



## QSRs vs. Coffee House Franchise Success

By Rick Kowalski

The world of quick service restaurants, or QSRs as industry insiders say, is a very specialized area of the retail business. Where else does a business procure, inventory, process, package and sell its products all under one roof?

The specialty coffee industry is run under a similar business model as QSRs, with nearly all the same economic variables impacting the business. Yet the customer experience feels very different in a coffee house than it does in a McDonald's, Wendy's or a Pizza Hut. Even the "fast casual" players like Baja Fresh and Rubio's feel and operate differently than a coffee house.



What are some of the other basic differences between a QSR franchise and coffee house franchise? And, as a potential franchisee, do these differences matter?

Would there be any operational barriers to a QSR franchisee if he/she wanted to become a coffee house franchisee?

These questions will become increasingly important as more coffee house brands utilize franchising to expand their points of distribution.

Building a 100% company-owned and operated system like Starbucks presents some daunting challenges, with an important one being the quest to find a great deal of capital to access the real estate necessary to build new units.

It is unlikely we will see another Starbucks-like system emerge in the coffee house business, or even the QSR business. Therefore, the logical alternative to company-store expansion is franchising.

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Franchisee selection is an important process. When potential franchisees seek the type of investment they are best suited for, they should consider the fundamental differences in the types of businesses they are analyzing.

### **Put the SERVE in Customer Service**

Some of the differences between QSRs and traditional coffee houses, such as Peet's and It's A Grind, are based in two primary areas: service and menus.

One basic difference is service and service speed. QSRs are notorious for transactional service. The goal is to take the order, collect payment and deliver the food within a very quick time period. Experience is subordinated to speed. Timers are used and bonuses or rewards delivered for the quickest service in a given period.

Equipment is calibrated to maximize cook times and produce a product in as little time as possible. Food is formulated with cook times in mind, and meals are packaged with side items so customers can order more rapidly. While QSR training has its elements of making the transaction pleasant, it isn't called "fast food" for nothing!

Traditional coffee houses turn that notion around and place less emphasis on speed of service. There is a little more emphasis on the artistic nature of the product, as well as some customer interaction with the process.

The barista who knows your name and can start your drink before you even pay for it is an invaluable marketer for a coffee house. Interaction with the cashier and a comment about the daily news are not only welcome, but expected.

The personal touch that is more prevalent in coffee houses includes more interaction with the customers. It also requires a little loosening of the rules. Taking the time to chat with a customer might mean that the person behind them waits a little longer. A service time goal might not be met, yet that brief interlude on the way to work makes people come back, creating loyalty. While it is commonplace at the neighborhood coffee shop, you don't seem to find much of this at a McDonald's or Burger King.

### **Customized Menus**

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Customization of menu items is another unique approach to coffee houses. The non-fat, triple-shot mocha extra hot is easily and happily accommodated, even when you don't find it on the menu. Baristas are pleased to make your drink exactly like you want it. That type of customization in a traditional QSR does not work very well because of the over-systemization of operations.

Equipment and processes are designed to produce a product only one way, and that is their way. Ask a McDonald's cashier to leave the pickles off your burger, and the whole place comes to a screeching halt until your "custom" order is finished.

### **Relationship Marketing vs. Advertising**

The strategy for marketing coffee houses also sets this category apart from traditional QSRs. A slick, big-budget advertising campaign that relies on a heavy media buy may not necessarily be the best way for a coffee house chain to build its brand. Cause-related marketing and community involvement are key components in the coffee house marketing strategy.

Franchisees that are used to relying on promotional windows, limited time offers and gimmicky characters may find the more sincere approach a severe change from QSR marketing - and perhaps more challenging. Coffee houses tend to be more integral members of the community, and therefore foster more loyalty.

### **The Mystery of Coffee**

Another basic difference between QSRs and coffee houses is the product itself. There is a bit of mystery about coffee. The origins of coffee, the way it is roasted, and the flavor of coffee brings a mystique to the business that is absent from traditional quick service restaurants.

Coffee is harvested in far-away places that most people will never visit. Coffee houses are able to transport customers to exotic places with the imagery and story of where the product is harvested.

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Generally speaking, consumers know very little about coffee, yet they consume large quantities of it. Their interest allows coffee retailers to tell the story of coffee with all the interesting facts and lore of the bean. Leveraging this mystique allows coffee house brands to differentiate themselves from each other, and from QSRs.

Romancing hamburgers or fried chicken is quite different since the products themselves have little mystique, and any attempt to market these products in a manner similar to coffee would be disingenuous and likely fail. Consumers basically know how beef and poultry products are harvested. There is little mystery about the process, and when it comes right down to it, consumers really don't want to know too much about how those products got to their plate.

### **Management Groups as Franchisees**

Big QSR companies also tend to prefer large, multi-unit franchise management groups as franchisees. These groups are large companies in and of themselves, with their own corporate structures and hierarchies. QSR franchisors believe these larger groups are better capitalized and easier to manage than the individual franchisee.

The big QSR players didn't start out that way, however. They built their systems with single-store franchisees that either evolved into larger players, sold-out to the franchisor, or sold to a multi-unit franchisee. While a few like KFC have continued to resist consolidation, large franchise brands have moved to larger multi-unit franchise entities.

It is unclear whether coffee house franchisors will develop their brands with large franchisees or go the route of the individual franchisee. One thing is clear, however, and that is successful franchise brands usually go through a consolidation stage. The smaller franchisees get gobbled up, creating larger franchisee entities. Franchised coffee house brands will surely go through this same type of consolidation.

The question remains as the mega QSR like Dunkin Donuts, with its fiercely loyal customer base, rush into the specialty coffee business. Will they build new specialty coffee lovers, steal from your customer base, or fail to credibly cross the bridge from a QSR mentality to the unique characteristics of a successful specialty coffee house franchise chain?

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More about this in next month's issue.

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