

# The cafe industry life cycle model



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This paper presents a case study on a review of the Cafe Industry Life Cycle model, assessing its value and as a guide to developing strategy, and analyse the industry.

One of the best known and most enduring marketing concepts is the product life cycle. (T. Levitt , November - December 1965) (G. Day, Autumn 1981) Products are born, their sales grow, they reach maturity, they go into decline, and they ultimately die. If products have life cycles, so too do the industries that produce them. The industry life cycle is the supply-side equivalent of the product life cycle. To the extent that an industry produces multiple generations of a product, the industry life cycle is likely to be of longer duration than that of a single product. (Robert M. Grant, March 2007)

**<http://www.sqaki.com/9/ProductLifeCycleModel/screenshot.gif>**

Figure : The Industry Life Cycle Stage (Source: Google Image)

The life cycle comprises 4 phases:

Introduction Stage - the product is introduced to the market through a focused and intense marketing effort designed to establish a clear identity and promote maximum awareness. (Product Life Cycle, 2012)

Growth Stage - this stage is distinguished by increasing sales and the emergence of competitors. It is characterized by sustaining marketing activities on the vendor's side, with customers engaged in repeat purchase behaviour patterns. (Product Life Cycle, 2012)

Maturity Stage - the competitors begin to leave the market, sales velocity is dramatically reduced, and sales volume reaches a steady state. Mostly loyal customers purchase the product. (Product Life Cycle, 2012)

Decline Stage - the lingering effects of competition, unfavourable economic conditions, new fashion trends, etc, often explain the decline in sales.

(Product Life Cycle, 2012)

## **2. 0 Theme of Industry Life Cycle**

The Product Life Cycle model can help to analyze maturity stages of products and industries.

The modern Product Life Cycle is gradually getting shorter. Many products in mature industries are revitalized by product differentiation and market segmentation. Organizations increasingly reassess product life cycle costs and revenues, because the time available to sell a product and recover the investment shrinks.

The Product Life Cycle concept has significant impact upon business strategy and corporate performance. This method identifies the distinct stages affecting sales of a product - from the product's inception until its retirement.

Source: (Levitt, Fox, Wasson, Hofer, Anderson & Zeithaml, Hill & Jones, 2012)

## **3. 0 Critical Overview of Industry Life Cycle**

Every industry/product seems to go through a life cycle - it is born, goes through several phases, and eventually dies as newer and better products come along.

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This industry/product life cycle presents two main challenges:

The firm must find new products to replace ageing ones because all products eventually decline.

The firm must understand how its products age and adapt its marketing strategies as products pass through life-cycle stages.

Source: (Philip Kotler; Linden Brown; Sue Burton; Ken Deans; Gary Armstrong, 2010)

## **4.0 Contemporary Examples of Industry Life Cycle**

3D Televisions: 3D may have been around for a few decades, but only after considerable investment from broadcasters and technology companies are 3D TVs available for the home, providing a good example of a product that is in the Introduction Stage. (Product Life Cycle Stages, 2012)

Tablet PCs: There is a growing number of tablet PCs for consumers to choose from, as this product passes through the Growth stage of the cycle and more competitors start to come into a market that really developed after the launch of Apple's iPad. (Product Life Cycle Stages, 2012)

Laptops: Laptop computers have been around for a number of years, but more advanced components, as well as diverse features that appeal to different segments of the market, will help to sustain this product as it passes through the Maturity stage. (Product Life Cycle Stages, 2012)

Typewriters: Typewriters, and even electronic word processors, have very limited functionality. With consumers demanding a lot more from the

electronic equipment they buy, typewriters are a product that is passing through the final stage (Decline) of the product life cycle. (Product Life Cycle Stages, 2012)

## **5.0 Benefits and Limitation of Industry Life Cycle Framework**

### **Benefits**

### **Limitation**

### **Planning**

Product/Industry life cycle concept helps companies in the planning process. The company will be able to allocate resources in accordance with the phase of the cycle the product has entered.

