# Learning from the Surprising Shifts in Café Locations Since the Recession

*An adaptation of my original article "Counter Culture: Surprising Shifts in Cafe Locations Since the Recession" published in the April, 2011 edition of Restaurant News. The paper summarizes the interesting patterns identified through a lengthy study of changes in cafe locations throughout Canada since late 2008.*

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The impact of the recession that first hit hard in late 2008 was predictable for some segments of the food services industry. However, what happened to the presence of cafés in Canada was counter-intuitive to many in several ways and can serve as a lesson in predicting location strategy changes of your most formidable competitors in response to severe changes in market conditions.

Predictions heading into the recession included price friendly offerings still being negatively impacted as consumers treat purchases as, well, treats, upscale concepts being hit harder with the need to scale back growth, and new location openings outside of only the largest markets being very limited. Is that what happened? A recent study we performed addressed these questions.

For this study, café addresses for most of the country's major coffee sellers were collected from published lists on their corporate Websites in both October, 2008 when the recession first hit hard and then again at the end of 2010. More than 13,000 locations with both lists combined were then plotted on maps with openings and closures identified and the locations analyzed geographically. Brands in the study included Tim Horton's, Starbucks, Second Cup, Country Style, Coffee Time, Robin's, Timothy's, Williams, Café Depot, Presse Café, Café Supreme, Van Houtte, and even McDonald's given their recent focus on improved coffees.

We've chosen five interesting highlights from the patterns that emerged from this study:

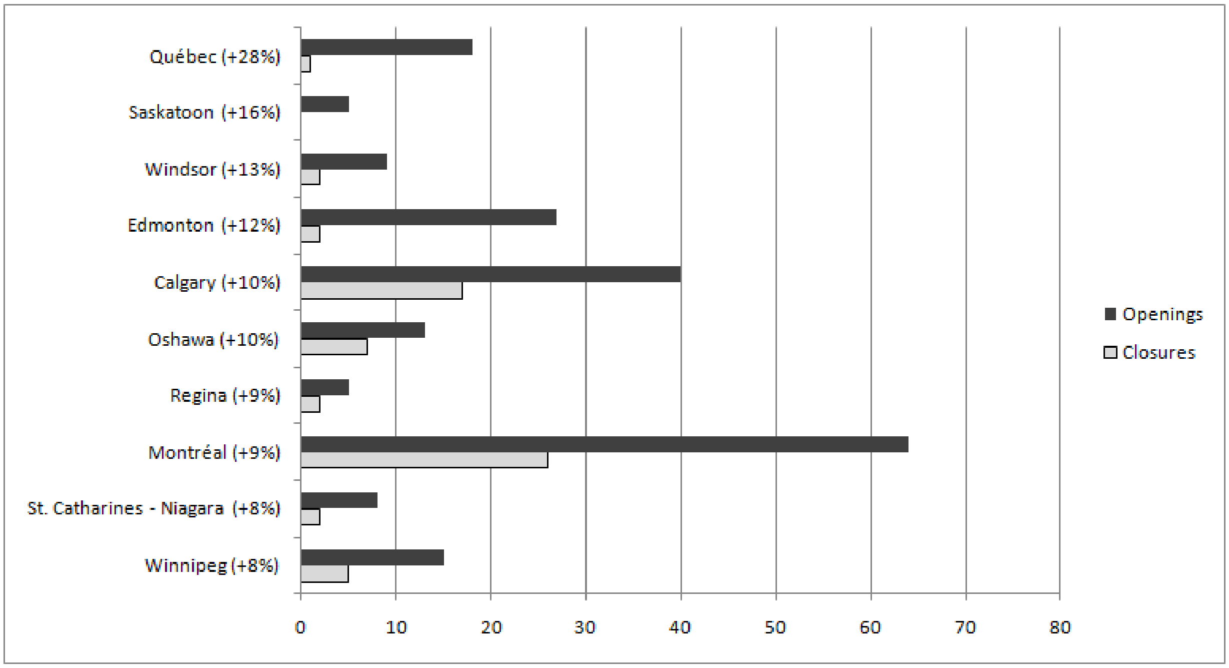
**1. The strong get stronger**: Regardless of price points, the giants of the industry, namely Tim Horton's and Starbucks, both took advantage of the environment and actually grew their locations significantly during the 26-month period studied. Each opened a total of more than 10% of their previous café counts while only closing 2%. Starbucks, with its higher pricing and its announcement of hundreds of closures of U.S. locations heading into this period, may have surprised many. Most other major chains in the study showed either limited café growth or a reduction in café locations.

