

NHH



“The coffee bar experience”

A strategic analysis of the coffee bar market in Oslo

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Master Thesis within the main profile of Strategy and Management

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

Preface

This thesis is written as a part of the Master of Science degree at the Norwegian School of Economics within the main profile of Strategy and Management.

As a “coffee enthusiast” and former contestant in the Norwegian Barista Championship, the Norwegian coffee culture and coffee bar markets have long been of special interest to me. This was therefore a natural choice of topic for my master thesis within strategic analysis to finish my higher education.

I have truly enjoyed working on this project comprising two topics that I am very interested in. It has been an interesting, demanding, motivating, exciting, and sometimes frustrating process, and I am very grateful for all that I have learned from conducting this research project.

I am also very thankful to those who have helped me throughout the different parts of the project. I would like to thank my supervisor, Prof. Kirsten Foss, for her feedback and guidance during the process. I would also like to thank Tron Kleivane for his perspectives and strategic insights regarding the coffee bar market. Furthermore, I would like to thank the subject matter experts and all the respondents for their time and commitment in sharing their knowledge and opinions regarding the market actors and consumer preferences. Last, but absolutely not least, I would like to thank my family and friends for all their help and motivational support through these last months.

I could not have written this thesis without all of your contributions, and I hope you will enjoy reading the result of your kind efforts.

Bergen, June 19th 2014

Maren Cathinka Bull Berger

Summary

During the later years, there has been a rapid growth of the number of coffee bar chain actors in Oslo. Some of the market actors are now struggling to position themselves and their coffee bar concepts in this changing competitive environment. The purpose of this master thesis is to examine the competitive environment of the market today, and to develop a positioning strategy for a coffee bar actor that best serves customers' needs and to the greatest extent protects the actor from the competitive forces of the market.

The thesis is founded on the theoretical frameworks of industry analysis, resource-based theory and activity-based theory. The research strategy comprises a case study of the competitive environment of the coffee bar market in Oslo and a customer survey of product and service characteristics that create value for customers when visiting a coffee bar.

The analyses show that the actors compete through differentiation strategies focusing on providing high quality coffee beverages or high quality coffee bar atmosphere as sources of customer value. The market is further characterized by low entry barriers and close substitutes, and supplier bargaining power to some extent. To reduce the threats of these competitive forces, it is critically important for the coffee bar actor to obtain a concept that creates customer value through best serving customers' needs. The findings from the coffee bar customer survey indicate that high coffee quality and a range of service attributes related to their "coffee bar experience" are the most important value creating factors. None of the actors in the market today are found to serve both these needs categories. To exploit this value potential and reduce the competitive threats obtaining a high quality barista culture and access to "A-locations" are necessary. The value creation is further enhanced through the proposed activity system.

The proposed positioning strategy emphasizes the potential for superior profit through offering both high coffee quality and high atmosphere quality and thereby best serve the market demand for coffee bar products and services. The coffee bar actor must also strive to obtain high operational effectiveness to maximize the cost-revenue margin of the value creation. To secure the positioning from imitation by competitors, the strategy prerequisites a strong focus on continuously improving the coffee bar concept to best serve current and emerging customer needs.

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1. Introduction

Norwegians have for a long time been among the world leaders with regards to coffee consumption. Next after water, it is the beverage with the highest consumption in Norway. Nearly nine out of ten adult Norwegians drink coffee and two out of three drink coffee every day, resulting in approximately 11 million cups of coffee being consumed in Norway every day. In Oslo, 77 per cent of the inhabitants are coffee consumers with a daily consumption of 4,4 cups of coffee on average. (Ipsos MMI, 2013, p. 12, 26; Norsk Kaffeinformasjon, 2014) Most of the coffee consumption in Norway is consumed at home or at work (Ipsos MMI, 2013, p. 22). However, coffee is also a central part of many other types of social interaction in the Norwegian culture. For instance, coffee is a culturally expected beverage to serve when entertaining guests and a natural choice of beverage when one wants to relax or enjoy oneself. Moreover, to “take a coffee” (i.e. have a cup of coffee) is a widespread Norwegian cultural statement indicating to spend some time together in a social setting with friends or family, and most often at a coffee bar. (Haugsten, 2014, p. 37; Ipsos MMI, 2013, p. 29)

Coffee bars are not a new concept in modern societies. The traditional use of coffee and formation of coffee bars arose and spread in the Ottoman Empire in the 1520s. By the 1650s, coffeehouses had become fashionable meeting places for social interaction in that period’s highly modern cities such as London and Paris. During the nineteenth century coffee spread to become a common commodity and was integrated into the eating and drinking habits in most countries. Moreover, coffee bars became a standard feature in urban buildings in cities around the World. (Holm, 2010, p. 40-43)

The first coffee bar in Norway opened at Steen & Strøm in Oslo in 1959. The coffee bar had modern coffee bar equipment and used machines built on the same principles as the modern coffee machines used today. The coffee bar quickly became a popular meeting place in the city. The market expanded in the 1980s as several more individual coffee bars opened in the central areas of Oslo, and in 1994 Kaffebrønneriet opened the first coffee bar of its coffee bar chain. By 2009 the coffee bars in the central area of Oslo had an annual turnover of approximately NOK 400 million and represented a substantial economic contribution in the area they operated within (Holm, 2010, p. 30-40, 54-55).

Today, Oslo is known as one of the World's best cities for quality coffee, and its coffee bars have a worldwide reputation among coffee connoisseurs of holding an exceptionally high quality level (Christensen, 2011; Sarkis, 2012; Strand, 2011). This is because Norwegian baristas and connoisseurs have held a persistent focus on increasing the quality level of barista knowledge and coffee beans and beverages offered at the city's coffee bars since the very beginning of the contemporary coffee bar culture (Stenersen, 2014). Moreover, this focus has developed into a Norwegian signature roast of the coffee beans used that is exceptionally light, resulting in a very different flavor from the general style worldwide. The roast accentuates the natural style of the coffee beans, and the lack of heavy roasting to compensate for low coffee bean quality results in a general use of higher quality coffee beans in the Norwegian coffee tradition. (Sarkis, 2012) Consequently, the consumers are used to being served Norwegian style coffee at coffee bars. Moreover, there is also a current consumption trend of the overall Norwegian consumer being more interested in coffee as a specialty product, increasing their knowledge about coffee beans and beverages and the craft of coffee making (Aldrige, 2012).

Later years there has been an increase in the number of coffee bar chains establishing themselves in Oslo. These have mostly been international coffee bar chains that have expanded their concept into the Norwegian market. The number of coffee bar units spread out in the central areas of Oslo is also increasing, and the concept of visiting a coffee bar seems to be spreading as a social concept among the city's inhabitants. As Norwegians are among the world's top regarding coffee consumption the market seems to hold very high potential of profit generation for the market actors. Still, some of the coffee bar actors are struggling to position themselves to extract the market's profit potential (Horntvedt, 2014). The relatively rapid increase of the number of actors in the market and demanding coffee consumers indicates that the market dynamic is changing. This may therefore affect the potential economic value creation for the actors in the market today. As a former participant in the Norwegian Barista Championship and economics student majoring in strategic analysis, I found this issue to be very interesting to examine further. I am curious to know what factors create value for Norwegian coffee consumers when visiting a coffee bar, and how the market actors should position themselves to exploit this profit potential. These issues thereby form the basis for the problem formulation of this thesis:

Based on the competitive environment of the market for coffee bars in Oslo and Norwegian coffee consumers' preferences for coffee bar products and services, how should a coffee bar actor position itself to exploit the market potential of economic profit?

Answering the problem formulation also entails answering the following sub-questions related to the chosen theoretical framework and data collection methods:

- **What competitive forces influence the competitive environment and potential for profit generation in the market?**
- **What products and services offered by coffee bars provide value for coffee bar customers?**
- **What strategic resources and activities are necessary to create this customer value and obtain the resulting economic profit?**

To answer these questions, I will first provide a definition and description of the market and its relevant actors to provide an overview of the context of the problem formulation. The next chapters then provide an overview of the theoretical frameworks and research method that are applied to elucidate the research questions. The theoretical framework forms the basis of the analyses of the collected data. The main sources of data collection are focus interviews with subject matter expert of the coffee bar market in Oslo and a coffee bar customer survey about coffee bar product attributes and their customer value creation. The analyses of the collected data findings then provide an assessment of the competitive environment of the market and a proposition of a coffee bar actors' strategic resources and activities to create customer value and obtain a profitable positioning.

2. What is a coffee bar?

2.1 Defining the coffee bar, its industry and its market

To develop a thorough understanding of the context and environment of the coffee bar market of Oslo, it is necessary to start with some definitions of the companies' business, their industry and their market. A company's business is the definition of its products and service offerings. This definition also indicates the company's business strategy with regards to operations for producing its products or services, and where the firm wants to compete (Porter, 1998, p. 32). Based on the company's business, it will belong to an industry and trade in a market. An industry is a group of companies that supplies a market through offering products or services that are close substitutes for another (Kotler & Keller, 2009, p. 337; Grant, 2013, p. 77). Competitors in the market are thus companies that offer products and services that satisfy the same customer needs. (Kotler & Keller, 2009, p. 337) When making a market definition, one must determine the boundaries of the market, both geographically and in terms of range of products produced and sold within it. (Pindyck & Rubinfeld, 2009, p. 9) This implies that the company's market definition may be narrower than the definition of the industry the company belongs to. Use of the terms industry and market will in this thesis always indicate the group of competitors that supplies the market defined by the market boundaries described in the next sub-chapters.

2.2 Coffee bars and the "coffee bar experience"

In this thesis, the following definition of a coffee bar and its product offerings will be used;

Coffee bars are shops that primarily offer freshly brewed coffee beverages. The coffee beverages are mainly espresso-based and prepared using an espresso machine, but can also be filter-brewed using a filter-based coffee brewing machine. The coffee beverages are made-to-order by a barista, who is a person educated and trained in the art of coffee making. Most coffee bars also offer a selection of small meals and baked goods, teas, chocolate beverages, bottled beverages, and coffee brewing equipment such as small bags of grinded coffee beans for home brewing or take-away coffee mugs. However, all the other products sold in the coffee bar are there to support the main product, namely the coffee beverage. The purchase of a product provides the customer with the opportunity to sit and

consume the product at the coffee bar premises. Therefore, coffee bars also serve as centers of social interaction where customers can spend some time, either individually or meet in small groups. The main coffee product is further a part of a “coffee bar experience”, which consists of a number of attributes related to the customer’s experience of buying and consuming the coffee beverage at the coffee bar. The experience includes attributes such as the perceived quality level of the coffee beverage, the customer service of the purchase situation, the atmosphere and interior design of the coffee bar premises, and the availability of other products such as newspapers or Wi-Fi access.

Based on the definition, a coffee bar’s business is to sell a main product of freshly brewed made-to-order coffee beverages. This is further connected to a number of additionally offered products and services related to the consumption of the product at the coffee bar, which constitutes the attributes of the customers “coffee bar experience”. In this thesis, these attributes will be categorized into four main categories; coffee beverage quality, coffee bar customer service, coffee bar atmosphere and additional offerings.

2.2.1 Coffee beverage quality

The coffee beverage quality is related to the customer’s perceived quality of the coffee beverages offered at the coffee bar. This includes the whole process of producing a cup of coffee; from the quality level of the coffee beans used, the barista’s craftsmanship, and the presentation of the coffee beverage. The customers’ perceived quality level is thus affected by their observation of the barista making the coffee beverage and the resulting taste, smell, warmth and presentation of their purchased coffee.

2.2.2 Coffee bar customer service

The concept of the coffee bar customer service is related to how the customer is met and treated by the staff when visiting the coffee bar. This includes the barista coffee knowledge and ability to help customers when choosing their coffee beverage, and the speed of service from the customer places the order until it is produced, in addition to general customer service.

2.2.3 Coffee bar atmosphere

The concept of the coffee bar atmosphere is related to the interior architecture and design of the coffee bar. It contributes to the coffee bar experience through affecting the customer's feelings, mood and attitudes related to the consumption of the coffee beverage at the coffee bar. The objective of the coffee bar interior design is therefore to create an atmosphere providing a positive consumption experience for the customer. Achieving such an atmosphere implies an intelligent floor plan to be able to cope with the number of people waiting in line at the counter and the customers who are seated. Typically the coffee bar has a counter where the main interaction between the customer and the baristas occur. The espresso machine and the barista work station is placed behind the counter, but in a way so that the customers can see, hear and smell the process of the coffee brewing. Furthermore, the counter typically functions as a display for the baked goods and small meals that are offered. The cash register is also placed within easy reach for the barista behind the counter. This helps keeping a high service level by increasing the speed of service. (Holm, 2010, p. 57-66) The coffee bar seating area allows for customers to sit down and consume their purchased products. The interior architecture and design of this area varies among coffee bars, but the overall objective is nonetheless to contribute positively to the customers' coffee bar experience.

2.2.4 Additional offerings

The concept of additional offerings is closely related to the idea of coffee bars being a place to take a break and spend some time, thereby becoming "the third place" of peoples' daily lives after being at home or at work. It is related to other products and services offered at the coffee bar than the coffee beverage, such as the coffee bar's selection of meals, baked goods and other beverages than coffee, and the selection of coffee beans and equipment for home brewing. Additional offerings is also related to the customer's accessibility of the coffee bar, mainly referring to the coffee bar's opening hours. The concept is also related to the customers' accessibility at the coffee bar through services such as Wi-Fi access. In addition, the concept also includes entertainment such as availability of newspapers and magazines for the customers to borrow while consuming their coffee bar products.

2.3 Coffee bar customers

Most coffee bars attract a wide variety of customers, and their reasons for visiting the coffee bar constitute a range of different consumer needs. The main age segments are young adults of 20-39 years old, and there are typically more women than men who visit coffee bars.

However, the total customer group span over a larger age segment and include both male and female coffee bar customers (Coffee bar subject matter experts) In general, three main customer groups can be defined based on their objective for visiting the coffee bar; those who visit the coffee bar to buy a cup of coffee to take with them on their way to their next destination, those who use the premises as a place to work or spend time in solitude, and those who use the coffee bar for socializing (Holm, 2010, p. 117).

2.4 The coffee bar market in Oslo

The principle of close substitutes is the foundation for the definition of the coffee bar market in Oslo. Two products are substitutes if, when the price of one product increases and the price of the other products is unchanged, the demand for the first product is reduced and the demand for the second product is increased. Products tend to be close substitutes when these conditions hold; they have similar production performance characteristics, they have similar occasions for use, and they are sold in the same geographical market. (Besanko et al, 2010, p. 207-208) The product characteristics of the coffee bar product and its occasions for use are described in the definition in chapter 2.2. The definition implies that companies selling coffee as an additional product to their main product, such as bakeries, restaurants, fast-food chains, kiosks and convenience stores are not part of the coffee bar industry. The geographical market is defined as Oslo city centre within the motorway Ring 3. The motorway function as an infrastructural border around the city centre, and most of Oslo's coffee bars are located within this area.

The coffee bar market in Oslo can broadly be divided into three strategic groups; individual coffee bars, Norwegian coffee bar chains and international coffee bar chains. A strategic group is the group of firms in a market following the same or similar strategy concerning product range, geographical area, level of product quality, offering of service activities and growth rate (Grant, 2013, p. 105). Actors in the first group include coffee bars driven by idealists focusing on supreme coffee beverage quality, such as Tim Wendelboe, the World

Barista Champion of 2004, and all other coffee bars that are not a part of a chain (Tim Wendelboe, 2014). Actors in the second group are Kaffebrenneriet and Stockfleths, and actors in the third group are Espresso House, Wayne's Coffee and Starbucks. As the coffee bars in the first group often do not have the resources or idealistic focus to grow and actively compete in the market, the focus of this thesis will be on the second and third strategic group of the coffee bar market in Oslo.

2.4.1 Kaffebrenneriet

Picture 1 Kaffebrenneriet Markveien (Kaffebrenneriet, 2014c)



Kaffebrenneriet was established in Oslo in 1994, and is today Norway's largest coffee bar chain. They follow a fairly slow expansion strategy, and by 2014, they had a total of 30 coffee bar units in Norway, of which 23 were located in Oslo. (Fuller & Hyvang, 2014; Holm, 2010, p. 105; Kaffebrenneriet, 2014a) They base their concept on a strong passion for coffee, focusing on delivering high quality coffee products made by highly educated and trained baristas. They are deeply involved with direct trade and buy their coffee beans through the Cup of Excellence auction system for high quality coffee. They only offer speciality coffee, which is sourced and roasted by Solberg & Hansen, Norway's leading speciality coffee roaster. (Alliance for Coffee Excellence, 2014; Kaffebrenneriet, 2014b; Nordic Coffee Culture, 2013) They also sell a small selection of meals and baked goods with local Norwegian traditional ingredients, and a large selection of coffee beans and brewing equipment for home use in addition to their coffee beverages (Kaffebrenneriet, 2014b; Lorch-Falch, 2012b). Kaffebrenneriet uses locations of 80-100m², and their premises have

large windows and are decorated with homey furnishings to create a subdued atmosphere (Fuller & Hyvang, 2014; Kaffebrønneriet, 2014b).

2.4.2 Stockfleths

Picture 2 Stockfleths Prinsens Gate (Hoffman, 2006)



Stockfleths is a chain of coffee bars that originates from a specialist retailer of coffee and tea established in Oslo in 1894. It became a coffee bar chain in the 1990s, and by 2014 they had 6 coffee bar units in Oslo. (Stockfleths, 2011a; Stockfleths, 2011b) The chain follows a fairly slow growth strategy with the objective of expanding with more or less one coffee bar location each year (Bach, 2013). Stockfleths base their concept on a strong passion for coffee, resulting in a strong coffee quality focus. They only serve speciality coffee and have a strong involvement in direct trade with coffee farmers when purchasing their coffee beans. Moreover, their coffee beans are sourced and roasted by Solberg & Hansen. Their baristas are also highly educated and trained, and many belong to the Norwegian coffee connoisseur community. (Nordic Coffee Culture, 2011) Stockfleths offer a selection of coffee beverages, teas, coffee beans and brewing equipment, and a small selection of meals and baked goods in addition to their coffee beverages (Stockfleths, 2011a).

2.4.3 Espresso House

Picture 3 Espresso House St. Hanshaugen (Berger, 2014)



Espresso House is a Swedish coffee bar chain established in 1996, and is today Sweden's largest coffee bar chain. They entered the Norwegian market in July 2013, and ten months later they had expanded to 12 coffee bar units, which are all located in Oslo. (Espresso House, 2014b; Bruaset, 2013) By the end of 2014 they plan to have opened eleven more outlets in the central areas of Oslo, where seven of the locations are bought from the bakery chain United Bakeries (Fuller & Hyvang, 2014). All their Norwegian units are fully owned and operated by Espresso House (Espresso House, 2014b). Espresso House base their concept on offering attractive meeting places for people seeking a break from everyday life. In addition to their coffee beverages, they offer a large selection of hot and cold meals, beverages and baked goods, in addition to coffee beans and equipment for home brewing. Moreover, their concept also include a coffee quality focus as they use speciality coffee sourced and roasted by Solberg & Hansen and they have certified baristas. (Espresso House, 2014c; Coffee bar subject matter expert) Espresso House uses relatively large premises of 160-300 m². The interior design of each coffee bar combines different types and sizes of chairs, couches and tables to provide comfort levels that fit the customers' needs according to how long they are planning to stay at the coffee bar. (Fuller & Hyvang, 2014)

2.4.4 Wayne´s coffee

Picture 4 Wayne´s Coffee Pilestredet (dittOslo, 2011)



Wayne´s coffee is a Swedish coffee bar chain established in 1994 (Wayne´s Coffee, 2014d). They entered the Norwegian market in 2007 through buying the Oslo-based coffee bar chain Kaffe & Krem (Hornvedt, 2014). By 2014, they had a total of 31 coffee bar units in Norway, where 14 are located in Oslo (Wayne´s Coffee, 2014b). Wayne´s Coffee is operated as a franchise where Pacamara Drift holds the franchise right in Norway. They operate about half of the coffee bars, with the remaining operated by franchisees. The chain follows a growth ambition of expanding with five to ten units each year, focusing the expansion to the geographical areas where they are already established in contrast to pursue further geographical expansion in Norway (Hornvedt, 2014). Wayne´s Coffee bases their concept on offering people a place to take a relaxing or social break from their everyday life in an urban and modern environment. Consequently, they offer a large selection of hot and cold meals, beverages and baked goods in addition to their coffee beverages at their coffee bars. (Wayne´s Coffee, 2014d) The interior design uses colourful chairs, sofas, pillows and tapestry as a part of their modern and urban look.

2.4.5 Starbucks

Starbucks was established in the United States in 1971, but has since then expanded to become a worldwide coffee bar chain with 20.000 coffee bars in 2014 and is one of the World´s strongest brand names (Interbrand, 2014; Starbucks, 2011b; Starbucks, 2014d, p. 1).

Picture 5 Starbucks Oslo City (Bach, 2013)



The chain entered the Norwegian market in 2012 when they opened a coffee bar at Oslo Airport Gardermoen (Lorch-Falch, 2012a). By 2014, they had 8 coffee bars in Norway, where 3 were located in Oslo (Umoe Restaurant Group, 2013; Starbucks, 2014b). Starbucks is operated as a franchise where Umoe Restaurant Group holds the franchise rights in Norway. Starbucks is known for its aggressive expansion strategy, but has so far followed a more modest expansion rate in Norway. However, they have expressed an ambition of becoming market leader within three years. (Lorch-Falch, 2012a) Starbucks base their concept on being a meeting-place in the community, where people can come to socialize, work or just spend some time as a part of their daily routine (Starbucks, 2014c). They offer a large selection of hot and cold coffee beverages, meals and baked goods in addition to their coffee beverages, and a large selection of coffee beans, brewing equipment and other Starbucks merchandise (Starbucks, 2011a). The interior design of all their coffee bars follows one of four design concepts; Heritage, Artisan, Regional Modern and Concept. Heritage and Artisan designed coffee bars reflect the industrial past of urban markets, creating a mercantile atmosphere using wood, concrete or metal as basis materials, factory-inspired lighting and large dining tables and club chairs. Regional Modern designed coffee bars express a calm, comfortable and inviting atmosphere using bright, loft-like and well-lit rooms accented with regionally inspired furniture and fabrics with a cultural connection. Concept designed coffee bars are unique environments that the designers have created to experiment with different forms of innovation. (Starbucks, 2014a)

3. Theoretical framework

This chapter provides an overview of the economic theories that form the basis of the analyses conducted in this thesis. The framework consists of definitions and explanations of concepts and economic mechanisms related to market competition and strategic positioning. The levels of analysis of these concepts cover the company's external environment in the industry and the company's internal environment regarding its strategic resources and activities. The framework thereby comprises three of the main theoretical viewpoints of strategic analysis and competitive positioning.

