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Investigating the Success of Independent Coffee Shops and Cafes in the UK: Findings from a Pilot Study

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Abstract

Purpose. The main purpose of this study was to investigate those factors that UK independent coffee shop and café owners perceived as being critical to the success of their business as well as factors that they perceived as being barriers to running a successful business. It also sought to identify the criteria used by café owners and managers to measure their business performance.

Methodology. A questionnaire was designed to survey a small sample of Coffee shop owners. The performance, success factor and barrier variables were identified from the extant literature and informed the survey instrument. A total of 30 questionnaires were returned – sufficient for this pilot study. Minitab v 18 and SPSS v 24 were used to analyse the data. Because of the small size of the pilot sample analysis was mostly descriptive.

Findings. Results indicated that the top 3 critical success factors were friendly staff, good quality food and high standards of hygiene. The top 3 barriers to success were high rents for premises, high local government business rates and high business taxes. Most owners used financial measures of performance such as sales and turnover but also customer satisfaction and loyalty, so important in services.. Interestingly none used market share as a performance measure, probably because of difficulties in determining that.

Practical implications. To succeed coffee shop owners need a good product and good service delivered by customer-friendly staff. A more empathetic local and national government with regards to taxation levels would also improve their chances of success.

Originality/value. This is the first paper to investigate the success factors for independent coffee shops and cafes

Keywords

Critical Success Factors; SMEs, Performance Measures; Entrepreneurs

1. Introduction

The hospitality industry in the UK includes enterprises that provide accommodation, meals and drinks in venues outside of the home (Oxford Economics, 2015). In terms of employment, the hospitality industry is the UK's fourth biggest industry behind business services, wholesale and retail and healthcare. It is estimated that the industry has contributed £41 billion to the Exchequer in 2014, when employment in the industry stood at 2.9 million jobs (Oxford Economics, 2015). Nearly 86% of enterprises in the UK hospitality sector are SMEs with 76% of those employing fewer than 10 people with 50% employing fewer than 5 people (British Hospitality Association, 2012 in Nachmias et al, 2013)) Its impact on the UK economy is therefore huge. An important subsection of the hospitality sector is restaurants and cafés.

Coffee is the second most traded commodity in the world, second only to crude oil. It is cultivated in over 70 countries by thousands of independent farmers. It is estimated that 1.6 billion cups of coffee are consumed worldwide every day (Rogers Family Co, 2013). The café and coffee shop industry includes all specialist unlicensed outlets that focus on the sale of coffee in addition to hot and cold drinks and light snacks (Luery, 2016). In the UK, the so-called 'café culture' has developed rapidly over the past decade and there are now in excess of 24,000 coffee shops and cafés throughout the country with around 6,500 believed to be independent coffee shops. These independent coffee shops account for 30% of the UK market and face fierce competition from large chains such as Costa, Starbucks and Cafe Nero who account for 31% of the market and nearly 8000 non-specialist outlets (including pubs and supermarkets) which account for 39% of the market (Allegra World Coffee Portal, 2015) According to Companies House, outside London, which has 27.1% of outlets, the Northwest of England is third with 9.2% and Scotland fourth with 7.4% behind the Southeast of England with 13.1%. Liverpool is ranked third highest behind London and Glasgow in terms of the total number of independent coffee shops (Hospitality and Catering News, 2013). The total value of the coffee shop industry in the UK is £3.4 billion (Intel, 2017) with the sector employing around 115,000 people with that number expected to rise by 31,000 in the 5 years to 2021-2022 (Luery, 2016).

EU statistics show that the hotel, restaurant and cafe sector is dominated by micro enterprises with 94% employing less than 10 people. It is anticipated that the vast majority of independent coffee shops are micro sized enterprises (MSEs).

This is an important industry in terms of employment and contribution to the UK economy. However, sustainability in terms of longevity is an issue. Despite the low barriers to entry into the industry, cafés are a very high risk business and most start-ups fail (Baskerville, 2017). Office for National Statistics data show that for any businesses started in 2011 the 2 year survival rate is 75%, with the 3 year survival rate 60% and the 4 year survival rate 49% and the 5 year survival rate 44% (Office for National Statistics, 2016). However in the accommodation and food services sector only 34.6% of businesses survive 5 years.

