

Look who's started roasting: your local grocery store.

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Every so often, a trend comes along that threatens to alter the competitive landscape of an entire industry. Certainly, the emergence of Starbucks and the specialty roaster/retailer was one such trend. Specialty roaster/retailers have changed the way we drink coffee (instead of drinking light-roasted coffee out of a vacuum-packed can, we now drink either milk-based espresso drinks or dark, fresh-roasted drip-brewed coffee) and by doing so, have also changed the way we [buy coffee](#). Ten years ago coffee was simply an item on a grocery list. Today consumers make a point of visiting their favorite roaster/retailer for coffee. While other trends, most notably the emergence of the specialty tea retailer and chai tea, have been hailed as the next "big thing" to hit the coffee industry, none have materialized as a serious threat to the growth of specialty roaster/retailers. That is until the emergence of the in-store roasting trend, which has the potential to put coffee back on the grocery list.

Beyond Private Labeling

In-store roasters are turnkey operations designed to allow non-coffee retail companies, including grocery stores, to roast at virtually any retail location. Rather than simply attempting to maximize profit margins on the line of coffee that moves the quickest, grocery stores now have the option to roast their own coffee through a partnership with one of three companies: Java Trading Co., Fresh Roast Systems, and [Gourmet Coffee](#)

Roasters. These companies believe they have found a way to deliver quality and freshness to grocery store customers. By developing an ingenious way to bring the roaster, rather than roasted coffee, to grocery stores, these companies promise to bring the spirit of the specialty coffee industry to grocery stores, as well.

The in-store roasting trend is not only about building a better mousetrap; it's also about using the better mousetrap more effectively. Technological advances have enabled the three companies involved in the in-store roasting trend to develop and manufacture fully automated roasters capable of consistently producing quality coffee. Vision along with innovative and compelling business strategies may, however, be the real source of success. While specialty roaster/retailers vie for heavy foot-traffic locations capable of generating high customer counts, the three companies offering in-store roasting solutions are bringing their automated, quality-oriented roasters to locations where high customer counts already exist. Each of their roasting systems are designed as point-of-sale roasters. The in-store roasters enable the grocery stores to deliver a better product and attract the attention of customers, who become interested in watching the roasting process. Each of the companies have developed ways to allow their customers, the grocery stores, to offer fresh, quality coffee at extremely competitive prices. Ultimately, the combination of quality and price that in-store roasting offers is likely to set new benchmarks for consumer value in the industry.

The Gates are Open and They're Off

Java Trading Co. already has nearly two dozen in-store roasters installed at their "customer-partner" locations. Through their partnership with Costco, they are exposing club store coffee customers to freshly roasted coffee. As they ponder which coffee to purchase, customers are able to watch a Costco employee roast coffee, and then sample the coffee that Costco has roasted. If the distinct flavor of freshly roasted coffee does not sway them toward Costco's Seattle Mountain Coffee label, price invariably will. With Costco's coffee priced at \$6.99 for two lb., versus \$14.99 for two lb. of Starbucks French Roast and \$4.99 for a 36-ounce can of Yuban, one might presume that Seattle Mountain Coffee is already making sizable marketshare advances.

Fresh Roast Systems has developed a fully-automated, ventless coffee roaster capable of roasting batches as small as one to five lb. Their system actually allows a customer to walk into a store, request a specific style of roast, and then watch as the coffee is being roasted. They currently have three beta-test sites including one (at Larry's Markets in Bellevue, Washington) that roasts 125 lb. a day.

Gourmet Coffee Roasters, based in Walled Lake, Michigan, manufactures and sells The Java MasterTM In-Store Coffee Roasting System. The company has developed a five-year program in which they consign the roaster and other related equipment to the grocery store, and during that time they provide their customer with [green coffee](#).

Even with a surcharge added on to cover the cost of the roaster, the price of the green coffee is still 10%-15% less than the wholesale price of most commercial coffees. Not including labor, the cost of running the roaster is about three cents, seven cents less than the cost of the bag that the coffee will eventually be sold in. As Dick Sewell, president of Gourmet Coffee Roasters says, "The consignment program creates a win-win situation for both us and our customers." Thus far, Sewell and his team have installed 42 Java MasterTM Systems, and have plans for many more installations.

