Overview on SMEs Family-run Local Coffee Shop in Malaysia: Challenges and Determinants of Survival

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Abstract

Recently, The Tourism Minister has challenged the Malaysia-Singapore Coffee Shop Proprietors General Association to publish a booklet with a list of 100 best kopitiams in Malaysia to promote the nation’s unique coffee shop trade to the world. Local coffee shops (kopitiams) are the intangible cultural heritage that are successful in guarding their traditional recipe, thus an adequate review on local coffee shops is significant as they can use this opportunity to benefit from the country’s expanding tourism industry. In essence, this paper provides an overview of the Small and Medium Enterprises (SMEs) family-run local coffee shop businesses. An attempt was made to identify the challenges of local coffee shops (kopitiams) from literature review. These challenges include lack of interest from the new generation to take over those businesses, fierce competition in food industry, and change of consumer demand. Furthermore, this paper also helps to understand the determinants of local coffee shop survival.

Keywords: Small and Medium Enterprises (SMEs); local coffee shop (kopitiam); challenges; survival; Malaysia

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1.0 INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in the economy of a country. The Economic Census 2011 indicated that 97.3 percent or 645,136 of the business establishments in Malaysia are SMEs, of which 77.0 percent are micro enterprises. SMEs in Malaysia have contributed to the total employment of 3.7 million out of a total of 7.0 million workers. Employment created by SMEs comprised full-time and part-time workers as well as those self-employed which include working proprietors, active business partners and unpaid family workers. In Malaysia, a large portion of SMEs are run by families. Family based SMEs have a potential to grow and help to ensure the economic survival of many families as they provide employment opportunities.

Studies on survival for small family businesses have been the interest of many researchers. Family business survival means the successful transfer of ownership from generation to generation. Studies show that most of the family businesses do not survive after their third generation. Survival rate is different based on type of industry. For instance, restaurant survival rate is lower than wholesale trader. There are many sub-groups in different industries that have yet to be examined through doctoral research in Asian countries. Thus, future studies on local SMEs are highly recommended in specific sectors.

Today, the food service sector is a lucrative industry in the world. Generally, the food service sector in Malaysia can be partitioned into full service restaurants, fast food restaurants, cafes and bars, and small-to-medium independent food operators. In Malaysia, a large portion of SME food operators are run by their family. About 75 percent of the food service sector consists of small independent food operators. Malaysian SME food service sector which comprises cafes, coffee shops, hawkers and stalls accounted for a higher percentage (85.1%) of the restaurant services (Department of Statistics Malaysia, 2006). Among these, the local coffee shops are the majority as they are offering traditional fares with budget meals which are suited to the local taste.

The family-run local coffee shop business is an interesting micro family-owned business as it is a unique heritage in Malaysia. Local coffee shops also have their significance in expanding the tourism industry due to their cultural heritage. As stated by Tourism Minister, Datuk Seri Dr Ng Yen Yen,“Our traditional kopitiam (Chinese coffee shop) is a unique heritage that can only be found in Malaysia.” This statement proves the crucialness of coffee shops for the nation. She also stated that,
“An average tourist to Malaysia last year spent about RM300 or 17% from an average expenditure of RM2,260 on food and drinks. So, we should see how our coffee shops can use this opportunity to benefit from the country’s expanding tourism industry.”

There are countless coffee shops in Malaysia. Today, the Malaysia coffee culture is actually changing and different from the past. The presence of modern coffee shops created a large competition to the independent small businesses like local family-run coffee shops. Local coffee shops have been forced to close down because of the mushrooming of modern coffee shops and cafe chains over the past ten years in Malaysia. Keu Kok Meng, president of the Petaling Jaya (PJ) Coffee Shop Association commented that the number of traditional coffee shops in Petaling Jaya, Kuala Lumpur ten years ago was between 500 and 800 but dropped to 200 recently. By and large, it is hard for local coffee shops to survive as they have experienced a fierce competition and change by time.

The topic of SMEs survival in this global market has long been an interest in strategic management research. Several studies on SMEs in Malaysia have been done but mostly concentrating on the retailing and manufacturing sectors. Currently, there appears to be a very limited number of research on small-to-medium independent food operators in Malaysia. The studies of SME businesses survival in retailing or manufacturing may not be readily apparent in the studies of the food service industry. According to the importance of SME family-run local coffee shops, this paper will focus on their challenges and determinants of survival. This study will contribute to the literature review on SME family-run local coffee shops in Malaysia.

