

### THE UK IS A NATION OF

# COFFEE LOVERS

Retailers saw coffee sales rocket by 74%<sup>1</sup> in the week before lockdown as the nation prepared for an extended period away from the buzz of coffee shops, cafes and restaurants. An estimated 30 billion<sup>2</sup> cups of coffee are enjoyed in the UK each year and even before Covid-19, 70% of that was bought at retail and consumed at home. Coffee is often the first drink of the morning, and with in-home worth £1.6bn<sup>3</sup>, growing +9.8% YTD<sup>3</sup> and bought by 87% of UK households<sup>4</sup>, it also has great potential to stimulate retail sales.

Pure Soluble coffee, typically sold in a glass jar, should form the backbone of any coffee range as it accounts for 80%<sup>3</sup> of cups sold and is worth £925m, including leading brands NESCAFÉ Original and NESCAFÉ Gold Blend. A key reason that Pure Soluble coffee remains such a favourite with the UK shopper is that it offers such great value for money, the coffee quality is good, but the cost of an average cup is only a few pence, this is likely to mean the category performs strongly in the upcoming recessionary environment. Decaff coffee is also on the rise, growing +4.7%<sup>3</sup>. 70% of Decaff shoppers also buy caffeinated, while for many, Decaff serves as an incremental cup.

With busy lives and so many concerns and pressures, it's no wonder that consumers are turning more and more to simple pleasures and coffee performs a key role here. Growth and premiumisation of the Pure Soluble segment is led by Super Premium micro ground coffee, often packaged in a luxurious tin such as NESCAFÉ AZERA (+13.7% MAT<sup>3</sup>) and select origin coffee, offering the more discerning shopper unique blends, like NESCAFÉ Gold Origins (+11.8% MAT<sup>3</sup>).

Soluble Coffee Mixes also continue to see strong growth +5.4%<sup>3</sup> in the latest year. Typically sold in a box of convenient sachets, this segment is dominated by Frothy coffee such as café style Latte and Cappuccinos. Highly incremental, this segment is more impulsive and commands a 450%<sup>3</sup> higher price per cup than Pure Soluble. Mirroring coffee shop culture, shopper excitement within Mixes is high, driven by new flavours and innovation such as the new NESCAFÉ Gold Praline Latte and Starbucks Caramel Latte.

Many coffee shoppers are now much



better equipped at home to make even higher quality fresh cups of coffee. This creates further premiumisation opportunities for retailers. Coffee machine sales have grown 9.1%<sup>5</sup> in the latest year, growing 35.3% YTD<sup>5</sup> as shoppers' thirst for high quality coffee at home continues to increase, particularly in the post lockdown world. This has fuelled the strong growth of both Coffee Pods and Roast & Ground coffee, both of which retail at a healthy premium to soluble coffee. Coffee Pods sold £252m<sup>3</sup> in the latest year, growing 14.7% YTD<sup>3</sup>, with NESCAFÉ Dolce Gusto the bestselling pod machine in 2019, which stood out to buyers thanks to the variety & availability of the drinks it can make, such as its top 3 SKUs: Café au Lait, Americano & Cappuccino as well as hot chocolate<sup>3</sup>.

79%<sup>3</sup> of Roast and Ground Coffee sales are from the Ground format, which has grown +15.4% YTD<sup>3</sup>, while Wholebean sales have surged +34.5% YTD<sup>3</sup>. Although there are a number of niche

brands operating within fresh coffee, a key recent trend has seen the crossover of major high street brands such as Starbucks into the segment. The combination of a variety of high-quality fresh coffee variants, from a well-recognised brand, enjoyed out of home has helped to boost growth of this premium segment.

Looking to the future, coffee will continue to play a vital role in consumers' lives and as such it's even more important that coffee evolves its practices and products in a sustainable way to support those habits and meet consumer expectations. 53% of consumers now consider it important to purchase ethically certified coffee and 59% of consumers claim they seek out coffee pods that they can compost/recycle after use, meaning that sustainability programs like NESCAFÉ'S Grown Respectfully and recycling scheme will be crucial to the continued growth of the category.

<sup>1</sup> IRI Grocers 1 week ending 21st March 2020. <sup>2</sup> Estimate based on CGA OOH (2018) and IRI IH sales. <sup>3</sup> IRI Grocers + Kantar Value Retail data to 20th June 2020. <sup>4</sup> Kantar Worldpanel 52we 17th June 2020. <sup>5</sup> GfK Panelmarket Hot Beverage Makers data to the end of June 2020. <sup>6</sup> GfK Ownership & Acquisition study 2019. <sup>7</sup> Allegra Coffee Report 2020. <sup>8</sup> Mintel Coffee Report October 2019.

