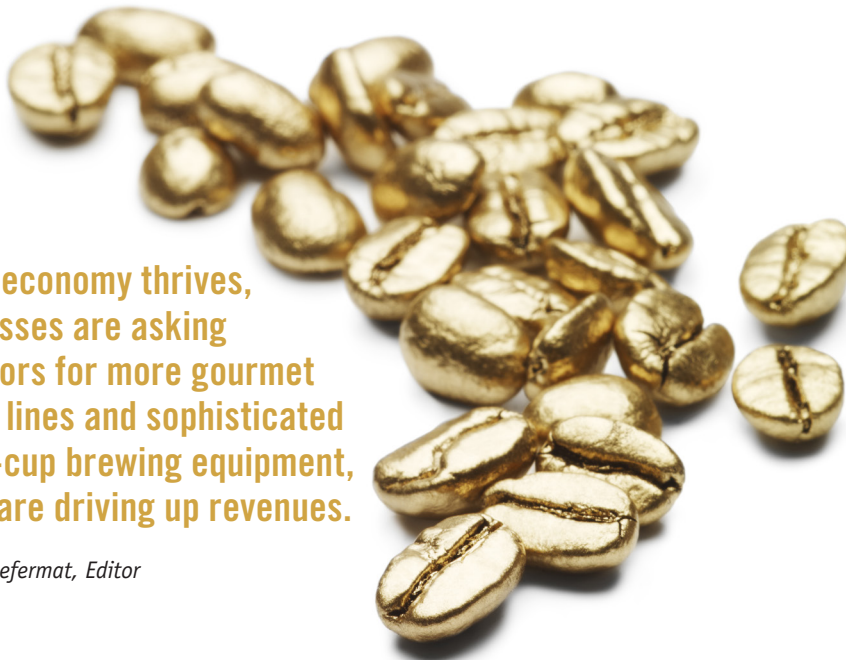




Office Coffee Service Industry Sets New Record: \$5.4 Billion



As the economy thrives, businesses are asking operators for more gourmet coffee lines and sophisticated single-cup brewing equipment, which are driving up revenues.

By Emily Reformat, Editor

Quality and variety are on the mind of office coffee service (OCS) providers across the country as the industry revenue reaches a new high of \$5.4 billion. Based on a survey of nearly 100 OCS providers, this represents a 5 percentage point increase over the previous year. The increase in sales is a result of offering high quality coffee and next level brewing options to workplaces and other retailers who are demanding premium coffee and related solutions.

CHART 1: OCS REVENUES – 10-YEAR HISTORY

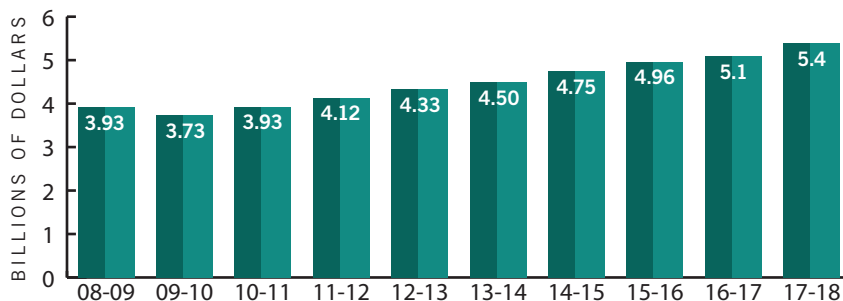
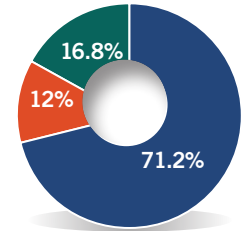
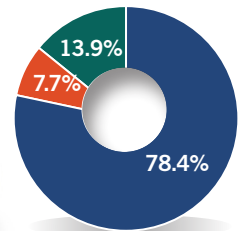


CHART 2: OPERATOR SALES CHANGE, 5-YEAR REVIEW

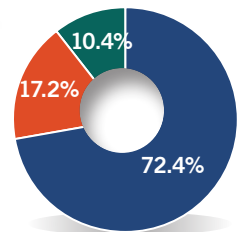
● SALES ROSE ● SALES DECLINED ● NO CHANGE



