Hot brews:
UK Hot Beverages Category Report

January 2020

SCOTLAND FOOD & DRINK MARKET INTELLIGENCE

The coffee and tea category is reliant on innovation to grow sales

Health and wellness as well as sustainability are key drivers in the categories

Coffee sector

The coffee category has held steady over the last year with instant coffee being the most popular coffee format. However, roast & ground coffee has gained significant growth year-on-year.

Growth in coffee pods have slowed down a lot over the last year due to its negative impact on the environment. Businesses invest in sustainable and compostable coffee pod alternatives to maintain sales.

Café-style coffee and unique flavours are driving innovation in the coffee sector.

Cold brew coffee is developing fast in retail due to the well-established market in the out-of-home market.

Tea sector

The tea category has increased its value slightly over the past year, but has dropped in volume, indicating that shoppers are reducing their tea consumption but choosing more premium tea options.

Black tea remains the most popular type of tea in the UK but has been in decline over the last year. Fruit/herbal tea as well as green tea are gaining immense growth due to its health credentials and various flavour profiles.

Innovations in the tea sector continue to rise with specialty tea, premium tea formats, and health and wellness variants entering the market.

Low price, natural health benefits and environmental aspects are important to tea consumers when buying tea. Calming and gut-friendly tea appeals to more than a quarter of consumers.

Coffee category

The UK coffee market is currently worth £1.3bn and has held steady YoY

Most popular coffee format is instant, but roast & ground coffee is growing

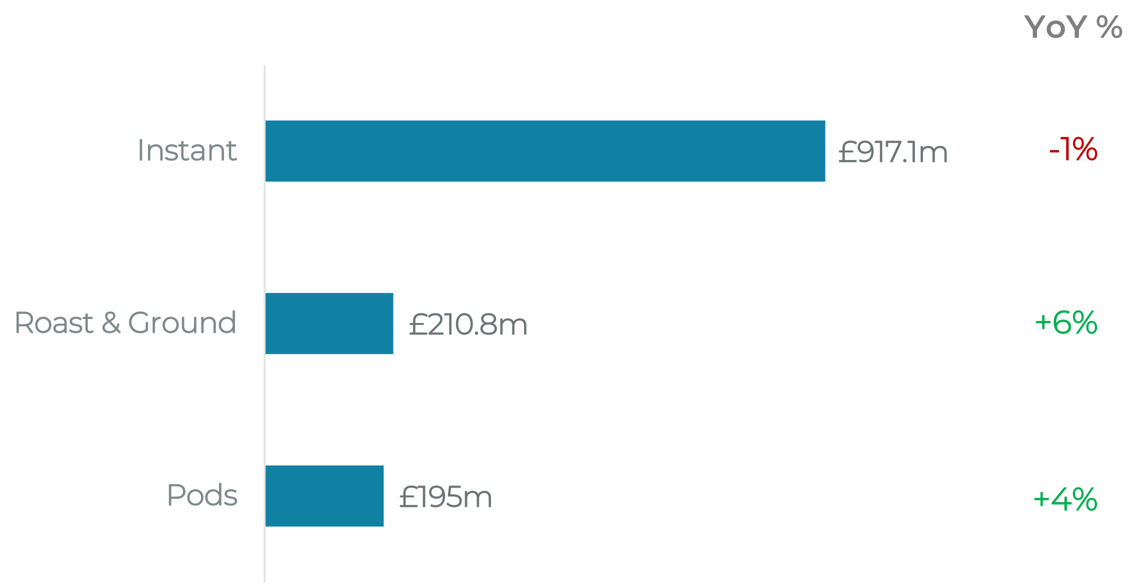
Retail value sales of the coffee category - 52 w/e 19 May 19

Value £1.3bn

+1%

Own label coffee has grown 4% YoY driven by roast and ground coffee. Coffee beans have grown significantly +24% YoY and is worth £45.8m.

