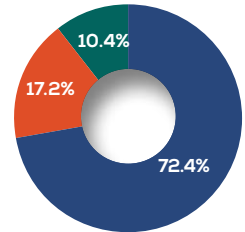


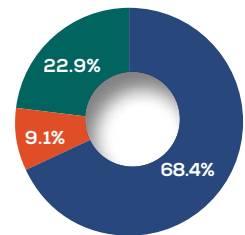
# A New High for OCS in 2019

**CHART 2:** Operator sales change, 5-year review

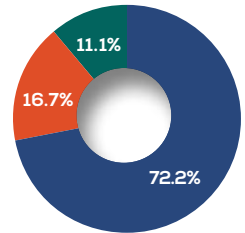
- Sales rose
- Sales declined
- No change



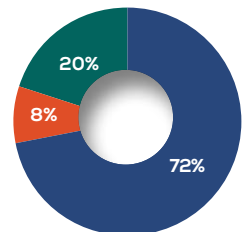
2015/16



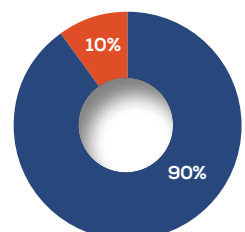
2016/17



2017/18



2018/19



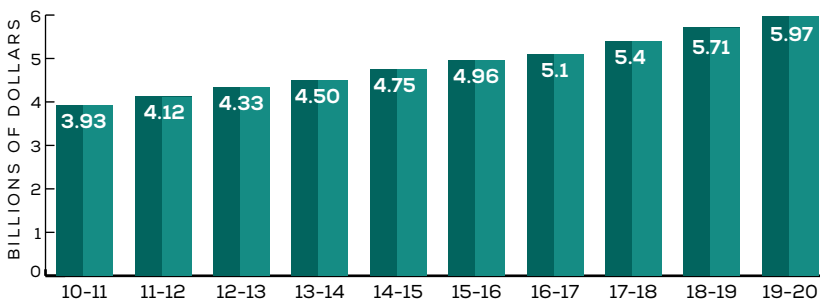
2019/20

Our annual State of the Office Coffee Service Industry report recalls a year marked by strong revenues and business growth

By Abby White, Editor

The year 2019 marked a new high for office coffee service (OCS) with revenues climbing to \$5.97 billion, a 4.8% gain over 2018. While 64% of operators who participated in the survey reported that the number of locations served in 2019 increased over the previous year and 45% also added to their staff to cover these locations (chart 11), this was a slightly smaller gain than seen in last year's survey results.

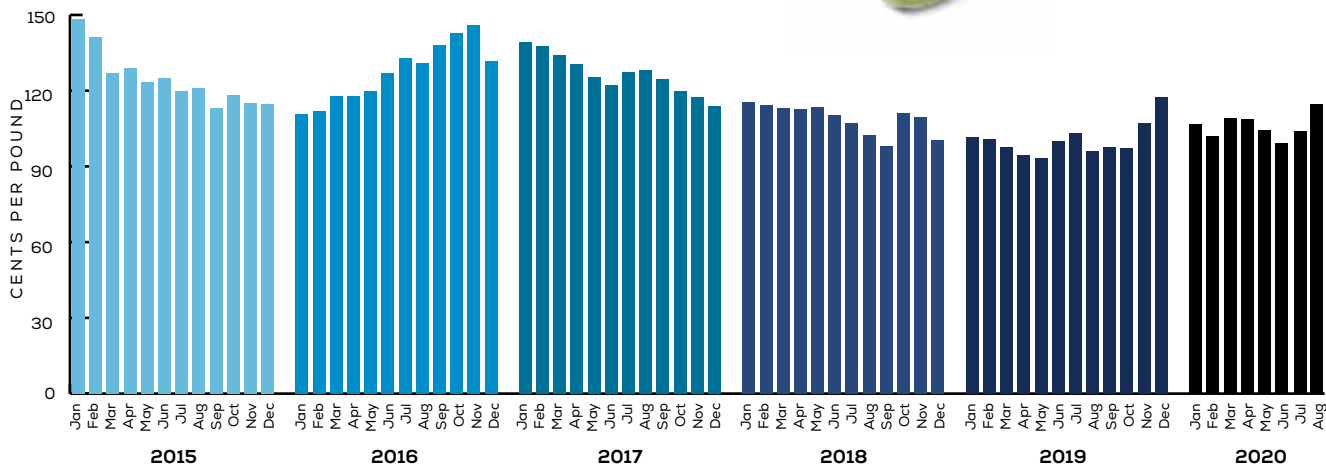
**CHART 1:** OCS revenues – 10-year history



