Coffee Deep Dive - Waking Up to 2022

Leading coffee brands have proven to be extremely resilient to the pandemic-induced dining downturn. Americans may not have been picking up a coffee on their way to work or school, but that did not prevent them from stopping by their local coffee shop – and stop by they did. In April 2021, foot traffic data for the coffee space shows that visits have essentially returned to pre-COVID levels. And since May 2021, coffee visits have consistently outpaced 2019 numbers, while the wider dining sector continued to struggle.

Who is driving the growth? What brands are the main beneficiaries of this foot traffic increase? Are there any regional differences? And has COVID had any long-term impact at all on this space?

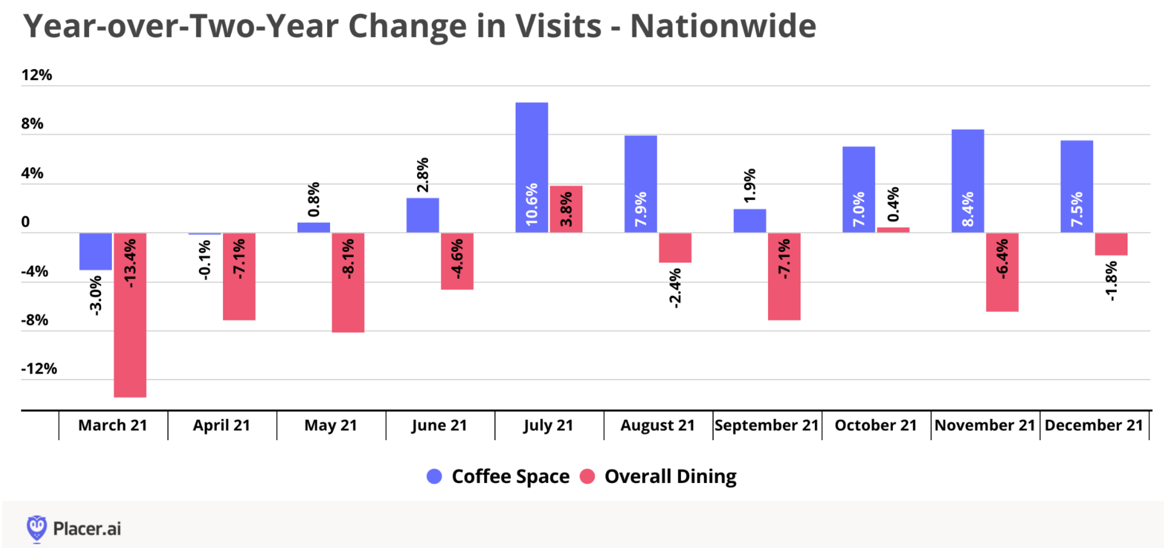
The following report answers these questions from a location analytics perspective. We will analyze various visit numbers from 2021 for the sector as a whole and break down the data by brand and region to uncover additional insights. When relevant, we will compare metrics to equivalent metrics from 2019 and 2020 to shed some light on the current coffee comeback and try and understand – what made the sector so successful in 2021? And what lies ahead for the coffee space in 2022?

A Proven Necessity During COVID

The coffee sub-sector has been booming for quite a while, even as the overall dining sector still struggles to return to its pre-pandemic visit levels. Looking at the top ten performing coffee chains showed that coffee visits were already up 2.8% year-over-two-year (Yo2Y) in June 2021, while Yo2Y dining visits nationwide remained 4.6% below June 2019 levels. More recently, the coffee space witnessed Yo2Y growth of 8.4% and 7.5% in November and December, respectively, while overall dining experienced a decline in visits of 6.4% and 1.8% in comparison to 2019.

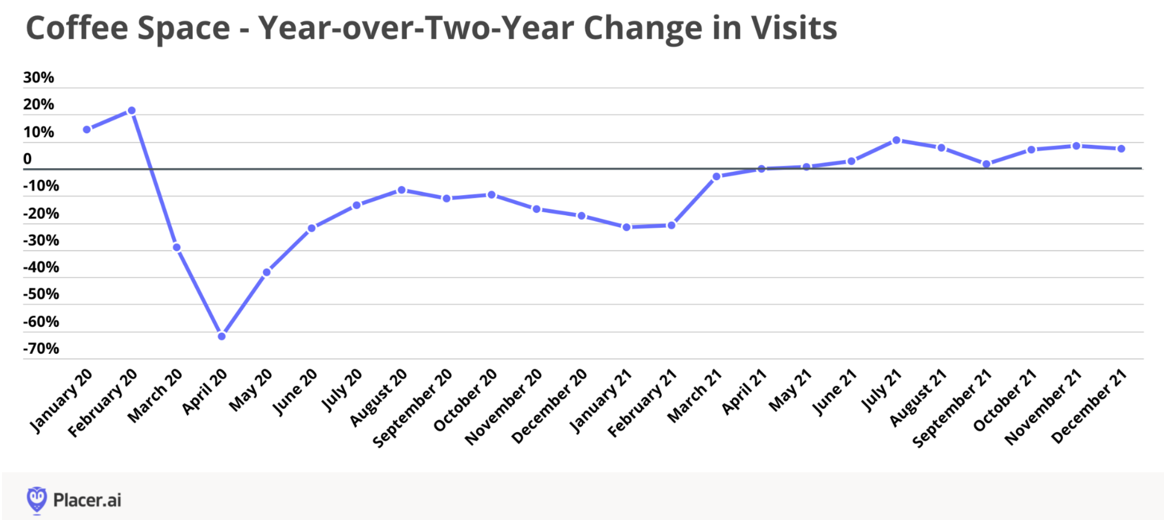
This foot traffic performance is all the more impressive given the massive disruptions to work and school that continue to persist. Prior to the pandemic, the coffee space seemed highly dependent on consumers' work-life schedules.

But despite the dramatic shifts in daily schedules and work environment, coffee visits have not only recovered – they've skyrocketed.



