

# BONGO BOB<sup>1</sup>

Bob Bernstein, or “Bongo Bob” as he was known around Nashville, was sipping a cup of coffee on the porch of his first store. Bob had built a successful retail and wholesale coffee business, but he was beginning to feel that he was running out of energy to grow the business. There were frequent, but never too serious, contacts about licensing or franchising the Bongo Java concept. He liked the idea of someone taking his concept and running with it, but was becoming certain he would not be the one to make this happen. He had just become engaged and was hoping that he could find a way he could end the constant attention that running his coffee shops required of him. And growing the business beyond the current operations would put even greater demands on this time. As he took another sip from his coffee mug, he was unsure where life would lead him next.

## From Politics to Coffee

Bob Bernstein’s mid-life crisis had come early in life. As he approached his thirtieth birthday, he became bored with his job as political journalist and was ready for something completely different.

Bob went to college without a clear plan for his future. In fact, he did not declare a major until his fourth year at college in his third university. He knew he enjoyed writing and liked politics, but he didn’t really think about either as a career. He also knew he wanted to work for himself, but again he did not have any idea in what capacity.

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<sup>1</sup> Copyright by Jeffrey R. Cornwall. The author wants to thank Becky Gann and Jennifer Culligan for their contribution to the research of this case and Belmont University for its support. This case cannot be used for any purpose or reproduced without the author’s written consent.

Basically he bounced around a bit. After two years at a small liberal arts college he transferred to a large state university. A year later he decided to take a year off to work on a presidential campaign. During the campaign he decided he wanted to be a political journalist. So, after finishing his undergraduate degree in political science with a minor in economics, he attended his fourth university to pursue a Masters degree in Journalism.

Bob fantasized about moving to Seattle or Portland to work as a political journalist. However reality set in after graduation. He moved to Nashville, Tennessee after accepting a job offer to become a reporter for the *Nashville Business Journal*. There was one political and one general business opening at the paper. Bob had applied for the political position, but it went to someone with more experience. Bob was hired to write for the general business beat. He worked general business for about six months, followed by stints covering Music Row and healthcare. When the political writer quit, he was hired for that position. After two years with the *Nashville Business Journal*, Bob got a better paying job with the *Tennessee Journal*, a political newsletter. While Bob enjoyed the work, he realized the journalism field was not what he wanted for the long-term. His desire to work for himself started to reemerge.

In 1991, days before his thirtieth birthday, Bob quit his job at the *Tennessee Journal*. He did not really know what he wanted to do next. However, he had been thinking about opening a coffeehouse. Nashville did not really have a true coffeehouse. The closest thing to a coffeehouse was located in a strip mall bookstore.

Bob was not prepared for the shock of this transition. There were mornings when it was almost unbearable to get out of bed and face the day. He had been living on his

savings, but soon found the \$10,000 he had set aside to fund whatever he decided was his next step in life was all that was remaining.

Bob hoped that with the \$10,000 and his great idea, he would be off and running to start up his coffeehouse. Realistically he knew he would need more funding, so he decided to approach some local banks. They were not interested in financing his start-up. Not only was he proposing a food service business, which bankers are not generally eager to loan to, but Bob had no experience. Bob mentioned his idea to a friend and former colleague from his journalism days, Chuck Kane. Chuck thought he knew someone, Brad Green, who might be interested in investing in Bob's idea.

Bob wrote an "offbeat" business plan to present to Brad Green, which mixed traditional writing with cartoons. Green liked the plan and introduced Bob to another person who would eventually become one of his investors. Bob found his next investors from his Sunday football hangout. In a casual conversation with two men from Bob's hometown of Chicago, he shared his vision for a coffeehouse. Both men were interested. Bob also began to find people willing to invest through his volunteer work in various community projects, friends he made at a sports bar where he went to watch Chicago Bears football games, and his personal network of friends in Nashville. As he talked about his idea with these contacts, he found that many were quite interested in the coffee business. Although they loved the idea, they were not interested in running the business. They all agreed that Nashville was in need of a "funky little coffeehouse."