However, coffee pods have driven the hot beverage market for several years, but have slowed down a lot compared to previous year due to strong own label growth and promotions



Instant coffee is the most popular coffee format due to its affordability and convenience. However, instant coffee is in slight decline. A few brands start to address the need for higher quality instant coffee to maintain consumer demands. Highlighting product origin on pack or launching unique flavours could help differentiate

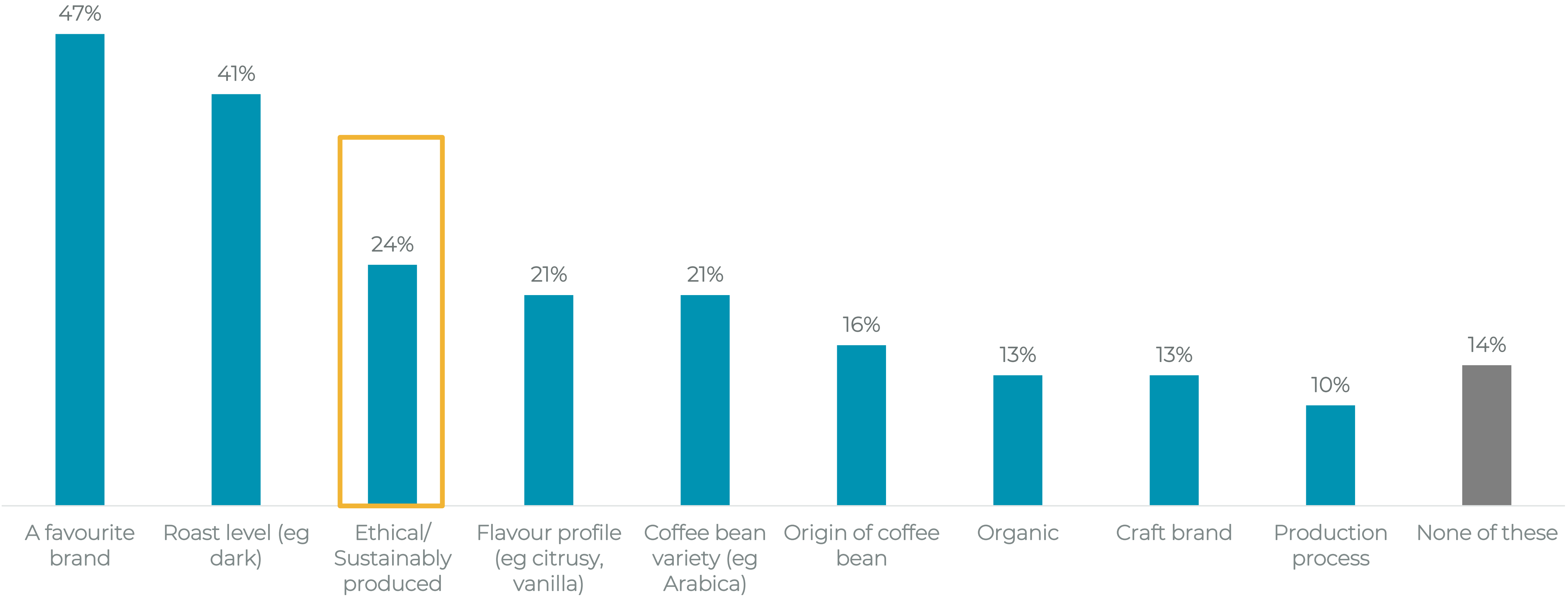
Kantar Worldpanel 52 w/e 19 May 19

Source: The Grocer Report, 2019, Euromonitor 2019, Mintel 2019

47% of UK consumers consider the brand as being most important when buying coffee

A quarter of respondents claim that ethics/sustainability is important when buying coffee

Factors considered most important in coffee, June 2019



Base: 1,574 internet users aged 16+ who have drunk coffee in the last month
Source: Mintel Report, 2019

