The Bald Barista Case Study

Creating a Buzz in the City

This case was written as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Buzz comes to Town

As Brent (Buzz) Fendal sits pondering his future, looking out onto a busy Aungier Street on Dublin's city's south side, he reflects on his time in Ireland and the growth of his business. In thirteen years he has built up a premium brand, three coffee shops/cafes, employs twenty staff and is regularly included in the top ten coffee houses in Dublin in on-line surveys. Having weathered six years of recession and thrived, there are signs that the economy is poised for growth once again and Buzz is excited yet apprehensive about the prospects for the future of his business.

Buzz arrived in Ireland in 2002 during the 'Celtic Tiger' boom and like most migrants found work easily enough. He initially worked in a public bar and whilst doing this he developed an interest in preparing specialty coffee. He noticed a steady increase in the orders for his brews but wondered if this was just a consumer fad or a shift in Irish consumers taste.

History of Coffee in Dublin

However, he need not have worried, for contrary to popular belief, Dublin has a rich history with coffee and coffee houses. These institutions emerged as part of the city's landscape in the 17th century. They prospered in the 18th century and survived the 19th and 20th century's despite competition from restaurants, public houses, hotels and clubs. Tea drinking emerged as the hot beverage of choice for the public in the British Isles ostensibly due to the trading acumen of the British East India Trading Company. Despite this, coffee houses survived and this longevity was rewarded in the 21st century when a new coffee culture established itself. Gourmet coffee drinking - heavily influenced by the rise of Starbucks, Costa and other international chains titillated the palettes of the well-travelled and '*nouveau riche*' Irish consumer. Coffee had re-established itself with the Irish consumer and demand continued to remain strong despite the severe downturn in the economy in 2008 following the global financial crash. Irish consumers developed a taste for specialty coffees such as expressos, cappuccino's, Lattes and Americanos in particular. Indeed Mac Con Iomaire (2012) suggests that the American sitcom ' Friends' and its coffee house 'Central Perk' may have had an influence on Irish consumers, particularly younger apartment dwelling adults who see the coffee house as the *third space* in their lives - after home and work. Dublin city centre was also fortunate to experience a boom in 'sunrise industry' and financial services companies coming to the capital lured by the low corporation tax (12.5%), English speaking workforce, access to the EU and Eurozone markets and the undoubted charms of the Irish Industrial Development Authority (IDA). West Coast firms from the USA like Google, Facebook, LinkedIn, eBay and others brought their west coast coffee house culture with them. This agglomeration of 'tech firms' in the city centre created a 'tech cluster effect' (Porter, 1990; 2011) in the city and the software designers, venture capitalists, local tech entrepreneurs, designers, artists and other members of the creative classes (Florida, 2004) attracted to 'Silicon Docks' can be seen and heard conducting business person-to-person or over the free Wi-fi in the local coffee outlets. These young professionals using the coffee houses as 'ad hoc' office spaces for conducting business - similar to how coffee houses were used by the professional and merchant classes in the Dublin of the 17th and 18th centuries.

Competition hots up

Competition for the coffee consumers' disposable euro is becoming stronger with most outlets offering 'loyalty cards' as a matter of course (See: Exhibit 2 in Appendix1). Other outlets are also trying to enter the coffee house market. Public houses in particular have spotted a high margin niche opportunity to complement their traditional menu of alcohol and food. Many famous Dublin pubs have installed coffee machine similar to those used by the

coffeehouses. Hotels have also installed the appropriate hardware and have trained their staff as Baristas.
Local chains and outlets like Java Republic, Insomnia (See: Murphy *et al*, 2008), Cafe Sol, O'Briens Sandwich Bars and Bewleys (See: Table 1) have established themselves and compete fiercely with international players such as Starbucks and Costa. With the increasing number of outlets serving specialty coffees, Dublin has come to resemble - but with its own unique character- other great European capitals. It has now embedded its own 'cafe society' where its citizens and visitors can linger over a coffee (or tea), do some people watching, conduct business or hang out with friends - just as they do in Paris, Vienna, Brussels or Madrid. Dubliners now have more places than ever to enjoy their favourite brews to sit-in or take- out.