Each of Bob's various investors contributed up to \$9,000. Although individual investments were relatively small, Bob was humbled by the trust his investors placed in

him and his new venture. Through various investors and his own \$10,000, Bob raised the \$80,000 he needed to open the first store.

Bongo Java was incorporated as an S-corp on January 5, 1993. After searching Nashville for the perfect space, he found a location that would require very little renovation. Bob found an old house near Belmont University that had been previously converted into an architect's office. The space had just the open kind of feel that he had imagined. Initially he was worried about location, because it was off the beaten path. But, the price was right and the space did not require extensive renovation, most of which he could do without a contractor. He was convinced that atmosphere would be the key to Bongo Java's success. He started with an idea he had gotten from a restaurant in Chicago that had original artwork painted on each tabletop. That idea set the tone for the unique atmosphere he wanted to achieve.

During the renovation, people from the neighborhood constantly came in and out of the store. They all wanted to know when the new shop would open. Eventually, Bob put a homemade canvas/burlap sign out in the front yard that said, "Bongo Java, Open Soon." The same sign hung out front (with the "Soon" cut off) for the next three years.

On March 21, 1993, Bob held a grand opening party for investors. The store was not quite ready for the public, but it was time to celebrate. His original plan was to open the café the next day. Bob was a bit scared to tell the investors that the café would not actually open for a full week. However, when he made the announcement at the party nobody cared. Not only was the painting not quite done and the shelving not finished in the kitchen, but the staff had not been trained to make espresso drinks. In fact, just two days before the grand opening, Bob made his first latte. On opening day there was a line

of customers out the door. Bongo Java had opened under budget and was profitable in its first month.

The entire front side of Bongo Java is covered by a very large deck filled with long tables with benches. On nice days, customers sit out on the deck in the shade of large trees. Inside, there is a counter where food and coffee are ordered. The counter area is small and does not dominate a large part of the business space. It almost seems to be tucked into the corner, leaving most of the space very open. The menu is displayed on a chalk board. The main seating area almost looks more like an art gallery with chairs in it than a coffee shop. Modern art from local artists covers the wall. They have showings in the store hoping to sell their paintings to Bongo Java's patrons. The lighting is clearly designed for artwork. The inside seating area is set up with smaller work spaces. The area is laptop-friendly with free wireless internet and many electrical outlets available. Many people can be seen with laptops, books and coffee at the small tabletops, which all feature original artwork under acrylic.

"Bongo Bob" (as he quickly became known around town) intentionally did not set up live music in the store, even though Nashville is famous for its music bars and restaurants. Many of his regulars were actually local musicians and song writers who wanted to get away from "work" when they came to Bongo Java. After the architects who had been occupying the space upstairs moved out, Bob decided to lease the space to his brother for music/theater nights.

## The Roaring 90's

The coffee industry was in a period of incredible growth during the 1990s. After decades of decline, the industry had seen a rebirth. Starbucks outlets were popping up like mushrooms after a hard rain. Coffeehouses were becoming the new hang-outs, replacing taverns as the places where young people were going to be with friends.

Specialty coffee sales, fueled by specialty coffee sales, were expected to hit \$3 billion by the end of the decade. This was a segment of the industry that was almost non-existent a generation or two before. Average consumption had almost doubled from the previous decade to 3.3 cups per consumer per day, and coffee drinkers were up to 49% of the US population.<sup>2</sup>

Along with the boom in demand came increased competition. Many newcomers to the industry had dreams of taking on the industry leader Starbucks. Venture capital was pouring into rival concepts such as Caribou Coffee, Seattle's Best Coffee, Timothy's, and Tully's Coffee Shops. The Specialty Coffee Association predicted that there would be close to 10,000 coffee stores nationwide by the end of the 1990s. With increase competition, coffee shops had to find ways to differentiate themselves from what was becoming a crowded market to attract customers. Coffee shops were expanding their menus to include more specialty drinks and a wider variety of food items. The increase in demand for coffee, combined with coffee shortages in Brazil and Colombia, was putting strains on the supply of coffee beans, sending bean prices soaring in the late 1990s. The increase in costs was beginning to affect profits for many market newcomers just as they were ramping up their expansion efforts.