3.1 Value creation, competition and competitive advantage

In a competitive market the overall objective of the actors is to earn enough profit to secure survival and, if possible, to strive to achieve a competitive advantage. A competitive advantage is a company's ability to earn a higher rate of profit than its competitors in the market. The company's profitability within a particular market depends on the economic attractiveness of the market, and on its competitive position within that market based on its success in creating and delivering economic value compared to its rivals. (Besanko et al., 2010, p. 363-364, 564) This implies that the potential for competitive advantage is related to two main aspects; the competition within the market and the needs of customers as basis for the market demand (Grant, 2013, p. 79).

The first aspect relates to the erosion of potential profit from the competitive forces of the industry. This can be assessed by performing an industry analysis based on the market definition, which then forms the basis for the company's strategic positioning to obtain a competitive advantage based on the reducing the potential for profit erosion and exploiting the competitive opportunities of the market. (Besanko et al., 2010, p. 364)

The second aspect relates to the company's ability to create and obtain economic value through offering products and services that satisfies customers' needs. Customer value creation is the customers' perceived benefit of a product minus the monetary price the customer has to pay for the product. The perceived benefit is based on the degree to which the product satisfies the customers' needs and preferences. (Besanko et al., 2010, p. 364, 564) Consumers will choose the product that maximizes their need satisfaction and customer

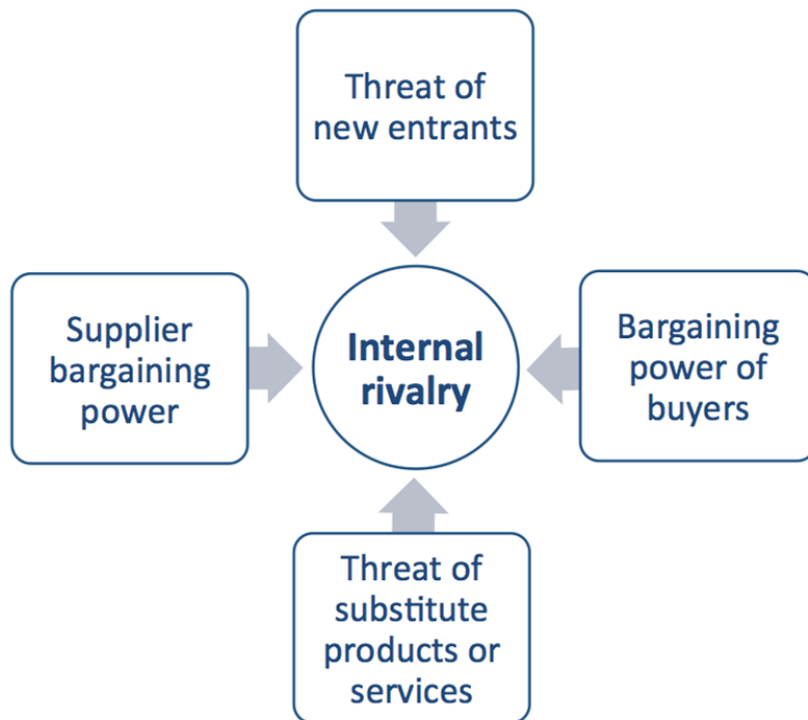
value creation, given their available budget (Pindyck & Rubinfeld, 2009, p. 86). The perceived customer value creation also influences the customers' willingness to pay for the product. Companies can obtain economic value from customer value creation through setting prices that exploits the customers' willingness to pay for the product and the value it creates for the customer. The economic value created by the company is therefore the sum of the value created for customers, and the value created for the company in the form of the difference between the product's price and the production costs of producing the product. (Besanko et al., 2010, p. 23-26, 369, 376) Based on the analysis of the industry and an understanding of sources of customer value creation, the company can analyse what strategic resources and activities that increase the customer value creation or reduce the threat from the competitive forces. This analysis then forms the basis for the company's strategic positioning within the market to exploit the potential for superior economic value creation and a competitive advantage. (Besanko et al., 2010, p. 23-26, 369, 376)

3.2 Industry analysis; Porter's five forces framework

Industry analysis is a beneficial method to achieve a deeper level of insight and understanding of the attractiveness of an industry and its market. Industry analysis frameworks provide a structure for identifying key factors affecting the competitive environment and performance of an industry. The analysis is further valuable as a basis for assessing a company's strategic positioning within the market. (Besanko et al, 2010, p. 327)

In the field of strategy, Michael J. Porter's five forces framework is one of the most used frameworks for performing an industry analysis (Jacobsen & Lien, 2011, p. 51). The five forces framework consists of five categories, or forces, which classifies the economic mechanisms that encompass the vertical chain and market competition. These five forces are internal rivalry, entry, substitutes, supplier power and buyer power. (Porter, 1979, p. 137) The first three forces affect the vertical competition of the industry, meaning the competition for potential customers of the market. The last two forces affect the horizontal competition of the industry, meaning the distribution of the value created in the market. (Jacobsen & Lien, 2011, p. 52) The relative strength of the five forces indicates the intensity of the market competition, ranging from intense to mild, at the given point in time of the analysis (Besanko et al, 2010, p. 327-329; Porter, 1979, p.137).

Figure 1 The five forces that shape competition in an industry
(Adapted from Porter, 1979, p. 141)



Each of the five forces encompasses a number of key economic factors, which determine the force's effect on the market competition. The weaker the combined competitive forces are in an industry, the greater is the potential for achieving superior profit for a company competing in this market. (Porter, 1979, p. 137)

3.2.1 Internal rivalry

Internal rivalry refers to the competition for market shares by the actors in the market. The main competition mechanisms are price competition and non-price competition through differentiation. Price competition erodes profits by driving down price-cost margins, whereas differentiation competition erodes profits by driving up costs. (Besanko et al., 2010, p. 329)

Two products are defined as differentiated if there is a price at which some consumers prefer to purchase product A and others prefer product B. These differences occur because customers value different factors than just price in their purchase decision. Moreover, two products are horizontally differentiated if only some customers prefer a product when the price of the product and its competing products are equal. This type of differentiation is

based on the customers having idiosyncratic preferences, meaning that the consumers' tastes differ significantly from one person to the next. An important factor of idiosyncratic preferences is product quality, which can be defined as anything that increases customers demand for the product. The degree of the resulting horizontal differentiation also depends on the magnitude of consumer search costs, meaning how easy or difficult it is for customers to access information about the alternative products offered by other actors in the market. (Besanko et al., 2010, p. 218-220, 292)

Internal rivalry intensifies through factors such as a high number of competitors in the market, slow market growth, high fixed costs and strong exit barriers. (Besanko et al., 2010, p. 330-331; Porter, 1979, p. 142-143)

A high number of competitors increase internal rivalry as prices typically are lower and the competitors fight for market shares. However, the intensity of price competition depends on the level of product differentiation of the products and services offered in the market.

Monopolistic competition occurs in markets where there are a number of sellers and each seller offers a differentiated product. Because there are many sellers and their products are differentiated, each seller does not believe that its price actions will significantly affect the others. Therefore, if one seller reduces its price, it does not result in price competition where the other sellers respond by lowering their prices. Moreover, as the market offers differentiated products, a seller that increases its price will not lose all its customers because customers value the added differentiation features. This may therefore result in different price levels of the products and services offered in the market. (Besanko et al., 2010, p. 218)

Slow market growth also encourages battle for market shares and thereby increases internal rivalry. Moreover, high fixed costs create a strong temptation to intensify market competition to increase the actor's market share and sales volume. (Besanko et al., 2010, p. 330-331; Porter, 1979, p. 142-143) Fixed costs are costs that must be expended regardless of total production output (Besanko et al., 2010, p. 565). By increasing its sales volume through competing for market shares, the company can thereby increase revenue to recoup these costs. Furthermore, strong exit barriers hinder the companies from leaving the market even if their earnings make their operations in the market non-profitable. This condition can increase competition as the affected companies struggle to survive rather than exiting the market. (Besanko et al., 2010, p. 330-331; Porter, 1979, p. 142-143)

3.2.2 Entry

Actors entering the market affect the competition through increasing the competition for market shares and potential customers (Besanko et al., 2010, p. 300). The seriousness of threat of entry depends on the extent of entry barriers and the potential for retaliation from incumbent firms. (Porter, 1979, p. 138) Entry barriers are conditions that impede entry by new competitors (Pindyck & Rubinfeld, 2009, p. 368). Sources of barriers to entry are cost disadvantages for entrants and consumer loyalty (Porter, 1980, p. 7-17).

Cost disadvantages for entrants can be related to the attainability of economies of scale or can be cost disadvantages independent of company size. Economies of scale occur when the average cost decreases as output increases, meaning that there is a cost saving as the production of the product or service increases. Economies of scale thereby allow some companies to achieve a cost advantage over rivals. (Besanko et al, 2010, p. 41, 43, 565) This deters entry by forcing the entrant either to enter on a larger scale or to accept a cost disadvantage (Porter, 1979, p. 138). Economies of scale can arise from a number of sources such as spreading fixed costs over a greater volume of output or price discounts in purchasing. (Besanko et al., 45, 52-55)

Cost disadvantage independent of size stems from incumbent companies' cost advantages from sources such as the effects of learning and experience, and access to favourable resources. These cost advantages are not available to new entrants independent of their size and attainable economics of scale. (Porter, 1979, p. 139) Cost advantages from learning refer to advantages from accumulation of experience and knowledge that manifest itself as lower costs, higher quality or more effective pricing. This result in lower average costs as production increases. (Besanko et al., 2010, p. 61-62) Moreover, an incumbent company's protection form entry increases when it controls resources that are essential for production and can use that resource more effectively than entrants. Such resources can be accumulated knowledge and access to locations. (Besanko et al., 2010, p. 304)

Customers' levels of loyalty towards a market actor are influenced by psychological factors such as reference points and risk and uncertainty avoidance. Consumers develop reference points from previous experience and past consumption, price expectations and the contexts of purchase or consumption (Pindyck & Rubinfeld, 2009, p. 187). As most people find risk and uncertainty undesirable, such reference points may function as heuristic factors that may

lead to increased consumer loyalty (Pindyck & Rubinfeld, 2009, p. 159, 164). This mechanism is related to the concept of switching costs, meaning the costs incurred by buyers when they switch to a different supplier of a product or service (Besanko et al., 2010, p. 570). Consequently, product differentiation may create a barrier to entry as customers' brand loyalty forces entrants to spend heavily to overcome this loyalty (Porter, 1979, p. 138).

The potential for retaliation from incumbent firms increases with the market concentration, and decreases with market growth. Retaliation strategies for incumbent firms can be intensified marketing, improved or added product or service attributes, or intercept access to essential resources. Intensified marketing and improved or added product or service attributes increases brand strength and consumer loyalty. (Jacobsen & Lien, 2010, p. 105-109) This increases the entrant's costs of marketing to establish a strong reputation and brand awareness to overcome the effects of customer brand loyalty (Besanko et al, 2010, p. 331). Intercepted access to locations may discourage entry due to cost disadvantages related to having to enter with lower quality locations (Jacobsen & Lien, 2010, p. 105-109).

3.2.3 Substitutes

Substitutes are products or services that have the same or similar product performance characteristics, thereby satisfying the same customer needs as the industry's product or services (Pindyck & Rubinfeld, 2009, p. 34; Porter, 1979, p. 142). Substitutes steal business as they satisfy the same customer needs, and thereby intensify the rivalry in the industry as the potential customer group of the market is reduced. The increased competition for market shares thereby erodes industry profits. Moreover, substitutes erode potential profit as they affect the price level of the industry's products. (Besanko et al., 2010, p. 207-208, 331) The threat from substitutes increases by the attractiveness of the price-performance trade-off offered by substitute products (Porter, 1979, p. 142). Analysing the market's substitutes may also provide indications of the strength of internal rivalry in the future.

3.2.4 Supplier power

In supplier markets where there are a relatively small number of sellers and buyers, there will be room for negotiating prices and terms of the transactions resulting from each actor's bargaining power (Pindyck & Rubinfeld, 2009, p. 541). Powerful suppliers can utilize bargaining power on the participants in an industry by raising prices and thereby reduce the industry's profitability. Supplier power stems from sources such as supplier concentration

relevant to the number of competitors in the industry, product differentiation in the supplier industry, and suppliers' ability to price discriminate. (Porter, 1979, p. 139) If the supplier market is highly concentrated, this increases the suppliers bargaining power, as there are fewer available alternatives to purchase the necessary inputs for the actors in an industry. Moreover, high demand relative to supply of the supplier's product enables the supplier to set prices so that it extracts the potential economic surplus of the customer's willingness to pay for the product or service. Product differentiation in the supplier industry also increases suppliers bargaining power if it results in switching costs for its buyers. (Besanko et al., 2010, p. 333; Synnestvedt, 2009, p. 54)

3.2.5 Buyer power

Buyer power is analogous to supplier power and refers to the ability of individual buyers to negotiate prices so that they extract profit from the industry (Besanko et al., 2010, p. 332). The bargaining power of buyers increases by factors such as the level of differentiation between the industry's products and services, the availability of close substitutes to the industry's products, and the absence of switching costs (Jacobsen & Lien, 2011, p.143; Kotler & Keller, 2009, p. 335; Pindyck & Rubinfeld, 2009, p. 34). The strength of the buyer power that companies face from their customers depends on the relative bargaining power and the buyers price sensitivity (Grant, 2013, p. 71). The relative bargaining power increases with the number of competitors in the industry, and customers' price sensitivity increases the likelihood of consumers' exerting their buyer power (Jacobsen & Lien, 2011, p. 143; Porter, 1979, p. 139).

3.3 Resource analysis: Resource-based theory

3.3.1 Value creation and competitive advantage of resources

The resource-based view of competitive advantage emphasises the company's resources as a source of economic profit and obtaining a competitive advantage. A company's resources can be defined as the collection of tangible and intangible assets owned by or inherent in the company (Jacobsen & Lien, 2010, p. 78; Wernerfelt, 1984, p. 172). The resources' potential to generate profit for the company defines their strategically importance (Grant, 2013, p. 127). The value creation of resources is based on the assumption that valuable resources are unevenly distributed among industry actors. This unfolds a potential for achieving higher

than average industry profit through exploiting these resources as strategically important inputs to the company's business and strategic positioning. (Barney, 1991, p. 99-101; Jacobsen & Lien, 2010, p. 78-79) Resources can further hold different levels of complexity depending on their degree of interconnectedness to other resources of the firm (Barney, 2011, p. 131). Interconnected resources have potential for increased value creation due to resource complementarity. Resource complementarity occurs when one resource's value is increased due to synergies with other resources the company holds. Competitive advantages that stem from networks of interconnected resources have higher potential value creation than competitive advantages originating in an individual resource. (Besanko et al., 2010, p. 564)

3.3.2 Resource analysis: VRIO-framework

Resource analysis is a beneficial method to assess the potential for value creation and competitive advantage stemming from a company's resources. For a resource to establish a competitive advantage it must meet four conditions; it is valuable to the company, rare due to heterogeneous distribution between market actors, imperfectly imitable by competitors, and organized in the sense that the company is able to utilize the resource to generate economic profit. (Barney, 1991, p. 105-106; Jacobsen & Lien, 2010, p. 80-86) A resource's potential for generating a competitive advantage depends on how many of the required conditions it fulfils, as illustrated in Table 1 and its subsequent paragraphs. (Barney, 2011, p. 136; Jacobsen & Lien, 2010, p. 87-89) For a resource to hold a potential for competitive advantage for a company, it must be both rare and difficult for competitors to copy or imitate. If these conditions are not met, the strategic value is weakened as competitors may easily access the potential value through acquiring or developing the resource. (Barney, 2011, p. 128; Grant, 2013, p. 127)

Table 1 Overview of potential for competitive advantage (Adapted from Barney, 2011, p. 126-136; Jacobsen & Lien, 2010, p. 87-89)

Is the resource				Competitive implications
Valuable?	Rare?	Imperfectly imitable?	Organized?	
No	Yes	Yes	Yes	Trivial advantage
Yes	No	Yes	Yes	Competitive parity
Yes	Yes	No	Yes	Temporary advantage
Yes	Yes	Yes	No	Not retained potentially lasting advantage
Yes	Yes	Yes	Yes	Potentially lasting competitive advantage

3.3.2.1 Valuable

For a resource to establish a competitive advantage it must be relevant to the company's business and hold a potential for value creation for the company (Grant, 2013, p. 127). A resource can create value through enabling the company to exploit market opportunities or neutralize profit erosion from competitive forces influencing the market. The value creation emerges as reduced costs of the company's operations or increased willingness to pay by the company's customers. Strategic resources that do not hold a potential for value creation for the company will only provide a trivial competitive advantage. (Barney, 2011, p. 125-126)

3.3.2.2 Rare

For a resource to establish a competitive advantage it must also be scarcely distributed between the actors in the market (Grant, 2013, p. 127). This implies that the company's competitors cannot access the resource in the same amount or quality, which gives the company an advantage when utilizing its potential value creation (Barney, 2011, p. 127-128; Jacobsen & Lien, 2010, p. 81). Resources that are not scarcely distributed may be necessary in order to survive and compete in the industry and market, but will not be sufficient as basis for competitive advantage (Grant, 2013, 127). However, strategic resources that are not rare will only provide a competitive parity for the company.

3.3.2.3 Imperfectly imitable

For a resource to establish a lasting competitive advantage it must also be imperfectly imitable by the company's competitors. This implies that the competitors are subjected to a

substantial cost disadvantage when acquiring or developing the resource if they do not possess it. (Barney, 2011, p. 128) To imitate a strategic resource, a company can apply direct imitation or substitution. Direct imitation implies to copy the resource to access its potential for competitive advantage. Substitution implies replacing the rare and valuable resource with another resource inhabiting the same characteristics and thereby achieve the same competitive advantage. (Jacobsen & Lien, 2010, p. 82) The cost disadvantage of imitating a resource increases with its complexity. Resources that are not costly or difficult to copy or substitute will only provide a temporary advantage for the company (Barney, 2011, p. 129-133).

3.3.2.4 Organized

To be able to exploit the potential value of its resources, the company must also be organized so that it is able to mobilize and retain the resource value within the company. Mobilization implies that the company is able to exploit the resource in its business and strategic positioning. Moreover, the company's stock of resources must contain the necessary amount and quality of interconnected resources that constitute the potential for a competitive advantage. The company's ability to retain the generated value from utilizing the resource is related to the ownership of the resource. (Jacobsen & Lien, 2010, p. 82) Resources can either be acquired or be developed internally within the company through accumulation (Dierickx & Cool, 1989, p. 1505). Resources that can be acquired are traded in a factor market, which is a market where companies buy and sell the resources that are necessary to implement resource-based strategies. (Barney, 1986, p. 1231-1232) The nature of supply and demand of the factor market affect the degree to which the supplier of the resource or the company buying access to it appropriates the value that the resource creates. The degree to which strategic factor markets are perfectly competitive, the more of the created value will be appropriated by the suppliers of the factor market. A company can therefore only obtain superior profits from a resource's value creation if the cost of acquiring the resource is less than the economic value of its value creation. (Barney, 1986, p. 1232) For resources that are accumulated by the company, the economic value created is for the most part retained within the company. (Jacobsen & Lien, 2010, p. 82) Resources that are fully organized by the company hold the strongest potential for a lasting competitive advantage (Barney, 2011, p. 136).

3.4 Activity analysis: The activity-based theory framework

The activity-based view is a viewpoint within the field of strategy emphasising the importance of the company's activities in generating profit and obtaining a competitive advantage. Here, a company is conceptualized as an activity system, where its activities form the basis for creation of economic value. (Grant, 2013, p. 10-11, 431; Porter, 1996) An activity can be broadly defined as "what the firm does" (Porter, 1985, p. xix). Each activity in the company's activity system is a discrete production function contributing to the company's value generation, which can be related to functions such as its offerings of products and services, its customer service, and its configuration of locations and production facilities (Porter, 1985, p. 39). The activities can further be categorized into two main categories; primary activities and support activities. Primary activities are directly involved in creating and bringing value to the customer, whereas support activities are activities that enable and improve the performance of these primary activities. (Stabell & Fjeldstad, 1998, p. 417)

Activity analysis is a beneficial method to identify key activities that create customer value and provide opportunities for differentiation from the company's rivals. The analysis forms the basis for identifying and obtaining a valuable strategic position and competitive advantage founded in the company's activity system. (Stabell & Fjeldstad, 1998, p. 413-415)

3.4.1 Value creation and competitive advantage of activities

The configuration of the company's system of activities forms the basis for the company's strategic positioning and competitive advantage. The value creation is related to the concepts of trade-offs, complementarity and strategic fit, as the company's positioning choice determines which activities to perform, how the individual activities are configured and how the activities relate to each other. (Grant, 2013, p. 11; Porter, 1996, p. 68-70)

3.4.1.1 Trade-offs

Trade-offs occur when activities are incompatible, resulting in a need for choosing between the different groups of activities that a company can perform. In order to obtain a profitable strategic positioning, trade-offs are necessary to tailor the activities to secure strategic fit and complementarity. Trade-offs also increase the sustainability of the competitive advantage in a strategic position as it deters rivals imitating the company's strategic positioning because

competitors that engage in such approaches undermine their current strategies and degrade the value of their existing activities. (Porter, 1996, p.69)

3.4.1.2 Complementarity

Complementarity is the synergy between activities that result in a higher value of the combined activities compared to the individual value created by performing each activity alone (Besanko et al., 2010, p. 564; Siggelkow, 2002, p. 901). When defining the company's activity system, the objective is to choose activities that create such synergy to optimize the company's economic value creation. Complementary activities create value from sources such as one activity's performance lowering other activities cost, or through one activity's value to customers being enhanced by other activities that also create customer value (Porter, 1996, p. 70).

However, an important notion regarding the complementarity of the activity system is that it becomes more fragile as the strength of interaction between complementing activities increases. Misperceptions of the potential cost of tight interaction between the company's activity system may therefore have a negative effect on the company's performance. Over- or underestimation of complements can therefore be very costly, and the interaction value is often difficult to estimate. This implies that it is important for the company to invest in gathering information about the potential value or cost generated by complementarities when choosing activities and deciding the degree of interconnection among its activities. (Siggelkow, 2002, p. 900-903, 911) Accessing such information allows the company to reduce the potential of its activities creating negative synergies that reduce the company's profit potential.

3.4.1.3 Strategic fit

Strategic fit refers to the consistency of a company's choice of activities and strategic positioning. The objective is to achieve consistency both in terms of fit with the company's external competitive environment and fit with its internal organizational environment of structure, systems and procedures, operations, resources, skills and capabilities (Grant, 2013, p. 10). Obtaining strategic fit is a source of competitive advantage as it enhances the strategic position's uniqueness and amplifies the effects of trade-offs due to the complementary value of activities (Porter, 1996, p. 70-71). Fit among a company's activities also therefore create incentives for improving the company's operational effectiveness, as poor performance in one activity will degrade the performance of other activities and thereby

create negative synergies. (Porter, 1996, p. 74; Siggelkow, 2002, p. 901-903) Achieving operational effectiveness means to perform similar activities better than the company's rivals. The cost of potential negative synergies among activities makes operational effectiveness an objective of achieving fit to increase the company's competitiveness. In a competitive external environment, operational effectiveness functions as an important source of differences in profitability among companies because it directly affects relative cost positions and levels of differentiation of competitors (Porter, 1996, p. 62-64).