Coffee pods have raised major concern due to the high amount of plastic waste

Sustainable alternatives are key to drive sales in this sector

Consumer attitude towards coffee pods

44%
of coffee drinkers think coffee pods are bad for the environment*

59%
of coffee drinkers seek out coffee pods that are compostable/ recyclable after use**

72%
of coffee drinkers think it is important that a brand does not contribute to deforestation**

Plastic waste has become a major issue in the coffee pod sector that needs to be addressed. The lack of recyclable options for coffee pods has made many critical headlines. Environmentally friendly coffee pods could help support the growth in coffee pod machines

Collection

Until now, major brands (Tassimo, Dolce Gusto and Nespresso) have introduced their own recycling schemes, such as drop off used pods at a collection point or arrange a home collection. However, the majority of coffee pods still end up in landfill. Nespresso reports a recycling rate of just 28%

Innovation in 100% compostable pods

Brands like Waitrose, The Eden Project, Halo Coffee and Dualit have introduced compostable coffee pods

Coffee pod brand Cru Kafe have developed 100% recyclable aluminium pods

Refillable pods

Refillable pods are one other potential for innovation.

Netherlands brand Bluecup introduced those, whose Nespresso-compatible pods can be filled with ground coffee and reused a minimum of 200 times

* Mintel Report 2018

** Mintel Report 2019, 1,574 internet users

Source: The Grocer Report, 2019

Café-style coffee and unique flavours are driving innovation in the coffee sector

Consumers are interested in exploring new coffee styles, origins and flavours

Innovation in coffee pods

Consumers' demand for coffee shop quality is driving premiumisation. Consumers become more knowledgeable about coffee and they're looking for different ways to experiment and explore new origins and flavours. Much of this innovation has focused on replicating the indulgence of the out-of-home experience

Rokit Pods

Rokit Pod launched turmeric blend capsules in March to capitalise on the turmeric latte trend

Costa Coffee

Costa Coffee introduced a Columbian and Brazilian Blend pod in August

Tassimo

Tassimo launches limited edition Costa Gingerbread Latte pods over the winter months

Nescafe

Nescafé unveiled a three-strong lineup of non-dairy latte mixes to tap the rise of coconut lattes and oat milk macchiatos in August this year

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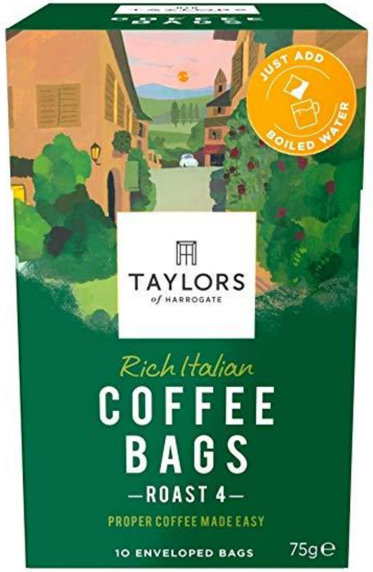
Source: The Grocer Report, 2019

Coffee bags offer a convenient format for high-quality roast and ground coffee lovers
Removing the need for cafetieres and other coffee making equipment

Coffee bags are now available in most major supermarkets. Taylors is the leading brand in this format, followed by Nescafe Azera. Compostable coffee bags containing high-quality roast and ground coffee appeal to the convenient coffee consumer. Many are trading up from instant coffee when searching for a more convenient alternative to roast & ground coffee without the need to compromise



Source: The Grocer Report, 2019

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Cold brew coffee is gaining popularity and is currently worth £160.2m out-of-home

It is finding more and more shelf space in supermarkets as well

Out-of-home

Coffee shop sales of iced beverages
£449m*
(YoY+14.3%)

Out-of-home cold coffee sales
£160.2m**
(YoY +53.4%)

In the out-of-home arena, cold brew has hit the mainstream already. Large players, such as Coca-Cola and PepsiCo have joined forces with coffee brewers. Costa, Starbucks and Caffè Nero all have their own cold brew coffee versions