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<sup>2</sup> "Gourmet Coffee Market is Piping Hot." Prepared Foods, July 1998, 167(7), p. 106.

### Bongo Java's Expansion

At the end of 1995, a space became open in Hillsboro Village, the part of Nashville where Bob originally hoped to open his first store. The space had most recently been a hair salon and was a relatively small space within an old retail building. Bob intended to name the second location Bongo 2 Go, which would be a retail/wholesale roasting operation. It would have limited seating and would cater more to customers coming in and out for coffee.

However, as he was planning the second store, the remaining space in the building, which had been occupied by a pet shop, became available when the tenants vacated unexpectedly. Bob signed the lease for both spaces and ended up with a 3500 square foot space.

Bob decided to name the now expanded new store "Fido." The store's whimsical name originated in the following story:

"According to legend, coffee was discovered in the Sixth Century by an Ethiopian goat herder, Kaldi, who was trying to find food for his herd during a long drought. We figure that Kaldi must have had a dog. We named our cafe "Fido" after this heroic dog unjustly overlooked by history. (It didn't hurt to have a really cool old neon dog sign on our roof to provide us with a free logo)."<sup>3</sup>

With the extra space in the building, Bob also created a third entity, Bongo Java Roasting Co. (BJRC). BJRC supplies coffee to all of Bob's stores, as well as to several restaurants, coffeehouses, bagel shops, universities, and small businesses in the Greater Nashville area. Wholesale customers grew in Alabama, Georgia, North Carolina,

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<sup>3</sup> <http://www.bongojava.com/beans.php?content=fido>

Indiana, Illinois, California and Oregon. Mail orders to BRJC through the web broaden market even farther. The roasting company currently sends approximately 60% of the coffee produced to outside accounts.

To fund Fido, Bob revisited some of his previous investors and recruited a few new ones. Bob also pitched the business plan to an SBA committee. He was given fifteen minutes to present to this Access program provided by the Nashville Chamber of Commerce. The committee liked Bob's idea and guaranteed 90% of a \$150,000 loan. With funding approved, Fido was established as a separate corporate entity, called Bongo Productions, LLC.

Fido struggled through its first year of operation (1996-1997). There were several sources of its troubles. Bob intentionally designed the kitchen to limit Fido as a restaurant, wanting instead for it to keep a coffeehouse feel. The kitchen was positioned in the middle of the store, which limited seating. This proved to be wrong for the market Fido attracted. Although Bob acquired more funding for this store, the build-out costs were not only much higher than Bongo Java, but higher than he had budgeted as well. Fido also required significantly more operating capital during its start-up. Bob found that he had not raised enough money, which resulted in both Fido and his entire operation being chronically strapped for cash. Bob also realized that he had hired the wrong person to be his chef. The first chef was fired after three months. He went through three chefs in the first year. He was forced to manage funds carefully, relying on not cashing his check right away and postponing payments to keep things going. Bob also found that managing two locations and three businesses was a significant personal challenge.

Bob had been getting phone calls from a woman, Kate Sage, who was moving from California to Nashville. She insisted she wanted to work for Bongo Java, but Bob told her that he could not afford to hire her. She persisted. Bob finally decided to offer her the Fido general manager position for a very low salary shortly before the store officially opened. She agreed to try it for six months.

But, cash flow was still problematic. Reluctantly, Bob went back to his investors and asked them to put in additional funds. They agreed, but wanted a bigger share of ownership. Instead of having his ownership diluted and losing control of the business, Bob agreed to come up with his own additional investment—money he did not have and could not easily borrow. Bob's share came from taking on a partner.

Kate and Bob found they liked working together. However, a bit more money was not going to be enough to keep her in Nashville. Therefore, Bob solved his money and management problems by taking on Kate as a partner. She had savings to invest, so Bob sold her half of his share. Kate became an equal shareholder in Fido and Bongo Java Roasting Company (incorporated as Bongo Productions, LLC). The original store, Bongo Java, remained a separate entity in which Kate had no ownership. By the end of Fido's second year, both Bongo Java Roasting Company and Fido had grown 30%. While Bongo Java supported Fido during the first year both operated, Fido soon surpassed Bongo Java's profits.