Quality Creates Value

Quality, especially as it relates to freshness, has distinguished the specialty coffee industry from the commercial roaster. By offering a better tasting product, or at least a different flavor profile, the specialty segment has captured new customers and usurped marketshare from commercial roasters. Grocery stores offering in-store roasters have adopted a similar strategy and are reclaiming the quality and freshness advantage.

The idea of bringing the roaster to the grocery store uniquely overcomes an intrinsic problem related to quality faced by grocery stores. The presence of a roaster on their sales floor allows a grocery store to distinguish their private label, in-house roasted coffee from the massproduced, marketing-driven image customers usually associate with canned coffee and commercial roasters. In-store roasting allows grocery stores to portray themselves as artisan roasters dedicated to their craft. This image has a romantic lure that customers associate with quality. By roasting, grocery stores deliver the added value of quality and freshness that roaster-retailers until now were the sole providers of.

Even as the specialty coffee industry matures, the majority of coffee (beans) sales still belong to the grocery store segment of the industry. This means that the majority of American coffee drinkers are still

unfamiliar with the difference that freshness and the quality of green coffee makes. Like the specialty roaster, grocery stores who use in-store roasting systems ostensibly emphasize freshness and quality as their source of competitive advantage. "Under the traditional system of purchasing and reselling, both the roaster and the grocery store are unaware of how long the coffee has been sitting around before it is purchased," says Jack Thompson, president of Java Trading Co. "Our system guarantees a fresher product, which is beneficial to both parties." Essentially, the two companies are taking the tenets of the specialty coffee industry, freshness and quality, and applying them to the grocery store side of the business. "Our hope and desire is to see our customers roast a single day at a time," says Rich Robenseifner, executive vice president and roastmaster of Fresh Roast Systems. Thus, at the heart of the in-store roasting concept is the desire to bring the quality advantage and the "dedicated artisan" image enjoyed by the specialty roaster-retailer, as well as the economic incentives of roasting in-house, to grocery stores.

The Lure of Larger Margins

The in-store roasting concept is, of course, grounded in, if not driven by, economic reality. All three companies realize this; the higher margins that their roasting systems are going to enable their customers to achieve is likely to close every deal they sign. Certainly, even the casual onlooker is aware of grocery stores' efforts to enhance their razor-thin profit margins. In-store bakeries, delis, juice bars and, of course, espresso bars are all examples of grocery stores seeking the higher margins of foodservice businesses to offset the lower margins of items sold in the middle aisles. With the amount of space devoted to coffee on the shelves, and with growth of the specialty coffee industry, roasting coffee "in-house" does seem like a logical enterprise for many grocery stores to pursue. In light of the recent success some grocery stores have had with their espresso bars, the presumption only gains validity.

Naturally, as any roaster might surmise, infrastructure constraints preclude many would-be grocery store roasters from delving into their own roasting enterprise. These constraints begin with the need to find experienced coffee experts and the challenge of maintaining consistency across multiple locations. Capital expenses associated with the purchase of a roaster, retrofitting structures to accommodate a roaster and an afterburner, and purchasing an inventory of green coffee pose even larger financial obstacles. As Thompson, Robenseifner, and Sewell point out, their programs allow grocery stores to bypass those obstacles, and still reap the reward of higher margins that roasting provides. The Fresh Roast concept, says Roger Allington, president of Fresh Roast Systems, "requires no capital expense, eliminates the need for expertise, and reduces the cost of inventory." Robenseifner points out that in-store roasting dramatically changes the market positioning of a grocery store and "allows them to charge a premium for their coffee." Thompson summarizes the grocery store perspective, "our customer-partners are impressed with the freshness and quality of the product to be sure, but it is the margins that bring smiles to their faces."

All three companies offer a comprehensive program to their customers that may include setting up the roaster, providing green coffee, establishing a marketing plan, and developing a flavor profile for their customers' coffees. When speaking with all three companies, it is clear that they all offer much more than a roaster and some green coffee. Java Trading Co., for instance, is home to several long-time Millstone executives. Their "grocery-savvy experience," as Thompson explains, allows Java Trading Co. to help their customers "position themselves market-wise as they begin their own roasting." Thompson suggests that much of their work with their customers involves fostering a roaster's mindset.

