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Hot Beverage Concessions Continue To Be A Prosperous And Competitive Enterprise In The Airport

BY SALLY KRAL

The global coffee industry is nothing short of massive. Worth more than \$100 billion, coffee is the second-most sought after commodity in the world after crude oil. In the United States alone, coffee consumption continues to trend upward year over year. According to the National Coffee Association's 2018 National Coffee Drinking Trends report, based on a 2017 poll, the number of Americans who had consumed coffee in the past day was up to 64 percent, the highest since 2012.

With increased revenue and demand inevitably comes increased competition, and the airport is a particularly attractive environment for coffee and tea concessions, notes Chris Burr, director of nontraditional development for **Dunkin' Brands**, which has 115 stores in 43 North American airports. "More people are clamoring for the airport space than ever before – the opportunity to place your brand where there's exposure to more customers and a ton

of advertising impressions is huge," he says.

As Nick Schaefer, senior vice president of license development and food service solutions for **Caribou Coffee**, points out, airport concessions are especially sought after because they perform at a much higher level than streetside locations given the constant traffic volume.

"We've got stores in decent-sized airports that do anywhere from \$1.7 million and \$2.9 million in yearly revenue – and in certain traffic patterns, our projections are even higher than that," Schaefer says. "In the right area, an airport coffee shop can do \$2.5 million or \$3 million annually."

Indeed, coffee shows no signs of waning in popularity and is proving to be a worthwhile investment for companies small and large. Earlier this year, for instance, **The Coca-Cola Company** announced its acquisition of the U.K.-based **Costa Limited** coffee brand for \$5.1 billion. The brand has a strong presence in Europe,

including in travel hubs with its **Costa Express** locations. With **Coca-Cola's** behemoth hold on the U.S. beverage market and plans to expand the **Costa** brand globally, it's likely that **Costa** coffee will make its way stateside sooner rather than later.

"Coffee is a commodity that is loved and consumed worldwide, and if you look at **Coca-Cola's** purchase of **Costa**, I don't think those types of investments are made if a bubble is going to burst," Burr notes. "Coffee has been around for a long time and is only getting larger, growing beyond breakfast and daytime consumption. That's not something that will just go away."

The Starbucks Stronghold

There's no question that **Starbucks** has become synonymous with coffee. "Starbucks remains the king, queen, prince and everything else in coffee," says Alan



Above Left: For a well known global brand like Dunkin' (Dallas Love Field Airport location pictured), providing a local feel isn't a priority. Instead, the brand focuses on consistency and speed of service across stores, while also allowing for customization of its food and beverage items.

Above: At Minneapolis–Saint Paul International Airport, Caribou Coffee worked with the airport's art foundation to commission a local artist to bring regional flair to its Terminal G coffee shop with custom-made coffee tree sculptures.

Left: Despite competition heating up as more coffee and tea brands enter the airport arena, Starbucks remains the top player by a long shot, with more than 400 airport stores worldwide operated exclusively by HMSHost Corp.

Gluck, senior manager for the consulting firm ICF. "Rarely, if ever, have I heard of a Starbucks that failed. I don't think anybody can compete one-on-one with a brand of that size."

Gluck sees opportunity for smaller brands like Caribou, **The Coffee Bean & Tea Leaf**, **Green Beans Coffee** and **Peet's Coffee** to "nibble around the edges" of the market, particularly in airports that either have enough space and want to diversify their portfolios, or smaller ones that don't have the real estate suitable for Starbucks. "But I don't see anybody knocking off the king," he says. "Starbucks will continue to rule the airport world."

HMSHost Corp., which is the exclusive operator of nearly 400 Starbucks airport locations worldwide, certainly sees it that way. "Starbucks drives more traffic than any other brand across food and beverage categories,"

says Stephanie Havard, executive vice president of restaurant development for the concessionaire. "In talking with our airport partners, we've heard time and again that the number one question asked by travelers is, 'Where's the Starbucks?'"

Gluck notes that while usurping Starbucks is an unlikely possibility, coffee brands can still make a mark and turn a profit even under the Starbucks shadow. "Smaller brands should utilize social media effectively to build a local and national following," he says. "Price isn't a big driver, since people are willing to pay high Starbucks prices, so I would say making sure people know where you are, what you are, and why you're special is key."

