

# San Jose Mercury News

SERVING NORTHERN CALIFORNIA SINCE 1851

WWW.MERCURYNEWS.COM

JUNE 3, 2005 | FRIDAY

THE NEWSPAPER OF SILICON VALLEY

## Emeryville coffee vendor known for strong brew aims to keep expansion grounded in home state



NHAT V. MEYER—MERCURY NEWS PHOTOGRAPHS

Giovanna Erkanat, left, and Nicole Stanek have a beverage and a chat Thursday outside a Peet's Coffee & Tea store in Cupertino

## Peet's growth plan stays close to home

By Michele Chandler  
*Mercury News*

Peet's Coffee & Tea — a Bay Area presence since its first cafe began selling full-flavored, dark-roasted java amid Berkeley's counterculture in 1966 — is on an expansion binge.

Look for the 98-store chain to open about 20 more locations in California this year as the company strives to fortify its presence in its home state.

That's nowhere near the girth of sibling Starbucks, the coffee industry gorilla that was co-founded by Peet's former owner, San Francisco native Gerald Baldwin. Starbucks, with 9,000 U.S. locations, plans to open an



Optimistic about its growth, Peet's Coffee management thinks the cup is half full.

average of 20 stores a month through 2005, spreading its empire of cafes, drive-through locations, CD sales, bottled Frappuccino coffee drinks and even a line of premium ice cream.

However, Peet's management does not admit to any size envy.

"Our goal is not to reach customers with the fastest beverage they can get. We don't plan on doing drive-throughs or having a Peet's right across from a Peet's," said President and Chief Executive Officer Patrick O'Dea, who was brought in a year after the company went public in 2001. "Our stores are a market for whole beans that just happen to sell beverages, too."



NHAT V. MEYER—MERCURY NEWS

Matt Suehiro, left, and Lindy Stankov prepare coffee at Peet's Coffee & Tea in Cupertino.

In addition to prepared-to-order beverages and fresh-roasted beans sold at its cafes, Peet's sells its beans at grocery stores, online at [www.peets.com](http://www.peets.com) and by mail order, as well as to offices, restaurants and hotels. Overall, whole coffee beans and related products provide 60 percent of the company's revenue.

Peet's is part of the burgeoning specialty coffee market that encompasses everything from coffee shops and mobile beverage carts to coffee bean sales. Total spending in that market nationwide reached \$9.6 billion last year, according to the Specialty Coffee Association of America trade group.

Peet's highlights the freshness of its products, saying that gives its beverages a distinctive taste. In its cafes, coffee is brewed from beans roasted no more than 10 days earlier. Once brewed, the coffee is kept in an insulated urn to keep the beverage hot without subjecting it to direct heat, which could turn it bitter. Vacuum-packed bags of freshly roasted whole beans delivered to grocery stores must be sold or taken off the shelves within 90 days.

That's what keeps bringing back Peet's enthusiasts like Henry Russell, who visits Peet's cafe in Willow Glen at least three times a week. The San Jose retiree comes as much for the coffee as the atmosphere.

"This is where I drink my coffee, buy my coffee beans, meet my friends and hang out," said Russell, as he sat at a table on the sidewalk outside the store, sipping an espresso with a friend, Gene Clough, and holding onto his boxer, Jake. "Here, I can get a nice cup of coffee and relax."

An hour's drive away, at the original store that Dutch immigrant Alfred Peet opened nearly 40 years ago on the corner of Walnut and Vine streets in North Berkeley, there aren't any tables, but there's a bustling sidewalk scene. During busy mornings, patrons sometimes sit on the steps of the Friends

Meeting House across the street, or rest their cups atop the bank of metal newspaper boxes in front of the cafe.

The lack of official seating doesn't deter John Dougherty, who has come to that store regularly to buy a cup of decaf or pick up a pound of coffee beans for more than a decade. "Peet's coffee is stronger and tastier," he said.

While just a speck in the overall industry, holding less than 1 percent of the market nationwide, Emeryville-based Peet's has become a powerhouse within California. Peet's share of the specialty coffee segment is estimated at about 30 percent within California, according to industry analysts at Roth Capital Partners.

Sales of bagged beans at grocery chains including Albertsons, Safeway and Nob Hill — an effort begun three years ago — have emerged as the company's fastest-growing segment. Grocery store sales during the first quarter of 2005 grew by 47 percent over the prior year, the company said. Overall, sales at Peet's stores grew 20 percent during the quarter, the highest retail growth ever, and a pace industry analysts expect the company to sustain.

"It's a nice little brand with a lot of growth opportunity," said JMP Securities analyst Kristine Koerber.

Peet's shares a beginning with one of its chief rivals, Starbucks.

Baldwin co-founded Starbucks in Seattle in 1971 and acquired Peet's in 1984 to gain the small Berkeley chain's popular dark-roasted coffee. He sold Starbucks — then a six-store chain — in 1987 to concentrate on Peet's, which he believed had the best coffee and strong customer loyalty.

Baldwin stepped down as president and chief executive in 1994 and relinquished the chairman's post in 2001, but remains on Peet's board of directors.

## PEET'S COFFEE & TEA

**Headquarters:**  
Emeryville

**Founded:** 1966 in Berkeley by Dutch immigrant Alfred Peet, who grew up in a family of coffee merchants.

**Chief executive officer:** Patrick O'Dea, since 2002.

**What about the tea?**  
It represents "single digits" of the company's overall sales, according to O'Dea.

**Estranged sibling:**  
Starbucks. Gerald Baldwin, after co-founding Starbucks in Seattle in 1971, acquired Peet's in 1984 to gain the small chain's popular, strong dark-roasted coffee. Baldwin sold Starbucks in 1987 to concentrate on Peet's and remains on Peet's board.

**Locations:** 98

**Revenue:**  
\$145.6 million in 2002.

Source: Mercury News reporting

Outside California, Peet's operates stores in Illinois, Oregon, Massachusetts, Washington, Texas and Colorado. The company caused a stir two years ago by opening its first store in Seattle — Starbucks' home turf — just a few doors away from a Starbucks cafe.

Peet's unsuccessfully tried expansion overseas, opening four outlets in Japan in 2003 before closing them a year later because of fierce competition from Starbucks and other gourmet coffee companies there.

Peet's won't say when its expansion out of California might begin in earnest. Instead, the company's looking closer to home. "In California, we have 59 stores in the greater Bay Area and only 22 stores in Southern California," said O'Dea. "So right here in our home state we have tremendous opportunity for growth. It makes sense from our standpoint to build from our strength here, first, before expanding."

Contact Michele Chandler at [mchandler@mercurynews.com](mailto:mchandler@mercurynews.com) or (408) 920-5731.

