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# Coffee and other things: Coffee shop rebound

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**RaboResearch**

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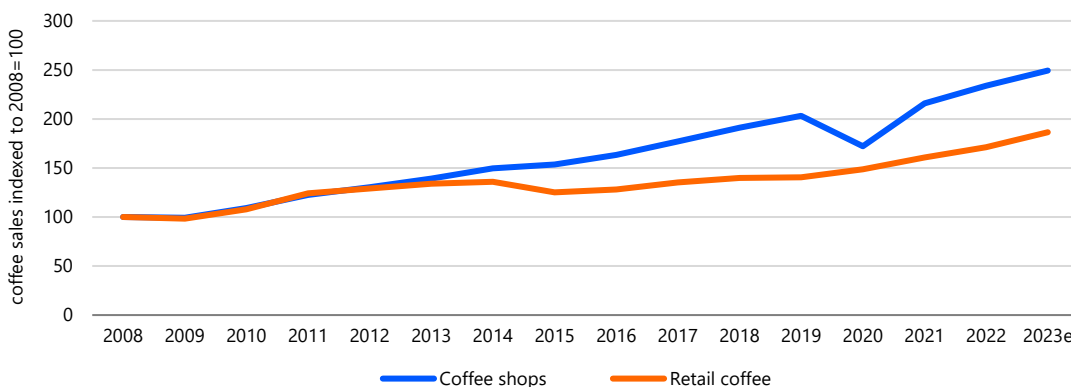
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Coffee shops have recovered from the hit to sales they suffered during the pandemic, despite economic worries and a limited return to the office. When we look at the data and the strategies driving coffee shop growth, we see it tilting in favor of larger chains, and we see significant investment opportunity.

## Positive sales data

Coffee shop sales have returned from their Covid dip, and matched the pre-Covid growth trend. Covid simply looks like a blip in the data for coffee shop growth – which itself had outpaced at-home coffee (based on scanner data).

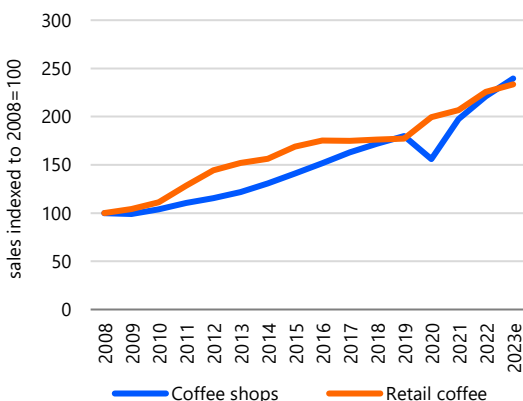
Figure 1: Global coffee shops sales above pre-Covid levels



Source: Euromonitor 2023

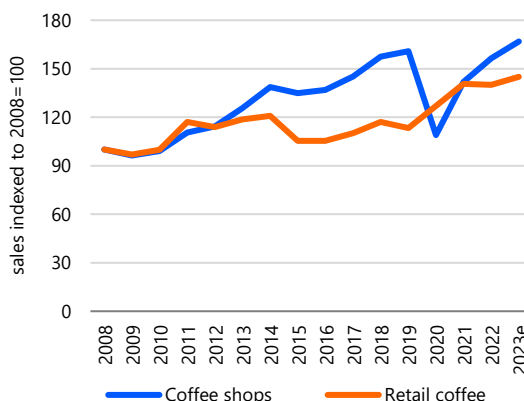
The US shows a similar growth rate and return to previous trends to what we see in the global data. Retail coffee has stayed stronger, but it is clear that coffee shops have been growing faster since 2013. In Western Europe, the recovery is not so strong, but total sales are above pre-pandemic levels.

Figure 2: US – Coffee shops vs. grocery coffee, 2008-2023e



Source: Euromonitor 2023

Figure 3: Western Europe – Coffee shops vs. grocery coffee, 2008-2023e

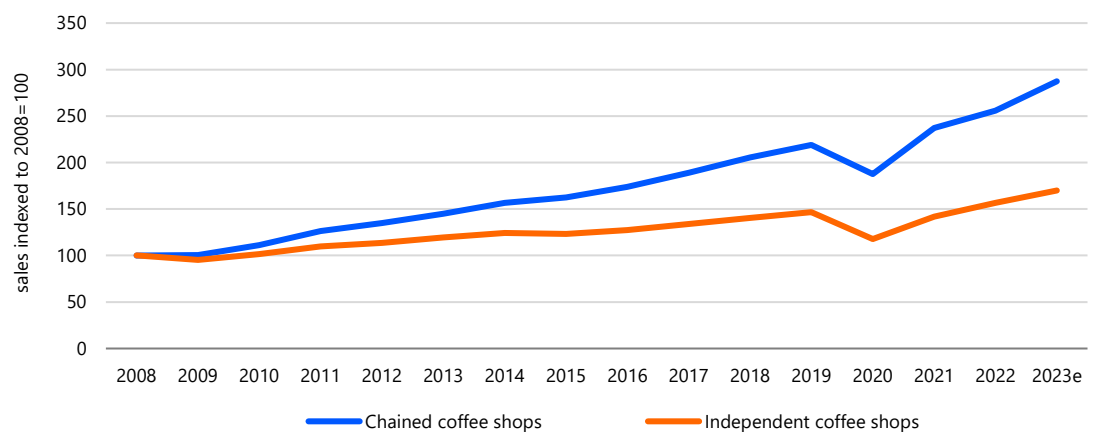


Source: Euromonitor 2023

This recovery is not all driven by a return to the office. In the US, [office occupancy is just nudging over 50%](#), which can't be enough to drive US coffee shop growth. Coffee shops have shifted focus towards residential locations, and employees working from home must be creating new consumption patterns to drive this data.

