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Roasting for America's Hospitality Industry

Weighing the Challenges, Risks and Potential Rewards

by Lon LaFlamme



Training baristas at Pasea Hotel's Blend cafes is part of the service provided by full-service hospitality roaster Peerless Coffee & Tea. | Photo courtesy of Peerless Coffee & Tea

If you're an established retail or wholesale roaster, you may be wondering if now is the time to invest staff and money into the pursuit of another select market segment. A prime example is the historically price-driven hospitality business.

According to a 2015 report by the market research publisher Package Facts, the food service market for specialty coffee has increased 14.2 percent over the past four years, but that modest growth lags well behind consumer demand. Over the past several years, quality coffee has taken hold of mainstream America like no other beverage, with daily coffee consumption—particularly consumption of specialty coffee, as defined by the Specialty Coffee Association of America (SCAA)—continually on the rise.

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Studies published by the SCAA in 2014 and 2015 found that specialty coffee ranks No. 1—with soft drinks a distant second—among young adults from 18 to 24 years old. Since the SCAA began publishing its annual

specialty coffee research report more than 20 years ago, coffee consumption surpassed soda and water for millennials for the first time in 2014.

In addition, the National Coffee Association's 2016 Drinking Trends survey reports the following:

- Daily consumption of espresso-based drinks has nearly tripled since 2008.
- Between 2008 and 2016, past-day consumption of gourmet (specialty coffee) beverages increased from 13 to 36 percent among 18- to 24-year-olds.
- Espresso-based beverage consumption has increased from 9 to 22 percent for 18- to 24-year-olds, and from 8 to 29 percent for consumers from 25 to 39 years old, between 2008 and 2016.
- Specialty coffee consumption increased from 19 to 41 percent for 25- to 39-year-olds during that same time period.

"Both men and women, especially millennials, are looking for more flavorful coffee, giving rise to higher roasts and exotic single-origin coffees," says the 2016 SCAA report.

So why are these well-documented increases in consumer demand across virtually all age and gender groups being acted upon so slowly by some segments of the hospitality industry? It is worth your time and investment to review this additional revenue source?

Clearly a more 18 percent increase in the market for specialty coffee over the past four years across all segments of the hospitality industry—retails, hotels, restaurants, conventions, resorts, hotels, hospitals and other institutions—indicates a clear willingness to pay into the industry's slim profit margin for cost of goods. But what owners should consider are the potential opportunities emerging over the next four years or more.

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Peerless Coffee & Tea recently introduced nitro cold-brew at Pebble Beach Resort, including a nitro cold-brew cart that serves players on the golf course. Photo by Joann Dost



Peerless Coffee & Tea sales manager Bill Longfield trains barista Jake Glennon on latte art at a Pasea Hotel Blend cafe. | Photo courtesy of Peerless Coffee & Tea

“Both men and women, especially millennials, are looking for more flavorful coffee, giving rise to lighter roasts and exotic single-origin coffees,” states the 2015 SCAA report.

So why are these well-documented increases in consumer demand across virtually all age and gender groups being acted upon so slowly by some segments of the hospitality industry? Is it worth your time and investment to pursue this additional revenue stream?

Clearly, a mere 14 percent increase in the market for specialty coffee over the past four years across all segments of the hospitality industry—which includes restaurants, universities, resorts, hotels, hospitals and other institutions—indicates a slow willingness to cut into the industry’s slim profit margin for cost of goods. But what roasters should consider are the potential opportunities emerging over the next four years or more.

As the hospitality industry overall is being impacted by consumer demand for high-quality coffee, explosive growth in upgrading

to specialty coffee service is forecasted for all segments of the market. There are a number of ways for roasters of varying sizes to capitalize on this inevitable expansion.

The three most common ways a roaster can sell coffee profitably to the hospitality industry without a distributor include:

- The “full-service hospitality roaster” model, in which the roaster provides financial resources, staff, and brewing and espresso equipment, and has national service partners to seek business nationwide.
- The local “just-in-time” equipment investment with a service partner model.
- The coffee-only model.

Full-Service Hospitality vs. Wholesale Roasting

Traditional wholesale coffeehouse roasters benefit from relatively high coffee sales with limited expenses other than batch brewers and training support. With such a limited upfront investment, the relationship typically can

become profitable within the first two months of service. In many cases, a handshake deal is sufficient to seal a non-contractual agreement between the roaster and retailer.

