KaBloom!: Revolution in the Flower Industry

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David Hartstein started KaBloom in 1998 with the goal of creating "the Starbucks of Flowers." He successfully built brand recognition for the garden-like shops, but problems plagued the young organization. Nearly three years and one recession later, KaBloom failed to live up to Hartstein's forecast of exponential growth. This case has been designed for a graduate-level course in entrepreneurship/innovation. Students can compare franchising with other business models, examine the impact of organizational structure and leadership styles on business effectiveness, relate issues of supply chain management and logistics to environmental changes, and recognize the impact of innovation on business sustainability.

Keywords: entrepreneurship, franchising, supply chain management, innovation, leadership style

"There are questions that arise from my experience," said David Hartstein, founder of KaBloom, as he ticked them off on his fingers. "These are things I should have known, but somehow I did not. Number one: When you're under pressure to expand, what is the best way to grow the organization? Number two: How do you select franchisees? Number three: Why did so many things go wrong? It should have all worked. Number four: Which lessons from the fast-food industry actually transfer well into the flower industry? And the most important question I ask myself," he said, pointing to his pinky finger, "is how can I make money from the flower business?"

The Flower Industry in the United States

The flower industry was one of the largest agricultural industries in the United States, ranked third after corn and soybeans by the U.S. Census of Agriculture. The Bureau of Economic Analysis, estimated the total floriculture item sales at retail outlets at about $19.2 billion in 2005. Per capita spending at the retail level on floral products in the same year was about $55. The 2007 analysis by the Bureau of Economic Analysis 2007 showed an increase in sales of floral products to $20.1 billion.

The floriculture industry was divided into five major sectors: cut flowers, potted flowering plants, foliage plants, bedding and garden plants, and cut cultivated greens. These industry segments were different in terms of the number of outlets: an estimate of 22,753 retail florist shops, 21,783 supermarkets selling flowers, 16,432 plant nurseries and garden centers, 900 floral wholesalers, and 11,000 domestic producers (www.aboutflowers.com/press_b1.html). The traditional market channels of the flower industry were growers, importers, and the wholesalers or retailers (http://www.safnow.org/index.php?option=com_content&task=view&id=6263&Itemid=149).

More than 80 percent of the flowers sold in the United States were imported from several countries in South America and Europe. The major sources of imported flowers were Colombia, Ecuador, Netherlands, Costa Rica, Mexico, and Canada as shown in Table 1. There were two major U.S. border hubs for imported flowers: Miami International Airport in Florida with a capability to handle 85 percent of the 65,000 tons of fresh flowers imported each year, and Memphis, Tennessee, which handled a small percent of imported flowers. These two hubs were equipped with all necessary facilities to handle fresh flowers, in addition to a sufficient number of U.S. Department of Agriculture (USDA) officers for daily inspection of the large flower shipments (http://southeastagnet.com/2008/01/23/usda-breaks-ground-on-new-inspection-facility-in-miami/).

Table 1. Sources of Flowers—Top 6 Import Countries by Value (2007)

Country	*Colombia*	*Ecuador*	*Netherlands*	*Costa Rica*	*Mexico*	*Canada*
Percent of Total Import	61%	17%	8%	4%	3%	2%

Source: Society of American Florists (SAF).

The major outlets where the flowers were sold differ in size and location. The most popular outlets were supermarkets, with an estimated 29 percent of total sales. Less popular outlets included mass merchandisers with 21 percent of the total sales, home centers with 16 percent of the total sales, garden centers with 15 percent of the total sales, and wholesale clubs with 3 percent of the total sales. Retail florists

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accounted for only 14 percent of the total sales. The Internet accounted for 2.4 percent of all flower and plant purchases in 2005. Internet transactions made up 9.1 percent of purchases and 12.3 percent of spending on floral arrangements (Ipsos/AFE Consumer Tracking Study, 2005 CONSUMER).

The flower industry was among the most sensitive-to-change industries in the market for two reasons. First, flowers were a very delicate commodity. The life span of flowers was relatively short, making the flower industry one of the fastest turnover businesses in the economy. Second, industry performance was sensitive to several factors such as weather, high energy prices impacting delivery costs, and fluctuations in currency exchange rates (especially when the dollar value was decreasing). Changes in supply channels could create volatility in prices and availability. Most importantly, the U.S. trade agreements, particularly with South American countries where most of flowers were imported from, could have a significant impact on the industry.

In 1989, Ruth Owades launched Calyx & Corolla, a high-end florist that shipped direct from the farm to the customer. Calyx & Corolla originally sold its flower by catalog/direct mail and later expanded to include a website, becoming the first "virtual" company in the flower industry. Calyx & Corolla extended vase life by eliminating middlemen in the distribution process and shipped its orders next-day delivery via FedEx in custom-designed packages. By 1998, its catalog was the most widely circulated floral catalog, with more than 12 million copies distributed. In 1998, Calyx & Corolla generated sales of more than $20 million (Business Wire, 1999). Flowers could clearly become big business.

A new and effective e-business model that used Information Technology and Internet tools for reaching customers, providing better customer services for less cost, and utilizing supply chain process was added to the flower industry post 2001. The e-Business model granted a competitive advantage by providing customers with easy and convenient access to flowers with low cost for retailers, wholesalers, and distributers alike through user-friendly websites supported by good delivery systems.

The History of KaBloom

While traveling overseas, David Hartstein (former Staples executive, and cofounder of Super Office, the first office supplies superstore chain in Israel) and Thomas Stemberg (former chairman and CEO of Staples Inc.) observed that Europeans purchased fresh flowers not only for special occasions but also as an everyday item for personal pleasure. Hartstein speculated, "Would it be possible to reinvent the U.S. floral industry along the European model?"

The question was a timely one as Hartstein had been "looking at retail chains to consolidate and [Stemberg] said the flower industry would be perfect" (Forbes Online, 2000). He discarded early thoughts of launching a fast-food restaurant with a health food menu (Reidy, 1998) and in July 1997, Hartstein returned to Boston to build KaBloom. Optimism and success were in Hartstein's blood. A 1986 Suffolk University MBA alumnus, his history included a stint in the Israeli army and diplomatic corps as well as increasingly responsible positions in industry that culminated in his founding Super Office and, subsequently, serving as president and CEO of an international consulting firm established by the director of the Institute for Social and Economic Policy in the Middle East at the JFK School of Government. But a new challenge was calling him.

Hartstein and Stemberg wanted to promote the vision of buying flowers for personal enjoyment at any time. To accomplish this they had to offer a shopping experience that promoted this kind of enjoyment by making it easy for the consumer to get a wide choice of high-quality flowers at convenient locations. Their goal was to increase flower consumption in the United States. Hartstein described this concept as "the Starbucks of Flowers"—a company that would change the way Americans thought about flowers just as Starbucks changed the concept of a morning cup of coffee. They wanted to encourage shoppers to buy flowers as often as they bought bread or milk by making them available on shelves in every kind of retail location.

Table 2. Distribution Channels

Traditional Florists	***Supermarkets***
Limited hours	Extended hours
Limited on-hand inventory	Limited assortment[a]
Individualized service	Irregular service (if at all)
High pricing	Competitive pricing for available stock
Bad Locations	Convenient locations, "Where People Shop Everyday"
Bad ambiance (typically not clean)	No ambiance
Questionable quality	Poor quality

a. In January 1998, a typical Stop and Shop store in the Northeast had only 19 SKUs for flowers. Star Market had 18 SKUs (IAMCO, 1996).

Hartstein and Stemberg had done their homework and they believed that the market opportunity existed. Their research revealed the following:

- In 1996, the U.S. retail market for fresh cut flowers and potted plants totaled $12.9 billion. In addition, the bedding and garden segment garnered $2.6 billion, for total floriculture sales of $15.5 billion. The domestic retail floral market was extremely fragmented with more than

14,350 supermarket floral departments and 36,000 retail florists. Fewer than 2 percent of specialty florists belonged to a chain.

- Sales through specialty channels, including retail florists, garden centers, toll-free call centers, street vendors, and mail catalogs totaled 57 percent of sales or $8.8 billion. The specialty market suffered from poor customer perception of quality, assortment, and service.
- Sales through mass market channels, including supermarkets, discount stores, do-it-yourself (DIY)/hardware stores, convenience, department, and drug stores totaled 33 percent of industry-wide sales or $5.1 billion. Despite poor customer perceptions, this channel had grown significantly over the previous decade (IAMCO, 1996).

