

# Entry strategy for a uk coffee house



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As it was written in the first paper, I want to open Café business in the United Kingdom. I have discussed the political, economic, and cultural profiles. Now I am going to analyze the coffee shop market. So this paper covers the following aspects: Market Success Analysis, in particular regulations and procedures, resources, market size, and risks; In the Part B Market Entry Analysis will be discussed. And, finally, the part C will be about Market Entry Implementation Strategy.

## **Part A. Market Success Analysis**

Market size (potential to make money providing service)

For successful opening my cafe I should know the market size of the market I have chosen. Cafes have many types, for example, chain of coffeehouses like Starbucks and Costa Coffee, and autonomous cafes and store-based cafes. Cafes provide such services as catering, coffee or food out, corporate dining, etc. So, the café market in the UK offers a broad variety of services. In order to succeed in this kind of market I think that “ Coffee House” should provide best quality service and really tasty food and drinks.

There are several hundreds of coffee houses. Among them about 50 coffee shops that are the most popular. It means that there is huge competitiveness among these cafes. Moreover, it is said that there are more coffee shops than in any other country in London. Turnover of the UK coffee market in 2002 amounted to 1. 5 billion pounds, of which 342 million belong to the 15 largest network brands. For example, now Starbucks has more than 400 subsidiaries. It means that in order to compete with such huge chain the Coffee House must have such interesting things that any coffee shop could

not compete. About such things I am going to discuss later. Honestly, it is quite risky to start such business in London because of huge amount of competitors and such big chain as Starbucks. I should study professional services and raw materials in order to know how to win this competition.

Resources (educated or non educated laborers, professional services, raw materials)

In order to make good drinks a barman should know how to do it as well as cook must be taught how to prepare food. There are a lot of different barmen and cook schools in the UK. Therefore, people should get best education in order to work as barmen or cook in the Coffee House. Also non educated people could work in the café as cleaners, loaders, and securities. Other staff such as manager, book-keeper, manager of security, and etc. must get bachelor degrees.

There are many cafes that provide different services, for example, catering, coffee out, Wi-Fi, etc. The Coffee House will work day and night. There people will able to listen to good music, chat, read latest newspapers and magazines, take exclusive coffee and go to work, eat excellent quality food. They also could celebrate their holidays by ordering hall and DJ's. There will be an opportunity to arrange catering out of the Coffee House. In addition, there will be three kinds of menu: organic food, diet, and ordinary menu.

Another very important matter is raw materials which are very vital in coffee industry. The most important material for The Coffee House is coffee. Coffee is imported from Italy in order to reduce costs of shipping. Italy is known as one of the good producer of coffee beans. First of all, I am going to find good

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supplier of coffee beans in London from Italy by visiting all the fabrics that produce coffee. Then I will make an agreement with supplier.

Regulations and Procedures (government red tape, duties, and taxes)

It is a very good idea to do business in the UK because there is the most stable political environment. Moreover, the United Kingdom is the clearest country in the world. It requires 13 days to start business there. Also a person should get construction permits. It takes about 144 days to obtain all the required permissions. In comparison to political environment the government requires all business to go through a lot of red tape. In addition, government regulations are becoming more and more sustained.

Consequently, red tape is getting worse. In my opinion, it is quite difficult to start business in the country where are a lot of regulations. I will spend too much time following all the regulations. However, I think that the regulations and red tape are necessary to certify company compliance with laws.

According to UK government, decreased regulations headed to the existing economic crisis in the markets. This is right in the regulation of big financial organization. But in my opinion, the UK government should reduce regulations concerning small business. Today the government have realized more than 150 ideas to reduce the organizational barriers.

As I want to open cafe in Britain, I should pay company taxes. Actually, the UK has a fine tax situation for business. Though, the taxes that I found out are high enough. There are some facts concerning company taxation. The rates of corporation tax for a particular business for 2008 and 2009 are 21 % for companies with income of £300, 000; 21-28% for those companies that

earn from £300, 001 to £1. 5 million; 28% for enterprise with income of £1. 5 million at least. Therefore, taxation for businesses is very high: The Coffee house must pay a enormous sum of money to the government. But still I tend to think that the UK is a good place to start a business such as cafe. Although the taxation is high, but regulations are going to be reduced, plus the political environment is stable.

Risks (financial, safety, and competitive)

It is better to start business in financially safe environment. Unfortunately, in Britain there are a lot of kinds of risks are high enough. For example, let's take administration finances. We can notice that the risk is very high. It is because London has the role of a foremost international financial centre and it makes the UK quite exposed to external financial shocks. On the other hand, in comparison to other countries, Britain's economy is almost independent on merchandise export. Consequently, it is less unprotected to external risks. What is more, the UK has determined not to unite the European single currency and to keep its monetary independence. Consequently, the pound is more vulnerable. So Britain as well as other countries has both high and low risks. It would be very difficult to open business where you do not know what will happen next day. However, there are very flexible labor markets in Britain in comparison to Europe.

