

Despite inflation-driven headwinds, the OCS market grows again

Sales climbed in 2023, with a 25% increase over the previous year's revenue.

by Linda Becker



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IN SOME WAYS, THE COVID-19 pandemic seems a distant memory: everyday life has returned to normal, with crowded airports and other transportation venues, full

classrooms and sold-out social and sporting events. Yet in the workplace, work-from-home shifts triggered by the pandemic have yielded permanent change. According to the Bureau of Labor Statistics,

nearly 20% of workers performed their roles remotely or via telework in 2023. What's more, demand for remote work remains high, with 98% of respondents to a Buffer survey saying they would like to work remotely at least some of the time.

Does this mean that opportunities for building an exceptional office coffee service business are a thing of the past? Of course not! As the pandemic receded, many companies — more than 50%, according to a study by Resume Builder — had already instituted return-to-office plans by the end of 2023, and nearly 40% planned to put such policies in place in 2024.

CHART 1: OCS revenues – 10-year history

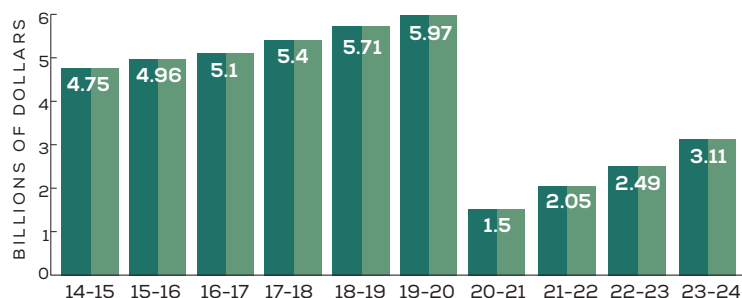
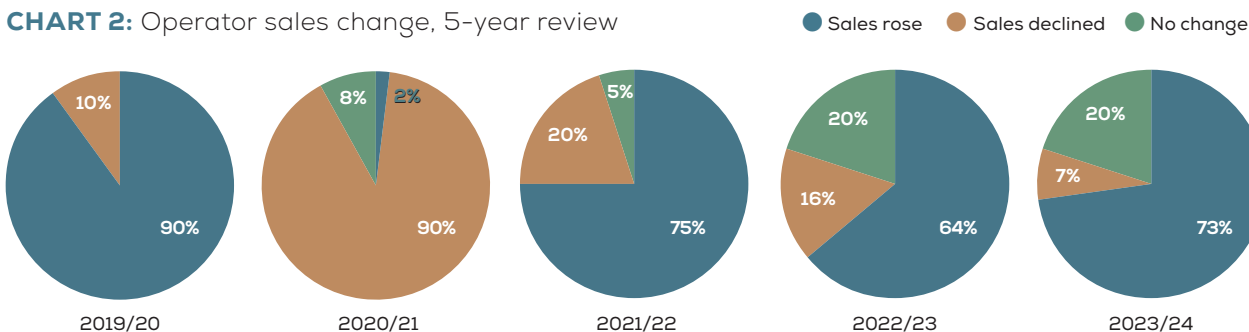


CHART 2: Operator sales change, 5-year review



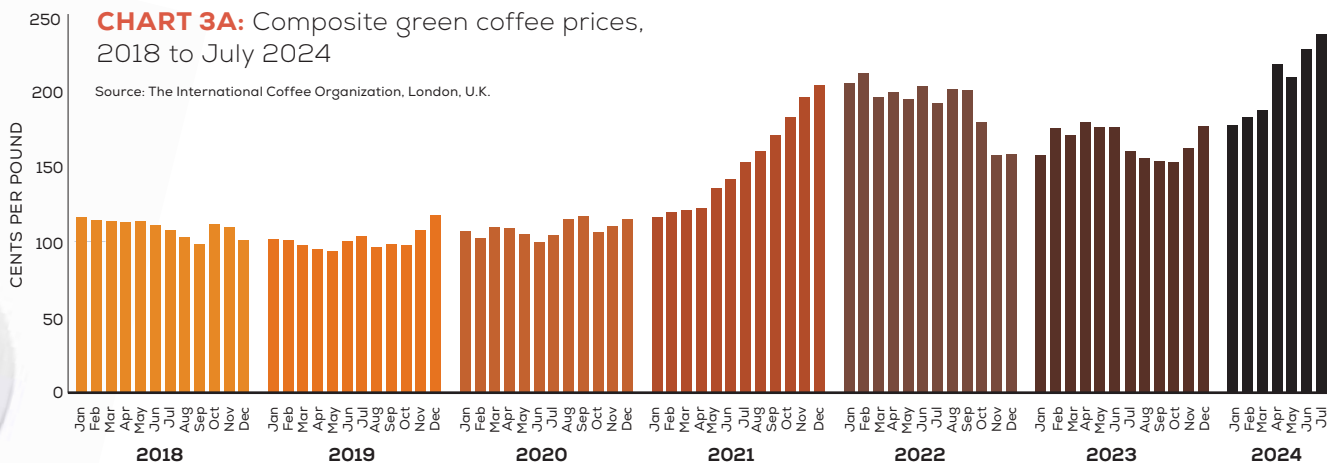
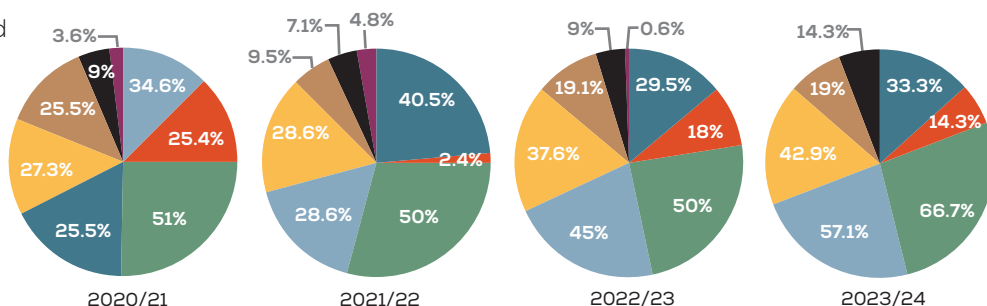