As Fido became busier, it quickly became clear that the hectic pace of Fido made it impossible to effectively operate Bongo Java Roasting Co. within the same space any longer. Bongo Java Roasting Co. was moved to a new location in East Nashville in July 2000. Bob decided to get serious about roasting at this point. Previously, the roasting

had been a trial and error process. When BJRC moved, Bob hired a professional roaster, Mark Johnson, who had 15 years experience in the industry. The new location also housed a new store called BJRC Café.

With four locations and three businesses up and running, Bob was able to draw a better salary, pay himself and the other investors some returns on their investments, and to begin to take more time off. In fact, time away from the business became Bob's most important goal. He decided that he needed to take an extended break from the business, and told his new partner that he was going to take three months off. Kate Sage agreed because she, too, needed to take extended time off for maternity leave when Bob returned. Bob packed his bags and left for Montana to write his "great American novel."

Bob returned to Nashville without a finished novel, but refreshed with a renewed focus and sense about the changes that needed to be made in his business. After her maternity leave, Kate Sage planned to return and work a few days a week. However, Kate quickly realized that she wanted to move back to California and was ready to be out of the business completely. Kate obtained an outside valuation of her shares. Bob agreed to the price and the two agreed that he would pay part of the buyout with cash and the rest on payments. The buyout was complete around the beginning of 2002.

Bob opened his fourth location in 2002 on the Vanderbilt University campus. Grins Café, "Spelled like a smile, pronounced like a color (greens),<sup>4</sup>" is a coffee shop combined with a kosher, vegetarian café. The agreement with Vanderbilt was that Bob's company would pay for rent as a percentage of sales. The general manager, Chef Michele Knaus, was paid a small salary and receives sixty percent of the profits earned by this store.

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<sup>4</sup> <http://www.bongojava.com/beans.php?content=grins>

Also in 2002, all of the stores were merged into a single corporate entity called Bongo Productions, LLC with Bob Bernstein owning 40% of the outstanding shares. His ownership increased as a result of the original agreement with his investors, which gave Bob additional ownership based on the company reaching key financial goals.

In addition to its financial success, Bob's stores have gained notoriety in the community:

“Bongo Java was voted Nashville's Best Coffeehouse by readers of the Nashville Scene in 1994, 1995, 1996 and 1997 and took second place behind it's sister store Fido in 1998, 1999, 2000, 2001, 2002, 2003, and 2004.”<sup>5</sup>

Bongo Bob also became famous for the “The NunBun™”, which provided much publicity for his store:

“Bongo Java became world famous in December 1996 for the discovery of a cinnamon bun that many believe looks like Mother Teresa. The Music City Miracle was featured in media outlets as diverse as Washington Post, CNN, BBC, Paul Harvey, David Letterman and (so we've been told) a Calcutta newspaper. The bun has been preserved and is on continuous display at Bongo Java.

”The NunBun quickly become a Nashville legend complete with the customary tall tales, exaggerations and mis-information. Despite popular opinion, the NunBun didn't make the Bongo Java owners rich and our actions didn't really upset Mother Teresa. We certainly got more publicity than we ever deserved and for a short time we were incredibly busy. Mother Teresa and her attorney also did contact us. In the end,

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<sup>5</sup> <http://www.bongojava.com/beans.php?content=bongo>

though, all parties were relatively pleased with the outcome and certainly no one changed their standard of living...

“The bun quickly became a store legend. Regular customers would bring their friends and family and ask to see the bun. Not knowing the importance of what we had at this time, the bun was preserved simply by keeping it in the freezer. About a month later, Todd and fellow employee Russ McGarry teamed with a local filmmaker (Michael McNammara) to make a short ‘documentary’ about the bun featuring many of the Bongo Java staff and regulars.”<sup>6</sup>

#### “The Beer Lover’s Guide to Coffee”

Bongo Bob’s sense of humor and his political convictions help shape the culture of Bongo Java. The managers of each location have a great degree of autonomy to not only operate, but even transform each store. Each location evolves its own menu at its own pace. They all follow a basic core culture, but each store has a different personality like children in a large family.

