

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia



INTRODUCTION

Welcome to a strategic journey. You are embarking on a new business venture that involves launching and operating a chain of independent coffee shops across Malaysia. The journey is not just about the destination, but the decisions, strategies, and leadership required to get there.

Globally, in terms of liquid beverage equivalents, coffee is among the most consumed beverages worldwide with roughly 42.6 litres per person a year (12.6 litres of roast coffee and 30 litres of instant coffee) in 2022. In this regard, tea boasts a larger amount (85 litres in beverage equivalents per person and year), but in terms of value, coffee is much bigger as more coffee powder than tea is used per litre of beverage. Value sales of coffee have been propelled in recent years by the out-of-home sector, which is more relevant in this segment than in many other drinks categories. Another trend is the redefinition of coffee from a common means of caffeination to a personal experience, which has driven premiumization.

The Malaysian coffee market is a bustling landscape. It has seen steady growth over the years, fuelled by increasing urbanization, a growing middle class, and changing consumer habits. The landscape includes a mix of traditional kopitiams, modern cafes, and international chains. There is a strong preference among the younger demographic for specialty coffees, espresso-based drinks, and innovative coffee-based beverages. Consumers also perceive coffee shops as more than just places to grab a quick drink—they serve as social spaces, workplaces, and hubs for creativity.

The market is competitive, with the presence of international powerhouses like Starbucks, Coffee Bean & Tea Leaf, and Costa Coffee. Yet, there's room for innovation, unique concepts, and local flavours. Trends such as a growing interest in specialty coffee, sustainably sourced products, and cafe-hopping are shaping the industry's future.

Despite these opportunities, we must be aware of potential risks. The volatility of coffee prices, the challenge of customer acquisition and retention, and the complexities of managing operations across multiple locations are just a few factors to consider.

This venture requires strategic thinking, people leadership skills, financial acumen, and a clear vision for creating a brand that resonates with customers.

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

YOUR TASK

1. Your task is to **devise a strategic business plan to launch and operate** a new independent chain of coffee shops in Malaysia.
 - Pay special attention to financials and ensure that it is quantified sufficiently enough. You should have a projected P&L over the next 3 year including a cash flow projection analysis.
 - You may consider these additional topics: budgeting and forecasting, risk assessment, break even and profitability, investment decision making, cost management, market trends, return on investment, etc.
 - You may use these principles to structure your presentation: Barbara Minto Principles or the Balance Scorecard.
2. You are also **looking for funding** for your venture and will be presenting to a group of potential investors. The assessors for this activity will play the role of the potential investors. It is essential that your presentation is compelling to win their approval and secure their investment.
3. Read through the document for some insights to develop your plan. You may want to also conduct some desk research too.
4. Your strategic plan will be evaluated based on its soundness, feasibility, innovative approaches, and understanding of the market and customer needs. The potential investors are also interested in your leadership approach in leading this venture.
5. The presentation can be either in English or Bahasa Melayu. It is recommended that you use presentation tools like PowerPoint when you present your plan but please use any tool you wish.
6. On the day of the assessment, you will be presenting using the assessors' PC. To ensure a smooth process, please rename your presentation as StaffID_YourFullName.pptx (for example, A123_MuhammadYusuf.pptx) and email it to amin.zawawi@nboleadership.com by 11am on the day of the assessment centre or earlier.
7. You will be given 15 minutes for your presentation and then followed by a 10 minute Q&A session with the potential investors.

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

GLOBAL ANALYSIS

BRIEF GLOBAL OUTLOOK 2023 to 2027 - Specialty Coffee Shops Market

Source: Technavio, Nov 2022

The specialty coffee shops market size is estimated to grow at a CAGR of 7.43% between 2022 and 2027. The size of the market is forecast to increase by USD 39.17 billion. The growth of the market depends on several factors, including the increased consumption of coffee, the growing number of specialty coffee shops globally, and rapid urbanization, and changing consumer lifestyles. The increasing consumption of coffee is notably driving the specialty coffee shops market growth, although factors such as fluctuating prices of coffee beans may impede the market growth.

What will the Size of the Specialty Coffee Shops Market be During the Forecast Period?