CHART 3B: How rising costs are being handled

- Raising prices
- Absorbing
- Combination
- Adjusting product mix
- Selling additional services
- Changing workforce
- Divesting business
- Other



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73% of respondents reported an **increase in sales** in 2023.

20% more reported **no change** in revenue.

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

	2019	2020	2021	2022	2023
Revenue	10.6¢	11.4¢	12.97¢	11.67¢	11.5¢

*Previous numbers have been adjusted based on additional data

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

	2019	2020	2021	2022	2023
Single-Cup Capsule	46¢	49.4¢	46.6¢	34.6¢	38.14¢
Bean-To-Cup per cup cost	36¢	44.8¢	40.9¢	35.1¢	36.13¢

What does all that mean for OCS operators? As our own Bob Tullio has said all year, the time is now to capitalize on the return-to-office push, tailoring your offerings to help position OCS as a workplace perk worth going into the office for.

NIMBLE OPERATORS ALREADY CAPITALIZING ON RTW GAINS

In this year's State of the Office Coffee Service Industry Report, 73% of respondents reported an increase in sales in 2023, and 20% more reported no change in revenue.

For the number of locations served in 2023, more than half of respondents (54%) reported an increase in locations — a slight decrease from the 62% reported in 2022. The rise in locations was accompanied by a reported increase in OCS staff as well with 52%







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CHART 5A: % OCS sales by supplier type

SUPPLIER TYPE	2023
Private label	29.8%
Local coffee brands (known to customers)	30.5
National brand - value coffee	16.2
National brand - specialty coffee	12.7
Espresso coffee	10.9

CHART 5B: % OCS sales by product category

PRODUCT CATEGORY	2023
Frac pack	39.0%
Whole bean coffee	32.9
Single cup (non K-cup)	14.4
K-cups	13.7

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

TOP PRODUCT	2023
Local coffee brands	29%
Private label	17
Value frac packs	5
Specialty drinks	4
Whole bean	12
National brand coffees	20
K-Cups	3
Single-cup	5
Tea	1
Pantry or direct delivery service (food/snacks/beverages delivered to locations)	4
Water filtration service (point-of-use/POU)	0

CHART 5D: OCS product category, % of sales

PRODUCT CATEGORY	2023
Coffee	40%
Non-coffee hot beverages	10.8
Soft drinks	3.7
Bottled water (5 gallon)	3.5
Creamers/sweeteners	6.6
Cups/plates/paper products	7.7
Tea	6.4
Pantry service/micro kitchen (paid by employer offered to employees)	8.2
Water filtration service (non bottled)	10.3
Ice machines	2.5

of respondents reporting that they added staff in 2023.

RIISING COSTS REFLECT IN NET REVENUE

The costs of goods and labor were top of mind for many. Green coffee prices climbed steadily after stabilizing somewhat in 2022 and 2023, topping the 10-year high set in late 2021. OCS operators continued to face challenges of inflation, transportation costs, products, supplies and labor.

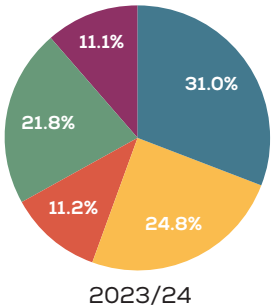
The cost of both coffee and supplies cut into revenue gains per cup (chart 5). Respondents employed multiple techniques to deal with rising costs in 2023, with the largest share (66%) both absorbing some costs while passing others on to their customers. Other respondents exclusively passed on the increases to customers (33%) or absorbed the costs (14%).