The data also show a shift in who is benefitting from consumers returning to coffee shops – we see a notable trend towards coffee shop chains versus independents. This is partially due to the financial resources of larger players – used both to withstand the drop in sales during the peak of the pandemic and to better adjust stores to meet changing consumer needs.

**Figure 4: Chain store sales outpacing independents**



Source: Euromonitor, 2023

Below, we highlight three core growth drivers for coffee shops – each being important to the rapid recovery of coffee shop sales and also to the continued shift towards coffee shop chains.

## Three drivers of coffee shop growth

### 1. Getting what you can't elsewhere

Starbucks said on their second quarter call "57% of US transactions are from our Rewards members, and what they're telling us is... they are finding a beverage they can't get anywhere else." From a "soft top" at Dutch Bros, to a Starbucks' Pumpkin Cream Cold Foam or an Iced Holiday Spice at Peet's, drinks that a typical consumer has neither the time nor resources to make at home. These specialty beverages help drive trips to the coffee shop.

Cold drinks (Starbucks reported that 75% of its drinks in the third quarter in the US were cold) and especially those with a number of added flavors/toppings allow coffee shops to shine. Chains have the ability to pursue R&D to develop new flavors and drinks, and the scale to develop the infrastructure necessary to rollout innovative drinks in a cost and time-efficient manner. We expect coffee shops to continue to benefit from making drinks that can't be made at home, and see functional benefits as a potential next avenue for this trend.

### 2. Shift to take-away stores

The shift towards drive-thru has long been in the works in the US – the IPO of Dutch Bros and the [rapid expansion of Scooter's](#) show the potential scale. This shift is all about convenience and speed of service, often aided by advance mobile ordering. While drive-thru is clearly different than a traditional coffee shop, pick-up only stores are an interesting change as it seems a mix between creating an all-new format and simply reducing the size/seating of shops while adding a pick-up section.

These new formats lend themselves to larger chains both because of their access to capital to open new types of stores and the ability to implement a robust mobile ordering platform. More broadly this is a shift away from the coffee shop as a [third place](#) (a format in which local independent shops may have more of a right to win). We believe this a trend that will continue globally: The recent USD 50m raise for [Singapore's Flash Coffee](#), and USD 40m for [Pickup Coffee in the Philippines](#) show how strong investor interest is.

### 3. Loyalty programs

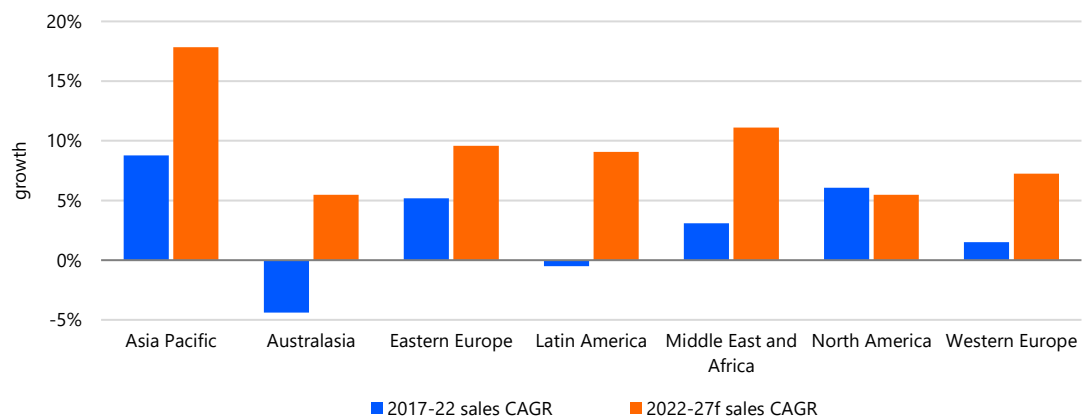
The days of a “10<sup>th</sup> coffee free” punch card are being replaced by increasingly high-tech, loyalty programs. Pret A Manger uses [a subscription service](#) to entice regular customers and has seen an uptick in users, while Peet’s generated headlines with a [disloyalty program](#) to recruit drinkers from other coffee chains. Tim Hortons went a step further, integrating a [credit card](#) into its mobile app that will give reward points for non-coffee purchases as well.

These creative programs require sophistication and investment that is only available to bigger coffee chains (without considering the further resources needed to draw consumer insights from the accumulated data). Each iteration of a more powerful loyalty program brings another customer into the ecosystem of chain coffee shops (tying in well to drive-thru/pick-up only formats).

## More expansion coming

We expect the wave of coffee shop expansions to intensify. There are plenty of [local players](#) planning significant expansions in home markets, but we see more opportunity in international expansion. We note a number of new shop opening plans in the Middle East – brands like Joe & The Juice, Pret A Manger and [Café Amazon](#) (among others) all have announced plans in Saudi Arabia and the UAE. Even a smaller chain like Black Sheep Coffee (roughly 50 stores at the beginning of 2023) signed a deal to enter the Middle East – showing there is investment available for scalable coffee companies. And this is without addressing the ongoing rush to build stores across Asia, especially in China.

Figure 5: Coffee shop sales growth per region, 2017-22 vs. 2022-27f



Source: Euromonitor, 2023

Compared to the struggling at-home segment, coffee shops are growing, so it seems the coffee consumer is trading up. More so, many of the expansion markets are low per-capita-consumption countries – where strong coffee shop brands may help build a new consumer base. We expect a continuation in big chain expansion globally and that is a good sign for the coffee industry.

# Imprint

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