



Photo: by BestDay

# The Coffee Pod Market

February, 2013

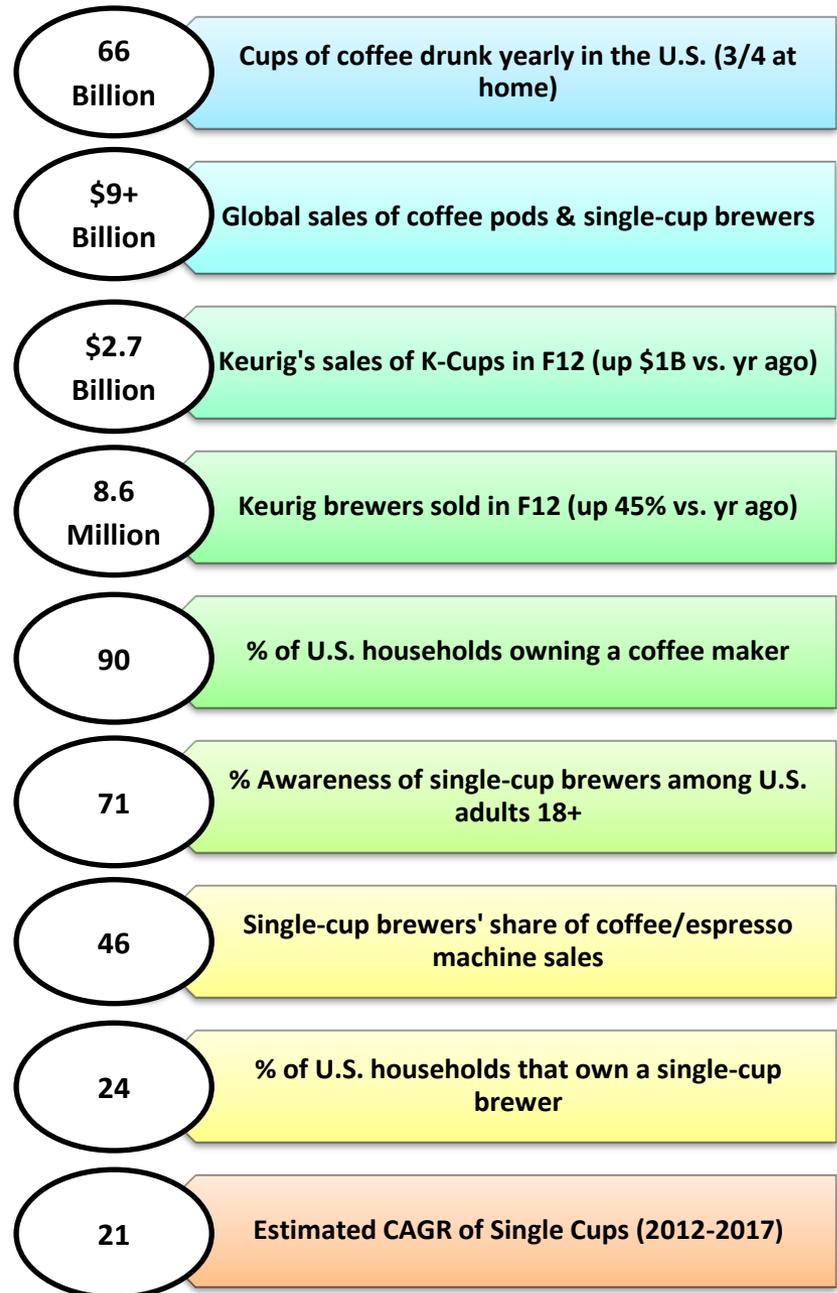


# Pods -- A Bright Outlook

The proliferation of premium coffee shops (Starbucks, etc.) has whetted the American consumer's appetite for high-end, fresh-brewed coffee.

Attractively poised at the nexus of premium, fresh-brewed taste and at-home convenience, the \$9 billion pod sector has become the fastest-growing business in the coffee industry.

**The growth trajectory is expected to continue**, as new category entrants offer more choice, put downward pressure on pricing, and single-cup brewer ownership climbs.



# New NCA Coffee Research

The National Coffee Association recently commissioned research using the following methodology:

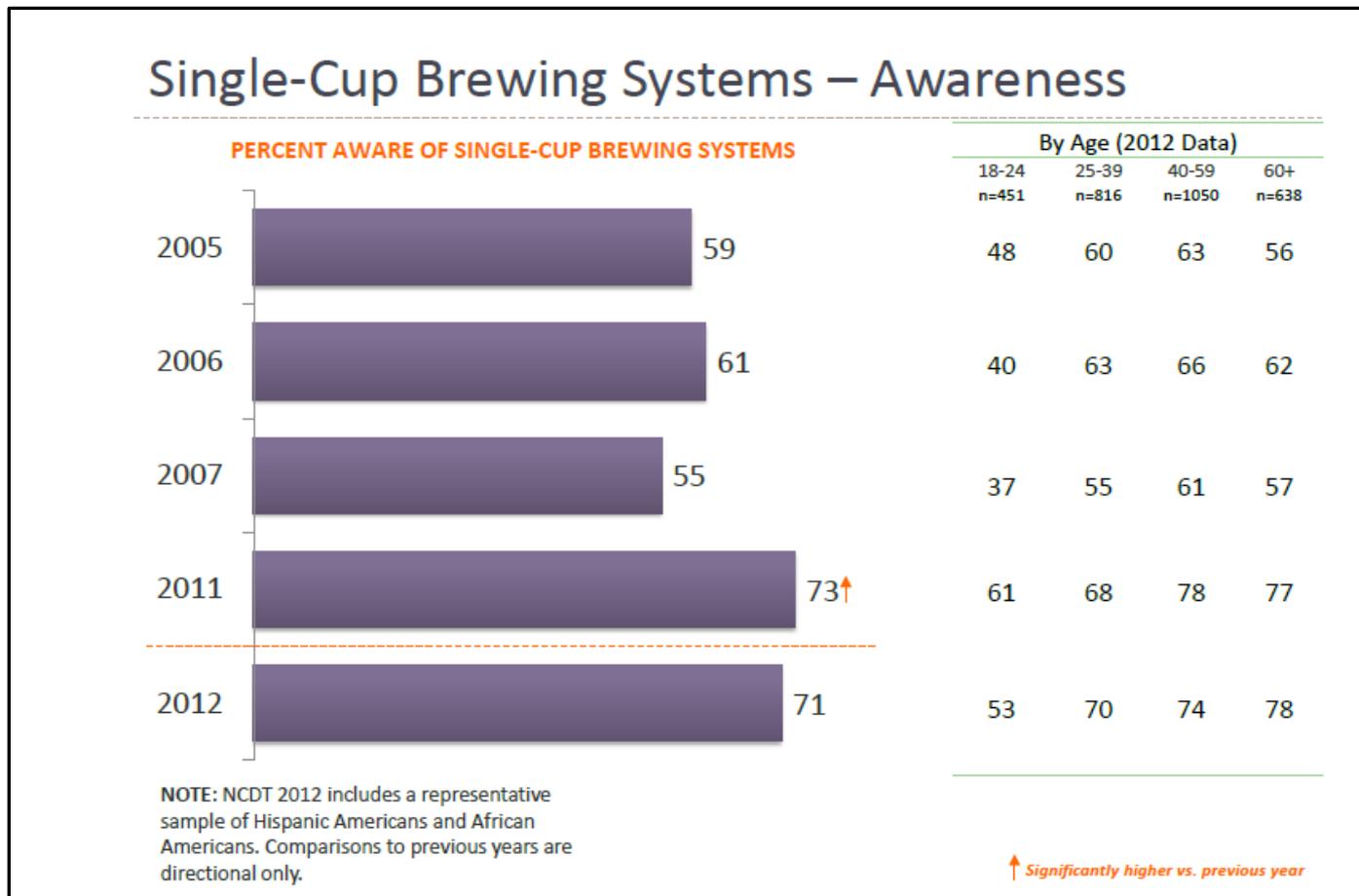
- Nationally representative sample of ~3,000 adults 18+
- Drank a beverage other than tap water in the past day
- Respondents randomly selected from online panels
- Survey available in English and Spanish
- Data collected mid-January to mid-February, 2012, with daily quotas to ensure all days of the week represented