On the other hand, most large hospitality customers require multiple brewers, grinders and often espresso machines delivered upfront, along with 24/7 equipment service support. Hotel and resort clients also may require small-portion or single-cup products and specialized brewing equipment for in-room service, which entails separate and relatively complicated roasting, packaging and equipment processes for the roaster.

Based on the large upfront investment, the profit margins for hospitality roasting are significantly lower than for wholesale roasters serving retail coffee businesses. That investment won’t be worthwhile without a secured agreement in place. Contractual agreements typically run at least two years, with the cost of equipment and service included in the per-pound price.

Consider the following as a generalized example: The only equipment a traditional

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By developing a strong local following and a reputation for caring about the community, Rise Up Coffee Roasters owner Tim Cureton has attracted local hospitality clients without having to invest heavily in sales and marketing. | Photos courtesy of Rise Up Coffee Roasters

coffeehouse serving 150 pounds per week may require a roaster to supply could be a \$1,500 brewer, serviced and maintained by the customer. A similar volume hospitality account might require \$25,000 in equipment, paid for by the roaster before delivery, plus ongoing service costs. These costs need to be amortized over the term of the agreement for the roaster to recoup the investment. To calculate the additional cost per pound, the roaster must estimate the additional cost for the hospitality client over the contract term, then divide that amount by the estimated number of pounds to be sold to the client over that same contract period.

Roasters serving hospitality clients at this level also must consider the unexpected. What happens if a client suddenly closes or transfers ownership of the business and does not return the equipment and/or continue to honor the original contractual obligations? What if the client's forecasted coffee needs decline and, therefore, do not meet the cost of equipment for the roaster?

It's important to develop a detailed risk-management program for client financing, management of bad debt and recovery of equipment, and carefully consider the profit viability of any potential customer before entering into an agreement. Detailed contingencies—such as a minimum volume

agreement—included in a binding, transferable contract can help protect the roaster. Always consult an attorney before entering into any long-term contractual agreements.

● **Peerless Coffee & Tea: The Full-Service Hospitality Roaster Model**



Oakland, California-based Peerless Coffee & Tea has roasted exclusively for the hospitality industry since the company was founded in 1924. Like other hospitality industry roasters, most of the company's large and many of its smaller customers require significant

investments in equipment, service and on-site training.

The good news is, the hospitality industry is moving away from lowest price requests for proposals (RFPs) toward a preference for balancing price, quality and innovation. Longtime Peerless customer Pebble Beach Resorts, for example, proudly promotes its 100 percent certified-organic specialty coffees at the many restaurant, catering and in-room sites throughout the world-famous resort.

This VIP customer doesn't come at a small expense to Peerless. The roaster invests tens of thousands of dollars in equipment and service every year in an effort to maintain the brand reputation Pebble Beach patrons expect. Peerless also invests heavily into in-room brewing equipment as part of its contractual agreement, and for each PGA Tour event, the Peerless service team commonly devotes more than a week of its time to equipment service and maintenance.

Peerless account trainers meet regularly with the Pebble Beach culinary management team to create an ever-evolving, compatible coffee menu. They work closely with Pebble Beach mixologists and baristas, and have partnered with them to create new signature drinks using organic cold-brew. Recently, Peerless began delivering nitro cold-brew on

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tap, which is used in cocktails and mocktails at outdoor dining sites, as well as on beverage carts serving golfers on the course via portable nitrogen brew taps.

All of these costs—from equipment and service to training and event support to product development and collaboration with the client's food and beverage teams—must be reflected in the business proposal and itemized in the service agreement. Nothing should be left to chance at this level of business.

Peerless also serves as a full-service roaster for Pacific Hospitality Group (PHG) properties, including the group's restaurants, catering and in-room brewing operations. PHG is a premium resort property group with luxury hotels and boutique resorts in California and Hawaii. Perhaps most notable are the luxuriously branded craft coffee buildouts within these resorts called "Blend" cafes.

Bringing a relevant coffee shop experience to these boutique properties was an opportunity for Peerless to develop a consulting partnership. The team was able to assist in design updates and implementation of Blend cafes across the property group, as well as a comprehensive specialty coffee training program.

● **City Dock Coffee: The Local 'Just-in-Time' Equipment Investment with a Service Partner Model**

While City Dock Coffee of Annapolis, Maryland, is not a coffee roaster—its City Dock-branded coffee is roasted by Dillanos Coffee Roasters, based in Sumner, Washington—the company's story illustrates a relatively low-risk, affordable strategy that can be used to great advantage by roaster/retailers seeking to enter the hospitality market. With three coffeehouses and a long-established local reputation for quality, City Dock entered hospitality sales in 2005 with little initial or ongoing investment. The first step was to attract a handful of iconic local establishments as customers.

