

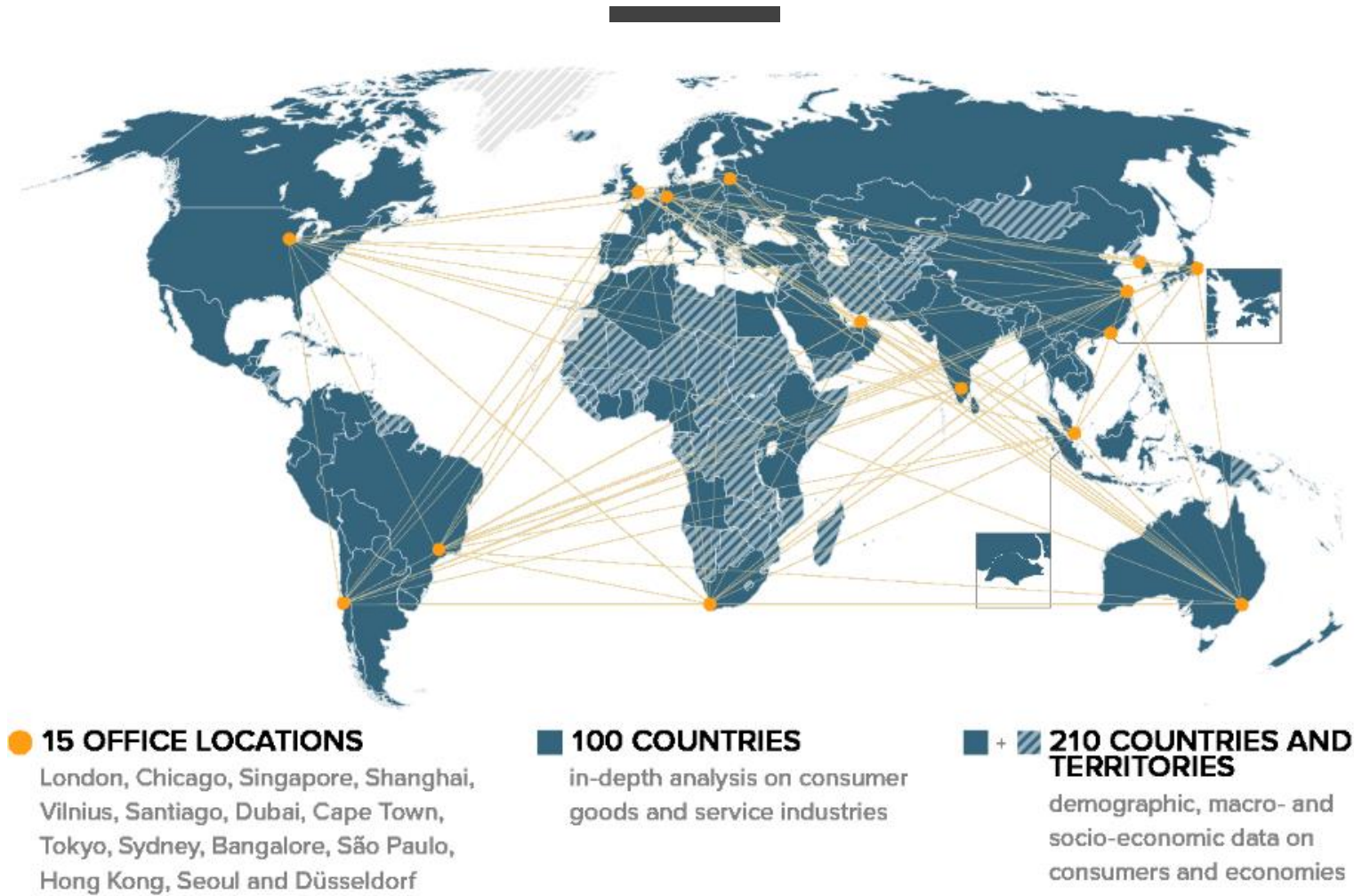
# Coffee in 2019: Focus on the European Union and the USA

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ENCAFÉ, November 2019

Matthew Barry, Consultant - Beverages

# Euromonitor International network and coverage



# OVERVIEW

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Coffee in 2019: A Global Overview

The USA

The European Union

Conclusions



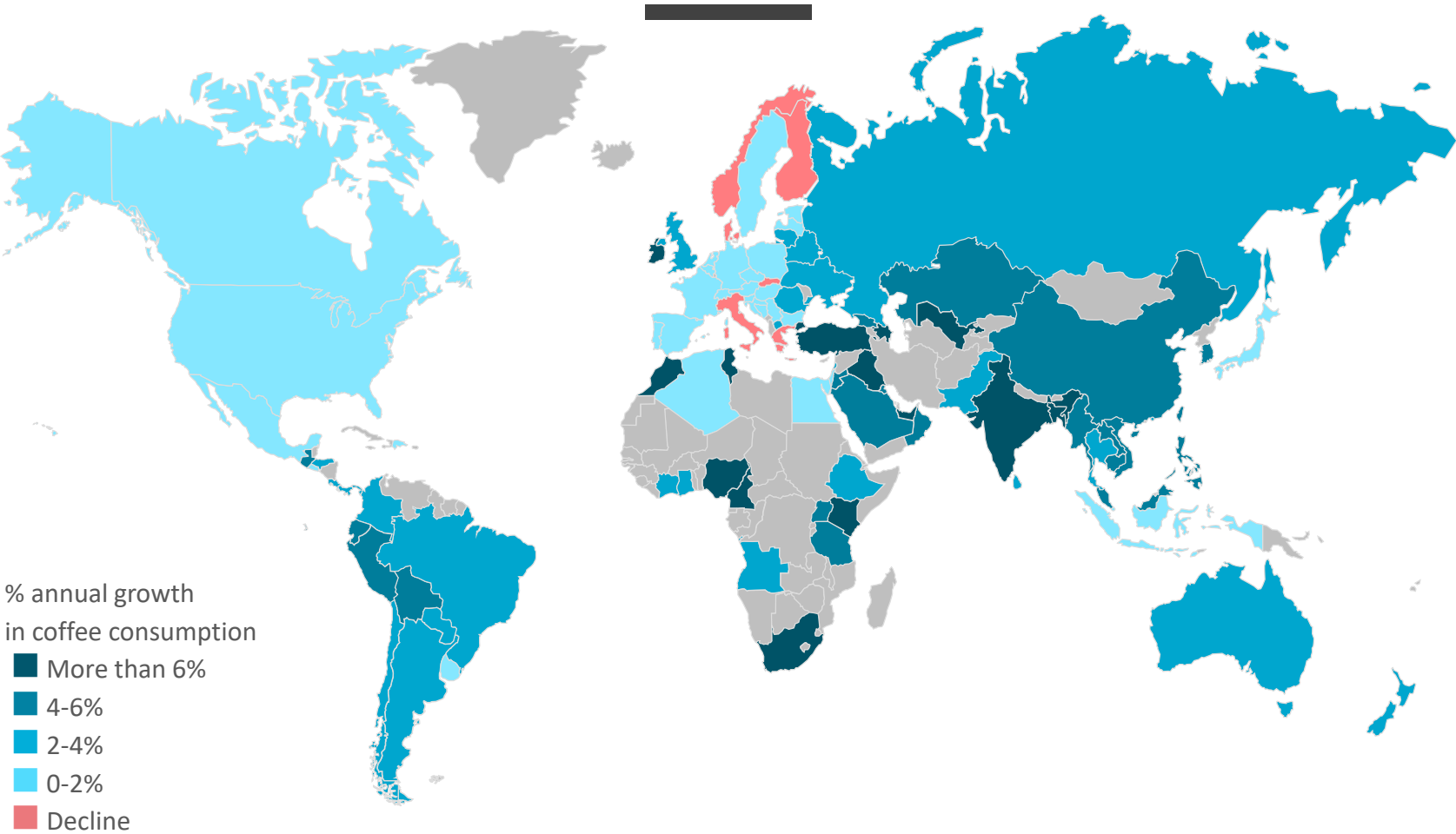


The background image shows two white ceramic cups of coffee with latte art, each on a matching saucer with a spoon. They are placed on a light-colored wooden table. In the background, a window looks out onto a blurred green landscape. The entire image has a warm, orange-yellow color overlay.

1.

# Coffee in 2019: A Global Overview

# The world is drinking more coffee



Figures: CAGR 2018-2023 Total Brewed Volume

Source: Euromonitor International

Fresh ground pods

+5.7% CAGR



Fresh beans

+4.8% CAGR



Instant

+1.7% CAGR



**All formats of coffee are growing**

Standard ground

+1.4% CAGR



Ready-to-drink

+1.3% CAGR



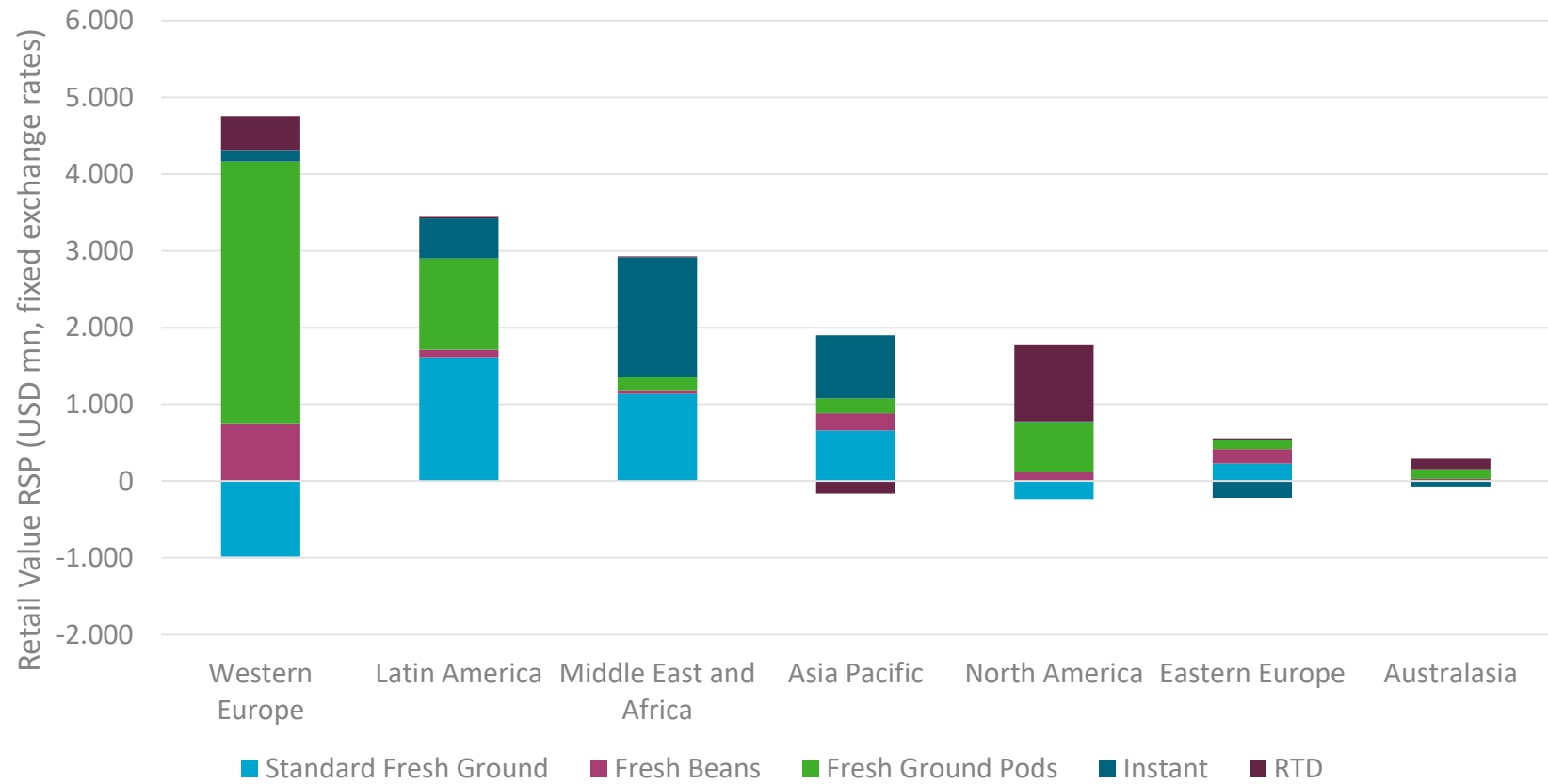
*Note: Constant value terms*

*Source: Euromonitor International*


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# Regional growth patterns are split

Retail coffee value growth by region 2018-2023



Source: Euromonitor International

The background of the slide is a blue-tinted collage of financial and business-related imagery. It includes a smartphone displaying a spreadsheet, a calculator with a percentage key, various pie charts with segments labeled with percentages like 14%, 18%, 7%, 13%, and 14%, and a bar chart. The overall theme is data analysis and business growth.

