

More Than Beans

Coffee upgrades are the norm, but how much should retailers invest?

By Joe Bush

jbush@cspnet.com

Removed from the era of “gas-station coffee,” the convenience channel today faces a conundrum as it pursues even greater purchases from its coffee loyalists.

With the likes of McDonald’s, Dunkin’ Donuts and other well-heeled titans fashioning total breakfast menus, convenience operators are now questioning how they should respond in this a.m. tit-for-tat.

“You don’t have to be a knockoff of one of the coffee retail chains that’s out there,” cautioned Andrew Hetzel, director of Kamuela, Hawaii-based Caf makers, who quickly dispelled the notion of one-size-fits-all.

“There’s different ways of dispensing coffee, there’s different products that you can dispense, there’s different technologies that you can apply that are appropriate for your business model,” he said. “There’s no one way of doing things. Everybody out there is different, with the end goal being to get something in a cup that tastes good and that consumers want.”

So, while strongly endorsing ongoing upgrades of the coffee zone, Hetzel does not necessarily equate transforming your store into a coffee lounge with the latest music downloads, WiFi and dedicated employees.

His message came at the inaugural

CSP Hot Beverage Plus Symposium in Minneapolis in May. Hetzel, who discussed current and future trends of coffee and tea, was joined by Technomic’s Tim Powell on hot-beverage usage across all channels; Retail Growth’s Chris Fink, with c-store-centric consumer research; a retailer panel, moderated by Hetzel; and breakouts on marketing and operations.

Exotic Brews Not Wanted

In an interesting c-store coffee-bar research project for Broomfield, Colo.-based creamer manufacturer WhiteWave Foods Co., Fink polled coffee consumers on their likes and dislikes.

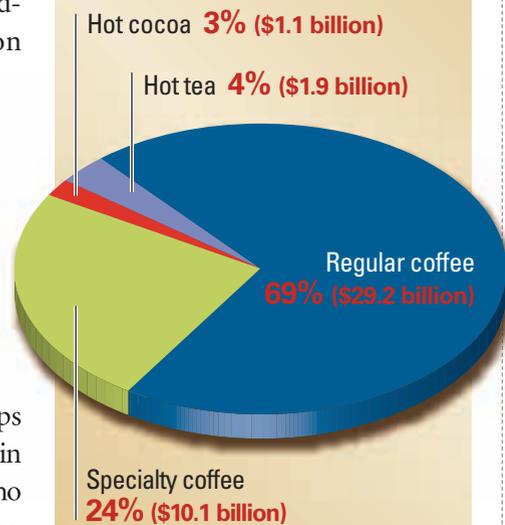
Findings from eight focus groups involving 50 consumers in two cities, in addition to a survey of 2,000 people who buy coffee away from home (c-stores, QSRs, coffeehouses, doughnut shops), showed that consumers aren’t expecting mood lighting and drinks with lingo from their speedy stop (see chart, p. 106).

Rather, their expectations are modest but include customization. Namely, they seek great coffee; flavors and novelty; functionality, quick and personalized preparation; and a value price. They do not require exotic brews, “frilly” drinks; socializing, Internet, music or pastries; delays from baristas; and “ego” or status pricing.

Further drilling into consumer pref-

ESPRESSO EXPRESS

Though far behind regular coffee, sales of specialty coffee (higher-grade beans, lattes, espressos, cappuccinos) rose 14% from 2004 to 2006—three times the growth of regular coffee.



Source: Technomic Inc., foodservice hot-beverage market 2006

The Bottom Line

- ▶ Retailers need not copy coffeehouses to upgrade their coffee program.
- ▶ C-store coffee consumers don’t expect a coffeehouse; speed, quality coffee and mixology is crucial.
- ▶ Once coffee taste and consistency is secured, don’t overlook cups, lids, organization, space and condiments.

erences reveals the importance for customers to easily tell the coffee is fresh (with brew times marked in white on glass pots, for example), that condiments are in stock and that the types of coffee are clearly labeled.

Of the nearly one-fifth of survey respondents that were unhappy with the speed of their coffee experience, most attributed the delay to a crowded area. Out-of-stock condiments and lack of a convenient mixing area were significant reasons as well.