City Dock's owners approached the local yacht club, the highest-rated restaurant in Annapolis and the Annapolis Naval Base, selling its locally popular specialty coffee at a break-even price to establish references that

would help expand its hospitality business in the future. Once these highly visible local endorsements were established, City Dock was able to increase its per-pound price to ensure a reasonable profit margin and return on its equipment investment.

To keep upfront costs low, City Dock began by carrying no brewing equipment inventory and subcontracting for equipment service. Only after securing each account did the company source the equipment required, procuring new and like-new brewing equipment at a discount on eBay and through other low-cost sources.

Fast-forward to today, and City Dock's hospitality accounts make up a third of its gross sales. The company now employs one full-time brewing equipment service person and continues to seek appropriately-sized local business partners to maintain its modest equipment investment.

● **Rise Up Coffee: The Coffee Only Model**

As noted previously, chasing the hospitality industry traditionally has required a huge upfront investment from roasters in providing brewing equipment and service. Without partnering with a distributor, most specialty coffee roasters couldn't afford to enter the hospitality arena at all.

Today, however, a growing number of roasters have the brand recognition and the commitment to serving their customers and their communities to sell their coffee only to restaurants, hotels and local colleges. They do this without the financial burden of expensive equipment and service amortized over multi-

year contracts. Instead, they work with forward-thinking hospitality businesses that agree to buy their own equipment and service.

Convincing the hospitality buyer that it's in the client's best interest to buy and own its own equipment is somewhat revolutionary, considering distributors and other roasters historically have had to provide equipment along with coffee. But for roasters who have established strong brand recognition, especially in smaller markets, this approach can be worth exploring.

A good example is Rise Up Coffee Roasters headquartered in Easton, Maryland. In 2005, with a \$16,000 business loan, Rise Up owner Tim Cureton opened his first drive-thru coffee shop housed in a small trailer. That single trailer, located in a parking lot in a town with a population of 1,029, has evolved into five high-volume, profitable cafes; an active online business; and numerous profitable wholesale relationships, all "without spending any time in providing brewing equipment and service," Cureton reports.

Cureton attributes his thriving wholesale division to his business's bootstrap beginnings and an unquenchable quest for specialty coffee knowledge. Starting small, he had no choice but to require restaurants, hotels and the local college to buy and service their own brewing equipment. Cureton's community spirit and genuine care for his customers—providing a great deal of free coffee and personal time to community causes—quickly endeared him and his modest coffee business to the immediate and surrounding communities.

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With little money and big dreams, he paid his own way to visit one of the coffee origins he was serving from a local roaster. He began roasting his own coffee in 2011, and his passion for great coffee, his generous spirit and his can-do attitude became models for every staff member he added as his business grew.

"When every dollar matters, you need to actively listen and care about every customer's life. Then, surpass their expectations by being as committed to perfect preparation as sourcing perfect coffees," he says.

"Too many retail roasters don't recognize that this is not a wallet-to-purchase business, but a heart-to-heart business," he adds. "You can still have a third-wave understanding of coffee while making every customer a friend."

Relying on low- and no-cost advertising, Rise Up Coffee has developed a devout following, largely through social media and word-of-mouth marketing.

"The ability to tell our story of being 100 percent organic and 100 percent fair trade further underscored how Rise Up not only cares about our customers and community, but also our carbon footprint and needs of

the impoverished global coffee community," Cureton says.

Because of this strong local brand recognition, restaurant owners and hotel and college food and beverage managers have sought out Rise Up Coffee without the company having to make overt sales pitches. In fact, the company has its own criteria for accepting customers, as detailed on its website: "Rise Up Coffee only partners with like-minded businesses. We're a company built upon service to others and experiences. That said, our wholesale partners must share our values and passion for delivering nothing less than a 'Wow' level coffee experience!"

Hotel Coffee Service: A Changing Landscape

Another example of how hospitality roasting is evolving in favor of specialty coffee comes from Seattle's Victrola Coffee Roasters. For years, the company has worked with wholesale customers that required brewing equipment and service contracts along with extensive and ongoing training. In the past two years,

however, many of its largest wholesale accounts have been willing to buy only the coffee, the program concept and the ongoing training.

