and the Caribbean. In 2017, Grupo Wisa faced charges by the US Treasury Department for allegations of money laundering. Following the announcement by the Treasury, the 105 La Riviera shops in Panama, Colombia and Mexico were closed.

Rethinking the Growth Alternatives: 2016-2021

The exit process from the Costa Rican Stock Exchange had concluded successfully, and it was now time for Britt to draw up the strategic roadmap for the following five years. Pablo reflected on the achievements and lessons learned from the past 15 years. The company's growth had been healthy and consistent, and the Management Board wanted to keep growing. The question was how and on what direction to go to ensure that the growth was efficient, profitable and sustainable in the medium and long terms.

The major challenge was renewing Britt's life cycle to bring to the next stage, considering the resulting complexity in terms of managing a business that was so diverse, was so extended across the continent, and involved such a diverse competition model.

Pablo and his team had several alternatives. However, after the experiences in Brazil and the US, they knew that not every option was successful, and there were significant risks regarding investment and the business approach. They would need to conduct a thorough analysis to evaluate the alternatives:

A. Expanding the Britt Shop model to new countries and airports (Expansive Model)

Among the alternatives that had been proposed, this seemed to be the safest and most consistent with past experience: to keep growing in airports. How to implement this alternative? Should they open shops in new countries or should they look for additional cities in countries where they already have presence,

⁵ "Duty free/travel retail sales worldwide from 2013 to 2025 (in million U.S. dollars)," *Statista*, 2017

⁶ Dufry Corporate Brochure, August 2017.

⁷ "La industria mundial al por menor y *Duty free* tiene ventas anuales de 50,000 millones de dólares estadounidenses," *Eldiario.es*, November 2012.

even if the airports of those cities are not so populated? So far, they have 130 stores in 22 airports and 50 hotels, resorts and other tourist sites. What airports should they choose for their next store openings?

They wondered whether they should increase their presence with stores in other tourist sites, such as cruise ports. The criteria used so far to choose new locations was based on: a) countries with good tourism profile, b) countries with political and economic stability, and c) countries with significant investment in airports. Exhibit 7 shows passenger traffic in airports in Latin America.

Yet, acquiring new spaces in airports is not easy. Pablo recalled that they had been trying for years to get a space in Terminal 2 of the airport in Mexico City, and they had not found any available space. Furthermore, regulation was different in each country, and in some cases the process to set up new businesses was far too cumbersome. This option involved a moderate-paced organic growth based on the regular cash flow of the company.

One store at an airport required an investment ranging from \$500,000 to \$1.5 million, depending on the size, location within the airport and the type of airport. The expected EBITDA in these operations was 20% and 22% of sales on average. Sales per store could range between \$1 and \$8 million annually.

B. Increasing penetration in airports with coffee shops (Intensive model)

Building on the current knowledge on airports and their authorities, they could find alternatives for growth in managing a line of coffee shops. This would increase revenue, enhance brand positioning, and leverage the current management structure, which should not lose focus with new locations.

This option could either use the cobranded *Brioche-Dorée services*, which were already positioned in Europe—although not in Latin America—or develop a new brand. Pablo reflected: “*We have the opportunity to grow Brioche in Latin America, but the brand is not ours, and they could award the franchise to others in some markets.*” While there was an agreement with Brioche as the franchisor, they did not own the brand or have control over it. The experience had yielded great lessons, but the relationship was embryonic and still required work. Negotiations had taken much longer than expected, and they did not succeed in getting a license to work in Chile, even though there was high interest from the airport.

As for the rest, coffee shops are themselves a complex business model. Coffee shops have a high capacity for growth and brand positioning, but they are less profitable than retail stores. Growing this business involved competing against chains like Starbucks, Juan Valdez or Punta de Cielo. One coffee shop required an investment ranging from \$250,000 to \$750,000, and sales could go from \$300,000 to \$1.5 million. The expected EBITDA for this type of investment could run from 12% to 18%.

C. Increasing the brand's cross-selling in domestic markets (In-depth Model)

Penetration in some markets had been fairly deep—e.g. Costa Rica and Peru—but there were other markets with tremendous opportunity for domestic consumption and with great potential for consumption, including Mexico, Chile and Colombia.

