

FCSI WHITEPAPERS



**Full steam ahead:
analyzing the rise
of the worldwide
coffee sector**

The coffee sector has moved at a rapid pace in the last decade, as consumption moves beyond the coffee shop and new technology brings innovation to transform the market

Since first emerging from the Ethiopian highlands hundreds of years ago, coffee has grown to become the world's most popular beverage.

Today it is a \$10bn industry in the US alone, according to the National Coffee Association of United States, which estimates that about 62% of the country's adults consumed at least one cup every day in 2020, while coffee consumption is up by 5% since 2015.

This is a genuinely global story. Nordic countries top the table of the world's biggest coffee drinkers, with citizens in Finland each consuming 12 kilos a year.

Countries across the world, from China to Brazil, have witnessed double-digit growth in consumption. Luckin Coffee, a Chinese coffee chain and major competitor to Starbucks raised over \$200bn in June 2018, signifying the rise of Asian companies in a space traditionally dominated by the Americas.

The rise of coffee has opened the market to everybody from farmers and producers to operators and equipment manufacturers while those in the technology space have seen the opportunity for automation.

INTRODUCTION

The evolution of coffee can be neatly divided into different phases, or waves as these are commonly known, referencing the milestones in the development of coffee as a product and a trend.

The first wave takes us back to the 1800s when coffee started to become commercialized in the western world; and we skip ahead to the early 1970s for the second wave when Starbucks opened its first coffee store in Seattle.

And Starbucks seems a meaningful brand to start with when considering the coffee landscape of 2021; it is perhaps the most influential brand to drive coffee culture as we know it today.

Karen Malody FCSI, the founder and president of foodservice consultancy Culinary Options in Portland, Oregon, explains that there had always been a strong coffee culture in Seattle, but Starbucks moved on to develop and promote the



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Coffee is positioned prominently in the Samsung store in London, UK

concept of the ‘third space’ and in doing so revolutionized the idea that the coffee house was an extension of the home. This concept quickly spread beyond Seattle, first to the rest of the US and then across the world.

Malody played a major part in Starbucks’s years of exponential growth in the early to mid-1990s. “The mantra was ‘2,000 by the year 2,000,’” she recalls.

Initially hired as director of specialty projects – the first of which was to help conceptualize a Grand Caffe – her role later evolved into director of food & beverage. “During that time my team developed the Frappuccino and I subsequently became director of product development, tasked with leading a team in developing all of the gold standards recipes for bakeries around the US to follow,” she explains.”

Now, with more than 32,000 stores across the world, Starbucks also popularized a new language around coffee – words including tall, venti, half-caff to describe preference – and arguably set in motion the trend for customization with extra shots and flavor options.

“The ability, we see today, to choose what style of milk, what size of drink and what flavors to include came into strong play as a result of Starbucks,” says Malody.

“I would go so far as to say that with their current international presence as well as nationally, that the world tends to use the coffee language that was put into play by Starbucks.”

THE RISE OF SPECIALTY

The 2000s brought along the third wave, as specialty coffee started to force its way into the market. In cities across the world, boutique coffee shops and roasteries with a focus on provenance and quality started to gain traction. The consumer became more involved in the process; a trend that has stayed on course.

“We have seen an explosion in coffee connoisseurs – it is no longer enough for a consumer to know the type of bean they want or the country it is from,” says Mark Dempsey, consulting director of GlobalData in the UK. “They want to know specifically the farm or region it’s from or how the weather might have affected it. How it has been stored. Today everyone has their own favorite artisan coffee place where they can go in and speak to a passionate owner or manager about the process the coffee has gone through.”

Andrea Allen, co-owner of Onyx Coffe Labs in Arkansas and the winner of the best barista in the United States Barista Competition 2020 has observed this evolution of the customer up close. Having started to work in a coffee shop while she was at college she fell in love with craft coffee and went on to open her own coffee shop with her husband in 2012.



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Innovation in the coffee market has gathered pace as the consumer becomes more knowledgeable

“The market has changed tremendously since I started. Coffees are sourced back to the original coffee producer, they are cultivated for their variety and their flavor potential, and the specialty market as a whole has exploded,” she says. “It has taken hold across the world, becoming incredibly popular across Asia, which has changed the landscape for specialty coffee as a whole.”

If coffee as a market is a macro trend in foodservice, Dempsey has observed several micro trends within this picture. Building on from the customization of coffee, he refers to what he calls ‘super specificity’, with the stand-out element today found in plant-based milks.

“Brands like Oatley and Alpro introduced milk products based on soy and rice, but now the consumer wants to have their coffee with the milks that is the most relevant for that coffee, so we have plant-based milk providers creating products specifically for artisan houses where they are using hazelnut milks or macadamia milks because they froth better, like a cow’s milk,” he says.

“You have this emergence of the coffee consumer who wants their latte customized in a certain way or made with a certain bean or roasting technique, and on top of that we see this real macro trend for plant-based and that is merging with the broader theme of ethics and sustainability.”

