

ACCEPTED VERSION – NOT FINAL VERSION

Key learning outcomes

To:

- Understand the speciality coffee context and determine the Critical Success Factors (CSFs) for coffee roasting and coffee shops;
- Explore the rationale for new venture creation in the speciality coffee context;
- Apply the Business Model Canvas (Osterwalder and Pigneur, 2010), in order to analyse the challenges of start-up and the synergies that support related diversification;
- Critically evaluate the role and importance of supplier and customer relationships in new venture creation and consider the role crowdfunding in **harnessing resources**;
- Understand the agenda for entrepreneurial learning and consider the implications for on-going business development.

Introduction

The Rounton Coffee and Bedford Street Coffee Shop **case study** is told from the perspective of the entrepreneurial experience. It is a story of emerging opportunities and the tenacity to take them; revealing how skills are learned, values are formed and relationships developed in order to bring business aspirations to fruition. Integrated into the discussion is an overview of the speciality coffee shop sector, which draws attention to the importance of coffee origin and its impact on quality. **Crowdfunding is deliberated as a means of harnessing resource for business development and the case ends by identifying further opportunities for growth.** The aim is to provide an in-depth account of new venture creation and business development from the entrepreneur's perspective, giving insight into the relationship between the entrepreneurial experience and the business context.

A coffee with the entrepreneur

As I sit with Dave Beattie at Bedford Street Coffee Shop it becomes evident that new venture creation can be anything but straightforward. He recounts uncertainties (McMullen and Shepherd, 2006), knowledge gaps, false starts and the difficulties of building supply relationships and customer support. Dave's entrepreneurial experiences give insight into the challenges of start-up in speciality coffee. The dilemma is one of carving out a form of differentiation that reconciles values **to support the welfare of coffee farmers with the ability to make money.** **The Bedford Street Shop** is located close to the centre of Middlesbrough, Dave Beattie's home town, situated in the North East of England. It is his second coffee venture, created to support his roasting business, Rounton Coffee. But the intent to work with coffee started back in 2012 – somewhere much more exotic - in Sumatra. To understand the growth potential of **his** businesses, the story goes back to Dave's early attempts **at venture creation.**

The early days

Dave didn't start out as a barista or have an existing affinity with coffee, but he did experiment with different business ideas from an early age.

"I guess it was always the desire to want more"

Dave's first entrepreneurial experiences were two joint ventures with his father; one to buy and sell Christmas trees, the other to start an employment agency. Neither succeeded but the experience gave Dave a taste for self-determination and, from a capabilities perspective, he was learning to convert business possibilities into opportunities (Wilson and Martin, 2015). **Dave also recognised he had knowledge gaps in terms of producing business plans and cash flow forecasts. After making several phone calls to local business support services, he was directed to a 'Business Basics' night class to help him develop the requisite skills.**

Perhaps due to these early experiences, Dave opted for more secure employment in heavy chemicals (an industry synonymous with the region). He joined BASF (Badische Anilin und Soda Fabrik), **and undertook apprentice and degree qualifications** in chemical engineering. Secure employment enabled him to fund his travel aspirations - first to Europe and then beyond. He also invested his money in properties as a way of generating additional funds to resource his increasingly ambitious travel plans. While there were promotions and pay rises, Dave was starting to question the value of a job for life, and it wasn't something that appealed to him. At the age of 26 he wasn't ready to settle for security and a career path that offered little in the way of adventure. A move to BOC (British Oxygen Company) in 2005 introduced him to a **technologically advanced business**. He learned about process management and the importance of standardised systems to ensure safe working practices, however, the promise of career advancement did little to suppress his wanderlust.

Time to move on

After 7 years of working in chemical engineering, Dave felt he had the necessary management experience (and a robust CV) to allow him to leave work and travel full time (**with a view he could return to chemical engineering**). Using money saved from employment and property trading - and a willingness to work should he run out of money - he was ready to travel the world. There was something of a plan, less in terms of destination than in 'how to travel'. He intended to journey overland wherever possible, taking time to fully experience different places.

“The key about travelling is the journey... I suddenly enjoyed riding trains...I wanted to just see the world”

A symbolic first step was to take the train from Middlesbrough, his home town. **Initially he set himself a vacation deadline of no more than a year, travelling east across Russia, Mongolia and China before heading out to the Pacific Islands.**