A decisive advantage of this strategy was the fact that it was suitable for the *sense of place* or multi-local positioning in each country, increasing sales both in the airport and in local supermarkets. Investment in domestic markets would boost sales in Britt Shops. For example, sales of espresso pod coffee machines for households had done very well in Costa Rica, but the product had not been introduced in other countries. Positioning in supermarkets and wholesale chains was very good in Peru, but it had not yet been explored in Mexico. This would involve competition not only with local brands but also with major multinational organizations like Nestlé.

D. Developing new Travel Retail alternatives (Disruptive Model)

The expertise that had been successfully developed in this category had to do with creating spaces that were appealing for tourists to purchase, working effectively with airport administrators and local authorities, and building a team and an information system that was capable of handling such complexity. This option involved developing new store formats using different models from that of Britt Shops, involving product categories with high turnover in airports, such as perfume, watch, and technology shops.

But this required careful consideration, as it could be done with another brand. All the know-how on travel retail, management systems, and supply chains could be leveraged, using them in other product categories. It made sense. This would certainly involve head-on competition against giants like Dufry. New expertise would have to be developed on the product categories, but the market prospects and opportunities were great, considering the important growth of various airports in Latin America this idea was not being capitalized on.

Designing Britt's Strategic Roadmap

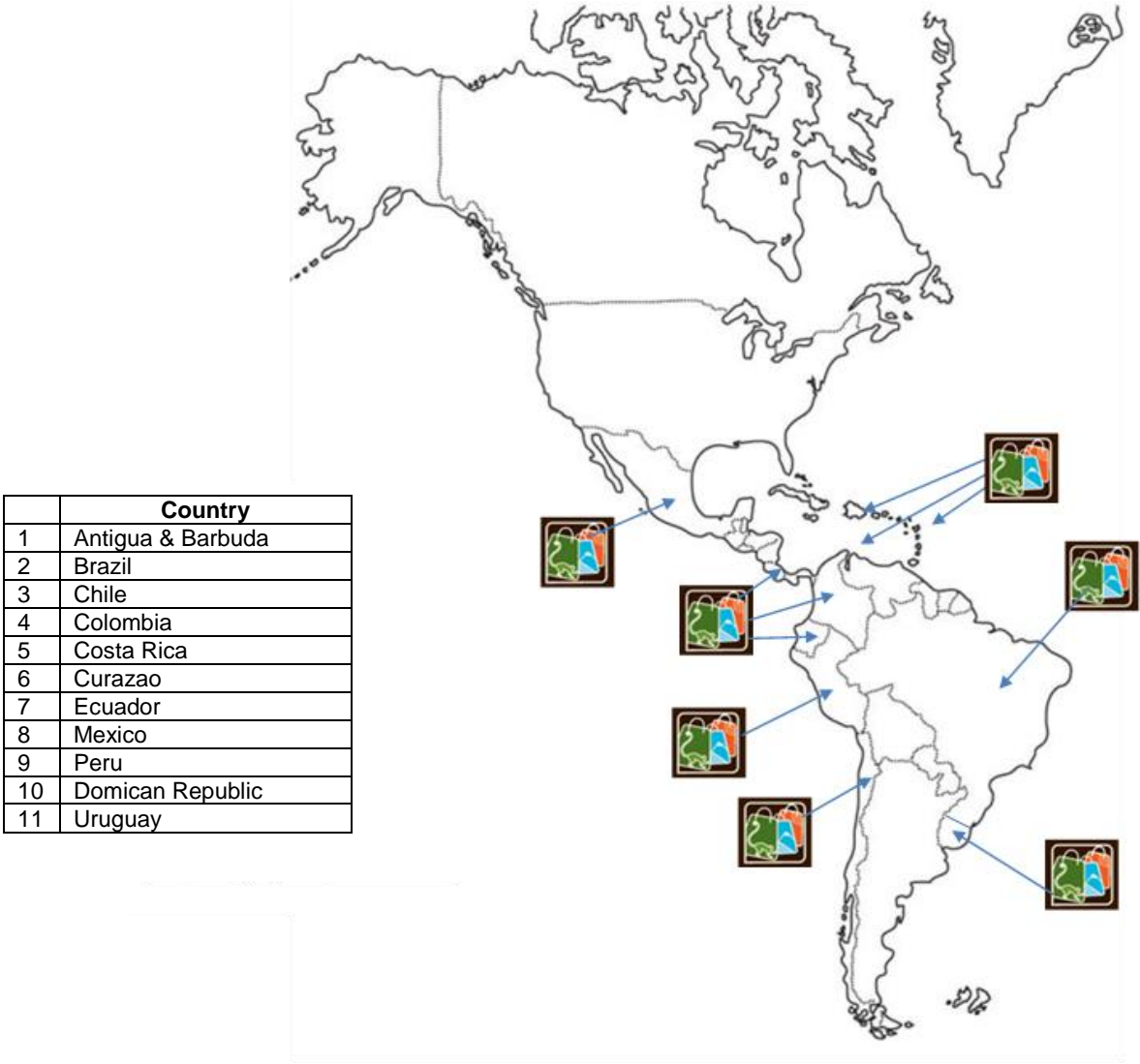
Grupo Britt was a small company when it ventured into the Latin American markets, and now over 50% of the revenue was generated outside of Costa Rica. Britt was closing the year with presence in 14 of the 23 countries in Latin America, with Costa Rica, Ecuador, Peru, and Chile constituting its key markets. A model that had been developed on a trial-and-error basis now had nearly \$130 million in sales annually. However, managing the various business units and locations was posing an increasingly difficult challenge.