To make up for gaps on the balance sheet, operators turned to multiple techniques, including adjusting the product mix (51%), selling additional services (43%), changing their workforce (19%) and divesting businesses (14%).

Among the new services offered by some to pad the

CHART 6: Plumbed-in, automatic and thermal as % of total

- Single-cup
- Automatic thermal
- Pourover thermal
- Automatic glass pot
- Pourover glass pot



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

MARKETER	PRODUCT(S)	2019/20	2020/21	2021/22	2022/23	2023/24
Cafection	Avalon, Total Lite, Total 1, Alternative	8.35%	7.40%	5.69%	8.1%	12.2
Bodecker Brewed	Bodecker	3.59	3.50	2.46	3.8	5.9
VE Global Solutions	Brio, Colibri, Koro, Korinto, Kinvivo, Trophy, Venus, Cypris, Juno, Prosyd	0.95	1.00	0.00	0.7	0.9
Crane	Coti, Café System, Genesis	2.56	2.50	0.00	1.7	1.5
Cafejo	Cafejo	1.03	1.00	2.40	2.6	5.9
Technologies Coffea	Coffea, Pro-II G2	0.00	1.00	5.73	3.6	0.9
JM Smucker's	Douwe Egberts C-300, C-600, C-60, N110, NG-300	5.87	5.10	1.88	4.9	3.5
VKI Technologies	Eccellenza Express, Eccellenza Touch, Eccellenza Cafe, Latte Lounge	2.05	1.90	3.82	3.7	2.6
Lavazza	Espresso Point, Lavazza Blue, Dual Espresso, EP 2500	1.03	0.90	1.14	1.5	1.1
Mars Drinks	Flavia Barista, Flavia Creation 500, Flavia Creation 400, Flavia Creation 200, Aroma	2.42	2.50	2.99	3.1	3.0
Filterfresh	Filterfresh	1.28	1.30	0.00	0.9	0.6
Grindmaster	Grindmaster	10.18	9.80	14.72	13.2	10.2
Kraft/Heinz	Gevalia, Tassimo T-3000, T-65	0.28	0.30	0.84	0.5	1.1
Keurig	K3000, K150, K145, B155, K155, K130	20.72	19.80	14.24	13.9	10.8
Rheavendors	Rhea, Cino	0	0.40	0.00	0.2	1.0
Saeco USA	Saeco, Estro	0	1.00	1.27	1.1	1.1
Newco	Smartcup, Freshcup, Freshcup Touch	7.59	7.80	13.89	13.3	13.6
Starbucks	Starbucks	4.48	4.50	2.83	4.1	4.7
Bunn	My Cafe Pod, AutPOD, Trifecta MB	7.80	8.30	11.37	11.2	11.9
Nespresso	Nespresso	5.90	7.20	2.34	4.7	2.2
Wilbur Curtis	Gold Cup, Expressions	0	0.50	1.39	1.1	1.2
Comobar	Comobar	1.96	1.80	0.00	0.2	0.3
MZB	La San Marco OC System	6.39	6.10	0.96	2.8	1.0
Cafe Primo	Cappuccino	2.31	2.20	3.13	2.9	7.9
Other		2.56	2.20	6.92	3.2	8.3

*Represents OCS provider placements only



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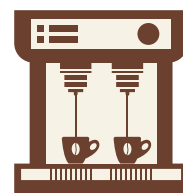
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OCS still remains largely a coffee-driven service with

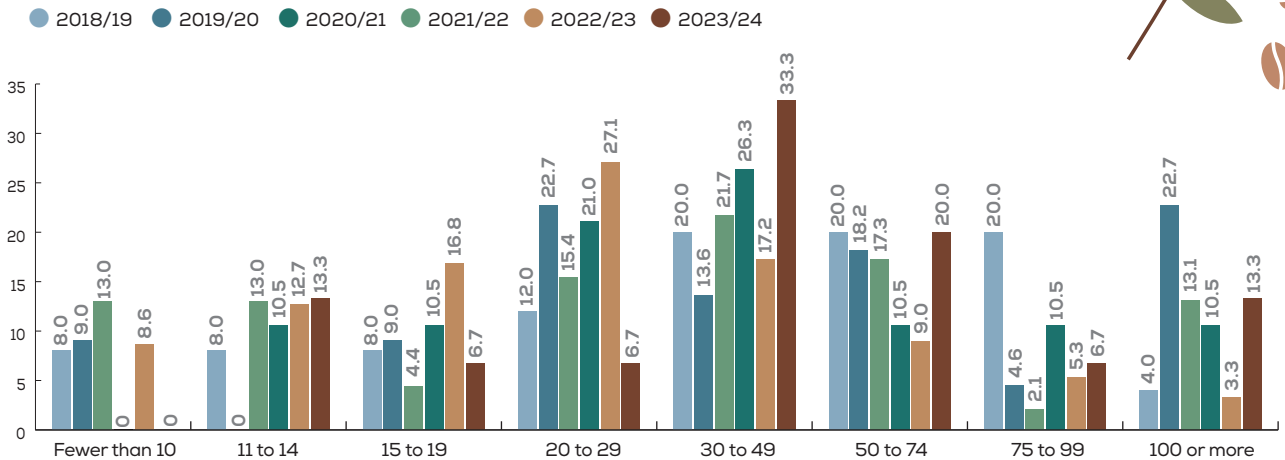
40% of sales credited to coffee.



