

Consumer and Innovation Trends and Future Growth Opportunities in Coffee



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Consumer



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Agenda



About Datamonitor



Consumer preferences for coffee



Five key sub-trends affecting the coffee industry



Coffeefruit: one to watch



Summary



About Datamonitor Consumer



Consumer Insight

Real insight on real consumers



Innovation Tracking

Uncover new trends in products and packaging








Market Assessment

Identify new hot spots in the marketplace



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Coffee preferences are driven by taste, price, and health

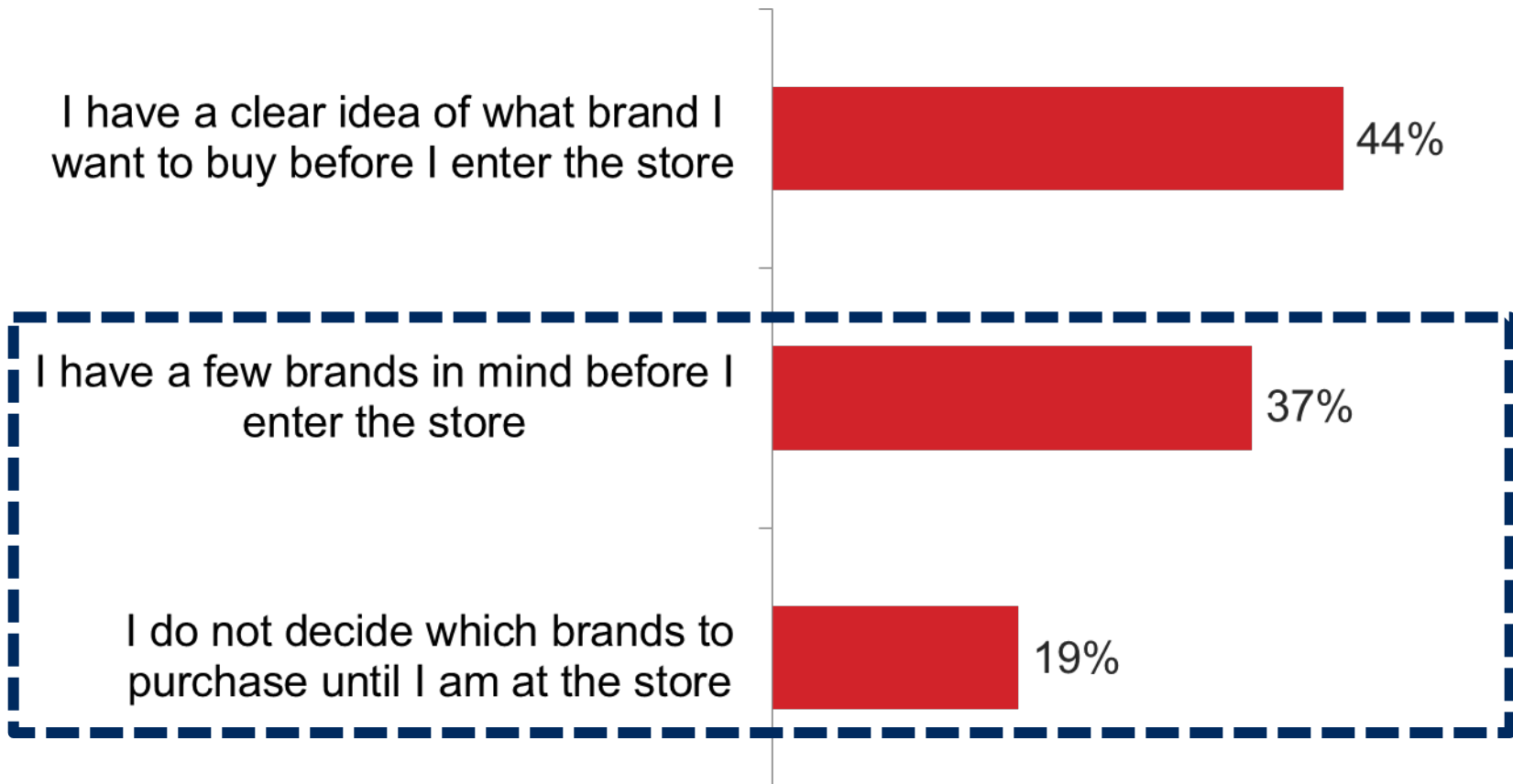
Most highly influential factors when choosing hot drinks (including coffee)

| | Australia | Brazil | China | Germany | UK | US | Global average* |
|---------------------|-----------|--------|-------|---------|----|----|-----------------|
| Taste | 1 | 1 | 2 | 1 | 1 | 1 | 1 |
| Price | 2 | 4 | 5 | 2 | 2 | 2 | 2 |
| Healthiness | 3 | 2 | 1 | 4 | 3 | 3 | 3 |
| Natural Ingredients | 4 | 3 | 3 | 3 | 4 | 4 | 4 |