Erica Brown, vice president of wholesale for Peet's Coffee, concurs with this approach: "Our advice to any growing brand is do what you do well. Peet's has succeeded for over 50 years primarily

because of our commitment to our founder's three key tenets: We source the world's best beans, are devoted to craft and are focused on uncompromising freshness," she says. "Because of our unwavering commitment to these tenets, we've picked up a devoted fanbase we affectionately call 'Peetniks,' and this very loyal following seeks us out when traveling." Peet's currently has 30 U.S. airport locations, the majority of which are on the West Coast, where the brand was founded in 1966.

Caribou similarly focuses on its unique attributes to stand out in the coffee crowd. "Starbucks has a footprint and scale that we're nowhere close to – I don't think any coffee company is – so we try to hang our hat on what makes us unique: We buy the world's top 1 percent of coffee beans, we micro roast, and we're the only national brand that's 100-percent Rainforest



Alliance certified," Schaefer says.

Thanks to **JAB Holding Co.**'s purchase of Caribou in 2013, the brand has been able to increase its presence nationwide. By year-end, there will be 12 stand-alone Caribou shops in U.S. airports, five stores that are combination Caribou and **Einstein Bros. Bagel**, which was also recently acquired by JAB Holding, plus 25 standalone Einstein Bros. Bagel shops that will exclusively serve Caribou coffee.

"Part of the JAB acquisition is that we're now able to distribute our coffee across the country, which means we're poised for growth," Schaefer says, adding that another way to compete with Starbucks is to "beat them on food" by offering freshly prepared items as opposed to Starbucks' frozen sandwiches.

For Dunkin', Burr notes that the brand sets itself apart by being as consistent and dependable as possible, and also allowing

for customization of its menu items while still maintaining speed of service. "There are certain brands that if, for instance, you want their egg and spinach wrap without the spinach, you can't have it," he says. "We have an operating model that allows us that total customization."

Gourmet or Bust

Burr goes on to note that a key trend across coffee and tea concessions is a focus on quality and precision. "People are looking for a little more craft and a little more theater with all of their food and beverage offerings, so we're rolling out a new image design that gives customers a clearer view of their drinks being made," he says. "It offers that sense of theater while also allowing customers to have a better sense of what's in their beverage." By year-end, Dunkin' will have opened 13 new

airport stores in 2018, with the new design implemented where possible.

Tying into this idea of theater, Caribou's Schaefer notes that coffee and tea drinks from a tap, such as nitro coffee and tea infusions, are hugely popular right now. "We're focused on putting a more elaborate tap system into our design," he says, noting that the brand currently has one at its U.S. Bank Stadium location in Minneapolis, where it serves craft coffee cocktails. "It's still in the testing phase and waiting on final approval, but we're hoping to bring something similar to the airport soon," Schaefer adds.

Brown of Peet's sees immense opportunity in ready-to-drink coffee products. "Bottled cold brew coffee is a booming market with the potential to more than double in sales by 2020 to become a \$1 billion segment," she says, adding that Peet's line of bottled cold brew coffees is a bestseller, driven by

socialization of coffee and rise of café culture, and the third – where we are today – focused on ethically sourced, artisanal coffee.

“The fourth wave is currently developing and will undoubtedly further emphasize the interdependence of producer and roaster, embracing the idea of the global community,” Murray says. “An example of this developing trend is a brand we’re introducing to **Seattle-Tacoma International Airport (SEA)** in 2019 called **Caffe Ladro**, which is a Seattle institution with 15 locations.” The brand’s roasting division, Ladro Roasting, sources green coffee through relationships with coffee farmers and millers.

“Consumers are on a quest for independent coffee houses that purchase ethically sourced beans and use small batch roasteries and precision-focused preparation methods,” Murray adds, pointing to its **Café Con Leche** shop at **Tampa International Airport (TPA)**. The concept was created in partnership with a locally based, family-operated company and offers Cuban-style premium espresso-based drinks and food items.

The Right Balance

As competition heats up, there’s been some local coffee and tea activity happening in airports nationwide this year. In August, local Denver brand **Kabod Coffee**, which boasts a “farm-to-cup” experience, opened in **Denver International Airport (DEN)**; in July, the Austin-based **Briggo** brand opened an app-based coffee machine at **Austin-Bergstrom International Airport (AUS)**; and in March, the Cleveland brand **Inca Tea** debuted a second Inca Tea Café in **Cleveland-Hopkins International Airport (CLE)**.

