

Analysis

The whole latte business

The coffee shop juggernaut, growing at twenty-three per cent annually is the UK's fastest growing retail market. David McCaskey seeks an explanation for this sector's popularity and examines the main players, in particular, the often-controversial Starbucks.

The explosive growth of coffee shops may be readily evidenced through an initial review of the market leaders. At number one is Whitbread's Costa Coffee currently with 250 stores. As one of the main planks in Whitbread's growth strategy, significant investment is planned to raise this to 500 outlets 'as soon as possible' according to MD Mike Tye.

Mike's recorded ambition goes well beyond that number envisaging, possibly in his dreams, 'a Costa on every corner' similar to the Coca-Cola model of being 'Within an arm's length of desire'.¹ At number two in the UK is Starbucks, widely reported as 'The world's fastest growing brand' in the Interbrand / Marketing Week survey of the top 100 Global Brands.² Their first UK outlet opened in September 1998 on the King's

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Road, Chelsea, within three years they have expanded to today's 211 branches, on average opening six shops per month and projected to continue at this rate of expansion for some time.³

Great good places

What is generating this demand? Is there an insatiable craving to emulate or belong to the kind of lifestyle experience portrayed every week on TV at the Central

Perks Café in Friends? Here, as the song reminds you, 'Everyone knows your name'; this programme with its 'virty-thirty' cast achieves a weekly audience of 3–3.5 million viewers. Certainly there is an unmistakable message to be drawn from the style of advertising copy currently used by Starbucks:

Please let us know if you're working late, we were worried when you didn't come in last night.

This is signed off with their customary tag-line

Starbucks Coffee, Your home from home.

This type of advertising regularly appears in colour in full page or half page formats in the increasing array of magazines that accompany the broadsheets at the weekend.

American sociologist, Professor Ray Oldenburg in *The Great Good Place* is entirely insightful in capturing the essence of 'third places' or 'great good places' as the many public places where people can gather, put aside the concerns of home and work (their first and second places), and hang out simply for the pleasure of good company and lively conversation. He sees them as being at the heart of a community's social vitality and the grassroots of democracy. He portrays, probes and promotes these great good places—coffee houses, bookstores, bars, bistros and many others both past and present. He sets forth a compelling argument for these settings of informal public life as essential for both the health of our communities and us. This book is recommended as an essential read by any of the entrepreneurs who are heeding this call and opening such establishments.⁴

Oldenburg has difficulty in conceiving third places taking root and thriving in what he regards as the hostile surroundings of the newer urban environment and certainly not in his horror of horrors, the shopping mall. The concept of a formulaic, commercial approach is abhorrent to him, he determines that they should be idiosyncratic, individualistic, generic (unbranded) sorts of places. Two of the critiques of the book encapsulate this very human need to socialise.

This book has put into words and focus what I've been doing all my life, from the barbershop I remember as a child to the bookstore I now own. My aim is to provide that third place in which people hang out. This book defines those good places whilst still recognising the magical chemistry they require.⁵

This wonderful and utterly important book verifies our need for fun through conversation in great good places. Oldenburg writes passionately of our country's current and urgent problems resulting from our ever-increasing social isolation and provides us with a very simple solution. America must read and react to this rational common-sense solution to salve our stressed lives. And our government needs to promote, permit and zone responsible neighbourhood hospitality, recognising the value of a vital informal life.⁶

Readily identifiable here are the dichotomy which increasingly presents itself today between the highly successful, if prescriptive, national and global brands and to those to whom this is entirely anathema, and alternatively, the uneasy struggle between corporate power and anti-corporate activism.

Witness the trashing of Starbucks and McDonald's in Seattle and Genoa and elsewhere. To the anti-globalisers, the very success and thus ubiquity of these brands is a challenge. One critic has used the term metastasing (the spreading of disease, especially cancer, from one part of the body to another) to describe and vilify this proliferation of global brands. Certainly there are many issues here, which both companies both recognise and attempt to address.

If service marketing is in the business of finding solutions in our Western society where, according to Pine

and Gilmore, the focus of the economy has shifted from commodities to goods and, then to services; it is now shifting to experiences, it would seem that Starbucks and their like are providing the theatre, liberally dosed with the *magical chemistry*, in which this good company and lively conversation, *vital to an informal life*, may be experienced.⁷ In Warner Brothers 1998 movie *You've got Mail*, director Nora Ephron explained that the famous scene which took place in Starbucks was staged there because, for many Americans, this coffee chain has become a third place offering an experience more than it serves coffee—the language of the 'barrista', the noise of the grinders and the espresso machines, the sight of scores of different coffee varieties and products, the feel of hot coffee in the drinker's hands and the atmosphere permeated by the aroma of coffee. Each experience is personal and memorable.