"All hotels we have worked with that were serious about stepping up to specialty coffee have been willing to invest in their own equipment and service," says Joshua Boyt, Victrola's director of sales and marketing. "They have also been willing to pay whatever is necessary to serve an exceptional and hotel-brand-enhancing coffee."

In years past, coffee was little more than an afterthought in the hotel setting. Hotel guests would find an airport of warmish brown caffeine parked next to the breakfast bar, or a bag of mystery grounds next to a cheap plastic brewer in their room. This has been the case even in many of the most expensive hotels in America.

Today, however, both boutique and large hotel chains are realizing this wake-up beverage is much more than an afterthought for their guests. Because of this, a growing number of hotel chains are making bold moves to switch from large, national brands or generic coffees to invest in craft coffee, and they're paying for their own equipment and service.

One such brand is Red Lion Hotels Corporation (RLHC). Seeing quality coffee as a brand-enhancing opportunity, Red Lion reached out to a number of well-known specialty coffee roasters in the Pacific Northwest to dramatically improve its customer experience. Most of these roasters didn't even return the company's call. There was an assumption that the 1950s-born chain was trolling for great coffee at a cheap price, with a massive amount of brewing equipment and service included.

Victrola Coffee did return the call, eventually landing what is now one of its largest accounts, with no upfront equipment or service costs. What the other roasters didn't realize was, the chain's leadership had a strong vision to "own coffee" in the hotel hospitality segment, according to RLHC CEO Greg Mount.

"Coffee is one of the important pillars to an aggressive brand refresh," Mount says. "This

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As part of its new upscale brand, Hotel RL, Red Lion Hotels has taken the coffee brewer out of the guest room and instead provides overnight guests with a complimentary beverage each morning at the lobby coffee bar, operated by Seattle's Victrola Coffee Roasters. | Photo courtesy of RLHC

refresh to Victrola's craft coffee is being paired with upgraded soap, linens and televisions."

While Mount's vision is to become current with the coffee offerings across all Red Lion brands, the company also was set to announce the launch of a new concept called Hotel RL that would push the boundaries of the Red Lion Hotel coffee experience. Sparing no expense, Hotel RL is focused on bringing people out of their rooms and into the spacious, contemporary and relaxing lobby to enjoy a "fully immersive shared experience with a third-wave coffee bar at its center," Mount explains. "There are no coffee brewers in the RL guest rooms. Instead, each guest is awarded a complimentary Victrola coffee beverage at the lobby coffee bar with each night's stay."

When guests enter the hotel coffee bar, they are greeted as VIPs, with a menu that includes all the familiar coffeehouse espresso beverage options along with cold-brew from an Oji drip tower and pour-overs of award-winning, seasonal single-origin offerings.

The first Hotel RL opened in Baltimore in August 2015, with others opening in select locations across the country. To bring Red Lion's current properties up to specialty standards, every hotel in the corporation has adopted a commitment to freshness, with all coffees freshly roasted, ground on demand and brewed fresh.

Getting Started

As an established retail or wholesale roaster, now may be the perfect time to explore expanding your business into the hospitality arena. One of the most cost-effective ways to enter the hospitality market is to follow the "just-in-time" equipment investment with a service partner model used by City Dock, detailed on page 58. In this model, the company seeks out local VIP accounts, securing a few iconic businesses to establish a reputation in the hospitality field. As was the case for City Dock, these initial contracts can be approached with a break-even strategy, if necessary.

Before you seek out these prestigious, confidence-building accounts, consider sourcing a seasoned espresso machine and brewer repair person with a positive and engaging personality. While you will be competing with a local distributor, you can make your mark by providing more personal care and service. Once you have two or three high-visibility businesses to provide testimonials for your company, you'll be able to expand your customer base—and raise your per-pound price, if necessary—to cover the costs of your service employee and additional brewing equipment.

Before you decide to enter the hospitality market, make sure your company is financially stable enough to invest in long-term profitability, whether that involves the high upfront costs of equipment and service contracts, or the potential for securing your initial client base at a break-even price point to establish your company in the market. Most hospitality clients also rely on their roasting partners for coffee-related knowledge and onsite training. This is where a business-building consulting role can be mutually profitable and will sustain a positive long-term relationship.



LON LAFLAMME serves as a marketing consultant for Peerless Coffee & Tea. He has worked in marketing communications for several decades and has received numerous regional and national awards in advertising and public relations. He is the former CEO of the marketing communications firm Evans Group, was a marketing/national sales consultant for Dillanos Coffee Roasters, and has authored three craft coffee business books as well as seven fiction novels.

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