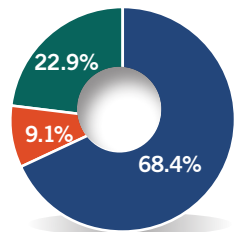
2013/14



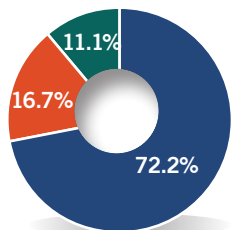
2014/15



2015/16



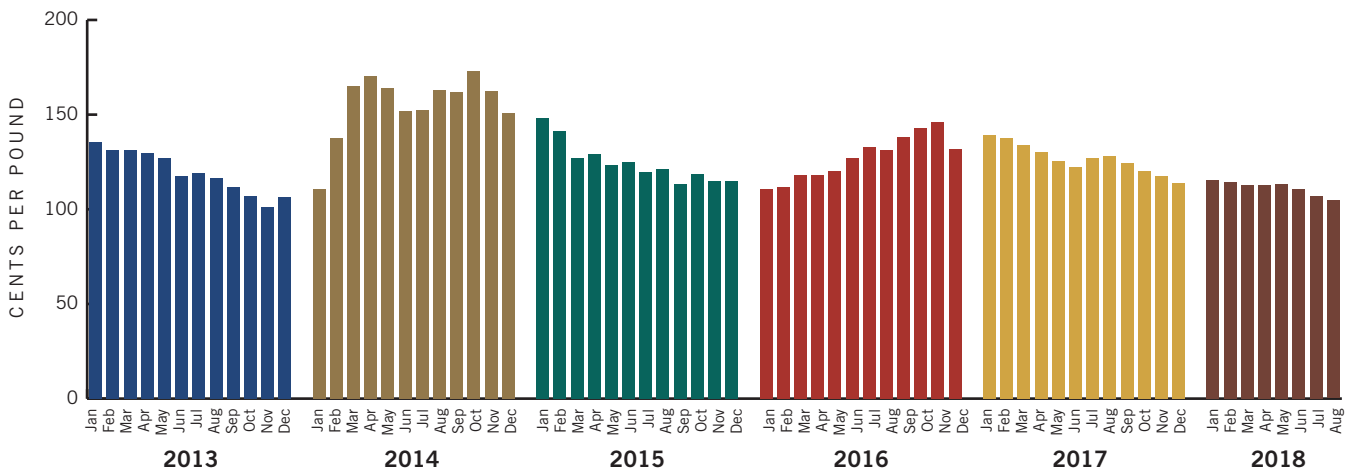
2016/17



2017/18

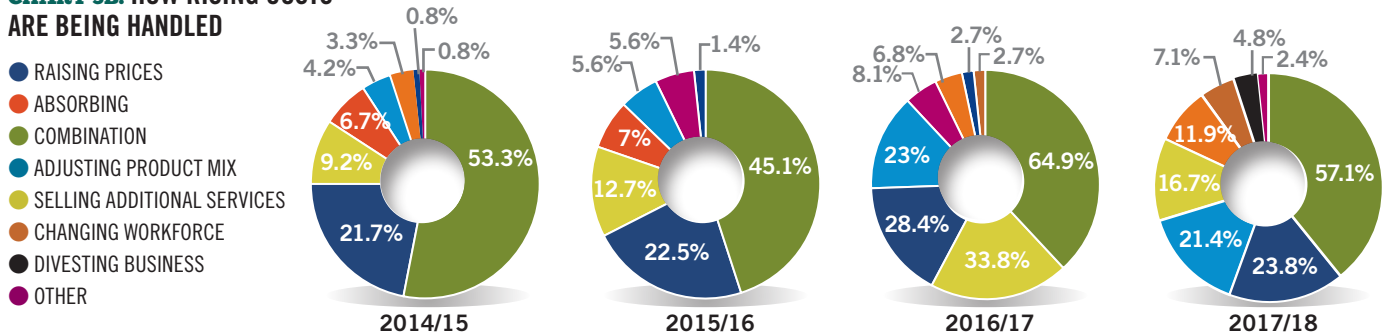


CHART 3A: COMPOSITE GREEN COFFEE PRICES, 2013 TO AUGUST 2018



Source: International Coffee Organization, London, U.K.

CHART 3B: HOW RISING COSTS ARE BEING HANDLED



*Other includes customer service, marketing, technology, business practices, etc.

