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## **INTRODUCTION:**

### **Introduction to the sector:**

Drinking coffee has now become more of the concept rather a drink itself. From the past decade, there is huge increase in the coffee pubs all over the world. The concept of coffee café is not merely about selling coffee but about developing an experience where a person could enjoy and relax in a cozy environment. After decades of stagnation, coffee consumption has shown increase from 55000 tons to 80000 tons and according to the industry sources, coffee retail format has been growing at 10-12 percent a year which includes branded coffee accounting for 53% of sales, unbranded 40% and cafes 7%. Coffee industry is currently one of the biggest and fastest growing sectors which consist of the mix of individual cafes, hotel cafes and retail chain cafes (Miglani 2010).

Our topic of consideration is the retail chain coffee cafes:

### **Retail chain coffee cafes:**

It is the most organized sector in the coffee café industry which works with the organized structure of man, material and money. Of all the coffee cafes, retail coffee chains are the most popular and are growing at an increasing pace (Miglani 2010). They provide a standardize level of service and quality to each of their customer at each level of an outlet. One of the most popular examples of this retail chain network is Starbucks. Other famous chains include Café Coffee day, Barista, Dunkin Donuts, Costa Coffee and Tim Horton's etc which has retail chains in various countries and they are serving people according to their tastes and culture and hence, bringing new developments.

### **Rationale for choice of sector:**

The rationale behind choosing chained coffee sector is that it is an important part of the hospitality industry which depends on the availability of leisure time and disposable income. Now-a-days the concept of having coffee shops in the near by location is very common and more and more people have started going to these places to have a good time with friends and families especially young generation and adults. Coffee is the most consumable drink world wide, therefore the trend of coffee café has been increasing. The main objective of choosing this sector

is that it is one of the most profitable business and many entrepreneurs are grabbing their attention to serve this sector of the market.

### **CURRENT POSITION ANALYSIS:**

Current position analysis helps in looking at your organization's potential and the market conditions in which a business operates. The whole point of analyzing your current position is to get a sense of where you are on your journey and what might help you on your way. This analysis will basically guide to understand the environment of the coffee chain industry which includes their customers, the size of their industry, their products, and their geographical reach (Business Link).

- **Characteristics:** Coffee house is basically a place which serves prepared coffee, hot beverages along with some snacks. It consists of some characteristics of bar and some of the restaurant but is slightly different from cafeteria. Many of the coffee shops in Middle East and West Asia are offering sheesha i.e. flavored tobacco smoked through a hookah which is the increasing among the teenagers and adults. The coffee houses offer a very warm environment which entices many people to visit again and again. In 1990, these coffee shops were reintroduced with the internet cafes and Hotspots (Wi-Fi) and now most of these shops have a free Wi-Fi connection where people surf and chat along with the sip of coffee (Wikipedia).
- **Size:** Due to increase in the consumption of coffee among the people, the size of the coffee market is growing over the years. The specialty coffee association of America reported in 2003 that the total number of retail coffee shops in the country had reached 17400 that is 4% increase than 2002 and the market size of coffee has grown from \$7.53billion in 1999 to \$8.96 billion in 2003 (Holmes 2004).
- **Consumers:** The consumers of these coffee shops are mostly the younger, more affluent and educated people aged from 18 to 24 years who visit these coffee shops along with their friends and families. The new trend has been noticed among the elderly people aged from 55 to 65 years in whom the gourmet coffee consumption is higher than those

of the youth therefore; this segment is catered and served equally important like youth (Holmes 2004).

- **Ownership:** Most of the entrepreneurs who own a coffee house chain are themselves coffee lovers. The coffee market seems attractive for the investor as the trend of consuming coffee on a daily basis is increasing. There are various ways of selling coffee like some people with low budget start with the coffee carts or kiosks which costs less while, some owners with the huge budget prefer opening up a drive thru or dine-in outlet which costs more. Investors who own coffee chain all over the world like Starbucks, Dunkin Donuts, Espresso, Café Coffee day etc have a huge network with their suppliers. These retail chains reaches to different countries either through ownership as a joint venture or opening up a franchise and make certain amount of profits.
- **Geographical reach:** For any business to achieve success; location is one of the most important factors and it holds true for coffee houses too. The coffee houses must be located in the near by vicinity i.e. a blue-collar town between hair saloon and a boutique which may increases the chances of building a thriving business and attract every type of customers (Miller).
- **Products:** Now-a-days, coffee shop chains offer a variety of products and services which includes coffee and other hot beverages like tea, sandwiches, patties, brownies and pastries etc. These coffee houses not only provide food for breakfasts but the concept of providing lunch and dinner in these shops has become common. Moreover, a free Wi-Fi connection is an additional feature of their service where people not only enjoy food but also surf internet at the same time. This service is mostly utilized by the business people who enjoy working with a cup of coffee.

