

HOW CAN COFFEE COMPETE?

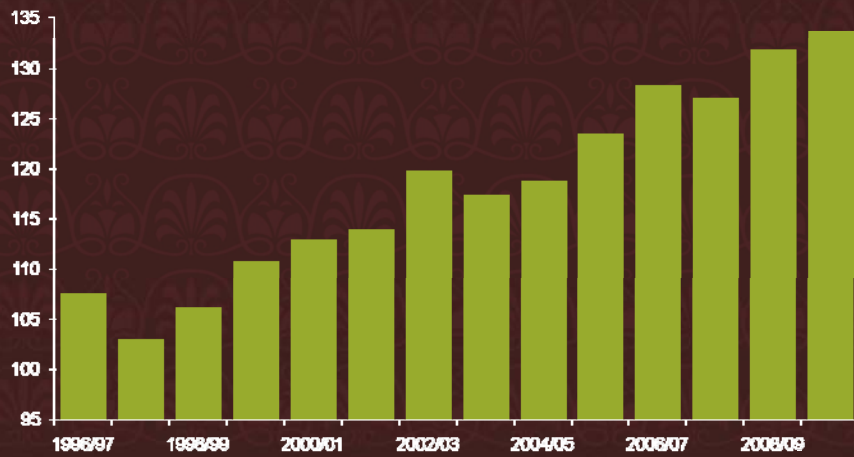
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February 2010
ICO World Coffee conference



GLOBAL COFFEE CONSUMPTION GROWING

millions of 60 kg bags



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BRAZIL SOON TO BECOME #1 COFFEE DRINKING COUNTRY TAKING LEAD FROM USA



- The United States' monthly imports range between 20% - 26% of total global coffee shipments.
- Since 1975, the United States has increased the amount of imported coffee by about 6 million bags.
- On average, US residents consumes 3.3 cups of coffee per day and 2.3 cups of gourmet coffee per day.
- Brazil is growing quickly with domestic use of nearly 19 million bags, increasing 3% - 5% per year. Can soon take over the lead of the United States as top consuming country.
- Brazil's consumption already exceeds that of all other producing countries combined.

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PRODUCER COFFEE DEMAND ESCALATING



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PROMOTIONAL CAMPAIGNS IN PRODUCING COUNTRIES



- More and more cafes are being opened in producing countries, promoting coffee consumption domestically.
- These campaigns have been met with success in Brazil, India, Colombia, El Salvador and elsewhere.
- Consumption in producing countries and emerging markets expected to continue to see faster growth than more traditional markets overall, despite the weaker economy. However, as the recession drags on some countries are particularly vulnerable to a slow down. The actual loss in bags is limited.
- Educational programs and emphasis on health benefits helping to maintain demand.

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COMPETITOR BEVERAGES FLOURISHING



- Soft drink consumption is still huge despite some resistance due to association with obesity and diabetes resulting in a decline in usage.
- Water has become a flavored, vitamin infused beverage
- Sports drinks marketed to athletes
- Energy drinks offer massive amounts of sugar and caffeine, along with guarana, ginseng, taurine, and many others
- Small “energy shots” offer concentrated caffeine and other chemicals to provide instant boosts of energy
- Tea remains a widely consumed beverage, with many flavors and types produced to capture more consumers

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GLOBAL BEVERAGE MARKET



Change in volume

	2004/05	2005/06	2006/07	2007/08
Coffee	-0.5%	1.6%	1.0%	1.6%
Bottled Water	7.2%	7.1%	6.1%	5.6%
Sports Beverages	25.2%	10.6%	5.6%	1.5%
Tea	2.2%	3.9%	3.3%	4.8%
Carbonated Soft Drinks	1.0%	4.2%	1.3%	3.3%

Source: Beverage Marketing Corporation

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COFFEE NO LONGER ONLY “PICK ME UP” BEVERAGE



- With the advent of energy drinks, coffee was given a challenger as the “pick me up” beverage
- For energy drink consumption, North America is the leading region by volume with 37% of the global total, followed by Asia Pacific with 30%, and West Europe with 15%.
- The global energy drinks market grew by 2% in 2008 to reach 3.9 billion liters, up from 2.0 billion in 2003.