The numbers reveal that necessity and convenience are not the only two drivers of coffee shop foot traffic. For the many coffee-drinkers working from home, making coffee in their kitchen is no replacement for the experience of a trip to the coffee shop. It seems that, despite the substantial YoY growth in home coffee machine sales between May 2020 and May 2021, homemade coffee is only a part of the mix and many still look to the coffee served by a professional barista.

The role of coffee shops as community hubs may also be driving visits. As more people looked for ways to meet with friends and family outdoors, buying a coffee to-go and sitting on an outdoor bench transformed from a lame date idea to a popular rendezvous concept. This "third place" concept is significant not just for the short-term boost it provided, but for the long-term strength it could create in a professional context defined by hybrid work models. This may also be contributing to more extended coffee trips as visitors are making less harried stops on their way to work.



The Right Time and Place for Coffee

Coffee Seasonality

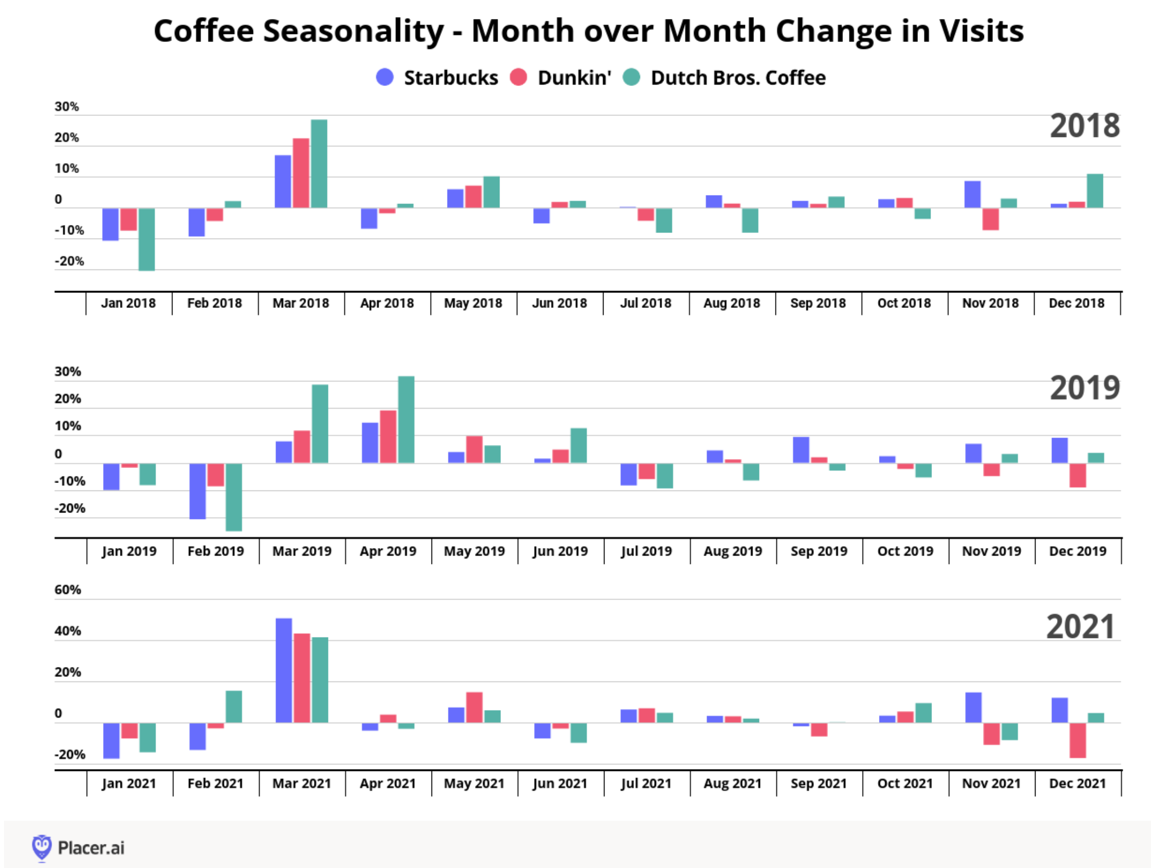
Coffee, like other retail and dining categories, has its own peak season, which is revealed by analyzing the month-over-month (MoM) change in visits to three major coffee chains through the years 2018, 2019, and 2021. (We chose to omit 2020, which was not representative due to COVID lockdowns and regulations.)

This analysis reveals that visits in March are consistently strong compared to February: March MoM visits for 2018, 2019, and 2021 were up 16.9%, 7.8%, and 50%, for Starbucks; 22.4%, 11.7%, and 43.2%, for Dunkin'; and 28.4%, 28.4%, and 41.4%, for Dutch Bros. These March peaks are much higher than would be expected based solely on the increase in days – March has around 10% more days than February – and are consistent with a seasonal pattern.

The significant increase in March visits can be explained by the leading coffee chains coming out with their spring coffee menus as the weather begins to warm up. The spring spike can also be attributed to the fact that iced coffee drinks, which often require special equipment and ingredients, are harder to make at home than hot drinks – so customers who may opt to drink their coffee in the comfort of their home during the winter head out to coffee shops when the weather heats up.

But while March – and spring in general – may drive a foot traffic increase across the coffee space, fall brings with it a more brand-specific seasonal peak. Location analytics shows that MoM visits to Starbucks rise in November and December: November MoM Starbucks visits were up 8.6%, 6.9%, and 14.6%, in the years 2018, 2019, and 2021, respectively, while foot traffic to the other chains analyzed remained more or less steady. This speaks to the success of the chain's fall menu – especially its well-known pumpkin spice latte.

