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## Costa Coffee Case A: A proposal to build the next generation self-serve Espresso Bar

The Victorian, yellow-bricked arches that framed Costa Coffee's Lambeth Roastery shook as a freight train rumbled across the tracks above. It was an unassuming home for a business with such promise. "It seems fitting", thought Jim Slater, Managing Director of Costa Enterprises, as he walked past the property's black iron gates, "that these old walls, where we still hand-roast 6,000 tonnes of coffee annually, could become the new home to what would be the most innovative project in Whitbread's 270 year history."

A year earlier, in December 2011, Whitbread plc, a UK-based hotel, restaurant and coffee shop chain, had split its Costa Coffee unit into four divisions, with teams focused on different aspects of the coffee business's growth initiatives. Among them, Costa Enterprises focused primarily on driving coffee sales through the UK corporate franchise business, "Proud To Serve" wholesale business, and newly acquired Coffee Nation, a fleet of fresh bean-to-cup self-service coffee vending machines ("concessions") founded by entrepreneur Scott Martin 11 years earlier. The acquisition rationale was that Coffee Nation could access opportunities beyond the practical or economically attractive reach of Costa Coffee's premium high street cafés.

Slater had been handed the task, among other things, of expanding Costa Express across the UK and select European locations. The stated plan was to grow Costa Express to 3,000 sites, a seemingly realistic goal given that it dominated the UK forecourt market and that there were discussions underway with large partners – mostly forecourt operators – willing to operate several hundred machines each. "With the Express business model proven, the real challenge will be scalability", thought Slater. "If the product and supply chain allow, our near-term goals should be achievable".

Shortly after acquiring Coffee Nation, Costa had engaged Eric Achtmann, a seasoned private equity investor, aerospace product development expert and ex-McKinsey consultant, to perform post-acquisition due diligence. The exercise confirmed that Costa had made a wise investment and the rebranding to Costa Express, recalibration and use of Costa's in-house "Mocha Italia" blend of coffee in each of the Coffee Nation machines had yielded an impressive uptick in sales. The due diligence also revealed that while the

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