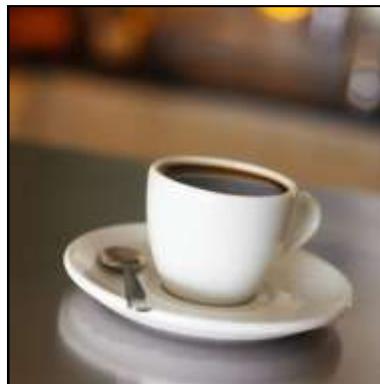




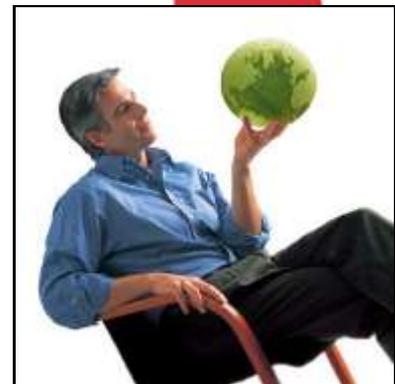
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MARKET INDICATOR REPORT | FEBRUARY 2013

## Coffee in the United States Sustainability Trends



Source: Mintel, 2012





▶ **EXECUTIVE SUMMARY**

Coffee is a household staple in the United States (U.S.), consumed across all incomes, ages, genders and states. Initially considered a breakfast beverage, it has now been adopted as a drink that can be consumed anytime and almost anywhere. Beyond being a morning habit, coffee is gaining the reputation, particularly among young adults, of being an instant energy boost for those on-the-go.

Consumers are also attracted to the innovations being introduced to coffee products regarding price points, flavours, formats, variety and convenience, seemingly making coffee the perfect option for any occasion. In a June 2012 survey, Mintel found that 76% of consumers had bought some type of coffee for their household in the past month. The most popular choice was ground coffee (53%), followed by instant (21%), ready-to-drink (RTD) (20%), single-cup-pods (17%) and whole bean coffee (17%) (Mintel, Coffee in the U.S., 2012).

Within each of these segments, there are options to suit every budget and taste preference, including sustainable offerings, such as certified fair trade, organic, shade-grown, bird-friendly and carbon neutral. The production of sustainable coffee around the world is growing rapidly, and at a much faster pace than conventional coffee. It is estimated that 16% of the global coffee production and 9% of global coffee sales in 2010 were certified under a sustainability standard (Coffee Barometer, Tropical Commodity Coalition, 2012).

This report highlights broad trends related to the consumption and market environment of coffee in the United States with a focus on sustainable products.



Source: Mintel, 2012

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▶ **DID YOU KNOW?**

▶ Canada ranks sixth in value of total coffee bean and product imports into the U.S., but is first for roasted and instant coffee, going from \$US85 million in 2000 to \$US401.2 million in 2011 (United States Department of Agriculture, 2012)

▶ With a purchase cycle of 56 days, Americans buy packaged coffee an average of 6.7 times per year at 1.5 pounds per purchase occasion (Mintel, 2012).

▶ CONSUMER INSIGHTS



American consumers are holding fast to their coffee cups, but new variations in consumption by socio-demographic profile are emerging. For example, a recent Mintel survey found that 64% of consumers who bought ground, whole bean, instant, and instant flavoured coffee indicated that they “drink coffee as a morning ritual.” However, this belief was biased towards those older than 45 years of age. Those younger, particularly the 18 to 24 year olds, reported that they drank coffee to help them wake up and to get an energy boost throughout the day (Mintel, 2012). Other survey findings included:

- ▶ Older consumers tended to prefer name-brand ground coffee, while younger consumers, particularly millennials, had higher rates of consumption across all brands and segments.
- ▶ As consumers become experienced coffee drinkers, they tend to look for darker roasts and bolder flavours.
- ▶ Women were more likely than men to rank price, usual roast type, and brand as important factors in their purchase decisions.
- ▶ Men were more likely to prefer strongly brewed coffees, like espresso, and were more likely to report buying whole bean coffee and own specialty brewers. Women were more interested in flavour and convenience and so tended to prefer instant coffee mixes and RTD products.
- ▶ Five-person households reported the most purchases of both instant and whole bean coffees, while households with four people reported the most purchases of ground, RTD, and instant mixes.
- ▶ In terms of package size, 16-ounce bags were preferred by 31% of respondents, followed by 12-ounce packages (21%), then 25-ounce packages (18%).
- ▶ Coffeehouse brands were more popular with consumers under 45 years of age.
- ▶ Approximately one-third of coffee drinkers under the age of 24 stated that they preferred RTD coffee for an energy boost over energy drinks (19% for those 25-34).
- ▶ Coffee is consumed across all income levels. Instant coffee tended to be more popular in households with earnings less than US\$25,000 while whole bean coffee was consumed more in households with incomes over US\$150,000.