Key Specialty Coffee Shops Market Driver

The increasing consumption of coffee will drive the specialty coffee shops market growth during the forecast period. The growing popularity and the easy availability of coffee are expected to increase its demand during the forecast period. For instance, the demand for coffee pods has been increasing at a significant rate in the US owing to the ease and convenience of brewing coffee at home. This has resulted in an increased preference for coffee. Factors such as the high demand for instant coffee is a major factor that is driving the growth of the market in the UK. The increasing demand for specialty coffee varieties has resulted in an increased growth opportunity for the vendors in the market. As a result, vendors are focusing on product diversification, the introduction of new flavours, and brand extensions to increase earnings. The consumption of coffee in developing countries such as China, India, and Brazil have also been increasing at a significant rate. Hence, the increasing consumption of coffee worldwide is expected to drive the demand for specialty coffee shops during the forecast period.

Key Specialty Coffee Shops Market Trend

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Setting Up an Independent Coffee Shop Chain in Malaysia

The increasing popularity of coffee among millennials is a key trend in the specialty coffee shop market growth. Millennials tend to spend more on premium beverage brands than the rest of the

population. They are also keen to experiment with new drink types, brands, and flavours. Manufacturers, therefore, strive to understand the tastes and preferences of millennials and target many offerings for this generation. Millennials also tend to socialize more, especially in coffee shops. This has led to a spurt in the number of coffee shops, which has further strengthened the global specialty coffee shops market. In addition, specialty coffee shops provide various facilities to attract customers. For instance, specialty coffee shops provide Wi-Fi and air-conditioning, which could help in driving sales. These factors are expected to increase the popularity of coffee as well as specialty coffee shops globally during the forecast period.

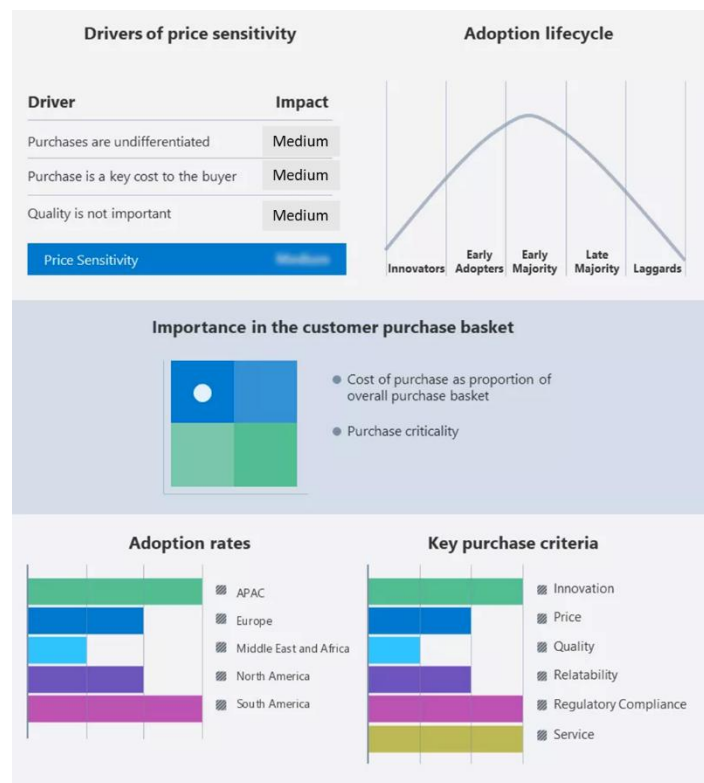
Key Specialty Coffee Shops Market Challenge

The fluctuating prices of coffee beans will impede the specialty coffee shops market growth during the forecast period. Various factors, such as disparity in the demand for and supply of coffee beans, decreased production of coffee beans, unfavourable weather conditions, and rising labour costs, are leading to volatility in coffee bean prices. The growing disparity in the supply of and demand for coffee beans and the increase in the price of raw materials not only increases the cost but also reduces manufacturers' profit margins. Increasing competition in the market between the vendors is resulting in them operating on low-profit margins despite the increasing costs of raw materials. This factor, along with the need to remain competitive in the market, influences manufacturers to experiment with low-cost substitutes such as low-grade coffee beans and instant coffee powder. In addition, suppliers of raw materials can price their products at competitive and different price points. As a result, the fluctuating prices of coffee beans are expected to limit the growth of the global specialty coffee shops market during the forecast period.