### **Focusing**

With proper planning of product position in the industry and analyse the threat of substitution can lead to a greater focus on product development and innovation.

### **Proactive Approach**

It helps the company to initiate proactive approach to maximizing sales and profits during each stage rather than waiting for the ultimate demise of a product.

### **Unreliability**

It is not a reliable indicator of the true lifespan of a product and adhering to the concept may lead to mistakes.

## **False Assumptions**

It is difficult to forecast the sales level at each stage, the length of each stage and the shape of the life cycle curve.

## **The Curve is a Model**

Some manufacturers' places too much importance on the suggestion the model makes and eventually becomes self-fulfilling. For instance, the company may make a wrong decision based on industry life cycle curve and spending less on promoting their product rather than capture more market share when there is a decrease in sales where they believe is entering the Decline stage.

## **Different product's life cycle curve**

Different products possess different life cycle shapes. The uses of typical life cycle models are only as a rough guide for marketing management.

## **6.0 Background on the industry – Café Industry**

Arabica was first introduced to the former British colony in the late 18th century. It has been cultivated in Malaysia for around 200 years.

Malaysian coffee market today is directed much more towards consumption, in line with Asia's other niche producers such as Thailand and the Philippines, where imports in some years have been required in order to meet local demand. (Maja Wallengren, 2002)

There are plenty coffee shops existed in Malaysia before the new specialty cafes as people used them for business meeting. The launch of specialty cafe

concept that represents a new lifestyle for the youngster became very popular just few years back.

The launch of the first “ Star Hill” cafe in 1997 by the Kuala Lumpur-based San Francisco Coffee chain, today’s number has grown to more than 60 shops across Malaysia, including 18 shops run alone by San Francisco Coffee, while the remainder is operated mostly by the Starbucks Coffee Company, Gloria Jean’s, and the Coffee Bean & Tea Leaf. (Maja Wallengren, 2002)

Industry analysts are having optimistic view for the growth of the industry in the local market.

## **7.0 Top 10 cafe chains in Malaysia**

Table 1 below listed the top 10 cafes chain in Malaysia based on author’s observation.

Ranking

Cafe

**1**

**Starbucks**

**2**

**The Coffee Bean and Tealeaf**

**3**

**The Dome Cafe**

**4**

**San Francisco Coffee**

**5**

**The Gloria Jean's Coffee**

**6**

Old Town White Coffee

**7**

Delifrance

**8**

PappaRich

**9**

Secret Recipe

**10**

Black Canyon Coffee



Table : Top 10 cafe chain in Malaysia (Source: Author Creation)

## **8.0 Growth and development of the industry**

Today, the cafe's philosophy stems from the basic values of modern day living, the concept which gave rise to its home-away-from-home principle. Individuals can drop by for comfort, coffee, and conversation, a place for communities to meet, hang out, or simply carry on living outside of the home and the workplace. It provides a cozy, elegant ambiance for a great diversity of lifestyles - a business lunch, a relaxing afternoon or evening coffee respite, or even a family dinner. (About Us - The Background, 2012)

As people tend to eat more meals away from the home, sales for cafes will increase. The industry is expected to benefit from increased levels of international tourism and innovation within the cafe industry. Domestic tourism and international visitor arrivals will increase due to stronger global economic growth. (Cafe Society, 2012)

Competition is high and mainly based on price, due to the overwhelming number of small operators, which results in lower profit margins. The profit margin will remain low for this industry, but will fluctuate depending on establishment size, and in line with the economic cycle and the rate of disposable household income growth. (Cafe Society, 2012)

Franchising is dominating cafes. Competition from foreign-owned franchised operators, like McCafes and Starbucks, and local franchises, like Old Town White Coffee, is also increasing. Revenue from franchising in Malaysia is expected to grow more than five times faster than revenue growth in the café industry. (Cafe Society, 2012)

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## **9.0 The impact of the environment on the industry – PEST Analysis**