Table 1: The growth in the major Coffee outlets/cafe chains in Ireland (2008-14)

BRAND	Brand Ownership	Outlets 2008	2014
Centra	Musgraves Group Plc	460	462
Spar	BWG	403	450
Londis	ADM Londis Plc	370	312
Subway	Doctor's Associates	101	124
O'Briens	O'Briens Sandwich bar Ltd	91	77
Supermacs	Supermacs ltd	82	100
McDonalds	Mc Donalds Corporation	74	84
Insomnia	PenninnHf	53	81
Bagel Factory	The Bagel Factory UK Ltd	37	36
Eddie Rockets	Eddie Rockets City Diner Ltd	37	23
Costa Coffee	Whitbread Plc	29	70
Burger King	Burger King Holdings	26	34
Starbucks	Starbucks Corporation	23	42
The bagel bar	The Bagel Bar	20	11
KFC	Yum! Brands Inc	20	35
Butlers Chocolate Café	Butlers Chocolates	14	16
Ben and Jerrys Café	Unilever Group	12	8
Café Sol	Café Sol Ltd	10	7
Esquires Coffee houses	Esquires International	10	9
Bald Barista	Bald Barista Ltd	1	3
Others		322	300
Total		**2,573**	**2,284**

(Source: Mintel, Euromonitor, on-line company research - store locations, adapted by authors)

Table 1 gives a breakdown of the overall market by brand and retail outlet numbers. Whilst the overall number of outlets offering coffee has declined, the market continues to be driven (in terms of outlet numbers) by the specialist coffee retailers such as Insomnia, Costa and

Starbucks and to a lesser extent by niche players like Butlers and the Bald Barista (Specialist coffee retailers are bolded in Table 1). Exhibit 1, Appendix 1 paints the economic backdrop for the period and Exhibit 2, Appendix 1 provides a profile of the Irish foodservice market. The Greater Dublin Region (GDA) accounts for approximately one third of the national population and is the only population agglomeration on the island with a population exceeding one million. It is the engine of the Irish economy. This creates its own issues in terms of retail space and the initial capital requirement (Lease & fit out) of a typical coffee shop in central Dublin is estimated to be in the region of €200,000, though this can climb as high as €350,000 depending on unit size and location.

More about Buzz [1]

Buzz Fendal, a New Zealand citizen, first came to Ireland in 2002 on an adventure with his girlfriend and fell in love with the country and decided to stay. He had worked in the restaurant business for the previous decade as an unqualified chef, most notably in the Sky Tower in Auckland, New Zealand. By his own admission he talked his way into senior positions in well established restaurants. With an outgoing personality and an entrepreneurial spirit he is the driving force behind the business. He calls himself a 'grafter' and a 'gambler', and launched himself into business in Ireland in an effectual way (Read *et al*., 2008). In local terms he would be described as having the 'gift of the gab'.

Buzz has never formally trained as a chef or a barista. He is self-taught but he developed a passion for Espresso at a young age. This led him to experiment and practice and thereby gather a wealth of knowledge about coffee machines, blending and roasting of coffee beans, serving the espresso and frothing the milk for Cappuccinos, lattes etc. When he first arrived in Ireland, the term 'Barista' was practically unheard of but Ireland's economy was growing at an unprecedented rate and it was not long before it became a well-recognised term amongst coffee *aficionados* and then the wider population. Demand for luxury products and services were also growing at a phenomenal rate. A cafe culture developed on the back of this new found prosperity. It was while working in Donnybrook Fair, an upmarket, boutique supermarket in an affluent suburb of Dublin that Buzz first caught the attention of the media. A camera crew from the national television station RTE was filming and the camera captured Buzz in action, creating a cappuccino using his chocolate art. No coffee house in Ireland at the time had mastered this frothing of the milk to such as degree as to allow the heavier chocolate to sit on top. Buzz had announced his arrival on the scene and having surveyed the offerings on the local market he thought that there could be 'a gap in the market' for high-quality coffee brews - made to *his* standards. He decided to set-up his own coffee shop to investigate whether there was indeed 'a *market* in the gap'.