Retail

In retail, large and small players are experimenting with cold brew coffee ranges featuring no-/low sugar content and dairy-free options which appeal to the health-conscious consumer

Cold brew coffee has been well-established in the out-of-home market and continues to grow. The same is predicted in retail with an increasing interest in shoppers experimenting with new products

* Research Specialist Allegra, 2019
**Kantar 52 w/e 16 June 2019
Source: The Grocer Report, 2019

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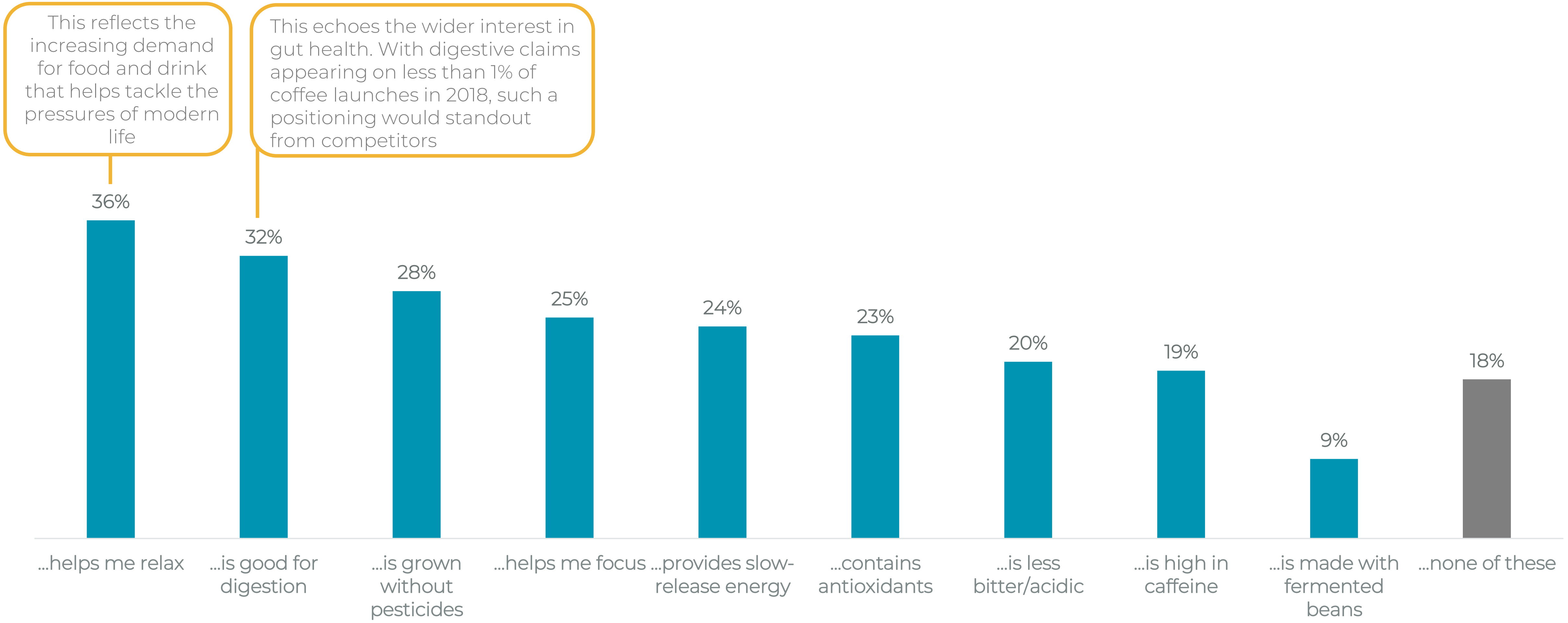
Relaxation and digestive health are becoming more relevant in the coffee sector

NPD that promote those attributes could help products stand out from the market

Interest in product concepts in coffee, June 2019



Base: 1,574 internet users aged 16+ who have drunk coffee in the last month

Source: Mintel Report, 2019

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Tea category

The UK tea market is currently worth £870m but has suffered from volume losses

Fruit/herbal tea that promote functional and health benefits are key drivers in the sector