A Tale of Technology

All three companies rely on a computer to automate the roasting and ensure consistency. "Our program yields excellent coffee because of the roasting system," says Thompson. Java Trading Co. developed their own convection air roaster, which uses process-control technology to control time and temperature. Called the PureRoast[™] System, the roaster stands about 15 feet high and comes in either a 30-lb. or 60-lb. capacity. After loading the green coffee, a push of the button by the operator starts a batch that will last 10 - 12 minutes. With roasters installed throughout the country, Thompson says that "understanding regional taste differences" was an essential challenge to overcome. The flavor profile that is popular in Seattle simply does not appeal to customers in other parts of the country. Part of Java Trading's success is attributable to their method of programming different roasting [recipes](#) for coffees of identical origin to account for regional taste preferences.

In all three roasting systems, the computer sets the roaster temperature, adjusts the heat, adjusts the airflow, and controls the cooling process. All three companies feature experienced roastmasters who develop the roasting profiles for each of the coffees their respective customers choose to roast. After the roasting profiles are developed, they are programmed into the memory of the roasters' computers. The grocery store employee enters the type of coffee to be roasted, and the computer recalls the roasting profile from its memory. It's that simple. Grocery store employees require as little as three hours training to learn to roast on all three of these systems.

The roaster designed by Fresh Roast Systems is rectangular and stands about 6 feet tall, 3 wide and 4 feet deep. It uses a drum, but it is not a gas roaster. With the Fresh Roast[™] System, grocery store employees do not even have to load the green coffee. Fresh Roast has automated the batch loading of the green coffee. Employees select the type of coffee they wish to roast, enter the size of the load, and the computer does the rest of the work. A rotating holding bin, located above the roasting drum, drops the coffee specified by the employee onto a scale to ensure the correct weight of the load. A blower draws air into the roaster, the roaster heats the air to the proper roasting temperature, and then blows the air through the rotating drum. Batch times range from eight to ten minutes depending on the size of the load, the origin of the coffee, and the desired flavor profile. While the roaster is capable of roasting a one lb. custom batch, it is also capable of roasting up to 500 lb. in 24 hours.

Fresh Roast Systems also developed a laser spectrometer as part of its process-control technology to ensure a consistent roast. "The laser spectrometer enables the computer to monitor the color of the coffee as it develops in the roaster, and makes 100 readings per second," says Robenseifner. Rockwell International developed the software that helps operate the laser technology, and according to both Robenseifner and Allington, were a tremendous help in developing completely new technology designed specifically to operate the roaster. Ultimately, explains Allington, "the technology allows us to record the roasting process in a way that can be replicated roast after roast."

In addition to the laser and computer technology that the Fresh Roast[™] System features, the innovative use of air filters and a "heat exchanger" eliminate the need for an afterburner or any external venting. After the heated air is forced through the roasting drum, it passes through air filters and a heat changer. The heat exchanger cools the air from roasting temperature to body temperature, and the air filters remove dust particles from the air that is about to be released from the roaster. Years of development resulted in steady, dramatic improvements in the exhaust system. "The air coming out of

the machine is actually cleaner than the air coming in," reports Allington. "An independent laboratory measured 90 parts-per-million of dust coming out of the machine while the air going into the machine had a 30,000 parts-per-million reading." The technology not only propels Fresh Roast to the forefront of the in-store roasting trend, but may have other applications as well, particularly for process control technology. Fresh Roast, at least, believes that that is the case. They have patents on the roasting system, the laser spectrometer, and the heat exchanger.

The Java MasterTM, made by Gourmet Coffee Roasters, stands six feet high, two feet wide, and three feet deep and features a side lit Pyrex glass roasting chamber that allows customers to view the roasting process. Their fluid-bed micro-roaster roasts batches that range from one lb. to four lb., with batch times ranging from 6 - 10 minutes. The roasting chamber is enclosed in Pyrex glass making the entire roasting process visible to customers. "Customers find it fascinating," says Sewell, "like a little theater." Sewell credits the success of their system to its compact size, safety features, and especially its ease of use. Roasting a batch in the Java MasterTM, according to Sewell, "is easier than brewing a pot of coffee." Grocery store employees can start a batch with a push of a button, and then walk away from the roaster. Since operating the roaster is just one of several duties performed by the typical grocery store employee, Sewell, quite frankly, admits that making their roaster "idiot-proof" was one of their goals.