Buzz subsequently co-founded a coffee shop with his partner at that time Mr.Michael Smith and ran a successful coffee shop in south Dublin serving quality, consistent coffee and a premium lunch menu. This partnership lasted for two years before an opportunity arose for Buzz to take control of his own business. However Buzz realised, during his two years in partnership, that whilst he excelled at front-of-house he needed someone with complementary skills for the back of house operations if he was ever to run his own business successfully.

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[1]Information on the characteristics of the entrepreneur was provided by an interview with the key informant in this case Buzz Fendal. This interview was supplemented with information from the FAME database (Bureau De Djik, 2014) and archived media records. The authors gratefully acknowledge the co-operation of Mr. Fendal in the preparation of this case. The framework used to construct this case is based on the work of Storey (1994), Smallbone & Wyer (2012) and Storey & Greene (2010).

Enter Monika Mazurkiewicz, a consultant originally hired by Buzz to monitor the activities of the business and suggest methods and areas for improvement and increased efficiency.

Buzz is the front man, the BALD BARISTA, coffee maker, big personality, the interface between the business and the customers and Monika is the commercial manager, the cost controller, the organiser and the glue holding the business together.

Organising the Firm

Shortly after Buzz started his first coffee shop in partnership in 2006, he decided that if he was to implement his own vision for a high-quality coffee shop he would have to 'run his own show'. His opportunity came in 2008, when he opened his first cafe, which was located in a hostel for young tourists and is described by the entrepreneur as a slightly 'out of the way, rough around the edges, cafe'.

This cafe 'The Hostel' would cater for a large student population and local business people. As business improved and the reputation for quality spread, Buzz and Monika took on more staff and this created a 'happy family' of eight to nine employees. Monika became a director in 2012.

The leadership team of Buzz and Monika grew more confident in their ability to run a profitable cafe and ten months later in 2009**,** the second coffee shop 'The Harcourt' was opened about 1.5 km from the first coffee shop in a busy business district of Dublin, surrounded by a number of large office blocks. This cafe catered primarily for the business clientele and focused on breakfast and lunch. However this cafe proved unprofitable as it was over-reliant on a business market. It was decided to close the outlet in 2013 when it was possible to break the lease without penalty.

In 2010, Buzz opened another cafe in the upmarket shopping area of south Dublin, roughly one kilometre from the original 'Hostel' cafe. Known as 'The Green' as it is located beside the Luas tram terminus on St. Stephen's Green and it caters mainly for takeaways and tourists. This is a more upmarket cafe and caters to a different clientele than the other two cafes.

2014 saw the opening of cafe number four 'The Cafe' in the original premises of Buzz's first cafe on Aungier St. This new cafe is 'very fine lined and modern'. The menu is different, catering for quality lunches and dinner although 'it is not fine dining but an up-market cafe'.

Each café is set up as a separate entity and registered under the names mentioned above (See: Bureau De Djik – FAME database). The reasoning behind this is clear - if one café failed it would not bankrupt the entire group. Each café also has its own distinct identity and offers a different mix of food products depending on its served market – but importantly the same coffee menu is offered in each cafe. Buzz describes his cafes as 'boutique cafes'. The organisation structure evolved. In the early days of business, Buzz was involved in the daily running and management of his coffee shop. He notes that:

> We were so busy; I was doing everything from making espresso ten to twelve hours a day, to taking out the rubbish, my staff were laughing at me.

Realising eventually that one person cannot do everything, he employed Monika as a consultant/general manager to overview the running of the cafe and refused to let her serve one cup of coffee. She studied the flow of the customers, the hygiene and the management of

staff and made suggestions as to areas for improvement. Monika complements Buzz, he is the Maitre D and chief executive in the business - making excellent espresso and plaumausing customers - and she is the operations manager and 'sits down to do the bookwork and manage the finances'.