### **9.1 Political/Legal**

Coffee firms import coffee beans from a variety of countries, each with their own respective customs and tariff regulations. On an international scale, these firms must gain expertise on how to import beans from each different country and keep detailed tabs on political upheavals, changes to policies, and be fearful of foreign government seizing company assets. (Harold Brown, Dr Nwabueze, March 3, 2011)

On the legal front, firms must file for all necessary forms and permits to be authorized to do business. This includes tax forms, business entity applications, legal contracts, store and factory leases, etc. The local and federal governments will also dictate certain laws and regulations onto the businesses. These include labour laws, food handling regulations, and business practices restrictions as in the arena of marketing and advertising. (Harold Brown, Dr Nwabueze, March 3, 2011)

### **9.2 Economic**

This is characterized by the general economic conditions in the non-controllable environment that the coffee industry operates in. The recent global economic recession of 2008 and 2009 affected both businesses with rising operational costs and lower profit margins, and consumers of the products that have seen product prices rise while wages remain the same and unemployment levels increase. (Bureau of Labor Statistics, 2011) The outlook is improving and as confidence grows, the global economy will improve. (World Bank, 2010)

The coffee industry competes on two levels, the undifferentiated traditional coffee offering and gourmet, Italian-style coffee beverages. By offering both lower cost coffee options to fringe customers and higher cost options to more affluent clientele, the coffee industry will attempt to serve coffee to all that want or need it. (Harold Brown, Dr Nwabueze, March 3, 2011)

### **9.3 Socio-Cultural**

The socio-cultural element focuses on how the consumers exert forces on the industry and how the firms do business. For instance, Starbucks implemented a C. A. F. E. (Coffee and Farmer Equity) program to address concerns about the social responsibility of the industry to perpetuate sustainability of coffee bean growers. The C. A. F. E. program looks establish quality criteria and share responsibility throughout the supply chain. (Sustainability Initiatives, 2012) Other firms use third party certifications such as Fair-trade Certificate, The Rainforest Alliance certification, and the Organic certification in an effort to be more social responsible.

As consumers become more health conscious nowadays, the industry must constantly monitor the environment and adapt product offerings to meet demand. For instance, the concern on level of sugar intake has been raised. Giving this pressure, industry producers will need to either reduce sugar levels in beverages and food offerings, or come up with new product that will satisfy the consumer both nutritiously and flavour-wise.

### **9.4 Technological**

Technology is important as it relates to customer interaction to the business, product innovation and product service, and customer ambience. It is readily

available to all firms in the industry for relatively lower cost than traditional advertising. (Steel. E, 2008, Aug 21)

Product innovation is the key for the firms to stay competitive in the industry. By adapted advance technology, the firm can change the product mix to compete in new market segments.

Technologies add value to the end consumer by produce product through new machines and more efficient processes.

Besides, technology help to improve the overall customer experience such as Wi-Fi internet services where customers can utilize them for business or personal purposes.

## **10. 0 Key Success Factor (KSF) in café industry**

Key success factors are those factors within the firm's market environment that determine the firm's ability to survive and prosper. Chuck Hofer and Dan Schendel (1977) defined key success factors as " those variables that management can influence through its decisions and that can affect significantly the overall competitive positions of the firms in an industry."

(Chuck Hofer, Dan Schendel, 1977)

Table 2 shows the applicable KSF in the cafe industry. The firms that possess the KSF will compete at the highest level and have an advantage over all other firms in the industry.