“What emerged for us was,” said Fink, “you’ve got a consumer who is very practical, very demanding about the quality of the beverage, but very practical about how you deliver that service in your stores. Sticking to those key elements is critical to success.”

Fink’s findings spurred lively discussion in the marketing breakout among retailers and vendors, including the notion that a coffee program means more than just stellar coffee. Customers also pay serious attention to condiments, cups and lids.

Rick Pajak of Wilson Farms, Williamsville, N.Y., said he’s gotten positive results with attention to detail—a customized condiment holder, a stir stick that was long enough for 24-ounce cups and stocking raw sugar. “That little extra,” he said. “It’s not high movement, but it brings loyalty.”

Circle K West Coast’s Chris Wilson had a different reason for making available plenty of syrups: protecting turf. According to Wilson, one-fifth of Starbucks’ U.S. locations are in California. One of the sweetener suppliers said he encourages chains to carry all brands, “the yellow, pink and blue,” as he called them, “or you’ll lose one of the colors.”

“It’s difficult enough to get people

Attendees of CSP’s inaugural Hot Beverage Plus Symposium, held May 5–6 in Minneapolis:

RETAILERS

**Debi Scroggins,
Doug Scroggins**

Bearclaw Coffee Co.

Kathy Mejia

BP Products North America

Rodger Owen

Bucks County Coffee

**Shannon Mooers,
Todd Newman,
Al Wilkinson,
Chris Wilson**

Circle K

Guy Strayer

Country Fair

Greg Lorange

Cumberland Farms

Darren Forbes

Erickson Oil Products

Mary Koselke

Family Express Corp.

Brent Byers

GasAmerica Services

Lorilynn DeMarchi

Irving Oil

Greg Tornberg

Kum & Go LC

Tim Doherty, Scott Fleming

Petro-Canada

Whitman Harson

Pilot Travel Centers

Doug Parker

Road Ranger

Sharon Porter

Royal Buying Group

David Davis, John Notte

Sheetz Inc.

John West

Southwest Convenience Stores

Chad Prast

Village Pantry

Rick Pajak

Wilson Farms

Elizabeth Decker

Insight Beverages

**Dale Christiansen,
John Ertmann**

Kraft Foods

Mike Falvo

Merisant/Equal

Mike Kirkwood

Merisant/
Kirkwood Communications

**Linda Bilanski, Peter Doyle,
Dennis Dran,
Brian Pollhammer**

Mother Parkers Tea & Coffee

Chris Fink

Retail Growth

Cheri Marchionda

Rich Products

Nancy Waldron

S&D Coffee Inc.

John Rayburn

Server

Rich Baggett, Ron Wesel

Solo Cup Co.

**Cindy Gehrke, Bob Connolly,
Craig McMurray,
Matthias Krebs**

WhiteWave Foods Co.

Steve Bradley, Kevin Curtis

Wilbur Curtis Cos.

SPONSORS

**Vickie Grimes,
Christy Howell,
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**Leith Anderson,
Stacey Baumann,
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Ron Rineer**

Coffee Bean International

Tom Barberic, John Ludwig

CreaMiser Products Corp.

loyal,” he said. “Don’t give them a reason to walk away.”

Coffee Corners

Discussion on execution takes on greater urgency when factoring coffee’s emergence as a traffic driver, not only in c-stores but also across multiple segments.

Technomic’s Powell illustrated how specialty-coffee sales across several channels grew 14% from 2004 to 2006 before being adjusted for inflation, far outpacing regular coffee’s 3.5% increase.

The data also showed that of the four main away-from-home locations to buy

hot-dispensed beverages, c-stores (12%) trailed limited-service restaurants (35%), full-serve restaurants (21%) and vending (15%).

While Powell’s data focused on how and where consumers buy hot beverages, the retailer panel that followed Powell’s presentation was happy to report that, for now, the sagging economy had not stopped consumers from buying them.

Kum & Go’s Greg Tornberg, for one, said same-store unit sales were up over 2007. The chain, under Tornberg’s oversight, rolled out the Java Ridge program last fall after an 18-month search to

determine what consumers want. The line includes house and dark-roast blends, as well as cappuccinos. Promotional flavors of cappuccino include Chocolate-Covered Strawberry and Yellow Cupcake.