**2. Small town Canada hardly abandoned**: Among the major coffee brands tracked, one quarter of the cafés opened during the study period took place in cities and towns of under 50,000 population or roughly the same proportion that existed heading into the study period. Tim Horton's in particular led this charge by continuing to expand in smaller markets, but was not alone. Most probably wouldn't have predicted that 5 Western markets of under 11,000 population would receive a new Starbucks café while Oakville, Ontario, one of Canada's wealthiest and fastest growing markets would not receive a single café from any of these major café chains during this period.

**3. McDonald's shift toward premium coffee**: Predicted by many to thrive in a more economically-conscious market place and perhaps even in smaller markets, McDonald's actually reduced its number of restaurants in Canada during the period. They saw almost the exact reverse of the Starbucks change at about 10% of the previous count being closed and 2% opened, although a large proportion of the closures involved no-seating locations. Perhaps as surprising, McDonald's opened 35 new "McCafé" specialty coffee stations focused on higher end coffee beverages during the same period, and all were within only Canada's largest metro areas of Toronto, Montreal, Vancouver, and Ottawa.

**4. Shut out in Atlantic**: If it wasn't small town Canada being adversely impacted in general, certainly Atlantic Canada suffered from more limited café growth during this period. In Newfoundland and Labrador only a single Tim Horton's in Cornerbrook was identified as a new café location and Robin's Donuts was the only other brand represented among the few openings in the province. In fact, apart from several Robin's openings and a handful of Starbucks cafés in metro Halifax, the major urban Atlantic markets were largely ignored for new openings in the 26-month period.

**5. Some surprising market winners**: Using strictly the percentage increase in café counts across the brands studied (excluding McDonald's and Country Style with the non-traditional unit changes more difficult to track for the latter), markets in both the Prairies and the province of Quebec stood out as winners alongside the more predictable growth leaders of Calgary and Edmonton. Quebec City saw 18 cafés opened versus 1 closed, Chicoutimi-Jonquière doubled its café count due to several Tim Horton's openings, and the cities of Regina, Saskatoon, and Winnipeg combined for 25 openings compared to only 7 closures. Western Canada was the biggest growth region overall based on the activities of the industry's largest players. The province of Quebec also saw strong regional chains Presse Café and Café Supreme growing location counts in their home province. The chart below depicts the top 10 markets (among metro areas with at least 200,000 population) in terms of percentage café growth during the study period.



Certainly other factors would have played a role for these emerging patterns. The prolonged time periods between committing to locations and seeing them open, the degree to which markets were already oversaturated, the regional penetration patterns over a longer period of time among these brands, and retail development supply conditions are a few. However, these patterns certainly surprised many, and with competition still as fierce as ever and market conditions still largely uncertain, it's still anyone's guess how the café landscape will continue to evolve.

There are a couple of key implications from this study for those trying to plan growth with predictions of key competitors in mind. First, don't expect that your key competitors will join others in easing up on aggressive growth while everyone takes a breather and thinks about what they might do when the economy improves. Secondly, there may be several markets that should be more in focus outside of the traditional high-growth major markets as you plan your growth, with whatever capacity existed in Atlantic Canada being left intact by cafe operators in recent years.

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*To reference this paper, simply use "Market Forté's Smarter Growth Series of Whitepapers" where the publication name would normally go.*