



3 Companies Looking to Get a Jolt From Coffee

Description

Coffee is a big business and it's getting bigger. Steady returns are attainable from companies committed to aggressively developing market share. The following companies are looking for bigger returns from coffee and thinking outside the cup to do so.

Tim Hortons (TSX: THI) built its reputation on a simple cup of always fresh coffee. It still does that, but has added much more to its offerings. The company wants to be known as a food destination, not just a coffee stop. However, it's facing challenges in keeping the lines moving at its food counters, where it offers a bevy of sandwiches, soups, and such.

Tim Hortons has confidence in its product offerings. It's always innovating with new products geared to changing customers' tastes. Perfect examples are its new Turkey Sausage Breakfast Sandwich, Ultimate Cinnamon Bun, and new Cinnamon Bun Latte. The challenge is ensuring its customers get these and other offerings... fast. Therefore, its approach to consistently realizing profits from coffee, and more, is efficient customer service.

Tim Hortons' focus going forward is to reduce drive-thru and in-store wait times. CEO Marc Caira noted this past February, "Future battles are not going to be won, in my view, with who has the best strategy or who has the best innovation. The companies that will win will be the companies that can execute flawlessly at the store level."

The Second Cup (TSX: SCU) has 356 cafés operating under the trade name Second Cup in Canada. Its portfolio of coffees includes more than 25 types. These include several single origin estate coffees and an array of blends exclusive to the company.

One significant way the company is looking to realize more profits from coffee is to increase retail distribution of its brand. It now has an association with Kraft Canada to distribute coffee in Canadian grocery stores. This program launched this past February.

The Second Cup believes retail distribution could build its café customer base. In essence, those who have never visited one of its cafes may now be inclined to do so upon tasting its brand at home.

The Second Cup is also building its loyalty program in its cafes to reward its regular customers and attract add-on traffic from new and existing customers. It plans the national roll out of this program this year. It has tested the program in 31 stores so far.

Ten Peaks Coffee (TSX: TPK) is all about coffee in a different way. It owns all of the interests of the Swiss Water Decaffeinated Coffee Company, Inc. (SWDCC). This company is a premium green coffee decaffeinator. Ten Peaks also owns and operates Seaforth Supply Chain Solutions, Inc. Seaforth is a green coffee handling and storage business.

Ten Peaks Coffee's main strategy for realizing profits from coffee is its focus on its principal business, SWDCC. SWDCC employs the proprietary SWISS WATER Process to decaffeinate green coffee without the use of chemicals. Ten Peaks has committed to teaching the specialty coffee trade, and coffee consumers, about its proprietary SWISS WATER Process and its benefits.

The result? In 2013, it attained growth in annual processing volumes, gross profit, net income, and EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) over 2012.

Ten Peaks expanded its geographical penetration and its SWISS WATER Process decaffeinated coffees currently sell in 23 countries. The company is working to build knowledge of the SWISS WATER brand in unexploited regions. Ten Peaks also offers its services to a specific niche of the coffee market. It offers small batch decaffeination to smaller roaster-retailers.

Foolish bottom line

Each of the above companies is approaching the coffee sector in its own way. Each offers its unique business model to investors who may wish to diversify a portfolio with a jolt of coffee. The task for investors is to research these companies to determine which provides the best opportunity for long-term growth.

CATEGORY

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Date

2025/07/21

Date Created

2014/04/30

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