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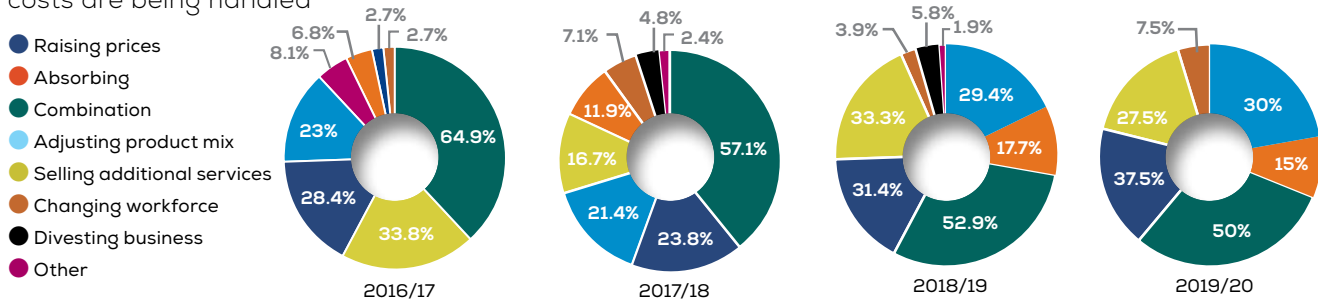


**CHART 3A:** Composite green coffee prices, 2014 to August 2019



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

**CHART 3B:** How rising costs are being handled



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

**A STRONG ECONOMY FUELS OCS**

While location and staff growth was slightly smaller this year, operators reported a larger increase in sales, with 90% of respondents saying that their total sales rose, compared to 72% last year (chart 2). Operators attributed this to increased customer demand from employees, increased pricing, divesting smaller accounts that didn't meet the return on investment (ROI), the efforts of a strong sales team, and a strong economy.

More than half of the survey respondents said the typical location population of their OCS accounts was between 20 to 74 employees (chart 8), trending closely with the previous year's figures. However, a greater number of OCS operators — 22.7%,

**\$ Operators reported a larger increase in sales, with 90% of respondents saying that their total sales rose, compared to 72% last year.**

**CHART 4A:** Revenue per cup in cents per cup, Fraction pack automatic/pourover coffee, 5-year review

	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	12¢	11.7¢	12.5¢	11¢	10.6¢

\*Previous numbers have been adjusted based on additional data

**CHART 4B:** Revenue per cup, single-cup coffee, 5-year review

	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	45.3¢	36.2¢	-	-	-
Single-Cup Capsule			47¢	46¢	46¢
Bean-To-Cup per cup cost			41¢	43¢	36¢

\*Previous numbers have been adjusted based on additional data

**CHART 5A:** % OCS sales by supplier type

SUPPLIER TYPE	2019/20
Private label	21.6%
Local coffee brands (known to customers)	26.1
National brand - value coffee	27.4
National brand - specialty coffee	15.1
Espresso coffee	9.7

**CHART 5B:** % OCS sales by product category

PRODUCT CATEGORY	2019/20
Frac pack	53.2%
Whole bean coffee	16.4
K-cups	11.5
Single cup (non K-cup)	18.9

**CHART 5C:** Top-selling OCS products for past 12 months, by volume

TOP PRODUCT	2019/20
Local coffee brands	36.4%
Private label	13.5
Value frac packs	4.6
Specialty drinks	4.6
Whole bean	4.6
National brand coffees	27.2
K-Cups	9.1
Single-cup	0
Tea	0
Pantry or direct delivery service (food/snacks/beverages delivered to locations)	0
Water filtration service (point-of-use/POU)	0

**CHART 5D:** OCS product category, % of sales

PRODUCT CATEGORY	2019/20
Coffee	42.9%
Non-coffee hot beverages	8.1
Soft drinks	5.9
Bottled water (5 gallon)	11.1
Creamers/sweeteners	9.2
Cups/plates/paper products	8.3
Tea	5.4
Pantry service/micro kitchen (paid by employer offered to employees)	3.3
Water filtration service (non bottled)	4.0
Ice machines	1.9

compared to 4% last year — are serving accounts with more than 100 employees. It will be interesting to see how this shifts in next year's survey with many large employers moving to staggered scheduling and work-from-home models to keep employees from spreading COVID-19.