Starbucks can largely be credited for creating the premium coffee chain category in the United States, and its consistent visit surge in the fall further illustrates the brand's deep understanding of marketing and human psychology. Starbucks knows how to leverage people's natural loss-aversion – FOMO, to use millennial-speak – by creating limited-edition drinks and cups, such as the now classic red cups for the holiday season, so that customers feel like they are missing out when they do not partake in the time-sensitive offering. As the coffee space continues to heat up, other brands can learn from this by creating their own special seasonal drinks and packaging to boost visits during otherwise unremarkable times.

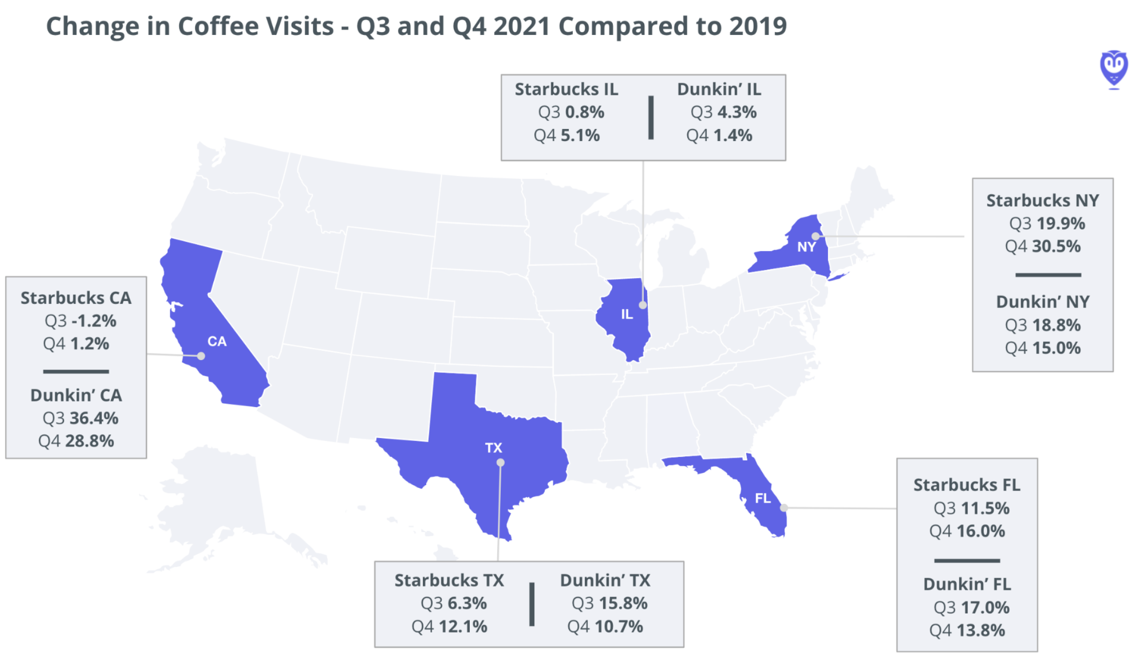


Shifts in Regional Loyalties

Although nearly every state experienced a Yo2Y increase in Q3 and Q4 coffee visits, zooming into the foot traffic data on a regional level reveals some interesting discrepancies.

Looking at Q4 2021 state-by-state visits to Starbucks, for example, shows that the brand experienced a much stronger Yo2Y growth in New York (30.5%) than it did in California (1.2%). Dunkin', on the other hand, performed exceptionally well in California, with a 28.8% Yo2Y growth in visits in Q4. In the past, Starbucks was more popular on the West Coast, while Dunkin' dominated the East Coast – but these numbers may indicate that the brands are increasingly encroaching on each other's turf.

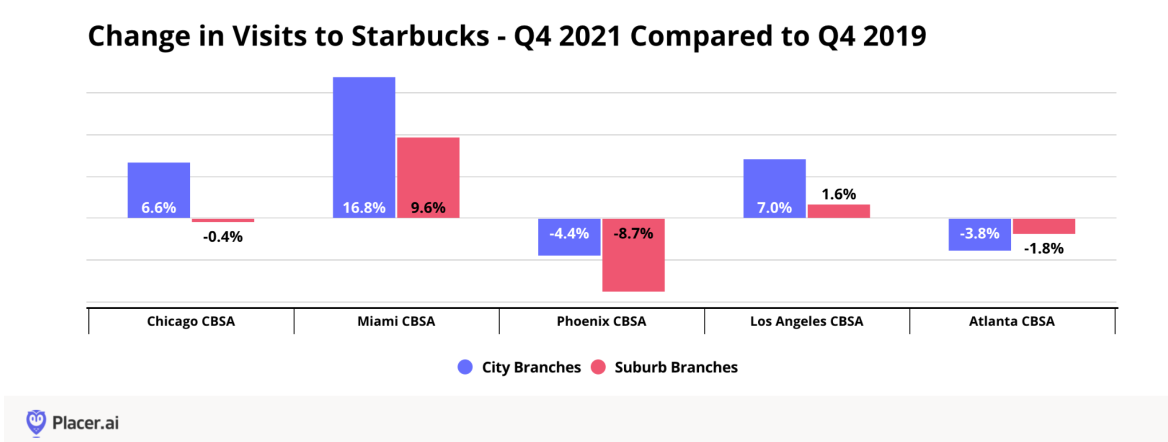
Data from Texas further illustrates that regional loyalties are becoming more dynamic. Dunkin's Q3 Yo2Y growth in the Lone Star State outperformed Starbucks – but the situation reversed in Q4, when Starbucks' increase in visits outpaced Dunkin's. This increased 'cross shopping' within the coffee sector is especially important considering the wide array of players existing in or expanding the space.



City Cafés Making a Comeback

Visit growth also varied within regions – specifically, between urban and suburban locations of the same chain. Comparing Q4 2021 to Q4 2019 visits for urban and suburban Starbucks locations in five major CBSAs highlights this distinction. In four out of five CBSAs examined, city branches performed better, on average, than suburban ones.

