

## Fast-food restaurants are beginning to offer high-end coffee drinks

*by Jennifer Davies*

Twenty-five years ago lattes and cappuccinos were mostly the purview of trendy coffee houses in cities like New York and San Francisco.

Now they've hit the mainstream.

Not Starbucks. The real mainstream.

Think McDonald's, Jack in the Box and Dunkin' Donuts.

With demand for coffee-based beverages soaring, fast-food chains and convenience stores are looking to get their piece of the lucrative business - and even increase demand for specialty drinks by making them more available.

According to a National Coffee Association study, daily consumption of coffee surpassed that of sodas this year for the first time in more than 15 years, with 57 percent of Americans drinking coffee every day compared with 51 percent for sodas.

Because of those kinds of numbers, all the major fast-food chains have worked to improve their basic coffee brews. And now they are wading into the gourmet coffee business that Starbucks has dominated for years.

McDonald's has been testing its McCafe line of coffee drinks for several years around the country. Recently,

McDonald's rolled out McCafes throughout Michigan and is testing it at select stores throughout Southern California as well.

Jack in the Box is also testing the demand for specialty coffee drinks. Dunkin' Donuts, the Northeast coffee staple, has added espresso machines and softened its decor to compete more effectively for the typical Starbucks customer as it expands into the South and the West Coast.

McDonald's executives say they are responding to consumer desires.

"If we can provide a latte at the highest quality but at an awesome price, then we want to do that," said Max Gallegos, regional marketing manager for McDonald's in Southern California. While some might not consider Big Mac and cappuccino an appetizing pairing, industry watchers say there is enough demand to make these initiatives work.

Bob Goldin, executive vice president at Technomic, a consulting firm for the restaurant industry, said the fast-food chains don't need to topple Starbucks to succeed.

"I don't think they're going to put a huge dent in Starbucks' business," he said. "But you don't need a whole lot of extra business to make it profitable."

He pointed to McDonald's introduction last year of its Premium Coffee, which recently received a higher rating than Starbucks in a Consumer Reports taste test. Most McDonald's locations raised the price from the previous coffee blend, which has helped boost McDonald's average check size and contributed to the company's streak of strong earnings.

"Everybody who is ordering coffee is now paying 20 cents more," Goldin said of McDonald's Premium Coffee. "With their number of customers, that's a lot of money."

But are the masses really clamoring for gourmet coffee with fast-food convenience?

UPSCALE COFFEE DRINKS - Trying to catch up to Starbucks, McDonald's, Jack in the Box and other fast-food outlets are now offering high-end coffee drinks. CNS Photo by Sean M. Haffey.

It depends on whom you ask.

Nick Keenan, who was leaving a San Diego Starbucks next to a McDonald's, said the idea of buying coffee from the Golden Arches is hardly appealing.

"I wouldn't go there for a burger," he said. "So I certainly wouldn't go there for a coffee."

Fast-food consumers might be equally reticent to buy their daily dose of java at Starbucks. A study by market research firm Sandelman & Associates found that only 17 percent of all fast-food customers purchased coffee or food from Starbucks within the past month.

Because of that, McDonald's and the other fast-food chains see an opportunity to entice their traditional customers to try higher-priced specialty drinks that they may not be used to.

At the San Diego McDonald's, for instance, the company has a handout explaining what the different drinks

are. A cappuccino, it explains using a diagram, consists of frothy milk, steamed milk and espresso.

Robert Hede, a business consultant who is coordinating the specialty coffee project in Southern California for McDonald's, said some of its customers may need education on the finer points of gourmet coffee drinks.

"You also get people who don't know what a latte is," Hede said. "They pick this up (the handout) and they say 'Hey, I'd like to try this.' It's a great communication tool."

Jeff Davis, president of Sandelman & Associates, a marketing research and consulting firm, said that there is little crossover between consumers who buy their coffee at Starbucks and those who buy it at McDonald's.

"They are distinct," he said, saying that the companies "are not trading customers."

