

Milktea Shops Closure: Challenges Encountered By the Owners in Cauayan City

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ABSTRACT

The popularity of milk tea products gained the interest of people, not just those who love drinking this product but also entrepreneurs. Philippines ranked with the most bubble tea drinkers in Southeast Asia in 2019. People who ventured into this business experienced more than just unprofitability but also bankruptcy and closure. It is common and inevitable that a micro-enterprise experiences closure, considering numerous factors that affect the daily operation of ventures. This study opts to identify challenges that caused the closure of milk tea shops. The study suggests the link among dependent and independent variables. Quantitative research was conducted in selected closed milktea shops in Cauayan City, Isabela, to understand the owners' perceptions of the closure of the milktea shops and assess the relationship between the challenges. The respondents of the study were business owners in Cauayan City, Isabela, who were the ones who closed their milktea shops. Purposive sampling is the method of sampling that was used in the study. The data was gathered through a questionnaire and employed frequency, percentage, average weighted mean, and Likert scale as statistical procedures to analyze and interpret the collected data. The respondents generally proved that internal and external challenges contributed to the closure of milktea shops. Business owners may create better strategies to eradicate the impact of the internal challenges in terms of financial resources and inventories and external challenges in terms of location and government policies. Future entrepreneurs may use this research to avoid pitfalls common in the milk tea industry and apply best practices to other ventures. Embrace continuous innovation and adaptability as critical drivers of success in any competitive market.

Keywords: Bankruptcy, Business Challenges, Closure, Entrepreneurs, Unprofitability

INTRODUCTION

The sugary bubble tea drinks became so popular in the Philippines that the country ranked second with the most bubble tea drinkers in Southeast Asia [1]. With this, business owners ventured into opening milk tea shops. Over time, a few milk tea shops shut down because of internal and external challenges that business owners encountered. Lack of financial resources is one of the hardest challenges these owners experience [2]. The lack of funds had negative implications for these milktea shops, such as being unable to pay bills, not having enough budget for unforeseen expenses, poor tax compliance, and limited cash flows [3]. Along with this internal challenge in terms of financial resources, inventories had an adverse effect on the business. Poor inventory management in the milktea shops led to the failure to balance the supply chain and sustain the demand of the customers [4]. During the pandemic, some of the owners encountered inconsistent supply from their suppliers, and others did not have enough budget for new inventories due to the financial crisis, leading to losses [5]. Aside from the internal challenges that the business owners encountered, they also experienced influence from the external challenges that caused the closure. Location and profit are correlated, and choosing to put a shop in the wrong location impacts the profit and earnings of the business [6]. Few business owners are still not aware of choosing the right location for their shops in order to make profit feasible [7]. Government policies also affected these businesses in terms of how much money they make and their economic sustainability [8]. Due to the financial crisis, businesses owners have trouble with tax compliance. These internal and external challenges have been believed to have impacted the business negatively, leading to its closure.

METHODOLOGY

Quantitative research was followed. Quantitative research is the systematic method of gathering and assessing numeric data.

The research study was conducted in Cauayan City, Isabela. The participants in this study were the business owners of the milk tea shops. The study is limited to 15 respondents. The researcher chose milktea shop owners as the research respondents because they are the ones who have the most direct experience with the challenges that contribute to the closure of these businesses. They can provide valuable insights into the challenges that milk tea shop owners face and the strategies that they have used to succeed or fail.

For validity, the researchers adapted the survey questionnaire from the studies conducted by Jennifer Dulay (2020), titled "Challenges encountered by the street food vendors in Urdaneta City," and Ayeng (2019), titled "Challenges faced by entrepreneurs of sari-sari stores."

The researchers sent a permission letter to the respondents. After getting approval, the researchers quickly floated the survey questionnaire to the business owner of the milk tea shop. The researchers in this study used a survey questionnaire to collect data. The researcher gathered and totaled the data for interpretation after the respondents completed the questionnaire and applied appropriate statistical approach, and lastly developed conclusions based on the data.

