



START & RUN A COFFEE BAR

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Self-Counsel Press
(a division of)
International Self-Counsel Press Ltd.
USA Canada

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Self-Counsel Press acknowledges the financial support of the Government of Canada through the Canada Book Fund (CBF) for our publishing activities.

Printed in Canada.

First edition: 1997; Rerpinted: 1998; 1999

Second edition: 2001; Reprinted: 2002; 2003; 2004; 2006

Third edition: 2007; Reprinted 2008

Fourth edition: 2011

Library and Archives Canada Cataloguing in Publication

Matzen, Thomas, 1963–

Start & run a coffee bar / Thomas Matzen, Marybeth Harrison. — 4th ed.

ISBN 978-1-77040-035-1

1. Coffeehouses—Management. 2. New business enterprises—Management.

I. Harrison, Marybeth, 1965- II. Title. III. Title: Start and run a coffee bar.

TX911.3.M27M37 2010

647.95

C2010-901771-4

Cover Image

Copyright©iStockphoto/Coffee/ fotohunter

Inside Image

Copyright©iStockphoto/coffee with fresh branch/joannawuk

Self-Counsel Press

(a division of)

International Self-Counsel Press Ltd.

1704 North State Street
Bellingham, WA 98225
USA

1481 Charlotte Road
North Vancouver, BC V7J 1H1
Canada



This book is dedicated to the hardworking men, women, and children who harvest coffee by hand, bean by bean, so that we may enjoy this tasteful brew.

Muchas gracias, amigos.

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PREFACE

It's a funny thing about life; if you refuse to accept anything but the best, you very often get it.

— SOMERSET MAUGHAM

Hello, fellow coffee lover, and congratulations on taking a major step toward success in the coffee industry! If you are like us, you are probably drawn to the coffee business for many reasons ... your love of exotic coffees from far-off regions of the planet, the idea of the hustle and bustle of a busy coffee bar, or seeing the looks of appreciation on the faces of your happy customers. Yes, owning your own coffee bar can be fun, challenging, and very rewarding!

But like any business there are many risks involved: economic conditions can change, global coffee prices can fluctuate, and pressure from competition can increase. In fact, more than 50 percent of new businesses fail within the first five years so before you start your new coffee bar venture (or buy an existing one), we hope that you will evaluate the risks carefully. Take your time, do your research, and try to stay objective.

We hope that this book will be a valuable resource to you in your journey. The information we present is based on our many years of owning and franchising our own businesses

including coffee bars. The hands-on techniques you will learn have been designed and tested to produce real-world results. You will get a comprehensive overview of what you can expect in owning and operating your own coffee business; or, if you are already in the industry, this book will help you build your existing sales and increase your profit.

We also hope that, as a business owner, you will take a leadership role in being a positive force for good in the world. We encourage you to do what you can to recycle, support local growers, and buy fair trade, organic coffees. We hope you will encourage your employees to walk or cycle to work, and educate your customers on environmental issues facing us today. We hope you will be a leader, do what you can and help make the world a better place for our children.

Good luck, have fun, and maybe we will stop by for a cup of java one day!

- Tom & Marybeth



INTRODUCTION

THE COFFEE BAR BUSINESS — WHAT'S IN IT FOR YOU?

Coffee is the world's most popular beverage with only water being consumed in larger quantities!

— MCCOY AND WALKER

1. Coffee Worldview

The coffee business is an exciting industry, far-reaching in its economic impact and rich in history.

It is the world's most popular beverage with over 500 billion cups consumed each year. It is produced in 70 countries with the top three producers being Brazil, Vietnam, and Indonesia. In 2010, the global coffee market was worth upwards of \$80 billion USD with 25 million small producers relying on coffee for a living.

Coffee is indigenous to Ethiopia and was most likely discovered as a food before it became a drink. The most popular legend of how coffee was discovered involves an Abyssinian goat herder named Kaldi. Kaldi awoke one night to find his goats dancing around a tree speckled with red cherries. When he tasted one of the

cherries, he too started dancing with his goats.

As interesting as this story may be, it is more likely that coffee was used as a food supplement by wandering Ethiopian tribesmen. The tribesmen are said to have squashed the coffee cherries and carried them on long journeys, eating them for nourishment as needed.

Later, the coffee cherries were soaked in water, possibly to make wine, but some historians say it was not until 1000 ad, when the Arabs discovered how to boil water, that coffee was served hot.

Coffee was also believed to have medicinal properties. Avicenna, an Islamic physician and philosopher of the eleventh century, said of coffee: "It fortifies the members, it cleans the skin and dries up the humidities that are under it, and gives an excellent smell to all the body."

2. The North American Coffee Market

In North America, coffee was a \$41 billion USD industry in 2009 and, despite the global recession, the market is expected to grow 14 percent in volume over the next ten years to \$47 billion USD. The increase in volume reflects the growing preference for specialty or premium coffee including not only higher quality beans but also organic, Fair Trade and unique origin coffees.