Strategic fit is also fundamental to the sustainability of a competitive advantage, as it is difficult for competitors to accurately imitate an array of interlocked activities constituting the activity system. The activity system is usually difficult to perceive explicitly, which makes it very difficult for competitors to copy it exactly in order to achieve the complementary effects resulting in the competitive advantage. However, achieving fit is difficult, as it requires the integration of decisions and actions across many independent subunits and actors in the company. Moreover, the costs of tailoring activities to achieve optimal fit makes changing the company's strategic position costly. Consequently, it is important for the company to choose its strategic position wisely and based on a long time horizon, and continuously improve the activity system to increase the level of fit. (Porter, 1996, p. 73-74)

The concept of performance landscapes can be used to elucidate the concept of a company's choice of activities and their internal and external fit. (Siggelkow, 2001, p. 840) A performance landscape is a multidimensional space in which the dimensions represent values of the choices of activities a company can make the performance value of these choices. The external fit of the chosen activities is represented by the height of a particular point on the landscape. A peak in the landscape represents internal fit of the chosen activities. The stronger the interaction among the chosen activities, the steeper the peak in the landscape. (Siggelkow, 2001, p. 840-841) The objective of a company's activity strategy is therefore to choose activities and their degree of interconnection that allows the company to access the highest possible peak of the performance landscape.

3.4.2 Activity system map

Activity system maps is a useful method for examining the company's chosen activity system and its potential for obtaining a valuable positioning and competitive advantage. The

objective of the company's choice of activities is to select activities that fit the company's internal organization, create positive complementary value with other activities and fit the chosen strategic direction of the company's competitive strategy. This can be evaluated in a three-step process creating the activity system map. The first step is to examine the degree to which each activity is consistent with the overall activity strategy positioning. This implies an analysis of how each activity improve or detract from the company's performance with the objective of removing or adapting activities undermining performance. The second step is to examine the level of complementarity by analysing how the activities reinforce one another and create synergy value. (Porter, 1996, p. 72) The third step is to examine the strategic fit through analysing how well the chosen activities fit the company's external and internal environment (Grant, 2013, p. 10). The resulting activity system map then illustrates the company's choice of primary and secondary activities within its strategic positioning and how these activities are linked to create complementary value and strategic fit (Porter, 1996, p. 72).

3.5 Positioning strategies

Following the definitions and concepts of the theoretical framework, there are three strategic viewpoints when defining the company's positioning strategy. These viewpoints focus on different aspects of economic value creation and sources of competitive advantage that are not mutually exclusive. When defining the company's strategic positioning it is therefore beneficial to exploit the potential value creation of a combination of the three positioning strategy views.

3.5.1 Generic positioning strategies

There are three generic strategic approaches to outperform other companies in an industry; cost leadership, differentiation and focus (Porter, 1998, p. 35).

A cost-leader strategy focuses on supplying a product or service at a lower cost than its competitors (Grant, 2013, p. 177). Through a cost leader strategy, the company can obtain a competitive advantage through achieving superior profits due to lower average unit costs resulting from greater operational effectiveness (Porter, 1996, p. 62-63).

A differentiation strategy focuses on differentiating the products or services offered by the company to create something that is perceived industry wide as being unique. Differentiation can take many forms, such as design or brand image, special features, technology, quality and customer service, where a combination of different factors often is most beneficial. (Porter, 1998, p. 37) The strategy is beneficial when the uniqueness results in customers being willing to pay a price premium that exceeds the additional cost of differentiation (Grant, 2013, p. 177). By exploiting customers' willingness to pay for such a superior product and service, the company can achieve superior profits and thus obtain a competitive advantage (Porter, 1996, p. 62). Customers' willingness to pay is related to their perceived customer benefit from the product and service attributes that the customer values. Such benefit drivers can be classified through five dimensions; physical characteristics of the product, quantities and characteristics of the complementary products or services offered by the company, characteristics associated with the sale or delivery of the product, characteristics that shape the consumers' perceptions or expectations of the product, and the subjective matter of the product. (Besanko et al., 2010, p. 403-404) Furthermore, a differentiation strategy is a more secure basis of competitive advantage than a low cost strategy (Grant, 2013, p. 191). However, a differentiation strategy often requires a trade-off with cost minimization due to the necessary investments to achieve the perception that the company's products and services are being unique in the industry (Porter, 1998, p. 37-38).

A focus strategy refers to the company's choice of scope of market segment. In a focus strategy, the company focuses on a particular buyer group, segment of a production line or geographic market. The objective is to serve a strategic target more effectively or efficiently than competitors who are competing more broadly, thereby achieving benefits of differentiation from better meeting the needs of the targeted customers, and/or lower costs in serving this targeted customer segment. However, a focus industry implies that the company limits its access to the overall market share achievable in the industry as a whole (Porter, 1998, p. 38-40).

3.5.2 Resource-based positioning

In the resource-based view, the essence of the company's strategic positioning is to create and obtain economic value through possessing and exploiting strategic resources that are unavailable to competitors in the same quality or quantity (Grant, 2013, p. 115, 127-128). The strategic positioning is thereby based on exploiting competitive benefits originating from the

actor's pool of resources being different from its competitors. (Barney, 1991; Grant, 2013, p. 14; Wernerfelt, 1984) By exploiting its rare and inimitable resources, the company can thereby create superior value and achieve a competitive advantage (Besanko et al., 2010, p. 515-416, 436). In relation to the generic strategies, the company's strategic resources create protection from the competitive forces of the market and enhance the potential value creation of the chosen generic positioning strategy. (Barney, 1991; Grant, 2013, p. 14)

3.5.3 Activity-based positioning

In the activity-based view, the essence of the company's strategic positioning is to create and obtain a valuable competitive position based on choosing a different and tailored set of activities than the company's rivals. The choice of activities and trade-offs, and the resulting level of complementarity and strategic fit thus form the basis for the positioning strategy. The positioning can be tailored to three sources of value creation; customer's needs, customer's accessibility, or the variety of a company's products or services. Needs-based positioning is based on targeting the needs of customers and providing products or services based on a tailored set of activities which best serve those needs. Access-based positioning is based on targeting a customer segment that requires a different best configuration of activities to reach them. Variety-based positioning is based on choosing product or service varieties where the company can produce the product or service better than its rivals using a distinctive set of activities. In relation to Porter's three generic strategies, the three bases for positioning provide a greater level of specificity within the chosen generic strategy. (Porter, 1996, p. 66-68)

4. Research method

This chapter gives an overview of the research method applied in this thesis. The objective of the research conducted is to provide a thorough understanding of the coffee bar market in Oslo today and the coffee consumption patterns and customer needs that forms the basis for the demand for products and services offered at coffee bars. The research method provides the foundation for the data collection that underlies the analysis and conclusions drawn in the following chapters.

4.1 Research approach

The research conducted in this thesis follows the deductive research approach. In a deductive approach, the researcher tests a theoretical proposition by developing a number of hypotheses related to the theory, and designs a research strategy to test the hypotheses (Adams et al., 2007, p. 29). The research is based on a selection of general strategic theories and concepts that form the basis for a set of hypotheses related to the coffee bar market. These hypotheses are then tested through the data collection and subsequent analyses.

4.2 Research design

The research design for this thesis can be classified as both descriptive and exploratory. Descriptive studies aim to portray an accurate profile of situations, events or persons. Such studies are often useful as an extension of or forerunner to an exploratory study. Exploratory studies aim to explore the research subject in order to seek new insights, clarify an understanding or assess phenomena in a new light. (Saunders, Lewis & Thornhill, 2007, p. 133-134) The thesis contains a descriptive study of the coffee bar market in Oslo with the object of obtaining an accurate profile of the competitive environment in this market. Moreover, the thesis also contains a descriptive study of Norwegian coffee consumption and attributes related to coffee bar customers' demand patterns. The description of the market's competitive environment and customer demand patterns then forms the basis of an exploratory direction with the objective to seek new insight of the selected strategic theories in the context of the market for coffee bars in Oslo.

4.3 Research strategy

The research strategy applied in the thesis is a combination of a case study and a survey strategy. A case study is a research strategy that involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence such as interviews and observation. A survey is a research strategy that involves structured collection of data from a sizeable population, often using data techniques such as questionnaires or structured interviews. The case study strategy and survey strategy both have considerable ability of generating answers to questions of what, why, and how. (Saunders, Lewis & Thornhill, 2007, p. 138-139, 602) This makes the two strategies beneficial to apply in exploratory and deductive research approaches. Moreover, a case study is a study of one entity, where the chosen entity of this research is the market for coffee bars in Oslo (Sterri & Wæhle, 2014). The defined boundaries of the chosen case entity and use of multiple data sources is beneficial in order to obtain an in-depth understanding of mechanisms related to competition and customer demand influencing the coffee bar market in Oslo. Moreover, the survey strategy provides additional sources of data to further enhance the collected data material underlying the description of the market and customer demand.

4.4 Data collection

To obtain an in-depth understanding of the coffee bar market in Oslo and its customer demand, a mixed-method approach to data collection is applied using both qualitative and quantitative data collection techniques. Qualitative data is non-numerical data based on meanings expressed through words and analysed through use of conceptualisation. Quantitative data is numerical data based on meanings derived from numbers through analysis using diagrams and statistics. (Saunders, Lewis & Thornhill, 2007, p. 472, 608)

4.4.1 Data from secondary sources

The first method applied in the data collection was collecting data from secondary sources. Secondary data is data that is initially collected for some other purpose. Such data can provide a beneficial contribution to a research project, as it often requires fewer resources than other data collection techniques (Saunders, Lewis & Thornhill, 2007, p. 257-262, 611). The secondary data collection implied conducting a general search of information and data concerning the coffee bar industry in Oslo. This included gathering both qualitative and

quantitative data from numerous newspaper articles and reports written about the coffee bar market, and statistical information regarding the actors in the market, coffee imports and coffee consumption, and general consumption patterns of Norwegian consumers. The data was collected from websites, online reports, newspaper databases and statistics databases. To avoid unnecessary repetition, the data from secondary sources will not be presented in a separate chapter, but used directly in the analyses.

4.4.2 Primary data: Focus interviews

After collecting secondary data, the data collection method was expanded by gathering qualitative data through conducting focus interviews with experts on the coffee bar market. These respondents were five top management employees in some of Oslo's coffee bar chains or employees in companies closely related to the coffee bar industry in Oslo. These were all relevant stakeholders in the market that hold in-depth expert knowledge of the coffee bar market and Norwegian coffee consumption. The respondents were recruited by e-mail with an invitation to contribute in the research project and the interviews were held at their offices. The interviews were semi-structured, meaning that there was prepared a list of overall themes and questions to be covered, but the interview guide was structured to allow for adaption of the respondents' expert knowledge areas and the flow of conversation. This choice of interview structure is beneficial for descriptive and exploratory studies as the overall information is useful to identify general patterns and the in-depth information is helpful in seeking new insight. (Saunders, Lewis & Thornhill, 2007, p. 312-313) The prepared interview guide was based on hypothesis generated from the theoretical frameworks applied in the thesis, and had the overall object of confirming or disproving these hypotheses. However, as the objective also was to collect more in-depth data about the coffee bar market from these subject matter experts, the questions were open and encouraged the respondents to express their knowledge and view of the presented topic. This approach was very beneficial as it allowed for data collection about the relevant themes and questions that was prepared, in addition to accessing other information initiated by each respondent. To avoid unnecessary repetition, the findings from the focus interviews will not be presented in a separate chapter, but used directly in the analyses.

4.4.3 Primary data: Online questionnaire

Following the survey strategy, there was also distributed an online questionnaire to Norwegian coffee bar customers as a part of the data collection. The objective of this approach was to obtain an in-depth insight of the preferences, expectations and consumption patterns regarding coffee bar customers' purchase and use of coffee beverages and other products and services offered at coffee bars. The questionnaire included rating questions, ranking questions and open questions where the respondent was asked to write an answer, and thus made it possible to collect both quantitative and qualitative data. The main advantage of data collection through online questionnaire is that it allows for efficient and inexpensive collection of data from a larger group of respondents. However, it can be relatively time consuming to design, test, distribute and follow-up the online questionnaire and its responses. (Saunders, Lewis & Thornhill, 2007, p. 355, 394) Still, these administrative aspects of this data collection method are very important to create a high quality survey and secure access to relevant data. Therefore, the questionnaire was tested on a group of potential respondents and adapted to their feedback before it was distributed to the actual respondents.

The respondents were recruited through posting the link to the online questionnaire on a selection of social media web sites with topics related to Oslo. The link was posted together with a short introduction text to explain the topic of the survey and encourage participation. The link and introduction text was also emailed to a number of friends, family and acquaintances living in Oslo and known to visit coffee bars. This strategy also applied a snowballing approach, as the emailed potential respondents were encouraged to forward the survey to other potential respondents in their social circle (Saunders, Lewis & Thornhill, 2007, p. 611). The objective of this approach was to access respondents in Oslo from different age segments and occupations in order to collect data from a diversified group of coffee bar customers. The questionnaire was answered by n=271 respondents, which provided access to valuable information on consumption patterns and preferences towards coffee and coffee bars from a relatively large sample. An overview of the findings from the survey is presented in chapter 5.

4.4.4 Evaluation of data collection approach

The extensive data collection approach applied in this research project was very time consuming. The focus interviews was especially resource demanding as this process includes many steps such as searching for relevant respondents, negotiating participation, preparing the interview guide, performing the interview and then transcribing and analysing the data. The online questionnaire was also quite time consuming through testing the questionnaire to secure validity and the process of accessing and follow-up of potential respondents. However, this deliberate choice of such broad collection of data provided for access to a large number of data through exploiting the benefits of each data type and collection technique. This broadness of the collected data was also an important prerequisite to achieve the objective of obtaining an in-depth understanding of the many aspects related to the competitive environment of the market, its actors and consumption patterns and preferences of coffee bar customers.

4.5 Data collection quality evaluation

Data collection quality can be evaluated through assessing its reliability, validity and generalizability. Reliability concerns the consistency of the measurement and refers to whether the data collection techniques will yield consistent findings, meaning similar observations or conclusions reached by other researchers performing the same study (Adams et al., 2007, p. 236; Saunders, Lewis & Thornhill, 2007, p. 609). The reliability of a research project can be threatened through participant error or bias, or observer error or bias. Participant error occurs if the response is collected at a time where the participant is not neutral to the subject in question. Participant bias occurs if the respondents' answers are biased by a belief of how they should answer. Observer error occurs if the researcher influences the participant through the procedures of the data collection. Observer bias occurs if the researchers' interpretation of the data collected effect the conclusions being drawn. (Saunders, Lewis & Thornhill, 2007, p. 150) All these situations result in the collected data not showing the respondents' true opinions of the subject in matter. Validity refers to the extent to which the data collection methods accurately measure what they attend to measure, which influences the strength of conclusions, inference or propositions of the study (Adams et al., 2007, p. 237; Saunders, Lewis & Thornhill, 2007, p. 614). Generalizability refers to

the extent to which the research findings are applicable to other settings (Saunders, Lewis & Thornhill, 2007, p. 598).

4.5.1 Reliability and validity

The reliability and validity of secondary data is a function of the source of the information and the method used when collecting the data. The source should have high authority and a good reputation of an objective source of data to secure its quality and suitability to the research. Moreover, as the secondary data is collected and often interpreted for other purposes, it might be too old or not be objective sources of information. (Saunders, Lewis & Thornhill, 2007, p. 257-262, 265-268) The secondary data used in this thesis is produced by sources with high authority such as government funded statistical databases, official coffee organizations and serious newspapers, that all have a good reputation as objective sources of data. This minimizes the risk of the data material not being objective sources of information. Moreover, the collection and publish dates of the data was carefully evaluated to secure that it was not too old to be relevant. However, as some of the sources of secondary data were reports and articles, these data may inevitably be subject to the author's opinions and therefore to some degree subjective even as a source of high authority and reputation.

For semi-structured interviews, the lack of standardization may affect the reliability and validity due to the interviewer affecting the respondent or the respondent adapting the answers to their perception of the interviewer (Saunders, Lewis & Thornhill, 2007, p. 318). To reduce these threats, the questions asked were formulated in a neutral tone to obtain the respondents true opinions. Moreover, the respondents were carefully informed that their answers would be made anonymous. This also included interview quotes used to underlie arguments of the analyses of the thesis. Furthermore, as the subject of the interview was the overall market structure and competition of the coffee bar market in Oslo, the participants were not subjected to revealing sensitive information about their own company or themselves. This further reduces the treats to reliability influencing the data collection quality.

To increase reliability of the survey, the respondents were recruited through different channels to gather a heterogeneous respondent group. However, the respondents accessed did not consist of an even group of gender, age or occupation as described in chapter 5.2.1. Moreover, the sample consisting of self-selected respondents might lead to the participants

being especially passionate about coffee or coffee bars. This may bias the results so that they are less valuable as foundation for a generic coffee bar strategy in the Oslo market. The consumers who did not want to participate might therefore have been valuable to the study, as their responses might have yielded other results for the analyses. However, these might not be as relevant to the coffee bar strategy if their lack of coffee or coffee bar passion results in them rarely frequenting coffee bars.

Another important aspect of reliability lies in the definitions of the variables being measured (Adams et al., 2007, p. 235). To minimize the problems of such misunderstandings, the questionnaire design aimed to ask clear questions and included explanations of relevant concepts such as the definition of a coffee bar. The questionnaire was also tested and re-tested in the development phase to increase the reliability and validity of the data collected and conclusions drawn.

4.5.2 Generalizability

As the focus of this thesis is limited to the coffee bar market in Oslo, the generalizability of the findings may be limited to other geographical areas or markets. However, the aim of the research is not to produce results that are generalizable to all markets. Still, as the analyses are based on general economic mechanisms, some of the conclusions drawn might be valid to other geographical markets in Norway with a similar competitive environment.

The respondents of the survey were mainly students in the age between 20-30 years, and their response may therefore not be general for the larger population of coffee bar customers in Oslo as these belong to a number of age segments and occupations. This may therefore reduce the generalizability of the research to all populations of coffee bar customers in Oslo.

5. Findings from the coffee bar customer survey

This chapter provides an overview of the findings from the coffee bar customer survey. There are also suggested some implications of these findings in regard to the coffee bar actor's potential for creating customer value and economic profit.

5.1 Overview of the questionnaire

The goal of performing the survey was to reveal what are the most important factors contributing to the coffee bar experience of coffee bar customers in Oslo. The survey applied the method of attribute rating where the respondents were asked to rate different attributes according to their preferences and perceived value creation. This is a valuable method to estimate and characterize customers perceived benefits from the coffee bars products and services. (Besanko et al., 2010, p. 405)

The survey consisted of two main parts. In the first part of the survey, the objective was to collect information about the respondents' demographic factors such as age, occupation and consumption patterns. This is useful to assess the relevance of the respondents' needs and preferences as a potential customer group for the coffee bar market in Oslo. Moreover, this information may provide indications of different consumer needs and strength of preferences between customer groups. However, due to the limited number of respondents in the different demographic groups, the findings are not segmented into demographic customer groups. The second part of the survey focused on a selection of attributes expected to be positively or negatively related to the participants' coffee bar experiences when visiting a coffee bar. These attributes were grouped into the four main attribute categories described in chapter 2.2; coffee beverage quality, coffee bar customer service, coffee bar atmosphere and additional offerings. By asking the participants to indicate the degree to which different characteristics related to these attributes affects their coffee bar experience, the objective was to find indications of what attributes are most valued and important for coffee bar customers. This will further indicate what resources and activities the coffee bar should focus on in its strategic position and offering of coffee bar products and services.

5.2 Overview of findings from the survey responses

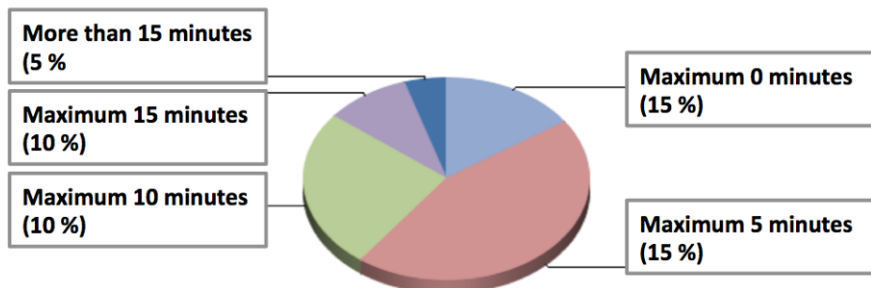
5.2.1 The number and demographics of respondents:

The survey was answered by N=271 respondents, of which 66 per cent were female and 34 per cent were male. 68 per cent of the respondents were between 20-30 years of age, 7 per cent were in each of the age categories 31-40 years, 41-50 years, 51-66 years and 67 years or older. 56 per cent of the respondents were students with higher education and 34 per cent were in employment. This composition of gender, age and occupation of the survey respondents seem sensible to provide indications of coffee bar customers needs and preferences (Coffee bar subject matter expert).

5.2.2 Coffee bar locations

Figure 2 Coffee bar locations

4. How many minutes extra would you be willing to walk to buy a cup of coffee from a specific coffee bar chain instead of buying it from the nearest chain? (N=271)



The survey shows that 45 per cent of the respondents are not willing to walk more than five minutes to buy coffee from a certain coffee bar chain. Only 25 per cent are willing to walk up to ten minutes to visit their preferred coffee bar chain rather than choosing the nearest one. 15 per cent are not willing to walk any further and will always choose the nearest coffee bar.

“I am likely to visit the coffee bars of a specific coffee bar chain much less frequently if they have few coffee bar units that are further to walk to.” (Coffee bar customer survey respondent)

These findings show that location is an extremely important factor to access customers. Many customers are somewhat loyal to their preferred coffee bar chain, but they are not willing to walk very far to fulfil this loyalty if there are other alternatives that are closer. This increases the importance of accessing good locations for the coffee bars.

5.2.3 Coffee bar concept and the coffee bar experience

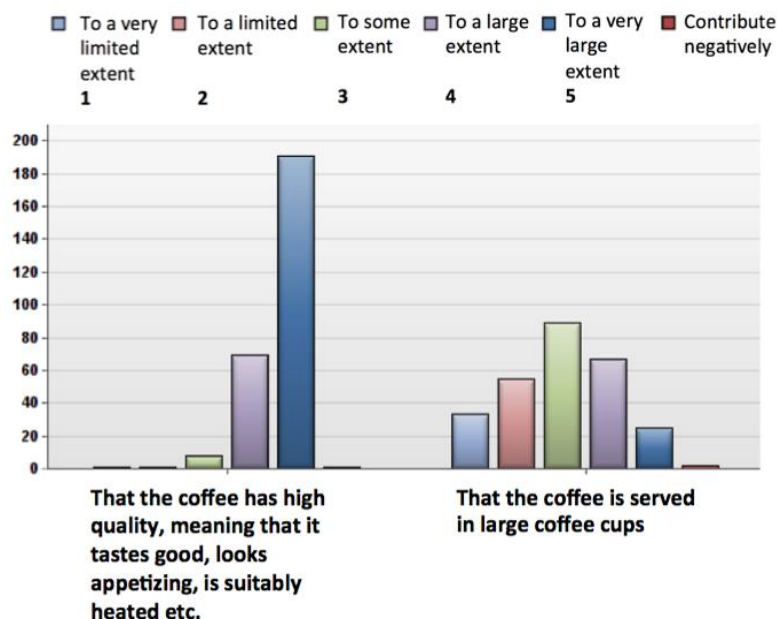
The four categories of attributes are all found to have positive influence on the respondents' coffee bar experience and customer value creation.