**Figure 1: Factors Influencing Coffee Purchase Behavior, Percentage Agreement by Generation, June 2012**

Attribute	Millennials (age 18-35)	Generation X (age 36-47)	Baby Boomers (age 48-66)	Swing/WWII (age 67+)
Price	83	82	83	76
Usual roast type	79	83	85	81
Regular brand	78	79	80	89
Choice of flavours	81	76	67	51
Choice of blends	75	73	71	59
In-store promotion	57	51	46	46
A coffeehouse brand	54	43	37	20
Country of origin	38	32	34	28
Fair trade certified	40	32	30	26
Organic	36	26	21	13
Rainforest Alliance certified	32	27	20	10
Shadegrown	25	22	19	7
Bird-friendly	29	21	15	6

Source: Coffee – US October 2012, Mintel Group Limited

Price, brand, roast and flavour are the most important factors influencing coffee purchases, but sustainable claims and positioning are gaining awareness, particularly with Millennials and Generation X consumers. “Fair trade certified” is the one ethical attribute that resonates most across all generations, perhaps due to its longer history in the U.S. In 1998, Certified fair trade coffee was introduced into the country and is considered to be the most successful sustainable product in the mainstream market to date. This may indicate that the more recent certification systems such as shadegrown and bird-friendly, will have greater market impact over time as these two younger cohorts, who are familiar with these systems, age.

## ▶ MARKET ENVIRONMENT FOR SUSTAINABLE COFFEE



The global coffee market is complex and is dominated by three multinationals: Nestle, Kraft, and Sara Lee. These are followed by Smuckers, Strauss, Starbucks and Tchibo. Companies offering coffee products often rely on traders for their supply, rather than dealing directly with producers. The largest three traders, Neumann Gruppe (Germany), Volcafe (Switzerland) and ECOM (Switzerland) trade 50% of the green coffee beans in the world (Tropical Commodity Coalition, 2012). All of these companies have committed to offering sustainable coffees to their customers by establishing purchasing targets, naming sustainable sourcing in their Corporate Social Responsibility policies and working with standards organizations and growers to ensure a quality supply. The entry of multinationals into the sustainable coffee market will increase the level of competition for small coffee roasters, both within the U.S. and exporting into the U.S.

Initial moves by Multinationals into the sustainable coffee market:

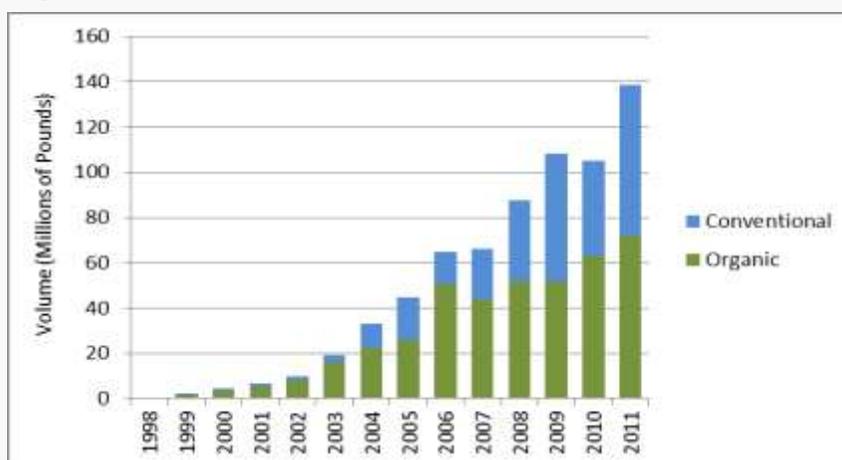
- Nestle: 90,000 tonnes of Nescafé coffee to be certified by Rainforest Alliance by 2020
- Sara Lee: Twenty per cent of their annual coffee volume to be certified sustainable by 2015
- Starbucks: All of their coffee certified sustainable by 2015
- Kraft: All their European coffee brands sustainably sourced by 2015
- Tchibo: Twenty-five per cent of their coffee certified sustainable coffee by 2015