In the United States, over half the population above the age of 18 are daily coffee drinkers with an additional 30 percent who drink coffee on an occasional basis. On average, Americans consume 3.2 cups of coffee per day with approximately 30 million Americans drinking specialty beverages on a regular basis.

In Canada, approximately 63 percent of Canadians drink coffee on a daily basis with Quebec having the highest percentage (70 percent) and the Atlantic region having the lowest (53 percent). The average number of cups consumed by Canadians per day is 2.6.

3. Coffee Trends

While coffee consumption worldwide is actually declining slightly, the market for two types of coffee — specialty or gourmet and organic — continues to rise. Specialty coffee represents approximately \$14 billion USD in sales with organic coffee representing almost \$1.5 billion USD in sales. The specialty market continues to grow due to a number of factors including an increase in home coffee consumption, new coffee venues and new coffee products aimed towards young people.

Organic coffee has seen the largest growth in recent years with an impressive rate of 21

percent in annual growth from 2004 to 2009. By 2010 the organic coffee industry was growing at approximately four times that of the conventional coffee industry.

By positioning your business to take advantage of the current trends in coffee, you help ensure that it will not only survive but flourish in the years to come.

3.1 Gourmet coffee

Gourmet coffee is made up of the arabicas, or high-grade coffee beans. Arabicas are much more flavorful and typically have less than half the caffeine of the robustas.

The term “gourmet coffee” refers to both the high-grade beans themselves (arabica beans) and the liquid coffee made from those beans. The low-grade robustas are used for blending (to help offset the higher cost of arabicas) and for instant coffees and mass-market drip coffees.

Part of the growth in gourmet coffee sales can be attributed to a general trend toward quality. Futurist Faith Popcorn has indicated that consumers are increasingly demanding higher quality products. She also notes additional trends in her best-selling book *The Popcorn Report* that help explain the move to gourmet coffee:

- (a) **Cocooning.** People are spending more time entertaining at home and serving gourmet coffees.
- (b) **Small indulgences.** This trend describes the movement away from spending large sums of money on expensive new cars and toward spending on smaller quality items such as gourmet coffees. This also helps explain why coffee is somewhat recession-proof.

- (c) **Fantasy adventure.** People are looking for a fantasy adventure in their lives; gourmet coffee tastes from around the world help provide the coffee drinker with a sense of the exotic.
- (d) **Egonomics.** People want unique items. Custom roasting coffee allows for just that.
- (e) **The vigilante consumer.** People are becoming aware of socially and environmentally responsible practices including organic coffees. One need only look at the success of the Body Shop, with 2,400 locations worldwide, to see how profitable these socially conscious practices can be.

3.2 Organic coffee

Organic coffee is coffee that has been produced without the use of synthetic fertilizers, pesticides, insecticides, or other harmful chemicals that threaten the long range sustainability of soils, ecosystems, and groundwater supplies.

Not only is the planet demanding that we clean up our act but today's consumers are demanding that companies be environmentally responsible and offer consumers environmentally friendly products. Recent studies have shown that approximately 65 percent of customers are willing to pay more for a company's products and services if they believe the company is environmentally and socially responsible. Yes, that is 65 percent!

This means that if you are not committed to environmentally friendly practices in your coffee business, you will lose customers. Appendix 1 discusses in more detail organic coffee and environmentally friendly alternatives and programs you can implement in your coffee bar to help capture this market.

4. Coffee Bars

According to the Specialty Coffee Association of America, the US coffee bar industry includes about 25,000 stores with combined annual revenue of about \$13 billion, or an average of \$520,000 per coffee bar. This means there is an average of approximately one coffee bar for every 12,000 people. While some industry analysts predict saturation at the 10,000 mark, we believe the number to be significantly lower than that especially when compared to European countries such as Italy, where there is one coffee bar for every 300 people!

Coffee bars today tend to take advantage of two very distinct cultural trends, having two very distinct target markets.

The first targets are the on-the-go, hurry-up morning coffee crowd; people hurrying to work, rushing to drop their children off at school. These coffee bars recognize the increase in value we put on our time and focus on fast, efficient service. They are generally located in convenient, on-the-way-to-work areas with many offering drive-thru service. Keep in mind that with 65 percent of all coffee being consumed in the morning, large fast-food restaurant chains are now competing for that morning gourmet coffee dollar with companies like McDonald's serving quality premium coffee at all their drive-thrus.

The second type of coffee bar takes advantage of the trend toward local cocooning. These community coffeehouses place importance on relaxation and conversation with the emphasis on warm, inviting, comfortable spaces; places where long conversations can be enjoyed over the perfect hot latte.



PART I

GETTING STARTED



1

PREPARING A BUSINESS PLAN

A business plan is a road map of where you want to go in your business, the various routes you will take to get there, the stages along the way, and most importantly, where you will be when you have arrived at your destination.