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Setting Up an Independent Coffee Shop Chain in Malaysia

Key Specialty Coffee Shops Market Customer Landscape



What is the Fastest-Growing Segments in the Specialty Coffee Shops Market?

The market share growth by the independent coffee shops segment will be significant during the forecast period. An independent coffee shop is a coffee shop that operates in less than five locations. The global independent specialty coffee shops segment is expected to witness steady growth during the forecast period. The growth of the segment is expected to result primarily from a growth in the number of gourmet coffee shops globally.

The independent coffee shops segment showed a gradual increase in market share from USD 41.95 billion in 2017 and continued to grow by 2021. The growing popularity of gourmet and specialty coffee shops among the urban population is resulting in vendors expanding their business operations to cater to the population in developed countries. Independent coffee shops find it difficult to compete with major multinational brands that are expanding aggressively. The strong threat from chain coffee shops is expected to limit the growth of the segment significantly during the forecast period. As a result, the independent coffee shops segment is expected to witness an accelerating growth momentum in the global specialty coffee shops market during the forecast period.

Which are the Key Regions for the Specialty Coffee Shops Market?

North America is projected to account for 32% of the market's growth by 2027. Specialty coffee shops offer the option to customise coffee or other beverages as per customers' preferences. Vendors are also coming up with food bowls that allow customers the choice of eating a meal either with one food ingredient at a time or combining all the ingredients together. The hectic lifestyle of the working population and students is also contributing to the growth of the market

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

in the region. The limited time available to prepare food and beverages at home is resulting in the population opting for specialty coffee shops for coffee and breakfast on a daily basis. These factors are expected to drive the growth of the specialty coffee shops market in the region during the forecast period.

BRIEF OVERVIEW - MALAYSIAN COFFEE MARKET

1. **Market Size and Growth:** The Malaysian coffee market has seen steady growth, fuelled by increasing urbanization, a growing middle class, and changing consumer habits. The market includes both traditional coffee shops (known locally as "kopitiams") and modern cafes.
2. **Consumer Habits:** Coffee is widely consumed in Malaysia, with the younger demographic (millennials and Gen Z) showing a strong preference for specialty coffees, espresso-based drinks, and innovative coffee-based beverages. There is also a cultural shift towards viewing coffee shops as social spaces or as places to work or study.
3. **Competition:** The market is quite competitive, with international chains like Starbucks, Coffee Bean & Tea Leaf, and Costa Coffee having a strong presence. However, there is also room for local brands and independent coffee shops, especially those offering unique concepts or locally sourced products.
4. **Trends:** There is a growing interest in specialty coffee and sustainably sourced products. Consumers are becoming more knowledgeable about different types of coffee and brewing methods, and they are willing to pay more for high-quality, ethically sourced coffee. Additionally, there is a trend towards "cafe-hopping", where consumers visit multiple cafes in a day to try different offerings and experiences.