Coffee falling under the sustainable production umbrella tends to be certified under several standards that rely on self-assessment and external review: Fairtrade International (FLO); Organic (IFOAM); Rainforest Alliance (RA); UTZ Certified (UTZ) and The Common Code for the Coffee Community (4C's). Some companies, such as Starbucks, have also implemented their own private standards for their brands. Overviews and comparisons of these standards can be found at [www.standardsmap.org](http://www.standardsmap.org). Accurate statistics on the global annual sales of sustainable coffee are difficult to quantify for several reasons: coffee can be certified under more than one standard, yet counted independently in each organization's total; coffee can be produced as sustainable, but end up being sold through conventional channels; or information from the many small producer groups involved can be totalled inaccurately. Generally, there is more sustainable coffee produced annually than is purchased to ensure that there is enough supply to meet specific buyer requirements for quantity, quality, taste and origin attributes. There is now growing agreement among stakeholders that greater cooperation is required to meet the needs of the marketplace and the ideals promoted by the standards.

### Certified Fair Trade in the U.S.

When fair trade coffee was first introduced in the U.S. it was both certified fair trade and organic. Over time, the proportion of fair trade coffee that is also organic has dropped by approximately 50%, in response to pricing, consumer demand, and product availability (Figure 2).

**Figure 2: Organic vs. Conventional Fair Trade Certified U.S. Coffee Imports, 1998-2011**



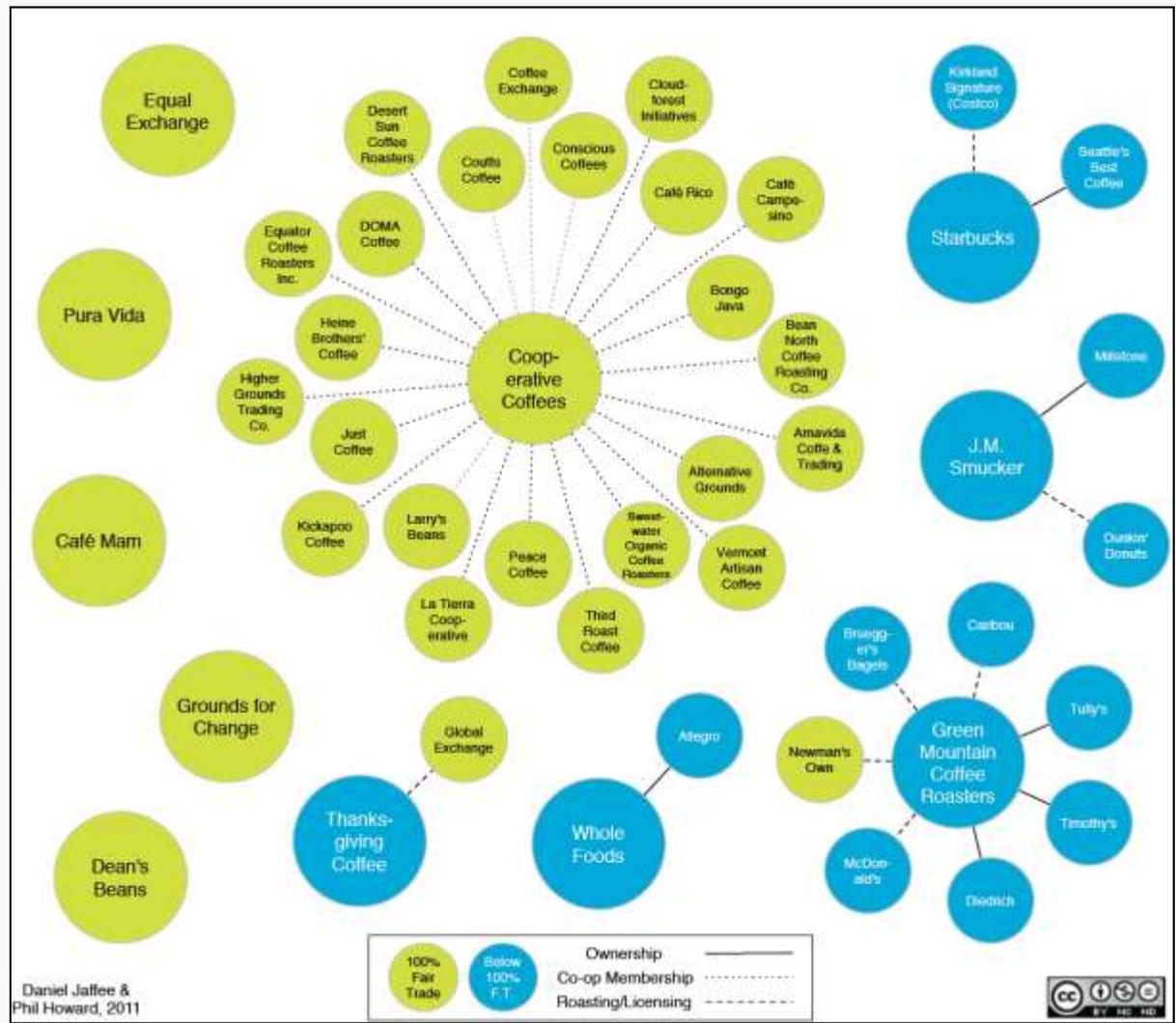
Source: Fair Trade USA 2011 Almanac

▶ MARKET ENVIRONMENT FOR SUSTAINABLE COFFEE (contined)



The certified fair trade coffee market is also complex. Researchers Jaffe and Howard recently attempted to identify the key players and their relationships in the U.S. fair trade coffee market in 2011 (Figure 3). Monitoring the market environment is expected to become more complicated as Fair Trade USA, the leading national certifier, resigned from the international