The performance of Britt had been extraordinary in a dynamic market where competition was increasing year after year. Nonetheless, the Board of Directors was convinced that there were still numerous opportunities for growth and was committed to the objective of achieving 50% growth in the next 5 years: 2016-2021.

Pablo was responsible for presenting a five-year growth plan to achieve the objective set by the Board. A path had to be chosen, betting on a specific project for growth. Pablo and his team had barely a few weeks to fully develop the strategic plan.

EXHIBIT 1
GRUPO BRITT:
An Expanding Business in Latin America

Presence of Britt Shops in Latin America and the Caribbean



Source: Grupo Britt 2017

Para uso exclusivo de ANFACA del programa UAAJ 2024-2025.

EXHIBIT 2
GRUPO BRITT:
 An Expanding Business in Latin America

Consolidated Income Statement
Grupo Britt N.V.

Grupo Britt N.V.						
Historical Financial Data						
(in thousand USD)						
	2011	2012	2013	2014	2015	Comp. Growth
Sales	90,011	103,930	115,289	117,533	133,168	13.4%
Gross profit	54,299	63,746	72,929	76,529	87,966	15.4%
Selling expenses	37,114	44,200	49,761	50,674	59,758	16.9%
Administrative expenses	8,703	10,246	9,789	8,369	9,319	2.2%
EBITDA	13,811	16,169	21,827	22,805	25,081	18.3%
Net profit	4,049	4,115	8,540	9,054	5,803	80.8%
Fixed assets	24,195	25,513	23,811	25,056	30,759	13.7%
Total debt	36,538	34,253	32,927	42,002	51,338	10.1%
Total equity	19,579	20,162	21,250	19,430	20,321	8.9%
Gross profit %	60.3%	61.3%	63.3%	65.1%	66.1%	
Selling expenses	41.2%	42.5%	43.2%	43.1%	44.9%	
Administrative expenses	9.7%	9.9%	8.5%	7.1%	7.0%	
EBITDA	15.3%	15.6%	18.9%	19.4%	18.8%	
Net profit	4.5%	4.0%	7.4%	7.7%	4.4%	
Dividends to shareholders	1,786	1,733	3,378	3,141	3,145	

Source: Grupo Britt, November 2017.

EXHIBIT 3
GRUPO BRITT:
 An Expanding Business in Latin America

Costa Rica Britt Shops



Source: Grupo Britt, 2017

EXHIBIT 4
GRUPO BRITT:
 An Expanding Business in Latin America



Brioche Dorée Franchise in Santiago de Chile



Source: Grupo Britt, 2017.

