

Coffee & Tea

HOMEWORLD BUSINESS®

report

According to industry insiders, interviewed by HOMEWORLD BUSINESS® editors, more consumers are opting to brew coffee and tea at home, creating opportunities for the coffee and tea categories. From traditional to trendy, the segments have added new products and features to capture the burgeoning interest in the market.

Single-Serve A Strong Performer In Otherwise Flat Coffeemaker Segment

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NEW YORK—The drip coffeemaker business fell slightly in 2008, with dollar sale declines marginally outpacing unit decreases as consumers tightened their purse strings and retailers responded with more aggressive pricing.

There have been few signs of improvement in 2009 as the basic business continues to be challenged, not only by the economy, but also by the growing influence of single-serve coffeemakers continuing to gain ground in the marketplace. "The category is very strong right now," said Steve Fox, director/consumer products for Bosch's Home Appliances, marketers of the Tassimo single-serve beverage maker. "I know small appliances in general is struggling right now but single serve continues to be a shining light."

For Bosch's Tassimo, Fox

pointed to the unit's versatility as a key elements of its success, noting that it makes tea, coffee, espresso and hot chocolate. "I think that variety is appealing to consumers," said Fox.

As a category however, the

tions and has made it convenient to obtain the pods essential to delivering on the unit's convenience positioning.

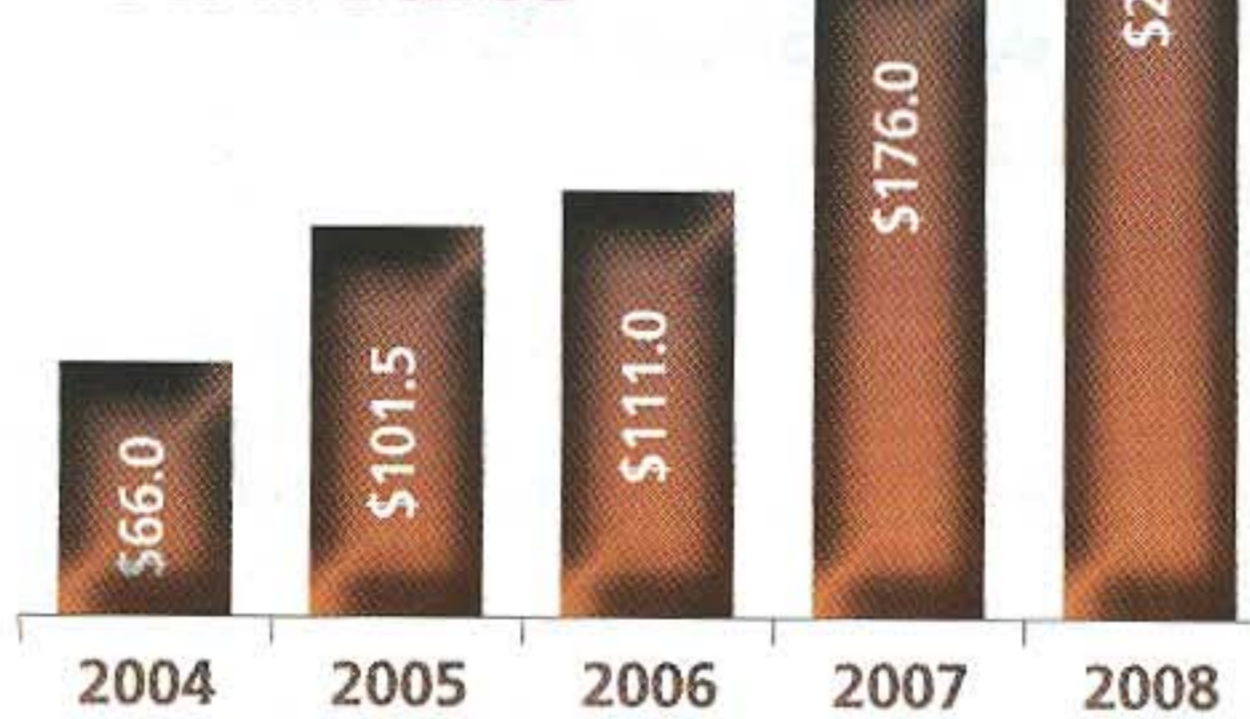
"We have worked very closely with our retail partners to implement a presentation at point of sale that presents a total product line," said John Whoriskey, vp/general manager for Keurig's At Home division. "It's not just the coffeemaker, but the K-cups and accessories. It's building a prominent merchandising display of the total Keurig system.

The strategy has apparently proven successful as Green

Mountain recently reported that Keurig shipped 479,000 brewers in the second quarter of fiscal 2009, a 148% increase over the period of last year.