Bongo Java’s humorous approach to educating its employees can be seen in this page from its web site:

“The Beer Lover's Guide to Coffee grew out of teaching our mostly young workforce about subtle coffee tastes. ‘A full-bodied Sumatra is like a Guinness whereas a light-bodied Colombian is more like a Budweiser’, we tell our employees. Then we explain that Colombian coffee is actually light bodied even though ‘they’ say it's ‘the richest coffee in the world’. This is no different, we say,

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<sup>6</sup> <http://www.bongojava.com/beans.php?content=nunbun>

than hearing that Budweiser is the ‘King of Beers’ and relating that to thinking it is a rich, heavy brew.”<sup>7</sup>

Employees seem to find work to be generally fun. They tend to have very low turnover in their workforce.

Much decision making is delegated to the store level. Each store has a general manager who manages the day-to-day operations of the store and contributes to its unique look and feel. For example, the store manager at Bongo Java uses a particular drink mix that he likes better than the one used in the other stores. The mix is more expensive, but he thinks that it will help him sell more. Each store manager does a weekly report of daily sales and payroll. Bob gets this each Monday in his “Monday Report.” Bob compares these figures to budgets for each store.

One of Bob’s investors is a CPA, who takes care of all tax matters. Bob works with another CPA who reconciles the bank statements. Bob leaves questions for him or things like “This is broke, please fix it.” Bob compares him to Santa – the work is always done, but Bob never sees him, just the empty coffee cup in the trash can. There is also a bookkeeper who works about 15 hours per week. She is responsible for all receipts, invoices and bills. Bob still approves and signs each check that goes out.

Most of the clientele are repeat customers. There is a large core of loyal patrons who have been steady customers since the very beginning of Bongo Java. Bob believes that there is a clear sense of “ownership” among his customers. He describes his customers as being almost like a “cult” following. He thought about immortalizing his regulars in some fashion, such as caricatures painted on the wall. He decided instead to

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<sup>7</sup> [http://www.bongojava.com/beans.php?content=coffee\\_101](http://www.bongojava.com/beans.php?content=coffee_101)

launch a “Buy a Piece of Bongo” campaign. The campaign sold bricks with customers’ names on them that were placed in the patio in front of the original store location. They sold about 75 bricks in their initial promotion.

The web site, [www.bongojava.com](http://www.bongojava.com), is engaging in e-commerce, where customers can buy coffee, Bongo Java tee shirts and other clothing, coffee mugs, and gift certificates. On-line coffee sales are fairly modest, but the site is entertaining and there is hope that web-based sales will grow over time.

### From Coffee to Politics

Although Bob Bernstein left politics and journalism to start his business, politics never completely left his blood. For example, he lent space to a local “Bake Back the White House” promotion in 2004 that had the goal “to defeat George Bush one brownie at a time” along with a couple of other local specialty restaurants.

Bob also has concerns for the political issues associated with his industry. He has participated in many coffee trade conferences that deal with the issues surrounding free trade and coffee markets. Bob is interested in promoting organic, free trade coffee through his coffee shops and roasting company. He buys beans from places around the world, but lately has begun to focus on using his purchasing to support economic development. He wants his company to support small farmers in developing countries. Bongo Java Roasting Company uses 100% organic and Fair Trade beans imported from countries such as Mexico, Guatemala, Costa Rica, and Ethiopia. In fact, Bongo Java Roasting Company bought some of the first free trade containers of coffee from growers in Ethiopia. Bongo Java’s importing is influenced by fair trade issues, relationships with

small farmer groups, finding quality sources of beans, and politics. They currently participate with seventeen other roasters in a cooperative that buys one million pounds of fair trade coffee each year from small farm co-op around the world.

Bob firmly believes that the coffee industry will promote a cycle of poverty if it does not follow intentional policies that support small farmers in coffee producing nations. A major goal for his business seems to be helping to influence a change in the coffee industry. Again, this philosophy can be seen on a page from his web site:

“Bongo Java believes in an expanded definition of quality that adds the way the beans were grown and purchased to the usual criteria of cup taste. Thus, all of the coffee we buy is purchased directly from small farmer cooperatives whose members produce organic coffees grown under shade trees. We take quality seriously. We feel a strong obligation to not screw up the incredible efforts farmers have made to overcome huge economic and physical hardships to produce quality coffee.”<sup>8</sup>

But, Bob is not certain that he can have as much influence as he would like within the scope of his actions as a coffeehouse and roasting company owner.