5.2.3.1 Coffee beverage quality

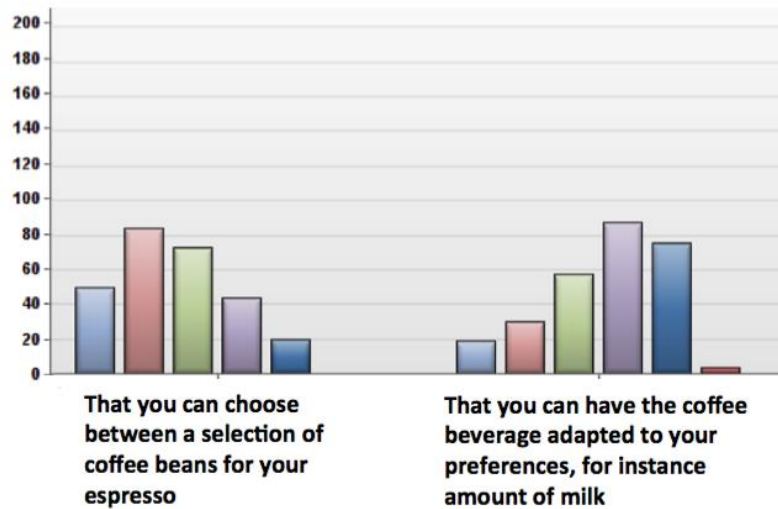
Related to the coffee beverage quality, the most important factor contributing positively to the coffee bar experience was high quality, meaning that the coffee tastes good, appears appetising and holds the right temperature. The possibility to adapt the coffee to ones own preferences, for instance by customizing the volume of added milk also contributed positively to a large extent. However, the size of the coffee cups and the possibility to choose between different coffee beans for your coffee beverage does not seem to be of high importance to the respondents.

Figure 3 Coffee beverage quality

9. To what extent do these factors contribute positively to your coffee bar experience? (N=271)
Coffee beverage quality



(figure 3 continued)



“High quality coffee beans does not necessarily become high quality coffee if the barista is not skilful. Therefore, I usually end up going to coffee bars where I have positive experiences from the past or know from others that they serve good coffee.” (Coffee bar customer survey respondent)

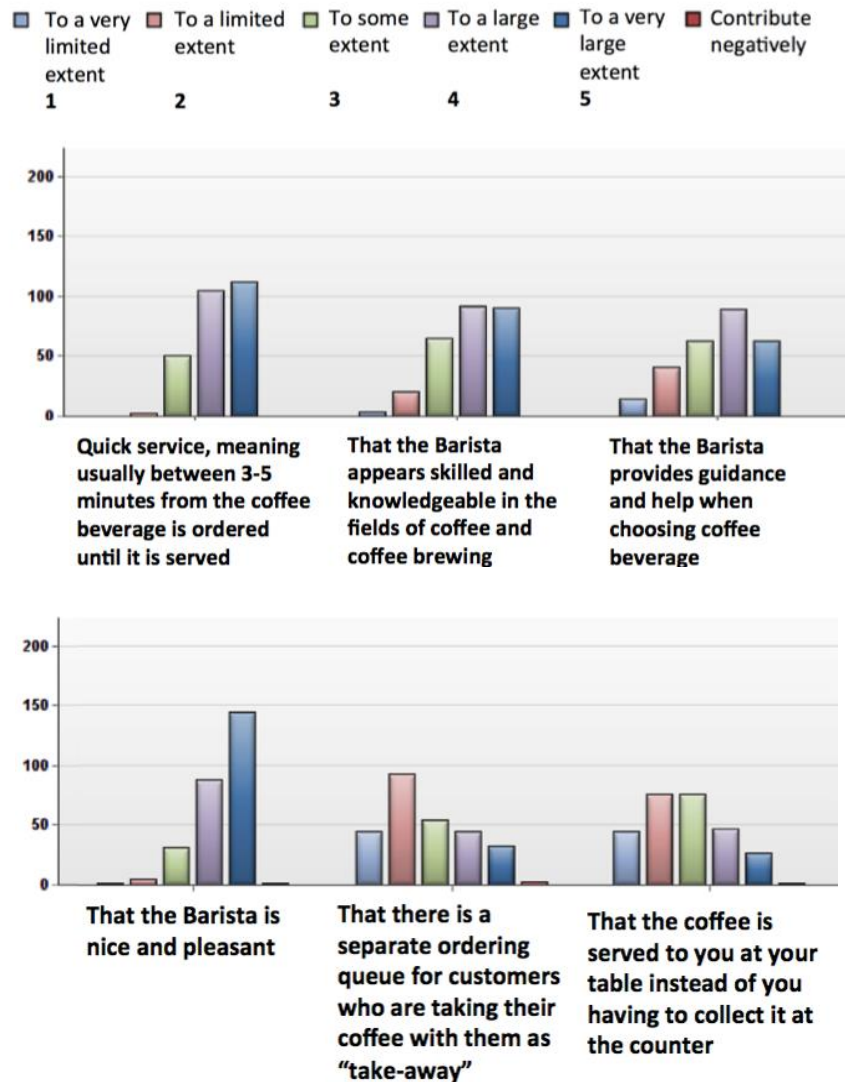
These findings increase the importance of the coffee bar employees being trained and educated baristas to be able to offer high quality coffee beverages. Moreover, an organization culture striving to achieve a high level of customer service is also important to increase the value of the customers’ coffee bar experience.

5.2.3.2 Coffee bar service

Related to the coffee bar service, the respondents reported that the barista being nice and pleasant was the most important factor. Moreover, the perceived barista coffee knowledge level and craftsmanship also contributed positively to a large extent. Speed of service was also an important factor contributing positively to the respondents’ coffee bar experience. Moreover, slow speed of service was reported as having a strong negative influence on their coffee bar experience. Access to a separate queue system for customers taking their coffee with them, and the option of being served the coffee at the table rather than the customer collecting it at the counter, had a very limited contribution the coffee bar experience.

Figure 4 Coffee bar service

11. To what extent do these factors contribute positively to your coffee bar experience? (N=271)
Coffee bar service



“Customer service is very important. I will not bother to go to a coffee bar where it takes a long time to be served, or where the staff is not nice and polite, or where the baristas do not have any skills of coffee making. If so, I will choose to drink my coffee at home instead.”
(Coffee bar customer survey respondent)

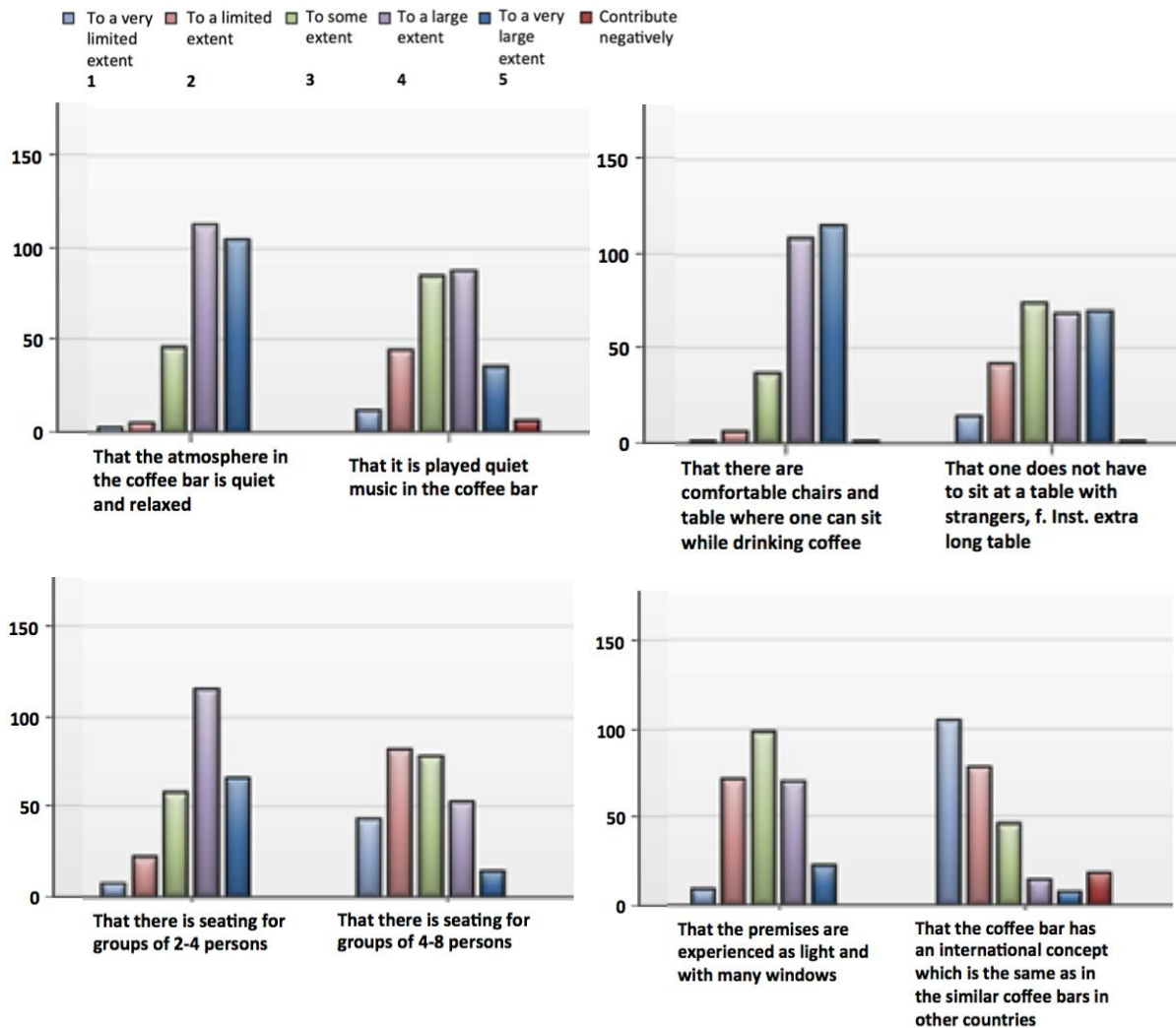
“The employees are a big part of the coffee bar experience. Good customer service by nice and polite baristas who take a pride in their profession and have a genuine interest in coffee and their coffee bar customers have a tremendously positive effect on the overall experience of visiting a coffee bar.” (Coffee bar customer survey respondent)

These findings further emphasises the importance of having baristas with high coffee knowledge level and craftsmanship. Moreover, the positive contribution of speed of service emphasises the value of developing and implementing routines and procedures to increase these factors.

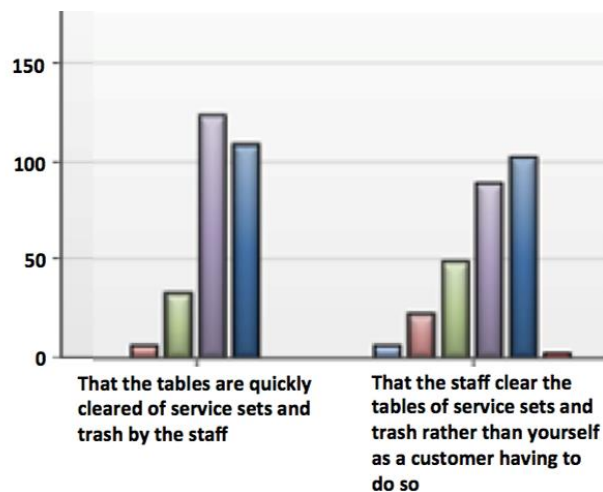
5.2.3.3 Coffee bar atmosphere

Figure 5 Coffee bar atmosphere

13. To what extent do these factors contribute positively to your coffee bar experience? (N=271)
Coffee bar atmosphere



(Figure 5 continued)



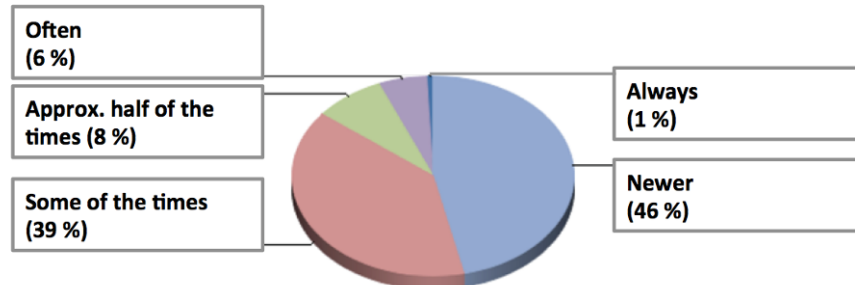
Related to the coffee bar atmosphere, the responses indicated that the most important factors contributing to the coffee bar experience were the atmosphere being calm and relaxed and with access to comfortable chairs and tables where one can sit and consume the coffee or other purchases. Moreover, a loud sound level in the coffee bar and having to wait more than a few minutes for available seating were reported to have a very strong negative effect on the respondents' coffee bar experiences. The respondents also emphasised the importance of being able to sit together in groups of two to four people as well as the tables being quickly cleared of used dishes and clutter by the staff as strongly contributing positively to their coffee bar experience. The premises being bright and having many windows were to some extent a positive contributing factor, whereas the concept belonging to an international brand affected their coffee bar experience to a very limited extent.

“It is very important that the coffee bar has a homey atmosphere to provide the little break from the stress of everyday life.” (Coffee bar customer survey respondent)

These findings increase the importance of developing a coffee bar concept that provides a comfortable setting for the customers. Moreover, it increases the importance of providing different interior design as a part of the coffee bar concept to accommodate different customer needs. Additionally, the findings illustrate the importance of good routines for keeping the premises clean and tidy as a part of the coffee bar service.

Figure 6 Socialization

7. How often do you visit a coffee bar alone and drink your coffee beverage there? (N=271)

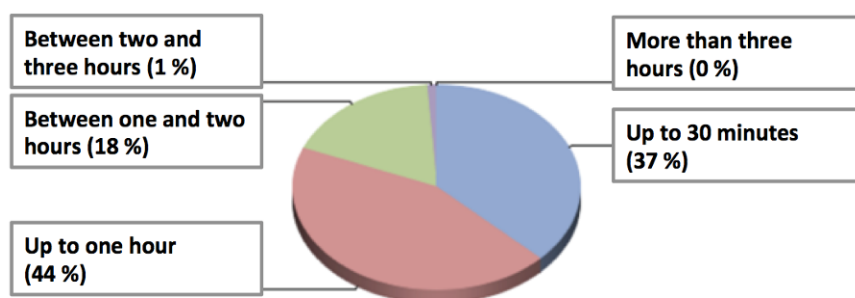


“I often sit down and drink a cup of coffee alone when I’m on the go, in a hurry or am meeting someone and I arrive early.” (Coffee bar customer survey respondent)

When asked about the social aspect of visiting a coffee bar, the survey shows that 46 per cent of the respondents never visit a coffee bar alone, and 39 per cent of the respondents visit a coffee bar alone some times. These numbers indicate that coffee bars are mostly used as social arenas to spend time together with others.

Figure 7 Consumption at the coffee bar premises

8. How often do you visit a coffee bar alone and drink your coffee beverage there? (N=271)



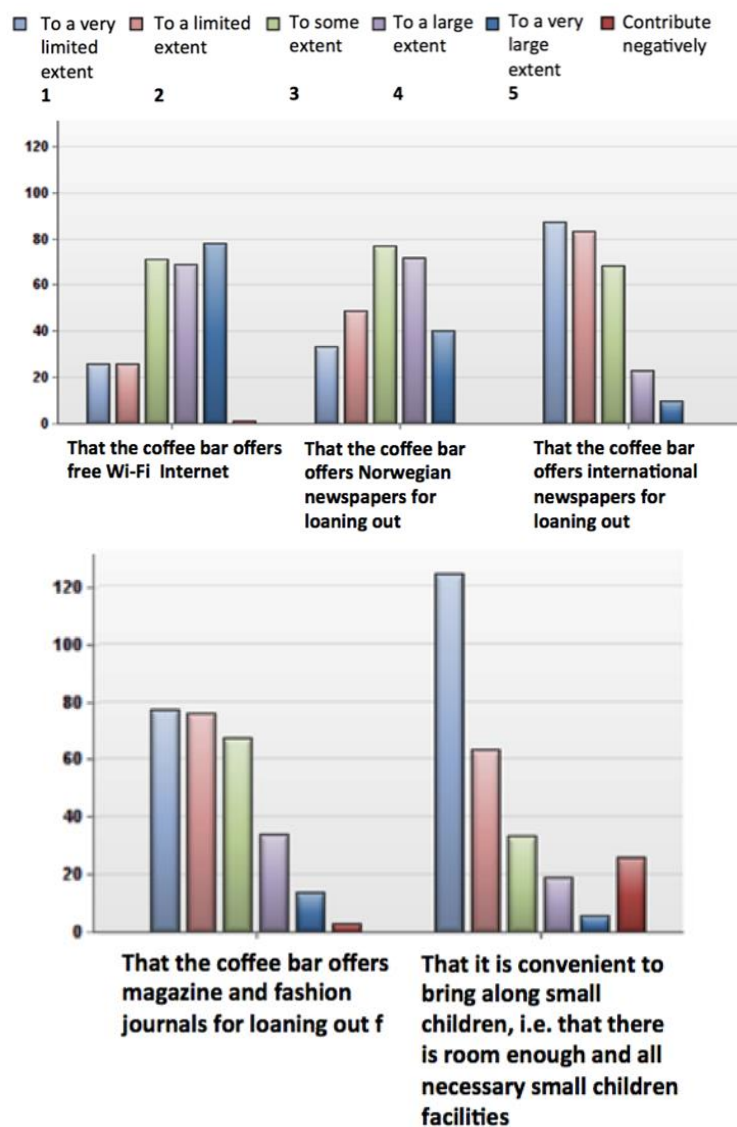
When visiting a coffee bar and drinking the purchased coffee there, 44 per cent of the respondents spend up to one hour and 18 per cent spend between one and two hours. However, 37 per cent of the respondents only spend up to 30 minutes when visiting a coffee bar and drinking their coffee there.

These findings increases the importance of achieving a good interior design of the premises where the customers have access to comfortable seating for longer visits at the coffee bar. However, as these customers occupy seating for longer time periods, the interior design should also be adapted to provide accessible seating to customers who only spend a short amount of time at the coffee bar. Coffee bar interior design is an important part of the coffee bar concept. This increases the importance of developing a beneficial coffee bar concept adapted to different customer needs when visiting a coffee bar.

5.2.3.4 Additional offerings

Figure 8 Additional offerings

15. To what extent do these factors contribute positively to your coffee bar experience? (N=271)
Coffee bar additional offerings

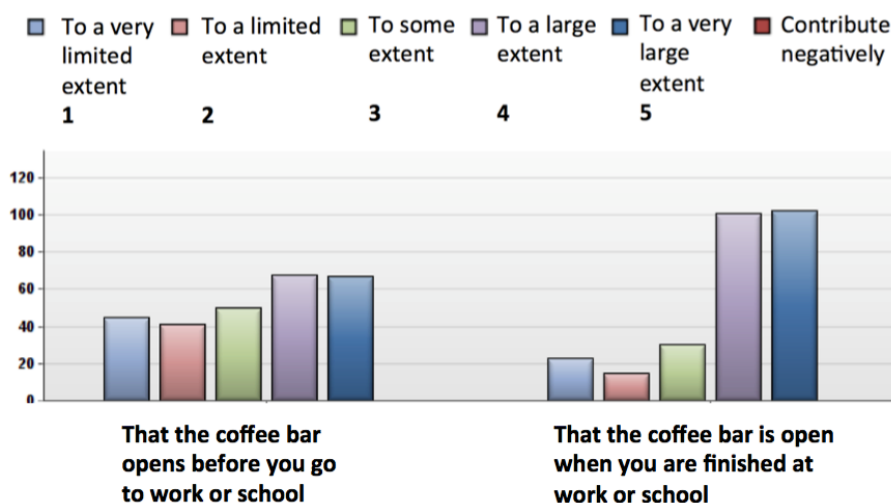


Related to the coffee bar's additional offerings, the respondents reported access to free Wi-Fi to be the most important factor. Access to Norwegian and international newspapers and magazines to borrow while at the coffee bar contributed positively to some extent to their coffee bar experience. Few of the respondents reported ease of bringing small children to the coffee bar as a factor contributing positively to their coffee bar experience to a large extent. However, some reported that it had a negative contribution to their coffee bar experience if there were many carriages inside small coffee bar premises. Also, if it was difficult for parents to change diapers in the restrooms or if this led to toilet queues and littering, this would have a negative effect on respondents' coffee bar experience.

The findings illustrate a number of aspects related to customer service that affect the customers' coffee bar experiences. Most coffee bar customers expect to be offered free access to Wi-Fi when visiting a coffee bar, and this is an important factor for their coffee bar experience (Coffee bar subject matter expert). The potentially negative effects from young children being brought to the coffee bar increases the importance of developing a coffee bar concept that accommodates different customers' needs. Moreover, this factor increases the importance of having good routines for cleaning the coffee bar premises as a part of the organizational culture and customer service.

Figure 9 Coffee bar opening hours

17. To what extent do these factors contribute positively to your coffee bar experience? (N=271)
Coffee bar opening hours



Related to opening hours, the respondents indicated that it was more important that the coffee bar was open after they finished the work or school day than it being open before they went to work or school. As most coffee consumers have access to coffee at home and at work or school, it makes sense that their demand for coffee bar coffee beverages is higher later in the day. Moreover, many respondents indicated a desire for the coffee bar to be a social arena available to them after school or work. Consequently, coffee bars should focus their resources on having longer opening hours later in the day rather than expanding their opening hours to earlier in the day.

