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Entrepreneurship – SBMA7111

Assessment 2 - Task 2

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1. Executive Summary

Coffee Time is one of the best cafés located in Bermondsey, London. The 50 square-meter café will be opened on Jamaica street, 50 meters away from the Bermondsey train station.

Coffee Time attracts customers with local and international coffee varieties. Coffee Time, which provides fast, affordable and quality service, will create its own loyal customers in a short term. It offers gourmet coffee experience in a calm, peaceful atmosphere. Coffee Time, which features a classic library and old-time paintings on its walls, will also carries the soul of the past to the future with its free Wi-Fi service and state-of-the-art coffee machines.

Coffee Time measures its performance from the point of increased profits and market share. This café offers a fantastic opportunity not to be missed In the UK coffee market of 9.6 billion pounds (hospitalityandcateringnews.com, 2018). Fast service, gourmet flavours, talented baristas and price / performance balance are the keys to success.

Coffee time, which provides the most aromatic coffee varieties with the best barista skills, will open 4 branches in the first year and will become a café chain across London with 15 branches at the end of the 3rd year.

2. Business Objectives

The primary objectives of the business plan for Coffee Time are below:

- £810,000 in annual revenue in the first year
- £3,400,000 in annual revenue in the third year
- 4 new shops openings until the end of first year. To reach 8 shops in second year and 12 shops in third year.

3. Mission and Vision Statement

Mission: To provide the right quality-price ratio to meet consumer expectations at the highest level with a wide range of products.

Vision: To be the most preferred brand in the sector with its quality and innovative products and services.

4. External Environment Analyses of Coffee Shop Industry

5. PEST Analysis

Political

Political factor examines legal issues and government regulations that may affect a company's success and profitability (businessnewsdaily.com, 2017).

In 2012, it was reported that Starbucks, which owns the largest number of coffee shops in the UK market, has not paid UK corporation tax based upon a law gap. This situation, together with the news in the press, has had a negative impact on Starbucks's brand image (dnsaccountingservices.co.uk, 2017). Even though Starbucks has paid corporation tax regularly, a research conducted in 2018 shows that it still has a bad reputation in the public (taxresearch.org.uk, 2018).

In 2017, Café Nero which is the one of top 3 coffee shop chains in UK paid no UK corporate tax and this tax issue became the main topic of coffee shop market again (dailymail.co.uk, 2017).

As long as there are no regulations for legal gaps, this issue seems to be continued in the future as one of the important issues in the UK coffee shop market.

Economic

This aspect examines the external financial subjects that can affect a company's success (businessnewsdaily.com, 2017).

The Brexit process negatively affected many areas of the UK economy, from inflation to home prices (theguardian.com, 2018). However, this economical fluctuation is not an effect that negatively affects the customers and the brands in the coffee shop industry. According to a research, the number of coffee shop in UK has increased by 1,200 to 24,000 in 2017, and total sales in the sector increased by 7.3 per cent to £9.6 billion (thetimes.co.uk, 2018). Another report also shows that there will be more coffee shops than pubs in UK by 2030 (spectator.co.uk, 2018). In other words, if there are no major changes in the economy, it can be said that the coffee industry will continue to grow.

Social

The social factor analyses the demographic and cultural characteristics of the market (businessnewsdaily.com, 2017).

The expectations of the y and z generations who are the majority in population will determine the future of coffee shops. While previous generations prefer to drink coffee at their comfortable home, the new generation gives more importance to experience. For instance, the coffee shops that has strong brand awareness and an eye-catching cup design are shared more in social media (nationalcoffeeblog.org, 2016). Due to different kind of expectations, coffee shops should take new generations into consideration while planning their future steps.

Technological

The technological factor is about the effects of new technological developments on the market (businessnewsdaily.com, 2017).

Even if the customer is a student who prefer to study at a coffee shop or a white-collar professional who has limited time to take a cup of coffee, they all expect technological side benefits from the coffee shops. While a student prefers to go a coffee shop which provides a fast and free Wi-Fi connection, someone who has limited time prefers to order a cup coffee via an order & pay app to pick up their coffee without standing in line.

Technological developments will have more effects on coffee shop industry in the future and the brands that can move with the time will increase their competitiveness.

6. Internal Analysis of Coffee Shop Industry

6.1. Porter's 5 Forces

Level of Rivalry - High

The number of coffee shops in UK was 10,000 in 2007. In 2018, this number has risen to 24,000. With this rapid uptrend, the annual contribution of this sector to the UK economy has risen to £ 9.6 billion. This figure shows 7.3% increasing over the past year (dailymail.co.uk, 2018). Starbucks, Nero and Costa Coffee are the three players with the biggest share in the market. And these big brands are very successful in creating loyalty. Although competition is high, there is still a need for new players in the coffee shop market because of the similarity and scarcity of the product diversity and the fact that the market is still expanding.