By the beginning of 2004 all of the business units were profitable. Total sales are about \$3 million per year, which are projected to increase by 23 percent in 2004, with Fido having the highest revenues. General restaurant standards include a cost of goods sold, direct labor, and allocated overhead each equaling about thirty percent of sales, yielding about a ten percent profit. Bob’s operations tend to be a little higher than these standards for cost of goods sold and labor, and a little lower on overhead, with net profits figures being sometimes above and sometimes below the ten percent industry standard.

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<sup>8</sup> [http://www.bongojava.com/beans.php?content=roasting\\_company](http://www.bongojava.com/beans.php?content=roasting_company)

Bongo Java Roasting Co. has experienced the strongest growth over past few years, increasing at a rate of about 30 percent a year. The projected growth for the Bongo Java Roasting Co. during 2004 was expected to be about 20 percent. The wholesale business has cost of goods sold of approximately fifty-five percent and labor costs of twenty percent. The company had negotiated a \$500,000 line of credit with a local bank. Bob used about half of the available funds from this line to support the company's growth, and is now currently paying down this liability with some of the excess cash flow being generated by Bongo Productions, LLC.

The future direction for Bob Bernstein and for Bongo Java is not clear. Bob continues to look for opportunities to grow the business. He has looked at possible locations for a fifth coffee shop, but has not found one that he believes will generate enough returns for the investment. Smaller coffee cart stores, operated like small kiosks within other businesses or universities, are a growing trend in the industry and a possible means for growing Bongo Java.

Bob gets frequent calls from people wanting to license the Bongo Java concept and open new locations in other cities. Such an agreement would allow for the potential of significant growth with very little additional investment or risk taking on the part of Bob and the other shareholders. In addition, such an agreement would allow for continued expansion of the Roasting Company as a supplier to the licensed stores. Franchising is also possible, but as its website says Bongo Java is "just too weird to franchise". In addition, franchising would require an even greater commitment by Bob to the business. He is fairly certain he could find a buyer for the business, but he is not really interested in selling the business.

A good part of the decision of whether to grow the business, maintain the business as it is now, or even sell the business entirely goes well beyond the market potential or financial analysis associated with each option. Bob also finds that he misses the day-to-day interactions he had when the business first started. The decision of where the business, and for that matter Bob Bernstein, is headed next may rest more on his personal aspirations. But, Bob is not convinced that he wants to be a coffeehouse owner/operator forever and is certain that he is ready for the constant attention his business requires to end. If free cash flow became enough to support an additional salary and still offer him adequate investor distributions, Bob has thought about hiring an operations person to take over running the business. His interest in politics remains strong and he has some desire to possibly get into other businesses, such as a full-service restaurant. Bob is not certain whether he should continue to worry and analyze his options, or to relax and listen to his fiancé who frequently tells him, “whatever happens will be meant to be.”

APPENDIX

Bongo Java Employment Application

**Bongo Java Roasting Co.**  
107 South 11<sup>th</sup> Street, Nashville, TN 37206

**Fido**  
1812 Twenty-First Ave., Nashville, TN 37212

Name \_\_\_\_\_ Date \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_  
Zip \_\_\_\_\_

Phone \_\_\_\_\_ Other Phone \_\_\_\_\_

Social Security # \_\_\_\_\_

**DESJRED POSJTJON**

Counter      Production      Other  
(explain)

**DESJRED STORE**

Bongo Java Roasting Co.      Fido

**EXPERJENCE**

List the last three jobs you've had with contact names and phone numbers. Include name of business, supervisor, dates of employment, job duties and a general rating (1-10) of your overall personal job satisfaction. Can we call these places for references?

**COFFEE/RESTAURANT EXPERJENCE**

List any food or beverage work experiences you've had that are not listed above.

**PRODUCT KNOWLEDGE**

How much do you know about coffee, tea and food (1-10)? How often do you drink coffee and what is your favorite coffee drink?

