

Coffee



**Good for your business
and good for you**



A message from the Coffee Association of Canada

Coffee is a staple in grocery stores, an everyday product that most consumers shop for on a regular basis. Coffee remains the most popular daily beverage of Canadian adults with 63% of them drinking it daily and average consumption running at about 2.6 cups a day per drinker. With grocers stocking their shelves with a wide range of brands, flavours and formats, sales have inched up year after year to create steady growth, which matches population growth.

More than \$600 million worth of coffee (ground, whole beans, instant and specialty) was sold in grocery, drug, mass and club stores last year, according to ACNielsen and the Coffee Association. Seventy-one per cent of that was at-home coffee purchased in grocery stores. Yet, while the grocery sector's coffee sales has seen modest growth of 1%, other channels are seeing stronger increases. Over the last five years, net coffee imports have been rising by 3% per year and Canada now imports over 300 million pounds of green beans.

The at-home coffee category, like so many other consumer marketing endeavors, is polarized between premium coffee at one end and the big economical discount tins at the other. Both ends are doing well, although the popularity of the big size creates strong price competition. The higher priced premiums have less market share but add significant dollar sales at retail. More and more Canadian coffee drinkers are knowledgeable about coffee and they demand a wider and finer selection. And, premium specialty coffees continue to differentiate from each other and offer selection based on origin, quality and social/environmental add-ons.

One development that promises to boost excite-

ment in the grocery category is the launch of coffee pods for home use. Several large multinational food manufacturers are set to introduce their own versions over the next few months. Pods—single-serve portions for use in specially designed coffee machines—are already popular in Europe where they've been on the market for a few years. Single-cup coffee makers are not really new in Canada, as they are often seen in offices. But, the migration from the office to the home opens up incredible opportunities to expand the market for premium gourmet coffees and boost coffee dollar sales in grocery stores.

It's obvious that coffee is good for business, and the latest medical research shows that coffee is also good for you! Several major studies have dispelled many myths that have led some consumers to shy away from drinking coffee. In fact, these studies show that coffee is a healthy beverage that does not predispose consumers to heart disease and may even help reduce the risk of some forms of cancer, gallstone disease, Parkinson's disease, Alzheimer's disease and Type II diabetes. So, there are a lot of reasons to expect higher consumption of coffee and better coffee sales in grocery stores.

The Coffee Association exists to address industry issues, including a wide range of regulatory and labelling issues. Next year we will present an updated Coffee Trends Drinking Study, which tracks consumer behaviour in relation to coffee.

Regards,
Sandy McAlpine, President
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Coffee pods should boost category sales dollars

The biggest innovation in coffee brewing since the launch of drip machines 30 years ago is about to hit Canadian retail. And, if consumers respond as expected, this should be great news for grocers. The introduction of single-serve coffee brewers together with single-serving coffee “pods” is expected to add both excitement and sales dollars to the coffee category.

One-cup coffee makers aren’t really new since they’ve been part of the office coffee scene for quite some time. Machines designed for home use have been on the European market for a few years already

Consumer buying trends

- Over the past year, 80% of Canadian households made at least one trip to buy coffee, making on average seven trips to buy coffee in the year.
- On average, consumers buy 0.7 kg of coffee on each trip (5 kg per year) and spend an average of \$9.00 per kilogram.
- On average, consumers purchased 38% of their coffee on deal. They were most likely to purchase coffee on deal in drugstores (70%).
- The heaviest coffee buying patterns occurred in the group comprised of empty nesters (90%) and middle-aged childless couples (85%); Eleven per cent of this group purchased more than 10 kg of coffee per year and bought 1 kg each trip (16 kg per year). However, they spent only \$7.00 per kilogram and bought 40% on deal.
- Canadians buy 71% of the coffee they make at home in a grocery store, 10% is purchased in a club store, 13% in mass merchandisers and 3% in drugstores.