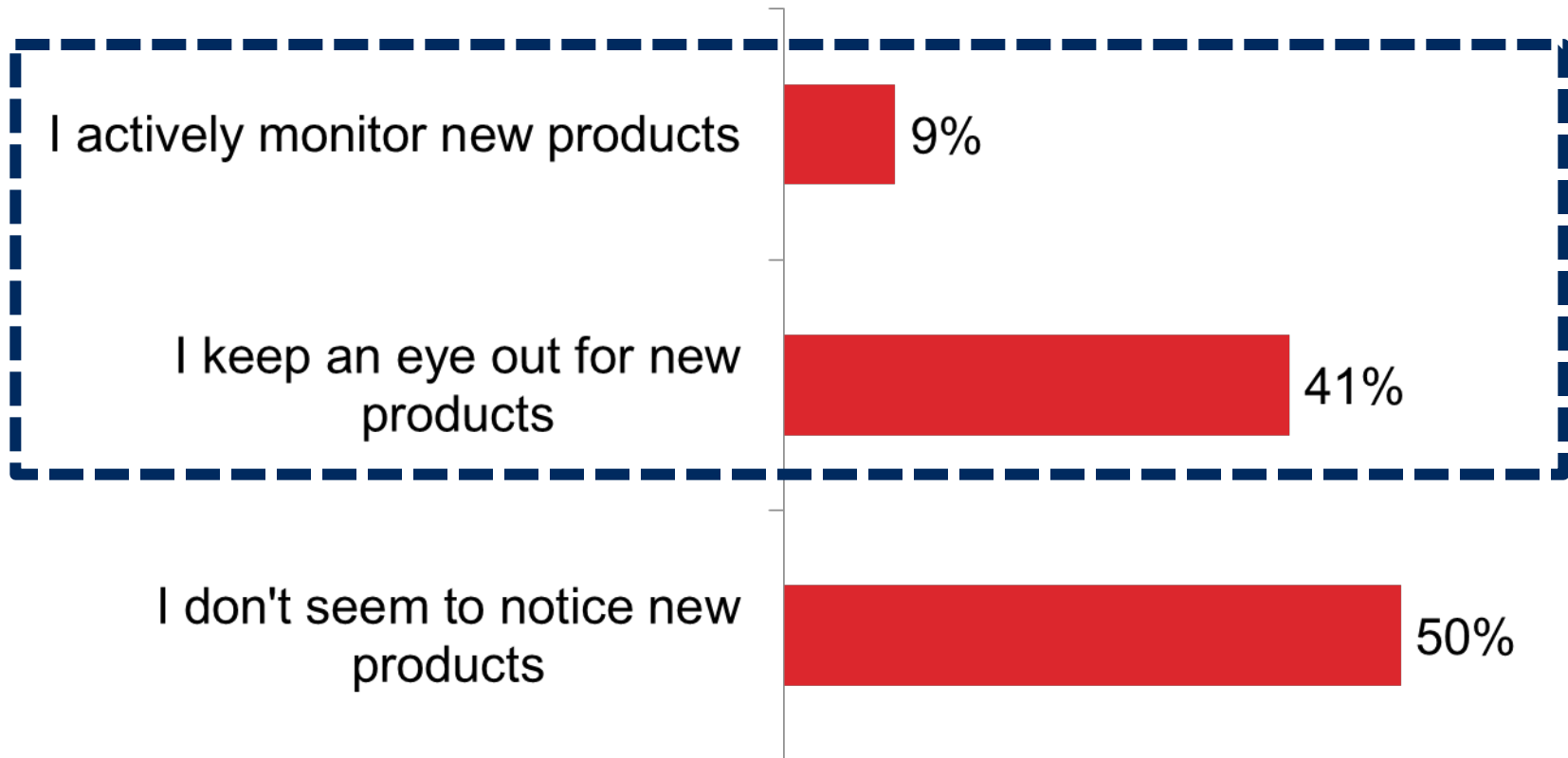
The importance of eye-catching innovation

How do you usually choose which coffee to buy?