Another notable feature of the Java MasterTM Roasting System is the "flavor module," which is a separate piece of equipment that actually enables customers to make their own flavored coffee. After the coffee is roasted and cooled, a grocery store employee places the flavorings (which, of course, Gourmet Coffee Roasters provides) and the coffee into the flavor module, and the apparatus applies the flavoring.

An Eye for the Future and an Eye for Quality

Gourmet Coffee Roasters, with its Java MasterTM Roasting System, was the first company to market an in-store roaster. As contract roasters, Gourmet Coffee believed they were on the verge of something big when they approached Michael Sivetz about using technology he had developed to design their own automated roaster. Since his patent had run out, Sivetz had no objection. In 1994 Gourmet Roasters began developing the Java MasterTM prototype, and in 1995, unveiled it at the Seattle Coffee Fest. Gourmet Coffee Roasters signed on their first customer shortly thereafter.

Four years ago Java Trading Co. had just developed its automated PureRoastTM roasting system, but with four years experience as a wholesale roaster, its reputation as a high-quality micro-roaster was already established. In 1996 and 1997, at the Northwest Taste Annual Competition of Micro-roasters, Java Trading Co., using its newly developed PureRoastTM System, won the distinction of "Best Coffee in Seattle." Thompson believes that it is their talent for roasting that continues to define who they are. "We are both a roaster and a roaster maker," declares Thompson. What Java Trading Co. offers their in-store roasting customer-partners, continues Thompson, "is the ability to replicate the [Java Trading Co.] Brand at our customer-partner's location."

Allington's vision for Fresh Roast Systems was several years in the making. Twelve years ago, Allington opened the second store of a successful specialty coffee roaster. Despite identical roasters and roasting techniques, Allington was not able to "clone" the roasting style of the original store. "That is when the problem of consistency came to the fore," says Allington. After participating in a variety of business ventures, most of which involved automated [food service equipment](#), Allington eventually joined forces

with Phil Torbet, the chief technology officer of Fresh Roast Systems. "The need to have a real-time look at the coffee," says Allington was the impetus behind a five-year odyssey to develop the Fresh Roast System[™]. Torbet has sourced the technology as the two of them have refined the design. The end-result is several patents and the only ventless in-store roasting system.

A Grocer Talks Coffee

"Customers are very interested," says Becky Draeger, of Draeger's Markets in San Mateo, California. "The roaster definitely piques their curiosity." Draeger's is one of the beta test sites for Fresh Roast Systems. They started roasting in late October for their coffee bar and have been roasting just less than 150 lb. a week. Draeger's was originally drawn to the Fresh Roast concept because of its emphasis on freshness and quality. "Certainly the main reason we've decided to do this is the quality and freshness factor," says Draeger. "It's consistent with our mission." Naturally, the economic incentives were appealing as well, "once we ran the numbers, we decided it was worth the risk. We save on ingredient costs (in the coffee bar) and realize the full potential of our labor."

Draeger believes that the Fresh Roast concept will appeal to two types of customers. "Basically there are two types of customers out there. The customer who loves great coffee and the customer who [drinks coffee](#) but doesn't necessarily know what great coffee is. We want to get the first type of customer, who already knows what great coffee is, to try our coffee, and impress that customer with our quality and freshness. Then we want to teach the second type of customer what great coffee is."

Despite what Draeger herself calls a "slow approach," the beta testing has gone very well. At the start of February, the grocery store brought its Draeger's House Blend and Draeger's Decaf from the coffee bar, where it is roasted, into the grocery aisle. "Customers love the coffee," says Draeger, "and we've noticed a 5% increase in sales at the coffee bar since we started with Fresh Roast." However, the beta testing has not gone off without any glitches. Once Draeger's was in the middle of a roast when the power went out. For grocers new to roasting, the experience was a bit disconcerting. "Fresh Roast provided a lot of support, though," reports Draeger. "They've really been there for us." Since that time, a plan for a power back-up has been added so there will be no more anxiety during future blackouts. "It's a great concept," concludes Draeger. "It's going to be a success, and it may well be a trend for the future."