Source: The “At Home Coffee Market in the Grocery Sector” presentation by Peter Elgersma, ACNielsen, at the Coffee Association of Canada conference, June 22, 2004.

and appeared in U.S. stores more than a year ago. Now, major coffee and appliance manufacturers are targeting the Canadian at-home market with brewing machines that use prepacked single-cup servings to make one cup of “café quality” gourmet coffee in under a minute. Marketers say that the migration of single-serve coffee from the office to the at-home market will encourage consumers to spend more money on the coffee they buy in grocery stores.

“We expect the single-serve products to have a huge impact on the coffee category’s profitability,” says Ian Buckingham, director of sales and marketing for Toronto-based Melitta Canada Inc. “After two-and-a-half years on the European market, one-cup coffee machines now represent 30% of annual sales. Based on that experience, we expect one-cups to take off in Canada, too, and then the category’s dollar sales will rise as people buy coffee pods to use in the machines.”

Sara Lee Corporation helped start the pod phenomenon when the company teamed up with Philips, the appliance manufacturer, to create Senseo, a one-cup coffee pod brewing system first introduced to European market in 2001 and then to the U.S. this past spring. “It’s been a long time since there has been such exciting innovation in the category and the pods are certainly taking the market by storm,” says Bari Atkinson, Sara Lee’s manager of marketing services. “We’ve had great success with Senseo in Europe and in the U.S., but we won’t be launching into Canada until some time next year.”

Other manufacturers, however, are getting into the Canadian market sooner. Melitta, which introduced its One:One system to American consumers last year, is now bringing the product to Canada. P&G and Kraft have followed the trend by partnering with appliance makers to create their own



What's so good about drinking coffee?

- It can make you more energetic, confident and ready to work, according to a study by Johns Hopkins University in Baltimore, Maryland.
- Coffee can help you stay alert—studies show that night workers and drivers are less likely to have accidents if they drink coffee.
- It can combat forgetfulness of old age, reports a study done in Maastricht, Holland.
- Coffee is not bad for you! Canada's Food Guide to Healthy Eating supports the fact that drinking three to four cups of coffee a day does not increase the risk of heart disease or hypertension.

single-cup systems, which Canadians will be able to purchase here shortly. In September, P&G will begin selling its Home Café system, using Folgers coffee pods and Black & Decker brewing machines. Kraft Canada will launch single-serve Nabob and Maxwell House Coffee Pods in November in major grocery, mass and club stores across Canada. The Maxwell House and Nabob pods are designed to work in almost any machine, including Home Café and Senseo systems.

"We believe that on-demand coffee is the beginning of a great new way for consumers to quickly enjoy fresh-tasting coffee, and Kraft is putting the full weight of powerhouse brands like Maxwell House and Nabob coffee behind this innovation," says Dino Bianco, Kraft's vice-president, coffee marketing. "Kraft will continue to take a leadership role in this emerging category with exciting innovations and brand initiatives."

"Since specially designed brewing makers are essential for using the single-serve coffee pods, grocery retailers likely won't see great demand for the new products until sales of machines reach critical mass," says Buckingham. Over the next few months, there will be a huge push to get the one-cup machines into mass merchandisers and into grocery stores with

space to carry small appliances. The one-cup systems are expected to have a lot of appeal as gifts, particularly during the upcoming Christmas season. Depending on the manufacturer, the new coffee machines should retail for between \$80 and \$100.

Why will consumers trade in their old coffee makers for the new designs? The coffee pod systems offer some distinct advantages for consumers. First of all, it takes less than a minute to make a cup of gourmet quality coffee. Second, it is incredibly simple to use and easy to clean. A pre-measured coffee pod (looks much like a teabag only filled with ground coffee) is placed in the machine where it is clamped tight to form a pressure seal. The water automatically heats to the optimum temperature of between 90 and 100 degrees C and is pressure forced through the pod to brew the coffee directly into a cup.

Consumers who buy into the coffee pod technology, could be paying more per cup for their at-home coffee—a trend that could drive up category dollar sales in grocery stores. "Using the pod brewing systems, people will be able to make café-style coffee for about 20 to 30 cents a cup," says Buckingham. "That may seem like a lot compared to the average five cents a cup you get from typical big-tin coffee,

but many people are prepared to spend \$3 for a cup of gourmet coffee outside the home.”