Consumers are open to new innovation in coffee

What is your approach to buying new coffee products?



What percentage of new products fail?



It is estimated that

80%

of new products fail within the first
year of launch








"Innovation is one of the main drivers for organizational success. Despite constant developments in product design and marketing, most new products fail [...] However, the failure of innovations is most often due to a lack of understanding of consumer needs."

Bartels and Reinders, Journal of Business Research, 2011



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Datamonitor's TrendSights framework consists of eight mega-trends



Health & Wellness



Individualism & Expression



Sensory & Indulgence



Evolving Landscapes



Sustainability & Ethics



Smart & Connected



Comfort & Uncertainty



Easy & Affordable



Five key sub-trends affecting the coffee industry

1. Cocooning



2. Sensory Fusion



3. Made for Me



4. On-The-Go



5. Weight Management



Cocooning

Deconstructing the trend



WHAT?

- Creating "insperiences" that bring traditional out-of-home experiences into the comfort of the home.



WHY?

- People are doing far more from home now than in the past, and doing it with added sophistication.



HOW?

- Replicate the café experience at home.



The quest for value is creating demand for at-home alternatives

66%

are making an effort to save more money following the economic downturn.



47%

are giving up some of their favorite brands to save money.



"People during the downturn are more worried about going out, so instead of drinking coffee outdoors, we're seeing more people preferring to consume the drink at home without compromising on quality."

David Rogers, home sales and marketing director for Lavazza Coffee UK, quoted in The Wall Street Journal, October 2012



Single-pod coffee machines offer a better-value alternative to out-of-home purchases



Nespresso U – "Consumers now appreciate the full café experience (aroma, choice, quality) and want to recreate this at home."¹



Tassimo Vivy is a compact coffee solution that will help consumers to "get their coffee shop fix for less at home."²



Foodservice brands are exploiting growth opportunities in the retail market



Starbucks Verismo system – "Your favorite Starbucks beverages. All at home, all from one machine."¹



Dunkin' Donuts ground pumpkin coffee – "Bring home the best flavor of the season."²



Costa Coffee Tassimo-compatible capsules – "Experience the magic of Costa in the comfort of your own home."³



Kenco Millicano recreates the café experience at home



- Finely milled whole bean coffee combined with instant coffee for a "rich and full-bodied" taste.
- "Coffee shop culture" has driven demand for premium tasting coffee at home.
- Sales grew £3.3m (\$5.4m) from July 2012 to July 2013.



Sensory Fusion

Deconstructing the trend



WHAT?

- Pursuit of exciting and novel sensory experiences that combine taste, texture, smell, sound, and/or shapes.



WHY?

- To meet growing consumer demand for more sensually indulgent products.



HOW?

- Maximise sensory appeal by developing exotic flavor blends, converging with other product categories (e.g. hot drinks and carbonates).



New product opportunities are spurred by consumers' willingness to experiment

60%

find new and exotic flavors in food and drink products to be somewhat/highly appealing.



50%

of consumers keep an eye out or actively monitor new coffee products.



Examples we like: flavor innovation in coffee



Coffeestar crême-brûlée-flavored coffee – Flavored coffee said to have "velvety custard taste with subtle hints of chocolate and caramel."



INO fruit-flavored coffee – Coffee married with organic fruit to create the world's first "fruit coffee"



Examples we like: category crossover between coffee and other beverages



**Cherizena
Colombian Coffee
with Cider Apple**



**Perk! by Rainforest
Beverages –
"Sparkling Chilled
Coffee"¹**



**Coco Café –
"Coconut Water
Café Latte"²**



Potential threat?



- ▶ **Canada Dry hot ginger ale**
– the world's first hot carbonated drink.
- ▶ It was made following extensive research into how to combine heat and bubbles in a can.
- ▶ The drink has the potential to erode the market share of hot drinks segment.





Made-For-Me

Deconstructing the trend



WHAT?

- Innovation centred around customizing the consumption experience is booming.



WHY?

- Individualistic consumers are being encouraged to express and act upon their opinions and beliefs by making identity-related purchases.



HOW?