This is an encouraging sign for cities, as it may indicate that at least some of the people who had been working from home for much of the past year and a half are now returning to their city-based offices – and grabbing a coffee from the local Starbucks along the way. It also speaks to a potential rise in longer city visits as hybrid work environments take hold there as well.



Shifts in Coffee-Drinking Behavior Patterns

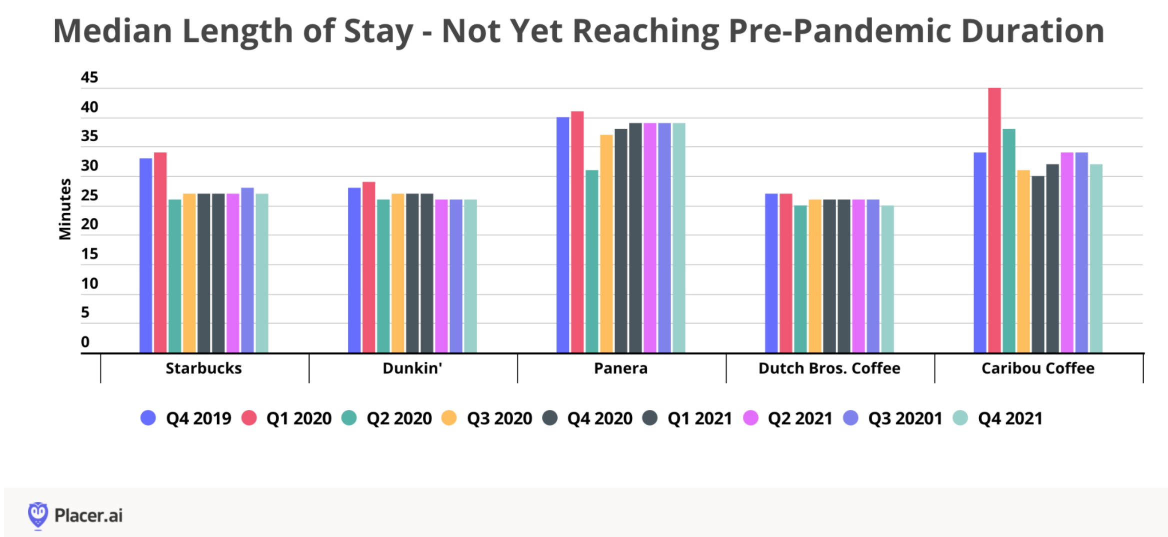
A Routine-Driven Sector?

The coffee sector's dependence on work, school, and shopping patterns was taken for granted before the pandemic. It seemed obvious that a large share of the demand for coffee outside the home was driven by consumers wanting to refuel while going about their daily routines. But coffee's surge over the past six months shows that while the category is definitely complementary to a variety of other sectors, the demand for coffee can stand alone. Still, the decoupling of the coffee space from office and school routines has affected visit patterns in a variety of ways.

Visits Remain Shorter

In Q2 2020, following the outbreak of the pandemic, many major coffee chains saw a dramatic decrease in their median length of stay. Starbucks' median length of stay decreased from 34 minutes in Q1 of 2020 to 26 minutes in Q2, Panera's from 41 minutes to 31 minutes, and Caribou Coffee from 45 minutes to 38 minutes. This is most likely due to the reality of life during a pandemic, as visitors probably preferred not to linger indoors with other strangers.

Notably, however, none of the coffee chains analyzed have seen median visits return to their pre-pandemic duration – so shorter visits and a preference for shorter visits may be here to stay. At the same time, and given the constant emergence of new variants, the persistence of shorter visits may simply reflect the fact that COVID is still with us.

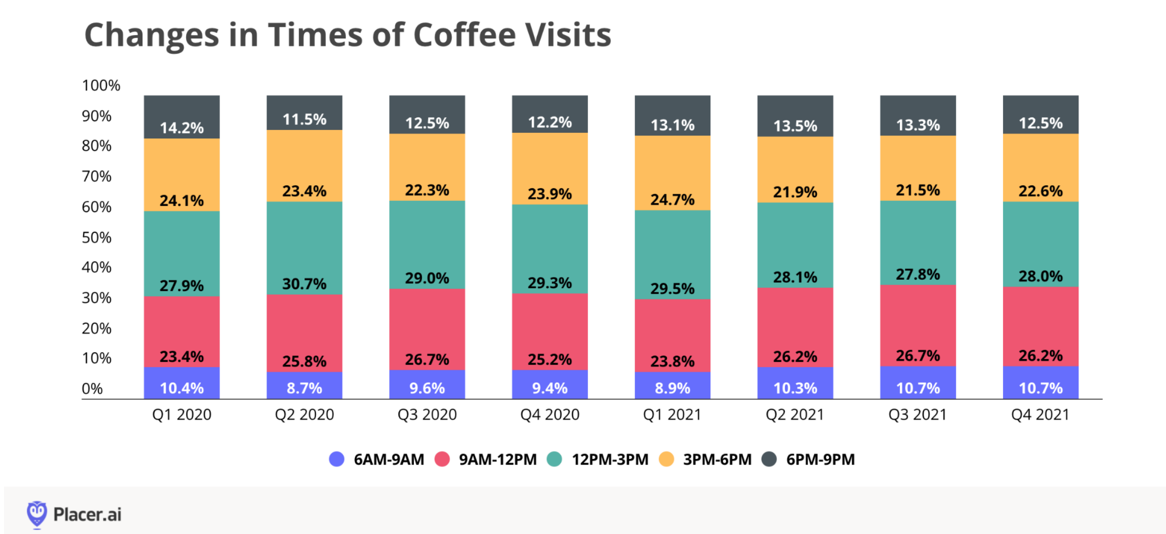


The Rise in Late Morning Visits is Lasting

Another seemingly lasting COVID-induced shift in coffee visits is the rise in late morning visits. Perhaps due to the drop in work commutes and more flexible schedules, the share of early morning coffee visits – between the hours of 6 AM and 9 AM – dropped with the onset of the pandemic in Q2 2020. A year later, however, with the partial return to the office in Q2 2021, the share of early morning visits bounced back – and has since exceeded pre-COVID levels.