# Awareness & Perceptions

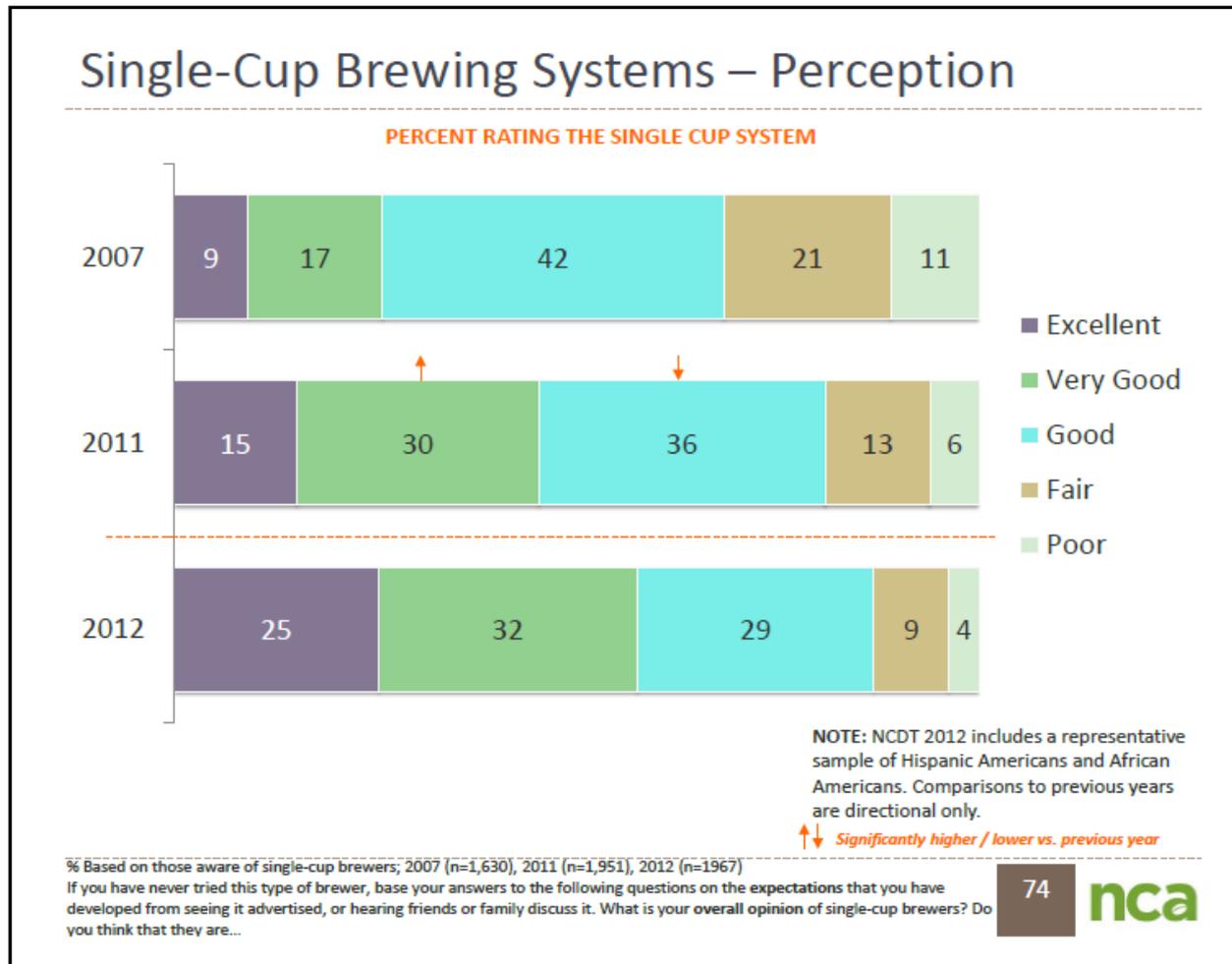


# Awareness is Climbing, 7 in 10 Have Heard of Single-Cup Brewers



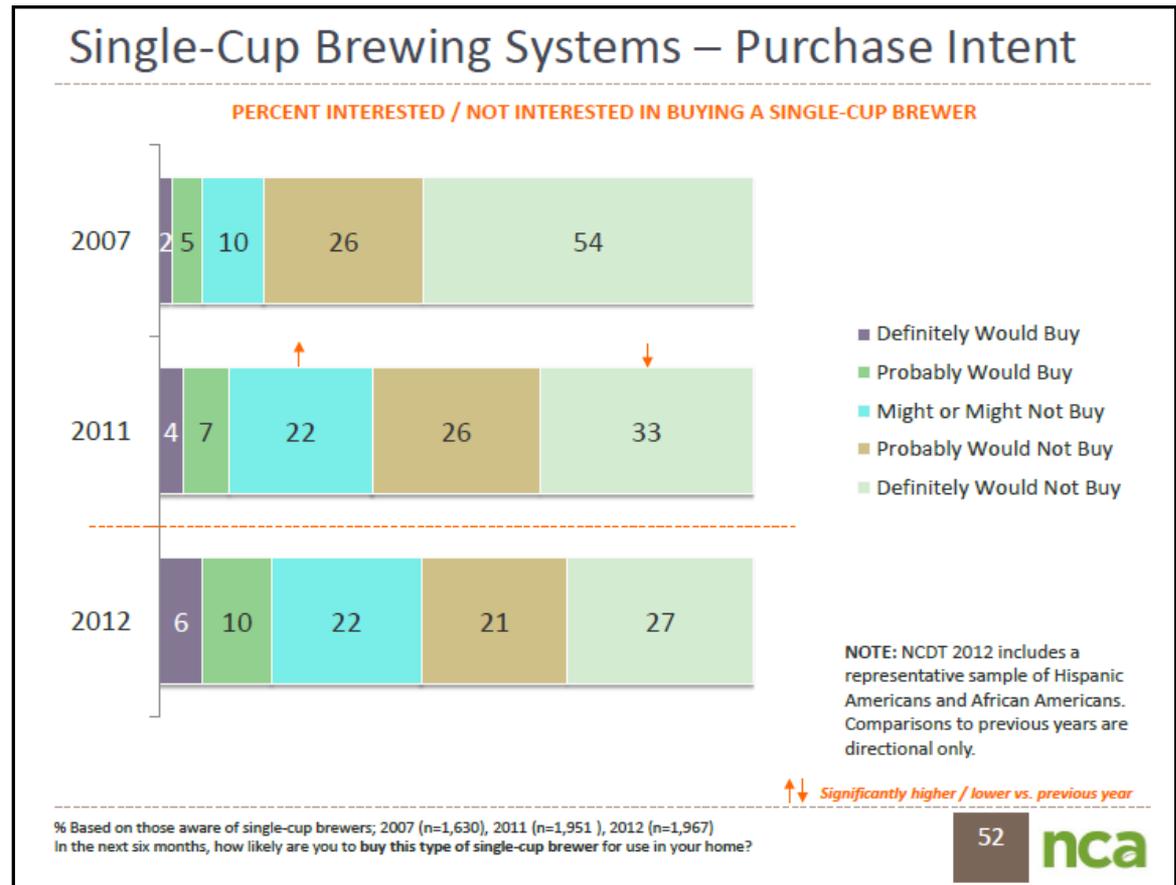
Source: NCA's "The Single Serve Format 2012" Report

# More View Single-Cup Brewers as Very Good or Excellent



# Positive Purchase Intent is Growing

Expect the coffee pod market to grow as consumers act on their intention to buy a single-cup brewer in the next 6 months .