association Fairtrade International at the end of 2011. Fair Trade USA intends to revise standards for all products to make them more consistent between categories, as well as implement standards for product categories not currently offered, expand sourcing of products to provide a greater supply to U.S. businesses and consumers, and launch a multi-media national awareness campaign. This means that coffee will now be certified fair trade differently in the U.S. than in the world system, as product from estates and plantations will become eligible rather than being limited to just grower cooperatives. Within the fair trade community there is concern that larger operations will take advantage of the marketing power of the fair trade label without adequate oversight and transparency in terms of production values and in assuring workers receive adequate compensation. There is concern as well that this perceived loosening of the rules may put consumer confidence in all certified products at risk and threaten the success of both domestic and importing fair trade coffee companies. At present, there is a wait-and-see attitude as Fair Trade USA revises its standards and its approach to certification, and prepares to launch its new program under the “Fair Trade for All” slogan. (Fair Trade USA, 2012)

Figure 3: U.S. Fair Trade Coffee Brands and Connections, 2011



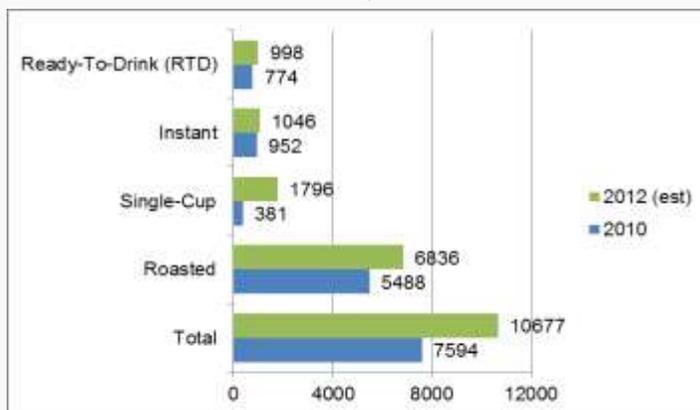
Source: Jaffe, Daniel and Phil Howard, Visualizing Fair Trade Coffee, December, 2011

▶ MARKET PERFORMANCE



Coffee is a global commodity. U.S. processors responded to a peak in raw coffee prices of US\$2.31 per pound in April 2011 by raising the prices of their products (Mintel, 2012). Although the price of coffee dropped to US\$1.49 by August 2012, it will take up to nine months for reductions to work through the system, be passed on to consumers and show up in category analysis. This price increase, combined with the explosion of consumer interest in single-cup brewing systems, is credited for growth rates of 17.9% in 2011 and 19.2% in 2012. Mintel forecasts that the coffee market will return to a growth level of 2% to 4%, to reach US\$12.7 billion annual sales in 2017.

