Consumer and Innovation Trends and Future Growth Opportunities in Coffee

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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

Source: Datamonitor Consumer
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Coffee preferences are driven by taste, price, and health.

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

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Source: Datamonitor's Consumer Survey 2011; *20 countries surveyed
The importance of eye-catching innovation

How do you usually choose which coffee to buy?

- I have a clear idea of what brand I want to buy before I enter the store: 44%
- I have a few brands in mind before I enter the store: 37%
- I do not decide which brands to purchase until I am at the store: 19%

Source: Datamonitor's Consumer Survey 2011
Consumers are open to new innovation in coffee

What is your approach to buying new coffee products?

- I actively monitor new products: 9%
- I keep an eye out for new products: 41%
- I don't seem to notice new products: 50%

Source: Datamonitor's Consumer Survey 2011
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."

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Datamonitor's TrendSights framework consists of eight mega-trends:

- Health & Wellness
- Sensory & Indulgence
- Sustainability & Ethics
- Comfort & Uncertainty
- Individualism & Expression
- Evolving Landscapes
- Smart & Connected
- 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.

Source: Datamonitor's Consumer Survey May/June 2011; images: shutterstock.com
"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.

Source: Datamonitor’s Successes and Failures: Kenco Millicano
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.

Source: Datamonitor's Consumer Survey 2011 and 2013
Examples we like: flavor innovation in coffee

Coffeestar crème-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"

Source: Datamonitor’s Product Launch Analytics
Examples we like: category crossover between coffee and other beverages

Cherizena Colombian Coffee with Cider Apple

Perk! by Rainforest Beverages – "Sparkling Chilled Coffee¹"

Coco Café – "Coconut Water Café Latte²"

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.

Source: Datamonitor’s Product Launch Analytics
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.

Source: Datamonitor's Consumer Survey 2011
170,000 ways to customize your drink at Starbucks!

- **Drink type?** (e.g. cappuccino, latte, espresso)
- **Cup size?**
- **Decaf or regular?**
- **Iced, hot, or extra hot?**
- **Number of espresso shots?**
- **Milk type?** (e.g. 1%, 2%, soya, heavy cream)
- **Flavor shots?** (e.g. caramel, mocha, coconut, vanilla)
- **Add-ons** (e.g. whipped cream, syrup drizzle)

Source: [1] BeverageWorld, June 2012
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.

Source: Datamonitor’s Product Launch Analytics
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...
2. Adjust body & mouth-feel
3. Name your blend

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Source: eightpointnine.com
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

- Clear instructions for use: 63%
- Ease of storage: 56%
- Ease of transportability: 51%
- Ease of opening: 48%

Source: Datamonitor's Consumer Survey 2011
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.

Source: SuntoryFoods.co.jp; Datamonitor's Product Launch Analytics. Photos courtesy of SuntoryFoods.co.jp.
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."

Source: awakebar.com; buzzstrong.com; energems.net
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

- 42% are trying to lose weight
- 32% are trying to maintain their current weight
- 8% are trying to gain weight
- 18% are not doing anything regarding their weight

39% buy functional food and drink products with added health benefits

Source: Datamonitor's Consumer Survey 2011 and 2013
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.

Source: Datamonitor's Successes and Failures: Kao Healthya Coffee, January 2014; Datamonitor's Product Launch Analytics (PLA)
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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.

"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)

Source: drinkbai.com; beveragedaily.com
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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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