**VOJUNTEER EXPERJENCE**

What volunteer activities are you currently or were you recently involved in?

*[Faint, illegible text or signature]*

**EDUCATION**

List all high schools, colleges and other places of learning you've attended. Underline those you've graduated from.

*We are looking for well-rounded people who work and play well with others and take their responsibilities a bit more seriously than themselves. How do you fit into this picture? & What else do you do that makes you interesting and unavailable to work 24 hours a day?*

*Do you know any current or former BJRC, Bongo Java and/or Fido employees? If so, who? How? and why?*

*Where else have you applied for a job and why would you rather work here?*

*If you could have a 1-hour conversation with anyone living or dead, who would it be and what would you talk about?*

*If you were to write your autobiography, what would the title be? Explain.*

**WORK HOURS (approximately)**

1 2 3 4 5 6 7 8 9 10 11 12

**BONGO BOB: TEACHING NOTE****Synopsis:**

On the surface, this case first appears to tell the story of an entrepreneur who does everything wrong when looked at from the lessons of an entrepreneurship course. His assessment of the opportunity seems to be lacking, his business plan is unconventional, and his management and decision making techniques are unique, to say the least. But when one digs a little deeper into the case, Bob “Bongo Bob” Bernstein proves himself to be a careful student and practitioner of business even if he does so with his own style. This case traces Bob Bernstein as he opens a series of coffee shops.

Bob entered the world of entrepreneurship with some uncertainty and via a rather atypical path. Even as his business was growing he seemed to have some mixed and even ambivalent feelings about his business, at one point taking a sabbatical from his business. At the end of the case, Bob is at an important crossroad in his business. It has grown to five locations and has become quite successful. But, he finds that his own personal aspirations and yearnings may be pulling him in some other directions.

The case provides some interesting discussions on opportunity assessment, the business planning process, equity financing and business partners, and the personal side of an entrepreneurial career.

**So What?**

The Bongo Bob case is intended for either undergraduate or graduate entrepreneurship courses. The case illustrates the personal aspects of being an entrepreneur from the early start-up all the way through growth. The case works well for

exploring opportunity recognition and assessment. It also facilitates good discussions around how the entrepreneur's personal aspirations fit within a growing business and the challenges of exit planning. It also can supplement a discussion of business planning, offering a unique approach that seems to meet the fundamental purposes of business planning, while not following its standard conventions.

Specific “**So What?**” Issues:

1. Students will be able to identify key aspects of opportunity recognition and assessment in this case and learn that they may not always follow typical protocol.
2. Students can examine the process of attracting individual investors to a smaller venture.
3. Students can discuss the challenges of balancing growth with personal aspirations and values.
4. Students should be able to identify how the founders' values shaped the development of the business.
5. Students can examine the exit planning process from the perspective of an entrepreneur who has many interests and passions beyond owning a business.

**Discussion and Case Preparation Questions:**

1. **What was the source of the original opportunity for the first Bongo Java store?**

This question often allows for an interesting discussion of whether Bob was lucky or if he was actually a shrewder business man than many first may think. When one looks closer at the facts of the case, it becomes clear that he actually performed most of the key steps in opportunity assessment. He examined the market by looking both at what made coffee shops successful in other markets and what opportunity was present in Nashville for a “neighborhood” coffee shop. He talked with other coffee shop owners and learned that an adequate margin was possible if enough volume came through the store. And it became clear to him that he had a strong personal passion for the business. The biggest gap was that he had not had experience running or even working in a coffee shop before his first store opened. But he found people who would help him learn what needed to be done.

**2. Evaluate Bob’s process for attracting investors for his business.**

Bob pursued a group of investors who were somewhat diversified in their experiences and seemed to have the capacity to take on the risk. He kept each of their investments to a small enough amount that it reduced their initial risk of investment. His ability to go back to the original investors for more funding is evidence that he has attracted the right group and had built a strong relationship with this key stakeholder group. Finally, some of the investors seemed to be able to provide skills and experience (particularly in the area of accounting and finance) that Bob lacked in his background.