## **FACTORS THAT WILL INFLUENCE FUTURE DEVELOPMENTS ANALYSIS:**

The purpose of conducting this analysis is to understand the bigger picture of the environment in which the business is operating. By recognizing and comprehending these factors the business can better deal with the threat and make improved choice within the opportunities present. (*Renewal Associates 2003*)

- **Political factors:** Relationship with the coffee producing nations should be maintained so that the importing country get the coffee seeds at negotiated prices and cut the extra costs. Brazil is the world's largest exporter of coffee beans. Therefore, the other countries need to maintain good relationships with coffee exporting countries like Brazil, Vietnam, Panama, Indonesia, Kenya, Mexico etc. Moreover, the governmental regulations like charging indirect and direct taxes can affect the sales of these coffee chains because price is the sensitive factor in terms of making a purchase. These political factors can influence these shops and hit their sales.
- **Economic factors:** Due to constant increase in the demand for food and beverages, there is increasing trend in the consumption of coffee. People prefer coffee over other drinks because on one hand, it is considered as a fashion sign and on the other hand, it is good for health. Apart from the consumption patterns, the changes in the disposable income of people influence the purchase levels of coffee. As the income level increases, the purchase in the level of coffee increases and vice versa. That is the reason that the trend of gourmet coffee is increasing and people like to have it away from their home where they could enjoy the environment and surf internet along with the cup of coffee.
- **Social factors:** The consumer preference could shift from coffee to other beverages which may result in the decreasing sales. The coffee outlets must continue to introduce new ideas for their products so that people try new things along with the coffee. Most of the outlets in the recent years have introduced light snacks like patties, sandwiches and donuts so that people who like to eat something along with the coffee can enjoy their treat and they kept introducing other beverages like shakes, soft drinks and tea under one roof in order to grab many people.
- **Technological factors:** Usage of new and advanced technology could improve the operational efficiency of the company like decrease in costs through more utilization of

time and labor and less wastage of raw materials. By introducing new technology into the business, these chains on the one hand can serve their orders within time and on the other hand, can minimize their costs and maximize their profits. If new technology will not be introduced within this market, it can affect their sales and also maximize their costs which on the other hand will affect their profits.

- **Environmental factors:** By providing a comfortable environment to the customers at their outlet, these coffee houses can increase their sales. If customers especially the business people are provided the quite environment and a free Wi-Fi connection then they can enjoy their work along with the pleasure of coffee and there are chances that these customers end up becoming their loyal customers. Therefore, environmental factors need to be taken into consideration otherwise; it can curtail their profit margins.
- **Legal factors:** Running a coffee house will require a businessman to be familiar with the regulations, legislation and taxation system of the country. The food and drinks that an outlet offers need to be subjected to the health and safety inspection along with the fire risk assessments. These coffee chains are liable to understand and implement all the safety measures that are needed to be taken into consideration. The food and drinks that they offer must be hygienic otherwise customers have a right to sue these companies if they are unhygienic and harmful for health. Apart from this, they need to take care of their intellectual property like patents, trademarks and logos.

## **MARKET AND CONSUMER TRENDS ANALYSIS:**

- **Market demands:** Nearly 2.5 billion cups of coffee are consumed on a daily basis. It is 5<sup>th</sup> most widely traded commodity in the world therefore; the demand for the coffee shops is on an increasing rate. The retail value of the coffee sold by big retail chains like Starbucks and Costa coffee accounts for 20% to 30% of the world coffee consumption outside home which is estimated at over US \$120 billions (Riley & College 2006). The demand for coffee houses in the market experienced 157% growth from 2000 to 2005 and sales are expected to grow by a further 125% by 2010. Driven by the huge appetite that people have shown for more creative, up market and premium-priced coffee, coffee shop

chains have expanded at breakneck speed. The rise in the popularity of these kinds of coffee shops has been driven mainly by the expansion of these coffee chains themselves. Starbucks alone holds three-quarter of the market value making it a clear cut market leader in the chain of retail coffee shops and it is the driving force behind much of the growth in this sector (MINTEL).

