

Coffeehouse chain fuels industry focus on lifestyle, 'third place'

BY LISA JENNINGS

Of the once-beaten-down brands to emerge from the recession with a bright future, the Starbucks story is one that resonates.

Five years ago, many — including Starbucks' chief executive Howard Schultz — saw the brand as losing its way. Sales were plunging, and the company took drastic measures, closing hundreds of underperforming stores and eliminating thousands of jobs.

A year or two later, the picture now looks dramatically different.

Today, Starbucks is a Wall Street darling boasting record profits and momentum that has analysts on the edge of their seats, eager for the next move with billion-dollar potential.

But even before the turnaround, the Seattle-based brand was a model for many restaurant chains looking to adopt its distinctive "lifestyle" approach and contemporize their own brands.

Notably, Starbucks took a commodity and transformed it into a special experience that people were willing to pay a premium price for — and, in the process,

influenced numerous other operators to follow suit.

It also showed that the Starbucks experience was about more than just coffee. The chain created the idea of the "third place" — separate from home and work — where patrons could hang out, listen to music and socialize.

Observers say it's difficult to pinpoint any one aspect of Starbucks' story that had the most impact, as there were a number of awe-inspiring moves.

One of the more gutsy initiatives was the way Starbucks tailored its My Starbucks Rewards loyalty program to drive traffic, said industry consultant Gary Stibel, founder and chief executive of New England Consulting Group.

The more members use their cards, the more they can earn benefits like free drinks or refills. Gold-level members get even more perks.

For the October-ended fourth quarter of fiscal 2011, the My Starbucks Rewards program had more than 3.6 million active members, nearly 2 million of whom were Gold level. For the year, \$1.1 billion in purchases were made with Starbucks cards, which are used in an estimated one in every four

transactions, the company said.

Another needle mover was when Starbucks invited guests to bring their receipt from a morning visit to earn a discount at an afternoon visit.

"They created a habit, [getting] people to go back to the same restaurant twice in a day, and that's not easy to do," Stibel said.

Menu upgrades also have helped build sales. The coffeehouses added healthful options and daypart-stretching treats, from the much-imitated morning oatmeal to cake pops.

"Starbucks' sales momentum has been extraordinary in 2011," wrote analyst Sharon Zackfia of William Blair & Company.

Starbucks ended the year with same-store sales up 8 percent, and Zackfia projected mid-single-digit same-store-sales growth in 2012, citing healthy traffic trends, a strong brand affinity and potential improvements in throughput as a new point-of-sale system is optimized.

Though challenged by high coffee costs, Starbucks also protected its margins, in part by tinkering with pricing — lowering prices for some items and raising prices for others in a way that varied by mar-



Chief executive Howard Schultz is leading Starbucks through its latest effort — the release of Blonde Roast coffee.

ket. Company officials said they saw little pushback.

"They did it surgically, but they also did it openly and honestly," Stibel said. "They didn't base it on a number, but on a value proposition."

Starbucks also has broadened its outlook to focus on multiple channels, building its consumer packaged goods business with what company officials called potentially billion-dollar platforms, like VIA Ready Brew, Starbucks' instant coffee, and single-

serve K-cups.

Zackfia wrote in a recent report that K-cup sales in grocery stores in December already were exceeding the monthly grocery sales of VIA, introduced in 2010. VIA generated an estimated \$250 million in system-wide sales for Starbucks in 2011.

Most recently, Starbucks in January debuted Blonde Roast, the first lighter-roasted coffee in Starbucks' 40-year history. The flavor profile is pitched to compete more directly with arch rivals McDonald's, Dunkin' Donuts and

Krispy Kreme.

Next up: juice. Last year, Starbucks bought bottled-juice maker Evolution Fresh, with plans to expand its packaged goods line. The company is also planning to debut a new juice-bar concept this year.

It was a bold move, one that not all are convinced will work.

"In the past, when Starbucks got too far away from its essence, it was a mistake," said Stibel. "Time will tell." ■

Adam Fleischman

Umami Burger founder aims to take better-burger segment by storm

BY VANESSA VAN LANDINGHAM

Adam Fleischman, the creator of Umami Burger, founded the chain only three years ago. Yet his burgeoning empire already includes the wildly popular multunit concept, a successful one-off casual-dining restaurant and a brand new pizza operation.

And while his company's accelerated growth pace has attracted industry attention, observers also identify Fleischman as being one of Los Angeles' hottest restaurateurs — and one who has a knack for knowing what the consumer wants.

Sam Nazarian, chief executive of SBE Entertainment Group, a 50-percent partner helping to fund Umami Restaurant Group's expansion, calls Fleischman an industry visionary, noting that Umami Burger has become an

the concept will resonate with customers in the rest of the United States.

"The growth potential for the brand is undeniable, and we're eager to showcase Umami with burger lovers nationwide," he said.

It all began with Fleischman's discovery of umami, a Japanese-coined term for the savory "fifth taste" induced by the amino acid glutamate and ribonucleotides found in certain

Adam Fleischman, founder of Umami Burger



foods. His fascination with the flavor led him to create Umami Burger, a casual-dining chain focused on enhancing umami in the all-American hamburger with ingredients like truffles, anchovies, tomatoes, soy, Parmesan and shiitake mushrooms.

The first Umami Burger opened in Los Angeles in 2009, and since then, Fleischman has stepped up the pace.

Now with seven units, Fleischman plans to spin the chain into two new concepts early this year. The first is a fast-casual version called U-ko in Los Angeles' Westwood neighborhood, and the second is 170-seat UMAMICatessen, a multiconcept space in downtown Los Angeles that will include an expanded version of

chef Chris Cosentino's PIGG; and spaces for guest chefs to operate "pop up" restaurants.

In addition, Fleischman's Umami Restaurant Group backs Red Medicine, the Beverly Hills, Calif., casual restaurant that gained notoriety last year after it publicly unmasked L.A. Times restaurant critic S. Irene Virbila. It also owns 800°, a Neapolitan pizza restaurant that Fleischman opened Jan. 2 in Westwood.

The June infusion of capital from SBE means Umami Restaurant Group won't be slowing its roll anytime soon. The main growth vehicles will be Umami Burger and U-ko, which Fleischman described as "my version of 21st century fast food."

Both concepts include at-table iPads for ordering, units built entirely from sustainable and recycled materials, and in-house meat grinding and cheese processing.