He compares the process that coffee is going through now to that of wine. “Wine consumers go through a similar process when choosing their drink – they know they want a certain grape, for example Zinfandel or Merlot, but it makes a difference the country it comes from and the process it has gone through. They know that,” he says. “Coffee is on the exact same journey.”

Dempsey refers to what he calls the educated consumer. “They have access to incredible amounts of information, immediately on their smartphone, they can educate themselves about the health and wellness benefits and so on,” he says. “The generation of 18-19 year-olds today have never not known having a smartphone in their hand and being able to look up any piece of information, so that trend will continue.”

London is a prime example of a big city that has accommodated the revolution in artisan coffee houses. In the last 7-8 years many independent brands have sprung up across the capital and been welcomed by an increasingly savvy customer base.

Ricardo Rendon, who was born and grew up in the coffee regions of Colombia, launched his own brand, The Roasting Shed, in 2013. He works closely with farmers in his home country and explains that the farms have improved their working method and branding too.

“Over the years I have seen them take more interest in the processing of the coffee – the picking, the selection process, the washing and fermentation,” he says.



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Coffee beans are subjected to a more stringent selection and treatment process to meet demands

At The Roasting Shed he rotates different beans and roasts and says coffee customers are interested in experimenting, trying new flavors. “Coffee geeks are always looking for something that is completely out of the normal, more complex and more exotic,” he says. “The younger generations are more interested in trying different flavors and are receptive to natural coffee flavors.”

THE BUSINESS OF COFFEE, A SMARTER CONCEPT

The role of technology is playing a bigger role in coffee too. The rapid growth of preordering apps and drive-thrus is moving the market towards the next wave as it combines consistency with quality.

Automated machines such as Ella, originating in Singapore, are serving customers 24-hours a day, seven-days a week, independently of humans. According to Keith Tan, founder and CEO of Crown Digital, which provides data-driven solutions to businesses and brought Ella to the market, this is the embodiment of the fifth wave of coffee.

“The growth of chains such as Starbucks and Costa Coffee, offering consistent coffee and selling this experience of being in the third space, came before the rise of specialty coffee where you see specially trained baristas and a real focus on quality,” he explains. “The problem with that approach is that it is difficult to scale up; if it was easier, you’d see specialty shops scale up like Starbucks. To replicate the concept, operators installed the bean to cup machines, closely mimicking the barista – and that is the fourth wave.”

With Crown Digital, Tan has embraced the fifth wave. Being based in Singapore has presented unique challenges to his company. “The labor pool is shrinking very rapidly here; this is a country where there is a very high cost of living. We have been relying on foreign labor from countries like Malaysia who are willing to take the longer hours and the lower wages,” he says. “But there is a huge hiring challenge, many who come in are transient so when you train people, they stay with you for a very short time.”

Tan decided to invest in data and automation. “If you drink coffee every day you are looking for consistency; you don’t want any surprises. People want convenience when they go to work, so we thought about creating consistency and convenience in a scalable system,” he says.

The result is Ella, a machine that works with a mobile app allowing customers to pre-order and pick up the coffee at their own convenience. “Ella is an articulated arm that is able to make the coffee and put it into storage until the customer arrives, scans their QR code and takes their drink away,” explains Tan.

And going through the app renders useful data for the operator. “I know how often you come, what time you want your coffee and how you prefer to drink it,” says Tan. “All this data helps me with procurement and production planning.”

Tan is not suggesting that robots will take over from humans; he acknowledges that there is a space for both, but he is confident of the place in the market for Ella. “I am not trying to replace the café with the human touch; it will stay, and



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Keith Tan

The market and consumers have embraced new brewing and serving methods

I think in the age of automation it will be able to charge more. But automation has now come to a point where if you want convenience there is no need for humans,” he says. “When you are rushing to work at 8am you don’t care about the human touch, you just want your coffee and you want consistent quality.”

His automated operation works around the clock in malls and train stations. “Ella has done 2,000 cups of latte in a day – you need a whole team of baristas to come anywhere close to that,” concludes Tan.

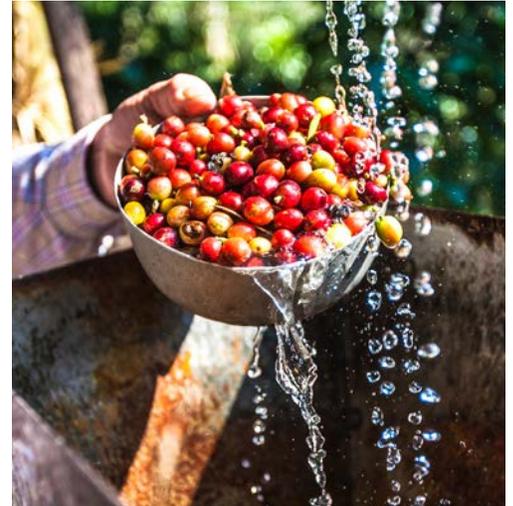
CONTINUED GROWTH

After these past years of product innovation and growth, there seems to be little to stop the development of the coffee market.