## NESCAFÉ ORIGINAL: The nation's favourite coffee



Start your day with the nation's favourite coffee. NESCAFÉ Original continues to delight consumers with its distinctive rich and full flavoured taste. Accounting for more than 3.9 billion cups<sup>11</sup> drunk every year NESCAFÉ Original continues to be market leader with 81% of sales within the Core Regular Instant Coffee segment. That makes it a must stock for all retailers, especially as the brand works to modernise and refresh its packaging, while also investing heavily with a £2.7m ATL media campaign in September.

Being the #1 coffee brand at breakfast, in April, NESCAFÉ

Original went live across both Smooth and Heart radio, giving consumers the chance to win prize bundles every week for 5 months, all geared up to set you up for a great day, further cementing their position as the Nation's Favourite coffee. Although still live, the campaign has already reached over 21 million people across the UK, with more than 6,000 competition entries.



And that's not all! With a growing number of consumers continuing to look for more intense coffee flavours, in March, NESCAFÉ Original launched its most intense flavour ever, NESCAFÉ Original Black Roast; using specially selected beans are carefully roasted for longer to develop a new level of richness and intensity in both flavour and aroma.

## NESCAFÉ GOLD drives valuable premium coffee sales

Premium instant coffee is the highest value segment within the coffee category, worth over £347M<sup>10</sup>. NESCAFÉ Gold is premium's leading brand, with the highest market share, awareness and consideration.<sup>12,13</sup> We know shoppers love the signature taste of NESCAFÉ Gold more than any other brand – as they keep coming back, with NESCAFÉ Gold delivering the highest repurchase and loyalty scores in the segment.<sup>14</sup>

NESCAFÉ Gold is continuing to grow and gain strong momentum in setting a new coffee standard for shoppers. Since 2017, a whopping 1.5m more households have brought into NESCAFÉ Gold<sup>15</sup> - that is 375M more NESCAFÉ Gold cups drunk each year! In September 2020, NESCAFÉ Gold Blend will continue to accelerate its leadership position in premium by launching brand new communications focused on our great taste and quality, supported by £2.5M ATL investment!



## NESCAFÉ AZERA Instant Coffee Recruits Younger Shoppers

NESCAFÉ Azera is the brand to recruit the next generation, already attracting the youngest shopper in pure soluble coffee.<sup>16</sup> The brand drives resonance with younger shoppers, by setting new standards in coffee expertise and being the most different and unique brand in instant coffee.<sup>17</sup>

The brand's powerful credentials in both quality and trendsetting has driven another year of strong growth at +14% and NESCAFÉ Azera is now worth £70m.<sup>18</sup> In 2020, NESCAFÉ Azera is investing a further £5m TTL in their hugely successful 'stay curious' campaign, encouraging viewers to embrace their curious side and try something new.



## NESCAFÉ AZERA Coffee Bags Trade-Up Shoppers



Roast & Ground has always been seen as the pinnacle of high-quality coffee experiences, but there are long standing convenience barriers to regular consumption.<sup>22</sup> Coffee Bags make Roast & Ground coffee easy – just pop in a mug, add hot water and brew! Shoppers love this convenient solution and in the last year the category grew 59% to over £10m.<sup>4</sup>

As a high-quality, trendsetting brand, NESCAFÉ Azera is perfectly positioned to accelerate growth of this segment. Since launching in summer 2019, NESCAFÉ Azera Coffee Bags have demonstrated their unique category role. The typical coffee bags shopper is older and already drinking Roast & Ground, consuming coffee bags incrementally when they don't have time/desire to make a full pot of filter coffee.<sup>2</sup> In contrast, the NESCAFÉ Azera instant coffee shopper is much younger and trading-up from instant coffee, with coffee bags as their first foray into Roast & Ground.<sup>2</sup>

NESCAFÉ Azera Coffee Bags offers two fantastic variants – smooth Americano Blend and intense Americano Dark Roast (formerly Espresso Roast). The product credentials are exceptionally strong, with the range winning Coffee Innovation Product of the Year 2020 as voted for by 30 industry experts + 10,000 consumers, and scoring in top 25% of all coffee products for liking in independent testing.<sup>23</sup>

The range has been supported as part of the £5m NESCAFÉ Azera campaign, with Coffee Bags assets aired on TV, social and digital channels.