Year over year sales growth

Nearly a quarter of the OCS providers surveyed reported an increase in sales from 2017 to 2018, higher than last year, but in line with previous years (chart 2). The regions that saw the most growth were the East and West coasts, while the Midwest felt a decline when reports were averaged together (chart not shown). The reason for the declines were cited as accounts being lost to competitors as well as local industries, such as oil, closing. Growth was attributed to the steady economy, which leads business and industry locations to spend more on services such as coffee for employees. OCS providers report that these locations are putting a large emphasis on single cup systems, especially

IN 2017/18, 77.8% of OCS providers reported brand was important or somewhat important to customers.

CHART 4A: REVENUE PER CUP IN CENTS PER CUP, FRACTION PACK AUTOMATIC/POUROVER COFFEE, 5-YEAR REVIEW

	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue	12¢	12.4¢	12¢	11.7¢	12.5¢

*Previous numbers have been adjusted based on additional data

CHART 4B: REVENUE PER CUP, SINGLE-CUP COFFEE, 5-YEAR REVIEW

	2013/14	2014/15	2015/16	2016/17	2017/18
Revenue	44.9¢	45.5¢	45.3¢	36.2¢	-
Single-Cup Capsule					47¢
Bean-To-Cup per cup cost					41¢

*Previous numbers have been adjusted based on additional data



SPECIAL REPORT

CHART 5A: % OCS SALES BY SUPPLIER TYPE

SUPPLIER TYPE	2017/18
Private label coffee	45.0%
National brand - value	19.0
National brand - specialty	17.4
Local coffee (known to consumer)	13.6
Espresso coffee	5.0

CHART 5B: % OCS SALES BY PRODUCT CATEGORY

PRODUCT CATEGORY	2017/18
Frac pack	50.0%
whole bean coffee	22.3
Single cup (non K-cup)	16.5
K-cups	11.2

CHART 5C: TOP-SELLING OCS PRODUCTS FOR PAST 12 MONTHS, BY VOLUME

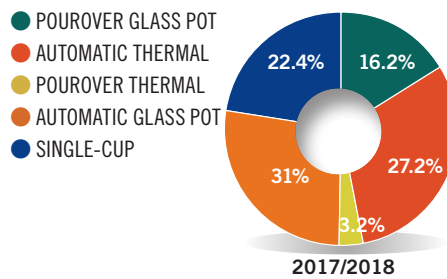
TOP PRODUCT	2017/18
Private label coffee	42.1%
Local coffee brands	15.8
Whole bean coffee	15.8
National coffee brands	10.5
Single-cup	10.5
K-Cups	5.3
Value frac packs	0
Specialty drinks	0
Tea	0
Pantry	0
Water filtration service	0
Other	0

CHART 5D: OCS PRODUCT CATEGORY, % OF SALES

PRODUCT CATEGORY	2017/18
Coffee	46.9%
Non coffee hot beverage	9.1
Creamers/sweeteners	8.0
Soft drinks/juices	7.5
Pantry service/micro kitchen (paid by employer offered to employees)	6.5
Cups/plates/paper products	6.3
Tea	6.0
Water filtration service (non bottled)	5.9
Bottled water (5 gallon)	2.9
Ice	0.9

*In 2017 and 2018 we collected data specifically for each category. In previous years, we measured more categories which resulted in overlap when calculating the percentage of revenue. Revenue dollars relating to coffee remain in line with previous years when considering just main coffee categories.

CHART 6: PLUMBED-IN, AUTOMATIC AND THERMAL AS % OF TOTAL



bean to cup brewers. Customers are looking for on-demand hot beverage options as well as a wide range of drink options.

A majority of OCS providers also invested in more aggressive sales and marketing strategies, according to feedback. It was the second most reported reason for change after bean to cup machines. It is also reflected in the greater percentage of providers who added staff this past year, 57.1 percent, compared to 46 percent the year before (chart 11).

Online marketing is playing a role in sales as well. This was the first year all respondents reported having a website, and 50 percent offered online ordering on that site (chart 13). In previous years, 2 to 3 percent did not have a website for their OCS company.

Green coffee prices drop

According to reports from the International Coffee Organization, the price of green coffee has fallen 4.5 percent since last August (chart 3). As of when this report was written, the August 2018 price of green coffee was 102.41 cents per pound. This is the lowest price it has been for the last few years, helping balance price increases reported by operators related to plastic and transportation costs. It's also driving OCS providers to purchase green coffee themselves and have it roasted into private label brands.

Private label was extremely popular this past year, with 42.1 percent of operators calling it the top-selling OCS product by volume (chart 5C).

It also made up the highest percentage of coffee revenue compared to other types of coffee (chart 5A).

