

Starting a Coffee Business? The Importance of a Business Plan

Matt Milletto – SCAA – Seattle 2015

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Your Business Plan

A business plan allows you to articulate what you intend to create, and describes your future retail coffee business. It is recommended to develop a detailed conceptual business plan, along with a detailed financial start-up and feasibility plan.

Concept Presentation Plan

Choosing a concept is based on multiple variables. The largest concept categories are: Coffee Bar, Coffee Drive-Thru & Mobile Cart or Kiosk.

Factors that influence overall cost:

- How much money do you have to invest personally?
- Will you need to make an income during the start-up phase? Before you are profitable?
- The size and lease rate of the intended space.
- Your menu and profit centers.
- Where you are located, traffic flow, visibility, expense of build out, etc.
- What is your “theme” or concept? How will you be different from others?
- How much operating capital is necessary until profitability?
- Will the landlord provide you with adequate tenant improvement allowance?

Presentation Business Plan

This plan to be shown to just about anyone who is interested in your project. This includes property managers, investors, lenders, friends & family.

The plan should include the following information:

- Description of what you intend to create
- Overview of what you plan to serve on your menu
- Who your customers are likely to be

- Why your customers will select your business over your competitors
- Industry information consumer trends and statistics
- A marketing plan and strategy
- Your resume and qualifications to be the best coffee bar owner ever

Remember that this plan will likely sit on someones desk for a few days, so make it inviting to read, with your logo and contact information on the cover. Use photographs if appropriate and keep the information concise. A great presentation plan may be 10-15 pages, NOT 100+.

Full Financial Business Plan

Separate from the concept plan should be a full financial plan. The reason we keep these separate is you will not want to show your profit and loss projections to your potential landlord, for obvious reasons.

This plan will include:

- Estimated Start Up Costs by category
- A Projected Labor spreadsheet
- A per customer Sales Assumption based on your menu items.
- Estimated Sales Growth (monthly)
- Estimated Cost of Goods by category
- Profit and Loss Projections monthly for year one, annually years 2 & 3

Determining Start-Up Costs by Category

Here are the general categories of start-up costs for a typical sit down coffee bar. With estimated prices as examples.

General Contractor Fee	\$30k
Custom Cabinetry	\$25-50k
Plumbing & Electrical	\$10k ea
Misc. POS, Stereo, Alarm, etc.	\$15-20k
Floor Covering	\$6k
Interior Paint	\$5k
Coffee/Food Service Equipment	\$40-60k
Chairs, Tables, Furniture	\$15k
Signage & Menu Boards	\$10k
Licenses & Permits	\$3k
Pre-Opening Utilities/Insurance	\$3k
Opening Inventory/Small Wares	\$5-7k

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Marketing Materials/Website	\$4-6k
Pre-Opening Employee Labor	\$2-3k
Pre-Paid Rents & Deposit	3 mo rent

Month 1	100 customers/day
Month 2	125 customers/day
Month 3	150 customers/day
...	
Month 12	250 customers/day
Year 2	315 customers/day
Year 3	350 customers/day

Planning & Construction

It is important to understand that your menu dictates EVERYTHING. These decisions need to be made prior to designing your space, selecting equipment and beginning construction. This means items beyond espresso and coffee beverages, and pastries.

For Example:

If you choose to add Panini & Lunch to your menu, you will likely need the following:

- Panini Grill or Oven
- Prep area/table
- Meat Slicer
- Dry & Refrigerated Storage
- Refrigerated Display Case

If you choose to add Blended Drinks to your menu, you will likely need the following:

- 1 or 2 Commercial Blenders
- Extra Rinse Sink
- Drop-In Ice Bin
- Under-Counter Refrigerator

How to Estimate Feasibility

You will want to be able to take the variables in a given location, and apply them to a feasibility study/financial projection. This requires being conservative but realistic.

Estimated Transaction Per Customer

(Based on menu items)

Avg Beverage Sale (1/1 cust @ \$3)	\$3
Avg Food Sale (1/4 cust @ \$4)	\$1
Avg Retail Purchase (1/20 cust @ \$16)	\$8

Average Customer Transaction = \$ 4.80

Estimated Sales Growth

You will want to estimate how many customers you predict monthly from your opening, and a sales growth pattern that is conservative but realistic.

Projected Coffee Bar Labor

It will also be imperative to project your weekly/monthly labor for your coffee bar. The easiest way to do this is to take your hours of operation and create the needed shifts to fill. Pick an hourly wage that will be a bit above your state minimum, or what you would hire at, to compensate for pay increases.

Determine staffing levels:

2-3 people on up to 300 customers/day
3-4 people on over 300 customers/day

Estimated Cost of Goods

Goals by % for Cost of Goods by Category

Beverage: (espresso, coffee, soda, etc.)	26%
Food – (resale/pastries/grab and go)	50%
Food – (prepared/assembled on-site)	35%
Retail Merchandise – (whole bean too)	60%
Paper Goods/Chemical/Cleaning	4-5%

Projected Avg. Cost of Good = 35%

Acquiring Financing

- All lenders are different
- It is typical for a lender to want 33-50% of the total project cost in personal contribution
- Some may require secure collateral for a good portion of total loan
- Good personal credit is important
- Your business plan can be the key tool that gets you the loan
- A food service or business background is always helpful

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Conventional Sources of Capital

- Banks (Big and Small)
- Savings & Loans
- Credit Unions
- SBA

Non-Conventional Sources of Capital

- Family Members
- Friends
- Angel Investors
- Crowd Sourced Funding

In either case it is important to be clear on the terms of repayment, the interest rate or percentage of profit and decision making roles or percentage of ownership, who's in charge.

Pricing Your Menu Items

Are you in a similar price range as your competition? If serving a higher quality product, price your items higher for the perceived value.

You must be priced to support an overall 30-35% cost of goods. Period.

Cost Analysis – Espresso/Coffee/Vendors

When you are considering a coffee roaster, dairy provider or other vendor, it is important to understand how you can absorb or pass on the higher expense of the product.

1lb of coffee will yield roughly 20 double espresso shots or 20 – 12oz brewed coffees. (These figures include roughly 20% waste.)

@\$8.50lb – each espresso or coffee = \$0.43

@\$9.50lb – each espresso or coffee = \$0.48

Can you pass on the extra 5 cents to the customer buy charging 10-15 cents more than your competition?

Brewed Coffee – Determining the Price

- 11oz of Coffee \$0.43
- Paper Cup, Lid, Stir \$0.15

Total Cost = \$0.58 - Retail Price = \$2.25

Caffe Latte – Determining the Price

- Double Espresso \$0.43
- 10oz Milk \$0.40
- Paper Cup, Lid, Stir \$0.15

Total Cost = \$0.98 - Retail Price = \$3.50

Caffe Mocha – Determining the Price

- Double Espresso \$0.43
- 10oz Milk \$0.40
- Chocolate Sauce \$0.18
- Paper Cup, Lid, Stir \$0.15

Total Cost = \$1.11 - Retail Price = \$4.25

The cost of goods may vary depending on the beverage, but the product mix should equate to roughly 27% cost of goods. By having a mix of items, some less and some more expensive, you should be able to boost your daily sales to where you are profitable if following guidelines and efficiency standards.