



2001 Specialty Coffee Market Research Report

A horizontal bar composed of vertical stripes in various colors: blue, green, yellow, red, and grey. The stripes are of varying widths and are arranged in a repeating pattern.

Part I

By Laura Gorman

From finding the right mix of product offerings to providing the highest-quality customer service, specialty retailers strive to entice and retain consumers with a product category that continues to gain strength across nearly all retail channels — specialty coffee. And, as those consumers continue to crave coffee, retailers who sell coffee seek the latest information about trends that can help further build their specialty coffee business.

The Gourmet Retailer/SCAA 2001 Specialty Coffee Market Research Report presents those much-needed statistics. This is the third national survey that *The Gourmet Retailer* and the Specialty Coffee Association of America (SCAA) have conducted biannually over the past six years.

In just that short span of time, the specialty coffee industry has expanded to the point where coffee is literally found almost everywhere. At the same time, the industry has experienced a plethora of mergers and acquisitions, further challenging those in the industry. To better understand those

changes, the survey's purpose was to obtain information about various aspects of coffee beverage service, coffee bean sales, and related coffee product sales from a variety of different retail distribution channels who are selling coffee.

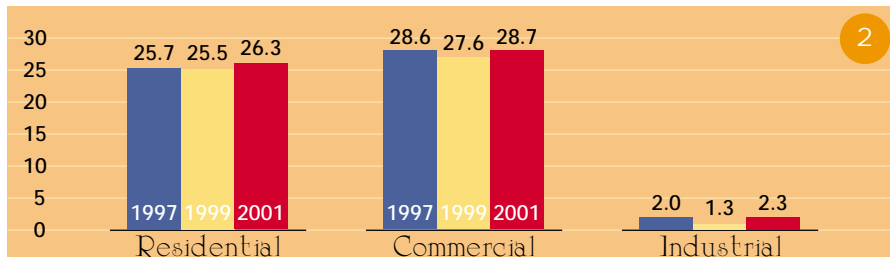
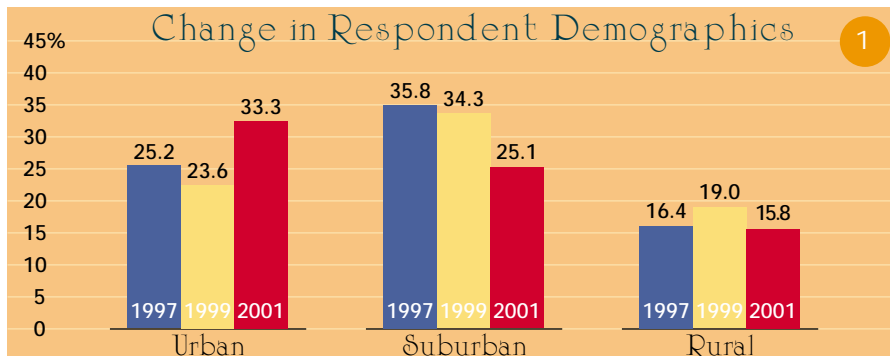
The questionnaire was mailed to more than 4,000 retail subscribers of *The Gourmet Retailer* and an additional 1,000 retail members of the SCAA. Channels surveyed include coffeehouses/cafes/espresso bars (those with a majority of sales in beverage service), coffee and tea retail stores (those with a majority of sales *not* in beverage service), kitchenware stores, specialty food stores, and gift/gourmet stores.

This month in Part I we'll characterize those who responded to the survey, including the type of stores they operate, where they are located, their store sizes, and a bit of information about the all-important coffee department staff. Next month, we'll dive into what the stores are actually selling — from beverage service and whole bean sales to coffee accessories sold off the shelves.

Who's Who?

W e'd all be safe assuming that coffee cafes and coffee and tea retail stores sell specialty coffee, but perhaps more important is which other retail channels are currently offering coffee and other coffee-related products to their customers. This year, nearly half (48.3%) of the survey respondents defined themselves as coffee cafes, followed by gift/gourmet stores representing just 15.5% of respondents. This represents a decline from our first survey when more than 25% of the respondents described themselves as gift/gourmet stores. The percentage of respondents who defined themselves as coffee and tea retail stores was 14.9% this year, up from 11.4% in 1999. Furthermore, kitchenware stores, which represented 16.6% of respondents in 1999 dropped to 2.9% this year. The only two categories that increased in number of respondents were the coffeehouse cafes and the coffee and tea retail stores, perhaps indicating the continued strength of the coffee beverage service segment.