— DOUGLAS GRAY & DIANA GRAY

1. Why Prepare a Business Plan?

Many entrepreneurs — whether experienced veterans or first timers — often miss the vital step of preparing a business plan when preparing to start a business. As a result, many fail in their efforts to achieve wealth and fame through their business. It is critical that you take time to prepare a business plan so you are clear on where you want to go with your coffee business and are better prepared to deal with the challenges that inevitably will arise along the way.

Why is preparing a business plan for your coffee business so important?

- (a) Preparing a business plan will help crystallize your reasons for getting into the coffee business and your goals for the business. If you do not have a strong sense of “why?” and “what?” you will be without focus, direction, and satisfaction in your efforts.
- (b) Preparing a business plan will help crystallize your concept. A clear, concise, well-thought-out concept will form the foundation for every decision you make: everything from choosing

which color to paint the walls of your coffee bar to what kind of biscotti to serve with a cup of coffee.

- (c) Preparing a business plan will help crystallize your vision of the opportunities and the limitations of the market you are in. Where is the most potential in the coffee industry? Who will your competitors be? How will you compete against them?
- (d) Preparing a business plan will help crystallize your vision of exactly who you will be serving. If you are not clear on who your customers are, you will not be able to meet their needs and your business will not succeed. The knowledge you acquire about your target market will be invaluable to you in your concept and marketing efforts.
- (e) Preparing a business plan will help determine what products you will offer your customers. Once you know the demographic and psychographic characteristics of your target market, you are in an excellent position to decide what products will appeal to it.
- (f) Preparing a business plan will help determine what services you will offer to your customers: Home delivery service? 24-hour ordering service? Wholesale service? Drive-thru?
- (g) Preparing a business plan will force you to look at the dollars involved, from initial setup through your first few years in business. Budgeting and financial planning will be vital to your success.
- (h) Preparing a business plan will force you to look at the risks involved in owning your own business. Eighty

percent of businesses fail in the first five years. This is usually because of lack of planning and preparation, lack of capitalization, and a lack of management and marketing skills.

- (i) Preparing a business plan will help you outline the exact steps required to get your business up and running smoothly and profitably.
- (j) Finally, preparing a business plan will hopefully inspire and motivate you to take action! Knowing what you want to do isn't very useful unless you actually do it.

2. Your Vision for You

Take out a pen and a piece of paper, or sit yourself down in front of your computer as you read through the rest of Part I. Write down your thoughts and answers to the questions we raise. Taking action now will give you a good head start on your business plan and will help you formulate what exactly it is that you want to do and how you are going to do it. Take action now.

Your vision of your business lays the foundation for your business. Your vision is what will give you a sense of direction and give your life a sense of purpose as you build your business.

What is your vision for —

- (a) **Your day-to-day activities?** What will you do on a daily basis? Do you see yourself serving customers? Do you see yourself networking with other business owners in your local area? Do you see yourself being a positive force in your community?
- (b) **Your lifestyle?** Are you early to bed, early to rise? Do you see yourself

working six days a week? Do you want annual holidays?

- (c) **Your time?** How do you want to spend your time? Think of leisure, family, work, fitness, and private time for yourself.
- (d) **Your future?** Do you plan to own your coffee bar long term or sell it down the road? What do you see yourself doing a year from now, five years from now, ten years from now?

While you may not address each of these issues specifically in your business plan (e.g., your banker may not be interested in what time you plan on getting up each morning), being clear on these issues now will help guide you as you build your business.

If your goal is to run the coffee bar as an absentee owner, hiring a good manager will be vital to the success of your business. If you plan to work the coffee bar yourself, hiring staff will be a higher priority. If you are a late riser, plan on hiring and training staff who can open the coffee bar. If you have high family priorities, keep in mind that you may need to spend a considerable amount of time in and on your business, especially in the early stages. And if you have a clear vision for your future, it will help you get where you want to go, whether that is lying on a beach in Hawaii or running a multiple location franchise.

Once you know where you want to be, you'll need to start clarifying the vision you have for your coffee business. You will need to decide whether you want to start out with a franchise, buy an existing business, or start from scratch. Below we have listed some of the pros and cons of each.

2.1 Your vision for your coffee bar

What is the vision you have for your business? Do you want to create a community space where people come to gather in a warm, inviting environment? Or do you see yourself catering to the fast-paced morning-coffee crowd? Are social and environmental concerns important to you? Do you want to make a positive impact at the local or global level? What message do you want to convey to your customers and/or your community? How do you want to differentiate yourself from your competition? Do you see yourself drawing people in using unique foods like scrambled-eggs with Dungeness crab, olive oil cake, or bacon-apple doughnuts with maple glaze? Or do you see yourself promoting quick service at a busy drive-thru?

Do you love art and want to create areas for local artists to display their wares? Do you love music and want to have local music nights? Do you love poetry and want to have weekly poetry readings? Do you love to hear people's stories and want to have Wednesday night storytelling?

