

Porters five forces analysis broadway cafe essay



**ASSIGN
BUSTER**

In 1952, The Broadway Cafe opened its doors for business. Located in downtown Saratoga Springs, the cafe specializes in a wide variety of coffees, teas, homemade sandwiches and soups and also offers a full service bakery. For quite some time the Cafe was the local hotspot. However for the last five years business has been steadily declining. My grandfather who owned the shop up until now has been running it the same way since its inception. The lack of information technology has been the driving force behind the Cafe's decline.

In order to bring the Cafe up to date with the 21st century, a detailed analysis using Michael Porter's Five Forces Model will be implemented. The first force we will tackle is buyer power. According to Baltzan (2011), buyer power is high when buyers have many choices of whom to buy from (p. 16). There are over a dozen shops located in downtown Saratoga that offer the same products and services as we do. Customers have a variety of options to choose from thus in a sense resulting in high buyer power.

However, the coffee industry typically deals with individuals rather than large volumes of buyers at once so buyers have no bargaining power over prices here. We can conclude that buyer power is relatively high due to the fact that there is a high volume of businesses with the same product offerings. One way to reduce buyer power and at the same time make ourselves more attractive is by introducing loyalty programs. Baltzan (2011) found that "loyalty programs reward customers based on their spending" (p. 17). We will create a Broadway Cafe Card that customers can sign up for free.

This card will track and record purchases made every time a customer uses it. After a total of \$50 has been spent in the store, a free specialty coffee or tea will be rewarded. With this program, we are hoping to the customers will be aware of the incentives and deter them from going elsewhere. Supplier power is relatively weak. The coffee export is a \$20 billion industry and is the second sought out commodity, next to crude oil (Goldschien, 2011). Vendors are nearly endless, and even more so over the internet setting up a business-to-business marketplace which allows for private-exchange or reverse auctions (Baltzan, 2011).

However, demand greatly exceeds supply and coffee prices will remain competitive and volatile for the time being. The threat of substitute products or services is high in the coffee industry. The typical coffee shop offers a breakfast and lunch menu with of course a vast array of coffees and teas. There are many ways to obtain these services without going to a traditional coffee shop. Fast-food chains now serve coffee during all hours, making it even more attractive for McDonald fans as they can order breakfast and coffee through the drive-through.

Convenient stores not have their own self-service coffee set up, but a multitude of energy drinks that are now starting to incorporate coffee blend flavors such as Monster Java Toffee (“ Monster Energy Drink® | Products”, 2012). To combat this threat, we need to focus on manipulating switching costs, which will deter customers from switching to another product (Baltzan, 2011). The prices of coffee aren’t significant enough to persuade consumers to stick with one brand. Instead we’ll have to focus on intangible values such as customer relations and our loyalty program to retain customers.

The threat of new entrants is very high in the coffee industry. Coffee shops are a dime a dozen and seem to be opening up everywhere. The startup costs are relatively minor compared to opening up a larger business such as a grocery store. Entry barriers can keep new competitors from entering the market. Some features customers come to expect are free Wi Fi, self-service stations, food menu and a very accommodating atmosphere. These barriers pose no real threat from keeping competitors from entering the market. Rivalry among existing competitors is very high.

As stated above, there are over a dozen businesses offering the same product and services. To reduce competition we have stated that we implement a Broadway Cafe card that allows customers to redeem free coffee after spending a certain amount of money. We can also offer promotion deals that hand out free products for taking a survey on product and customer satisfaction. Another method to reduce competition is product differentiation. According to Baltzan (2011) this “ occurs when a company develops unique differences in its products or services with the intent to influence demand” (p. 8).

The Broadway Cafe offers homemade sandwiches and soups which will be targeted to influence demand. Our homemade recipes have stood for over 60 years, a trait that no other business in the area can compete with. The Cafe not only specializes in providing customers with their coffee and teas but a unique, one of a kind menu that you simply can't get anywhere else. In conclusion, the Broadway Cafe faces a strong buying power and rivalry among competitors due to the large volume of shops offering the same products and services.

The threat of new substitute products and alternatives is also high for the same reasons for buyer power. The Cafe also faces the threat of new entrants due to the lack of insignificant entry barriers. One upside is the relatively weak supplier power. The coffee industry is huge as stated above and vendors are more than ample. With this information we can conceive our business focus. The Broadway Cafe is best suit for a focused differentiation strategy. We plan to achieve differentiation through our novelty menu, providing homemade recipes that have stood the test of time.