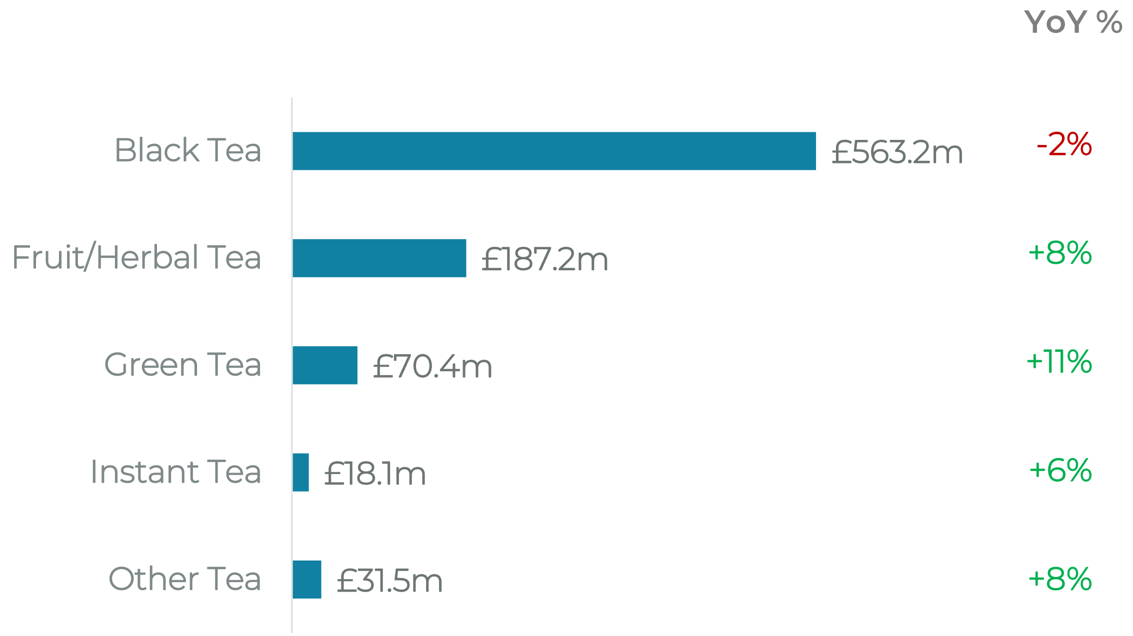
Retail value sales of the tea category – Dec 19

Value £870m
+1%

Volume 81k t
-5%

Tea has lost popularity over the last few years. Within tea, black tea remains nation's favourite tea but has been in volume decline over the last year.

Consumers turn to healthier and pricier tea blends driven by fruit/herbal as well as green tea



Shoppers add more variety to their basket and are seeking food and drink choices that will help promote good health and wellbeing alongside their busy lives. Innovations in the tea sector continue to rise with specialty tea, premium tea formats, and health and wellness variants entering the market

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Source: Euromonitor, 2019

4 in 5 UK adults drink tea, the majority drinking black tea

However, the younger generation is more likely to try a greater variety of tea

The UK is still a nation of tea drinkers, but consumers habits have changed over the last couple of years

82% of UK adults drink tea at home or in the workplace

74% of UK consumers drink standard black tea, the most popular type of tea in the UK

64% of those aged 55+ drink standard black tea at least once a day, whilst only 34% of those aged 16-34 drink standard black tea at least once a day

47% of those aged 16-34 drink four or more tea types compared to just 11% of over 55s (vs 16% of 16-34 year olds and 43% of over 55s drink just one type of tea), reflecting their greater interest in variety and experimentation generally and making them the key target group for new launches

