

Perk up  
beverage  
sales by  
leveraging  
the single-  
cup coffee  
segment

# Coffee talk

**S**erved up with cream and sugar or just plain and strong, coffee is a beverage with enduring appeal. While growth in other center store categories has stalled, coffee continues to be one of grocery's bright spots, driving nearly 1 billion retail trips per year.<sup>1</sup>

And this power category is home to a singularly powerful segment—single-cup coffee. The single-cup pod has morphed from 'what's that?' to 'have to have it' in under a decade, racking up more than \$3.9 billion worth of sales in the past 12 months alone.<sup>2</sup>

Single-cup coffeemakers play an important role in driving and expanding shopper traffic to food retailers: Consumers need coffee products that are compatible with their appliances, and new users are automatically brought into the market as coffeemaker sales increase. American homes with a Keurig brewer have grown to 20 percent,<sup>3</sup> driving even more traffic and sales of hot beverage pods at food retailers. And there are vast opportunities to expand single-cup brewer penetration even further. It's an annuity stream between appliance and grocery that's uncommon even within the coffee category, where sales growth in traditional coffeemakers and drip coffee has stagnated.<sup>4</sup>

Let's take a look at how single-cup pods have transformed the hot beverage landscape and how retailers can drive even more growth.





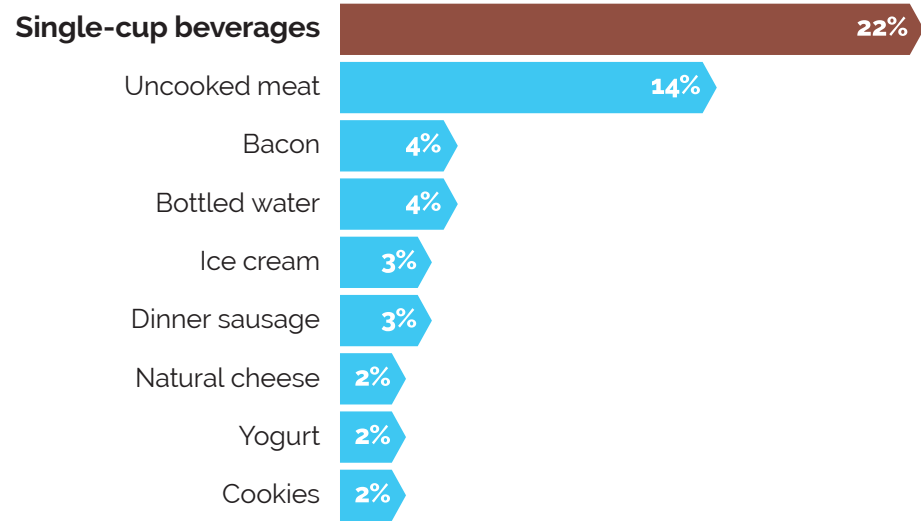
Coffee is a reliable basket builder, boosting average trip spend by more than \$10.

**Warming up the category**  
Coffee is officially America's beverage of choice. In 2016, U.S. consumers drank more mugs of java than soda, tea and bottled water combined.<sup>5</sup> The morning staple that has grown to become a 24/7 occasion represents a \$9.5 billion market and a reliable basket builder, boosting average trip spend by more than \$10.<sup>6</sup> Although the hot beverage category as a whole has seen growth slow down, coffee remains an anchor, responsible for 76 percent of hot beverage sales.<sup>7</sup>

And while coffee has helped people get up and go for centuries, the past decade has seen the category inundated with innovation. Single-cup coffee products represent one of the biggest game-changers.

Single-cup beverages enjoyed a 22 percent compound annual growth rate (CAGR) in dollar sales between 2013 and 2017, the highest among the total grocery Top 20 categories.<sup>8</sup> By comparison, uncooked meat increased by 14 percent, and the remaining 18 grocery categories by 4 percent or less.<sup>9</sup> What's more, single-cup coffee has been growing incrementally, bolstering rather than cannibalizing sales of related products.<sup>10</sup>

**Top grocery categories CAGR dollar change, 2013-2017**



Source: IRI, 52 weeks ending December 31, 2017



A number of trends indicate that the single-cup coffee market will only get hotter. For one thing, U.S. consumers are still catching up to pod-loving coffee drinkers in other parts of the world. Several European countries, including France and the Netherlands, have three times the U.S. household penetration of single-cup coffee products.<sup>11</sup>