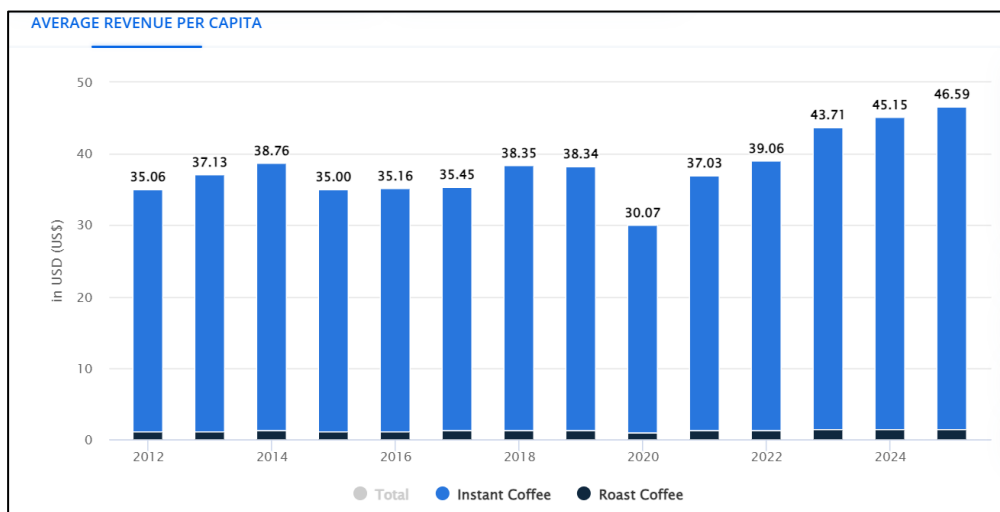
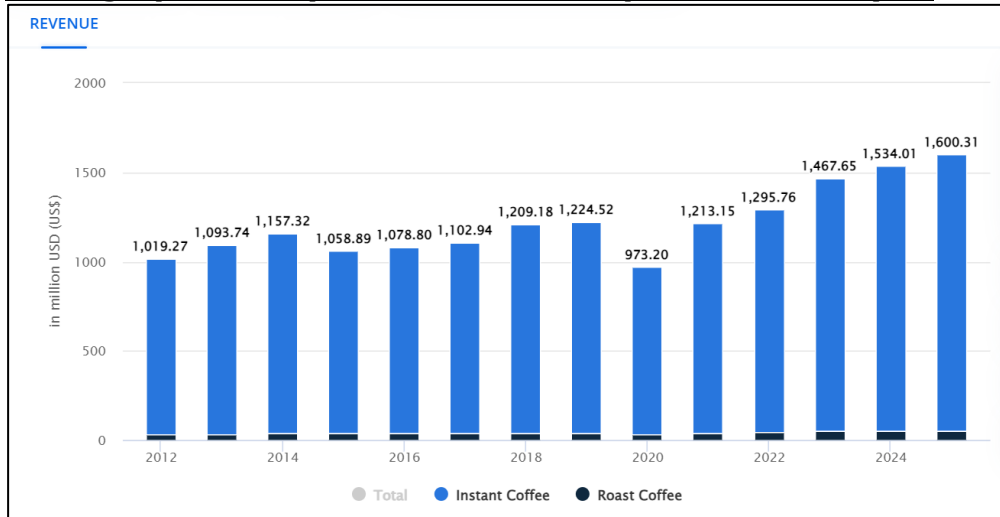
BRIEF OVERVIEW – ADDITIONAL INFO ON MALAYSIAN COFFEE MARKET

Source: Statista Market Insights, Jun 2022

1. Revenue in the Coffee segment amounts to US\$1,468.00m in 2023. The market is expected to grow annually by 4.40% (CAGR 2023-2025).
2. In global comparison, most revenue is generated in the United States (US\$95,580.00m in 2023).
3. In relation to total population figures, per person revenues of US\$43.71 are generated in 2023.
4. By 2025, 85% of spending and 24% of volume consumption in the Coffee segment will be attributable to out-of-home consumption (e.g., in cafes, bars and restaurants).
5. In the Coffee segment, volume is expected to amount to 16.89m kg by 2025. The market for Coffee segment is expected to show a volume growth of 0.8% in 2024.
6. The average volume per person in the Coffee segment is expected to amount to 0.50kg in 2023.

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia



BERNAMA, 1 Sept 2022 (Extract) - Trend of Coffee Culture in Malaysia

In Malaysia today, specialty coffee shops are not an uncommon sight. Despite the historic popularity of the traditional kopitiam, things are starting to change. Chains and independent cafes are changing the way many Malaysians consume coffee in public. There are many coffee shops offering a variety of coffee and their numbers are growing rapidly because of the culture of coffee drinking.

The increase in coffee consumption in Malaysia has been attributed to several factors, including urbanisation and hectic lives. To increase productivity, coffee drinking has become ingrained in Malaysian culture. One of the factors contributing to Malaysia's surge in coffee consumption is urbanisation and busy lifestyles. The introduction of coffee, which we in Malaysia refer to as 'kopi', during the British colonial era laid the foundation for 'kopitiam' (which means coffee shop in the Hokkien dialect). Since then, Malaysians have claimed ownership of this beverage, where, in contrast to the rest of the globe, kopi is created by pouring boiling water through a cloth filter rather than being brewed.