Therefore the aims of this research project are to:

- 1) Determine critical success factors for cafés / coffee shops

- 2) Determine any barriers to their success
- 3) Determine performance measures used by the coffee shop owners

These aims will be achieved by surveying a sample of Liverpool and Glasgow Independent cafés /coffee shops that have been opened longer than 2 years.

2. Literature Review

2.1 *Business Success and Failure Factors*

There are many variations on the definition of success (Simpson et al 2004). Nieman *et al.*, (2003) defined a successful business as one that had been in existence for longer than two years, had a staff of more than five and less than 30, made a profit and expanded in terms of infrastructure and growth. Lau and Lim (1996) defined failure as the cessation of business with losses to creditors and stakeholders thus implying that success was making no losses and continuance of business operations. Simpson *et al.*, (2004) argued that success was often viewed in terms of growth or profitability. Growth could be measured in terms of turnover, employment levels or as the percentage change in sales over a year (Yazdanfar and Öhman, 2014).

Watson et al (1998) simplified the definition of success as being equivalent to continued trading and failure as being the equivalent of ceasing trading. This presupposes that entrepreneurs who make a profit will stay in business and those that make a loss will cease to trade but this may not be the case and that the decision to stay or quit may be down to the characteristics of the entrepreneur (Harada, 2002). Indeed, Coad (2014) argues that the decision to cease trading may be either voluntary (the entrepreneur has found an alternative business and decided to close her/his existing operation) or involuntary (the entrepreneur is forced to close by the bank or other creditors). With this in mind he argues that research has to distinguish between exits and failures because many exits are successes. He suggests that “failure” be replaced by “death” to encompass voluntary and involuntary exits.

Choueke and Armstrong (2000) found that the most successful companies were those where staff felt ownership of the organisation or felt they were partners within it. Based on what the owner / managers think there are four categories of success:

- Growth and profitability;
- To be happy at work;
- Collective sense of achievement and respect from the marketplace;
- A personal sense of achievement and recognition.

It appears that many owners are more interested in providing quality services and products than making large profits. Previous research (Watson, 2011) indicates a link between SME success and various owner characteristics such as education and experience.

According to Teng et al (2011) the most important factors contributing to business success are employment, training, retention of high-quality staff, prevalence of good products, services and optimum timing in introducing them into the marketplace as well as excellent relationships with customers and top managers with good leadership qualities. In cafes, service quality, and in particular the interpersonal skills of the service provider, is a key element of customers perceptions and will have a major influence on customers intentions with regards to return visits (Bove and Johnson, 2000). Indeed in a recent survey by Mintel (2017), when coffee shop customers were asked what factors motivated them to visit an independent coffee shop over a branded one the most cited response was friendly customer service (73%) followed by cleanliness (55%).

External Accountants play a vital role in advising small businesses in areas such as taxation, financial management, budgeting, succession planning, human resource management, salary administration and strategic management and areas where knowledge, skills and expertise are

lacking (Williams and O'Donovan, 2014). Berry *et al.*, (2006) found that those SMEs that used external business advisers such as accountants and consultants were more likely to grow. The more external advice was sought and the wider the range of advice sought was positively related to the growth rate of SMEs. They established that the most sought after advisers were accountants and network contacts with academic advice being only rarely sought.

A study of Australian SMEs by Watson (2011) found that those firms that had never sought advice from an external accountant during the previous year were significantly less likely to survive compared to those companies that had accessed their advice one to three times a year. He further found an association between owners-managers personal networks and rates of business formation, survival and growth.

Oertel and Walgenbach (2012) argued that changes in the top-management teams and partner exits increased the risk of SMEs failing.

Many internal and external factors have been found to influence small business success including:

- Industry structure and competition;
- Entrepreneurial decisions;
- Employee relations;
- Entrepreneurial objectives;
- Organisational culture;
- Education and training;
- Prior experience; (Simpson *et al.* 2004)

However Simpson *et al.* (2012) argue that success may be related to the degree to which business goals are met or exceeded, some of which may be critical for success. Separating success from performance is difficult because success can be defined in terms of performance factors such as profitability, turnover or growth. Therefore they argue that there are strong links between critical success factors, definitions of success and performance measures. However there has been no agreement on success factors. Critical success factors are examined in the next section.