But Americans are on track to narrow the gap. Increasing interest in healthy yet convenient energy boosts and high-quality beverage experiences, as well as demand for digital innovation across every touchpoint, all augur well for single-cup coffee's continued popularity.<sup>12</sup> So do market forecasts: Single-cup is poised to be the biggest category in coffee by 2019. Together with ready-to-drink coffee, it's projected to fuel 90 percent of net category growth during the next five years.<sup>13</sup>

**Crowded shelves**  
In the meantime, the single-cup category is getting crowded. Close to 200 brands and more than 2,000 SKUs have hit the market since 2010,<sup>14</sup> yet a handful of brands command the majority of category sales. These brands are not only fueling growth, they're maintaining a pipeline of new and innovative single-cup beverage products that keep the category fresh and the consumer coming back for more.

How can retailers sort through the growing abundance of single-cup coffee pods to maximize sales among shoppers who may be a little overwhelmed by it all? Smarter shelving, assortment and merchandising strategies are the keys.

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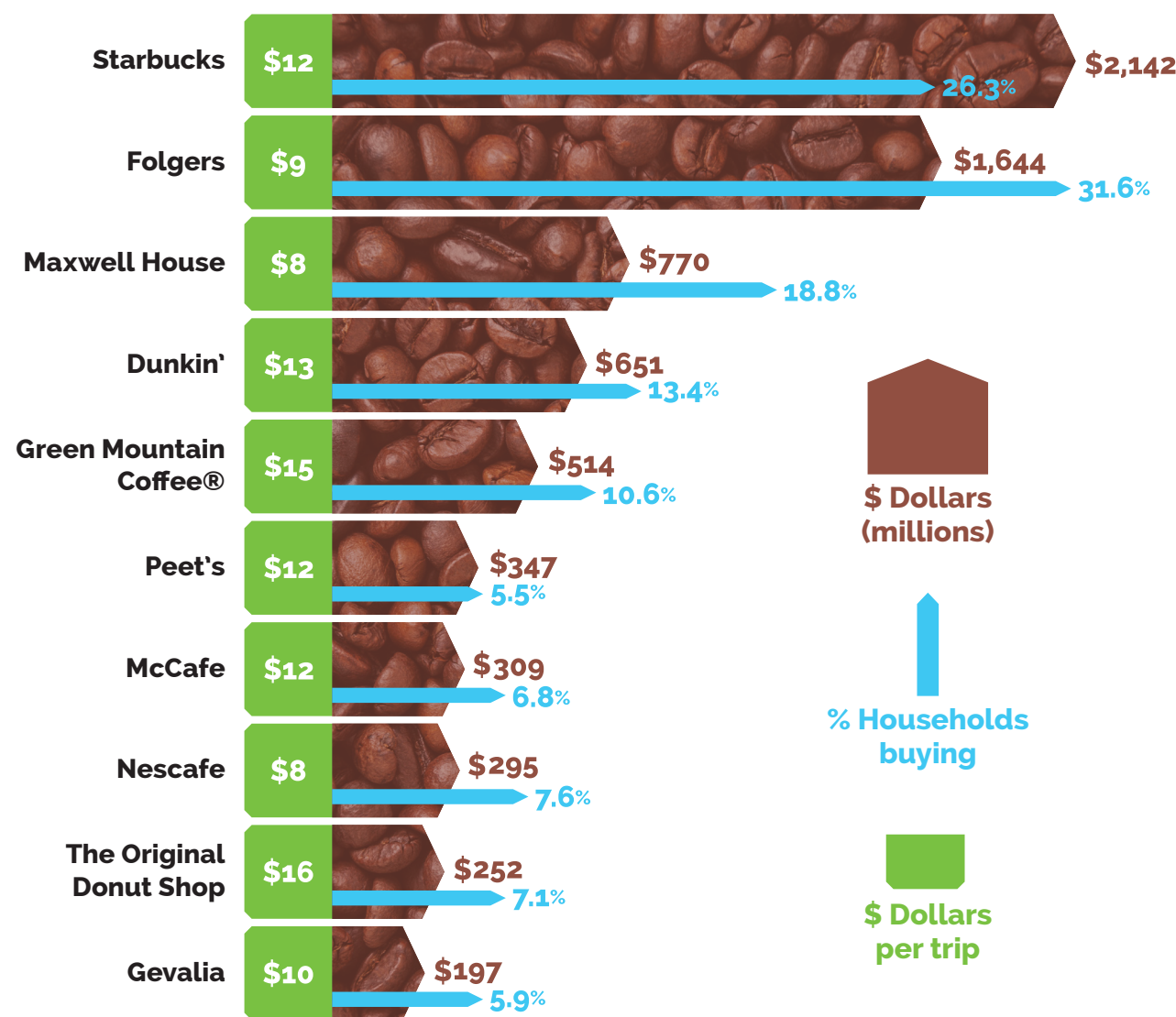