Figure 1 (below) depicts the amount of coffee consumed by Malaysians in 2021 and 2022, which was 800,000 60kg bags. (Department of Statistics Malaysia [DOSM], 2022). The majority of Malaysians' daily lives have typically included warm beverages like tea and coffee. The elderly

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

typically drank coffee in their neighbourhood kopitiams or coffee shops. On the other hand, Malaysians who had moved overseas and started drinking coffee picked up the habit and started a café culture. Additionally, the expansion of national and local coffee shop chains like OldTown White Coffee and global retail cafe companies like Starbucks and The Coffee Bean & Tea Leaf increased its appeal to younger people. Liberica, which makes up most of the country's grown coffee beans, and robusta are Malaysia's two main coffee bean kinds. In 2018, Malaysia produced 2.1 million bags of coffee weighing 60 kg each. Malaysia purchases coffee from its neighbour, Indonesia, to satisfy domestic and international demand.

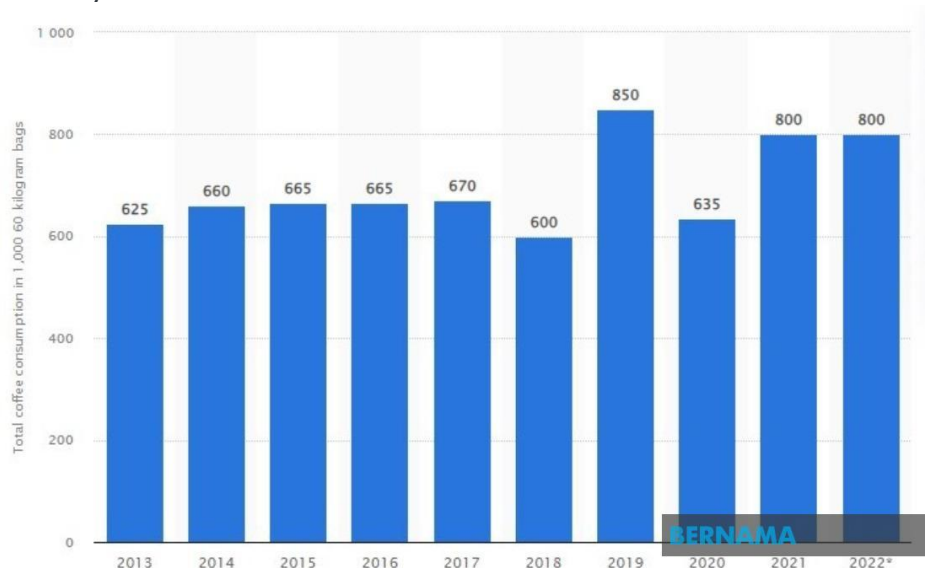


Figure 1: Total coffee consumption in Malaysia 2013-2022 (DOSM, 2022)

Coffee Drinking Boosts Productivity

According to one research, 200 milligrams of caffeine can boost your capacity to recognise phrases and words faster than you could without coffee. Many entrepreneurs set out to develop new skills, master new technologies, or better understand their business to compete in their field. For example, espresso coffee is the quickest way to enhance your productivity since it provides an instant cerebral boost that might endure for several hours. So, the caffeine in an espresso offers you a productivity boost, allowing you to quit watching Netflix, get out of bed, go for a bike ride, and return with plenty of energy to start your day. Bulletproof coffee is a beverage made from oil, coffee, and butter. This creamy coffee is served hot and resembles a latte. The core physics behind the formula is that the coffee and necessary fats offer energy to the brain, resulting in a balanced, non-nervous stimulation that lasts for hours. This combination is thus worth exploring if you want to counteract mental weariness during work. Caffeine, in general, has been shown to increase productivity. It is excellent for activating cognitive activities, improving energy, and enhancing attentiveness. Best of all, coffee may be a beverage that you can drink all day.

Youth Agropreneurs' Initiative in Coffee Industry

The success of young 'agropreneurs' works as a magnet, tempting other Malaysian youths to investigate the world of agriculture, which has the potential to lift them out of poverty. The industry might assist the government in addressing the critical issues of young unemployment and food security. Young agropreneurs who have successfully utilised contemporary, creative and

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

technology ways in the industry might act as role models for their colleagues and inspire others to follow in their footsteps.

