



# Delivering the coffee & tea experience through branding



**TEA AND  
COFFEE ARE  
BREAKING  
NEW GROUND**

Americans have a soft spot for their favorite brands of coffee and tea. Served either hot or iced, with a meal or as a solo pick-me-up, they are woven into the nation's fabric of life.

When it comes to coffee, the public's thirst continues to grow. Retail and foodservice sales of coffee topped \$48 billion in 2014, with \$37 billion of the total coming from sales at foodservice establishments, according to estimates by the research firm Packaged Facts. Furthermore, the foodservice share will rise by an estimated 5.5 percent in both 2015 and 2016, *Package Facts* reports.

A desire for higher quality is accompanying the rising volume. The consumption of gourmet coffee varieties, defined as straight, black coffee made with premium beans, increased roughly threefold, from 5 percent to 16 percent, between 2000 and 2015, according to the National Coffee Association. Restaurants have responded by upgrading their coffee.

Not only are consumers drinking better coffee, they are drinking it in more ways than ever before. Edging into the spotlight with familiar drip coffee and espresso-based coffee drinks are emerging brewing methods such



as pour-over, French press, vacuum pot, cold-brewed iced coffee and single-cup brewing. A few trendy coffee houses even pour carbonated coffee from a tap.

Tea has been on a tear as well. The total wholesale value of the tea sold in the U.S. has risen from less than \$2 billion in 1990 to more than \$10 billion in 2014, according to the Tea Association of the U.S.A. Like coffee, it is being enjoyed in a variety of forms. Specialty tea shops are brewing up premium hot black, green, white and oolong teas. Restaurateurs are pouring iced teas – about 80 percent of tea in U.S. is consumed chilled – in a kaleidoscope of fruit flavors. In fact, specialty iced teas ranked second among the trendiest non-alcoholic beverages in the National Restaurant Association’s What’s Hot 2015 Culinary Forecast.

These success stories share a common denominator — branding plays an important role in driving the demand for each beverage.

“You see people walking around drinking coffee at all times of day now,” says Bonnie Riggs, restaurant industry analyst for market research firm The NPD Group. “Before Starbucks and Dunkin’ Donuts took off, coffee was declining year after year, but the trend has reversed.”

## WHY BRANDING MATTERS

Traditionally, brands are symbols of quality for consumers. In a crowded marketplace, they help differentiate one product from another. Whether it is an automobile, a smartphone, a wristwatch, a cup of coffee or a glass of iced tea, a branded product stirs an emotional response that influences buying decisions.

According to conventional wisdom in the restaurant industry, a name-brand food or beverage item may be more appealing to customers than a generic or ordinary product. In fact, branding can be part of a marketing effort that supports premium menu pricing and fuels higher



sales and profits. That is particularly true about coffee and tea, which are two of the highest profit-margin items in restaurants.

## THE RESTAURANT BRAND SOLUTION

Restaurant operators have been eager to capitalize on the growing popularity and ample profit margins of coffee and tea. For many, the solution is a restaurant brand that forges a unique identity in the marketplace and attracts traffic and sales.

For example, McDonald’s launch of the McCafé premium coffee line a few years ago helped the burger giant increase its already strong breakfast business. In similar fashion, Denny’s trademarked Signature Diner Roasts Mild and Bold coffees leverage the concept’s diner heritage and boost sales. Two additional chains plying restaurant brands to advantage are Krispy Kreme Doughnuts, with its exclusive House Blend Drip and Dark Roast Drip coffees, and Bojangles Famous Chicken ‘n Biscuits, with its signature Bojo coffee brand.

Corner Bakery Café, a fast-casual restaurant chain, offers its patrons four proprietary hand-roasted coffees with distinctive flavor profiles. They range from the complex and sophisticated Café Europa to robust Sumatra Decaf, flavorful Hazelnut Cream and Bakers Blend, which is broadly popular with its freshly baked goods.