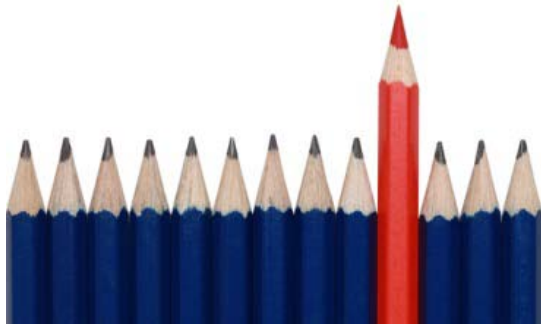
- New technologies like single-cup coffee makers and flavored syrups to allow a new level of flavor customization.



Individualistic consumers are drawn towards making "identity-related" purchases

73%

say that individuality and being able to express themselves is important/ very important.

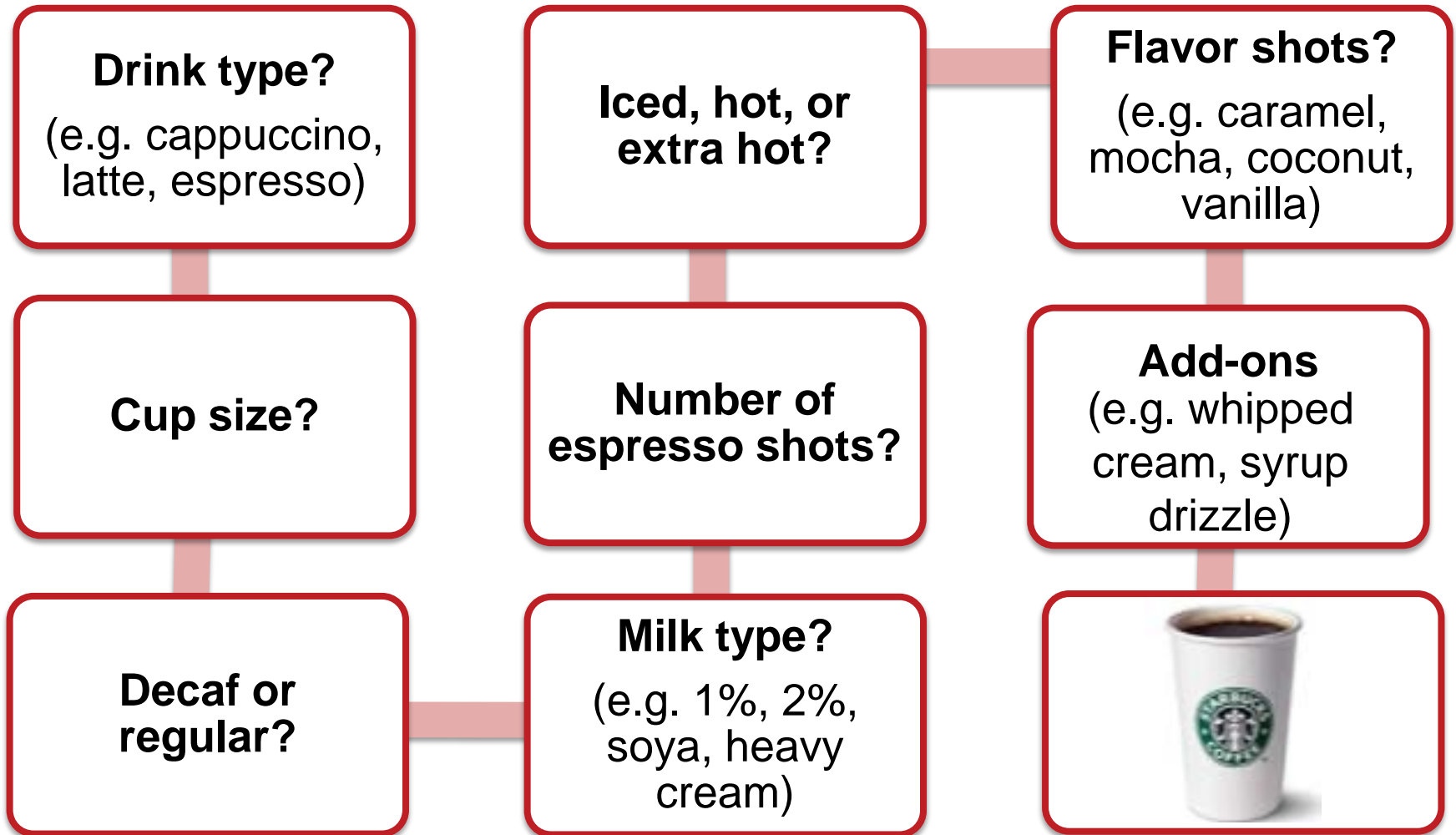


58%

find customization/ personalization benefits very important in a luxury brand.