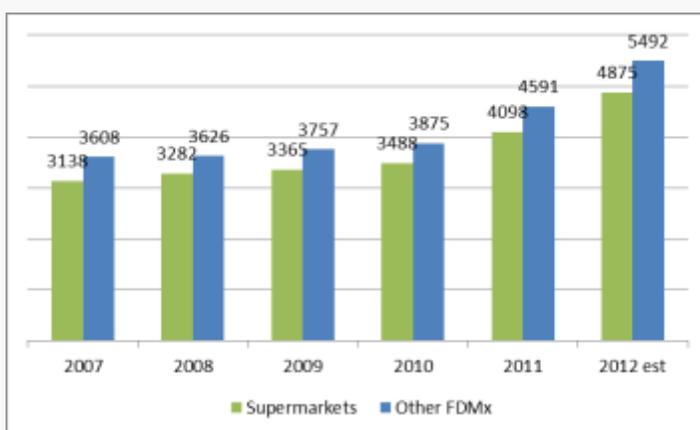
**Figure 4: Total U.S. Retail Sales of Coffee by Segment, at Current Prices, 2010 and 2012**



Source: Mintel Coffee in the US 2012

Price-conscious consumers actively seek out savings on their coffee purchases and are turning to the other FDMx\* channel (see definition below) rather than supermarkets (Figure 5). Other FDMx retailers are expected to continue to add single-cup and other coffee products and are slated to report nearly 30% dollar sales growth in 2012, at the expense of supermarkets and drug stores (Mintel, 2012).

**Figure 5: U.S. Retail Sales of Coffee in Supermarkets and Other FDMx, at Current Prices, 2007-2012 (Millions)**



Source: Mintel Coffee in the U.S. 2012

\*FDMx – food, drug, and mass merchandise retailers, excluding Walmart. The other FDMx channel includes these, as well as non-traditional food and beverage retailers, such as home-ware stores, non-store retailers, and off-price retailers (which buy brand name items in bulk to sell at discounted prices).

▶ **MARKET PERFORMANCE (continued)**



The top brands were consistent from 2008 to 2011, as shown in Figure 6. In 2011, the top five companies by market share were J.M. Smucker, with 18.4%, Kraft at 9.9%, Starbucks at 9.1%, Green Mountain Coffee Roasters Inc., at 4.5%, and Eight O'Clock with 3.3% (Euromonitor, 2012).

**Figure 6: Top 20 Coffee Brand Shares by Retail Value, 2008-2011 (%)**

Brand	Company	2008	2009	2010	2011
Folgers	JM Smucker Co, The	12.6	13.4	13.1	13
Starbucks	Starbucks Corp	3.5	3.4	3.4	8.1
Maxwell House	Kraft Foods Inc	7.7	8.2	7.9	7.6
Dunkin' Donuts	JM Smucker Co, The	2.6	3.1	3.5	3.8
Eight O'Clock	Eight O'Clock Coffee Co	3.7	3.8	3.6	3.3
Green Mountain Coffee	Green Mountain Coffee Roasters Inc	0.9	1.5	2.8	2.8
Keurig	Green Mountain Coffee Roasters Inc	0.3	0.6	0.8	1.7
Peet's Coffee	Peet's Coffee & Tea Inc	1.3	1.4	1.5	1.7
Starbucks Via Ready Brew	Starbucks Coffee Co	-	0.2	1.2	1.5
General Foods International Coffee	Kraft Foods Inc	1.7	1.5	1.5	1.3
Millstone	JM Smucker Co, The	1.4	1.2	1.2	1.1
Nescafé Taster's Choice	Nestlé USA Inc	1.2	1.1	1	1
Seattle's Best Coffee	Starbucks Corp	-	-	-	1
Chock Full O'Nuts	Massimo Zanetti Beverage USA	0.8	0.8	0.8	0.8
Nescafé	Nestlé USA Inc	0.8	0.8	0.7	0.8
Green Mountain	Green Mountain Coffee Inc	0.4	0.5	0.8	0.7
Kroger	Kroger Co	0.8	0.8	0.7	0.7
Walmart	Wal-Mart Stores Inc	0.6	0.7	0.7	0.7
Yuban	Kraft Foods Inc	0.5	0.5	0.5	0.5
Nespresso	JM Smucker Co, The	-	0.2	0.3	0.4

