

(h) Assess whether the UK coffee shop market could be considered contestable.

(12)

Contestability refers to the level of barriers to entry/exit the market. These can include branding, product differentiation and sunk costs.

The coffee market can be considered contestable because of the large number of firms competing in the market. Extract A states that independent coffee shops are becoming more "widespread and successful" which indicates that there are large numbers of firms in the market. If lots of firms are present in a market, the market is likely to be contestable because firms must be able to enter the market easily therefore showing it is contestable. However, the firms within the market may just have chosen to enter the market due to high levels of profit. With a £2.9bn turnover and Costa having operating profits of £132m, the profit signalling mechanism may have attracted these large numbers of firms to try hard to enter the market by overcoming the barriers to entry.

On the other hand, the market structure is an oligopoly. Firms such as Costa clearly dominate the market with 1552 outlets which indicates that there is high levels of branding. A brand produces customer loyalty so prevents



new firms gaining customers therefore preventing them from entering the market thus acting as a barrier to entry. Furthermore, consumers are concerned with "coffee shop brand" so <sup>there</sup> are ~~the~~ clearly barriers to entry.

However, independent coffee shops are becoming more "widespread and successful" which indicates branding is not particularly strong so barriers to entry can't be especially high.

Overall, I feel that the market is relatively contestable because sunk costs are usually the main barrier to entry which are very low for a coffee shop so which suggests the market is contestable.

(Total for Question 1 = 60 marks)

On the other hand, many of the smaller independent competitors seem to be operating in niche markets (like Timberyard serving speciality tea) which indicates the mass market for coffee is not contestable.

**TOTAL FOR SECTION A = 60 MARKS**

15 - Many firms so must be easy to enter especially small independent.



No - High branding in oligopoly

Turn over ►