170,000 ways to customize your drink at Starbucks!



Retail brands have capitalized on the trend towards drinks customization



Flavored coffee meringues
– Add these meringue pieces to coffee to change the flavor.



Café Kiss coffee syrups –
Can be added to coffees to create the desired flavor at the consumers' discretion.



Eightpointnine allows consumers to customize their own coffee blend

- ▶ Consumer uses online flavor profiling tool to adjust flavor, body, and mouth feel, as well as type of grind to their preferences



DESIGN YOUR COFFEE BLEND

1. tell us the kind of flavours you like..

floral, aromatic, herbs, etc chocolate, nuts, caramel, etc cinnamon, woodsmoke, leather etc

fresh **sweet** **spicy**

2. adjust body & mouth-feel

light **mellow** **rich**

elegant, bright, front-of-tongue balanced, easy drinking full, dark, intense

3. name your blend

Buzzy Late Night 54 configure order >> f t

9
8



On-The-Go

Deconstructing the trend



WHAT?

- Increased demand for on-the-go products



WHY?

- Busier lifestyles mean time-scarce consumers place high value on maximizing their free time



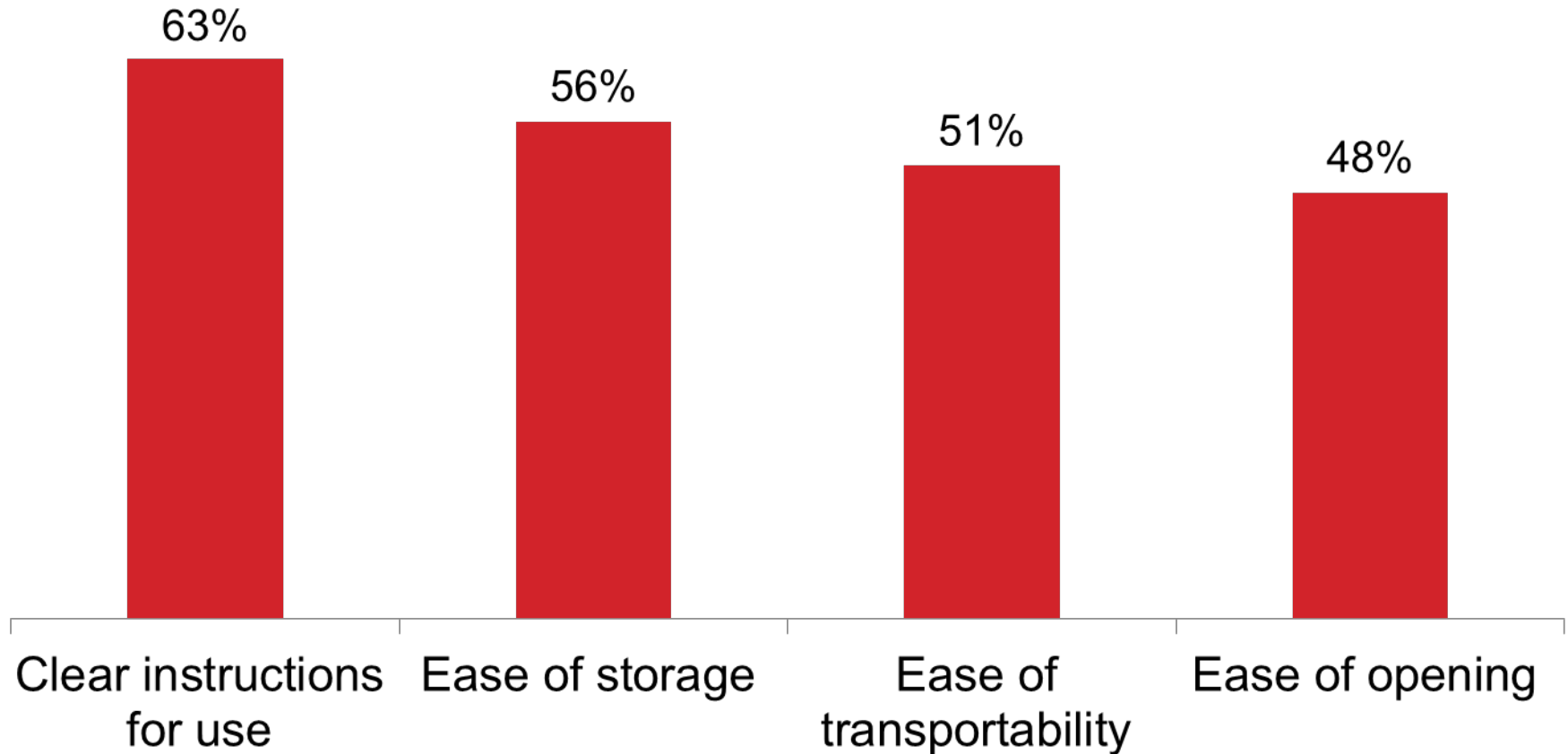
HOW?

