



Cafes & Coffee Shops in the UK

All information correct as at 30.07.19

Information Source: 
WHERE KNOWLEDGE IS POWER

Cafes & Coffee Shops in the UK: Sector Overview

What trends are shaping the industry?

The industry has performed strongly over recent years, aided by greater demand, as the coffee culture is becoming more popular among consumers. Over the five years through 2019-20, industry revenue is expected to grow at a compound annual rate of 4.7%, to reach £6.5bn. Although concentration in the industry is low due to the number of independent coffee shops, chains have prospered due to their brands. Larger operators have continued their expansion across high streets and shopping centres over recent years as demand for coffee has remained resilient, despite ongoing economic uncertainty, which has led to low consumer confidence and created a challenging environment for the retail and casual dining sectors. Demand for high-quality coffee has increased revenue for independent cafes, which has led to more competition in the industry. The growth opportunities in the industry have attracted new entrants and international investment, which is expected to result in enterprise numbers rising at a compound annual rate of 5.4% over the five years through 2019-20. The industry is expected to continue growing over the next five years, although at a slower rate.

The Outlook

The industry's growth is expected to slow over the next five years. The revenue is expected to grow at a compound annual rate of 3.2% over the five years through 2024-25 to reach £7.7bn. However, increasing competition from coffee-serving establishments in other industries, in conjunction with growing demand for luxury at-home coffee products is expected to constrain industry growth. Further, price competition from other external industries is likely to constrain growth in the coming years, while rising wages and potential supply issues may also weigh on profitability.

Key Statistics

Revenue

£6.5bn

Profit

£694.2m

Annual Growth 15-20

4.7%

Wages

£1.6bn

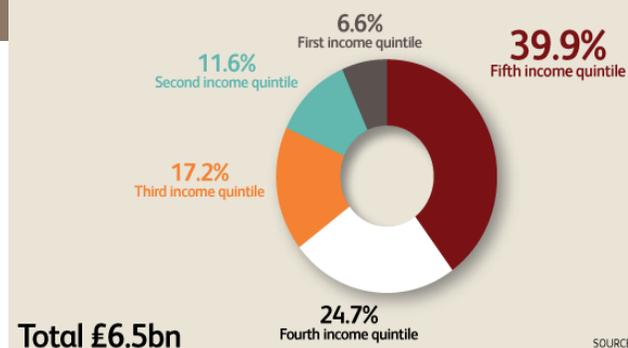
Annual Growth 20-25

3.2%

Businesses

8,007

Major market segmentation (2019-20)



SOURCE: WWW.IBISWORLD.CO.UK

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Regional Insights

London

- London is the dominant location for industry establishment numbers, accounting for c.25.7% share. High disposable incomes combined with favourable demographics, such as a high percentage of younger people and tourists have created favourable demand conditions in London, particularly for coffee. London has a large number of chain shops and independent cafes, including many artisan shops dedicated to catering to specific tastes.

The South East

- The South East is expected to account for 13.7% of establishments. Consumers in the South East benefit relatively high average wages, allowing them to make more discretionary purchases. Changing consumer behaviour has led to higher high-street vacancy rates in provincial towns. A number of industry operators have taken advantage of this opportunity, resulting in a high number of cafes and coffee shops in the region.

Other regions

- The North West is home to the third-highest share of establishments, accounting for 9.3% of the total. Young and cosmopolitan populations in cities such as Manchester and Liverpool have driven demand in the region. The South West is home to 7.4% of establishments, with tourist trade acting as a strong source of demand for industry operators during the summer months.

Sector Trends

World price of coffee

The price of coffee is determined on world markets and can be highly volatile, which can affect firms' profit margins. Since coffee is a relatively homogeneous good, coffee shops may have difficulty passing on cost increases to price-sensitive customers. The world price of coffee is expected to increase during 2019.

National Minimum Wage

Cafes and coffee shops tend to employ a relatively large number of low-paid staff and labour costs make up a fairly sizeable share of operators' total revenue. The minimum wage is expected to rise over 2019-20, in line with annual increases to the National Living Wage, which may threaten profit margins.

Changing consumer preferences

Increasing consumer demand for out-of-home coffee has been the key driver of industry expansion. Changing consumer tastes and brand loyalty have allowed many chain cafes and coffee shops to expand their reach and market their products as affordable luxuries, keeping consumers away from instant coffee. This allowed the industry to perform well even during the economic downturn.

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