The differences can be explained  
by looking at the leading driver of  
growth

...and it is almost always one of four things



This can be done using EMI's Industry  
Forecasting Model (IFM)

Retail Value Sales, Real US\$ mn, 2015 - 2023, Y-on-Y Growth %

2018 Constant Prices, 2018 Fixed Year Exchange Rate

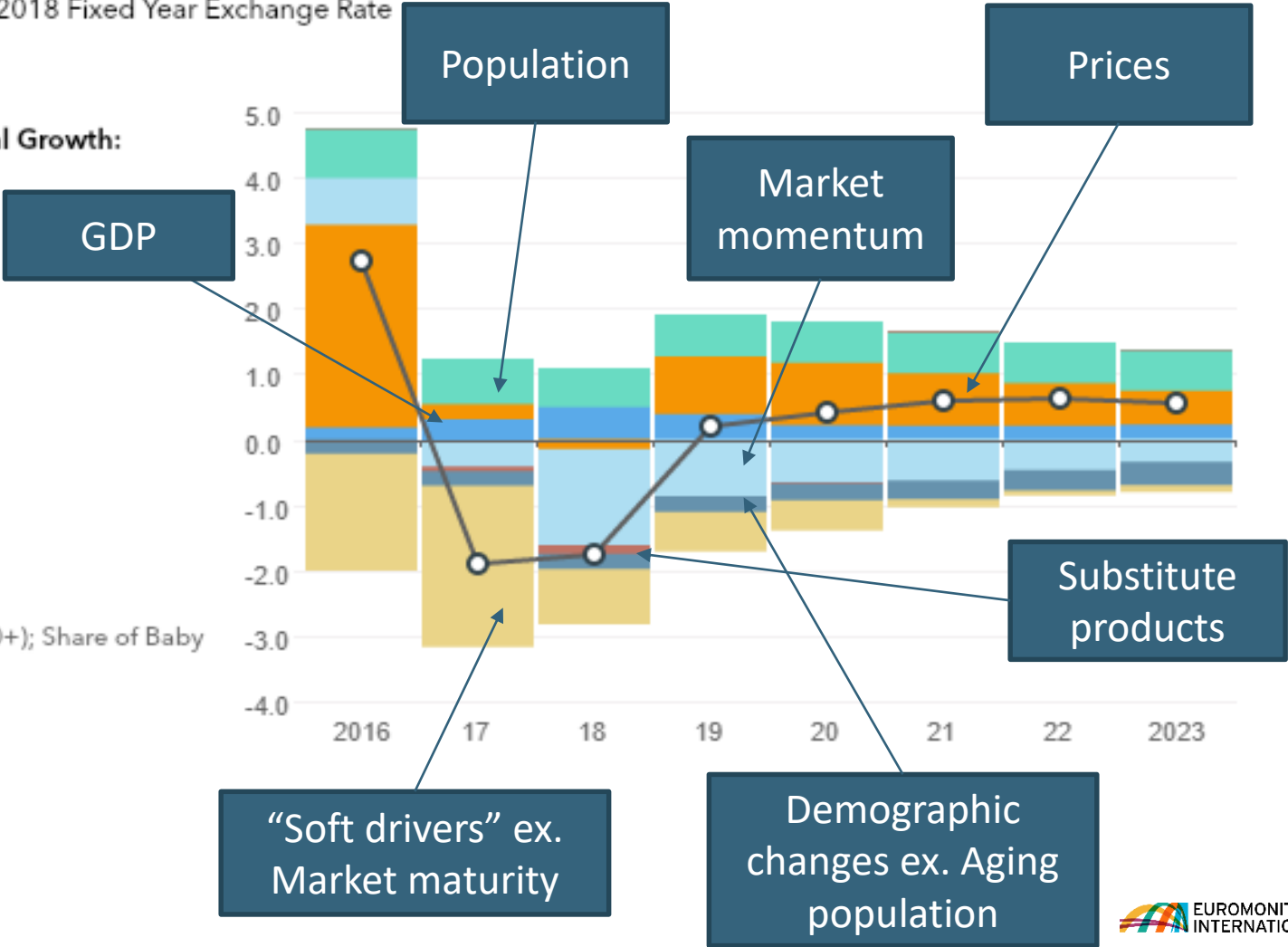
USA - Fresh Coffee

Retail Value Sales, Real Growth:

○ Quarterly Update

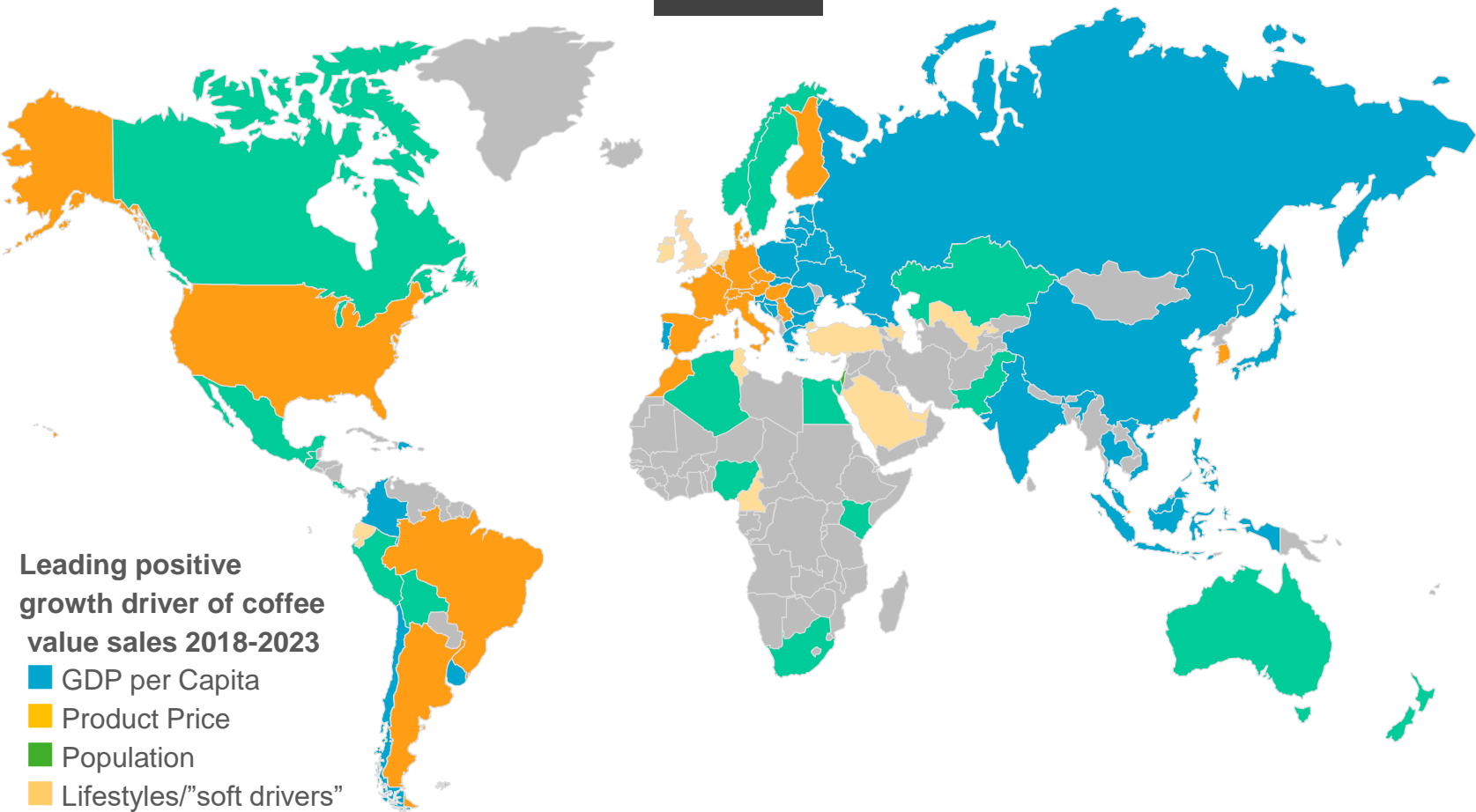
Driver Effects:

- GDP Per Capita
- Product Price
- Habit Persistence
- Population
- Substitutes Price (Instant Coffee)
- Demographics (Later-Lifers (aged 60+); Share of Baby Boomers)
- Soft Drivers (- Maturity of sector)