Where do you see your coffee bar being located? What types of things appeal to people in that area? If you lived in San Francisco, you might want to tie in three themes that people in that city love: burritos, bicycles and coffee!

What fun concept(s) could you build your business around?

How serious do you want to be about your coffee? Are you going to provide sampling? Are you going to brew cups on demand using unique one-of-a-kind bean blends? Are you going to get really serious about your coffee and refuse, as one coffee bar in New York does, to offer cappuccinos because the milk overpowers the subtle flavors of the coffee?

If you don't have a clear vision, spend time creating one ... research what other successful coffee bars are doing, what they are offering, what they look and feel like. Google the Top 10 coffee bars across the country, visit websites, look at menus, jot down ideas that appeal to you.

Recognizing that you will want to create a business that is consistent with your own personal style, the success of your business will ultimately rest on how consistent your business concept is *with your specific target market*. We will focus more on target market research later in the book but now is also the time to start thinking about the style of coffee bar that will appeal to your specific target market:

Does your target market love social causes? What kind of decor do they find appealing? Are they going to feel more comfortable sitting on an expensive, upscale settee, or lounging in an arm chair you got from the second hand store? Do they like fast service and consistent on-the-run products? Or would they prefer to take time in choosing the perfect, high-quality bean to take home and serve to their friends and family? How important is taste and quality to your customers? How important is value? What is going to keep your customers coming back to you regardless of economic conditions? What concepts are consistent with today's trends? What concepts are going to withstand the tests of time? What concepts, styles, product and services are going to foster loyalty?

As you continue reading this book and doing additional research, you will want to come back to these questions again. The idea is to fine tune your concept into one that appeals to you on a personal level as well as to your target market. You may find that you have to be somewhat flexible in order to give your business the best chance for success. For example,

donating a portion of your profits to help fund a school in Rwanda may not be #1 on your priority list but if, after additional research, you discover that tying in to a global social cause is very important to your target market, makes your customers feel great, builds loyalty and does some good in the world, it may move much higher up your priority list.

3. How Should I Start Out?

3.1 Should I buy a franchise?

A franchise can offer you many benefits, including name recognition and clout in negotiating better pricing. Many franchises also offer assistance in obtaining financing, site selection, coffee bar design, training, and marketing. A good franchise will save you money, give you a proven system, and increase your odds of making money.

However, one disadvantage is that the assistance provided by most franchises costs you in the form of an initial franchise fee as well as monthly royalties. You may also be restricted in terms of product lines and menu items and may be required to get written approval for use of names and logos in any advertising you do. You may be given a very small territory, which limits your ability to expand.

Franchises don't always deliver what they promise. Many franchisors mark up the products they sell to you, thereby defeating one of the major purposes behind franchising — that is, the chance for franchisees to purchase supplies that were bought in bulk at a lower price than an independent store would pay.

As well, if the franchise gets a bad name or bad publicity, you are often stuck along for the ride.

3.2 Should I buy an existing business?

Buying an existing business can save you the time, effort, and expertise necessary to find a good site, plan and build the coffee bar, and then develop a client base. If the business you are considering purchasing is profitable, you may find you can start earning a profit immediately.

Keep in mind, though, that you will end up paying for someone else's time, effort, and expertise through the purchase price of the business. This is where you must weigh the trade-off. Ultimately, you will need to decide which option will net you the best return.

Make sure you thoroughly research any business that you are interested in buying. Find out about the marketing systems being implemented. Spend a lot of time in the coffee bar — watch traffic patterns, count customers, look for what is being done well. Look for areas you could improve and estimate how that would influence sales.

In determining areas you would improve, it may help to think of yourself as a customer in the business. What would you look for? A better atmosphere? Better service? Better products? Better marketing? And if these things were improved, would it make you want to come back and bring friends? How much more money would you spend if these improvements were made? Keep in mind that even a 25 percent increase in the average amount a customer spends can result in thousands of extra dollars per year in pure profit.

When considering whether to buy an existing business, remember that it is difficult to change customers' perception of a business once that perception is ingrained. If an existing business has developed a bad reputation in the community, you may be fighting an uphill battle trying to win customers back.

3.3 Should I start my business from scratch?

Starting a business from scratch has its advantages and disadvantages. One advantage is that you have more flexibility than you would if you bought a franchise or bought an existing business. You won't be locked into the location, lease, and contracts that are already in place. It will also be easier for you to incorporate your own coffee bar design, and introduce your own menu.

On the other hand, starting from scratch means you don't get the benefits or support a franchise can offer, or those that come with a successful, established business.

One of the most important factors in any business is a marketable location. If the location of an existing business isn't suitable, or the franchisor is not able to find you a good site, you'll end up paying the price for a poor location. Finding a good location and beginning from scratch can sometimes be the best option.

Do as much research as you can to explore these three alternatives. A good business consultant will also be able to help you determine the best option for your situation.

