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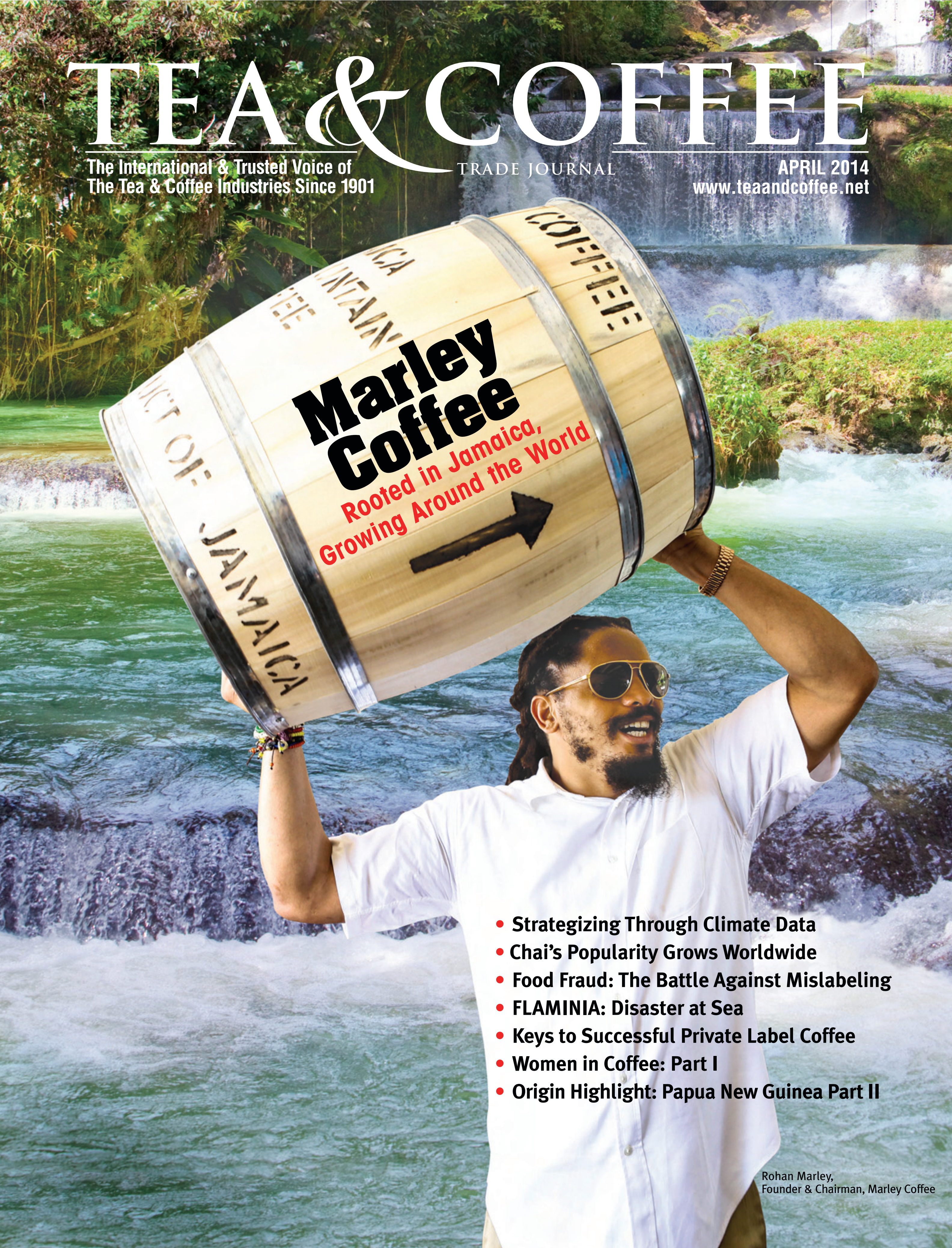

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- Strategizing Through Climate Data
- Chai's Popularity Grows Worldwide
- Food Fraud: The Battle Against Mislabeling
- FLAMINIA: Disaster at Sea
- Keys to Successful Private Label Coffee
- Women in Coffee: Part I
- Origin Highlight: Papua New Guinea Part II