The answers of the respondents in the survey questionnaires were collected and analyzed in the form of a table for better understanding. The statistical tool used in this research is the Likert scale method. The data can be evaluated as interval data, and the most accurate measure is the mean. The interpretation of the 4-point scale is to put the point value of the respondents' response from 1 to 4, wherein 1 is equivalent to never encountered, 2 is equivalent to seldom encountered, 3 is equivalent to often encountered, and 4 is equivalent to always encountered. The mean was used to calculate the scales.

RESULTS

Table 1. Demographic Profile in terms of Age

Age	Frequency	Percentage
25	1	6.7%
26	1	6.7%
27	1	6.7%
28	1	6.7%
29	1	6.7%
30	2	13.3%
31	1	6.7%
35	3	20%
37	1	6.7%
38	2	13.3%
40	1	6.7%
Total	15	100%

As shown in the table 1, the respondents are from ages 25 to 40, with ages 35 having the majority frequency of 3 or 20%, followed by 30 and 38 years old having a frequency of 2 or 13.3%, and the remaining age groups all have a relatively low and consistent frequency of 1 or 6.7%.

In conclusion, the table reveals that within this age group, people around 35 years old show a slightly higher entrepreneurial interest.

Table 2. Demographic Profile in terms of Sex

Sex	Frequency	Percentage
Female	8	53.3%
Male	7	46.7%
Total	15	100%

The table 2 show that majority of the entrepreneurs are female, with a frequency of 8 or 53.3%, while there are frequencies of 7 or 46.7% of male entrepreneurs. Similarly, the annual report tracks entrepreneurial activity in Global Entrepreneurship Monitor in 2023, which reveals that women starting a business globally likely grew compared to men. This means that females are more likely to fail in a business than males [9], explaining that there is a prevalent misconception that women-owned businesses perform poorly or perhaps fail entirely when compared to male-owned businesses. It was stated that women prioritize personal success over business growth, they have limited financial and human resources, and are risk averse.

Table 3. Internal Challenges of Financial Resources

Financial Resources	Mean	Standard Deviation	Description
Insufficient budget for ingredients such as tapioca pearls, milktea powders, etc.	3.53	0.5164	Always Encountered
The expenses are higher than the profit.	3.67	0.4880	Always Encountered
The earnings were not enough to buy new inventories.	3.80	0.4140	Always Encountered
Increase in operating costs.	3.47	0.5164	Always Encountered
Grand Mean	3.62	0.1478	Always Encountered

Table 3 illustrates the internal issues that led to the milktea shops closure with regard to financial resources. Having a mean of 3.80 and 0.4140 standard deviation, the respondents generally had felt that their earnings were insufficient to purchase new inventory. Comparable to the study that explains why capital budgeting isn't being used to provide for the needs of the business [10].

The next one is that expenses are higher than profits, with 3.67 as a mean and 0.4880 standard deviation, generally proving that business owners encountered this challenge. The shop might incur expenses that exceed its income, leading to financial challenges [11]. This is followed by the insufficient budget for ingredients, having a mean of 3.53 and 0.5164 standard deviation, which also generally showcases that they always encountered it. Similar to the study that emphasize a lack of financial knowledge on how to budget in a business will lead to bankruptcy [12]. The last one is an increase in operating costs with 3.47 as mean and 0.5164 standard deviation, indicating that it was always encountered, supporting the analysis of Smith, which emphasizes that generally a rise in any kind of business cost lowers profit. Operating expenses are one kind of expense that is deducted from net sales in order to generate net profit [13].

In conclusion, this table shows that the respondents agree that internal challenges have contributed to and caused the closure of milk tea shops in terms of financial resources, with a grand mean of 3.62 and a standard deviation of 0.1478. Financial challenges may cause various negative implications in the business operation: limited cash flows and no funds for unforeseen expenses lead to debt burden, poor tax compliance, and a possible mixture of business finance and personal finance [14].