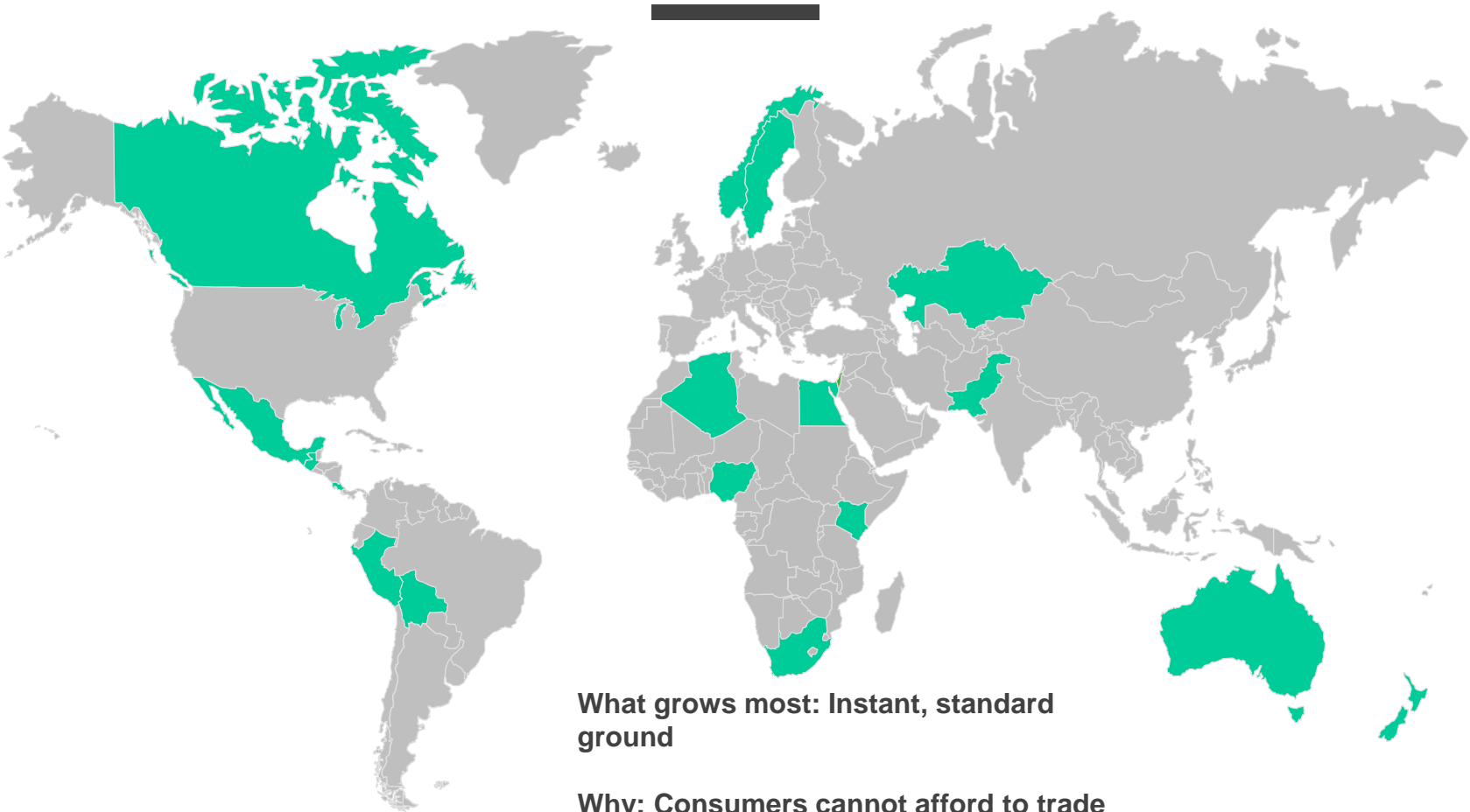
Source: Euromonitor International

# Map: The leading driver of coffee growth



Source: EMI Hot Drinks Industry Forecast Model

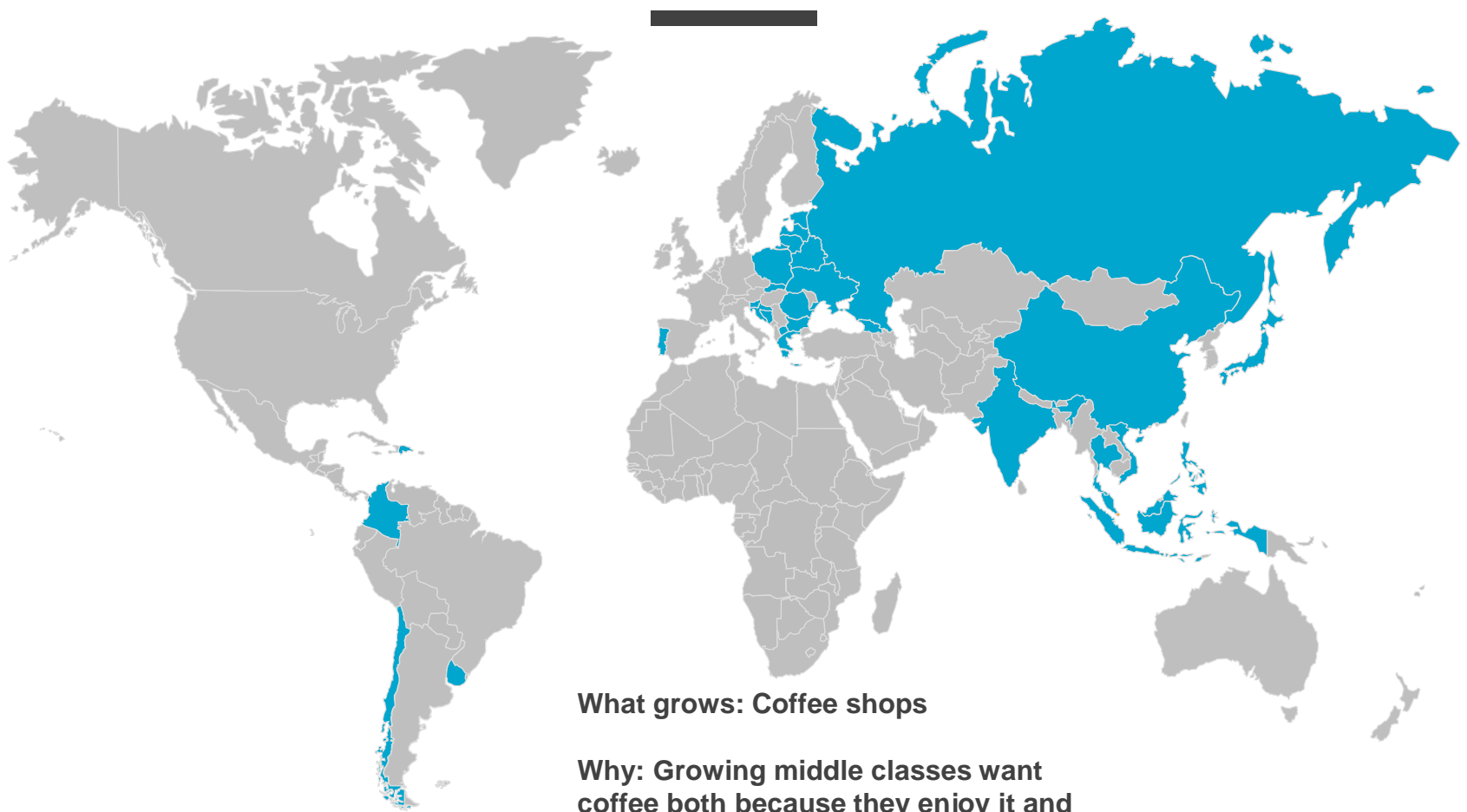
# Type One: Population-Led



**What grows most: Instant, standard ground**

**Why: Consumers cannot afford to trade up, so they buy more of the same**

# Type Two: Income-led



**What grows: Coffee shops**

**Why: Growing middle classes want coffee both because they enjoy it and also for the status**



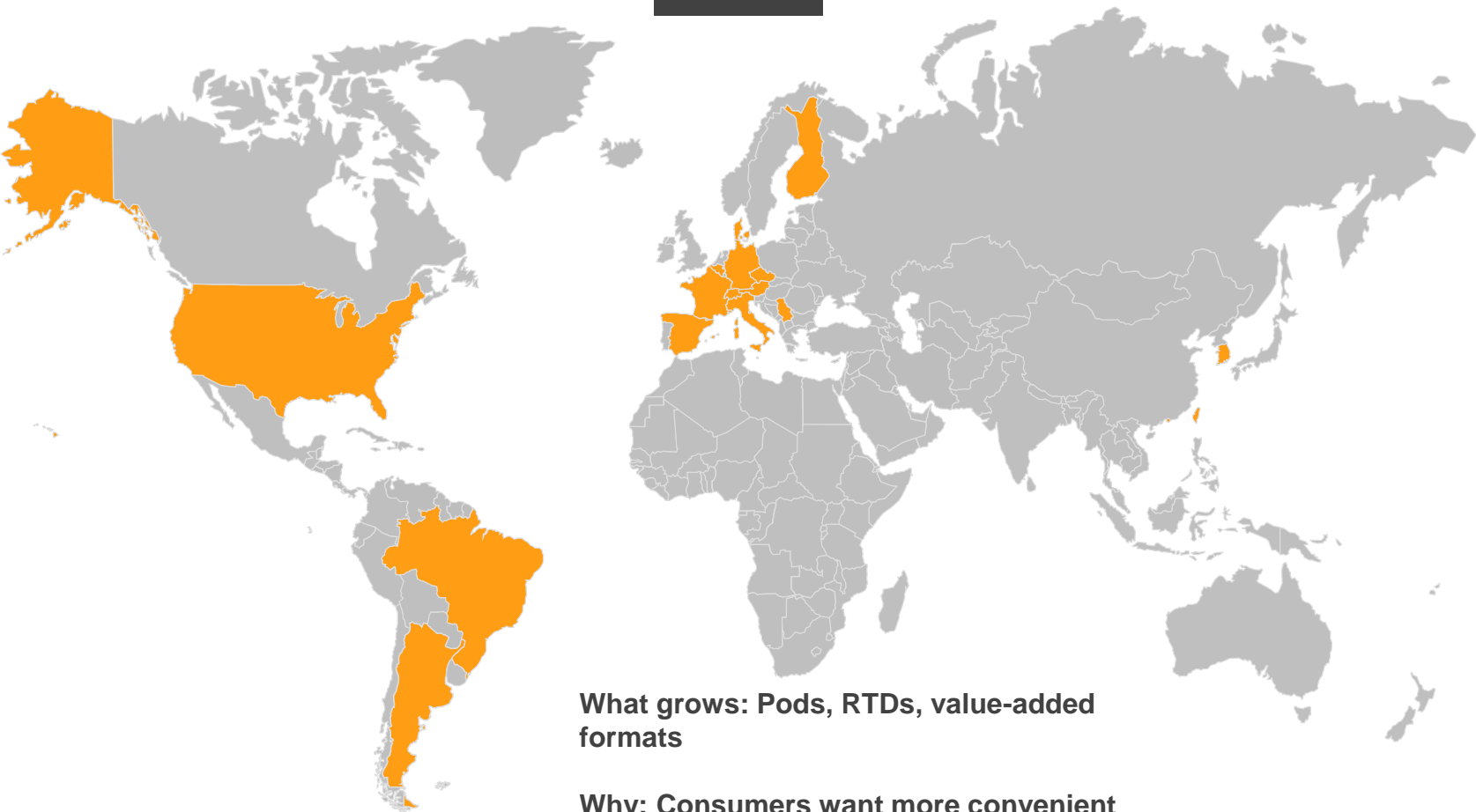
# Type Three: Lifestyle-led



**What grows: Easy-to-use formats**

**Why: Former tea drinkers have less familiarity with coffee**

# Type Four: Price-led



**What grows: Pods, RTDs, value-added formats**

**Why: Consumers want more convenient and/or higher quality products**

## Commonalities between price-led

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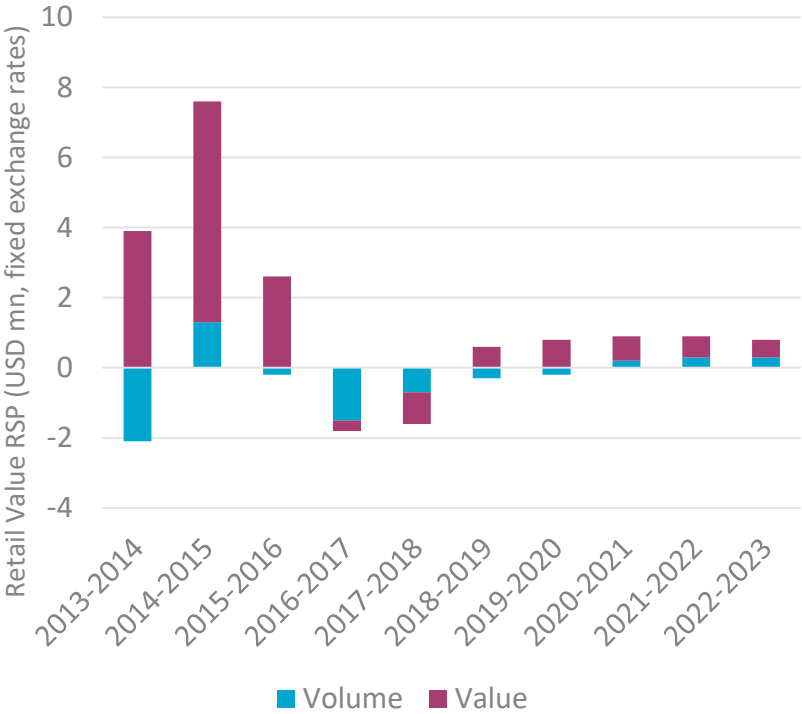
1. High levels of current consumption with little room to grow volumes on a per capita basis
2. Slow population growth that further reduces volumes growth potential
3. Prominence of single-serve formats, above all pods
4. Interest in higher quality (speciality, single origin, “third wave” etc.) coffee

**All of this means the key opportunity is in value, not volume**

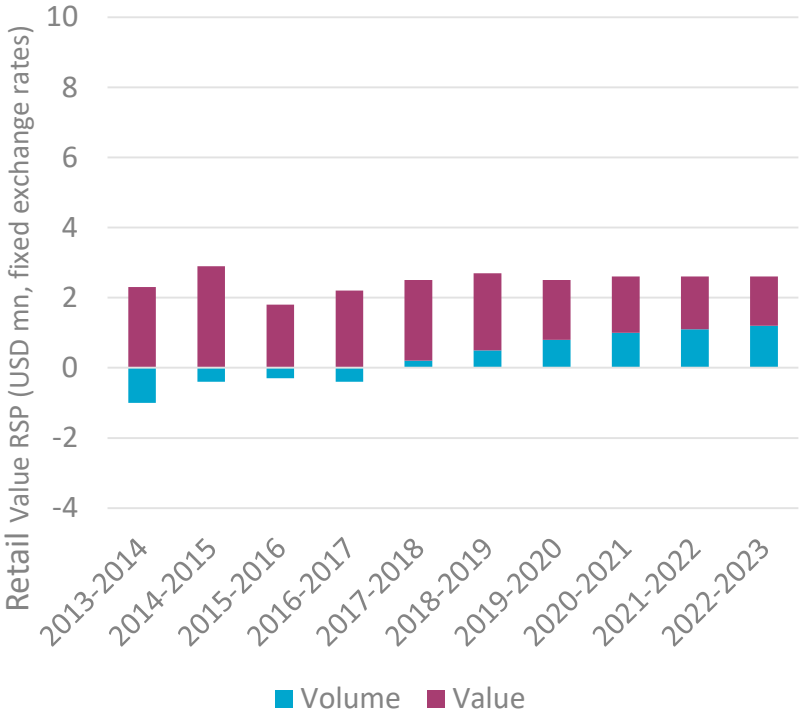
# The unit/price mix is heavily shifted towards prices



Year-on-year retail coffee value growth in North America split by value and volume 2013-2023



Year-on-year retail coffee value growth in Western Europe by value and volume 2013-2023