2.2 *Critical Success Factors*

Ghosh *et al.* (2001) distinguishes between key success factors (KSFs) and critical success factors (CSFs) KSFs are factors that are necessary for the excellent performance of the company whereas CSFs are defined as those factors that are required in order for the firm to survive (Teng *et al.*, 2011).

Simpson *et al.*, (2012) argued that there was no agreement on the CSFs that contributed to SME performance and that the number of variables contributing to performance and, indeed, survival, was extremely large. The survival and competitiveness of the firm will depend mainly on internal variables although external variables may also have an impact due to the dynamic business environment and the fact that external factors can change quickly (Rodríguez-Gutiérrez *et al.* 2015).

2.3 *Independent Restaurants*

There is a lack of research and empirical data on the coffee shop and cafe sector of the hospitality industry. However there is some useful research on success and failure in the restaurant sector.

Data from Australia (Restaurant and Catering Australia, 2013) shows that 63% of restaurants earn less than 2% net profit after tax. Less than 50% of all restaurants operating in 2009 remained trading in 2013. In many countries across the world a successful restaurant sector is critical for the tourism and hospitality industry as well as for the livelihood of the

owners, managers and employees. There is a gap in the understanding of how SMEs in the restaurant sector operate and the factors that drive firm performance.

Restaurants failures are categorised in two ways, namely Micro and Macro factors (Parsa et al., (2011). Macro factors such as economic factors or government legislation tend to be out with the control of organisations. Micro is concerned with the lack of capital, poor choice of location (physical site and surrounding demographics), poor quality of life (working 60 hours per week, sacrificing the quality of life and family), entrepreneurial incompetence (lack of business acumen to understand the intricacies of marketing, accounting, finance, legal matters and human resources). Entrepreneurs may not have the skills to succeed as business managers. They may lack the necessary prior business experience to manage restaurants and often lack the basic branding skills necessary to survive in the competitive world of restaurants (Parsa et al., 2011). Employee theft is one of the primary reasons why some restaurants fail (King, 2002).

Concerning the name of the restaurant, a typical restaurant name has 13 letters (8 consonants and 5 vowels). The name of the restaurant makes a difference in the success or failure of a restaurant. The name should be different, descriptive and brief enough to be memorable (Parsa et al., 2011).

The design and layout is important in terms of physical layout and architectural design of restaurants. Location is considered vital to turnover growth (Akinboade, 2015).

This research expands existing knowledge by identifying the factors driving performance in small, independent coffee shops and cafes. The coffee shop industry has become increasingly competitive. It is anticipate that the findings will enable practitioners and industry bodies to implement strategies that support the success of the café sector.

Based on the above review of the extant literature on SMEs the following variables were selected to determine their importance (as perceived by cafe owners) to the success of independent coffee shops / cafes in the UK

- a. Location of cafe
- b. Good quality coffee
- c. Good quality food
- d. Friendly staff
- e. Short waiting times
- f. Free wifi
- g. Being able to recruit high quality staff
- h. Being able to retain high quality staff
- i. Maintaining good relationships with customers
- j. Having good leadership qualities
- k. Having good marketing skills
- l. Having previous business experience
- m. Creating a brand that customers associate with
- n. Having access to short term credit
- o. Having access to long term credit
- p. Having sufficient cash to pay suppliers
- q. Having good operations skills
- r. Having access to appropriate training
- s. Having government policies that foster an environment that is favourable to small businesses
- t. Being able to access business advisors
- u. Having a high level of education
- v. Good employee relations
- w. High standards of hygiene

2.4 *Barriers to Success*

Many of the identified barriers are the opposite of the identified success factors, for example if recruiting high quality staff is a success factor then clearly the inability to recruit high quality staff is a barrier. The lack of access to credit was identified by Pansiri and Temtime (2010) as one of the major factors inhibiting the success of small businesses. They also cite managerial deficiencies such as lack of managerial skills and appropriate training as well as a lack of previous management experience as contributing factors to organization failures. Odd-Helge *et al.* (2006) found that some of the biggest constraints facing SMEs in Tanzania were government regulations (licenses and permits) and high taxes. Urban and Naidoo (2012) found that a lack of operations skills threatened the survival of SMEs and argued that entrepreneurs should have expertise in all functional areas of a business.