First sightings

Dave's connection with coffee started with an excursion from Malaysia to Sumatra. He recalls a German bakery, a local hangout for travellers, where he started to drink coffee. The coffee was roasted at the bakery store and it was mesmerising to watch. The 'engineer' in him wanted to learn how roasting and brewing **influenced flavour**. His questioning led him to arrange a meeting with a local farmer. With somewhat vague directions, a borrowed moped and the expectation of heavy rain he set out on an epic journey, in search of a coffee farm. As he travelled through the jungle he saw some semblance of a tourist trade around Lake Toba but the combination of exotic buildings, dust and tropical vegetation looked more like a movie set than real life. **Eventually Dave met with coffee farmers. He encountered a community wanting to sell their coffee for a better price and perhaps they thought Dave could provide an alternative route to market? He learned that coffee cultivated by these small holders was central to the welfare of the community and the funding of the local school. Dave also began to appreciate how coffee markets functioned and could see the impact of uncertainty and low prices on farmers and their families.**



Figure 1: Coffee farmer's home in Lintong, Sumatra

Instead of finding engineering work, Dave was willing to try trading; however, **he was soon aware** of how little he knew.

“I realised that I just didn’t have any clue really ... and obviously there was a massive experience in that. But all the time I was just trying to do the research and just learning, learning.”

He needed to be better networked. He learned that there were different grades of coffee and the quality ratings would determine price and market channels. Furthermore, the transportation of coffee appeared to be a lengthy process with the risk of degradation in transit. At this stage he concluded he simply didn’t know enough. With no commercial contacts or route to market there could be no business (and there was the small matter of completing his around the world trip). While there was no opportunity on this occasion, it didn’t dampen his enthusiasm to find out more; **as his understanding developed so a bond with coffee was formed.**

Committing to coffee

His travels took him on to New Zealand where he encountered a vibrant coffee culture, very different to the dominance of large coffee shop multiples in the UK. It was early 2012, and independent coffee bars were everywhere. Many **incorporated** micro roasting in store; his senses were overloaded with new sights, sounds and flavours. Dave pondered why coffee shops in the UK did not incorporate the roasting process as part of the café experience.



Fig 2: Coffee cherries growing in Lintong, Sumatra

The next stop on his round the world tour was South America. In Argentina, Dave was struck by the intense beauty of Buenos Aires; the faded grandeur of the buildings was a captivating backdrop to the café culture and he wanted to know more about the coffee industry. He journeyed on through South America in search of **connections**: looking for farmers; agents or wholesalers, anyone who might help **him trade**. He continued this search through Peru and Bolivia, sometimes arriving at coffee plantations unannounced. He couldn't see how to break into an established trading system. Eventually he found an importer, in Lima, who was willing to show him how coffee was processed. Importantly, he learned how batches of green coffee were roasted, tasted and graded in the coffee lab (this determines whether the coffee achieves a rating to which the term 'speciality' can be awarded). He began to understand how the quality of coffee was affected by bean variety, growing conditions, processing and roasting.

An overview of speciality coffee

The 1990s witnessed significant growth in coffee consumption in the UK, driven by international and national coffee shop multiples (such as Starbucks, Costa Coffee and Caffé Nero). Collectively they **redefined** the coffee shop concept; employing baristas to produce drinks made from 100%

freshly ground Arabica beans using espresso machines. The emerging café culture helped to shift the popular perception of coffee from a commodity product (brewed and **consumed** at home) **to that of a premium product and an experience in a branded space** (Ponte, 2002; Manzo, 2014; Simmons, 2004), placing differentiation at the heart of the value proposition. This sea change became known as the ‘second wave’ of coffee. **Morris (2013; 2016) reflects on the growth of a global coffee culture and notes the impact on espresso machine sales, barista training as well as national differences in tastes and menu.**

Coffee quality has continued to evolve in terms of sourcing, roasting, brewing and coffee shop experience, creating a distinct sector known as the ‘third wave’ or ‘speciality coffee’. It **can be seen** as a movement in which coffee producers and coffee shops place a greater emphasis on product origin, using roasting and brew methods to retain flavours that reflect the terroir (natural growing environment) of the coffee. (There is a similarity to how wine is categorised in terms of taste and quality.) There are around 140 speciality coffee shops and 40 independent roasters located in the north of England (Rees, 2016). Supply chains integrate contributions from a myriad of independent, geographically dispersed small businesses (Carvalho et al. 2016). Growers, processors, roasters and coffee shops work together to **provide high grade coffee**. Information detailing how coffee is produced must flow through the supply chain - to the consumer - in order that they can make sense of taste. Many coffee shops will present the customer with tasting notes and origin data.

There is no standard model for how a speciality coffee shop should look (Pilgrim, 2016). Quality through variability is reflected in the design and ambience of coffee shops. Therefore, speciality coffee is better defined by how organisations do business and through their shared values. It is characterised by:

- Traceable supply. Beans are typically sourced from small scale producers and named coffee growers estates/farms (Bryant and Sisel, 2015);
- Lighter roasting (retaining the flavours of bean variety and coffee origin), often provided by a community of independent roasters;
- The expert brewing of drinks by trained baristas using high specification equipment;
- Dialogue linking origin and taste that travels through supply chain in to coffee shops. The ‘story’ of coffee is communicated through menu boards, tasting notes and service.

