

VALUE CO-CREATION IN SUSTAINABLE ENTREPRENEURSHIP: AN EXPLORATORY STUDY ON SMES' BUSINESS MODEL INNOVATION

Amee Yostrakul
Edge Hill University
St. Helens road, Ormskirk,
L39 4QP, United Kingdom
yostraka@edgehill.ac.uk

ABSTRACT

In recent years, there has been an increasing interest in sustainable entrepreneurship from both scholars and practitioners. The term focuses on generating not only business value, but also creating social and environmental values (Nicolopoulou et al., 2016). However, sustainable entrepreneurs face challenges when trying to implement novel solutions to meet the triple bottom line. Thus, sustainable entrepreneurship requires changes to and/or adopting innovative business models to achieve the environment, organisation and social goals. Little is understood about business model that can support sustainable entrepreneurs and their innovations to generate business, social and environmental values (Lüdeke -Freund, 2020). Co-creation is another relevant concept in this study (von Hippel, 2005) as value is 'always co-created, jointly and reciprocally between providers and beneficiaries through integration of resources and combination of competences. Thus, firms must engage with stakeholders to co-create business, social and environmental values. Despite many benefits of value co-creation from new product/service development (Yang and Leposky, 2022), customer engagement (Payne et al. 2008) to financial outcomes (Zaborek and Mazur, 2019), there is limited empirical evidence on value co-creation in sustainable entrepreneurship. This study is motivated to examine these research questions: "How do specialist coffee shops co-create value with their key actors?" and "What are motivational drivers, barriers, pre-conditions and outcomes of co-creation for specialist coffee shops?".

KEYWORDS

Value co-creation, Sustainable entrepreneurship, Business Model Innovation

BACKGROUND

Since 1990s, the United Kingdom's coffee consumption has been growing steadily. The growth was driven by large coffee shop chains such as Starbucks, Costa Coffee and Café Nero (Morland, 2017). The number of coffee shop outlets rose by nearly 100% from 13,034 outlets in 2009 to 25,892 outlets in 2019 Statista (2022). Customers have a variety of choices on where to purchase coffee from leading coffee chains, independent coffee shops, to non-specialist coffee vendors such as pubs, fast food restaurants and supermarkets. Despite the rise in number of non-specialist and independent coffee outlets over the years, coffee sales from the big three coffee chains – Costa, Starbucks and Café Nero remain strong (Statista, 2022). Independent coffee shops face a highly competitive market to attract consumers to their stores due to competition with well-known coffee shop brands with extended outreach and economic resources. Independent coffee shop or 'specialty coffee shop' is a movement that focuses on coffee beans origin, roasting and brewing process to provide consistently high-quality coffee experience to consumers. There are approximately 140 speciality coffee shops in the North of England (Morland, 2017).

Sustainability plays a major role in the British coffee consumption (CBI, 2023). The coffee value chain consists of growers, processors, exporters and importers, roasters and coffee shops working together to provide high-quality coffee experience to consumers (Borella et al., 2015). This value chain involves collaboration between various independent businesses who may be geographically dispersed (Carvalho et al., 2016). At the end of the chain, consumers are beginning to focus on environmental sustainability, recyclable packaging and utensils, and traceability of coffees they are drinking in cafes (CBI, 2023). Thus, independent coffee outlets need to adapt their business model to provide unique and ethical product offerings to value conscience consumers.

Sustainable business model innovation (SBMI) is being seen as key driver to competitive advantage and corporate sustainability in large multinational corporations (Bocken and Geradts, 2020). However, little is known about SBMI in Small and Medium Enterprises (SMEs), in particular those SMEs that focuses on creating business, social and environmental values (Nicolopoulou et al., 2016). Sustainable enterprises face challenges when they try to implement novel solutions to meet the triple bottom line. Thus, sustainable entrepreneurship requires changes to and/or adopting innovative business models to achieve the environment, organisation, and social goals. A sustainable business model that can provide unique offerings to value conscious consumers require independent business to collaborate with stakeholders to co-create business, social and environment values. This is because value is 'always co-created, jointly and reciprocally between providers and beneficiaries through integration of resources and combination of competences (Vargo and Lusch, 2008).