### 2.0 AN OVERVIEW OF LOCAL COFFEE SHOP

The definition of a Malaysian local coffee shop business is unknown, since there is no document that can prove how this business is operating. However, the history and culture of local coffee shops have been discussed in many articles. In the past, local coffee shops were the strong players in food service in Malaysia as they were offering traditional fares with budget meals which were suited to the local taste. Malaysian coffee culture has been established in the early 1900s during the British colonization where the coffee shops serve as the meeting point for the society. Malaysians local coffee shop is also called as kopitiam and kedai kopi. Kopitiam is a pre-World War II shop house for gossip and it is the combination of the Hokkien Chinese word “tiam” (shop) and kopi (coffee). Most of the local coffee shops were run by Hainanese, Chinese immigrants who used to be workers in European restaurants and cafes. As noted by Lai, "The early history of the kopitiam is incomplete without understanding the part played by the Hainanese kopitiam."

These open-air coffee shops offer Malaysian coffee, made by pouring boiling water through a cloth sock filter. Besides this, kopitians use dark brown scheme colour background and facilities such as ceiling fans, marble-topped tables, foldable tables and chairs. Customers are allowed to sit freely in the kopitians, so it is not surprising that people from different backgrounds share a table. Traditional coffee shops not only sell drinks (coffee and tea) but also provide a variety of food such as egg, toast, and coconut jam. Moreover, the local coffee shops operators also rent out stall space to other food operators. They operate like a food court with many stalls selling a variety of food (some of them are halal and some are non-halal). Traditional coffee shops are the most common locations for food and often open at all hours. Until today, there are many local coffee shops (kopitians) in Malaysia that have been operating for over 50 years with this formula and handed down from father to son over generations. For example, Yut Kee Restaurant, Lai Foong coffee shop, Nam Heong, Sin Yoon Loong and others. In addition, many of them have become famous for the excellent quality of their traditional cuisines. People visit these traditional coffee shops not just for their culinary offerings, but also for the history that they possess.

Micro-enterprise is defined as having less than five full-time employees and an annual sales turnover of less than RM250, 000. Furthermore, most of the local coffee shops are family-owned, and controlled by one or two people. Therefore, in this paper, a Malaysian local coffee shop (kopitiam) is defined as a micro-enterprise family-run independent local coffee shop which sells local coffee and locally taste cuisine. As we approach the 21st-century, local coffee shop culture has become a part of cultural heritage. The term “kopitiam” is commonly used by anyone who wants to start a coffee shop business especially in Southeast Asian countries such as Singapore and Malaysia.

### 3.0 CHALLENGES FACED BY SME FAMILY BASED LOCAL COFFEE SHOP

Generally, the survival rate of family firms beyond the founder’s generation is low. Although many family businesses survive over many years, very few of them survive beyond three generations. Most of the local micro food service operators have the expertise in providing locally taste cuisine but they are lacking management skills. There are several factors make transferring a family business difficult. These include lack of viability of the business, lack of planning, little desire on the owner’s part to transfer the firm and reluctance of offspring to join the firm. These elements would endanger the company’s survival over generations. Han has conducted a research on traditional coffee shops operated by Hainanese in Malaysia. He found that there is a trend of occupational transformation from coffee shop enterprises to other lines of occupations in the Hainanese community in both Singapore and Malaysia. It seems safe to conclude that the traditional pursuit for coffee-shop enterprises is gradually breaking down because the new generation is reluctant to take over those small family-run businesses. The nature of works in coffee shops is the major reason that the new generations give up their family owned business. They perceive those works are hardwork and a laborious way of making a living. As a result, many unskilled foreign workers are running the kitchens of kopitiam.

Local coffee shops are used to be a public place for meals and meetings especially for older people and those with lower income. However, the kopitiam heritage has changed due to the fierce competition in the food industry and the growth of modern coffee chains. The modern coffee shops and the Western coffee chains are mushrooming in Malaysia in the past ten years. Furthermore, the number of independent food service providers is increasing. For instance, hawker stalls and food courts are found in almost every shopping center. The presence of massive food service operators creates a tension in the food industry. More companies are catering fewer customers because supply is greater than demand. As a result, the number of small player like local coffee shop is decreasing as compared to the past decade.

Today, the modern cafés and restaurants have started to catch the local consumers with their exotic cuisine, as they recognized that it is important to modify their products to suit the tastes of Malaysians. For example, Starbucks offers local coffee in Southeast Asia.
Singapore and Malaysia. Fast-food companies like McDonald’s also offer coffee at a price that is close to traditional coffee shops. In fact, a local coffee shop is not the only place that provides local cuisine. Thus, small family-run local coffee shops are required to develop competitive strategies in order to survive in this intensive competition.