*Source: Euromonitor International, Coffee in the US, March 2012*

**The Emergence of the Single-Cup Pod**

Single-cup coffee sales have attracted consumers interested in combining convenience with customized choices based on brand, roast and flavour. Mintel estimates that single-cup coffee sales increased from US \$381 million in 2010 to nearly \$1.8 billion in 2012, to become the second-most popular everyday coffee option, with 16.8% market share (Figure 4). This percentage is expected to take share from roasted, instant and RTD, to grow to 20% of the overall coffee category by 2017. New brewing system innovations and the entry of both premium coffeehouse brands and lower-priced private label brands from national retailers will attract new customers to the category.



**▶ MARKET PERFORMANCE (continued)**

Socially conscious consumers are driving interest and sales of local, artisan and sustainable coffees, particularly in the natural supermarket channel. Natural food stores have established a reputation for having a great selection of coffees from small artisans and roasters who offer a number of varietal and limited-edition releases of both single and blended roasts. Packaged coffee sales in natural supermarkets grew 48.1% between 2010 and August 2012, to reach \$32 million. Within sustainable categories, the only growth came from coffees that were both certified fair trade and organic, implying consumer interest in using their purchasing power to express their support of a broad range of social and environmental issues (Figure 7).

**Figure 7: Natural Supermarket Sales of Coffee, by Organic and Fair Trade, 2010 and 2012**

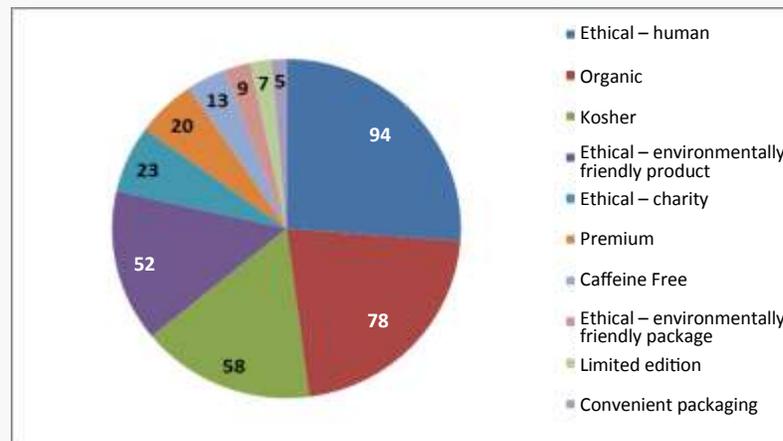
Category	2010 Value (millions)	2010 Market Share	2012 Value (millions)	2012 Market Share
Organic and fair trade	9.3	41.3	14	43.8
Organic and not fair trade	4.8	21.3	6.5	20.3
Fair trade and not organic	1	4.4	1	3.1
Conventional	7.4	32.9	10.5	32.8
Total	22.5	100	32	100

Source: Mintel, 2012

**▶ NEW PRODUCT TRENDS**

According to Mintel’s Global New Product Database, there were 136 roasted, instant and whole bean coffee products introduced into the U.S. between November 2010 and November 2012. Of these, 63 were new products, 40 were new varieties or range extensions, 32 had new packaging and one was a relaunch. In terms of claim and positioning, fair trade (ethical-human), organic, kosher and environmentally friendly were dominant (Figure 8).

