



Monitoring Consumer Behavior

Sintercafe, Nov 2011

Judith Ganes
President
J Ganes Consulting, LLC

Are Consumers Really Cutting Back?

- Expectations are for the double whammy of high prices and weak economic conditions to cause consumers to drink less coffee but is this really happening?
- Can the media and common thinking be wrong?
- Reporters buzz about the caffeine jolt but data is painting a brighter picture.



US Coffee Sales Post Healthy Rise

Despite Wall Street and Media Blitz Focusing on Negative

- Ground and single cup packets grew at a robust 23% at supermarkets, drugstores and mass merchandizers (data excludes Wal-mart, club and convenience stores).
- 63% of sales were ground and single serve continues to flourish capturing 11% of the total sales.
- Instant coffee sales accounted for 10%; whole beans 7.7%
- Ground coffee up 20%; Single serve up 129%
- Prices up 21% from a year ago.

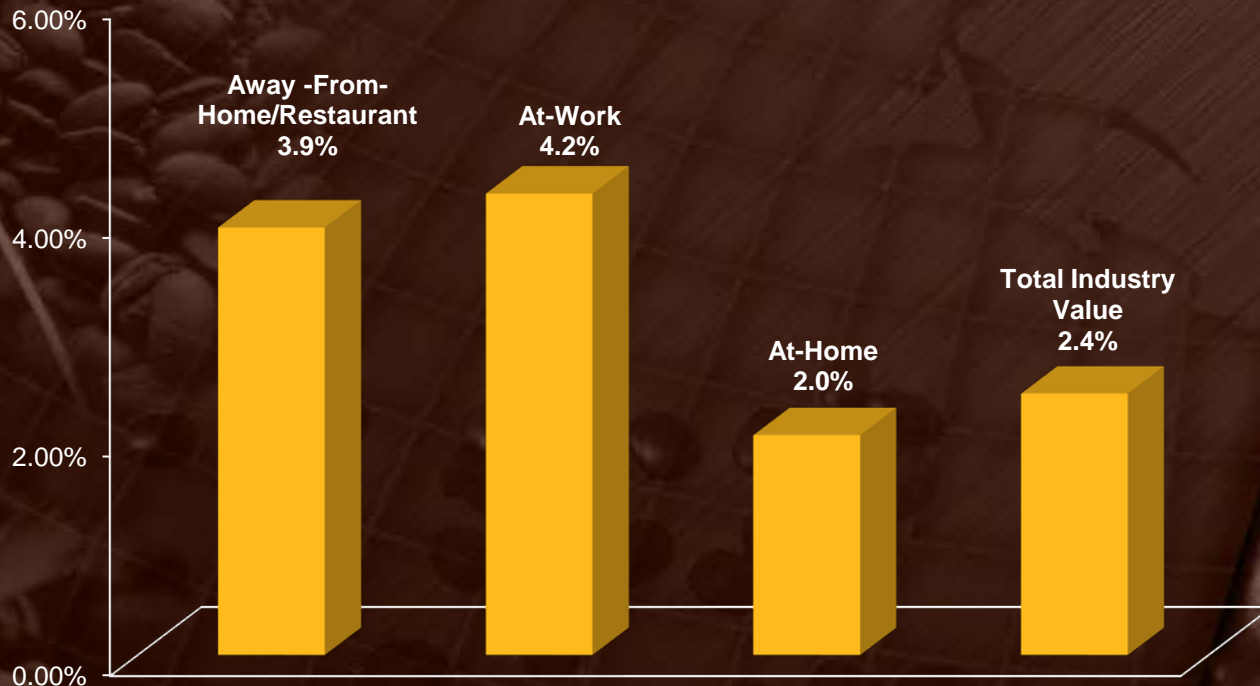
Source: SymphonyIRI



US Consumers Won't Give Up Coffee

Despite Economy, Consumption Rises

Quarter 3 2011



What's Driving This Growth?

Away-from-home/Restaurant – up 3.91%

- Sales up at outlets like Starbucks, Dunkin' Donuts and McDonald's
- 3rd quarter stats: \$19,676,514,169 sales/8,372,984,753 cups



What's Driving This Growth?

At-work— up 4.22%

- Greater use and acceptance of single-serve (Keurig, Mars Flavia) and instant (Starbucks VIA) is helping this category
- 3rd quarter stats: \$2,987,750,883 sales/5,858,335,065 cups



What's Driving This Growth?

At-Home – up 2.01%

- Increasingly consumers want convenience and decreased waste offered by single-serve from Keurig and instant Starbucks VIA
- 3rd quarter stats: \$13,694,130,455 sales/57,058,876,897 cups



Optimistic US Youths Drink More Coffee

- Since 18-39 year-olds feel “much or somewhat better” about their personal financial situation versus six months ago, they drank more coffee – 9 percent more for 18-24 year olds and 10 percent for their 25-39 year old elders.
- Overall, 58 percent of all US survey participants said they drank coffee in the past day, up from 56 percent in 2010 but down from 60 percent in 2009.

Source: National Coffee Association, 6/28/11



An Optimistic US Outlook

4th quarter 2011

- **Green Mountain Coffee Roasters Inc.** estimated 4th quarter 2011 earnings of \$0.46 per share, up from \$0.44 per share for 3rd quarter.
- **Caribou Coffee** estimated 4th quarter 2011 earnings of \$0.14 per share, up from a low of \$0.06 per share for 3rd quarter.
- **Panera Bread** is targeting 4th quarter 2011 earnings of \$1.39-\$1.41 per diluted share versus \$.97 Q3 earnings and up 15% to 17% from Q4 2010.



