

REGIONAL GROWTH CHAINS

Calif.'s It's a Grind promotes quality, comfort in crowded coffee segment

By Lisa Jennings

LONG BEACH, CALIF. — Marty Cox opened the first It's a Grind coffeehouse here in 1995 with the goal of finding a new career after spending years as an office-supply sales representative.

Now that his company is operating and franchising 87 It's a Grind units — with plans to reach 135 by the year's end — Cox has a much more ambitious goal for the Long Beach-based company: becoming the No. 2 coffeehouse player in the United States.

Seattle-based Starbucks, with nearly 8,000 units in the United States and more than 3,200 overseas, remains the gorilla of the coffeehouse segment, but the number of regional chains vying for the distant No. 2 slot is becoming increasingly crowded. Minneapolis-based Caribou Coffee, with 402 units, currently holds that position and plans to open 105 to 120 units by the end of 2006, most of which will be company-owned.

Not far behind is Los Angeles-based The Coffee Bean & Tea Leaf, with 315 units worldwide, which recently announced plans to offer coffees and other beverages at Ralph's grocery store in-house cafes. Coffee Beanery, based in Flushing, Mich., has more than 200 locations, as does Diedrich Coffee Inc., based in Irvine, Calif., which includes the Diedrich, Gloria Jean's and Coffee People brands. Dutch Bros. Coffee, based in Grants Pass, Ore., has roughly 80 units open and also is planning rapid growth.

Still, observers say up-and-coming regional players like It's a Grind have a good chance at moving up the ranks.

"There is no dominant successor to Starbucks," says Andrew Hetzel, founder of Cafemakers LLC, based in Waimea, Hawaii, a retail-coffeehouse consulting firm. "The market is wide open at this point for anyone who is gunning to be No. 2."

Starbucks represents a relatively small portion of the \$11 billion specialty coffee market, Hetzel said. The global chain is taking the "fast food" approach, offering a powerful brand with strong consistency, but the product is "mediocre," he says.

Companies like It's a Grind offer a higher-end alternative: a better cup of coffee, more variety of flavors, and a more welcoming and comfortable atmosphere, he added.

Cox and his wife, Louise Montgomery, decided to open It's a Grind after experiencing poor service at another Long Beach coffeehouse. "I felt like we could do it better," he says.

Within five years, Cox had five

units in the Long Beach area, and the brand attracted the interest of franchise expert Steve Shoeman, now chief executive, who had founded the quick-service franchise company All American Hero.

In 2000, Cox formed a parent company called IAG Coffee Franchise LLC, and the It's a Grind chain took off.

The concept hasn't changed since the early days, Cox says. It's a Grind offers high-quality micro-roasted, ground-to-brew coffees from around the world in a comfortable atmosphere with wingback chairs, wireless Internet access and hand-selected music. Some units have fireplaces and live music. A kids' area offers puzzles and games.

Guests order at the counter, but drinks are brought to them once they are seated. "We'll even toast your bagel and put cream cheese on it for you," Cox says. "We're not like those places that give you cream cheese in a little tub and a plastic knife."

The goal is to establish stores as community gathering spots. Not only does the company seek out operators who are warm and hospitable by nature, Cox says,



they also train franchisees in relationship building — from simply remembering customers' names and drink preferences to getting involved in local charities and neighborhood groups.

Espresso-based hot drinks are the top sellers, but the company also does well with both hot and cold seasonal offers. This summer, for example, the chain is offering a coconut-flavored ice-blended coffee drink called Coconut Crunch, the chain's most popular summer promotion, for the third year in a row.

There are five corporate-owned units of It's a Grind and another five planned over the next two years. But growth for the brand will focus primarily on franchising, with about 100 units scheduled to open each year over the next five years.



It's a Grind, an 87-unit, Long Beach, Calif.-based chain, seeks to offer high-quality coffee in a comfortable atmosphere with wingback chairs and wireless Internet. Some units also feature fireplaces and live music.

"I don't see It's a Grind becoming the No. 2 chain anytime soon," Hulkower says. But he notes that the brand does tap into the top five factors that are important to Americans in choosing a coffeehouse: taste, location/convenience, friendliness of the staff, greater varieties of flavors and convenient parking.

For now, Hulkower sees plenty of growth opportunities in the coffeehouse segment. By 2008, however, he predicts there will be less room for growth — not because of a drop in demand, but because chains will have a harder time finding good locations.

company is looking to beef up sales of whole beans and baked goods, which includes bagels and pastries.

One marketing effort that has helped improve the brand's name recognition nationally is prominent placement on the cable television series "Weeds," which includes scenes shot at an It's a Grind unit.

Still, notes Bill Hulkower, a Los Angeles-based market analyst for research firm Mintel International in Chicago, It's a Grind has some pretty stiff competition among other regional coffeehouse chains, most of which are also rapidly expanding.

Some, such as the 113-unit Peet's Coffee & Tea based in Berkeley, Calif., have built brand recognition through grocery store sales and wholesale accounts. Others are co-branding, as Coffee Beanery has done with Cinnabon in some units.

Speed of service will increasingly become an important factor, Hulkower adds, and coffeehouse operators will be forced to offer something unique "to convince people to drive or walk out of their way for a cup of coffee."

Hetzel of Cafemakers disagrees, however, saying the potential for the coffeehouse segment in the United States will grow as Americans develop a more educated palate for quality coffee.

Giants like Starbucks have a symbiotic relationship with regional chains and independent coffeehouse operators, he contends. Each serves a different niche within the segment.

In fact, Hetzel recommends that chain and independent coffeehouse operators, including It's a Grind, look for locations near Starbucks units.

"Our independent and small-chain coffee shop clients on the mainland and elsewhere in the U.S. find their business increases between 10 [percent] to 20 percent annually" as a result of a Starbucks opening nearby, he says.

"Starbucks educates the local population," Hetzel adds. Once people get into the habit of coffee consumption, higher-end brands can find opportunities to show those coffee drinkers "how it should be done." ■

CHAIN FACTS

NAME: It's a Grind
HEADQUARTERS: Long Beach, Calif.
MARKET SEGMENT: coffeehouse
MENU: espresso, coffee, baked goods
TOTAL NO. OF UNITS: 87
SYSTEMWIDE SALES: undisclosed
LEADERSHIP: chief executive Steve Shoeman and founders Marty Cox and Louise Montgomery
YEAR FOUNDED: 1995