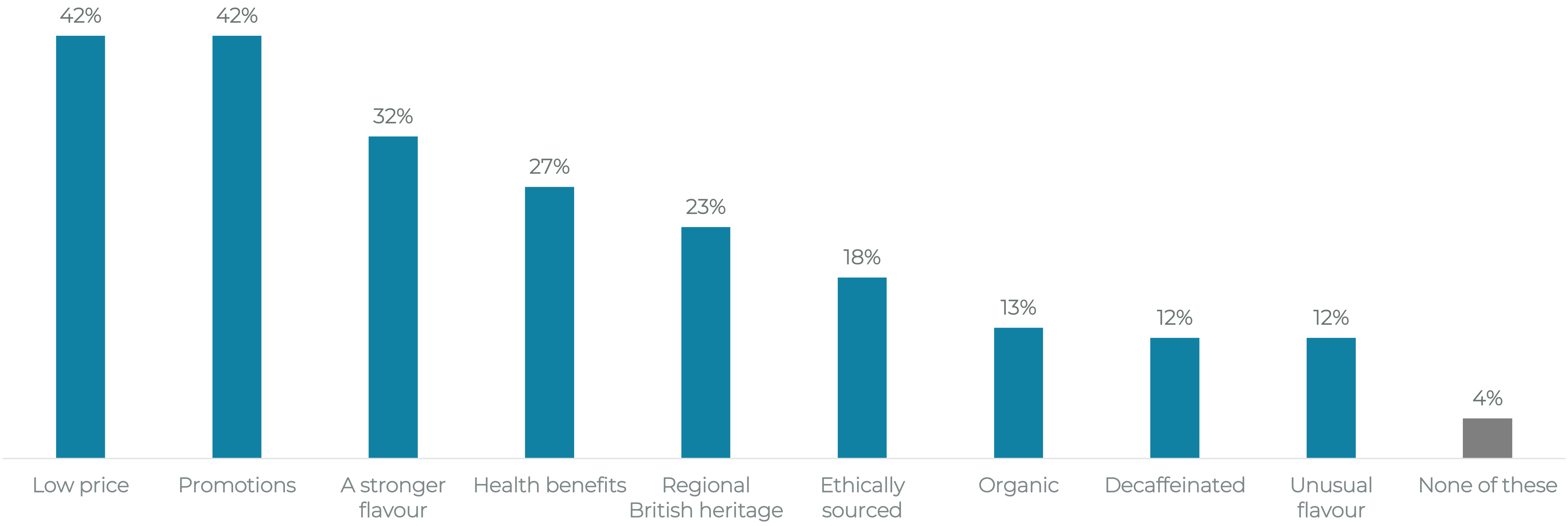
Source: Euromonitor, May 2019

4 in 10 people choose tea products that are low in price

Being competitive on price and offering promotions is a necessity for tea brands

Most important factors influencing choice when buying one tea type/brand over another, May 2019

Low price and promotions/discounts are the biggest influence on choice of product reflecting the heavy focus on saving money in grocery shopping generally. With discount supermarkets taking a growing share of tea sales in recent years, being competitive on price and offering promotions is a necessity for tea brands