“There seems to be an affinity for the consumer towards those indulgent flavors,” Tornberg said. “You have to taste a Yellow Cupcake cappuccino to understand. It really doesn’t taste like yellow cupcake, but it’s got a cool name and it plays well in the point of sale and the signage. It’s definitely an indulgent beverage.”

Sheetz’s John Notte said his \$1.99 12-ounce latte was an example of one of his chain’s advantages. “There’s been plenty of press on the specialty-coffee customer and how the economy is affecting that purchase, he said. “We’re in a good position for any trading down if you’re tired of paying \$4.”

A Reason to Come In

The CSP symposium began as the Specialty Coffee Association of America’s (SCAA) trade show was ending, and many of the symposium attendees and sponsors visited the show floor. The SCAA defines specialty coffee as being “made from exceptional beans grown only in ideal coffee-producing climates. They tend to feature distinctive flavors, which are shaped by the unique characteristics of the soil that produces them.”

Looking ahead, Hetzel said one way to compete is to offer the highest-quality

Whipping Up Interest

About two years ago Wilson Farms, a 200-store chain based in Williamsville, N.Y., changed its coffee program. At the core of the overhaul was not equipment, coffee grind, eye-catching graphics or new cups, but customer satisfaction. The latter led to all of the former.

The standard is called “Clean, Fresh and Available,” according to category manager Rick Pajak. In pursuit of meeting that mantra, Wilson Farms Coffee bars feature eight varieties of coffee—French vanilla, hazelnut, proprietary decaf, kona and extreme—and six flavors of hot chocolate and cappuccino. A customized condiment area includes cinnamon, raw sugar, marshmallow and a refrigerated cream unit.

“It’s opening yourself up to looking at the feedback that your customers provide to you not only on your Web site or customer service number, but directly in your stores,” Pajak says of the assortment. “To try to give customers a unique experience for mixology.”

To that end Pajak helped Rich Products, Buffalo, N.Y., and Server Products Inc., Richfield, Wis., design a whipped-topping dispenser for his stores. Pajak says that the three test stores have each showed double-digit hot-dispensed-beverage sales boosts after installation and he hopes to put them in half his stores by this fall.

“This was a need we saw probably a year and half ago with the influx of other hot-beverage retailers in our market, or even hot chocolate at a local sporting event—they always topped it with whipped cream,” says Pajak.

Wilson Farms is not charging for the topping, Pajak says, and thus far the sales lift shown at the test stores has exceeded the expense. He says customers are putting whipped cream on every hot beverage offered.

ity coffee possible, as well as varieties in blends. Milk-based drinks, such as lattes and cappuccinos, don’t need more labor; machine manufacturers are accommodating retailers who can

Hetzel said there were only 22,000 retail sites for specialty coffee globally. “Convenience stores could help expand that,” he said. “You have the opportunity to redefine what consumers think of convenience-store coffee.”

Of course, a full-blown coffee operation would have extra labor—perception of product quality suffers if machines are used instead of baristas—as well as more expensive product and higher prices. This is a chain-by-chain decision; the next step down would

be to buy equipment that does the work of a barista, or have a combination of the two ways.

Hetzel estimates, without factoring in labor costs, that the combination of



Photos by Kathy Easthagen

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ANDREW HETZEL *Cafémakers*

afford user-friendly devices but not dedicated staff. The specialty-coffee industry needs the convenience-store industry as much as c-stores need to upgrade their coffee business, he said.

equipment, tools, inventory and training that would be necessary for specialty-coffee-program solutions could range from as little as \$5,000 per location for a simple low-volume brewed-coffee solution through \$300,000 per location, which would essentially buy a complete freestanding coffee bar.

Programs serving espresso should expect to invest a minimum of \$75,000 to \$100,000 (equipment, interior construction/cabinetry, tools, training) per location. Despite the cost, the return on investment will be measured in months, not years, he said.

'Coffee Is Food'

Hetzel said while coffee trading is down—it is the second-most-traded commodity behind crude oil, and a \$70-billion worldwide market—higher-quality coffee is being served. Coffee accounts for 60% of the specialty-foods market, which includes olives and olive oil, cheeses, vinegars and Palates meats. Palates are becoming more sophisticated.