“I would very much like to visit a coffee bar after work, to meet friends or just hang out, but find it difficult to do so because most coffee bars close quite early.” (Coffee bar customer survey respondent)

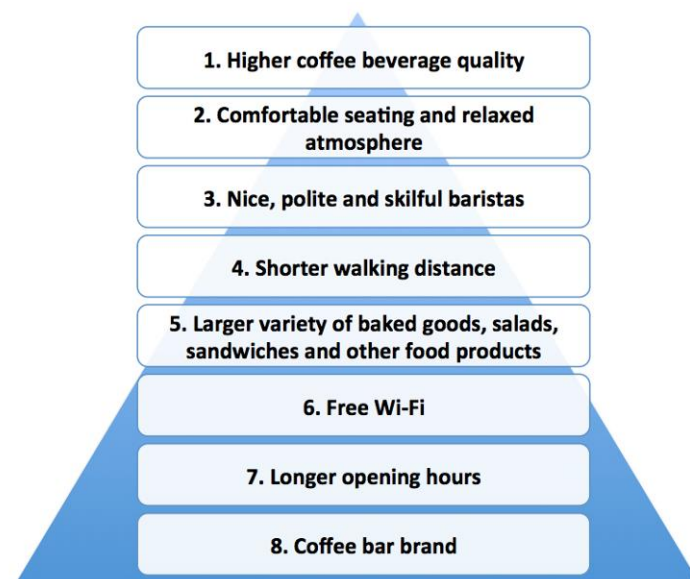
“I don’t mind having my morning cup of coffee at home, and do not have the need to visit a coffee bar in the morning. However, I would like to visit a coffee bar after work to meet people and be able to stay for a while.” (Coffee bar customer survey respondent)

Table 2 Coffee bar opening hours

Coffee bar opening time	Number of responses	Coffee bar closing time	Number of responses
	06:00		7
06:30	4	20:00	20
07:00	35	21:00	10
07:30	5	22:00	11
08:00	18	23:00	8
<i>N=143</i>			

5.2.3.5 Ranking of selected coffee bar offerings and services

Figure 10 Ranking of coffee bar offerings and services according to value contribution



When asked to rate a selection of coffee bar product and service offerings related to the coffee bar experience, the respondents ranked coffee beverage quality as the most important factor. 84 per cent of the respondents also responded that they were willing to pay between NOK 1-10 more for a coffee beverage of higher quality, and 50 per cent were willing to pay between NOK 5-10 more. Moreover, comfortable seating and relaxed atmosphere, and nice, polite and skilful baristas were rated as the next most important factors for the respondents' coffee bar experiences. 81 per cent of the respondents indicated that they were willing to pay between NOK 1-10 for more comfortable atmosphere in the coffee bar premises, and 36 per cent were willing to pay between NOK 5-10 more. Short walking distance was found to be less important than these three factors. This indicates that the coffee bar concept is more important to the customers than the number of the coffee bar chains' locations. 58 per cent of the respondents were still willing to pay between NOK 1-10 more for a cup of coffee within shorter walking distance. The variety of additional food products and access to free Wi-Fi and newspapers and magazines and longer opening hours were also rated as having less importance. 64 per cent of the respondents were willing to pay between NOK 1-10 more for a cup of coffee at a coffee bar actor offering a wider range of baked goods and meals. The coffee bar brand was rated as least important of the selected factors contributing to the coffee bar customers' coffee bar experience, and 71 per cent of the respondents were not willing to pay any more for a cup of coffee only based on the coffee bar actor's brand.

Table 3 Willingness to pay for selected product and service attributes

- 34.** An espresso-based coffee beverage cost on average NOK 35. How much more are you willing to pay for such a drink in order to have access to the presented factors? (You are not supposed to sum the price increases but start with NOK 35 when you select a price increase for each factor.)

<u>Product or service attribute</u>	NOK 0	NOK 1-2	NOK 3-4	NOK 5-6	NOK 7-8	NOK 9-10	Number of responses
Short walking distance, meaning maximum 5 minutes to walk between coffee bars	112	61	43	37	6	7	n = 266
The "right" coffee bar brand'	192	23	26	18	3	5	n = 267
Comfortable seating and relaxing atmosphere in the coffee bar premises	49	50	70	48	19	30	n = 266
Larger selection of baked goods and small meals	95	54	55	38	11	12	n = 265
Free Wi-Fi and magazines to borrow	128	61	38	28	6	4	n = 265
High coffee beverage quality	40	22	70	56	41	37	n = 266
Longer opening hours	105	53	53	28	7	11	n = 257

5.2.3.6 Market competitors

“I visit Starbucks because they have long opening hours, free Wi-Fi access, comfortable seating and relaxing coffee bar premises. Their coffee, however, is not optimal. The roast is too burned and I do not feel that they have high enough focus on the coffee they serve or employees with proper and sufficient barista expertise.” (Coffee bar customer survey respondent)

“Espresso House has a nice and homey atmosphere of their premises, with comfortable sofas and a calm and relaxed environment to spend some time. The baristas at Espresso House can make somewhat ok coffee, but it takes them a long time to serve it, so it takes a while before you can actually sit down and enjoy your cup of coffee.” (Coffee bar customer survey respondent)

“Wayne's Coffee have lots of seating, so you can sit down with a coffee and relax. The atmosphere is good and they have quiet music and comfortable chairs. That is very positive when visiting a coffee bar.” (Coffee bar customer survey respondent)

“The coffee at Starbucks is relatively expensive and not very good compared to other coffee bar chains such as Kaffebrenneriet or Stockflets that have much higher quality of their coffee. Therefore, I do not visit Starbucks for their coffee, but for access to a place to be for a few hours (they have long opening hours), free Wi-Fi, sweets or small meals, etc., which are factors that have nothing to do with coffee.” (Coffee bar customer survey respondent)

“Wayne's Coffee meet my requirements of food offerings and general customer service, but they lack important elements of coffee knowledge and barista craftsmanship to provide a good coffee bar experience. To not feel that the baristas know how to make coffee at a coffee shop is a very negative factor for a coffee bar experience.” (Coffee bar customer survey respondent)

When asked about the respondents' perceptions of the different coffee bar actors, the responses indicated that most of the respondents perceived the products and services related to a coffee bar atmosphere focus to provide them most customer benefit at Starbucks, Wayne's Coffee and Espresso House. However, most of the respondents indicated that these actors' focuses on the quality of the coffee beverages were not satisfactory to their needs and preferences.

“Kaffebrenneriet has knowledgeable and friendly baristas who really know the art of making coffee and have a passion for their work. This is very important for me when I visit a coffee bar. However, their coffee bar premises have small chairs and tables that make it uncomfortable to sit there for a long time. This makes the coffee bar experience shorter than desired.” (Coffee bar customer survey respondent)

Regarding the coffee focused actors, most of the respondents emphasised the baristas' coffee knowledge and passion for their profession as factors providing high levels of customer value. However, many of them also noted that the atmosphere and interior design of the premises were not comfortable enough, which had a negative influence on their coffee bar experience.

These findings imply that none of the coffee bar actors' chosen differentiation focuses are able to fully satisfy the customers' needs and preferences. It seems that the actors focusing on the coffee beverage quality lack the ability to offer a number of the preferred attributes related to other factors than coffee quality. Moreover, the actors focusing on the coffee bar atmosphere are not able to fully satisfy the customers' needs related to the quality level of the coffee beverage. However, both of these attribute categories are found to be very important for coffee bar customers to create value related to their coffee bar experience.

5.3 Concluding comments on potential for value creation

The survey indicates that coffee beverage quality is the most important factor contributing positively to the coffee bar experience. This was also closely related to aspects of customer service such as baristas adapting the coffee to the customers' preferences of factors such as the volume of added milk in the espresso-based coffee beverage. Moreover, speed of service in the coffee brewing process was also indicated to contribute positively. These findings indicate that educating and training of high quality baristas is very important to the creation of customer value as high quality baristas will have the ability to create higher quality coffee beverages adapted to the individual customer's preferences at higher speed of service than less educated and trained baristas. Moreover, high quality of the overall customer service is also an important source of value creation for coffee bar customers. This indicates that developing an organization culture of the baristas striving to achieve a high level of customer service is very important to create customer value.

Moreover, to create customer value it is important to offer a calm and relaxing coffee bar atmosphere with access to comfortable chairs and tables where the customer can consume their purchases. It is also important that the interior design and service attributes are adapted to accommodate different customer needs related to the length of the customers visit and their intended degree of socializing with other coffee bar customers. This is related to the customers desire to having access to a social arena that is available for the customers in the afternoon and evening.

The findings also indicate that the coffee bar locations is extremely important to access customers as they are not willing to travel far to access the coffee bar concept even if they perceive it as providing more customer value than the competitors. To be able to extract the potential profit from offering a concept providing high levels of value creation access to high quality locations is therefore a very important source of economic value creation for the coffee bar actor.

Finally, the findings indicate that the actors in the market today are not able to serve the main categories of customer needs to a full extent. The actors focusing on the coffee quality do not seem to be able to provide high quality on attributes related to coffee bar atmosphere and services, and the actors focusing on the coffee bar atmosphere do not meet the customers' expectations and preferences of coffee quality.

6. Analysis

This chapter constitutes the analyses that form the foundation for the proposal of the positioning strategy for an actor in the coffee bar market in Oslo. The competitive forces influencing the coffee bar market are first analysed, which then forms the basis for the analysis of the actor's strategic resources and activities. The analyses are based on the collected data from secondary sources and interviews, and on the findings from the coffee bar customer survey presented in the preceding chapter.

6.1 Coffee bar market analysis; Porters five forces framework

This section provides an industry analysis of the coffee bar market in Oslo. The objective of the analysis is to gain insight to the attractiveness of the market as it is today. This insight then forms an understanding of how to best position a coffee bar actor against the competitive forces that influence the market. The analysis is limited to the industry and market boundaries defined in chapter 2.4.

6.1.1 Internal rivalry

6.1.1.1 Price or non-price rivalry

The main competition mechanism of the coffee bar market is non-price rivalry. The actors in the coffee bar market in Oslo all follow a needs-based differentiation strategy where they differentiate themselves from their competitors through their coffee bar concept focus.

“There is no notable price-competition for the coffee bars in Oslo, there is a differentiation angle at all the actors.” (Coffee bar subject matter expert)

“We find our own twists on the products and services we offer with regard to exposure of the sales counter, product quality, the physical packaging of the product, the staffs' uniforms, interior design and music and so on. So the chain actors cover more or less the same customer needs, but all slightly differently.” (Coffee bar subject matter expert)

Coffee bar customers are a relatively heterogeneous group that have differing preferences and tastes for the coffee bars' products and services (Coffee bar subject matter experts). This implies that they have relatively highly idiosyncratic preferences along the different

dimensions that they perceive as important sources of value creation for their coffee bar experience. Moreover, coffee bar products and services are experience goods as these dimensions are hard to describe and the customers must rely on their own personal experience from visiting a certain coffee bar actor or the experiences of others to obtain information about the different coffee bar actors' products and services (Besanko et al., 2010, p. 565).

The idiosyncrasy of the customers' preferences allows the coffee bar actors to horizontally differentiate their products and services. Moreover, due to coffee bar products and services being experience goods, the coffee bar actors' potential for horizontal differentiation increases because customers incur search cost in assessing their perceived benefit level of the coffee bars' products and service offerings. Furthermore, horizontal differentiation reduces customers' price sensitivity because it increases their perceived customer value. (Besanko et al., 2010, p. 219-220, 283) This reduces the strength of price competition in the market because the actors will have to make large price reductions and endure larger loss of revenue to increase their market share. Consequently, the price competition and consequent profit erosion from reduced revenue margins is therefore relatively limited in the coffee bar market. This reduces the threat of internal rivalry eroding industry profits.

The coffee bar actors all differentiate their coffee bar concepts through offering different quality levels of the attributes related to their products and services. The quality levels of the different attributes effect customer demand, and increased quality increases customers' willingness to pay for the actors' products and services, and thereby increase potential profit (Besanko et al., 2010, p. 292-293). The main differentiators of the coffee bar concepts are coffee focus and coffee bar atmosphere focus. A coffee focus indicates a stronger focus on the coffee beverage, using speciality coffee beans of high quality that are bought directly from the farmers or through speciality coffee auctions such as Cup of Excellence (Alliance for Coffee Excellence, 2014). The baristas hold exceptionally high coffee knowledge level and coffee brewing skills, and are often part of the coffee connoisseur community in Norway (Nordic Coffee Culture, 2011). A coffee bar atmosphere focus indicates that the concept is built around the coffee bar experience more than the coffee beverage itself. These coffee bars often have larger premises, longer opening hours and offer a larger range of products and services that constitutes the attributes of the customer's coffee bar experience when consuming their purchased products at the coffee bar.

“There is a relatively large difference between for example Wayne´s Coffee and Kaffebränneriet in both concept and buying experience. Wayne´s coffee has a more urban concept expression that motivates the customer to sit down and spend some time due to larger seating areas and free Wi-Fi access.” (Coffee bar subject matter expert)

“If you go to Kaffebränneriet, you will get an amazing cup of coffee that is truly a world top product, but you will have to sit on a bar stool or hard chair to enjoy your coffee.” (Coffee bar subject matter expert)

All of the coffee bar subject matter experts interviewed placed the concepts of Kaffebränneriet and Stockfleth's in the coffee focus category, and indicated that Espresso House, Wayne´s Coffee and Starbucks have a more coffee bar atmosphere focus. Based on the subject matter experts´ responses, the main coffee bar actors can roughly be placed within a range of the two concept differentiators as illustrated in Figure 11.

Figure 11 Overview of coffee bar actors´ concepts in relation to the two main concept differentiators



There being a number of actors in the market that all differentiate their products and services horizontally indicates that the market has some degree of monopolistic competition. Their differentiation strategies indicate that one actor can reduce its price without this resulting in increased price competition from all the other actors also reducing their prices. This mechanism is founded on the customers´ idiosyncratic preferences and degree of horizontal differentiation. The more the competitors´ products are horizontally differentiated and thereby serve different customer preferences, the less willing the customers are to switch from one actor to another based on the price offerings. (Besanko et al., 2010, p. 214, 218) The price levels of the products and services offered in the market therefore differ to some

extent (Coffee bar subject matter expert). Moreover, this reduces the threat of price competition reducing margins and internal rivalry and thereby eroding industry profit.

However, differentiation competition also erodes the coffee bar actors' profits by driving up costs related to improving the quality of the product and service attributes to add customer value (Besanko et al., 2010, p. 329). For the coffee bar actors differentiating themselves through a coffee focus, the differentiation costs are typically related to costs of using higher quality coffee beans and increased barista education and training. For the coffee bar actors differentiating themselves through a coffee bar atmosphere focus, the differentiation cost is typically related to added product and service features, such as costs of having larger premises, longer opening hours, free Wi-Fi and newspapers, and larger selection of food and beverages. (Coffee bar subject matter experts) However, due to the mechanisms of monopolistic competition and horizontal differentiation, the coffee bar actors are likely to be able to set prices that extract most of customers willingness to pay and thereby obtain higher price-cost margins. Still, competing through differentiation is likely to result in significant costs of continuously developing and improving the coffee bar concepts to create higher levels of customer benefit than the competitors. This dynamic of non-price internal rivalry may therefore erode industry profit to a large extent as it reduces the actors' cost-revenue margins.

6.1.1.2 Number of competitors and industry growth

There are five main competitors in the market as defined in chapter 2.2; Kaffebrenneriet, Stockfleths, Espresso House, Wayne's Coffee and Starbucks. These have a total number of 54 coffee bar units in Oslo, with an expected total of 65 units by the end of 2014.

The small number of market actors indicates that the market for coffee bars in Oslo is relatively concentrated and each actor has a relatively large market share. If one of the actors attempts a price-cutting strategy, this implies that it will lose revenue on existing customers, and this loss will be relatively large as the actor has a relatively large market share.

Moreover, the idiosyncratic preferences of the customers imply that the number of new customers to be gained from price reduction is relatively small as customers are likely to be less price sensitive. This reduces the potential gain from price-cutting and therefore further reduces the threat of internal rivalry eroding profits through price competition.

“Norway is a coffee-loving and coffee-drinking country. Therefore, I am convinced that there is room for very many more coffee bars in Oslo.” (Coffee bar subject matter expert)

“The coffee bar market in Oslo is relatively immature in the sense that there has been little chain structure and we are now experiencing a major development in Norwegian coffee consumption moving from people’s homes and out to coffee bars.” (Coffee bar subject matter expert)

Entering into 2014 there were 634.463 people living in Oslo, and the population is growing (Utviklings- og kompetanseetaten, 2014). Moreover, 37 per cent of the inhabitants in Oslo belong to the age segment of 20-39 years, which is the main age segment of most coffee bar customers. (Coffee bar subject matter experts; Utviklings- og kompetanseetaten, 2014) This implies that the number of potential coffee bar customers is increasing. Moreover, the coffee bar industry is experiencing high growth and development due to changes in consumption patterns of Norwegian consumers. During the later years, there has been an explosive growth in the number of cups of coffee consumed outside the home. Moreover, the market is likely to be far from its saturation point as the Norwegian consumption of coffee is very high, and compared to many other countries the development of the market for coffee bars is almost a decade behind. (Nyheim, 2012) Moreover, as the market expands when new coffee bar units are opened, more consumers are likely to be educated about coffee beverages and the products and services offered at coffee bars. This may result in changed consumption habits where coffee consumption at coffee bars is likely to increase even further. Thus, the demand pattern indicates that the market is growing. High growth indicates a decrease of the intensity of internal rivalry of the coffee bar market because the actors can increase their market shares without enduring the costs of increased competition and profit erosion (Besanko et al., 2010, p. 330-331).

However, there has also been an increasing number of chain-operated coffee bars in Oslo due to Wayne’s Coffee, Espresso House and Starbucks all entering the market in recent years. This implies that the internal rivalry of the market is somewhat increasing as these coffee bar actors all compete to take market shares through their expansion strategies.

“The market is developing rapidly. There has been a very strong increase of the competition at chain level in the Oslo market in later years.” (Coffee bar subject matter expert)

Still, the presence of idiosyncratic customer preferences and horizontal differentiation of the actors' coffee bar concepts are likely to reduce the intensity of the competition for market shares as many customers will always prefer some actors' concepts from others.

6.1.1.3 High fixed costs

“There are high costs associated with producing coffee; we have high personnel costs, expensive machines and equipment, and expensive lease contracts.” (Coffee bar subject matter expert)

For coffee bars, there are indivisibilities in the production process resulting in relatively large fixed costs. These fixed costs are mostly related to lease of facilities, purchase of machinery and inventory and training of baristas, which are costs that occur even if the coffee bar only produce and sell a small quantum of its products and services. This increases the actors' potential benefits of increasing competition for market shares. By increasing their market shares, the actors can increase their production output and sales volume, and thereby achieve larger revenue to recoup the fixed costs of production (Besanko et al., 2010, p. 330-331). However, the actors endure costs of competing to increase or secure their market shares. The high level of fixed costs thereby increases the threat of internal rivalry eroding profits through increased costs related to the competition for market shares.

“I do not believe any of the actors are willing to touch the price element to a large extent because we are dependent on upholding these price levels to pay our fixed costs.” (Coffee bar subject matter expert)

However, the coffee bar actors are dependent on upholding the price level of their products and services to cover their costs. This further reduces the potential of price competition as an attractive competitive mechanism in the market and increases the importance of product differentiation as a source of customer value creation and profit generation. Consequently, the presence of high fixed costs is likely to increase internal rivalry in the market, but through the use of non-price competitive mechanisms. This erodes profit through driving up costs of increased quality on the offered product and service attributes, and thereby the threat of internal rivalry eroding industry profit.

6.1.1.4 Exit barriers

There are large investment costs in opening a coffee bar unit, and the actors enter into obligations for relatively long periods of time.

“When you open a coffee bar, you enter into leases of five, ten, fifteen or maybe twenty years, and the lease contract often includes an operating commitment of the use of the premises. In addition, you invest maybe NOK 2.5-3 million in the facility. So it is obvious that the investment in locations is an exit barrier.” (Coffee bar subject matter expert)

The lease contracts for coffee bar premises are indicated to be a strong exit barrier in the coffee bar market as their lease commitments may hinder actors to exit the market, resulting in an increase of competition to secure survival. A struggling coffee bar actor is therefore likely to increase competition to attain a larger market share and sales volume. This increases the actors' competition costs to secure their market shares as the market competition increases. The presence of exit barriers thereby increases the threat of internal rivalry eroding industry profits. However, as there is a market for the purchase and sale of businesses, a struggling coffee bar chain may exit through being bought by an actor who fulfils the lease commitments and operating clauses. This would reduce the threat of exit barriers increasing internal rivalry.

6.1.2 Entry

An entrant may be a new company that did not exist before it entered the coffee bar market or a more mature company that is active in another geographical market and has chosen to diversify into the coffee bar market in Oslo (Besanko et al., 2020, p. 300).

6.1.2.1 Cost disadvantages

As discussed in chapter 6.1.1.3 there are relatively high fixed costs related to operating a coffee bar. Moreover, the incumbent companies have relatively large market shares and offer horizontally differentiated products. This implies that they are likely to achieve economies of scale from spreading the fixed costs over a greater volume of output than a potential entrant will be able to when entering. This implies a cost disadvantage for entrants as they are forced to enter at a larger scale to achieve similar economies of scale (Porter, 1979, p. 138).

“All purchases are made through our central contracts. This ensures better prices than if each entity has to negotiate purchases on their own.” (Coffee bar subject matter expert)

The actors in the coffee bar market today all have a number of coffee bar units and a relatively large market share. This provides economies of scale in purchasing of the different inputs to production as they are able to obtain price discounts through the larger centralized

agreements. This implies that the coffee bar actors have a cost advantage over potential smaller entrants that are not able to negotiate the same prices for their inputs. This may deter entry from such actors as they are forced to either enter on a larger scale or accept a cost disadvantage, which as a consequence may make it unprofitable to enter (Porter, 1979, p. 138).

Moreover, another important cost related to operating coffee bars is the education and training of baristas (Coffee bar subject matter expert). Many of the actors have developed their own training programs for their staff (Espresso House, 2014e; Kaffebrønneriet, 2014d; Starbucks, 2014e). Such training is likely to be necessary for coffee bar actors to achieve the necessary quality level of their coffee beverages and overall customer service demanded by the coffee bar customers. The cost of education and training of the coffee baristas is reduced as the production output increases as the actor expands with more coffee bar units and baristas. This implies that they are likely to have economies of scale from lowered unit costs as more of their baristas are educated through the program. Moreover, potential entrants that have not already developed such programs have to incur this cost to enter the market. This may function as an entry barrier because the entrant imposes a cost disadvantage of having to develop barista training programs to secure the necessary quality level of their products and services to compete in the market (Jacobsen & Lien, 2011, p. 102).

The coffee bar actors in Oslo today are all relatively mature actors with long-time experience in operating and expanding their coffee bar chains. Consequently, it is likely that they all achieve positive cost effects of learning from accumulated experience and knowledge developed over time. This experience and knowledge create a cost advantage for the incumbent companies if it manifests itself as lower production costs, higher quality of coffee bar product and service attributes or more effective pricing. Such valuable learning can be about preferences and tastes of the customer group. (Besanko et al., 2010, p. 61-62) As the coffee bars accumulate experience and knowledge of operating a coffee bar, it is likely that they are able to improve their coffee bar concept to better serve the needs and preferences of the customers in the Oslo market. This increases the quality of their products and services, and thereby creates a learning effect. Accumulation of knowledge may also result in reduced costs of production from sources such as reduced waste from better adapted purchases to the customers demand for different foods and beverages during the coffee bars opening hours (Horntvedt, 2014). Such knowledge of customers' demand for quality and for products and services is likely to be increased and improved over time, indicating that incumbent firms

may have a cost advantage from learning. This may deter entry if it is difficult or costly for an entrant to develop the same knowledge to achieve the same quality level or production efficiency.