**COSTS, INCLUDING GREEN COFFEE, RISE**

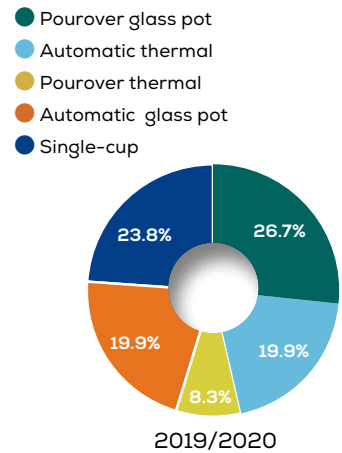
According to The International Coffee Organization, green coffee prices have been steadily dropping for the past three years, but this trend started to reverse in late 2019. In December 2019, the average price of green coffee jumped to over 117 cents per pound, the highest amount that year. The average price held steady above 100 cents per pounds until June 2020, when it fell to 99 cents per pound (chart 3A).

In addition to the increase in green coffee prices, OCS operators are challenged with rising costs in other areas of their businesses. In last year's survey, operators attributed rising costs to the growing popularity of specialty and upscale coffee options. This was partially driven by more informed consumers who wanted the same high-quality coffee products they enjoy outside of the workplace to be available in the office.

Those same trends were seen in 2019. Employers, wanting to keep employees happy — and in the workplace — met this increasing demand by upgrading equipment to provide premium coffee and beverage options including bean-to-cup brewers, cold brew kegs, specialty beans, a variety of creamers (dairy, plant-based, flavored, better-for-you), customizable

Editor's note: 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



water dispensers and pantry service. With so many options in the break room, employees don't have to leave the office and take time away from work to enjoy their favorite beverage.

This year, respondents said that they're raising prices to maintain or increase profitability, to keep in line with inflationary costs of goods and services, to offset freight increases and rises in product or operating costs. Or, as one operator put it, simply "to survive." Half of the survey respondents (50%) said they dealt with these rising costs in a similar way to last year, by a combination of raising prices and absorbing costs (chart 3B). Many opted to adjust the product mix (30%) or sell additional services to their accounts (27.5%). Again, with such savvy consumers who are accustomed to enjoying high-quality coffee drinks outside the workplace, this illustrates the importance of staying on top of trends affecting OCS to keep clients happy.

When looking at the past five years, green coffee prices are still generally lower than they were from 2014 to 2017. But, as other costs associated with OCS rise, operators need to watch every penny (and not just because the U.S. is experiencing a coin shortage at press time). While it's a little early to make predictions, OCS

**CHART 7:** Estimated market share of single-cup brewer placements in the U.S., 5-year review

MARKETER	PRODUCT(S)	2015/16	2016/17	2017/18	2018/19	2019/20
Cafection	Avalon, Total Lite, Total 1, Alternative	9.7%	6.6%	5.1%	7.5%	8.35%
Bodecker Brewed	Bodecker	0.4	0.1	7.4	0.5	3.59
VE Global Solutions	Brio, Colibri, Koro, Korinto, Kinvivo, Trophy, Venus, Cypris, Juno, Prosyd	1.8	2.5	1.0	5.8	0.95
Crane	Café System, Genesis	11.2	2.2	0	3.4	2.56
Cafejo	Cafejo	0	0.2	0	0.2	1.03
Technologies Coffea	Coffea, Pro-II G2	0	0	0	1.2	0.00
JM Smucker's	Douwe Egberts C-300, C-600, C-60, N110, NG-300	7.5	3.3	6.2	4.6	5.87
VKI Technologies	Eccellenza Express, Eccellenza Touch, Eccellenza Cafe, Latte Lounge	0.1	0.8	2.4	2.0	2.05
Lavazza	Espresso Point, Lavazza Blue, Dual Espresso, EP 2500	4.8	0.3	1.3	2.0	1.03
Mars Drinks	Flavia Barista, Flavia Creation 500, Flavia Creation 400, Flavia Creation 200, Aroma	9.3	14.2	5.9	9.4	2.42
Filterfresh	Filterfresh	0	0.5	0	1.7	1.28
Grindmaster	Grindmaster	0	2.6	0.9	1.0	10.18
Kraft/Heinz	Gevalia, Tassimo T-3000, T-65	9.6	1.3	0.7	0.5	0.28
Keurig	K3000, K150, K145, B155, K155, K130	21.3	32.1	17.1	33.2	20.72
Rheavendors	Rhea, Cino	0.2	0.1	2.1	0.5	0
Saeco USA	Saeco, Estro	0.1	1.5	0.2	1.3	0
Newco	Smartcup, Freshcup, Freshcup Touch	4.9	6.2	6.9	7.4	7.59
Starbucks	Starbucks	2.4	1	1.8	2.7	4.48
Bunn	My Cafe Pod, AutPOD, Trifecta MB	n/a	17.2	22.3	15.8	7.80
Nespresso	Nespresso	n/a	0.5	0.5	1.8	5.90
Wilbur Curtis	Gold Cup, Expressions	n/a	0.8	6.7	5.8	0
Comobar		n/a	n/a	n/a	0.2	1.96
MZB	La San Marco OC System	n/a	0.5	1.8	0.7	6.39
Cafe Primo	Cappuccino	n/a	n/a	n/a	1.4	2.31
Other		n/a	n/a	n/a	13.6	2.56