The roaster is an important intermediary in the supply of speciality coffee, both in terms of roasting beans and in bridging supply chain relationships (Bowman, 2016); they inform how the coffee is to be brewed and served. **The barista communicates the** properties of different coffees, helping the customer taste the difference. The speciality coffee shop is somewhere to find exceptional coffee. The experience emphasises the intrinsic qualities of the coffee in a complementary **space**. An important consideration for business owners is whether drink prices should be higher than those charged by the large coffee multiples of the second wave, **in reflecting** the drive for the fairer distribution of income to farmers (Wheeler, 2016).

Back to business?

Despite seeing opportunities in speciality coffee, Dave needed to understand his aspirations and find a role; if not trader, then what? Although there was no business at this stage, his values were forming from what he had witnessed on his travels; he was starting to appreciate the importance of supply in determining coffee quality. His values are evident in the businesses today:

- For the benefits of the business to be shared between consumer and producer; for everyone to get a fair share;

- To purchase things correctly. Work properly and fairly with suppliers;
- To source coffee with sustainability in mind, to be addressed directly with farmers;
- To offer the best (for all involved). The impact of coffee needs to be measured in terms of returns to the coffee producing community.

Being responsible and creating a business that shares the benefits felt instinctive to Dave (as well as being characteristic of the third wave). However, he was still not ready to be in business.

Returning home and the beginning of a business venture

After a stop off in the US, it was time to go home; Dave returned to chemical engineering working his way up to Senior Operations Manager. **His** earnings were now being reserved for business set up. He sold his last property and resolved to live in the country, settling on the village of East Rounton, in North Yorkshire. He was lucky enough to rent ‘The Motor House’ within the Rounton Grange Estate, taking residence in what was once the chauffeur’s quarters. The location was an inspiration to Dave and he soon forged a close relationship with his landlord (with whom he embarked on further travels). Through this relationship and with the help of his partner, Tracy, he began to trade coffee and experiment with roasting in **the** estate’s Granary (where the roasting business is currently located). He named the business ‘Rounton Coffee’.



Figure 3: The Rounton Coffee Logo

He made a tentative start in January 2013 but to fully embrace the opportunity, he would need to cut his financial dependency on working in the chemicals industry. In pursuing an opportunity in speciality coffee, Dave faced personal and financial risks (Block, Sandner and Spiegel, 2015; Thompson and Martin, 2014).

“So I was forced into making (either) a decision...do I go in to work again or do I just try to make this whole coffee thing work? ... I may have been one of those people who tries to run a business, but is never actually able to leave the job.”

Despite aspirations to source direct from coffee producers, more pressingly Dave needed to build a market base and master the art of roasting. In the first instance he needed customers, so this is where he directed efforts. Initially he sourced **roasted** coffee from established wholesalers, while he concentrated on building demand, raising brand awareness, creating a website and getting the

granary operational, ready to source and roast ‘green coffee’¹. Through the effectuation process (Sarasvathy, 2001), he was learning what could be done.

He found ‘telling the story’ of his travels an effective way of gaining interest, but each new customer account would take considerable work. Dave took beans to craft and farmers’ markets. As a new player in speciality coffee, he needed to create a brand, reputation and contacts simultaneously (Zerwas and Korflesch, 2016), the aim being to become a wholesaler of choice. As a chemical engineer with no pedigree in speciality coffee, it was a considerable challenge...

*“We didn’t have any routes. We didn’t have any volume. We started with nothing...and it was trying to convince people why buy from us... I mean I was a chemical engineer before and all of a sudden I’m a coffee man...So you know, is this guy for **real?**”*

In the early days, the initial goals were simple and never formalised. He wanted to make a living from the business, aiming to roast and sell 200 kilos of coffee a month. As he progressed, Dave realised he would need to do more than ‘get by’ if he wanted Rounton Coffee to grow. Sales would need to increase exponentially in order to generate an income that would allow him to leave the chemical industry. By the summer of 2014 he had negotiated a settlement with his employer, who **was** aware that Dave saw his future elsewhere. As his savings began to dwindle so he redoubled his efforts; there was the personal acknowledgement that ‘he was the business’ **and without his full commitment, expansion was unlikely**. Looking back, the business became all-consuming and he thought of little else; **it had become an obsession**.