Allen from Onyx Coffee Lab predicts that the market will grow to the extent that it will become a separate culinary category instead of a bolt-on to other food programs. “The industry is certainly developed enough to start becoming evaluated by the dominant food award programs and I hope to see coffee continue to develop in restaurants and dessert programs as well,” she concludes.

Other key traits from current trends will become even more dominant, according to GlobalData’s Dempsey. “I expect the current trends to continue to be dominant. So, it becomes about heritage, authenticity, positive supply chain, organic products and health and wellness,” he says.

From an operating perspective, Rendon has sustainability at the top of the trends to look out for in the coffee picture. “For me as a company the important part is to know the social part of what we produce here during the year,” he says. “Sustainability is definitely a big trend in everything, including coffee. There is a story behind everything.” ■



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Coffee beans go through a process including washing, fermenting and drying before it reaches our cups

Modbar: breaking boundaries in coffee

An increasingly common sight greeting visitors to artisan coffee shops, high-end hotels and cultural establishments, is a different kind of coffee machine. Resembling a handle dispensing beer in a bar, the machine is largely concealed under the bar while the contact between server and customer is optimized.

“I like Modbar because it is like serving a pint in a bar and you can prepare the coffee in front of your guests, you don’t have the barriers. They see what you do,” says foodservice consultant Alexander Hofer FCSI of H44.TEAM in Italy.

The Modbar espresso machine has made sharing the coffee preparation process with the customer possible. It was founded by friends Aric Forbing and Corey Waldron who set out to reinvent the coffee experience.

“The idea was to create something unique, taking away all the barriers and opening up this opportunity to explain the coffee making process while showcasing it,” explains Giulia Spanio, global business development manager of Modbar.

In the first iteration the pair took a coffee machine and removed all the panels and lowered the machine into the counter. “The search was always for a way to take away the barriers and increase the dialogue with the customer,” she says.

They succeeded in designing and creating a machine that took away that barrier between the barista and the consumer and continued to evolve the design and technical specification before presenting it at a trade show where they caught the attention of a few heads of La Marzocco. The project gained speed and finance, with a name change and years of development. The official Modbar was first launched in 2013. La Marzocco provided funding to industrialize Modbar.

With the collaboration of research and development teams from La Marzocco they worked hard to bring the technical specification up to the same level as La Marzocco machines.

Says Spanio: “Today Modbar has created a name for itself, not only in the coffee industry but in design, as its modular system and elegant shape work to provide a beautiful and functional element without obstruction or compromise to the space.”



Modbar has changed the coffee experience, removing the barriers between barista and consumer

The brand is transcending the coffee shop and espresso machine industry. “We are proud of the unique products that we offer and continue to see a remarkable interest from a variety of sectors,” she says.

Today Modbar coffee machines are improving customer experiences in many venues outside the traditional coffee shop environment all over the world, from luxury hotels to art galleries and other cultural institutions.

“We have an amazing product, that performs at the same quality as the top-quality machines in the market and gives the ability to remove the barriers and be fully integrated into the counter,” says Spanio. “It’s the first and most reliable coffee machine that is modular and under the counter.” ■



FURTHER INFORMATION:

For more information about FCSI, please visit: fcsi.org

For more information about Modbar, please visit: modbar.com

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BEYOND THE COFFEE SHOP: A DIFFERENT EXPERIENCE

While independent artisan coffee shops have continued to spring up and gained traction, there has been a parallel movement in other areas of hospitality. The rise of a more educated consumer means that wherever they choose to enjoy their coffee needs to deliver an improved offer.

Hotels are a good example. “Whatever you do in life, if you are a coffee drinker the first thing you think about when you wake up is that you want a good cup of coffee,” says Nicolas de Gols, vice president, food and beverage of Accor hotel group. “When you are in a luxury hotel you want that whole experience around the coffee; you no longer just want somebody to pour a cup of American coffee.”

Alexander Hofer FCSI, CEO and senior consultant of H44.Team in South Tyrol, who works on foodservice designs of many high-end hotels agrees with this change. “If you go to a luxury resort today you will see they buy quality and expensive coffee beans, and the customer is happy to pay more for that product,” he says.

This in turn has elevated the wider coffee experience in hotels; baristas are expected to be able to explain what they are serving and make recommendations. “In a luxury hotel the coffee staff need to know what the coffee is, and they need to have a passion for the product,” says de Gols. “In the past the customer would drink a coffee, but they wouldn’t ask any questions about where the coffee came from or how it was roasted. Today they are more curious, and they know more.”

The equipment is key to this experience, he adds. “It is the most important part, you need precision in measures and temperatures to ensure that you serve the perfect product,” he says. “We are seeing a trend for an increasing desire to be involved with the process. The user wants to be a part of the show. When you walk into a coffee shop often you see the roasting process taking place in the back. The drinker wants to be involved in the whole process of the coffee they choose to drink.”

Modbar equipment has found a home in modern and elegant coffee shops