Buzz explained that in the early days of business, he felt it very hard to 'let go of the reigns of the business', but as the business expanded and the need for more staff arose, his philosophy on the business also evolved. The leadership team of Buzz and Monika now have managers on each site with employees reporting directly into them. Buzz now expects managers to sort out problems in their own location, without running to him on every occasion. Buzz and Monika see the need now to be more strategic about company development and to step back from the day-to-day operations and look strategically at the bigger picture and the future of the organisation.

The Growth Strategy

When asked about his management style and techniques, Buzz has no qualms in proclaiming that his style of management is 'authoritarian' – 'it's my way or no way' -. This approach is necessary, he believes, to ensure consistent high quality standards in coffee preparation. Whilst Buzz is somewhat protective of his trade secrets (his barista techniques), he estimates that it costs his business between €5000 and €6000 in person-hours and product to properly train a new member of staff. In order to protect his investment he insists on staff signing a six month contract and if they leave before their training time is complete, they must pay €1000 compensation back to the business.

> Some people walk in and after a matter of 2 or 3 weeks, go, stating I cannot do this, I cannot work for you.

Buzz feels that this is fair and he is only interested in staff that can work with his methods. In addition to employees who are willing to learn, Buzz also seeks staff with outgoing personality as he believes that this is essential in a 'high touch' service business.

In the early days of the business, Buzz was involved in micro managing each café, now with a larger and growing business, he feels the need to put some distance between himself and the staff. He stated that there has to be 'a gap now between me and my staff'.

> We had to change our whole format from' happy families' to employer and employees as we are now a serious medium-sized business.

In choosing a manager for a new café he stated: 'we will never employ a general manager straightaway'. Firstly, the café needs to be established, and they take the time to assess someone's suitability'. He prefers to employ internally with a person who has worked their way up through the ranks. Once the suitable person is established, the owners can take a step back and allow the new manager to manage the business:

> Because of our two managers at the two cafes now, we rarely need to worry about these places.

The latest Café is located a few hundred metres from the original 'Hostel' café and the strategic logic of this could be questioned- establishing two cafes on the same street within 200 metres of each other. However the 'Cafe' comes with a long term lease and gives the company long-term stability should the 'Hostel' café lose its lease. There are long-term development plans for upgrading this street and neighbourhood. This area of Dublin is in the

throes of re-generation and Buzz and his businesses are very well poised for the next economic upturn. Buzz exclaimed:

> This completely stabilises the Bald Barista brand for the next 15 years.

When asked about his approach to setting up his business he explains that he just 'jumped off the edge of a cliff'. He felt that with hard work and his unwavering belief in his own ability the venture would not fail.

However Buzz and his team did for example conduct some informal research and calculated the 'footfall' on both sides of the street where he has two cafes. They estimated that seventy per cent of the public walk on one side of the street, this is the side the 'Hostel' and 'New Cafe' are located on.

There has been a change in Buzz's approach to business start-up planning and he now realises the need to produce a more comprehensive business plan. With cafe number three 'The Green', Monika produced their first formal business plan in order to secure funding from their bank.

When asked about barriers to growth, Buzz reflects on the difficulties of conducting business in Ireland. The costs of doing business are relatively high, staff costs, maintenance and rates are all issues of concern for him. However Buzz gets particularly frustrated about the lack of funds available for marketing and advertising. He maintains that:

> We can't afford to advertise on the radio or the side of buses, like other people do. Lack of exposure is holding us back.

As Buzz sat pondering his future in the Dublin and Irish coffee market, he realised that the business had reached a critical juncture in its evolution. He reflected on his options for expansion now that the economy was well on the road to recovery and Irish consumers had re-discovered their confidence. He wondered whether he should become more active on-line and what it might add for his business. How would he compete with the international chains in future? Could he expand into other cities in Ireland? Was his format 'franchisable'? Would his business have international appeal - and in which markets?