While Dave and his partner Tracy worked hard to establish the business, the need for specific roles had become evident. They couldn’t do everything themselves. Dave thought the business needed energy and expertise but he didn’t have a clear plan of who to employ, or in what capacity. He

¹ Green coffee has been processed, assessed and graded for trade. (Processing involves drying and removing the coffee bean from the outer cherry and protective layers.)

looked for staff in his emerging network, which appeared to be forming from a series of chance encounters. He was contacted by two graphic designers who wanted to photograph the roastery; Dave said yes, and when the time was right he asked them to create and develop the business website. (They had made a more positive impression than the professional web designers he had met previously.) He invited a fellow entrepreneur (also called Dave), a local carpenter and maker of the espresso bar at the Rounton Coffee roastery, to join the business. Initially Dave Beattie asked that he earn a place in the business by bringing in new accounts, a role that appeared to fit with his friendly demeanour. Pay was performance related in a bid to boost sales and production volumes. While his new business partner didn't stay in this role, the value of working with someone who was equally passionate and enthusiastic helped to energise the business. The new "Dave" was someone to bounce ideas off; Dave Beattie recalls the dynamic as "*fighting to take the business forward*". Having gained prior experience of overseeing apprentices in the chemical industry, Dave applied for government funding to provide apprenticeship training at the roastery. **Now he** needed to apply what he had learned from HR professionals as he looked to develop **the** team.

As the business grew so Dave could look to source coffee beans independently and, with more support, he could focus on brand development. He sought links with coffee bars in order to develop longer term, higher volume sales. He had a clear sense of position for the brand; to be more affordable than the London based speciality coffees, but something that tasted better than what was currently available to independent coffee shops and consumers within the region. While stories of his travels and his passion for coffee helped to get the brand known, taste was important too. Although he enjoyed talking about coffee origin and farmer welfare, he found that sales were influenced by how the coffee brewed and tasted and marketing needed to address this. Dave explains...

“for all those valuable ethics that you’ve got...you can only [kind of] have a sustainable supply chain as long as you’re still within that supply chain...so look after yourself, make sure you’ve got a good purchasing policy, you’re making sure that everyone reaps the rewards...But you’ve gotta stay in business...”

Growing the brand was a matter of getting coffee retailers to lift their standards, to make better coffee. Part of that proposition was working with him, as well as sourcing Rounton Coffee, in order get the product right. Offering expertise and advice were important in forging supplier-customer relationships. There was now a clear strategy for the roasting business. He was focused on pursuing wholesale opportunities, where there was sufficient volume, ideally as the sole coffee supplier for the client. For this to occur, he needed to work closely with coffee shops in order to understand the taste preferences of consumers. **Developing accounts had become a matter of learning how to take time with customers to understand their businesses.** The website (<http://www.rountoncoffee.co.uk/store>) was designed to support existing contracts as well as offering direct sales to coffee shop customers in the form of a subscription service.

An opportunity at Bedford Street, Middlesbrough

There was no formal plan for a coffee shop, Dave simply responded to an invitation to tender for a food/drink retail site as part of Middlesbrough Council’s urban regeneration agenda. The Council had earmarked two parallel streets (Baker and Bedford Streets) as areas that could support the growth of independent retail in the town, food and drink being a key part of the offering. The intent was to create the look and feel of London’s Borough Street Market (Blackburne, 2016). A coffee shop on Bedford Street, located between the main shopping area and the University campus, was an opportunity Dave was not willing to overlook. The roasting business required scale and he saw a coffee shop as another route to market for Rounton Coffee. There was also the opportunity to use the shop as a showroom for wholesale customers. Dave had got this far by acting on perceived

opportunities that had presented to him (Renko, Shrader and Simon, 2012), his enthusiasm wouldn't allow him to turn this one down (Laguna, Razmus and Zalinski, 2017) - he could always say no later. It was 2015 and if successful, he would be the first speciality coffee shop in his home town. He completed the application and then thought about how he could fund the venture; crowdfunding seemed like an attractive option.

Crowdfunding and speciality coffee

Crowdfunding has enabled small businesses and start-ups to appeal for investment using social media platforms, in effect democratising investment opportunities. An investor's decision to crowdfund may reflect a desire to support a specific organisation (as opposed to gain a financial return). Motivations can include getting the first release of new products, supporting local commerce or joining a global movement (Scott, 2015). In the case of speciality coffee, crowdfunders may wish to support: the business model, independent businesses, local businesses or ally their commitment to the ethics and values of the sector. Rewards may be derived from a feeling of belonging (Bouncken et al. 2015).

