



Making the Jump to Multiple Stores: Part I

Based on his own experiences, Kent Holloway analyzes "location" in Part I of his five-part series on juggling multiple stores.



Kent Holloway

Any discussion of expanding to multiple stores must begin with a review of what I call "The Five Critical Elements for Success." Essentially they are: location, customer service, ambiance, financial planning and management. In this particular column, I'll tackle location.

Location Fundamentals

A location has maximum opportunity for success when it supports the high-volume sales of high-margin specialty coffee products. And the easiest way to maintain high volumes is to be in a location where you can take advantage of a large number of daily repeat sales, or a location such as a metropolitan airport or year-round tourist destination that will give you exposure to an extremely high volume of non-repeat customers.

Make no mistake, high-volume sales of low-margin product doesn't create profit (the average transaction in an espresso bar is only \$1.60), it just moves money. Low sales of high-margin espresso drinks cancel out the high margins of the product because of the fixed overhead of the operation. To be successful, you must have a location that produces both high-volume sales and high-margin products.

The location should be convenient and targeted primarily to the morning market. I find that most world-class locations are located either at the *source* or *destination* of their target market.

Morning Destinations

Often, I hear individuals say what their target market needs is "a place they can go after a movie or dinner and get a fine dessert and a great cup of coffee or espresso." The thinking continues "Wouldn't it be nice to be able to find a place that had a cool atmosphere, but didn't serve alcohol or allow smoking? That's the kind of place I want to open!"

I agree this is a fun experience, but when was the last time you were able to go out to a place like this in the evening (not including your last vacation)? It is far more difficult to target the afternoon and evening crowd than it is to design a concept for the a.m. crowd. Caffeinated consumption slows dramatically after lunch. While you may observe an

afternoon pick-me-up, high tea or after-dinner drink market, it has been my experience that this niche only makes up about 15 to 25 percent of total specialty coffee sales.

Admittedly, some evening-oriented espresso concepts are successful in select metropolitan markets. They have a very specific target market and are successful because they meet the needs of their high-volume niche. However, most people use some form of caffeine to start their day, not end it. In my stores, 75 to 80 percent of all specialty coffee sales occurred before noon. Therefore, I strongly encourage you to develop your next location around an a.m. strategy. Your locations must be extremely easy to visit and enjoy during the peak early morning to noon hours.

Source vs. Destination

When you analyze the specialty coffee consumption patterns of your target market, you will find that the period of time just after they get out of bed and just before they arrive at their place of work are the hours of greatest caffeine need. When developing coffee concepts, I try to limit locations to two strategies, each related to when the customer is going to have the greatest opportunity to purchase products and why. The first strategy is to build "source" locations. A source retailer assumes a customer doesn't have time to make coffee at home or is out of coffee or has a high need to socialize (see and be seen). Source or neighborhood espresso bars are located near the source of our target market-- typically the retail strip centers near their homes. Ideally, source locations are highly visible, on the right-hand side of the street for easy ingress and egress, near a major highway or freeway arterial into a city and possess two walls of glass (a corner location). The corner windows allow passersby to see good times happening. Inside, the windows give the shop a warm, bright and airy feeling for customers. This location also makes for a convenient business meeting spot: "Let's meet at Kent's Place. It's right on the way to my office."

The second location strategy is to place a retail concept in a "destination" spot. The typical destination customer has waited to get his or her morning coffee before work or made coffee at home or even already picked up a coffee from a source location. This person has commuted a significant distance and is now ready for one last really good latte or cup of coffee before sitting down at his or her work station.

The source location strategy focuses on where the target market lives, while the destination strategy focuses on where this market works and visits often. Classic destination locations include office tower lobbies, major manufacturing plants, inside "super" stores, industrial sections of town, hospitals, airports, stadiums and street-front locations in city centers. As you will see, not every location is simply a source or a destination, some are both. The key is to understand your target market, their needs, desires and specialty coffee spending habits.

A Retail Location Must Be Convenient

In the early '90s, espresso was a fad. Fortunately the fad became a trend, but now the trend is beginning to plateau. Growth is still present, but at a slower rate. Competition has given the customer many choices. Therefore, an espresso concept able to thrive just a few years ago as an off-the-main-street destination location now finds many other retailers opening locations that are even more convenient for the customer. Still others are adding espresso to their existing businesses. New competition keeps popping up everywhere, often with national name awareness (Starbucks) and excellent overall quality, service and ambiance. Mobile espresso vans are beginning to take espresso drinks to your once loyal break-time customers' place of business. Drive-through concepts offering speed and convenience, and coffee carts in supermarkets are just a few of the competitors you may already be facing.

My advice is to avoid building an Achilles heel into your next location by choosing one that is easily bettered by a competitor. I call this the "a block away from success" syndrome. I often hear retailers say, "We've got this great location. It's only a block away from a really busy street." Given that a high percentage of your business is in impulse purchases, you don't want to make it easy for the competition to capture a better site and cut into your impulse sales.

The successful specialty coffee retailer that desires growth will constantly have his or her antennae out searching new trading areas for the next great location. Instinct is important when analyzing a site, however, the best combination is intuition and research. Take advantage of local libraries, commercial leasing companies, the chamber of commerce, small business associations and the Internet to help you do the research to back your instinct.

Three Rules of Site Selection

Rule #1 Visibility and Access

"Location, location, location." William Dillard, founder and chairman of Dillard's department stores said it first, but it has become the accepted foundation of retail success. The number one rule of location is visibility and access. Try to be in a location so obvious your target market has to make a conscious effort not to stop in and try your product. However, for every rule, there is an exception. You might believe you have great visibility if your shop is located on a freeway and your sign is easily seen. But if a someone has to drive a mile to the next exit and back track to your location, you'll lose the sale.

Rule #2 Traffic Counts/Competition

After discovering a second location with great visibility in an area that suits your target market criteria, evaluate the traffic counts for that location (car and foot traffic). You need these numbers to estimate what percentage of volume you anticipate your business will capture. The location relative to your competition must be carefully evaluated. Often, malls will have given an exclusive for your product and thus eliminate a prime opportunity. Where exclusive is not an issue, such as downtown street-front locations, you will have to carefully evaluate your competitive advantage and also how you will capture and maintain market share.

Rule #3 Condition of the Space and Hidden Costs

What are the conditions of the potential space and what hidden costs are in the lease the landlord is proposing for the site? How much renovation work must be done to bring the space up to current standards? These are vital questions you must begin to ask again. With the changes in environmental laws, an abandoned gas station on an ideal corner might have underground tanks that will be costly to remove. Beyond simple cost-per-square-foot fees, there are usually a number of other fees which must be paid on a monthly or quarterly basis. Refresh your memory with the definition and cost of common area maintenance (CAM or triple net), breakpoint rent, percentage rent, utilities and taxes, utility hookup fees (would you believe \$20,000 in water and sewer hookup fees in some cities for new food service construction?) and deposits.

Hidden costs often crop up when a retailer chooses to build a second retail espresso bar remote from his or her existing retail operation and home base. The cost of travel, lost productivity and the expense of remote management must be factored in. This is usually an emotional decision pursued purely for the glamour of the location.

One other often overlooked hidden cost is that of inaction. When you decide it is time to expand to multiple sites, you must aggressively begin to study the market. To not immediately follow-up on potentially ideal sites is to lose them to your competition.

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Please Note: Some pictures or diagrams are only available through the printed media.

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