Base: 857 internet users 16+ who buy different tea products
Source: Mintel, 2019

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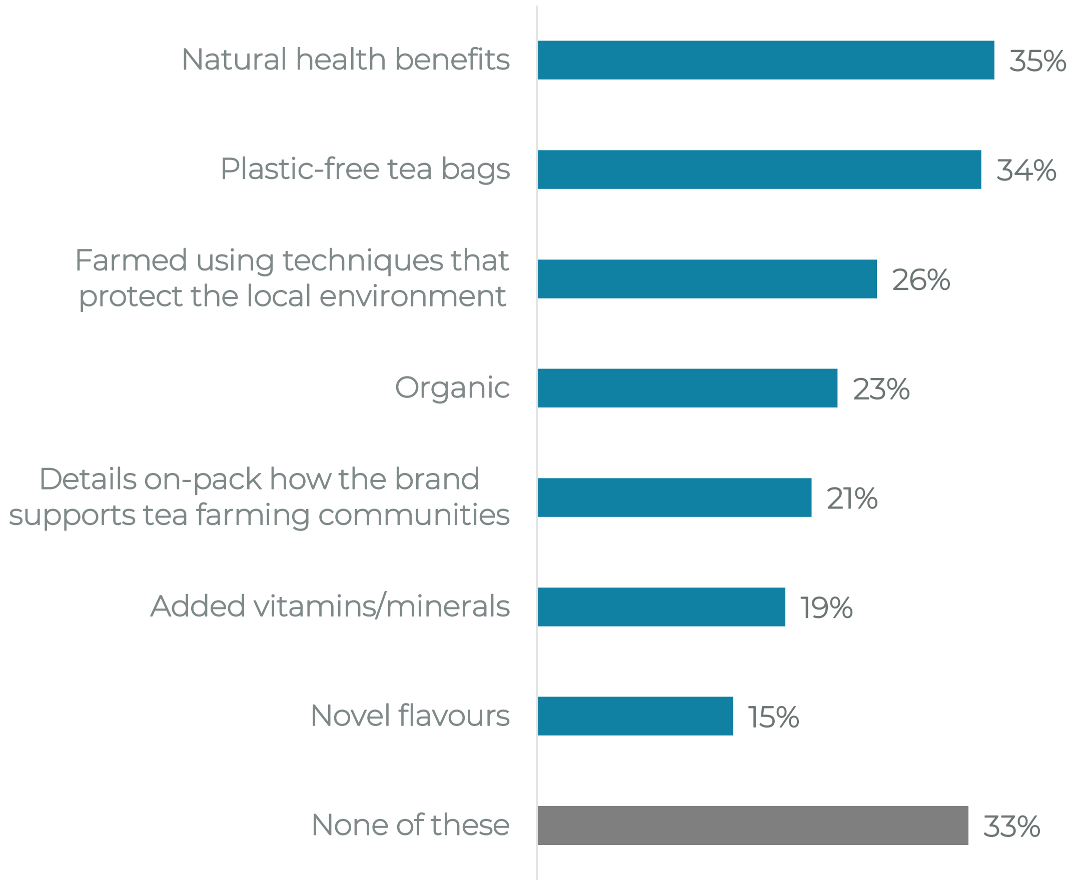
Consumers are more likely to pay a little extra for tea with natural health benefits

Same for plastic-free tea bags indicating that health and sustainability are key elements in tea

Attributes worth paying more for when buying tea, May 2019



Natural health benefits are considered worth paying more for, underpinning the robust growth of herbal teas in recent years. Younger people are more encouraged to pay extra for tea with natural health benefits (16-34s, 45% vs 65+, 26%)

With so much consumer interest in tea bags being plastic-free due to concerns about plastic's environmental impact, brands would benefit from highlighting the removal of plastic used for sealing tea bags to make bags fully biodegradable

