



# Downtown Economics

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*Ideas for Increasing Economic Vitality in Community Business Districts*

## The Downtown Coffee House Business

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According to the National Coffee Association, Americans consume 400 million cups of coffee per day, making the United States the leading consumer of coffee in the world. Seventy-seven percent of adults in the country drink coffee on a daily basis; with average consumption among those adults being three cups per day.

This issue of Downtown Economics examines the growing market for downtown coffee houses. It summarizes how coffee shops contribute to a vibrant downtown and offers suggestions on how to evaluate local market potential for a coffee shop in your community.

### Recent Trends

Since 2000, coffee sales have been increasing across the nation at rate of 15-20% per year. This is now a \$18 billion market; with specialty coffee estimated to be nearly half of that total. Sixty-five percent of all coffee is consumed during breakfast hours, 30% is consumed between meals and the remaining 5% with other meals.

According to research conducted by Nielson Media Research, coffee house patrons are 28% more likely than the average American adult to be single and 70% more likely to have a post graduate degree. The average age of a coffee drinker is 43. Other research has shown that cafe latte drinkers have an average income of \$76,000 per year, and cappuccino and espresso drinkers have average income of \$60,000.

Focusing on an article published by the Specialty Coffee Association of America, assuming consumption of gourmet coffees in coffee houses has remained steady in recent years, purchases of espresso based beverages have risen 3%; from 4% to 7%. For prepared beverages, including specialty coffees and espresso, coffeehouses nationwide average annual sales of \$170,643.

At the present time, there are approximately 12,000 coffee shops across the country. According to the National Coffee Association this number is expected to grow to 50,000+ coffee shops by the year 2010. Gourmet coffee sales had been the strongest growing part of the coffee market, but recent studies have shown that espresso drinks continue to rise in popularity, and this rise in popularity means coffee shops significance in downtown communities will continue to increase.

### Creating the "Third Place"

Although today's society is fast-paced and people are always on the move, it is important that coffee shops do not fall victim to this growing trend. Primarily, coffee shops function as community gathering place and to sacrifice this for speed and faceless service would remove a large part of what makes these stores successful.

Specialty coffee shops must balance the need for efficiency and speed of service with their role in the community of being a specific place of destination. Successful coffee shops differ greatly from fast food chains. Even giant coffee chains like Starbucks are not seeking mass production; rather they are looking to create a "third place".

People have work, home, and somewhere else; and successful coffee shops strive to be that somewhere else. By creating an environment focused on repeat customers or "regulars", coffee shops seek to become meeting places within the community.



Photo: Red Mug Coffeeshouse, Superior, WI

When you have down time and simply want to read, the local coffee shop is your place. When you and your friends want a place to talk, it is the local coffee shop that provides the right environment. When you are looking to get work done away from the office, it is the coffee house that gives you a place. Working to establish this type of environment, coffee shops look to wireless internet, community gatherings, and live music in hopes of creating the “third place”.

### Features of the Coffee House

Wireless internet is changing the way people live and work. On the whole, coffee houses have been ahead of the curve offering free technology to their customers. Often this results in large numbers of technically savvy customers and business professionals, drawn by the free access to wireless internet.

This has created expectation of not only high quality coffee drinks, but also the ability to work on laptops; e-mailing and communicating with their friends, family, and colleagues. Offering free wireless internet service has become a requirement for coffee houses as they work to become the community’s third place.

In conjunction with free wireless internet, many coffee shops also offer space for community gatherings. These gatherings range from mid day book clubs to late night game nights. This public/private space allows people to come together and enjoy community interaction in a safe and inviting environment.

Along with free internet and hosting community events, live music is another popular way for coffee shops to connect with the local community. From New York City to San Francisco, coffee shops have long been associated with the underground music scene.

By opening their doors to local talent, the coffee shop is able to deepen its connection to the community and strengthen its image as the “third place”. Live music also allows the business to draw new people who are able to make a personal connection to the venue, and are more than likely to return if they have had a positive experience.

This push in creating a third place often results in niche development. Coffee shop businesses seeking to establish a connection to the community do so by providing specialty services which tie into coffee consumption. This can range from selling fair trade products to unique sandwiches and pastries. By understanding your region, a coffee shop is able to tailor its third place atmosphere to the needs of a particular community; enhancing its role of being a “third place” for your residents.

### Conclusion

All coffee shops are selling a product that a majority of the market wants, and some might even say need. What sets locations apart, and determines where a customer will go depends greatly on the business’s ability to create a “third place” environment. When Starbucks recently closed for an evening, the meeting focused on drink quality and “third place” creation. For nearly two years Howard Schultz has worked through the problem of Starbucks becoming too big, and entering into coffee mass production. It is clear Schultz wants the company to return its original feel as the local coffee purveyor, where everybody knows your name. Local shops need to embrace their intrinsic ability to be a “third place”, and there by cementing their importance within both the social and economic structure of downtowns.

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