A barrista at work – the heart of the coffee shop experience

(Costa Coffee)

In his recent assessment of the work of Baudrillard, Nick Johns captures the essence of consumerism in this post-modernist age. He recognises the alienation which arises in sectors of society who feel exploited by and excluded from others in society for whom buying is seen as *a rite of self-fulfilment, exchanging personal power (spending power) for personal status, in effect giving themselves presents to confirm their self-worth.*

...the feel of hot coffee in the drinker's hands and the atmosphere permeated by the aroma of coffee.

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Nick found that

Customers in Baudrillard's world have more actual goods than they need, so they extend consumption to 'meanings' and by extension, to themselves. To facilitate this, fashions change even more rapidly and at the same time become increasingly more dominant. Thus consumption is not only about pleasure, through symbolic exchange, but also involves a duty to keep up with fashion.⁸

Starbucks can be considered the epitome of fashionability, increasingly more dominant and entirely in keeping with this modern world.

Michael Solomon, Human Sciences Professor of Consumer Behaviour at Auburn University, captures the essence of the third place in the following scenario:

The day, so far, for Whitney had been confused and fraught until she met up with her friend Shannon for their daily 'retreat' at their local Starbucks. Her mood began to lighten, somehow the calm of the café rubs off

Would you like one vitamin or two in your latte?

as she savours her grande cappuccino. Shannon consoles her with her usual assurances and then prescribes the ultimate remedy to defeat the blues: Go home, take a nice long bath, and then consume a quart of Starbucks Espresso Swirl ice cream. Yes, that's the ticket. It's amazing how the little things in life can make such a big difference. Whitney's daily coffee 'fix' is mimicked in various versions around the globe as people participate in activities that allow them to take a break and affirm their relationships with others. Of course, the products that are consumed in the process vary from black Turkish coffee to Indian tea or, lager beer to hashish.

Starbucks has experienced phenomenal success by turning the coffee break into a cultural event that, for many, has assumed almost a cultlike status. The average Starbucks customer visits 18 times in a month, and 10% of its clientele stops by twice a day.⁹

The potential for fusion of fashion and 'fix' is observed well by Peta Bee when she notes that:

Latest figures show that more than 40% of the UK population take daily multivitamin and mineral supplements, a market anticipated to achieve a £500m turnover this year.¹⁰

Prepare yourselves for the UK launch of the Power Frappuccino, already a Starbucks favourite Stateside. As its name suggests, this chilled, frothy coffee with optional energy-boosting vitamins and herbs is designed to give you a jolt when you most need it. Containing vitamins A, B, C and E as well as the herb *echinacea*, a spokesperson for the chain says that there is no firm date for the UK launch although it is expected to arrive sometime next year. Nutritionists think that this might work. While caffeine inhibits the absorption of some vitamins and minerals (as does the tannin in tea), it doesn't affect those added to this drink. Would you like one vitamin or two in your latte?

The market and its key players

The Allegra report describes the UK branded coffee shop chain sector as having evolved into a multi-million pound industry which has grown apace over the last five years and forecasts a continuing compounded annual growth rate of over 20% p.a. If one includes food focused coffee operators such as Pret a Manger, there will be at least 2,400 branded chain outlets by December 2003.¹¹

Costa Coffee and Starbucks now account for almost 50% of the coffee-focused segment with over 490 outlets between them. Costa Coffee has opened 35 new stores and Starbucks 51 new outlets in the first six months of 2001. Add to this the next two largest chains, Coffee Republic and Caffe Nero and the top four national players now account for more than 60% of the branded coffee sector, this consolidation is predicted to be an ongoing feature as the smaller chains and individual shops get 'eased' out of the market.

McDonalds has recently appointed S G Hambros to sell its British coffee shop chain Aroma. Bought in March 1999 for £15m with 23 outlets and sales of £10m p.a. it now has 35 branches. Originally bought in their search for growth, most industry observers have anticipated the Aroma sale following McDonalds purchase of a one third stake in Pret a Manger. It is expected that all four top UK players will show considerable interest in this disposal. In that more highly developed Coffee Shop market, the US, McDonalds has opened a prototype McCafe in Chicago. Leather couches, ambient music and artwork have replaced the orange fright wig and the trademark plastic benches and gourmet brew coffee sells at over \$2 for 12 fl oz. They are continuing to monitor the appeal of this unit before con-

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sidering expanding the concept.