# 3 ways to boost single-cup coffee product sales

## 1. Give power brands space to shine

With an exploding category and limited shelf space, retailers need to be selective in terms of the single-cup brands they offer and strategic in terms of where these products are placed. After all, the Top 10 coffee brands generate 72 percent of all coffee sales.<sup>15</sup>

Top 10 U.S. coffee brands



Source: IRI, Total U.S. Multi-Outlet, 52 weeks ending Aug. 12, 2018

Allocate segment space based on contribution share and the importance of the brand variety. Prioritize optimal space and location for power brands, shelving them at eye level or within the strike zone of the set. Then, use specific brands to “signpost” the segment or aisle, and secure multiple facings for the top 20 percent of items segment.



## If you build it . . .

Consumers used to purchase a coffeemaker as a purely functional appliance or for the distinct coffee brewing method it offered, such as espresso making. But increasingly, consumers are looking for a single brewer that can create a multitude of flavors and drinks with a variety of brewing methods, blurring the lines among conventional segments.

As ownership of multi-function coffeemakers has grown, so have consumer expectations for the appliance. Today's home-brewed coffee connoisseurs put speed and convenience at the top of their priority list, yet they refuse to sacrifice quality in the name of efficiency. At-home brewers seek premium beans and drinks that look and taste just as good as the beverages they would buy at a specialty coffee shop.<sup>16</sup> What's more, they want brands that support sustainability, such as Keurig's commitment to offering fully recyclable Keurig K-cup pods by 2020.

And because a coffeemaker is an investment, consumers stick with brands they know and trust. Keurig and Mr. Coffee enjoy far greater brand awareness than their competitors, with consumers three times more likely to be familiar with category-leader Keurig than runner-up brands.<sup>17</sup> Roughly half of consumers are familiar with Keurig and Mr. Coffee, but consumer recognition drops off sharply for such brands as Black & Decker (16 percent), Cuisinart (13 percent), Hamilton Beach (12 percent) and others.<sup>18</sup>

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## 2. Optimize merchandising and assortment

Coffee is a crowded yet brand-loyal category. Consistent shelf placement is important given the routine approach most consumers take to buying single-cup coffee brands. Most shoppers are likely to buy the same brand they bought last time, even in the face of deals, discounts or ads.<sup>19</sup>



Having top brands in stock is also essential. Single-cup coffee consumers are so brand loyal that they'll walk if their favorite brand—or even their favorite flavor—isn't on the shelf, underscoring the importance of optimized merchandising.<sup>20</sup>

Take a strategic approach to assortment that simplifies the shopping process by using the shelf as an intuitive navigational tool. Coffee shoppers identify first with the segment, then the pricing tier and then the brand. A strong brand block is critical, organized by premium, mainstream and value price points. Within brand blocks, merchandise similar roast profiles together and create distinct sections for flavor and decaf.

### Single-cup merchandising principles

#### ◆ Reallocate segment space

Allocate segment space based on contribution share and importance of brand variety.

#### ★ Brand is beacon

- Prioritize optimal space and location—the "strike zone"—for power brands.
- Utilize specific brands to signpost the segment or aisle.
- Secure multiple facings for top 20% of items segment.

#### ◆ Optimize the flow

- Organize and flow segments: Premium > Mainstream > Value.
- Brand block with power brands at "strike zone."
- Merchandise similar roast profiles together within brand blocks.
- Create distinct flavor and decaf sections within brand blocks.

#### ◆ Emphasize large counts

- Drive trade-up, maximizing distribution on large count packs.
- Allocate 30% of the shelf to large count packs.
- Merchandise large packs adjacent to like frequency pack within brand blocks.



Pack size represents another key component of assortment, and single-cup coffee sold in 24- to 54-count boxes generates the biggest lift.<sup>21</sup> Food retailers can get in on the growth by elevating large packs from bottom-level shelves and merchandising them next to their equivalent frequency packs within brand blocks to drive up trade. One study showed that retailers saw upwards of 7 percent category lift after giving large packs more desirable real estate.<sup>22</sup>



### Keurig drives coffee innovation

A proprietary insights engine, coupled with extensive technical resources, enables the brand to continually launch game-changing new coffee products as well as innovative appliances.