EXHIBIT 5
GRUPO BRITT:
 An Expanding Business in Latin America

Presence of Competitors in Latin American Countries

	Country	Britt (Costa Rica)	Starbucks (US)	Juan Valdez (Colombia)
1	Argentina		 STARBUCKS	
2	Bolivia		 STARBUCKS	
3	Brazil		 STARBUCKS	
4	Chile		 STARBUCKS	
5	Colombia		 STARBUCKS	
6	Costa Rica		 STARBUCKS	
7	Cuba			
8	Ecuador			
9	El Salvador		 STARBUCKS	
10	Guatemala		 STARBUCKS	
11	Haiti			
12	Honduras			
13	Mexico		 STARBUCKS	
14	Nicaragua			
15	Paraguay			
16	Panama		 STARBUCKS	
17	Peru		 STARBUCKS	
18	Dominican Republic			
19	Uruguay			
20	Venezuela			

Source: www.juanvaldez.com, August 2017; www.starbucks.com, August 2017; Grupo Britt.

EXHIBIT 6
GRUPO BRITT:
 An Expanding Business in Latin America

Comparative Table of Standard Product Offering of the 3 Coffee Shop Brands

	Starbucks	Juan Valdez	Britt Break
Start of operations	May, 2012	May, 2015	July, 2014
Price	USD 3.31	USD 3.31	USD 2.44
Best-selling product	Capuccino 12 onz Coffee shot, Espresso 50% milk	Capuccino 12 onz Ingredients not disclosed	Capuccino 12 onz Espresso coffee base and frotes milk Usually with vanilla, caramel or Irish
Types of coffee drinks offered	23 Including 6 cold and 5 hot drinks	50	18 Including 6 cold and 12 hot drinks
Sizes	7 Hot: 8, 12, 16, and 20oz. Cold: 12, 16, and 20oz.	2 12 and 16 oz.	5 Hot: 9, 12, and 16 oz. Cold: 12 and 16 oz.
Varieties of coffee sold for household consumption (beans, ground, and others)	23	12	18
Sweet and salty pastries (average offering)	31	45	148
Number of souvenirs, ceramic cups, tumblers, and French presses (average offering)	20	20	6
Tea, soda, snacks, and others	21	Varied offering. No numbers provided	18

Source: "Compiten Starbucks, Juan Valdez y Café Britt," *El Financiero*, June 2015.

EXHIBIT 7
GRUPO BRITT:
 An Expanding Business in Latin America

Most Populated Airports in Latin America in 2016

	Airport	Code (IATA/ICAO)	Location	Total Passengers
1	Guarulhos International Airport	GRU/SBGR	 www.es.wikipedia.org/wiki/S%C3%A3o_Paulo lo "São Paulo Estado de São Paulo, Brazil	36,596,326
2	El Dorado International Airport	BOG/SKBO	 Bogotá, Distrito Capital, Colombia	32,341,841
3	Congonhas International Airport	CGH/SBSP	 São Paulo, Estado de São Paulo, Brazil	20,816,957
4	Jorge Chávez International Airport	LIM/SPJC	 Lima, Lima Metropolitana, Peru	19,326,781
5	Comodoro Arturo Merino Benítez International Airport	SCL/SEL	 Santiago de Chile, Región Metropolitana de Santiago, Chile	19,192,488
6	President Juscelino Kubitschek International Airport	BSB/SBBR	 Brasília, Distrito Federal, Brazil	17,947,153
7	Galeão International Airport	GIG/SBGL	 Rio de Janeiro, Estado de Rio de Janeiro, Brazil	16,103,011
8	Aeroparque Jorge Newbery	AEP/SABE	 Buenos Aires, Argentina	11,662,525
9	Ministro Pistarini International Airport	EZE/SAEZ	 Buenos Aires, Argentina	9,831,127
10	Tancredo Neves International Airport	CNF/SBCF	 Belo Horizonte, Minas Gerais, Brazil	9,638,798

Source: "Anexo: Aeropuertos de América del Sur por tráfico", Wikipedia, December 2017.

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