Given this context, this study aims to contribute to the gap in theoretical knowledge on sustainable business model innovation (SBMI) in small, independent coffee shops. Empirically, it aims to explore value co-creation relationships between actors within independent coffee shops' value chain and to present how independent coffee shops may overcome challenges and barriers to value co-creation.

LITERATURE REVIEW

1. UK café market background and sustainability trend

Research Design Paper

The United Kingdom is Europe's fifth largest coffee-consuming markets after Germany, Italy, France and Spain (CBI, 2022). According to Project Café Europe 2022, the UK is Europe's largest branded coffee shop market in Europe with 9,540 outlets, with a growth rate of 3.5% in 2021. Coffee shops contributes to approximately £4 billion in sales annually to the economy (Allegra World Coffee Portal, 2022). In 2019, there were 25,892 coffee outlets in the UK, 32% (8,222) were branded coffee shops, 27% (7,066) were independent coffee shops and 41% (10,604) were non-specialist coffee vendors such as pubs, fast food restaurants and supermarkets (Statista, 2022). Independent coffee shops face a highly competitive market from both well-known branded coffee chains such as Costa, Starbucks, and Café Nero and from an increasing number of non-traditional coffee vendors such as pubs, restaurants and supermarkets. Of 25,892 coffee shops, 1,400 outlets were categorised as specialty coffee shops in the UK in 2019 and the number is forecasted to grow at 13% per year (Allegra World Coffee Portal, 2022). Sustainability has become a key consumer trend in the British coffee sector, with consumers paying more attention to environmental sustainability, recyclable packing materials and utensils, and traceability (CBI, 2022). According to Mintel, 45% of coffee drinkers would pay more for coffee that benefits people who grow it. The country is also one of the largest markets for Fairtrade-certified products and coffee (Market Inspector, 2021). Specialty coffee shop can contribute to sustainability concerns by providing an incentive to coffee farmers to produce higher quality coffee, whilst guaranteeing coffee roasters a steady supply of high-quality coffee and strong marketing options for story telling (van Keulen and Kirchherr, 2021). Specialty coffee refers "both to whole bean sales and to coffee beverages sold in coffee bars and cafes and the range includes higher quality coffees, both single origin and blends, unconventional coffees such as flavoured coffees and coffees with an unusual background or story behind them" (Borella et al., 2015; p. 32). Thus, speciality coffee shops includes both coffee roasters who sell whole beans as well as coffee bars and cafes that provide high quality, single origin, blended and unique coffees to consumers.