The demographical description defining store location has changed significantly from past surveys. This year, just over one-third (33.3%) of the respondents described their locations as urban followed by 28.7% defining their store locations as commercial. In both the 1997 and 1999 studies, more than one-third of the respondents described their locations as suburban, followed by those who described them as commercial. Perhaps the switch from suburban to urban locations is simply the result of a redefining of existing locations as opposed to a greater number of stores opening in urban locations. With the building of new housing developments and urban sprawl, those locations that once called themselves suburban may now be redefining themselves as urban locations.



As for the number of stores operated, the majority of respondents (73.4%) owned one store, down slightly from both 1999 (81.7%) and 1997 (78.6%). Over 90 percent of the coffee cafes and 88 percent of the coffee and tea respondents reported having one to two stores in their operation, with the average number of stores for all respondents at 2.1, illustrating that our survey respondents are overwhelmingly independent operators. Just over 3% of the respondents reported having more than five stores; however, that number has grown from 1999 when 2% had more than five stores.

The tide is turning a bit from 1999 and retailers are a bit more ambitious about opening new stores than they were in the previous survey when less than 20% of the respondents planned to open a new store in 2000. This year, 27.5% plan to open a new store in the coming year. In addition, 34% plan to open two or more stores next year, whereas in 1999 that number was under 20%.



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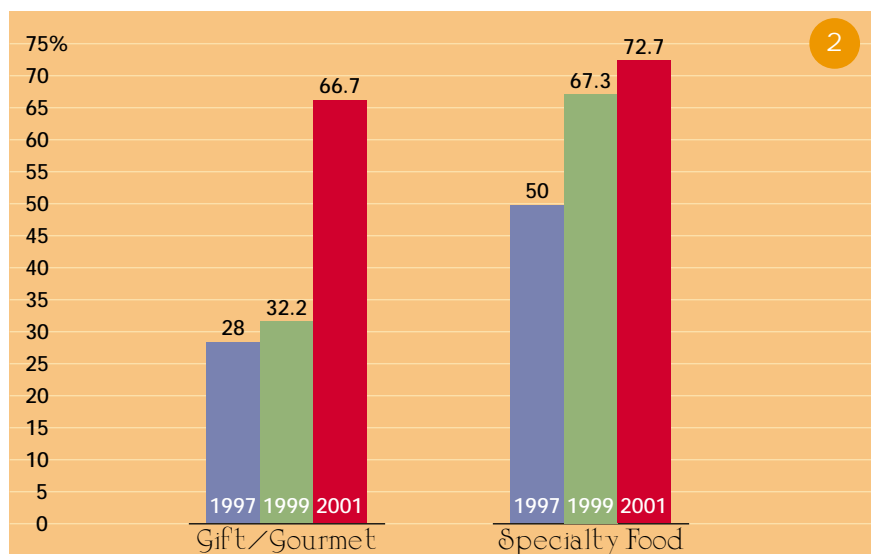
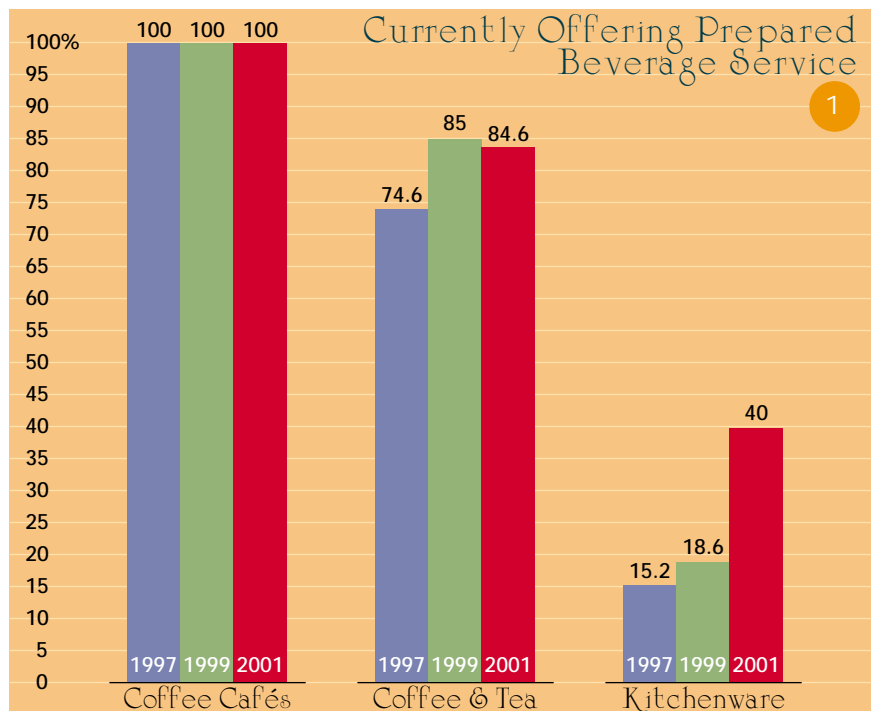
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Beverage Service