In the UK, apart from Pret, others in the food-focus coffee business include Baker's Ovens, O'Brien's and Benjys. Rapidly expanding pub chain, Wetherspoon's, with over 470 outlets sees coffee as a significant offering selling over 170,000 coffee drinks per week as Chairman Tim Martin has said 'Starbucks certainly should not be able to open next to a Wetherspoon's and take business away from us'.

Costa Coffee

Now that Whitbread have divested their brewing business and many of their pubs, their declared growth strategies lie in hotels, David Lloyd leisure and in branded restaurants. From the latter, the Costa Coffee chain is set for expansion from its current 250 stores to 500 outlets as soon as possible. MD Mike Tye believes 'that the UK will eventually mirror the US market and the coffee shop market in the US is still growing at a furious pace. But if the UK is to echo that growth, operators will have to start to think differently. In the US a lot of coffee shops are very big in suburban areas and Starbucks talks about its mission as *Home sweet home*. In the UK, coffee shops are currently concentrated close to shopping, leisure and offices, in time they will have to be close to homes as well'.¹²

Coffee Republic

Currently with 82 shops it has had to scale back its ambitious expansion plans but still planning to open a further 40 over the next year.

Caffe Nero

Opened a 40-seat bar in Piccadilly, London on the 24 August. This is its 63rd branch and it plans for 100 by early 2002.

Starbucks

Ranked number 88 in the Interbrand/*Newsweek* latest analysis of the world's leading brands. Starbucks' brand value, at \$1.8 bn was easily rated as the world's fastest growing brand with some 32% growth on last year's valuation. Not bad for a company which started out in 1971 as a small coffee bean and grounds seller in Seattle. By 1987, when Howard Schultz bought out the company, it had 17 stores since then its growth has been exponential as it now encompasses 4,435 stores on three continents as well as branded coffee paraphernalia, music and candy.

Starbucks with its circular, green-bordered, mermaid logo was named after the coffee-loving first mate in Herman Melville's *Moby Dick*. In 1996 it opened its first store in Japan and was embraced by young consumers in a country of devout tea drinkers. Store number 200 opened on 24 January 2001. In typical Starbucks' fashion, the store is bedecked with banners and murals created by a talented local artist. Through this type of approach they claim



Coffee shop action – a recent opening by Good Bean Coffee in Weymouth; this brings their tally of outlets to XX. (Good Bean Coffee)



*We are committed to the designing stores that reflect the fabric and character of the local region. The special mural designs by Yoriko Yamamoto in the Tachikawa Isetan store speaks loudly of our uncompromising commitment to the community. It should inspire our partners worldwide and shows that we will continue to exceed expectation by remaining ahead of the growth curve which means that we shall outstrip our target of 500 stores by March 2004.*¹³

With due process it is spreading its tentacles throughout Asia and on to Australia.

Starbucks used the UK as its launch pad into Europe. It was a fairly easy target, full of young consumers reared on the American entertainment shows and keen to find a hang out that looks as much fun as Central Perks. Many analysts see the rest of Europe as being Starbucks' biggest challenge for further expansion. 'They are taking

on the conservative coffee-loving old continent including Austria, Germany, France, Spain and, most daunting of all, Italy'. From *La Stampa* a disparaging note 'We thought we had everything in Italy, but it turns out we are lacking on thing—American coffee' this is in a country where over 70 million cups of espresso are gulped every day. Italy's slow food movement insist that only a handful of urban Italian youths will be wooed, it should be remembered that similar views were expressed across Europe on the eve of

McDonalds' invasion.

A visit to Starbucks substantial website www.starbucks.com delivers the following.

Here Starbucks reiterates growth targets, the company sees potential for \$6.6 billion in revenues and 10,000 stores globally by FY 2005, this ambition would bring it into the top 50 of world companies. At their third biennial Analysts Conference, executives reviewed its strategies for sustaining a 25 to 30%

As part of the policy of clustering stores in existing markets, we are experiencing a certain level of cannibalisation between existing and new stores...

growth rate. President and CEO Orrin Smith stated

I believe that we have dramatically underestimated the size of the global market, including the number of points of distribution and the power of the Starbucks brand.

Chairman and Chief Global Strategist Howard Schultz said

After visiting with customers and partners (employees) around the world and experiencing the overwhelmingly positive reception that Starbucks has received in new, existing and future markets, I am more convinced than ever that the Starbucks brand has universal appeal.' He added 'There is long term potential for more than 10,000 locations outside North America and Starbucks is uniquely positioned to take advantage of this great opportunity.'¹⁴

Starbucks do try to address the issues raised by their many detractors. They expose their concern for the environment and conservation; their acceptance of

The new Caffe Nero shop in London's Piccadilly

(Caffe Nero)

'Fair Trade' coffee; their 'sanctimonious' care for their staff or partners; many green issues including genetically modified organisms (GMOs), greenhouse gas emissions are considered under their stated mission to minimise their negative environmental impact and make decisions that have a positive environmental impact. The same site reveals their US expansion plans and methods such as tie-ins with Microsoft to create a high-speed, connected environment in Starbucks' locations

across North America using Mobilestar wireless broad band networking. Customers will be able to access broadband content and services using their own wirelessly enabled laptops, smart phones, pocket PCs and other hand held devices—all while

enjoying a cup of Starbucks coffee. As Howard Schultz says

These new relationships will provide us with a great opportunity to enhance our existing customers' in-store experience as well as to attract new customers.