Technology

Internet use for marketing

Mobile communication apps

Services

Quality control

Customer service ability

Distribution

Strong network of distributors/suppliers

Internet and retail store sales capabilities

Convenient location

Marketing

Variety of product line

Reputation and branding

Skills and Capability

Product innovation capabilities

Courteous, personalized customer service

**Table 2: Key Success Factors in Cafe Industry (Source: Author Creation)**

**11. 0 SWOT Analysis in cafe industry**

**Strengths:**

Product variety

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Worldwide store distribution

Location of shop - in all mega complex and town area nationwide

Courteous and good customer services

On-going promotions

High brand awareness and good quality image

Membership program to offer rewards redemption and others features or benefit

Clean, cozy and comfortable atmosphere

### **Weaknesses:**

Dependent on the supplier

On-line ordering is not available

No delivery services

Limitation selection of food & beverages

Not competitive in price

### **Opportunities:**

Focus on emerging market

Third place experience means aside from home and work, where consumers can enjoy coffee

High demand in middle class level market

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Opportunity for mass media advertisement

Alliance with bank to giving promotion to customer

### **Threats:**

Intense competitions

Supplier control the product price

Quality of coffee beans

Higher product pricing

Poor customer service

Government regulation

### **Table 3: SWOT Analysis Matrix (Source: Author Creation)**

## **12. 0 Industry Analysis – Models and theories – Industry life cycle / Porter 5 Forces / Strategic Group Analysis**

### **12. 1 Industry Life Cycle Model**

Industry/Product Life Cycle is the course of a product's sales and profits during its lifetime. It involves four distinct stages: Introduction, growth, maturity and decline.

## **Introduction**

### **Stage**

### **Decline**

### **Stage**

### **Maturity**

### **Stage**

### **Growth**

Stage <http://eversysaustralia.com>.

[au.gsroasting/wp-content/uploads/2012/02/Screen-shot-2012-02-04-at-11.22.45-AM.png](http://au.gsroasting/wp-content/uploads/2012/02/Screen-shot-2012-02-04-at-11.22.45-AM.png)

## **Figure 2: The Industry Life Cycle Stage in Cafe Industry (Source: Google Image)**

### **Introduction**

Features in low sales with high retail prices for goods, high advertising costs and selective distribution channel across limited markets. (Jonathan Lister, 2012)

In cafe industry, this is a period of low to negative profits due to the high costs of advertising and growing of a customer base.

### **Growth**

Features in rapid increases in earnings. Price can stay at its high level if demand for the product remains high, or it can drop to capture more consumer attention. (Jonathan Lister, 2012)



The growth stage occurred during the late 1990s through the early 2000s, when chain coffee shops offering specialty coffee beverages appeared on every street corner across the country.

According to Bellissimo, the coffee cafe industry expects solid growth until 2015, when the industry expects demand to peak. (Bellissimo Coffee Info Group, 2012)

## **Maturity**

Features high brand awareness, wide distribution, lower prices to remain competitive and new product modifications to create brand distinctiveness. (Jonathan Lister, 2012)

The rise of competing in specialty coffee chain, all with distinctive brand features to cater to specific demographics within target market segments.

## **Decline**

Threat of substitution is the symptoms of decline in the industry.

Modern coffee makers enabling consumers to make single cups of coffee in just a few minutes provide new convenience while removing the need to wait in line for purchase.

Fast food chains also have entered the coffee cafe market, seeking to snatch consumers from established coffee companies by offering comparable specialty coffee beverages at lower fast food prices.

## **12. 2 Porter 5 Forces Model**

Porter's five forces model views the profitability of an industry as determined by five sources of competitive pressure. These include: competition from substitutes and entrants, established rivals, the power of suppliers and buyers.

<http://www.12manage.com/images/porterfiveforces.gif>

### **Figure 3: Porter 5 Forces Model (Source: Google Image)**

#### **Bargaining Power of Buyers**

Definition: How strong is the position of buyers, can they work together to order large volumes? (Porter, 2012)

Customers are looking for quality coffee as well as a relaxing environment where they can enjoy their time away from work and home. Since they can switch the supplier easily and with no cost and risk, they have a high bargaining power.

#### **Industry Competitors**

Definition: Is there a strong competition between the existing players; is one player very dominant or all equal in strength/size? (Porter, 2012)

For instance, Starbucks offers its customers a differentiated environment by providing high speed Wi-Fi connections. While Starbucks might lose some of the market due to the competitors' lower prices, it might regain some of it with its excellent customer service due to the extensive training of the employees.