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CHART 8: Account populations by size



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bottom line, pantry service (28%) was added most often. Other respondents added micro markets (19%), water services (14%) and even janitorial services (14%). Still, nearly 40% did not offer any

new services and looked to other strategies.

With rising costs, some respondents reported turning a critical eye on the account size, with no respondents reporting

they serviced accounts with fewer than 10 employees. The majority (60%) had typical account populations of 30 to 75 employees, with another 20% serving accounts with more than 75.



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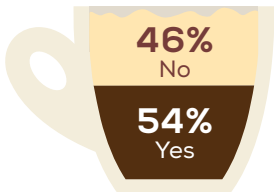
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CHART 9: Accounts by type, 5-year review

	2019/20	2020/21	2021/22	2022/23	2023/24
Offices	47.7%	51.2%	36.5%	40.2%	37.0%
Industrial plants	17.6	16.8	17.3	19.3	16.0
Schools/colleges	6.9	6.3	8.3	12.1	7.8
Convenience stores	9.0	8.6	8.0	4.1	11.0
Restaurants, delis, bakeries	7.3	4.1	8.0	3.6	3.3
Other (healthcare/hotels)	3.0	3.8	9.5	12.8	12.3
Government/military	4.3	4.1	6.1	4.2	5.5
Retail outlets	4.2	5.1	6.3	3.7	7.3

CHART 11: Company currently offers online ordering on its website



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Respondent revenue profile:

Less than \$500K	40.0%
\$500K to \$1M	20.0
\$1M to \$2.5M	6.7
\$2.5M to \$5M	0.0
\$5M to \$10M	6.7
Over \$10M	26.7

CHART 10: New services added in 2023

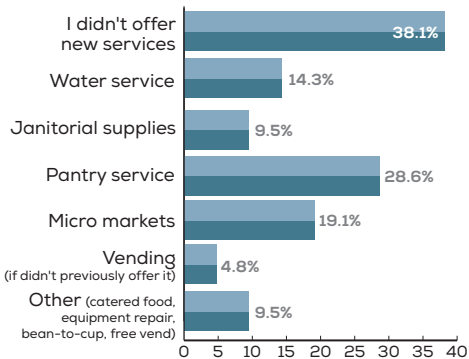
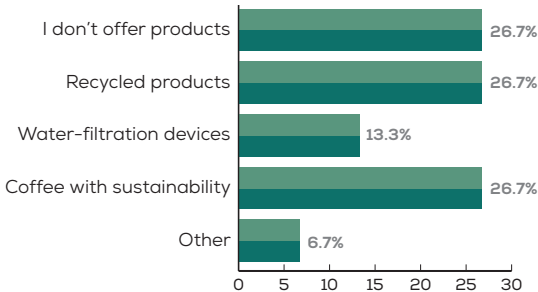


CHART 12: Most popular environmental product offerings



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LOCAL COFFEE BRANDS GAIN WIDER ACCEPTANCE

In 2023, a preference for local brands came to the fore. Local coffee brands known to the consumer edged out whole bean and national coffee brands as the top-selling OCS product. Whole-bean varieties decreased from making up 39% of OCS sales to 13% while local brands nabbed 33%. Private label claimed 20% of the share for top-selling products from our respondents.

OCS still remains largely a coffee-driven service with 40% of sales credited to coffee. Other well-selling products include non-coffee hot beverages (10.8%), water filtration services (10.2%), pantry service (8.2%) and tableware supplies (7.7%).

COFFEE STILL ACCOUNTS FOR MOST GROWTH

When asked to rank their fastest-growing service categories, respondents reflected the variations among markets by ranking five out of six categories equally important: non-single-cut coffee service, single-cup coffee service, tea, water service and pantry or delivery services. Only janitorial or office supplies ranked noticeably behind, perhaps reflecting operators' willingness to consider such services as well as their markets' willingness to add those services from their OCS providers. ■