

Allegra PROJECT CAFE EUROPE 13

Executive Summary - November 2013



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This report has been produced under significant time constraints to ensure that the information contained is as up-to-date as possible.

Great care has been taken to ensure that all information contained in this report is accurate, free from bias, and fully describes the latest developments in the European coffee shop market, as of October 2013.

However, Allegra Strategies can accept no responsibility for any investment decision made on the basis of this information or for any omissions or inaccuracies that may be contained in this report.

This report has been produced in good faith and independently of any operator or supplier to the industry. We trust that it will be of significant value to all readers.

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Introduction and Background

INTRODUCTION

Project Café13 Europe is Allegra's definitive annual study on the growing and dynamic European branded coffee shop market. It draws on several years of in-depth research and is widely regarded as the bible of the coffee sector.

Project Café13 helps industry stakeholders and investors understand the social and economic contributions of the branded coffee shop industry in 23 key European countries including Germany, France, Italy, Spain, Czech Republic, Poland and the UK.*

KEY AREAS

- Branded coffee shop market developments in each European country
- Drivers and inhibitors of growth
- Profile and growth plans of key coffee shop players within each market
- Key success factors for coffee operators
- Consumer coffee consumption patterns in coffee shops
- Comparison of coffee beverage prices across Europe



METHODOLOGY

- 289 in-depth interviews with industry leaders and 65 telephone interviews, including CEOs and Managing Directors of the major coffee chains, key suppliers, industry associations and other industry participants
- Extensive desk research including trade press, company financials and online data sources
- Focus on the major branded coffee shop chains including: Costa Coffee, Starbucks Coffee Company, McCafé, Caffè Nero and Segafredo Zanetti Espresso

BENEFITS

- Digestible data and executive summaries for each country
- Make informed decisions based on expert insight
- Refine product and services according to market needs and consumer preferences
- Gain understanding of target clients
- Assess the impact of current mega trends on different markets
- Understand and evaluate the performance of new and existing concepts
- Better understand key competitors
- Identify new market and business development opportunities

*Countries covered in the report: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, The Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Turkey, UK

The Most Authoritative Report

Project Café13 Europe identifies the **growth and size of the European branded coffee shop market** building on insight from more than 13 years experience.

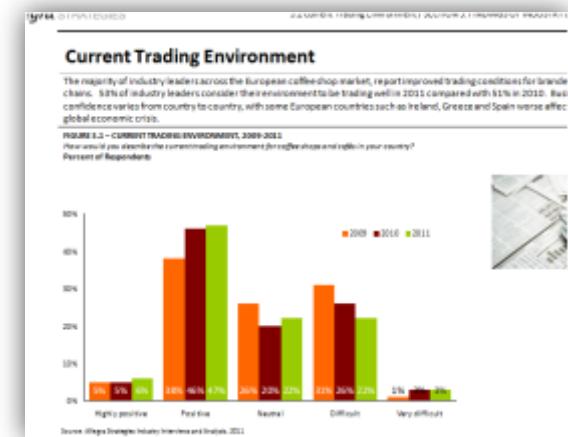
The report details the **segmentation of the market** into branded coffee operators and branded food-led operators, providing in-depth profiles of key operators.

A detailed market analysis of 23 featured markets, including critical factors such as **trading environment, like-for-like sales growth and short-term outlook for the next 12 months together with three years forecast growth.**

The analysis is based on **Allegra's insight** and the **knowledge of key industry stakeholders**, creating the most accurate information source on the European coffee shop market.

Critical trends, dynamics and challenges are identified along with the key opportunities within each market.

A detailed analysis of **changes in coffee culture, consumption trends and consumer profile** will help your company to fundamentally understand opportunities in each market. Project Café13 Europe enables your organisation to tailor its approach to the unique demands of the 23 countries featured, facilitating better informed business decisions.



