STATE OF THE COFFEE MARKET IN NORTH AMERICA

A REVIEW OF THE TOP COFFEE TRENDS IN THE US, CANADA AND MEXICO

MARK STROBEL & ERIC PENICKA
INTRODUCTION

Euromonitor International

- **12 OFFICE LOCATIONS**
  - London, Chicago, Singapore, Shanghai, Vilnius, Santiago, Dubai, Cape Town, Tokyo, Sydney, Bangalore, and São Paulo

- **80 COUNTRIES**
  - in-depth analysis on consumer goods and service industries

- **210 COUNTRIES**
  - demographic, macro- and socio-economic data on consumers and economies
A complete view of the coffee industry

- Volume vs Brewed Volume
- Retail/off-trade; Foodservice/on-trade
- Mexico is included in North America
- RTD = ready-to-drink
- CAGR (Compound annual growth rate) over 2009-2014 unless stated
84.5
US$ BILLION
2014 RETAIL
VALUE RSP

5.0%
COMPOUNDED
ANNUAL GROWTH
SINCE 2009

18.3
US$ BILLION
ABSOLUTE
RETAIL VALUE
GROWTH
SINCE 2009
Coffee is among the most consumed beverages by volume globally.

Global Beverage Market, Total Liquid Volume, 2014

- Bottled Water: 300 billion liters
- Tea: 290 billion liters
- Carbonates: 220 billion liters
- Coffee: 171 billion liters
- Juice: 100 billion liters
- Concentrates: 70 billion liters
- Other Hot Drinks: 50 billion liters
- Sports Drinks: 20 billion liters
- Energy Drinks: 10 billion liters
Coffee has a greater share of throat in North America

Coffee as a Percent of Total Non-Alcoholic Drinks Volume Consumption

World

- Coffee: 14%
- Other Non-Alcoholic Drinks: 86%

North America

- Coffee: 21%
- Other Non-Alcoholic Drinks: 79%
Which regions spend the most on coffee?

Coffee Retail Value Sales and Growth by Region

- Western Europe
- North America*
- Asia Pacific
- Latin America
- Eastern Europe
- Middle East & Africa
- Australasia

* Mexico is included in North America

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A glimpse at coffee expenditure by country

NORTH AMERICA: A KEY COFFEE MARKET

Retail Value Sales
- >10 bn
- 2-10 bn
- 1-2 bn
- 0.5-1 bn
- <0.5 bn
- Not represented
### Top markets globally in retail volume in 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Volume (tonnes ‘000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brazil</td>
<td>1,001</td>
</tr>
<tr>
<td>2</td>
<td>USA</td>
<td>978</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>430</td>
</tr>
<tr>
<td>4</td>
<td>Italy</td>
<td>210</td>
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<td>5</td>
<td>France</td>
<td>200</td>
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<td>6</td>
<td>Japan</td>
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<td>7</td>
<td>Indonesia</td>
<td>164</td>
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<tr>
<td>8</td>
<td>Spain</td>
<td>137</td>
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<td>9</td>
<td>Philippines</td>
<td>136</td>
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<td>10</td>
<td>South Korea</td>
<td>134</td>
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<td>12</td>
<td>Canada</td>
<td>124</td>
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<tr>
<td>17</td>
<td>Mexico</td>
<td>107</td>
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</tbody>
</table>
### Top markets globally in retail value in 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Value (Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>$12.8 bn</td>
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<tr>
<td>2</td>
<td>Brazil</td>
<td>$6.4 bn</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
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<tr>
<td>4</td>
<td>Japan</td>
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<td>5</td>
<td>France</td>
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<td>6</td>
<td>Russia</td>
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<td>7</td>
<td>United Kingdom</td>
<td>$2.5 bn</td>
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<tr>
<td>8</td>
<td>Italy</td>
<td>$2.4 bn</td>
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<tr>
<td>9</td>
<td>Canada</td>
<td>$2.1 bn</td>
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<td>10</td>
<td>Mexico</td>
<td>$1.8 bn</td>
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### Top markets globally in per capita retail value in 2014