\*Represents OCS provider placements only

costs may be higher this year due to the COVID-19 pandemic. This year, operators have made efforts to ensure safety in the break room, including upgrading equipment to enable contactless ordering and customization of drinks, swapping bulk items for more expensive single-use items (creamers, stirrers, cups, etc.) and providing personal protective equipment (PPE).

While many of the businesses operators serve are likely dealing with their own revenue issues due to COVID-19, operators will have to balance what costs they can absorb and what they can pass on to their customers.

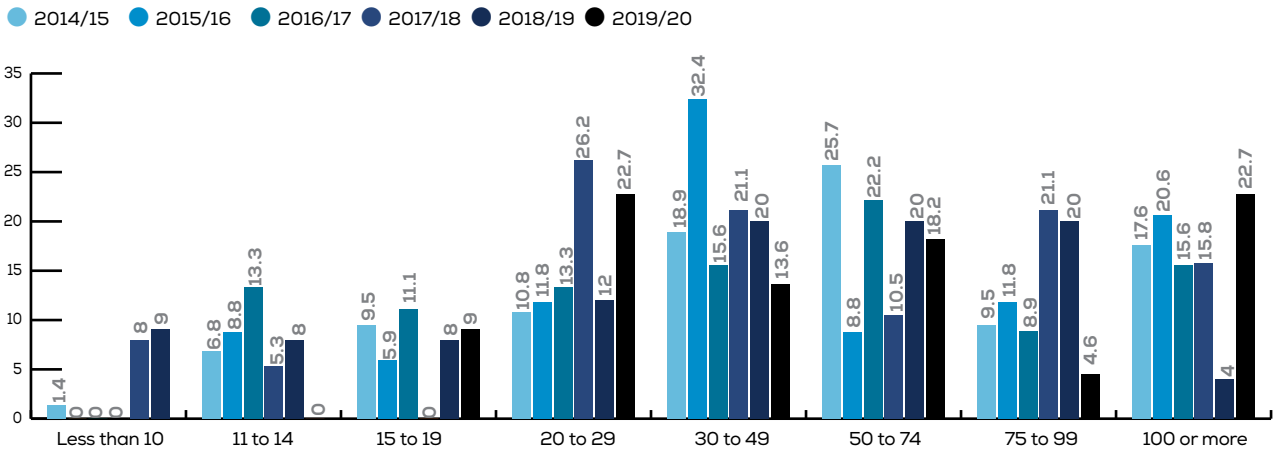
**OCS TRENDS TO WATCH**

Operators noted several trends in OCS in 2019, notably a continued demand for premium options. This includes bean-to-cup, single-cup, specialty/craft coffees, iced coffee and cold brew, draft beverages and pantry service. Multiple operators said that companies are more open to providing a larger amount of items for employees, who want to choose from a variety of coffee and beverage options. Alternately, one respondent said their accounts wanted “simple coffee service,” while another



commented that “companies are not willing to pay for single-cup.” Half of the respondents currently offer micro markets (chart not shown), and the majority of operators who have micro markets use a bean-to-cup brewer.