Threat of New Entrants - High

Entering the coffee shop industry is not a very easy job. it requires much research and the courage to invest in a certain amount of capital. While the risk of entering this sector is "low" for the stronger companies like Starbucks, Nero or Costa Coffee, it is necessary to provide different products and services to the customers to be successful in a sector that has strong competitors such as these companies. Furthermore, lots of companies in the sector produce their own coffee beans, coffee cups, tissues and other products they used in the shops. This ability gives them a big opportunity to decrease expenses and to increase their profit.

On the other hand, every day more and more people are choosing to buy a cup of coffee instead of making coffee at home. It means that the number of the customers is increasing day by day. Although the threat of new entrants is high, the number of new customers reduce the risk for new entrants into the market.

Bargaining Power of Suppliers – Very High

Coffee bean suppliers were never as strong as they are now. Until the end of the 1980's, coffee suppliers had to sell their products under their real value. The amount of coffee beans was much more than the demand hence the big coffee chains were much stronger than the

suppliers in order to set the coffee bean price. Along with the increase in coffee demand in the world in the last 20 years, suppliers became aware and started to build their own professional associations (theguardian.com, 2014). Increased coffee consumption and solidarity among suppliers have led to increased competitiveness.

For these reasons, the bargaining power of quality coffee bean suppliers is very high.

Bargaining Power of Buyers – Moderate

The pressure level that customers can apply to the companies for better service, higher quality products and more affordable prices shows the bargaining power of buyers (strategiccco.com, 2013). Therefore, it is important to analyse the number of customers and competitiveness well in order to accurately understand the bargaining power of the customers in a specific market. Although the number of customers is very high, the individual effect of the customers on the brands is not high and the customers willing to pay higher for the products that they are used to drink. Still, the coffee prices cannot be so high because of the competition and customer can switch to another coffee shop brand.

Threat of Substitutes - High

Threat of substitutes is very high in the coffee shop industry. Because there are many products in the market that can be preferred instead of coffee. Especially caffeinated soft drinks are the biggest threats. Instead of going to a coffee shop and getting a cup of coffee, customers can get these products more easily by going to the nearest grocery store, restaurant or café. Moreover, the reasonable prices of other kind of caffeinated drinks may cause customers to prefer these products instead of coffee.

7. Business Model of Coffee Time

As coffee time, we created our business model in order to meet customer expectations. These expectations are also our critical success factors. Our business model is structured by covering 3 major success factors: Speed, Consistency and Comfortable Sitting Area.

Firstly, **speed** is an important part of the experience we offer. The customers do not want to wait long to get their coffee. So, Coffee Time offers order & pay system. The customers are able to order via their mobile phone before they walk in Coffee Time, this system allows them to pick up their take away coffee without waiting in line.

Moreover, at Coffee Time, Each order is made in the same quality within max. 90 seconds and served to the customer.

Secondly, we provide **consistency** of the taste of coffee. The customers get the same taste no matter when and which branch of Coffee Time they visit. Consistency provides that the customer expectations is met and supports more visits in different branches.

Finally, a **comfortable sitting area** is at least as important as speed and consistency. Customers prefer to go coffee shops which have comfortable sitting area in order to enjoy their coffee while they study, or work, or chat with their families and friends.

8. Risk Assessment of Coffee Time Business Model

If any of the three factors cannot be applied successfully, the risk of failure of this model increases.

In other words, if customers spend a lot of time in line to get their coffee or if they do not get the same coffee taste every time they visit or if coffee shop is too crowded, noisy and uncomfortable, they do not come back and choose another coffee shop brand which provides these factors successfully.

9. Implementation Plan

Coffee statistics show that a coffee shop sells around 200-300 Cups of coffee per day. (e-importz.com, 2018). Coffee Time's implementation plan was prepared according to 300 cups of coffee per day and £3 average price per a cup of coffee.

First shop of Coffee Time will up and running on October 1, 2018 which is the first day of Coffee Time's financial year. At the end of first quarter, the revenue will be £81,000.

A branch will up and running at the first day of each following quarter and at the end of the third year, Coffee Time will be a coffee chain with 12 branches in London.

The annual revenue for the first year will be around £810,000 and it will increase to £3,400,000 in the third year.