6.1.2.2 Access to essential resources

Access to coffee bar locations affects the potential for entry into the coffee bar market. This is an essential resource for operating a coffee bar that is relatively scarce as there are a limited number of “A-locations” in the city, and actors in different industries already occupy most of them.

“An “A-location” is the top quality category for coffee bar premises. It is somewhere where you have an extremely high foot flow, meaning that there are a very high number of potential customers passing by every day. These locations are typically found close to traffic gateways like subways or train stations, institutions such as universities, office areas, high street shopping areas or shopping malls. Such locations are quite rare and very expensive, but it is crucial to get good locations to survive the market.” (Coffee bar subject matter expert)

“There is definitely a very strong competition for securing good locations. We have people dedicated to only searching for potential new locations for our coffee bars. They plan for many years ahead and are on lookout with both eyes and ears all over the city for locations we want to secure. So, in order to be successful, the coffee bar chains have to know the city very well and have access to information such as rumours of impending insolvencies or commercial property landlords who want to replace their current tenants.” (Coffee bar subject matter expert)

Due to the limited number of available “A-locations”, there is a mismatch between the supply and demand for this resource. The resource is valuable for actors in a number of different industries operating in Oslo, and there is consequently very high demand for “A-locations”. Moreover, tenants secure the location for a longer time period, which results in a potential first-mover advantage related to obtaining favourable locations. Furthermore, the dynamics of supply and demand indicate that prices of a scarcely distributed good increase as demand increases (Pindyck, Rubinfeld & Synnestvedt, 2009, p. 19). The increased number of coffee bar actors in the market and their expansion strategies for the number of coffee bar units implies that the demand for “A-locations” is increasing. Moreover, this indicates that there is a first-mover advantage related to the price level of “A-locations” as

higher demand causes higher prices. For actors entering the market, it is therefore likely that they are faced with higher prices than the incumbent firms to secure access to such locations. The limited supply and increasing demand for “A-locations” may therefore function as an entry barrier as entrants are forced to accept a cost disadvantage of higher lease prices. The entrant can, however, enter using lower quality locations, but this entails a cost disadvantage of lower potential customer access and thereby lower potential sales volume and revenue. This implies that limited access to “A-locations” is likely to be a relatively strong entry barrier in the coffee bar market in Oslo.

6.1.2.3 Product differentiation and consumer loyalty

All actors in the market compete through concept differentiation with the objective of distinguishing their products and services from the competitors’ and exploit the opportunities of customers’ idiosyncratic preferences. This strategy implies differentiating their brand from the competitors’. Through horizontally differentiating the quality of the coffee bar actors’ products and service attributes, they increase customers’ search costs as they have to experience the products to be able to assess the customer value it creates (Besanko et al., 2010, p. 214, 220, 294). Moreover, consumers are in general risk and uncertainty averse, and this may lead to customers using their previous positive experience with an actor as a heuristic factor that leads to customer brand loyalty. (Besanko et al., 2010, p. 87; Pindyck & Rubinfeld, 2009, p. 159, 164, 187) If this brand loyalty level is sufficiently strong, an incumbent firm will have a cost disadvantage from having to spend heavily on marketing to establish a strong reputation and brand awareness to reduce customers’ loyalty of incumbent coffee bars (Besanko et al., 2010, p. 331).

“I perceive coffee bar customers’ loyalty as very strong. Particularly for the customers at the older coffee bar chains such as Kaffebrenneriet and Stockfleths, their customers are extremely loyal. But this is also true for coffee bar customers in general. I find their loyalty to be very strong towards their preferred actors.” (Coffee bar subject matter expert)

“Norwegians are in general quite traditional and conservative, and it is very difficult to change their attitudes and preferences. This makes them loyal customers when they find a coffee bar chain they like.” (Coffee bar subject matter expert)

To increase the customer loyalty level, Espresso House and Wayne’s Coffee offer customer loyalty cards (Espresso House, 2014a; Wayne’s Coffee, 2014d). These are pre-paid payment

cards where customers pay money into their customer account and receive a discount on some products or other benefits when the card is used as payment at the coffee bars. Being a pre-paid card, this increases the customers' switching costs, as the card's prepaid value is only valid to use at the specific coffee bar chain. The cards also provide the coffee bar actor with information about the customers' purchase patterns. This information can be used to provide tailored service fit to the individual customer's preferences, which in turn is likely to increase the customers' perceived service level and brand loyalty (Pindyck & Rubinfeld, 2009, p. 159, 164, 187). As customers try the incumbent coffee bar chains' products and services, their loyalty will increase when they find a concept they like. Consequently, there will be a first-mover advantage of being an incumbent actor in the market, and an entrant will have to offer a coffee bar concept that is perceived as better than the incumbent coffee bar chains' to be able to overcome customer loyalty. This further increases the necessary costs related to developing a strong brand reputation and awareness for an entrant, and therefore provides a cost disadvantage that reduces the potential profit of entering the market (Porter, 1979, p. 138).

However, customers switching costs related to the coffee bars loyalty cards are not likely to be substantial as customers typically enter a relatively small amount. Moreover, the uncertainty and risk aversion related to trying out a new coffee bar concept is probably not substantial as purchasing a cup of coffee is not likely to be perceived as an activity involving high risk or uncertainty. This implies that the overall customer loyalty effect is relatively limited in the market, and thereby that this factor is not likely to function as a strong entry barrier.

6.1.2.4 Potential for retaliation from incumbent firms

The market for coffee bars in Oslo is relatively concentrated with only five chain actors. This increases the threat of retaliation for potential entrants because each actor has a lot to lose by an entrant capturing market shares (Jacobsen & Lien, 2010, p. 105-109). However, the market is currently underdeveloped and growing (Coffee bar subject matter experts; Nyheim, 2012; Utviklings- og kompetansestaten, 2014). This implies that entrant firms can achieve market shares without taking current market shares from incumbent firms. This reduces the threat of retaliation for potential entrants, as the incumbents are less likely to undertake retaliation costs when the potential gain is small (Jacobsen & Lien, 2010, p. 105-109).

However, many of the incumbents follow rapid expansion strategies, and an entrant is likely to take incumbent firms' potential market shares and tie up attractive coffee bar locations. This increases the likelihood of the incumbent firms to retaliate against entrant actors if the cost of doing so is not too high. By increasing marketing to strengthen the incumbents' coffee bar brands, the entrants' marketing costs to establish a strong brand and brand awareness in the market increases (Besanko et al., 2010, p. 133). Moreover, incumbents' concept innovation increases the quality of their products and services by strengthening their coffee bar concepts to better serve customers' needs and preferences. Due to lack of learning, an entrant might not have access to the valuable learning about the needs and preferences of the customers in Oslo (Besanko et al., 2010, p. 61). The entrant may therefore enter the market with a lower quality concept and thereby have to further increase spending on marketing to attract customers and obtain market shares. Furthermore, by increasing expansion through increasing their number of coffee bar units, the incumbent coffee bar actors can intercept entrants' access to beneficial locations. This reduces entrants profit potential from entry as the potential sales volume is smaller at lower quality locations.

However, an entrant will still enter as long as it expects post-entry profits to exceed the costs of entry (Besanko et al., 2010, p. 223). As the market is growing, and the horizontal differentiation allows for higher prices to secure a positive cost-revenue margin, potential post-entry profits are likely to be relatively large. This decreases potential for entry deterrence through the incumbents' retaliation strategies.

6.1.3 Substitutes

Substitutes for coffee bar products potentially divert business from the coffee bar market, and thereby erode industry profits. Moreover, through diverting business the substitutes also intensify the internal rivalry for market shares as the market is reduced. This also erodes profits through driving up costs related to the competition between coffee bar actors (Besanko et al., 2010, p. 331; Porter, 1979, p. 142). Moreover, the threat of potential substitutes for the coffee bars products and services may increase or decrease in the future and thereby affect the future intensity of rivalry in the coffee bar market.

The substitutes for coffee bar products fall into three categories; substitutes for the coffee beverage, substitutes for the coffee bar produced coffee beverage and substitutes for the coffee beverages' added features constituting the coffee bar experience. Substitutes for the

coffee beverage are other drinks that satisfy the same customer's needs. Substitutes for the coffee bar coffee beverage are coffee beverages purchased from other actors than coffee bars. Substitutes for the coffee bar experience are other products or services that hold similar features as the customer's coffee bar experience.

6.1.3.1 Substitutes for the coffee beverage

For Norwegian consumers, water is the most common substitute for coffee, followed by tea and soft drinks (Ipsos MMI, 2013, p. 13). Other beverages such as hot chocolate, mineral water and fruit or vegetable juices are also relevant substitutes that satisfy the consumers' need to quench their thirst or other consumer needs. However, during the last decade, the overall consumption levels of these substitutes have been relatively stable as described in Table 4.

Table 4 Quantities of food and beverages consumed per person per year, (kg/litre) by commodity group, time and contents (Statistics Norway, 2014)

Commodity group	2004	2005	2006	2007	2008	2009	2012
	Quantity per person	Quantity per person	Quantity per person	Quantity per person	Quantity per person	Quantity per person	Quantity per person
0121 Coffee, tea and cocoa. kg	5,9	5,9	6,1	6,2	6,4	6,7	6,3
01211 Coffee. kg	5,3	5,2	5,4	5,4	5,7	5,8	5,4
01212 Tea. kg	0,2	0,2	0,3	0,3	0,3	0,4	0,5
01213 Cocoa and powdered chocolate. kg	0,4	0,5	0,5	0,5	0,5	0,5	0,4
0122 Mineral waters, soft drinks, fruit and vegetable juices. l	108	105,3	106	107	106,6	105,2	108,2
01221 Mineral or spring water. l	10,2	10,4	11,1	14	14,2	14,3	14,5
01222 Soft drinks. l	71	68,2	68	64,9	64,8	63,7	65,3
01223 Fruit juices. l	26,8	26,6	26,7	28	27,5	27,2	28,3
01224 Vegetable juices. l	0	0,1	0,1	0,1	0,1	0,1	0

Footnote:

Because of small annual samples the household budget surveys (HBS) of the period 1997 to 2009 three and three years are put together, calculated to the last year's prices. To simplify the table, it is referred to the last year of each three-year period. Eg. year 2000 and 2009 means the periods 1998-2000 and 2007-2009 calculated to the year 2000 and 2009. This does not apply for the HBS 2012 which has a much larger sample.

The consumption of soft drinks has decreased during this period, whereas the consumption of tea and hot chocolate has had a small increase, but is still relatively low. (Statistics Norway, 2014) However, of coffee consumers who have decreased their coffee consumption in the last three years, only four per cent has decreased it because they drink more tea (Ipsos MMI, 2013, p. 41) The consumption of mineral and spring water and fruit and vegetable juices has been steadily increasing during the last eight years (Statistics Norway, 2014). This may indicate a change in the consumers' preferences for beverages where healthier and more

natural beverages are preferred as opposed to soft drinks that are perceived as unhealthy. However, coffee is also perceived by Norwegians to have a positive influence on their physical or emotional health through being energizing, comforting and increasing their level of wellbeing (Ipsos MMI, 2013, p. 44). Consequently, the health trend and other potential substitute beverages do not seem to be very strong threats as substitutes to the coffee beverages. Moreover, as these substitutes might not serve all customer needs related to drinking coffee, such as being revitalized by caffeine, their threat of stealing business from the coffee bar industry is further reduced.

6.1.3.2 Substitutes for the coffee bar produced coffee beverage

Most of the coffee consumption in Norway is consumed at home or at work (Ipsos MMI, 2013, p.22).

Coffee consumption at home

Most Norwegians have a filter-based coffee machine and/or a portion capsule coffee machine at home (Ipsos MMI, 2013, p. 22). This indicates that most Norwegians have good access to coffee beverages from other sources than coffee bars. Moreover, 51 per cent of Norwegian coffee consumers drink most of their coffee as filter brewed coffee and 20 per cent consume most of their coffee as portion capsule coffee (Ipsos MMI, 2013, p. 22).

The biggest actor in the market for portion capsule coffee in Norway is Nespresso, which is estimated to have sold about 250.000 Nespresso machines in Norway, but there is also a number of other actors in the portion capsule coffee market (Hammer, 2014). The use of portion capsule coffee machines is still increasing, and 30 per cent of Norwegians have a capsule machine at home. Moreover, this is most popular in the age segment of 30-44 years old, which is a relevant customer segment for the coffee bar market (Coffee bar subject matter expert; Ipsos MMI, 2013, p. 37).

“I believe the reason why Nespresso is so successful with their capsule concept is that it takes so little time to make a cup of coffee. People today are willing to pay for freeing up time. They will pay for something to be done more quickly because they perceive time to be a very scarce resource in their lives.” (Coffee bar subject matter expert)

For coffee consumers who prefer espresso-based coffee and need it to be accessed quickly rather than be hand crafted by a barista, portion coffee machines are likely to be a strong substitute for coffee bar coffee. This is also true for filter-based coffee brewing machines for

home use. By having coffee machines at home coffee consumers do not need to spend time traveling to the coffee bar and wait to be served, they can make the coffee at home and take it with them immediately. They also have access to a large variety of coffee beans and capsules of different quality levels and tastes, and the coffee beverages are fairly quick and easy to make. Consequently, drinking their coffee at home provides customers with many of the same product characteristics as buying a cup of coffee at a coffee bar. Moreover, the home-brewed coffee is usually less expensive than buying a cup of coffee at a coffee bar. The price-performance trade-off offered by drinking coffee at home therefore holds a relatively high performance at a relatively lower price, which increases the potential threat of this substitute stealing business in the coffee bar market.

Coffee consumption at work

“The working population’s main coffee consumption is at work, and there is an increase in employers investing in high-quality coffee at their workplace.” (Coffee bar subject matter expert)

Consumers who do not need or value the added features of the coffee bar experience and value their time are likely to choose the coffee that they have the easiest access to. This makes coffee from coffee machines at work a strong substitute for coffee beverages from a coffee bar. Moreover, use of the coffee machines at work does not incur cost for these consumers. Furthermore, with access to higher quality coffee at their workplace, coffee consumers who value coffee beverage quality may also find the coffee at work to be a substitute for purchasing their coffee from a coffee bar. The price-performance trade-off offered by drinking coffee at work thereby indicates that consumers’ access increasingly higher performance at a relatively low price. Coffee consumption at work may therefore be a strong threat of stealing business from coffee bars. Moreover, this threat is likely to increase as the quality level of the coffee beverages offered at work increases.

Other industries that offer coffee beverages

“There are alternative industries that serve substitutes for coffee from coffee bars, such as kiosks, petrol stations, convenience stores and fast-food restaurants, that can sell a cup of coffee for as little as NOK 10-20 during campaign periods. For coffee bars, there are many cost driving factors that makes it impossible to compete with these prices.” (Coffee bar subject matter expert)

Most petrol stations, larger grocery stores, bakeries, restaurants, kiosks and convenient stores serve filter-brewed coffee, and many also have coffee machines with espresso-based coffee of different varieties. Use of such machines rather than baristas to produce the coffee results in lower operating costs. Many of these actors are also located in less expensive locations than most coffee bars in Oslo (Coffee bar subject matter expert). Consequently, they can offer coffee beverages at lower prices than the coffee bar actors. For consumers who prefer lower price coffee to higher quality barista-made coffee, the perceived price-performance trade-off offered by these coffee beverages are likely to be good. Consequently, coffee beverages offered by these alternative industries are likely to be strong substitutes for coffee beverages at coffee bars, especially for price-sensitive consumers. This increases the threat of alternative industries stealing business from the coffee bar market.

6.1.3.3 Substitutes for the coffee attributes constituting the coffee bar experience

The bakery industry

The coffee bar market is experiencing increased competition from bakeries refocusing their business strategies and becoming more like coffee bars in addition to providing baked goods (Lorch-Falch, 2012b). Many of these actors are relatively close substitutes for coffee bars as they offer mostly the same products and services. In 2014, the largest bakery chain actors in Oslo are Baker Hansen, Godt Brød, W. B. Samson, United Bakeries and Åpent Bakeri with a total of 47 bakery units in Oslo (Baker Hansen, 2014; Godt Brød, 2014; United Bakeries, 2014; W. B. Samson, 2014; Åpent Bakeri, 2011). The number of bakery units in Oslo indicates a strong potential for stealing customers and market shares from the coffee bar market as close substitutes. An increased focus on coffee beverage products and quality in the bakery industry will therefore pose a very strong threat as substitutes for coffee bar actors.

The juice and smoothie bar industry

“For coffee bars with a larger selection of food and beverages than just coffee, about ten per cent of the revenue comes from cold drinks. This has competition from actors such as juice bars, smoothie bars and other places that also provide customers with a little break and energy supply just as coffee bars do.” (Coffee bar subject matter expert)

In Oslo, there are a few larger actors in the juice and smoothie industry such as Smoothiexchange, Joe & The Juice and Bagel and Juice. In 2014, these three actors had nine

outlets in total in Oslo (Bagel and Juice, 2014a; Joe & The Juice, 2013b; Smoothiexchange, 2014). They offer very similar products and services as the coffee bar chains, but have juice and smoothies as their main products rather than coffee beverages (Bagel and Juice, 2014b; Joe & The Juice, 2013a; Smoothiexchange, 2014). Their relatively low number of units in Oslo may indicate that there is a somewhat limited market for juice and smoothie bars in this area. However, for coffee consumers that value the coffee bar's additional offerings more than the coffee beverage itself, or if the coffee beverage quality level is perceived as high enough at the juice and smoothie bars, these actors may still function as strong substitutes for visiting a coffee bar and thereby potentially divert business from the coffee bar market.

The strength of the substitutes to the coffee bar market is likely to also affect the actors' profit potential to some extent. If the substitutes to the coffee bar market are perceived as to a sufficient extent having similar product characteristics as their preferred coffee bar products and satisfy their customers needs, the definition of substitutes indicates that they will purchase the substitute if it is offered at a lower price than the coffee bar actors' products (Besanko et al., 2010, p. 207; Pindyck & Rubinfeld, 2009, p. 34). A high degree of similarity between the product characteristics and attributes offered by a substitute therefore increases its threat as a substitute. This implies that the price levels of related industries might influence the coffee bar actors' potential price levels, even as horizontally differentiating actors. If, for instance, the bakery industry is able to reduce its cost levels and still offer products and services that are perceived as close substitutes for the coffee bar market, they can reduce their prices and thereby steal customers from the coffee bar industry. Moreover, the mechanisms of substitutes also indicate that coffee bars cannot set their prices too high above the prices of substitute products offered by the bakery industry to avoid losing customers. Therefore, the presence of such close substitutes in related industries is likely to erode industry profits to some extent. Moreover, as bakeries refocus their strategies to offer products and services with increasingly closer product performance characteristics and attributes to the coffee bars, the threat of substitutes eroding industry profits is likely to increase in the future.

6.1.4 Supplier power

Suppliers to the coffee bar market can potentially erode market profits through exploiting their bargaining power over the coffee bar actors and thereby increase cost of production inputs (Porter, 1979, p. 139). Suppliers to the coffee bar market fall into five categories;

suppliers of barista labour, suppliers of coffee machines, merchandise and inventory, suppliers of coffee beans, suppliers of food ingredients, processed food and other beverages than coffee, and suppliers of commercial property.

6.1.4.1 Barista labour

The level of personal interest and motivation is an important factor of high quality baristas (Espresso House, 2014d; Kaffebrenneriet, 2014d; Starbucks, 2014e). The number of highly educated and trained baristas inhabiting a personal interest and motivation for coffee and coffee beverage brewing is presumably relatively small compared to the number of coffee bar units in Oslo. This implies that there is a differentiation in the quality level of barista knowledge and craftsmanship among the potential employees for the coffee bar actors. High quality baristas may therefore obtain some bargaining power related to salary level or other contractual benefits in employment negotiation (Besanko et al., 2010, p. 65). This may set the standard for the overall employment market for highly qualified baristas and therefore potentially erode market profit. However, there is a large number of potential baristas who are not educated and trained in the craft of coffee brewing. These may not have the necessary personal interest or motivation to become top quality baristas through education and training, but through education and training they are likely to achieve a sufficient quality level required by many of the coffee bar actors. The relatively large access to such unskilled barista labour reduces the overall bargaining power of barista labour, and the potential profit erosion is not likely to be large enough to constitute a strong threat for the actors in the coffee bar market.

6.1.4.2 Coffee machines, merchandise and inventory

“All our purchases of inventory and merchandises are centrally managed.” (Coffee bar subject matter expert)

“It is very important to have good suppliers of coffee brewing equipment, both for kitchen utensils and coffee machines, and it is even more important to have good service agreements. For instance, if the coffee machine is not working one day it is crucial that it is repaired or replaced quickly, because a broken coffee machine has a tremendous negative impact on revenue of the coffee bar.” (Coffee bar subject matter expert)

The coffee bar actors mostly negotiate centralized agreements for all their coffee bar units with their suppliers of coffee machines, merchandise and inventory (Coffee bar subject

matter experts). By following this strategy each chain actor becomes a relatively large buyer for the supplier actors. Moreover, the supplier market for these products has a larger number of competitors that compete to supply the coffee bar chains, and their ability to price discriminate is therefore likely to be low. The suppliers have therefore relatively little bargaining power. However, the choice of supplier of coffee machines and other coffee equipment is strategically important, as coffee is the main product for coffee bars. Moreover, coffee machines are to some extent differentiated products, and the coffee bar actor's choice of coffee machines inflict switching costs due to training of baristas as a part of their craftsmanship. These factors somewhat increases the suppliers bargaining power for these products. Nonetheless, the bargaining power of suppliers of merchandise and inventory is still not likely to be large enough to erode industry profit of the coffee bar industry to a significant extent.

6.1.4.3 Coffee beans

Speciality coffee beans

In the market for speciality coffee beans, there is only one Norwegian supplier that is large enough to supply the coffee bar chains. Moreover, this coffee roaster is specialised in the Norwegian signature roast of the coffee beans, and therefore provides a differentiated product than generic coffee roasters. (Coffee bar subject matter experts; Solberg & Hansen, 2014) This indicates a potential for the supplier exploiting its power as the coffee bars have few alternatives for purchasing speciality coffee beans. However, as there are also only a few large coffee bar chain actors in the market, the supplier is dependent on these actors as they constitute a major customer segment. Consequently, there is a mutually dependent relationship between the parties, and very limited bargaining power for the supplier to exploit.

Generic coffee beans

Generic coffee beans are sold through a structured market where the trade is channelled through global commodities exchanges. There are a large number of suppliers and prices are set by the market mechanisms of supply and demand. (Ethiopia Coffee Exchange, 2009; The Coffee Guide, 2014) Consequently, the suppliers of generic coffee beans have very little bargaining power. Due to external factors such as frost, drought or plant diseases, the supply of coffee beans and their trade prices may fluctuate dramatically on the global market (Lindeberg, 2014). To reduce this risk of limited supply or high coffee prices, many larger coffee bar chains have vertically integrated their coffee bean supply chain through operating

their own coffee plantations and roasters (Wayne's Coffee, 2014a). This further limits the bargaining power of suppliers to of generic coffee beans.