Based on the review of the extant literature the following variables were selected to determine the extent to which they act as barriers to success (as perceived by coffee shop owners):

- a. Inability to recruit quality staff
- b. Lack of operations skills
- c. Lack of management skills
- d. Lack of marketing skills
- e. Lack of access to finance
- f. Lack of product or service innovation
- g. Partial change in ownership
- h. Lack of business experience
- i. Lack of business advisors
- j. Lack of training opportunities
- k. Poor location of business
- l. Lack of government support
- m. Too much government regulation
- n. High business taxes
- o. High rents for premises
- p. High council business rates
- q. Changing neighborhood environment
- r. Lack of education
- s. Fierce local competition

2.5 *Performance measures*

Lönnqvist (2004) in Saunila (2016) defines performance as the ability of the measurement object to achieve results in relation to goals. As such performance can refer to the results or outputs of certain operations, how an operation is carried out or the ability to achieve results. Traditional measures of organizational performance have tended to be financial such as profitability, and Return on Investment (ROI) (Lo *et al.*, 2016). However it can also be measured in terms of number of employees, market share, turnover, value-added, sales (Rajan and Zingales, 1995) and competitive position (Zhang, 2001 cited in Gharakhani and Mousakhani, 2012). Sandberg (2003) argues that SME performance is the ability to survive, grow and contribute to employment creation and poverty alleviation. Growth can be measured in a number of ways. It can be measured in terms of turnover and employment levels (O’Gorman, 2001). Indeed Gibrat (1931), cited in Rodriguez-Gutiérrez *et al.*, (2015), defined business growth as “the change in size of a company between two time periods”. It can also be measured in terms of profitability because profitable firms grow faster than do other firms (Coad, 2007). Organisations must possess superior competitive strategies to achieve sustained growth. Saunila (2016) distinguished between two areas of performance: financial performance

and operational performance. The financial performance measures are related to results and included all areas of financial performance. The operational performance measures were those that focused on how results were achieved and included quality, resource utilization and innovation. Coad (2014) discusses business success and failure in terms of economic viability.

The following measures of performance identified from the extant literature were used in this study:

- a. Turnover
- b. Growth
- c. Net profit
- d. Return on Investment
- e. Employment levels
- f. Sales
- g. Market share
- h. Customer satisfaction
- i. Continued existence
- j. Meeting personal goals
- k. Expanding infrastructure

2.6 Control Variables

As discussed earlier, previous research studies have indicated the potentially significant association between various owner or business characteristics and success / survival. Therefore in this study ownership gender, partner exits, previous experience, parents owning a business, type of business, employment of family members and education level were treated as categorical variables with six categories for type of business, three for parents owning a business, two for previous experience, three for ownership gender, two for partner exits, two for employment of family members and six for education level. The owner's years of experience and the size of the business (measure in terms of the number of employees now) were treated as continuous variables. When there is sufficient data available from the full study survey cross-tabulations will be used to determine if there is any significant difference between owner characteristics regarding responses.

3. Method

A sample of 30 Liverpool Independent café /coffee shop owners whose businesses had been opened for longer than 2 years were surveyed. The main aim of the survey was to identify those variables deemed most important to the business success of the cafes and the barriers they encountered as well as identifying the criteria used by them to measure their performance. The survey instrument (questionnaire) consisted of four sections. Section 1 consisted of a series of questions to gather respondent profile information, including, gender, academic qualifications, type of business and number of employees. Section 2 covered business performance where respondents were asked to select from a range of different criteria, derived from the literature, those that they used to measure their business performance, including profit, growth, sales and turnover. Section 3 covered critical success factors where respondents were asked to rate the importance of each of the identified variables using a 5 point Likert scale where 1 = very important, 2 = important, 3 = neither important nor unimportant, 4 = unimportant and 5 = very unimportant. The CSFs used in the study were derived from the extant literature on SMEs and business performance. Section 4 covered the barriers to success and respondents were asked to identify how big a barrier each of the identified variables were to the success of their business using a similar Likert scale ranging from very big to very small but with the scale reversed where 1 = very small and 5 = very big. These too were derived from the extant literature. Each of the respondent cafes were visited and the questionnaire given to the owner/manager for

completion. Respondents were given a week to complete the survey which was collected on a second visit. The internal consistency reliability of the CSF importance scale and the Barriers scale were tested by calculating their Cronbach's Alpha using SPSS. These were 0.862 and 0.876 respectively indicating that both scales surpassed the threshold point of 0.7 indicating that the scales were reliable. An industry expert was consulted to test both content and face validity of the survey instrument before the pilot study was conducted. SPSS v 24 and Minitab v 18 were used to analyse the data. Results are based primarily on descriptive statistics due to the small sample size.