On the other hand, the share of late morning visits – between 9 AM and 12 PM – increased in Q2 2020, and has remained higher than its pre-pandemic level ever since: In Q1 2020, late morning visits accounted for 23.4% of total visits, but by Q4 2021, visits between 9 AM and 12 PM accounted for 26.2% of all visits. This rise in late morning visits seems to come at the expense of visits in the late afternoon – between 3 PM and 6 PM. The proportion of these visits decreased gradually during the pandemic and has yet to return to its pre-pandemic normal.

The change in hours may have a significant impact on the experience consumers crave during their visit. Early morning coffee seekers may look for different products and a different spatial layout than late afternoon and evening ones. Coffee chains that can identify the current needs of their consumers – as opposed to catering to the needs of their pre-pandemic patrons – can gain a leg up on the competition.



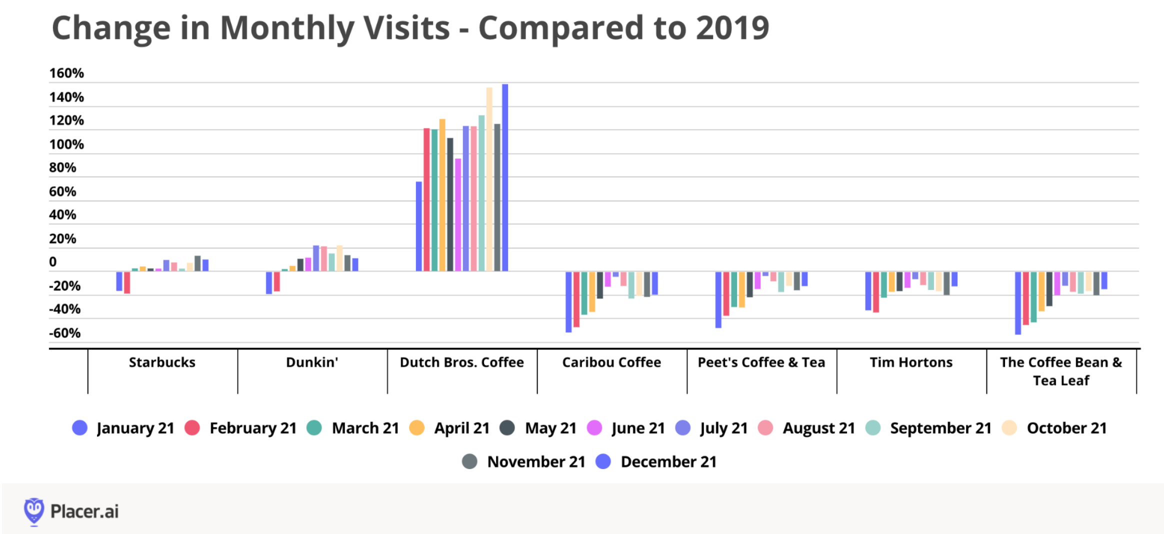
The Strongest Coffee Brands

Starbucks and Dunkin' are usually the first brands that come to mind when thinking of national coffee chains. But there are several other national coffee players, and diving into the nationwide Yo2Y visit trends of these other major brands can tell us a lot about the current balance of power within this space.

The most prominent jump in Yo2Y visits belongs to Dutch Bros. Coffee. The Oregon-based company has expanded its reach from around 250 stores to almost 500 stores in the past five and a half years, and plans to reach 800 locations by 2026. The brand's astronomical rise can be attributed to its significant expansion both to new markets and within states where it already had a strong presence, and to its drive-thru-based business model, which was particularly well suited to the realities of life under COVID.

So far, Dutch Bros.' expansion isn't having a significant impact on visits to the current kings of coffee – Starbucks and Dunkin'. Both brands have had a remarkable year and returned to their pre-pandemic level of foot traffic by March 2021. Now, Dunkin' has been on a growth streak since May, while Starbucks has seen consistent and strong Yo2Y visit increases since July.

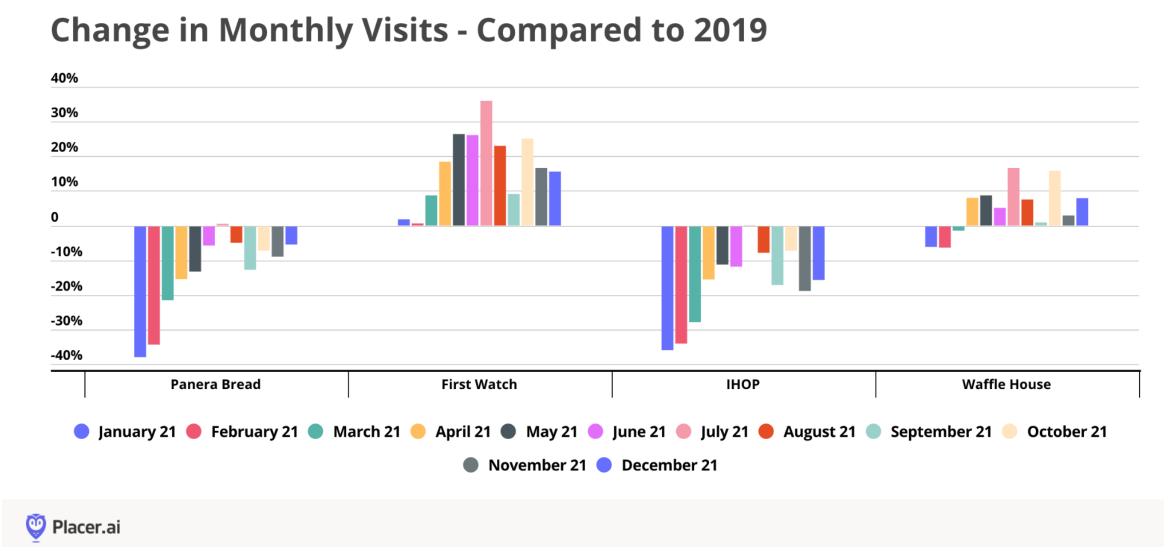
Other leading chains such as Caribou Coffee, Peet's Coffee & Tea, Tim Hortons, and The Coffee Bean have all witnessed a similar foot traffic pattern – a gradual growth in foot traffic throughout the year, almost reaching pre-pandemic visit levels in July, and followed by a gradual Yo2Y decrease throughout the last two quarters of 2021. While the fall in visits over the second half of 2021 is most likely due to the emergence of the Delta variant in August and the Omicron variant in December rather than any inherent weakness in these brands, the downturn still illustrates how significant the remaining challenges are.



