

## Small roasters brew up business by targeting niche markets

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All the growth in the coffee business isn't at Starbucks Corp.

Operating way below the java giant's radar, small roasters around Washington state report they are growing at a healthy clip by targeting niche markets. They appeal to the crowd that craves an alternative to the major coffee brands, a strategy they say is working better than ever since the April announcement that the owner of Seattle's Best Coffee will be purchased by Starbucks.

Caffé D'arte founder Mauro Cipolla said that since the merger made the news, his 18-year-old Seattle company has received 70 inquiries from SBC customers that are exploring the possibility of switching to a new brand. He said the customers are concerned about whether the taste will remain the same after Starbucks begins brewing SBC coffees in its own facilities.

"Every time there has been a merger or acquisition, I've seen growth for us," he said, in a phone interview from Italy. The end user is an aficionado, and they get used to a certain kind of flavor and smell in their coffee, where it's almost like a cult. They don't like it to change."

Cipolla's company has grown from 15 to 30 employees in the past year, he said, to keep up with Caffé D'arte's current 20 percent growth rate. For several years, the company has added between 150 and 200 wholesale accounts a year, Cipolla said. Some of that growth has come from prospecting in an expanded geographic area, targeting its prime audience of family-owned, single-location coffeehouses.

With just one retail location of its own, Caffé D'arte's model is typical of the industry, said Mike Ferguson, spokesman for the Specialty Coffee Retailers Association. About 80 percent of the



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PHOTO/DAN SCHLATTER

**Tom Buckley of Caffé Vita Coffee Roasting Co. in Seattle is projecting \$3.5 million in sales this year, up from \$2 million two years ago.**

nation's estimated 1,800 or so coffee roasters have a retail location, usually just one store, but focus the bulk of their business on selling their coffee to other wholesale accounts. The remainder are purely roasters with no retail presence of their own.

Washington state is generally considered to have the highest concentration of roaster-retailers per capita of any state, Ferguson said — about 19 percent of the national total, or around 265.

While many of the larger roaster-retailer chains, such as Seattle's Tully's Coffee Corp., have struggled to be profitable, operators that primarily sell wholesale have done well. The number of roaster-retailers nationally has risen from about 1,200 in 2000 to around 1,400 this year, reflecting strong consumer interest in unique coffee brands, Ferguson said.

The small-roaster niche continues to grow despite Starbucks' rapid expansion because the entire coffee category is growing along

with the industry leader. And the barrier to entry is low for roasters, with tiny roasting machines going for as little as \$1,500.

"Manufacturers of roasting machines can't keep up with the business, and the majority of it is single-location, roaster-retailer size roasters," Ferguson said.

Seattle's Caffé Vita Coffee Roasting Co. is one of those roasters. Sales and marketing vice president Tom Buckley said the 8-year-old company opened its third retail store in Olympia in March.

"It's a good opportunity for us to get more brand awareness in the south end," he said. "We're mostly known in the Seattle area. It's in an eclectic area with a mixed group of business people and artists, much like our locations here on Capitol Hill and Queen Anne." Buckley said the company's wholesale success is due in part to its extensive customer-service offerings. Caffé Vita has a 24-hour equipment-repair service customers can take advantage of if they have a problem, a rarity in the industry, Buckley said.

Caffé Vita has focused on selling to fine restaurants and counts Seattle's Brasa, Campagne, and the Chow Foods restaurants — Atlas Foods, 5 Spot, Coastal Kitchen and Jitterbug Cafe — among its 400 wholesale customers. The company has grown from \$2 million in sales in 2001 to a projected \$3.5 million this year, Buckley said.

Targeting customers that want to offer only organic, certified Fair Trade coffee has

been successful for Pura Vida Coffee. The 5-year-old Seattle company was founded by former Microsoft Corp. executive John Sage, and donates all its profits to social programs in coffee-growing companies.

Sage said he has focused on churches and college campuses around the nation, and has grown sales 300 percent the past two years, to an estimated \$2 million this year. One new account is The Evergreen State College, which switched last fall from carrying Seattle's Best Coffee's sister brand, Torrefazione Italia, and organic brand Café Mam to carrying only Pura Vida coffees.

General manager Rick Stromire of Evergreen's food-service vendor Bon Appetit said he was actively looking for a socially progressive program at students' request. Pura Vida landed the account after winning a student taste test, he said.

"We wanted to deal with one vendor," Stromire said. "On this campus, it's very politically active, and it's important that all the profits go back to the growing countries."

Not all successful Washington roasters are based in Seattle. The largest Pierce County roaster, Dillanos Coffee Roasters in Summer, has hundreds of accounts around the country, many of whom signed up at the four trade shows Dillanos attends annually around the nation, said president Chris Heyer.

The 11-year-old company has more than 40 employees, and recently built a new, \$2 million facility that tripled the company's warehouse space, Heyer said. Included in the new building is a training room set up as a functioning espresso bar. Heyer said the training is an important service that wholesale accounts rely on to bring new employees up to speed.

"We have so many customers that don't bring an employee to their store before they go through our training," he said.

While he wouldn't discuss sales figures, he said the company grew 30 percent in 2001, 19 percent in 2002, and is on track to grow 20 percent this year. About half of the growth is coming from the expansion of existing accounts, such as It's a Grind, a Long Beach, Calif.-based chain that Dillanos first signed up when it was a single store. It has now grown to 24 units.

Like Caffé D'arte, Heyer has also heard from current Seattle's Best Coffee customers that are looking to switch, and has landed a few new accounts already.

"We get the feeling that a lot of SBC customers were buying it because they wanted an alternative to Starbucks," Heyer said. "Now that they're one company, we think those customers may want to go somewhere else."

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