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Appendix 1

Exhibit 1: The External Environment

Economic Background – Ireland (1990 – 2014)

1990-2008 - Welcome to the boom

The Irish economy experienced unprecedented growth and prosperity from the late 1980's to the early 1990's. From an economy that was once titled a 'peasant economy' to becoming 'Europe's shining light', there was a phenomenon transformation in performance and growth of a small country on the periphery of Europe. It was Kevin Gardiner then working for Morgan Stanley who first coined the phrase the 'Celtic Tiger' back in 1994, and this symbolised the massive growth and change in the Irish economic landscape.

There are many factors cited in this transformation, Ireland is a small open economy and since joining the EU in 1973, it broke its dependency with its dominant trading partner the UK and also the Sterling currency and thus exposing Ireland to the European and Global markets. This process had significant implication for capital inflows into the country and for economic growth. The Irish state had committed itself to targeting new business and foreign direct investment (FDI) since the late 1950's by promoting an economy with stable interest and exchange rates and a pro-business regime. New multi-national corporation's (MNC's) were attracted to Ireland because of a low corporation tax rate (10%), government grants and incentives and a young, educated workforce all encouraged firms to locate in Ireland.

Ireland had a distinct advantage over the UK as a location due to a historic lack of industrialisation and thus an absence of rigid labour practices. Its small size allowed workforce flexibility allowed the government to introduce a very low 10% corporation tax rate, which became even more of a competitive advantage when the British Government refused to join the European monetary union (EMU). Ireland thus became the only native English speaking country in the Eurozone and thus it became a preferred gateway into the mainland European market, particularly for US multinationals.

Ireland's location on the periphery of Europe would have been seen historically as a disadvantage but in this era of fast-innovating technologies, particularly within the ICT industries, the 'death of distance' is happening at an increasingly rapid rate. Geographical location is no longer the major issue it once was and in a world where trade in service businesses is becoming increasingly important,

history and geography is no longer destiny. Krugman refers to this phenomenon as the 'new economic geography'.

Between 2000 and 2007 the average annual growth in real GDP and GNP in Ireland was 5.6 per cent and 4.9 per cent respectively. The value of international goods and services peaked at €190 billion in 2007. This compared to €100 billion in 2000. Services are the largest component of Irish output (ICT industries) and in 2011 they accounted for 67 per cent within this sector. Food, in comparison - the largest indigenous industry accounted for just 16.5 per cent. The standard of living in Ireland grew alongside the economy and demand for luxury products and services experienced massive increases. In this period of rapidly increasing prosperity the population grew to 4.6 million in 2014 up 17 per cent from 2002 figures. Similiarly unemployment hit a historical low, averaging at 4.5 per cent per anum, leading to the country experiencing net immigration for the first time in its short history.

The economy boomed on the back of the growth of international trade with the Irish based multinationals taking full advantage of this increase in global demand. Confidence was high in business and the citizens of Ireland and the immigrants - the so called 'new Irish' enjoyed a decade of prosperity and an improved quality of life. Consumer spending and indebtedness increased at an alarming rate fuelled by a liquidity and credit boom courtesy of low interest rates in the euro zone. This resulted ultimately in a housing bubble as consumers traded up into increasingly overpriced properties and/or borrowed to fund buy-to-let properties.

2008-2012 – after the fall!

The advent of the credit crisis in the United States in 2008 heralded the end of the boom times for Ireland. The collapse of Lehman brothers had severe repercussions for the Irish banking sector. The LIBOR rate rose significantly and banks were unwilling to lend to one another. Although this US credit crisis precipitated the Irish recession there were a number of internal factors which played a significant role in helping to exacerbate the economic difficulty that Ireland found itself in by the autumn of 2008. Greenspan (1996) and Shiller (2005) refer to this as a time of "irrational exuberance". This over-confidence and over-optimism in the financial markets thus lead to over-inflated asset prices and excessive risk taking. The chairman of Ireland's biggest domestic bank AIB Dermot Gleeson, describes this in his explanation to the shareholders in 2009:

> We drank too deeply from the national cup of, I suppose, confidence…The national mood of self-confidence brewed itself up into overdrive

Indeed from 2000 to 2007, property prices in Ireland soared by a compound annual growth rate of 11 per cent, Irish banks pursued very aggressive lending strategies offering 100 per cent+ mortgages. The onset of the global financial crisis saw the collapse in the Irish property bubble and exposed a very vulnerable banking sector that had become over-exposed to the domestic property and the construction industry. Residential properties have fallen nearly 50 per cent from their peak in 2007 to the end of 2011, leaving householders with negative equity and a financial system with a large number of impaired assets on their balance sheet.