<sup>9</sup> IRI, Total Grocery, Total Coffee excluding RTD, Value MAT to 18 July 2020. <sup>10</sup> IRI, Total Grocery, Value share YTD to 18 July 2020. <sup>11</sup> IRI 52w/e 18 Jul 2020.

<sup>12</sup> IRI 52w/e Pure Soluble Premium Coffee Value Sales 20th July 2020. <sup>13</sup> Millward Brown Full Year 2019. <sup>14</sup> KWP 52w/e 12th July 2020. <sup>15</sup> Millward Brown Full Year 2018.

<sup>16</sup> KWP data for Total NESCAFÉ Gold Blend PSC, 52 w/e to 19th April 2020 vs. 52 w/e 31st Dec 2017. <sup>17</sup> Golley Shopper Research Apr 2016.

## Nestlé elevates its category leading instant latte & cappuccino business to new heights

NESTLÉ has pushed the boundaries on its category leading instant mixes range under its iconic NESCAFÉ Gold brand in 2020.

Mixes, a segment which is increasing in importance for instant coffee, is dominated by the well-loved NESCAFÉ Gold brand which democratises latte and cappuccino type beverages to the masses at home. However, although the NESCAFÉ Gold range continues to observe consistent growth, the brand also identified a clear opportunity to raise the bar, and break through consumer barriers with a cleaner label, lower calorie range.

Renovating the entire portfolio, the upgraded NESCAFÉ Gold range has new, high-quality packaging design, is e-number free on 90% of its portfolio and has removed an astounding 400 tonnes of sugar from its annual volume!

The high-quality, and naturally sourced range will be live in stores from July, supported by a mass reach communication campaign to make the world of instant lattes and cappuccinos available for all.



## Nestlé launches plant-based soluble coffee lattes in the UK

In 2019, Nestlé launched three plant-based frothy coffees under its iconic NESCAFÉ GOLD brand. The almond, oat and coconut lattes are all certified by the Vegan Society as suitable for people following a vegan diet.



The premium NESCAFÉ Gold vegan lattes are the world's first plant-based soluble coffee mixes and were available exclusively from Tesco until February 2020, after which they will also become available in other retailers across the UK.

Blends of 100% Arabica coffee have been specially crafted to mix perfectly with the plant-based ingredients to create smooth creamy tasting lattes. Consumers will continue to enjoy the high-quality NESCAFÉ coffee experience they expect.

This latest frothy coffee innovation from Nestlé has helped meet the growing consumer demand for plant-based and non-dairy in the UK.

## STARBUCKS - Off to a strong start in home...



In 2019, Nestlé launched a new range of coffee products under the STARBUCKS brand. They included whole bean, roast and ground, capsules using NESPRESSO and NESCAFÉ Dolce Gusto proprietary coffee and system technology and more recently a range of premium instant coffees.

A year on, STARBUCKS has played a key role in driving category growth contributing a significant 24% of total coffee growth MAT<sup>19</sup>, and attracting new and younger shoppers.

Within a few months of launch, STARBUCKS became the #1 brand in the NESPRESSO Compatibles segment with 34% share

YTD<sup>10</sup>. And it is one of the fastest growing brands in Ground and Wholebean Coffee today<sup>10</sup>.

These trends are well placed to continue as people are working more from home and wanting to replicate their coffee shop favourites' without leaving the house. There is a beverage for each coffee lover ranging from STARBUCKS Signature blends and single origin coffees to cafe inspired beverages such as Caramel Macchiato and Cappuccino. All made with 100% high quality Arabica coffee ethically sourced from farmers in the world's premier coffee growing regions. Pods can be recycled through the existing UK NESPRESSO and NESCAFÉ DOLCE GUSTO recycling systems including more than 7,000 CollectPlus drop-off points around the country.



<sup>18</sup> KWP Total Market 14th Jun 2020 vs. 52w/e 16th Jun 2019. <sup>19</sup> KWP Total Market 52w/e 14th Jun 2020. <sup>20</sup> Kantar Millward Brown Deep-Dive FY 2019. <sup>21</sup> IRI & KWP Total Market 52w/e 20th Jun 2020.

<sup>22</sup> Kantar Futures Nestlé Macro Dynamics 2019. <sup>23</sup> PPL Coffee Bags PGT February 2020. <sup>24</sup> IRI Total Market FY 2019. <sup>25</sup> IRI Total Market 4w/e 20th Jun 2020. <sup>26</sup> Allegra 'Project Iced' UK 2019.