Thus, they concluded that KaBloom could enter the highly fragmented $15.5 billion U.S. retail floriculture industry and fill a unique market niche. They intended to create a strong and efficient supply chain by remaining close to the source of flowers, the growers. KaBloom offered an exciting new distribution opportunity that would increase their sales and help offset the seasonality of wholesalers' business. Wholesalers were willing to accept a gross margin on their key accounts of 12 percent, down from 35 percent on standard business (IAMCO, 1996, 57). KaBloom was therefore confident in its ability to source fresh cut, high-quality flowers and plants through these distributors at an advantageous cost structure. KaBloom even planned eventually to purchase directly from growers in Ecuador and Colombia, providing a large degree of inventory and quality control.

In addition, KaBloom could provide its customers with a wide assortment of high-quality, fresh-cut flowers and plants at discount prices. At that time, high-quality and competitive pricing were mutually exclusive. While florists generally attempted to provide consumers with a selection of high-quality fresh cut flowers, neither their prices nor their on-site assortment were comparable. Some supermarkets sold flowers at a lower price, but quality, freshness, and selection were inconsistent. With its simplified and efficient distribution chain, Hartstein believed his company would have vastly improved logistics that would support better pricing and better inventory management.

The retail flower industry was served by two primary distribution channels, traditional florists and supermarkets, with different characteristics (KaBloom's Business Plan).

Hartstein believed he could compete on all of the merits of both channels and thus develop an underserved market of customers who wanted the benefits of cash and carry, (everyday low pricing, large assortment, cleanliness, and long hours), with strong, user-friendly service. With its pricing lower than both supermarkets and retail outlets, KaBloom offered an ease of shopping contrary to existing, intimidating shopping environments.

KaBloom identified four industry trends, the opportunities they posed, and unique ways to execute them, as indicated Table 3 (KaBloom's Business Plan).

In addition, most specialty florists and mass market retailers did not carry a diverse inventory, concentrating instead on mainstream flowers. However, by not carrying 46 percent of what was being demanded by consumers, these retailers were losing sales. KaBloom offered a wide selection of flowers, ranging from mainstream to more exotic, tropical flowers. In 1996, roses, carnations, and chrysanthemums accounted for 54 percent of the flowers sold in the United States.The remaining 46 percent, up from 38 percent in 1989, represented an opportunity to a full-selection chain like KaBloom (http://www.ers.usda.gov/Publications/Flo/2007/09Sep/FLO 2007.pdf page 64).

Finally, foreign flower growers were diversifying their range of products. Besides growing roses, carnations, and

Table 3. Industry Trends

Trend	***Opportunity***	***Execution***
Sources of supply shift offshore.	Reduced cost of wider assortment of flowers.	With 150 stores and central purchasing, KaBloom would buy directly from the growers.
Consumers have higher expectations.	No one was currently meeting all of their needs, particularly for low-cost specialty flowers.	KaBloom would meet customers' needs through high assortment, high-quality, low-cost flowers that could be easily accessed.
Growers were attempting to become more sophisticated and add more value.	Growers were willing and more able than ever before to work with downstream partners.	KaBloom would buy directly from the growers.
Management information systems (MIS) had advanced and offered extensive capabilities.	MIS could be used to control and track inventory, to forecast sales, and to communicate between stores and headquarters. Flower stores were not using MIS effectively, particularly with respect to inventory control.	KaBloom would implement a state-of-the-art MIS system at a cost of approximately $15,000 per store.

chrysanthemums, they were producing more exotic tropical flowers that yield higher margins. KaBloom planned to leverage its position with growers by the nature of its size and relationships, and therefore realize advantageous cost structures. With more than 150 stores, KaBloom would be the highest retail purchaser of fresh cut flowers in the United States.

Hartstein knew it was important to choose the first store locations strategically. He looked for locations and communities where "income per capita was over $50,000, with a population of more than 100,000, with over 30,000 cars driving very slowly by." His research had revealed that consumers who bought the most floral products were likely to be affluent and purchase them for their own enjoyment as well as for more traditional gift uses. The two highest income groups, ($50,000–$74,999 and $75,000 and above) represented 31.9 percent of the total U.S. households and purchased 41.5 percent of all fresh cut flowers. In addition, as household income rose, the percent of households purchasing flowers also rose (Behe and Wolnick, 1991).

KaBloom targeted locations in high-density, high-visibility, high-income, white-collar, metropolitan areas with high foot and/or vehicular traffic. The first proposed site was on Needham Street in Newton, Massachusetts, where, within a three-mile radius, the average income was more than $70,000 (Newton-Needham Chamber of Commerce). Spending per capita there was approximately 35 percent higher than the national average or about 20 percent higher than the Northeast average. Thus, the average spending per capita in Newton was estimated at $68. Table 4 illustrates the volume potential for a retail flower store on Needham Street in Newton, Massachusetts (KaBloom's Business Plan).

KaBloom store volume was projected at $483,000 for the first year of operation, growing to $798,000 in the fifth year. A total of $483,000 per year represented 95 transactions per day at an average transaction of $13.95. While sales predictions for stores increased as they matured, average KaBloom store volume was predicted to be $645,000 in year five when 150 stores were open.

The second store location was Harvard Square. Hartstein gave the example of the Brattle Square Florist at Harvard Square, which had sales of $1.9 million a year. The size of the store was 1500 square feet, which translated to $1,266.67 of sales per square foot. "Despite these impressive sales figures, Brattle Square Florist was unsophisticated in its systems and operations, and the owners clearly understood that their advantage lay in their location. While 90 percent of the traditional florist's sales were derived from deliveries, this store achieved 60 to 70 percent of its sales volume through walk-ins" (KaBloom's Business Plan).

Table 4. Potential Volume for Retail Flower Store on Needham Street, Newton, Massachusetts

Total population within 3-mile radius	115,000
Per capita spending	$68.00
Current total retail sales	$7,820,000
COGS @ 40%	$3,128,000
Total retail @ 50% gross margin	$6,256,000
10% market share	$625,600

By comparison, KaBloom projected store sales at $483.33 per square foot in a store's first year, increasing to $798.00 in its fifth year. "KaBloom," Hartstein explained, "would have the same advantage of Brattle Square as far as premium location. However, it would have attractive and easy-to-shop stores, sophisticated systems and operations, a talented management team, and superior customer service."

By the end of 1998, KaBloom had opened two stores. Customers could also buy KaBloom flowers at www.KaBloom.com and by telephone at 1-800-KaBloom. The eye-catching stores, located in high-vehicle/foot traffic areas, were adorned with bright purple awnings and stocked a huge variety of flowers in gardenlike settings, encouraging impulse purchases by passersby. Hartstein said, "We saw ourselves as a flower shop, not a florist. We were in the business of flowers. I became passionate about the business of flowers. I fell in love with it."

KaBloom's strategy was to open company-owned stores and appoint store managers, hiring only service-oriented associates who would demonstrate a real interest in flowers and plants. "A walk in our store is like a walk in a garden," claimed Hartstein. The KaBloom garden made flowers affordable to all and included 200 varieties of fresh cut flowers, compared with an average of 40 at the largest supermarkets and 20 at most florists. KaBloom kept their prices low—about half the industry norm—by buying directly from growers and distributors, as opposed to purchasing from wholesalers.

Instead of the impersonal, low-contact environment that was traditional in florist shops, KaBloom's well-trained associates were advised to greet customers as soon as they entered the store, and to make the store as much a part of the street scene as could be possible. Open doors and flowers appearing to tumble onto the sidewalk enhanced the sensation of entering a garden. "We created a common look for our stores, in design, lighting, layout and signage. We visually differentiated ourselves from existing florists. We created brand recognition, similar to what Starbucks had achieved," explained Hartstein.

Problems Arose

The Valentine's Day Debacle

Taking orders on the Internet had proven to be a successful

method of doing business for KaBloom. Due to the large number of orders to deliver on Valentine's Day 2001, 70 drivers had been contracted through local temp agencies that promised to deliver drivers with their own vehicles. Unfortunately, 25 drivers did not show up, leaving some 500 orders for Valentine's Day flowers undelivered. KaBloom did not have a written binding contract with the temp agencies, and the agency that failed to deliver was later removed from KaBloom's vendor list. All that was left to do was to "put the fire out," explained Hartstein.