Questions now turned to the financial regulators and their role in this financial disaster.The New York Times referred to Ireland's light touch regulatory regime as 'the wild west of European Finance'. In hind sight the Irish financial regulator was weak and ineffective in this period and 'regulatory capture' occured within the system. Professor Patrick Honohan in 2009, the incoming Central Bank head, noted that the Central bank should have been aware of the systemic risk building up in the banking system. He commented on the rapid growth of the balance sheets of the domestic financial institutions. Growth rates in excess of 20 per cent per annum should have acted as a warning sign to the regulator and the central bank. In fact the balance sheets of Anglo Irish bank and the Irish Nationwide building Society, the two most culpable financial institutions in the collapse of the financial system, grew by an average of 36 per cent and 20 per cent per anum over a ten year period.

The Irish government had to shoulder blame for its part in the crises as it had become dependent on the taxes raised from the booming construction and banking sectors and in 2006, 17 per cent of all tax revenue collected came from these industries. National debt fell from 34 per cent of GDP in 2000 to 20 per cent of GDP in 2007. The Irish government presided over a period of prosperity, popularity and healthy public finances. The situation in the public finances reversed dramatically in 2008 and as a consequence of this deep recession and the necessity to inject public funds into the banking system to prevent its collapse, the level of national debt has increased significantly from 20 per cent to 76 per cent of GDP in 2011. Credit rating agencies such as Moody's and Standard & Poor, subsequently have demoted Ireland from its perfect triple A rating to an A rating. This added to the financial woes as borrowing on international markets becomes increasingly expensive. Unfortunately, recessions bring an increase in the rate of unemployment and the unemployment stands in double figures up from 4.5 per cent in 2007, putting a further strain on the public finances.

Small to medium sized industry is finding the economic situation extremely difficult and the biggest concern for their future is the lack of cash flow and little or no credit facilities being made available from the Irish banking sector.

The Future Outlook

Forecasts for the next few years are optimistic for Ireland and its economy. Ireland was forced to secure funding from the IMF in 2010 and three years later the country exited the IFM bailout fund, repaying over 1 billion euros in interest. The outlook for the Irish economy is one of small but consistent growth, approximately 5 per cent growth in GDP in 2014 and the Irish Government estimates growth of 3.6 per cent in GDP for 2015; this is consistent with the forecasts from the IMF (Central bank 3.7 per cent). Unemployment figures have fallen from a high of 14.6 per cent in 2012 to 11.4 per cent in 2014 and the forecast is circa 10 per cent (Irish Government) for 2015. (10.4 per cent, Central bank, 9.8 per cent - ESRI). This trend is set to continue down to approx 9 per cent in 2016.

Dr David Duffy (ESRI) states 'GNP continues to provide the best measure of the standard of living (and output) of Irish residents'. The GNP of 3.9 per cent for 2014 is expected to grow by 3.3 per cent in 2015, according to the Central bank.

In terms of our credit rating, all 3 rating agencies Moody's, S&P and Fitch have upgraded their long-term debt rating for Ireland to A grades, investor confidence in Ireland has returned and Ireland is back trading in the bonds markets.

The 12.5 per cent corporation tax rate, the envy of Europe is set to stay, the Irish government have defended this rate fiercely within the EU and this policy will not change according to the current government. This corporation rate is one of the main attractions for MNC's to locate in Ireland.