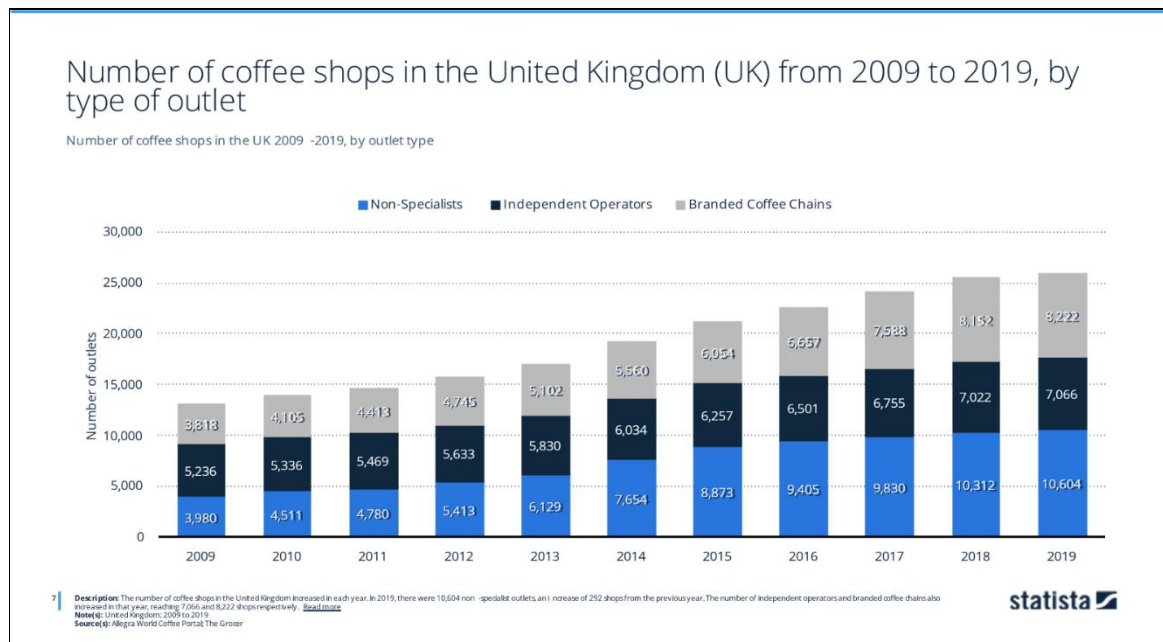


Chart 1: Number of coffee shops in the United Kingdom from 2009 to 2019, by type of outlet (Statista, 2022)

II. Coffee value chain and sustainable practices

Specialty coffee shop's value chain gives insight into operational and sustainable practices. The coffee value chain consists of Coffee-producing country and Coffee-consuming country (Borella et al., (2015). Sustainability can be viewed from the sourcing coffee beans from coffee-producing countries like Vietnam and Brazil to importing, roasting and retailing coffee to consumers (see Figure 1 below).

For specialty coffee shops, sustainable practices can include, but not limited to the following examples. Coffee beans certifications are established industry practice to ensure imported coffees meet environmental, social, and economic sustainability (CBI, 2022). Established certification schemes such as Rainforest Alliance, Fairtrade and Organic coffees are commonly used among UK coffee beans importers and roasters. Packaging also plays a big part of coffee shop waste generation, in particular the use of paper coffee cups. The UK generated about 7 million paper coffee cups annually, resulting in 30,000 tonnes of waste (Foteinis, 2020). Compostable coffee cups and takeaway packages as well as glass milk bottles are being used to reduce non-recyclable waste (Jaunty Goat, 2023). Milk alternatives like plant-based options are now used to make coffee (Esquires Coffee, 2023).

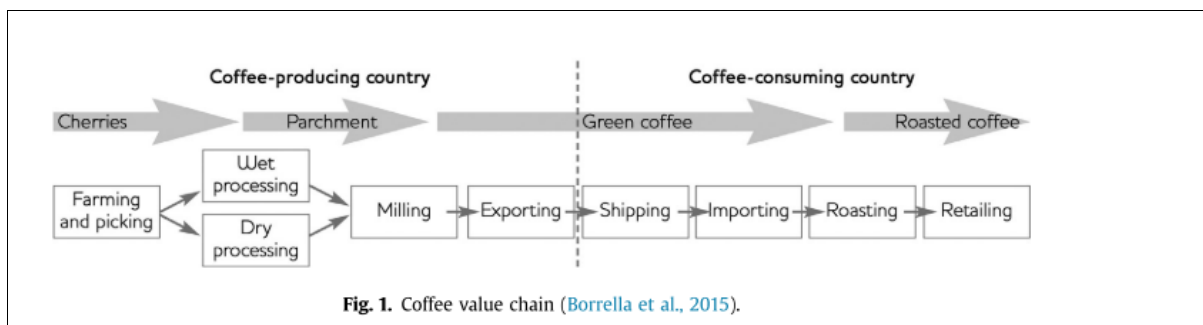


Figure 1: Coffee value chain (Borella et al., 2015)

III. Sustainable business model innovation (SBMI) in large and small businesses

In addition to evaluating coffee value chain, business model innovation is another key tool for speciality coffee outlets to compete with large, branded coffee sellers. In recent years, sustainable business model innovation (SBMI) is being seen as key driver to competitive advantage and corporate sustainability in large multinational corporations (Bocken and Geradts, 2020). However, not much is known about SBMI in Small and Medium Enterprises (SMEs), in particular those SMEs that focuses not only on business value, but also creating social and environmental values (Nicolopoulou et al., 2016). Sustainable enterprises face challenges when they try to implement novel solutions to meet the triple bottom line. Thus, sustainable entrepreneurship requires changes to and/or adopting innovative business models to achieve the environment, organisation, and social goals. According to Chesbrough and Rosenbloom (2002), business models can be understood as a mediating device between technology, strategy, and economic value. However, business model that can support sustainable entrepreneurs and their innovations to generate business, social and environmental values has received little attention (Lüdeke-Freund, 2020).

