

REPRINTS E-MAIL SHARE

SEOUL — It is a Saturday night and one of the unlikeliest hot spots in the city is packed. More than 100 people are sprawled at tables, sipping, talking, munching. Young women are dressed as if at a nightclub. Some have been here for hours.

A concert? A dinner party? Nope. This, believe it or not, is Dunkin' Donuts — one that is unlike almost any other in the world.

This scene, in a city long synonymous with tea houses, is a glimpse of a coffee gold rush, one in which the Canton-based coffee and doughnut company has patiently and methodically set out to transform the food and social culture in the Far East.

It is working well enough that South Korea is now home to more than 900 Dunkin' Donuts, nearly as many as there are in the chain's home state, making it the company's largest international market. Starbucks is not far behind. Both companies consider South Korea a warm-up for an even bigger play: China.

If Americans consider themselves connoisseurs of coffee, with a caffeine fix seemingly available on every corner, a journey across Seoul shows that South Korea has more than caught up. One of the world's biggest retail markets is now perhaps its most competitive coffee turf.

At least 100 academies across the country train baristas — and the unemployed can get the government to subsidize their training. Coffee shops offer valet parking, and some will even deliver cups of coffee to nearby homes.

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PHOTOS



Coffee boom in S. Korea

Graphic: South Korea's coffee battle

Behind much of this Asian coffee boom, and uniquely positioned to benefit from it, is the company known stateside for the slogan “America runs on Dunkin’.”

“It’s more than just coffee’s a big deal, or people are into coffee. It is a phenomenon. . . . It’s a freaking phenomenon,” said Stan Frankenthaler, Dunkin’s executive chef and vice president of production innovation. “It’s more intense than New York by far — the competitiveness, the saturation. You think you’re going to see a lot of coffee shops on one block, and there’s four times more than you even think. It’s incredible.”

Not your average Dunkin’

Every day, the drums bang, the cymbals clang, and a stream of men in traditional Korean outfits carrying swords and wearing helmets march outside Deoksugung Palace — where King Gojong, a noted coffee addict, first brought the brew to prominence in South Korea in the 1890s.

This elaborate ceremony takes place in front of a landmark more familiar to American eyes — the pink and orange neon sign of a Dunkin’ Donuts.

Inside, it’s quickly clear this is no Massachusetts Dunkin’.

Two girls share a salad (Yes, Dunkin’ Donuts here has salads) and a ham, egg, and cheese English muffin.

Here, people are allowed to fetch their own doughnuts from the shelves (it encourages them to take more, Dunkin’ says). The cups are paper, not Styrofoam, and the most popular drink is an Americano (a shot of espresso and hot water).

Glazed doughnuts are for sale, of course, but so are local black rice doughnuts, jalapeno sausage pie doughnuts, and a glutinous rice stick (all with the number of calories written beside them). A concoction called a bubble tea latte is offered, along with “The New York Pie Doughnut,” a variation on the Cronut, a croissant-doughnut creation pioneered at a New York bakery.



JEAN CHUNG FOR THE BOSTON GLOBE

South Koreans drank coffee at a Dunkin’ Donuts in Seoul. There are now more than 900 Dunkin’ in the country.

Adapting to Korean culture has meant turning Dunkin's busiest hours upside-down. In the afternoons and evenings, the stores have the feel of a lively dinner party, chatter and laughter emanating from the little round tables. But many outlets are mostly empty in the mornings. Dunkin' is trying to change that by promoting its breakfast menu and a new smartphone app that acts as an alarm clock, giving customers a three-hour countdown clock that, in animation form, explodes if they don't cash in a coupon.

In contrast to the small, squat stores often found in Massachusetts, some Dunkin's here rise as tall as four stories, designed as places to linger. Drive-thrus are unheard of.

For Joon-Ho Hahn, 25, the night was young as he sipped an Americano and his friend nursed a mango coolata.

Next stop? Starbucks.

Shaking up the marketplace

It is a Saturday night at a local outlet of the Seattle-based chain, and all three floors are filled with customers. A trio of girls plays cards, another woman sits in the corner and reads a book. American pop songs and acoustic hits play softly in the background.

Seo Jihye, a 24-year-old student at a nearby women's university, sits with her boyfriend as they share a latte.

"In Korea, younger people don't have their own houses; we live together with family," she said. "So we usually don't go to each other houses. When we want to have conversations, we go to coffee shops."

This Starbucks was the first to open in South Korea, in 1999, and it immediately shook up the marketplace. Koreans had a taste for coffee — during the Korean War in the 1950s, US soldiers brought packets of instant coffee and shared them with Koreans — but there were few Western-style coffeehouses. Teahouses dominated the culture, and they were often dark, smoke-filled, and sometimes involved prostitution.

Starbucks offered a brightly lit experience, some cultural cachet, and expensive coffee.

"At Starbucks, Koreans jumped on the bandwagon," said Daniel Schwegendiek, an economics professor at Sungkyunkwan University in Seoul who is writing a book on Korean consumption culture. "It was considered a place to be. It's a status symbol. Students spend \$5 or \$6 for lunch. And \$5 or \$6 for coffee."

Dunkin' had officially opened five years earlier but was more



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Starbucks and Dunkin's face off across this street in Seoul. Dunkin' has about a third more stores than Starbucks in South Korea.

focused on selling doughnuts than promoting its coffee.

