

prepared for: Coffee Shops (Specialty)
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Coffee Shops (Specialty)

SIC: 5461

NAICS: 722213

Number of Businesses / Units: Unavailable

This U.S. industry comprises establishments primarily engaged in (1) preparing and/or serving a specialty snack, such as ice cream, frozen yogurt, cookies, or popcorn or (2) serving nonalcoholic beverages, such as coffee, juices, or sodas for consumption on or near the premises. These establishments may carry and sell a combination of snack, nonalcoholic beverage, and other related products (e.g., coffee beans, mugs, coffee makers) but generally promote and sell a unique snack or nonalcoholic beverage.

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Rules of Thumb

45 percent of annual sales plus inventory

2.5 times SDE plus inventory

3.5 times EBIT

2.5 times EBITDA

General Information

"The key to this business is growth through differentiation from the single largest competitor in the industry—Starbucks. Pay close attention to rental rates of space, and verify that service is available for your espresso equipment. Also, remember that coffee is a product of convenience no matter how good the product is, so the potential customer base within the pull radius of your location is critical to the location's viability."

"Americans have always loved their coffee, but the days of a simple 'cuppa Joe for a dime' are long gone. Thanks to Dunkin' Donuts in the '50s and the ubiquitous Starbucks in the '90s, millions of coffee lovers stand in line daily, willing to part with the better part of a sawbuck for a latte, espresso, or cappuccino. Starbucks is still the industry leader, but there are plenty of franchises who have found a way to cash in on the coffee revolution."

Source: Franchisehelp www.franchisehelp.com

Expert Ratings

| | | |
|---------------------------|-----|--------------------------|
| ▶ Competition | 3.2 | (1=Lot of : 4= Not Much) |
| ▶ Amount of Risk | 2.5 | (1=Very : 4= Not Much) |
| ▶ Historical Profit Trend | 3.2 | (1=Down : 4= Up) |
| ▶ Location & Facilities | 2.8 | (1=Poor : 4= Excellent) |
| ▶ Marketability | 3 | (1=Low : 4= High) |

| | | |
|-----------------------|-----|----------------------------|
| ▶ Industry Trend | 3.6 | (1=Declining : 4= Growing) |
| ▶ Ease of Replication | 1 | (1=Easy : 4= Difficult) |

Expert Comments

"Opening a coffee house is relatively easy relative to other food and beverage businesses, however understanding the unique dynamics of the coffee house business can be a challenge. Is your location on the correct side of the road? Is your wholesale coffee pricing and quality up to par? How are you going to differentiate your location from the ubiquitous Starbucks?"

Seller Financing

3 years

Questions

"What are your COGS? How many transactions do you have on average daily? What is the average ticket price? What is your labor percentage?"

Pricing Tips

"Recognize that profitability is key to determining overall value of the operation. A well-run, mature coffee house can net to the owner in excess of 20 percent of gross revenue."

"The key factor in determining overall price for this business is the existing profitability of the business and the level of customer following that the location has."

Benchmarks

"Cost of Goods Sold should not exceed 20 to 25 percent, if the coffee house is a 'liquid' coffee house, that is, a coffee house that does not offer extensive food beyond the traditional morning baked goods."

Benchmarking the Big 3

| | Sales Per Foot | Avg. Store Size | Avg. Sales Per Store | # of Stores |
|------------------|----------------|-----------------|----------------------|-------------|
| Starbucks Coffee | \$521 | 1,500 | \$731,000 | 3,880 |
| Peets Coffee | \$696 | 1,800 | \$1,252,206 | 65 |
| Tully's Coffee | \$317 | 1,200 | \$380,000 | 104 |

Source: BizStats.com & Nation's Restaurant News

Expenses as a Percentage of Sales

| | |
|-----------------------|-----|
| ▶ Cost Of Goods | 25% |
| ▶ Payroll/Labor Costs | 30% |
| ▶ Occupancy Costs | 10% |
| ▶ Profit (pretax) | 20% |

Industry Trend

"Competition will continue to increase, however the market (customers) will continue to grow as well."

"Starbucks, the giant java icon pushing a lot of latte into America's heartland, is on pace to add 2,400 stores this fiscal year, bringing its total to nearly 15,000. Competitors from McDonald's to Dunkin' Donuts are scrambling to sell America cups of premium coffee.

"To survive, smaller operators need to differentiate themselves from Starbucks and highlight their community connections, Milletto [Bruce Milletto, president, Oregon based Bellissimo Coffee InfoGroup]said."

Source: *Boston Globe*, 2007

Advantages

"Coffee is a fast-growing business that is fairly recession proof. Low cost of entry and relative ease of operation as compared to other food and beverage businesses."

"These types of businesses attract people who enjoy interacting with their community and expressing their individuality. For a food and beverage business type, a coffee house is a relatively clean operation with minimal staffing needs."

Disadvantages

"Common disadvantages are similar to all food and beverage: the need to manage all your variable costs (COGS and wages most importantly)."

"Independent coffee houses have a difficult time competing against the more established and better operated chains and corporate stores (i.e., Starbucks). The perceived ease of entry into the business has resulted in many independent coffee houses starting in an under capitalized state."

Additional Resources

Related Websites

- www.coffeeuniverse.com
- www.virtualcoffee.com

Associations

- [Specialty Coffee Association of America](#)
- [National Coffee Association of USA](#)