SSP America prides itself on operating several local coffee brands in airports, including **Fika** in **John F. Kennedy International Airport (JFK)**, **Valentine Coffee** in **General Mitchell International Airport (MKE)** and **Lola Coffee** in **Phoenix Sky Harbor International Airport (PHX)**.

“While some of our competitors may offer the same retail brand at every airport, we believe airports require unique, crafted coffee brands that reflect the region,” Murray says, though he notes that a diversified portfolio is key. “Make no mistake, we also have extensive partnerships with some of the largest names in coffee, including Dunkin’ and Peet’s Coffee; we believe there will always be a need for a healthy balance of local and national brands.” The company operates more than 25 different coffee brands throughout North American airports.

Even national and global brands can offer local flavor in airport stores, notes Kim

Satterlee, director of business development for The Coffee Bean & Tea Leaf, which has 20 airport locations in North America and 57 worldwide. “We’re unique in that while we’re a global brand we encourage our franchisees to appeal to the local market through their food offerings and retail,” she says. “This can be achieved by working with a well-known local baker to provide pastries, or by having a personalized coffee or tea blend. Since we have our own roasting facility in Camarillo, California, we’re able to create coffee and tea selections that reflect the personality of a specific city or region.”

For Caribou, the local flair comes in the design features. “Within our brand palate we allow franchisees to use different methods of lighting and signage, and to use materials indigenous to the area, such as specific types of wood,” Schaefer explains, adding that the company also tries to commission local artists whenever possible, such as at **Minneapolis-Saint Paul International Airport (MSP)**, where it worked with the airport’s art foundation to bring in an artist who created coffee tree sculptures for Caribou’s store in Terminal G.

“When you look at what’s winning in airports today, there’s a huge emphasis on local and unique, consumer-grabbing design,” Schaefer says. “In order to be successful, you really have to think outside of the box.”

Even Starbucks can’t deny the need for unique designs specific to each airport location. “When airports desire a local look and feel, we deliver that with a Starbucks designed with locally sourced materials, local artwork and storytelling, and local design features,” HMSHost’s Havard says.

Burr notes that there are small ways that Dunkin’ appeases the demand for local flair. “One of the things we’re doing with our new design is referencing the community or venue through our signage, such as ‘JFK runs on Dunkin’.’”

But Burr adds that delivering a local message isn’t a huge priority for a brand like Dunkin’. “I’m not as bought-in on some of this need for local influence as some airports are,” he says. “It’s great that they want to highlight local businesses, but I think the traveler wants to see recognizable, reliable brands.”

Indeed, while there’s an undeniable draw for both travelers and airport officials to support local businesses whenever possible, coffee is somewhat unique in this regard because of the distinct brand loyalty factor. As Havard notes, “When it comes to the coffee category, the data consistently shows that the name on the sign – and on the cup – matters.” ■

Left: Compared to a global brand like Starbucks or Dunkin’, Peet’s Coffee has a much smaller footprint with 30 U.S. airport stores (San Francisco International Airport store pictured); however, the brand has developed a loyal following, particularly with consumers on the West Coast, where it was founded in 1966.

Bottom Left: SSP America prides itself on operating several local coffee brands in airports. At Tampa International Airport, the company offers Café Con Leche, which was created in partnership with a locally based, family-operated company. Photo by Andrew Cebulka

Bottom Right: SSP America is introducing the local Seattle brand Caffe Ladro to Seattle-Tacoma International Airport next year (rendering pictured).

18-to-34-year-old consumers.

HMSHost’s Havard notes that cold brew beverages are indeed popular right now, as well as nut-based milks and other non-dairy options. In addition to coffee, tea drinks are also trending up. “Turmeric, ginger, acai and other ‘power’ nutrient enhancements teas are becoming more prevalent and are being used in new and innovative ways,” she says.

Data continues to show that today’s consumers are drawn to artisanal products more than ever. “The 2018 National Coffee Drinking Trends report found that 59 percent of coffee consumed daily is classified as ‘gourmet,’” notes Pat Murray, executive vice president of **SSP America**, noting that this is a record high for the report.

Murray goes on to explain the “waves” of coffee consumption that have led to current trends, with the first being the mass adoption of coffee drinking, the second being the