Forming supplier and customer relationships is important to any new business venture, but Dave could see the potential in developing a coffee shop supported by existing relationships as well as inviting contributions from those with a passion for coffee or a commitment to local business. Aware of successful campaigns run by other speciality coffee businesses, Dave realised crowdfunding could be used to: part fund the coffee shop on Bedford Street, increase the brand awareness of Rounton Coffee and, ideally, grow demand ready for when the **shop door opened**. Dave also hoped the crowdfunding campaign (using Kickstarter) would attract people seeking exclusive coffee products. Despite the obvious allure, it was not an easy option. A business plan and video story were required for a potentially mixed audience. Supporters might include family and friends as well as coffee enthusiasts, located anywhere in the world. Dave needed to create a clear

strategy and state how much money the business would require. He set the investment target at £10,000 and used the video to show how the money would be used. While the social media platform provided the opportunity to promote Rounton Coffee, the coffee shop would be named after its location, on Bedford Street. He thought the visual story should stress the link between roasting and the coffee shop businesses, as well as an association with Middlesbrough. He wanted each employee to be featured in the video and to then share the link across their respective social networks. Ideally the Kickstarter platform would allow the business to reach beyond existing networks.

Dave dedicated serious thought to how he would entice investment. He had to match funds with give-aways (non-financial rewards); however, if not thought through these could present significant cost to the business. He settled on gift boxes containing Rounton Coffee beans, tote bags and mugs (displaying **the brand**) and money off vouchers to be redeemed in the coffee shop. The intent was to drive footfall to Bedford Street and get packets of Rounton Coffee into peoples' homes. He was also keen that should the business achieve its funding target, rewards would be dispatched as soon as possible. It was important **to be** 'business like', regardless of investors' motives. He avoided offering rewards in the **form of time consuming demonstrations and experiences** as he couldn't afford for the shop to be compromised operationally at a time when the business model was being developed. The campaign was a success; the £10,000 target was achieved in early 2016, funded by approximately 300 supporter-investors around 50% of whom were local residents.

“When you’ve got 300 people that pledge to your support, then you’ve got 300 people who are out there with probably a bag of Rounton Coffee in the cupboard and the Rounton Coffee comes out at special times and it’s a conversation that they have with their friends and family...You look at it and it’s like the ripple effect... and it’s something to get people talking.”

Bedford Street Coffee Shop has been in operation for 18 months. It offers: a changing menu of coffees, informal dining, a showroom for wholesale customers, and forms an integral part of the ‘Orange Pip Market’, a monthly event where pop up businesses and entertainers are invited to trade on Bedford and Baker Streets. This event transforms the area into a pedestrianised leisure zone, giving the permanent retailers a significant upswing in trade. More recently Dave has experimented with **in-store** entertainment, from coffee tasting sessions, ‘Facebook Live’ events and comedy evenings. While the coffee shop is expected to reach sales targets, Dave considers the performance of the shop in conjunction with the roastery. The shop drives sales, which generate higher production volumes at the roastery. When we first met in 2016, Dave was working towards roasting and selling 1000 kilos per month (only then would he allow himself to buy a new car). Sales have continued to grow but despite now roasting around 2.5 tonnes per month (in June 2017) he had still not bought a new car.

To the future

Rounton Coffee is now a supplier for Teesside University. As campuses typically play host to multiple cafe units, the contract has been significant for Rounton. Furthermore, there is additional **business to be done in the supplier role.** Dave has continued to diversify in terms of leasing and maintaining espresso machines as well as providing barista training for his trade customers. Rounton Coffee also offers a pop up format, for trade shows and ‘Business to Business’ events; where talking over a cup of coffee can enhance the sale of products and services. **As a result Dave is better networked** in the wider business community. He feels the business, as a whole, is able to sustain bigger, potentially national contracts and the story doesn’t end there.

In July 2017, **Dave opened ‘The Joiner’s Shop’,** a café and dining experience **located at** Ingleby Cross in North Yorkshire. It is situated in an historic building on a popular cycle and walking route. The business sells Rounton Coffee but there is more emphasis on cooked food and dining. The

importance of provenance is reflected in sourcing foods from local farmers and Dave has included a map of these relationships in the marketing materials. **In organisational terms there will be new challenges in managing across geographically disparate locations offering different value propositions. Coffee roasting remains at the heart of the business and Dave continues to invest in growing the wholesale business. As demand grows, so production capacity at the roastery must be expanded.** There are now **twelve** members of permanent staff, working across three sites. **Dave is engaging his staff in target setting and** using monthly meetings to chart progress against objectives. He continues to develop customer accounts, responding to an increasing number of enquiries for business, as opposed to chasing leads. (In this sense his quest for brand awareness has been achieved.) He sees his contribution to the business as providing two key roles. Firstly, playing to his skills in brand development and brand awareness and, secondly, in exploring start-up opportunities. **He is still very involved in the operation of the business and continues to attend farmers' markets and serve coffee. Finally, Dave's commitment to sustainability is also leading him to explore the potential to be more involved in coffee farming and he may find opportunities here.**

Conclusion

Speciality coffee, as a sector, is experiencing growing pains, some of which are encapsulated in this story. Maintaining growth and attracting new customers continues to dominate strategic thinking. **The sector is increasingly competitive.** Both Starbucks and Costa Coffee now offer an artisanal coffee shop experience at a limited number of exclusive outlets (Mintel, 2015). **They are replicating parts of the speciality coffee proposition in order to convey product quality. Some third wave businesses are also attracting outside investors who are keen to increase the visibility and scale of speciality coffee. Most speciality coffee shops and roasters are niche businesses.** Should roasters modify their offering and reduce the variability in taste and seek wider

market appeal? Or should the third wave continue to emphasise **unique** niche products, differentiated through origin, ethics, taste and independence? The values of business owners will impact on perceived opportunities. Dave reflects on what speciality means to him.