**Figure 8: New Product Introductions by Sustainable Claim (November 2010 -2012)**



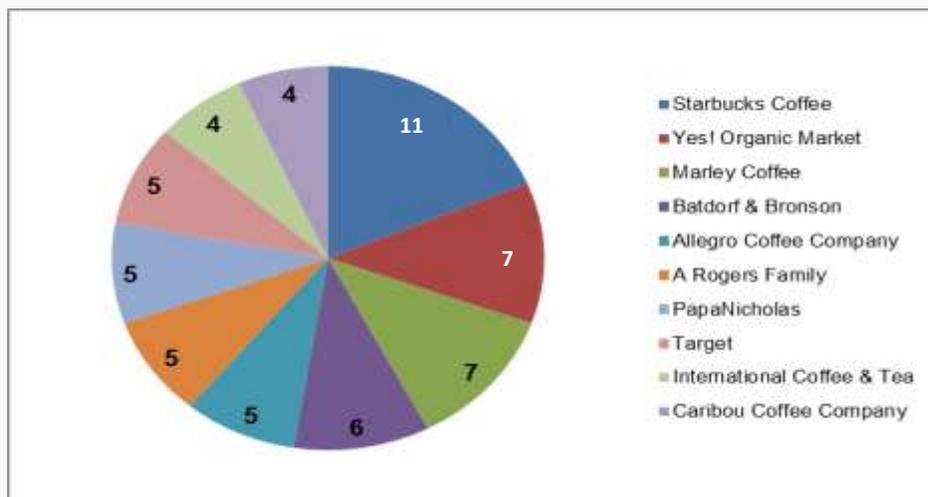
Source: Mintel, GNPD, 2012

▶ **NEW PRODUCT TRENDS (continued)**



Of the companies introducing new products, Starbucks led with 11, followed by Yes! Organic and Marley Coffee, with seven each. A number of other brands came in with four to six entries to the marketplace (Figure 9).

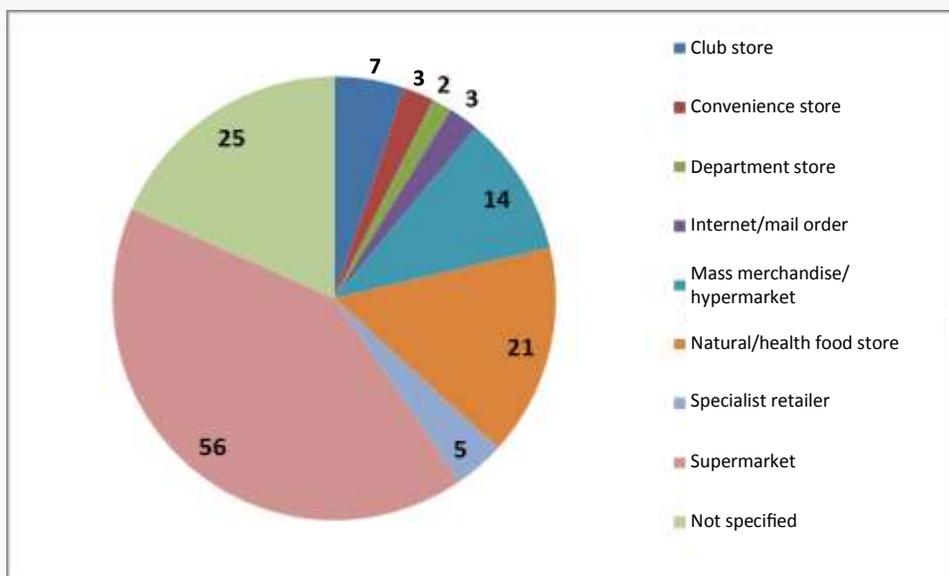
**Figure 9: New Product Introductions by Top 10 Companies (November 2010 – 2012)**



Source: Mintel, GNPD, 2012

A look at channels illustrates that, although natural food stores remain an important place to purchase sustainable coffee, supermarkets and department stores are gaining market share due to the entrance of larger companies (Figure 10).

**Figure 10: New Product Introductions by Channel (November 2010 – 2012)**



Source: Mintel, GNPD, 2012

## ▶ NEW PRODUCT TRENDS (continued)



In reviewing the new sustainable coffee products entering the U.S. market between November 2010 and November 2012, it becomes evident that both large and small coffee roasters are trying to address current consumer trends. The examples provided in this section highlight the social media, flavour, energy, packaging and origin/limited release trends.