Lloyd M. Gordon of GEC Consultants, a restaurant industry consulting firm in Skokie, Ill., said McDonald's is not expecting to lure the Starbucks customer but rather convert its regular customer into a cappuccino aficionado.

"It is going to be McDonald's customers trading up and becoming snobs. ... Isn't that the American way?" he said. "They don't know that they are craving it yet, but if there is a marketing mogul who can create desire, it's McDonald's."

McDonald's marketing manager Gallegos contended, however, that many fast-food customers are already clamoring for lattes and cappuccinos as taste buds and trends have evolved. "It's an amazing cultural shift," he said. "The American palette is becoming much more sophisticated."

Aside from taste, there is a more basic way to attract new customers: price. While a 20-ounce latte at Starbucks goes for around \$3.35, McDonald's charges \$2.99 for the same-sized drink. Jack in the Box only has two sizes - 12 ounces and 16 ounces - with the prices of \$1.69 and \$1.99.

San Diego resident Paul Tang, 68, who was sipping a coffee at a Starbucks, said he would have no reservations about buying his specialty coffee drinks from McDonald's - especially considering the price. The retiree said he visits Hong Kong regularly and has had the McCafe drinks there many times over the years.

In some countries, McCafe is actually a separate section of a McDonald's restaurant that offers a wider range of coffee beverages in addition to food items such as muffins and sandwiches. McCafes originated in Australia, and there are 1,000 internationally. McDonald's has done limited testing of the McCafe concept in the United States in such areas as Hawaii and Mountain View, Calif.

For Tang's favorite drink - a white mocha - he said he prefers the versions he's purchased at McDonald's McCafes in Hong Kong to those of Starbucks.

"It seems they put a little bit more into whipping the coffee," Tang said. "It's more creamy."

But don't expect to see a white mocha on any of the fast-food restaurants' menus throughout much of McDonald's U.S. locations - at least not yet. As the various chains test the different drinks, the restaurants have a decidedly pared-down menu, with the primary focus being on cappuccinos, lattes, mochas and iced versions of those drinks with shots of flavors such as vanilla and hazelnut.

There are no frappuccino-like ice blended drinks, and no solo shots of espresso or other Starbucks staples such as the caramel macchiato or caffe americano, which is just espresso and hot water.

Also, don't expect to see the typical coffee bar attendant, grinding coffee, manually measuring out espresso shots and steaming milk. The processes at the McDonald's and Jack in the Box are fully automated, with workers pushing a series of buttons to grind the coffee and produce the drink.

While Starbucks' coffee supremacy might not be challenged, it is not taking the new competition lightly. Recently, the coffee chain began offering hot breakfast sandwiches - think Egg McMuffin, only with ingredients such as Havarti cheese, black forest ham and baby spinach.

Goldin of consulting firm Technomic said Starbucks might have a harder time making inroads into the breakfast market than McDonald's and its fast-food counterparts will have with regards to high-end coffee.

"I don't think that Starbucks has proved that they can be a food purveyor," he said. "They are a fabulous beverage provider, but food's different."

Still, Starbucks is the king of coffee. The Sandelman & Associates study tracking coffee usage and attitudes found that more people purchased coffee at Starbucks than all other fast-food restaurants combined.

Gordon said Starbucks created the market for high-end coffee and must now face the consequences of its success - increased competition from large-scale chains rather than local, independent coffee houses.

"You can't open 15,000 coffee shops without changing the market," Gordon said. "And the market is getting tighter."

## STARBUCKS

Stores: More than 9,000 company-operated and licensed stores.

Prices: A 20-ounce latte costs around \$3.35.

## McDONALD'S McCAFE

Stores: McDonald's has tested the McCafe line for several years.

Prices: A 20-ounce latte costs around \$2.99.

## JACK IN THE BOX

Stores: Jack in the Box is testing demand for its specialty coffees.

Prices: Only two sizes - 12 and 16 ounces - are available for \$1.69 and \$1.99 extra.

*Fast-food restaurants are beginning to offer high-end coffee drinks by Jennifer Davies*