It's making sure that everyone's paid a sustainable amount to actually make that supply chain work. So that's fundamentally three elements...quality, traceability and sustainability.

Can speciality coffee continue to provide Dave with opportunities for start-up and business growth and at the same time address sustainability? Or will his skills and interest in business start-up lead him to new domains for his next business opportunity?

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Teaching note synopsis

The teaching note addresses: the critical success factors (CSFs) for speciality coffee roasters and coffee shops (Q1); the rationale for new venture creation and the implications for entrepreneurial learning (Q2 and Q5); business models for coffee roasting and coffee shops (Q3); supplier and customer relationships and **the role of crowdfunding in gaining resources for growth** (Q4). The

questions inform a critical appreciation of the relationship between business context, new venture creation and entrepreneurial learning. **Final year undergraduate and masters' level students will have the opportunity to understand strategy and entrepreneurship in a contemporary context; there is also scope for self-reflection.**

Proposed questions

- 1) Determine the critical success factors for the speciality coffee sector.
 - 2) Reflect on the motives of the entrepreneur. Analyse Dave Beattie's decision to create a coffee roasting business and the later diversification into coffee shops.
 - 3) Use the Business Model Canvas (Osterwalder and Pigneur, 2010) to determine the value propositions of the coffee roasting and coffee shop businesses. To what extent do customer and supplier relationships support the value propositions?
 - 4) Is crowdfunding an appropriate means for **resource development and growth** in this context? Explore the rationale and skills required.
 - 5) **Analyse Dave Beattie's experiences in terms of entrepreneurial learning.** What did he need to learn and how did he do this? What are the implications for future business development?
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Model answers and areas for discussion

1) Determine the critical success factors (CSFs) for the speciality coffee sector.

Responses should explore coffee roasters and coffee shops independently and then reflect upon common factors across the sector. Various definitions of CSFs can be found within strategy texts; broadly speaking they are the things a business must do well if it is to achieve strategic success, largely determined by the business environment (Thompson and Martin, 2014). CSFs may be identified as sets of behaviours or discussed as competencies and capabilities. They are critical in determining whether an opportunity can be converted into a strategy that will ‘add value’.

For the coffee roaster

- Responses should acknowledge the importance of sourcing high quality coffee beans. The term speciality can only be applied to coffee that reaches the appropriate grade (visit the Speciality Coffee Association website <https://www.sca.coffee> for details of standards). The coffee should be traceable and from sustainable sources.
- The roasting operation must enhance taste and convey the terroir of the coffee and bean variety. Relationships with retailers and coffee shops can be helpful in perfecting the roast.
- Customer accounts/relationships that offer the opportunity for high volume production. Ideally, the roaster will look to be sole supplier for a coffee shop with the view **of supporting the growth of the retailer to drive up roasting volumes.**
- Brand creation and brand maintenance. Well respected coffees will help new independent start-up coffee shops to grow. (In contrast to the second wave, in speciality coffee it is the roaster’s ‘brand’ that helps to differentiate the coffee shop.)

For the coffee shop

The third wave coffee shop is differentiated from the second wave. The latter typically offers own brand coffee beans that are blended to deliver a consistent taste, within a standardised service space (Bookman, 2014; Simmons, 2004). The speciality coffee shop experience **presents** differentiation in terms of:

- Consistent supply of ‘branded’ speciality coffee;
- High quality drinks;
- Information that explains the quality proposition; from the menu board to the reading matter and customer service.
- Shop location and attracting footfall
- Selling food, offering events – such as coffee cupping/tasting – to enhance revenues;
- Ambience
- The retention and development of expert staff. This is vital to the quality proposition, both in terms of producing drinks and in educating the customer to appreciate the offering.

There are challenges for coffee shops in balancing the values of speciality coffee and being market responsive. For example, speciality coffee shops may not offer flavoured syrups or artificial sweeteners; as they mask the coffee flavour. Finding affordable locations may also impact on footfall.