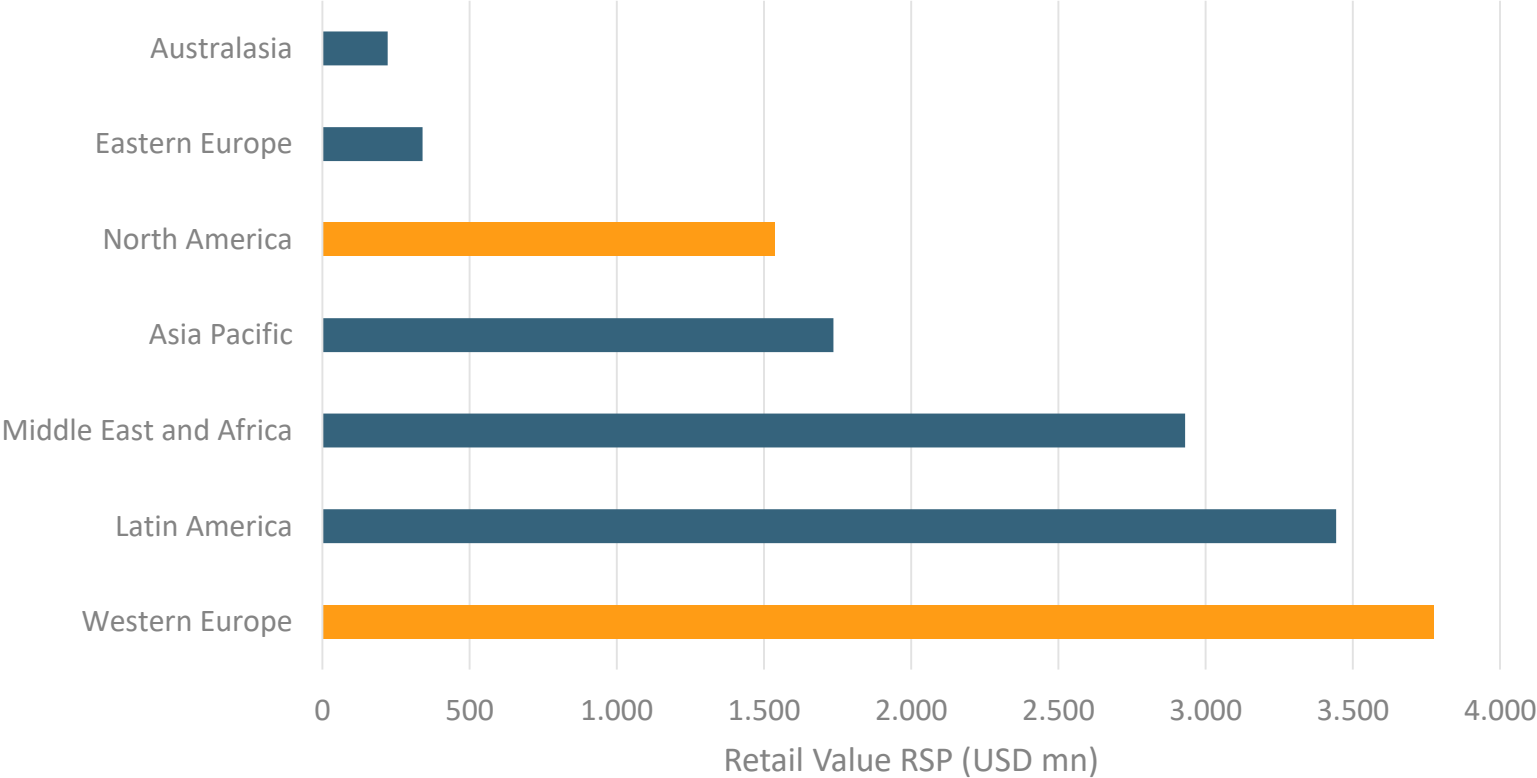
Source: Euromonitor International



This makes them central to global value growth



Coffee retail growth (Hot + RTD) by region 2018-2023

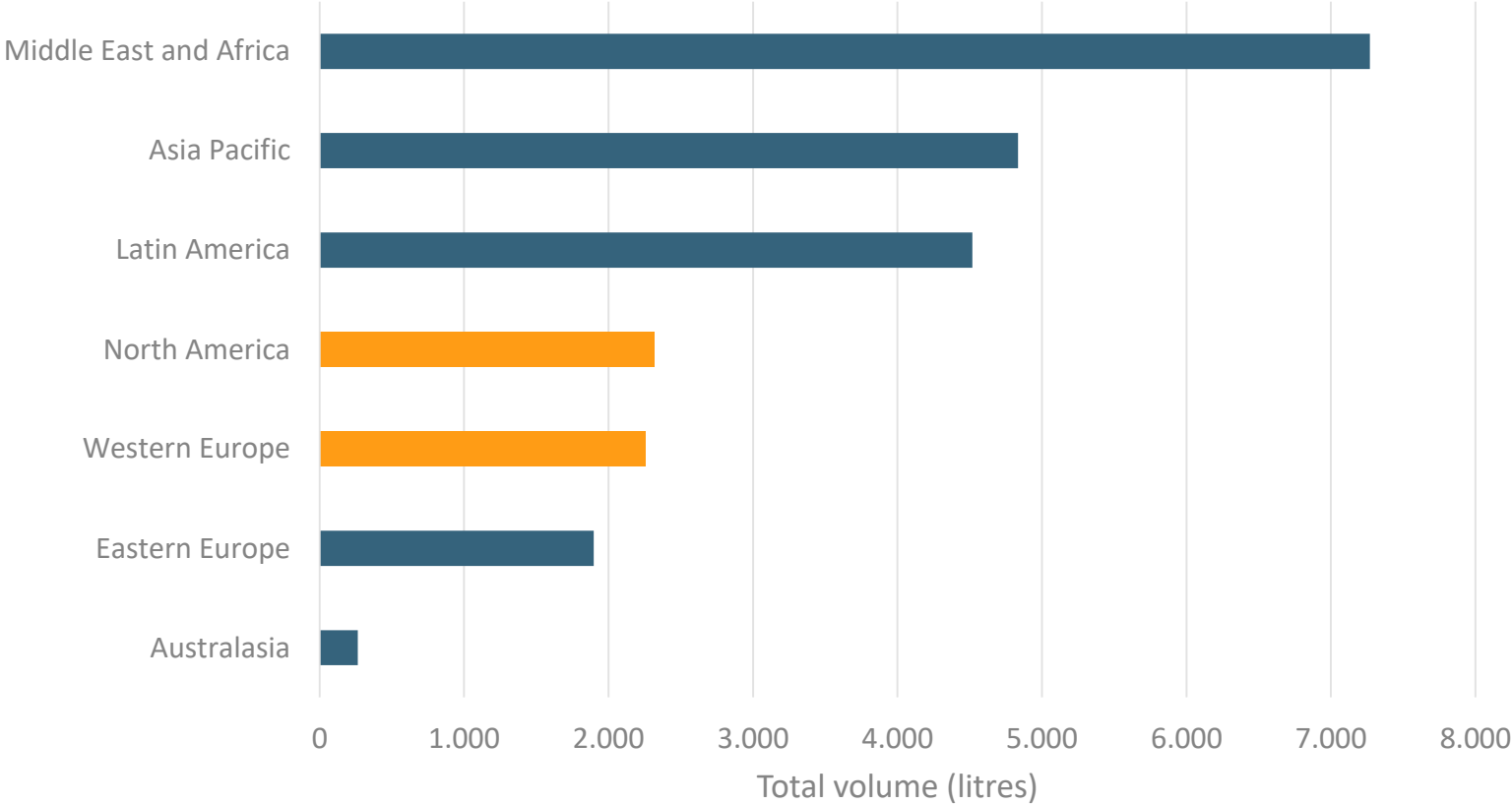


Source: Euromonitor International

Although their maturity means volume growth is difficult



Coffee consumption growth (Hot + RTD) by region 2018-2023



Source: Euromonitor International

All categories of coffee are growing  
at a global level

Four major types of coffee growth  
markets exist worldwide, all with  
different growth potential

The US and most of Western  
Europe are price-led markets

This means that while there is little  
volume growth occurring, there is  
great potential in value growth

A warm, orange-toned photograph of two white ceramic cups of coffee with latte art, sitting on saucers on a wooden table. A window with a view of trees is in the background.

2.

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The USA



Cold coffee is dominating growth in American coffee

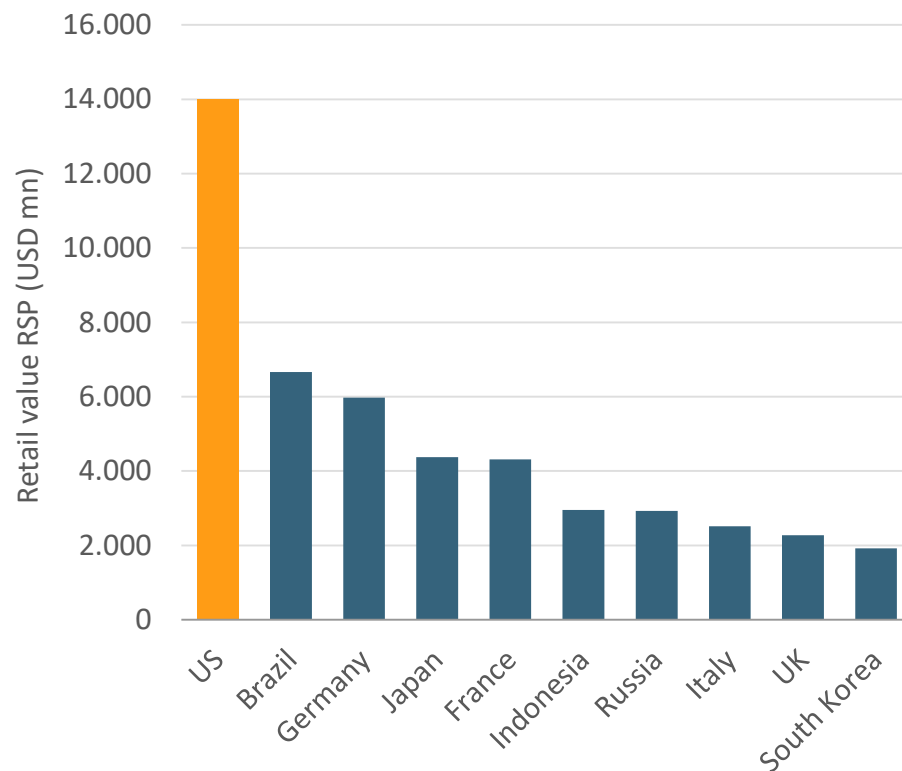
Pods are still growing, but a major shift to inexpensive brands has taken place

Other segments are pushing towards premium and functional

# The US is the world's largest coffee market by value

The US coffee market generated just over USD 14 billion sales at retail alone in 2018.