The quartet of restaurant brands enables the chain to deliver “one hell of a coffee experience, with real coffee and variety,” says Ric Scicchitano, executive vice president, food and supply chain, for Corner Bakery. “And keep in mind that we are not a coffee house, we are a café.”

Restaurant branding also has an impact with iced tea, particularly Southern-style sweet tea, notes Peter Goggi, president of the Tea Association of the U.S.A. “Some operators have developed their own formula for sweet tea that induces customers to visit them, because it is not available anywhere else,” says Goggi.

For example, the Texas Roadhouse casual dining chain promotes Slow Brewed Iced Tea in sweet and unsweet versions on its menu. Bojangles touts its Legendary Iced Tea in sweet and unsweet, and McAllister’s Deli its trademarked Famous Sweet Tea, also in peach and wildberry flavors.

To launch a restaurant brand, an operator may form an alliance with supplier-partner, collaborating on a custom blend of coffee or tea, or a high-quality stock blend, that suits the concept and menu. The restaurant brand is the operator’s exclusive product. It has the potential to be a unique reflection of the restaurant’s individuality and a calling card for customers.

That is why some of the industry’s most successful restaurant chains prefer the restaurant-brand route, rather than carry brands that are already on retail shelves or the menus of competitors.

“They don’t want to offer somebody else’s brand,” says Joe Pawlak, senior vice president of the market research firm Technomic. “They say, ‘This is our special blend, and you can only get it here.’”

### THE ART OF THE BRANDING DEAL

A restaurant brand alliance is a partnership between restaurant operator and supplier that brings value to each party. It goes beyond the simple exchange of dollars for product.

The supplier brings capabilities such as sourcing relationships with farmers and cooperatives in producing countries, experience in managing a supply chain of valuable commodities, skills in roasting and blending and knowhow in tailoring products to match an operator’s menu and economics.



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Additionally, the supplier may be able to share marketing intelligence and trends insights to guide the operator’s branding strategy. In some cases, benefits in the form of co-promotional dollars, brewing equipment and servicing and training also flow to the operator.

On top of that, some suppliers have culinary or R&D teams that can work alongside the operator’s own kitchen talent. This can further the development of new, on-trend menu items — anything from an iced hazelnut frappe for a limited-time offering to tea-glazed salmon for the dinner menu.

Yet another facet of the branding opportunity occurs when an operator’s restaurant brand gains sufficient acceptance to be marketed at retail as packaged ground, whole-bean or single-serve coffee. Examples of

restaurant and coffee shop brands abound on grocery shelves and online shopping sites today.

Thus the operator’s overall strategy and objectives, in concert with the supplier’s capabilities, will shape the branding partnership.

“It may be a monetary reward that warrants collaboration between supplier and retailer, or the chance to further enhance the brand and branch out to different segments,” says Goggi. “There are multiple solutions, but it all depends on the strategy of the restaurant and the supplier.”

### BRANDING AS A STRATEGIC TOOL FOR RESTAURANTS

Small, emerging restaurant chains with a focus on breakfast are more likely to leverage the appeal of an established, well-known coffee brand on their menu than established chains with numerous units, reports Dennis Lombardi,



executive vice president of foodservice strategies of the design and development firm WD Partners.

For example, a fledgling bakery-café concept with a handful of locations and big growth ambitions might ally with a big-name specialty coffee brand with strong credibility and a loyal following. In contrast, a major player such as Panera Bread Company, with about 2,000 units, does well by offering coffee under its own brand name.

“At Panera’s size, the strength of its own brand gives credibility to the breakfast program and their coffee is known well enough as Panera coffee,” says Lombardi.

In any event, the decision to partner with an established brand of coffee should be made in light of the brand’s equity in the marketplace.

“If it is an unknown or very-little-known brand, why bother,” says Lombardi. “It is not going to create any incremental traffic as a result. The brand has to carry its own weight to have any chance of offsetting the incremental cost.”

