

Smart Coffee



ADAPTING to coffee

THE UNITED KINGDOM'S DWINDLING PUB INDUSTRY IS LOOKING TOWARDS ONE OF ITS ECONOMY'S HOTTEST SECTORS TO GENERATE EXTRA REVENUE.

The pub industry may be one of the biggest casualties in the shadow of UK's booming coffee shop sector, but a new trend is brewing up hope.

About 1.7 billion cups of coffee are sold each year in the market, worth more than US\$10 billion, and a growing number of pubs are trying to get in on the action.

UK brewery and pub company Fuller Smith & Turner may be a beacon of optimism.

London's oldest family brewer boosted its total dividend by 10 per cent, due in part to strong sales of food and coffee across its 400 managed and tenanted sites.

"We're a brewer and pub operator and we take coffee very seriously," says Nick Corden, Retail Marketing Manager at Fuller, Smith & Turner. He tells *GCR* that offering quality coffee has been a catalyst for growth in the company.

But while research shows there is a strong opportunity for pubs to cash in by following suit, experts say meeting customer demand will require more than just a good cup of coffee.

GETTING BACK IN THE GAME

The growth of UK's coffee shop market is astounding, considering coffee consumption is lower than in 2006.

According to the International Coffee Organization, Britons consume an average of 2.8 kg per capita. Its consumption is but a fraction of Germany at 7 kg, Sweden at 7.1kg, and 5.5kg in France.

While Britons aren't drinking more coffee, the sector has gained popularity as more people are getting caffeinated outside of the home. A nation that once defaulted to pubs for social gathering venues are increasingly embracing café culture for daytime experiences.

Analysts believe the market is far from saturated.

There are more than 18,000 outlets in the UK, and that number is set to grow to more than 21,000 by 2020, according to Allegra Strategies. Front-runners including Costa, Starbucks and Caffè Nero have already expressed ambitious plans for expansion in the country.

Meanwhile, the pub industry has been in steep decline. The Campaign for Real Ale estimates pubs are closing at a rate of 29 per week. Though this rate has slightly improved from 31 per week the year before, it is still twice the amount of closures in 2011.

Fuller, Smith & Turner's recent financial results, however, may indicate the pub chain has found a recipe for success.

Realizing there was a demand for coffee among its customers, it launched its own fair-trade-certified blend several years back.

"Our blend of coffee is unique to Fuller's pubs," says Corden. "It's a high quality blend and it matches the taste of what our customers are looking for."

The company sold 1.2 million cups of hot drinks including coffee this past year, which is an increase of 10 per cent. Its sales of food in managed pubs also grew 7.6 per cent on a like-for-like basis, which was faster than alcohol sales.

But according to Corden, a quality beverage is only part of what makes its coffee program successful.

“Having a great blend is the first part of the jigsaw,” says Corden. “The second part is having great training on how to serve it.”

Corden says the company has invested quite a bit into training staff in-house, as well as holding off-site programs several times per year.

ADAPTING TO COFFEE

Fuller, Smith & Turner aren't the only pub chain vying for a share of the lucrative coffee sector.

JD Wetherspoon, a pubs group with more than 800 locations across the UK, took a different approach to compete with high street coffee chains.

Earlier this year, it slashed its price of coffee to 99 pence, with free refills, in attempt to triple sales of coffee and breakfasts over the next 18 months.

“It is a growing market and we think it is time to up the ante,” JD Wetherspoon founder and Chairman Tim Martin told *Reuters*.

The growing crossover of pubs into the coffee sector shows the changing nature of the pub industry as operators try to reduce their reliance on beer sales, which have fallen every year since 1988.

“There's an immediate win from coffee if you are doing it half right,” says Jeffrey Young, Managing Director at Allegra Strategies. “You can immediately get that extra customer.”

Young explains to *GCR* that to truly take advantage of the opportunity, however, pubs will have to invest in a strong coffee program.

“You can't be everything to everyone and be great at everything,” he says. “Pubs have an opportunity, but they will have to invest in it as well.”

He says that while having great coffee is a good start, staff training should be a key component of the investment.

“There are cafés where you aren't even allowed to serve the customer until you've had several months training.”

And while the coffee may be good, Young cautions there is a risk with lowering cost to try attract more customers.

“Price isn't everything,” he says. “For a Wetherspoon customer, that might be the right idea. But I don't think it will influence high street coffee shops.”

According to Young, one of the biggest challenges pubs face in enticing customers for coffee is atmosphere. He says that while simply having coffee on the menu will have its rewards, the smarter pubs are implementing strong coffee programs that take into account environmental factors.

“You need to have the right area or atmosphere that relates to what your customers want to do. Coffee shops are very sophisticated about how they structure their interior for different types of customers.”

He says environmental factors are especially important as consumers are becoming more mobile, looking for hubs to connect both socially and electronically.

“It's not just about the coffee. It's about being a node of consumer activity.”

WORD OF MOUTH

Pubs aren't the only ones with their sights on new markets.

Some of their daytime counterparts including Starbucks are starting to dip into the evening sector by offering different menus that serve alcohol.

Young, however, believes pubs still stand to gain a lot more in the crossover.

“There are a lot more pubs than coffee shops at this stage, so the opportunity is for pubs to steal a bit of ground from coffee shops.”

Market research appears to support the theory. A recent survey by HospitalityGEM found that two thirds of customers expect good quality coffee in pubs, but only one per cent drink there more regularly than in other sites such as restaurants and coffee shops.

Furthermore, a quarter of respondents felt that coffee service was better in restaurants than in a dedicated high street store.



HospitalityGEM Managing Director Steven Pike tells *GCR* that the results indicate pubs need to do more than simply have good coffee to meet a growing customer demand.

“Coffee doesn't have to be just something you have on the menu,” he says.

Pike says getting staff to increase their knowledge in coffee and recognising when there is a good sales opportunity can go a long way to helping establishments increase revenue.

“(Coffee is) something you would also have in addition to something else you might be buying. So it's not just about individual sales, but increasing other ones as well.”

While pubs are starting to improve their offering, Pike says another challenge is a matter of spreading the word.

“A lot of pubs now sell decent coffee but many people don't think about it. They will pop down to their local coffee shop.”

Pike says pubs need to look at ways to promote themselves as specialists in the domain. “I think a lot of it is about word of mouth now,” he says. “Marketing will get you so far, but you have to get people talking.”

One group that is doing well at promoting their coffee programs, according to Pike, is smaller, independent pub owners.

“They present themselves in a much more homely way than the connotation you get with brands,” he says. Similarly, Young also believes this group has an advantage because they can adapt to what works locally.

“They have more flexibility and can spot the trends.” *GCR*



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