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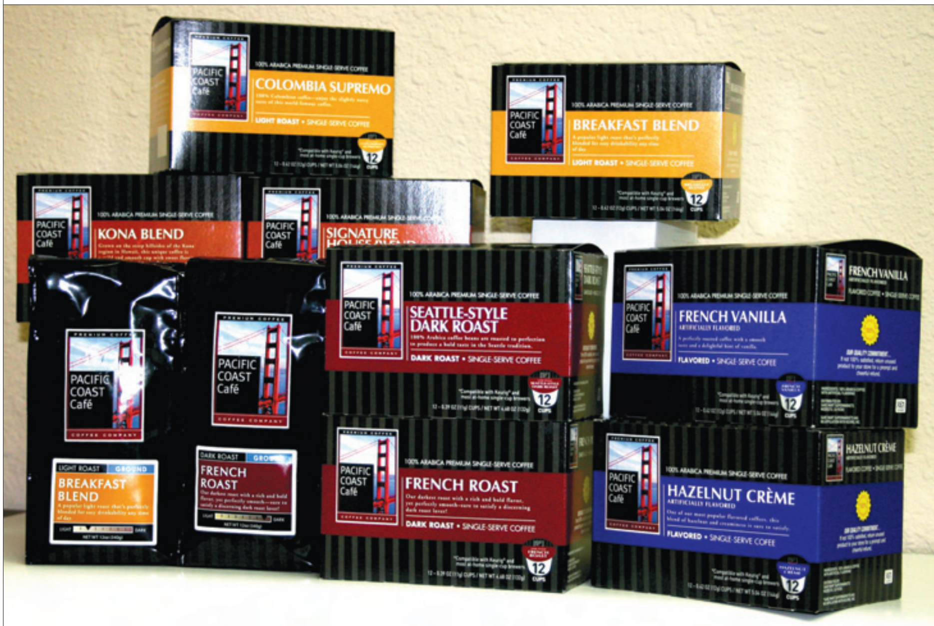


Opportunities & Obstacles in PL Coffee

Private-label coffee sales are being fuelled by two leading factors: a highly developed retail environment and the preference for fresh ground coffee rather than instant coffee. While private-label players will have a difficult time breaking into the instant-coffee market, there is opportunity in pods. By Dana LaMendola

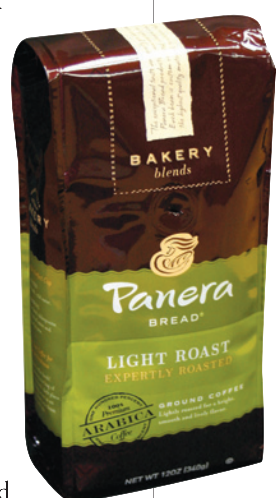
Private label's share of the global coffee market has increased slowly but steadily since 2004, accounting for 10 percent of global coffee volume in 2013. The influence of private-label coffee, however, varies greatly across regions. According to London-based market research firm, Euromonitor International, in 2013 private label accounted for less than one percent of coffee sales in Asia, Latin America and the Middle East, while in Western Europe, private label accounted for 26 percent of coffee sales. This regional variance highlights two important drivers behind the success of private-label coffee: a highly developed retail environment and the preference for fresh, rather than instant coffee.

The shift towards modern grocery formats positively impacts private-label sales not only of coffee, but all consumer goods. The economies of scale and brand equity of large grocery retailers make them well suited to the development and distribution of private label. Markets with a high penetration of supermarkets and hypermarkets often have the highest presence, and consequently, the highest sales of private-label goods. The presence of discounters, like Aldi and Lidl, where private-label options dominate the product mix, also helps drive consumer acceptance of private label. Western Europe and North America have both the strongest supermarket or hypermarket networks (mass-market retailers) and the highest penetration of private-label coffee. In contrast, the retail landscape in Asia, Latin America and the Middle East is dominated by traditional grocery retailers, which includes non-chained outlets, typically owned by families and/or run on an individual basis, which helps partly explain the limited presence of private-label coffee.

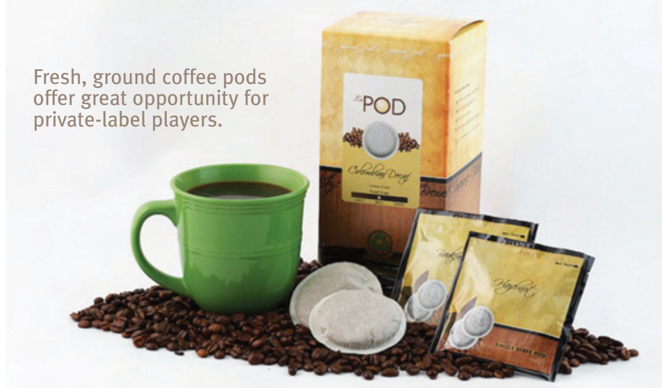
The success of private-label coffee, however, is not only tied to a developed retail environment, but also coffee preferences. Globally, private label is much more amenable to fresh coffee than instant coffee. Indeed, in 2013, private label accounted for nearly double the global volume share of fresh coffee than instant coffee. Unlike fresh coffee, which is often viewed as a utilitarian, everyday beverage in the markets where it dominates, instant coffee generally dominates in markets that lack a traditional coffee culture, and is therefore often perceived as a special, value-added product. This association of instant coffee with indulgence consequently makes private-label penetration difficult, as brand is an integral component of the luxury appeal of instant coffee.