Leading Breakfast Players Also Exhibit Varying Visit Patterns

Leading breakfast players have also experienced varying visit patterns this year. Georgia-based Waffle House and Florida-based First Watch had an extraordinary year in visits, with First Watch seeing sustained Yo2Y foot traffic growth since March 2021 and Waffle House's Yo2Y visits up since April. First Watch, which recently celebrated its IPO, has been expanding its store fleet and is approaching profitability, is likely to have an equally strong 2022. And 24-hour Waffle House, which has cultivated a large and loyal customer base since its founding in 1955, seems equally capable of weathering any future storm that may still come its way.

Visit patterns to other breakfast players such as Panera Bread and IHOP are reminiscent of the visit patterns at some of the coffee providers, with summer foot traffic reaching near-2019 levels before rising COVID cases limited visits. Yet, even with the surge in COVID cases, both chains have seen visit rates far closer to 2019 levels than they were early in 2021. This indicates that a significant part of both audiences have grown accustomed to the new COVID reality and still make visits a part of their overall food mix. While a decline in cases would certainly be welcome, the continued resiliency for both is notable.

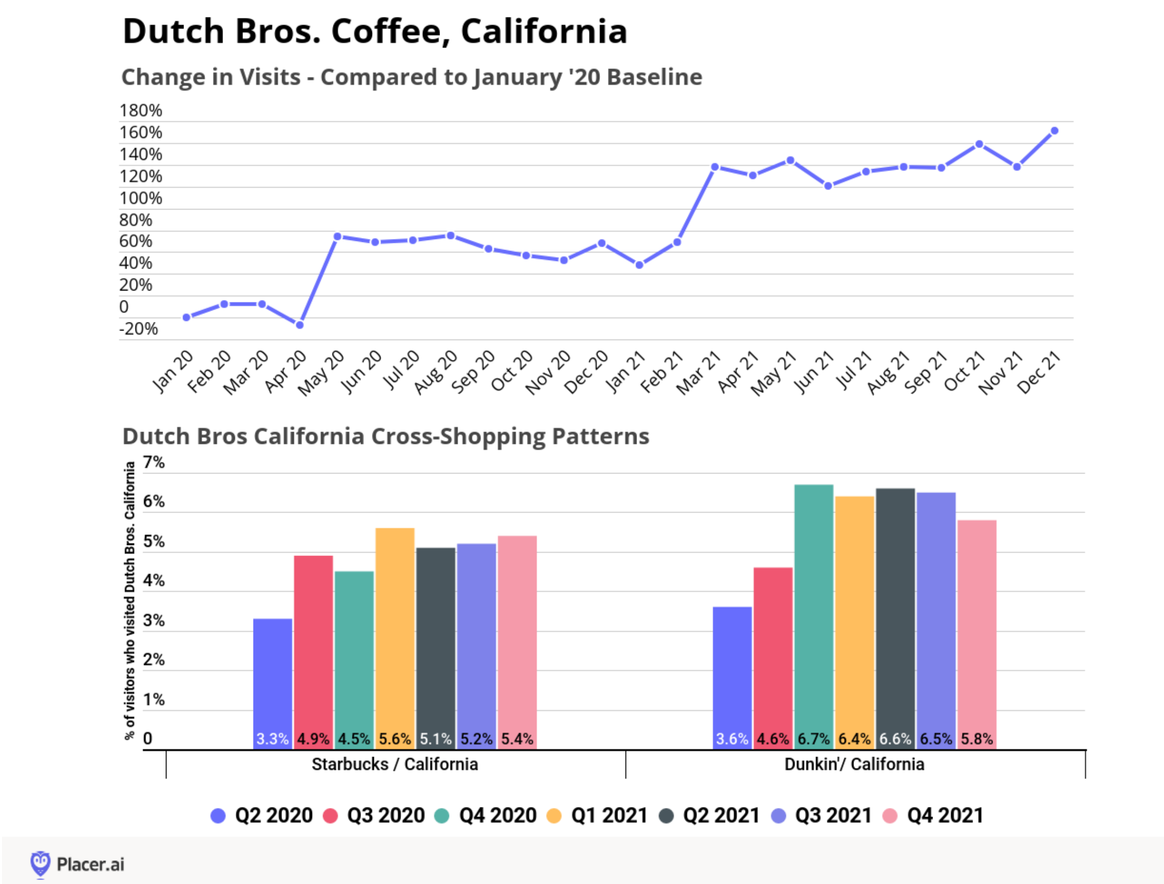


Cross-Drinking Patterns

One Chain's Expansion Changes the Balance of Power

Starbucks and Dunkin' experienced significant Yo2Y visit increases in the second half of 2021, despite Dutch Bros.' massive expansion. Still, foot traffic data indicates that the rise of the new-ish kid on the block has the potential to alter the balance of power between the major coffee giants.