### Trend: Energy

Versanto Force 3X High Octane Premium Hyper-Caffeinated coffee is said to provide all natural energy and contains three times the caffeine as normal coffee. This product is certified bird-friendly, shadegrown and fair living wage. The product retails in a 10-oz. pack. (Mintel, GNPD, 2012).



### Trend: Origin and Limited Release

The Coffee Bean & Tea Leaf Limited Edition 10% Maui Blend claims to feature a smoky-sweet aroma with a bold syrupy body and a dark chocolate finish. This kosher-certified dark and distinctive, whole bean, 100% pure Arabica coffee retails in a 16-oz. pack. The premium quality flavoured coffee is said to have been produced following earth-friendly growing practices and social responsibility standards. (Mintel, GNPD, 2012) .



### Trend: Flavour

Kauai Coffee Coconut Caramel Crunch Ground Coffee is made from 100% Hawaiian premium arabica coffee. This product is grown in rich volcanic soil, touched by abundant mountain rain, warmed by the Pacific sun and cooled by the gentle Hawaiian trade winds. This product retails in a 10-oz. pack. The company states that the coffee's consistency in flavour and quality is thanks to their sustainable practices of farming, drip irrigation and hydro-electricity (Mintel, GNPD, 2012).



### Trend: Packaging

Caribou Coffee's Reindeer Blend Ground Coffee has been repackaged for the holiday season and is said to be a balanced coffee imparted with earthy tones and hints of fruit. The Kosher-certified product is Rainforest Alliance certified and retails in a 12-oz. package (Mintel, GNPD, 2012).



### Trend: Social Media

Goshen Coffee Company French Roast Certified Organic Blended Coffee is said to feature a delicious caramel aroma, touches of chocolate, and yields low acidity with a full luxurious body. The product is completely sustainable for both the environment and farmers. It retails in a package featuring a request to like the brand on Facebook. (Mintel, GNPD, 2012).



## ▶ CONCLUSION

The information in this report offers insight into marketing considerations for sustainable coffee into the United States. Coffee exporters may want to explore the following:

### **Demographic Targets**

- ▶ Occasional coffee drinkers and those who purchase coffee for entertaining could be interested in smaller packages that retain freshness longer.
- ▶ Men may be more open to dark roasts and whole beans, while women may respond to lighter, flavoured coffees that offer a high convenience factor.
- ▶ Marketing coffee to millennials should be focussed around a theme of coffee being an anytime beverage offering an instant energy boost.
- ▶ Asian and Hispanic communities are coffee drinkers, and with the projected growth in their populations in the U.S., there is a clear opportunity to capture their interest and sales with products that appeal to their tastes and packaging preferences.
- ▶ The large number of baby boomers in the U.S. will help maintain consumption rates for ground coffee for mature consumers; however, their preferences for usual brand and roast type will tend not to vary.
- ▶ Younger consumers are interested in experimenting with coffee blends and flavours, and are committed to social issues. This offers an opportunity for sustainable coffee companies to connect with them now, and keep them as customers into the future.

### **Product Development**

- ▶ Single-origin coffees that can capitalize on a specific flavour, geography, or social issue are seen to be a growing opportunity. Tastings may be a way of attracting more consumers to these coffees.
- ▶ Further innovation in products that can replicate the coffeehouse experience through customization and indulgent flavours should enhance the strength of the in-home consumption trend.
- ▶ Sustainable coffees continue to hold advantages over multinational brands with regards to the scope of creative and unique packaging designs that both highlight their certifications and that preserve quality.
- ▶ Coffee companies could consider offering a range of products targeted to time-of-day consumption, such as those to pair with a meal, give an anytime energy boost or be portable while on-the-go.
- ▶ Consumers are willing to experiment within their preferred coffee categories and could be open to trying innovations around new, more exotic flavours, or a ready-to-drink version of their favourite roasted brand.
- ▶ University and college foodservice could be an attractive target market for sustainable coffees. A small, but growing percentage of students are actively seeking certified fair trade coffees (Mintel, 2012).

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Agriculture and Agri-Food Canada  
1341 Baseline Road, Tower 5, 4th floor  
Ottawa, ON  
Canada K1A 0C5  
E-mail: [infoservice@agr.gc.ca](mailto:infoservice@agr.gc.ca)

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