Starbucks Growth

- Earnings per share increased 33% to \$0.36 in Q3 FY11 compared to \$0.27 in Q3 FY10
- Starbucks expects earnings per share in the range of \$1.50 to \$1.51 for 2011, modestly above the previously communicated 15% to 20% growth over fiscal 2010 non-GAAP EPS on a comparable 52-week basis.
- Revenues for the quarter grew 10% to \$1,413 million, up 6% in constant currency.



European Coffee Consumption Stable

- European coffee demand will be stable in 2011, with consumers shifting to drinking at home rather than elsewhere.
- “Continued commodity price pressure has made 2011 a challenging year for the industry as a whole; however Matthew Algie’s performance this year is holding up well compared to target.” Eric Hagman, chairman, Matthew Algie, UK
- Export volumes surged in the first eleven months of coffee year 2010/11 (October 2010 to August 2011) but stocks did not rise nearly as much, underscoring strong consumption.

Source: Bloomberg 9/13/11 International Coffee Organization



Costa Coffee Sales Surge

Whitbread owned coffee chain sees profits rise

- Underlying profits up 41.8% in the six months to September 1.
- Worldwide sales up 23.3% and like-for-like sales up 6.7% driven by success of Ice Cold Costa range and international growth.
- 167 new store openings. 100th in China. Now 2,000 shops worldwide.
- Adding Costa Express machines gas stations and other retail outlets
- Target growth: 3,500 stores worldwide

Source: Retail Bulletin



Krispy Kreme UK Looks to Coffee for Growth

- Krispy Kreme UK, a premium doughnut retailer, is using coffee as the lure in its growth strategy
- Opening coffee bars as part of the process to attract more foot traffic.



Nespresso Faces' knockoff Challengers

Sales growth may slow by about 20 percent next year.

- Nespresso sold more than 6.5 billion capsules in 2010
 - } BUT capsules can only be purchased at a specialty Nespresso store or by filling out a form online SO more consumers are choosing knockoff java in the supermarket to save cash and hassle.
- French and Swiss grocery shelves have been flooded with versions that work in the same machines for as much as a third less. Germany and the Netherlands are upcoming targets.



Nespresso Faces' knockoff Challengers

Price sells

- A pack of 10 Ethical Coffee capsules cost 2.59 euros -- Nespresso capsules sell for 3.50 euros
- People who used to only buy Nespresso are now buying half Nespresso and half Ethical Coffee.



Nestle Growth

- Nine-month revenue at Nestle SA, the world's biggest food company, rose at the fastest pace in three years helped by higher prices for Nescafe soluble coffee and increased volume in Asia.
- Sales of Nescafe Dolce Gusto coffee boosted growth in Europe, where comparable revenue climbed 3.8 percent during the third quarter.
- Sales at Nestle's Asia, Oceania and Africa unit increased about 12 percent in nine



China – Part of an Aspirational Lifestyle

- "For many Chinese, especially in big cities, coffee is part of a lifestyle aspiration. More and more young professionals are choosing to start the day with a cup or two at home."
Adrian Ho, Nestle
- China's demand for coffee is growing at an estimated 15 to 20% a year (world average is around 2%)
- Companies competing in China include:
 - } Costa Coffee
 - } Starbucks
 - } Blenz
 - } UBC Coffee
 - } SPR Coffee
 - } McDonald's



Source: Asia Times, 3/11/11

India– A Growing Demand for Coffee

- Traditionally drinkers of tea, Indians are consuming more coffee with domestic consumption rising to 108,000 metric tons in 2010, up 80% in the past decade.
- Currently 2,000 coffee cafes are run by Cafe Coffee Day, Barista Lavazza and Costa Coffee.
- Dunkin' Donuts entered into a pact with India-based Jubilant FoodWorks Ltd. to open 25-30 outlets over the next three years.
- An expected alliance between Starbucks and Tata Coffee Ltd., could increase the country's retail outlets.



Africa – Increasing Consumption at Home

- “People still think that coffee is not for them. For them it is just to grow the coffee and export it for someone else to drink.”-- Michael Kijjambu, Ugandan coffee roaster
- Coffee producing countries and emerging economies are leading the way in increased coffee consumption (4.4 % and 5.1% respectively). In Africa, coffee consumption continues to grow.
- EAFCA and other African coffee associations aim to improve domestic consumption and promote the development of a positive coffee culture.



And Now For the Not-So-Good News

- At the beginning of November coffee futures took a plunge, based on speculation that Europe's struggle to contain its sovereign-debt crisis might slow the global economy.
- Belief that an economic downturn causes consumers to drink inferior/cheaper coffee, Arabica prices plummeted.
- Media and market perceptions, however, may be too pessimistic though. Futures may sour on dollar strength or large supplies but probably not as a result of significant slowdown in use.

The background is a dark brown, textured surface with a grid pattern. It features several coffee beans, some whole and some ground, scattered across the surface. A white coffee filter is visible in the bottom left corner, and a white coffee cup is in the top left corner. The text "Thank You for Your Time" is centered in the middle of the image.

Thank You for Your Time