The Agriculture and Food Industries Ministry (MAFI) through the Agriculture Department, is ready to assist individuals who are interested in becoming coffee entrepreneurs, from beginning to end starting with the preparation of the planting process, irrigation system to coffee processing. However, according to the coffee entrepreneur, the main problem in this industry is manpower which is needed to pick ripe coffee beans as not all beans in one stalk of coffee will ripen at the same time. Therefore, there is a need to re-pluck the ripe beans from that stalk at another time. In his statement, Agriculture and Food Industries Minister Datuk Seri Dr Ronald Kiandee, who presided over the online celebration of World Coffee Day, stated that his ministry will give special consideration to developing new initiatives to promote young, local entrepreneurs to enter the coffee-growing business. The Nescafe youth entrepreneurship initiatives, on the other hand, are offered by the company. Nescafe opened pop-up shops on campuses all around Malaysia as a result. Students got the opportunity to run the coffee hubs as their own companies here. These students excelled in the areas of marketing, management, and promotion, which are all aspects of business.

Additionally, as part of the Hong Leong Bank Jumpstart programme, Coffee for Good will see an increase in branding and marketing efforts to attract more trainees, particularly on social media. These efforts will include the installation of pop-up cafes in a few of the offices of Hong Leong Bank and its affiliated companies, the introduction of cashless payment options, and financial literacy workshops led by the bank's SME specialists. HLB provides a jumpstart programme as part of its corporate social responsibility (CSR) platform for cooperation to support the

sustainability of yet another social company. Faridah Halani and Dalia Abdul Aziz launched the social venture Coffee for Good, a coffee specialist, with the goal of empowering young people from the B40 group through an on-the-job training programme. They will gain knowledge and skills about coffee via the programme that will make them marketable, and it will place them in jobs as qualified baristas.

In Malaysia, the food and beverage sector, and specifically the coffee culture, is flourishing, but there is a dearth of baristas with the necessary training. It became clear to the local cafe owner, who was having trouble finding qualified baristas to recruit, that they could combine their commercial acumen with B40 youth empowerment to address the ongoing skilled labour issue that affects cafe owners worldwide. Hong Leong Bank's social purpose is concentrated on the young, especially school dropouts from the B40 income bracket who may have few job options owing to a lack of academic credentials and vocational abilities. Giving them work skills like a barista will ideally give them a stepping-stone to finding employment with a steady pay check.

Effort to Sustain Malaysia's Coffee Industry

Coffee's quality and aromatic character reflect its terroir, the health of the soil, and the surrounding environment. Coffee growing regions are particularly exposed to the effects of climate change. Extreme temperature swings, high rainfall and drought all pose major threats to coffee plantations. Coffee is a crop that needs specialised understanding. Agronomists provide training on sustainable agricultural techniques, increasing farmer experience and competence while helping them to increase the quality and production of their coffee. Some steps are relatively

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

straightforward, such as teaching farmers how to hand-harvest only cherries that are perfectly ripe. Others are more complicated, such as how to 'stump' a coffee tree by chopping it down to enhance production.

Malaysian producers' biggest issue is selling their coffee beans at a reasonable price to local purchasers. Coffee beans are non-perishable and require less capital to grow than vegetables. Farmers are willing to cultivate coffee if they can sell their beans at a higher price. Furthermore, providing good comments from downstream players can enhance farmers' confidence, allowing them to sell high-quality beans to downstream players such as local roasters. Local roasters experience difficulties in obtaining high-quality coffee beans since they must import them from other countries, which is costly; thus, purchasing premium coffee beans from local farmers may be a viable option.

Sabarica, the producer of Sabah's Arabica coffee species, is attempting to raise awareness among local roasters about the availability of Arabica coffee beans in Sabah to enhance the local coffee sector (The Edge Markets, 2020). As of January 2020, forty local farmers were planting Arabica coffee plants with the assistance of Sabarica. Furthermore, Sabarica is attempting to develop several types of Arabica coffee plants in Sabah, such as Gesha coffee. Arabica beans are in great demand on the market and may fetch growers a higher premium (The Edge Markets, 2020).