Source: Zenith's Global Energy Drinks 2009 Report

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ENERGY DRINKS GAINING POPULARITY



- Until recently, energy drinks were synonymous with sugar. In fact, many brands have over 50g of sugar per can.
- Recently, new 2 or 3 oz products with no carbohydrates have been targeted to “on the go” consumers.
- These tiny drinks often contain many other ingredients added to serve as energy boosters.
- Coffee retailers need to recapture these buyers who are demanding an instant, easy pick-me-up without the mountains of sugar.

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ENERGY DRINK MARKET SNAPSHOT



- \$4.7 billion in sales in global sales in 2008
 - 37% of volume in North America, 30% in Asia/Pacific, 15% in Western Europe
- Between 2003-2008:
 - Compound annual growth rate of 14%
 - Consumption per capita doubled to .8 liters per person
- Majority of products marketed to young men
- An increasingly large segment of the functional drink market, which also includes sports drinks, juices, waters and other beverages

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US DOMESTIC MARKET POWER PERFORMER



- Nearly \$1 billion in sales in 2008
- Over 210 brands, but market heavily concentrated, with 90% of sales accounted for by:
 - Red Bull
 - Monster – distributed by Coca-Cola
 - Rockstar – distributed by Pepsi
 - Full Throttle – produced by Coke
 - AMP – produced by Pepsi
- Increasing focus on variety and differentiation in product size, flavors, caffeine and nutraceutical content, and dietary appeal

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A Sampling of Coffee Offerings



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RECENT TRENDS FOR A QUICK “FIX”



- Producers are curbing male youth oriented slogans, packaging and promotional campaigns for newer products to reach out to female and older consumers
- Increased emphasis on natural and organic and healthy ingredients with respect to sweeteners, nutrients and supplements
- Energy shots have emerged as the next big thing by targeting the time conscious consumer, who is looking for a quick fix without the calories and attitude of traditional energy drinks
 - 5-Hour Energy has captured over 70% of the rapidly growing shot market, with sales of over \$170 million
 - 7-Hour Energy with extra boost varieties now being introduced

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SPORTS DRINKS PROMISE MULTIPLE BENEFITS



- Sports drinks target the active lifestyle consumer, promising hydration along with a myriad of flavors.
- Behind North America, Asia Pacific is the second largest consumer of sports drinks, with over 70% of this volume generated by Japan and China alone.
- Recent products are moving toward a sport-energy drink hybrid, capitalizing on the demand for energy drinks. These may include the same ingredients as traditional energy drinks, but also many natural components focused toward a healthy body.
- These beverages continue to add multiple benefits to the consumer, packing various vitamins and minerals into every drink.

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WATER IS NO LONGER JUST WATER



- Flavored and enhanced water is a growing market, adding to the huge demand for bottled water.
- These beverages are again marketed to health conscious consumers. Many products include not only flavoring but also vitamins and minerals, leading to the phrase “enhanced water.”
- Many of these water products also contain sugar, which places a fine line between these enhanced waters and other types of beverages.

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TEA REMAINS A GLOBAL PLAYER



- Tea is still widely consumed worldwide.
- New bottled teas market toward those looking for an alternative to soft drinks.
- Green and white teas are focused toward health conscious consumers, offering antioxidants and nutrients not found in other bottled beverages

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TEA CONSUMPTION DOMINATED BY U.K.



Consumption (kgs) per capita



Source: Global Market Information Database

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SOFT DRINKS MAINTAIN MAJOR DEMAND



- Soft drinks hold a firm grasp on the global market.
- The United States has seen a nearly 500% increase in soda consumption since the 1950s but has recently seen a drop with sales slipping to the lowest level since 1997.
- The wide range of flavors and brands of soda covers many marketing demographics.
- Diet sodas are often a quick and inexpensive solution to finding a caffeinated drink without sugar. In the US diet is still only 30% of the market with full calorie soda grabbing 70% share.
- The average price of a 2-liter bottle of soda is between \$1.25 and \$1.50. Compared to some gourmet coffee drinks, which are upwards of \$4, this is very inexpensive.