Exhibit 2

Extracts from the Irish Foodservice Market profile (Bord Bia/ Irish Food Board)

Foodservice Market Assessment

In 2014, Irish consumers spent €6.1 billion on out of home food & beverage. The bulk of this (88.9%) was spent in the commercial channels, in locations such as quick service restaurants, full service restaurants, cafes and pubs. The remaining 10.1% was accounted for by the institutional channels, which includes business and industry, education and healthcare.

Ireland's out of home food and beverage spend has increased and is expected to continue to grow. The compound annual growth rate (CAGR) is expected to reach 1.9% and continue through 2017. The majority of spend is occurring in ROI, responsible for €4.2 billion at consumer spend and €1.9 billion in operator spend. NI accounts for €1.6 billion at consumer spend and €696 million in operator spend.

Nearly half of consumer spend in the commercial channel goes into Quick Service Restaurants (QSRs), with only 13% attributed to Full Service Restaurants (FSRs). Although the decline of Pubs in Ireland has been well documented, this channel still accounts for more than a quarter (28%) of consumer spend. While relatively small in channel size, coffee shops and cafes are continuing to capture sales and it is predicted that they will continue to grow. Other segments are also showing significant improvement, notably leisure and travel, which are positively impacted by growing tourism business and spending on leisure activities.

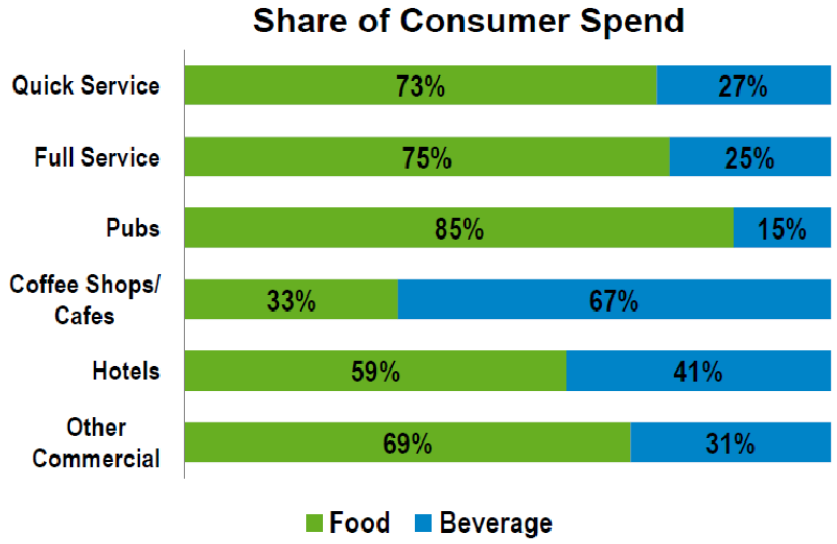
Coffee Shops & Cafes

- Ambiance, specialty beverages, and sweet and savory food items are all crucial for this channel. While hot beverages are the core offerings, cold specialty beverages are an important growth item, although they still only account for a small share of sales. Consumers are more likely to purchase sweet foods in this channel, but diverse savoury offerings, such as hot and cold sandwiches with premium ingredients, are important. Loyalty programmes are increasing in this channel in order to sustain footfall.

- Operators are utilising Irish sourced products by showcasing local brands in display cases and are aggressively opening new locations as channel competition increases. Less than half of consumers purchase food at coffee chops, but operators are focused on extending their offerings to tempt customers to make impulse purchases, which account for up to 10% or more of coffee shop and café revenue.