Nestle established the 'Nescafe Grown Respectfully' programme in 2019 to enhance the livelihoods of local coffee growers in Kedah and revitalise the local coffee sector (Nestle, 2020). They launched this initiative with the help of local partners to ensure that all their coffee beans are ethically sourced and sustainably certified by 2025. (Nestle, 2020). They used grafting

technique to recreate the mother plant, which had been cultivated since the early 1990s, to deliver seedlings to farmers.

They also provide farmers training and technical help to increase productivity and output; this includes advising farmers on optimal agricultural techniques, lowering production costs, and providing post-harvest treatments. Nestle also assists farmers in improving their livelihoods by purchasing beans that fulfil their strict quality standards. Nestle benefits as well because these beans are utilised in their Nescafe products. It also strengthens Nestle's sustainable coffee supply chain. Nestle's goal for this programme is to purchase 100 tonnes of coffee beans by 2022. (Nestle, 2020).

Starbucks Malaysia, one of the leading coffee brands and chains in Malaysia, sees its locations as a platform and an effective means to influence and interact with the public and consumers. They have planned a few events and programmes, such as the current one in which consumers may get an RM2 discount by bringing their own Starbucks tumbler to their stores. Customers have been refusing to use paper or plastic cups for several years. The CSR and green initiatives of a coffee chain, where the corporate social responsibility manager took the time to explain all the firm has done in accordance with worldwide trends that favour the environment. Aside from that, the waste from coffee grounds formed after manufacturing drinks which, instead of being thrown away, Starbucks would pack and give away for free to customers or the public for use as a by-product since it is a very good compost agent for soil. Other ecological initiatives have seen the coffee chain switch from previously recognisable green plastic straws to biodegradable straws, a

Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

move that is not exclusive to Malaysia but is being implemented internationally to eradicate single-use plastic straws.

The Coffee Bean & Tea Leaf® Malaysia confirms its commitment to environmental stewardship by taking meaningful action to eliminate single-use throwaway plastic waste. Customers will only be served with reusable silverware in-store, while take-out orders will be served with wooden, biodegradable cutlery. Customers are also urged to bring their own tumblers for take-away beverages, and those who have CB&TL tumblers will receive a 10per cent discount on their purchased beverage. This follows current rules like the use of paper straws and the elimination of plastic bags, with the objective of completely eradicating plastics.

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Business Case

Setting Up an Independent Coffee Shop Chain in Malaysia

News Article

Malay Mail, Saturday, 17 Jun 2023 7:24 PM



A general view of someone handling coffee beans in a plantation at the Gorongosa mountain range May 20, 2022. Mardi is actively conducting research in an effort to produce more coffee variants to meet demand following the shortage of local coffee beans. — AFP pic

KLUANG, June 17 — The Malaysian Agricultural Research and Development Institute (Mardi) is actively conducting research in an effort to produce more coffee variants to meet demand following the shortage of local coffee beans. Deputy Agriculture and Food Security Minister, Chan Foong Hin said the shortage can now be considered critical because local coffee production only meets about three per cent of domestic demand. He said the country's coffee production at the global level is only at a rate of 0.16 per cent, while the rate of coffee imports to cover domestic consumption is as much as 97 per cent. "The demand for coffee in the country is increasing, from 600,000 kilogrammes in 2021 to 800,000 kilogrammes last year (2022), and it is expected to continue to rise every year... this is the main challenge of the coffee production industry every year.

"Among other challenges are competitors from other commodities, financial assistance, land area for cultivation, labour force, input costs, and competition from neighbouring countries," he said. He said these new clones will be able to save production costs and time to produce coffee within eight to nine months compared to 15 to 16 months before. "Due to Mardi's efforts, I also see that Johor is a suitable place for the cultivation of Liberica type coffee, such as in Kluang and Batu Pahat... the land in this area is also fertile, thus it is suitable for the development of the country's coffee (industry). "Mardi has been asked to continue to intensify research and development of coffee technology, at the same time the state government needs to jointly publicise and support the innovations produced so that those involved in the national coffee industry receive the benefits," he said. He added that his ministry also supports the development of the coffee industry and is ready to improve related infrastructure such as in the farm area and also in processing.

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