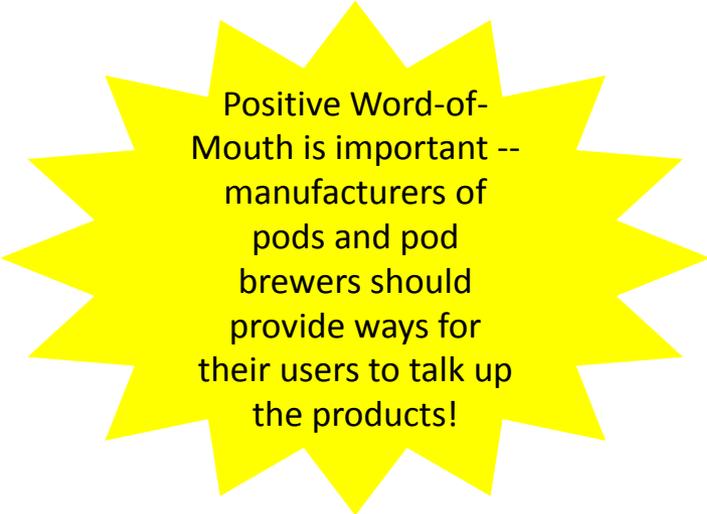


Source: NCA's "The Single Serve Format 2012" Report

# Improving Taste Perceptions is Vital for Pod Manufacturers

Among those aware of single-cup brewers, the beliefs that most strongly correlate to having a positive opinion of the brewers are:

- I have heard positive comments about this brewer from friends & family
- This brewer makes better tasting coffee than other brewing methods
- This type of brewer is easier to use than other brewing methods



Positive Word-of-Mouth is important -- manufacturers of pods and pod brewers should provide ways for their users to talk up the products!

*This is the biggest hurdle pod manufacturers need to overcome, as just 43% of those aware of single-cup brewing systems feel they make “better tasting coffee than other brewing methods”.*

*Even among owners, only 64% agree with this!*

***So, the market appears ripe for a manufacturer of exceptional-tasting pod coffee who can convincingly convey this!***

# Among the Population as a Whole, Eco Concerns are Modest



*In the NCA study, those segments that most strongly believed that single-cup brewers are worse for the environment were:*

- ✓ *25-39 year olds (31% agreement)*
- ✓ *Non-owners (24% agreement)*

Among those aware of single-cup brewers, only one phrase was negatively correlated with having a positive opinion of the brewers:

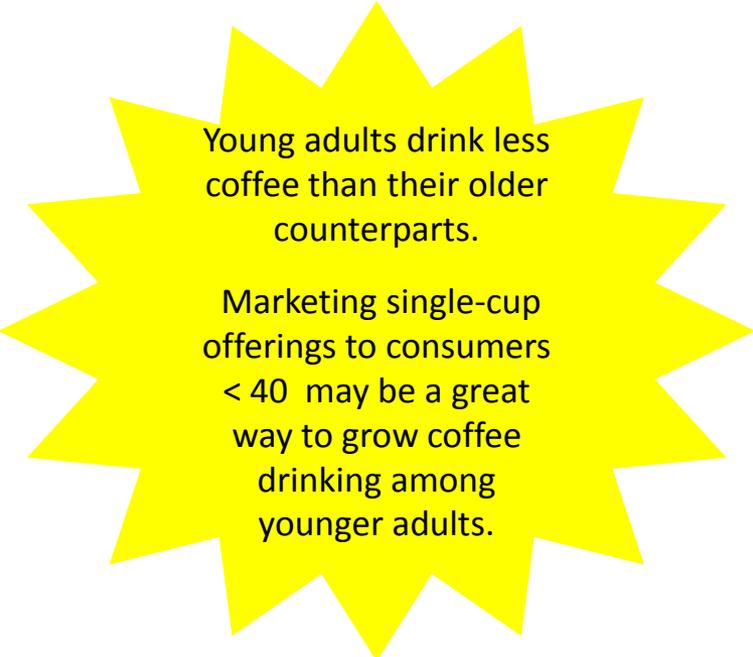
- “This brewer is worse for the environment than other brewing options I have used”.
- With a relatively small negative correlation coefficient (-0.15), it appears that among the general populace, environmental concerns do not strongly suppress the overall perception of single-cup brewers.

# Usage



# Use of Drip Brewer Waning -- Single-Cup Brewing on the Rise

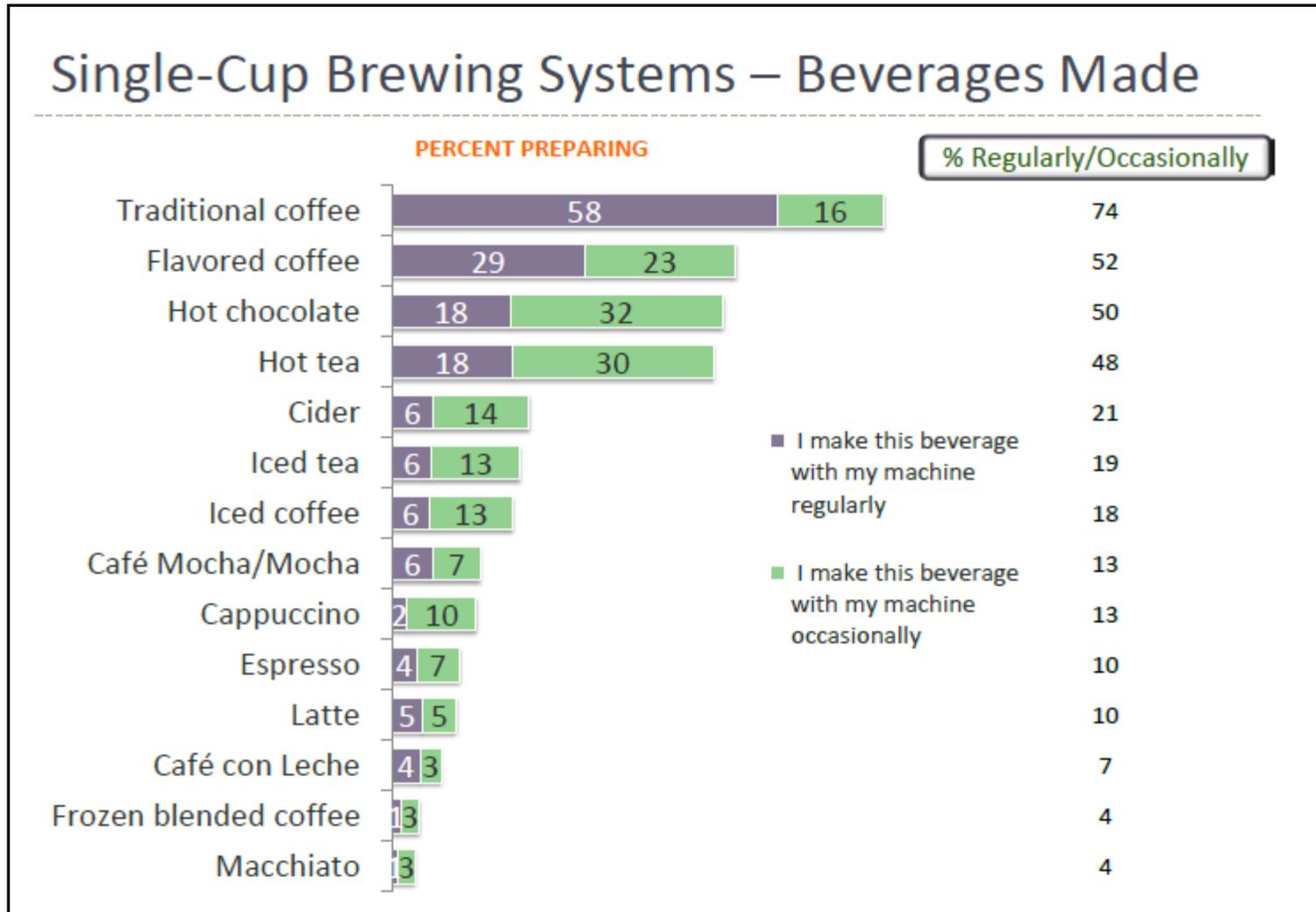
- Though drip brewers remain the dominant coffee prep method, their use (in preparing yesterday's coffee) has declined -- from 77% in 2010 to 61% in 2012.
- Single-cup brewers are the second-most common prep method, and their use is trending up (7% in 2010 to 19% in 2012).
- The use of single-cup brewing systems skews to younger adults (<40).