4. Customer Profiles: Finding Your Target Market

In the past, the coffee market was flooded with inferior, blended-type coffees packaged in instant coffee cans. As a result, coffee drinkers didn't have much to compare their morning cup of coffee to. Today, however, coffee lovers have become much more sophisticated. As consumers become better educated about the coffee choices they have, they gravitate toward better taste, flavor, and aroma.

According to a report by the Small Business Development Center (www.sbdcnnet.org), coffee bar patrons are younger, more affluent and educated, and are 22 percent more likely to be aged 18–24. They are also 65 percent more likely to have an annual household income of \$100,000 and above. Coffee shop patrons are 28 percent more likely than the average American adult to be single and 70 percent more likely to have a post graduate degree. The average age of specialty coffee drinkers is 43. Occasional latte drinkers are in the higher average income of \$76,000, and similarly, cappuccino and espresso drinkers reflect an average income of \$60,000.

According to the National Coffee Association, seniors drink more coffee *away* from home while 18- to 24-year-olds drink more coffee at *home*. Seniors are discovering gourmet coffee more and more as the overall percentage of coffee drinkers over the age of 60 jumped from nine percent in 2003 to 13 percent in 2004. Adults aged 55–64 are 28 percent more likely than young adults to consume coffee away from home. Overall, at home consumption has risen from 44 percent in 2002 to 60 percent in 2004 which may be a result of the slowing US economy.

Over 60 percent of coffee is consumed at breakfast in the United States. Eleven percent of adults who drink coffee away from home say that they only purchase coffee in a coffeehouse, while 66 percent of adults who drink coffee away from home say they usually purchase it at a coffeehouse. Forty-two percent of adults aged 18–34 purchases their coffee at a coffee bar.

From 2000 to 2005, the 55–64 age group will grow 24 percent which is nearly twice the amount the 45–54 age group will grow. The population of 25–45 year-olds is declining; so coffee drinking will be currently common

among the elderly with some participation from the next generation.

It is also important to recognize the importance of the younger crowd. Major coffee chains have added products with more flavors, sugars and creams to make their drink selections more appealing to the younger generation. As that younger crowd grows up, their love of coffee and habit of visiting the local coffee bar moves along with them.

In terms of motivators, studies have shown that women indicate that drinking coffee is a good way to relax whereas men indicate that coffee helps them “get the job done.”

Knowing your customer profile will help you better meet your customers’ needs. For example, if your typical customer visits after dinner for a latte and slice of cheesecake, you will want to ensure that you have a wide selection of appealing desserts. If you are near a high school and your typical customers consist of students visiting after school, you will want to ensure that you have smaller, lower-priced snack items that help fill that post-learning need for calories!

But how do you determine your customer profile? You already know who the typical coffee customer is. The next step is to fine-tune this knowledge through the research you do in the area you plan to open up shop.

Is your location near an office tower? If so, your customers will probably be mid-life professionals looking for a jump start to their day and a grab-and-go breakfast. Is the coffee bar in a residential area? You will probably see more parents with children stopping in during the day to purchase beans for home use. Are you near a fitness facility? Your customer profile will be partly made up of health-conscious, possibly weight-conscious people looking for an after-workout caffeine boost or a low-fat carbohydrate replacement.

Make sure you spend the time now getting to know who your customers are going to be, and incorporate this information into your business plan (whether you plan to present your business plan to a private investor or financial institution or not.) The more detailed your customer profile, the more successful you will be. Let's look at an example.

Assume you are near a college in an environmentally conscious community. You know that your customer profile will be made up partly of young students who will want to relax and also spend time studying in your coffee bar. Based on your general knowledge of post-secondary curriculums, you realize that because of the diverse schedules of the students, you will likely have a constant flow throughout the day.

Armed with this information, you will be able to make decisions about your coffee bar's atmosphere and design elements. Given that your community cares about the environment, you may want to display a line of informative posters about current environmental topics. You are in a better position to make decisions about everything in your coffee bar, from the staff uniform to your product lines. And, of course, because you know who your target market is, you can create and implement effective, sales-building marketing campaigns.

5. What Type of Coffee Bar Is Best?

Keeping in mind your knowledge of the typical coffee drinker, you now need to determine which coffee bar concept will best meet your target market's needs. Listed below is a brief description of the main types of coffee bars and the strengths and weaknesses of each. While a focus will be one of the keys to your success, it

is possible to successfully combine two or three concepts, if they are done properly and if your marketing strategies take each into account.

5.1 Cafés

Cafés are the European model of coffee bars. They typically focus on liquid coffees (not bean sales) and often serve both lunch and dinner items. Sometimes they are licensed and, in fact, could be considered restaurants. As such, they are a concept outside the scope of this book.

5.2 Coffee bars

Coffee bars are typically high-traffic locations that focus on liquid coffees. Product lines often include gourmet and specialty coffees, and baked goods. These operations can be very profitable with low risk if done well.

5.3 Coffeehouses

A flashback to the Haight-Ashbury district of San Francisco, coffeehouses typically have dim lighting, comfy sofas, and poetry nights. They attract a younger crowd and focus on long visits and lots of conversation over steaming hot cups of java.