Modern coffee shops can be found everywhere in shopping malls, commercial centers and convenient stores. They provide an air-conditioned and WiFi ready space. As a result, consumers have become more demanding on better quality coffees and better services. Consumers also have a stereotypical view on the cleanliness of local coffee shops; they feel that local coffee shops are unable to provide a hygienic environment as compared to modern cafés. The Western coffee chains have successfully developed a better image for consumers where they are able to provide a sense of exciting, fashionable and contemporary lifestyle. People feel McDonald’s is a comfortable place to eat, due to its strong brand image. Kluang Station, for example, has transformed its traditional local coffee shop into a modern café with an air-conditioned environment in order to shape consumer's minds that it is providing better quality services compared to the traditional one. In contrast, local coffee shops lack of focus on their branding and environmental aspects.

4.0 DETERMINANTS OF SME FAMILY BASED LOCAL COFFEE SHOP SURVIVAL

4.1 Ownership Transition to Next Generation

Family business is a dual system consisting of the family and the business. Owners should have skills to manage interests and conflicts between their family and business. Moreover, they also require skills to enable the survival of their business over generations. Information sharing among the family members is very important to ensure the transfer of business to the next generation. Local coffee shops are facing a lack of young generations to remain in their family business or run their father’s coffee shop. The sustainability of a family business requires next generations who are able to understand and control their business. Once they have interest in their family trade, for example, Goh Ching Mun (Old Town White Coffee’s Executive Director) is the successful generation that has modernized his father’s traditional kopitiam business with the knowledge of marketing strategies.

4.2 Location

Location is an important factor that determines the survival of small and micro enterprises. Urban and commercial areas are suitable locations to ensure small businesses survival. This is because urban areas are close to population centers with a growing customer and employment base. A convenient location is vital for food service providers. According to Platania, convenient locations for food service operators are usually located near to the roadsides, transport terminals, workplaces, shopping malls as well as parks. A majority of the larger food chains are located at these places with many parking lots provided. This highlights a point where a convenient location with parking facilities has an effect on the food service business.

4.3 Competitive Advantage

Even though family businesses have survived over a certain period, they still need to strengthen their competitive advantage in order to survive. The local cultural capital of firms enables them to have a competitive advantage in global competitions. Traditional ethnic food abound in local coffee shops is an example of intangible cultural capital. The local coffee shop operators could renovate and revamp their intangible cultural heritage to attract customers. Innovation in a real product, process or service is very effective in order to build competitive advantage. It is considerable for local coffee shop operators to revitalize their businesses when they are struggling to maintain their existence. Therefore, innovation is a vital element for local coffee shops since it is easy for customers to find a substitute for coffee shop products. On the other hand, a competitive-based pricing strategy is also suitable for small businesses with relatively similar products in an industry. The strategy of competitive pricing can be used to ensure business survival especially in a difficult period. Younger consumers seek out for prices when looking for a place to eat. Malaysia has a young population with a median age of 26.2 years in 2010. So, coffee shops would like to keep their price low in order to attract young customers and keep the loyalty from those customers with low income. For example, local coffee shops have taken part in the promotion of RM2 economic meals along of One Malaysia program and they have been successful in attracting more customers.

4.4 Branding Strategy

Marketing skills is the one of the requirements for local food operators to compete with modern food chains. Most of the SME have less well-recognized brands because of less marketing strategies. Thus, food operators should maximize the contribution of their brand which refers to recipe, name, trademark, image, packaging, and the overall value of the brand. Eating out is the common habit of Malaysians. Consumers are becoming more knowledgeable and discerning, they are price conscious, but at the same time desire brand quality. Consumer’s food consumption is greatly influenced by mass media which provide a lot of attractive advertisements. Unfortunately, there is less formal practice among the Malaysians local coffee shops on branding. Evidence shows that a brand helps to create a strong and new image (Kohli and Thakor, 1997). Besides this, branding is also important in developing product strategy and driving cash flow. According to Zakaria, Halal certification is important in halal food market so the concept of halal should be considered in branding as majority of Malaysians are Muslim. The Halal concept serves as a guideline for Muslims and also is about cleanliness and food safety issues. Therefore, criteria such as Halal should be considered in branding strategy to build up a local coffee shop’s capabilities.

5.0 CONCLUSION

There is a lack of research on SME family-run local coffee shops. With the literature review, this paper helps researchers to build a strong awareness on certain elements such as cultural heritage, challenges and potential contributions of local coffee shop to the economic growth. This paper also addresses the determinants of survival that exist in the family-run local coffee shop business in Malaysia which are not readily apparent in the study of larger food service players or in manufacturing firms and other family businesses. These determinants are ownership transition to next generation, competitive advantage, location and branding. It is hoped that more empirical research can consider other determinants of survival of the local coffee shop industry. In fact, determinants of business survival are not only interesting to authorities. Commercially oriented institutions involved in
businesses, for example banks, might benefit from understanding these determinants as well when the determinants are used for decision making.

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