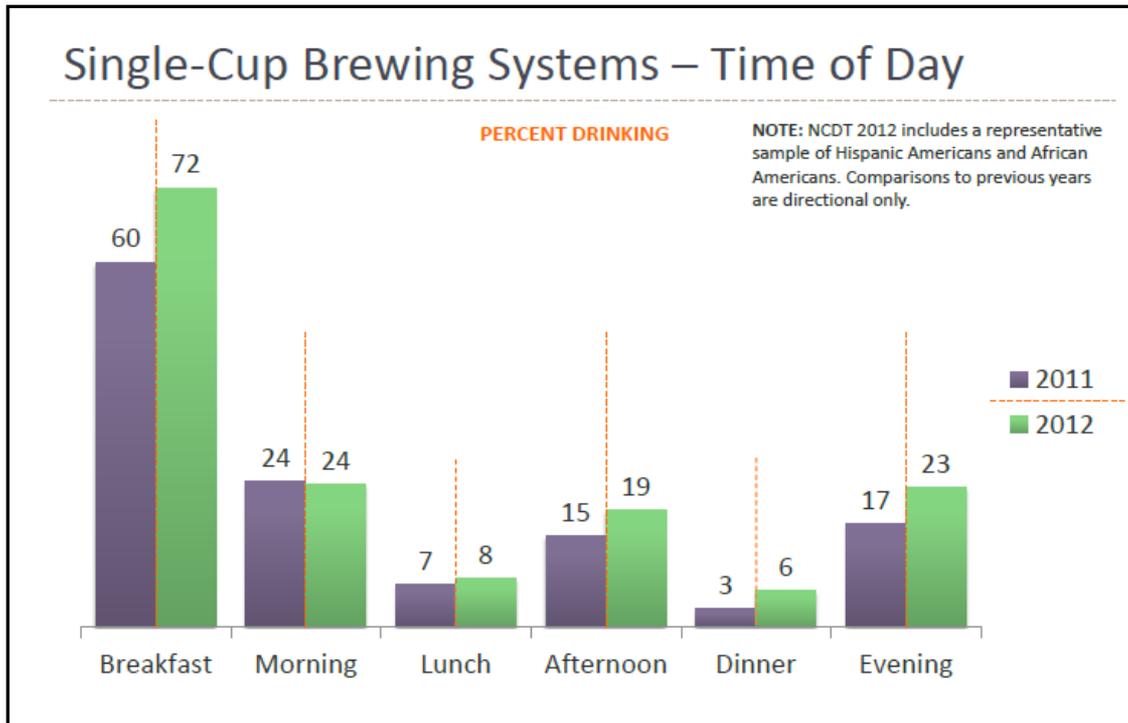
Young adults drink less coffee than their older counterparts.

Marketing single-cup offerings to consumers < 40 may be a great way to grow coffee drinking among younger adults.

# What's Brewing?



# Pod-Brewed Coffee Skews to Breakfast



Source: NCA's "The Single Serve Format 2012" Report

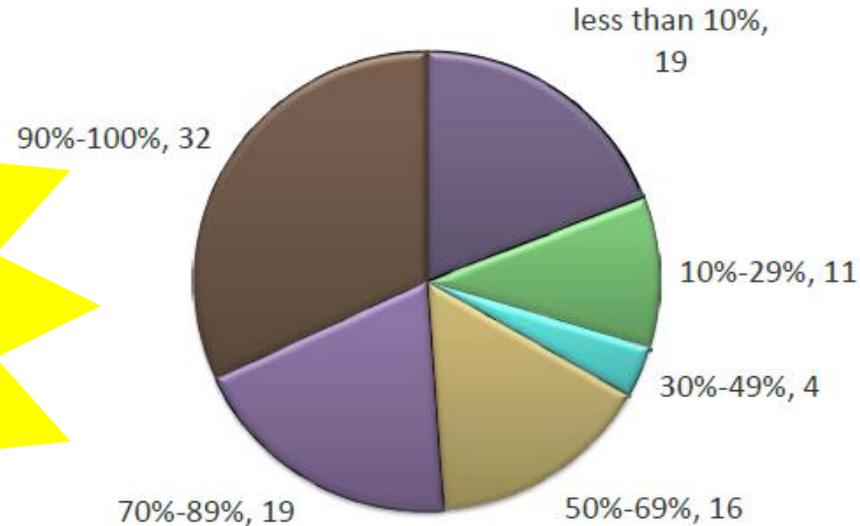
Those who own a single-cup brewing system, and drink coffee made from it daily, average 2.2 cups per day.

Single-cup system owners overall, including both daily drinkers and non-daily drinkers, **average 1.7 cups per day.**

# Tap into the Pod Market to Grow Your Buyer Base

## Single-Cup Brewing Systems – Share of Coffee

PERCENT OF CONSUMERS TOTAL COFFEE MADE WITH SINGLE CUP SYSTEM



More than ½ of single-cup system owners are getting NEARLY ALL or ALL of their coffee needs met by their single-cup machine. **The implication -- if you are not marketing pods, you are losing out on this type of coffee consumer.**

% Based on those that have a single-cup brewing system at home; (n=255)  
Thinking about all coffee that you drink both at home and away from home, what *percent* of your total coffee is made with this single-cup brewer?

71 nca

# Key Benefits: Speed, Ease, Less Mess, & Variety

Pod Brewer Owners' Top Beliefs	% of Owners that Agree Completely/ Somewhat with each Statement
This type of brewer is a fast way to make coffee	94%
This brewer is a less messy way to make coffee	87
This type of brewer is easier to use than other brewing methods	86
This brewer is able to make a wide variety of beverages	85
It is easy to buy the coffee disks/capsules that this type of brewer requires	85
This brewer makes better tasting coffee than other brewing methods	64
A cup of coffee made with this brewer is a good value for my money	60
This type of coffee brewer is reasonably priced	53

Not really delivering on great taste or value

Source: NCA's "The Single Serve Format 2012" Report

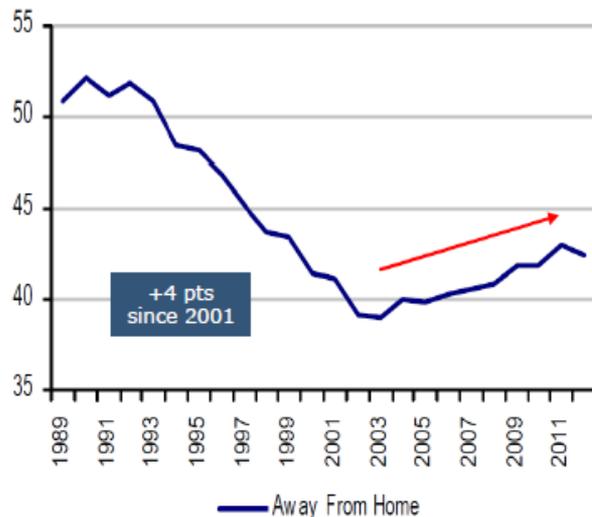


# Summary & Market Potential

# Pods & Single-Cup Brewers are Making an Impact

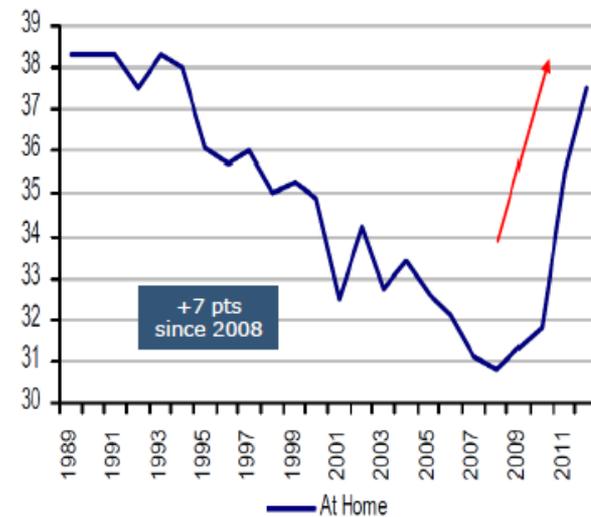
## Single-Serve driving At Home Consumption

