

# Coffee - UK - February 2010

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## What is this report about?

With rising prices and economic downturn at play between 2008 and 2009, the coffee market has managed to weather the storm well. Between 2005 and 2009 the UK market for in-home coffee achieved 17% growth in value, and although some of this is attributed to the hike in raw coffee and production costs, trading up has still been a key feature of this market.

Consequently, the premium end of the market has been characterised by increasing levels of segmentation, as brands and products seek to differentiate and add value through premium elements ranging from origins to occasion. However, despite the ongoing willingness among coffee consumers to trade up, the market faces the threat of a declining user base in the future as younger consumers appear to be ever more disinterested in hot beverages amid a growing tide of competition from the cold beverage category.

## What have we found out?

- In 2007 and 2008, the rising price of coffee beans helped drive sales growth. With prices forecast to fall this year, coffee and coffee shop brands will need to cut prices or find new ways to justify higher prices.
- Instant coffee continues to dominate the market with 90% of 27m coffee-drinking consumers having drunk some kind of instant coffee in the last year.
- The 16-34 year old age group is almost twice as likely to make coffee at home using coffee beans as the average, highlighting both the lack of penetration among affluent older consumers and the impact that coffee bars have had in terms of promoting better quality coffee among younger drinkers.
- Even though coffee pods account for a fifth of spend in the roast and round category, consumer data show that they are only used by 14% of consumers, reflecting the high-spending nature of the coffee pod customer.
- Some 85% of people who drink ground coffee, beans or pods will also drink instant coffee whereas only 61% of instant coffee drinkers will drink from the ground category. Sizeable opportunities exist for suppliers who can persuade instant coffee drinkers to trade up to ground, beans or pods.
- As Fairtrade becomes more commonplace coffee brands need to find new ways to attract ethical/green consumers. One innovative new product in this sector of the market is Nescafe Green which highlights the health and functional benefits of coffee/coffee drinking.

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