**World's Largest Coffee Markets in 2018**

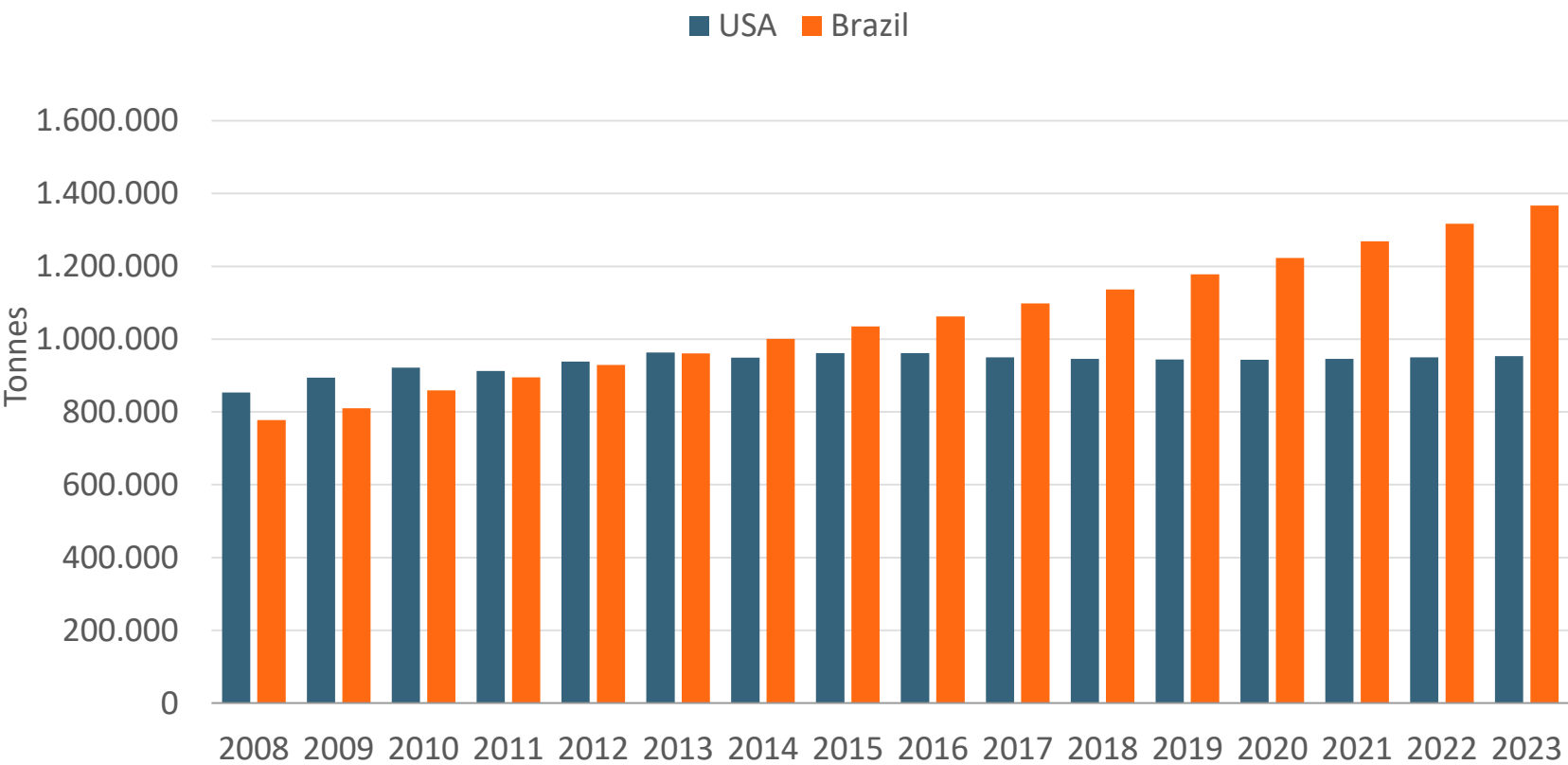


Source: Euromonitor International

In volume it has slipped behind Brazil



Total Coffee Volume Sales, 2008-2023



Source: Euromonitor International

# Why are volumes struggling?

Slow population  
growth

Growing use of  
efficient, single-  
serve formats

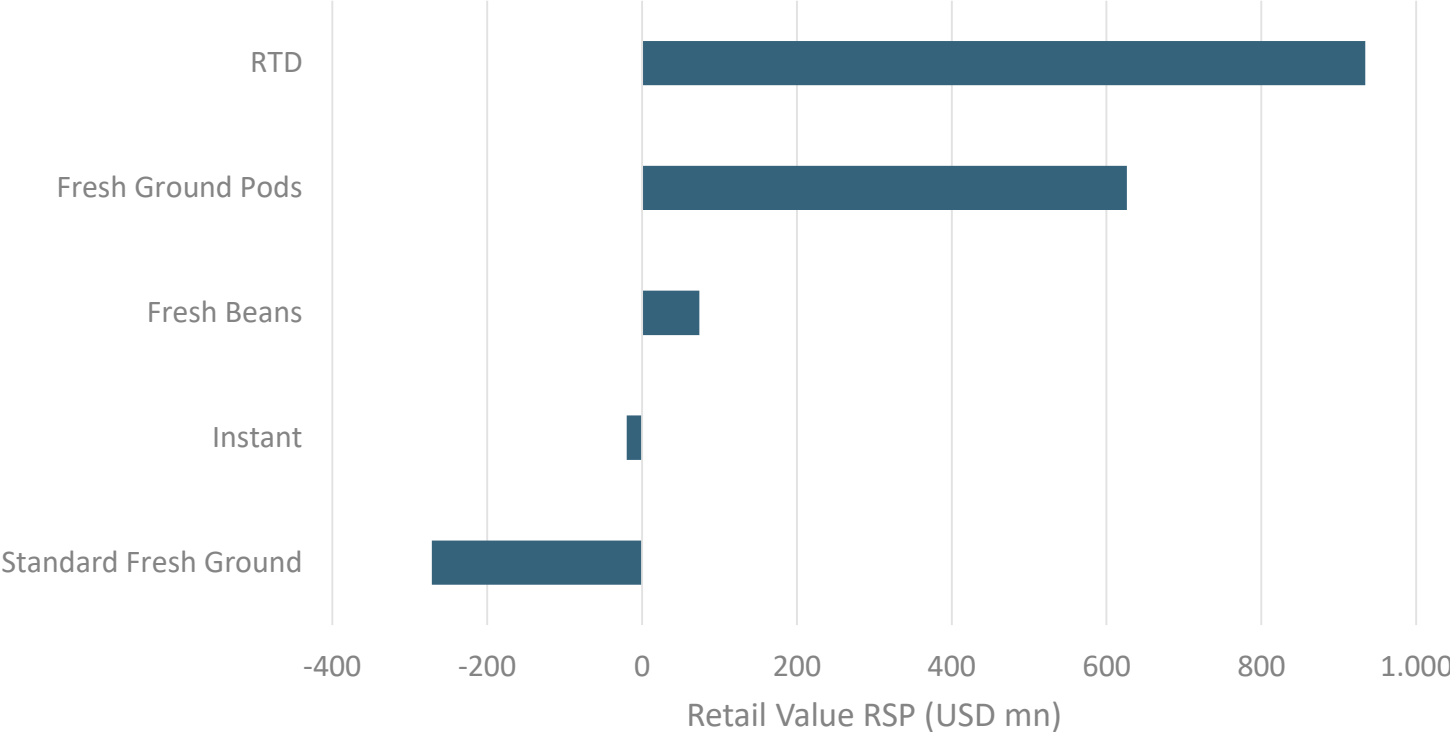
Move over to  
RTDs



# Cold coffee is leading growth in the US



Coffee growth by segment (at retail) in US 2018-2023



Source: Euromonitor International

# Why?

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1.

People drinking fewer carbonates and other sugary beverages

2.

Innovation in coffee shops

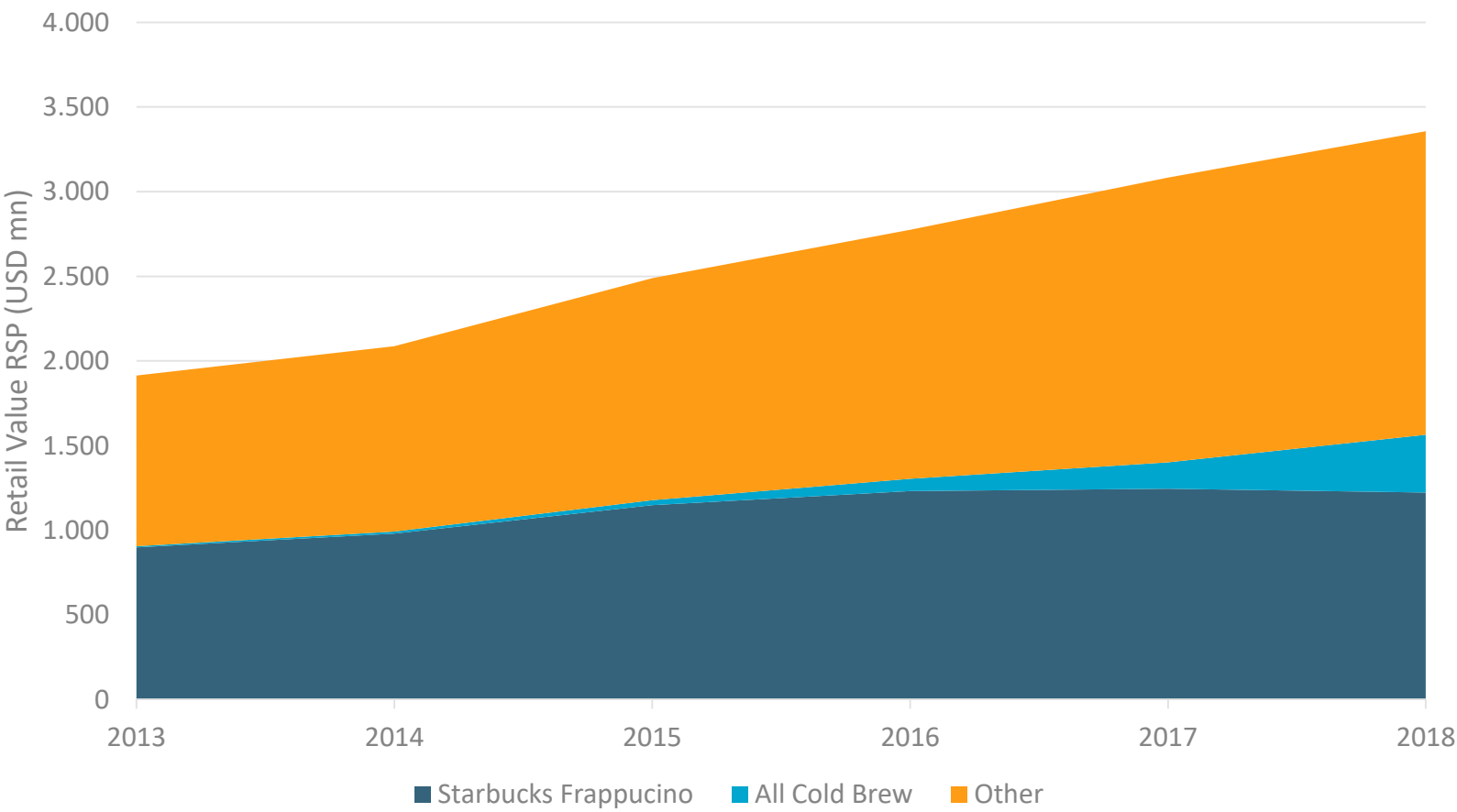
3.