He sprang into action, contacting the logical delivery source—FedEx, which wanted to charge a fee of $50 per delivery. His immediate response was "There was no way in hell I was going to pay $25,000 for those deliveries!" The press response was brutal. The 11:00 P.M. news featured KaBloom as destroying people's Valentine's Day. "Every single news outlet in the area featured a story of our missed deliveries. This was very bad PR for us."

Eventually, Hartstein refunded all 500 orders, then delivered 500 bouquets the next day to make up for the missing Valentine's Day flowers and delivered complimentary tulips to each of the recipients of the missing orders on April 15. His decision to forego the FedEx delivery because of its $25,000 price tag ended up costing him $45,000 instead.

Huge Turnover and Too Much Payroll

Under the existing circumstances, it became difficult to motivate store personnel to put in the long hours needed to sustain the business. In the interest of efficiency, Hartstein opened the Design Center in Woburn to centralize design and distribution. This created morale issues since it took away the one thing employees liked to do most—design the flower arrangements. In addition, if a customer complained about the design, the employee, who hadn't created the design, still had to respond to the customer's complaint. Employees became frustrated by this situation.

Table 5. Estimated Annual Costs per Store

Fixed costs	
Labor (payroll, benefits, and taxes)	$100,000
Rent and utilities	$50,000
Other expenses (administration, insurance, etc.)	$30,000
Variable costs based on sales revenue	
Cost of goods	44% of Sales
Royalties	
5.5% to 4.5% depending on gross sales	5% of Sales

Source: D. Hartstein.

High turnover and a demoralized staff created a situation in which corporate payroll became astronomical. As less qualified store personnel were hired, additional district managers were needed to supervise them. Gross profit from the stores could not sustain corporate overhead. More than half of the stores' income was devoted to marketing, some of which paid back very limited returns. In order to cover costs, the average store needed sales of $375,000 (see Table 5).

In addition, the turnover at the store level had an impact on store sales and on the community ties upon which KaBloom counted for its everyday sales. Even shrinkage (anticipated losses due to flower perishability) was affected. According to KaBloom's business plan, "An industry rule of thumb is that inventory shrink averages 10%." The shrinkage rate was dependent, in large part on the temperature and hydration of the flowers during transport and, as new employees were in constant need of training, the care with which flowers were handled in the stores became variable and shrinkage increased.

Decision to Franchise

Nearly three years and one recession later KaBloom failed to live up to Hartstein's forecast, with just 34 locations. That number decreased to 30 when the unprofitable stores were closed. Sales hit only $8 million in 2000, but grew to $15 million by 2001.

Hartstein decided to investigate franchising as a way to ensure KaBloom's success and to take the business in a new direction (see Table 6). Franchising would provide risk minimization for both the franchisor and franchisee. The success rate for new franchise businesses was much higher than other types of new businesses because franchises operated within a proven system. That system included an established concept, sound business plan, support for getting started (i.e., training materials, store design, sources for goods), and marketing support.

The franchisor could expand the business and increase brand awareness rapidly with little risk and a smaller investment than other business models required. Incremental financial risks were transferred to the franchisee, who paid the franchisor royalties on gross sales. Royalties in franchising systems were payable regardless of profitability, transferring the major risk to the franchisee. The risk for the franchisor was primarily the loss of control of an individual location, possibly resulting in lower quality stores that had an adverse impact on the brand of the franchise overall.

The franchising idea seemed to make sense—risk was limited and the income potential for the franchisor seemed boundless, as long as the right people bought the franchises. However, Hartstein's initial investors were opposed to franchising because franchising would not return as much immediate profit as company-owned stores. Hartstein had original-

ly raised more than $15 million in venture capital (Forbes Online, 2000), and these investors had to be served. The founder and former CEO of Dunkin' Donuts, the internationally renowned coffee and doughnut store, advised Hartstein to move toward franchising because his own success with the strategy was well known. Hartstein was amenable, but the investors remained uninterested. Sales were stagnant and problems continued to grow.

In late 2001, Hartstein made the decision to change the business model to one based on franchising. Tension between the investors' goal of return on investment and Hartstein's goal of ongoing royalties created conflict but Hartstein was adamant. In February 2002, he assumed voting control of KaBloom and the company underwent a significant reorganization through capital restructuring.

A Happy Story of Growth

KaBloom Franchising Corp, established for the purpose of selling KaBloom franchises, offered its first franchises on October 30, 2001. The initial step in this process was to put together a Uniform Franchise Offering Circular (UFOC), a legal document in which the franchisor disclosed all information that the franchisee needed to make an informed decision on investing in that franchise. The contents and disclosures in the UFOC were governed by the Federal Trade Commission (FTC). A UFOC contained 23 categories of information including the franchisor's and franchisee's obligations, specific territory in question, and initial and ongoing fees. Many states also had additional state-specific requirements. The franchisor was required to give each prospective franchisee the UFOC at least 10 business days prior to signing the Franchise Agreement.

KaBloom developed a national UFOC and then produced a set of revised state-specific documents. The estimated cost of setting up a new franchise store was $250,000 including the initial franchise fee. This investment was significantly higher than to open an independent florist shop. The cost did not deter prospective franchisees. The initial aim was to have each store generate $600,000 of revenue (Reidy, 1998).

A franchisee could open a single store or purchase a territory to open several stores or other flower outlets. The franchisee cost per additional store was significantly less than the franchise fee for the first store. If someone wanted to open three stores, he or she paid $30,000 for the first store and $5,000 as a down payment on each of the other stores. When the time came to open the second store, the cost was a total of $25,000 (less the original $5,000 down payment), and the cost for the third store was a total of $20,000. Multiple outlet franchisees were encouraged.

In addition to the initial franchise fee, the franchisee was required to pay the franchisor monthly fees. Royalty payments were a percentage of gross revenues on a graduated basis (i.e., 5.5% of the first $350,000, 5.0% from $350,000–$550,000, and 4.5% over $550,000). Additionally, franchisees were required to contribute to the advertising fund (3% of sales) and e-commerce fund (2% of sales).

Hartstein was named a finalist for the New England Entrepreneur of the Year award in 2001 by Ernst & Young. Once franchising became the operational strategy, the business took off in a period of euphoric growth. KaBloom sold franchises directly as well as through franchise brokers. The first franchisee bought the Andover, Massachusetts (formerly company owned) store in March 2002. By the end of 2002, KaBloom reduced the number of company-owned stores to 12 and had 31 stores operating with 15 franchisees operating 19 stores across two states. By the end of 2004, KaBloom had tripled the total number of stores to about 100 stores including 88 franchised stores across 29 states. This was exceptional growth in only three years of franchising. There were 120 active franchisees and many more stores in the

According to Seid and Ainsley (http://www.msaworldwide.com/upload/The%20Relationship%20between%20Franchisor%20and%20Franchisee.pdf), ". . . franchisors want their franchisees to succeed and most work hard to provide their franchisees with tools and coaching they need to be successful" but one needs to remember that "a franchisor is not the franchisee's parent and the franchisee is not the franchisor's child." As a franchisor, KaBloom provided its franchisees with the following significant support:

- Site location and lease negotiation assistance
- Training (5 weeks headquarters and 3-4 days franchise location)
- Initial store (including base flower assortment and other products) and field support services
- Ongoing operational guidance including inventory control assistance, lower cost of merchandise through group buying, and centralized distribution and logistics
- Regional and national meetings
- 800 telephone hotline

The level of support provided by KaBloom exceeded what most franchisors provided and what was required by law.

Table 6. Comparison of Risk/Reward for Franchising and Owner-Operated Stores

	Franchising	Own and Operate
Capital Investment Required	Low	High
Control	Medium	High
Speed of Expansion	High	High
Profit Potential	High	High
Risk Potential	Low	High
Return on Investment	High	Low

Source: A composite of information from http://www.francorp.com/howto/why.asp, http://www.nationalfranchise.com/whyfranch.html, and http://www.referenceforbusiness.com/small/Eq-Inc/Franchising.html.

pipeline (see Table 7).