IV. Value co-creation in small businesses

Along with sustainable business model innovation, co-creation (von Hippel, 2005) is relevant to any businesses operating in a highly competitive market. This is because value is ‘always co-created, jointly and reciprocally between providers and beneficiaries through integration of resources and combination of competences (Vargo and Lusch, 2008). Thus, speciality coffee shops must engage with key stakeholders to co-create business, social and environmental values (see Figure 2 below). Sustainability focused businesses seek to develop collaborative value co-creation processes with all actors within their value chain. Despite many benefits of value co-creation from new product or service development (Yang and Leposky, 2022), customer engagement (Payne et al. 2008) to financial outcomes (Zaborek and Mazur, 2019), there is a shortage of empirical evidence on value co-creation in the sustainable entrepreneurship.

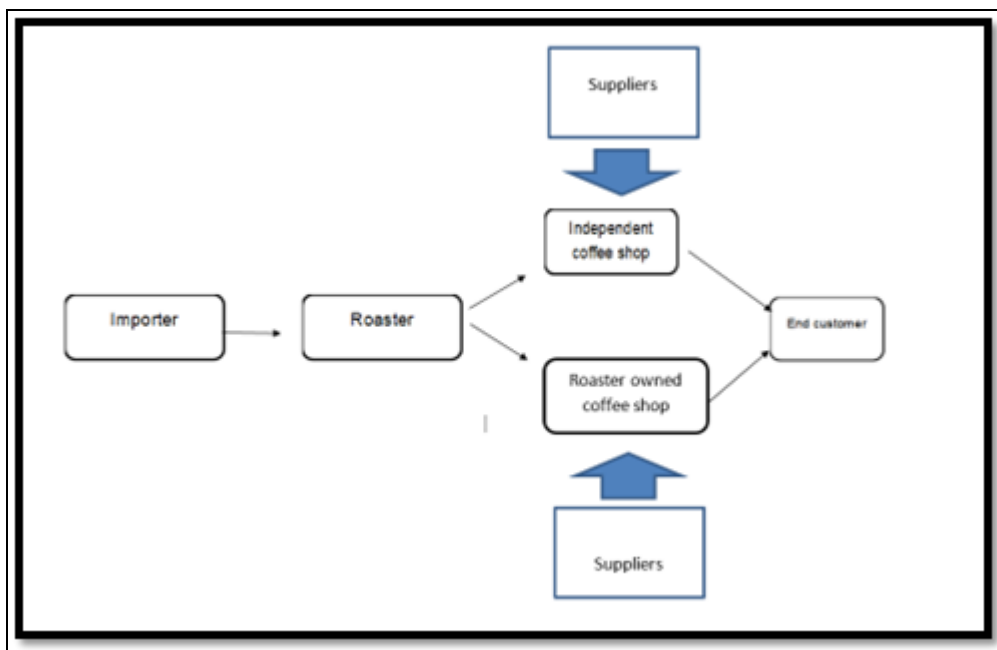


Figure 2. Independent coffee shop value chain (adapted from Borella et al., 2015)

In summary, this literature review shows that speciality coffee shops as independent coffee outlets face a highly competitive market from strong branded coffee shop chains and increasing number of non-specialist coffee vendors and sustainability is a leading trend among coffee consumers. Specialty coffee shops that are trying to meet triple bottom lines will need to adapt their business model to generate business, social and environmental values. In this value co-creation process, specialty coffee shops will need to create value with actors within their coffee chain.