5.4 Retail coffee shops

Retail coffee shops typically focus on bean, tea, and giftware sales. They may or may not offer liquid coffee sales and are often found in mall locations or gift districts.

5.5 Drive thrus

Drive thrus can work well on the right site. The most successful locations are those with high volume on the going-to-work side of the street. Drive thrus focus primarily on liquid coffees and baked goods.

5.6 Carts

These “mini-stores” focus almost solely on liquid coffees. They can work well in high-traffic areas, but are challenged by difficulties in building customer loyalty. Because they are mobile, there is little, if any, equity creation as the business grows (unlike the types of coffee bars listed above).

5.7 Teahouses

There is a recent fad for teahouses as an offshoot of the coffee business. Do keep in mind that while tea is a popular drink, it typically represents only 3 percent to 7 percent of the total gourmet beverage market. This means you will need to be five times better than the norm to do even 20 percent of what a coffee bar will do.

5.8 Roaster/retailers

As the name suggests, roaster/retailing contains two key elements:

- (a) On-site roasting of green coffee beans
- (b) Retailing of coffee and coffee products

We believe that roaster/retailers are the wave of the future. They offer you a number of advantages that spell out strong bottom-line profit.

5.8a Lower food cost = Profit

Roasters typically mark up green coffee \$2 to \$4 per pound. The money you save by roasting your own coffee directly converts to lower food cost in your operation.

5.8b Savings = Profit

If your coffee business goes through 100 pounds of roasted coffee per week, you are spending at

least an extra \$200 per week, or \$10,000 per year, because of the mark-up from roasters. Think of how many trips to Hawaii you could take with that money!

5.8c Meeting customer needs for freshness = Profit

Today’s consumer wants the best. You’ll be left behind by your competition if you don’t give customers the freshness they are demanding. Coffee loses about half of its flavor within the first 14 days after it is roasted. It is tough to meet customer freshness demands if you’re not doing your own roasting.

5.8d Competitive edge = Profit

In-store roasting gives you a unique element that gives you a huge edge over your competitors. How could you compete if the coffee bar down the street offered its customers beans to take home still hot out of the roaster?

5.8e An additional revenue stream = Profit

In-store roasting means you are adding an additional profit center to your coffee bar: wholesale. Because you aren’t paying someone else to roast your coffee for you and

you are paying only \$3 or \$4 per pound (including shipping, handling, brokerage, and exchange rates), you can afford to offer discounts competitive with other coffee roasters to wholesale customers.

You can supply wholesale coffee from your business to:

- Bars serving coffee
- Businesses serving coffee
- Cafés and restaurants

- Car repair shops serving coffee
- Coffee bars
- Coffee shops
- Corner stores
- Gas stations serving coffee
- Hairdressers serving coffee
- Hotels and motels
- Offices
- Supermarkets

5.8f Long-term appeal = Profit down the road

While it is our opinion that in-store roasting will be with us well into the foreseeable future, if we had to predict the next “hot” trend after in-store roasting, we would say “in-home” roasting. Should this trend develop in the years to come, roaster/retailers will be well protected because people will still need to buy the green beans. If you have been successful at building a solid roasted-bean business, it is simply a matter of transforming your roasted-bean customers into green-bean customers. (We design all our coffee bars to take this into account so that this conversion, should it ever be necessary in future, will be simple and inexpensive.)

Contrary to what many roast masters of the world may tell you, today’s technology makes roasting beans easy. Many roasters require as few as five simple steps: checking the roaster temperature (done by the touch of a button), weighing your beans, setting an automatic timer, comparing roasted samples to a color chart to determine roasted level once the timer rings, and then allowing the beans to cool in a cooling bin.

The real art of roasting is in determining which bean is better at which roast and in blending different beans together to produce a roast with the results you want. See Chapter 9 for more on roasting.

For the remainder of the book, we will refer to all coffee bar concepts as a “coffee bar” for simplicity’s sake.

6. Choosing Your Products and Services

What products will appeal to your customers? Will you offer beans for home use? Food and baked goods? Gourmet teas? Coffee-related gift items? Brewing equipment? Below are some of the basic products and services most successful coffee bars offer.

6.1 Products

6.1a Gourmet coffees

Gourmet coffees are the liquid coffees you will serve on a daily basis. We recommend featuring the following “daily roasts”:

- A signature medium-roast house blend
- A dark roast
- At least one flavored coffee
- Decaffeinated coffee (if the demand is high)

6.1b Flavored coffees

Flavored coffees represent up to 40 percent of the liquid coffee market. By offering at least one flavor a day, you are satisfying the needs of a large percentage of a market you might otherwise not capture. Flavored bean sales are also a great suggestive sell to flavored-coffee lovers.

6.1c Specialty and iced coffees

Specialty coffees include the espresso-based drinks such as cappuccinos, lattes, and mochas, served hot or cold.