In addition to stores, some franchisees opened kiosks (LaVallee, 2005). Franchisee, Tom Hardy, opened 13 kiosks in southeastern Massachusetts between mid-2003 and the end of 2005 and had plans to open several more. Two to three times per week, two employees from his Pembroke store replenished the kiosks. These kiosks were located at gas stations, mini-marts, health centers, and other locations—novel outlets for selling flowers. KaBloom's rapid growth was a result both of stores and other innovative flower retailing options. In 2002, KaBloom was selling flowers at some Au Bon Pain cafes and at eleven BJ's stores (Reidy, 2002).

Au Bon Pain and BJ's Warehouse Clubs

KaBloom's operations at other businesses began in 2002 and were marketed as "KaBloom Too." KaBloom franchisees resented the use of "KaBloom" for sales of lower cost flowers at non-KaBloom store outlets, and many franchisees were reluctant to service these locations despite their income-producing potential. KaBloom's first relationship was with Au Bon Pain, a bakery and restaurant with a European flair, and was short-lived and not profitable. Hartstein had been contacted by Frank Guidara, CEO of Au Bon Pain. Guidara wanted to have flowers in his stores, both to enhance the European feel and also as an additional product to sell. They initiated their partnership at the Children's Hospital location in Boston, then expanded to Boylston Street (also Boston). Flowers were attractively displayed in a spiral fashion on a pole. This operation was labor intensive and required cleaning of the flower buckets once or twice a day to prevent infestation by fruit flies. They soon disbanded the relationship.

At a European flower show, Hartstein saw a unique, attractive cooler with a waterfall that could display flowers and eliminate the need to clean the flower buckets. His vision of selling flowers in every retail location governed his next moves. He contacted BJ's Wholesale Club, which had a flower department already, and suggested a new way to display the flowers. BJ's was intrigued and assigned a representative to work with KaBloom to develop the new system. Hartstein purchased 80 coolers, had them converted to 110 voltage from the European 220, committed to maintain them, and placed them in BJ's stores. In 2002, KaBloom began servicing BJ's warehouse clubs in Massachusetts and New Hampshire. The Woburn, Massachusetts, distribution center easily supported these stores. KaBloom received 90 percent of BJ's flower sales, with 10 percent going to BJ's.

Customers were enthusiastic and BJ's asked KaBloom to expand operations beyond New England to eight or nine other states, including New York, New Jersey, and Pennsylvania. These locations could not be supplied and supported from the Woburn center and required local distributors, delivery arrangements, and other personnel. The large overhead that was required made these non-New England operations nonprofitable. In 2004, on $3.5 million of sales, KaBloom netted $5,000 profit from their operations at BJ's. At the end of 2004, KaBloom subcontracted the BJ's business to a grower who paid royalties to KaBloom, generating a considerably higher return. The grower ultimately purchased the BJ's business and continued to operate it independently.

Trying Mobile Commerce

In 2004, KaBloom began mobile commerce (m-commerce) with MobileLime (MobileLime.com). M-commerce included transactions (i.e., buying merchandise, making payments) using a mobile phone. The floral industry had been involved in web-based flower ordering, an example of business-to-consumer (B2C) e-commerce, but m-commerce was unique to KaBloom. With the implementation of the MobileLime technology, only KaBloom could communicate with their flower customers in real-time to remind them of upcoming events,

Table 7. Store Growth

	Total Number of Stores	Number of Company-owned Stores	Number of Franchise Stores	Number of Franchisees	Number of States with Franchises
End 2001	34	34			
End 2002	31	12	19	15	2
End 2003	53	11	42	69	14
End 2004	98	10	88	120	29
March 2006	117	7	110	138	N/A
End 2006	85	5	80	N/A	N/A
March 2008 Prior to Reacquisition	52	3	49	49	18

holidays and monthly specials, and offer reward programs. "MobileLime's technology appeals to the life-style of our busy customers. As a European-modeled retailer, we strive to offer a savvy, convenient shopping experience and be one step ahead of other flower markets. Allowing customers to pre-approve their transaction before shopping is exactly the mobility our commuter customers at South Station are looking for," David Hartstein explained. "This unique and convenient process, will allow more customers to enjoy fresh flowers every day. We are looking forward to utilizing MobileLime's technology to simplify shopping for our customers" (www.seapointventures.com/pr/pr14331220041104.doc).

From 2004–2006, store growth slowed (see Table 7). In early 2006, there were 117 stores, a 19 percent increase from the end of 2004 with an accompanying 25 percent increase in the number of franchisees to 138. This increase was followed by increased revenues for KaBloom corporate. However, problems with franchisees created cash-flow issues.

A Fading Franchise Operation

The decision of KaBloom management to implement a franchise system and to adopt a decentralized business model required several managerial changes. Both the size of the company and the size of the management team increased significantly. A hierarchical corporate structure was put in place to support the franchisees (see Figure 1). For every 10 franchisees, a business consultant was hired. KaBloom later hired experienced individuals at the vice president level to run the functional areas (i.e., information technology, marketing, logistics, and franchising). The vice presidents built organizations at KaBloom similar in size and cost to the ones at their former large-company employers, thus creating higher overhead than the fledgling organization could sustain. The added managers and supporting teams hired to administer the expansion created higher corporate payroll demands. A new distribution system was implemented as a result of the change in business model. The franchise business consultants were requiring more cash output than what was coming in.

Committed to his philosophy of local ownership, Hartstein intended for the franchisees to be owner-operators; that is, that the franchisees would love flowers and would work in the stores. He anticipated that they would share his passion for a nontraditional approach to flower selling, and that they would be willing to eat, sleep, and drink flowers. His vision of the perfect franchisee went beyond simply the ability to pay the fees and royalties. The ideal franchisee would be part of the community, would participate in community life, and would, most importantly, love flowers and share Hartstein's vision. He expected that the owner-operators would be happy to work in their stores and would understand that profits were made one stem at a time. Additionally, these franchisees should be willing to maintain the garden environment in their stores and absorb the 10 percent shrinkage required for flower volume, variety, and quality. But not all franchisees buying KaBloom franchises were ideal.

When franchising began, KaBloom stores were only locat-

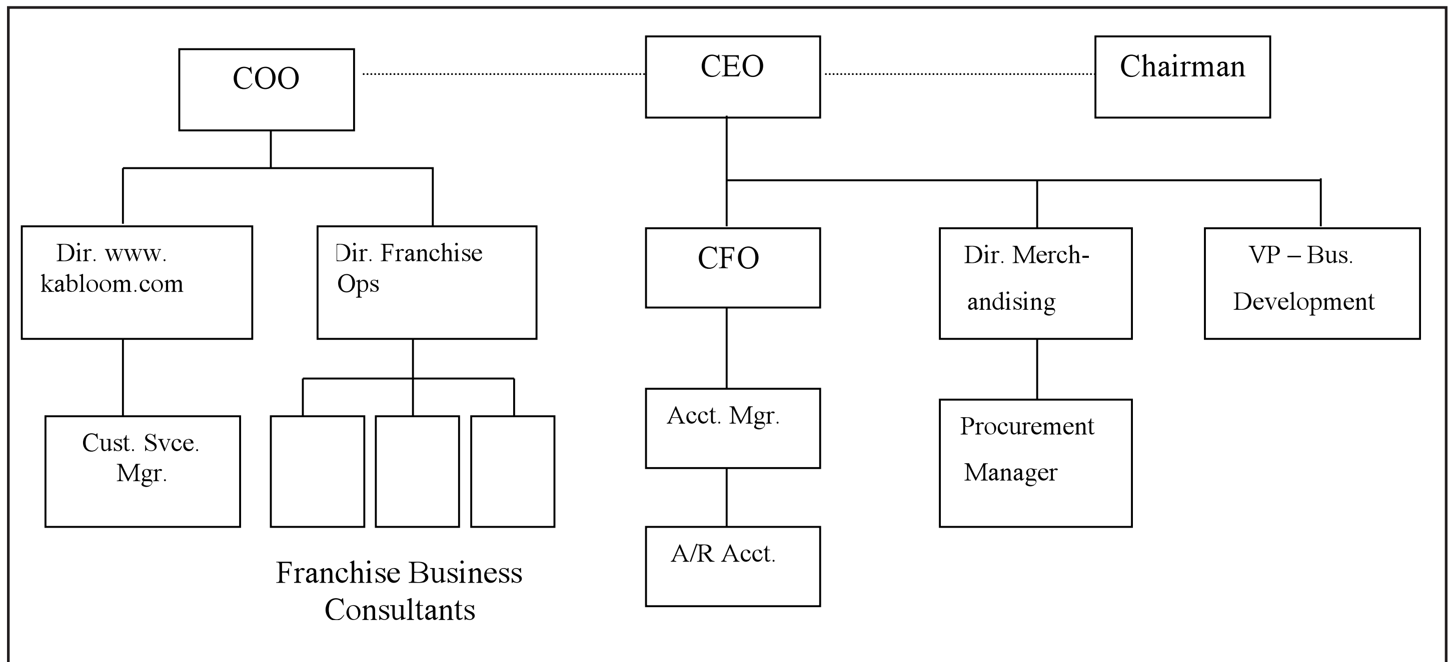

Figure 1. KaBloom Organizational Chart (2006)