Given the gap in sustainable business model innovation in small businesses, this study aims to explore specialty coffee shops' value chain and value co-creation relationships between different actors within the value chain. In addition, it will examine existing challenges and barriers to value co-creation within the coffee value chain.

METHODOLOGY

The proposed research will draw on a multiple case study design to examine 5 specialist coffee shops in the Northwest of England and their co-creating key actors in the value chain. Case study is defined as “an empirical inquiry that investigates a contemporary phenomenon (the ‘case’) in depth and within its real-world context” (Yin, 2014; p. 16). For this study, multiple-case study was chosen as it is an effective method for exploratory study (Yin, 2013) to understand the under-researched specialist coffee outlets' business models and co-creation. Secondly, multiple-case study allows an in-depth understanding of the cases through comparison of similarities and differences of each case within the group. This comparison provides a more robust theory-building and improve external validity (Eisenhardt and Graebner, 2007). Purposeful sampling will be used to select 5 coffee shops after several observational visits to the sites to ensure that sample fits well with the objective of this study. The researcher requires an access to key informant which will become the source for other samples (Shaheen et al., 2019). Currently, the researcher has access to a key informant of a specialist coffee shop in Liverpool who has agreed to participate in this study. Data will be collected through semi-structured interviews with owners of chosen specialist coffee shops. Semi-structured interview was chosen as it offers opportunity to understand story that need contextualisation (Galletta, 2013). It is expected that interviews will be conducted at coffee shops and each of which may take around 60-90 minutes. Interviewees in each coffee shop can include owner, manager, staff and business partners. Interviews will be digitally recorded and transcribed into texts. Field notes will also be used to collect any additional information. Other quantitative data from company websites, news and documents will also be collected to provide a comprehensive data on business model and co-creation processes. After which, data will be coded and analysed using thematic analysis (Braun and Clarke, 2006). Triangulation will also be used to improve the validity and reliability of data (Creswell, 2007). Finally, data will be written up for submission to a journal article.

REFERENCES

- Allegra World Coffee Portal (2022) ‘UK coffee chains achieve £1.3 bn sales rebound as outlets exceed pre-Covid levels’, 20 January 2022 [Online]. Available at: <https://www.worldcoffeeportal.com/Latest/News/2022/January/UK-coffee-chains-achieve-%C2%A31-3bn-sales-rebound-as-o>
- Braun, V., and Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, Vol. 3, pp. 77–101.
- Bocken, N. and Geradts, T. (2020) Barriers and drivers to sustainable business model innovation: Organization design and dynamic capabilities. *Long Range Planning*. Vol. 53, No. 4., 101950. <http://doi.org/10.1016/j.lrp.2019.101950>
- Bocken, N., Short, S., Rana, P., and Evans, S. (2013). A value mapping tool for sustainable business modelling. *Corporate Governance (Bingley)*, Vol. 13, No. 5, pp. 482-497. <http://doi.org/10.1108/CG-06-2013-0078>
- Borella, I., Mataix, C., and Carrasco-Gallego, R. (2015) Smallholder farmers in the speciality coffee industry: opportunities, constraints and the businesses that are making it possible. *IDS Bulletin*, Vol. 46., No. 3, pp. 29-44. <http://doi.org/10.1111/1759-5436.12142>

Centre for the Promotion of Imports from developing countries (CBI), Ministry of Foreign Affairs (2022) The United Kingdom's market potential for coffee. December 2022. Available at: <https://www.cbi.eu/market-information/coffee/uk/market-potential> (Accessed 1 April 2023).

Chesbrough, H. and Rosenbloom, R.S. (2002) The Role of the Business Model in Capturing Value from Innovation: Evidence from Xerox Corporation's Technology Spin-Off Companies. *Industrial and Corporate Change*, Vol. 11, pp. 529-555. <https://doi.org/10.1093/icc/11.3.529>

Creswell, J. W. (2007) *Qualitative inquiry and research design: Choosing among five approaches*. Inc Sage Publications.