Over the years, the specialty coffee industry has transformed itself from serving a relatively small group of true coffee aficionados who purchased their high-quality coffees in whole bean form for home brewing to an industry in which a much broader spectrum of consumers are purchasing prepared coffee beverages. In-store beverage service has brought these great-tasting coffees to a broader community and in a convenient fashion. For the past several years, the growing number of cafes, kiosks, drive-thrus, and the like have brought high-quality coffees to the masses and that trend shows no sign of abating. With continued interest on the consumer side, retailers of all types have found that prepared beverage service is a great way to serve their customers' needs. That trend is continuing, with 85 percent of all respondents reporting that they currently offer prepared (coffee/espresso/tea) beverage service. That percentage has grown substantially from the 50% responding similarly in the 1997 study. Breaking the numbers down by channel, those retailers not fully focused on specialty coffee yet offering coffee beverage service has increased dramatically. For example, 40 percent of the kitchenware store survey respondents now offer prepared beverages, up from 18.6% in 1999. Similarly, double (66.7%) the number of gift/gourmet retailers now offer beverage service compared to 1999, when just over 32% offered prepared beverages in-store.

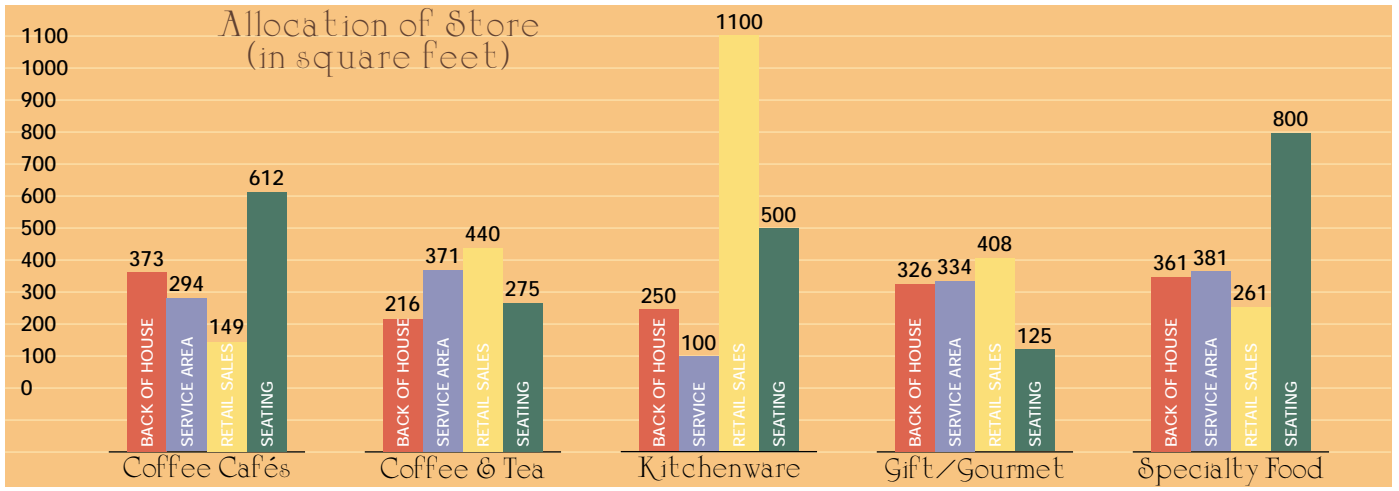


Room to Move Around

To best serve their customers in the most efficient manner, retailers must make the best use of their space. To better understand how retailers are doing this, we asked them how they allocated space to the following items: back of house, service area, retail sales, and seating.

If the results of this year's survey indicate one pressing need to expand future growth, it might be to increase seating. All retailers responding to the survey reported increases in square feet allocated to the seating area. On average, retailers allocated 519 square feet to seating, up from 307 in 1999. In 1999, the coffee café channel allotted the most space to seating (455 square feet); this year, that number was up to 612

square feet, while specialty food stores jumped from 251 square feet dedicated for seating in 1999 to 800 square feet in 2001. We suspect this figure may incorporate seating for the prepared foods department and not just the coffee service area. Surprisingly, coffee cafés allocate the least the amount of space to the service area compared to the other retail channels surveyed except for kitchenware stores, despite the fact that the majority of a coffee café's sales are in the beverage service category. Coinciding with the amount of space allocated to seating within specialty food stores (800 square feet), that channel reports the greatest amount of service area of all channels at 381 square feet.