I should mention the competitiveness in London. It is not a secret that there are a lot of small cafes. Let's say the Starbucks and Costa Coffee are the most popular cafes in the capital of the United Kingdom. My goal is to make

The Coffee House one of these popular coffee shops. It will be very difficult to compete with such huge chains of cafes.

## **Part B. Market Entry Analysis**

One of the most important thing which helps to succeed in starting business is choice of the right entry strategy. There are some market entry strategies:

offshore manufacturing

turnkey project

exporting and importing

franchising

licensing

direct investments

joint ventures

subsidiaries

In order to choose right strategy we should consider such facts as culture of the country, population, habits and etc. In the first paper I discussed economical, cultural, political, and workforce characteristics. In the second paper I have already talked about such factors as market size, resources, regulation and procedures, and risks. All this information helps me to choose which strategy is the most appropriate. I have chosen the following three strategies: joint ventures, direct investments, and franchising. All these factors I will follow while entering the café sector.

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## Joint ventures

One of the strategies my company could pursue is the Joint venture. The Joint Venture parties are in agreement to expand a new entity and a new asset by providing equity. Both parties have control over the company and divide assets, expenses and revenues. This strategy has advantages and disadvantages. On the one hand, it provides access to new markets and sectors. Moreover, if two companies make the JV they share costs and risks with each other. Also when you form the JV you get access to more resources. What is more, the JV can be for a certain time. Partners can break down their company and then form their own enterprises. On the other hand, there are some disadvantages of forming joint ventures. First, it could be very difficult to make good relationships with my partner. Second, the structure and the kind of management of the companies can be very different. Finally, I will have to share my revenues with another person which does not attract me. As for my business, I would not choose this strategy because I do not want to share anything with another company. I want to be the only one owner of my business, because I want manage my company myself without interruptions.

## Foreign Direct Investment

Foreign Direct Investment or FDI is the ownership in that country where you are going to start business. There are some cons for this strategy. First of all, I should mention that the person who starts this business will be the owner. In addition, it provides high level of control of the enterprise processes. Also huge opportunities can be given by having knowledge about local market. It

will help my company to become flexible in London. But there are some pros of this strategy. This strategy requires high level of obligations. What is more, it can be difficult to operate local resources. Although there are more advantages than disadvantages, I do not want to choose this strategy because of a lot of commitment and difficult operating resources. It requires a lot of resources that I cannot afford. The kind of my business will be more successful if I will follow the next strategy.

### Franchising

Franchising is now very common marketing strategy. It is when two companies agree to cooperate, one of these companies permits another one to sell its products and services created of the first firm. Another company gets label, trademark and idea of selling products. There are many pluses of this strategy. First is that buying franchise from one company you can help to expand this company and make it known all over the world. Second, the company, which sells franchise, earns more money by providing its products and services. The second company, which buys franchise, also gets revenue by using trademark of the company. For example, a company can use the products and services of the well known enterprise. It means that the services and products will be demanded until the franchiser becomes a bankrupt. On the other hand, franchisee must sell only the definite product with the one trademark not changing the idea. Moreover, franchisee could fail selling services in the wrong way, so consumer can see the company not right. After opening café in London I can expand my business by using Franchise strategy. I can later sell franchise in order to make my brand widely known.



To sum up, I would like to say that when I will open the Coffee House I will follow the Franchise Strategy. Having studied all the characteristics of the United Kingdom and London in particular, I have come to conclusion that, in my opinion, it is the most appropriate strategy for the business I am going to open. To reduce risks I am going to have strict control the companies that will buy franchise of my coffee shop. I will be the owner of my business, and, what is more, I will sell franchise in order to expand my business and to earn more money.

### **Part C. Market Entry Implementation**

I am going to open a new coffee shop in London. It will be famous in the capital of the UK for its convenient location, cozy interior, and the best services, such as catering, coffee/tea out, etc. As I said earlier, my goal is to make the Coffee House one of the leading coffee shops that provides not the same services as other cafés. I have chosen Franchise strategy in order to succeed in coffee shop industry.

Concerning implementation, I am going to hire best staff choosing each person carefully. The most important characteristics of the staff are professional skills and reliability. All the waitress must look beautiful. Cooks must do their jobs carefully and tasty. As I am not a resident of the UK I should follow the following rules: I must have money earned in my motherland; I must have at least £200, 000.

I am going to create best advertising of the Coffee House and make new companies want to buy franchise. The Coffee House will be known as the coziest place where people can date or just come to talk and drink tasty

coffee and eat excellent quality food. The TV will tell about the café all that things and attract them to visit the coffee shop. If the Coffee House will be demanded, companies will by franchise in order to open their own Coffee House.

I personally will control all the franchisees. In the agreement of cooperation there will be strict rules which franchisee must follow. If the rules are not pursued, the franchisee must give me money back and close the café.

In conclusion I would like to say that it will be very difficult to start up the Coffee House because of high level of competitiveness. But nevertheless, I still believe that my coffee shop will succeed in London due to providing best quality and different services that, for example, Starbucks do not have. Let's say I am going to compete with Starbucks in order to become as huge as it. It will be very difficult, I know, but having straight goal I will achieve it if I will try.