ed in two states. By the end of 2004, KaBloom stores were in 29 states throughout the United States. Franchises in such distant (from the Massachusetts headquarters) locations as Idaho and Texas resulted in extra shipping costs and a decline in delivered flower quality (see Table 8 store locations). Hartstein had ideas about how to solve the distribution issue, but these ideas took additional cash to develop. When franchisees did not pay their royalties, legal fees to pursue the debt often exceeded the money that was eventually collected. Some franchisees were not paying for their orders on time. Because cash inflow was running lower than it should, the organization took on more debt, and debt service became an issue.

Franchises were scattered all over the country, from Pennsylvania on the east coast to California on the west coast. KaBloom assumed control of ordering flowers for all its franchisees requiring many small-volume shipments. This resulted in a major problem for KaBloom since many small volume orders experienced delivery delays or sometimes were completely lost by the carriers. As a result of these

Table 8. Locations of KaBloom Franchises (2006)

State	Number
AZ	4
CA	6
CO	2
CT	3
DC	1
FL	13
GA	2
IA	1
ID	1
IL	10
IN	2
KS	1
LA	1
MA	34
MD	4
MI	2
MN	2
MO	3
NC	3
NH	1
NJ	9
NV	2
NY	2
OH	5
PA	2
RI	4
TX	3
WA	1
WI	1

Sweet Factory is a one-of-a-kind retail environment that combines entertainment with space-age design to provide a state-of-the-art candy and candy-related merchandising concept. Sweet Factory, as you see it now, was started in the United States on July 12, 1991. Sweet Candy LLC, was founded in 2002 when it purchased the Sweet Factory candy store chain from the Archibald Company. Shortly after the purchase of the Sweet Factory chain, Signature Distribution (formerly CandyWorkS distribution) was created to provide the logistical and distribution support that a nationwide chain of specialty candy stores would need. Sweet Factory takes great pride in its people and in its products. Customer service and quality products are the foundation on which Sweet Factory is built. Our goal is to build a major national company that will position itself as a leader in the marketplace, setting the standard for quality products, people and presentation.

CinnaWorkS, LLC, was founded in 2004 when it purchased 83 previously owned Cinnabon stores. The Support Center for CinnaWorkS is located in Anaheim, California. Cinnabon is the worldwide leader in the cinnamon roll store category. Founded in Seattle, Washington, in 1985, Cinnabon opened its first store on December 4, 1985, at SeaTac Mall. Cinnabon stores are traditionally located in high-traffic venues such as shopping malls, airports, universities, casinos, amusement parks, military bases, train stations, and travel plazas. The brand has grown dramatically since then. As of December 28, 2003, the company operated and franchised 626 stores worldwide. These stores are located in 43 states, Puerto Rico, and 26 other countries, leading to exceptional brand awareness around the world. CinnaWorkS acquired the company-owned and operated Cinnabon stores on November 22, 2004. CinnaWorkS has an aggressive business growth plan in place over the next few years. CinnaWorkS stores have built a reputation for serving fresh, aromatic cinnamon rolls made with premium Indonesian cinnamon and topped with a sweet, rich, cream cheese-based frosting. Each Cinnabon product is served hot out of the oven and baked fresh before our guest's eyes. CinnaWorkS' commitment to premium ingredients and quality has paid off.

KaBloom was started in 1998. Our stores are designed to be warm, inviting, modern, and fun with a large selection of flowers and plants so extensive our customers feel like they are walking through a European flower market. Our goal is to prove that the future of flower retailing is called KaBloom. One of KaBloom's objectives is to increase consumers' flower-buying habits as is the case in other countries. We believe flowers should be enjoyed everyday, not just on special occasions. So, we make it convenient to shop for flowers—our stores are located in high-visibility, easily accessible shopping areas; our hours are longer than traditional florists; our staff is knowledgeable and helpful. Customers are welcomed and invited to enter the walk-in cooler and choose from a selection of up to 200 fresh cut stems and bouquets (4 times the variety available from traditional florists).

Figure 2. Excerpt from KaBloom's Employee Handbook
(describing the three companies owned by Caliber in 2006)

delays, the quality of the flowers suffered. In addition, the price of flowers increased because of the loss in economies of scale with small volume shipments. Company revenue decreased dramatically. The new operations model created new challenges for the company.

The problems with the franchisees seemed never to stop. As Hartstein resolved one issue, another would crop up. "This is how you get yourself in trouble with decentralization," Hartstein said. KaBloom was buying flowers and selling them to the franchisees, laying out the money up front to the grower. Once the franchisee ran into trouble paying, KaBloom was left holding the bag. Because the corporate structure was decentralized, Hartstein was not aware of every such situation. "When you are decentralized, many decisions can backfire because of the lack of personal responsibility."

However, there was little room for error when the fee to the franchisees for flowers was cost plus 10 percent. When the franchisees did not pay on time and KaBloom had to pay bills to the grower, lateness created problems all around. The franchisees who paid on time did not understand why KaBloom was having trouble paying its bills and demanding faster payment, and the franchisees who were delaying their payments continued to have a free ride. By the end of 2005, between 10 and 12 percent of the franchisees were in default.

The pressures created by high overhead and low royalty returns, coupled with nonpayment and late payments resulted in a business that simply was not fun anymore for Hartstein. He decided to cut his losses and sell the enterprise.

KaBloom Wilted in the Shadow of the Caliber Group

The Caliber Group

In March 2006, Caliber Capital Group, an equity market investment group based in Anaheim, California, finalized its purchase of KaBloom Franchising Corp., creating two entities, KaBloom Flowers LLC and KaBloom Flower Franchise LLC. The Caliber Group specialized in acquiring troubled companies and turning them around. The president of the investment group and new president of KaBloom, James Walker, said that the franchise owners would retain their storefronts, and KaBloom headquarters would move to Anaheim (SAF, 2006). At the time it acquired KaBloom, the Caliber Group also owned Sweet Factory, Inc. and CinnaWorkS, the parent company of Cinnabon. Six months later, Caliber purchased the Baja Fresh Mexican Grill for $31 million from Wendy's, which had paid $275 million for it in 2002. (See Figure 2 for a description of KaBloom's place in the Caliber Group companies.)

Caliber Capital Group's experience was both as franchisor and as franchisee in a wide variety of fast-food businesses. They had no experience with flowers nor did they develop an extensive management team for the KaBloom stores (operating only with a director of Marketing, a rebuyer, and a director of Franchising), but they did have the capital to infuse into KaBloom's bleeding bottom line, and Hartstein had high hopes for the future success of the company he had founded. Although differences in approach and philosophy truncated the working relationship that had been part of the transition plan shortly after the completion of the sale, nonetheless Hartstein remained in contact with the Caliber Group and watched as his creation became its neglected stepchild.

Unexpected Challenges of Franchising

Even before Caliber Capital Group took over the business, KaBloom franchising had been a challenge to both the franchisor and the franchisees. When KaBloom began offering franchises, it did so with prior experience only in the fast-food world and in an established organization. No one had experience with "start-up" franchising, so any early missteps were exaggerated as the company grew. The expectations on the part of KaBloom and on the part of the franchisees were unclear despite the extensive due diligence and information provided in the UFOC. Some franchisees had grandiose expectations and set up complex internal organizations even when they had little ability to sustain them financially. KaBloom's decentralized organization kept some information from reaching the right people in headquarters prior to its acquisition by the Caliber Group, creating serious operating difficulties and exacerbating KaBloom's problems.