Percent of Breakfasts Away From Home That Include Coffee



Source: The NPD Group's CREST Service

Percent of Breakfasts At Home That Include Coffee



Source: The NPD Group's CREST Service

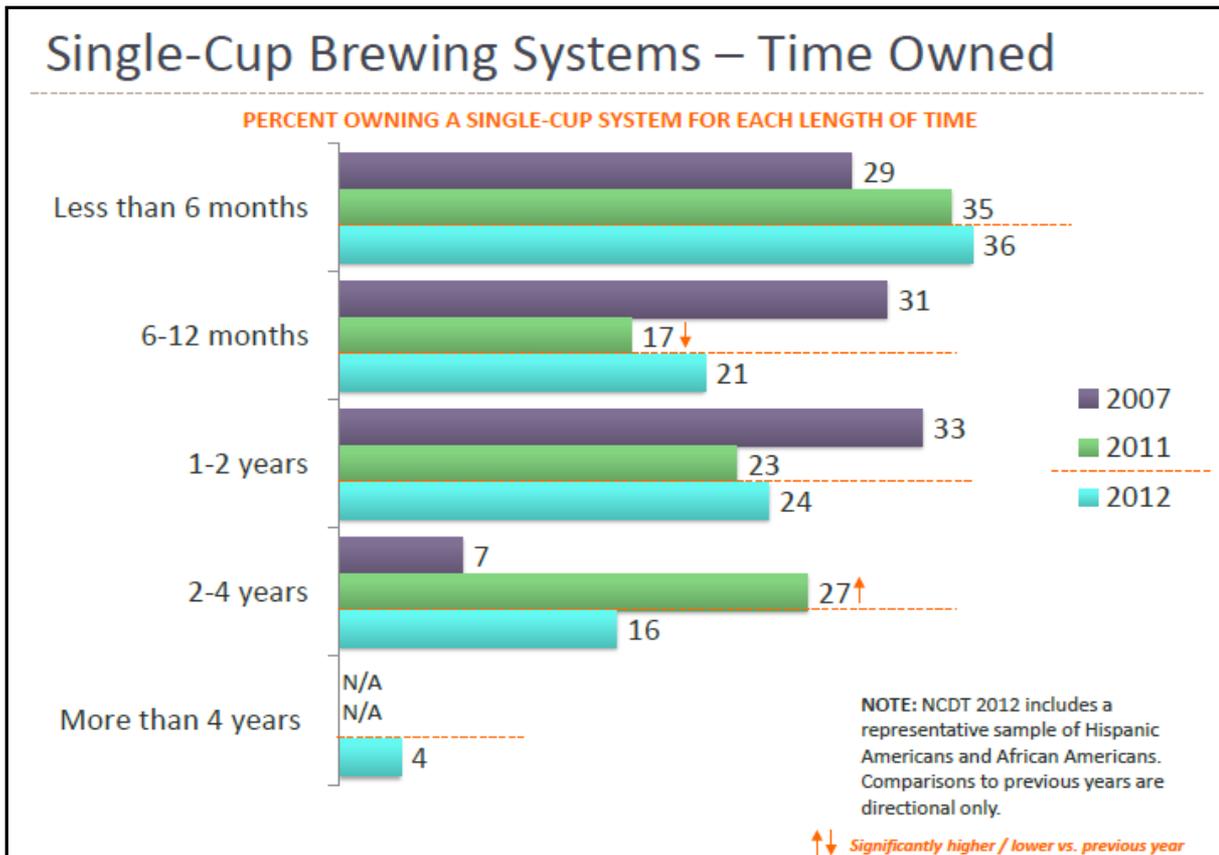
Source: Rabobank

# Yet the U.S. Pod Market is Still in Its Infancy

In spite of recent strong growth, the U.S. coffee pod market still holds a lot of upside potential.

Awareness, at 71%, is nowhere near universal, and single-cup brewing machine penetration is just 24%.

As depicted at left, ownership of single-cup brewers is still new, as almost 6 in 10 have owned their single-cup brewer a year or less.



Source: NCA's "The Single Serve Format 2012" Report

GLASGOW (UK) January 6, 2013

"It's the green breakthrough environmentalists have been waiting for decades to see ... for the first time, plastic wrapping that disintegrates without polluting the environment forever have [sic] been introduced by one of Britain's leading retailers.

John Lewis has started using what it says is the UK's first biodegradable polythene packaging for millions of the products it sells every year in its department stores."

# Market Force -- Eco Push to Come



BOSTON January 6, 2013

"Global Sportlifestyle company PUMA launches InCycle, the brand's first closed-loop collection of footwear, apparel and accessories, all of which have earned the "Cradle to Cradle Certified[CM] Basic" certification. PUMA's InCycle products are entirely biodegradable or recyclable. This product introduction is another important step in PUMA's mission to become the most sustainable and desirable Sportlifestyle company."

HONOLULU January 9, 2011

2 islands institute plastic bag bans Tuesday



"When bans on plastic bags kick in Tuesday on Maui and Kauai, businesses will begin providing environmentally friendly alternatives and more shoppers are expected to bring reusables with them to checkout counters. The Maui County Council approved a ban there in August 2008 while the Kauai County Council adopted its law a year later in October 2009, and implementation begins next week. The goal is to become more environmentally friendly by reducing litter, burden on landfills, and threats to marine life."

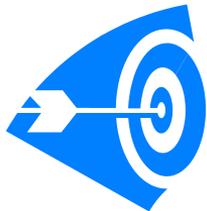
# Market Potential in Pods Overall, and in Eco-Pods



# The Ideal Target for Eco-Pods

## Millennials (born 1977-1994, aged 19-36 in 2013)

- 73 million
- Used to and want customization
- Civic-minded
- Many are still forming households and may not own a coffee maker yet -- first apartment, first house, first “real job” (i.e. need coffee!), getting married
- Many grew up with Starbucks & Caribou, so they appreciate premium, fresh-brewed coffee
- Pods offer them a good value proposition as they think about coffee value in terms of *cost per cup* (& relative to what they’ve paid at Starbucks)



Target more precisely by pinpointing higher-income Millennials aged 25-34 who live a lifestyle of health and sustainability (LOHAS).

### THE LOHAS CONSUMER

*The Natural Marketing Institute reports that roughly 1 in 5, or about 40 million U.S. adults, are LOHAS consumers. (Lifestyles of Health and Sustainability). They are environmental stewards, avid users of green products, and act to ensure personal and planetary health.*

### Why LOHAS consumers are a good target for Eco-Pods:

- *Live and breathe eco*
- *Tend to be higher income*
- *Willing to pay more for eco products*
- *Early adopters of eco products*
- *Influential*

# Appendix

# Can a Small Roaster Sell 500,000 - 1 Million Pods/Year?

Assume: The average single-cup brewer owner drinks 1.7 cups of single-cup brewed coffee/day every day of the year.