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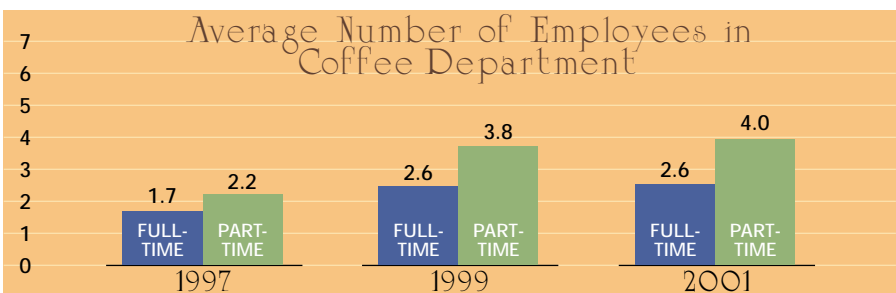
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Staffing

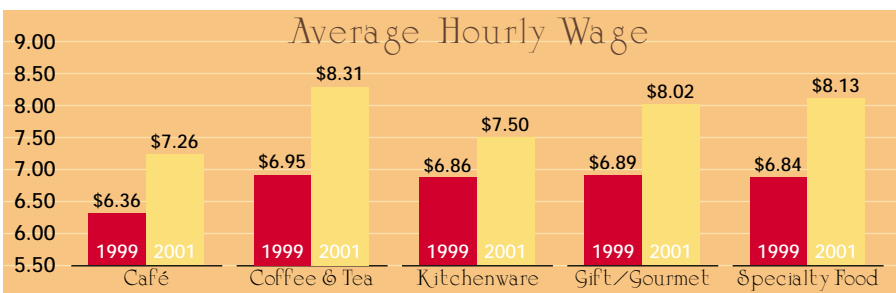
Overall, the composition of full-time (nonmanagement) versus part-time staff in the coffee department remained relatively unchanged from past surveys. However, there is a slight increase in the number of full-time staff members devoted to the coffee department with 16.7% of 2001 survey respondents reporting no full-time employees, down from 1999 when 17.7% reported no full-time employees and down significantly from 1997 when the number was 46.4%. This trend may coincide with the growing importance of beverage service within the coffee environment and the necessity for qualified staff to prepare coffee beverages. Just over one-third of all respondents report that they have three or more full-time employees (on average, 2.6 full-time employees), while nearly half report having one or two full-time staff members dedicated to the coffee department.

As for part-time employees, retailers report an average of four part-time employees, with coffee cafes reporting the most part-time employees (on average, 5.4). The greater number of part-timers compared to full-timers is a reflection of the type of business. Beverage service has more volatile sales peak times, requiring employers to staff more heavily during these peaks, and cut down during the slow hours of the day.



Overall, coffee department employees stay on the job just over two years (an average of 24.1 months), with employees at the gift/gourmet channel staying the longest, on average 35.3 months, followed by coffee and tea retail stores at 32.6 months. The average length of service for employees in coffee cafes has gone up a bit from 14.4 months in 1999 to 17.9 months in 2001. Perhaps pay increases have provided incentive as the survey results report higher wages being paid this year — on average, \$7.66 per hour, which is up a full dollar from 1999.

Interestingly enough, coffee and tea retail stores paid the highest hourly wage at \$8.31 followed by specialty food stores at \$8.13 and gift/gourmet stores at \$8.02, all at least 50 cents above the rest, with the coffee cafe coming in last at \$7.26 per hour.



Roasting

This year's results indicate that there is increased interest in roasting as 23% of all respondents reported that they currently roast green beans. That number is up significantly from 1999 when only 10% reported roasting. Thirty-one percent of this year's respondents have roasted for more than 5 years, down from 69% in 1999. The number of pounds they roast weekly on average is 509 pounds, with 74% of the respondents reporting that they roast for wholesale, up from 14% in 1999.

Retailers are always seeking information to keep their businesses successful in the coming years. Now that we've defined the demographics of those who answered our survey, check out our July issue for Part II of the results which will cover what is being sold in the store. GR

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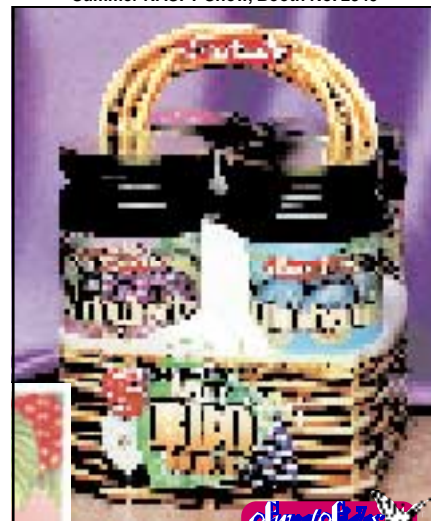
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