Barriers to PL Instant Coffee

The consolidated competitive landscape of instant coffee, thanks largely to this importance of brand, also makes it difficult for private label to gain a foothold. According to Euromonitor International, Nestlé accounted for 48 percent of the global instant coffee market in 2013. This is in sharp contrast to the global fresh coffee industry, where leader Mondelez, accounted for just 9 percent of the total market. Nestlé's dominance stems from the ubiquity its Nescafé brand, which is the leading instant coffee brand in every region by a wide margin. Sectors like instant coffee that are dominated by such power brands as Nescafé, are the hardest for private label to



Distant Lands Coffee, Renton, Wash., is the private-label coffee supplier for Panera Bread-branded bagged and single-serve coffee that is sold in grocery stores and for Save Mart grocery's store brand, Pacific Coast Coffee (top).



Fresh, ground coffee pods offer great opportunity for private-label players.

penetrate, since consumers' attach a high level of trust and loyalty to these brands. Unlike fresh coffee, where dozens of brands with relatively similar levels of penetration make it easier to attract consumers to private label, instant-coffee drinkers are less likely to move away from their favored Nescafé to a private-label option. The strong barriers against private-label instant coffee help further explain the variance in penetration across markets, as instant coffee dominates the retail coffee landscape in Asia, Australasia, and Eastern Europe, while fresh coffee is overwhelmingly preferred in Western Europe and North America.

The combination of a developed retail landscape and a preference for fresh coffee not only explain why Western Europe and North America are the only markets where private-label coffee enjoys a double digit share of the market, but also help to identify those regions with most private-label coffee potential: Australasia and Eastern Europe. Like Western Europe and North America, supermarkets and hypermarkets account for more than 70 percent of grocery sales in Australasia.

However, in 2013, private-label coffee accounted for just 5 percent of the retail coffee market there. The limited reach of private label in Australasia stems from the fact that instant coffee continues to dominate the retail coffee market, accounting for nearly triple the retail value than fresh coffee in 2013.

Nevertheless, coffee preferences are shifting in favor of fresh coffee. Per Euromonitor forecasts, between 2013 and 2018, fresh coffee will increase by USD $136 million in retail sales, compared to instant coffee, which will grow by just USD $5 million over the same period. This shift towards fresh coffee, along with the already highly developed retail landscape, makes Australasia a promising opportunity for players in private-label coffee. Indeed, the effects on private-label coffee are already evident, with private label increasing by 151 percent in volume and 277 percent in value since 2008.

Eastern Europe also offers potential for private-label coffee. Between 2008 and 2013, Easter Europe experienced the largest shift towards modern grocery than any other region. Furthermore, although instant coffee dominates in terms of retail sales, like in Australasia, fresh coffee is expected to record higher value growth over the next five years, indicating the increasing popularity of fresh coffee. The continuation of both these trends will likely boost private-label coffee penetration in Eastern Europe, which already ranks third in terms of private-label share.

Future Growth for PL Coffee

The gap in perceived quality between branded products and private labels continues to shrink, especially in markets like Western Europe and North America. To achieve parity with branded competitors, private-label coffee players should continue to increase their organic and fair-trade offerings, while also adding new flavors and roasts, to keep up with increasing variety of branded coffee products. Innovation in format will also be integral to the continued success of private label.

Fresh ground coffee pods, in particular, offer great opportunity for private label players. As the pod market continues to expand, price is an increasingly important differentiator for consumers, making private-label pods an increasingly attractive option. Between 2012 and 2013, fresh ground coffee pods accounted for 69 percent of the absolute growth of private label coffee. While increased innovation and variety will help the potential of private label coffee continue to grow, the penetration of fresh coffee and modern grocery formats will remain key prerequisites of its success.

Dana LaMendola *joined Euromonitor International in 2013, as a global industry associate for beverages research. She is responsible for producing articles and global reports on trends and developments in the beverage industry on a local, regional and global level. She may be reached at: dana.lamendola@euromonitorintl.com.*