Major support from the big players in American beverages

# Cold brew is expanding especially fast



Retail Value sales of RTD coffee in the US 2013-2018



Source: Euromonitor International

# Room for all kinds of RTDs



Indulgent



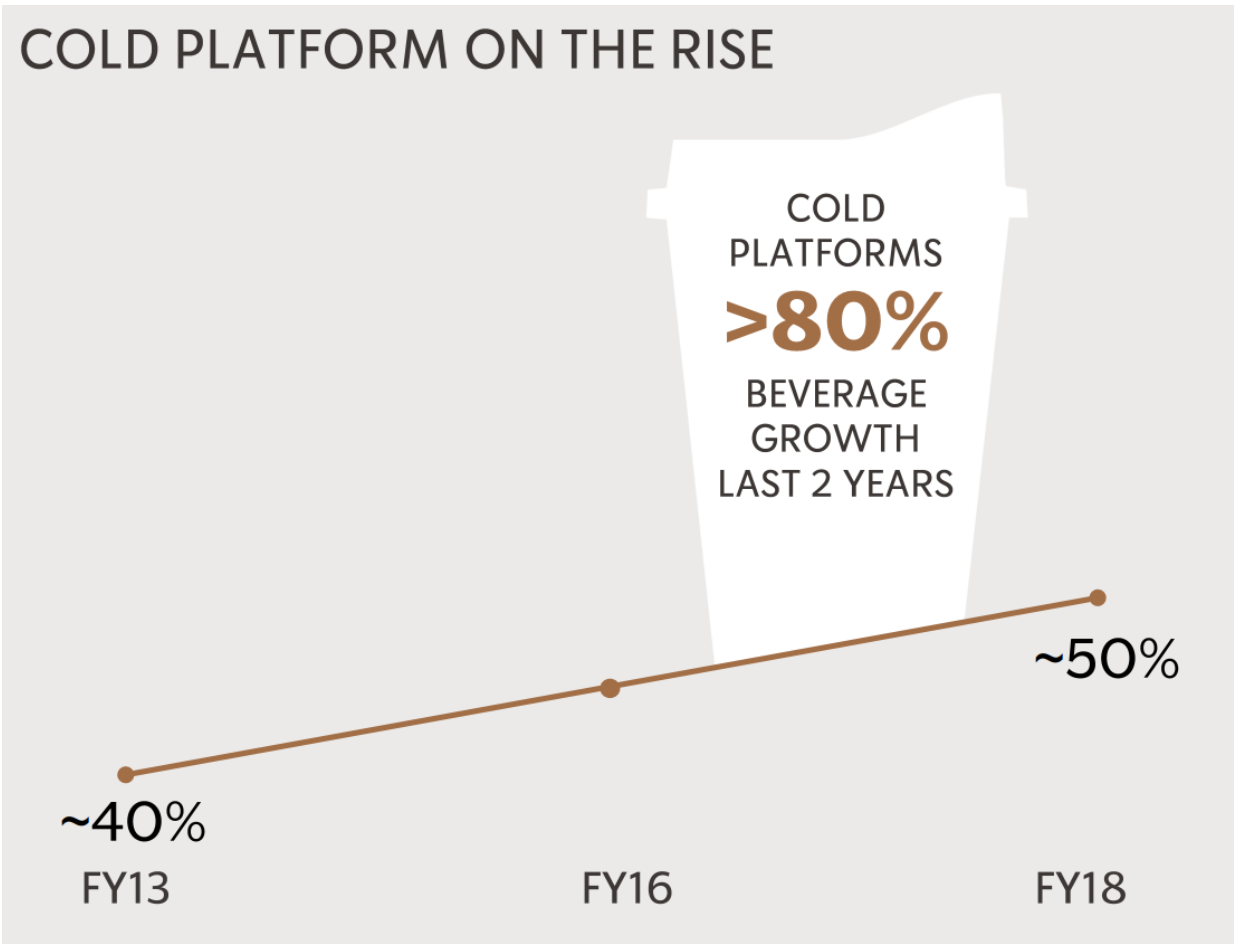
Functional



Cold Brew



Cold is also driving growth on-premise

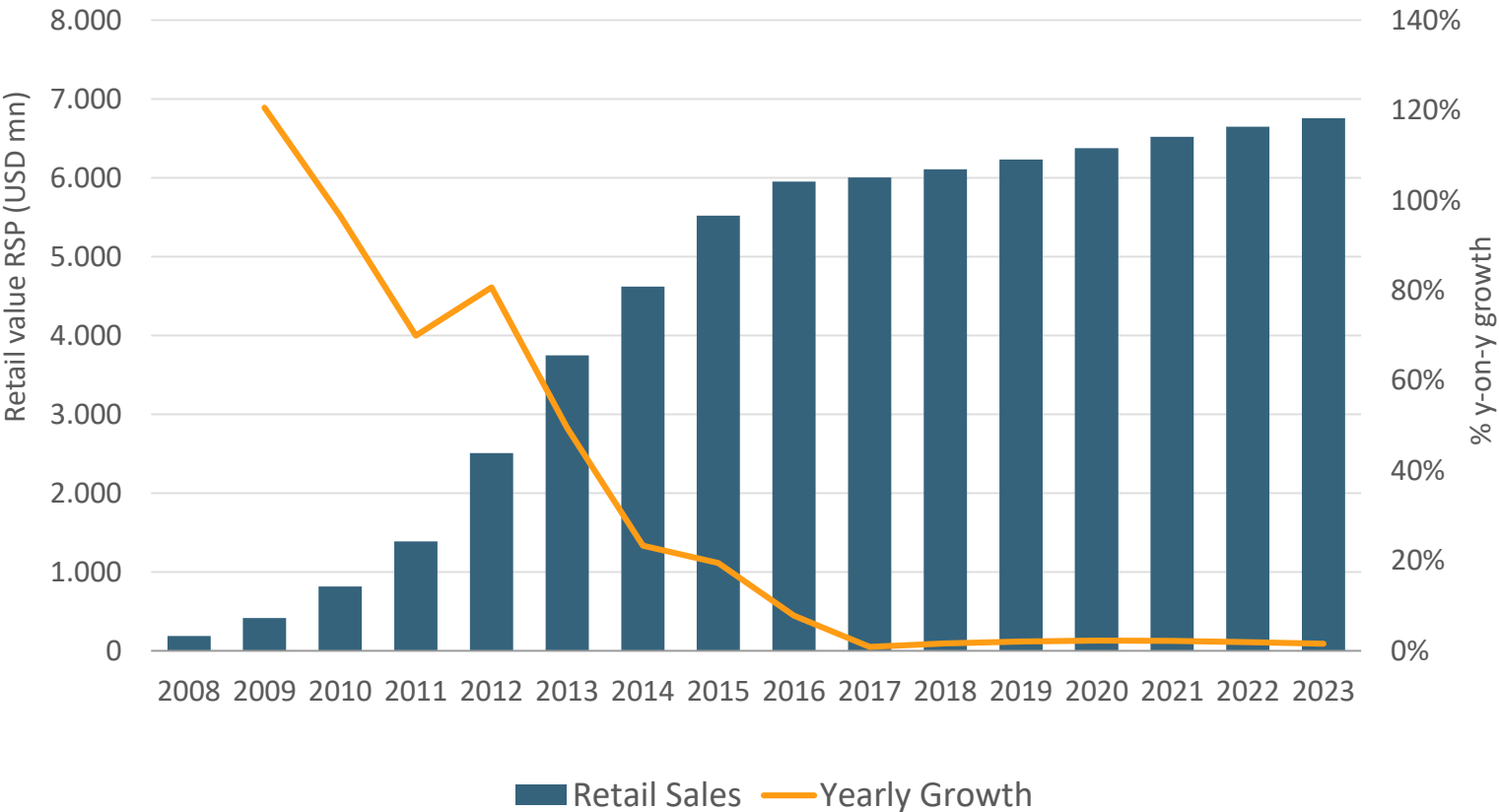


Source: Starbucks investor day presentation

# Pods are slowing down



Retail Sales of Fresh Ground Coffee Pods in North America



Source: Euromonitor International



Market maturity

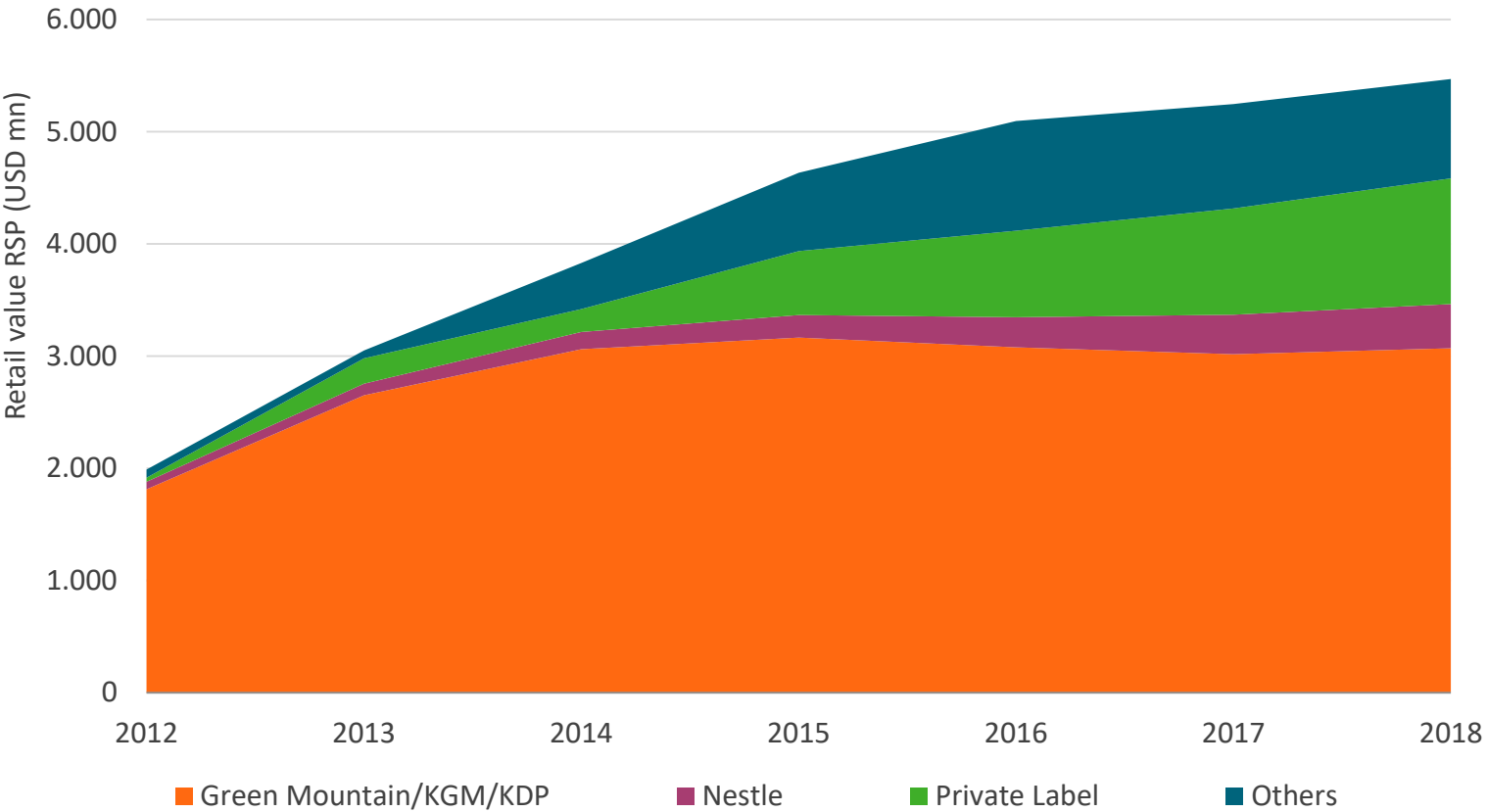
Keurig's loss of  
patent

Sustainability  
concerns

Growth is now primarily with Nespresso and unbranded K-ups



Retail Value Sales of Fresh Ground Coffee Pods in the US, 2012-2018



Source: Euromonitor International

# For the other segments? Find a way to add value



## Retail Value Sales, Real US\$ mn, 2018 - 2023 CAGR %

2018 Constant Prices, 2018 Fixed Year Exchange Rate

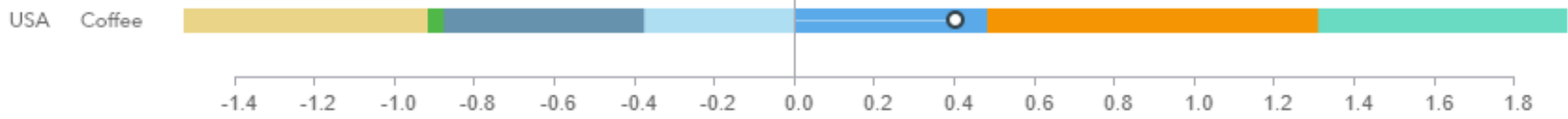
### Driver effects:

- GDP Per Capita
- Habit Persistence
- Demographics
- Soft Drivers
- Product Price
- Population
- Market Environment

### Retail Value Sales, Real Growth:

Quarterly Update

Geography, Category Drivers Effects Retail Value Sales, Real, CAGR %



Source: Euromonitor International

# New ways to be premium



## Diversifying cold



## Speciality instant



## Alcohol



# And new ways to be functional



## Energy



## Cannabis



## Cognitive



Cold coffee  
dominates growth  
opportunities in the  
United States

Pods are still  
growing, but at a  
much slower rate  
than they used to

The whole industry  
is searching for  
new ways to add  
value, in both  
premium and  
functional ways



The background image shows two white ceramic cups of coffee with latte art, each on a matching saucer with a spoon. They are placed on a light-colored wooden table. In the background, a window looks out onto a blurred green landscape. The entire image is overlaid with a semi-transparent orange filter.

3.