For the speciality coffee sector, as a whole

It is worth looking at comparable industries, such as craft beer micro-breweries (Danson et al. 2015) in order to appreciate the nature of differentiation and how this impacts on business relationships. In speciality coffee, coffee shops support independent producers and the producers enable

differentiation in coffee shops. In the case of Rounton and Bedford Street it could be argued that vertical integration supports differentiation in each business.

Finally, the sector is characterised by a commitment to producer welfare. This shared value can enhance differentiation opportunities across the supply chain and in coffee shops. Barney (1986) provides the definitive view on how values and culture can be used to create sustainable competitive advantage.

2) Reflect on the motives of the entrepreneur. Analyse Dave Beattie's decision to create a coffee roasting business and the later diversification into coffee shops.

A good starting point would be to review the case study in order to produce a timeline of opportunities and key business developments. Analysis can explore the motivation for entrepreneurship and consider the dynamics of push and pull entrepreneurship (Dalborg and Wincent, 2015). Push factors could relate to dissatisfaction with employment and career prospects. Pull factors include seeing an attractive industry and perceiving a quality proposition that was not evident in the UK. The choice of coffee roasting reflects the entrepreneur's interests and skills in 'technical processes', something the entrepreneur wants to do and has experience of. There is also the cause of farmer welfare that compelled Dave to take action. In this case, both the roasting and coffee shop propositions can be likened to Kirzner's view of an opportunity (Goss, 2007), one with existing market appeal that can be discovered by a motivated entrepreneur.

Opportunity perception invokes entrepreneurial action (Renko, Schrader and Simon, 2012). However, the ability to bring a business to fruition requires that the perception informs objective market thinking. Initially Dave Beattie could not see how to generate coffee sales as he did not have connections in - and an understanding of - the market.

(McMullen and Shepherd, 2006) make the distinction between perceived and actual opportunities and Martin and Wilson (2015) identify the need for opportunity related capabilities (both internal and external). These could be explored here with particular emphasis on networks (external) and intent (internal).

3) Use the Business Model Canvas (Osterwalder and Pigneur, 2010) to determine the value propositions of the coffee roasting and coffee shop businesses. To what extent do customer and supplier relationships support the value propositions?

The business model canvas (Osterwalder and Pigneur, 2010), can be used to explore the coffee roasting business and the later addition of the coffee shop. A canvas should be produced for each business and then reviewed in the following way. **(Additional literature can be used to inform the different aspects of the business model.)**

Firstly, for Rounton Coffee, the business model canvas can identify resource and knowledge gaps and how they are overcome. The following points can be discussed:

- The main **customer segments** are speciality/independent coffee shops. The growth in roasting is dependent on the market appeal of speciality coffee shops. Mintel and Allegra produce industry specific reports that explore the growth in speciality coffee and the future potential for the sector. Referring back to **Question 1**, the roaster's brand can help the coffee shop differentiate.
- The **value proposition** is typically niche. The scope for growth in speciality coffee is affected by dilemmas in quality and price, and whether new coffee shops opt for a second wave or speciality (third wave) proposition. To what extent do coffee shops want to stress the values and taste of the product? **The value proposition may also reflect the values of the owner.**

- The business model requires unique **channels and key partners**; roasters need to be able to access high grade green coffee and find shops and retailers to deliver high quality drinks.
- The relatively small scale of the business can be challenging in terms of **establishing revenue streams**. In the case of Rounton, Dave was attempting to attract new coffee shops but this involved asking them to switch suppliers and develop a new quality proposition. This requires a close and supportive relationship from the roaster.

Applying the business model canvas to Bedford Street Coffee provides an opportunity to explore the scope for synergy between roaster and coffee shop. **Analysis should identify** operational synergies and the management insight that comes from vertical integration with the supply chain.

- In terms of **customer segments** it is important to explore why coffee enthusiasts and aficionados will choose speciality coffee. Mintel reports give good insight into consumer trends. (Also see the work of Jonathan Morris for an overview to developments in the **global coffee culture**.)
- The **value proposition** should address both the coffee product and the coffee shop experience. The sociality or interaction between customers and baristas and /or owners can be seen as enhancing the experience. Within small businesses there may be ‘perceived relationship support’ (De Clercq and Rangarajan, 2008): dialogue between customer and business owner/entrepreneur that can enhance the capacity for customer support. The entrepreneur may seek to foster good customer relationships.
- **Key activities**, should address the operational aspects of coffee shop operation. Sources of differentiation include: shop location, sourcing, drink and food menus and ambience. The

coffee shop creates a context in which customers can talk and learn about taste variability and form a relationship with the business.

- **Relationships** are key to this combined model. Dave had already worked with coffee shops as customers; he would have insight into how to operate the business prior to start up. Good rapport with coffee shops and their customers are a key part of **conveying and sharing** the business model.