**CHART 8:** Account populations by size

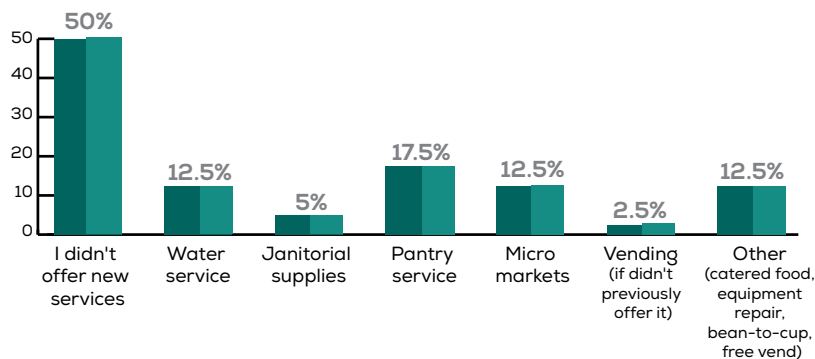


**CHART 9:** Accounts by type, 5-year review

	2015/16	2016/17	2017/18	2018/19	2019/20
Offices	46.6%	56%	53%	60.1%	47.7%
Industrial plants	12.9	19.2	15.5	12.4	17.6%
Schools/colleges	7.7	6.6	8.0	6.11	6.9%
Convenience stores	8.8	3.6	7.4	4.2	9.0%
Restaurants, delis, bakeries	7.1	6.5	5.4	4.8	7.3%
Other (health care/hotels)	8.9	6.4	4.4	3.2	3.0%
Government/military	1.7	0.8	3.8	4.6	4.3%
Retail outlets	6.2	0.9	2.5	4.5	4.2%



**CHART 10:** New services added in 2018/19



Sustainability, which is especially important to younger consumers, is affecting purchasing as operators reported that 45% of their OCS accounts are requesting that operators stock the break room with recyclable products (chart 12). This is by far the most popular “environmental” product offering, although customers also like water filtration devices to reduce bottled water and sustainably produced (organic, fair trade or bird friendly, for example) coffee. Only 5% of respondents said they don’t offer products to address environmental concerns, an 11% drop from the previous year.

In last year’s survey, respondents told us that customers wanted more options — and better options — and they wanted them at a reasonable price. Respondents also said that their clients were asking for specific products and brands, a trend that is evident in this year’s report. When examining the percentage of OCS sales by supplier type (chart 5A), private label coffee experienced a large drop over the past year, from 48.1% to 21.6%.

Brand appears to be growing more important to OCS accounts, with 95% of respondents stating that brand was important or somewhat important to customers, a slight





**In 2019/20, 95% of OCS providers reported brand was important or somewhat important to customers, a 3% increase over last year.**

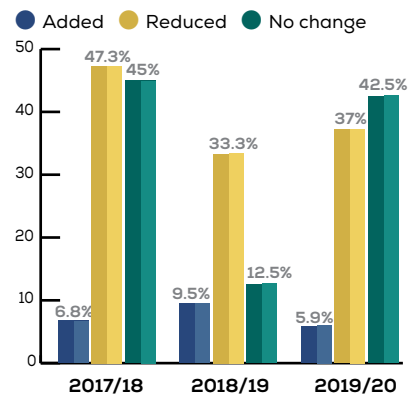
increase over the previous year. Local coffee brands and espresso coffee both got a boost, while national brand specialty coffee held steady.

While respondents said their customers want local coffee brands they were familiar with, there's still a market for value, with 27.4% of OCS sales coming from national brand value coffee. For operators who offer private label coffee, it's possible that it will regain some of its share of sales next year, especially as OCS clients may be looking for ways to save money without sacrificing quality.

When examining the percentage of sales by OCS category (chart 5D), coffee lost roughly 6% to other categories compared to last year (chart not shown). All other categories — non-coffee hot beverages, soft drinks, bottled water (5 gallon), creamers/sweeteners, cups/plates/paper products, tea and ice machines experienced slight gains. Pantry service, which was last year's most popular new service offering, slightly decreased along with water filtration service.

When asked what is driving change in net coffee sales per product

**CHART 11:** Where staff was added



category, the majority of respondents said new products or requests from customers, reinforcing the importance of keeping an open dialogue with clients and staying on top of trends and new products.