### **3. How did Bob integrate his values and personal philosophies into his business?**

The temptation of many students is to try and argue with Bob's politics, which clearly lean quite far to the left. But, there are important lessons to be learned from Bob's ability to integrate his values into how he runs his business no matter what one thinks of his political orientation. Encourage the students to separate their personal feelings and opinions about his politics from an assessment of his effectiveness in being consistent with his values in how he runs the business. Bob is a good example of an entrepreneur who truly integrates his values and beliefs into his business. There are many examples from the case to examine:

- Bob clearly integrates his beliefs into his purchasing strategies, choosing to buy only free trade coffee beans and has become somewhat of a leader in a cooperative that buys only free trade coffee beans.
- Bob runs his business with a management style that stresses delegation and empowerment of his managers. He respects their ability to develop and run each store in a way that each reflects some of their own preferences and creativity.
- The culture of Bob's business began with his own values and is evident throughout all of his stores. That is part of the reason that he says the concept is too weird to franchise. He believes that part of what makes his stores successful is the overall culture, which he is convinced would get lost in the franchising process. Encourage students to explore the web site, which is a reflection of the Bongo Java culture. The design, the text

and the stories it tells are all part of the culture Bob has consciously been building in his business.

- The hiring process embodies the culture and the values important to Bob. The employment application is included in the case, and asks the prospective employees some unique questions for coffee shop workers, including volunteer experience, who they would like to have a conversation with living or dead, and a title for their autobiography.
- Bob's values come through clearly in the types of community involvement he has chosen to get involved with as part of his business. An interesting discussion is to ask the students if these activities may turn some customers off and keep them from patronizing his stores.

#### **4. Is Bob's business ready to take on more growth?**

Bob seems to be lacking in two important areas to support additional growth:

- The business seems to be lacking critical systems to facilitate future growth. Much of the operation is still quite dependent on Bob and his managers and their specific knowledge and experience. This is particularly evident in the management systems for each store.
- Management seems quite stretched, still mostly dependent on Bob for most key functions. At some point soon, Bob will need to invest in management support that can help take over some key functions. Finding someone who will fit in the culture Bob has created should be a major consideration in any management hire. When he grows the management

team he will increase the risk that his culture will begin to change if not carefully and consciously managed.

## **5. What should be Bob's exit strategy from his business?**

Part of the challenge in evaluating Bob's exit strategy is that he has not been consistent in his thinking throughout the case. His commitment and engagement in the business ebbs and flows, however this is not as unusual as one might think. Many entrepreneurs have ups and downs in their feelings about their business. Some may argue that Bob just wears his feelings on his sleeve, rather than keeping a stiff upper lip in his leadership of the business. It is helpful to talk about the process of exit planning to attempt to create a recommended framework for an entrepreneur like Bob to follow in creating his exit plan:

- Re-examine owners' aspirations: Bob is never very clear in the case as to exactly why he is in business, why he chooses to grow his business, and what he wants to financially get out of the business. A key step would be for Bob to get a clearer understanding of his own goals and aspirations and then develop a timeframe in which he would like reach them. This is particularly true for his goals in terms of wealth. Some may infer that due to his politics, he may have some ambivalent feelings or even guilt about accumulating wealth.
- Evaluate timing issues: It is also unclear how long he wants to keep going. At the end of the case he seems ready to exit, but in the Epilogue

in this Teaching Note one sees that this may have been another temporary lull in his commitment and enthusiasm.

- Establish a specific plan to meet financial goals: Once Bob gets a clearer idea of what he wants to achieve he can then begin the process of setting in place a plan to reach these goals. Up to this point he has been more opportunistic in his growth.
- Evaluate possible exit options: In addition to choosing an exit plan that fits his financial and personal goals, Bob will undoubtedly want to evaluate options that can assure that the culture will continue beyond his involvement. This is a good opportunity to examine some less common exit options such as a management buy-out or ESOP.

**Epilogue:**

Bob Bernstein and his fiancé were married in 2005. After the wedding and honeymoon, it seemed that Bob had gained a renewed energy and focus on his business. He continues to look at additional expansion of his own stores and stores that license his concept, and he is working on finding ways to continue to grow the wholesale part of the business. While he remains open to a sale, he is not actively pursuing this option.