And according to Whoriskey, "We had the number one
continued on page 14

Single-Serve Coffeemaker Retail Sales



*HomeWorld Business 2009 Census

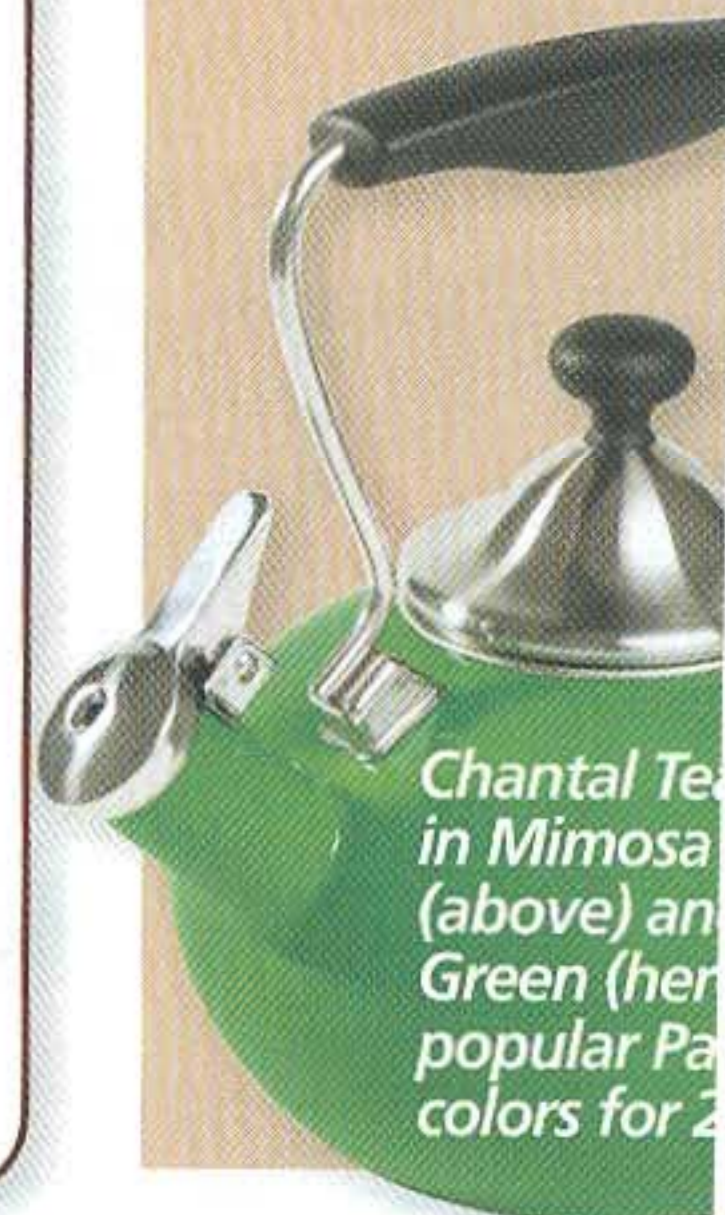
real key to single serve's success, according to suppliers, is and will be driven on the coffee side. This has been one of the keys to success for Keurig, which along with Green Mountain, has provided consumers with a wide range of flavor op-

Tradition Still Top

NEW YORK—A brewing appliance traditional method brewing tea, either the most popular waned, and suppl out with updated trends seen across industry.

Responding to Chantal had two Bridge enamel-ot tured in the Pa stitute display at ternational Hom wares Show in Ch

Chantal featur in Fiesta Green mosa Yellow, w 2009 Pantone Year and has be hopefulness an people's thinkin