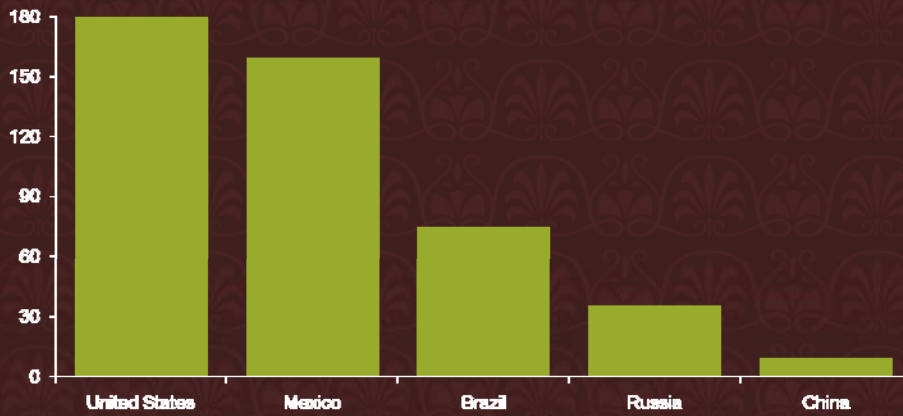
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UNITED STATES CONSUMES MOST SOFT DRINKS WORLDWIDE



Consumption (liters) per capita per year



Source: Reuters Fact Box

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HOW CAN COFFEE COMPETE?



Beverages are now walking a fine line between a drink and a drug

COFFEE NEEDS TO BE EASILY ACCESSIBLE



- With time becoming a limiting factor in today's society, coffee must adapt to this same lifestyle.
- Instant, or soluble, coffee is a good start to compete with these new easily accessible beverages.
- Starbucks is trying to capture this market with introduction of VIA Ready Brew Instant Coffee.
- One of every three cups of coffee consumed in the world is instant coffee. The instant coffee market has potential to be transformed away from traditional small glass jars and tins.
- Liquid coffee also makes the product more convenient to put in more retail locations with ease of use.

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HOME BREWING WITH EASE & GOOD TASTE



- Home brewing has become a growing industry, especially due to recent economic conditions.
- Some home coffee pots imitate the single cup feeling by having many different flavors of coffee in single-serve brew capsules or pods. These usually brew in less than one minute per cup, faster than waiting in line at the local café.
- While it will still be a challenge to compete with the ease of simply opening a can, coffee retailers have made vast changes in the last decade in order to stay competitive.

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COFFEE NEEDS TO REMAIN INEXPENSIVE



- While some gourmet coffee beverages cost more than \$4 per cup, efforts have been made to maintain access to an inexpensive drink.
- McDonalds expects its new coffee beverage program to generate \$1 billion in sales annually.
- Even notoriously priced coffee retailers are shifting toward an inexpensive marketing model. Though still more expensive than their fast food counterparts, Starbucks has publicized that the majority of their beverages are under \$4.

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COFFEE NEEDS TO REACH NEW DRINKERS



- Current consumers of coffee are not likely to vastly increase their daily coffee intake. This necessitates finding new consumers in order to increase sales.
- While the taste of coffee is not something that is easily acquired, many products reach out to those who might not enjoy the simple, brewed “cup of joe.”
- Mochas, lattes, cappuccinos, espressos, and frozen/iced coffees are all ways to entice new drinkers. However, with the wide range of flavors being created for various other beverages, coffee often falls short.
- However, even when new coffee drinks and flavors are marketed, they are usually very expensive when compared to their other beverage competitors.

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DO ENERGY DRINKS THREATEN COFFEE?



- In many contexts, energy drinks compete more with soda than coffee
 - Invoke a macho, hardcore lifestyle, appealing to a younger demographic not typically associated with coffee drinking
 - The National Coffee Association of USA found that the average age of specialty coffee drinkers is 43
 - Frequently (and controversially) used as mixers in alcoholic beverages in a way coffee isn't
- Youth still drinking coffee
 - Young adults who drank coffee consumed 3.2 cups per day in 2008 as compared to 2.5 in 2005.

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ENERGY SHOTS MORE OF AN ISSUE



- Energy shots' appeal comes from their simplicity and convenience – they are a quick boost in a small package
- Unlike most other energy drinks, they are most popular with mature consumers who need a caffeine fix to help them handle their busy schedules and stay awake during the day.
 - Energy shots could very well be a preferable alternative to coffee in such settings
 - Many shots are even marketed as containing “as much caffeine as a cup of coffee”
 - 7-hour shots have as much caffeine as a “large” cup of coffee

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ENERGIZING COFFEE CONSUMPTION



- Instead of cannibalizing coffee demand, energy drinks may actually be helping to grow it
 - Dozens of coffee-based and flavored energy drinks have been launched in the past few years, potentially introducing new consumers to the beverage, while also inducing others to drink more of it
 - The growing popularity of energy and functional drinks has given coffee companies a receptive market and the opportunity to grow the RTD market and introduce unconventional coffee drinks

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