The franchisees had been hoping for improvement in the general management of the KaBloom organization once the Caliber Group had taken over (SAF, 2006), but instead they were shocked as one corporate support after another was pulled by the new owners—no more business consultants, no marketing campaigns in magazines, no special assistance from headquarters. The business consultants that had been provided by Hartstein's organization had been pulled by the new owners, and the franchisees were essentially on their own. Fewer and fewer of them were meeting their obligations to the parent company, and the parent company responded by pulling back as many services as it could.

The Decline of KaBloom

One of the first actions the Caliber Group took after closing the deal with Hartstein was to clean house, keeping only two of KaBloom's existing employees—the Franchise sales director and the general assistant. These two staff members were responsible for keeping the organization running, from the legal end through the ordering of flowers. Shortly after the acquisition, Hartstein's formal involvement in KaBloom ended, as did his influence over events.

During the first half of 2006, the Caliber Group poured

money into its new company. They put together a new ad campaign originating in the Anaheim and Irvine, California, communities. The campaign was edgy and expensive, focusing on special effects, high-priced models, and slick staging. The franchisees hated it—they wanted the emphasis to be on the flowers, not on the environments. They refused to pay into the advertising and promotion fund, and the ads were not redone.

Next, the Caliber Group had the idea to create edible arrangements that would expand the store offerings. However, special food handling licenses were required, and this was too complex to do nationwide. Then, they thought about including wine in the offerings. Again, the issue of licensing came up, along with restrictions about shipping alcoholic beverages across state lines.

Eventually, the Caliber Group's priorities changed as they had purchased Baja Fresh in August 2006 and tied up their financial resources in that company, and their interest in developing KaBloom waned.

David and the Moses Miracle™

David's Passion

Hartstein had started in the flower business in 1998 with a passion to reinvent the U.S. floral industry along the European model, in which Europeans purchased flowers at any time for personal pleasure. In his words "I became passionate about the business of flowers. I fell in love with it."

His hard-won experience through the ups and downs of the business had taught him a valuable lesson—that the impact of distribution on the quality of flowers was critical. He had come to realize that the logistics of the flower distribution business were broken and he wanted to fix it. He wanted to simplify distribution channels and streamline the entire process.

Preparing Flowers for Shipping

Ninety percent of all flowers sold in the United States were imported from foreign growers and shipped dry to the United States. An estimated 77 percent of Americans did not buy fresh cut flowers for personal consumption (http://www.sierraflowerfinder.com/articles/mra_e.pdf Consumption). According to Hartstein, this was principally because they did not trust that the flowers would last more than three days in their homes due to the flower distribution system. The amount of time cut flowers spent in distribution could vary from 7 to 12 days or perhaps longer. The process was as follows: Harvest Date (HD)—At most farms around the world, flowers were typically cut in the morning. They were transported from the greenhouses to the postharvest cooler where they were "conditioned" in a solution of citric acid and hypochlorite sodium. These additives were employed to fight the constant battle against bacteria as well as promote hydration in the flower. This conditioning to the flowers was performed in preparation for the long journey to come. Like camels, the flowers were filling up before they departed. The conditioning parameters required a minimum of 12 hours of hydration with this solution to optimize vase-life performance.

Once the conditioning was complete, which typically meant the next day (harvest date + 1), the flowers were graded (quality, length, and cut stage), bunched (arranged and wrapped), cut again (as the bunch), and placed back into a cooler where they were hydrated in the same solution for an additional 4 to 6 hours. They needed this extra hydration because they were out of water while they were being processed. At the very end of the processing, they were cut one last time to remove the section of stem that was drawing "air" into the bottom of the stem. This condition was called "air lock" and prevented water from being drawn up the stem.

At this point, the flowers were ready for packing. While in the cooler, they were removed from the solution and allowed to ship dry. This typically took 15 to 30 minutes. The flowers were then packed in corrugated boxes, labeled and staged for shipment.

The U.S. Distribution Model

In response to the terrorists' attacks on September 11, 2001, the U.S. government imposed the "Wheels Up Rule," a requirement to have cargo documentation submitted to U.S. Customs 12 hours prior to departure. This requirement placed responsibility and some degree of "time-sensitive" pressure on the farm to execute orders that were submitted. Typically, product left the farm on HD+2. Flights left in the middle of the night, arriving in Miami in the early morning.

On HD+3 the flowers were processed through USDA inspection at the "Smoke House" (an older building with a nonfunctioning smoke stack—the name stuck). The flowers then departed USDA and were shipped to the various warehouse distribution centers in the Miami area. Inventory rotation (First-In-First-Out FIFO) often resulted in older flowers being shipped first and the new arrivals rotated into the cooler. Every situation was different. In the best case scenario, the flowers left in a refrigerated tractor trailer heading somewhere within the United States on the evening of HD+3.

Transit time to a northeast distribution center was two days, so the flowers arrived on the evening of HD+5 or the morning of HD+6, where they were subjected to the same forces of inventory rotation (FIFO). For locations in the Great Lakes region, distribution transit time was up to three days, for the west coast it was four. By the time they got to the mass retail in the northeast, it was HD+6-to-7. For florists, the time line could be extended further as wholesale distribution practices varied by company (see Figure 3). The end game for the wholesale distributor was to offer the freshest product in a

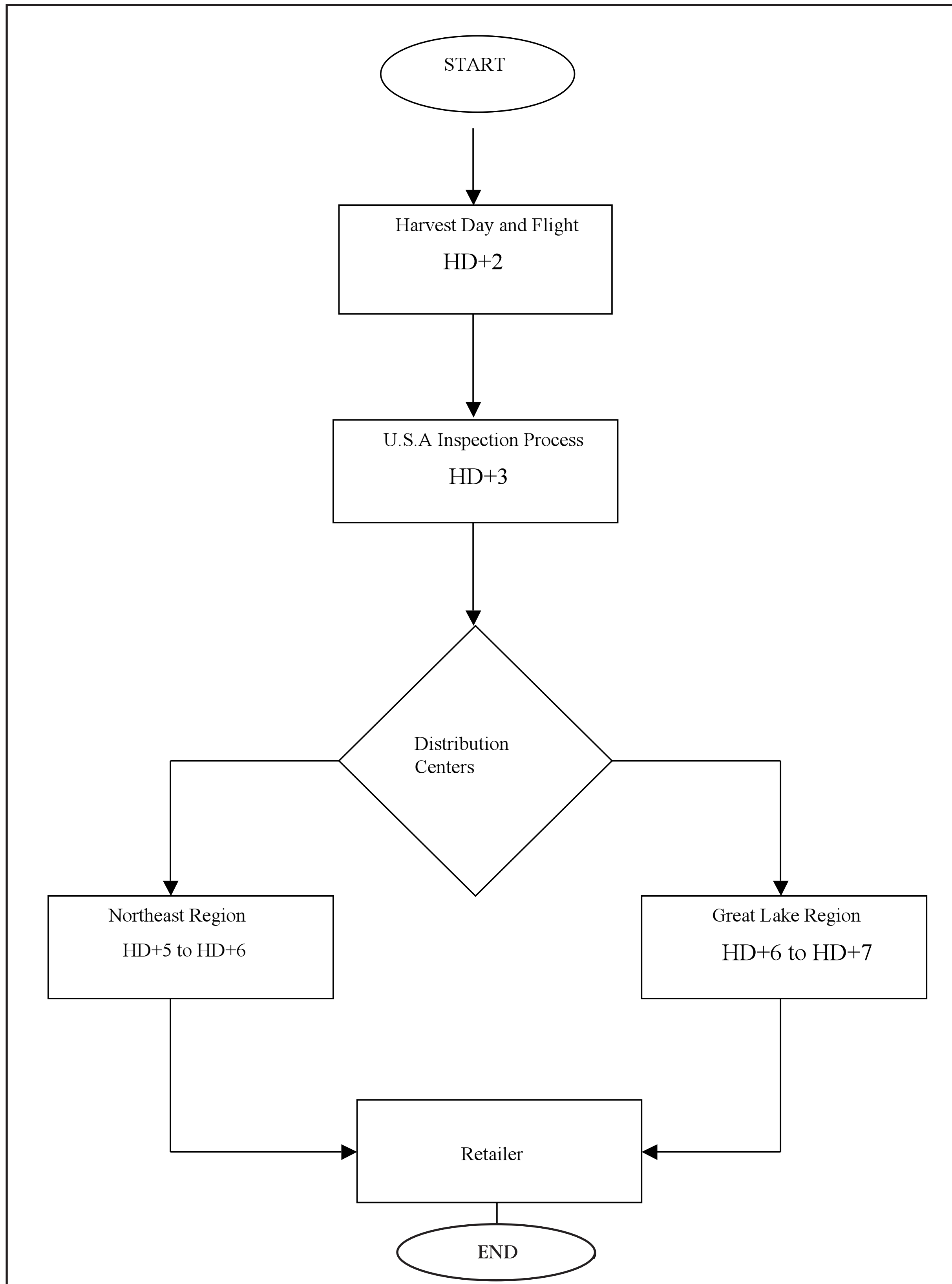

Figure 3. U.S. Distribution Model

wide offering while keeping an eye on shrink. Flowers could "look" good while in a cooler for nearly two weeks. However, once they were exposed to room temperature, they faded very quickly.