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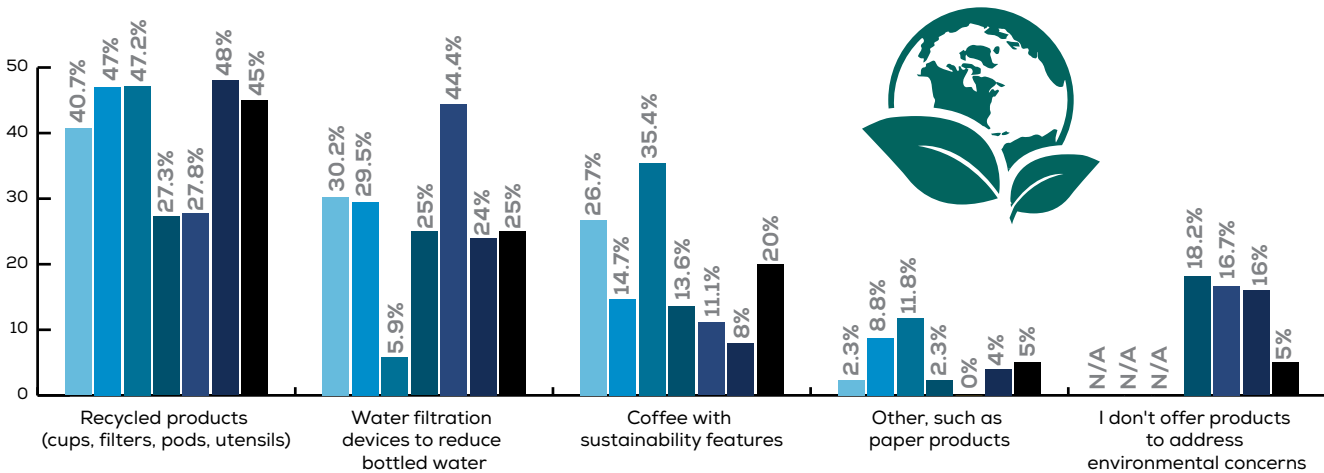
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**CHART 12:** Most popular environmental product offerings

● 2013/2014 ● 2014/2015 ● 2015/2016 ● 2016/2017 ● 2017/2018 ● 2018/2019 ● 2019/2020



**LOCATIONS AND SERVICES**

Office locations still make up the majority of OCS accounts — 47.7% — but they’re at the lowest percentage in four years (chart 9). Industrial plants, restaurants/delis/bakeries, convenience stores and schools saw increases, while government/military facilities, retail outlets and other (churches, auto dealerships) also decreased. While these changes appear subtle, it’s important to note that roughly 12% of business diversified from offices to multiple categories, which will have an effect on the overall OCS product mix.

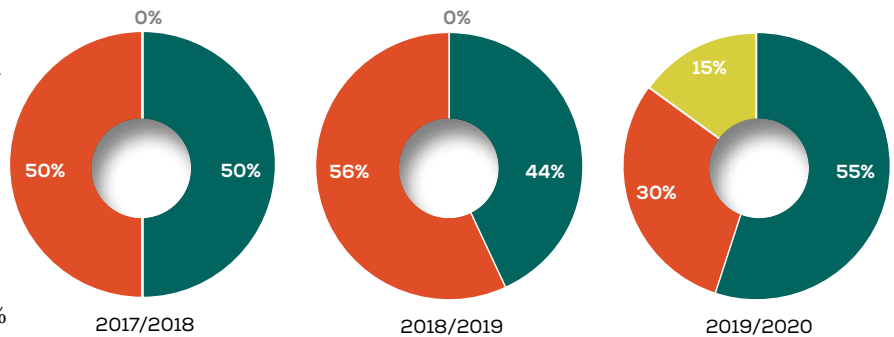
A larger number of operators (50%) said that they didn’t offer new services in 2019 (chart 10), a nearly 11% increase over the previous year (chart not shown). Of the new services that were offered, only micro markets saw a slight increase, while water service, janitorial supplies, pantry service and vending (if the operator didn’t previously offer it) all dropped.

**LOOKING TOWARD 2021**

When it comes to technology, responses were mixed. While an

**CHART 13:** Company currently offers online ordering on its website

● Yes ● No ● Don't have a website



increasing number of operators currently offer online ordering through their websites — 55%, up from 44% last year — a greater number of respondents (15%) said they don’t have a website (chart 13). However, the majority of respondents (55%) reported that they use industry-specific software to manage their OCS business (chart not shown).

Operators reported that they were challenged with product costs/price sensitivity, area businesses opening or closing, keeping up with technology, regulatory compliance and industry consolidation. And while competition from within the industry is a

continued challenge, competition from external players encroaching into convenience services appears to be increasing.

In 2020, the COVID-19 pandemic caused many business owners to pivot, and with restaurants, grocery stores and convenience stores adding contactless payments, pick-up and delivery options, consumers have more options than ever before. For OCS operators, offering quality products in a convenient way that meets the needs of their clients will remain essential for continued success and recovery from the COVID-19 crisis. ■