The big job now is to educate consumers about the advantages of brewing their coffee at home using a single-cup brewer. Over the next few months, marketers will be inundating the market with information and promotions.

Premium coffee leading category growth

While coffee is a huge category for grocery stores, it's true that sales have been less than spectacular lately. According to ACNielsen MarketTrack, national total grocery dollar sales reached \$371.4 million for the 52 weeks ended June 12, 2004. That represents a slight increase of 1% over the previous year. Volume sales actually dropped 1% in the same period.

One trend blamed for stagnant sales is the ongoing price war between the big tin brands in various retail channels, including grocery. Hot competitive pricing has eroded margins in some coffee segments and cut into the category's overall profitability. Yet, there is still significant growth in the premium side of the coffee business.

“Premium makes up only 15% to 20% of the category but this segment is experiencing double-digit growth,” says Ian Buckingham, director of sales and marketing for Melitta Canada Inc. With the premium side growing and sales of the economy-sized brands static or falling, the higher end products could very well capture a larger proportion of the category over time.

Starbucks' recent entry into Canadian grocery stores will likely help drive sales at the premium end of the category. Over the past few years, branded coffee shops like Starbucks have helped to educate consumers about premium and specialty coffees. “We've built market strength and brand awareness through our retail network and now we see it as a good time to launch a packaged goods offering to the grocery trade,” says Colin Moore, president, Starbucks Canada. “A lot of the coffee category in the Canadian retail trade has been commodified to a large degree with products that have relatively low price points. There is a great opportunity for ourselves and the trade because of the premium quality of our products and the fact that Starbucks is positioned for a higher price point, which will provide good margins for retailers.”

In the meantime, grocers are likely seeing increased sales of whole coffee beans. According to ACNielsen, dollar sales for the total whole bean segment jumped to \$17.4 million in the 52 weeks ended June 12, 2004. That's a whopping 24% increase over the previous year. Tonnage grew 15%. Driven primarily by sales of premium coffee, the total roast

Coffee can reduce health risks

Medical researchers have good news for coffee drinkers. Despite many myths to the contrary, the latest research shows that moderate coffee consumption is not associated with an increased risk of developing heart disease. And, it may even protect against some forms of cancer and other debilitating diseases.

Beverly Clevidence is a medical researcher with the Phytonutrients Laboratory, Beltsville Human Nutrition Research Centre, Agricultural Research Centre, USDA in Washington, DC. Here are some of the most significant medical findings that Clevidence presented to the Coffee Association of Canada's 2004 conference attendees:

- The effect of coffee and caffeine on blood pressure is very small. While chronic intake of five cups of boiled coffee a day could lead to higher serum cholesterol levels, coffee that is filtered, as is the case with virtually all brewed coffee in Canada, does not contain the chemical component blamed for increasing cholesterol.
- Coffee drinking may protect against colon cancer. According to one study, the risk of colon cancer dropped by 27% in people who drank four or more cups per day compared with non-drinkers.
- A study which followed 14,629 Finnish adults for 14 years found that coffee intake reduced the risk of Type II diabetes. The risk fell by 24% for people who drank three to four cups of coffee a day and to 61% for those consuming more than 10 cups per day.
- Various studies have shown that coffee consumption is not linked to pancreatic or ovarian cancer. A 10-year study of 59,036 Swedish women compared women drinking four or more cups a day to those who drank one cup or less a week and found that coffee and caffeine are not associated with breast cancer.
- After comparing men in the highest category of caffeine intake to those with the lowest caffeine intake, one study showed that caffeinated coffee reduces the risk of gallstone disease.
- Other studies have concluded that coffee drinkers also have lower risk of developing Parkinson's disease and Alzheimer's disease.

and ground segment maintained steady sales with a 3% rise in dollar volume to reach \$249.4 million. The specialty coffee segment, however, dropped 12% in dollar sales and 11% in volume. Instant coffee lost 2% in dollar sales and gained 2% in volume, a sign that while instant coffee drinkers remain loyal to the format, prices have fallen somewhat.

It will be interesting to see a year from now what impact coffee pods, the most innovative product to enter the category in a long time, will have on grocery's coffee sales. ●