Table 4. Internal Challenges of Inventories

Inventories	Mean	Standard Deviation	Description
Not being knowledgeable enough in performing inventory leads to poor cash flow management.	3.07	0.2582	Always Encountered
Stocks are not enough, resulting in the unavailability of some flavors.	3.47	0.6399	Always Encountered
Low quality of the ingredients used for low cost.	3.20	0.6761	Always Encountered
Stocks are not used until the expiration date.	3.53	0.5164	Always Encountered
Grand Mean	3.32	0.2203	Always Encountered

The table 4 shows the internal challenges that the respondents encountered in terms of inventories that caused the closure of the milk tea shops. Respondents assessed that not being knowledgeable about performing inventory led to poor management of cash flows, having a mean of 3.07 and 0.2582 standard deviation generally encountered. Similar to the analysis conducted that small businesses usually don't pay attention to inventory management by building excessive inventory with cash connected to it for an extended period of time, resulting in an inability to properly control inventory flow, and SME owners were unable to purchase many raw materials due to the financial crisis, waste, and damage, resulting in losses [15]. The stocks are not enough, resulting in the unavailability of some flavors with 3.47 mean and 0.6399 standard deviation, in which the respondents generally proved that they always encountered this challenge, similar to the study stated that stock shortages missed opportunities for a business, such as the opportunity to acquire higher revenue and impair corporate ability and effectiveness in a competitive business market [16]. This was followed by the low quality of the ingredients used for low cost, a mean of 3.20 and 0.6761 standard deviation, which the respondents assessed was generally always encountered. Similar to the study stated that using low-quality ingredients might result in consumer discontent, negative feedback, and lower sales [17]. Lastly, the respondents assessed that stocks are not used until the expiration date, which was generally always encountered having a mean of 3.53 and 0.5164 standard deviation.

In conclusion, inventories are one of the challenges that caused the closure of the milk tea shops, supported by the respondents' assessment having a grand mean of 3.32 and 0.2203 standard deviation. Supply chain and inventory concerns were a major challenge for small enterprises in 2022. This made many small business owners struggle for inventory or without the essentials required to keep their operations going [18].

Table 5. External Challenges of Location

Location	Mean	Standard deviation	Description
There is a high level of competition in the location.	3.60	0.6325	Always Encountered
Limited customers in the area.	3.07	0.2582	Always Encountered
Lack of security such as CCTV or guards in the area.	3.53	0.5164	Always Encountered
The location is not accessible to the customers.	3.47	0.5164	Always Encountered
Grand Mean	3.42	0.2396	Always Encountered

The table 5 shows the external challenges encountered by business owners in terms of location that caused the closure of milk tea shops. The respondents assessed that having a high level of competition was generally always encountered, having a mean of 3.60 and 0.6325 standard deviation. Similar to the study in the Journal of Retailing and Consumer Services explaining that decreased customer acquisition and profitability due to intense competition in the same location may lead to the closure of a business. The next one is lack of security, having a mean of 3.53 and 0.5164 standard deviation, which indicates that it was generally encountered. A business's lack of sufficient security frequently results in its failure to protect its financial data [19]. This is followed by the location not being accessible, having a of 3.47 and 0.5164 standard deviation, proving that it was also generally always encountered. According to a study, the location of a business impacts income and expenses. It may contribute to the reasons why businesses fall into bankruptcy and close [20]. The last one is limited customers in the area, having a mean of 3.07 and a standard deviation of 0.5164, interpreted as generally always encountered by business owners. When starting a business, you should prioritize the location that has customers, but if there are no customers, the business will surely close Gonzalo M., et al (2023).

In conclusion, this study shows that the respondents have always encountered these external challenges, which contributed to the closure of milk tea shops in terms of location. If the location of the business is chosen in error, the entrepreneur will not make the most profit feasible Hanum, F., et al (2021).