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<th>Rank</th>
<th>Country</th>
<th>Value (Dollars)</th>
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<tr>
<td>1</td>
<td>Austria</td>
<td>$105.4</td>
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<td>Norway</td>
<td>$99.8</td>
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<tr>
<td>3</td>
<td>Finland</td>
<td>$98.5</td>
</tr>
<tr>
<td>4</td>
<td>Switzerland</td>
<td>$88.7</td>
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<td>5</td>
<td>Netherlands</td>
<td>$87.0</td>
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<td>6</td>
<td>Denmark</td>
<td>$81.3</td>
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<td>7</td>
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<td>8</td>
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<td>9</td>
<td>Sweden</td>
<td>$66.5</td>
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<td>10</td>
<td>France</td>
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<td>13</td>
<td>Canada</td>
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<td>19</td>
<td>USA</td>
<td>$40.3</td>
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<tr>
<td>39</td>
<td>Mexico</td>
<td>$15.3</td>
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</tbody>
</table>
NORTH AMERICA: A KEY COFFEE MARKET
COUNTRY FOCUS: UNITED STATES
CONCLUSIONS
A leading non-alcoholic drink in volume terms, a value driver
Pod coffee retail value sales over $4 billion in 2014

Pod Coffee Retail Value Sales

2009-2014 CAGR

- Total Retail Coffee: 7.0%
- Excluding Pods: 0.0%

© Euromonitor International
While value share has erupted, volume share is modest

Retail Coffee Pod Share

- **Brewed Volume**
- **Value**
Pod coffee is three times more expensive than coffee beans

### Coffee retail price per brewed 8-oz. cup

<table>
<thead>
<tr>
<th>Type</th>
<th>Price per cup</th>
<th>Multiplication Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instant</td>
<td>$0.07</td>
<td>7.4X</td>
</tr>
<tr>
<td>Ground</td>
<td>$0.08</td>
<td>6.9X</td>
</tr>
<tr>
<td>Beans</td>
<td>$0.16</td>
<td>3.3X</td>
</tr>
<tr>
<td>Pods</td>
<td>$0.53</td>
<td></td>
</tr>
</tbody>
</table>
The Great Recession

Consumers turned away from foodservice

Balance of cost, convenience, and quality

Coffee driven by necessity

Volume Growth in 2009:
Foodservice → 0.3%
Retail → 5.2%

Brewed volume up 3.8%

Quality

Cost

Image: Flickr user bnpositive
COUNTRY FOCUS: UNITED STATES OF AMERICA

Specialty Coffee Shops Sales Double Over 15 Years

2008

33% 67%

Starbucks Others

2014

37% 63%

Starbucks Others

© Euromonitor International
Coffee innovation, a history

1980: Staple Caffeine

2000: Fun Indulgence

2015: Artisanal
The return of filter coffee

- The next phase of innovation

- “Third-wave” coffee shops less espresso-driven, more about new methods of brewing

- New ways of enjoying an old favorite
66.3 mn
POPULATION OF MILLENNIAL CONSUMERS IN THE US IN 2014

$1.1 tn
COMBINED POST-TAX INCOME OF MILLENNIAL SHOPPERS IN 2013*

29.8
AVERAGE AGE OF MILLENNIALS IN 2013*

* SOURCE: CONSUMER EXPENDITURE SURVEY. BLS
Key takeaways: United States

- Pods slowing
- Specialty coffee
- Growth from Millennials
NORTH AMERICA: A KEY COFFEE MARKET
COUNTRY FOCUS: CANADA
CONCLUSIONS
Canada is not a little USA!
Canada has a much more developed hot drinks culture

Per Capita Hot Drinks Retail Brewed Volume (liters)

% Split in Retail Brewed Volume

© Euromonitor International
Canada is a more mature coffee market

Per Capita Coffee Retail Value Sales (US$, 2014)

Per Capita Specialist Coffee Shop Transactions (2014)

US  Canada

US  Canada
COUNTRY FOCUS: CANADA

Ubiquitous Tim Horton’s supports strong coffee consumption

Canadian Consumer Foodservice Transaction Breakdown 2014

Consumer Foodservice Percent of Total Transactions 2014

Source: Google Maps
Canada is a more competitive coffee market

Specialist Coffee Shop Value Sales Brand Share Breakdown
Strong growth despite being a mature and competitive market
Fresh ground coffee pods add value to the Canadian coffee market

Retail Value Sales by Coffee Type in Canada (US$ mn)