- Promote efficacy attributes through easy-to-use and easy-to-consume packaging formats



Packaging formats that offer efficiency and convenience will appeal to consumers

Consumers who pay high attention to the following packaging benefits when choosing grocery products



Suntory X Thermos My Bottle Drink Drop

An innovative Thermos beverage container takes the pod coffee concept and applies it to portable hot and cold beverages



Just add
hot or
cold
water and
drink
from the
Thermos
mug or
pour into
a cup.



Suntory X Drink Drop comes in 12 flavors of coffee, tea and juice drinks, all in 25ml mini cups.



Alternative, portable, and on-the-go caffeinated products



Awake bar – "Same amount of coffee as a cup o' Joe or 250ml energy drink."



Buzz Strong's "real coffee" cookie – "1 Cookie = 1 cup of coffee."



Energems – "3 gems = 1 cup of coffee."



Weight Management

Deconstructing the trend



WHAT?

- Consumers are adopting a purposeful approach to nutrition and their physical appearance



WHY?

- Growing awareness of effects of excess weight on the body



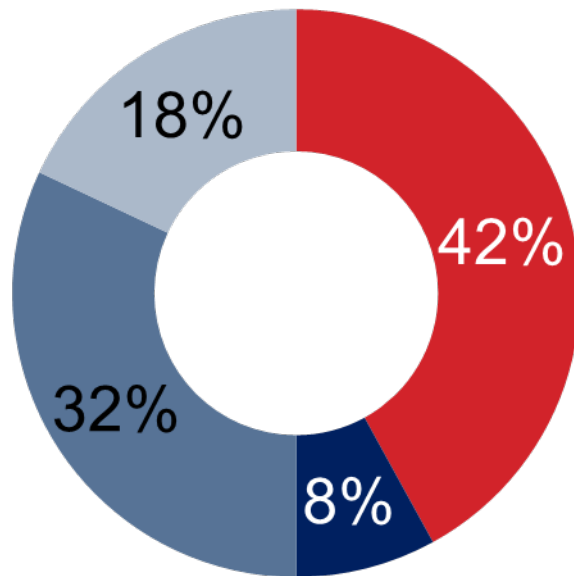
HOW?

- Formulate products with functional ingredients to target weight loss



Consumers are concerned about their weight

- I am trying to lose weight
- I am trying to gain weight
- I am trying to maintain my current weight
- I am not doing anything regarding my weight



39%

buy functional food and
drink products with
added health benefits








Kao Healthya Coffee: a ready-to-drink coffee with "fat-burning" benefits



- ▶ This "fat-burning" RTD coffee contains chlorogenic acid – a "natural" substance derived from coffee beans.
- ▶ Approved as FOSHU due to its effect of using body fat as energy.
- ▶ 30 million cans were sold within first four months of its launch.



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Coffeefruit: the "superfruit" that offers health and sustainability benefits

- Very high in antioxidants.
- Mild flavor makes it highly versatile.
- A waste product of coffee production.



Bai 5 Antioxidant Infusions








"The fruit literally will get thrown away [...] So I had this idea to take a byproduct of the coffee harvest and use it as a functional ingredient. Although coffeefruit is an irrelevant part of coffee harvest, it was a very relevant idea."

Ben Weiss, CEO and founder of Bai (via beveragedaily.com)



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Summary

- ▶ Consumers want innovation, but failure rates are high.
- ▶ Not meeting consumer needs is the key reason for failure.
- ▶ Use Datamonitor's TrendSights framework to guide consumer-inspired innovation around key consumer trends.
- ▶ Portability, flavor innovation, and coffeefruit are hot trends to capitalize on.





Thank you!

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