The Dutch Distribution Model

In stark contrast, Holland had been among the top five in per capita consumption of fresh cut flowers for many years (International Labour Organization). A closer examination revealed three critical variables in the Dutch system that were absent in the U.S. equation:

- Time was not an issue. Flowers in Holland arrived at the retail location with 72 hours of harvest, providing superior freshness (see Figure 4).
- In Holland, from the time flowers were cut, and all the way through distribution to the retail store, they were constantly hydrated.
- The Dutch enjoyed a much wider mass market product offering of fresh cut flowers as delicate varieties were sold in much higher volumes due to the flower friendly distribution system.

The Dutch flower distribution system inspired Hartstein's vision for what a revamped flower distribution system could accomplish for the U.S. market.

Innovation in Hydration—the Moses Miracle™

As early as 2005, Hartstein had been focused on new methods of keeping flowers fresh longer, and he knew that hydration was the key. He introduced a prototype, later greatly improved, of a hydration system before he sold KaBloom to Caliber, but the product was not yet perfected. Once KaBloom was sold and franchisees no longer had to purchase their flowers from specific growers, the Moses Miracle™ could serve no purpose. Hartstein sought to change the rules governing fresh cut flowers by:

- providing hydration from the time of harvest to the consumer's home;
- offering the only hydration system that was leak-proof regardless of the package orientation and therefore could be express-shipped and could sustain the rigorous handling requirement of a third-party logistics company (e.g., FedEx);
- eliminating the distribution risks of delicate varieties to retail; and
- shipping more flowers in one box, making it more economical in an express shipping venue (third-party logistics).

The Moses Miracle™ was a hydration process that inserted stems into a balloon-like container, tightly closed at the neck, in order to keep the flowers hydrated during shipping and before sale. A special foam within the balloon prevented the water from leaking. In contrast to the inefficiencies of the existing system, the Moses Miracle™ revolutionized the industry in the following ways:

- Flowers are harvested in the morning, transported to the postharvest cooler, and conditioned in a solution of citric acid and hypo-chloride sodium for a minimum of 12 hours.
- Postharvest pack-out began at 11:00 P.M. when the flowers were graded and packed in the Moses Miracle™, boxed, and labeled. A similar conditioning solution was used inside the Moses Miracle™ bladders.
- Flowers were transported the next morning to the FedEx ramp by 12:00 noon, en route to the FedEx hub in Memphis, Tennessee.
- Planes departed for Memphis in the late afternoon/early evening (approximately 6:00 P.M.) and arrived in the Memphis hub at night (approximately 11:00 p.m.).
- The USDA inspection was conducted at the FedEx Memphis hub and boxes enter the FedEx "matrix" (general distribution system) for sorting and rerouting.
- The flowers were delivered anywhere in the United States by 10:30 in the morning (within 48 hours of harvest).

Unlike flowers from other growers, importers, or distributors, the flowers shipped with the Moses Miracle™ were packaged in water and were constantly hydrated regardless of the position of the bouquet, lying down or standing up. The Moses Miracle created a competitive advantage because flowers can be shipped in water coast-to-coast overnight, via a more extensive and less expensive transportation network such as UPS, DHL, and FedEx, instead of needing to be transported via refrigerated trucks (see Table 9). The flowers did not need to be freshened up after their journey thanks to the Moses Miracle™. (Visit http://www.3dmedianetwork.com/projects/kabloom/mm-video/html-designs/home-2-sides.html for a video of the way the Moses Miracle™ worked.)

Hartstein noted that "We are part of an industry-changing method of getting the freshest product in the marketplace, in water and economically shipped."

Opportunity to Repurchase at Bargain Price

Potential for Success

Hartstein was considering repurchasing the company. He had a vision of what he could accomplish based on what he had learned from his prior experience. His vision included three different opportunities.

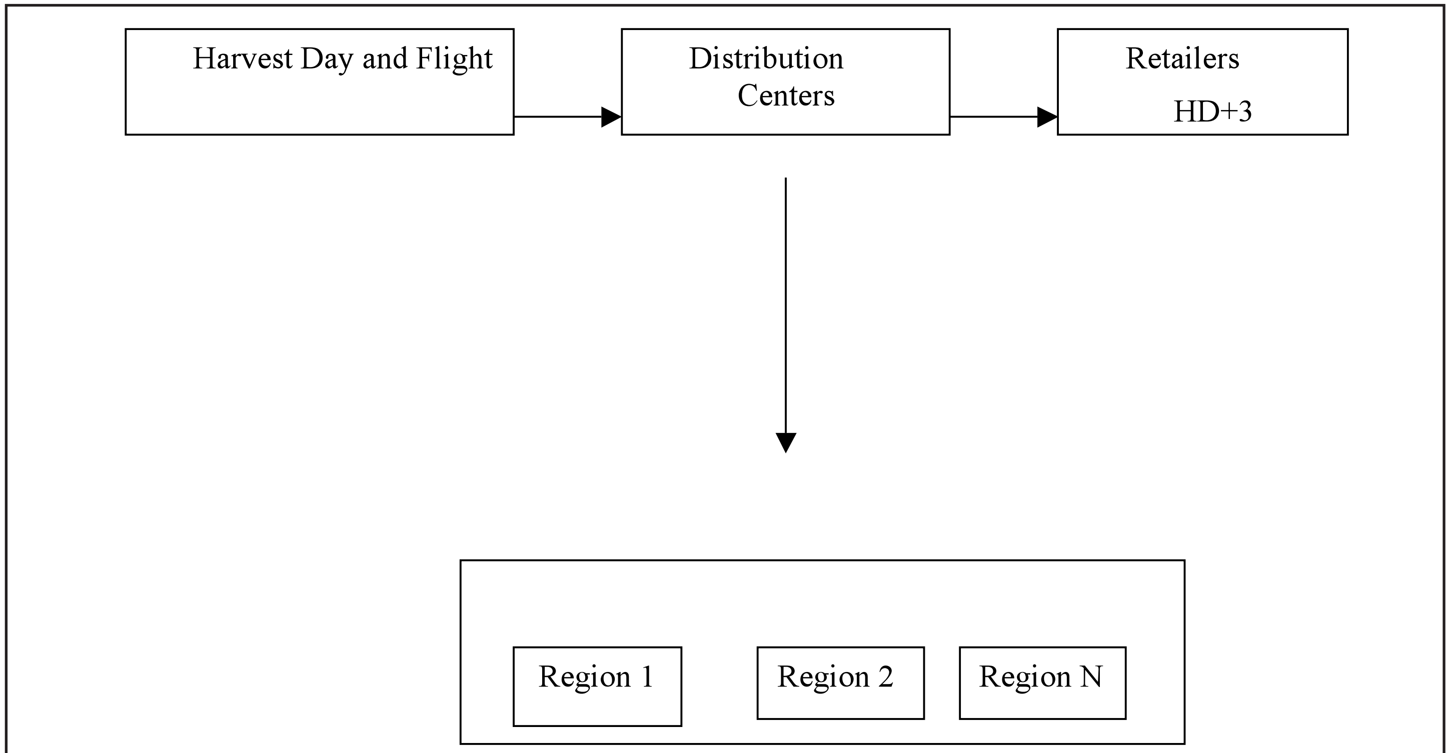

Figure 4. Dutch Distribution Model

First, he imagined a better e-business model—an on-line website just for his franchisees, company stores, and suppliers, where the franchisees could order their flowers from the suppliers and where Hartstein could monitor the purchases and immediately receive his cut of the transaction. This would eliminate the serious problem he had previously encountered in which he was paying the growers/suppliers upfront for the flowers and then trying to collect payment from the franchisees, who had already received the flowers. This often resulted in getting his money from the franchisees only after a long delay or, even more often, never receiving his money at all. He was convinced that a direct sell-through model would work better.