Commercial Channel Food vs. Beverage

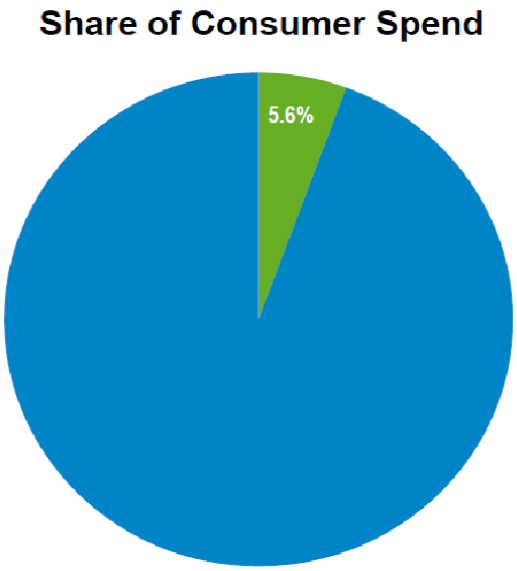
The Commercial channel segments are generally led by food. For example, 73% of consumer spending in the Quick Service segment is for food. A slightly higher share is found in the Full Service segment at 75%. By comparison, Coffee Shop/Cafes are led by beverage sales, accounting for 67% of revenues, respectively.



Coffee Shops and Cafés

The coffee shops and cafes channel is defined as follows:

- **Coffee shops -** are casual restaurants without table service that emphasise coffee and other hot beverages. Typically a limited selection of cold foods such as pastries and sandwiches are offered. Their distinguishing feature is that they allow customers to relax, work and socialise on their premises for long periods of time, without the pressure to leave promptly after eating and are thus frequently chosen as sites for meetings.
- **Cafés -** are informal restaurants offering a range of hot meals and made-to-order sandwiches. Many cafés are open for breakfast and serve full hot breakfasts. In some areas cafés offer outdoor seating.



Coffee Shops and Cafés

The total size for the Coffee Shops and Cafés segment in IOI for 2014 is €345 million in terms of consumer spending and €145 million in terms of operator purchases (the value of distributors' sales to operators). Over the last three years, the segment has grown at a compound annual growth rate (CAGR) of 2.2%.

- Consumer spending and operator purchases within ROI for the Coffee Shops and Cafés segment are €239 million and €100 million, respectively.
- In NI, the value of consumer spending is €106 million; operator purchases represent €45 million in value.

Consumer spending for the Coffee Shops and Cafés segment for IOI is forecast to grow 2.5% annually and will reach €371 million by 2018. Growth of 2.0% is forecast for ROI and 1.9% for NI.

Coffee Shops 2014				
	Consumer Spending (€B)	Operator Purchases (€B)	2011-2014 CAGR	2014-2017 CAGR
Total	**345**	**145**	**2.2%**	**2.5%**
Republic of Ireland	239	100	2.2%	2.0%
Northern Ireland	106	45	2.0%	1.9%

Coffee Shops Trend Spotlight
Coffee Shop Competition is Intensifying

"The market is growing, but remains very competitive as there are minimal barriers to entry. Competition for the right locations is now fierce as major brands are entering the market."

- Coffee Shop Operator

Competition within the channel is intensifying. Several coffee shops chains are aggressively opening new locations, including units beyond the urban city centres and in smaller markets.

For the Coffee Shop/Cafe channel, this translates into:

- Greater demand for premium coffee products (e.g. filtered and espresso-based products).
- A stronger focus on "snackable" items and related menu offerings.
- The need for suppliers that can serve chains nationally.

Coffee Shops and Cafés
Trends & Market Drivers

Consumer Trends Impacting

- Hot beverages remain core to this channel. However, cold specialty beverages, while representing a much smaller share of sales in this channel, are important for operators to have available, particularly during warmer months. Demand for tea is considered to be relatively stable.
- The ambiance of coffee shops and cafés are key drivers for consumers. Many establishments have a greater share of dine-in business (versus takeaway) and therefore afford larger seating areas.
- Consumers are more likely to purchase sweet versus savory food items within this channel. Pastries, cakes and muffins are also staples in most outlets.
- Premium ingredients and specialty breads are of high interest for sandwiches sold within the channel.
- Premiumisation for coffees is also a key trend within the channel and is driven by higher consumer awareness of different brewing techniques, such as filter and French press. Examples of this trend include a selection of "Third Wave" coffee outlets in Dublin and elsewhere.
- A focus on loyalty programmes is on the rise. With greater competition in the channel (particularly among coffee chains), coffee shops are launching loyalty cards in order to sustain continued patronage from their customers – as many visit shops multiple times per week.