In terms of operational and structural synergies the roaster supplies the coffee shop. Bags of coffee beans can be displayed in store enhancing the status of the coffee shop. Dave's agenda for raising brand awareness of Rounton Coffee is enhanced by being associated with an experience. Practically, the shop can be used for demonstrations and tasting sessions for wholesale customers. (See De Wit and Meyer, 2010, for synergy and business strategy terminology.)

The case concludes on further diversifications. The award of larger supply contracts present the opportunity to offer a comprehensive coffee system to other coffee shop start-ups, combining the supply of coffee beans, barista skills training, leasing coffee machines, consultancy and business support that can be showcased through the Bedford Street site. This 'ecosystem' can be seen as an opportunity derived from the diversified organisation. The recent development of the Joiner's Shop has been informed by the Bedford Street experience, although the more rural setting may attract a different clientele.

4) Is crowdfunding an appropriate means for resource development and growth in this context? Explore the rationale and skills required.

Crowdfunding sites give businesses a global platform from which to request funding and gain support (Bernadino and Santos, 2016; Culkin et al.; Kuo and Lui, 2014). While calls for investment are usually financial, returns can take the form of rewards such as gifts, money off vouchers and

event invitations. (The video story on Kickstarter should be viewed and there is scope for comparative analysis with other food and drink business propositions.)

Acquiring resource through crowdfunding in speciality coffee could be explained by the following:

- **Tec savvy clientele.** Many customers are well connected and technologically proficient. It is worth looking at the success stories of the London based coffee businesses listed in Table 1. below.
- **Underpinning values.** Crowdfunding attracts supporters of good causes or products and services for which they are ‘sponsors’ or ‘fans’ (Scott, 2012; Kuo and Lau, 2014). Funding can also come from other coffee businesses. **They may provide financial resource as well as wider recommendation.**
- The industry appeals to aficionados and they may be attracted to coffee propositions that are not yet widely available.

The results of three recent London based speciality coffee crowdfunding campaigns can be located on CrowdCube.com and are listed in Table 1. below. These should be investigated in order to better understand motives, rewards (financial and non-financial) and outcomes.

Organisation	Total raised	No. of contributing investors	No. of coffee shop outlets
Grind grind.co.uk	£1,294,000	447	6

Notes coffee notes-uk.co.uk	£908,400	368	6
Taylor Street Baristas taylor-st.com	£1,805, 500	493	8

Table 1: Crowdfunding campaigns for speciality coffee, taken from Crowdcube.com (2016)

Crowdfunding taps into the supply chain and customer collaboration that already exists in this sector. As Dave Beattie **discovered**, crowdfunding is also an effective tool in building local support that can be converted into custom. Responses can analyse how crowdfunding supports **and resources** the business model, specifically in terms of utilising ‘customer relationships’ and creating ‘new channels’ for customers to access the business. Dave minimised the cost of building these channels in carefully planning ‘giveaways’ and money off vouchers thereby encouraging customers to visit the new coffee shop.

5) Analyse Dave Beattie’s experiences in terms of entrepreneurial learning. What did he need to learn and how did he do this? What are the implications for future business development?

Being outside of the industry required the entrepreneur to learn about the business context. Cope and Pittaway (2007) determine that learning takes place in conjunction with the creation of the new venture, but Dave's experiences demonstrate that learning was required before he could start. He needed to learn about speciality coffee, both in terms of understanding the value proposition and in developing his business values.

Entrepreneurial learning has been on-going. Crick (2011) and Gibb (2002) identify how entrepreneurs learn and the following can be applied to the case: learning from experimenting and doing; learning from mistakes; learning through relationships and industry links; learning from feedback (with suppliers, customers and colleagues within the business); learning from opportunity taking. It would also be relevant to discuss how prior learning, from his career in the chemicals industry, helped Dave to develop the business.

The entrepreneurial learning agenda is on-going, evolving in focus (what needs to be learned) and approach (how) as the **business grows and diversifies**. Responses could reflect on the entrepreneur's motivation and propensity to learn. Relevant theories are the notion of self-efficacy (Bandura, 1997, 2001; Dalborg and Wincent, 2015; Goss, 2007) and the role of effectual learning (Sarasvathy, 2001, 2008). Analysis can explore the on-going importance of relationships from start up in coffee roasting through to creating a tailored coffee system to support other coffee shop start-ups.

In summing up there is the scope to review the role of supplier and customer relationships in new ventures and business growth. They are a considerable source of knowledge and feedback, providing opportunities for learning and learning transfer (Gibb, 2002; Maqsood et al. 2007). **In the case of this** entrepreneur, values are important both in initiating the business and in directing future opportunities for growth. Conclusions should determine whether the entrepreneur's passion, curiosity and self-efficacy are specific to speciality coffee, or if they can be transferred to another context?

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