Tie ins with major airlines, with 'Magic' Johnson at Lauderdale Lakes Fla, and many more.

We have yet to experience in the UK is the fully vertically integrated model as exists in the US. So, in future, we can expect Starbucks at your office, at your business, in your high street and in your home. As well as Starbucks in hotels, colleges and universities, industrial cafeterias and in healthcare indeed everywhere, truly ubiquitous. This 'inturn' has spawned many disparagers including hate websites such as www.starbucked.com. One of the best critiques of their ruthless expansion methods was given by Naomi Klein, in her truly engaging *No Logo*.

A comforting third place is the phrase Starbucks uses to promote itself in its newsletters and evangelical annual reports. This is not just a non-space like Wal-Mart or McDonalds, it's an intimate nook where sophisticated people can share coffee... community... camaraderie... connection. Everything about New Age chains is designed to assure you that they are a different breed from the strip-mall franchisees of yesterday. This isn't dreck for the masses, it's intelligent furniture, it's cosmetics as political activism, it's the bookstore as the old-world library, it's the coffee shop that wants to stare deep into your eyes and connect.

The mechanics of Starbucks expansion over the last 13 years has more in common with Wal-Mart than they would like to think. Rather than drop an enormous big box on the edge of town, Starbucks policy is to drop 'clusters' of outlets in areas already dotted with cafes and espresso bars, the area becomes saturated, as they report in their 1995 Annual Report

'As part of the policy of clustering stores in existing markets, we are experiencing a certain level of cannibal-

isation between existing and new stores but management believe that this may be justified by the incremental sales and return on new store investment.¹⁵

Thus Starbucks prevail in the area with year on year growth whilst independent stores lose market share and go out of business.

Across the globe there are stories in the financial press of Starbucks' deep pockets where they are willing to pitch high prices for the best sites and are willing to wait longer than most for the profits to roll in as examples of their aggressive methods of carving out market share.

Where next?

There has been widespread criticism of many of the chain operators both for the way they act as category killers, squashing the independents but also for the 'quality' of the coffee they purvey. Joanna Blythman, recently wrote one of the best, if hard hitting, analysis for the UK coffee shop industry, drawing on the US experience, for the Guardian Weekend Magazine. She concluded:

In the US there is no doubt that Corporate Coffee has

taken out much of the independent coffee section. Less than a decade ago you could stroll into any number of great stores, from the Coffee Connection in Boston to the Pannikin in San Diego, and easily acquire the basic tools to start your own journey of coffee appreciation. Coffee buyer Kevin Knox recalled that 'Clerks would happily explain why the new-crop Kenyan was more exciting to drink at the moment than the Costa Rican estate, or why the plunger-pot coffee was richer than electric drip. Nowadays, such ambience has almost been replaced by the whirr of the espresso grinder and the roar of the milk machine, and actual coffee has become an anachronistic addendum to the fast-food frothed-milk business that masquerades as coffee today. The espresso machine, as the US speciality market has chosen to use it, has set back by twenty years the cause of great coffee and the welfare of coffee farmers.

Unless British coffee consumers wise up, Corporate Coffee is set to make a similar fortune in the UK out of dumbing down our nascent coffee awareness. But why let that happen? We may have been captivated—temporarily—by the phoney cosmopolitan gloss of the coffee chains, but the reality is that already, in planning terms, they are just another highly visible manifestation of the British high street's worrying lack of genuine diversity and its monolithic domination by a handful of powerful brands. In

years to come when the novelty wears off, chain coffee shops will have all the allure of a Bhs cafeteria. In the meantime, although they seem incapable of coming up with a really good cup of coffee, they are nevertheless intent on pulling off an alarming cultural con trick—passing off the liquid content of all those trendy cartons as the ultimate coffee experience. We would be suckers to swallow it.¹⁶

Storm in a coffee cup? Only you, the reader, can judge as the story of this turbulent market unfolds it will certainly not be without coruscating critiques set against unmitigated plaudits. May you find, if not already found, a third place which entirely suits you and may it stay open.



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