Taking California as a test case is revealing. Dutch Bros. is accelerating its expansion in the Golden State, and has seen a 170% average growth in visits between January 2020 and December 2021, largely due to its store fleet expansion. And almost every quarter since Q2 2020, there has been an increase in the percentage of Starbucks and Dunkin' visitors in California who also visited Dutch Bros. In Q1 2020, only 3.3% of Starbucks California visitors and only 3.6% of Dunkin' California visitors also visited a Dutch Bros. But by Q4 2021, that percentage grew to 5.4%, and 5.8%, respectively.



But despite the increase in Starbucks and Dunkin' customers visiting Dutch Bros., Starbucks and Dunkin's customer loyalty has not suffered. Location analytics show that following a small decline at the beginning of COVID, the average number of visits per visitor for these two chains has now returned to pre-pandemic levels. The fact that the increase in Dutch Bros. visits has not harmed the other coffee leaders indicates that this is a robust market with room at the top for several players and that a consistently diverse coffee mix is often the preference for many visitors.

Coffee Demographics

Research has shown that the success of coffee brands lies as much in their marketing as in the actual product they provide. Brands like Starbucks have redefined how people consume coffee, whether by branding and popularizing the category of premium coffee, personalizing a mass-produced product by writing customer names on cups, or drawing on customers' FOMO with seasonal drinks and menus.

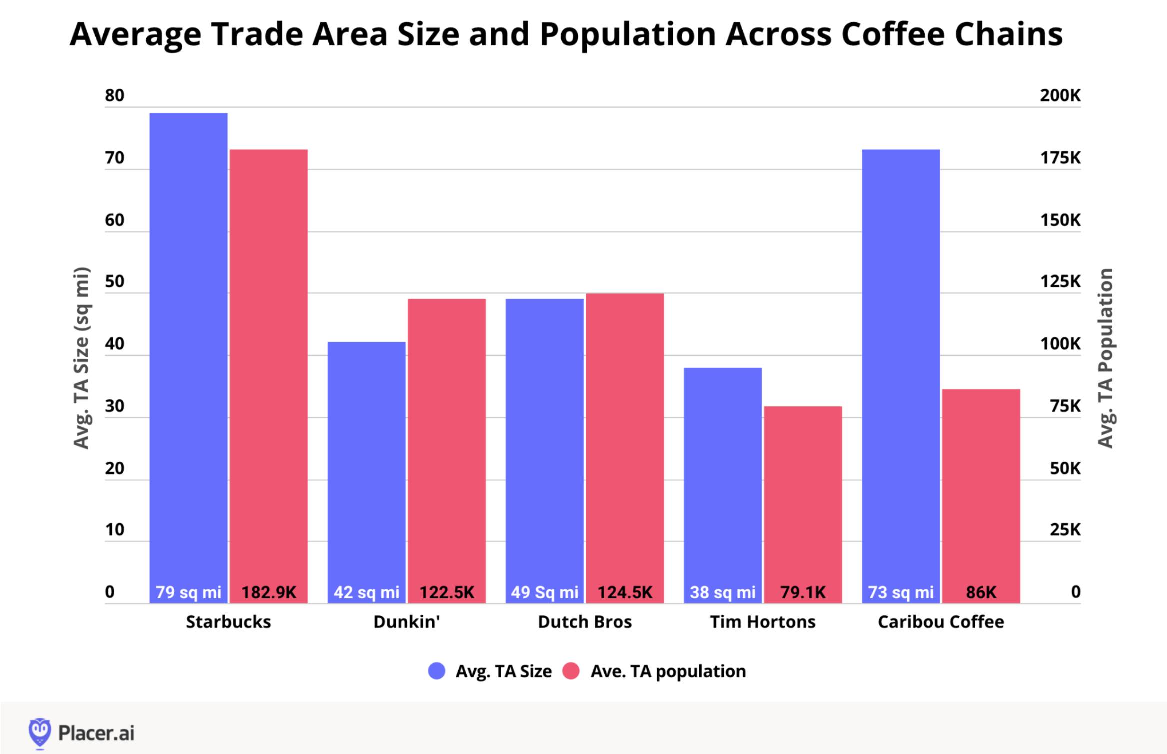
It's been almost 30 years since Starbucks' IPO, and many of the techniques pioneered by the Seattle-based coffee behemoth are now commonplace, with coffee brands of all sizes now frame their coffee as more than just a beverage. Instead, coffee drinks are marketed as comfort foods, performance enhancers, and guilty pleasures that can meet consumers' deepest psychological needs. And in order to create a coffee experience that can truly fulfill their consumers' desires, coffee retailers need to have a thorough understanding of who their customers are. This section will explore coffee chain demographics and discuss some of the critical questions that coffee brands should be asking themselves about the homes and financial situation of their customers.

How Far are They Coming From?

Comparing the average True Trade Area (TTA) and population across some of the major coffee chains over the last year reveals some fascinating differences between the demographics of the leading coffee brands.

