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Jack perks up his coffee in slugfest with Starbucks: fast-food chains pour it on in bid for consumer dollars.

by Lewis, Connie
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Stock in Jack in the Box Inc. got a nice one-day jolt last week on news that the company introduced a full-bodied cup of java--its first volley in an attempt to gain ground on the premium coffee front.

Traded on the New York Stock Exchange under the symbol JBX, shares in Jack's stock rose 74 cents to close at \$66.05 on Oct. 2, one day after the company announced "a European roast of 100 percent Arabica beans," a brew that "blends coffeehouse quality with fast-food value and convenience."

"Today's consumers are more knowledgeable about coffee and have higher expectations," said Tammy Bailey, division vice president of menu marketing, in a corporate statement. "They want a brew that has a rich, complex flavor, which our new bold roast coffee delivers."

Jack's new brew is priced at \$1.29, excluding tax, for a regular cup and \$1.49 for a large.

The San Diego-based company likes to keep its strategies under wraps, but it's apparently taking aim at McDonald's Corp., which introduced a bolder coffee blend last year and has added latte and cappuccino in two-thirds of its U.S. eateries.

As to coffee futures, Jack's spokeswoman, Kathleen Anthony, wouldn't say what's on the burner.

"It's our policy not to discuss products we have in development, but I can say that we are exploring specialty coffees," she said.

Yet at least one of Jack's so-called labs, a restaurant on Murphy Canyon Road, currently has coffee latte on the menu. Meanwhile, as the company sets its sights on McDonald's, McDonald's in turn draws a bead on Starbucks Corp. in what is now being called the takeout breakfast wars.

While the fast-food chains lost money waging the 99-cent burger wars of yesteryear, the more recent better burger wars that have pitted Jack's sirloin against McDonald's Angus are about increasing revenue, as are the takeout breakfast wars, since the turf for breakfast sandwiches and premium coffee is at least a \$15 billion market and has a potential for robust growth.

Trying To Dethrone The Coffee King

Firing back, Starbucks, long considered the king of the hill where coffee is concerned, has opted for egg and English muffin sandwiches and has opened more restaurants with drive-up windows.

Recently, Crain's Chicago Business reported that McDonald's has a plan in place "to match Starbucks product for product" and is prepared to "spend considerable sums of money to put the necessary machinery into its stores to make it work."

Dennis Lombardi, a restaurant consultant with WD Partners of Ohio, said it doesn't matter that Jack is following McDonald's lead in offering premium coffees, just as long as it stays close.

"Me too' doesn't have a negative connotation when you're following a growing consumer trend," Lombardi said. "It's much better to get it right than rush in and introduce something and get it wrong."

"To follow four, five or six months after McDonald's is not a big issue, but coming in four or five years later, that would be a big issue."

Competition in the breakfast war is fierce and also includes Dunkin' Brands Inc.'s Dunkin' Donuts, which offers frothy coffees, as well as Wendy's International Inc. and Burger King Holdings Inc., which have added bacon, egg and cheese sandwiches to their menus. However, Lombardi predicts that time-starved consumers whose taste buds crave a better-than-average cup of Joe will flock to the fast-food eateries, including Jack in the Box and McDonald's, like moths to light.

"Rarely does someone decide where to go for dinner because a place serves good coffee, but breakfast--yes," he added.

Riverside-based restaurant consultant Ron Santibanez disagrees.

While there's a healthy profit margin in coffee sales, Santibanez, president of Qualified Solutions Consulting Inc., said he doubts fast-food chains will significantly fatten their bottom lines trying to morph into java joints.

"There are a lot of people who go to Starbucks to get their coffee and go somewhere else to get breakfast," he said. "Starbucks lovers are not going to go to Jack in the Box or McDonald's simply because of the coffee."

Analysts have also expressed doubts as to whether the fast-food chains' franchisees will want to pony up what it costs to purchase the expensive equipment needed to make lattes and cappuccino.

In early August, Jack in the Box, which counts 2,100 restaurants in 17 states, reported earnings of \$34.7 million for the quarter ended July 8, compared with \$27.8 million for the like year-ago quarter. An improved cup of coffee can't hurt.

McDonald's, meanwhile, reported that U.S. sales increased 7.4 percent in August--up from 3.5 percent growth in August a year ago--due to the ongoing strength of its breakfast business and beverages, as well as new food offerings. Its stock closed at \$56.04, down 7 cents, on Oct. 4.

Analysts say stock in Starbucks enjoyed a good long ride, but has stagnated. It closed at \$26.52, down 2 cents, on Oct. 4.

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