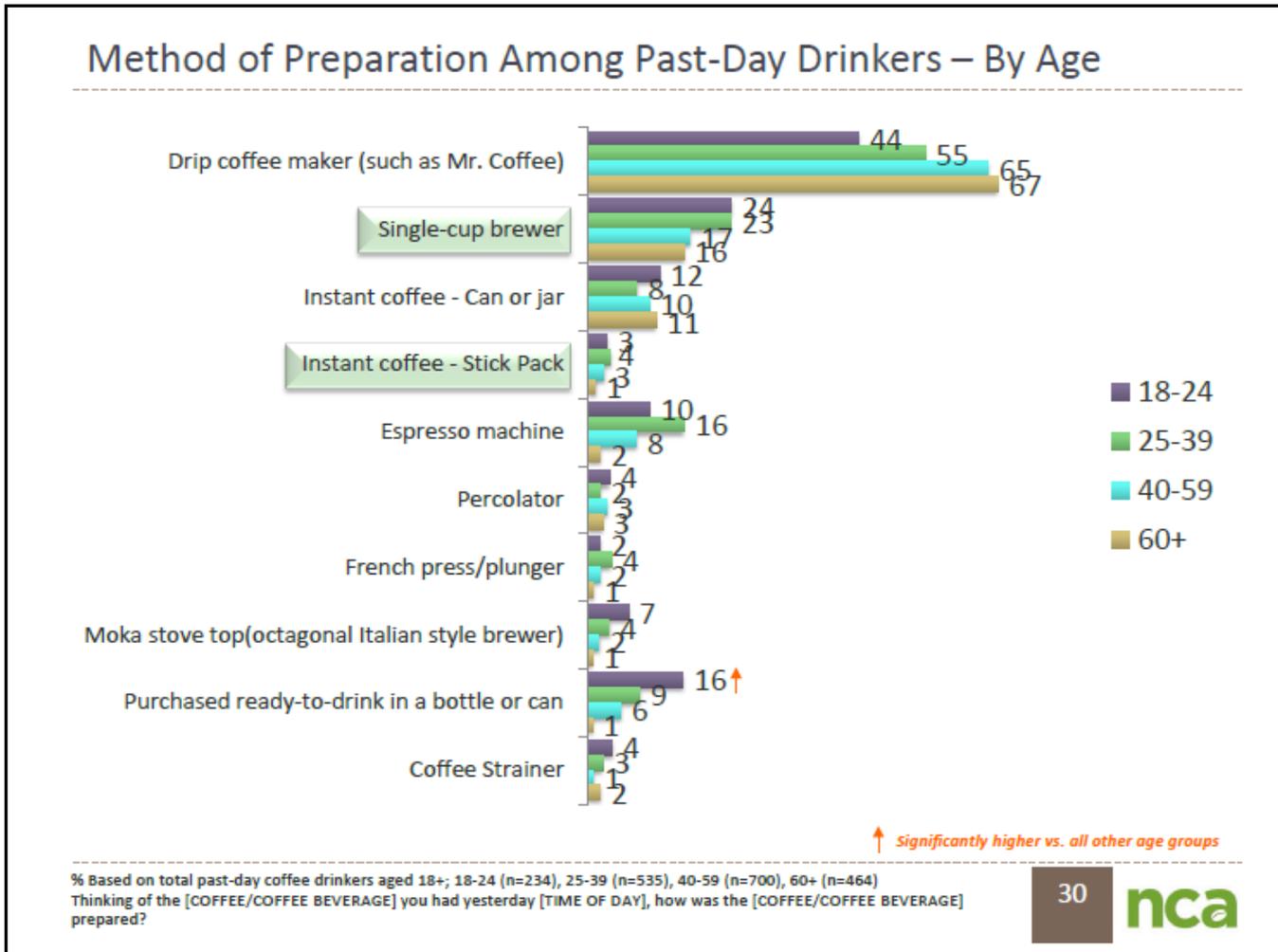
 (1.7 cups/day x 365 days/year = 620.5 cups/year)

To Sell This Many "Brand X" Pods/Year	Approx. Annual Buyers Needed If 100% of Single-Brewed Coffee Needs Met by "Brand X"	Approx. Annual Buyers Needed if 50% of Single-Brewed Coffee Needs Met by "Brand X"	Approx. Annual Buyers Needed if 25% of Single-Brewed Coffee Needs Met by "Brand X"	Approx. Annual Buyers Needed if 2 Cups out of Weekly Single-Brewed Coffee Needs Met by "Brand X"
500,000	800	1,600	3,200	4,800
750,000	1,200	2,400	4,800	7,200
1,000,000	1,600	3,200	6,400	9,600

Small roasters who desire to begin selling coffee in pods should consider the degree to which pod sales may steal from vs. be incremental to their bagged coffee or brewed coffee sales.

Ideally, pod pricing should be set so that pod margins are equal or accretive to bagged sales margins, but penny profit needs to be considered, as well.

# Method of Prep by Age



Source: NCA's "The Single Serve Format 2012" Report

# No Comprehensive Industry Count of the # of Roasters



5 sources can offer insight into the number of companies that roast coffee:

1. U.S. Standard Industrial Classification System
2. Survey of Business Owners (U.S. Census, from 2007)
3. Specialty Coffee Association Metrics
4. Roasters Guild
5. Boot Coffee (Consultancy)

# U.S. Standard Industrial Classification System

## # of Companies in the “Roasted Coffee” Industry\*

<b>2095 - Roasted Coffee</b> Standard Industrial Classification System (US SIC 1987)
<b>Industry Activities and Products</b>
Coffee concentrates (i.e., instant coffee) manufacturing
Coffee extracts manufacturing
Coffee roasting
Coffee, blended, manufacturing
Coffee, instant and freeze dried, manufacturing
Extracts, essences and preparations, coffee, manufacturing
Instant coffee manufacturing
Roasting coffee

**U.S. 542**

**U.S. & Canada 742**

**North America 782**

\* Based on 3/27/13 search of Lee Hecht Harrison's OneSource db

NAICS Code 311920 Includes:

- Coffee concentrates (i.e., instant coffee) manufacturing
- Coffee extracts manufacturing
- Coffee flavoring and syrups (i.e., made from coffee) manufacturing
- Coffee roasting
- Coffee substitute manufacturing
- Coffee, blended, manufacturing
- Coffee, instant and freeze dried, manufacturing
- Extracts, essences and preparations, coffee, manufacturing
- Extracts, essences and preparations, tea, manufacturing
- Instant coffee manufacturing
- Instant tea manufacturing
- Roasting coffee
- Syrup, flavoring, coffee based, manufacturing
- Tea (except herbal) manufacturing
- Tea blending
- Tea, herbal, manufacturing
- Tea, instant, manufacturing

# 2007 Survey of Business Owners (SBO)

**Based on the U.S. Census Bureau's  
2007 SBO**

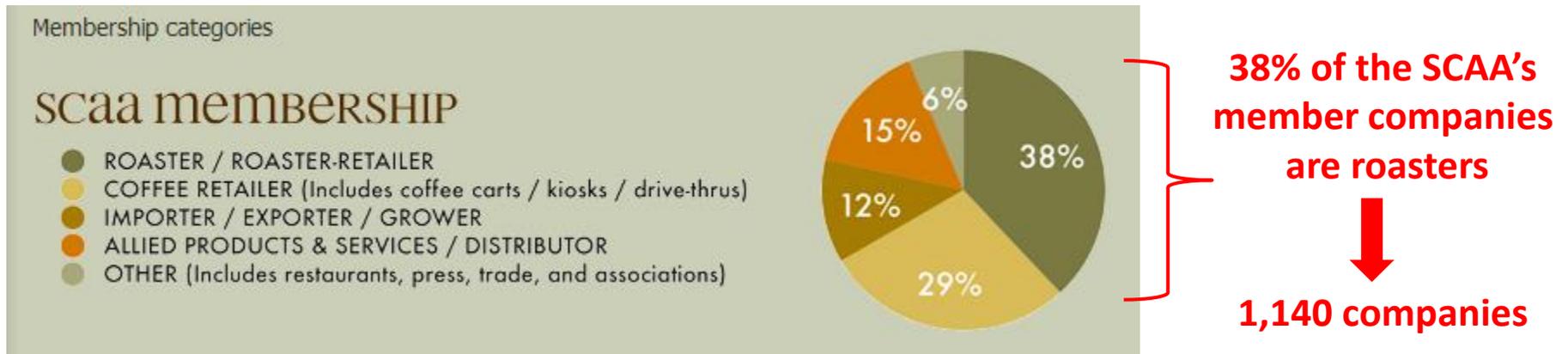
**281 firms were  
in the "Coffee & Tea Manufacturing"  
Industry**

Geographic area name	2007 North American Industry Classification System (NAICS)	Meaning of 2007 North American Industry Classification System (NAICS)	Meaning of Veteran code	Meaning of Ethnicity code	Year	Number of firms with or without paid employees	Sales, receipts, or value of shipments of firms with or without paid employees (\$1,000)	Number of firms with paid employees
United States	311920	Coffee and tea manufacturing	All firms	All firms	2007	N	N	281

Source: U.S. Census

# Specialty Coffee Association Metrics

- 3,000 Company Members
- From 40+ countries worldwide
- **Broad membership** (every segment of the specialty coffee industry, incl. producers, roasters, importers/exporters, retailers, manufacturers, baristas and other industry professionals)



Note: The reach of the SCAA is approaching 10,000 people. This group is comprised of 3,000 member companies, 1700 people who hold individual memberships, and people whose employers are member companies.