6.1.4.3 Food ingredients, processed food and other beverages than coffee

There are a few suppliers of food and beverages to the coffee bar industry. One large wholesaler supplies most of the food ingredients and manufactured food products and beverages used by coffee bars. Moreover, milk and dairy products are delivered by Tine that has a near-monopoly in the dairy market. In addition, the coffee bars often offer a few local products that are delivered directly from the manufacturer. Most coffee bar chains also have their own bakeries that supply the coffee bar units with baked goods. (Coffee bar subject matter experts)

“Except for the small manufacturers and our own bakeries, there is extremely limited bargaining power with the suppliers of our food and beverage products.” (Coffee bar subject matter expert)

The coffee bar actors' bargaining power towards the wholesale and dairy suppliers is very limited. These are two large suppliers that operate in concentrated markets, which increase their supplier power as it limits the coffee bar actors' alternatives. Moreover, the Norwegian dairy market follows political boundaries that further reduce the coffee bar actors bargaining power. The coffee bars are critically dependent on milk and dairy products, food ingredients, processed food and beverages. Consequently, as the coffee bar actors' bargaining power is very limited, it is likely that these suppliers are able to erode industry profit to some extent.

For the small manufacturers of local products coffee bars constitute a relatively large segment of their customer base. This increased their dependency on the coffee bar actors, as they are very important customers. Consequently, their supplier bargaining power is very limited and they are not likely to erode industry profit in the coffee bar market to a notable extent.

6.1.4.4 Commercial property landlords

As described in chapter 6.1.2.2 the commercial property landlords offer a product of high demand and limited supply that is an essential resource for the coffee bars. The suppliers of commercial property can price discriminate and exploit their bargaining power over tenants entering into lease contracts. Consequently, these suppliers have a high level of bargaining power, and can therefore set high prices that erode industry profit of the coffee bar market.

6.1.5 Buyer power

The buyers of coffee bar products are the individual coffee bar customers. The customers constitute a very fragmented group compared to the actors of the coffee bar market. Consequently, each customer does not have any direct influential bargaining power when purchasing the coffee bars' products.

“Social media such as Facebook and Instagram are relatively strong channels for customers. For instance, if a customer has a bad customer experience, posting it on a social media is a very strong instrument to affect us.” (Coffee bar subject matter expert)

The customers can, however, exert bargaining power as a collective to some degree. The large number of coffee bar actors, presence of close substitutes and lack of significant switching costs increases the customers' bargaining power. Moreover, the widespread nature of social media provides customers with a tool to exert their bargaining power as a collective to influence the coffee bar actors (Dagens Næringsliv, 2014). Through initiating social media campaigns and publically voicing dissatisfaction or issues, they may influence the coffee bars to solve particular problems or increase product and service innovation. This increases the coffee bar actors' cost levels and thus erodes market profit. However, the collective bargaining power is often utilized to influence an individual market actor and not the industry as a whole. Also, as most coffee bar customers' price sensitivity is relatively low, it is not likely that they will exert their bargaining power to try to negotiate coffee bar prices (Coffee bar subject matter expert). The bargaining power of the coffee bar customers is therefore not likely to erode industry profits in the coffee bar market to a notable extent.

6.1.6 Summary and conclusion of the five forces analysis

6.1.6.1 Internal rivalry

The main competition mechanism of the coffee bar market is non-price rivalry through differentiation. Coffee bar customers have idiosyncratic preferences of coffee bar products and services, which allows for horizontal differentiation of the actors' coffee bar concepts and offerings. The potential for horizontal differentiation is further increased by coffee bar products and services are experience goods. Horizontal differentiation increases the customer value of the products and services, which reduces the customers' price sensitivity. This limits the potential for internal rivalry eroding profits through costs of price competition, as the potential for increasing market share through applying this strategy is

limited. However, the costs related to differentiation competition are likely to erode profit to a significant extent as the actors incur costs that are necessary to create and obtain horizontal differentiation. This increases the threat of internal rivalry eroding industry profits.

Moreover, high fixed costs related to operating coffee bars increases the market competition to access larger market shares and sales volume to recoup the fixed costs.

However, the market is growing due to increasing demand from coffee consumers. This indicates an overall decrease of the intensity of internal rivalry because the actors can increase their market shares without enduring the costs of increased competition and profit erosion. Consequently, the threat of internal rivalry eroding profits of the coffee bar market is likely to be fairly mild.

6.1.6.2 Entry

Incumbent firms are able to obtain economies of scale in higher sales volumes to recoup fixed costs. They are also able to obtain economies of scale in purchasing due to larger purchases through centralized contracts. Furthermore, to compete in the coffee bar market it is necessary to have educated and trained baristas. Most of the incumbent actors have developed barista training programs for their employees and obtain economies of scale as more employees finish the program. This implies that incumbents are likely to have a cost advantage over smaller entrants or newly established actors that will have to enter at a larger scale or accept a cost disadvantage. This may therefore function as a relatively strong entry barrier.

Effects of learning from accumulated experience and knowledge is also likely to provide a cost advantage for incumbent firms. The incumbents are likely to obtain valuable knowledge about their customers' needs and preferences, which provides a learning advantage through increased product quality and perceived customer benefit. Learning may also reduce cost of production through improved supply chain management reducing waste. These factors deter entry if it is difficult or costly for an entrant to develop the same knowledge to achieve the same quality level or production efficiency. Furthermore, limited access and increasing demand of "A-locations" is likely to function as an entry barrier as entrants are faced with higher prices than the incumbent firms to secure access to such locations. Additionally, incumbents' use of retaliation strategies may deter entry to some extent due to increasing entry costs. However, an entrant will still enter as long as it expects post-entry profits to exceed the costs of entry (Besanko et al., 2010, p. 223). As the market is growing, and the

horizontal differentiation allows for higher prices to secure a positive cost-revenue margin, potential post-entry profits are likely to be relatively large. This increases the threat of entry to be fairly intense.

6.1.6.3 Substitutes

The substitutes for coffee bar products fall into three categories; substitutes for the coffee beverage, substitutes for the coffee bar produced coffee beverage and substitutes for the coffee beverages' added features constituting the coffee bar experience. Norwegian consumption patterns indicate that other beverages do not pose a strong threat as substitutes for the coffee beverage. However, coffee consumption at home or at work are strong substitutes for coffee bar produced coffee beverages due to easy access and increasingly high quality. Coffee beverages offered by other industries are also strong substitutes for coffee bar produced coffee beverages for price-sensitive consumers. Moreover, products and services offered by related industries such as bakeries and juice or smoothie bars pose strong threats as substitutes due to increasingly similar product characteristics and attributes that create customer value. This threat further increases as the quality level of these substitutes increase. Additionally, the presence of close substitutes affects the potential price level for the products offered by the coffee bar industry, which thereby erodes potential industry profit of differentiation. Consequently, the presence of substitutes erodes profits through potentially stealing market shares and thereby increasing industry rivalry, and through reducing the potential profit from coffee bar actors creating customer value through differentiation. This implies that the threat of substitutes is fairly intense.

6.1.6.4 Supplier power

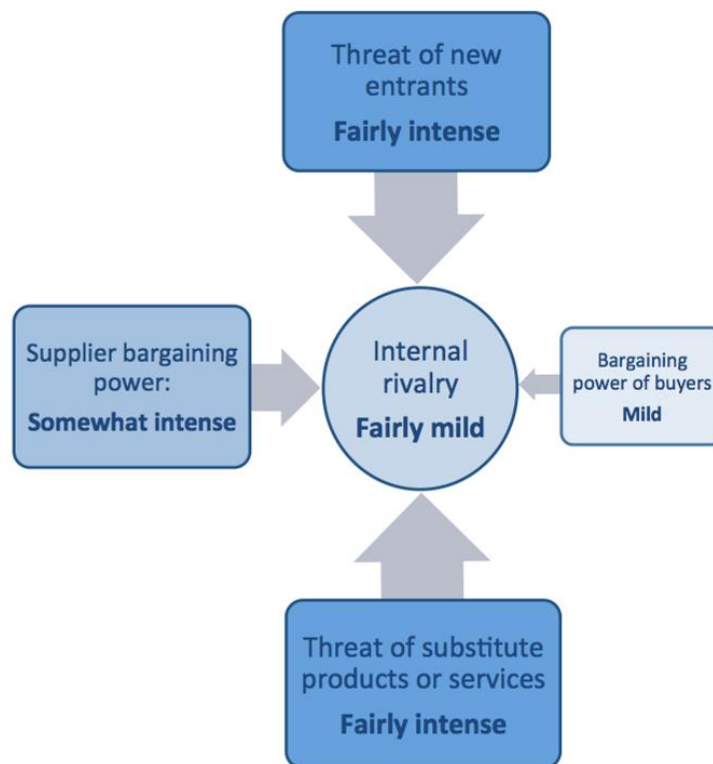
The suppliers of the coffee bar market fall into five categories; suppliers of barista labour, suppliers of coffee machines, merchandise and inventory, suppliers of coffee beans, suppliers of food ingredients, processed food and other beverages than coffee, and suppliers of commercial property. There are a large number of potential baristas available to the coffee bar actors, and the suppliers of barista labour do therefore not obtain any notable negotiation power. The coffee bar actor's procurement of merchandise and inventory is centrally managed, which limits the bargaining power of these suppliers. There is also very little supplier power for the supply of coffee beans. Due to monopolization in some areas of supply of food ingredients, processed food and other beverages than coffee, these suppliers can exert bargaining power over the coffee bar actors. This is also true for commercial property landlords as this is an essential resource for coffee bars of limited supply.

Consequently, the threat of suppliers' bargaining power over the coffee bar actors is somewhat intense.

6.1.6.5 Buyer power

Coffee bar customers constitute a fragmented group with very little individual bargaining power. However, due to tools such as social media, customers can influence the coffee bar actors to improve their concepts, products, services or operations, which increases the actors' costs and somewhat erodes industry profit. However, overall threat of customers bargaining power is still very limited. This implies that the threat of buyer power is fairly mild.

Figure 12 Intensity of the competitive forces influencing the coffee bar market in Oslo



The assessment of the market analysis indicates that the coffee bars incur fairly intense profit erosion from suppliers. Moreover, the threat of substitutes and potential entrants stealing business from the coffee bar actor is also fairly intense. Due to the structure of the supplier markets, it is probably difficult to reduce the strength of supplier profit erosion to a large extent. However, the threats of substitutes and entrants may be reduced through creating a coffee bar concept that provides product characteristics and attributes that are difficult to substitute or copy by substitutes or entrants. Moreover, the low price sensitivity of coffee bars

products and services creates an opportunity for a coffee bar actor to set relatively high prices to exploit the customers willingness to pay for high levels of perceived customer value. Higher cost-revenue margins reduce the profit erosion of internal rivalry that stems from having to incur costs of differentiating the coffee bar actors' concepts. Additionally, the growing number of inhabitants in Oslo and their age demographic implies that the potential customer segment is increasing, which further provides opportunities for generating larger profits from a concept that provides high customer value.

However, accessing the potential profit from customers' willingness to pay requires the coffee bar actor to create a concept that best serves the coffee bar customers needs and preferences. This also requires an understanding of and knowledge about what are the customers' needs and preferences, as described in the findings from the survey in chapter 5, and an understanding of what resources and activities that are necessary to create customer value from best serving these needs and preferences. This will therefore be assessed in the following chapters.

6.2 Resource analysis

The porter analysis indicates that the coffee bar can reduce the threats from substitutes and entrants through their coffee bar concept. To achieve this, the concept has to offer products and services with characteristics and attributes that are difficult for an entrant to copy or substitute, and that differs from the products and services offered by substitutes to the coffee bar market. The findings from the survey indicate that the coffee bar's baristas are an important part of this concept as they strongly influence the customer's perceived value of the offered coffee beverages and coffee bar experience. The findings from the survey also indicate that it is important for the coffee bar to obtain access to "A-locations" to reach potential customers. These are therefore found to be strategic resource for coffee bar actors.

6.2.1 High quality barista craftsmanship and performance culture

High quality baristas are baristas that have accumulated high knowledge and skill levels about coffee and the craftsmanship of coffee brewing. They also exhibit a high level of customer service level as a part of their professional conduct. The characteristics of this human resource imply that it is to a large extent a tacit resource that is inherent in the individual barista. Tacit resources are skills that are expressed through their performance,

and are therefore difficult to explicitly codify to transfer to others. They can therefore only be acquired through observation and practice. (Grant, 2013, p. 236) Because the resource is inherited in the individual barista, its quality level is affected by human factors such as the individual barista's personal interest and motivation to develop skills for high quality coffee brewing and customer service. This implies that its potential for value creation is also dependent on coffee bar management and organizational culture being able to motivate the barista to high quality performance (Bowman, 2003, p. 413; Grant, 2013, p. 233; Jacobsen & Lien, 2010, p. 79). Moreover, the resource must also be shared within the organization to create superior value. This implies that the baristas knowledge and skills must be attempted to be codified as explicit knowledge and shared in the organization through routines and procedures for coffee brewing and performing customer service. (Grant, 2013, p. 236) This thereby makes the resource of high barista quality an organizational asset as it becomes a part of the established routines and procedures of the coffee bar actor's organization and embedded in the organizational culture. (Bowman, 2003, p. 413; Jacobsen & Lien, 2010, p. 79) Such an organizational culture that contains significant and shared beliefs, values and routines is potentially very important and valuable as a strategic resource (Grant, 2013, p. 121). The characteristics of the resource imply that it cannot be traded in a factor market and therefore have to be accumulated by the coffee bar actor (Dierickx & Cool, 1989, p. 1505). This further increases its potential value as a strategic resource for coffee bar actors.

The rarity of high quality barista culture is difficult to measure. Many of the coffee bar actors have developed education and training programs for their baristas, and the rarity of the baristas' knowledge is therefore likely to be limited. However, the quality level of baristas' skills and craftsmanship is also dependent on personal interest and motivation, and on tacit knowledge that has to be developed over time through practice. This is also true for the quality of the conducted customer service, as this is also influenced by personal motivation and professional pride. This increases the complexity of the resource and makes it more difficult to access by actors that do not possess it. Moreover, the quality levels of both of these factors are reliant on developing an organizational culture that promotes high quality barista performance and professional pride. Many actors will probably be able to develop barista knowledge and craftsmanship to a certain extent, and attempt to promote a culture of professional pride and quality customer service. However, access to baristas who also inhabit the personal factors necessary to create high level of craftsmanship and customer service might be more scarcely distributed among the market actors. Many potential employees

working at coffee bars might be motivated by other factors than their personal interest in coffee and coffee brewing, which in turn is likely to reduce their potential for achieving high quality knowledge level and craftsmanship. As the resource is relatively complex and comprises factors that cannot be bought in a factor market, it seems likely that they are not evenly distributed among the actors of the market. This will give the coffee bar actor an advantage when utilizing its potential value creation. Still, as the resource may be developed over time, it is likely that other actors also possess it. However, as long as fewer actors than the number of actors needed to generate perfect competition dynamics possess the valuable resource, it will have a potential of generating a competitive advantage (Barney, 1991, p. 107). This implies that even if other coffee bar actors are able to develop a high quality coffee culture, it may still generate a potential for competitive advantage depending on the actors' other resources and activities.

The degree to which the resource is inimitable is also difficult to measure. However, the degree of the resources' complexity increases its inimitability (Barney, 2011, p. 129). If a resource is socially complex, meaning that it is founded in a complex social phenomena that is beyond the ability of a company' to systematically manage and influence, it is likely to be very difficult to copy or substitute (Barney, 1991, p. 110). High quality barista culture is founded in socially complex phenomena of organizational culture and personal factors of the individual barista, which is therefore likely to increase its inimitability. The tacit elements of the baristas' craftsmanship also increase the degree of inimitability as accumulation of the necessary skills takes time and cannot easily be copied at a low cost (Grant, 2013, p. 236). This implies that an actor that does not possess this resource will have a competitive and cost disadvantage whilst accumulating it (Barney, 2011, p. 128). Moreover, the value creation of the resource stems from the interaction with the barista and the coffee bar customer. This implies that the high quality barista cannot be substituted with a machine or a low quality barista to create the same customer value. These characteristics all indicate that the resource cannot be easily imitated, which increases its potential for value creation. (Jacobsen & Lien, 2010, p. 82)

The degree to which the coffee bar actor is able to exploit and retain the potential value of the resource depends on the cost of accumulating and exploiting it, and on the degree to which it is fully owned by the company (Jacobsen & Lien, 2010, p. 82). Access to baristas, which are an important part of the resource, is traded in the factor market of labour. Moreover, the baristas' explicit and tacit knowledge and skills are not fully owned by the

coffee bar actor, and the quality level of the resource's performance depends on personal attributes of the baristas. The exploited value from accumulating this resource therefore depends on the cost of accessing baristas and of accumulating the other attributes constituting the resource. (Barney, 1991, p. 143; Jacobsen & Lien, 2010, p. 82) However, the analysis indicates that the resource holds a potential of creating a competitive advantage for a coffee bar actor.

6.2.2 Access to “A-locations”

The concept of “A-locations” is defined in chapter 6.1.2.2. The main source of value creation of this resource is that it gives valuable access to potential customers, and thereby increases the potential economic value created by offering the coffee bar's products and services.

Locations are also an important source of idiosyncratic preferences as customers are willing to pay a little more for increased availability. This makes locations an important source of horizontal differentiation and profit generation, as customers prefer convenient access to the store selling their desired product or service and their increased willingness to pay can be exploited by the company providing the convenient access. (Besanko et al., 2010, p. 219, 384)

The supply of the “A-locations” is naturally limited as there is only a limited amount of commercial locations that meet the defined quality characteristics of such locations. The tenants of these commercial properties enter into long-term lease contracts and thereby further limit the access to these locations. It is also a valuable resource to actors in many industries operating in Oslo, which results in the resource being in higher demand relative to supply. (Coffee bar subject matter experts) This indicates that the resource is not evenly distributed among the actors of the coffee bar market, and that it therefore is a rare resource.

The limited supply of “A-locations” makes the resource difficult to copy as an attempt to do so is likely to incur high costs. A coffee bar actor can access the resource through overbidding the current or potential tenant or through acquiring the business that holds the lease contract of its desired location. Both of these strategies are likely to be very costly as overbidding increases the price and thereby the potential profit from exploiting the resource, and acquiring the business implies transaction costs and paying a price premium for assets that might not create value to the coffee bar actor (Jacobsen & Lien, 2010, p. 116). It is also difficult to substitute having “A-locations” with other quality levels of locations because

such locations have lower access to potential customers and therefore lower potential for creating economic value. This implies that a coffee bar actor possessing this resource will have an advantage when utilizing its potential value creation. (Barney, 2011, p. 127-128; Jacobsen & Lien, 2010, p. 81)

As described in chapter 6.1.2.2, the lease prices of “A-locations” are high. The limited supply and increasing demand in the factor market for “A-locations” increases the possibility of the commercial property owners to appropriate all the value created from exploiting it. If the locations are so expensive that the difference between the cost of establishing a coffee bar tangent the reservation price of the target customers, the potential profit is fully appropriated by the owners of the coffee bar locations. (Jacobsen & Lien, 2010, p. 145) This implies that under these conditions access to “A-locations” will not provide any superior profit to the coffee bar actor.

“We often find that the landlord has decided what kind of concept he wants the tenant to operate with at their property, and selects the coffee bar tenant based on that. So it may not always be a betting round between potential tenants to access a location.” (Coffee bar subject matter expert)

However, the interview respondents indicate that the commercial property landlords also value other factors than lease price when evaluating a potential tenant. The commercial property landlords want their property to have the highest quality level and value, resulting in the coffee bar’s concept being an important parameter when evaluating a potential tenant. This increases the importance of the actors’ coffee bar concepts to access “A-locations”, and thus the internal rivalry through concept differentiation in the market. If the cost of competing through concept differentiation is smaller than the lease price, this indicate that some of the economic value generated by exploiting the access to “A-locations” can be appropriated by the coffee bar actor. This implies that the resource holds the potential of creating a competitive advantage for a coffee bar actor.

6.2.3 Fundamental parity resources

To be able to offer a concept that serves the customers needs and preferences, it is necessary for a coffee bar actor to possess knowledge about their target customers and what factors contributes positively to customer value creation. Moreover, the coffee bar organization and management must be able to adapt the coffee bar concept to changing coffee consumption

trends to continue to create customer value. It is also necessary that the organization and management motivate the baristas to take pride in their profession and encourages a high quality barista culture to create maximum customer value from this resource. These resources are to some extent tradeable in factor markets or are fundamental to any business, and are therefore not likely to be rare. However, they are still necessary to acquire or accumulate to be able to create and exploit the potential economic value of the coffee bar actor's strategic resources.

6.2.4 Concluding comments to the resource analysis

The resource analysis shows that there are two strategic resources that the coffee bar has to possess to serve the needs and preferences found in the coffee bar customer survey. By creating a high quality barista culture motivating high level barista craftsmanship and customer service, the coffee bar is able to increase customer value through delivering valued attributes such as high quality coffee beverages and high speed of service. A culture promoting high quality level of customer service also creates customer value though providing a pleasant atmosphere where the customer feels comfortable and well served by the barista. In addition to a number of general fundamental resources, the coffee bar actor is also dependent on accessing "A-locations" to offer the products and service that create customer value. The price the coffee bar actor has to pay to access "A-locations" and the cost of concept differentiation rivalry determines how much of the potential value creation is appropriated by the coffee bar actor.

The resources create customer value through attributes related to coffee bar concept. The threat of substitutes or entrants stealing business from the coffee bar market reduces with the degree to which the valuable product or service attributes are difficult to substitute or copy. The analysis indicates that both of the strategic resources are difficult to substitute or copy and still create the same amount of customer value. This implies that the resources hold potential for reducing the treats of these competitive forces eroding market profit.