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## The European Union

Pods are the leading format of growth in the European Union

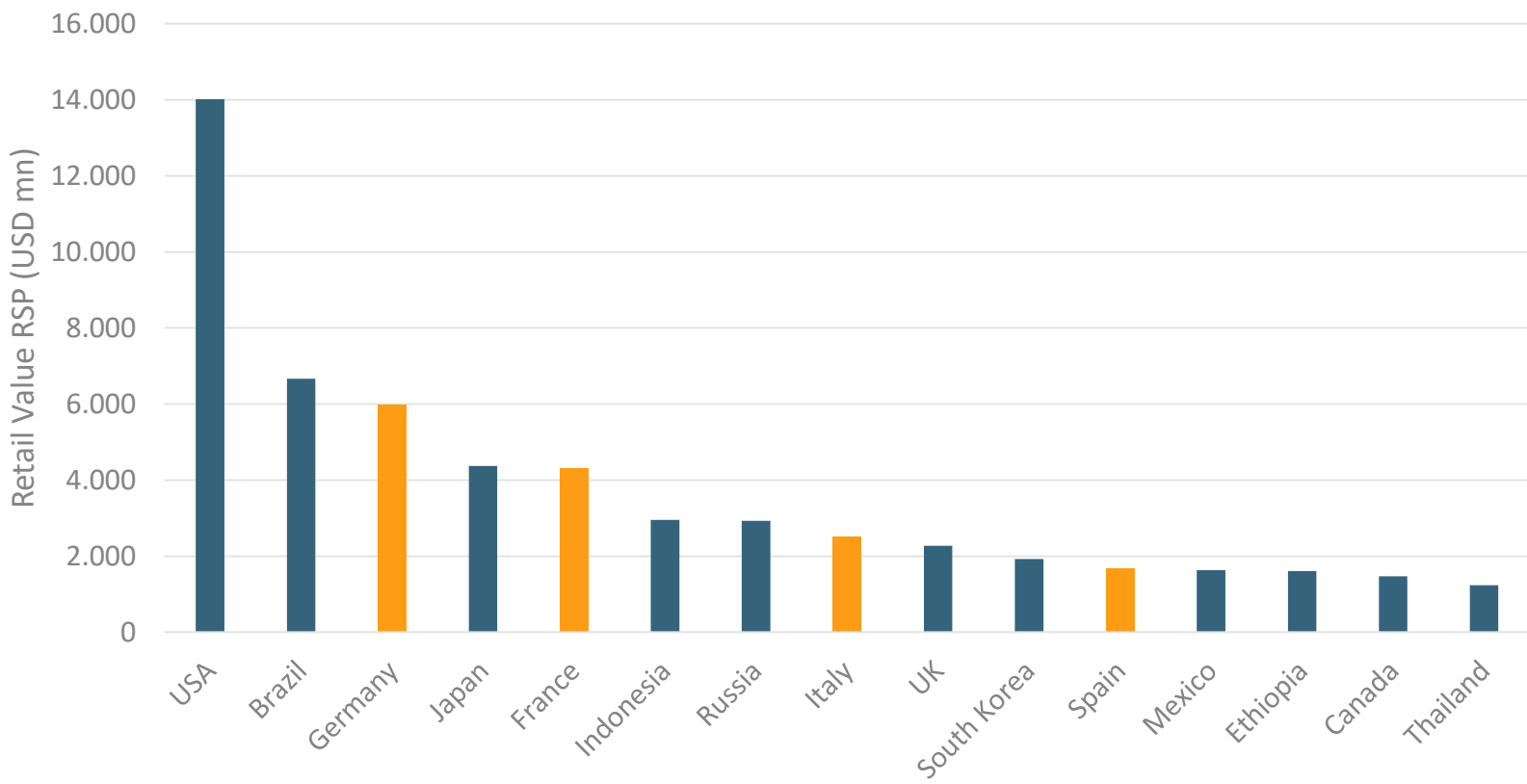
Fresh beans are becoming more important

Major split in growth patterns in East and West

# The EU is home to many of the world's largest coffee markets



Retail Sales of Coffee 2018

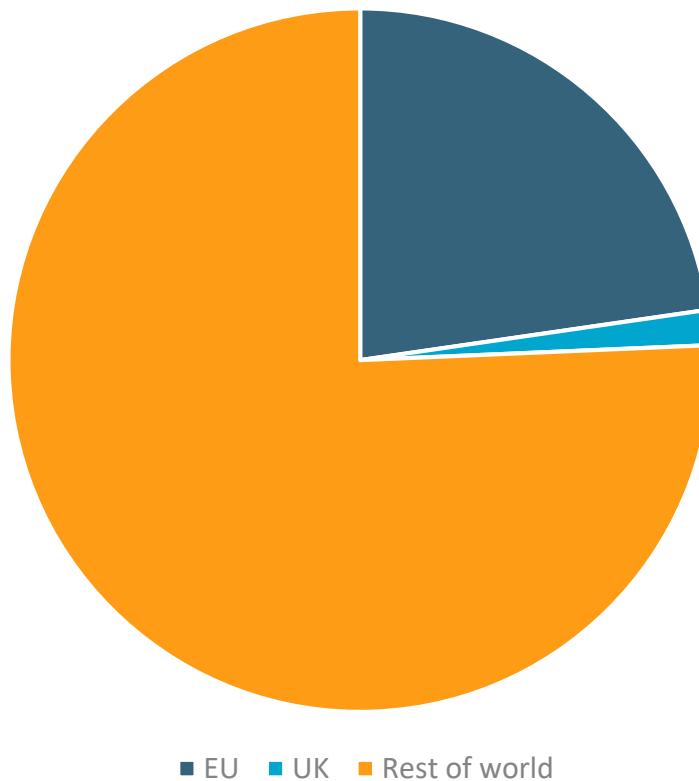


Source: Euromonitor International

The EU is around a quarter of global coffee volumes



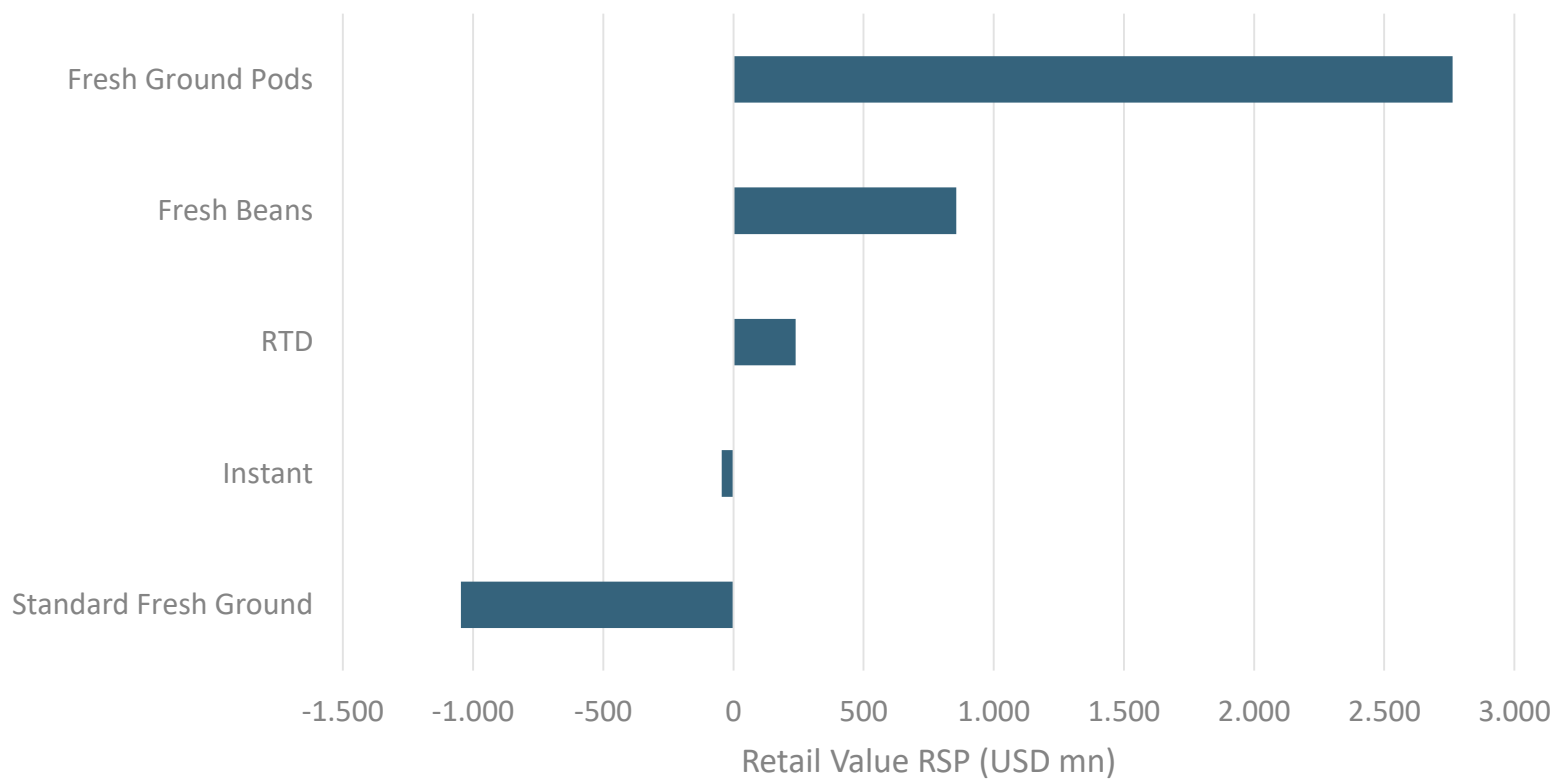
**Global volume sales of coffee 2018**



*Source: Euromonitor International*

## In Europe pods remain dominant

### Retail coffee growth in the European Union (without the UK) 2018-2023



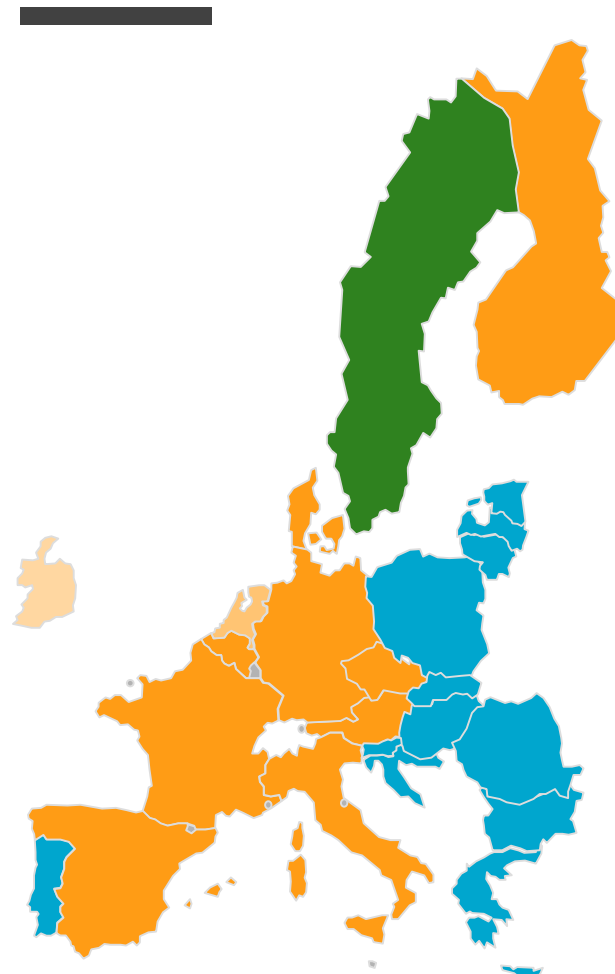
Source: Euromonitor International

## The East/West divide remains strong

**Leading positive  
growth driver of coffee  
value sales 2018-2023**

- GDP per Capita
- Product Price
- Population
- Soft Drivers

*Source: Euromonitor International*

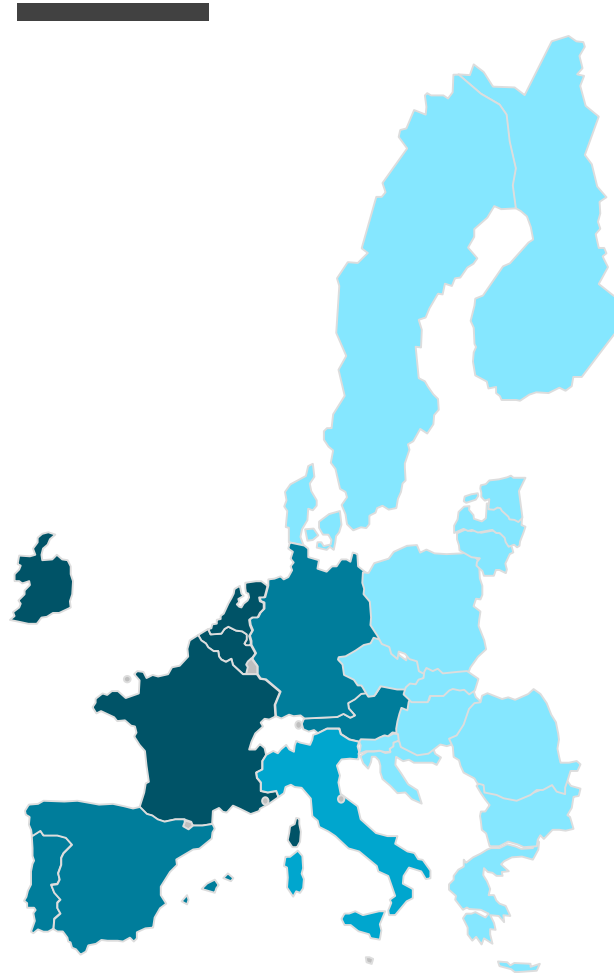


## Pods remain largely limited to the West

**Pods as % of total  
coffee consumption (2018)**

- 20-30%
- 10-20%
- 5-10%
- 0-5%

*Source: Euromonitor International*

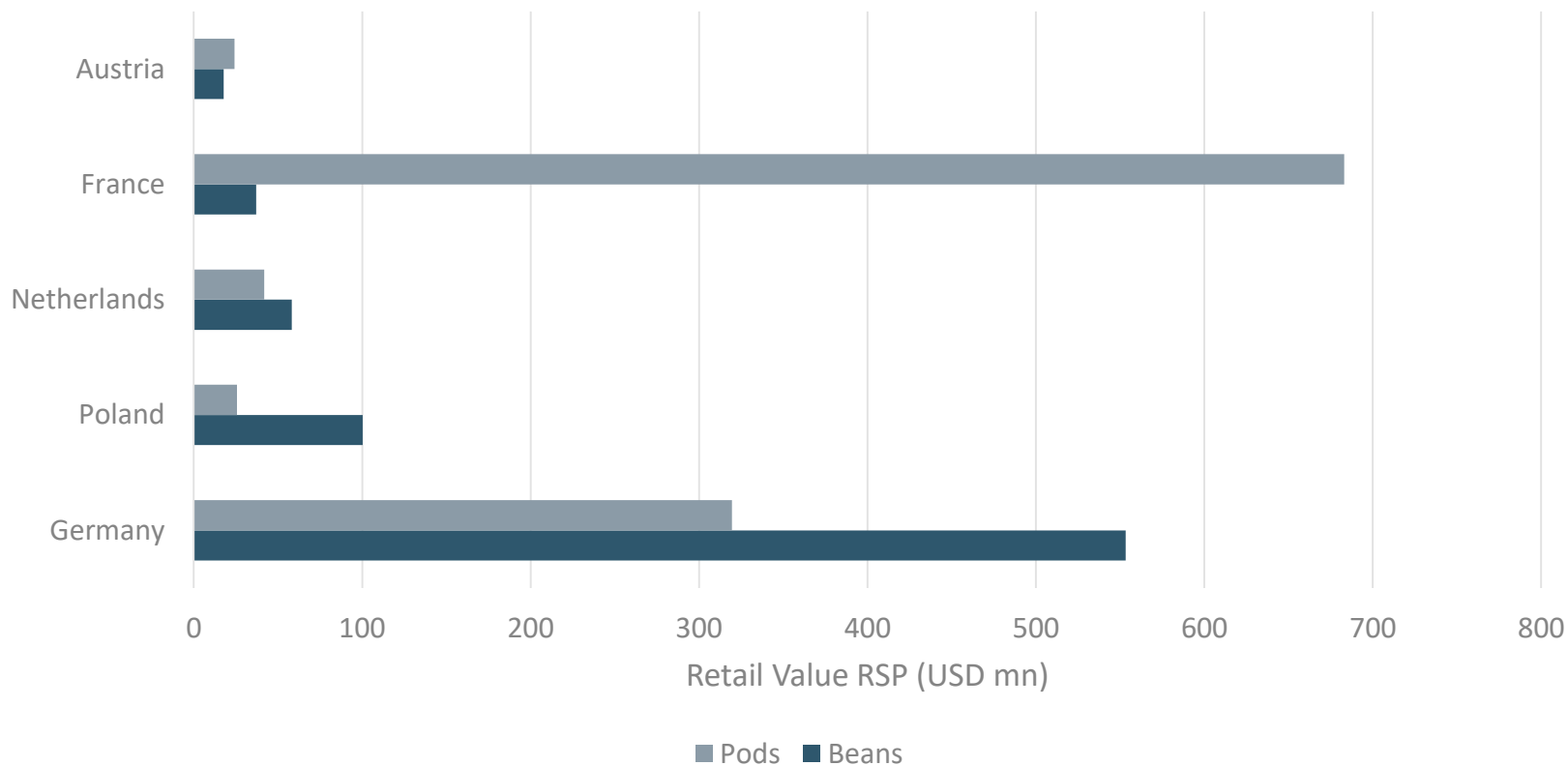




## Several key markets have seen a shift from pods to beans

■

### Projected retail sales growth 2018-2023



Source: Euromonitor International



## Why the shift to beans?

- High quality
- Authenticity
- Sustainability

## Pods are playing defense

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### Sustainability



### Private Label

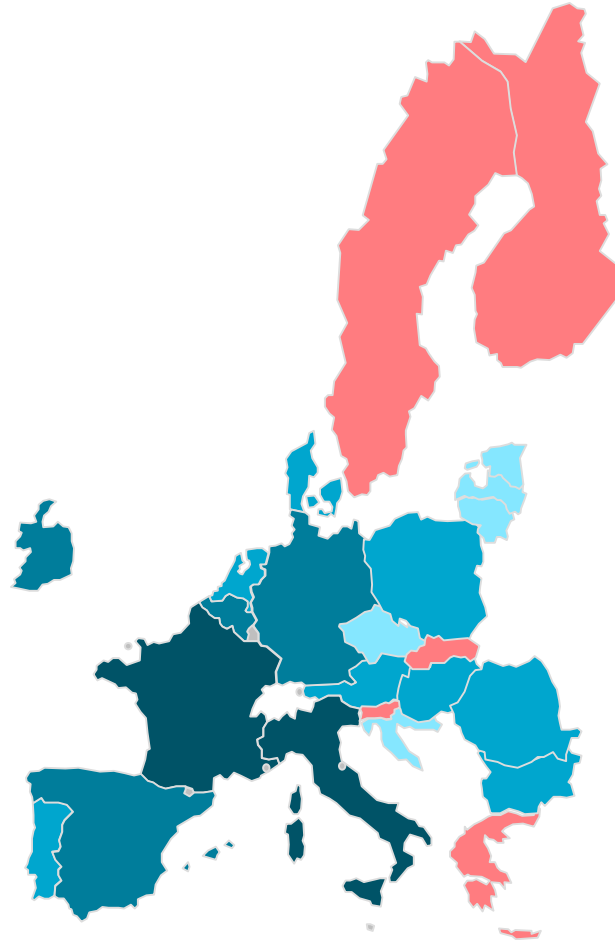