While there are private label pods, most private label coffee is used in traditional pot brewers. This year, automatic glass pots saw an increase in installs, reaching 31.0 percent, an increase of 10.1 percentage points (chart 6) over the prior year. Part of this increase is likely due to providers adding convenience stores as customers (chart 9).

Demand for on-demand

Single-cup brewers saw an increase in placements for 2017 to 2018, representing 22.4 percent of the equipment placed (chart 6). This is one of the highest on record nearing the 2014/2015 high of 23.2 percent. Based on comments from operators, many of those are bean-to-cup brewers. A majority said adding bean-to-cup brewers drove up profits. However, sales of whole beans didn't increase substantially. There are several reasons for this. Some locations might be upgrading from one type of bean-to-cup brewer to another, changing the equipment but not the product use. Another might be that with the low cost of green coffee, the increase in whole beans is not reflected as a percentage of sales, but is in other ways. Whole beans was chosen as the top-seller by volume by 15.8 percent of operators, an increase from the 6.5 percent from the year before.

Coffee nearly half the ticket

Despite how coffee was delivered to the end consumer, as a percentage of revenue it jumped up to 46.9 after a drop last year. It's likely an anomaly that coffee sales dropped to 35 in 2016/2017 as comments were positive about sales. The way the question was asked was changed, as well



CHART 7: ESTIMATED MARKET SHARE OF SINGLE-CUP BREWER PLACEMENTS IN THE U.S., 5-YEAR REVIEW

MARKETER	PRODUCT(S)	2013/14	2014/15	2015/16	2016/17	2017/18	% Change
Cafection	Avalon, Encore, Innovation	3.3%	6.4%	9.7%	6.6%	5.1%	-22.1%
Bodecker Brewed	Bodecker	0	2.5	0.4	0.1	7.4	7,313
VE Global Solutions	Brio, Colibri, Koro, Korinto, Kinvivo, Venus, Cypris, Juno, Prosyd	1.9	4.9	1.8	2.5	1.0	60.7
Crane	Café System, Genesis	0.3	5.2	11.2	2.2	0	-100
Cafejo	Cafejo	0.0	0.1	0	0.2	0	-100
Technologies Coffea	Coffea	n/a	0.3	0	0	0	0.0
Dejung Duke	Nio, Siro, Vitru, Zia	n/a	n/a	n/a	n/a	9.5	253
JM Smucker's	Douwe Egberts	n/a	2.9	7.5	3.3	6.2	88
VKI Technologies	Eccellenza Express, Eccellenza Touch, Eccellenza Cafe	n/a	1.2	0.1	0.8	2.4	202.6
Lavazza	Espresso Point, Lavazza Blue	0.4	5.3	4.8	0.3	1.3	328.6
Mars Drinks	Flavia	37.5	16.8	9.3	14.2	5.9	-58.4
Filterfresh	Filterfresh	2.9	1.2	0	0.5	0	-100
Grindmaster	Grindmaster	0.1	1	0	2.6	0.9	-65.1
Kraft/Heinz	Gevalia, Tassimo Pro	3.9	9.8	9.6	1.3	0.7	-47.6
Keurig	Keurig	39.6	30.0	21.3	32.1	17.1	-46.7
Rheavendors	Rhea, Cino	0	0	0.2	0.1	2.1	2018
Saeco USA	Saeco, Estro	0.0	0.5	0.1	1.5	0.2	-84.9
Newco	Smartcup, Freshcup, CafeXpress	1.7	4.3	4.9	6.2	6.9	11
Starbucks	Starbucks	2.6	2.7	2.4	1	1.8	81.5
Bunn	My Cafe Pod, AutPOD, Trifecta MB	n/a	n/a	n/a	17.2	22.3	29.7
Wolfgang Puck	Wolfgang Puck	0.1	0.3	0.2	0.7	0	-100
Nespresso	Nespresso	n/a	n/a	n/a	0.5	0.5	5.9
Wilbur Curtis	Gold Cup, Expressions	n/a	n/a	n/a	0.8	6.7	741.5
MZB	La San Marco OC System	n/a	n/a	n/a	0.5	1.8	263.1
Comobar	Comobar	n/a	n/a	n/a	0.2	0	-100