- **Product innovations and developments:** With the increased consumption of coffee, the retail shops are coming with the innovative ideas and developments in their products. The longer a product stays in a market the less foreign it becomes and the novelty is soon lost therefore, innovations and developments are necessary otherwise the product will lose its market. For the retail chains of coffee shops, the continuous improvement is necessary when they operate in other countries. They require a good understanding of the local tastes of the people along with the innovations in the products which can harvest the product in the long term (Simon 2009).

There are various innovations and developments being made in the product over a period of time. The first coffee shop was invented in Istanbul in 1475 and after that coffee became very popular drink among the people all over the world. In 1668, the trend of having coffee at breakfast was started where people claimed coffee as their breakfast drink of choice. In 1822, the trend of Espresso coffee became popular and in 1901, instant coffee was being offered at retail coffee shops. In 1903, decaffeinated coffee was invented by mistake and named “Sanka”. Soon in the mid 1990s, the concept of installing lunchrooms in the offices stepped in where the idea of coffee break was invented followed by a slogan, “Give yourself a coffee break and get what coffee gives to you” (Samantha). Slowly and gradually, coffee became one of the most consumable drinks among the people and hence, developments in the product were being made and at last, it became an experience rather a drink.

- **Consumer demographic changes:** Certain demographic changes have been noticed among the coffee consumers. Previously, the young adults used to consume more coffee than other age groups but over the period of time, the consumer demographic changes have occurred. According to the National Coffee Association of USA, adults 25-

59 years consumed 19% gourmet coffee in 2008 which has shown increase over the past year, while in the young adults, the coffee consumption has gone down from 47% in 2007 to 44% in 2008. People aged from 18 to 24 years are becoming serious coffee drinkers which have made this age group the fastest growing segment of the market. Lastly, the people aged 60 and over reported the most coffee consumers- 74% of adults in this age bracket reported that they drink coffee every day. Over the years, the demographics have been changing. Previously, young adults used to consume more coffee but over the years, the trend of drinking coffee is increasing in elderly people making it an attractive segment for the marketers to target.

- **Consumer expectations:** Customer expectations in the coffee market are related to the taste, quality and service that they acquire while having a cup of coffee. Customers prefer a cozy environment where along with the cup of coffee, they can listen to the music, chat with their friends and surf internet. The environment of the coffee shop plays a vital role in grabbing new customers and retaining the existing ones. Customers expect a lot from the companies that they will provide them with a service more than they wished for. Dunkin Donuts is one of the good examples because they have been able to meet expectations consumers have when it comes to their coffee. In order to make their customers happy, they have diversified from their original traditional donuts, muffins and coffee menu to offer sandwiches and smoothies in fruit and coffee flavors. This is how they are fulfilling their customer's expectations. When a customer is satisfied, he makes usual visits to the outlets and end up being a loyal customer.

### **FORCAST FOR FUTURE DEVELOPMENT:**

The current demand and consumption of coffee at the retail outlets have been increasing at a fast pace and will continue to grow. The increasing demand for the gourmet coffee has enticed many entrepreneurs to open up their retail outlets at a near by place in town. The future of the market of retail chain of coffee shops seems very lucrative as the people are becoming habitual coffee drinkers. The consumption of coffee has shown a fast demographical change. Previously, the young adults showed great interest in having coffee away from home with their friends but now-a-days, the trend has been changing and more elderly people are adopting habits of drinking



coffee and have become serious coffee consumers. The market is profitable because there is decrease in the price of coffee compared to the past years, and more and more people are being regular customers of these coffee shops. Many retail giants of coffee like Starbucks, Café Coffee day, Dunkin Donuts and Barista etc are gradually opening up their retail chains in different countries and are being local for their consumers. Soon these chain outlets will spread all over the world and get a large chunk of their sales from different countries and earn huge profits.

**CONCLUSION:** Coffee retail houses and cafes come under the hospitality industry which solely depends on the service that they provide to their customers. Coffee is one of the most consumable commodities all over the world and investing into this industry can reap many benefits as it is very lucrative. The retail coffee outlets must be located in the town within the reach of people so that they could approach there without any hassle. Coffee shops provide many products apart from coffee; hot beverages like tea and other light snacks which could be served with coffee to make it a wonderful experience. Moreover, the environment of the coffee shops should be comfortable enough so that people could enjoy coffee along with surfing internet as these cafes provide a free Wi-Fi connection. There is gradual change in consumer demographics being noticed from young teenagers to the adults and elderly people. The concept of having a cup of gourmet coffee is increasing among the elderly people who consume on daily basis and have become serious coffee drinkers. The demand for such coffee outlets has been increasing therefore; this market seems profitable for the investors to open up a retail outlet either through joint venture or through franchise.

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