The K-Elite brewer is one of the new high-end coffeemakers with contemporary styling, premium materials and finish and expanded functionality; it delivers the most beverage customization of any Keurig single-cup coffeemaker. Key features include a Strong Brew option that increases coffee strength and intensity, a brew over ice setting, a wide range of brew sizes from 4 to 12 ounces, and an extra-large 75-ounce water reservoir. In fact, it's currently the highest-ranked model on Keurig.com. Two new coffeehouse brewers have also launched: the K-Café and the K-Latte brewers. Each brews coffee and has a milk frother. The K-Café also makes concentrated coffee "shots" for authentic-tasting café-style beverages.

Keurig has introduced a steady brewer innovation pipeline and increased investment and creativity across the company's marketing efforts, strengthening its win-win partnerships with retailers and coffee brand partners as a result.

As the pioneer in single-cup coffee innovation, Keurig's integrated ecosystem and expansive coffee development toolkit allows for endless co-creation and collaboration. Keurig has demonstrated a proven ability to create and maintain mutually beneficial, long-term coffee brand partnerships, offering the strong equity and recognition of the Keurig

Keurig has introduced a steady brewer innovation pipeline.



## The Keurig advantage

Keurig is the No. 1 single-cup coffee brewing system in the United States<sup>24</sup> and is now part of the new Keurig Dr Pepper, which is the seventh-largest food and beverage company in the United States.<sup>25</sup> Keurig Dr Pepper offers a diverse brand portfolio with beverages that meet consumer needs at any moment throughout the day.

## 3. Promote experimentation to expand the category

Coffee may be an I-know-what-I-like category, but there's still room to spotlight experimentation and expand category sales. When it comes to spur of the moment purchases, the single-cup segment performs better than roast and ground coffee, which suggests savvy retailers should reserve impulse-oriented shelf space for pod products. In this case, fueling category expansion requires thinking outside of the coffee aisle: Shoppers are more likely to make impulse purchases at end caps and island displays.<sup>23</sup>



## Lifting single-cup sales

Driven by expanding sales of single-cup brewers, single-cup coffee has given new life to an age-old category. What's more, it has been a boon for multiple industries, boosting sales in both the grocery and home appliance sectors.

Retailers have an enormous opportunity to both support and benefit from the continued growth of single-cup coffee pods and single-cup brewers. By leveraging strategic merchandising, shelving and assortment strategies, retailers can heat this coffee category to the boiling point.

<sup>1</sup> IRI Panel, Total U.S. All Outlets, 52 weeks ending Aug. 6, 2017

<sup>2</sup> IRI Multi-Outlet, 52 weeks ending Aug. 27, 2017

<sup>3</sup> KDP At-Home Omnibus Study, July 2017

<sup>4</sup> IRI, 5-year CAGR, 2012-2017

<sup>5</sup> Euromonitor, Sept. 29, 2017

<sup>6</sup> IRI Panel, Total U.S. All Outlets, 52 weeks ending Aug. 6, 2017

<sup>7</sup> IRI Multi-Outlet, 52 weeks ending Aug. 27, 2017

<sup>8</sup> IRI, 52 weeks ending Dec. 31, 2017

<sup>9</sup> Ibid.

<sup>10</sup> IRI Total U.S. Multi-Outlet, 52 weeks ending Oct. 1, 2017

<sup>11</sup> Euromonitor, 2016; LSA; Royal Dutch Tea and Coffee Federation; German Coffee Association

<sup>12</sup> Kantar Retail, November 2016

<sup>13</sup> Mintel, based on IRI, InfoScan Reviews, U.S. Census Bureau, Economic Consensus

<sup>14</sup> IRI Multi-Outlet, calendar 2017 vs. 2010

<sup>15</sup> Euromonitor, 2016; LSA; Royal Dutch Tea and Coffee Federation; German Coffee Association

<sup>16</sup> IRI Total U.S. All Outlet Panel, 52 weeks ending Dec. 25, 2017; KGM Omnibus '17; KGM Awareness Study '16

<sup>17</sup> Kantar Millward Brown, coffeemakers quarter 4/quarter 2 tracking update 2017

<sup>18</sup> Ibid.

<sup>19</sup> Kantar Retail, November 2016

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> NPD All Channels, by category dollar sales, 52 weeks ending May 5, 2018

<sup>25</sup> IRI Multi-Outlet, 52 weeks ending Dec. 31, 2017 (Note: KDP includes owned and licensed brands only.)