6.1d Other coffee products

Other coffee products may include items such as coffee-flavored chocolate bars or espresso-flavored ice cream. A great favorite among North American customers is chocolate-covered espresso beans.

6.1e Baked goods

Baked goods include muffins, scones, cakes, biscotti, cookies, and squares. The key here is to provide a wide enough range of baked goods to appeal to your traffic flow while still maintaining a clear focus on your product line.

6.1f Coffee-related gift items

Gift items include mugs, coffee plungers, other coffee makers, and espresso equipment.

6.1g Breakfasts, lunches, and other foods

These products include quiches, soups, salads, sandwiches, paninis and wraps.

6.1h Whole bean coffee — retail and wholesale

Plan for a huge focus on retail and wholesale bean business. Your bean sales volume can quickly grow to a steady, long-term revenue stream made up of a loyal clientele (especially if you are doing in-store roasting). We recommend setting a first-stage goal of being able to pay your rent from wholesale bean volume alone.

6.1i Gourmet teas

There are a number of beautifully packaged, high-grade teas that can be a nice complement to your coffee selection. Loose teas are very popular among tea lovers because they are typically made from higher grade tea leaves. The challenge with loose teas, however, is containment. If you are going to sell loose teas, it is a good idea to carry a line of tea balls (infusers) or, alternatively, sell loose tea in gauze tea bags. Gauze tea bags expand when steeped in hot water (unlike paper tea bags), allowing the tea leaves to reach their full flavor.

6.1j Juices and smoothies

Freshly squeezed juices and health blends can be a great addition to your product line and offer your customers a cool, healthy alternative to coffee.

6.2 Services

What services will appeal to your customers?

6.2a Custom roasting service

We recommend you make custom roasting the heart of your business. Because you will be roasting in small quantities (assuming you decide on a roaster/retailing concept), you will be able to offer not only fresh roasted coffee beans but also custom roasted beans. Custom roasting means blending and roasting to the individual tastes of a customer. A customer may order, for example, a blend of Guatemalan and Peruvian beans roasted to a medium-dark roast.

Custom roasting also means you can develop signature blends for your wholesale accounts. A large restaurant or hotel may want to market the coffee you provide them as their own blend. A hotel in Vancouver for example, may want to

Table 1
TYPES OF COFFEE BARS

Type of operation	Typical size (sq. ft.)	Rent cost/ft.	Fun level	Ease of staffing	Set-up budgets	Profitability	Overall opportunity
Café	1,000–1,500	mid–high	low–mid	low	\$75–195,000	low	High risk, just like restaurants
Coffee bar	400–1,200	mid–high	high	high	\$45–125,000	high	Low risk, competition vulnerable
Coffee-houses	1,200–2,200	low	mid–high	high	\$95–275,000	low–high	Rent and marketing determines risk
Retail coffee shops	700–1,200	mid–high	mid–high	mid	\$55–125,000	mid	Location, location, location
Drive thrus	250–2,200	low–high	low–high	mid–high	\$55–300,000	mid	Varies tremendously depending on site
Carts	85–125	very high	low–mid	low	\$15–30,000	low–high	Good cash flow, no equity
Roaster/retailer	600–2,200	low–high	mid–high	mid–high	\$95–225,000	high	Very strong, long-term
Tea-houses	1,200–2,000	low	mid–high	high	\$85–245,000	low–mid	Rent and marketing determines risk

call one of its variations the “Vancouver Hotel Breakfast Blend” and promote the coffee in its hotel rooms and on its restaurant menus. With a small batch roaster you will be able to provide this marketing opportunity to wholesale accounts.

A custom roasting service will be a key selling feature for all the bean business you do.

6.2b Free home delivery service

A free home delivery service can be a great way to launch your whole bean coffee business. You can easily plan drop-off routes along your way to and

from the coffee bar in early morning or evening. Five stops a day, five days a week can translate into an additional \$15,000 in revenue per year (based on a \$12 per pound purchase price).

6.2c Email or voicemail bean ordering service

This is a service that only requires a bit of promoting. With this service, you can encourage your customers to call or email ahead to place their bean order, making your roasting efforts that much more efficient.

6.2d Wholesale coffee services

As we indicated above, wholesale coffee volume can quickly grow to cover major expenses such as your rent and labor costs. A wholesale coffee service involves giving discounts off your retail price for larger coffee orders and possibly working in conjunction with a finance company to provide brewing equipment to your large accounts. Typically, you would offer a 30 percent discount off retail price for orders of five pounds or more.

6.2e Office coffee services

Coffee is supplied to thousands of offices across North America on a daily basis.

6.2f Free services

In today's competitive marketplace, we believe it is important to have free wireless internet. If you are not offering it, you may lose customers to the coffee bar down the street that is. Free Wi-Fi also encourages longer visits with an associated increased average expenditure per customer (in theory). The argument against encouraging longer visits is that a table is being taken up by say, a single individual who slowly sips on a single cup of \$3 gourmet coffee versus that same table generating more income with a party of four who is interested in lunches and specialty coffees at \$13 per person.