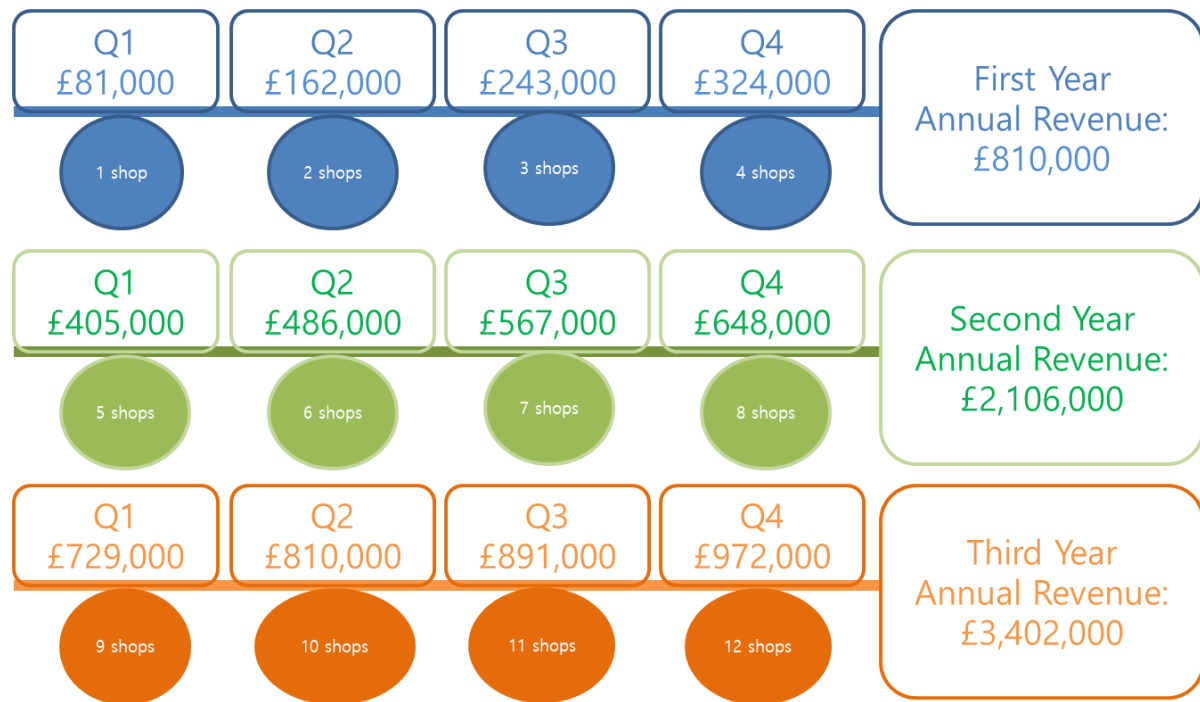


Chart1 - Growth Strategy Chart of Coffee Time

10. Coffee Time Scale-Up Plan

COFFEE TIME SCALE UP PLAN - FIRST 3 YEARS														
	M1	M2	M3	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REVENUE														
	1 shop			2 shops	3 shops	4 shops	5 shops	6 shops	7 shops	8 shops	9 shops	10 shops	11 shops	12 shops
Sales Qty (customer visit)	9,000	9,000	9,000	54,000	81,000	108,000	135,000	162,000	189,000	216,000	243,000	270,000	297,000	324,000
Sales £ 3	27,000	27,000	27,000	162,000	243,000	324,000	405,000	486,000	567,000	648,000	729,000	810,000	891,000	972,000
COSTS														
Expenses £0,50 (coffee beans, sugar, milk - per customer)	4,500	4,500	4,500	27,000	40,500	54,000	67,500	81,000	94,500	108,000	121,500	135,000	148,500	162,000
Rent	4,000	4,000	4,000	24,000	36,000	48,000	60,000	72,000	84,000	96,000	108,000	120,000	132,000	144,000
Employee Salaries	6,000	6,000	6,000	36,000	54,000	72,000	90,000	108,000	126,000	144,000	162,000	180,000	198,000	216,000
Equipment	200	200	200	1,200	1,800	2,400	3,000	3,600	4,200	4,800	5,400	6,000	6,600	7,200
Electricity and Water	300	300	300	1,800	2,700	3,600	4,500	5,400	6,300	7,200	8,100	9,000	9,900	10,800
TOTAL COSTS	15,000	15,000	15,000	90,000	135,000	180,000	225,000	270,000	315,000	360,000	405,000	450,000	495,000	540,000
OPERATING PROFIT	12,000	12,000	12,000	72,000	108,000	144,000	180,000	216,000	252,000	288,000	324,000	360,000	396,000	432,000

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