## THE BREAKFAST AND SNACK OPPORTUNITIES

Many operators are drawn to branding coffee and tea by the chance to capitalize on breakfast and snacking, two of the hottest opportunities in the industry.

Breakfast has been a welcome bright spot for customer traffic in the U.S. restaurant industry. The daypart with the highest incidence of coffee consumption is fertile ground for highlighting brands.

Breakfast sales in foodservice were pegged at \$50 billion in 2014 and are projected to increase by 4.3 percent to \$52.2 billion in 2015, according to the research company Mintel. By 2019, that figure should reach \$60.4 billion, Mintel forecasts.

“There is growth,” says Julia Gallo-Torres, senior analyst-foodservice for Mintel. “A lot of people are excited about breakfast.”

“Breakfast is an underpenetrated daypart and a high-margin business, and a lot of people are getting into it today,” says Pawlak.

Having a good coffee program is more important at breakfast than in the other dayparts, given the propensity of coffee to attract morning traffic.

“Coffee is probably the linchpin there,” says Pawlak. “It could be the standard that people come in for. They pick up coffee and breakfast items along with it.”

“No one ever says ‘Let’s go to this casual-dining restaurant for dinner because they have really good coffee,’” Lombardi observes. “But people tend to choose where they go for breakfast based on the beverage, which at breakfast is coffee.”

Snacking, or between-meals food and beverage consumption, is the other promising opportunity for coffee and tea sales. It has become an established consumer behavior and an incremental revenue source for some operators. Menuing a branded signature latte or flavored iced tea in the midmorning, late afternoon, after dinner and late at night has the potential to attract off-hours patrons away from coffee houses, tea shops and other restaurants.

“Specialty beverages have now become more of a snack item,” says Riggs. “People get a latte or iced coffee

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instead of purchasing a snack. Overall, the snacking daypart is not growing, but our behavior has changed in the way we are eating and calling it a snack.”

“Beverages have really replaced things like candy bars and baked goods as the go-to snacks for many consumers today,” says Pawlak.

Gallo-Torres observes that a “second breakfast,” or mid-morning snack, has become increasingly common, especially among millennial consumers.

## DECIDING ON BRANDING

When contemplating a restaurant brand strategy with coffee and tea, a restaurant operator has a number of factors to consider.

- First of all, chose a branding supplier-partner wisely.
- Look at the track records of potential partners. How successful have they been in helping operators sell emerging beverages, move into new dayparts and seize additional business opportunities? What capabilities and expertise do they have to share in sourcing, roasting, blending, R&D, marketing and training?

- If you are planning branded coffee as an entrée into the breakfast business, determine if your restaurant concept has credibility in that daypart. If you are a newcomer to breakfast, do you have a realistic understanding of the commitment it takes to establish a footing in that competitive arena?

- Lombardi cautions that breakfast can be an opportunity for certain restaurant brands in the right locations, but it clearly has challenges.

- “It’s a hard daypart to break into, because compared to the other meals, people tend to do the same thing for breakfast,” Lombardi says. “It’s difficult to pull them out of that into a new routine.”

If you envision coffee and tea as elements of an expanded snack business, do you have a credible concept and menu to attract off-hours patrons?

Finally, crunch the numbers and see if the traffic and sales projections exceed the cost of implementing the branding program. Lombardi says that having branded coffee could boost an operator’s snacking business, but adds “that does not necessarily mean it is cost justified.”

Bottom line, a branded coffee program has potential rewards for restaurant operators, but it is not a blanket remedy for driving traffic and sales in all instances.

“There are very few, if any, blanket remedies,” says Lombardi. “It is a matter of considering the circumstances, the benefits and the costs.”

To learn more about specialized beverage solutions for your restaurant business, visit [sdcoffeetea.com](http://sdcoffeetea.com) or call (800) 933-2210.