### NESCAFÉ DOLCE GUSTO Making coffee shop quality coffee accessible to every home

Consumers continue in the journey of upgrading their coffee experience, the NESCAFÉ DOLCE GUSTO system is now more relevant than ever to bring the coffee shop experience home. The Single Serve coffee machine category is growing by 9.2% MAT<sup>27</sup>, with the NESCAFÉ DOLCE GUSTO system being the best-selling coffee pod machine system in the UK<sup>27</sup>. New in 2020, NESCAFÉ DOLCE GUSTO Piccolo XS is an extra-small pod coffee machine with a tiny footprint and modern style, is expertly designed to fit in any kitchen. The brand has seen significant new range listings across grocers with the introduction of Piccolo XS with some of them opting for a trade up option with the NESCAFÉ DOLCE GUSTO Mini Me Coffee machine.

With the NESCAFÉ DOLCE GUSTO range meeting consumers expectations for great quality coffee at home, the brand has seen volume growth of 13.0% MAT<sup>28</sup>. Its latest category innovation, NESCAFÉ DOLCE GUSTO Cold Brew, offers consumers a new way to enjoy coffee with a refreshingly smooth cold brew. Further, the brand completed its Single Origin range with the addition of the 100% Organic Guatemala Lush Highlands Latte Macchiato, which combines rich organic coffee from the volcanic highlands of Guatemala with a silky layer of organic whole milk.

The recent launch of STARBUCKS By NESCAFÉ DOLCE GUSTO contributing to 37%<sup>28</sup> of volume growth for NESCAFÉ DOLCE GUSTO YoY has seen massive momentum with volume growth of 328.1% YOY<sup>28</sup>.

STARBUCKS brought its experience and roasting expertise to develop eight delicious varieties that complement the NESCAFÉ DOLCE GUSTO offering. The range consists of iconic Starbucks® varieties such as Caramel Macchiato, Cappuccino, Americano House Blend, Espresso Dark Roast amongst others bringing a true STARBUCKS experience at home.



The brand is looking to drive further growth for the coffee category with the addition of a seasonal favourite: the Limited Edition STARBUCKS By NESCAFÉ DOLCE GUSTO Toffee Nut Latte. A rich, buttery flavour of sweet toffee combined with the warmth of toasted nuts and blended with smooth espresso and creamy milk, delivering the ultimate coffee shop experience at home during this key time of the year.

The NESCAFÉ Plan is a comprehensive coffee sustainability program with a mission that fills more than coffee cups, it helps farmers, their communities, and the planet. Did you know that NESTLÉ is the largest purchaser of Responsibly Sourced coffee in the world? After a successful trial, NESCAFÉ DOLCE GUSTO now offers a recycling program available to webshop shoppers which allows consumers to drop-off recycling bags of pods at parcel points across the UK.

### NESCAFÉ AZERA Nitro Cold Coffee is the Ideal Permissible Treat

The Ready to Drink Cold Coffee segment is the largest coffee category growth opportunity. In 2019, it was the fastest growing segment within soft drinks at +28.7%.<sup>24</sup> Fuelled by the momentum of the cold coffee trend, it is expected to more than double in size by 2025 to £270m becoming bigger than smoothies. Despite high levels of on-the-go consumption, the category has remained remarkably resilient in the current climate – despite slowdown across April and May, it was back in double-digit growth in June.<sup>25</sup>

The growth of this segment is being fuelled by younger shoppers, who are now drinking more cold coffee than hot. They consume cold coffee for pleasure and are seeking an enjoyable treat which fits within their health conscious lifestyle.<sup>26</sup> The NESCAFÉ Azera brand is perfectly positioned to recruit this shopper, with awareness of almost 70% among <35s and strong trend-setting and coffee-shop-style credentials.<sup>3</sup> In spring 2020, NESCAFÉ Azera Nitro took its offering to the next level by launching a NEW range: Latte, Salted Caramel Latte and Double Shot Flat White. This range is the only one in market at <100 calories, making it the best fit for the permissible treat occasion. Despite offering lower levels of sugar and fat vs. market alternatives, it still provides the indulgent taste and creamy mouthfeel this shopper is looking for. The launch has been supported by a £1m campaign, including social media, sampling and retailer activation in-store and online.



<sup>27</sup> GfK Panelmarket Hot Beverage Makers Unit Sales data to the end of June 2020. <sup>28</sup> IRI Grocers + Kantar Value Retail Volume data 52 weeks to 20th June 2020

\*Nestlé defines Responsibly Sourced coffee as coffee which meets the Responsible Sourcing guidelines being verified against the 4C Code of Conduct.