Eisenhardt, K. M., and Graebner, M. E. (2007). Theory building from cases: Opportunities and challenges. *Academy of Management Journal*, Vol. 50, No. 1, pp. 25-32.

Esquires Coffee (2023) Trends of the UK coffee shop industry. Available at: <https://esquirescoffee.co.uk/news/trends-uk-coffee-shop-industry/> (Accessed: 1 April 2023).

Fonteinis, S. (2020) How small daily choices play a huge role in climate change: The disposable paper cup environmental bane. *Journal of Cleaner Production*. Vol. 255, 120294. <http://doi.org/10.1016/j.jclepro.2020.120294>

Galleta, A. (2013). *Mastering the semi-structured interview and beyond: From research design to analysis and publication*. New York: New York University Press.

Jaunty Goat (2023) Sustainability. Available at: <https://www.jauntygoat.co.uk/sustainability/> (Accessed: 1 April 2023).

Lüdeke-Freund, F. (2020) Sustainable entrepreneurship, innovation, and business models: Integrative framework and propositions for future research. *Business Strategy and the Environment*. Vol. 29, pp. 665– 681. <https://doi.org/10.1002/bse.2396>

Market Inspector (2021) 'The explosion of fairtrade coffee retail sales in the UK – The UK and the global coffee market' 27 July 2021. Available at: <https://www.market-inspector.co.uk/blog/2015/04/the-explosion-of-fairtrade-coffee-retail-sales-in-the-uk> (Accessed: 1 April 2023).

Mintel (2018). 'Latte levy': UK coffee drinkers want to go green, but price is a barrier. Available at: <https://www.mintel.com/press-centre/latte-levy-uk-coffee-drinkers-want-to-go-green-but-price-is-a-barrier/> (Accessed 1 April 2023).

Morland, L. (2017) Rounton Coffee and Bedford Street Coffee Shop: From rural coffee roaster to urban coffee shop. *The International Journal of Entrepreneurship and Innovation*. Vol. 14, No. 4., pp. 256-267. <http://doi.org/10.1177/1465750317742325>

Nicolopoulou, K, Karatas-Ozkan, M, Janssen, F, and Jermier, JM (eds) 2016, Sustainable Entrepreneurship and Social Innovation, Taylor & Francis Group, London.

Payne, A., Storbacka, K. and Frow, P. (2008) Managing the co-creation of value. *Journal of the Academy of Marketing Science*. Vol. 36, pp. 83–96. <https://doi.org/10.1007/s11747-007-0070-0>

Shaheen, M., Pradhan, S., and Ranajee, R. (2019) Sampling in Qualitative Research in book: Qualitative Techniques for Workplace Data Analysis.

Statista (2022) Cafes and coffee shops in the United Kingdom 2021 industry and market report.

Van Kaulen, M., and Kirchherr, J. (2021) The implementation of the Circular Economy: Barriers and enablers in the coffee value chain. *Journal of Cleaner Production*. Vol. 281., 125033. <http://doi.org/10.1016/j.jclepro.2020.125033>

Vargo, S.L., and Lusch, R.F. (2008) Service-dominant logic: continuing the evolution. *Journal of the Academy of Marketing Science*. Vol. 36, pp. 1–10. <https://doi.org/10.1007/s11747-007-0069-6>

Von Hippel, E. (2005) Democratizing innovation: The evolving phenomenon of user innovation. *JfB* No., Vol. 55, pp. 63–78 <https://doi.org/10.1007/s11301-004-0002-8>

Yang, M. and Leposky, T. (2022) An entrepreneurial framework for value co-creation in servitization, *Industrial Marketing Management*, Vol. 107, pp. 484-497. <https://doi.org/10.1016/j.indmarman.2022.11.002>.

Yin, R. (2014). Case study research design and methods (5th ed.). Thousand Oaks, CA: Sage.

Zaborek, P. and Mazur, J. (2019) Enabling value co-creation with consumers as a driver of business performance: A dual perspective of Polish manufacturing and service SMEs, *Journal of Business Research*, Vol. 104, pp. 541-551. <https://doi.org/10.1016/j.jbusres.2018.12.067>.