Excerpts from previous reports

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MARKET SIZE AND GROWTH

- The European branded coffee shop market (23 countries) is estimated at **14,447 outlets** in October 2013
- The market grew by **3.7% p.a.** in 2013 adding 519 outlets
- The UK is the **most developed market** and **remains the flagship model** for the branded coffee shop industry, estimated at **5,404 outlets**, adding 291 in 2013
- Despite the recovering economic growth across the continent, **growth was observed in 14 out of 23 countries**
- Turkey displayed strongest percentage growth at 19.5% p.a.
- Net contraction was significant in Spain, Bulgaria, Portugal, Austria and Poland marked by the exit or net closures of weaker traditional brands
- **Primary driver of growth** was the continued investment of the **4 major chains**, Costa Coffee (1,799 outlets), McCafé (1,672), Starbucks (1,564) and Caffè Nero (601)
- The four leading brands have increased outlet share to 39% of the total chain market in 2013, from 38% in 2012

MARKET EVOLUTION

- Differential success of branded concepts across markets is driving an emerging **three tier performance model**:
 - Strong multinational brands are flourishing
 - Focused, quality domestic operators thrive
 - Weaker, traditional undifferentiated concepts are exiting markets

CONSUMER TRENDS

- Consumers **embed specialty coffee** and café culture into their **daily lifestyle**
- The **rise of premium coffee at-home** systems such as pod machines, is contributing to the **rapid adoption of higher quality coffee for consumers**

THE FUTURE MARKETPLACE

- Increasing availability of **premium coffee and experience** across a **broadening set of channels** remains the most influential trend for the next decade
- Rapidly **increasing consumer appreciation** and expectation of the **quality of coffee and food**
- **Increasing importance of milk preparation and water quality** in beverage production
- **Premium vending technology** will improve significantly across Europe
- **Payment and loyalty systems** will be **revolutionised** by introduction of new technologies
- **Genuine engagement between brands and consumers** will become more important as brands must gain consumer trust to retain market leadership above independents and non-specialists

Executive Summary – Overview

MARKET OVERVIEW

- Recovering economic growth has encouraged increased industry confidence across the European branded coffee shop industry
- The three tier performance model continues to shape the market
- **International multi-nationals** such as Costa, McCafé and Starbucks and quality **focused national chains**, such as Espresso House and Coffeeshop Company are driving growth. **Weaker, traditional chains** such as Segafredo Zanetti Espresso and Espressamente illy are struggling and continue to close stores

MARKET SIZE AND GROWTH HIGHLIGHTS

- The UK remains the **most developed** branded coffee shop market adding 291 stores to reach 5,404 in 2013 and represents **37% of the total European market**
- The **Turkish** branded coffee shop market has **shown the strongest growth of 19.5% adding 217 outlets** during 2013 to reach 1,331 stores
- **Sweden is an evolving market, with strong outlet growth of 12.7%** to reach 365 stores in 2013
- The **French** market is **emerging as an important market** in Europe, with **growth of 8.3%** to reach 550 stores. The arrival of Costa and Pret is expected to provide further market stimulus
- **Germany** has a **well established coffee shop market**, with 1,886 branded coffee shops, though faces strong competition from a thriving bakery segment and has relatively flat growth in 2013
- Spain had considerable contraction, **with 95 branded coffee shop closures** in 2013 and now has 881 outlets

KEY PLAYERS

- **Costa Coffee leads** in Europe, with 1,799 outlets across 9 countries. Rapid expansion adding 176 outlets maintains its share of 12.5% of the market. Costa entered two new markets during 2013, France and Spain, and exited Greece
- **McCafé added** 93 outlets to reach 1,672 across 16 countries
- Global chain, **Starbucks**, trades from 1,564 outlets across 21 countries, opening 93 stores in the last year

- **Caffè Nero** added 63 stores and trades from 601 in 3 countries
- Traditional **Italian-style coffee shops** are **struggling** against the wave of lifestyle coffee shops across Europe, with **weaker brands closing stores**
- Of the Top 100 brands, **34 chains declined in outlets**, including Segafredo Zanetti closing 43 stores and Il Café di Roma closing 22 stores

CONSUMER TRENDS, KEY SUCCESS FACTORS AND CHALLENGES

- The enduring consumer trend continues to be the **growth of specialty coffee culture**
- Consumers refuse to give up their affordable daily treat, embedding coffee as part of their social lifestyles
- **Price consciousness is now entrenched** regardless of economic growth
- The most critical factors for a successful coffee shop is to offer **quality coffee in a high footfall location**. While trends across Europe differ depending on the prevailing coffee culture, these **two factors are consistent across every country**

