

McDonald's McCafé Takes Aim at Starbucks in Europe

Low-cost expansion is helping McDonald's vie with Starbucks as the Continent's No. 1 coffee chain

By Leona Liu



McDonald's Trafani in a Paris McCafé, where lower prices are helping to nab Starbucks loyalists Ed Alcock

PARIS — The Left Bank café is furnished with sleek wood paneling and leather armchairs. Patrons sip espresso from china cups and nibble on croissants and pastries. So what are those golden arches doing on the sign outside the door?

The coffee shop on rue Linois is one of 200 "McCafés" McDonald's is opening in Europe this year. By yearend, McDonald's (MCD) hopes to have some 1,100 of the cafés across Europe. The cafés are located inside existing restaurants but with a separate counter, comfy furnishings, and nary a Big Mac in sight. Next year, the company plans 200 more, with an eye toward becoming "the No. 1 coffee seller in Europe," says Jerome Tafani, the company's chief financial officer for the region.

That's a grande order. Starbucks (SBUX) is currently Europe's top coffee chain with nearly 1,200 stores. But McDonald's strategy of opening McCafés in existing franchises gives it a leg up over the Seattle-based java king. A stand-alone Starbucks in Europe requires an investment of \$350,000-plus, at least triple what a McCafé costs, says Jeffrey Young, managing director of London management consultancy Allegra Strategies. "McDonald's finally woke up and smelled the coffee," says Young. "With the number of outlets it already has in place, it can take Starbucks head-on."

McDonald's is rushing to grab market share where Starbucks has hesitated. While Starbucks continues to avoid Italy, for instance, McDonald's opened its first Italian

McCafé in Milan in 2005. Today it has 65 of them across the country. And McDonald's is undercutting Starbucks on price. At McCafés in Paris, an espresso costs \$2.50, vs. \$2.80 at Starbucks.

That's not to say you'll find McCafés everywhere. In Britain, where Starbucks has 700-plus stores, McDonald's has no plans for McCafés. And while all 13,900 U.S. McDonald's outlets now sell McCafé coffees, the company isn't building separate café sections there, either. Since 70% of orders come from the drive-through window, franchisees don't want to install a second counter. But in Europe, where fast food is a bit slower than across the Atlantic, fewer than half of McDonald's orders are to-go.

A CAFFEINE BOOST

European franchisees like McCafés because they encourage customers to stop in for breakfast and during off-peak hours. Store revenues jump 20% to 25% after adding a new McCafé, says Michael Heinritzi, McDonald's No. 1 European franchisee, with nearly 40 stores across Germany and Austria. And the cafés increase McDonald's appeal to women. "It's impossible to bring [children] to a traditional French café," says Nelly Bourji, a Parisian who drops in at a McCafé once a week. "You can't all fit around the tiny tables." As for Starbucks, she says, "There are too many teenagers."

Bourji isn't the only Starbucks loyalist to jump ship. At a McCafé on the Autobahn near Munich, former Starbucks patron Tobias Ullmann is sipping a mocha frappé. The restaurant features a gas fireplace inside and three terraces with views of the Alps. "I always stop here on my way to Austria or Italy," says Ullmann, an insurance agent from the German city of Ingolstadt.

Still, one of the biggest challenges for McDonald's will be to shake off its fast-food image. For some, the idea of lingering in a McCafé remains unthinkable. "I don't care how good their coffee is," says Parisian Jessica Dollé, 18. "The smell when you walk into a McDonald's is so greasy, it's nauseating."