# But they still have great potential

## Absolute growth expected in coffee pods 2018-2023

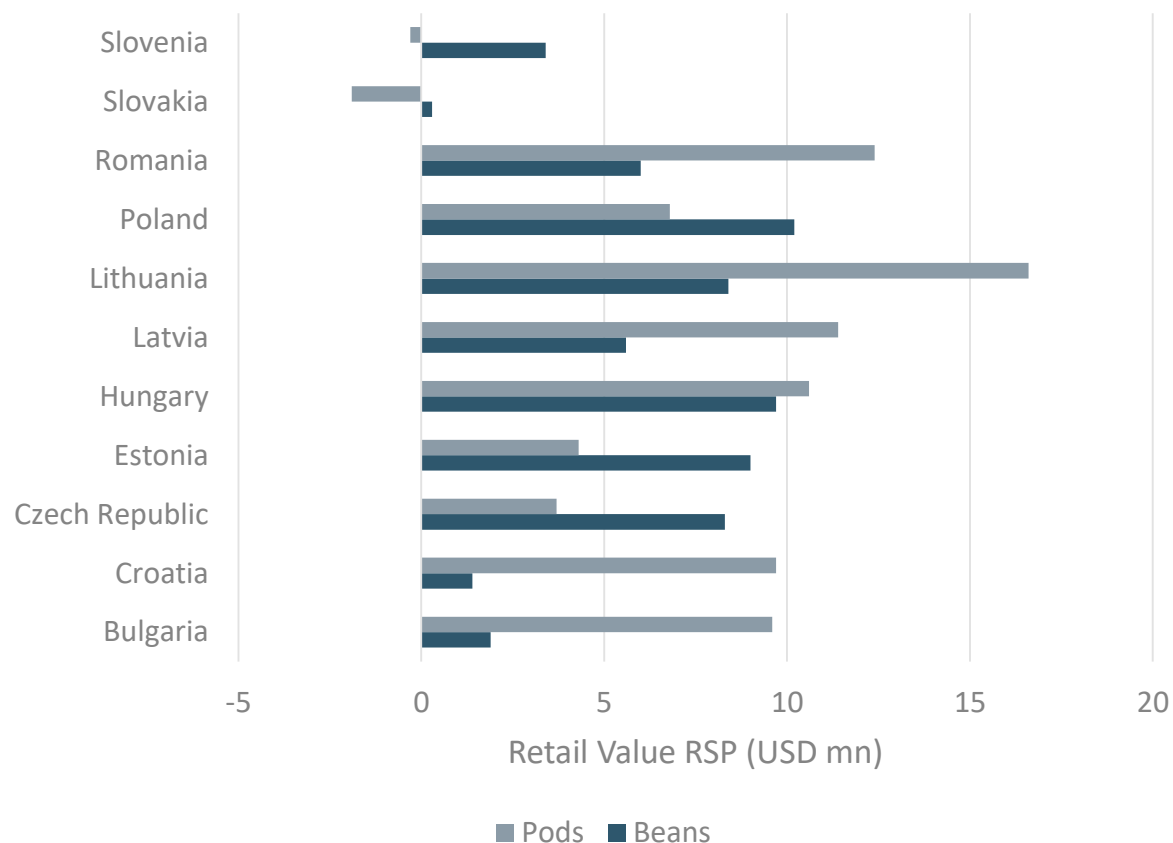
- Over USD 500 mn
- USD 100-500 mn
- USD 10-50 mn
- USD 0-10
- Less than USD 0

Source: Euromonitor International



## Could Eastern Europe skip over pods?

**Pods vs. beans growth in Eastern European EU members 2018-2023**



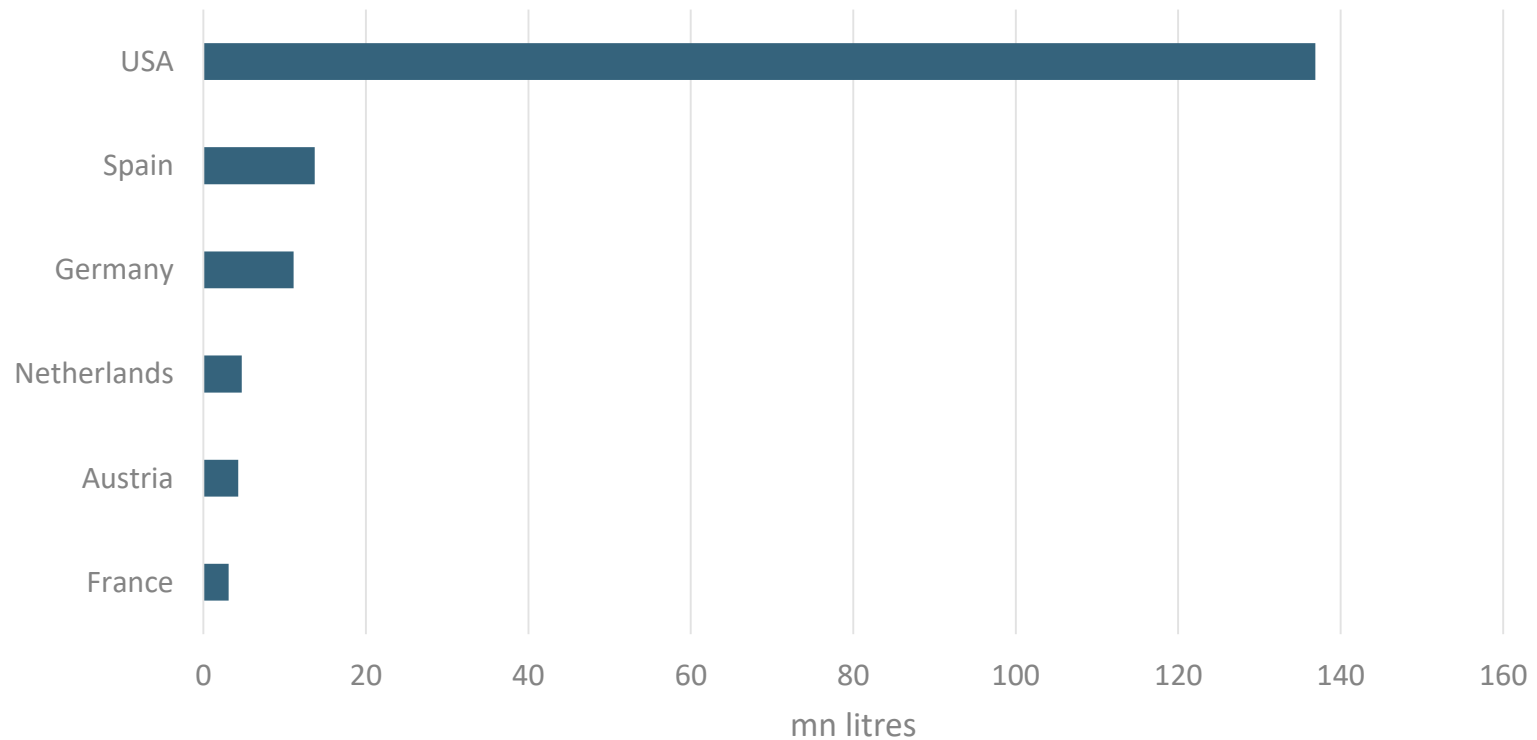
- In the large Central European markets (Czech Republic, Poland) beans are outgrowing pods

Source: Euromonitor International

# The RTD revolution has not yet crossed the Atlantic



## Total RTD coffee volume growth 2018-2023



Source: Euromonitor International

Coffee shops are much less  
focused on cold

The major beverage  
companies are only  
beginning to invest



Even post-Brexit, the UK will be Europe's testing ground for new RTDs



Image: Coca-Cola Newsroom

Pods lead growth  
now, but their long-  
term future is  
questionable

Beans are growing  
in importance  
every year

RTD is nowhere  
near as developed  
as in the US

A warm, orange-toned photograph of two white ceramic cups of coffee with latte art, sitting on saucers on a wooden table. A window with a view of greenery is in the background.

4.

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## Conclusions

The global coffee market is strong in 2019, with demand growing in most of the world and across categories

Four major types of coffee markets exist globally and can be separated based on the leading driver of demand

The United States is being shaped by cold coffee and RTDs have moved ahead of pods as the leading growth category

Pods are the leading growth segment in Europe, but fresh beans are starting to gain

# Thank you

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