*Represents OCS provider placements only



CHART 8: ACCOUNT POPULATIONS BY SIZE

● 2012/13 ● 2013/14 ● 2014/15 ● 2015/16 ● 2016/17 ● 2017/18

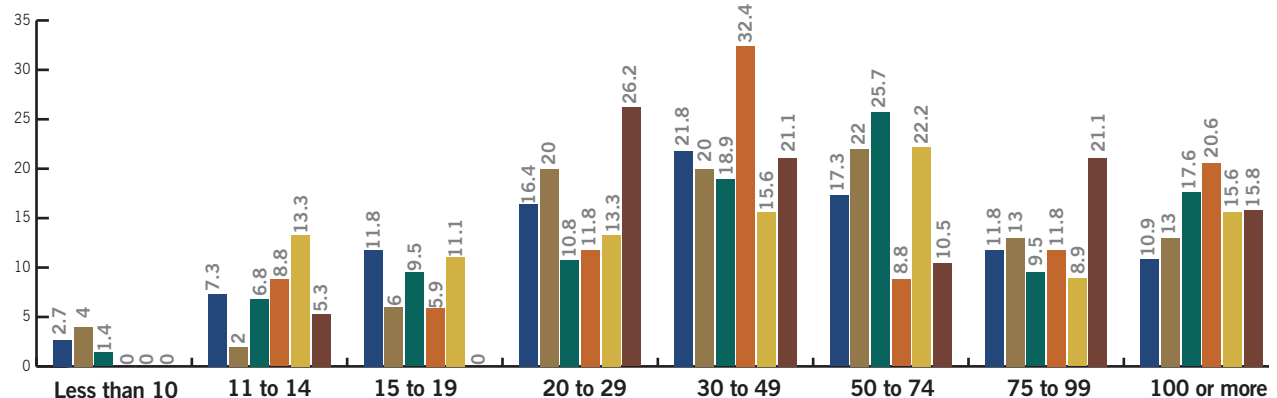
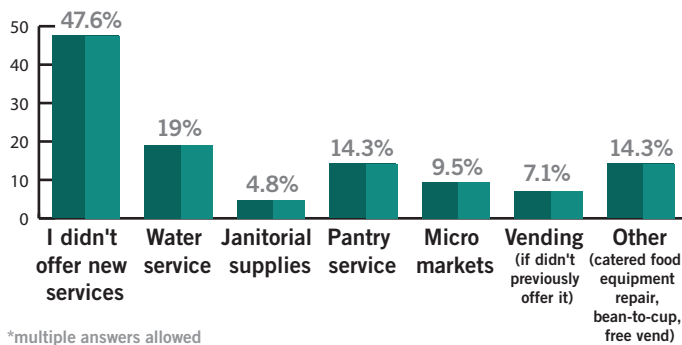




CHART 9: ACCOUNTS BY TYPE, 5-YEAR REVIEW

	2013/14	2014/15	2015/16	2016/17	2017/18
Offices	45.0%	47.4%	46.6%	56%	53%
Industrial plants	17.3	17.1	12.9	19.2	15.5
Schools/colleges	5.4	6.7	7.7	6.6	8.0
Convenience stores	8.3	4.7	8.8	3.6	7.4
Restaurants, delis, bakeries	7.3	8.5	7.1	6.5	5.4
Other (health care/hotels)	10.5	6.5	8.9	6.4	4.4
Government/military	3.5	3.3	1.7	0.8	3.8
Retail outlets	2.7	5.8	6.2	0.9	2.5

CHART 10: NEW SERVICES ADDED IN 2017/18



as how the different types of coffee product and service were reported last year, creating some difficulty comparing previous years to the current year.

Looking at the 2017/2018 chart, allied products continue to be a strong segment, especially creamers and non-coffee hot beverages. Both grow from the previous year. Placing nationally known names and premium products in this category was a strategy many OCS providers reported using successfully in comments.

Low unemployment grows locations

It would be impossible to talk about OCS without mentioning employment rates. In August 2018

alone, over 200,000 jobs were created in a variety of industries, according to the U.S. Department of Labor. Locations are adding employees, in many cases driving up the number of people served at each location (chart 8). OCS providers reported more loca-

CHART 12: MOST POPULAR ENVIRONMENTAL PRODUCT OFFERINGS

● 2011/2012 ● 2012/2013 ● 2013/2014* ● 2014/2015 ● 2015/2016 ● 2016/2017 ● 2017/2018