Base: 1,712 internet users 16+ who buy tea
Source: Mintel, 2019

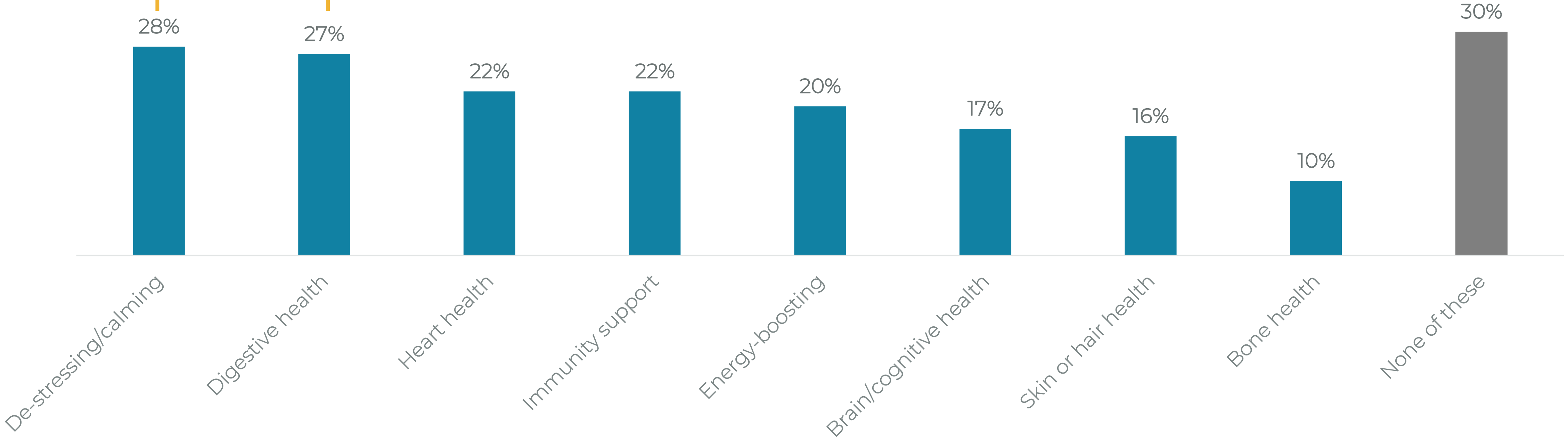
De-stressing and gut-friendly tea appeal to a quarter of consumers

Indicating the importance of wellbeing of the modern consumer

Interest in health/functional benefits provided by tea, May 2019

Tea products containing traditional herbs with calming properties tap into the demand for relieving stress in people's daily lives

Herbal teas that aid digestion remain highly relevant. The current spotlight on gut health may support this further, with 68% of people agreeing that actively looking after your gut health is essential for overall health



Base: 1,748 internet users 16+ who drink or buy tea
Source: Mintel, 2019

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The tea category is tapping into the growing cold brew sector

Innovation in cold brew tea could help drive sales for tea brands

Health credentials are the driving force behind the growth of cold brew tea and cold tea infusions, promoting claims such as no-/low calories, free from caffeine, added sugar and artificial flavours. Cold brew tea is currently a niche market but offers a range of different flavour profiles that excite shoppers. The popularity in Kombucha helped to identify gaps and new market opportunities within the competitive tea sector.

Value of cold tea infusions

£7.8m*

May Tea was launched by Lucozade Ribena Suntory in July 2019 claiming its cold brew tea is low in calories and high in flavour and target the health-conscious consumers

Teapigs cold brew was launched in June 2019 competing with Twinings and Tetley on cold tea infusions

Cold brew tea and cold infusions should help tea to maintain sales during the summer season. Cold brew is also an opportunity for the RTD tea sector

* Nielsen 2019

Source: The Grocer Report, 2019, Mintel, 2019

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Our market research team can provide you with independent research, analysis and expertise through a range of methodologies, such as primary research (from online surveys to focus groups) and EPOS data analysis. We can support your business growth by working with you on a one-to-one basis – it's a tailored approach that gives you the edge, at membership rates

Understand the market
Know the size of the potential opportunity and whether the category is in growth or decline. We can assist you in uncovering what is happening within your market

Understand and uncover consumer needs
Discover the 'why' that drives consumer behaviour. Propel brand performance by basing decisions on an understanding of customers' current and emergent needs

Demonstrate brand and product performance
Our analysis gains and retains shelf space for Scottish food and drink business by providing insight into your brand (and competitors) performance down to individual product level

Produce successful, innovative products
We can work with you from idea generation to evaluation of the product in market, During development, we help you get closer to consumers to incorporate feedback during the design process

Meet the team

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Advanced Certificate in Market and Social Research Practice, Market Research Society
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With 6 years experience, Hayley previously worked within an Insight team of a FTSE 50 company where she led and managed primary research projects. She has experience in quantitative, qualitative and mixed methodology studies over a range of business areas

Since joining Scotland Food & Drink, Hayley has worked on several EPOS data analysis projects for food and drink manufacturers

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