The Road That Lies Ahead

The in-store roasting trend appears to be in its most nascent form. "I think the trend will continue," says a confident Thompson. "As awareness of what constitutes good quality coffee becomes more commonplace, the instore roasting trend will grow stronger." From the end of 1997 to beginning of 1999, Java Trading Co. has installed about two dozen roasters. At one Costco location, in particular, a Costco employee reported that she roasted anywhere from 180 lb. to 240 lb. a day. Those numbers make a strong case for both the sales potential of an instore roaster, and Java Trading Co.'s ability to help customers develop their own brand. Their relationship with Fred Meyer, which operates 118 grocery stores, also illustrates that point. From the bakery center, Fred Meyer roasts and distributes Kivu brand coffee, a private label co-developed with Java Trading Co. Thompson suggests that since Fred Meyer uses the PureRoast[™] System in their distribution center and not in their stores, sales are driven purely by the quality, freshness, and taste of Kivu coffee rather than by the visual enhancement of a roaster at work. Fred Meyer's use of the PureRoast[™] System also demonstrates that the in-store

roasting systems do not even have to be located on the sales floor to drive sales, and that in-store roasting systems are the most effective way to build your own coffee brand. Thompson clearly thrives in the competitive grocery store environment, and might as well have been speaking for all the players involved in the trend when he proudly admitted "getting the feeling from the big boys that we're treading on their turf."

Fresh Roast Systems is only now completing their initial beta test sites. Excitement sparkles in the eyes of Robenseifner and Allington as they discuss the future possibilities for their company. "We didn't really want to be in the market until March of 1999," explains Allington. They agreed to add a second and third beta test site after numerous requests. "We've had more opportunity than we could practically respond to," says an excited Robenseifner. Robenseifner and Allington have even suggested that some grocery stores have "already made space for the roaster" before their beta test phase is complete. The sparkle in the eyes of Robenseifner and Allington grow brighter as they provide further predictions on the in-store roasting trend. "I would expect significant location numbers in the next three to five years, and the in-store roaster could be as common as a refrigerated beverage case," predicts Allington.

In spite of the small batch sizes, all Java Master[™] customers roast a minimum of 250 lb. a week. According to Sewell, some of their customers roast as much as 700-800 lb. a week, and over the five year consignment period, each of their customers, on average, roasts, or will roast, about 65,000 lb. The surcharge that is added on to the price of those 65,000 lb. pays for the cost of the roaster. After five years, and the purchase of 65,000 lb. of coffee, the grocery store owns the roaster. Like Java Trading Co., Gourmet Coffee Roasters continues to do a traditional wholesale business that bolsters their own image as a quality-minded roaster. With 42 Java Master[™] installations in existence and more on the way, Gourmet Coffee Roasters is clearly a formidable force.

The Impact on the Industry

The in-store roasting trend will affect the entire coffee industry. The presence of in-store roasters could bring specialty coffee customers back to the grocery stores for coffee. Alternatively, the presence of in-store roasters may only redistribute marketshare between current wholesale roasters and shake-up the existing competitive landscape as those wholesale roasters fight for eye-level shelf space. It is also possible that a little of both will occur. A grocery store with an in-store roaster, that offers a good quality product and uses a well-conceived marketing plan, may very well eliminate the need for consumers to make a special trip to their favorite roaster-retailer. However, with consumers continuing to flock to roaster-retailers for espresso drinks, there is plenty of opportunity for roaster-retailers to retain and regain customers who are tempted to try the grocery store's coffee. By making the practice of roasting easier, the three companies at the forefront of the in-store roasting trend have allowed many types of larger volume wholesale customers to begin roasting on their own. based on Gourmet Coffee Roasters' customer list, cafes and coffeehouses are just as likely, if not more likely, to pursue in-store roasting as grocery stores. By pursuing their own roasting enterprises, cafes and coffeehouses will also be able to adopt the romantic, artisan image of the craft roaster. As more companies begin roasting, the added value of quality and freshness that specialty roaster-retailers deliver to customers indubitably will be rendered ordinary and ubiquitous. Simultaneously, as more companies and different types of businesses begin to roast, the less effective and appealing the romantic, artisan image will be.