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## **Bargaining Power of Suppliers**

Definition: How strong is the position of sellers, are there many or only few potential suppliers, and is there a monopoly? (Porter, 2012)

Volatile raw material cost as mostly the premium coffee beans are imported from developing countries, price varies along with the economical and political situation of the export country.

Retail price vary for dairy products that used for specialty drinks.

## **Threat of New Entrants**

Definition: How easy or difficult is it for new entrants to start to compete, which barriers do exist? (Porter, 2012)

Barrier of entry is low because the general investment needed to start-up a café business is low.

Product differentiation is easily imitated by competitors.

Vending machines offering coffee, cappuccino and etc are easily to get with low price and bring convenience value.

## **Threat of Substitutes**

Definition: How easy can the product or service be substituted, especially cheaper? (Porter, 2012)

Plenty alternative beverages such as fruit juices, milk tea, smoothies are available in the market. Consumer may choose the alternative instead of coffee.

Fast food chains enter into industry to offer cheaper product is a threat of substitutes. For instance, McDonald introduces McCafe with a cheaper price as compare to chain cafe market leader Starbucks.

### **12. 3 Strategy Grouping Model**

Strategic group is the group of firms in an industry following the same or a similar strategy along the strategic dimensions. (M. E. Porter, 1980)

Figure 4 below shows the strategic quadrant that use to map the position of cafe in the industry.

High

Low

#### **Price**

Low

High

## **Perceived Quality**

### **Unsustainable**

**A**

**No frills**

**B**

**Low Price**

**C**

**Breakthrough**

**D**

**Differentiation**

**E**

**Focused Differentiation**

**Dome**

**The Coffee Beans & Tealeaf**

**Starbucks**

**San Francisco Coffee**

**Black Canyon Coffee**

**Delifrance**

**Old Town White Coffee**

**Gloria Jean's Coffee**

**Secret Recipe**

**PappaRich**

## **Fig 4: Malaysia Cafe Industry Strategy Quadrant (Source: Author creation)**

### **Industry Reference**

Starbucks

Starbucks is the industry reference where consumer will often evaluate other cafe chain by comparing to them.

### **No Frills**

Old Town White Coffee

PappaRich

Old Town White Coffee and PappaRich offer a local normal grade coffee with a cheaper price as compared to Starbucks.

### **Low Price**

Delifrance

Secret Recipe

Delifrance and Secret Recipe offers equal coffee quality and drinking experience but charge a lower price than Starbucks.

### **Breakthrough**

San Francisco Coffee

Black Canyon Coffee

Gloria Jean's Coffee

San Francisco Coffee, Black Canyon Coffee, Gloria Jean's Coffee are slightly cheaper than Starbucks and giving lots of promotion such as Buy 1 Free 1 to customer.

## **Differentiation**

The Coffee Beans & Tea Leaf

The Coffee Beans & Tea Leaf is the market challenger and having same business strategy with Starbucks.

## **Focused Differentiation**

Dome

Dome cafe is a premium cafe restaurant which offer high quality coffee and superior environment as compared to Starbucks.

## **Unsustainable**

Not Applicable

This position is not applicable.

## **13. 0 Conclusion**

Industries experience a similar cycle of life. Just as a person is born, grows, matures, and eventually experiences decline and ultimately death, so too do industries and product lines. The stages are the same for all industries, yet every industry will experience these stages differently, they will last longer for some and pass quickly for others. Even within the same industry, various firms may be at different life cycle stages. A firm's strategic plan is likely to be greatly influenced by the stage in the life cycle at which the firm finds

itself. Some companies or even industries find new uses for declining products, thus extending their life cycle. (Industry Life Cycle, 2012)

Coffees are consumed globally by most of the population. This coupled with the forces that drive change in the industry result in a net positive force that makes the industry attractive to businesses. Several industry level analyses have outlined the competitive pressure. The firms can be successful if they implement an effective and efficient strategy and removed the risk from the industry.