6.3 Analysis of a coffee bar actor's activity system

The objective of the activity analysis is to identify a peak of the performance landscape where the coffee bar actor will access customers with high willingness to pay and be able to appropriate this value. This implies performing activities that create customer value through

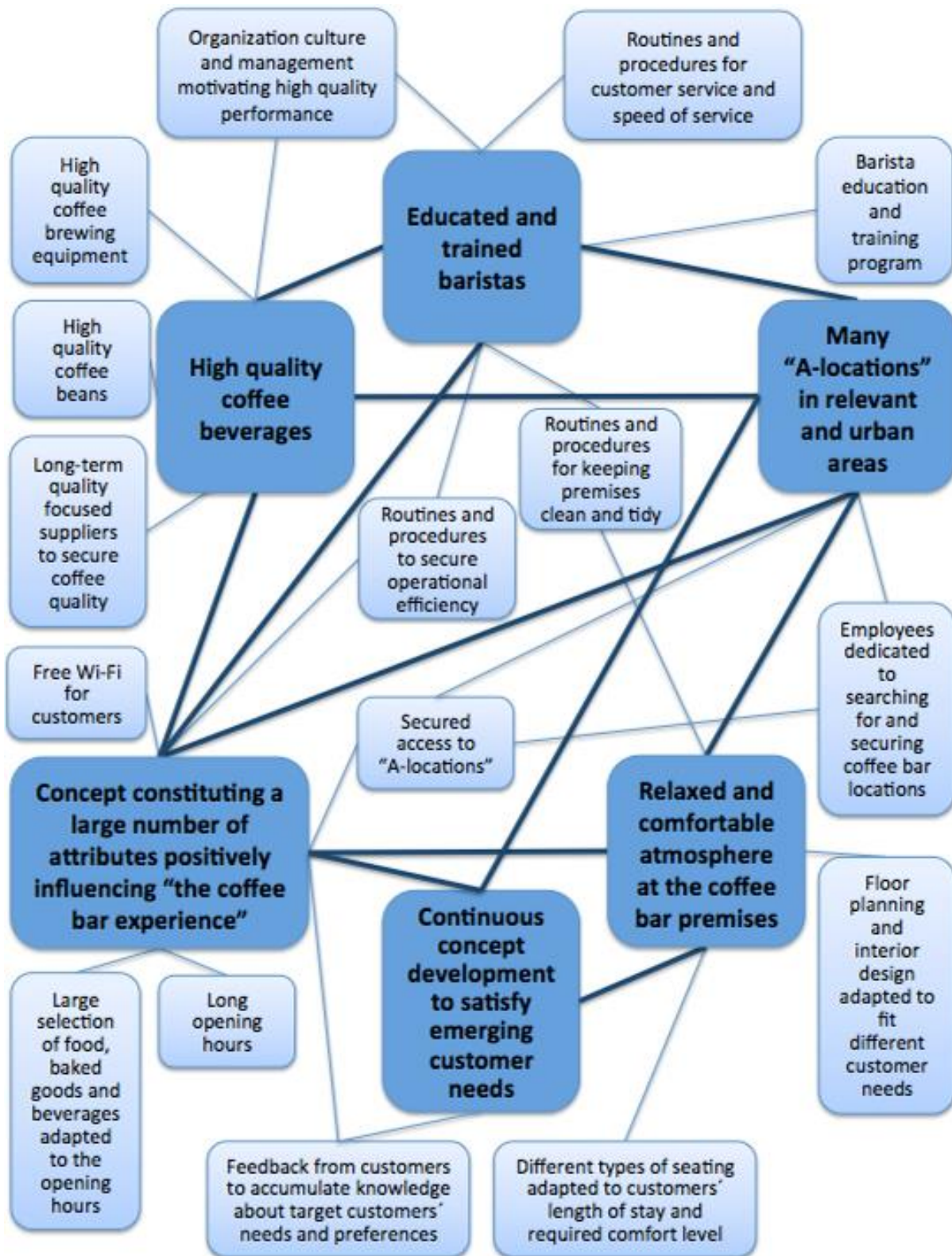
serving customers needs and preferences. The choice of activities also creates value through reducing the threats of competitive forces of the market and exploiting the potential value of its strategic resources. The previous industry and resource analyses indicate that the coffee bar can reduce the threat of some competitive forces by offer products and services that differentiate the actor from its potential substitutes, entrants or competitors.

The activity-system map presented in Figure 13 illustrates the choice of a coffee bar's strategic activities that exploits the opportunities for value creation in accordance with a needs-based differentiation strategy and the strategic resources. The activities in dark blue are high-order primary activities that are implemented through performing the support-activities that are illustrated in light blue. The thin lines that connect two activities illustrate a relationship between these two activities in order to create customer value. The thicker lines illustrate activities that also create complementary value through synergies with the connected activity. The five primary activities that aim to create customer value are; use of educated and trained baristas, offering high quality coffee beverages, offering a relaxed and comfortable atmosphere at the coffee bar premises, offering a coffee bar concept that constitutes a wide range of attributes improving the coffee bar experience, continuous concept development to satisfy emerging customer needs and preferences, and providing coffee bar premises in many "A-locations".

Use of educated and trained baristas create customer value through increasing the customer service level for the customers visiting the coffee bar and the quality level of the offered products and services. Good customer service and high quality of the coffee bar's coffee products are both highly valued as a part of the coffee bar customers' experience when visiting a coffee bar.

Offering high quality customer beverages creates value through increasing the customers' perceived value and benefit of the coffee beverages offered at the coffee bar. High coffee beverage quality is rated as the most important factor positively influencing the customers' coffee bar experience, and is therefore an important source of customer value.

Figure 13 Activity map for a coffee bar actor in Oslo



Offering a concept constituting a wide range of attributes improving the customers' coffee bar experience creates customer value as it serves a number of customer needs identified through the coffee bar customer survey. The attributes that are most valued by coffee bar customers are illustrated through the connecting support activities connected in the strategic activity map. As this activity constitutes a number of factors increasing customer value creation it therefore hold great potential of economic value creation for the coffee bar actor.

Offering a relaxed and comfortable atmosphere at the coffee bar premises creates customer value related to offering the customers a comfortable place to sit and consume their purchased products. The coffee bar atmosphere and interior design are very important sources of value creation influencing the customers' perceived benefit when visiting a coffee bar. The activity implies offering different seating solutions to best serve the customers needs of comfort according to the length of their coffee bar visit. The activity also serves the needs of having a place to socialize with others or a place to spend some time in solitude. This creates customer value as it provides a little break from the customers' everyday lives.

Continuous concept development to satisfy emerging customer needs crates value through continuously improving the coffee bar concept and product and service offerings to best serve customers' needs and preferences. This is a critical activity to be able to differentiate the coffee bar actor's products and services from its competitors and potential substitutes. This activity is also supported by activities of accumulating knowledge of the coffee bar actor's target customers' needs and preferences. Such accumulation can be performed through allowing customers to provide feedback, in addition to gather data from customer surveys. By continuously improving the concept, the coffee bar actor is able to increase customer value, and thereby increase the potential of generating superior profit.

Providing many coffee bar premises in "A-locations" create customer value as it increases the customers' access to the coffee bar actor's units. This serves their needs of convenient access to the products and services they desire by increasing their access to the coffee bar actor's units providing these products and services. This thereby creates customer value.

However, the value potential of this activity depends on the customers' options of other coffee bar actors or close substitutes with nearby locations. If these actors offer alternative coffee bar concepts that are perceived as providing equal amounts of customer value, the number of locations becomes irrelevant as a source of value creation for the customer. This

implies that a coffee bar actor with only one location can create just as much customer value as the coffee bar chains given that it has the best concept and provides the best quality of value creating attributes relative to its competitors. Also, the appropriated amount of the value created by providing “A-locations” depends on the nature of the factor market for this resource. The coffee bar concept, the atmosphere of the premises and quality level of customer service and products and services therefore contain somewhat higher potential for creating customer value than providing “A-locations”.

6.4 Activity choice and trade-offs

The choice of a needs-based differentiation strategy for the coffee bar’s positioning inflict a necessity for making trade-offs when defining the coffee bar’s strategic activities. A differentiation strategy implies a weaker focus on cost reduction due to the main focus on creating something unique through differentiation. Consequently, it inflicts relatively high cost levels due to necessary elements to satisfy customers’ needs, such as continuous concept development and offering a wide range of products and high quality customer service. This implies that most activities related to cost reduction are not compatible with the coffee bar’s position strategy. Consequently, activities with the objectives of rigorous cost-reductions are therefore not chosen as a part of the coffee bar’s strategic activity system.

6.5 Analysis of complementarity from activity synergies

All of the six primary activities create complementary value through increasing customer value in one or more of the other primary activities. Use of educated and trained baristas increases the achieved quality level of the coffee beverages served at the coffee bar. High coffee beverage quality is an important attribute for creating customer value as a part of customers’ coffee bar experience. These two activities also increase the value of the coffee bar concept because customers value baristas being knowledgeable and skilled, providing good customer service and serving high quality coffee beverages. Moreover, offering a relaxed and comfortable coffee bar atmosphere also increases the value of the coffee bar concept. Comfortable seating increases the value of the coffee bar experience for customers who are consuming their purchased food or beverages at the coffee bar premises. The relaxing atmosphere further increases the customer’s comfort level when consuming the purchased products at the coffee bar. Both of these attributes thereby increase customer

value as a part of the overall coffee bar concept. Furthermore, the value of providing many coffee bars in “A-locations” enhances the value of all the other primary activities through increasing their availability. This is also true for the value creation of continuously improving and developing the coffee bar concept and product and service offerings. Consequently, the chosen strategic activities create synergies that provide complementary value through increasing the overall creation of customer value.

6.6 Analysis of strategic fit

The coffee bar’s activity system must achieve both external and internal fit to secure a sustainable competitive advantage.

To secure external strategic fit, the chosen strategic activities must exploit market opportunities or reduce threats from competitive forces affecting the coffee bar actor in the market. Use of educated and trained baristas and offering higher coffee beverage quality reduces the threat of substitutes because it enhances the customer value of being offered high quality coffee beverages together with receiving good customer service. This enhances the product characteristics of the coffee served at coffee bars, and thereby reduces the substitutes’ degree of similarity to the coffee bar actors’ product and service offering. Offering a concept constituting a large number of attributes, a relaxed and comfortable atmosphere at the premises, continuously improving the coffee bar concept and providing many “A-locations” in relevant and urban areas also reduces the threat of substitutes. These attributes increase the customer value of the characteristics of the coffee bar product and services, and thereby increases the customer value of visiting a coffee bar rather than using substitutes. Moreover, providing many “A-locations” in relevant and urban areas also reduces the threat of entry as it ties up attractive “A-locations” and thereby reduces supply of this resource.

To secure internal fit, the chosen strategic activities must exploit the value of the strategic resources for coffee bars. The chosen strategic activities are all based on exploiting the value of the strategic resources defined in chapter 6.2. This strengthens the internal fit of the coffee bar actor’s chosen activities. However, the coffee bar’s organization of structure, operations, systems and procedures must also be tailored to enhancing and extracting the value of its strategic resources and needs-based differentiation positioning strategy to secure the internal fit.

Increasing operational effectiveness related to the needs-based differentiation strategy is also an important element of strategic fit. The coffee bar's operational effectiveness can be increased through increasing the output value of processing input variables, or through decreasing the necessary amount of input variables to produce the same output value (Besanko et al., 2010, p. 379). The output value can be increased through performing activities to further improve barista education and training, increase speed of service, and improve the coffee bar concept. This increases output value as it better serve customer needs and preferences and thereby increases customer value. The necessary amount of input variables can be reduced through implementing routines and procedures of supply chain management. Such activities can adapt the required level of the coffee bar's procurements of inputs to reduce the cost of waist from excess procurements or over-production. Improved supply chain management procedures can also increase extracted value of the potential sales volume by securing that the demanded food and beverage products are available to the customers throughout the coffee bar's opening hours. This creates customer value as the available food and beverages are adapted to the time of day and therefore better serve their needs for different products throughout the coffee bar's opening hours. However, when performing such input-reducing activities, it is important that these activities do not inflict with the coffee bar's differentiation strategy.

6.6.1 Conclusion of the activity analysis

The chosen activities are all found to create customer value through serving needs and preferences that were identified through the coffee bar customer survey. They also create complementary synergies that increase their total value generation, and thereby the potential for superior profit for the coffee bar actor. The activities also have strong internal fit with the defined strategic activities and are therefore able to exploit the potential value creation of the resources. The chosen activities also create strong external fit with the competitive environment, and therefore reduce the profit erosion from some of the competitive forces that potentially erode market profit. The coffee bar actor's choice of activity system is therefore likely to create superior value for the coffee bar actor in the market in Oslo.

7. Proposal of strategic positioning in the coffee bar market

The objectives of the coffee bar actor's strategic positioning is to exploit its opportunities for generating superior profit. This implies reducing the threats of the competitive forces and exploiting the potential economic value from its strategic resources and activities to create and retain economic value.

The industry analysis indicates that the market has high potential for profit generation. Coffee bar products and services are experience goods that constitute a number of attributes that create high customer value through serving the customers' needs and preferences for coffee bar products. The market is also growing due to increasing demand. Furthermore, the survey responses indicate that coffee bar customers are willing to pay a price premium for products and services that better serve their needs and preferences. This implies that a needs-based differentiation strategy is beneficial as this strategy allows setting higher prices to exploit customers' willingness to pay.

The actors in the market today all differentiate themselves by focusing on providing high quality coffee beverages or providing a "third place" for coffee bar customers to spend time in a relaxing and comfortable atmosphere. However, the coffee bar survey respondents indicated that both of these focuses are highly important for their customer value creation and benefit of visiting a coffee bar. The responses also indicated that they are willing to pay a price premium to access the products and service attributes related to these differentiation focuses. This implies that the coffee bar actor should offer both a high coffee focus *and* a high coffee bar atmosphere focus as a part of their coffee bar concept. By providing high quality coffee beverages and a comfortable coffee bar atmosphere for their customers they are able to better serve the customers' needs and preferences than the coffee bar actors in the market today.

The coffee focus implies having highly educated and trained baristas with a personal interest, motivation and professional pride related to coffee. This creates high customer value through offering high quality coffee beverages and high quality customer service. This also creates value for the coffee bar actor through reducing the threats of substitutes and entrants as the quality level of the coffee bar actors' products and service increases. The coffee bar atmosphere focus implies offering a range of service activities such as comfortable premises

with a relaxing atmosphere to offer customers a comfortable and relaxing place to spend some time such as take a break from their busy every-day lives, access to Wi-Fi to provide entertainment, a wide variety of food and beverages that are adapted to the time of day to fit the customers' nutrition needs during the day, longer opening hours to serve the needs of having a place to socialize or spend some time after school or work.

Offering both of these differentiation focuses will create a "coffee bar experience" containing higher levels of customer value than the actors in the market today. The increased customer value creation from offering both these differentiation focuses can then be exploited through setting a higher price premium for the coffee bar's products and services and thereby achieve a higher profit than the competitors.

A critical prerequisite to be able to follow this strategy is the coffee bar actor's access to the strategic resources of high quality barista culture and "A-locations", in addition to a number of parity resources. These resources are foundations for the activities and product and service offerings that create customer value, and thereby the foundation for the potential profit generation. The strategy also requires performing a number of strategic activities related to offering high quality coffee focus and high quality coffee bar atmosphere focus. These activities are critically necessary to create the customer value that forms the basis for the profit potential. The actor must also be able to retain the created value generated through exploiting these resources and activities in order to secure a potential for superior profit.

The proposed coffee and atmosphere focus increases customers' willingness to pay and potential revenue, but it also implies increased costs of differentiation. To further enhance the potential profit of securing the proposed positioning, the coffee bar actor must therefore strive to increase the cost-revenue margin through achieving operational effectiveness in its operations. Furthermore, this will increase the internal fit of the strategic activities and allow the actor to better exploit the value potential of its strategic resources. Increasing operational effectiveness implies improving routines and procedures for supply chain management to reduce unnecessary costs of operations. It also implies improving routines and procedures of keeping the coffee bar premises clean and tidy as this increases customer value. Furthermore, increasing operational effectiveness of coffee production creates customer value through increased speed of service and increased customer service level.

An attractive strategic positioning is likely to be attempted to be imitated by competitors over time. To be able to sustain the beneficial competitive positioning, the coffee bar actor must therefore continuously improve its concept to increase the customer value. By better serving the current and emerging needs and preferences that forms the demand for coffee bar products and services, the coffee bar actor will be able to sustain the valuable positioning of offering products and services that best serve the customers' needs and preferences.

However, the proposed strategy has a few limitations to be aware of. It is founded on the market structure and dynamics as they are today, which indicates that changes in these factors may reduce the accuracy of this strategy in the future. The strategy also requires the coffee bar actor to continuously improve and develop its concept to be able to serve the customers' needs and preferences better than its competitors. If this activity is neglected, the strategy's potential for creating and sustaining superior profit is significantly reduced. Also, over- or underestimation of the uniqueness of the differentiating attributes are likely to influence the potential for achieving superior profit. Continuously accumulating knowledge and information about customers' needs and preferences is therefore a fundamental criterion for the strategy in order to increase the accuracy of the customer value. By continuously improving the concept based on accumulated knowledge of current and emerging needs and preferences, in addition to striving to achieve operational effectiveness, the proposed strategy holds the potential for superior profit generation for an actor in the coffee bar market in Oslo.

8. Conclusion

This chapter provides a summarizing answer of my research question and sub-questions based on the previous analyses and implications of my findings. It also indicates a few weaknesses of the study and implications for further research on positioning strategies for coffee bars.

8.1 Answer to the research question

The research conducted in this thesis set out to answer the research question of;

Based on the competitive environment of the market for coffee bars in Oslo and Norwegian coffee consumers' preferences for coffee bar products and services, how should a coffee bar actor position itself to exploit the market potential of economic profit?

With the sub-questions;

- **What competitive forces influence the competitive environment and potential for profit generation in the market?**
- **What products and services offered by coffee bars provide value for coffee bar customers?**
- **What strategic resources and activities are necessary to create this customer value and obtain the resulting economic profit?**

The competitive forces of the market was analysed through applying the five forces industry analysis framework. The analysis showed that strongest competitive threats are supplier power, entry and substitutes. Due to monopolization in some areas of supply of food ingredients, processed food and other beverages than coffee, the main suppliers of these inputs are able to exert their bargaining power over the coffee bar actors to some extent. This thereby reduces the potential profit of the coffee bar market. The suppliers of commercial property also have potentially strong bargaining power because of the high demand and

limited supply of top quality coffee bar locations. There are a number of potential entry barriers in the market related to access to favourable locations and cost disadvantages for potential entrants. However, due to the relatively high profit potential from increasing demand and market growth, these entry barriers are not likely to be strong enough to deter all entry into the market. There are also increasingly stronger substitutes to the products and services offered at coffee bars. The threat is especially strong from coffee consumption at home and at work where consumers are able to access increasingly higher coffee beverage quality. The threat from substitutes in related industries is also increasing as many of these are altering their business models to become increasingly more like coffee bars. In addition, profit erosion from increasing internal rivalry through differentiation competition is likely to erode industry profit to some extent. Competition through differentiation characterizes the internal rivalry, as all the actors in the market today differentiate their coffee bar concepts through either focusing on offering a high coffee quality level or high quality on their coffee bar atmosphere and service attributes.

The findings from the coffee bar customer survey indicated that there are a number of coffee bar products and services that create customer value. The quality level of the coffee beverages was found to be the most important of all the proposed product and service attributes. Attributes related to barista knowledge, craftsmanship and customer service level was especially emphasised as factors strongly increasing their customer value creation. This attribute was also found to have the highest willingness to pay by the survey respondents. The coffee bar atmosphere was also found to be a very important source of value creation for coffee bar customers. Attributes related to having access to a relaxing place with comfortable seating, where one can sit and spend some time either alone or together with others after a day at school or work was emphasised as especially important to their value creation. Access to a comfortable atmosphere at the coffee bar premises was also a source of high willingness to pay by the customers. Moreover, the findings indicated that customers are not willing to walk very far to access their preferred coffee bar chain if there is an alternative coffee bar actor with a concept that to a certain extent serves their needs that has a closer location.

Together with the industry analysis, these findings then formed the basis for the resource analysis. This analysis found that in order to offer high coffee quality level, a coffee bar actor must access high quality baristas that are educated and trained in the craft of coffee brewing and have a strong personal dedication and professional pride in their work. The coffee bar actor must also develop an organizational culture that motivates high quality

coffee production and customer service level. This then creates customer value through better serving customer needs than the competitors. Exploiting this resource also reduces the threats of entrants and substitutes as the quality level of the coffee bar concept increases. This reduces the potential for substitutes and entrants to create the same amount of customer value through their product and service offerings. To access the potentially valuable customers the coffee bar actor must also access “A-locations”. These are top quality locations that are scarcely distributed and of high demand. The potential profit generation therefore hold a threat of being appropriated by the commercial property landlords. However, the interview respondents indicated that the coffee bar actor’s concept is also a strong factor when these landlords evaluate potential tenants, so that the value generation might not necessarily be fully appropriated by the commercial property landlords. Moreover, access to “A-locations” tie up favourable locations from potential entrants, which thereby reduces the threat of entry.

The preceding analysis then formed the basis for the definition of the proposed activity-system for the coffee bar actor as illustrated by Figure 13. The chosen activities follow a needs-based positioning strategy where the activities create value by exploiting the value potential of the strategic resources and needs and preferences revealed through the customer survey. The primary strategic activities are use of educated and trained baristas, offering high quality coffee beverages, offering a coffee bar concept constituting a wide range of attributes that create customer value, offering a relaxed and comfortable atmosphere at the coffee bar premises, providing many coffee bar premises in “A-locations” and performing continuous concept development to satisfy emerging customer needs. All of these activities are found to create positive complementary value with one or more of the other strategic resources. They also provide a strong internal and external fit.

Based on the findings from the analyses the following positioning strategy is proposed;

A coffee bar actor should offer a coffee bar concept focusing on offering a high coffee quality level and the wide range of services and attributes related to the coffee bar atmosphere focus.

This strategy will be able to increase the potential value creation from better serving customer needs than any of the actors in the market today. The strategy also exploits the customers willingness to pay for services and attributes that enhances their “coffee bar

experience”. The findings from the coffee bar customer survey shows that three quarters of the coffee bar customers are willing to pay a higher price premium per cup of coffee beverage. Based on their willingness to pay for increased coffee quality, implementing this strategy has the potential of increasing revenue from the coffee beverage alone with some ten per cent. The proposed positioning strategy thereby has high potential for achieving superior profit for the coffee bar actor.

However, due to the increased costs related to following this strategy, the coffee bar actor must also strive to achieve a high level of operational effectiveness. This will reduce unnecessary costs of operations and further enhance customer value through better serving needs related to attributes such as speed of service, coffee bar atmosphere and customer service. Achieving high levels of customer value creation and operational effectiveness allows the coffee bar actor to increase its cost-revenue margin and thereby attain superior profit. To reduce the threat of competitors imitating the valuable positioning and further increase the potential customer value, the coffee bar actor must also continuously adapt the concept to emerging customer needs based on updated customer knowledge.

8.2 Weaknesses of the thesis and implications for further research

There are a number of factors that naturally weaken the research and findings of a master thesis. First of all, the time and resource limitations of a master thesis project might limit the potential access to data and information underlying the analyses and conclusions. With more time and resources, it would have been possible to access even more coffee bar subject matter experts and thereby attained even more knowledge and insights to the market. Correspondingly, access to more coffee bar customer survey respondents might also have offered other or stronger insights and knowledge than those of this project.

Limitations of the theoretical frameworks also limit the width of the research. Other fields of theory such as process- and quality management or consumer behaviour might have been beneficial in enlightening the topic further. This could have provided insights to issues such as how to improve the operational effectiveness of the coffee bar actor’s operations, how coffee bar customers make purchase decisions and further elaboration of what factors generate and increase customer value when visiting a coffee bar. Conducting further research

where other theoretical frameworks are applied can thereby provide very interesting findings that further elucidate relevant aspects related to the coffee bar market in Oslo.

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9.1.1 Coffee bar subject matter experts

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