# The Roasters Guild



The Roasters Guild is an official trade guild of the Specialty Coffee Association of America that consists of specialty roasters dedicated to the craft of roasting quality coffee and promotes quality as the principle standard for success. Founded in 2000, the RG has steadily grown ever since and welcomes new members each year. To be a member of the Guild, roasting must be an integral part of one's profession. The Guild furthers roasters' knowledge of and skills in the history, fundamentals, art and science of coffee roasting and through an international community and year-round events. The Roasters Guild is the focused voice in the industry representing the interests of Roasters.

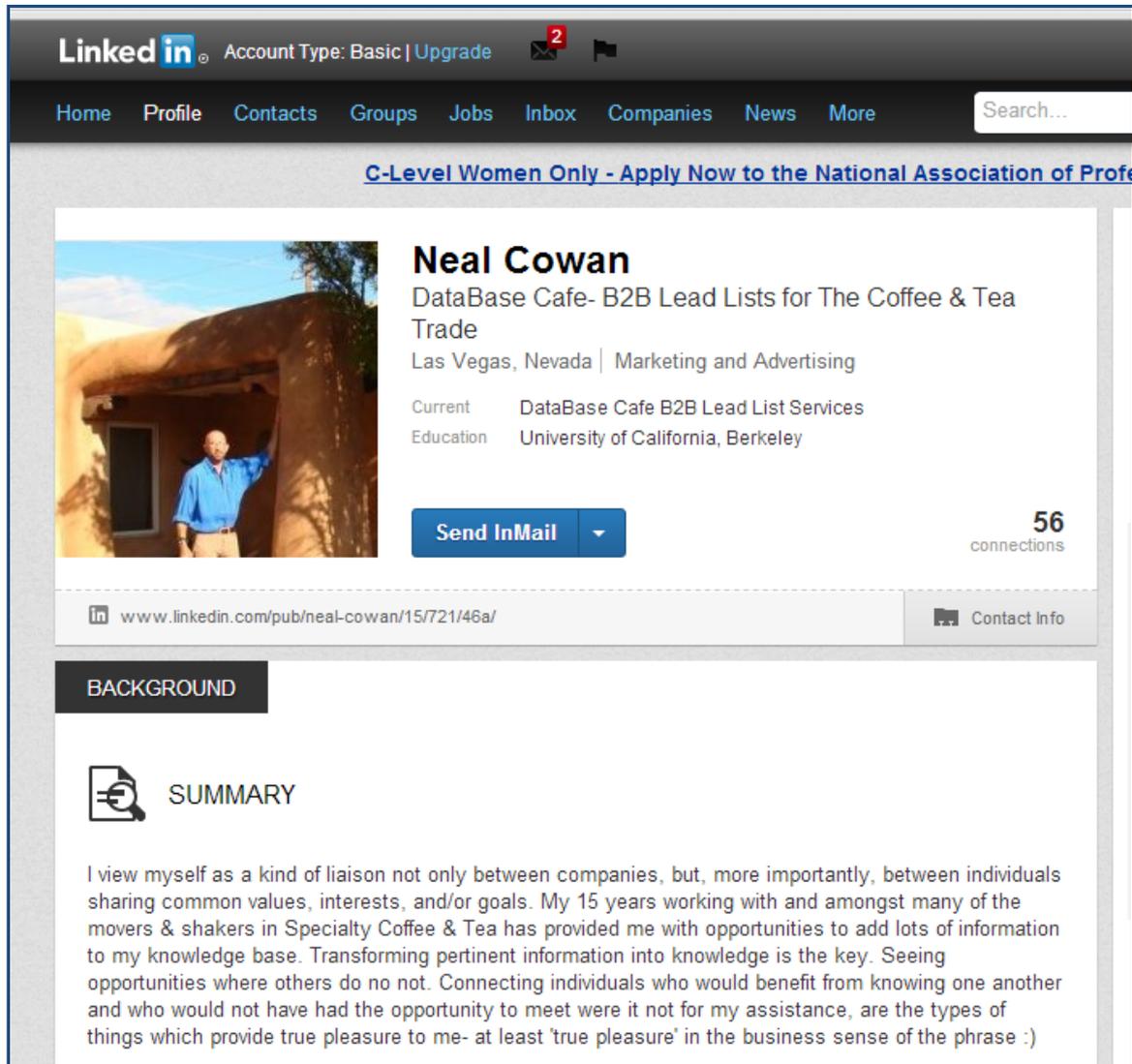
**The Roasters Guild website lists 539 guild members, people for whom Roasting is an “integral” part of their profession.**

# Boot Coffee



- Boot Coffee serves as a consultancy to the coffee industry ([www.bootcoffee.com](http://www.bootcoffee.com)).
- The woman I talked with there shared that **there are 4,000 roasters in the United States.** This is a number Boot Coffee obtained from Neal Cowan of DataBase Café.

# Neal Cowan of DataBase Cafe



The image is a screenshot of a LinkedIn profile for Neal Cowan. At the top, the LinkedIn logo is visible along with the account type 'Basic' and an 'Upgrade' link. There are notification icons for messages (with a '2') and a flag. The navigation bar includes 'Home', 'Profile', 'Contacts', 'Groups', 'Jobs', 'Inbox', 'Companies', 'News', and 'More', followed by a search bar. Below the navigation bar, there is a banner for 'C-Level Women Only - Apply Now to the National Association of Prof...'. The profile header features a profile picture of Neal Cowan, a man in a blue shirt standing in front of a building. To the right of the photo, his name 'Neal Cowan' is displayed in bold, followed by his current role 'DataBase Cafe- B2B Lead Lists for The Coffee & Tea Trade', location 'Las Vegas, Nevada | Marketing and Advertising', and education 'University of California, Berkeley'. A 'Send InMail' button is present, and the connection count is '56 connections'. Below the header, there is a URL 'www.linkedin.com/pub/Neal-Cowan/15/721/46a/' and a 'Contact Info' button. A 'BACKGROUND' section is visible, with a 'SUMMARY' sub-section containing a paragraph of text.

**Neal Cowan**  
DataBase Cafe- B2B Lead Lists for The Coffee & Tea Trade  
Las Vegas, Nevada | Marketing and Advertising  
Current: DataBase Cafe B2B Lead List Services  
Education: University of California, Berkeley

56 connections

www.linkedin.com/pub/Neal-Cowan/15/721/46a/

BACKGROUND

**SUMMARY**

I view myself as a kind of liaison not only between companies, but, more importantly, between individuals sharing common values, interests, and/or goals. My 15 years working with and amongst many of the movers & shakers in Specialty Coffee & Tea has provided me with opportunities to add lots of information to my knowledge base. Transforming pertinent information into knowledge is the key. Seeing opportunities where others do not. Connecting individuals who would benefit from knowing one another and who would not have had the opportunity to meet were it not for my assistance, are the types of things which provide true pleasure to me- at least 'true pleasure' in the business sense of the phrase :)

You may want to reach out to Neal Cowan. He is a Berkeley grad, and lives in Las Vegas.

His business is DataBase Café, a company that provides B2B contact directories for the Specialty Coffee & Tea Trade.

His website says he has contact info for 2,250 Commercial Coffee Roasters.