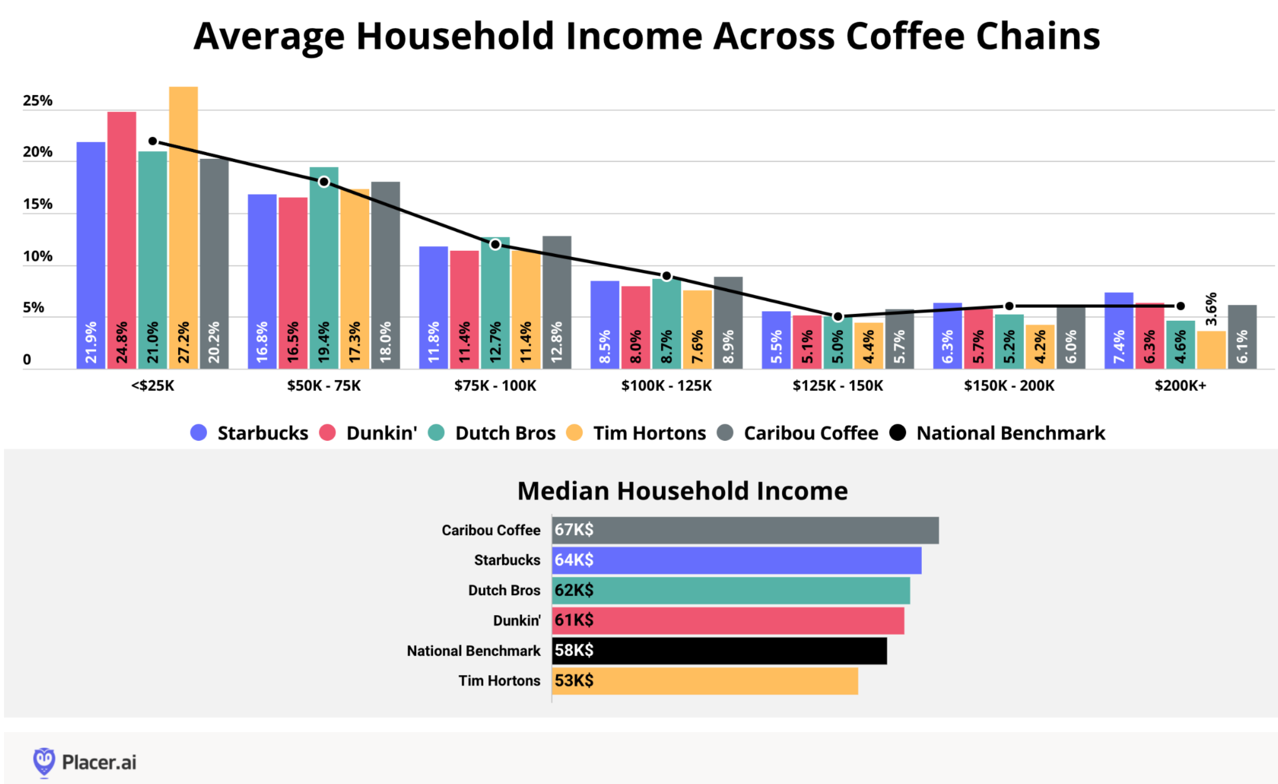
While Starbucks and Caribou Coffee have the largest average TTA – 79 and 73 sq. miles, respectively – their average trade area population is very different. Starbucks' average TTA population stands at 182.9K, while Caribou Coffee's average TTA population is only 86K. So although the two chains' locations tend to attract customers from similar distances, Starbucks locations' TTA tend to be much more densely populated – which means that the brand can reach many more people over the same distance.

Dunkin' and Tim Hortons lie at the other end of the TTA spectrum, with average TTAs of 42 and 38 sq. miles, respectively. The fact that Dunkin' and Tim Hortons branches tend to cater more to the local community than does Starbucks or Caribou Coffee can have a significant impact on marketing and promotions strategies.



Coffee’s Appeal Across Household Incomes

The average household income for visitors of the five coffee chains analyzed is more or less aligned with the national benchmark for average HHI. And while there are discrepancies between the chains – Tim Hortons and Dunkin’ have higher percentages of lower HHI visitors, while Caribou Coffee visitors have a higher median HHI – the range of difference is not major. This points to coffee’s appeal across a broad range of incomes and demonstrates the success that the leading coffee players have had in transforming their product into an everyday and essential commodity.



Key Takeaways

The demand for coffee is strong – The significant Yo2Y surge in coffee visits over the past six months shows that while coffee is definitely complementary to a variety of other sectors, the demand for coffee is significant and largely unaffected by disruptions in other categories. And the fact that coffee visits have been on a growth streak while the dining sector continues to struggle shows that coffee is in a league of its own, and will likely continue to thrive even more in 2022 as the demand for dining continues to recover. This reality points to the unique nature of this sector and its ability to adapt to shifting consumer behaviors - making confidence in its long term strength all the more obvious.

There is enough room at the top for multiple players – Dunkin's massive Yo2Y visit growth in California coupled with Starbucks' impressive Yo2Y growth in New York – along with Dutch Bros.' meteoric rise not coming at the expense of either Dunkin' or Starbucks – indicates that while the days of one coffee brand monopolizing a given region are drawing to a close, the coffee demand is strong enough that it can sustain several national leaders. In fact, the data shows that multiple chains can be part of a single individual's coffee mix by providing different values and products depending on the demand.

Coffee brands can create their own seasonality – Starbucks has managed to create its own unique seasonality in the fall through its time-sensitive offerings such as the famed pumpkin-spice latte and red holiday cup. Other coffee brands can learn from these methods to create their own brand-specific seasonal peaks. This ability to 'own' the calendar is unique and speaks to a powerful potential across the sector.

COVID-induced shifts in visit patterns may impact consumer expectations – Some COVID-related shifts in visit patterns – specifically shorter visits and more late morning visits at the expense of early evening ones – are still enduring. These shifts may affect the type of experience that visitors are after, and brands that understand what 2022 coffee consumers want – instead of catering to pre-pandemic demand – will have a leg up.

More recent COVID waves are affecting secondary players, while leading brands continue to grow – Secondary coffee players such as Caribou Coffee, Peet's Coffee & Tea, Tim Hortons, and The Coffee Bean & Tea Leaf almost closed the Yo2Y visit gap in July, but the Delta – and subsequent Omicron – wave seem to have clipped their wings. Meanwhile, Starbucks, Dunkin', and Dutch Bros. continued to enjoy steady Yo2Y growth throughout the second half of 2021 – which shows how much more vulnerable smaller coffee players are to COVID-induced fluctuations.

Trade area is not the only thing that matters – Caribou Coffee's TTA is almost double that of Dunkin' Donuts, yet Dunkin', which has figured out the secret to local marketing, is a significantly larger brand that draws more visitors – so more important than aiming for a large TTA is understanding where a brand's customers are coming from, and how the brand can best market itself to those customers, whether they are coming from 5 or 50 miles away.

What will the coffee space look like in 2022? Visit Placer.ai to find out.

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