Asking business owners to disclose sensitive financial information often leads to item non-response and often survey non-response due to their reluctance to provide this information so no questions sought specific financial data.

4. Results

4.1 Profile of the respondents

Of the thirty survey responses, ownership varied between sole trader, family partnership, non - family partnership, limited company self, limited company family and limited company non family (Table 1) with the majority being either sole trader or limited company family.

Table 1. Ownership Type

Ownership Type	Frequency	Percentage
Sole Trader	8	26.7
Family Partnership	4	13.3
Non Family Partnership	1	3.3
Limited Company Self	5	16.7
Limited Company Family	9	30
Limited Company Non Family	3	10

Source: Authors' elaboration

The majority (n=23) had parents who had no business experience. Although the majority of respondents (n=18) had previous business experience ranging from 1 to 30 years. Ownership gender is 7 male, 12 female and 11 both male and female owned. The survey asked whether there had been any change in ownership with previous partners exiting the business. A total of 5 respondents indicated that partners had exited.

In terms of business growth, only ten businesses grew in terms of full time staff, 17 had no change and 3 had reported shrinkage. It was the limited company family that reported the most growth. In terms of part time staff, 19 reported growth, 8 no change and 3 shrinkage. The majority of cafés employed family members (n=17) with between 1 and 3 family members being employed.

Educational levels ranged from no education to university education or equivalent (Table 2 below).

Table 2. Education Level

Education Type	Number	Percentage
None	3	10
Secondary Education	5	16.7
College Education	8	26.7
University Education	11	36.7
Postgraduate	3	10

Source: Authors' elaboration

Owners were asked who they sought advice from and were given several options (See table 3 below). External accountants were the most popular source of advice for business owners. Academics were almost never consulted.

Table 3. Sources of Advice reported by Café Owners.

Advisers	Number of Respondents	Always use (%)	Usually use (%)	Sometime use (%)	Never use (%)
Academics	30	3.3		10	86.7
External Accountants	30	53.3	6.7	16.7	23.3
Consultants	30	10	10	10	70
Government support agencies	30	3.3		20	76.7
Network contacts	30	26.7	6.7	30	33.3
Market contacts	30	3.3	16.7	26.7	53.3
Other	30		3.3	6.7	43.3

Source: Authors' elaboration

4.2 Measures of Business Performance

Owners reported various measures of business performance (Table 4 below). Interestingly, market share was not counted amongst the business performance measures by any of the café owners.

Table 4. Business Performance Measures

Variable	Number	Percentage
Growth	16	53.3
Turnover	24	80
Net Profit	22	73.3
ROI	3	10
Employment Levels	7	23.3
Sales	26	86.7
Market Share	0	0
Customer satisfaction	25	83.3
Loyal customers	23	76.7
Continued Existence	17	56.7
Meeting personal goals	11	36.7
Expanding infrastructure	6	20
Others	1	3.3

Source: Authors' elaboration

4.3 Critical Success Factors

Based on the perceptions of the owner/managers of the respondent firms the most important factors contributing to the success of their café / coffee shops were (perhaps unsurprisingly) friendly staff, good quality food and high standards of hygiene (See Table 5 below).