Chantal Tea in Mimosa (above) and Green (here) popular Pa colors for 2



Single-Serve Coffeemakers Stand Out In Otherwise Flat Segment

continued from page 12

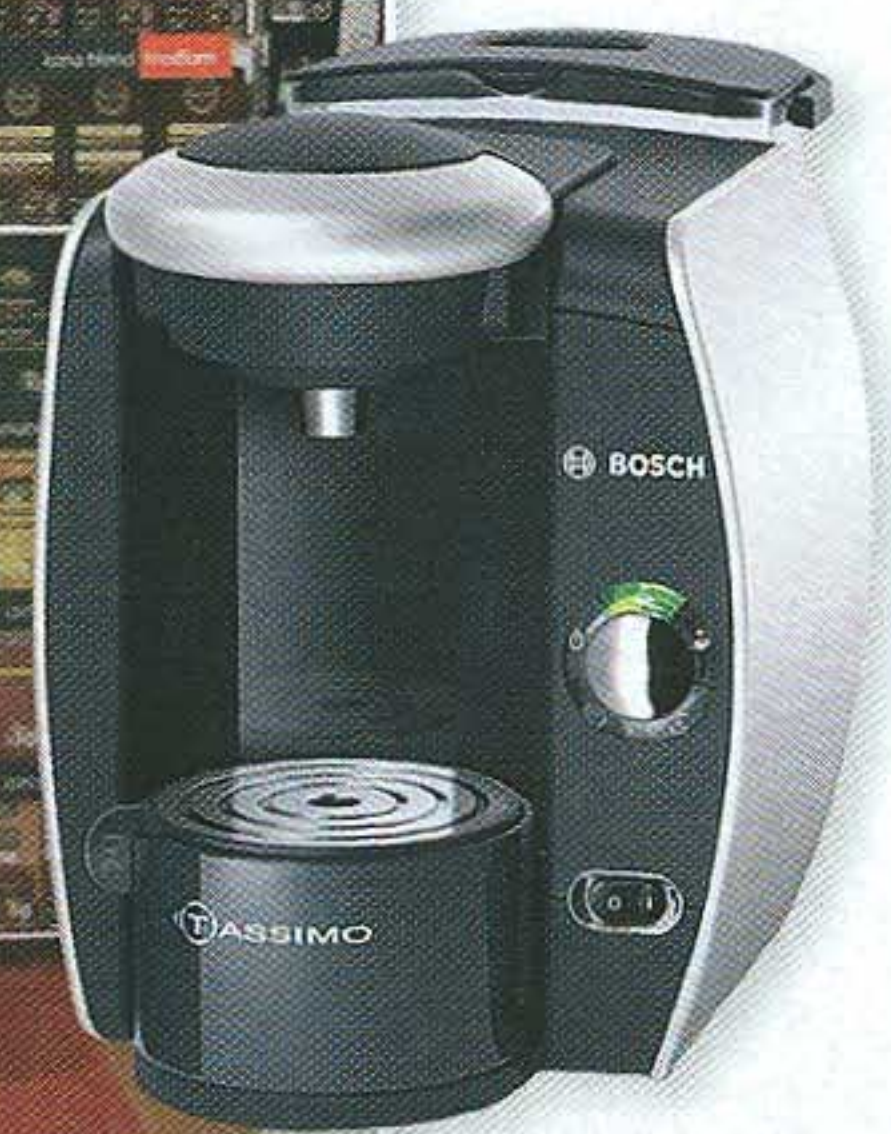
best-selling coffeemaker in dollars in the most recent reporting quarter, according to NPD and we had three of the top five selling models, by dollar volume.”

And those numbers are likely to expand going forward as Green Mountain recently announced an agreement to distribute Keurig brewers through 3,000 Walmart stores. And while attempting to spread the format to a broader consumer demographic in the value segment, the company has also looked to enhance its presence in more up-scale channels as well. Bed Bath & Beyond, for example, is currently running major Keurig and K-cup merchandising statements in its stores, devoting almost the entire main traffic aisle between its electric and non-electric housewares departments to freestanding displays that include brewers, coffee flavors and an assortment of accessories. In some stores, the retailer is reportedly carving space from other housewares categories to create major front-of-store single-serve statements.

Despite the success of pod-based single-serve systems and the widespread attention they've received in the marketplace, household penetration has not approached the levels of conventional automatic drip models.



Retailers are devoting prominent space to single-serve coffeemakers, as in this Macy's Keurig display. Below: The Bosch Tassimo.



The 2009 HOMEWORLD BUSINESS®, Census for example, estimates 2008 retail unit sales of single-serve coffeemakers at 1.8 million units; a number that is certain to rise in 2009. By comparison, the conventional drip coffeemaker business is estimated at 19.3 million units. While single serve is almost universally acknowledged as a growth opportunity for the business, the long-term potential of the category remains debatable.

“Single serve is definitely getting a lot of attention, but it is still

relatively new and doesn't have massive placement in homes,” said Bill Booth, vp/sales and marketing at Toastess. “One of the challenges for single serve, from a universal appeal perspective, is that you're asking people to change the way they make coffee and the way they buy coffee.”

Most industry experts define a growth path for single serve that closely mirrors that of the traditional non-electric razor business, with the availability and profitability of replacement blades (or in this instance cof-

fee pods, K-cups, T-disks, etc.), a determinant factor in consumer adoption and continued use. The machines that have experienced the greatest success have been complemented by widespread availability of coffees.

However, even within the conventional ADC business, the single-serve option has become widespread with a growing number of suppliers developing options that enable consumers to use conventional ground coffee to create individual servings.

Within the more traditional

coffeemaker segment, the business remains relatively flat, according to suppliers, and faces challenges going forward. “The drip market, although we're talking about a huge market in terms of household penetration, is actually going down in terms of households that own a drip coffeemaker,” said Alvis Ricoveri, managing director of DeLonghi. “This is driven by a number of trends; espresso is one, single serve is one, tea is one. We're seeing a significant growth in the electric teakettle market.”

Despite that, there are segments of the drip coffeemaker business that are continuing to perform solidly, driven, according to suppliers, by value-added design and features coupled with attractive pricing. “We're selling a ton of coffeemakers at \$29.99,” said Shae Hong, president of Sensio Inc. “There is always going to be a customer who wants to make a pot of coffee.”

The key, according to Hong, is delivering high perceived value at a key pricepoint. Aesthetic enhancements such as stainless steel housings and visually appealing silhouettes coupled with aggressive pricing can be the difference between decorating the selling shelf and moving units off it. “The key is to go after that value customer with a step-up model,” said Hong.