For more information:  
Email: [neal@database-cafe.com](mailto:neal@database-cafe.com)  
Telephone: 702/688.2325



## More on Growth Rates & Market Share

# Compound Annual Growth Rate Expected to Exceed 20%

## Five Year Outlook

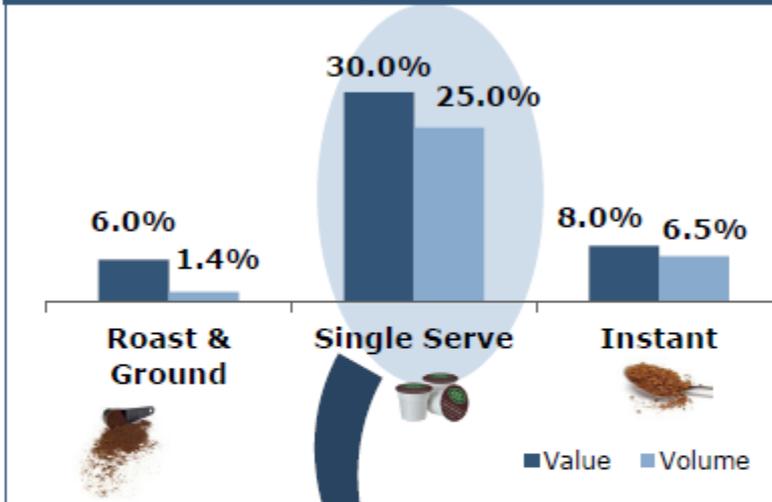
Projected Single Cup Growth  
Dollars in Millions

Channel	Description	2012E	2013	2014	2015	2016	2017	CAGR
Grocery	Food, Drug, Mass & Club	\$905	\$1,403	\$1,964	\$2,357	\$2,710	\$2,981	26.9%
	Growth Rate	100%	55%	40%	20%	15%	10%	
	Channel Share	29%	33%	36%	36%	37%	37%	
Specialty	Bed Bath, Dept, E-commerce	\$1,100	\$1,375	\$1,650	\$1,898	\$2,087	\$2,296	15.9%
	Growth Rate	30%	25%	20%	15%	10%	10%	
	Channel Share	35%	32%	30%	29%	28%	28%	
Foodservice	Starbucks, Stores, OCS, Leisure	\$1,160	\$1,508	\$1,885	\$2,262	\$2,601	\$2,861	19.8%
	Growth Rate	30%	30%	25%	20%	15%	10%	
	Channel Share	37%	35%	34%	35%	35%	35%	
<b>Total Market K-Cups</b>		<b>\$3,165</b>	<b>\$4,286</b>	<b>\$5,499</b>	<b>\$6,516</b>	<b>\$7,399</b>	<b>\$8,139</b>	<b>20.8%</b>
	Growth Rate	70%	35%	28%	18%	14%	10%	

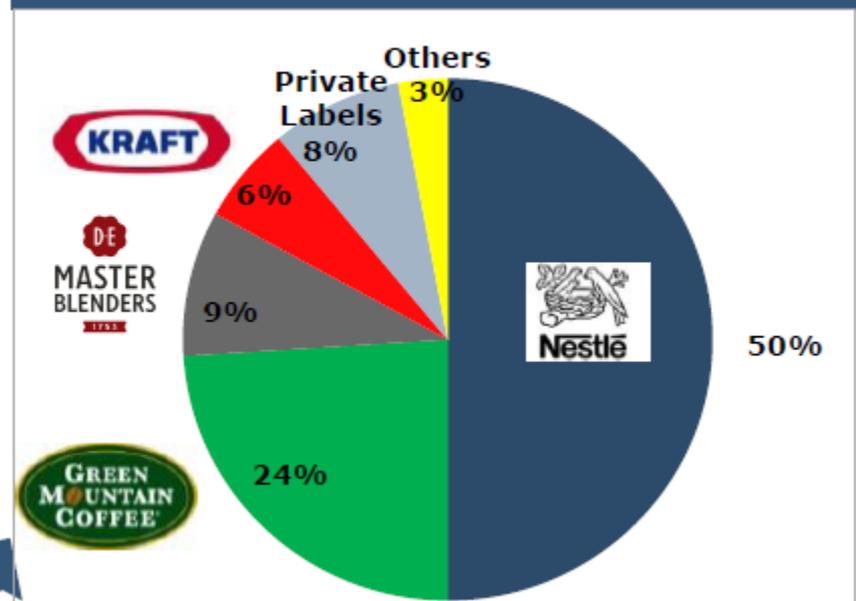
Source: Rabobank, CRC, Euromonitor

# Nestle Dominates Global Single Serve

CAGR 2006-2011 global coffee market

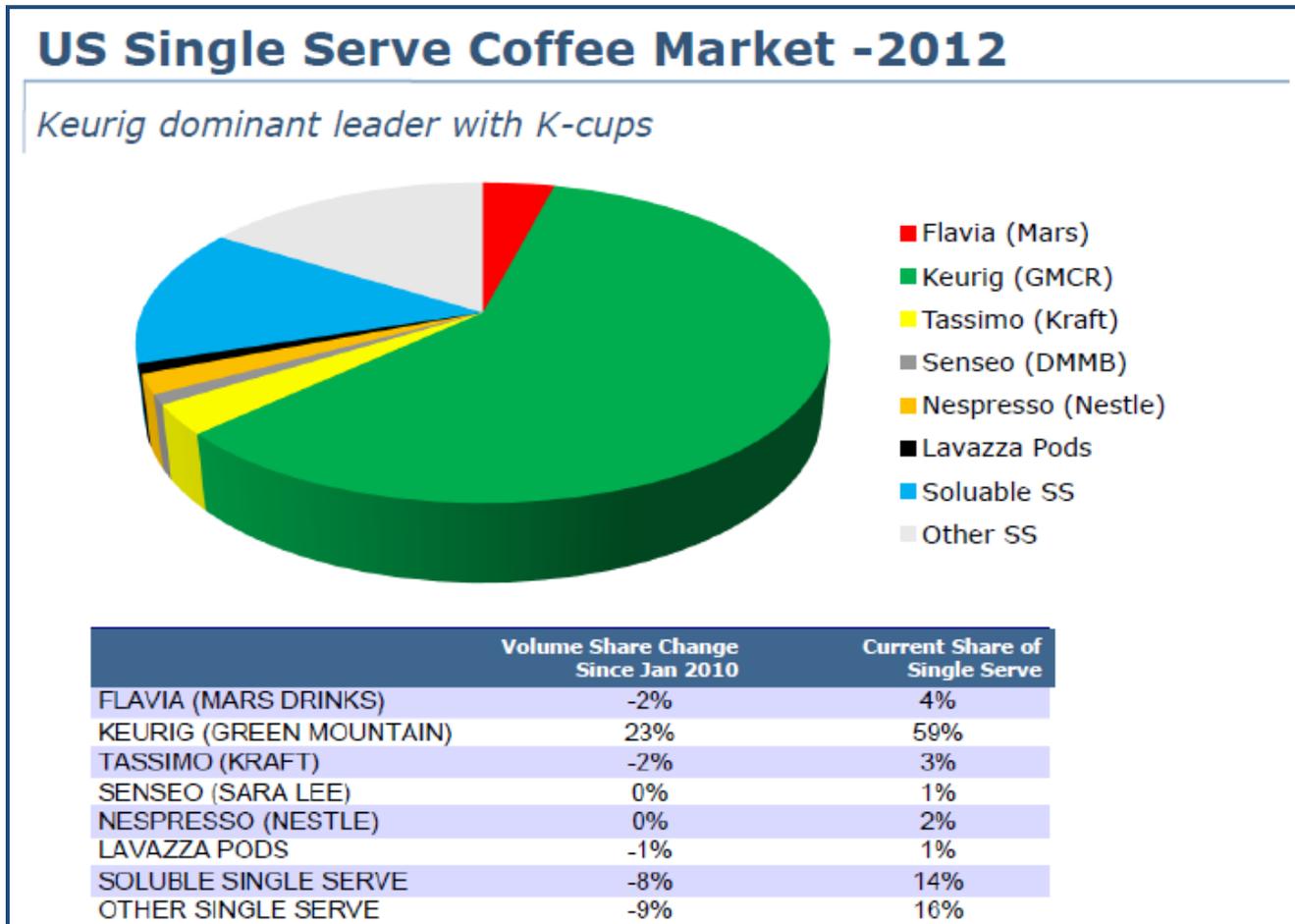


Global single-serve market shares - 2012



Source: D.E Master Blenders, Euromonitor, Nielsen

# Keurig is the U.S. Cup Leader



Sources:  
Rabobank,  
Study Logic,  
Nielsen

# Resources

## Industry

- [Coffee Association of Canada](#)
- [Coffee Fest Trade Shows](#)
- [National Association for the Specialty Food Trade](#)
- [National Coffee Association of America](#)
- [Specialty Coffee Association of Europe](#)
- [Tea Association of America](#)
- [Tea Association of Canada](#)
- [The Roasters Guild](#)
- [World Tea Expo](#)