Second, he had conceived of an idea he called "The Moses Miracle Flower Wall™," a refrigerated floral cooler specifically designed for the Moses Miracle system. The cooler was an open-faced merchandising system to be placed at or near the checkout aisles. Since flowers were often an impulse buy, this location would facilitate the last-minute impulse buying of flowers.

Third, the Moses Miracle Flower Wall™, coupled with the Moses Miracle, would allow retailers to sell very fresh flowers because the flowers would arrive at the store within 72–96 hours of harvest. This meant that the quality of flowers would increase dramatically, the life span of the flowers would expand, and retailers who had given up on the idea of selling flowers because they did not remain fresh very long, such as drugstores and gas stations, could now sell fresh flowers. The Moses Miracle™ would even serve as a package in which the flowers could be transported from the store to the customer's home in their own hydration system. Consumers would no longer have to rush home to put their newly purchased flowers in water.

Hartstein felt the future would be his, if the price and the deal were right.

Fighting the Miami Cabal

For the unique system to succeed, several issues had to be resolved, including the delivery system and the traditional grower power structure. The vast majority of flowers from South America came through Miami. The Miami flower consortium was comprised of wholesalers with exclusive relationships with growers. Growers did not sell flowers directly to individuals, only to wholesalers. This arrangement meant that KaBloom either had to pay the high overhead for flowers through the wholesalers or find a different way altogether.

Hartstein chose the second option. He convinced a major grower, Elite Flower Limitada, C.I., to partner with him and adapt logistics to the new model. This alliance provided KaBloom with the protection it needed to bypass the traditional route. Flower costs could thus be decreased by eliminating the middleman (the wholesaler).

Table 9. Comparison of Distribution Systems			
	KaBloom (No Moses Miracle)	***Dutch***	***KaBloom with Moses Miracle***
Harvest Day (HD)	Harvest at farm	Harvest at farm and hydrate	Harvest at farm Hydrated 12 hours
HD+1	Flower conditioning	Hydrated and transfer	Prepared with Moses Miracle and depart for Memphis airport
HD+2	Arrive local airport and flown to Miami	Hydrated and transfer	Arrive Memphis
HD+3	USDA inspection at Miami	Arrive at retail stores	USDA inspection at Memphis and entered into FedEx distribution system
HD+4	Leave by truck to distribution centers (DC)		Arrive at stores and customers
HD+5	Arrive NE DC		
HD+6	Depart NE DC for stores Arrive Great Lakes DC		
HD+7	Depart for Midwest stores Arrive West Coast DC		
HD+8	Depart for West Coast stores		

Doing Without an Organization

Because the weight of his complex organization had played a large role in KaBloom's initial failure, Hartstein was determined not to repeat that error. If he decided to repurchase, this time he would keep his organization small, outsourcing every possible function. "This time," he vowed, "I will remember how to make money. If I outsource, I can get the best people who will give me the best service in the best way. This depressed economy can only help me by making the best people available." He would limit his total staff to himself, his partner (an attorney), and a few store personnel. He would operate out of the main company store in Brookline, without a formal office. As long as he had his cell phone, he could be in business.

He thought he could outsource all accounting functions, along with payroll and IT. He could hire a programmer on contract to redesign the website and to handle all the technical issues so he could devote himself to the business and to rebuilding his diminished customer database. He could outsource marketing for improved quality. And, he could depend on third-party logistics to move the flowers.

"I listened to the wrong advice the first time around," Hartstein said. "I know how to make money—you buy for one dollar, you sell for two dollars, you look around you with your two eyes and you know how you're doing. You don't need an organization to do business that way. If you build a huge organization because you have money to spend, one day soon the money will run out and you won't be able to make the organization run."

The Decision

As of February 2008, Hartstein had begun seriously to evaluate his options, weighing his emotions versus the practicalities of a repurchase. If he repurchased KaBloom, he would have a lot of work to do. The database needed to be rebuilt. E-commerce sales had dropped from $4 million to less than $100K. The franchisees were unhappy and many were in default. The website was not functioning well. He would have to go up against the floral establishment in Miami and he would have to get the growers on his side. He would have to establish iron-clad agreements with the third-party logistics companies, and he would have to rethink his franchising strategy. Moreover, he would have to do this without benefit of an extensive and experienced organization.

But Hartstein was not afraid of work. "Hard work is what I grew up with," he said. "I started as a baby in retail, sleeping on my little bench in the butcher shop until my parents were ready to go home. When you're in retail, every day you start the business again; this will be no different."

The Moses Miracle™ could truly revolutionize the flower business, making flowers accessible to American consumers at every level, Hartstein believed. This would fulfill his vision and would confirm his belief that the business was about logistics, not about flowers.

KaBloom Logistics 2008

In accord with Hartstein's new lean organization, distribution and logistics were outsourced to international shipping and logistics companies, FedEx and UPS. He introduced two different paths for delivering flowers from the growers to the store: Columbian flowers were shipped via FedEx while UPS handled flowers from Ecuador. In both locations, flowers were prepared for shipment using the Moses Miracle™.

Due to the unstable cost of fuel in 2008, both UPS and

FedEx set their delivery rate on a monthly basis instead of their earlier protocol of setting prices annually. Flowers shipping from Colombia left the farm and arrived at the Bogota airport within one day after harvest (HD), and were then transported to Miami via Tampa Cargo SA under contract with FedEx. At the Miami airport, flowers were precooled and inspected by the USDA. In the evening of HD+2, flowers were shipped in refrigerated trucks by FedEx to Memphis (the FedEx hub), arriving the morning of HD+4. Normal FedEx distribution channels delivered the flowers to stores and customers.

Flowers shipping from Ecuador arrived at the Quito airport within HD+1 and shipped to Miami via UPS planes. There was no cold chain in effect on this route. In Miami, the flowers were inspected but not cooled. UPS planes transported the flowers from Miami to Louisville, Kentucky (UPS hub), and then to stores or customers. The UPS nonrefrigeration model delivered the flowers two days faster than the FedEx refrigerated one with no discernable degradation of flower quality.

Reacquisition

In March 2008, two years after his sale of KaBloom to the Caliber Group, Hartstein reacquired the company. The Caliber Group admitted it had made a huge mistake in buying KaBloom in the first place, and lost a significant amount of money during the two years it held the flower enterprise. It was little more than an annoyance to them, "a tick on a dog," as the Caliber Group phrased it.

But a tick on a dog can make a lot of trouble for the dog. Hartstein reentered the flower business with a vengeance, meeting with the franchisees and listening to their concerns. Some of them felt betrayed, others were angry because of the size of the shrink that he insisted on. Franchisees wanted 1 to 2 percent shrink, while Hartstein insisted that they had to plan on 10 percent in order to provide the garden-like environment that was so critical to the KaBloom image. He offered reduced royalties to the franchisees who paid their outstanding bills. He took a hard-nosed approach to the business, determined not to be the "nice guy" who gets stuck with bills. He designed a new mass market strategy and began negotiations with new outlets and new markets. He set up agreements with several growers. He moved fast, focusing more on B2B sales (developing new retail opportunities instead of building stores) than on B2C sales. The B2B component of the industry comprised about 15 to 20 percent of a retail florist's business. This included sales to restaurants, meeting facilities, hotels, corporate functions, and business client gifts (SAF, 2006).

At this point, Hartstein had to consider multiple strategic questions: What would be the most effective way to grow the business? What criteria should he use to choose the best franchisees for his revamped business? What assumptions had he made in the past that may have contributed to his problems? What blind spots did he have that he should watch out for in future decision making? What aspects of the fast-food industry's approach to logistics and distribution were transferable to the flower business, if any? How could he make money from the flower business?

"It's about logistics and distribution, not just flowers," Hartstein reminded himself three months later as he watched the price of oil escalate to more than $135 a barrel and the economy fall apart. "Isn't it? Or have I made a terrible mistake?"

Note: The instructor's manual is available upon request from the authors at gvega@salemstate.edu.

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