**The Coffee Shop Business: Through the Managerial Economics Lens**

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Just like any other business, the idea of running a successful coffee shop is not about brewing the perfect cup but knowing how to go through the dynamics of the market. The challenges one faces in the coffee shop industry, and more particularly, locally owned cafes, are turbulent and require strategic decisions, based on concepts that are at the core of managerial economics.

This essay looks into how a locally owned coffee shop deals with such challenges considering concepts such as: demand and supply, price and income elasticities, cost structures, market competition, and the general economic environment.

**Demand & Supply**

The final numbers on the balance sheet of a coffee shop depend on how it optimizes the demand and supply forces it faces. Typically, demand is determined by consumer preferences, income levels, and pricing. For coffee, it does appeal to a diverse customer base; from working professionals who need a quick pick-me-up to casual visitors looking for a comfortable place to sit. Quality, atmosphere, and convenience, for a coffee shop, perfecting this combination is the best bet to optimize the demand curve.

Seasonal highlights, such as pumpkin spice lattes and festive drinks, move the demand curve to the right, providing some autonomy and control of the demand cycle for the shop (Öngener & Özkurt, 2019).

On the supply side, economies of scale are critical. By sourcing raw items such as beans and other ingredients at bulk rates, while also building strong relationships with suppliers, the coffee shop would have a firm hold on how much supply would cost. Long-term contracts and ethical sourcing further solidify this stability, reducing supply chain cost volatility (SharpSheets, 2024).

**Price Elasticity**

A coffee shop needs to understand price elasticity. Some of their offerings, like basic drip coffee, are price inelastic; the quantity sold remains fairly stable despite changes in price.

But on the other hand, specialty drinks and premium products have higher elasticities, so even a small rise in price might lower the demand significantly. The store intelligently bundles items, like coffee and pastry, together to maximize perceived value and lessen the effects of elasticity.

**Income Elasticity**

Income elasticity is another major factor for not just coffee businesses, but any locally owned brand. During tougher times, customers would prefer cheaper items on the menu or overall reduce the frequency of visits to the store.

Conversely, in times of economic growth, customers may switch to more fancy beverages or come in more often. The coffee shop, through a wide range of products offered at all prices, evens out revenue streams, making it resilient in the face of economic cycles (Thomas & Shughart, 2013).

**Types of Costs**

The costs of a typical coffee shop are of three types: fixed, variable, and semi-variable. Fixed ones are overheads like rent, salaries of full-time staff, and depreciation of equipment, which are independent of output. The beans, milk, and the wages of part-time baristas are all variable costs. Utility costs, too, are of both fixed and variable.

By effective cost management in aspects like automating some processes, standardizing procedures to minimize wastage, and buying in bulk, a coffee shop can ensure that it extracts the best possible profit from its business dealings and maintains a good level of control over its profit margins (Smith & Brown, 2020).

**Market Structure**

It is crucial to understand that a typical locally owned coffee shop operates in a monopolistic competition market with many players offering similar but differentiated products. Competitors would comprise other coffee shops, larger chains like Starbucks, or, in general, convenience stores that sell coffee. It is a market with low barriers to entry, in which things like branding, customer experience, and product differentiation matter more than the price itself.

Brand loyalty, unique offerings and community engagement usually paves the way to stay competitive. By being up to date with menu items, continuously working to refine the customer experience, and through a series of effective marketing campaigns, coffee shops can stake their own ground even in a very competitive marketplace.

**Economic Environment**

The general economic environment has a great impact on managerial decisions of any locally held business. The level of inflation, unemployment, and growth in an economy determines consumer's spending power. During rough times in the economy, demand flows down to lower-priced offerings, since customers seek value. With growing disposable incomes, demand shifts back to the more premium products (Davis, 2019).

Government policies, including minimum wage laws and health regulations, will also play a role in the shop's operation. Increased labor costs may spur an increase in automation investments or pricing adjustments. Harsher health regulations may force menu or marketing changes that alter costs and demand.

In summary, the business strategy at a coffee shop, as seen through the managerial economics perspective, is designed to adapt and thrive by responding to the dynamics of the market, innovating, and leveraging its brand to stay competitive in an evolving industry.

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