- Fresh Coffee Beans
- Fresh Ground Coffee Pods
- Standard Fresh Ground Coffee
- Instant Coffee
Similar to the US, but pods have a much stronger impact in Canada

**Brewing Method Breakdown**

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drip</td>
<td>58%</td>
<td>53%</td>
</tr>
<tr>
<td>Single-Cup</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Espresso</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Instant</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

*Source: The Coffee Association of Canada*

US - Price Per Cup: ~0.75
CA - Price Per Cup: ~0.83

Image from cw-usa.com
As pods approach maturity, differentiation is key.
Differentiation is key across all coffee categories

Buzzwords in Consumables

- Natural
- Organic
- Fair Trade
- Non-GMO
- Gluten Free

Retail Value Sales of Organic Coffee (US$ mn) in Canada

Image provided by Keurig Canada Public Relations
As well as in consumer foodservice

RSP Share of Specialist Coffee Shops

<table>
<thead>
<tr>
<th>Year</th>
<th>Starbucks</th>
<th>Second Cup</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>35%</td>
<td>15%</td>
</tr>
<tr>
<td>2014</td>
<td>45%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Images from secondcup.com/press-room
Opportunity in RTD coffee and functional products

<table>
<thead>
<tr>
<th></th>
<th>Total Volume (mn litres)</th>
<th>Total Value RSP (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>401.1</td>
<td>2,189</td>
</tr>
<tr>
<td>Mexico</td>
<td>11.5</td>
<td>73.4</td>
</tr>
<tr>
<td>Canada</td>
<td>2.2</td>
<td>21.8</td>
</tr>
</tbody>
</table>

COUNTRY FOCUS: CANADA

Image from Real Beanz Facebook page
Key takeaways: Canada

- **Canada is NOT the 51st State**
- **Growth persists**
- **Opportunities exist**
NORTH AMERICA: A KEY COFFEE MARKET
COUNTRY FOCUS: MEXICO
CONCLUSIONS
Mexico’s emerging coffee culture presents an opportunity

Per Capita Coffee Retail Value Sales (US$)

- Canada
- Costa Rica
- USA
- Brazil
- Colombia
- Mexico

Mexico: Per Capita Coffee Retail Value Sales (US$)
The economy is polarizing consumers

Per Capita Disposable Income (‘000)

- Low to middle class consumers: US$28.8
- Middle-upper to upper class consumers: US$41.0
- US$8.3
Specialist coffee shops are on the rise in Mexico
COUNTRY FOCUS: MEXICO

The Starbucks Factor

![Starbucks Logo]

**Starbucks Share of Specialist Coffee Shops RSP**

![Graph showing Starbucks share of specialist coffee shops from 2004 to 2014]

*Source: Euromonitor In-Country Analyst*
Starbucks extends its Reserve concept to Mexico in 2015

- Artisanal coffee
- Exotic and rare coffee beans
- Modern and luxurious design
Retail sales continue to dominate the Mexican coffee market

Breakdown of Retail and Foodservice Coffee Volume Sales

- Foodservice: 25%
- Retail: 75%

Breakdown of Fresh and Instant Coffee Volume Sales

- USA: 100% Fresh Coffee
- Canada: 100% Fresh Coffee
- Mexico: 80% Fresh Coffee, 20% Instant Coffee

© Euromonitor International
Instant coffee is an integral part of lifestyles

Average Retail Cost Per Cup by Format in Mexico (US$)

- **Pods**: $0.8
- **Beans**: $0.4
- **Ground**: $0.2
- **Instant**: $0.1
Opportunity in the middle ground

Premium Retail Coffee

Affordable Specialist Coffee Shops

Lower income looking for a reasonably priced gourmet experience

Middle income seeking a less expensive luxury

Images from nescafe.com.mx and italiancoffee.com
Key takeaways: Mexico

- Growth Opportunity
- Specialist coffee shops on the rise
- Value is still key
- Finding the middle ground
<table>
<thead>
<tr>
<th>Key takeaways</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America is a highly important coffee market</td>
</tr>
<tr>
<td>Each country has a unique coffee culture in a different stage of development</td>
</tr>
<tr>
<td>The US, Canada and Mexico all have distinct opportunities that can be leveraged</td>
</tr>
</tbody>
</table>
THANK YOU FOR LISTENING

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