Not long after Starbucks emerged, Dunkin' recalibrated its strategy, launching a three-year advertising campaign emphasizing "two hands," one holding a doughnut, the other holding coffee.

By 2009, Dunkin' had built a coffee roasting plant in South Korea — its first, and only, outside the United States — and boasted that its beans were so fresh that they'd be in your cup within days of roasting.

Then, two years ago, Dunkin' installed aroma machines that sprayed the scent of coffee inside city buses whenever the company's jingle played on the bus radio. "Dunkin's coffee is waiting for you right at your stop," the ad said.

"Since 2010 the coffee boom of shops has just exploded even more beyond our wildest dreams," said Sara Larcombe, senior director of international marketing. "Dunkin', by being in the market early, helped build that appetite and awareness of how coffee would be used in everyday life in the Korean market."

Dunkin' Donuts had its products placed on Korean dramas, the soap operas that are popular throughout Asia. In one show, "The King 2 Hearts," a South Korean prince takes his girlfriend — a North Korean special forces agent — to eat heart-shaped Dunkin' Donuts on a date.

Even in the annals of a half century of American fast food companies pushing overseas growth, the Dunkin' presence is notable: There are three times more Dunkin' Donuts outlets in South Korea than there are McDonald's.

While the international operation has been growing in recent years, it is still a small slice of the overall business: In 2013, revenues for Dunkin' Donuts in the United States were \$521.2 million, while \$18.3 million came from international markets. Nearly 40 percent of all international sales came from South Korea stores.

Dunkin' also has about a third more stores than Starbucks in South Korea. As in the United States, the two

brands project a distinctly different ethos.

“We’re a fun place,” Larcombe said. “People are hanging out with us. Starbucks is older, more professional, and a little more white collar than us.”

SK Lee, the chief executive of Starbucks Korea, had little interest in comparing the brands.

“We basically focus on ourselves rather than competition,” he said, as he sipped a cherry blossom latte.

At the end of the interview, he excused himself. He was off to go open Starbucks’ 625th store.

Coffee a competitive game

Although growing fast, Starbucks and Dunkin’ Donuts are just a small slice of the coffee market here. And, in this crowded corner of the economy, it can be hard to stand out.

Inside the Hello Kitty cafe, everything is pink. Order a latte, and it will have cat whiskers made into the milk with chocolate powder. Walk a few blocks in one direction and there’s a dog cafe, where the point is to play with dogs while sipping coffee.

Walk in another direction and there’s the Thanks Nature Café, where two live sheep roam around as the owner brushes their wool and patrons feed them . . . while drinking coffee.

“Fifty percent want to see the sheep,” said Lee Kwamgho, who runs the Thanks Nature Café. “Others want to buy food and drink.” One of the oddest venues is Dr. Fish, a coffee shop that offers a “fish pedicure” — stick your feet in a tub of water and tiny fish come and eat away the dead skin — while you wait for your coffee.

This — fish, and live animals — is what Dunkin’ and Starbucks are competing against.

At least five South Korea-based companies have opened more than 400 stores each. So many outlets are opening, in fact, that the government is starting to crack down on expansion of coffee franchises. There is talk of limiting both the number of total stores, and how close they can be to competitors to protect small businesses. As a result, Dunkin’ is only planning to open about 20 stores this year.

The competition has also spawned a vibrant speciality coffee industry, with high-end equipment, \$10 cups of coffee, and brews made in any one of 12 different ways.

One cafe offers a drink called Ltd. Edition #9 that combines orange juice, ice cream, and a shot of espresso that a barista whips for nearly 10 minutes over an open flame. It costs about \$20. Roast Magazine, a US-based trade publication is now translated into Korean.

South Koreans have also sought to become certified experts, earning an international designation that measures a range of coffee skills. Over the past several years, South Korea has produced almost 1,300 Q graders. The United States, in second, has a little over 300.

“In Korea we have a custom,” said Hoon Song, who runs a coffee academy and a coffee shop. “We copy success.”

‘Opportunity to explode’

While much of the focus has been on South Korea, a country of 50 million, the coffee industry is now turning its attention to a bigger prize: nearby China, a country of 1.4 billion.

Starbucks is expanding rapidly and expects China to be its biggest international market by the end of the year, with more than 1,000 stores. Dunkin' Donuts has a much smaller footprint in China with about 50 stores.

In an effort to increase buzz around the brand, the company has for past two years paid NBA star LeBron James to market its product in China, encouraging customers to take photos of themselves with cardboard cutouts of James.

Dunkin' also recently signed an agreement to develop 100 new stores over the next five years in Shanghai and nearby provinces.

“We clearly believe Korea is the most competitive coffee market in the world,” said Bill Mitchell, who oversees Dunkin's operations in China, Japan, and South Korea. “But we see the lessons in being able to adapt that into China. We believe that's our next opportunity to explode.”

China is also starting to grow more coffee in its southern regions, and it's starting to import far more coffee — nearly 1.4 million bags in 2012, almost double the amount from 2010.

Some of the barista academies that have sprouted in South Korea are now opening branches in China.

“After five years, it will become like Korea,” said Steven Kil, who just opened a coffee school in Shanghai. “It's time to open there. There's a big market, I think. It's time to start getting into the Chinese market.”

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Customers enjoy coffee and other drinks while working on their computers and iPads at a Starbucks in Seoul. “At Starbucks, Koreans jumped on the bandwagon,” a professor says.