Table 6. External Challenges of Government Policies

Government Policies	Mean	Standard deviation	Description
Increase in income tax.	3.13	0.7432	Always Encountered
Being expelled from the property.	3.27	1.7099	Always Encountered
Not being able to pass safety protocols such as sanitary	3.13	0.7432	Always Encountered

inspection, etc.			
Ordinances such as noise, building and zoning regulations, proper disposal of garbage, etc., are being violated.	2.53	1.1255	Often Encountered
Grand Mean	3.02	0.3283	Always Encountered

The table 6 shows the external challenges that the business owners encountered that caused the closure of the milktea shops. The respondents assessed that an increase in income tax was generally encountered, having a mean of 3.13 and 0.7432 standard deviation. These findings are similar to the study explaining that every year tax payments must be made and employee-paid tax requirements require the largest payments each year Cairns, A., et al (2021). This was followed by being expelled from the property, which the respondents assessed was generally encountered having a mean of 3.27 and 1.7099 standard deviation. Followed by not being able to pass safety protocols such as sanitary inspection, which the respondents assessed was generally always encountered with 3.13 as mean and 0.7432 standard deviation. Similar to the study emphasizing that health and safety law is criminal law, and you must legally comply with it, Senior executives who break the law may face prosecution, fines, or even jail Huebsch R., (2024). Lastly, the respondents assessed that ordinances are being violated, such as noise, building and zoning regulations, and proper disposal of garbage, having a mean of 2.53 and 1.1255 standard deviation, which indicates that they are often encountered. Violation can drastically damage a business's profits, especially small businesses, but it is often disobeyed by SMEs Huebsch R., (2024).

CONCLUSION

The study concluded that the respondent's demographic profile contributed to the cause of the closure of the milktea shops, in accordance with the assessment conducted. The study involved business owners who ventured into milktea shop businesses ranging from 25 to 40 years old, with the majority being female. The result significantly demonstrated that females are more likely to encounter failure in a business.

The findings and results significantly demonstrated the overall impact of the internal challenges that the business owners encountered that led to the closure of the milktea shops. The challenges in terms of financial resources significantly affected the milktea shops.

Business owners assessed that they generally always encountered an insufficient budget for ingredients, their expenses became higher than the profit, their earnings were not enough to buy new inventory, and there was an increase in operating costs. It is clear that these challenges are one of the causes of the closure of milktea shops in Cauayan City, Isabela, and business owners should thoroughly evaluate them in order to eradicate the impact of these on their shops.

The business owners encountered challenges that in terms of inventories significantly affected the milktea shops. According to the results of their assessments, business owners generally always encountered poor cash flow management due to a lack of knowledge in inventory management, stocks are not enough, resulting in the unavailability of some flavors, low quality of the ingredients used for low-cost products, and stocks are not used until the expiration date. These challenges contributed to the closure of the milktea shops in Cauayan City, Isabela, and these should be addressed to eliminate further negative outcomes that may help a business mitigate the risk of failing.

The results significantly demonstrated the external challenges encountered by the business owners that caused the closures of milktea shops.

Business owners also encountered challenges in terms of location significantly show the impact of the closure of their shops. Business owners assessed that they generally always encountered high levels of competition, limited customers in the area, a lack of security, and the location not being accessible to the customers. These challenges clearly contributed to the closure of milk tea shops in Cauayan City, Isabela, business owners

should pay attention to these challenges in order to choose the proper location of the shops to attract more customers in an area.

The challenges that the business owners encountered in terms of government negatively impacted the milktea shops and caused business owners to assess that they generally always encountered an increase in income tax, were expelled from the property, were not able to pass safety protocols, and often encountered violations of the ordinances. These challenges had an adverse effect on the

operation of the milktea shops in Cauayan City, Isabela, which led to their closure. These challenges should be observed and analyzed in order to make effective decisions and be successful.

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