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## Business Reference Guide Online

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### Coffee Shops (Specialty)

SIC: 5461

NAICS: 722213

Number of Businesses / Units:

Unavailable

#### See Also

- ▶ [Baskin-Robbins Ice Cream](#)
- ▶ [Ben & Jerry's](#)
- ▶ [Bresler's Ice Cream and Yogurt Shops](#)
- ▶ [Carvel Ice Cream Bakery](#)
- ▶ [Coffee Shops](#)

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

#### Rules of Thumb

45 percent of annual sales plus inventory

2.5 times SDE plus inventory

3.5 times EBIT

2.5 times EBITDA

#### General Information

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

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

Source: Franchisehelp [www.franchisehelp.com](http://www.franchisehelp.com)

#### Expert Ratings

- |                  |     |                          |
|------------------|-----|--------------------------|
| ▶ Competition    | 3.2 | (1=Lot of : 4= Not Much) |
| ▶ Amount of Risk | 2.5 | (1=Very : 4= Not Much)   |

▶ Historical Profit Trend	3.2	(1=Down : 4= Up)
▶ Location & Facilities	2.8	(1=Poor : 4= Excellent)
▶ Marketability	3	(1=Low : 4= High)
▶ Industry Trend	3.6	(1=Declining : 4= Growing)
▶ Ease of Replication	1	(1=Easy : 4= Difficult)

### Expert Comments

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

### Seller Financing

- ▶ 3 years

### Questions

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

Starbucks Coffee	\$521	1,500	\$731,000	3,880
Peets Coffee	\$696	1,800	\$1,252,206	65
Tully's Coffee	\$317	1,200	\$380,000	104

Source: BizStats.com & Nation's Restaurant News

### Expenses as a Percentage of Sales

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

### Industry Trend

"The year 2007 is a time in the life cycle of the U.S. specialty coffee industry where as an independent the only way to see growth and success is to manage your business as though your business life depends on it, because it does. To be successful, you must hire smart, train well, and maintain and monitor every aspect of your business. There is no doubt you must work harder and smarter, because even though the challenges are more formidable, there is still success to be had in the challenging retail specialty coffee market."

Source: "Operational Challenges For the Independent Coffee Retailer in 2007" by Bruce Milletto. [www.virtualcoffee.com](http://www.virtualcoffee.com)

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

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

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

Source: *Boston Globe*, 2007

### Advantages

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

### Disadvantages

- ▶ "Common disadvantages are similar to all food and beverage: the need to manage all your variable costs (COGS and wages most importantly)."
- ▶ "Independent coffee houses have a difficult time competing against the more established and better operated chains and corporate stores (i.e., Starbucks). The perceived ease of entry into the business has resulted in many independent coffee houses starting in an under capitalized state."

### Additional Resources

#### Related Websites

- ▶ [www.coffeeuniverse.com](http://www.coffeeuniverse.com)
- ▶ [www.virtualcoffee.com](http://www.virtualcoffee.com)

#### Associations

- ▶ [Specialty Coffee Association of America](http://www.sca.org)
- ▶ [National Coffee Association of USA](http://www.ncausa.com)

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