One simply cannot deny the power and reach of the grocery store venue. Customer counts and convenience play into the hands of the grocery store. The trend may compel roaster-retailers to improve their marketing techniques and hone their focus on quality and artisan craftsmanship as a means of distinguishing themselves. On the other hand, by failing to react, specialty roaster-retailers may allow the in-store roasting trend to further drive their product mix toward espresso drinks.

As the in-store roasting trend brings the consumer closer to green coffee, it could result in a greater emphasis on the appearance of green coffee. Customers can even view the green coffee in the storage bin of the Fresh Roast System, and in the other systems; even if customers are unable to view the green coffee, grocery store employees are. This could increase the importance of (and ultimately establish a new standard for) cosmetically clean and visually appealing green coffee. Certainly, a clean cosmetic appearance does not guarantee superb cup quality, but it does introduce the consumer to another important variable that plays a role in the overall quality of a coffee.

Kevin Knox, coffee buyer at Allegro Coffee Co., is one wholesale roaster who is very interested in the outcome of the in-store roasting trend. While Knox cautions that the technology that runs the roasters must prove reliable over the long haul, in terms of roasting consistency, safety, and maintenance, he also suggests that the trend could have an "amazing impact." If the trend catches on with just one major grocery store chain, then that major chain, and not a specialty roaster-retailer, will be the dominant player that sets the standard for freshness. Consider, for a moment, the ramifications on the industry if customers' expectations are for coffee to have been roasted two hours prior to its purchase rather than their current expectation, which is probably closer to two months, if there is any expectation at all. Such an expectation, explains Knox, could "change the competitive ante," and force all roasters to meet freshness standards established by in-store roasters. Most roasting and distribution operations rest on the assumption that valve packaging preserves freshness to the degree that is necessary to meet a customer's expectation for freshness. If in-store roasting changes that assumption, most roasting and distribution operations will have to be re-designed and completely re-vamped to meet the new expectations. The in-store roasting trend could then establish a new baseline for freshness, and prevent roasters, both specialty roasters and wholesale bean roasters, from depending on packaging to ensure freshness. Essentially, in-store roasting could reverse the trend of extending the shelf life of roasted coffee, which has occurred as companies have sought to maximize the efficiency of their roasting plants and distribution channels.

Another intriguing possibility that Knox hopes for is that in-store roasters will draw the coffee drinker's attention away from the milk-based espresso drinks and the "theater of the espresso machine," and back toward the roaster and the appeal of a "fresh roasted, just brewed cup of coffee." Knox also believes that it may actually be too early to call the in-store roasting concept a trend because a statistically significant part of the market still is not involved. "The ultimate endorsement of the trend," suggests Knox, "would be to see someone like Probat embrace it." Such an endorsement would be a sign of capitulation: An acknowledgment that enabling grocery stores to roast, in order to meet a minimum expectations for freshness and gross margins, is a standard service wholesale coffee companies are expected to provide.

Only Time Will Tell

It is difficult to underestimate the potential effect of the in-store roasting trend. If coffee quality and the artisan image are the main sources of competitive advantage for roaster-retailers, then the in-store

roasting trend is clearly a harbinger of a new era of competition. In-store roasting will allow grocery stores, and other retail establishments, to gain those advantages and eliminate the edge roaster-retailers have enjoyed in those areas. This is particularly true in terms of roasting freshness. Because a grocery store can prosper handsomely on gross margins that would ruin the average roaster-retailer, price weighs heavily in favor of the in-store roaster. Essentially, in-store roasting allows grocery stores to match the quality of the neighborhood roaster-retailer for a price that is more comparable to canned coffee from the commercial roaster than fresh roasted coffee from the local roaster-retailer. In essence, the in-store roasting trend means fresh, quality coffee at canned coffee prices conveniently available at your local grocery store. Such a possibility holds tremendous significance for the entire coffee industry and promises to keep this trend worth watching as it unfolds.

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