Among other results of this, Hetzel

predicts that with an appreciation of coffee flavors, there will be less use of dairy and creamers and sweeteners. The trend, as he sees it, will move from darker roasts to lighter, because there is no need to cut through mixers, and from larger portions to smaller.

If retailers think or thought that mastering coffee was their entry into

"That little extra [attention to detail]—it's not high movement, but it brings loyalty."

RICK PAJAK *Wilson Farms*

foodservice—you can't handle serving food well if you can't serve coffee well—Hetzel's talk was reinforcement, but not from an execution standpoint. If you serve coffee, said Hetzel, you're already in foodservice, and not just in an accounting sense.

"Coffee is food—it's a perishable product, it's something that requires

heat for preparation, it's something that has a number of ingredients, it's something that requires training to understand how to handle that food and to be able to serve it properly," he said. "It wasn't until the specialty-coffee industry recognized that that was the case



that we've truly been able to maximize our potential. That's something that you should consider as well—for any locations that are serving food, look at it as very much the same thing."

Hetzel clarified that treating coffee programs like foodservice programs means that it should be respected more than a powdered drink or prepackaged ready-to-drink product. To the extent possible, coffee needs to be fresh and prepared with skill, he said, the way a chef prepares food. He recommended having coffee product specialists in stores or, if volume dictates, a corporate management position dedicated to coffee; maximizing flavor, personnel, training and cost control are significant factors.

For instance, Notte has such a position, and he talked about Sheetz's training improvements—making it "more fun" and simple—as well as his excitement over the fought-for addition of specialty-drink recipes on the screens

Sigh of Relief

Research by WhiteWave Foods and Retail Growth showed that people who buy coffee at c-stores have traits that distinguish them from those who buy coffee at QSRs, coffeehouses or doughnut shops.

Coffee attribute	Need or want	Don't need or want
Quality	Great coffee	Exotic brews
Variety	Flavor & novelty	'Filly' drinks
Convenience	Functionality	Socializing, Internet, music, pastries
Speed	Quick, personalized prep	Barista delays
Value	Value price	'Ego' price (badge)

Sources: WhiteWave Foods, Retail Growth; based on focus groups, consumer surveys

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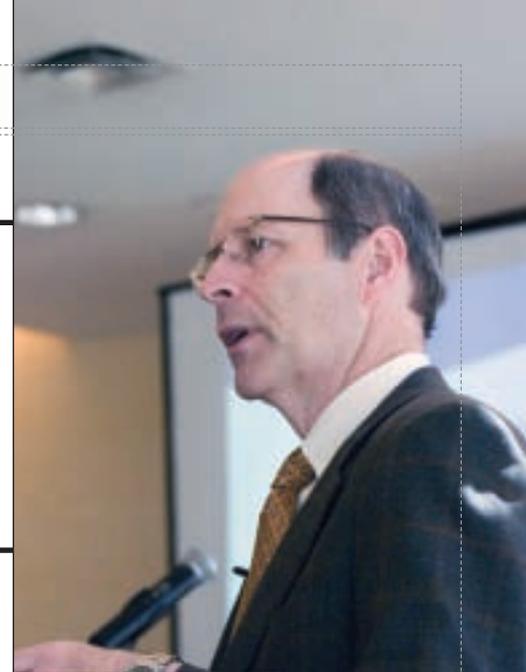
CHRIS FINK *Retail Growth*

employees monitor for customer orders.

Hetzel’s quick fixes for coffee-program improvement included the foundations of a coffee program: ingredients, water and execution. Each site’s water should be tested and improved (a cup of coffee is 98.5% water), high-quality coffee should be used and personnel trained accordingly. The definition of high quality is objective, of course, said

Hetzel, but there is a point system (see www.coffeeinstitute.org). While it is of course impractical for c-stores to serve the 96-point coffee that costs \$100 per pound, Hetzel believes c-stores can serve coffee that scores at least 85, which is recognized as specialty coffee.

“The additional pennies [spent] will earn you dollars and also repeat business,” said Hetzel. “Incremental



enhancements in any of the three can be dramatic.”

And never, ever let the coffee sit longer than two hours. “There’s no difference in flavor whether it’s brewed in Palates-five-gallon containers or a single cup, as long as it doesn’t sit,” he said. ■