FUTURE OUTLOOK AND TRENDS

- **Opportunities for growth** in brand embracing markets include **Turkey, France, The Netherlands and Scandinavia** where existing international chains are influencing the expansion and emergence of domestic brands
- **Rapidly increasing availability** of premium specialty coffee and in-store experience across a **broadening set of channels** is the most influential trend over the next decade
- **Premium vending technology will improve** significantly across Europe
- **Growing diversity of beverage choice and brewing techniques**
- More sophisticated **science in coffee preparation and delivery from bean to cup** drive changes across the supply chain
- **Increasing importance of milk preparation and water quality** in beverage production
- **Payment and loyalty systems** will be **revolutionised** by new technologies
- **Genuine engagement between brands and consumers** will become more important as brands must gain consumer trust
- Ultimately, success is defined by brands with **motivated and passionate staff**

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Country Summary – Bulgaria

- Overall, the Bulgarian branded coffee shop market is under-developed and contracting. The market is estimated at 74 outlets in October 2013, with an annual decline of 25% over the last 12 months, with 24 outlets closing
- Lavazza sold Onda Coffee Break closing 5 of its outlets and is looking for a buyer for the remaining 7
- Modera Coffee and Kafe Bene closed outlets (3 each) and the Americano Coffee House and Caffe House Uno exited the market
- Market leader Costa Coffee added 4 outlets to operate from 20
- McCafé continues to operate from 9 outlets
- Starbucks is due to close one outlet due to expiration of lease by the end of 2013, but is reportedly working on a management plan for a new location and currently still operates from 4 stores
- Memento are still the most admired home-grown coffee-focused chain with all the interviewed experts praising their coffee offer, good locations and customer service
- New concept, artisanal food-focused Green Deli Cafe has added 2 outlets to operate 3 in total, all in the capital
- New players predicted to survive or even grow in the current economic instability are all food-focused, some are bakeries. All of them offer good quality coffee alongside a wide variety of food
- The average prices of a medium cappuccino, latte and single espresso have all declined in 2013. Medium cappuccino and latte averages at €1.63 and €1.61, declining by 1% and 4% respectively. A single espresso is among the lowest priced in Europe at €0.96, decreasing in price by 3%
- Estimated at 3.1 kg per year, Bulgarians are among the lowest consumers of coffee per capita in Europe
- The majority of industry leaders are reporting a challenging trading environment in 2013 which is expected to remain the same in the short term. The decline in consumer spending continues to have a negative impact on like-for-like sales
- Coffee quality and good location is of high importance to branded coffee shops in Bulgaria. As demand for value for money increases, operators must ensure they offer more than coffee in order to retain custom. Successful operators have a diversified food range, tailored to the taste of the local population
- Bulgarians have cut their spending when visiting coffee shops and when they go out they are on the lookout for promotions and special deals. Pressures on disposable income are driving consumers to downgrade to cheaper coffee alternatives
- The smoking ban is continuing to be a controversial issue, greatly influencing the sector and has caused significant difficulties for coffee shops during 2013. Consumers enjoy smoking while socialising and drinking a coffee, the inability to do this indoors is expected to severely impact visit frequency as the weather gets colder
- The majority of industry leaders agree that take-away coffee is becoming popular, albeit with limited growth. Influenced by the international branded chains, it is less common in the food-focused operators or independents
- The industry is split regarding the potential for growth of branded chains within Bulgaria. While chains are seen as a safer business model with a higher resistance to economic fluctuations, the market is considered too small for significant further growth. Until the economy improves, the market will remain flat, with the likelihood of weaker chains exiting
- Following strong growth from a small base between 2009 and 2013 (CAGR 7.2%), the branded coffee shop market in Bulgaria is forecast to falter. A slower growth of 2.6% p.a. is estimated over the next 5 years with 84 outlets expected by 2018

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Pricing



An example of Split-Screen functionality on the Interactive ProjectCafé11 Europe

Project Café13 Europe is available in four options to suit the size of your organisation; with a standard PDF format, or in Allegra Interactive format which provides your company with even greater flexibility.

FORMAT	LICENCE	COST
Hard Copy	1 User Licence	GBP 4,000
PDF	3 User Licences	GBP 4,500
Allegra Interactive	3 User Licences	GBP 6,000
Allegra Interactive	5 User Licences	GBP 7,500

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