Table 5. Critical Success Factors for UK Café / Coffee Shops

Rank	Variable / Factor	Mean	StDev
1	Friendly staff	1.0333	0.1826
2	Good quality food	1.0345	0.1857
3	High standards of hygiene	1.0357	0.1890
4	Maintaining good relations with customers	1.1034	0.3099
5	Having good leadership qualities	1.1786	0.3900
6	Being able to retain high quality staff	1.1786	0.3900
7	Good quality coffee	1.2333	0.4302
8	Good employee relations	1.2500	0.4410
9	Your location	1.3570	0.5590
10	Having sufficient cash to pay suppliers	1.3570	0.5590
11	Having good operations skills	1.5360	0.8380
12	Being able to recruit high quality staff	1.5860	0.6820
13	Creating a brand that customers associate with	1.6150	0.7520
14	Having good marketing skills	1.7040	0.6690
15	Short waiting times	1.7240	0.6490
16	Having government policies that foster an environment that is favourable to small businesses	1.7410	0.8590
17	Having access to appropriate training	2.0360	0.8380
18	Free wifi	2.2760	1.1620
19	Having previous business experience	2.4290	1.1030
20	Being able to access business advisers	2.5360	0.9220
21	Having access to long term credit	2.9630	1.1600
22	Having access to short term credit	2.7040	1.2950
23	Having a high level of education	3.1790	1.2780

Source: Authors' elaboration

4.4 Barriers to Success

Based on the perceptions of the respondent café / coffee shop owners the biggest barriers to the continuing success of their business were financial burdens imposed by landlords and central and local government in the form of rents, rates and taxes (see table 6 below).

Table 6. Barriers to UK Café / Coffee Shop's Success

Rank	Variable	Mean	StDev
1	High rents for premises	4.38	.982
2	High council business rates	4.19	1.23
3	High business taxes	4.15	1.12
4	Unable to recruit high quality staff	3.66	1.14
5	Changing neighbourhood environment	3.50	1.33
6	Lack of management skills	3.48	1.28
7	Lack of access to finance	3.32	1.24
8	Lack of marketing skills	3.26	1.04
9	Too much government regulation	3.26	1.37
10	Lack of product or service innovation	3.20	1.08
11	Poor location of business	3.19	1.60
12	Lack of operations skills	3.11	1.21
13	Fierce local competition	3.11	1.07
14	Lack of government support	2.92	1.32
15	Lack of business advisors	2.69	1.04
16	Lack of business experience	2.65	1.19
17	Lack of training opportunities	2.46	1.06
18	Lack of education	2.46	1.06
19	Partial change in ownership	2.29	1.26

Source: Authors' elaboration

5 Discussion

This paper reports the results of a pilot study that sought to identify the critical success factors and barriers to success for UK coffee shops based on the perceptions and experiences of café owners. The pilot study population size means that only descriptive statistics could be used for analysis. The dependent variable for this study is success. Success can be measured in a number of different ways and owners were asked to indicate which criteria they used. The owners used a range of criteria but the most common were financial, such as profit and turnover although it was encouraging to note that many used customer satisfaction and loyalty as measures. Not surprisingly no respondents used market share as a performance measure. This may be due to lack of resources such as time and money to carry out such a study. As it was not possible to request specific financial data this study used growth, as defined by Gibrat (1931), in terms of the difference in employee numbers at start-up to the present day as a measure of success. Based on this criterion nineteen respondent cafes had grown.

A total of 23 independent variables or factors were identified from the extant literature as having an impact on success. The most important ones were friendly staff, good quality food and high standards of hygiene therefore confirming the latest Mintel (2017) report findings on the motivation for customers using an independent coffee shop as friendly customer service and cleanliness. This obviously relates to the recruitment and retention of high quality staff with the right technical and interpersonal skills.

Of the 19 barriers to the success of their businesses the owners identified three barriers to their success: high rents, high rates and high business taxes – all associated with having sufficient capital and/or cash flow to meet their financial obligations. Interestingly the next biggest barrier to success was the inability to recruit high quality staff, identified as a critical success factor in a service organisation such as a café.

6 Conclusions

Running a café / coffee shop is a high risk business. To succeed coffee shop owners need good coffee and good food delivered by customer-friendly staff in a clean environment. Many of the major barriers to their success are out with their control and they need sufficient capital to deal with the fluctuating dynamics of their business environment.

Given the low barriers to entry into the coffee shop market many budding entrepreneurs may assume that it is an “easy option” for making money. This would be a wrong assumption. To make a success of their business, owners need a range of business skills covering such areas as operations management, marketing, human resources management and financial management. They also need good interpersonal skills and good leadership skills. They are entering a highly competitive industry where the outlet of a major coffee chain is never very far away.

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