Generally though, a busy establishment attracts more customers and more customers generally mean more sales. Think of the last time you ate at a busy restaurant, maybe even waiting in line to get in. Isn't the hidden message along these lines: "if the place is this busy, the food must be really good!" Now think of a time when you have been the only guest at a very quiet restaurant. Did you not wonder if maybe everyone knew something you didn't? That maybe the food was bad or the restaurant

had had some bad press? Same thing with a coffee bar. If people walk by and see lots of customers, they assume that it must be a great place!

7. Risk Assessment

Eighty percent of all businesses fail in their first five years. To ensure that you don't become just another statistic, you need to examine all the risks associated with your venture.

Spend a few minutes now to brainstorm anything and everything that could go wrong in your business. Ask yourself how you will overcome these challenges should you encounter them. To help you get started, we've included several sets of questions for you to answer.

- (a) Should you own your own business?
 - Are you prepared to put in the time and effort necessary to build your business?
 - Are you prepared for the sacrifices you will need to be successful?
 - Are you prepared to learn the skills you will need?
 - Are you prepared to implement the strategies successful businesses use?
 - Building a wholesale business involves knocking on doors and selling your service — are you comfortable with this?
- (b) Are you familiar with the market you are choosing to get into?
 - What are the current trends?
 - What are the trends of the future?
 - How will these influence you and your concept?

- Are you well positioned to meet these trends?
- (c) Is your concept suitable?
- How strong is your concept?
 - How focused is it?
 - How vulnerable is it to competition?
- (d) Are you offering the right products?
- Will your products appeal to your specific target market?
 - Is your product line focused or are you trying to sell all things to all people?
- (e) Are you offering the right services?
- Will your services appeal to your target market?
- (f) Are you financially set?
- Do you have enough start-up capital to fund your concept properly? (We discuss this in detail in Chapter 2.)
 - Have you considered how negative cash flow will affect you?

As you continue through this book, you will see that there are many other potential risks. They include —

- Poor site
- Too high rent
- Poorly designed coffee bar
- Unaccounted-for cost overruns during construction
- Poor staff hiring and training practices
- Poor business, product, staff, facilities, and financial management practices
- Inferior quality products

- Poor customer service
- Failure to market the business
- Lack of funds to market the business
- Poor marketing strategies
- Lack of willingness on the business owner's part to build wholesale business

8. The Business Plan

Once you have addressed each of these issues, you must prepare the actual business plan. There are a number of resources available to you at this stage. Your community's chamber of commerce or government business information center can provide you with sample business plans. There is also a ton of information online on preparing a plan. We have included a sample business plan outline that should help you get started organizing the information we've discussed so far (see Sample 1).

If you are using your business plan to obtain financing from a financial institution or private investor, you will want to ensure that it is clearly presented, well organized, and professional looking. Make sure there are no grammatical or spelling errors. It is also well worth including graphs, photographs, and artist renderings, if possible. You may also want to spend the extra dollars and buy a presentation folder or binder that will help convey your professional image.

You will need to put particular emphasis on your financial figures. We recommend preparing four sets of profit and loss projections, called pro formas, that look at worst, best, break-even, and most realistic case scenarios. Pro formas are discussed in more detail in Chapter 4.

If you are looking for private financing, be sure to include projected return on investment figures for your potential investors.

If you will be using your business plan for internal use only, you may wish to keep the

plan on your computer or in a file, and refer to it as needed to help keep you on track. It doesn't need to be as presentable as it would be for a banker or investor, but you still want it well-organized and complete.

COMMITMENT BOX



I, _____, commit to completing
a business plan for my coffee business.

(your signature)

(today's date)

Sample 1

BUSINESS PLAN OUTLINE

CONTENTS

EXECUTIVE SUMMARY

THE COFFEE MARKET

- Market size
- Market trends
- Customer profiles

THE CONCEPT

- Name
- Mission statement
- Principles of operation
- Products and services
- Pricing strategy
- Distribution strategy
(for wholesale)

COMPETITIVE ANALYSIS

MANAGEMENT PLAN

- Board of advisors
- Corporate structure
- Operating management

OPERATIONS PLAN

- Location
- Site selection criteria analysis
- Site plan

MARKETING PLAN

- Sales objectives
- Marketing objectives
- Marketing strategies

FINANCIAL INFORMATION

- Start-up budget
- Five-year financial projections
- Return on investment analysis

RISK ASSESSMENT

TIMELINE

REFERENCES

APPENDIXES [*not all these items will be applicable, necessary, or available*]

- List of products and services
- Product or service literature, brochures, etc.
- Price list
- Detailed management biographies
- Market research (e.g., traffic counts, interviews with people in the local area, etc.)
- Completed site selection criteria sheets
- Lease documentation
- Annual marketing calendar
- Sample marketing pieces