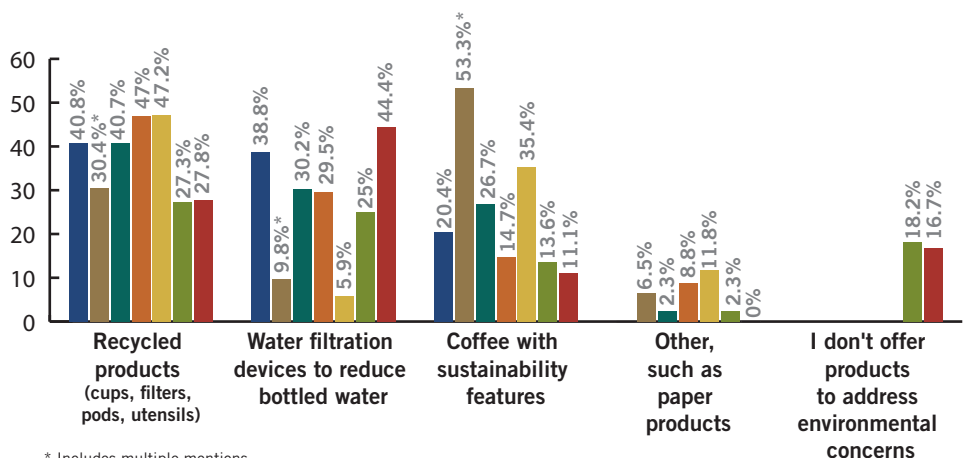
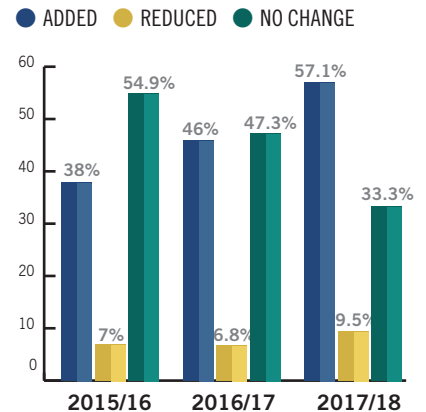


CHART 11: WHERE STAFF WAS ADDED



tions with over 20 employees, with increases especially in the 20 to 49 and 75 to 99 range.

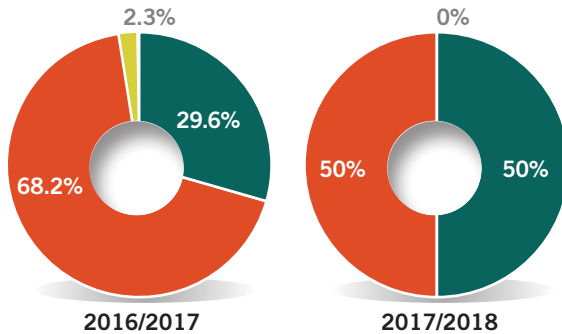
Ice increases with cold coffee

This year providers were asked if they provided ice machines to customers. Less than half, 44.4 percent said yes, higher than the 38.6 from the previous year (chart not shown). When the operators who also offered iced coffee or cold brew were considered, that percentage rose to 75 percent showing a positive correlation. Even cold brew drinks increased the number of ice machines installed as many consum-



CHART 13: COMPANY CURRENTLY OFFERS ONLINE ORDERING ON ITS WEBSITE

● YES ● NO ● DON'T HAVE A WEBSITE



ers, especially Millennials, will drink that beverage over ice as well.

Water filtration makes its mark

More operators reported adding water filtration as an environmental option as well as new service this year. When asked about sustainable offerings, 44.4 percent said they provided water filtration systems to eliminate the negative impact of bottled water. That was an increase from the year before when the number was 25 percent. It was also the most common product with recyclable or compostable coffee pods being the second most common product offered, chosen by 27.8 percent.

Further evidence that water filtration is an upcoming segment for OCS is the number of providers who added it in 2017/18. It was the most added service at 19.1 percent (chart 10).

Despite the popularity of water, ice and other hot drinks, coffee is a well-liked non-alcoholic beverage. Companies that traditionally focused on cold drinks are recognizing the advantage of coffee and moving to position themselves in the market. The Coca-Cola Company recently announced its acquisition of Costa coffee, a leading U.K. coffee brand name, and earlier this year Dr Pepper and Keurig Green Mountain became

one company with an eye towards offering more options to consumers.

In the coffee service industry revenues continue to increase as the economy keeps businesses optimistic and wanting to entice good employees with morale boosting OCS. Upgrading service in the break room is a way to present the best image, driving up revenues. | ◀

